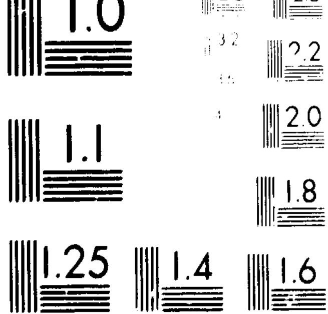
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FINAL REPORT

Original Version written in German

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Industrial Redeployment from Developed
to Developing countries.
A Case Study on the Experiences of
Tunisia in International Subcontracting.

UF/GLO/78/230

by

Institute of Development Research and
Development Policy

Ruhr-University Bochum

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C O N T E N T S

Abbreviations

AfI	Agence foncière Industrielle
API	Agence de Promotion des Investissements
a.s.o.	and so on
app.	appendix
approx.	approximately
BfA	Bundesstelle für Außenhandelsinformation
BCT	Banque Centrale de Tunisie
CEPIA	Centre Français de Promotion Industrielle en Afrique
cf.	compare
DEG	Deutsche Entwicklung für wirtschaftliche Zusammenarbeit (Entwicklungsgesellschaft)
DM	Deutsche Mark
e.g.	for example
etc.	et cetera
Foprodi	Fond de Promotion et de la Decentralisation Industrielle
GDP	Gross Domestic Product
GNP	Gross National Product
i.e.	that means
IS	International Subcontracting
TD	Tunisian Dinar

Parity

1 Tunisian Dinar = 1 000 Millimes

	1976	1977	1978
1 Tunisian Dinar =	2.36 $	2.33 $	2.44 $
1 Tunisian Dinar =	5.69 DM	5.26 DM	4.54 DM

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I. Introductary Remarks

1. Objectives of the study

For the past few years, the uncertainty surrounding the development strategies to be adopted by developing countries has increased rather than decreased.

On the one hand, it is suggested that developing countries should adopt a strategy of far reaching disintegration from the world economy whereby a domestic market oriented development strategy on the basis of self-sufficiency through domestic production plays a crucial role. The advocats of this idea warn of the danger of an external trade orientation which leads - among other things - to alienation and foreign dependence of the local economy.

On the other hand, Third World countries are advised to pursue a strategy of further integration into the world economy in order to abolish certain specific factors, hindering the development, and others forcing underdevelopment. In that connection, foreign enterprises as conveyors of technology and owners of capital are of decisive importance. Through this strategy, relatively high rates of growth and industrialization have been achieved in countries like South Korea, Taiwan, Hong Kong, Singapore, Brazil, Mexico and others. Attention is drawn to these countries in order to demonstrate the obvious efficiency of the suggested development strategy, at least in the economic sector.

Since the beginning of the seventies, Tunisia has followed an outward looking development strategy, characterized by export-orientation within the framework of an international redeployment and esp. of international subcontracting. By passing the Laws No. 72.38 and 74.74, which offer them special privileges , foreign private investments are officially encouraged. These foreign enterprises appear within the framework of international subcontracting either as producers (subsidiaries) or simply as contractors for the production of particular products.

The objective of this study is to survey the qualitative and quantitative effects and the development contribution of international subcontracting in Tunisia since international subcontracting is one of the country's instruments of development. In this sense, it is not the objective of the present study to propose an alternative development model for Tunisia.

2. Organisation and Methodology of the Study

With regard to the ambiguity of the concept of international subcontracting , which is being employed increasingly in recent scientific literature, it seems necessary to obtain a survey of the definitions of international subcontracting (IS) as well as its forms and development (Chapter A).

Chapter B deals with general economic information on Tunisia and with the development phases passed through by the country since independence.

Chapter C serves to portray the legal framework of IS and the objectives envisaged by its encouragement in Tunisia. In addition, the existing forms of IS in the country will be listed and systematically presented (Chapter D).

Chapter E in which the quantitative and qualitative effects of IS will be analysed with emphasis being laid upon the economic effects, is with no doubt the most important chapter of the study.

For the purposes of the study, the material was compiled from four sources:

- the collection of theoretical information and empirical data relating to international redeployment and international subcontracting;
- the collection of general informations on Tunisia;
- the analysis of results of studies having dealt with Tunisia and other developing countries within the framework of IS. Verification of empirical results as far as Tunisia is concerned;
- a field survey, consisting of interviews with 30 international subcontracting enterprises as well as discussions

with representatives or employees of local institutions and ministries. (A sample of the questionaire is added in the appendix. - In this context must be pointed out that the duration of the stay in Tunisia - 4 weeks - was very short and without the material which was previously available, the preparation of this report would have required a far longer stay in Tunisia).

Faouzi Abed
Ruhr-Universität Bochum, January 1981

A / International Subcontracting as a Form of Industrial Redeployment

1. Concepts and Definitions

During the last decades, the industrial cooperation has been reinforced between developed and developing countries and has therefore become the major instrument of the Development Policy[1].

Since the beginning of the seventies, one form of industrial cooperation, namely the industrial redeployment from developed to developing countries and its extension, is very much in evidence.

Still another sub-form of this industrial redeployment seems to be the most encouraged currently: International subcontracting.

In view of the ambiguity that exists concerning the concept of international subcontracting, a short presentation of the existing definitions and types as well as its development appears essential.

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[1] Cf. among others Jürgen B. Donges (Editor), Bericht des UNIDO-Ausschusses des wirtschaftlichen Beirates beim Bundesministerium für wirtschaftliche Zusammenarbeit: die künftigen industriepolitischen Beziehungen zwischen Entwicklungs- und Industrieländern. Bonn, Mai 1975; Helmut Hesse: Industrial Redeployment: opportunity, threat or illusion? Göttingen, 1978; Christian Uhlig: Industrial Cooperation as an Instrument of Developing Policy, in: Intereconomics, Review of International Trade and Development, Hamburg 3/4, 1980; UNIDO: Redeployment of industries from developed to developing countries, IO/CONF. 4/5, Vienna, 1979.

At a meeting of development-experts in Paris in 1965, the concept of subcontracting was defined as follows:

> A subcontracting relationship exists when a firm (the principal) places an order with another firm (the sub-contractor) for the manufacture of parts, components, sub-assemblies or assemblies to be incorporated into a product which the principal will sell. Such orders may include the treatment, processing or finishing of materials or parts by the sub-contractor at the principal's request.[1]

If the arrangement takes place between a foreign contractor (usually a large international firm in an industrial country) and small subcontractors in developing countries, one speaks of international subcontracting.[2]

S. Watanabe, pioneer in the field of research on IS, defines IS as follows:

> The party offering the subcontract (parent firm, enterprise or company) requests another independent enterprise (sub-contractor or 'auxillary industry' (in India) to undertake the whole or a part of an order it has received instead of doing the work itself, while assuming full responsability for the work vis-à-vis the customer. Subcontracting differs from the mere purchase of ready-

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[1] United Nations: Subcontracting from modernizing economies. New York 1974. P. 6

[2] ibid. P. 18

> made parts or components in that there is an actual contract between the two parties setting out the specifications on the order.[1]

In his definition, Watanabe puts special emphasis on the independence of the subcontracting firms. His definition corresponds to the development strategy a conception firstly advocated to promote economic cooperation between firms in developed countries and independent firms in developing countries. But taking into consideration the recent evolution in the world and the present conception of IS by national authorities in developing countries, one can speak of IS if enterprises, maintaining IS-relationship belong to the same multinational group, but are resident in different countries.

M. Sharpston uses another definition of international subcontracting:

> all export sales of articles which are ordered in advance, and where the giver of the order (the principal) arranges the marketing.[2]

According to him, it is the marketing-factor that is crucial in the international subcontracting relationship.

> Nethertheless, all forms of international subcontracting have one important characteristic in common, which separates international subcontracting from direct exportation. Essentially, subcontracting avoids the problems of marketing: outlets, brand names, publicity, market research, design.[3]

1 Susumu Watanabe: Subcontracting, Industrialization and Employment Creation. In: International Labour Review, Vol. 104, No. 4 Geneva 1971. P. 54

2 Michael Sharpston: International Subcontraction. In: Oxford Economic Papers 27. March 1975. P. 94

3 ibid. P. 95

The ambiguity of the concept of 'International Subcontracting' is basically a result of the different types of this industrial phenomenon.

2. Types of International Subcontracting

S. Watanabe distinguishes between two main forms of international subcontracting:

- commercial subcontracting
- industrial subcontracting

> Commercial subcontracting means that the customer is a wholesoler or a retailer. On the contrary, one speaks of industrial subcontracting if the customer or principal itself is also a manufacturer and for technical or economic reasons gives, as contract, part of the manufacturing work to outside firms.[1]

The two main forms can be of national or inter... ..al nature.[2]

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1 S. Watanabe, op.cit. P. 54ff

2 S. Watanabe: International subcontracting and regional economic integration of the ASEAN Countries: The role of multinationals. In: Dimitri Germidis (Editor): International Subcontracting, a new form of investment. Development Center of the Organization for Economic Co-Operation and Development. Paris 1980. P. 214

The UNIDO distinguishes between three types of subcontracting:

- economy-subcontracting: the principal subcontracts certain products because the subcontractor's production-costs are lower.[1]
- speciality-subcontracting: the subcontractor has specialized equipment or has developed specialized technologies. The principal gives out work to an outside firm because his firm lacks the technical know-how to solve certain manufacturing problems.[2]
- capacity-subcontracting: it takes place when certain operations seem to be impossible or too expensive to be accomplished in the factories of the pr... l within the time required, even though the firm could do it if it disposed of more time.[3]

A further typology of international subcontracting relationship has been developed by Michalet:

> Assumption A: International subcontracting relationship takes place between two independent units established in countries at different levels of development. This is the 'pure' form of international subcontracting.
>
> Assumption B: The international subcontracting arrangement exists between the subsidiary of a multinational firm and a local firm or local firms.
>
> Assumption C: The international subcontracting arrangement exists between the subsidiaries of several multinational firms.
>
> Assumption D: The international subcontracting arrangement exists between production units belonging to the same multinational group.[4]

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[1] United Nations: Subcontracting for modernizing economies. New York 1974. P. 47

[2] ibid. P. 47

[3] ibid. P. 49

[4] Charles-Albert Michalet: International subcontracting: A state-of-the-art, in: Dimitri Germidis (Editor): International subcontracting. op.cit. P. 47ff

Michalet's typology of international subcontracting relationship seems to be the most explicit. This typology is highly appropriate to describe the problematic IS-relationship between industrial and developing countries.

To summerize: international subcontracting can be defined as an industrial or business relationship between a principal (usually of an industrial country) and a subcontractor (usually of a developing country), based on an arrangement for the manufacture and delivery of finished or semi-finished products, whereby the products are finally marketed by the principal. The principal can be a wholesaler or a retailer. The subcontractor can be a subsidiary.

3. International Subcontracting: Motivations and Objectives of Developing Countries

Subcontracting, a traditional business practice,was used systematically[1] in Japan, the United States of America and later also in Europe.
Since the Second World War an internationalization of subcontracting can be observed. Today, it is being promoted in most of the developing countries, e.g. in Asia (Hong-Kong, Singapore, South Korea, Taiwan a.s.o.) and in Latin

[1] Pierre-Yves Barreyre. L'impartition. Paris 1968. P. 15

America (Brazil, Mexico a.s.o.), it plays a dynamic and progressive role in trade and industry. Currently, 50 % of the out-put of Renault (France) are produced by subcontractors or international subcontractors. General Motors (U.S.A.) has more than 20 000 subcontractors in the world. In 1966, in Japan more than 310 000 small- to medium-sized subcontracting firms were counted in the manufacturing industry. All over the world, Volvo (Sweden) has 1 200 suppliers of which only 5 were Swedish. Fiat in Italy gives numerous orders for the production of parts and finished products, even whole models e.g. in Jugoslavia. The most famous producers of photographic equipment in the world (Minolta, Canon, Nikon, Yashika etc.) subcontract their products in developing countries, namely in Asia. More than 120 international subcontractors are engaged in the production of sewing equipment for Singer (Federal Republic of Germany).[1]

These examples demonstrate clearly the extent of the importance of international subcontracting and the gradual integration of the world economy.

Developing countries encouraging international subcontracting except certain advantages, such as:

---- Reduction of unemployment and underemployment
---- Supply and earning of foreign exchange

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[1] Cf. S. Watanabe: Entrepreneurship in Small Enterprises in Japanese Manufacturing. In: International Labour Review, Vol. 102. Geneva July/Dec. 1970; A. Sallez, J. Schlegel: La sous-traitance aux U.S.A. In: Direction. No. 1. Paris Feb. 1965; Sergio Zampetti: La sous-traitance industrielle et les pays en voie de développement. In: Reflets et perspectives de la vie économique. Tome XII. Paris 1973.

---- Offset, at least partly, of the deficit in the balance of trade

---- Industrial growth

---- Transfer of technology

---- Optimum use of production capacity

---- Efficient use of national resources

---- Solution of marketing and investment problems

---- Development and decentralization of the country's industry

---- Regional development and area management

---- Development and rationalization of small- and medium-sized enterprises

---- Finally, the maintenance of an equilibrium between enterprises of diverse size.

Priority in the expectations listed above differs from country to country according to its socio-economic structure and the goals set by its development plans. Countries that encourage international subcontracting in this way may fall prey to certain shortcomings of this form of industrial cooperation which are chiefly of a political and socio-economic order. The most important being:

---- Abuse by principals of their privileged position relative to conditions of arrangements (prices, payments, complaints)

---- Risks arising from economic fluctuations and recession periods in the countries where the principals are established.

---- Transfer of undesirable activities with high environmental risks.

---- Less limited linkages as expected.

---- Dependence from foreign principals without a direct access to their markets.

---- Foreign dependence and negative implications on the national sovereignity.[1]

The redeployment of industrial activities in developing countries has become feasible and highly profitable thanks to new techniques in transportation (containers), in telecommunication, in the organization of work and of production methods which often breakdown complex work processes into simple tasks easy to be performed by unskilled labour trained on the spot.
Difficult and complex tasks, however, still tend in general to remain a privilege of skilled workers operating in the parent- or order giving enterprise which thus retain mastery of their own technology.

B / Basic Information on Tunisia

1. A Brief Survey of the General Situation of the Country

Tunisia achieved political independence on March 20th, 1956. It has a one-party system and a constitution with presidial-republican character. The adminstration is divided into 18 'Gouvernerats' that are again subdivided into 136 Delegations and 1113 Imadas. The official language is Arabic. However, French is widely spoken. About 95 % of the population is muslim.

Geographically, the country is divided into four main zones: Atlas, Sahel, Steppe and Sahara.
Only the Atlas zone shows sufficient rainfall (up to 1 500 mm) allowing some more or less important agricultural activity (wheat, wine, citrus fruits, vegetables). In the Sahel zone (rainfall: between 250 mm and 450 mm), primarily olives are cultivated. The most important product of the Steppe is the 'Espartograss', used for the production of cellulose and paper.

2. Tunisia's Various Phases of Development since its Independence

Three phases of development can be distinguished in Tunisia, since the achievement of independence in 1956: The phase of Liberalism or Laisser-faire capitalism up to 1961, the period of development planning or 'destour-socialism' up to about 1970, and the current phase of reliberalization.

The first stage of development showed no special planning and concept of development. The government of Habib Bourguiba concentrated its efforts on stabilization of the political power-apparatus, elimination of all forms of opposition to create a general public support of the president and the Neo-Destour-Party, which has been declared the national and sole party. Furthermore, they were working on the destruction and partly modernization of traditional Islamic structures and a reform of the educational system.
Basically, the post-colonial path of Tunisia was predestinated by the independence agreement with France. It included several regulations designed to limit the political, economic and cultural independence of the country considerably, for example:

- protection of the property of French citizens who controlled great parts of production and foreign trade.
- close economic cooperation with France by an extensive

Free-Trade-Zone.

- maintenance of French military presence in Tunisia.
- close cultural relationship, such as maintenance and establishment of French schools, sending of French teachers etc.[1]

The second phase of development emphasized the four following points:

- decolonization
- support of the people
- extensive structural reforms
- autonomous development

aiming at an improved standart of life for the whole population. It represented an attempt to follow a 'third way' differing as well from the traditional-capitalistic way, as from the authoritative communistic way. For the realization of the pursued goals, a Ministry of Planning was established.
This development strategy, pursued until 1970, had socialistic character and was domestically oriented. Above all, it promoted the establishment of infrastructure and agricultural and commercial reforms.
Not all of intended goals were successfully realized. As mistakes were made, the phase was halted prematurely, and the concept was declared a failure.

The third and currently continuing phase of Tunisia's development is distinguished by its market-economy character. It is generally described as the phase of reliberalization. Contrary to the first period, which was also of a capita-

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[1] Reinhard Bolz: Tunesien. Wirtschaftliche und soziale Strukturen und Entwicklung. Hamburg, 1976. P. 28/29

listic character but did not follow any special program or plan, this new third phase is a planned development strategy with an outward-looking concept.
When in 1970 the new course of development was adopted, Tunisia was suffering from many problems, e.g. unemployment, deficits of the balance of payment, foreign debts, low level of industrialization and low productivity. Foreign aid, expected from abroad did not materialize. Income from agriculture was also very low as a result of unusual aridity and bad harvest.

Due to a domestic market of limited absorptive capacity and limited development possibility, the limitations of the inward oriented policy became evident very soon.

Only by the presentation of the IV Development Plan (1973-1976) the directives of the new orientation became clear.

- acceleration of economic growth in all sectors - an important precondition for efforts in the social sector;
- promotion of new industrial activity (promotion of projects as well as promoters) which involve the creation of jobs and additional resources (foreign exchange, new products etc.).
- gradual control and solution of the problem of unemployment by demographically appropriate solution and by following an educational plan serving the needs of economy;
- consolidation of the financial state of the country by encouraging internal willingness to save and by limiting foreign debt to an acceptable level.[1]

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[1] République Tunisienne: IV^ème Plan de Developpement Economique et Sociale 1973-1976. Tunis 1973. P. 34

Private investments, whether national or international, were considered very important . Projects with immediate profitableness were to be treated with preference. The plan aimed at higher production levels as well as higher productivity in all sectors; accordingly, investments were to be orientated.[1]
The level of investment was to reach approximately 289,6 million TD. According to the plan, investment proposals were to include an amount which could either be financed by private investment or, in case of need, by state investment. In all sectors of the economy (including the agricultural sector), private investment was to increase considerably.

The main objectives of this new orientation of development course were the improvement in the standart of living of the lower classes of the population as well as the growth of the country.

3. Population

With a population of 6.1 millions, the population density amounts to 36.6 p/km^2. The population growth averages a rate of 2.3 %. Approximately 47 % of Tunisians live in urban areas.[2]
At the beginning of the 70ies, the rate of migration was

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[1] ibid. S. 36

[2] BfA: Tunesien. Wirtschaftliche Entwicklung 1978/79. Köln Dez.79. P. 3

at its hight, but since the recession in Europe and the worsening relations with Lybia, it has reduced considerably.

4. Production

Recently, a slight increase in production has been registered in the agriculture and fishing sectors. Both sectors achieved a growth of 10 % in 1978 compared to the low level of 8 % in 1977 (at constant prices).[1] Tunisia must, however, continue to import corn (1979: 8.1 million cwt.)[2]
The production of olive oil (main agricultural product) which rose up to 130 000 tons in 1977/78, and sank again to 85 000 tons in 1978/79 as a result of adverse weather conditions.[3]
Industrial production, including mining, has developed favourably in the last few years. With a rate of growth of 22 % compared to 1978, production in the industrial sector amounted to approximately 779 million TD, i.e. 27,4 % of the GNP compared to 25,8 % in 1977. Even on the basis of real values, this growth amounted to 9.4 %. Supposing a starting-point at 100 points in 1970, this development means at total industrial production of 166.9 points in

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[1] ibid. P. 4

[2] BCT: Rapport Annuel 1979. Tunis 1980. P. 66

[3] ibid. P. 68

1978. This corresponds to an increase of 10.8 % (1970: 150.6 points)[1] (Tables 1, 2, 3, 4 and 5 /app.)

5. Transport System

High investments in transportation have led to a good equipment and to modernization within many parts of this sector.

The merchant fleet was increased by 4 units in 1978 and 3 in 1979.[2] At the Tunisian ports (Tunis, Goulette, Sfax, Bizerte, Gabes) 4.3 million tons of goods were embarked in 1979, 7.3 million tons of goods were lightened in this period. Compared to 1978, this represents an increase of 3.7 % resp. 8.7 % (Table 6/app.) of ship movements in all 5 Tunisian ports.

Public road transportation (network: 17 000 km) has shown a considerable increase with respect to goods and persons. From 1978 to 1979 the vehicle park (freight) increased by approx. 2.8 % to 2 207 vehicles (loading capacity 1979: + 4.8 % to 32 901 tons all together). In the field of conveyance of passengers, the rise in the number of vehicles was 4.8 % (99 vehicles) in the period of 1978-79. Accordingly, 2 160 vehicles for the conveyance of passengers (seating 164 103 persons) were available.[3]

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1 ibid. p. 78
2 ibid. p. 97
3 ibid. p.100

An increase in tourism brought about a significant improvement in air traffic. In the period from 1978 to 1979, flights (take-offs and landings) increased by approx. 12 % to a total number of 45 871 passenger-movements (arrivals, departures and transits) reached the total number of 3 264 583 passengers (+ 16.4 %). In addition to the existing airports in Tunis, Monastir, Sfax and Djerba, the Nefta-Tozeur Airport was opened for international traffic in 1978.[1]

The Tunisian railway corporation disposes of a network of approx. 2 000 km and increases the rolling stock (1978: 20 new locomotives) constantly.[2]

6. Labour Market

The situation on the Tunisian labour market remains a serious problem. In the last census of 1975, out of a total of 1 622 000 Tunisians of working age, 136 180 unemployed were numbered. In addition to this, 119 120 unemployed looking for jobs for the first time in 1975 were registered. This means that 15.7 % (i.e. 255 000 unemployed) of the total number of the population of working age, is unemployed.[3]

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1 Ibid. P. 98
2 BfA: Tunesien. op.cit. P. 28
3 République Tunisienne: V^{ème} Plan.. op.cit. P. 10.1

At this point, attention should be drawn to the statement of the Groupe Jeune Afrique concerning hidden unemployment in Tunisia. The extent of under-employment in rural areas is estimated at approx. 40 % and at approx. 20 % in the remaining sectors of the economy.[1]

In order to improve the situation on the labour market, labour-intensive medium-sized industries are promoted preferably. On the average, approx. 40 000 new jobs were created yearly between 1972 and 1979 (Table 7/app.: Creation of Employment).

Since 1974 wages have increased slowly but steadily. Beween 1974 and 1980, the minimum daily wage in the agricultural sector (SMAG = Salaire Minimum Agricole Garanti) increased two-and-a-half-fold from 0.600 TD to 1.631 TD. On the contrary, the minimum wage per hour in the industrial sector amounts to 45.586 TD (40 hours per week) or resp. 54.704 TD (48 hours per week). (Table 8/app.: Development of Minimum Wages since Jan. 1974).

7. National Income

The Gross Domestic Product (GDP) of Tunisia at current prices has doubled within five years (1972: 1 077.6 million TD; 1979: 2 122.6 million TD). Real income growth amounted to approx. 8-10 % per year.

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1 Groupe Jeune Afrique: Tunisie, le pays et son marché. Paris 1979 P. 17

In 1977, the industrial production exceeded for the first time the agricultural production (17.7 % to 14.9 %). Adding the mining industry, industrial production reached 26.1 % of the GNP (Table 9/app.: Development of the GNP according to Sectors at Current Prices).

From 1977 to 1978, the per capita Gross National Product (GNP) at current prices has doubled within five years rose from 354.0 TD to 404.5 TD (about + 14 %). In 1978, the personal per capita income showed an increase of 16 % to 321.7 TD (1977: 276.3 TD).[1] (Table 10/app.: GDP, GNP and Personal Per Capita Income).

8. Investments

The efforts of the Tunisian government in the sixties to encourage investment continued in the seventies. The share of private investment increased considerably during the second half of the seventies.

The main emphasis of the governmental investment policy was put on infrastructure, mining and oil industry. Private investments went primarily into the manufacturing industry.

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[1] BfA: Tunesien. Wirtschaftliche Entwicklung 1978/1979. Cologne 1979. P. 36

The total investments within the framework of the IV. Development Plan 1973-1974 amounted to 1 579 million TD, i.e. 24.9 % of the GDP on the average.[1] In the years of 1977 and 1978, investment sums amounted to 645 million TD (30.3 % of the GDP) resp. 750 million TD (30.6 % of the GDP) (Table 11/app.: Distribution of Investments according to Sectors.)

9. Foreign Trade

Up to today, the Tunisian foreign trade has taken place essentially with the same partners as twenty years ago although it has increased in intensity. The main trading partners are France, the Federal Republic of Germany, Italy and the USA. Trade relations with the other Maghreb countries (Algeria, Marocco, Lybia) have remained relatively weak.

The 'chronic' foreign trade deficit has augmented esp. since 1975. This must be attributed to the imports of goods necessary for the industrialization of the country as well as to the imports of food and luxury goods.

The main export products remain petroleum, phosphate and olive oil. Besides, as a result of the export-oriented industrialization, some semi-finished and finished goods have been added in the last years (e.g. textiles). (Table

[1] Rép. tun.: V^{ème} Plan de Développement. Tunis 1978. P. 3

(Table 12/app.: Balance of Trade of Tunisia).

10. Balance of Payments

Between 1968 and 1974, the Tunisian balance of payments showed surpluses.[1] Then followed three years of deficits. But in 1978 and 1979, surpluses amounting resp. to 11.5 million TD and 50.5 million TD were achieved again. These positive balances were due to the rise in the tertiary sector as well as to the capital earning.[2]

The tourism-sector as well as remittances from Tunisians working abroad recorded significant rates of increase in the recent years (1978: 142.2 million TD resp. 85.9 million TD; 1979: 194.9 million TD resp. 109.6 million TD).[3] (Table 13/app.: Balance of Payments of Tunisia)

11. Debt Servicing

Debt repayment obligations and the chronic trade deficit compel the Government to take foreign loans continuously

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1 BCT: Rapport Annuel 1975. Tunis 1976. P. 92
2 BCT: Rapport Annuel 1979. Tunis 1980. P. 141
3 ibid. P. 141

and thereby increase the country's indebtedness. In order to maintain the economic growth of the country, Tunisia will remain dependent upon capital imports. (Table 14/app.: The Internal Currency in Statistics).

C / The Pre-Requisites for International Subcontracting in Tunisia

1. Legal Background

By enacting the Investment Acts of April 1972 and August 1974, the most important measures were taken in Tunisia, for an export industry within the framework of IS, and thereby also the necessary basis for the new industrialization phase was made up.

The'Agence de Promotion des Investissements'(API) was established by decree on January 1, 1973. Its main tasks consisted in promoting investment in the country and in informing, advicing and assisting investors in the execution of their projects. Having examined the projects, it grants investment permits and thus strongly influences the Tunisian industrialization policy.
In order to fulfil its purpose more properly, the API cooperates very closely with foreign institutions in almost all industrial countries, primarily however, with the 'Centre Français de Promotion Industrielle en Afrique' (CEPIA) in France and the'Deutsche Entwicklungsgesellschaft'(DEG) in the Federal Republic of Germany.

Established in 1974, the 'Agence foncière Industrielle' (AfI) was charged with the task of buying land, establishing industrial zones there, and administrate them.

The 'Fond de Promotion et de la Décentralisation Industrielle' (Foprodi) assists the AfI in its investment function and grants loans.

The basic pre-requisites for Tunisia's embarking upon the programme of IS were the laws which regulate foreign investments and provide incentives for export-oriented industries, as well as other factors attracting foreign companies. These pre-requisites are briefly outlined in this chapter.[1]

Legislation in order to Encourage Industrialization

Law No. 72.38 enacted on April 27, 1972, regarding the production of export industries

This law was passed after the establishment of some foreign enterprises such as Bondia (Holland), and Müller-Wipperfürth (West Germany). It aims at promoting and encouraging exports. A distinction is made between non-resident enterprises, in which the share of foreign capital is at least 66 % to 100 %, and resident enterprises with more than 34 % of Tunisian capital payed in Dinars. Advantages granted to exporting enterprises vary as to whether the enterprise is resident or not, whether it produces solely for export or if it exports at least 20 % of its production.

a) Advantages accruing to enterprises exporting 100 % of their product.

----- Total exemption from patent taxes during the first ten years and 10 % reduction the following ten years.

----- Reduction of taxation on revenue from property by one half (6 and 3 %).

----- Exemption from purchase tax for purchases on the local market

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[1] See app. Law 72.38 and Law 74.74

----- Refund of duties and VAT on previously imported purchases which are necessary for the production and the activity of the enterprise.

a_1) Non-resident enterprises (the foreign capital participation must be financed by convertible foreign exchange)

----- Profits need not be repatriated in Tunisia.
----- Profits of non-resident investors may be transferred abroad.

a_2) Resident enterprises (Tunisian participation must be financed in Dinars)

----- Profits of non-resident investors may be transferred abroad.
----- All foreign exchange dealings must be effected via the Tunisian Central Bank.
----- Credits may be obtained from local banks.

b) Advantages accruing to enterprises exporting at least 20 % of their production

----- Reduction of patent taxes to 10 %.
----- Exemption from taxes on raw materials necessary for production.
----- Refund of VAT for raw materials and other items necessary for production and purchased on the local market.[1]

Law No. 74.74 of August 3, 1974 regarding investments in manufacturing industries

The law aims at promoting manufacturing industries

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[1] see app.

oriented towards the local market and offers special advantages to enterprises established in poor areas needing development.

Non-resident investors who wish to operate under this law have the following advantages:

----- Reduction on patent taxes of 40 to 60 % for five years plus an additional year if the percentage of exports during the first five years have exceeded 10 % of output.

----- Exemption from taxes for machinary imported or purchased on the local market.

----- Capital transfer guarantee for funds financed in convertible currency as well as profits of non-residents.

Non-resident investors operating under this law, must have a Tunisian as partner who is a majority shareholder in the enterprise. In general, non-resident investors are greatly interested in contracts with Tunesian partners in order to gain influence within the enterprise.

Other financial advantages (the improvement of interest, subsidization of investments, the covering of infrastructural expenditure) are granted under the law relative to and in proportion to the creation of new jobs and the establishment of the enterprise in certain areas. There are special regulations which benefit Tunisians working abroad (duty-free importation of goods necessary for production). Enterprises benefiting from advantages granted by the April 1972 law, however,

are barred from further advantage granted under the law of August 1974.
Thanks to the two tier fiscal agreements reached with various countries of the West, fiscal advantages are protected under various forms and according to different laws. One may well cite here the bilateral agreements for the protection of foreign capital and investments such as the Tunsiian-German agreement; the Convention on Protection signed with the World Bank (Weltbankschutzabkommen); the Interim Agreement between the EEC and the Republic of Tunisia of April 25, 1976; the bilateral agreements with Algeria, Marocco and Lybia which grant to all four countries the same economic, fiscal and real-estate rights and the right to work between them, the Convention regarding the creation of an Arab Organization for the Guarantee of Investments (Decree No. 72.4 dated 17.10.1972) and the International Convention on the Settlement of Investment Disputes between states and the nationals of other states, ratified by Law No. 66-33 dated 3.3.1966.

nterprises in Tunisia may choose one of the following forms:

S.A.	(Public Limited Company, similar to the Aktiengesellschaft in West Germany)
S.A.R.L.	(Private Limited Company, similar to the GmbH in West Germany)
Société en Commandité	(Limited Partnership, similar to the Kommanditgesellschaft in West Germany)
Société individuelle	(Similar to the German Einzelfirma)

In each case, enterprises have to select the type of company which will serve their purpose best. In case of an S.A., seven shareholder as well as an administrative council is required. A minimum capital outlay is not prescribed as the case in an S.A.R.L. which requires a minimum capital outlay of 1 000 TD.
According to DEG, most of the German sub-contracting enterprises in Tunsia belang to the S.A.R.L.-type of company. Currently a tendency towards the Limited Partnership type of company is more discernible as it offers fiscal advantages depending on the type of company to which the parent enterprise may belong.

In Tunisia participation by a so-called 'neutral' partner or party in the individual capital is possible. In West Germany e.g. this task is fulfilled by DEG in its capacity as a financial institution of the 'Bund für partnerschaftliche Firmengründungen in Entwicklungsländern'.

Enterprises operating under law No. 72.38 and with a non-resident status, may be financed either by loans from the parent enterprise, by credits from domestic banks, through credits from the Tunsisian Development Bank (BEDT) with which DEG is also associated and whose credits are of medium term and financed by World Bank funds at 9 % interest redeemable within two years or through off shore bank credits (e.g. Citibank or Chase Manhattan Bank). Moreover many German enterprises deal with correspondent banks associated with Tunsian banks such as Commerzbank and Bayrische Vereinsbank. Only exporting enterprises, however, with non-resident status or those operating under law No. 74.74 may avail themselves of the services of those banks.[1]

2. Other Factors and Incentives

The laws for the promotion of investments and institutions like API, AfI, Foprodi together constitute doubtlessly an attractive package for foreign investors, though it must be emphasized that similar fiscal and financial advantages are also granted by many other countries of the Third World. Tunisia, however, offers certain other advantages, but also disadvantages which may render her more - or less attractive to foreign investors than other countries.

---- The geographical position of the country in relation to Arab, African and European markets, transport and communication costs.

Currently, Tunisia's geographical position is indeed playing quite an important role in relation to Europe in having been chosen as an investment zone; all the more as almost the total output of subcontracting items produced in Tunisia is intended for the European market. Tunisia's success as a foreign investment zone may be attributed partly to the existence of an

[1] According to DEG.

inexpensive and efficient communication network between Tunisia and Europe. Road transport by means of lorries is used mostly. At present about 80 % of subcontracted goods are transported by container lorries on a door-to-door basis. Transportation is further helped by regular rail connections (RoRo Ferry-boats) between Southern Europe (Genoa, Marseille) and Tunis. Shipping capacity provided by shipping companies is really adaptable to demand. Many of the major European forewarding and handling firms have been doing business with Tunisia for many years and use lorries of 3.5 to 25 tons with a cargo capacity of 30 to 90 cm^3.

Certain enterprises transport their products jointly in order to make maximum use of the cargo capacity of the rented lorries. The round trip journey West-Germany-Tunisia-West Germany takes about eight to ten days.

The costs of about 3.5 tons of freight is approx. DM 8 000.- to DM 17 000.-. Hence for a joint operation with other enterprises the cost of transport will amount to about DM 60.- to DM 100.- per 100 kg.[1]

Airlines such as TUNIS-AIR, AIR-FRANCE, LUFTHANSA, ALL ITALIA etc. use chartered planes and are well organized and provide direct flights to major built-up areas.[2] Shipping companies also provide regular sailings to Tunisia - at least one per week of 18 to 21 hours duration with costs amounting to about DM 100.- per m^2, to

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[1] According to DEG.
[2] According to API.

which of course special sea freight packing charges have been added.[1]

Every year the telephone network in Tunisia is expanded and improved. The waiting period for a telephone to be installed is about 4 weeks, for the installation of a telex 6 months. According to DEG nearly one half of the German subsidiary firms in Tunisia have telex which naturally makes communication with the parent enterprises much easier.

----- The political stability

Since its independence, Tunisia has enjoyed the reputation of being a country of political stability. Of late this stability has been tested twice (in January 1978 and January 1980[2]), but it seems to be re-established nowadays in despite of growing opposition that wants to establish a multi-party system.[3]

----- The good international relationships Tunisia maintains with the western industrial countries and its institutions.

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1 According to DEG.

2 In January 1978 a conflict arose with the 'Union Générale des Travailleurs Tunisiens (UGTT) which had become the mouth-piece of the unemployed, workers and other groups in the Tunsiian society. The demonstrations in January 1978 were bloodily crushed by the Government, and the Union leaders were replaced by people sympathetic to the Government. - In January 1980 the country was shaken again by occurences in Gafsa, in the south-east of the country. A commando attempted to seize the phospate town of Gafsa and to incite the population to insurrection. The enterpirse ended, however, with the arrest of the squad members.

3 Its worth mentioning the Social-Democrats around Ahmed Mestiri, the Islamic groups and the Social-Democrats abroad around Ahmed Ben Salah who played a decisive role in the development of the country in the seventies.

----- The abundance of labour and its relative low costs.

After the fiscal and financial advantages, this factor is the most important to investors or principals and suitable to maximize their profits. Tunisia has considerable reserves of manpower which is both young and inexpensive compared to higly industrialized countries. It must be pointed out, however, that this factor - the availability of cheap labour - may be found in almost all Third World countries.

----- The industrial zones.

Units of productions are grouped in industrial zones with an infrastructure necessary for their operation, be it access to ports (Bizerte, Tunis, Sousse, Sfax, Gabès), to airports (Tunis, Monastir, Djerba, Nefta), to well asphalted highways (particularly in coastal regions), to energy (water, electricity) or the means of communication (telephone, telex) required etc...

In contrast to numous other countries encouraging international subcontracting, Tunisia has no Free Production Zones in its true sense, but rather 'mini' Free Zones integrated within the proper industrial zones. In industrial zones, Tunisian firms producing for the local market exist alongside other units of production of different nationality producing for export or under international subcontracting. In Tunisia, as can be readily seen, one is able to distinguish units of production operating under Law 72.38 of April 27, 1972 from those operating under Law 74.74 of August 3, 1974. In the units of production under Law 72.38 are to be engaged customs officers (one customs officer for every two or three units which together pay him about 120 TD per month) whose duties consist in controlling inputs required for production, the export of semi-finished goods and to ensure that the subcontracting export enterprise does not sell its products on the local market. Even rejected and waste material must either be completely destroyed or exported. The presence of these customs officers lend to such sub-contracting export enterprises the character of 'mini' Free Production Zones or of small industrial enclaves isolated from their own environment and established in industrial zones having the requisite infrastructure for their production. It is consequently not possible, in Tunisia, to distinguish outside the industrial zone between employees working in IS enterprises and those working in other enterprises.

----- The lack of skilled labour, particularly of the same level of specialization as found in Europe for instance, represents undoubtedly a disadvantage for a better development of IS in Tunisia Nethertheless Tunisia by constrast enjoys a privileged position compared to many countries of the Third World, esp. in Africa.

----- Another disadvantage is the lack of various inputs that are necessary for the production.

----- Lastly, there is the exiguity of the Tunisian market which renders Tunisia less attractive to certain foreign enterprises seeking new markets.

Table 1

Industrial Zones

Administrative Authority (Gouvernerat)	Industrial Zones
Tunis	Ras-Tabia. Charguia. Mégrine. Ben Arous. Mongil-Radès. Hammam-Lif. La Goulette.
Nabeul	Nabeul. Grombalia. Soliman. Korba. Menzel Bou Zelfa. Beni Khaled.
Sousse	Sousse. M'saken. Sidi Bou Ali. Akouda. Enfidha-ville. Kalaa Séghira. Kalaa Kebira. Thrayet. Hergla.
Monastir	Monastir. Moknine. Teboulba. Ksibet El Medouni. Sahlina. Bouhajar. Bennane. Djemmel. Beni Hassen. Bembla. Sayada. Ouardanine. Touza. M'[illegible]ra.
Bizerte	Bizerte. Raf Raf. Menzel Bourguiba. Hedi Chaker. Ras Djebel.
Sfax	Sfax. Mahrès.
Zaghouan	Zaghouan. Pont de Fahs. Djedaida. Sidi Thabet.
Béja	Teboursouk. Medjez El Bab. Testour.
Gabès	Gabès.
Kef	Le Kef.
Jendouba	Tabarka.
Madhia	Madhia. Ksour Essaf. Chebba.
Kasserine	Feriana.
Sidi Bou Zid	Sidi Bou Zid.
Kairouan	Hadjeb El Aioun.

D / Forms of International Subcontracting

The study shows that three different forms of international subcontracting are practiced in Tunisia.

Form I

The first group consists of Tunisian enterprises which regularly or irregularly receive subcontracting orders from abroad, and refine products which are then reexported and marketed by the principal. This form corresponds to the pure international subcontracting in S. Watanabe's classification and Ch.-H. Michalet's form A according to which IS takes place between independent production units residing in countries of different levels of development. In this form, the domestic (i.e. Tunisian) enterprises can be divided into two categories.

Companies practicing solely IS belong to the first category. They are only entitled to claims under the export-orientation Law 72.38 (1972). These enterprises do not market any product by themselves, they work exclusively for the foreign customers and are entirely export-oriented.

The second category consists of companies only partly dependent upon IS, i.e. on the one hand they produce their own products and also market them, but, on the other hand, accept contracts from outside as well in order to utilize their production capacity to the full.
The number of Tunisian enterprises belonging to the second category is relatively small and not recorded in the statistics. On the basis of the results of this study, however, without being able to guarantee completeness, a list of these enterprises has been compiled (Table 2/P. 44: List of Tunisian Production Units Partly Engaged in IS). Meanwhile 46 Tunisian companies can be enumerated in this

category. They engage in 'commercial' (retailing firm as principal) or 'industrial' (producer firm as principal) sub-contracting. (Table 3/P.45: Classification of Export Enterprises according to Nationality, Law 72.38 of April 1972).

Form II

The second form of IS in Tunisia concerns foreign subsidiary companies which are export-oriented and independent of their parent companies. The parent companies are at the same time their sole customers. This form corresponds to Michalet's Form D: IS takes place on the basis of an agreement between production units belonging to the same multi-national group. In some cases, as it could be observed in Tunisia, it is a question of two independent producers having joint for the manufacture of a product and established a Joint-Venture. The number of the other foreign production units which are export-oriented is 112 (Census on June 30, 1979, Table 3/P. 45: Classification of Export Enterprises according to Nationality).

Form III

This last form consists of partnerships with Tunisian enterp ses. In this case, the foreign partner is responsible for the marketing of the total production. This is a pre-requisite, if both partners want to operate according to Law 72.38 and therefore have to export the

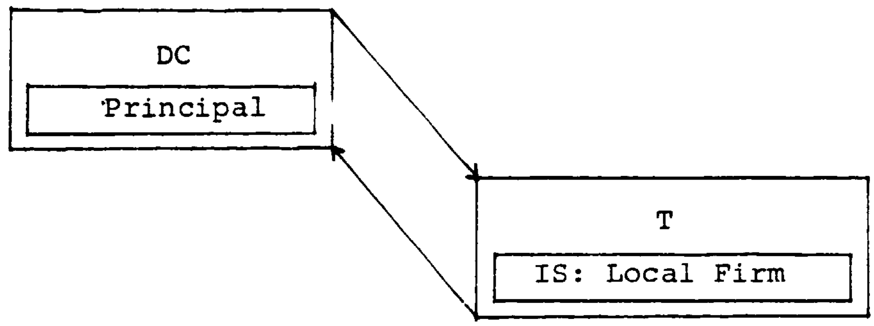
Scheme 1

Forms of International Sub-contracting in Tunisia

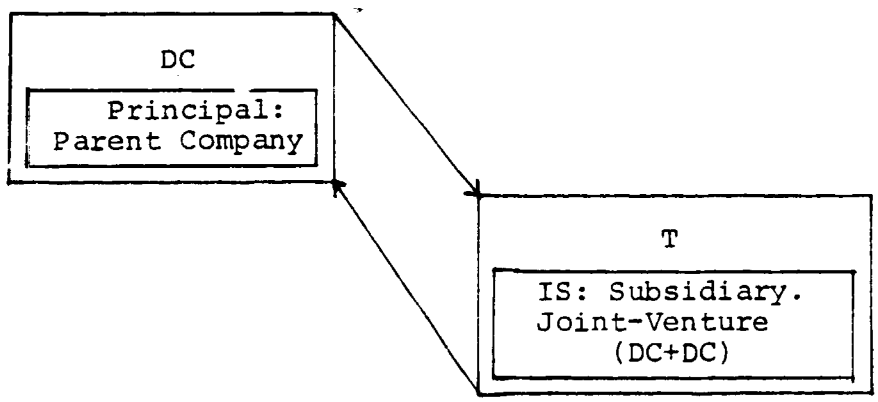
DC = Developed Country
T = Tunisia
IS = International Subcontractor

O = Orders
E = Export

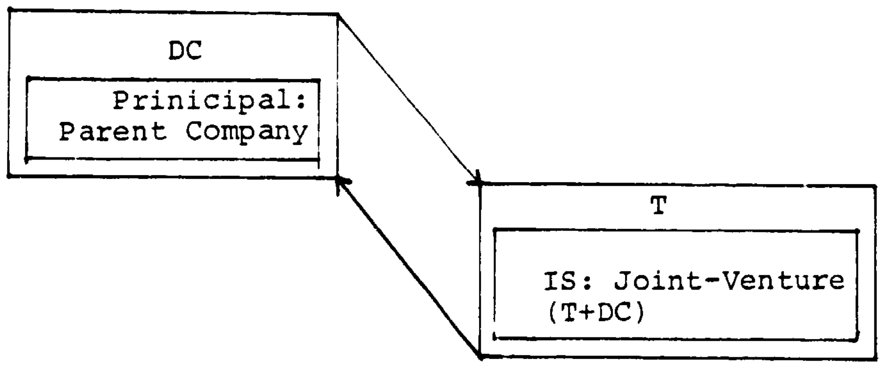
Form I



Form II



Form III



Scheme 2

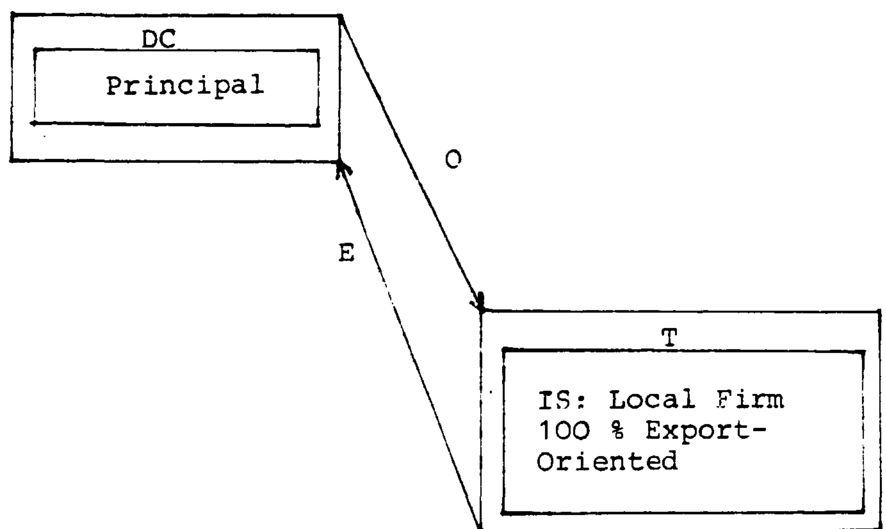
International Subcontracting in Tunisia

Type I, Categories I and II

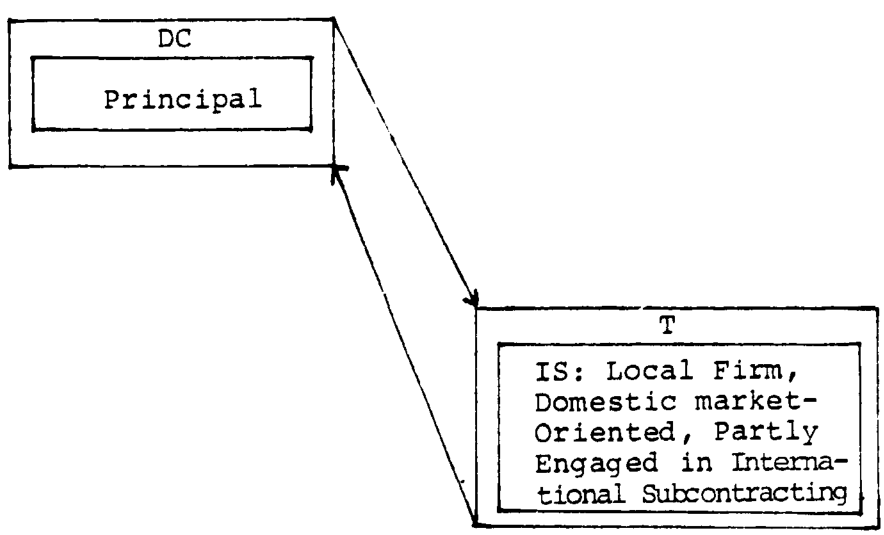
DC = Developed Country
T = Tunisia
IS = International Subcontractor

O = Orders
E = Export

Form I, Category I



Form I, Category II



whole production. It is different, however, if the Joint-Venture firm is operating according to Law 74.74 of August 1974 and is allowed to sell its products on the domestic market. In this case,too, a portion of the production is market abroad by the foreign partner because the absorption capacity of the Tunisian market is very low.

In some cases, the foreign partner organizes a common enterprise with a Tunisian partner, having in view that - provided that the quality of the products correspond to the required international norm - he is going to sell his interest to the native partner after the take-off of the business and getting with his partner in a subcontracting relationship according to the Form I, described above. The number of such related enterprises among foreigners and Tunisians amount to 69 (Census on June 30, 1979. Table 3/P. 45 :Classification of Export-Enterprises according to Nationality).

This second form of IS, separated in this classification with reference to Tunisia, is the most important one at this moment. It is preferred particularly by German investors. The French, on the contrary, do not seem to avoid Joint-Venture enterprises with Tunisian partners (36 Joint-Ventures). This might be attributed partly to the fact that the French have better insight into the situation of the country and the mentality of the inhabitants. Furthermore the co-operation between Tunisians and French partners is considerably facilitated because French is widely spoken in Tunisia.

Table 2

List of Tunisian Enterprises partly engaged in International Subcontracting

Name	Activity	Seat of the Enterprise
AMS	Machinery. Mechanical and electrical goods.	SOUSSE
B. BOUSRARA	Iron and metal transforming.	SFAX
CIEMEX	Household gears.	TUNIS
EL FOULADH	Iron and metal transforming.	TUNIS
EL MOUHAOUEL	Transformers. Winded component parts.	TUNIS
FONDERIES REUNIES	Iron and metal transforming.	MEGRINE
HYDROMECA	Machinery. Pumps. Lifting devices.	CHARGIA
LE CONFORT	Hausehold and electrical gears.	TUNIS
LE METAL	Iron and metal trasforming.	----
LUSTRERIES MODERNES	Glass-ware. Lamps.	----
MAGHREB MOTORS	Concrete mixers. Pumps. Motors.	MEGRINE
RECTIF	Household and electrical gears.	TUNIS
SACEM	Household and electrical gears.	TUNIS
SITEX	Ready-made clothing.	TUNIS
SOCOMECA	Repair of ships.	----
SOFOMECA	Iron and metal transforming.	MEGRINE
SOGITEX	Textiles.	MONASTIR
SOTACER	Household and electrical gears.	BEN AROUS
STIA	Assembling of cars (for the inland-market).	SOUSSE
STIEM	Electronical component parts. Television antennas. Car radio sets.	MEGRINE
STUMETAL	Iron and metal transforming.	TUNIS
TELESTAR	TV sets. Telephone sets. Radios. Hifi-receiving sets. Electronical component sets.	TUNIS

Sources: Agence de Promotion des Investissements. Tunis
CNEI (Centre National d'Etudes Industrielles). Tunis.
Association Gombert-Sobemap.: Sous-traitance dans les Secteurs Electriques et Metalliques du Maghreb. Brüssel 1976

Table 3

Classification of Export Enterprises according to Nationality (Law 72.38 of April 1972)

Nationality	Number of Projects
Sole-Venture	
Tunisian	46
German	54
French	16
Dutch	15
Belgium	19
American	3
Algerian	1
Italian	1
Swiss	2
Luxemburgian	1
Joint-Venture	
French-German	3
Belgium-Swiss	1
French-Belgian	1
French-Spanish	1
French-Swiss	2
Dutch-Luxemburgian	1
Dutch-Belgian	2
Italian-Swiss	2
Tunisian-French	36
Tunisian-German	11
Tunisian-Belgian	6
Tunisian-Italian	4
Tunisian-Dutch	3
Tunisian-American	1
Tunisian-Yugoslavian	1
Tunisian-Koweitian	1
Tunisian-Dutch-Belgian	2
Tunisian-Dutch-German	1
Tunisian-French-Swiss	1
Tunisian-French-Belgian	1
Tunisian-Belgian-German	1
Total	240

Source: API: Situation des Entreprises Exportatrices (loi 72.38). Tunis June 30, 1979

E / Quantitative and Qualitative Effects of International Subcontracting

1. Quantitative Effects

IS is promoted in Tunisia for several reasons. First of all, the Government is predominately interested in full employment. Secondly moreover, one expects a contribution to the settlement of the Balance of Payments as well as new impulses for industrial development and transfer of technology. On account of the smallness of the market and the rather minimal purchasing power of the Tunisian consumer, exports are encouraged so that, on the one hand, a contribution is made to improve the Balance of Trade and so that, on the other hand, the marketing problem can be solved. This part of the study is to show the socio-economic effects of IS and to examine how far the set goals and expectations of the Tunisian Government have been fulfilled and what contribution IS has accomplished in this regard.

1.1. Investments and the Number of Firms Established

From 1973 to 1977, a total of 444 projects with an investment sum of approx. 152 million TD were approved. 280 projects with an amount of approx. 47 million TD were realized in this period (Table 4/P. 48: Distribution of Approved and Realized Investments within the Framework of Law No. 72.38 according to Industrial Sectors in the Years of 1973-1976; and Table 5/P. 49: Approved and Realized Investments and Projects in 1977, according to Sectors. Law No. 72.38), i.e. 63.6 % of the approved projects and 30.9 % of the approved investments. Thereby the discrepancy between approved and actually realized investment projects is remarkable. In contrast to the small-and medium-sized projects (9 000 - 250 000 TD), approved big projects (above 250 000 TD) are rarely realized. The average investment sum per realized project amounts to 167 334 TD. Possible reasons why enterprises withdraw from their plans even after having obtained an approval, may be the deficiency of adequate inputs (raw materials, half-finished goods), shortage of qualified skilled workers and the social tensions in the period of 1974/78.[1]

In order to find an explanation of this problem, a detailed investigation would be necessary (i.e. interviewing foreign investors who despite of receiving approval of their projects have withdrawn, and a close examination of the structure of this group).

Although additional investment projects had been realized out of the 280 enterprises, established between 1973 and 1977, only 240 firms were still existing in June 1979.

Among the foreign producers in Tunisia, the contribution of German industries is by far the largest. From 19 export-oriented enterprises in the manufacturing industry, and investments amounting to approx. 4 million TD (20.1 million DM) in 1974, the German share increased to 71 firms, and an investment volume of approx. 12.7 million

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[1] regarding the conflicts and tensions (Cf.Footnote 2/P.35). Today the situation seems to have calmed down. The Government apparently attempts to liberalize the social and political life. In this context, almost all political prisoners have been freed, and the social-democratic opposition in the country is participating in Government by occupying one ministerial post.

Table 4

The Distribution of Approved and Realized Investments within the Framework of Law 72.38 by Industrial Sectors in 1973-75 (in TD) and 1976 (in Million TD)

	1973-74-75[a] (in TD)				1976[b] (in Million TD)			
Sector	1	2	3	4	1	2	3	4
Foodstuffs	6	3	5 561 502	435 032	-	-	-	-
Building Materials	1	-	210 000	-	-	-	-	-
Metal, Mechanical and Electrical Manufacturing	31	12	33 990 000	1 304 472	-	-	-	-
Chemicals	16	8	21 100 544	16 292 894	-	-	-	-
Textiles	188	142	54 334 582	15 085 189	-	-	-	-
Miscellaneous	17	12	1 758 966	973 651	-	-	-	-
Total	251	185	116 955 594	33 801 238	115	59	19.5	9.5

1 = Approved Projects
2 = Realized Projects
3 = Planned Investments
4 = Realized Investments

Sources: a - API. Op.Cit. Tunis 1976
b - API. Rapport Annuel 1977. Tunis 1977. P. 58

Table 5

Approved and Realized Investments and Projects in 1977 by Sectors in TD (Law 72.38)

Sector	Approved Investments	Approved Projects	Realized Investments		Realized Projects
			Number	%	
Textiles, Clothing, Footwear and Leather	6 378 111	43		26.4	20
Electro-Mechanicals	4 024 362	15		7.1	4
Foodstuffs	2 095 954	4		17.9	1
Chemicals	1 226 000	2		23.3	1
Miscallaneous	2 039 607	14		45.1	10
Total	15 764 034	78	3 552 149	ca. 22.5	36

Source: API: Rapport Annuel 1978. Tunis 1979. P. 44-49

Table 6

German Investments in Tunisia (per the end of 1979) in Million DM (accumulated)

	1974	1975	1976	1977	1978	1979
Investments	20.1	25.4	36.3	49.0	57.0	53.5
Producing factories	19	35	51	58	65	71

Source: Wolf Dieter Meltzer: Mittelständische deutsche Unternehmen in Tunesien. In: Auslandskurier. No. 9. Sept. 1980. P. 19

Table 7

Total Investments and Foreign Contribution within the Framework of International Sub-Contracting in Tunisia between 1973 and 1977 in Million TD

Total Investments	2 214
Investments of the Manufacturing Industry	395
Foreign Investments within the Framework of IS	47
Investments of the Manufacturing Industry (Expressed as Percentage of the Total Investments)	18
Foreign Investments within the Framework of IS (Expressed as Percentage of the Total Investments)	2
Foreign Investments within the Framework of IS (Expressed as Percentage of the Total Investments of the Manufacturing Industry)	12

Source: Table 4 and Table 5.
BCT: Rapport Annuel 1975 (P. 79) and 1979 (P. 118)
République Tunisienne: V[ème] Plan. op.cit. P. 5

to (63.5 million DM) by the end of 1979.[1]

In the middle of 1979, out of a total of 240 firms 70 were run with German participation (54 German, 11 Tunisian-German, 1 Tunisian-Dutch-German, 1 Tunisian-Belgian-German, and 3 Franco-German enterprises) (Table 6/P. 50: German Investments in Tunisia; Table 3/P. 45: Classification of Export Enterprises according to Nationality).

Compared to the total Tunisian investments in the period of 1973-77, the foreign contribution of 2 % within the framework of the IS seems to be quite unimportant. Relative to the investments in the manufacturing industry, where the contribution amounts to a percentage of 12 %, its importance is clearly indicated. (Table 7/P.51: Total Investments and Foreign Contribution within the Framework of IS in Tunisia between 1973 and 1977)

1.2. Employment

In 1975, 1 622 000 jobs were recorded in Tunisia.[2] This number accumulated in 1976 by 45 960; in 1977 by 39 450; in 1978 by 40 000 and in 1979 by 43 900 jobs. (Table 7/app.: Growth of Employments). This amounted to approx. 1 745 350 registered jobs by the end of 1979.
In the manufacturing industry 60 931 jobs were stated

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1 Wolf Dieter Mehler: Mittelständische deutsche Unternehmen in Tunesien. In: Auslandskurier No. 9, Schwäbisch Hall, Sept. 1980. P. 19

2 République Tunisienne: V^{ème} Plan.. op.cit. P. 10.1

in 1972.[1] Within the framework of the IV. Development Plan, 60 500[2], in 1977 16 300[3] and in 1978 20 300[4] jobs were created in this sector, which brings about the total amount of 158 031 jobs in the manufacturing industry by the end of 1978. Out of this approx. 20 000 were created directly within the context of IS by the end of 1978[5]. By the middle of 1979, the share of IS in direct job-creation had increased to 23 271. Expressed in a different way, it means that almost every eighth place of work in the Tunisian export-oriented industry was created within the framework of IS. In the opinion of the Tunisian authorities, this contribution is considerably high. Thus the main objective of Tunisian export-oriented industrialization appears to have been achieved.

Divided up into sectors, the textile and ready-made clothing industry (150 firms) employ 17 216 persons and have therefore the lion's share of the realized places of work (Table 8/P.54: Distribution of Export-Oriented Enterprises according to Sectors and Employment).
With 7 412 jobs (census at the middle of 1979) German enterprises have contributed most to the reduction of unemployment in Tunisia.

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1 Statistisches Bundesamt: Tunesien 1976. Wiesbaden 1977. P. 99
2 République Tunisienne: V^{ème} Plan den Développement. Op.cit. P. 7
3 Groupe Jeune Afrique. Op.cit. P. 18
4 Bundesstelle für Außenhandelsinformation: Tunesien. Wirtschaftliche Entwicklung 1978/1979. Cologne 1979. P. 31
5 Furthermore numerous jobs were indirectly created or preserved in accordance with the existing input-interconnections. On account of the limited availability of data, it was impossible to precisely estimate these indirect employment effects.

Table 8

Distribution of Export-Oriented Enterprises according to Sectors and Employment (Law 72.38)

Census June 1979

Sector	No. of Enterprises	No. of Employees
Textile and Clothing Products	151	17 216
Footware and Leather Products	18	1 304
Electronics	12	1 717
Electrical Equipment	9	290
Mechanics	9	527
Chemicals	6	461
Foodstuffs	3	85
Miscellaneous	32	1 671
Total	240	23 271

Source: API: Situation des entreprises exportatrices opérationnelles dans le cadre de la loi 72.38 du 27 avril 1972. Tunis 30-6-1979. P. 3

1.3. Effects on the Balance of Payments

Like all developing countries, with the exception of the oil-exporting ones, Tunisia suffers from permanent shortage of capital and foreign exchange. Although the balance of payments showed surpluses amounting to 11.5 million TD (1978) and 50.5 million TD (1979) respectively (see section: Basic Information on Tunisia. Balance of Payments), the country's debt servicing has increased continuously. The opening and establishment of export industry zones and the promotion of IS among others serve to reduce the shortage of capital and foreign exchange at least to some extent.

Considering the fact that the non-resident[1] approved export enterprises[2] (i.e. foreign ISE) have to make all payments due in Tunisia (e.g. for supplies, services, duties, and taxes as well as distribution of profits to resident share-holders or customers) by way of foreign accounts in foreign exchange, the following must be taken into consideration in the case of Tunisia when judging the influence of IS on the Balance of Payments and the foreign exchange situation (divided into positive and negative foreign-exchange effects)[3]:

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[1] In order to avoid falsification, attention is paid here to an exact word-for-word reproduction of the Tunisian legal language.

Section 3, article 5 of the Law 72.38:
Legal persons shall be deemed to be non-resident in respect of their duly approved establishments producing solely for export where their capital is held by non-residents in consequence of an an importation of convertible foreign exchange equivalent to sixty-six per cent of the capital. Domestic investments in such bodies corporate by residents shall require the authority of the Central Bank of Tunisia.

[2] Section 3, Article 6 of the law 72.38. This is stressed in the dispatch of the Prime Minister on the application of the export-industry-law in the field of foreign exchange traffic and external trade: 'Non-resident must make all settlements to resident partners through foreign accounts in convertible Dinars.'

---- Positive foreign exchange effects by:

.Investments in the form of money-capital.
.Wages and salaries paid to foreigners[1] and Tunisians.
.Acquisition of equipment and inputs (buildings, machines, semi-finished products and raw materials) on the local market.
.Distribution of profits to Tunisian share-holders or customers.
.Payments to the Tunisian State.[2]
.Tunisian services which are necessary for upholding the production (e.g. repair-work).

---- Negative foreign exchange effects by:

.Tunisian purchases in the free-zone which are technically considered imports.[3]
.Tunisian services, infrastructure-costs and indirect growth effects (e.g. the establishment of a supplier firm which must import particular inputs) in as far as they are payed with foreign exchanges.

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1 At least 50 % of the net payments to the foreign co-workers of the foreign enterprises must be paid in convertible foreign currency (Circular 119 from the Banque Centrale de Tunisie).

2 Apart from the taxes which were listed above (in chapter on legal background), some indirect taxes and payments must be added like taxes on wages and salaries, production and service tax, transportion tax etc. see Wilhelm Hebing, Serie : Steuer, in: Partenaire et Développement. Tunis 12/1979. P. 35-39

3 In these purchases the following is assumed: the granting of an import license according to the regulations regarding imports of goods from foreign countries or-if necessary-the use of the prescribed process for import licenses in accordance with Communication No. 116 of the Ministery of Economies.

.A rise in the import of consumer goods due to increasing demands by the workers in the industrial free zones.
.Transfer of foreign exchange by 'residents' who undertake business trips abroad.[1]

Furthermore the investment loans taken by foreign firms (non-residents) must be taken in consideration. According to Tunisian law, naturally and legally non-resident persons have no access to the domestic capital market. However, Tunisian banks have the possibility to grant non-resident owners of concessions in accordance with Law 72.38 loans from foreign, private funds. In the first place, certainly, the Banks are to spend such funds for investment loans to residents- such is the law. When granting loans for operating capital, it is possible to set free legal commercial claims of residents against non-resident export-enterprises by granting export loans. In the EC-countries, too, there are possibilities of obtaining loans at low interest rates within the framework of a program for the promotion of subsidiaries in Tunisia. The Federal Republic of Germany, e.g., grants loans at 3.5 % interest to German branches in Tunisia.[2] Whereas in Tunisia, the interest rate is between 5 to 15 %. Therefore one can assume that in such cases foreign firms much rather avail themselves of the possibility of obtaining loans in their mother-country.

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[1] According to the regulation of the Communication No. 116 of the Minister of Economics, anyone in possession of a concession in accordance with the export-industry promotion Law 72.38 can transfer up to 4.000 TD yearly for business trips. The resulting foreign exchange effect might be only of macro-economic importance, however.

[2] Michel Falise: la sous-traitance internationale: le cas de la Tunisie. Centre de Developpement de l'OECD. Paris Dezember 1977 P. '9 - Reproduction in D. Germidis (Ed.): Industrial Subcontracting. op.cit.

The negative foreign exchange effects mentioned in connection with IS and export promotion are basically not very grave so that certain positive contribution to the balance of payments by IS can be presumed. This cannot, however, be expressed in numbers because of the inavailability of data. An exact determination of the balance of payments effects was not possible, due to shortage of time.

The balance of trade which represents certainly an important magnitude in the balance of payments could serve as an indicator. The share of IS in the textile import (main point of IS) e.g. can be estimated at 2/3. These imports take place in the form of inputs (wool, cloths, buttons, thread, buckles, zippers etc.). According to Michel Falise, the share of IS in the total export in 1975 amounted to 6.1 % and approx. 2/3 of the export of final products[1], i.e. approx. 21.0 million TD (see Table 14/app.: Export by Groups of Products). According to a statement issued by the Tunisian Minister of Trade, this share increased in 1978 to approx. 10 %[2], this means approx. 71.6 million TD (see Table 12/app.: Terms of Trade). In it's development it shows a positive tendency within the traffic of goods between Tunisia and abroad.

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[1] Michel Falise: la sous-traitance internationale: le cas de la Tunisie. Centre de Dêveloppement de l'OECD. Paris Dezember 1977. P. 19

[2] Tunisian Special Survey. In: The Middle East. London No. 58 August 1978. P. 94

2. Qualitative Effects

2.1. Technical Aspects

The assortment of products of IS in Tunisia is characterized by the strong engagement of European textile and clothing industries and the reservation of enterprises from other branches of the manufacturing industry.
While in the different forms of IS described above (with the exception of Form I, Category I[1]), the textile and clothing industry is represented by 151 firms, the other sectors are represented by only 89 firms. From a total of 46 firms in Form I, Category I, 34 are textile and clothing firms out of a total of 125 enterprises falling into Form II, 72 are textile and clothing firms; and finally among the 69 firms in Form III, 45 are textile and clothing enterprises (see Table 9/P.64: Distribution of Projects by Sectors; Table 10/P.65: Distribution of Projects of the Textile and Clothing Industry according to the Forms of International Subcontracting . Law 72.38).

The assortment of products of the textile and clothing industry contains everything from the manufacturing of cloths to final products.
The final products of this branch are predominantly

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[1] Subcontractor = Tunisian enterprise which is only partely engaged in IS

items of clothing. The product-assortment is manifold and varies according to season and fashion. The campanies receive inputs (cloths, buttons, labels, etc.) and also designs (models) which they process and afterwards return to the customer. In some cases the finished garments are labelled abroad. This can be observed particularly with Tunisian subcontractors (Form I).

In the textile and clothing branch, the main emphasis is on the manufacture of final garments.

In the footwear and leather industry, semi-finished and final goods are produced. As for shoes, the material (natural leather, artifical leather, plastics, etc.) are supplied by the customer. In Tunisia, all the operations are performed, except for - in some cases - the soling which is than carried out later by the customer.

In some instances, manufactured leather goods such as belt, bags, suitcases, etc., are finished abroad by fixing the handels. However, more final products are made than semi-finished products.

As for the production of boats, it's quite a different situation. In Tunisia, are two foreign boat-enterprises (census June 1979) that are export-oriented. In one of them (ATUFON in Ras-Tabia: Franco-Spanish enterprise) pontoon-bridges are manufactured, while in the other one (NEPTUNE in Radès: German firm) yachts and sailing ships are produced, however, they are not produced to the last stage of production because the sails as well as the mechanical and electronic instruments are fitted in later by the parent company. So this is a matter of semi-finished products.

The electronic and the electro-mechanical branch is represented by 30 export firms. The production in these firms involves the assembling of parts as well as the manufacture of cabels, switches, potentiometers, and condensers. The emphasis is on the assembly and the soldering up of parts which are supplied by the customer.

In the chemical sector, there are six firms which are export-oriented and operate under Law 72.38. Three of them treat phosphate; one treats fluorite; one produces plastic projective helmets and one manufactures tubes of different sizes and thickness. It is not surprising that in this sector phosphate is mostly treated since Tunisia has large phosphate deposits at its disposal. From the information obtained in Tunisia, it can be presumed that the last stage of the phosphate treatment into consumer goods (e.g. furtilizer, insecticides, detergents, etc.) is carried out by the customer. The same is true for the treatment of fluorite.

In the foodstuff-industries, there are momentarily three firms engaged in IS. One has specialized in the dehydrating of fruits and vegetables, another one in the manufacture of pulverized foodstuffs. The third one is a chicken farm in Hajeb El A'ioun in the district of Kairouan.

The remaining 36 firms on the list belong to different industrial branches: toys (e.g. dolls out of plastic and plush), sports articles (e.g. fishing hooks), wood products (plywood and wooden articles for the building-trade), and light metal processing (e.g. household goods such as pots and pans, and cutler, industrial files. Besides wigs, toupees and perfumes are manufactured. One can conclude this list with a Dutch farm reconditioning automobile engines from VW, Opel and Ford.

To this list of IS-enterprises operating under Law 72.38, one must add the list of Tunisian firms which are domestic-market oriented, but also have included IS in their business practice strategy (Form I, Category II).

At the moment, there are a number of Tunisian enterprises presenting themselves as international subcontractors[1] (see Table 2/P.44: List of Tunisian Enterprises partly engaged in International Subcontracting). Technically, their products are more complicated to manufacture than those of the export-oriented firms. They belong to the most important and largest local enterprises. Production within the context of IS comprises input-products as well as final products whereby the main emphasis lies on the manufacture of inputs or semi-finished products , except for the textile and clothing branch.

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[1] From the point of view of the customer, it is a matter of 'cost-saving subcontracting' and from the point of view of the subcontractor, it is a matter of 'full-capacity subcontracting'.

The iron and metal-processing companies which partially engage in IS (B. Bousrara, El Fouladh, Fondéries Réunies, le Metal, SOFOMECA and STUMETAL) primarily produce castings of different forms. SOFOMECA, for example, which has specialized in castings, has been working for Berliet in France as well as for public enterprises in Algeria and Lybia, for years.

Apart from the 30 export-oriented enterprises (Law 72.38), 31 domestic-market oriented enterprises belong to the electro-mechanical and electronic industry, a branch having developed well within the last five years. The majority of these domestic-market oriented enterprises work under license (Thompson, Nordmende, Telefunken, Windsorl, Schneider, Sony). The others work only sporadically for export, i.e. as far as they receive contracts from abroad (CIEMEX, LE CONFORT, MAGHREB MOTORS, RECTIF , SACEM, TELESTAR, STIEM). Among other things they produce television sets, telephone sets, household goods, radios, antennas, Hi-Fi equipment, motors, pumps, cables, fuse-boxes, measuring instruments, transformers, condensors, and stabilizers.

Finally, in the textile and clothing industry, the SOGITEX and its subsidiary SITEX are worth mentioning. Both are domestic-market oriented, but also produce cloths and clothes for foreign customers (e.g. SWIFT in France)

Table 9

Distribution of Projects by Sector (Law 72.38 of April 2, 1972)

Sector	Number
Textile and clothing	151
Footwear and Leather Products	18
Electronics	12
Electrical Equipment	9
Mechanics	9
Chemicals	6
Foodstuffs	3
Miscellaneous (Light Metal-Transforming. Toys. Sports-Articles. Construction etc.)	32
Total	240

Source: API. Tunis 1979

Table 10

Distribution of Projects of the Textile- and Clothting Industry according to the Forms of International Sub-Contracting

(Production Law 72.38 of April 2, 1979)

Sector	Form I[1] Quantity	Form II[2] Quantity	Form III[3] Quantity	Total by Sector
Textile and Clothing	34	72	45	151
Other Sectors	12	53	24	89
Total (by Forms)	46	125	69	240

Source: Compiled from API-data. Census June 1979.

[1] Subcontractor = Tunisian enterprise. Only Tunisian enterprises that are totally export-oriented have been considered.

[2] Subcontractor = subsidiary or foreign branch.

[3] Subcontractor = Joint-Venture between Tunisian and foreign partners.

Table 11

International Subcontracting in Tunisia

Main Type of Production

Sector	Type of Goods	Main Type of Production
Textile and Clothing	Finished Unfinished	Final Products
Electro-Mechanics and Electronics	Finished Unfinished	Assembled and Semi-Finished (Form I, Category II)
Iron and Metal Processing	Finished Unfinished	Semi-Finished
Foodstuffs	Finished Unfinished	Final Products
Miscellaneous	Finished Unfinished	Final Products

Source: Data collected by the author.

2.2.Interaction between Principal and Subcontractor

In this context it is necessary to differenciate between manufacturing plants of multinational groups and enterprises which - independent of one another - are in business relation only on the account of the IS-Agreement.

Subsidiaries can expect any kind of assistance from their parent companies since this is in the interest of the whole group of companies. Thus experts sent by the parent company (2 - 4 times a year on the average) still keep on visiting these companies even long (6 - 8 months on the average) after they have started operating when the financial, technical and legal support are especially intensive on the part of the parent-company. However, these visits seem to be inspection visits rather than visits for the purpose of technical advice.
But on the other hand, according to the firms interviewed, exchange visits with the other firms or the sending of Tunisian workers to other firms for the purpose of further training have seldom taken place.
Possibilities of exchange for further training-purposes exist above all at governmental level within the framework of governmental programms . In 1979, European clothing enterprises sent some of their mechanics to Tunisia to train their Tunisian counterparts on the job.[1] Apparent-

[1] API—Merkblatt, Tunis 7/1979

ly, this has happened only once through the initiative of the principal resp. the subcontractor.

The task of the subsidiary seems to be limited to the finishing of prescribed products. Thus the establishment of research and design departments seems to be superfluous. Since the factories concerned belong to one enterprise group, there is no need for special agreements to be signed. Orders are forwarded to the subsidiary. The parent company supplies the necessary sample and inputs and is responsible for paying wages and providing means for arising working expenses, as well.

It is different in the case of an IS of the Form I described above. As a rule, the principals look for suppliers. who possess good technical equipment. Before a contract is signed, the principal usually requests the supplier to produce a sample in order to be able to form an opinion about the qualitiy of his work. An expert, sent by the parent company, is present when the first orders are executed in order to carry out quality controls before the goods are dispatched. In any case, the principal has these goods examined a second time at his firm. These measures are not waived until trust has developed between customer and supplier. On account of such precautions, it seldom happens that produced goods are rejected and sent back. If the expected quality should not be achieved in some cases, the goods are usually accepted as 'seconds' all the same and their prices are fixed on a different basis. This is usually guaranteed in a contract from the beginning. However, this clause also involves the risk that the supplier is exposed to the price-dictation of the principal espc. as the former is dependent upon the orders of the latter. On account of such repeated occurrences, the Tunisian clothing firm SPORTSWEAR-MANUFACTURE, for example, has moved from IS to direct exportation.

The contracts Tunisian subcontractors with foreign principals are usually valid for two to six months. In each case, they are limited to one order and are usually only renewed if new contracts are given. These agreements include all the conditions: prices as well as terms of dilivery. Technical advice (on production techniques and aquisition of machinery) takes place from time to time. Not one of the firms interviewed had ever sent any of its workers to the principal-firm for training or practical courses.
In any case, the position of the Tunisians who have established common enterprises with foreign partners seems to be more advantageous than the situation of the Tunisian subcontractors of Form I. The finished goods are usually marketed by the foreign partner who also sends the order. Then just like subsidiaries, the Tunisian counterparts receive technical assistance in the case of common projects.

As already mentioned, it is not uncommon that the foreign partner sells his interests to the Tunisian partner after some time (probably after the amortization of the investment) and then enters into an IS-agreement with him. This is the case of Bücking-Bonco, for example, which is entirely owned by Tunisians today and still reguarly obtains contracts from its former partner.

2.3. Industrial Diversification

The expansion of export within the framework of IS in Tunisia is based on a wide assortment of products (see Ch. E., sec. 2.1: Technical Aspects) although it is noticeably concentrated on the textile and clothing industry (151 out of a total of 240 firms belong merely to this sector. Several products such as shoes, leather goods, steel products, electro-technical goods, watches, and toys could not be found at the beginning of the export-orientation phase.

Several of these new products are of relatively low export value, indeed, but all of them together show that the export assortment has expanded considerably in an rel. short period of time. Thus industrial production has increased tremendously. The efforts of the local authorities are directed towards a diversification of the export industry and in a shifting of the emphasis from textiles and clothings to electronic and mechanical goods. In addition, productivity increases, and the available equipment is much more loaded to capacity then it was formerly. (IS-Form I)

2.4.Regional Diversification

IS has contributed very little to the regional diversification of the industry within Tunisia. Out of 240 companies, 214 are located in the coastal region. 95 firms with a total of 8 813 jobs are situated in the district of Tunis only. In the interior of the country, only 20 enterprises with a total of 1 619 jobs had settled. The coastal regions of Madhia and Gabes are largely ignored despite of their advantageous location (above all Gabes with its harbour and its proximity to the Airport of Djerba).
In each of these regions, there are three firms which are export-oriented (see Table 12/P.72: Regional Distribution of Industrial Projects). In the districts of Gafsa and Mednine in the south of the country as well as in Siliana in the north, there has not been established one export-oriented enterprise up to the present. Also domestic-market oriented industries (Law 74.74) seem to have no interest in this region.
Political and economic reasons may have led to the discrimination of these regions. Regarding politics, the population of the Gafsa- and Mednine-regions offered strong resistance to H. Bourguiba after the independence and supported his opponent S. Ben Joussef instead. Up to the present day, these regions have seemingly represented a latent danger for the Bourguiba-Regime. The events of January 1980 have reinforced this impression. (see footnote 2, P. 35)

Table 12

Regional Distribution of International Subcontracting Law 72.38
(Census June 1979)

	Number of Projects	Number of Employees
Coastal Cities		
Tunis	95	8 813
Nabeul	34	2 865
Monastir	30	2 786
Sousse	25	2 746
Bizerte	18	2 749
Sfax	12	1 187
Gabes	3	292
Mahdia	3	214
Total	220	21 652
Interior of the Country		
Zaghouan	6	479
Bêjà	5	480
Le Kef	3	264
Jendouba	3	101
Kasserine	1	225
Sidi Bou Zid	1	70
Kairouan	1	under construction
Total	20	1 619
Total (Coastal Cities and Interior of the Country)	240	23 271

Source: Compiled from API-data

Regarding the economy, these regions would imply additional transportation-charges on account of their distance from Europe as well as from the harbours and airports (for the domestic-market oriented industries, the distance to the main population centers of Tunisia is a factor which should not be underestimated).

2.5.Linkage Effects

Since the products of the IS-enterprises are destined for export, forward effects are basically excluded. Whereas backward effects arise through the acquisition of inputs and requisition of services such as repair of machines, construction services, etc.

For reasons of quality and price, there are only very limited possibilities of obtaining inputs on the local market in Tunisia. In the textile branch, for example, there are no textile-fabrics of European standarts which could be purchased with the exception of materials for jeans and blouses. Although the situation in the knitting and weaving branch can be judged to be more favourable, about 90 % of all knitting-wool are still imported. Trimmings such as buttons, zippers, elastic bands, and stiffeners must almost always be imported.[1]

[1] API-Merkblatt, Tunesien. Bekleidungsindustrie. Tunis 7/1979. P. 3

In the other sectors of industry, the situation is similar. Certainly the possibilities of obtaining inputs in Tunisia itself is seldom investigated, or it is given up after the first disappointing attempts. The interviewed firm EPITEX, for example, which planned to aquire sewing cotton from the local market, discarded the idea immeadiately because of instable prices.[1]

With the exception of SOFOMECA, the remaining firms that were interviewed, stated that they usually receive the necessary inputs from their prinicipals, that is to say from abroad.
SOFOMECA, a Tunisian enterprise (IS-Form I, Category II) having customers in France and North-Africa, gets a part of its inputs from abroad. The rest is obtained on the local market. The enterprise receives and gives orders simultaneously. Thus Berliet in France is among its principals, and SOTUMO and Maghreb-Motors are among its suppliers.

Only in the clothing industry the provision of machine-parts is well organized. The most important manufacturers of sewing-machines e.g. Dürkopp, Pfaff, Adler, Union Spezial Singer have representatives in Tunisia.[2]

Finally, backward effects arose from IS also as a re-

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1 The price for sewing cotton of one and the same supplier jumped from 1.914 TD to 3.051 TD within 2 days (September 8 - 10, 1979)
2 API-Merkblatt, Tunesien: Bekleidungsindustrie. Tunis 7/1979. P. 3

sult of its demand for construction services. The resulting indirect industrial growth-effects should by no means be unterrated.

2.6.Transfer of Technology

The acquisition of technology may be effected either by the purchase of equipment or equally by the transfer of the necessary know-how or skill as an intangible factor, in the field of production, management and marketing techniques. Tunisia strives hard to acquire the technology necessary for its development. Hence the reason for the relatively large imports of equipment which by itself alone, amounted to 280.6 million TD in 1978 or 31.8 % of the total value of imports, as against 29.6 % (231.1 million TD) in 1977; 31.9 % (209.5 million TD) in 1976 and 30.2 % (172.8 million TD) in 1975.[1]

This rise in expenditure is due to increased spending on the acquisition of machinery and materials listed in new development projects.[2] The authorities are also endeavouring to combat illiteracy and to improve individual training as well as to guide employment towards the new needs and requirements of the country. Consequently,

1. BCT: Rapport Annuel 1976 (p. 94), 1978 (p. 111). Tunis 1977
2. BCT: Rapport Annuel 1976. Tunis 1977. P. 97

the training of engineers and qualified and skilled workers is being encouraged as they are considered to be the pillars in the country's industrialization. All this, however, is merely limited to the national effort. International subcontracting enterprises on the other hand contribute very little to the transfer of technology in Tunisia. To some people in public office in Tunisia, it suffices if Tunisian workers simply habituate themselves to working in factories,for the main objective of international subcontracting is considered to be the creation of employment and not the acquisition of technology. "Public authorities in Tunisia" writes D. Germidis, "...are quite clearly banking upon a full employment policy rather than the acquisition of technology."[1]

Due to the lack of highly qualified workers and engineers, to the exiguity of its market and the meagerness of its resources, Tunisia is able to attract only a certain type of enterprise wishing to invest, expecting however, very clearly defined benefits in return (availability of cheap and abundant labour, low qualification levels, activities which do not require considerable investments, fiscal benefits, a stable political climate which is favourable to their investments and the new international devision of labour), and which moreover undertake to delocalize some of their activities and establish themselves abroad, in the Third World mostly, on account of their own financial structure, due to international competition for their products and to diminishing

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[1] D. Germidis: Le Maghreb, la France et l'enjeu technologique. Edit. Cujas. Paris 1976. P. 192 (Translation by the author)

profit margins. Such enterprises belong to those sectors of industry which do not require sophisticated engineering techniques, such as:

---- Transformation of metals: small equipment
---- Transformation of metals: consumer goods
---- Subsidiaries of the textile industry
---- Fancy leather and glove-making industry
---- Footwear industry
---- Jewellery, goldsmith & silversmith trade
---- Games, toys, sports articles-trade
---- Brushware trade, Turnery and Office supplies[1]

Almost all of the international sub-contractors in Tunisia belong to one of the nine sectors mentioned above. Some of them set up subsidiary enterprises in order to expand the range of their products or simply to raise output itself at a much higher profit margin than before; or they find a Tunisian partner and thereby confine themselves to a minimum of investments or else when it is in their interest not to undertake direct investments, they engage in subcontracting with a Tunisian entrepreneur disposing of the necessary skill

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[1] These industrial sectors are mentioned in a study by 'Compagnie Internationale de Développement Régionale (CIDR)'. This study is based upon data compiled by 'Centrale des Bilans de la Banque de France sur le structure financière des entreprises françaises'. Its purpose being to search and pick out those sectors of industry whose structure is best suited to delocalization or transfer of activity to developing countries in the framework of the new division of labour and the concept of redeployment. The revue 'Le Moniteur du Commerce International = MOCI, an organ of the French Office of Foreign Trade published a study on March 18, 1974 (P.91-97) in its 77th number. (A. Senge, Tiers Monde: Neuf secteurs favorables à la croissance). They are quoted in D. Germidis.op.cit. P. 31-36

and equipment needed for production.

Hereby, one has to take into consideration that know-how-transfer accomplished by the multinational enterprises differs in size, according to whether they appear as principals or whether it is the question of establishing a subsidiary. It is also certainly dependent upon factors like:

---- The industrial sector to which the multinational firms belongs. Every sector has its own proper structure as regards technological innovation, the means available for dissimination of technical know-how and on relations with local agents.

---- The socio-economic structure of the host country (industrial potential, state of development of their technological capacity, policy towards foreign investments.

---- The strategy of multinational firms which may differ as to their country of origin.[1]

Add to this, the technically more complicated production processes usually take place in the parent company (i.e. the first or last production stage), so that the actual manufacture of the final product and the technology remains, indeed, strange to the subcontractor . The reason for this being the subdivision of the operation.

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[1] Centre de Développement de l'Organisation de Coopération et de Développement Economique (OCDE): Le Transfer Technologique par les firmes multinationales. Vol.I, under the direction of D. Germidis. Paris 1977. P. 18-19

Interviews with the IS firms from the viewpoint of technology transfer brought about the following results:

---- Up to 90 % of the machines were bought second-hand, come from the parent company and are in good condition

---- Apart from subcontractors of the Form I, Category II, research and development or similar departments do not exist in the firms.

---- Two or four times a year, technicians or engineers are sent to the firms for advice or inspection purposes.

---- The managers as well as office clerks of 80 % of the foreign subsidiary firms are Tunisians.[1] Therefore it can be assumed that a transfer of knowledge of organization is continuously taking place.

---- 70 % of the chief-technicians, skilled workers and engineers of the foreign subsidiaries are foreigners.

---- Internal training takes place in all firms in the form of 'training on the job'. There seems to be a certain widespread mistrust of the qualifications of graduates of Tunisian technical colleges.

---- None of the firms interviewed had ever sent a worker or a clerk abroad resp. to the parent company in order to go through practical training.

---- After a running-in period of 6 months, the firms were able to achieve about 70 % of the European productivity levels. After longer periods of operation, productivity was as high as 80 %[2] or even 90 % compared to European productivity. Tunisian enterprises stated that the productivity in their factories would be able to pass the European standart.

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[1] There is a so-called tunisianization-programm for employers in managerial positions to which foreign enterprises have to adhere. Very often, there are management teams composed of Tunisians and foreigners.

[2] This corresponds to the data of the DEG.

Thus the transfer of technology might be not very large. However - considered relatively, i.e. for Tunisian conditions and compared to the industrial structure of the country and the structure of the transferred manufacturing-plant, it should not be underestimated.

A small, but definite and constant exchange of knowledge and techniques of production is taking place, anyway.
A transfer of marketing techniques is hardly to be expected because the principals do not market the manufactured products in cooperation with Tunisians.

F / Conclusion

With no doubt, in Tunisia significant changes are coming about: Investments, industrialization and creation of jobs.

In many ways, the contribution of IS is still quite small but alltogether not insignificant. The greatest gain may be the motivation for investments which legislation and IS exercise on the consciousness of Tunisian capital owners. Their readiness to invest and to establish industries has increased considerably. This is not only a result of the liberal economic policy measures but also of the example given by the engagement of foreign investors.

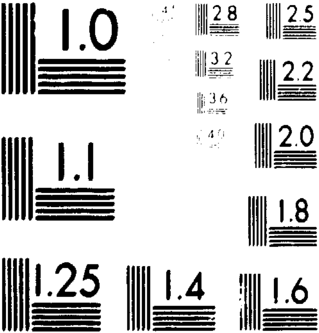
Many Tunisians have become aware of the limits of the Tunisian market. Consequentely they regard exportation and IS as a real opportunity of establishing factories or of fully utilizing the existing capacities of industries or of expanding their capacities. They could be deprived of this chance if the free access to the EC-Market were endangered. Already negociations are going on in the EC to establish quotas for certain products of the clothing industry. Tunisians are following such negociations with uneasiness. They are apprehensive of the endangering of many export-oriented enterprises of the clothing sector.[1] The branch establishments of many foreign clothing firms, availing themselves of the advantages offered by the association agreemants between Tunisia and the EC-countries (e.g. free access to the EC-Market), seem to trouble Tu-

[1] Cf. Otto Bonk: Réflexions sur la coopération tuniso-allemande dans dans le domaine du textile. In: Partenaire et Développement Nr. 2 Tunis Dezember 1979. P. 29

nisian manufacturers. They fear that these foreign firms which have established branches in Tunisia could, in case of import restrictions into the EC-Market, become their competiters and thereby endanger their market opportunities. In order to weaken or to compensate the inavoidable negative consequences which would arise from such a situation, it would be avantageous to conquer a part of the markets e.g. of Lybia and the Golf States. These countries may be sparsely populated, but they are inclinded to consume considerably and have great purchasing power. The fact that the Arab League Headquarters are at Tunis, could help to establish contacts.
In addition, the contribution of IS could be raised if economic policy authorities in Tunisia would pay more attention to the Form I, Category II-Type of IS and proceed as follows:

. Registration of all Tunisian enterprises according to the orientation of their production and their productivity.
. Assistance in raising their technological levels and in establishing contacts with foreign customers.
. Registration of foreign firms that are interested periodically or episodically in giving out IS-orders.

The encouragement of the Form I, Category II-Type of IS is worth obtaining because the dependence could be reduced relatively by expanding the spectrum of the customers or principals. IS-enterprises of the Form I, category II-Type produce only partially by order of foreign enterprises and are therefore less exposed to recessions in the principals' country than the Form I, Category I-Type, which are totally dependent upon foreign customers.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It would also be important to improve the customer-supplier relationship to the advantage of the subcontractor, i.e. encreasing the number of principals per subcontractor.

Additional proposals for a further encouragement of IS could include:

. Increased training of specialists through an educational planning closely co-ordinated to the needs of the industry which puts emphasis on the quality of the training and therefore satisfies the needs of Tunisian industry sufficiently.

. It would also be inevitable to raise the technological level of the Tunisian enterprises in order to carry out operation demanding higher technological know-how.

. Creation of an institute or a central institution for quality control and quality tests with the aid of a group of qualified engineers and specialists.

. Improvement of the cooperation between national enterprises and foreign firms by offering classes providing on IS.

. Organization and Reinforcement of the Linkage effects through long-term supply agreements with guaranteed prices and by setting up certain supplier-firms (for those basic inputs that are still predominently imported at the moment although they could actually be produced in Tunisia by all means, e.g. sewing cotton, textile fabrics and footwear etc.)

. Training of competent representatives and sales agents in view of sales strategies and canvassing enhancement of public relations by fairs, exhibitions, export-offices etc. in purchasing countries.

. Reminding of supply dates, price guarantees, international rights and obligations.

. Protection of Tunisian producers from currency fluctuations with the aid of the already conceived 'system of guarantee for foreign exchange at forward rates'[1].

. Furthermore, one could accelerate the expansion of processing industries based on the available raw materials such as phosphate, oil and gas. Linkage effects in the phosphate and petro-chemical industry are just possible worth obtaining and would have a great run.

The dependence on foreign patents and licenses could be reduced by intensive research in Tunisia and by the promotion of the creativity of Tunisian specialists in the fields of research.

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[1] BCT: Rapport Annuel 1978, Tunis 1979. P. 153

Comprehensive Overview of the Results Obtained by Interviewing 30 Tunisian IS-Enterprises

Situation of the Enterprise

- The Form I, Category I-type of IS-enterprises is mostly represented by small- and medium-sized firms which are generally dependent upon one or two principals.
- The Form I, Category II-type of IS-enterprises ranges from medium-sized to large firms with a certain degree of independence.
- The Form II-and Form III-types of IS-enterprises are small- or medium-sized enterprises, depending upon their parent companies or foreign partners.

Investment motives

- Low wages resp. low production costs (predominat motive).
- Over-supply of labour.
- Geographic proximity to Europe.
- Tax privileges.
- Political stability.
- Infrastructure.

Contracts

- On the average 2 to 4 contracts/year.
- The average period of a contract being 3 to 6 months. In the clothing sector the contracts are renewed seasonally.
- Contracts of the subsidiaries are simple contracts.
- Due to strikes in Genua or Marseille or because of adverse weather conditions in winter (disturbances in the electricity supply during storms) it can occur that the supply dates are not met.

Finances

- Tunisian enterprises often utilize the loan possibilities offered by Foprodi.
- Foreign enterprises apply the Tunisian banking system only for effecting payments and transfers.

Technical Aspects

- Assembling and manufacture of simple products.
- Complicated manufacturing processes requiring specialists esp. in the Form I, Category II-type of IS-enterprises.
- The machines are mostly second-hand (but in good condition), sometimes tey are new (i.e. only up to five years old). They originate from Europe (approx. 90 %) and from the U.S.A. or Japan (approx. 10 %).
- Manufacture of semi-finished and finished products.
- Research departments exist only in the Form I, Category II-type of IS-enterprises.
- Advisory services and technical assistance by the principal takes place only partially.
- Contribution to transfer of technology is still very small.
- Dependence upon inputs that have to be imported.

Productivity

- About 80 % of the European productivity (according to data from the DEG and from 12 interviewed firms)
- About 70 % of the European productivity (according to 10 interviewed firms).
- 8 of the firms interviewed stated that about 6 months after the start of the enterprise provided that it disposes of a good management, its productivity it exceeds European productivity.
- In one case (clothing industry, German IS-enterprise) production has increased since Arabic music has been introduced in the factory. It is played during working-hours if symptoms of fatigue spread.

Personnel

- Age: between 17 and 28
- Predominately female
- Rarely organized in trade unions
- Majority of the chief executies are Tunisians
- Skilled workers are often foreigners
- Training takes place in the factory: 'training on the job'
- Wages are according to official rates plus bonus
- Rarely fluctuations take place
- Employment criteria: Age up to 30 - 35 years, health, ability to read and write, time of probation 6 months
- Geographic mobility: varies from 5 to 10 km and in some cases reaches even 20 km
- For the employment of workers, the Labour Exchanges are used. But - as there are 2 to 7 applications for work each day, directly addressed to the enterprises - they are often not necessary.

Marketing

- Undertaken by parent company or principal.
- The markets are almost exclusively the European ones.
- Under own or foreign trademark.
- Marketing departments exist only in Form I, Category II-IS-enterprises.

Problems resp. Disadvantages

- Lack of qualified local personnel.
- Difficulties of Communication (telephone).
- Long time of waiting in case of repairs.

A P P E N D I X   I

S T A T I S T I C S

Table 1

Index of Industrial Production (1970: 100)

	1976	1977	1978	Changes (percentage) 1977/76	1978/77
Local Gas-Supply	192.8	217.8	255.7	+13.0	+17.4
Mining	99.4	110.0	124.9	+10.7	+13.5
Manufacturing Industry	141.9	153.5	165.8	+ 8.2	+ 8.0
Total Index	137.5	150.6	166.9	+ 9.5	+10.8

Source: BfA: Tunesien. Wirtschaftliche Entwicklung 1978/79.
Cologne 1979. P. 14

Table 2

Production Index: Manufacturing Industry
(1970: 100)

Sector	1976	1977	1978	Changes (percentage) 1977/76	1978/77
Foodstuffs and Tobacco	139.6	155.0	172.4	+11.0	+11.2
Textiles	96.8	108.9	97.0	+12.5	-10.9
Leather and Footwear	107.9	109.2	99.9	+ 1.2	- 8.5
Paper and cardboard	127.6	139.6	148.6	+ 9.4	+ 6.4
Chemicals	134.1	154.9	166.4	+15.5	+ 7.4
Petroleum Derivatives	104.6	109.6	109.3	+ 4.8	- 0.3
Mechanical and Electrical Products	220.7	227.4	257.9	+ 3.0	+13.4
Building Materials, Ceramics and Glassware	139.9	150.3	174.0	+ 7.4	+15.8
Kork and Miscellaneous	160.0	173.1	191.3	+ 8.2	+10.5
Total Index	141.9	153.5	165.8	+ 8.2	+ 8.0

Source: BfA: Tunesien. Wirtschaftliche Entwicklung 1978/79.
Cologne 1979. P. 20

Table 3

Production of the Mining Industry (in 1 000 tons)

	1977	1978	1979
Electricity (in kwhr)	1 725	1 989	2 291
Natural Gas (in mil m^3)	214	286	3
Petroleum	4 285	4 982	5 569.3
Phosphate	3 614.6	3 712.3	4 057.0
Iron-Ore	343.6	339.2	393.7
Lead	16.5	12.8	14.2
Zinc	12.9	13.4	14.6
Flourite	28.9	33.3	37.1

Sources: the Figure for Natural Gas (1977) had been obtained out of Data on Mining Production. In: BfA: Tunesien. Wirtschaftliche Entwicklung 1978/79. Cologne 1979. P. 18. The Remaining Figures were compiled from Datas of the BCT: Rapport Annuel 1979. Tunis 1980. P. 79, 82, 84 and 85.

Table 4

Production of the Chemical Industry

[1] tons [2] number

	1977	1978	Changes (percentage)
Superphosphate (triple)[1]	489	509	+ 4.0
Phosphorus Acid[1]	227	227	+ 0.0
Superphosphate (simple)[1]	53	58	+ 3.4
Phosphate Products[1]	56	42	- 25.0
Fluorine[1]	14.3	16.7	+ 16.8
Tyre-Production[2]			
Passenger vehicles	66	86	+ 31.0
Lorries	19	28	+ 48.0
Delivery Vans	50	60	+ 21.0
Tractors	13	15	+ 15.4
Bicycles	207	226	+ 9.0

Source: BfA: Tunesien. Wirtschaftliche Entwicklung 1978/79. Cologne 1979. P. 23

Table 5

Production of the Mechanical and the Electrical Industry (in 1 000 tons)

	1977	1978	Changes (percentage)
Iron- and Steel Industry			
Cast Iron	121	134	+ 10.0
Steel Bars	137	159	+ 16.0
Rolled Iron	16.9	15.4	- 9.0
Armatures	15.4	13.8	- 10.4
Lead Industry	19	16	- 16.0
Vehicle Assembly	5 388	7 194	+ 35.5
Delivery Vans	-	3 479	
Passenger Vehicles	-	2 131	
Lorries	-	662	
Utility Vehicles	-	731	
Busses	-	191	

Source: BfA: Tunesien. Wirtschaftliche Entwicklung 1978/79. Cologne 1979. P. 23

Table 6

Ship-Movements in All Five Tunisian Ports

	Units	1977	1978	1979	Changes '78/79 (percentage)
Port Entries	Number	5 194.0	5 044.0	5 216.0	+ 3.4
Cross-Tonnage	1 000t	18 097.2	18 481.1	20 503.4	+ 10.9
Lightened Goods	1 000t	6 564.8	6 799.5	7 392.9	+ 8.7
Embarked Goods	1 000t	4 394.2	4 199.3	4 353.4	+ 3.7
Arriving Passengers	Persons	83 000.0	96 579.0	118 095.0	+ 22.3
Embarking Passengers	Persons	76 062.0	81 393.0	101 276.0	+ 24.4

Source: Withdrawn from BCT: Rapport Annuel 1979. Tunis 1980. P. 97

Table 7

Growth of Employment

	1972	1973	1974	1975	1976	1977	1978	1979
Fishing	700	1 000	900	1 000	1 100	1 200	700	200
Mining	200	- 700	100	- 100	- 400	- 300	- 400	- 210
Energy	200	300	550	320	630	450	550	670
Manufacturing Industry	5 900	10 150	12 850	18 520	18 780	16 650	18 800	20 000
Construction	5 500	7 000	7 800	7 700	8 500	6 000	4 500	7 000
Administration	6 100	6 800	8 100	8 500	9 000	8 100	6 500	6 700
Miscellaneous	8 400	7 950	8 000	10 800	8 350	7 350	9 350	9 540
Total	27 000	33 200	38 300	46 740	45 960	39 450	40 000	43 900

Source: BCT: Rapport Annuel 1979. Tunis 1980. P. 113

Table 8

Development of the Minimal Wages since January 1974 (in Millimes - 1 000 Millimes = 1 TD)

	1/1974	7/1974	7/1975	2/1977	5/1978	5/1979	1/1980	5/1980
Agricultural Sector (1)	600	800	900	1 200	1 332	1 438	1 483	1 631
Industrial Sector (2)	130	-	145	193	214,25	132,39	238,96	263

(1) SMAG = Salaire Minimum Agricole Garanti

(2) SMIG = Salaire Minimum Interprofessionel Garanti

Sources: BfA: Tunesien. Wirtschaftliche Entwicklung 1978/79. Cologne 1979. P. 33
BCT: Rapport Annuel 1979. Tunis 1980. P. 115

Table 9

Development of the GDP by Sectors (in Million TD at Current Prices)

	1972	1973	1974	1975	1976	1977	% 1977	Growth Rate
Agriculture and Fishing	225.0	216.5	286.8	311.7	333.3	316.0	14.9	- 5.3
Mining, Energy	68.9	92.3	195.1	192.7	155.8	178.4	8.4	+ 14.5
Industry incl. Construction and Public Works	160.9	174.0	249.2	285.7	327.4	376.1	17.7	+ 14.9
Administration Services	103.4	115.0	135.8	179.2	211.3	256.7	12.1	+ 21.5
Other Services	389.2	416.2	470.8	539.6	602.4	680.9	32.1	+ 13.0
Indirect Net Subvention Fees and -Taxes	130.2	148.8	189.3	235.3	269.7	314.0	14.8	+ 16.4
Total	1077.6	1162.8	1527.0	1744.2	1900.0	2122.1	100.0	+ 11.7

Source: Groupe Jeune Afrique: Marchés Nouveaux. Tunisie. Paris 1979. P. 22

Table 10

GDP, GNP and Personal Per Capita Income

	1976	1977	1978	Changes 1978/79 (Percentage)
GDP at Current Prices[1]	1 917.2	2 126.6	2 452.0	+ 15.3
GDP at Constant Prices[1]	1 425.4	1 478.1	1 593.0	+ 7.8
GNP Per Capita at Current Prices[2]	328.4	354.0	404.5	+ 14.3
Personal Per Capita Income[2]	261.2	276.3	321.7	+ 16.4

[1] in Million TD

[2] in TD

Source: BfA: Tunesien. Wirtschaftliche Entwicklung 1978/79. Cologne 1979. P. 36

Table 11

Decomposition of Total Investments by Sectors

(in Million TD)

	1975	1976	1977	1978
Agriculture and Fishing	54.0	64.2	70.5	90.2
Electricity	35.0	50.2	57.3	66.2
Hydrocarbon	60.9	69.6	64.0	58.0
Mining	14.7	15.9	26.5	35.3
Manufacturing Industry	83.5	93.4	126.1	164.9
Construction and Public Works	6.0	6.0	1.9	4.8
Tourism	8.2	9.5	10.6	17.2
Miscellaneous	198.7	240.3	288.1	313.4
Total	461.0	550.0	645.0	750.0

Source: BfA: Tunesien. Wirtschaftliche Entwicklung 1978/79. Cologne 1979. P. 39

Table 12

Terms of Trade (in 1 000 TD)

Year	Imports
1972	222 219
1973	286 087
1974	488 658
1975	572 815
1976	656 718
1977	782 466
1978	899 730
1979	1 149 349

Source: BCT: Rapport Annuel 1979. P. 129

Exports	Deficit	Imports covered by Exports (Percentage)
150 327	71 892	67.6
178 835	107 252	62.5
397 695	90 963	81.4
345 580	227 235	60.3
338 262	318 456	51.5
398 246	384 220	50.9
468 417	431 313	52.1
716 582	432 821	62.3

Table 13

Import by Groups of Products (in 1 000 TD)

	1975[1]	1976[1]
Foodstuffs	90 473	80 962
Raw Materials and Semi-Finished Products	221 829	262 262
Final Products	260 513	313 424
Total	572 815	656 718

Sources: 1) BCT: Rapport Annuel 1976. Tunis 1977. P. 94
2) BCT: Rapport Annuel 1978. Tunis 1979. P. 111
3) BCT: Rapport Annuel 1979. Tunis 1980. P. 130

Table 14

Export by Groups of Products (in 1 000 TD)

	1975[1]	1976[1]
Foodstuffs	63 444	65 379
Raw Materials and Semi-Finished Products	250 085	224 028
Final Products	32 051	48 855
Total	345 580	338 262

Sources: 1) BCT: Rapport Annuel 1976. Tunis 1977. P. 97
2) BCT: Rapport Annuel 1978. Tunis 1979. P.115
3) BCT: Rapport Annuel 1979. Tunis 1980. P.134

1977[2]	1978[3]	1979[3]
92 847	105 547	145 878
321 912	338 980	520 353
367 707	455 203	483 118
782 466	899 730	1 149 349

1977[2]	1978[3]	1979[3]
57 308	71 469	88 077
256 355	276 896	469 694
84 583	120 052	158 757
398 246	468 417	716 528

Table 15

Balance of Payments, 1977 and 1978 - Comparative Survey (in 1 000 TD)

	Assets		Liabilities		Net Balance	
	1977	1978	1977	1978	1977	1978
Goods, Services and Revenues	647 342	773 446	914 500	995 546	-267 158	-222 100
Unilateral Endorsements	27 050	22 639	7 211	8 591	+ 19 839	+ 14 048
Capital Movements	388 905	453 575	162 513	229 493	+226 392	+224 082
-Direct Investments	53 507	50 519	13 897	12 554	+ 39 610	+ 37 965
Outstanding Debt	404	2	685	820	- 281	- 818
Obligations	53 103	50 517	13 212	11 734	+ 39 891	+ 38 783
-Long-Term Business Capital	126 478	160 057	22 011	40 864	+104 464	+119 193
Outstanding Debt	6	21	122	110	- 116	- 89
Obligations	126 472	160 036	21 889	40 754	+104 583	+119 282
-Short-Term Business Capital	118 300	135 131	103 927	152 747	+ 14 373	- 17 616
-Long-Term Capital for the Administration	90 620	107 868	22 678	23 328	+ 67 942	+ 84 540
Outstanding Debt	30	-	3 366	1 949	- 3 336	- 1 949
Obligations	90 590	107 868	19 312	21 379	+ 71 278	86 489
Other Funds	2 789	4 388	4 065	6 241	- 1 276	- 1 853
Rectification of Value	917	-	8 798	2 634	- 7 881	- 2 634
Monetary Movements	30 434	18 132	350	29 675	+ 30 084	- 11 543
Total	1 097 437	1 272 180	1 097 437	1 272 180		

Source: BfA: Tunesien. Wirtschaftliche Entwicklung 1978/79. Cologne 1979. P. 59

Table 16

Statistics of Internal Monetary Policy (in 1 000 TD)

	1974	1975	1976	1977	1978
Volume of Money	612 430	755 474	871 778	1 002 685	1 203 267
Saving Deposits	145 799	201 656	270 011	334 135	417 369
Credits	562 949	721 844	841 055	963 264	1 158 676
Distribution of the Credits by Sectors:					
Agriculture			58 057	67 496	81 293
Industry			337 773	423 707	497 564
Services			381 994	400 662	474 889

Sources: BfA: Tunesien. Wirtschaftliche Entwicklung 1978/79.
Cologne 1979. P. 61

Table 17

Import and Export of Textiles (in 1 000 TD)

	1979	1980 (Valuation of BCT)
Imports	84 164	104 936
Exports	121 806	191 063

Source: BCT: Conjoncture. No. 62. Tunis August 1980. P. 11

Table 18

Balance of Payments (in Million TD)

	Assets				Liabilities				Balance			
	1976	1977	1978	1979	1976	1977	1978	1979	1976	1977	1978	1979
Current Account	658.9	674.3	796.0	1 193.3	821.7	921.7	1 004.1	1 317.1	-162.8	-247.3	-208.0	-123.7
Capital Account	312.7	391.6	457.9	403.3	173.4	166.5	235.7	220.8	+139.2	+225.1	+222.2	8182.5
Rectification of Value	12.4	0.9	-	0.027	7.7	8.7	2.6	8.2	+ 4.7	- 7.8	- 2.6	- 8.2
Total	984.1	1 067.0	1 254.0	1 596.7	1 003.0	1 097.0	1 242.5	1 546.2	- 18.8	-30.0	+ 11.5	+ 50.5

Sources: BfA: Tunesien. Wirtschaftliche Entwicklung 1978/79. Cologne 1979. P. 50
BCT: Rapport Annuel 1979. Tunis [illegible]. P. 141

A P P E N D I X II

(Questionnaire)

QUESTIONNAIRE

I. Enterprise Management

1. General data and location of the enterprise

- Name
- Address
- Sector of activity
- Products
- Enterprise has been in existance since........
- Type
  . Subsidiary
  . Joint-venture
  . .. Partners
  .. % of participation
- Address of the parent enterprise
- Position of the subsidiary enterprise within the group
- Existence of other workshops
  . Locally
  . Abroad
- Existence of a customs officer in the enterprise to control inputs of production and output of manufactured products
- Date of establishment of the enterprise

2. Motives for investment in Tunisia

- Abundance of manpower
- Production costs
- Low investment costs
- Tunisia's geographical position in relation to
  . the Arabian markets
  . the African markets
  . the European markets
- Political stability
- Fiscal advantages
- Infrastructure
- Manpower qualification
- Existence of inputs which are necessary to your production
- Other motives? Such as...

3. Contracts

   - Business relations with one or several order giving enterprises
   - Contracts or simple orders
   - Duration of the contracts
   - Contractual obligations
   - Guarantee clauses
   - Number of contracts per annum
   - Contracts with other subcontractors in Tunisia
     . Tunisian
     . Foreign subsidiary enterprise

4. Finance

   - Nature of capital
     . Private capital %
     . Public capital %
   - Capital invested in Tunisia
   - Reinvestment
   - Use of Tunisian financial sources
     . which ones
   - Repatriation of profits

5. Trade

   - Subcontracting only or manufacturing products which are then marketed directly
   - Type of products change
     . Always
     . Often
     . Rarely
     . Remains always the same
   - Products manufactured are destined
     . For the Tunisian market
     . For export (Law 1972)
       .. To Europe
       .. To Africa
       .. To Arab markets
       .. to other markets
   - Type of order giving enterprise (principal)
     . Local Tunisian enterprise
     . Local non-Tunisian enterprise
     . Parent enterprise
     . Foreign enterprise without subsidiary establishment in Tunisia

- Size of the order giving enterprise(s)
  . Large-sized enterprise
  . Medium-sized enterprise
  . Small-sized enterprise
- Sale of the products is effected
  . under your own trademark
  . Under some other trademark
  . Under several trademarks
- The final stage of manufacture of the product is undertaken
  . In Tunisia
  . Abroad
- Inputs and raw materials necessary for the production must be imported or may be purchased locally
- Delivery of inputs is effected by the order giving enterprise

6. Technical aspects

- Manufactured items are
  . Simple to manufacture
  . Complicated to manufacture and require skilled labour (degree of complexity)
- Equipment and machinery used are
  . Old
  . New (give year)
  . Source of origin
  . Supplied by the parent enterprise
- Are there research facilities in your enterprise
- Has there yet been any innovations in your enterprise
  . If so - what were the reactions of the parent enterprise or of the order giving enterprise(s)
- Is there any form of technical assistance from the order giving enterprise(s)
  . If so - under what form
    .. License for patent rights
    .. Dispatch of technicians and engineers on mission
    .. Provision for professionel training
    .. Practical training at the order giving enterprise or elsewhere
    .. Provision of material
    .. Technical or managerial information
    .. Other forms
- Do you perceive any technological transfer by your parent enterprise or by your order giving enterprise(s)

7. Personnel

- Number of employees
  . Men
  . Women
  . Tunisian
  . Foreign
  . Manpower
    .. Men Age
    .. Women Age
  . Skilled workers
    .. Men Age
    .. Women Age
  . Engineers
  . In management
    .. Men
    .. Women
    .. Nationality
- Number of workers with union membership
- Have there been any problems with the union
- Strikes
  . Reasons
- Fluctuation in personnel
- Wages and cost of manpower
- Productivity bonus
- Manpower training policy
- Criteria for recruitment
- Use of local recruitment services or through newspaper advertisements
- Geographical mobility of manpower
- Has there yet been any redundancy in employment for reasons of rationalization
- Assembly line work
- Lack of skilled workers

8. Production - Productivity

- Production per annum
- Relative productivity of Tunisian manpower compared to manpower in Europe
- Incidence of rejects in manufactured products after delivery to the order giving enterprise

II. Problems of International Subcontracting

1. Have you always adhered to agreed delivery dates?
2. Degree of liberty in delivery
3. Relations with the Tunisian customs officer
4. Relations with public authorities
5. Communications (Telex - telephone)
6. Transport (Lorries - ships - aeroplanes)
7. Were the agreed dates for payments kept by the order giving enterprise?
8. Is subcontracting only a temporary expedient for you?
9. Is it easy for you to liquidate and to establish somewhere else than in Tunisia?
10. Did you already change locality?
11. With regard to international subcontracting, what are in your opinion the problems (of a general nature as well as technically) to be solved in Tunisia?

A P P E N D I X III

1) Law No. 72.38 of April 27, 1972 regarding the Production of Export Industries

2) Law No. 74.74 of August 3, 1974 regarding Investments in Manufacturing Industries

SPECIAL SYSTEM APPLICABLE TO EXPORTING INDUSTRIES

Law No. 72-38
dated
27 April 1972

CONTENTS

October 1976

Law No. 72-38 dated 27 April 1972 introducing a special system for industries producing for export.

In the name of the People,
We, Habib Bourguiba, President of the Tunisian Republic,
it having been adopted by the National Assembly,
do hereby promulgate the Law which reads as follows:

CHAPTER ONE

GENERAL PROVISIONS

ARTICLE ONE. The aim of this law shall be to determine suitable conditions for the setting up and operation of businesses producing for export.

The scope of this law shall be restricted to businesses in the manufacturing industries sector other than activities operated under a concession granted by the State.

The provisions of this law shall be automatically applicable to new businesses which comply with the conditions laid down and which have obtained approval as referred to in Article 2 of this law.

Businesses set up prior to the time when this law comes into force shall be enabled to obtain all or some of the advantages referred to below by virtue of a special agreement. Such special agreement shall be sanctioned by decree.

CHAPTER TWO

BUSINESSES WHOSE OUTPUT IS INTENDED SOLELY FOR EXPORT

Section I. Approval

ART. 2. Establishments producing solely for export may be set up in any part of the Tunisian Republic so long as it is possible to exercice supervision over them. Every natural or legal person wishing to set up one or more industrial establishments of this type shall apply for the approval of the Minister of National Economy in respect of each such establishment.

For this purpose an Investment Promotion Agency (Agence de Promotion des Investissements) shall be set up; its articles shall be determined by decree. The approval of the Minister of National Economy shall be given on the recommendation of this agency.

Section II. System of taxation

ART. 3. Businesses referred to in Article 2 above which are granted the benefit *of the provisions of this law shall be exempt from corporate income tax (patente)* for the first ten years during which they operate and shall then be liable for such tax at a reduced rate of ten per cent for a further period of ten years after expiration of the period of exemption.

ART. 4. During the first twenty years of operation such businesses shall further be entitled to the benefit of the following provisions:

(1) Exemption from the tax on rental value in respect of land and buildings used for the purpose of manufacture.

(2) Exemption from tax on income from securities in respect of loans obtained for the purpose of acquiring or increasing capital assets.

(3) A fixed registration fee on the basic instruments of the business or on those effecting or confirming increases of capital invested in Tunisia, amending the memorandum and articles of association, mergers and transfers of assets.

(4) Taxation of income from securities at a reduced rate of six per cent on profits distributed to holders of partners' shares and registered shares and eight per cent on profits distributed to holders of bearer shares. Where a business operates as

agent for a foreign company, the rate of tax shall be eight per cent irrespective of the nature of the security and the tax shall be paid on the basis of an amount of the registered capital determined by decision of the Minister of Finance.

(5) Registration fees in the event of the sale of asset items at reduced rates of nine per cent for business assets generally, seven per cent for real estate, four per cent for furniture and equipment and two per cent for merchandise.

(6) Exemption from customs duties and turnover tax payable on importation of capital goods, equipment, spare parts, raw materials, semi-finished products and consumer goods required by the business for its production.

(7) Exemption from turnover tax in respect of purchases of capital goods, equipment, spare parts, raw materials, semi-finished products and consumer goods required for the manufacture of goods for export and bought by the business on the domestic market from the producers thereof.

(8) Refund of customs duties and turnover tax on local purchases from "non-producers" of capital goods, equipment, spare parts, raw materials, semi-finished products and consumer goods imported, subject to production of proof, within one month of the purchase thereof, of the duties and taxes actually paid and subject to terms to be determined by an Order of the Ministry of Finance.

Section III. Exchange Control

ART. 5. Legal persons shall be deemed to be non-resident in respect of their duly approved establishments producing solely for export where their capital is held by non-residents in consequence of an importation of convertible foreign exchange equivalent to sixty-six per cent of the capital. Domestic investments in such bodies corporate by residents shall require the authority of the Central Bank of Tunisia.

ART. 6. Non-residents within the meaning of this Law shall not be required to repatriate the proceeds of their exports, services performed and other income. They must, however, make all settlements such as payments for goods and services in Tunisia, duties and taxes and dividends paid to resident partners through foreign accounts in convertible Dinars.

ART. 7. All natural and legal persons who are residents within the meaning of this Law must repatriate the counter-part funds of their exports in accordance with legislation in force.

They may freely transfer to non-resident partners any funds pertaining to their production or required for distribution of dividends.

Orders for transfers in respect of this class of business shall be carried out by approved paying agents on the authority conferred on them by the Central Bank of Tunisia.

ART. 8. All transfers of securities and facilities, owned by businesses enjoying the benefit of this Law, between residents and non-residents, shall be subject to authority given by the Central Bank of Tunisia.

Section IV. Commercial arrangements

ART. 9. All businesses enjoying the benefit of this Law may freely import goods required by them for their production, provided they are declared to the Customs.

ART. 10. In relation to their sales in Tunisia, such businesses shall be subject to the procedures applicable to foreign trade.

ART. 11. Exports granted the benefit of this Law may not be carried out in conjunction with government agreements on bilateral payments entered into by Tunisia. Tariff quotas granted to Tunisia shall be reserved, as a matter of priority, for businesses denied the benefits of this Law.

ART. 12. All businesses approved under Article 2 of this Law shall be subject to administrative supervision designed to make certain that their activities are being carried on in accordance with this Law. In particular, they shall be subject to permanent customs supervision and shall be under an obligation to bear the costs of the appropriate staff and office accommodation.

ART. 13. In addition to the penalties prescribed by the rules of ordinary law in regard to taxation, customs and exchange control, any violation of this Law such as fraudulent use of capital goods, equipment, spare parts, raw materials, semi-finished products or consumer goods acquired or manufactured by businesses granted the benefits of this Law shall be punishable by a non-remissible fine equivalent to three times the amount of the violation with a minimum of 1,000 Dinars without prejudice to the loss of rights to the benefits of the system in the event of a second offence.

Violations shall be established and dealt with in accordance with legislation as applicable to customs matters.

Section V. Miscellaneous provisions

ART. 14. Businesses granted the benefits of this Law shall be free to recruit executive staff and supervisors of foreign nationality, but they shall nevertheless be required to observe the supervisors' "Tunisification" programme previously approved by the Ministry of Social Affairs.

The methods of implementing this system shall be determined by decree and in conformity with Article 260 of the Labour Code.

CHAPTER THREE

BUSINESSES PRODUCING PARTLY FOR EXPORT

ART. 15. *Any manufacturing industry exporting* not less than twenty per cent of its output shall be entitled to the following benefits:

(1) Taxation at a reduced rate of trade tax fixed at ten per cent on profits derived from its exports.

Businesses formed prior to the date on which this Law comes into force and exporting not less than twenty per cent of their output shall be entitled to the benefit of this concession when so decided by the Minister of National Economy on the recommendation of the Approvals Committee.

If their system of accounting does not permit a clear distinction of profits derived from exports, such profits shall be determined pro rata to their turnover figures.

(2) Mitigation of the industrial bonded storage arrangements laid down by the Customs Code for imports of raw materials and semi-finished products required for the manufacture of goods intended for export in that the deposit by way of security called for by customs regulations shall be replaced in such an instance by a lump-sum deposit the amount of which shall be fixed by decision of the Minister of Finance on a recommendation made by the Minister of National Economy.

(3) *Permission to purchase on the home market* goods and services needed for the pruposes of manufacturing products intended for export with suspension of liability to turnover tax.

This Law shall be published in the Official Gazette of the Tunisian Republic and put into effect as a State law.

Done in the Palace of Carthage, 27 April 1972.

HABIB BOURGUIBA,
President of the Tunisian Republic.

Law No. 72-38 dated 27 April 1972 was published in the Official Gazette of the Tunisian Republic on 21, 25 and 28 April 1972.

Decree No. 73-19 dated 10 January 1973 setting up the Capital Investments Commission and the Agence de Promotion des Investissements (Investment Promotion Agency).

We, Habib Bourguiba, President of the Tunisian Republic;

WHEREAS Decree Law No. 62-11 dated 3 April 1962 provides for the setting up, implementation, reorganisation or relocation of industrial undertakings;

WHEREAS Law No. 68-39 dated 26 December 1968 sets up a National Centre for Industrial Research;

WHEREAS Law No. 69-35 dated 26 June 1969 defines the Capital Investment Code and particularly Article 9 thereof;

WHEREAS Law No. 72-38 dated 27 April 1972 introduces a special system for industries producing for export and particularly Article 2 thereof;

WHEREAS Decree No. 70-275 dated 17 August 1970 determines the organization and operation of the Capital Investments commission;

WHEREAS recommendations made by the Minister for Planning Minister of Finance, Minister of National Economy, Minister of Agriculture, Minister of Public Works and Housing;

Hereby decree:

CHAPTER ONE

CAPITAL INVESTMENTS COMMISSION

ARTICLE ONE. The Capital Investments Commission set up in accordance with the aforementioned Law No. 69-35 dated 26 June 1969 shall consist of:

The Prime Minister, as Chairman;

The Minister for Planning;

The Minister of Finance;

The Minister of National Economy;

The Minister of Agriculture;

The Minister of Public Works and Housing;

The Governor of the Central Bank of Tunisia;

The Secretary General to the Government.

The Chairman of the Commission may also call in any person whose presence he considers advisable for the purposes of the Commission's work.

ART. 2. The Commission shall meet when summoned by its Chairman or at the request of any one of its members.

ART. 3. The Capital Investments Commission may delegate its powers on industrial matters to the Agence de Promotion des Investissements, and on tourism to the Tourism Approval Sub-Committee referred to in Chapter III of the aforesaid Decree No. 70-275 dated 17 August 1970.

CHAPTER TWO

INVESTMENT PROMOTION AGENCY

Section One. General Provisions

ART. 4. The Investment Promotion Agency set up by the aforesaid Law No. 72-38 dated 27 April 1972 is a public organisation of an industrial and commercial nature with legal status and financial autonomy responsible to the Ministry of National Economy. Its head office is in Tunis.

ART. 5. The objects of the Investment Promotion Agency shall be:

(1) to assist promoters of investment projects in preparing documents in support of applications for approval of such projects and for financial, tax and other benefits provided under legislation currently in force and particularly by Law No. 72-38 dated 27 April 1972;

(2) to investigate files relating to the setting up or expansion of industrial projects with a view to their approval;

(3) to carry out any study or other action, where necessary in collaboration with the National Centre for Industrial Research or any other public or private body, whether Tunisian of foreign, aiming at fostering capital investments in Tunisia;

(4) to take all steps to provide information in collaboration with public or private bodies both in Tunisia and abroad in order to make known opportunities for investments and encourage contacts between investors, especially in the field of exporting industries.

ART. 6. Proposals made by the Investment Promotion Agency on the granting of approval and benefits provided for by legislation currently in force shall be drawn up by the Agency's board of Directors assisted by representatives of the P.S.D., (*) Tunisian General Union of Labour, Tunisian Union for Industry, Commerce and Crafts and the professional organisations concerned.

ART. 7. The Agency's proposals set forth as described in Article 6 above shall be submitted by the President of the Agency to the Minister of National Economy for decision.

ART. 8. The Minister of National Economy shall inform the Minister for Planning, the Minister of Finance, the Governor of the Central Bank of Tunisia and the Secretary General to the Government of his decision within a period of not more than ten days.

ART. 9. Within ten days after receipt of notification of the decision of the Minister of National Economy, an appeal against it may be lodged with the National Capital Investments Commission by the Minister for Planning the Minister of Finance, the Governor of the Central Bank of Tunisia and the Secretary General to the Government.

After the lapse of ten days and no appeal having been lodged, the decisions of the Minister of National Economy shall be deemed to be enforceable and shall be notified to the promoters of the proposed scheme by the Minister of National Economy within a period of not more than ten days.

In the event of an appeal to the National Capital Investments Commission, the latter's decisions shall be notified to the promoters not later than the following ten days.

Section II. Administrative organization

ART. 10. The Investment Promotion Agency, administered by a Board of Directors under the chairmanship of the Agency's President, will consist of the following members:

- the Director of Investments at the Ministry for Planning
- the Director General of Customs and the Director of Taxes at the Ministry of Finance;
- the Director of Industry and the Director of Trade at the Ministry of National Economy;
- the Director General of the Central Bank of Tunisia;
- the Director of Economic, Financial and Social Affairs attached to the Prime Minister;
- the Director of Town Planning and Housing at the Ministry of Public Works and Housing.

* Destour Socialist Party.

The proceedings of the Board of Directors shall be valid only provided that a quorum of at least five members is present.

The Board of Directors shall meet as often as necessary when convened by its chairman.

The Board of Directors may call in any person or any institution known to be qualified to attend its meetings in an advisory capacity.

ART. 11. The President of the Agency shall be appointed by Decree on a recommendation by the Minister of National Economy.

ART. 12. The Board of Directors shall have the widest powers to act on behalf of the Agency and to carry out or authorize all acts or operations connected with its objective. For this purpose it shall:

- draw up each year an operating budget and programme of investments for the Agency and deal with any amendments deemed necessary during the year;
- prepare accounts to the end of the year for submission to the supervisory body and submit a report on its activities;
- give its opinion on all industrial projects submitted to it in accordance with the conditions laid down in Article 6;
- discuss all dealings or contracts to be entered into by the Agency where the amount involved is more than 10,000 Dinars;
- determine wages and salaries and other compensation to its employees in conformity with the Agency's staff regulations.

ART. 13. Decisions taken by the Board of Directors shall require to be passed by a majority of the votes of members present; in the event of a tie, the chairman shall have a casting vote.

ART. 14. The President of the Investment Promotion Agency shall be responsible for initiating the work of the Board of Directors and for implementing its decisions. With the authority and under the supervision of the Board of Directors he shall assume the technical, administrative and financial management of the Agency and, in general, exercise all the powers and carry out all the duties delegated to him by the Board of Directors. He shall act as the Agency's representative in its dealings with third parties on all civil and administrative acts; he shall have authority over the whole of the staff, whom he shall manage, hire and fire, recruit and appoint to all posts.

Section III. Financial organization

ART. 15. The President of the Agency shall submit the budget for the following year to the Board of Directors before the first day of July each year.

The Agency's receipts shall include:

(1) the initial establishment appropriation allowed from the State budget;

(2) all receipts derived from normal exercise of the Agency's functions under existing legislation;

(3) any loans which the Agency is authorized to raise under a joint order issued by the Minister of Finance and the Minister of National Economy;

(4) the counter-part funds of any direct aid, services, goods, furniture and buildings which the Agency may receive from foreign, public or private aid organizations;

(5) any contributions from the businesses involved;

(6) the balancing subsidy provided by the Government.

ART. 16. The Agency's accounts shall be kept in accordance with accountancy rules as applicable to commercial undertakings.

The fiscal year shall start on 1st January and end on 31st December each year.

The balance-sheet, general operating and profit and loss accounts shall be prepared by the Board of Directors by the first day of May in the year following that to which they relate. These accounts shall be submitted for approval to the Minister of National Economy.

Section IV. Financial control

ART. 17. A controller nominated by the Minister of Finance shall be assigned to the Investment Promotion Agency.

The controller shall attend meetings of the Board of Directors in an advisory capacity.

The controller shall be responsible for supervision of all transactions likely to have any direct or indirect effect on the Agency's financial status.

To enable him to perform his task, the financial controller may request or have access to all the Agency's files and records. He shall be given a copy of all periodical statements prepared by the various departments of the Agency. He shall give his opinion on the Agency's budgets and any amendments made thereto.

He shall supervise the manner in which the budget is handled and keep a watch on receipts. Where the Agency's position requires, he may initiate a request by the supervisory authority leading to a revision of the estimates.

ART. 18. In the event of winding up, the whole of the Agency's assets shall be returned to the Government, which will carry out its commitments.

ART. 19. All earlier provisions contrary to this Decree and in particular Articles 1 to 14 of the abovementioned Decree No. 70-275 dated 17 August 1970 are hereby repealed.

ART. 20. The Ministers concerned, each of them as regards that part which affects him, are entrusted with the implementation of this Decree which will be published in the Official Gazette of the Tunisian Republic.

Done in the Palace of Carthage, 10 January 1973.

HABIB BOURGUIBA,

President of the Tunisian Republic.

Decree No. 73-19 dated 10 January 1973 was published in the Official Gazette of the Tunisian Republic on 9, 12 and 16 January 1972.

Order issued by the Minister of Finance on 16 January 1973 setting out the implementing regulations of Law No. 72-38 dated 27 April 1972 introducing a special system for industries producing for export.

The Minister of Finance,

Having considered Law No. 72-38 dated 27 April 1972 introducing a special system for industries producing for export and in particular paragraph 8 of Article 4 thereof:

Hereby orders:

ARTICLE ONE. In order to benefit from the refund provided for in Article 4(8) of the aforementioned Law No. 72-38, business firms manufacturing exclusively for export shall produce evidence of duties and taxes paid on their purchases of imported products obtained from non-producers.

ART. 2. In the absence of evidence such firms shall, on their request, be allowed the benefit of a lump-sum refund determined by applying tariffs to one half of the purchase price of the product.

Tunis, 16 January 1973

Mohamed Fitouri,

Minister of Finance

Seen:

Hedi Nouira,

Prime Minister

This order issued by the Minister of Finance on 16 January 1973 was published in the Official Gazette of the Tunisian Republic on 9, 12 and 16 January 1973.

Notice No. 119 setting out the implementing regulations on exchange control and foreign trade of Law No. 72-38 dated 27 April 1972 introducing a special system for industries producing for export.

Law No. 72-38 dated 27 April 1972 establishes a special system of exchange control and foreign trade applicable to the manufacturing activities of exporting businesses approved by the Minister of National Economy.

Under this Law, beneficiaries of an approval, who may be either non-resident natural or legal persons (within the exact meaning as specified in Article 5 of the Law as regards legal persons) or resident persons, are entitled to the benefit of significant waivers of constraints under ordinary legislation in regard to taxation and customs matters, exchange control and foreign trade regulations.

Thus:

Approved non-resident industrial exporters are allowed to set up and operate in Tunisia establishments producing solely for export without being required to bring back the proceeds of their exports to Tunisia. However, they must fund their investments and operations in Tunisia by importing convertible currency. Purchases and sales of goods and services made by them in Tunisia remain subject to Tunisian legislation relative to exchange control and foreign trade on the terms set out in this Notice.

Natural or legal persons who are residents and have been approved under the provisions of Law No. 72-38 as aforesaid are allowed to import freely into Tunisia any products needed for their activities connected with manufacture for the purposes of export. But imported goods intended solely to enable the business to carry on its activities for the purpose of export may not be disposed of on the Tunisian market. This latter operation is expressly excluded from the scope of Law No. 72-38 and must be treated as a fresh importation subject to ordinary legislation insofar as customs duties and foreign trade regulations are concerned.

The primary aim of this Notice is to define the system of commercial and currency relationships which, where applicable, may be established between resident and non-resident beneficiaries of the approval prescribed by Law No. 72-38 on the one hand and residents subject to ordinary legislation on the other.

Another aim is to define the obligations and rights of resident industrial exporters on transfers of funds and repatriation of the proceeds of their exports.

Lastly, it gives some clarification on procedures relating to the exercise of privileges granted for imports and exports under Law No. 72-38 and the conditions under which payments may be made to foreigners regularly employed by approved businesses.

SECTION I

RELATIONS OF TUNISIAN RESIDENTS WITH APPROVED INDUSTRIAL EXPORTERS

A. *Publicity*

Under Article 2 of Law No. 72-38 dated 27 April 1972, the benefits of the new system are granted to persons who obtain the approval of the Minister of National Economy issued on the recommendation of the Investment Promotion Agency in respect of establishments operating solely for the purposes of exporting.

In order that the public and approved paying agents may know who these persons are and thus conform with the applicable legal regulations in their relations with them, the list of approvals given by the Minister of National Economy will be published by the Investment Promotion Agency and regularly brought up to date.

B. *Relations of residents with approved non-residents*

It should first be pointed out that natural persons who obtain approval from the Minister of National Economy under Law No. 72-38 in the capacity of non-residents retain such capacity for the activity approved no matter how long they may subsequently remain in Tunisia.

The relationships of industrial exporters (natural or legal persons) who are approved non-residents with residents of the country are governed by Tunisian regulations in the matter of exchange control and foreign trade as described below:

Any sale made to them by a resident is considered, insofar as the latter is concerned, as an export and the transaction must be domiciled at a bank, settlement being made by debiting a foreign account in convertible Dinars.

Any purchase effected by a resident from an approved non-resident industrial producer requires an import certificate or import licence depending on whether the article is freed from import restrictions or not.

With regard to moneys derived from services rendered for non-residents and income from investment in non-resident Companies of this type, the provisions of Notice No. 96 published in the Official Gazette of the Tunisian Republic on 9/13 November 1962 apply.

C. *Relations between approved residents and other residents*

(1) Sales of goods by residents in Tunisia to approved resident industrial producers are free provided they are duly declared to the Customs authorities.

(2) Any purchase effected by a resident in Tunisia from an approved resident manufacturer is considered as a fresh importation subject to ordinary legislation. The goods covered by the transaction shall be cleared by the Customs on production of an import licence bearing a simple visa given by the Directorate of Foreign Trade attached to the Ministry of National Economy. In the case of an article normally imported under cover of an import certificate, the only requirement is compliance with customs regulations.

D. *Penalties for breaches of obligations by approved industrial producers and residents in their mutual relationships.*

Although compliance with foreign trade and exchange control regulations necessary for the carrying out of exchanges between approved resident or non-resident industrial exporters on the one hand residents on the other hand is in some instances the responsibility of the latter under current legislation on the subject, this fact does not in any way relieve the former of their obligation to comply with the spirit and letter of Law No. 72-38 dated 27 April 1972 introducing a special system for industries producing for export.

Where appropriate, approved industrial exporters are in particular required to supply the competent authorities with all information and documents needed to ascertain that their trading and exchange transactions are being correctly conducted.

Any violation of the rules set out in this Section would be liable to penalties as laid down by ordinary law and Article 1[illegible] of the aforesaid Law No. 72-38.

SECTION II

RIGHTS AND OBLIGATIONS OF RESIDENT HOLDERS OF APPROVAL UNDER LAW No. 72-38 AS REGARDS THE REPATRIATION OF PROCEEDS DERIVED FROM THEIR EXPORTS AND TRANSFERS OF FUNDS

A. *Obligations pertaining to repatriation of proceeds derived from exports.*

Approved resident industrial exporters are under an obligation to bring back to Tunisia the counter-part funds of their exports in accordance with Article 7 of Law No. 72-38.

With this object in view, exports of goods the manufacture of which has been approved by the Minister of National Economy in accordance with Article 2 of Law No. 72-38 must be made under cover of outward export clearance, an exchange control pledge or a commitment to bring back the proceeds in accordance with the provisions of current legislation.

Foreign currency derived from such exports must be transferred entirely to the Central Bank of Tunisia in accordance with exchange control regulations.

B. *Transfers of funds by approved industrial exporters.*

Residents who are in possession of approval may freely transfer any funds required for their manufacturing activities as well as make distributions of dividends to their non-resident partners by domiciling all their transactions of this type through a single approved paying agent.

Such transfers through the approved paying agent are allowed to cover the cost of imported goods necessary for export manufacturing purposes, commission charges, advertising expenses and all services obtained from non-residents for the operation of the approved business and warranted by documentary evidence.

Where payment for imports has to be made before the goods arrive in Tunisia, it must be effected through the approved paying agent on production of a pro-forma invoice. A final invoice stamped by the customs authorities must be supplied to the approved paying agent in order to clear the file.

Where payment is effected after arrival of the goods in Tunisia it takes place on submission of the final invoice stamped by the customs authorities.

In addition, any resident person who holds an approval given under Law No. 72-38 may have a special "Business Travel Account" opened in his name in the books of the approved paying agent, which account may be debited without restriction in respect of transfers for business travel expenses incurred outside Tunisia to the extent of 4,000 D. per annum. Such an account is kept in convertible dinars and is supplied solely from two per cent of the moneys collected by the account holder and brought back in Tunisia in settlement of his exports.

Inasmuch as approved resident industrial exporters enjoy greater advantages in regard to foreign exchange than those offered by the system described in Notice No. 114 for E.F.A.C. accounts, they may not combine the advantages of both laws for their approved activity.

SECTION III

COMMERCIAL RELATIONS OF APPROVED INDUSTRIAL EXPORTERS WITH FOREIGN COUNTRIES

A. *Imports of goods*

Approved industrial exporters may freely import all goods and articles required for their production, provided they are correctly declared to the Customs authorities.

The expression "goods required for their production" means:

— Capital equipment and spare parts therefor,

— Raw materials and all products necessary for the manufacture of products exported.

It must be understood that any importation of goods not required for production is regarded as a prohibited importation and liable to penalties as such.

B. *Exports of goods*

It should be pointed out that holders of approval under Law No. 72-38, whether resident in Tunisia or not, are not exempted from compliance with customs regulations regarding detailed declaration of their exports.

It is further recalled that under Article 11 of Law No. 72-38, exports enjoying the benefit of the system defined in that Law cannot be carried out in the framework of government payment agreements entered into by Tunisia.

Tariff quotas granted to Tunisia by foreign countries under trading agreements are specifically reserved under the same legislation, as a matter of priority, for businesses not enjoying the benefits offered by Law No. 72-38.

SECTION IV

CONDITIONS OF PAYMENT TO FOREIGN EMPLOYEES OF APPROVED EXPORTING BUSINESSES

Under Article 14 of Law No. 72-38, businesses granted the benefits of that Law may recruit executive staff and supervisors of foreign nationality. Salaries of such employees must be paid entirely in dinars from internal accounts where they are residents and, when they are non-residents, subject to the following conditions.

Non-resident natural or legal persons must pay to such employees in Tunisia a proportion of their salary sufficient to cover their expenses. This amount must not be less than fifty per cent of the net remuneration of the employees and it must be paid in convertible currency by crediting non-resident internal export accounts (I.N.R.E. accounts) opened in the names of such employees by the approved paying agent on authority given them by the Central Bank of Tunisia.

Resident industrial exporters must pay their non-resident foreign employees entirely in dinars by crediting I.N.R.E. accounts opened in the same way as indicated above. The holders of such accounts are entitled to request transfer of up to 50% of their wages and salaries.

Notice No. 119 issued by the Central Bank of Tunisia was published in the Official Gazette of the Tunisian Republic on 9, 12 and 16 January 1973.

Circular issued by the Central Bank of Tunisia concerning the implementing regulations of Law No. 72-38 dated 27 April 1972 relating to export industries.

The object of this Circular is to define the procedures for implementing the provisions of Notice No. 119 setting out the terms of application of Law No. 72-38 dated 27 April 1972 in relation to exchange control and foreign trade.

Notice No. 119 defined the system of trading relations that industrial producers in possession of approval given by the Minister of National Economy in respect of their establishements in Tunisia working solely for export are allowed to enter into with partners established on Tunisian territory on the one hand and in foreign countries on the other. The first section of this Circular gives information on methods of applying this system in practice.

The second section describes the operation of the "Business Travel" accounts referred to in Notice No. 119.

The third section deals with provisions relating to exchange control in respect of payments of the wages and salaries of non-resident employees of foreign nationality regularly engaged by approved exporting businesses.

The fourth section relates to facilities for the granting of loans by Tunisian banks to non-resident holders of approval.

The final section concerns reports submitted to the Central Bank of Tunisia by approved paying agents.

SECTION I. TRADING RELATIONS

(A) *COMMERCIAL SETTLEMENTS MADE ABROAD BY RESIDENTS HOLDING CERTIFICATES OF APPROVAL.*

Under Notice No. 119, resident natural or legal persons holding certificates of approval for businesses producing solely for export may effect all transfers of moneys connected with their manufacturing activities through an approved paying agent. Such transfers may cover the cost of importations of goods and articles necessary for export manufacturing purposes, commission charges, advertising expenses and all services obtained from non-residents for the operation of the approved business and warranted by documentary evidence. Funds may be transferred only through one and the same approved paying agent chosen by the holder of the approval, and such approved paying agent shall notify the Central Bank of Tunisia of domiciliations thus effected.

Whenever a payment is made the orders for transfer of money must be accompanied by supporting documents showing:

— that the settlement to be made comes within one of the categories listed above and especially, if it is a case of settlement for an import, that the merchandise imported is an article "required for the production" as defined in Section III of Notice No. 119,

— that the business giving the order for transfer of money is an approved exporting business,

— that the amount to be transferred is actually the sum needed to carry out the transaction involved.

The approved paying agent effecting the transfer must call for all necessary explanations and documents to enable him to check the regularity of each transaction, and in relation to a settlement for goods he must in particular request an invoice stamped by the customs authorities where payment is effected after arrival in Tunisia and a pro-forma invoice if the commercial contract calls for payment before delivery. In the latter case a final invoice stamped by the customs authorities must be produced to the approved paying agent immediately after arrival of the goods in Tunisia and in any event not later than four months after the date on which payment is made. These documents must be required in duplicate to enable a check to be made by the Central Bank of Tunisia.

(B) *SALES OF GOODS BY RESIDENTS TO APPROVED NON-RESIDENT INDUSTRIAL EXPORTERS.*

In accordance with Notice No. 119, any sale made by a resident to a non-resident industrial exporter is construed as an export and the calls for domiciliation with an approved paying agent settlement of such export sales to be made by debiting an external account in convertible dinars.

(C) *PURCHASES OF GOODS BY RESIDENTS FROM APPROVED NON-RESIDENT INDUSTRIAL EXPORTERS.*

Such purchases require an import licence to be obtained and domiciled as specified in current legislation on imports from foreign countries or, where appropriate, recourse to the import certificate procedure described in Notice No. 116 issued by the Minister of National Economy.

SECTION II. "BUSINESS TRAVEL" ACCOUNTS

Under Notice No. 119, any resident person who holds a certificate of approval under Law No. 72-38 may arrange for a special "Business Travel Account" to be opened in his name in the books of the approved paying agent, which account may be debited without restriction in respect of transfers of business travel expenses incurred outside Tunisia up to a total of 4,000 dinars per annum. Such an account is kept in convertible dinars and is supplied solely from two per cent of the moneys collected by the account holder and brought back to Tunisia for settlement of his exports.

The attention of approved paying agents is drawn to the fact that each approved industrial exporter is allowed to hold only one account of this nature. Such an account may be opened only in the books of the approved paying agent for transfers of the exporter concerned.

Debits placed to such accounts are subject to the following conditions

— The available funds may be drawn either by the holder of the certificate of approval personally or by any other person employed in the business;

— The traveller must produce to the approved paying agent his passport together with the necessary visas and his travel ticket, if any;

— Total debits must not exceed 4,000 dinars per annum.

Any credit balance remaining on the account at the end of the year may be carried forward to the following year.

When issuing foreign currency the approved paying agent hands the beneficiary a certificate in duplicate showing the origin of the currency for use as evidence for production to the customs authorities. This certificate must make reference to Notice No. 119.

SECTION III. PROVISIONS REGARDING NON-RESIDENT EMPLOYEES OF FOREIGN NATIONALITY EMPLOYED BY INDUSTRIAL EXPORTING BUSINESSES

(A) *OPENING OF NON-RESIDENT INTERNAL EXPORT (I.N.R.E.) ACCOUNTS FOR SUCH EMPLOYEES.*

Under Notice No. 119, non-resident natural or legal persons must pay non-resident employees of foreign nationality whom they are allowed to employ in their approved exporting businesses at least fifty per cent of their net salary in the form of convertible foreign currency paid into I.N.R.E. accounts opened in the names of those employees in the books of approved paying agents.

Resident persons must pay non-resident foreign employees engaged in their approved businesses entirely in dinars by crediting accounts of a similar type.

By means of this present regulation the Central Bank gives authority to Approved paying agents to open I.N.R.E. accounts without special authorization in favour of natural persons producing proof that they are non-residents, that they are of foreign nationality and that they are permanently employed with an industrial undertaking approved by the Minister of National Economy under the provisions of Law No. 72-38.

(B) *TRANSFERS OF SAVINGS OUT OF WAGES AND SALARIES OF NON-RESIDENT EMPLOYEES OF FOREIGN NATIONALITY EMPLOYED BY APPROVED RESIDENT BUSINESSES.*

According to Exchange Control Notice No. 119 these employees may make a request for fifty per cent of their wages or salaries to be transferred abroad.

In order to obtain the benefit of transfer facilities as laid down in the aforesaid Notice, the parties concerned must produce a contract of employment entered into with a party holding a certificate of approval as defined in Law No. 72-38 and endorsed by the Minister of Social Affairs in conformity with Article 258 of the Labour Code.

Applications for permission to transfer moneys must be forwarded each month to the Approved paying agent in whose books the I.N.R.E. account has been opened. Cumulation of amounts from one month to another is not allowed. Applications must be accompanied by a certificate from the employer specifying the amount of monthly remuneration actually paid to the wage-earner. This certificate must state that one copy only has been issued for partial transfer of such remuneration. It must be certified by the employer as true and correct and state that the latter undertakes not to issue any other certificate for the same purpose.

I.N.R.E. accounts must be supplied with funds drawn exclusively from foreign currency or from wages and salaries paid by approved businesses employing the holders of the accounts. Moneys in these accounts may be used only for payment of subsistence expenses in Tunisia incurred on behalf of the account holders and for transfers of savings from wages and salaries in accordance with the conditions set out above.

SECTION IV. FACILITIES FOR THE GRANTING OF LOANS BY TUNISIAN BANKS TO NON-RESIDENT HOLDERS OF APPROVAL

The granting of loans to non-resident persons within the meaning of Law No. 72-38 dated 27 April 1972 is subject to the conditions laid down in current exchange control regulations

SECTION V. SUBMISSION OF REPORTS TO THE CENTRAL BANK OF TUNISIA

Not later than one month after the end of each quarter Approved paying agents must send to the Central Bank of Tunisia (Service des Transferts) a detailed report covering all transactions carried out by them under Law No. 72-38 and its implementing regulations, accompanied by supporting documents and giving breakdown of different categories of transactions.

This circular issued by the Central Bank of Tunisia was published in the Official Gazette of the Tunisian Republic on 9, 12 and 16 January 1973.

Circular No. 73-34 issued by the Central Bank of Tunisia relating to conditions governing eligibility for loans in favour of exporting industries covered by Law No. 72-38 dated 27 April 1972.

The object of this Circular is to define the conditions governing the granting of loans by Tunisian banks for the purpose of financing capital investment transactions or for the operation of approved industrial exporting businesses.

Law No. 72-38 provides that the Minister of National Economy may approve such loans in favour of industrial exporting businesses both to non-resident natural and legal persons (within the meaning of Article 5 of the Law as regards legal persons) and to residents. Thus the conditions of eligibility for credit in favour of this new economic sector will vary firstly according to whether they apply to residents or non-residents and secondly, whether the loan is required for direct or indirect capital investment operations or for running the business in question.

I. TERMS GOVERNING THE GRANTING OF LOANS FOR CAPITAL INVESTMENT OPERATIONS.

A. *Loans granted directly to holders of certificates of approval.*

(a) So far as non-resident natural and legal persons are concerned, Tunisian regulations on exchange control do not offer any access to local loan facilities. Nevertheless, Tunisian banks are allowed to grant to non-resident holders of approval as laid down in Law No. 72-38 loans for which funds are required to be derived from non-governmental sources abroad. However, the banks must first reserve their available funds of this type to meeting requests for loans put forward by residents for investment projects.

(b) Resident persons may obtain loans needed for their capital investments under normal conditions.

B. *Loans for manufacturing purposes.*

Local banks may accept for discounting within credit lines for manufacturing purposes granted to resident producers on the terms laid down in Circular No. 72-70 dated 9 October 1972 any bills drawn by the latter on approved exporting investors whether resident or non-resident.

II. LOANS FOR OPERATING PURPOSES.

(a) Non-residents may not obtain loans from Tunisian banks to finance their manufacturing activities. It is possible, however, to set free commercial debts due to residents by non-resident industrial exporters, a transaction of this kind being construed as an export credit.

(b) Approved resident industrial exporters may obtain bank loans in the normal way.

M. GHENIMA,
Governor

LAW N° 74-74 DATED 3 AUGUST 1974

RELATIVE TO INVESTMENTS
IN THE MANUFACTURING INDUSTRIES
(PRODUCING FOR THE DOMESTIC MARKET)

On behalf of the People ;

I, Habib Bourguiba, President of the Republic of Tunisia ;

The National Assembly having enacted it ;

Hereby promulgate the law set forth below :

CHAPTER I

GENERAL PROVISIONS

Art. One — This law lays down the conditions and benefits applicable to future investments in Tunisia in the manufacturing industries.

The list of manufacturing industries will be set up by decree.

Art. 2 — The guaranties and benefits of this law apply to investments made in Tunisia by natural persons or corporate bodies having received investment licences or approvals of their project declarations in accordance with Article 4 of this law.

Art. 3 — Equality before this law, especially with regard to its tax provisions, is recognized for foreign investments which have been authorized in accordance with Article 5 of this law.

CHAPTER II

INVESTMENT LICENCE AND DECLARATION

Art. 4 — Investments for the establishment, reconversion, expansion, re-equipment or transfer of a manufacturing enterprise, are subject to the licence or to the declaration requirement.

The implementation of unlicensed or disapproved projects, is penalized by the closure of the enterprise.

Failure to start the implementation of a licensed or an approved project within a year from the receipt of the licence or the approval, will entail the outright withdrawal of the licence or approval, based on the advice of the Investment Promotion Agency which will have heard the entrepreneur's explanation.

Art. 5 — The following investments are subject to the licence requirement :

- Direct or indirect investments to be made by non-residents or foreign nationals ;
- Investments to be made through importation of used capital goods ;
- Investments totaling TD (Tunisian Dinars) 250,000 or more, exclusive of working capital ; this amount may be modified by decree ;
- Investments in certain activities whose list will be set up by decree ;

The licence is issued by the Minister of National Economy, based on the advice of the Investment Promotion Agency.

Art. 6 — Are subject to the declaration requirement those investments which are not listed in Article 5 of this law.

The approval or disapproval of a project, based on the advice of the Investment Promotion Agency, shall be notified by the Minister of National Economy to the entrepreneur within 30 clear days from the date of submission of the declaration.

CHAPTER III

INVESTMENTS CLASSIFICATION

Art. 7 — Licensed or unopposed investments are classified into one of the categories of Article 9 below according to the number of permanent jobs they create, and are entitled to the benefits of Articles 11 and 12 of this law.

They are also entitled to the advantages of Articles 15, 16 and 20 hereunder, according to the following criteria :

— project location ;

— export percentage within the sales figure (turnover) after tax ;

— value-added of the product to be manufactured.

Art. 8 — Are excluded from the classification and therefore ineligible for the benefits and guaranties of this law investments made for equipment renewals, those creating fewer than ten permanent jobs and those including less than 30% in capital stock.

Art. 9 — The investments referred to in Article 7 above are classified into five categories :

Category A.

— Investments creating 10 to 20 permanent jobs.

Category B.

— Investments creating 21 to 50 permanent jobs.

Category C.

— Investments creating 51 to 100 permanent jobs.

Category D.

— Investments creating 101 to 150 permanent jobs.

Category E.

— Investments creating more than 150 permanent jobs.

Art. 10 — A job is considered permanent when it secures at least 280 workdays per annum.

CHAPTER IV

TAX SYSTEM AND OTHER FINANCIAL INCENTIVES

Art. 11 — The investments referred to in Article 9 above are entitled to the following benefits :

1°) Payment of a fixed fee (1) for the registration of the instruments incorporating the enterprise ;

2°) Taxation relief on income or profits when reinvested into the capital of the enterprise.
Such a tax relief, which may only be granted to the original subscriber, is based on half the value of the stock warrant and is applied to :

— a maximum of 30% of the overall annual income in the case of natural persons who are liable for personal income tax (2).

— a maximum of 50% of the annual profits in the case of corporate bodies which are assessed for the tax on profits from trade and manufacture (3) or the tax on profits from non-commercial professions (4).

Translator's Notes :

(1) Under *TDI.*

(2) Contribution Personnelle d'Etat or C.P.E.

(3) In Tunisian tax law, the Impôt sur les Bénéfices Industriels ou commerciaux, also called Patente, consists of two parts :

a) A « droit d'exercice » or business licence fee of 1% on the gross sales (turnover), payable in advance and chargeable to the « droit proportionnel ».

b) A « droit proportionnel » or proportional tax of 40.1% on the net taxable profits (rate applicable to corporate bodies).

The Patente will be referred to in this translation as corporate income tax.

(4) Impôt sur les Bénéfices Non-Commerciaux.

3°) Exemption from customs duties and turnover taxes on imported capital goods which are necessary for production.

Such an exemption is granted for non-Tunisian made capital goods.

If the enterprise purchases capital goods on the domestic market from producers, it is entitled to the exemption from turnover taxes.

It is also entitled for its local purchases from non-producers, to the reimbursement of customs duties and turnover taxes already paid on imported capital goods, under the same conditions as those laid down in the legislation for exporting industries.

With respect to Category A investments, the exemption is limited to 25% of the customs value of imported items.

In cases of expansion, total exemption is granted if the number of jobs after expansion is in excess of 20.

Art. 12 — The investments referred to in Article 9 above, are also exempted from the proportional corporate income tax for the first five years of actual operation of the enterprise, in the following proportions :

- 40% of taxable profits for Category A investments ;
- 60% of taxable profits for Category B investments ;
- 70% of taxable profits for Category C investments ;
- 80% of taxable profits for Category D investments ;
- 90% of taxable profits for Category E investments.

The enterprises benefiting from the above exemptions are also exempted from the business licence fee during the same period.

Art. 13 — In cases of additional job creations during the exemption period provided for in Article 12 above, the investments classified in one of Article 9 Categories shall be reclassified in accordance with the new number of employees and for the rest of the exemption period.

At the end of the period of exemption from corporate income tax, as per Article 12, 14, 15 and 16 of this law, the enterprises which create additional jobs shall benefit from a reduction in the said tax in proportion to the increase in the number of jobs, based on the highest number of jobs during the preceding three years, provided the new reduction does not exceed 20 to 25%.

This reduction is applicable to the year during which the increase in the number of jobs has been established.

Art. 14 — An expansion taking place during the exemption period of Article 12 above entitles the enterprise to the reclassification benefits for the rest of the period, after which the enterprise is entitled - for the rest of another period of five years starting with the expansion investment - to the benefits of the category corresponding to the number of jobs created by the expansion.

Expansion investments to be made upon expiration of the exemption period of Article 12 above are eligible for classification in accordance with the criteria of Article 7 of this law and entitled to the corresponding classification benefits. With regard to these expansion investments, the exemption from corporate income tax is based on overall cumulative profits. However, the exemption is reduced by 75%.

Art. 15 — Licensed or unopposed investments to be made in the territorial zones which will be determined by decree, will benefit from the provisions below, over and above their classification advantages :

1°) Payment of fixed fees (1) for the registration of deeds on capital increases ;

2°) Exemption from corporate income tax for one additional year under the same conditions as per Article 12 above ;

3°) Exemption for the first five years of actual operation from the Stockholder's Tax on the profits distributed to shareholders and to partnership shares issued for the establishment of the enterprise, provided such profits do not exceed annually 6% of the nominal value of the stock certificates ;

4°) Allowance for interest rate on loans for the financing of the investment, not to exceed 5% ;

5°) Investment subsidy not to exceed 10% of the total investment, exclusive of the working capital.

This subsidy does not come into the computation of the minimum percentage of capital stock required for the classification of the investment.

6°) Payment of the costs of infrastructure works in accordance with the decree referred to in paragraph one of this Article.

Art. 16 — Licensed or unopposed investments to be made with a view to exporting more than 10% of the overall sales after tax, during the first five years of actual operation, entitle the enterprise to the exemption from corporate income tax for one additional year under the same conditions as those of Article 12 of this law, over and above their classification benefits.

Translator's Note :

(1) Under T.D.I.

CHAPTER V

TRANSFER (1) GUARANTY

Art. 17 — The licence issued in accordance with the provisions of Article 5 above entitles non-resident investors to the transfer guaranty for the capital invested in foreign currency and the earnings derived therefrom.

If the investment is made through contribution in kind, the guaranty for the transfer of the capital and related profits is given in accordance with the licence or the special agreement referred to in Article 20 below.

Art. 18 — The transfer of income derived from the capital invested in foreign currency is effected immediately upon justification to the Central Bank of Tunisia of the amounts to be transferred.

Art. 19 — The guaranty for the transfer of capital invested in foreign currency covers the actual net proceeds of the assignment or liquidation, even if this amount is higher than the initial capital invested in foreign currency.

CHAPTER VI

SPECIAL AGREEMENT BENEFITS

Art. 20 — When the investment offers special value or interest to the National Economy, taking into account, in particular, the Tunisian value-added of the product to be manufactured, the government may, as a complement to the benefits of this law, grant the same benefits under more advantageous conditions for the investor, particularly with respect to the duration of the exemption period, the rates of tax relief, investment subsidy, interest allowance and payment for infrastructure works.

Translator's Note :

(1) Or repatriation.

To this effect, a special agreement between the State and the entrepreneur is drawn up by the Minister of National Economy, based on the advice of the Investment Promotion Agency.

The agreement must be approved by decree.

CHAPTER VII

MISCELLANEOUS PROVISIONS

Art. 21 — Imports to be effected as part of the licensed or authorized investments, in accordance with the provisions of this law, are subject to the current legislation and procedures for foreign trade ; however, the import authorization is processed and issued within a maximum of 30 days starting from the date of submission of the import application.

Art. 22 — The enterprises that benefit from this law are subject to control by a government commissioner assigned by the Finance Minister to :

- control the implementation of the investment programs upon which the benefits are based ;
- control the number of jobs during the exemption period.

Art. 23 — Investors who are granted the benefits of this law shall lose such benefits - after being heard - in cases of non-compliance with the obligations placed upon them in the licences or approvals. This loss may be partial or total ; it is notified to the entrepreneur in accordance with the same procedures as per Articles 5 and 6 above.

Art. 24 — Any transfer of investment licence or approval must be authorized in accordance with the same procedures as per Articles 5 and 6 above.

Art. 25 — Any dispute between a foreign investor and the government, resulting from an act on the part of the investor or a measure taken by the government against him shall be settled in accordance with existing procedures for arbitration or conciliation, i.e., as the case may be :

- within the framework of the bilateral agreement on investment protection, between Tunisia and the investor's country.
- within the framework of the Convention for the establishment of an Arab investment guaranty organization, which was ratified by the decree-law n° 72-4 dated 17 October 1972.
- within the framework of the International Convention for the Settlement of Investment Disputes between States and nationals of other States, which was ratified by the law n° 66-33 dated 3 May 1966.
- within the framework of any such Convention as may be signed by the government.

Art. 26 — The following are no longer applicable to investments in the manufacturing industries :
- the decree of 19 September 1946, on the incentives for economic development in Tunisia through « letters of establishment », as amended or completed ;
- the order of 29 December 1955 relative to the application of Articles 159 and 170 of the Customs Code ;
- the decree of 4 June 1957 on the creation of a foreign investment guaranty fund in Tunisia ;
- the law n° 58-18 of 10 February, 1958, relative to the long term system of taxation ;
- the decree-law n° 62-11 dated 3 April, 1962, on the establishment, expansion, reconversion or transfer of industrial enterprises ;

- the law n° 62-75 of December 1962 on fiscal incentives for the reinvestment of profits or income, as amended ;
- the law n° 68-3 of 8 March 1968, relative to the incentives for investments in Southern Tunisia ;
- the law n° 69-35 dated 26 June 1969, relative to the creation of an Investment Code.

The investments approved in accordance with prior legislation shall continue to enjoy the guaranties and benefits accorded to them.

This law will be published in the Official Gazette of the Republic of Tunisia.

Made at Skanès Palace on 3 August, 1974
The President of the Republic of Tunisia

Habib BOURGUIBA

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