

The business climate in Tunisia and the future investment opportunities of Italian operators in the country.

Scalera Francesco¹
University of Bari (Italy)

Abstract

Tunisia has always presented ideal characteristics for Italian investors, thanks to its geographical proximity, local legislation to encourage investment and the very competitive cost of production factors. Tunisia represents a bridge for Italy on the Mediterranean, a natural production platform for Italian companies committed to diversifying their activities and penetrating new markets in the Maghreb, sub-Saharan Africa and the Gulf. The comparative advantages of Tunisia for our companies are constituted by the geographical proximity with important markets in Europe and Africa, the skilled workforce and the presence of competitive production chains with high added value (in particular for textiles, aeronautics, automotive, renewable energies and telecommunications).

Italy is Tunisia's second trading partner with bilateral trade in 2020 of around 4.5 billion euros (source ISTAT), and a positive balance. We are the second customer and the first supplier of Tunisia, with an export share of 13.4% in November 2021.

The study conducted considered the business climate of the country, starting from the analysis of macroeconomic data, focusing on the international economic development policies of the area, which could certainly represent an opportunity for the future development of Italian companies.

In particular, from the data collected from the questionnaire submitted to the main Italian operators in the area, their difficulty in doing business in recent years has emerged, highlighted by the SWOT analysis carried out aimed at representing a possible guide for avoiding the threats of the territory and seizing the most profitable for future Italian investments.

Keywords: Tunisia, Business Climate, Management, Investments, Firms.

1. INTRODUCTION

The war in Ukraine after the pandemic resulting from COVID-19 has created the need for companies in Western countries to seek a continuous reduction of production costs to preserve the levels of competitiveness achieved. This has led many international entrepreneurs to delocalise their production in economic contexts characterized by low labor and raw material costs, turning their gaze with interest to new emerging markets such as, in particular, the Maghreb area.

The Italian entrepreneurs who have strengthened their position in a highly attractive country such as Tunisia for the aforementioned reasons have not escaped this logic.

In particular, the development of renewable energies thanks to the undoubted economic advantages that Western companies have always benefited from in terms of energy costs, raw materials, tax breaks, etc.

In this regard, the project "Intensification of the adoption of electric mobility in Tunisia" was launched, which will be discussed in greater detail in the course of the discussion.

Tunisia certainly represents a possible springboard for the relaunch of Italian companies. In fact, the relationship of esteem between the two countries which has consolidated over the years and which has seen Italy as one of the main partners in support of the country's economy, has allowed the development of intense economic and commercial relations between the two countries, so much to make Italy the second customer and the first supplier of Tunisia.

The Italian economic presence in Tunisia is solid and dynamic, numbering around 800 companies (most of which are wholly exporting). The Italian companies installed in Tunisia (mixed, with Italian participation or with exclusively Italian capital) employ over 68,000 people and represent almost a third of all companies with foreign participation. The majority of Italian companies are concentrated in Greater Tunis and in the coastal regions. There is a high degree of integration among the Italian companies present in Tunisia. The consortium relations with the local industrial fabric are also intense. Our companies, despite the difficult context of recent years, have maintained their position in the Tunisian market. Italy is very present in the manufacturing sectors (especially textiles/clothing), energy, construction and major works, automotive components, banking, transport, mechanical, electrical, pharmaceutical, tourism and agri-food.

These important credentials were the starting point for directing research towards this interesting market, analyzing it first from a macroeconomic point of view and, subsequently, considering the results that the country is obtaining thanks to the economic policies adopted by the local government, which are influencing the entrepreneurial climate, to the point of making the country, in a moment of strong international crisis, an attractive development pole for foreign investments and in particular Italian ones (World Bank, 2010).

¹ Associate Professor in Strategy and Business Policy and International Management - Department of Economics and Finance - University of Bari "Aldo Moro", Italy; Address: P. Amedeo Street 160 - 70122, Bari; e-mail: roby_sca@virgilio.it Mobile:+39 335-7817952.

2. LITERATURE REVIEW

The Following the conflict in Ukraine which has worsened the economic scenarios of many countries, already undermined by the Covid-19 pandemic, there has been a spasmodic search by Western companies to reduce management costs through productive internationalization in the areas of countries in transition that could guarantee labor at competitive prices, capable of allowing them to conquer increasingly significant market shares in the markets of the Old Continent.

In detail, in the near future, European companies will be forced to increasingly outsource their production, on pain of survival (Mariotti and Mutinelli, 2003; Bertoli and Valdani, 2006).

In particular, this need has led to a synergy between the entrepreneurial and academic worlds, aimed at exploring new competitive markets in which to relocate the production process or set up a business branch (Dematté, Perretti and Marafioti, 2013).

The currently highly compromised international scenario implies that companies must deal with a decision-making process characterized by complexity, synthesis and probability (Miolo Vitali, 1993), necessary to allow them to create value for the customer.

In this sense, it becomes a priority to carefully evaluate the degree of attractiveness of the aforementioned countries, considering variables such as economic, technological, socio-cultural, physical-geographical, demographic, and so on (Douglas, Craig and Keegan, 1982), it becomes crucial for companies to establish, first of all, the right approach to develop, (strategic, naïf or pragmatic), (Root, 1994), identify the most appropriate entry strategies (Guerrilla, Encirclement, Leapfrog, Frontal Attack, Flanking attack), (Kotler, Fahey, Jatusripitak, 1987), as well as the methods of entry (direct and indirect export, international partnership, foreign direct investment), linked to the degree of risk that the entrepreneur intends to run in the competitive environment in which must operate (Vaccà, 1989; Porter, 1993; Cuomo, 1995;; Ferrucci, 2000; Wolff and Pett, 2000 Albaum, Strandskov, Duerr and Dowd, 2005; Invernizzi, 2014).

3. RESEARCH METHOD

In detail, this study was divided into three parts.

The first, of a descriptive nature, highlighted, after a brief description of the country's economic situation, the degree of attractiveness of Tunisia for international entrepreneurs, through the analysis of macroeconomic indicators supported by indices of Global Competitiveness, openness to international trade and of facilitation in the creation of entrepreneurial start-ups.

Subsequently, the focus was on the economic policies implemented by the local government, to evaluate the possible competitive advantage deriving from the location of Italian companies in the area.

The second and third moments of the research followed each other chronologically, both being of a quantitative nature.

In detail, the survey, launched in March 2022, was carried out through a questionnaire sent to a sample of 70 companies and drawn up by Italian entrepreneurs, managing directors, marketing managers operating in the aforementioned countries, to understand the characteristics of their internationalization process.

The investigation, which ended in November 2022, highlighted the reasons that prompted Italian companies to operate in Tunisia and the main operating practices.

The last phase of the research, which lasted four months starting from November 2022, was based on a survey consisting of an interview with experts from the various companies which allowed them to collect their testimonials with the aim of identifying the main problems to be solved in the company start-up phase in Algeria.

In particular, 12 problems were identified that represent a potential barrier to starting a business. Each interviewee highlighted the four main topics (giving a score ranging from 1 for the least important to 4 for the most important). Subsequently, they were summarized in a separate table whose answers were weighted according to their position in the general ranking.

A thirteenth item labeled with the word "others" contains all other less significant problems.

The collected data made it possible to carry out a summary SWOT analysis that highlights the main characteristics that allow the country's competitive scenario to be highlighted, thus allowing for some conclusive reflections on the possible evolution of the region in the international competitive landscape, as well as on future prospects for pursuing a competitive advantage of Italian companies.

In particular, 12 problems were identified that represent a potential obstacle to starting a business. Each interviewee highlighted the four main themes (given a score ranging from 1 for the least important to 4 for the most important), subsequently summarized in a separate table in which the answers were weighted according to their position in the general ranking. A thirteenth item named with the word "others" contains all the other less significant problems.

Finally, the data collected made it possible to draw up a summary SWOT analysis that highlights the main characteristics that allow to highlight the competitive scenario of the country, thus allowing some final reflections on the possible evolution of the region in the international competitive landscape, as well as on future prospects to pursue a competitive advantage of Italian companies.

4. THE MACROECONOMIC INDICATORS AND OTHER INDEXES

An analysis of the data collected relating to the macroeconomic framework shows a worsening of all indicators such as GDP, unemployment rate, public debt and inflation due to the pandemic which has also heavily undermined this developing economy. (Table 1).

TABLE 1 - Macroeconomic Indicators Year 2018-2023
Source: Elaboration of EIU, IMF, ONS (Office National des Statistiques Tunisien) data

Country	Real GDP Variat. (%)	Unemployment	Public Debt (GDP%)	Inflation
Tunisia 2018	2.6	15.4	72.8	7.5
Tunisia 2023	1.8	15.0	80.2	8.6

This work aimed to analyze in addition to the macroeconomic data previously commented also the values of other indices that can provide useful information to those entrepreneurs who intend to evaluate the possibility of starting their own production activity in Tunisia. In particular, with reference to the Global Competitiveness Index with reference to the last three years, a substantial stability of the country's position in the ranking can be noted. To deepen the analysis, it is possible to disaggregate this result into three groups of factors: the basic requirements (Institutions, Infrastructures, Macroeconomic Environment, Health and Education), the factors that stimulate efficiency (Higher Education and Vocational Training, goods and labor market efficiency, development of the financial market, diffusion of technology and market size) and finally the factors of innovation and sophistication (development of the production context and innovation).

In particular, the group of factors that highlights the greatest improvement is the second, relating to the factors that stimulate efficiency and allow Tunisia to improve its position in the ranking of the countries examined, from 95th place in 2017 to 87th place in 2019 (Table 2).

TABLE 2 - Global Competitiveness Index
Source: Elaboration of World Economic Forum data

Country	2017 Value (0-100)	2017 Pos. on 137 countries	2018 Value (0-100)	2018 Pos. on 140 countries	2019 Value (0-100)	2019 Pos. on 140 countries
GCI Tunisia	3.9	95	55.6	87	56.41	87

It should be noted that another index that risks influencing the strategic choices of international investors is that of economic freedom including the following indicators: Business Freedom, Trade Freedom, Monetary Freedom, Government Size/Spending, Fiscal Freedom, Property Rights, Investment Freedom, Financial Freedom, Freedom from Corruption. The data show that Tunisia has not improved its 125th place over the past 3 years, while developing several interesting reforms that should pay off in the coming years in terms of foreign direct investment in the country (Table 3).

TABLE 3 - Economic Freedom Index.
Source: Elaboration of The Heritage Foundation data

Country	2017 Value (0 to 100)	2017 Pos. on 186 countries	2018 Value (0 to 100)	2018 Pos. on 186 countries	2019 Value (0 to 100)	2019 Pos. on 186 countries
ETI Tunisia	55.7	123	55.4	125	55.4	125

The situation of the Tunisian economic scenario is satisfactory compared to the world panorama, placing the country in 78th place in the Doing Business ranking out of the 190 economies examined in 2020.

The startup launch index in the country is certainly very significant for the development of domestic and foreign entrepreneurship in the country, placing the country in the top 20 at 19th place to be exact in 2020 from 63rd place in 2019.

The ease of building permits also goes in this direction, which sees the country climbing positions from 77th place in 2019 to 32nd place in 2020 (Table 4).

TABLE 4 - Doing Business Index - Starting a Business 2019-2020.
Source: Elaboration of World Bank data

Index	Tunisia - 2019	Tunisia - 2020
	Pos. on 190 countries	Pos. on 190 countries
Position in the global ranking	80	78
Starting a Business (Pos. ranking)	63	19
Building permits (Pos. ranking)	77	32

5. TUNISIAN FOREIGN POLICY

After Tunisian foreign policy has long been based on the strategic choice of partnership with the European Union, mediation in regional crises and the promotion of North African integration.

Tunisia aims at the continuous development and strengthening of relations with the EU, its main trading partner, directing about 75% of exports to the European market and from which it obtains approximately 55% of total imports.

In recent years there have been signs of greater Tunisian dynamism in foreign policy, starting with the request for a reshaping of relations with the European Union and the strengthening of its presence in the regional arena, with particular regard to relations with Turkey and the of the Gulf.

Due to its geographical position, Tunisia is actively engaged in sub-regional integration, in particular within the framework of the Arab Maghreb Union (AMU), not only for security reasons, but also as a prerequisite for a more effective and deep cooperation with the EU. The integration of the Maghreb would have significant economic consequences, such as the launch of large infrastructure projects, which could constitute a further stimulus to economic growth and the development of foreign investments.

Over the past few years, Tunisia has become a member of the Common Market for Eastern and Southern Africa (COMESA). This initiative aims to boost exports to African markets and make Tunisia a regional hub, a real "gateway to Africa". The market is promising and has allowed Tunisia to start exporting to countries where it was essentially absent before.

The agreement reached tends to eliminate tariff barriers in all sectors and offers an interesting opportunity for Italian entrepreneurs who want to produce in the country: with 35% of added value produced locally, in fact, it is then possible to export to COMESA countries in the absence of tariff barriers.

Other wide-ranging international initiatives are represented by the country's affiliation to the League of Arab States, in addition to the signing of the "Programme of individual partnership and cooperation" with NATO.

The attractiveness of the country towards foreign investors has been strengthened with the agreement between the Tunisian Investment Authority (TIA) and the European Bank for Reconstruction and Development (EBRD) which have launched a national digital investment platform through a dedicated digital counter to improve the investment climate in Tunisia.

In particular, the desk will make it possible to provide fully automated digital services aimed at improving the investor experience, as well as attracting foreign direct investment and creating jobs. The services will follow the investor's entire journey, from the investment declaration to the granting of the authorization and subsequent assistance.

To facilitate the work of investors, a special interactive digital guide has been created for investors, which simplifies access to information, opportunities and incentives.

To support the improvement of the Tunisian business climate, the Bank has also provided technical assistance to the National Strategic Investment Council, hosted by the TIA, to stimulate public-private dialogue by proposing policies and reforms to promote the development of the private sector.

In this regard, several recommendations resulting from this council were approved by the Tunisian government, including the reform of the licensing regime to make it more investor-friendly and a convergence roadmap aimed at unifying the investment ecosystem.

To reduce the unemployment rate in the country and ensure a qualified workforce for international investors, especially in the engineering sector which is extremely in demand due to the numerous infrastructural works that will be developed in the country in the coming years, the Tunisian Center of Excellence has officially come into operation for industrial maintenance in the southern Mediterranean, in the framework of a tripartite cooperation between four Tunisian universities, the Chamber of Commerce and Industry of Tunis and the European Erasmus+ programme. The "Tunisian Center of Excellence for Southern Mediterranean Maintenance", the first of its kind in Tunisia, is being implemented by a consortium of 11 partners from Tunisia, Spain, Belgium, France, Romania and Sweden.

The main objective of the project is to modernize and revitalize the maintenance engineering education and training system, thus improving the efficiency and competitiveness of the Tunisian industry and facilitating the integration of young graduates. The pole of excellence will promote the development of a skilled workforce and the necessary skills for national companies but also for international companies that could establish themselves in Tunisia. Modern laboratories have been installed in this centre, for the benefit of the universities involved, Sfax, Carthage, Jendouba and Gabes. A professional master's degree in "Maintenance Engineering" was created in the four partner universities.

The country is also very attentive to green policy, so much so that it has launched the project "Intensification of the adoption of electric mobility in Tunisia" in Tunis thanks to the initiative financed by the Global Fund for the Environment, and supervised by the Ministry of the Environment and by the National Energy Management Agency in collaboration with the United Nations Industry Organization, and which aims to broaden the scope of the adoption of electric mobility in Tunisia through innovation and technology transfer with a cost total of approximately \$13 million, for an implementation period from May 1, 2022 to April 30, 2027.

The ambitious goal is to reach 5,000 electric cars by 2025. As part of this initiative, an ecological bonus of 10,000 dinars will be implemented to encourage the adoption of these vehicles.

Furthermore, to date, 60 charging stations have been installed in various locations across the country and a program is planned for the installation of charging stations in supermarket car parks, which will offer electric car owners a practical solution for recharging their vehicles. while shopping.

6. THE PROBLEMS HINDERING THE STRATEGIC DEVELOPMENT OF COMPANIES IN TUNISIA

From what has been analyzed so far it would seem that the economic policies of the Tunisian government seem to be aimed at improving the business climate in the country, which should favor a greater positioning of Italian companies on the territory.

The research thus wanted to highlight at this point, the major criticalities that Italian companies already operating in the area have had to overcome to start a business, in order to represent a small guide for new investors. To achieve this purpose, as previously highlighted, the last phase of the investigation, which began in November 2022 and lasted four months, involved the development of a questionnaire focused on 12 possible problems representing obstacles not only for the start of enterprise, but also for its subsequent development. For the survey, a questionnaire was submitted to a significant sample, that is to 70 Italian companies operating in different sectors and representing about half of those operating in the area. The research sought to achieve knowledge of the real environmental and competitive context with which Italian companies should compete in order to obtain satisfactory competitive advantages.

The 2023 results were compared with those of 2018 pre Covid-19 and are shown below in Table 5.

They show how despite a reduction in bureaucracy this is still high. The increase in the level of corruption and the inadequacy of the structures, as well as the high rate of inflation which has affected all countries due to the war in Ukraine, represent the main obstacles to the development of foreign investments in the country.

Specifically, the managers contacted were asked to indicate, in the list provided, the four issues that, in their opinion, represented a real obstacle to the development of their business in these countries (assigning a score of 1, the most important to 4). The results reported show that the reduction of bureaucracy, quick access to financing that guarantee the business start-up and the fight against it are still the most serious obstacles to be quickly minimized in order to encourage direct and foreign investments particular of our companies.

TABLE 5 - Factors Hindering the Business in the Tunisia Country.

Source: Personal Elaboration

Tunisia	2017-2018	2022-2023
Factors	(%)	(%)
Corruption	11.7	13.2
Inefficient state bureaucracy	18.1	14.3
Access to funding	6.4	4.8
Inadequate infrastructure	4.9	7.5
Inflation	7.5	8.6
Unskilled labour	5.7	6.1
Tax rates	5.9	6.8
Tax regulations	5	6.3
Political instability	13.8	9.1
Poor ethical sensitivity by the local labour	4	3.8
Insufficient talent for innovation	4.7	5.8
Regulations on foreign currency	5.9	4.2
Others	6.4	9.5

7. CONCLUSIONS

In a competitive scenario characterized by the high volatility of the markets and by the increase in raw materials due to the frighteningly high inflation due to the war in Ukraine, the countries of the "old continent" had to look for, in order to preserve their competitiveness, areas of investment outside the national borders which have allowed a clear reduction in management costs.

In particular, in the Italian national market which is struggling to recover after the pandemic and with the war between Ukraine and Russia still far from over, there are many operators who are evaluating the hypothesis of more profitable alternative investments in countries characterized by a good Business Climate and which offer, with measures aimed at developing entrepreneurial start-ups, greater attractiveness for developing your business idea beyond national borders.

The attention of international operators was focused, in particular, on the Maghreb area which sees Tunisia as a reliable partner for development in the area of Italian companies.

In fact, in this sense, the leadership of the Tunisian government is increasingly legislating legislation aimed at creating bureaucratic and financial facilities for start-ups, which together with the geographical proximity to our country

and the excellent bilateral relations between the two nations, allows to look to the near future with confidence and to give our companies the opportunity to develop investments in the country.

The observations reported above are the result of the analysis of the data processed not only from secondary sources, but also from the questionnaire submitted to the operators of the Italian companies involved, with particular reference to the main problems encountered in the development of their business in the country.

This allowed the development and drafting of the SWOT analysis, which highlighted the main factors of attraction of these economies and the elements that political reforms should improve, as well as the opportunities that entrepreneurs should seize to develop their business and the possible threats that can compromise the penetration of companies in these markets (Table 6).

The analysis carried out shows that for Italian entrepreneurs who intend to invest in the country, it is advisable to develop an approach similar to that already adopted in the other countries of the Maghreb area, such as Algeria and Morocco, namely the polycentric one, which allows the decentralization of activities of the value chain in the country, and instead centralize the management of financial activities of human resources and research and development in the country of origin (Scalera, 2019).

Lastly, the heterogeneity of the governance of Italian companies operating in the Tunisian territory emerged from the analysis conducted.

It was revealed by the replies to the questionnaire submitted to sector operators, such as in companies that have adopted the Latin model (typical of small companies in the South, where the figure of the entrepreneur predominates, power is concentrated in family members, risk orientation is practically non-existent and the available capital is often limited) entrepreneurs have mostly marketed their products, minimizing the entrepreneurial risk by not going beyond export (Di Cagno, Adamo and Giaccari, 2013).

On the contrary, the companies of Central-Northern Italy close to an Anglo-Saxon or German governance model (characterized by large companies, with power shared among several shareholders and with large assets, managed by a capable and prepared management and with an objective represented by profit) have opted for the opening of branches or with foreign direct investments in this market which would appear to be one of those with a high development potential and with the most attractive profit margins in which Italian companies could invest in this difficult period for the whole world due to the serious international crisis characterized by the war in Ukraine.

TABLE 6 - Personal elaboration Algeria Country SWOT Analysis.
Source: Personal Elaboration

<p>STRENGTHS</p> <ul style="list-style-type: none"> - Competitive cost of inputs and labour - Proximity to Italy - Free access to the European Union market - Easy approach to contiguous markets - Investment-friendly legislation. 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> - Corruption - State bureaucracy - Inadequacy of infrastructure
<p>OPPORTUNITIES</p> <p>Where to invest</p> <ul style="list-style-type: none"> - Textile products - Electricity, gas, steam and air conditioning - Products of agriculture, fishing and forestry - Products from mines and quarries - Transportation and storage <p>What to sell</p> <ul style="list-style-type: none"> - Textile products - Products of agriculture, fishing and forestry - Products of other manufacturing industries - Electrical appliances and non-household electric appliances 	<p>THREATS</p> <ul style="list-style-type: none"> - Union activities (operating risks) - Economic transition underway - Domestic political stability (Political risks)

REFERENCES

- Albaum, G., Strandskov, J., Duerr, E. and Dowd, L. (2005). "International Marketing and Export Management", Addison Wesley, II ed.
- Bertoli, G. and Valdani, E. (2006). "International Markets and Marketing", Milan: Egea.
- Cuomo, G. (1995). "*Distribution Channel*"s, edited by Valdani E., Marketing, 5th vol. of The Business Encyclopaedia, Turin: Utet.
- Dematté, C., Perretti, F. and Marafioti, E. (2013). "*Internationalisation Strategise*", Milan: Egea.
- Di Cagno, N., Adamo, S. and Giaccari, F. (2013). "*Outlines of Business Economics*", Bari: Cacucci Editore, II Edition.
- Douglas, S.P., Craig, C.S. and Keegan, W.J. (1982). "Approaches to Assessing International Marketing Opportunities for Small and Medium-Sized Business", *Columbia Journal of World Business*, Fall.
- Ferrucci, L. (2000). "*Competitive Strategies and the Business Growth Process*", Milan: Franco Angeli..
- Invernizzi, G. (2014). "*Competitive Strategies*", Milan: McGraw Hill Education.
- Kotler, P., Fahey, L. and Jatusripitak, S. (1987). "*The New Competition*", Prentice Hall. 1985. (trad. It. Judo Marketing), Milan: Ipsoa.
- Mariotti, S. and Mutinelli, M. (2003). "*International Growth for SMEs*", Milan: Il Sole 24Ore. Miolo Vitali, P. (1993). "*The Corporate Decision-Making System*", Turin: Giappichelli Editore.
- Porter, M. (1993). "*The Competitive Advantage*", Milan: Di Comunità Edizioni, IV Edition.
- Root, F.R. (1994). "*Entry Strategies for International Markets*", Lexington, Lexington Books, II ed.
- Scalera, F. (2019). The Maghreb Area Development. Threats and Opportunities for Italian Companies' Investment Strategies. *International Journal of Business Research and Management (IJBRM)*, vol. 10, no. 4.
- Vaccà, S. (1989). "*Science and Technology in the Business Economy*", Milan: Franco Angeli.
- Wolff, J.A. and Pett, T.L. (2000). "Internationalisation of Small Firms: An Examination of Export Competitive Patterns. Firm Size and Export Performance", *Journal Of Small Business Management*, vol. 38, pp. 34-47.
- World Bank. (2010). "*Economic Integration in the Mashreq, and Economic Integration in the Maghreb*", Washington, October.

**To Lucy,
thank you forever.**