The Carthage Investment Forum
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Draft Opening Statement
of the
UNIDO Director-General
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Tunisian Industry: Africa's turnstile for Europe (Ver.1.2)

United Nations Industrial Development Organization

Honoured Minister and Chairman (Mr. Mohamed Ghannouchi),
Your Excellency, Prime Minister (Mr. Ahmed Karoui)
Members of the Diplomatic Corps
Ladies and Gentlemen

I am particularly happy to join the Prime Minister, the Minister of International Cooperation and Foreign Investment, and the Director-General of Tunisia's Foreign Investment Promotion Agency (FIPA), in welcoming you on behalf of UNIDO to the start of this *Carthage* Investment Forum.

We hope it will be a Forum with a difference — the start of an open discussion and exchange of ideas between foreign investors willing to invest in Tunisia and the key decision makers and high-level representatives of the Government who are instrumental in enabling such investment.

UNIDO sees such a Forum firstly as a unique opportunity for all sides to <u>learn</u> something:

– As potential investors, you can learn about the enabling investment promotion and industrial environment the Government has set up.

- You can also learn about the business opportunities through the direct discussions beginning tomorrow afternoon with their private sector counterparts in the industrial sectors of your choice.

At the same time — and here I speak from personal experience of the benefits of fine-tuning government policy instruments for attracting and keeping investment flows — I suggest that the Government may also wish to consider what you as investors might be saying. For example:

- What is really important for companies that are looking at various alternative locations for their productive investments.
- Is it the array of fiscal of incentives in the investment code that primarily attracts foreign investment?
- Or are fundamentals, like strong infrastructural facilities, utility services, skill development, property right, contract law and labour laws more important?

Bearing in mind that today's competition takes place in a world of increasingly globalized industrial production and borderless economies, these are issues that governments everywhere are looking into as the basis for policy.

Those of you who are here in Tunis this week with hopes of initiating new, and profitable, investment, will be paying most attention to the *national* context. And that is where I will begin. But I will also take a little time to draw attention to the *regional* and *international* dimensions of what we are doing.

[The national dimension]

From the "local attraction" perspective, let me say at the outset that you might go a long way in Africa and the Middle East to find a better combination of prospects than those in Tunisia. The surrounding conditions for industrial investment are truly impressive —

- from the overall growth prospects to the measures for maintaining the balance of national accounts,
- from the investment in physical infrastructure to the prevailing legal conditions and investment incentives,
- from the rising quality of the workforce to the public investment in technological infrastructure, and
- from the proximity of other markets (the EU to the

north, the Maghreb region all around and the African Economic Community to the South) to the improving institutional arrangements for accessing those markets.

Tunisia's economic and financial policies have long focussed on strengthening the country's competitiveness, on diversifying the economy, and on distributing resources efficiently. Having personally participated in the planning of economic reforms in Latin America in the early 1990s — particularly the aspects concerned with combining economic structural reform and trade liberalization policies to bring about economic stabilization and recovery — I particularly commend your attention to the following:

- Tunisia's partnership agreement signed with the European Union. This will not only create a free-trade area but also requires significant dismantling of import tariffs and taxes with equivalent effect.
- The trade agreements with other partners, particularly here within the *Union du Maghreb Arabe*, and with other arab countries, that will harmonize their respective trade flows.
- Tunisia's high-level promotion of exports through the

High Council for Exports, chaired by no less than His Excellency, the President of the Republic.

- The intention to privatize all firms operating in competitive sectors and to use franchising and concessions to provide many public services and utilities.
- The measures to improve fiscal recovery, broaden the spread of fiscal pressure and further rationalization of fiscal advantages to promote investment in priority areas.
- The modernization of the banking sector and development of its technical and financial capabilities — even though the present banking system ranks alongside developed countries in terms of the number of banks per head of population.
- The continuing controls on liquidity but with gradual opening up of the financial market with diversification of the government instruments involved.
- The plans to mobilize the resources and services of the insurance sector in support of the productive sector.
- The phasing out of price controls while improving competitiveness and enhancing quality, and

- The intention to reduce subsidies (to a maximum of 1 per cent of GDP by 2001) and to replace the current system of support for disadvantaged groups.

Such structural adjustment and trade liberalization measures are only the latest phase of Tunisia's economic reforms that go back more than a decade. They have already resulted in liberalization of over 90 per cent of imports, deregulation of nearly 90 per cent of production prices and 80 per cent of distribution prices. The budget deficit in 1997 was down to 3.2 per cent of GDP, savings increased to 23.5 per cent (of GDP) in the samyear, and inflation dropped to 3.7 per cent. These are fundamental building blocks of sustained economic development in the future.

Nevertheless a growing number of us feel that such impressive macroeconomic stabilization measures — vital thought they are — are not sufficient by themselves. The reason: they do not automatically bring about the desired changes at the micro-level. What governments and the private sector everywhere in developing countries have to do, jointly, is seize the *opportunities* provided by <u>macroeconomic stabilization</u>. They can only do that by developing complementary policies for the <u>micro-level</u>

development. The private sector, of course, has to play its own part in upgrading its operations with, for example, total quality management and constant attention to technological capability — raising the skills of individual operators and managers, improving the competitiveness of the process technology and the product specifications, and raising the collective capability of the company as a whole.

In Tunisia's case, therefore, you will also be interested (as potential manufacturers or partners with Tunisian manufacturers) in the plans to increase total factor productivity by an average of 2.4 per cent per year. Through a combination of upgrading, management development and public service improvements such productivity increases are to be a major share [40 per cent] of a GDP growth, which itself is slated to rise to 6 per cent per annum and higher.[1] Particular opportunities for foreign investors lie in the fact that this requires broadening and diversifying production away from the unreliable traditional raw materials sectors, and through raising non-energy exports by 7.2 per cent annually.

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[1] In the past, such improvements accounted for one third of annual GDP growth rates averaging 4.6 per cent.

Equally relevant are Tunisia's plans to increase investment in renewal and modernization of plant and equipment, to upgrade the transportation and communications infrastructure and to further improve the nation's human skills and management capabilities. The private sector's share in that endeavour is to rise from around one half up to two thirds of the total investment.

This is the broad *national economic* context for our Forum. Further details, together with the competitiveness and the prospects for niche product areas in areas with the best growth prospects — automotive parts, electrical and electronic components, packaging, textiles and clothing, and software — are set out in the background documents.

[Regional context]
The regional context for the Forum is, of course, access to European markets on one side and to African markets on the other.

Of Europe, I need say little. Distance is no problem: the nearest point is barely 140 km away. Air and sea connections are regular and frequent. Trade is already covered by a preferential agreement giving free access to all Tunisian industrial exports. And it will get better. The whole of north Africa will benefit from special arrangements with the European Union under the Euro-Mediterranean Partnership's free-trade area. The parties have set 2010 as the target date for the gradual establishment of this enlarged trade area which will cover most areas of trade. Not surprisingly, 80 per cent of Tunisian exports already go to Europe.

Of Africa, I will say a little more. An investment in Tunisia is an investment in a region that consistently yields the highest return compared to all other regions of the world — giving four times the return compared to developed countries, double the return on your investments in Asia, two thirds more than in Latin America. The broad message about Africa is that, after decades of shortcomings and neglect, things are looking up. Increased per capita income throughout the region, is accompanied by strong growth in export earnings overall. Africa is being drawn into the gobalization process with more than a dozen countries, Tunisia and nearby Egypt and Morocco among them, growing at faster than 5 per cent annually in recent years. In industry, many countries are showing improved performance, especially here in the Maghreb region, in the CFA countries and in Zambia and

Zimbabwe in southern Africa.

Equally important, a new generation of managers and entrepreneurs is making an impact. Their business demands on Africa's governments are exactly the same as those of foreign investors - good governance and effective institutional support.

[Role of the multilateral system]

The third context for what we are doing this week is perhaps less obvious: the evolving role of multilateral development organizations — of which two, UNIDO and the World Bank, are represented here this morning.

As many will know, the whole multilateral system (the UN and its specialized agencies on one side, the Bretton Woods institutions on the other) is concerned to improve the efficiency and the impact of operations. If I had to sum up in two words the direction that concern currently seems to be taking they would be *integration* and *consultation*.

– <u>Integration</u> combines and focusses system resources on addressing the complexity of development problems — in contrast to attacking single aspects and leaving them unconnected.

- <u>Consultation</u> (what the UN calls its "global forum function"), brings the interested parties together to agree on <u>new</u> systems and aspects of global governance, e.g. new technical standards, and new development approaches.

The example of integration to which I will draw attention is already working here in Tunisia — the approach the Government is taking to ensure support for the industrial aspects of the Ninth Economic Development Plan. The Government and UNIDO that the complexity of the development task calls for a broad mix of simultaneous and complementary inputs. These, from UNIDO's perspective, can be addressed by six of the Organization's 16 service modules:

- Metrology, Standardization, Certification and Accreditation;
- Statistics and Information Networks;
- Continuous Improvement and Quality Management;
- Policy Framework for Small- and Medium-Scale Enterprises,
- Energy Efficiency, and

– Upgrading Agro-Industries and Related Skills.

The integrated approach deploys each service in several areas. For example, the Metrology, Standardization, Certification and Accreditation service is required to

– diagnose and draw up an action plan for developing Tunisia's quality infrastructure, and
– assist national technical laboratories in obtaining accreditation.

The Agro-Industries Upgrading service will

– prepare foresight studies for four branches of agro-industry
– qualify 20 engineers and teams in Hazard Analysis Critical Control Point (HACCP - hassip)[2]
– introduce HACCP programmes and good practice into 20 firms.

[2] Hazard Analysis and Critical Control Point, or HACCP (pronounced hassip) is at the heart of U.S. regulations for the low-acid canned food industry, including food services, retail food stores, and food vending operations in the United States. FDA is considering developing HACCP regulations as a standard throughout much of the rest of the U.S. food supply. The regulations would cover both domestic and imported foods.

This kind of integrated programme is now a fundamental feature of UNIDO's approach to technical cooperation. Key benefits of the integrated approach are that it allows UNIDO to apply a more-than critical mass of expertise to each activity task. The way they are formulated ensures they are

- demand-driven,
- acquire local ownership and sustainability,
- impact on competitiveness, employment and environmental improvement, and
- open to multi-disciplinary (and, where appropriate, multi-organization) solutions.

Donors agree that they are a way to produce high quality projects and programmes — with the added advantage that they can fund a range of activities with a minimum of administrative effort. So far, UNIDO has completed programmes for 32 countries. The integrated programme for Tunisia was fully funded by the Government of Italy.

Consultation, as I mentioned, covers a range of new directions concerned with global governance, particularly how we should be looking at development issues. (It is probably fair to say that such efforts result in some of the worst as well as the best efforts by multilateral organizations. Among examples of good work we must count the annual Human Development Report from UNDP, which changed our thinking and our approach to poverty alleviation. Last year, the World Bank similarly put ‘knowledge’ on the development agenda with its 1998/99 World Development Report on *Knowledge for Development*. This highlighted three lessons:

- First, developing countries must institute policies that enable them to narrow the knowledge gaps separating poor from rich countries.
- Secondly, developing country governments, multilateral institutions, NGOs and the private sector must work together to strengthen the institutions needed to address the information problems that cause markets and governments to fail.
- Thirdly, recognizing that knowledge is at the core of all our development efforts will allow us to discover unexpected solutions to seemingly intractable problems.

In a similar vein, many of us are concerned with the possibility that what we may also need is a whole approach to development, a new development paradigm perhaps.

At the industry level, UNIDO has taken on the global forum task with respect to industrial development. The work, which is just beginning and will not be complete until late 2001, involves a wide-ranging study of the underlying need for industrial governance as a response to the industrial aspects of globalization — especially the need for policy interventions in the framework of a redefined role of the State and a broadened version of the Washington consensus.

Some of the issues are already on the agenda here at the Carthage Investment Forum, namely the new external forces and conditions emerging from the globalization process in the next few years. In developing countries, these externalities combine with market failures to create the need for policy responses in areas such as information and knowledge, technological upgrading, human resources development, promotion of exports, promotion of foreign investment, development of small- and medium-sized enterprises, and protection of the environment. All these areas, you may note, are already on Tunisia's industrial development agenda.

[Concluding remarks]

From what I have said, we should have no doubt that today's Tunisia entertains no doubts about the role and relevance of industry in overall development.

Positioned firmly in the southern extension zone of the European Union, at the centre of the Maghreb group and at the north of what must surely be tomorrow's emerging market, the African Economic Community, Tunisia has the potential to become Africa's industrial turnstile — the gateway to European, Arab and African markets, a financial centre for investment flows and potential technology base functioning as a natural focal point for technology flows.

As that begins to happen, I am confident that we will see Tunisia restored to the levels of former times. Here, I do not have in mind the times when Carthage was the centre of a Roman province and the granary of the Roman Empire. I mean the times before that, when the city was the centre of its own empire, when trade, commerce and culture and other features of civilization we prize today were already part of this region's history. They flourished so well that, six centuries after Carthage was founded (i.e. 23 centuries ago in the 3rd century b.c.) the main European power of the time (Rome) decided that the African power of the time posed a competitive threat too great to be ignored.[3]

Those of us who are visitors to Tunis this week can enjoy many splendid archaeological sites from the Roman era. But we can also see something else with a deeper message for today. Behind the olive trees, date palms, citrus trees and fields of cereal crops lies an enormous national effort to mobilize the water resources essential for Tunisia's prosperity. Agriculture accounts for 16.5 per cent of GDP, 22 per cent of export earnings and provides work for 22 per cent of the active population. Yet only 5 million hectares, less than one third of the total land area is cultivated — and only one sixteenth of that is irrigated. We may contrast this with the Tunisian landscape of 2000 years ago when it was not only the granary of the Roman Empire, but shortly before that when it was home to some of the most famous

[3] And from one perspective they were right: European strengths in the 3rd century b.c. lay more in *raids on* their neighbours than *trade with* them. "Delender est Carthago," warned Carlo the Censor: Rome will never be safe until Carthage is destroyed. And destroyed it was, until Julius Caesar rebuilt the city as the centrepiece of his North African province.

elephants in all history!

Where technology is concerned, it is not wise say something will never happen. But until technology finds a way of transforming deserts into pasture, Tunisia will be an industrializing country — the source of neither Europe's agricultural nor its other raw materials but of Europe's and Africa's manufactured goods and related services. That, I suggest, is the important Carthage connection.

Prime Minister
Chairman
Ladies and Gentlemen

I thank you for your attention.