Entering the Modern World: The Role of Government in Industrial Development

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Choosing paths is a part of everyone's life. Few are restricted to one road, to one choice. Sometimes the element of choice involved is greater than at other times. Almost 30 years ago, many Third World countries decided to increase the element of choice in their development paths. They won their independence and started down their respective paths toward modern industrial nationhood, waiting to assume their place among the more established industrial powers. Tunisia was one such country. Tunisia's leaders have accepted a strong, interventionist role in their nation's industrial development, and the character of Tunisian industry today is very much the result of government actions. Out of the various developmental models to choose from, Tunisia's leaders have selected a path already traveled by other developing nations (most notably the Asian nations) by encouraging industrialization through a combination of outward-looking growth policies, the exploitative approach, and especially a process called off-shore production. As with all methods, there are advantages and disadvantages to this particular combination of approaches. The
problem that arises is that of assessing the government's industrial development methods as a strategy for Tunisia and its people and to see it in that context rather than evaluating it from an American perspective. By examining the strategy and the policies for implementing it, we can see that the Tunisian government has chosen a useful path for its nation's industrial development, but that some of the long-term consequences of this approach might potentially overshadow the immediately apparent benefits.

In order to assess the validity of the government's approach to industrial development, this paper will first look briefly at Tunisia to provide some background. Then, the foundations of the Tunisian strategy will be discussed by examining outward-looking growth policies, the exploitative development approach, and especially the phenomenon of off-shore production. The industrialization process itself will be discussed in order to determine why countries actively seek it, some of its limitations, and some of its consequences. The paper will next turn to the role of the Tunisian government in promoting industrial development, looking at the different laws, plans, and agencies that the government has used to build Tunisia's industrial sector. The Tunisian economy will then be examined in the areas of employment, existing industry, and investment, with special emphasis given to off-shore industries. Finally, some of the pros and cons of this combination—outward-looking growth policies, the exploitative approach, and off-shore production—as an industrial development strategy will be examined.

Industry, as the term is used in this paper, refers to manufacturing as in the production of goods by hand or by machine from raw materials at any stage of the process, rather than to heavy industry, like steel production. This study
assumes that Tunisia uses as its ultimate goal a Western model of industrial development. It examines the government's role in encouraging industrial development, emphasizing that aspect of the government's role aimed at attracting foreign participation in the Tunisian economy. While all aspects of government policy in this regard will be examined, special attention will be given to the phenomenon of off-shore production. This phenomenon is emphasized because much of the foreign investment in Tunisia can be described as off-shore production. This choice has been a deliberate one on the part of the government, and as such, many of the remarks made about Tunisian industry have special reference to that particular phenomenon.

Background

The country of Tunisia lies between Algeria and Libya in North Africa. 7,202,000 people populate its 164,206 kilometers. The population is evenly divided between men and women. In 1980 the population of 6,369,000 was divided between 3,204,100 men and 3,164,900 women. Approximately two-thirds of its population is under thirty years of age. Since independence in 1956, Tunisia has worked hard to modernize and become relatively self-sufficient. This has included developing agricultural areas as well as urban areas.

Like many Third World countries, Tunisia has the problem of having more people than it can employ. Some of its labor force works outside of the country (200,000 in Europe with more scattered throughout the Middle East, particularly in Libya), their earnings providing a valuable source of foreign exchange. In addition, the government has promoted an aggressive industrial development program. As a French protectorate,
Tunisian manufacturing was dominated by French companies. After independence, the French left, and some of the firms were nationalized. The French left Tunisia with a "well-advanced economic infrastructure" that now includes railroads connecting port cities and most major cities, roads "providing easy access to all cities and villages," six seaports, an "adequate supply of electricity for the major cities," and a modern telephone system. Although caught up in the national cooperative movement of the 1960s, Tunisian industrial policy in the 1970s has focused on encouraging private investment to develop an industrial sector that is labor-intensive and export-oriented. Since independence, "industry has made the sharpest growth of all economic sectors," with manufacturing undergoing the greatest expansion.

**Outward-Looking Growth Policies**

Countries wanting to attract foreign investment generally feature outward-looking growth policies. The elements of such a policy include a liberal trade policy and payments regime, an unfixed exchange rate system, fiscal incentives to export production, and tight domestic monetary and fiscal policies. For these elements to take effect and make an outward-looking growth policy successful, a country needs to have "i. a disciplined, educated and skilled urban labour force, ii. an active and efficient entrepreneurial class, and iii. a stable political system." Tunisia possesses the first and third elements.

**The Exploitative Approach**

Richard Cooper describes the exploitative approach as using legal (under GATT—the General Agreement on Tariffs and Trade) border tax adjustments to improve a country's trade position and to avoid exchange rate adjustments. Some
examples of this approach are flags of convenience on shipping, light registration and disclosure requirements on securities, tax havens, subsidies to foreign investment, and tax concessions. These last two are this paper's primary concerns. The exploitative approach "attempts to take advantage of the growing interdependence in ways which are successful if pursued by only a few countries." Herein lies the heart of the problem with the exploitative approach which prevents its having usefulness as a more general development approach. Small countries are really the only ones who are in a "favorable position to exploit international rules and the increased mobility of firms and funds." Countries with larger economies engaging in similar behavior, granting subsidies to foreign investment, for example, would disrupt the international economy too much, if only because its peers would see such behavior as unfair and possibly retaliate. At the same time, this approach works only if a few small countries utilize it. Too many following the same policies defeat the purpose of the special incentives to attract foreign industries. The approach then works for no one.

Off-Shore Production

Both of these ideas come together in a phenomenon known as off-shore production. Off-shore production involves an industry that "imports a substantial proportion of its semi-finished imports and exports the bulk of its output. The supply of technology and design by the ultimate user is frequent." The off-shore plant is generally used for one particular phase in the production process, such as sewing jackets together. Generally such plants are located in "countries with a comparative advantage in labour-intensive activities." Imports of this nature accounted for 25 percent of manufactured imports from developing countries in 1977. (This
figure includes only items covered under certain tariff provisions. Imports outside these provisions, licensing agreements, and management or marketing contracts with independent firms are not represented.

Off-shore production is based on the concepts of comparative advantage and internationalization of production processes. The doctrine of comparative advantage states that "a country will gain by specializing in the production of those commodities in which its comparative advantage is greatest, exporting these goods in exchange for ones where its comparative cost advantage is less." The "commodity" which most Third World countries have the greatest comparative advantage in is low-cost labor. As a result, the main industries that have established off-shore plants in Third World countries have been labor-intensive ones like textiles and electronics. These industries help absorb the country's unemployed. In addition, countries like Tunisia offer the advantages of proximity to major markets (Europe, Africa, and the Middle East), the existence of basic infrastructure, and relative political stability.

Off-shore production activities have become a "dynamic factor in industrial development" in developing countries. Governments have encouraged this. (This will be discussed in depth later.) The Organization for Economic Cooperation and Development (OECD) reports that these off-shore processing zones that the governments encourage have "been increasingly integrated into the domestic economy." This indicates that the policy of attracting off-shore industries can have more long-term economic benefits for a country other than its initial "exploitative" value.
In terms of a labor force, industrial activities require workers and operatives; clerical, administrative and executive officers; and entrepreneurs. In the case of off-shore production enterprises, the host country provides the first three types of workers and sometimes a few administrative officers, while foreigners serve as executive officers. This tendency holds true for Tunisia.

Statistics on two industrial countries, West Germany and the United States, show that the phenomenon is growing. Over the past decade, a substantial increase has occurred in the imports entering these two countries under special tariff provisions on off-shore processing. In 1962, West Germany imported 386 million deutsche marks worth of goods under these provisions. In 1976, this figure rose to 216 billion deutsche marks. In 1966, U.S. imports under these provisions totaled $61 million. In 1976, they increased to $2.8 billion.

**Industrialization**

The phenomenon of industrialization itself requires examination. Why will countries adopt methods like attracting off-shore plants to gain an industrial foundation for itself? What benefits does it see itself accruing as a result of industrialization? The reasons are numerous and varied.

**Benefits of Industrialization**

Keith McLachlan observes in "Development Strategy--The Need to Industrialize?" that "the need for rapid industrial growth in the area tends to increase in direct proportion to size of population and/or lack of exportable primary commodities." The size of population and the need to
employ that population are major reasons behind industrialization in the Third World. Industrialization promotes general economic growth and infuses more efficiency into the whole economy. Developing countries see industrialization as a means of raising their citizens' standard of living. Additionally, industrialization allows the stabilization of national income through production diversification. It also improves a country's balance of payments position through the product's exportation.

Manufacturing processes are generally more flexible in terms of methods and output than is agriculture. Industrial production is less susceptible to fluctuations from uncontrollable circumstances, like rainfall, than agricultural production. Control can be exercised over production, and supply can be correlated to demand. Faster growth rates are possible in industry. The greater degree of control, the introduction of new processes and technology, and the greater flexibility make this increase in productivity possible. Factories also deal with operating costs which are more controllable than fixed costs. Industrialization introduces modern technology into the general economy as well as into the specific industry. The country also gains access to foreign technology and expertise as well as foreign capital.

The benefits of industrialization extend beyond easily measured economic benefits. Industrialization builds national prestige. It brings Third World countries closer to the level of the advanced industrial countries, serving as a sign that a country has become modern. Levels of education, skills, and life styles generally rise as a result of industrialization. It also serves as a viable method of changing attitudes toward development and changing life styles.
Nations also have more overtly political reasons for desiring industrialization. Some leaders see industrialization as necessary for political sovereignty. Industrialization provides a domestic base to service a national military machine. It also is necessary for economic sovereignty by making them less economically dependent on First World nations. The industrial base and the economic growth that industrialization provides can also help place Third World countries in a better bargaining position in international financial negotiations.

These at least are the hopes that industrialization inspires. An alternative perspective on the employment questions demonstrates that these hopes are not always realized. Ghazi Duwaji points out that "the significance of this objective [industry's employment potential] may be easily exaggerated because of the relatively small numbers required to operate a modern factory." Keith McLachlan airs a broader doubt when he observes that "the educated for the most part acknowledge that domestic industrialization has the effect of making the Middle East states more rather than less reliant on the advanced countries." Industrialization is not the cure-all its supporters claim.

Considerations in Industrialization

A statement found in "Development Strategy--The Need to Industrialize?" exemplifies the attitude of many Third World leaders regarding industrial development. "Once the deadening hand of the outside powers is removed and once the local economies have ample technical and managerial cadres available, then industrialization may proceed on a more or less steady course." The problem is how does a country develop the necessary technical and managerial cadres without assistance from "the
deadening hand," and once it has, how does the country remove "the deadening hand" without disrupting its economy?

A desire for industrialization is not sufficient to bring it about. There are constraints on industrial development, certain requirements that must be met. Simply having hordes of people is not enough to make them employable in a factory. Industrial work requires certain skills, and it is not necessarily always economically worth training a population to do the work. (Tunisia, with a literacy rate of 62 percent is considered to have a fairly well-skilled and educated work force.) Besides, training cannot always compensate for experience.

Capital is another requirement often in short supply in Third World nations. The construction and outfitting of the factory require capital. Capital is needed to obtain the materials to initially produce goods. Lack of capital in developing countries is a partial explanation for Third World willingness to engage in off-shore production enterprises. In some countries, there are also problems of inadequate energy sources and resources needed for some production processes. Another concern is that wage rates do rise over time and as countries develop, thus eroding one of the main advantages of Third World countries to First World industries.

The existence of an adequate infrastructure is also a determinant in a country's ability to support industrial development. This includes considerations like utilities and services (waste disposal for example) and transportation—railroads, roads, and ports. Modern factories require this infrastructure to operate, but it is expensive to develop and maintain.
Another consideration is the need to differentiate between the needs of small states and the needs of large states. Small states do not offer the size and breadth of markets that large countries do, so almost all industries will have to produce for export to differing degrees.

Effects of Industrialization

The actual effects of industrialization for any given country are hard to predetermine, but there are some that have previously proved themselves as likely consequences. Industrialization has been shown to raise the marriage age, particularly for girls. The availability of employment allows young people the opportunity to contribute to, rather than drain, family finances. Postponing children's marriages is no longer an economic hardship. Raising the marriage age affects population growth, a significant factor in developing countries, by cutting into the reproductive years of women.

Another effect of industrialization is urbanization. Factories tend to locate near large, developed population centers, which in turn cause these centers to attract more people from the rural areas. Urbanization has its own set of benefits and disadvantages.

Not all consequences are necessarily positive. Keith McLachlan notes that industrialization can lead to the "creation of unpredictable political forces of uncertain loyalty." He goes on to point out that industrialization, particularly the off-shore variety, can also result in "a deepening reliance on foreign suppliers of technology and foreign markets, not without its political implications." McLachlan sees another major problem with development of industrial capacities, raising questions about the ultimate benefits of industrial strategies that depend on outside economies. He
observes that "rapid and effective creation of industry is feasible. Sustaining progress, however, may be difficult." This is the question that all Third World countries engaged in practices like off-shore production must ask themselves. Solutions are hard to give since the newly industrializing countries really have not been in operation long enough to provide empirical data.

Government Policy

Industrial development in Third World countries seems to require government intervention. This is especially true when the country utilizes a development strategy based on foreign investment. The Tunisian government has been especially active in this area. Some of the major policies are reviewed below.

The main goals of the Tunisian government in promoting industrial development have been to boost manufactured exports and to create employment. Dimitri Germidis states that Tunisia likes to "compare herself to Singapore or Hong Kong, endeavoring to attract foreign investment on account of its abundance of low-priced manpower... and its [Tunisia's active work force] high level of qualification." The government plans aim to obtain the capital necessary to raise industrial investment and to increase the productivity of existing enterprises. The government has engaged in a certain amount of import restriction and protectionism to encourage indigenous industries, but has placed most emphasis on encouraging foreign companies to establish factories in Tunisia.
Incentives

The government has offered a variety of incentives to companies willing to locate in the country. In general, these include accelerated depreciation of plants and machinery, duty-free entry of capital goods, and tax concessions for large investments. The government has also adjusted internal freight rates, provided low interest rates on loans and subsidies, and granted companies preferential treatment by government order departments.

New investments do require advance permission from the Minister of Planning and Economics "to regulate the industrial development in the country as well as to maintain harmony within the industrial sector vis-à-vis the rest of the economy."

The Investment Code divides investments into three categories: Category A, for investments under $95,000; Category B, for investments between $95,000 and $475,000, with at least 10 employees; and Category C, for investments over $475,000, with at least 50 employees. Category A investors receive reductions in taxes. Category B offers three tax-free years with a five-year extension available. The government guarantees facilitory inventory financing, loans, and tax- and duty-free importation of equipment. The conditions are the same for Category C except that these investors receive five tax-free years with a possible five-year extension.

Individual companies can negotiate separately with the government for a more favorable depreciation schedule, a guaranteed level of taxation for up to twenty years, free land for construction, government-provided site preparation, a limited-time monopoly position, and protection from imports. The availability of these additional advantages depends on the development priority of that particular industry, its location, the number of employees, the amount of foreign exchange
imported, the value added in the manufacturing process, and the percentage of products exported. In addition, foreign investors specifically receive the guaranteed transfer of invested capital and profits after justifying the transfer to the central bank.

Tunisia has negotiated private investment guarantee treaties with the governments of the United States, Switzerland, West Germany, Belgium, the Netherlands, and France. Tunisia was the first country to sign the World Bank International Investment Arbitration Agreement, which specifies compensation procedures in case of nationalization. The government has also established a national investment society so "individuals would have a chance to invest in an institution which would accelerate the industrialization of the country and thereby raise the standard of living of the people."

Laws

Since gaining independence, Tunisia has passed many laws concerning foreign investment, particularly concerning investment in industry. Most of the laws apply to enterprises that export at least 20 percent of their production. Tunisia began in 1957, immediately after independence, with the Guarantee Fund for Foreign Investment. This allowed investors placing foreign currency in the fund to transfer the profits as well as the original investment back out of the country. Capital placed in the fund was invested in new enterprises or improvements to existing enterprises. The transfer was subject to certain conditions such as a two-year waiting period and the enterprise's designation by the government as a "productive" enterprise. A law passed on February 10, 1958, guaranteed investors stable tax rates for at least fifteen years with five-year extensions possible. Provisions of the fund have
been modified by subsequent laws and policies, such as the investment code discussed previously.

In addition, Letters of Guarantee and Letters of Establishment were instituted. (Letters of Establishment were actually begun in the late 1940s under the French.) Letters of Guarantee allow firms to obtain medium- and long-term credit for investment and to qualify for state loan guarantees. Letters of Establishment are granted to any industrial enterprise "whose creation or extension is of interest to the economic development of Tunisia." These Letters allow for a five-year tax exemption with a five-year extension available if profits are reinvested in the enterprise. The Letters also grant carry-over for five years of deficit balances from the first five years. This provision is for tax purposes. Income from stocks and shares due for loans establishing or extending an industry is tax free. With this Letter, taxes levied on the following can be deducted: 1) raw materials or other materials for manufacturing new products; 2) materials, products, or objects not a finished product which are destroyed or lose special qualities in the manufacturing process; and 3) containers and packages for delivery. Finally, firms holding Letters of Establishment are exempt from taxes and duties on imported agricultural, industrial, and commercial equipment.

More recent laws passed to promote industrial development are Law 72-38 and the 1981 investment law. Law 72-38 (April 27, 1972) provides tax incentives for industrial enterprises operating solely for export. These include 20-year tax holidays from customs duties and turnover taxes and a ten-year exemption from corporate taxes; taxes for the second ten years are limited to one-tenth the normal rate. Those industries are also "exonerated from taxes on the turnover for purchases in the domestic market for
products necessary for manufacturing." They are reimbursed for "fees and taxes to local concessionaires, sellers of outfitting goods or products bought by the enterprises." The basic goal of this law is to "establish conditions adequate for the establishment and the taking advantage of enterprises producing for export." Law 81-56 (June 23, 1981) is the most liberal of all Tunisia's investment laws. This law provides incentives for industries that locate in underdeveloped regions, that engage in high-tech manufacturing, and that are oriented towards export. This law provides for customs exemptions on imports and reduced taxation of profits dependent on the number of employees. In addition, the government assumes the cost of infrastructure development for industries locating in specially designated underdeveloped regions.

Government Plans

Industrial policy, like agricultural policy, is subject to government planning. These plans are important only in that they give some sense of the direction the government sees for industrial development. The plans tend to be broad statements which are more important for the policies and programs that they initiate than for the results they produce.

The Three Year Plan of 1962-64 had as its goal "industrialization which is adapted to the needs of the national economy, which is somewhat more evenly distributed throughout the territory and which interacts harmoniously with other economic activities." The Ten Year Plan of 1962-71 established priorities regarding industry and set criteria for selecting industrial projects. Industrial project selection was to emphasize "investments involving a minimum amount of capital per worker to be employed and industries
exposed to the least competition from foreign industries." Additional objectives were increasing industry's share in the GNP from the then current 21 percent to 28 percent, developing heavy industry, and reducing imbalances between the different regions. To achieve these goals, the Plan proposed increasing the state's role in industrial development and developing an industrial infrastructure. During this time, investment in industry on the government's part accounted for 15.6 percent of the total spent.

The Three Year Plan of 1965-68 again set goals for investment in industry this time at 150 million dinars ($300 million). The Second Ten Year Plan extended from 1972 to 1981 and looked for increased investment from the level at that time of 27 percent to 33 percent. The Five Year Plan for 1982-86 set as its priorities employment, decentralization, and balance of payment equilibrium. It looks for investment of $146 billion, 40 percent of which is to come from overseas. Other goals include building factories in the interior and raising the minimum wage.

Agencies

To help encourage Western companies to locate in Tunisia, the government has established the Agence de Promotion des Investissements (API). This agency promotes Tunisia's advantages abroad with offices in the United States, West Germany, France, Belgium, and the Netherlands. In addition to making companies aware of Tunisia's advantages, the API helps the companies deal with the Tunisian bureaucracy. Between January and June 1978, the API obtained 413 new projects for Tunisia under Law 74-74 (which assists companies producing primarily for the domestic market) and 37 under Law 72-38. These new projects resulted in a total of 15,694 new jobs and 98 million dinars ($196 million) worth of investment. However, by the fall of
1979, no major international corporation had established a plant in Tunisia. Examples of industrial arrangements made include deals with La Societe des Foyes de La Lorrie to manufacture tools for export and with a German firm to produce fruit juices and vitamins (firm unnamed in source). Connected with the API is the Industrial Land Agency which acquires industrial land sites and sells or rents them at subsidized prices.

The Tunisian Economy

Employment

A main reason Tunisia encourages foreign companies to locate in the country is to provide employment. As M. Chedli Avari, former Minister of the National Economy, said, "We have thought the raw material that we can produce is not wool or cotton but manpower and wages." Unemployment is currently estimated at 15-25 percent. The potential for problems that this unemployment rate, especially combined with such a young population, creates is not lost on Tunisian leaders. Tayeb Baccouch, Secretary General of the Union Generale Tunisienne du Travail (UGTT) stated in 1982, "Government must find a solution to unemployment because many of those without jobs are young, educated, and politically active. If it doesn't, there will be great social unrest."

Tunisia offers certain advantages in terms of its labor force. Chief among these is abundance. The total available work force is 1.9 million. The work force is available for a low price relative to Europe and the United States. The minimum industrial wage in 1976 was 1.7 francs an hour ($1.25). Finally, its work force is also considered to be fairly skilled.
Government policy from the beginning has emphasized full employment. Each of the Ten Year Plans has held that as a goal. The First Ten Year Plan (1962-71) saw industry providing 20 percent of that employment. To reach this goal "the solution advanced by the government is to encourage foreign investors to set up business in Tunisia and thereby mop up the dangerous pools of the unemployed: as Tyani Chelli, the head of the API puts it, 'Our main pre-occupation is to import work rather than export labor.'"\[51\]

Tunisian law requires that employees be over sixteen years of age, but this is not always enforced. Most of the employees engaged by foreign enterprises are women. They work under "safety and health hazards that would provoke any Western union to call an immediate strike."\[52\]

Manufacturing is the nation's number two employer, employing 16.5 percent of the total active work force in 1981. 153,800 men, or approximately 30 percent of the male active work force, and 146,100 women, or approximately 40 percent of the female active work force are employed in manufacturing. This is an increase of approximately 50 percent over 1976. Of the manufacturing industries located in Tunisia, the major employers are as follows: wearing apparel, employing 16,277 people; food products with 12,566 employees; non-metal products with 12,637 employees; and textiles, spinning, and weaving with 9,630 employees each (average number of employees based on 1977 figures).\[53\]

The minimum industrial wage was instituted in 1977 after a series of labor strikes. It is adjusted if the cost of living index goes up more than 5 percent and remains at that level for six consecutive months. The highest wages were received in the non-metal products industry, which in 1977 paid 15,552 dinars ($31,104.00);
the industrial chemical industry, where workers received 13,066 dinars ($26,132.00); and the food products industry, which paid 12,451 dinars ($24,902.00). Of the largest employers, the wearing apparel industry paid 11,222 dinars ($22,444.00), and the textile industry and the spinning and weaving industry paid 9,419 dinars (total given in thousands of dinars or $18,838.00). These last three industries are ones likely to be off-shore plants for Western industries.

Industries and Investment

Most industries located in Tunisia are in Tunis and along the coastline south to Sfax. As previously noted, manufacturing has been one of the fastest growing sectors of the economy. The contribution of manufacturing to the GDP was 13 percent in 1974. (Industry as a whole contributed 24 percent of the GDP.)

Under the First Ten Year Plan, investment in the beverage and foodstuff industry was $24,240,000, and investment in the textile industry was $38,160,000. In 1978, 164,900,000 dinars ($329.8 million) were invested in manufacturing industries, accounting for approximately 25 percent of the total investment in the country for that year. Investment is oriented toward sectors requiring manpower and sectors based on exportation. Private investment dominates, in accordance with the government's previous intentions.

Foreign investment has accounted for 69.2 percent of total investment in the Tunisian economy. Mixed projects (between Tunisians and foreign partners) accounted for 22.8 percent. Of this foreign investment, West Germany accounted for 56.6 percent, the Netherlands for 9.3 percent, Switzerland for 1.6 percent, France for 1.3
percent, and Belgium for 0.4 percent. Among the mixed projects, 7.8 percent were with Dutch partners, 6.4 percent with French partners, 3.8 percent with Italian and German partners, 2.7 percent with German partners, and 2.1 percent with British partners. In 1973, of the projects begun in Tunisia, 22.8 percent were foreign and 53.6 percent were mixed. The breakdown on the foreign projects is as follows: Textile Alliance of Hong Kong, 50 percent; West Germany, 27.4 percent; the Netherlands, 18.8 percent; France 2.2 percent; and Italy, 1.7 percent. Of the mixed projects, Italy accounted for 83.6 percent, France for 9.4 percent, West Germany for 3.7 percent, and the Netherlands for 3.3 percent. In the 1973-74 period, 84 percent of the investments were in the textile industry, providing 41 percent of the employment.

Assessment of Off-Shore Production as a Means of Development

On the basis of the figures presented in the preceding section, it would seem that, as stated in Tunisia: A Country Study, "Tunisia has succeeded in attracting foreign investment in labour-intensive, export industries." Two major goals of the government have been accomplished. Looked at merely on this level, the government's method of building its economy on a foreign foundation seems successful. The subsequent discussion will examine some of the pros and cons of this method.

Advantages

Off-shore production provides employment and the accompanying salaries to people who otherwise would not have either. The salaries are small by Western standards. Some textile workers receive one and one-half dinars a day
($3), which works out to $105.67 per year, well below the official minimum wage. The argument could be made that any salary would be better than nothing, especially in a nation without the social welfare programs found in most industrialized countries.

Additionally, much of the money goes to individuals who previously made no economic contribution to the household, such as women and teenagers. Economically then, the people gain. The government gains by being able to tax the people's incomes and not having to provide economic relief for them. Some of those employed are also able to acquire useful skills, providing long-term benefits for their country. This advantage only applies, however, for the few that are placed in supervisory positions or positions requiring special training.

Work is an acknowledged way of effecting social change. It takes people outside their family groups and makes them think on a more individual basis. Work places their welfare in the hands of the general society and economy rather than the family. Loosening traditional family ties is another important factor in implementing change (although there are also disadvantages associated with supplanting this family support system). These attitudinal changes are important for a government wanting to replace traditional values and practices with more modern (i.e., Western) values and practices. Governments see these attitudinal changes as being important and necessary in order to become a modern economy on par with established industrial powers.

This attitudinal change can particularly be seen when women work. Generally the phenomenon of women working leads to freer conduct for women and helps develop a more tolerant attitude toward change. Lorna Hawker Durrani points out
"that women gain, through working, a new realiza­tion of their own ability to support themselves... They must necessarily feel freer as a result of this possible independence." 

In addition, working also frees women and society in another way. It has the effect of raising the marriage age (the legal minimum in Tunisia is seventeen for women and twenty for men) because the girl, especially, no longer has to be an economic burden on her family. She can contribute to the family income (as can a boy) and earn money for her dowry. Raising the marriage age in turn helps reduce the reproductive years of a woman. Slowing population growth is a necessary goal for most Third World countries who already find it difficult to support their present populations. This in turn will eventually help the unemployment problem. Without the foreign companies, these girls would be unlikely to find employment in Tunisia.

An additional advantage to off-shore production and related methods is that it results in the development of an infrastructure as well as the actual manufacturing structures. The infrastructure is important for any subsequent development, for attracting new industries, and for tourism. The facilities can also be used for other purposes when they are no longer used by the original company. They can then become a basis for the development of indigenous industries.

Disadvantages

Probably the greatest disadvantage associated with the outward-looking growth/exploitative/off-shore production approach is the question of sustainability. This approach is based primarily on low-labor costs. These cannot last forever. In fact, wages were increased 22 percent in 1981
and 30 percent in 1982. The current Five Year Plan also calls for additional wage increases. Eventually, these industries will move to other countries where labor is cheaper. Tunisian owners could take over the operation, perhaps producing for the domestic market. If they want to produce for export (which, given the size of the Tunisian market, they would almost have to do), however, they will face the problems of access to the raw materials and the need for a sales and distribution network as well as the problem that their products will not be competitive (unless subsidized) with similar products produced in countries with lower wages. What then happens to the people formerly employed? How do they and the government compensate for their loss of salary?

Another side of the unemployment picture is the fact that women are the ones predominantly employed in off-shore industries. This occurs at the loss of jobs to men. (In 1981, with over 83,000 unemployed, over 70,000 were men.) This situation creates social distress because it upsets traditional roles within the family as well as within society. This in turn leads to poor attitudes toward women working and the changes that accompany that phenomenon.

In terms of employment, questions can also be asked about the working conditions of those employed in off-shore plants, which as previously mentioned are dismal. The people seem to feel the salary is worth the conditions. However, as we in the West are well aware, poor work conditions can have dire, long-term consequences for the health of employees.

One can also ask whether the government does not give away more than it gains with its incentive package. With the various incentives offered, it is hard to see how companies opening
an off-shore plant are liable for any taxation. The only obvious form of government revenue is through fees for work permits. Additionally, the government must employ customs inspectors to oversee the entry and departure (or destruction) of all goods used in the production processes to insure that they meet the requirements for duty-free entry. As Dimitri Germidis states, "Tunisia functions, for these enterprises, as a vast free zone." In some cases, the government must also sustain the cost of development of the infrastructure.

A political disadvantage of this approach to industrialization is having a foreign presence in the country and having the national economy tied to its operation, even if in a minor way. Such a situation is always a sensitive issue in recently independent countries, particularly if the foreign presence is that of a former colonial or neo-imperialist power. The government loses some control over the national economy. Even if the national economy were totally "Tunisian," the decisions and policies of the major industrial powers would still affect it.

Summary and Conclusion

Looking at the outward-looking growth/exploitative/off-shore production approach in terms of the goals expressed by the Tunisian government, it would seem to be a short-term solution to Tunisia's problems with long-term potential for harm and good. Both of the government's goals in choosing this approach have been accomplished. The approach has attracted labor-intensive, export-oriented industries to Tunisia. The approach's long-term potential for growth can be seen in the Asian countries that Tunisia likes to compare itself with (Hong Kong and Singapore). Its use in the more traditional
Third World countries of Africa and Latin America is too recent to adequately evaluate, although some countries associated with it, such as Brazil, are currently having economic difficulties. Tunisia too is having difficulties in the economically strained 1980s. Perhaps one of the limitations of this mixed development approach is that it requires a strong world economy. Another limitation is that it only works on a small level, and perhaps there are already too many practitioners (for while Tunisia has been apparently successful, its unemployment figures disguise the fact that it still exports numerous workers to other Middle Eastern and European countries).

Most of the arguments against off-shore production as a short-term strategy are primarily intangible, ethical questions, or hard-to-measure economic losses (in the form of tax revenues foregone, for example). Many of these objections have responses that are often just as difficult to measure. In general though, the benefits of Tunisia's combination strategy are more concrete and quantitatively measurable. The salaries, experience, and facilities provided help the people now and also offer a foundation for the later development of indigenous industries. The more intangible benefit of attitudinal change is also important for the country's future development since changing people's attitudes is generally the most difficult part of development. Looking at the government's goals, which have been achieved (although maybe not to the extent that the government would like) in using the off-shore production approach to developing the country's industry, Tunisia's leaders appear to have found a development path capable of taking their country from a traditional, agricultural orientation into the modern industrial world. Whether or not this approach prepares them adequately to cope with the problems that will accompany this
transition, however, gives cause for hesitation in totally supporting off-shore production as a means of development.
ENDNOTES


7 Ibid., p. 48.


9 Ibid., p. 168.


11 OECD, p. 33.

12 Ibid.
13 Ibid.


15 OECD, p. 49.

16 Ibid.

17 "Factories for the Third World, Tunisia" (New York: Icarias Films, date unknown).

18 OECD, p. 33.


20 Ibid., p. 44.


23 McLachlan, p. 43.

24 Ibid.


26 McLachlan, p. 43.

27 Ibid., p. 44.

28 Ibid., p. 45.
29 Ibid., p. 47.


31 Duwaji, p. 152.

32 Nehrt, p. 97.

33 Nelson, p. 129.

34 Nehrt, p. 94.

35 From the Economic Yearbook of Tunisia, quoted in Ghazi Duwaji, p. 159.

36 Germidis, p. 181.

37 Ibid., p. 182.


40 Duwaji, p. 155.

41 Ibid.

42 Ibid., p. 191.

43 Dinar conversions are based on the 1982 exchange rate of 1 dinar to $2. Franc conversions are based on the 1983 exchange rate of 1.3 francs to $1.

44 Andrews, p. 379.
45 Germidis, pp. 175, 179.
46 Ibid., p. 186.
47 U.S., Central Intelligence Agency, p. 231.
49 Ibid., p. 231.
51 Andrews, p. 379.
52 Ibid.
53 International Labour Office, p. 36.
54 Ibid., p. 299.
56 Ibid., p. 538.
57 "Factories for the Third World, Tunisia."
58 McLachlan, p. 43.
59 U.S., Department of State, p. 1.
60 Duwaji, p. 156.
61 Andrews, p. 376.
62 Nehrt, p. 73.
63 Germidis, p. 188.
64 Ibid., pp. 187-88.
65 Ibid., p. 189.
66 Nelson, p. 5.
67 "Factories for the Third World, Tunisia."


70 U.S., Department of Commerce, pp. 4, 8.

71 "Tunisia to U.S.: Match arms aid with more investment," p. 5.

72 "Factories for the Third World, Tunisia."

73 International Labour Office, p. 364.

74 Durrani, p. 70.
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