

Establishing Tunisia as a *caravanserai* on new African trade routes

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The Belt and Road Initiative: an introduction

With the goal of rebuilding the legendary Silk Road, China’s Belt and Road Initiative (BRI) has quickly become a reference instrument in international cooperation. Less legally binding than a free trade agreement, it is easier and faster to implement within the framework of bilateral agreements. Through it, China offers its partners assistance with infrastructure projects, conditioned on their reinforcement of the BRI’s global objectives. The instrument offers both tendering capacity and financing services, with optional project management in building, operating and/or transferring.

Over 100 countries have endorsed the initiative, including 38 in Africa. Presented as the largest project of the 21st century, it will interconnect Europe, Africa and America with Asia. The overall cost of the project is impossible to pin down but runs to several trillion dollars. The EU’s position regarding the BRI remains unclear, although member states including Greece, Italy and Malta have signed up with China.

The EU and cooperation with the Maghreb

Concerned by illegal immigration and increasing numbers of asylum-seekers, the EU is struggling to consider neighbourhood countries from any perspective other than one of security. Successive treaties signed since 1995¹ between the EU and North African countries have not generated the expected benefits to the latter.

Worse, unequal and conditional relationships between Europe and the Maghreb have hindered achievement of the goal of an integrated economic bloc in the Maghreb. This is thwarting implementation of the Comprehensive Free Trade Agreement, proposed since 2012 by the EU to individual Maghreb countries. This deal proposed by the EU to Maghreb partners includes total liberalization in exchange for a financial facility to modernize administration and engage institutional and regulatory reforms. It is facing issues in both Morocco and Tunisia, mainly in relation to agricultural policy and people’s mobility.

Moreover, the EU’s domination of regional trade has become an obstacle to further cooperation. In Tunisia, where the EU already accounts for more than 70 per cent of exports and 55 per cent of imports,² the question is, what will a deeper rapprochement bring, except more dependency?

China’s strategy to access distant markets

In the early 2000s, ‘Made in China’ became the dominant hallmark on manufactured products traded all around the world. This was the logical outcome of the gradual deployment of global value chains initiated from West to East some decades earlier, through economies of scale by means of mass production in low-cost countries.

Since then, China has not ceased to take advantage of technology transfers to consolidate its industrial capacity. As such, it now plays not only the role of the world’s workshop but increasingly that of technology

¹ The EuroMed Partnership, also known as the Barcelona Process.

² Analyse des échanges commerciaux de la Tunisie. Banque Centrale de Tunisie. Mai 2018
https://www.bct.gov.tn/bct/siteprod/documents/Commerce_Exterieur_20180331_fr.pdf

mastermind in global value chains. Huawei's recent performance in the telecoms sector illustrates the success of this strategy.

China has allocated important resources and prioritized an open doors policy to reach out to markets beyond its territories. Furthermore, it has relocated some of its industrial capacity outside its borders through special economic zones (SEZs), and offers to BRI members the option of co-production within the framework of the 'Made with China' partnership.

African countries, which at this stage contain very few of China's SEZs (fewer than 20 in the 2,500 overall), are showing more interest in turnkey installations and public-private partnership (PPP) projects to catch up in terms of infrastructure, such as deep-water ports, renewable energy power stations, hydraulic dams and railway lines. China is very active in the area of international tendering, with more than 9,000 PPP mandates for investments projects totalling \$1,970 billion worldwide.

Establishing Tunisia on the Silk Road

Given the geographical distance between them, China and the Maghreb have seen little precedent in terms of commercial partnership. Before the 1990s, in fact, China's presence in the region was negligible. Between 1992 and 2018, the total trade volume increased more than 50-fold, from about \$400 million to \$21,300 million.³ As for Tunisia, the total trade volume jumped from around \$45 million to \$1,600 million – and this impressive result was made possible without a free trade agreement, and using only the Suez Canal, with very expensive trans-shipment via Malta, as Tunisia does not have a deep-water port.

Nevertheless, the trade balance remains widely in favour of China. This could be an issue for a small economy like Tunisia's, where the commercial deficit in 2018 exceeded \$1,200 million.⁴ This is likely to create a sticking point in the bilateral cooperation, with some probable *ad hoc* restriction measures, as the Tunisian Minister of International Cooperation has announced.

Given the hectic transition process facing Tunisia since inception of the Jasmine Revolution, any strategic partnership should holistically address multiple socio-economic challenges, especially the need to boost growth (capped under 2 per cent since 2011),⁵ to attract more foreign investment, to stimulate employment opportunities for youth (over 15 per cent⁶ of the population is jobless), to improve public utilities and infrastructure, to reduce social gaps and regional disparities, to leverage foreign trades and to reduce the commercial balance deficit.

The Tunisian government's recent 'economic diplomacy' initiative is seriously considering docking with the Silk Road to access prospective sub-Saharan African markets. Tunisia joined the BRI in July 2018 and officially signed the memorandum of understanding in Beijing during the China-Arab states cooperation Forum. In the wake of this, China engaged in several projects, including construction of a dam, a wastewater station, a university hospital and a sports and cultural complex.

So far, China has only 30 companies operating in Tunisia, and the number of Tunisian companies based in China is probably lower. However, things are moving forward. In a bilateral summit held in Tunis in 2017, Tunisian private companies inked partnership agreements with Chinese firms worth a total of €425 million in commerce, technology and finance. The summit focused on exploring areas of economic and technological cooperation between the two countries.

³ 1992–2017 data from <http://comtrade.un.org/data/>, 2018 data from Chinese Customs.

⁴ <http://www.ins.nat.tn/fr/themes/commerce-ext%C3%A9rieur>

⁵ <https://fr.tradingeconomics.com/tunisia/indicators>

⁶ <https://fr.tradingeconomics.com/tunisia/indicators>

Increased trade volumes in Africa cannot emerge in the absence of a dynamic continental marketplace with aligned standards and regulations, clearly understandable by all stakeholders. Thanks to its position at the intersection of different blocs and its pacifist diplomacy, Tunisia has the legitimacy to set itself up as a regional relay point on the Africa–Mediterranean–Europe corridor.

This amounts to putting back into service the ancient concept of the *caravanserai*,⁷ which might even be an early version of a special economic zone. These settled trade agreements between crossed-over nations and those transiting, in order to guarantee the protection of merchants and their merchandise and to enable them access to local souks subject to some conditions and taxes on transactions.

Reanimation of the *caravanserai* concept for Tunisia, through inclusion of a digital dimension, will foster its integration into global value chains and give it the credibility to attract world-class tech companies. Meanwhile, the partnership with China will be decisive for Tunisia's trade with Common Market for Eastern and Southern Africa countries, most of which are also members of the BRI.

Technology as the 'silk weave' of the new order

Tunisia has embarked on a vast digitization plan with many partners, including China, and engaged in political reforms promoting economic openness, materialized in new laws on investment, PPPs and start-ups. The country aims to establish itself as a leading tech hub on the continent, so as to serve as a reference ecosystem for African innovators who are looking to develop their business models from Tunisia and to benefit from a stimulating environment with world-class services and a labour law adapted to the knowledge economy.

To illustrate this, we can imagine a digital start-up offering from Tunisia cutting-edge farming technologies (robots for harvesting, automated control systems for irrigation and pesticide treatment, etc.). Most African farmers cannot invest in such products without a bank loan; furthermore, acquiring technological solutions to improve productivity will not be enough to guarantee additional revenue. To justify the decision to invest, a farmer needs to be sure she or he will sell more, with a better margin and in a predictable way.

Africa cruelly lacks organized marketplaces, and its supply chains rarely perform well. In that regard, there is a burning need in developing effective trades logistics with small farmers acting in the African agri-food value chain. For instance, helping them to increase their competitiveness thanks to technology start-ups, able to install solutions in the field, so that to collect data, to provide warehousing and delivery services, to deal with payment and even risk hedging and sales for settlement – and not forgetting to facilitate brokerage to international marketplace.

This example shows the complexity of the deployment of a world class supply chain. It requires a strong partnership between public and private sectors, to engage a renewed model of a protected marketplace, i.e. *caravanserai* which did the performance and the prosperity of the ancient Silk Road supply chain.

In the case of the creation of a regional commodities exchange in Africa, the project represents a mega investment and calls for the adhesion of local and international partners and investors. This is an area where Tunisia and China have the chance to set up a win-win strategy to address African needs. On this vast loom, there are still many 'silk threads' to be woven.

⁷ This is a Persian word that means a roadside inn built to shelter people, goods and animals along the ancient Silk Road.