

Improving the Competitiveness of the Tourism Cluster in Tunisia

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MICROECONOMICS OF COMPETITIVENESS

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Table of Contents

TABLE OF CONTENTS	2
PART I: NATIONAL ANALYSIS	3
I- BRIEF LOOK AT HISTORY.....	3
II- MACROECONOMIC COMPETITIVENESS	4
1. <i>Overview</i>	4
2. <i>Macro competitiveness indicators</i>	6
III- MICROECONOMIC COMPETITIVENESS: THE DIAMOND ANALYSIS	6
1. <i>Factor Conditions</i>	6
2. <i>Related and Supporting Industries</i>	8
3. <i>Demand Conditions</i>	8
4. <i>Context for Strategy and Rivalry</i>	9
IV- NATIONAL VALUE PROPOSITION AND STRATEGIC POSITIONING	10
V- NATIONAL RECOMMENDATIONS	11
PART II: CLUSTER	12
II- CLUSTER DIAMOND ANALYSIS	12
1. <i>Factor Conditions</i>	12
2. <i>Demand conditions</i>	13
3. <i>Related and Supporting Industries</i>	16
4. <i>Context for Strategy and Rivalry</i>	18
III- STRATEGIC POSITIONING OF THE CLUSTER.....	20
IV- CLUSTER RECOMMENDATIONS.....	23
ANNEX	24
INTERVIEWS.....	24
FIGURES AND TABLES	25
BIBLIOGRAPHY	33

PART I: National Analysis

I- Brief Look at History

Tunisia is the northernmost country in Africa. Unlike its two neighbors, Algeria to the West and Libya to the East, it is a small country in the Arab Maghreb with an estimated population of around 10.7 million. However, despite its smaller size and shortage of natural resources, Tunisia displays a very strategic location (figure 1), a stable economy, and an evolving political system that is setting a trend in the modern Arab world.

The capital, Tunis, takes great pride in its Punic ancestor Carthage. Capital of Phoenician trade in the Mediterranean, and its most important city-state for centuries, Carthage was a valuable prize that every

Mediterranean civilization tried to capture. As a result, the country accumulates today an incredibly rich archeological patrimony. Tunisians remain however particularly proud of their Phoenician heritage, the ancient world's leading trade civilization, and see in Carthage a distinguishing seal that bears witness to their rooted entrepreneurial spirit.

Tunisia passed under French protectorate in 1881 and was led by Habib Bourguiba to its independence in 1956. Elected as its first president, Bourguiba established the foundations of a civic state with the most advanced level of gender equality in the Arab world. He remained in

Exhibit 1: Tunisia's Location



power until 1987 when Zine El Abidine Ben Ali took over his presidency. While averaging 5% GDP growth since the early 1990s, Tunisia suffered from severe corruption at the highest levels of power, a constant high rate of youth unemployment, and a quelling political oppression.

The Jasmine revolution in January 2011 brought down the authoritarian regime, and the country forward into a new phase with immediate challenges: drafting a new democratic constitution, establishing the rule of law and eliminating corruption; but also: defining Tunisia's new strategic position and achieving economic prosperity.

Finally, unlike many of its neighbors, Tunisia has very solid institutions and an established public administration. It is worth noting that during the volatile months that followed the 30-year-old regime, the country and its institutions kept on running without disruption. Having an ethnically and religiously homogeneous population with scarce radicalism, Tunisians have developed a sense of statehood that seems to underpin their country's relative stability despite the challenging transition to democracy.

The MOC framework divides sources of competitiveness into endowments, macroeconomic, and microeconomic factors. Having briefly gone over Tunisia's endowments above, the following two sections will analyze its macro and microeconomic competitiveness.

II- Macroeconomic Competitiveness

1. Overview

Tunisia's average growth has surpassed that of Egypt, Morocco, Turkey, or Jordan (exhibit 1). In 2010, Tunisia's economy comprised 55% of GDP in Services, 35% in Agriculture and 11% in

Industry (World Development Indicators data – WDI). Tourism represented 6.5% of GDP. Studies show that the economy of Tunisia is as diverse as Egypt's despite having 1/6th of the latter's population size¹.

In terms of fiscal and monetary policy, under Ben Ali the budget deficits were restricted to 3%, current account volatility was contained, the Tunisian Central Bank kept inflation under control with interest rates rarely adjusted, and the Tunisian Dinar (TD) was consistently undervalued against the euro to keep Tunisian exports competitive (exhibit 2). In addition, government debt has been kept low to 43% of GDP - lower than all comparator countries (exhibit 3).

The result is an export-led economy (with 74% of products going to Europe) considered to have good overall macroeconomics, which has inspired high investor confidence and FDI inflows (exhibit 4), as well as the highest S&P investment rating given to any Maghreb country (BBB+).

Yet, beneath the surface of this rosy overall picture one finds two major shortfalls that ended up being important factors behind the Jasmine revolution and the fall of the regime:

- Under Ben Ali, Tunisia suffered from high income-disparity, with a poverty headcount at 18% of population, ranging from 7% in Greater Tunis to 30% in the Midwest.
- Perhaps the most chronic ailment of the Tunisian economy has been its resilient high unemployment (around 14%) over the past decade. In fact, a detailed look reveals that unemployment amongst the educated youth (university graduates) has been increasing dramatically reaching an average 20% in 2010 (exhibit 5).

In response to these challenges, the post-revolution government committed to expansionary fiscal policy, targeting unemployment while keeping a close eye on inflation. Whereas it is too

¹ Structural transformation in Egypt, Morocco and Tunisia: A comparison with China, South Korea and Thailand; Ricardo Hausmann and Sebastián Bustos, 2011

soon to judge the effects of these actions, one thing is certain: while Tunisia faces serious unemployment and income disparity, it remains one of the healthiest economies in the region from a macroeconomics perspective.

2. Macro competitiveness indicators

Tunisia occupied the 40th place on the Global Competitiveness Index (GCI) in 2010 ranking second to Spain (36th place) but ahead of all other comparable countries (see exhibit 6). Tunisia's GCI ranking dropped considerably by 8 places in 2010 (Egypt's dropped by 13). The drop reflects higher uncertainty in both countries during the early transition process mainly driven by heightened public awareness of persisting structural weaknesses.

Tunisia ranks 46th on the Ease of Doing Business indicator, right behind Spain (44th) but ahead of the rest of comparable countries. However, Tunisia lags behind on two indicators: business tax burden and enforcement of legal rights (exhibit 7). This is mainly due to conspicuous corruption at the highest level of decision-making.

III- Microeconomic Competitiveness: The Diamond Analysis

The Diamond Analysis leads to a clear conclusion: Tunisia exhibits great potential that remains locked because of overbearing state intervention and corruption that stifle the private sector.

1. Factor Conditions

a) Infrastructure

Tunisia has relatively good general transportation infrastructure (exhibit 8), with good road and railway networks even in comparison with Spain and Italy. Tunisia also has seven commercial ports that can handle any kind of freight quickly, inexpensively and safely. It also has nine

international airports with a 19 million-passenger capacity. The main deficits in terms of infrastructure are twofold: poor inner-city public transport networks with little user-friendly information (and none online); and very restrictive air regulations (exhibit 9).

b) Education

Tunisia has a highly educated population (ranking 11th globally in higher education²) but it suffers from a chronic mismatch between supply and demand of labor. Further, most interviewed stakeholders converge that education curricula do not encourage entrepreneurship or innovation. Until now, the state provided the main venues for high-skilled graduates (in civil service or state-owned enterprises) though these are now saturated. Although the majority of firms in Tunisia are private, they are also small, provide less than five jobs, and don't require educated labor. As a result, Tunisian university graduates today remain unemployed for 2.4 years.³

c) Internet and Computer Technology (ICT)

Though the number of Internet users exploded over the past few years (exhibit 10), e-commerce in Tunisia is extremely underdeveloped due to heavy regulations on online payment methods.

d) Financial Markets

Tunisia maintained an S&P BBB+ grade throughout the 2000s and has good access to international financial markets with high foreign direct investment (exhibit 11). However, local Tunisian banks are saddled with non-performing loans (exhibit 12) resulting from corrupt state intervention⁴, which leaves SMEs squeezed out of financing. In an attempt to address this issue,

² The Global Competitiveness Report 2007, released by The World Economic Forum

³ AfDB report, Carnegie Papers, DYNAMIQUE DE L'EMPLOI ET ADÉQUATION DE LA FORMATION PARMI LES DIPLÔMÉS UNIVERSITAIRES RÉPUBLIQUE

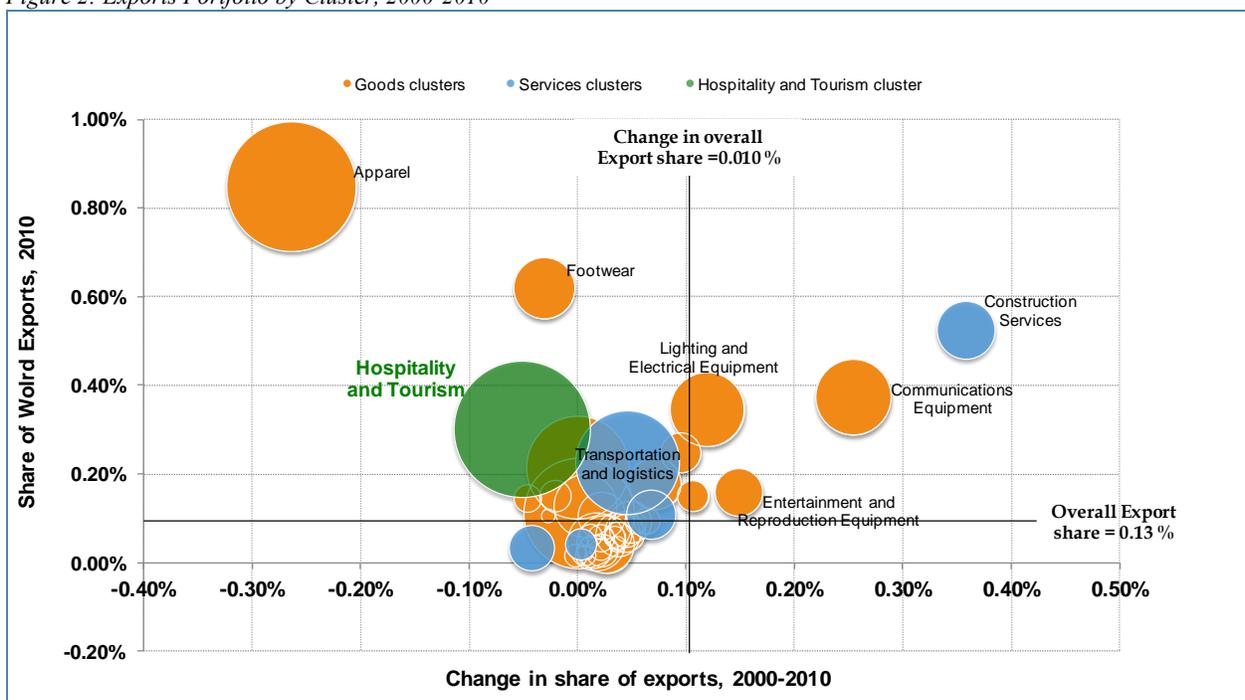
⁴ Ben Ali channeled funding through corrupt practices to large corporations in which he, his wife and his allies had a stake – The Carnegie Papers: Tunisia's Economic Challenges by Lahcen Achy December 2011

the current government launched a large generational fund (the “Ajyal Fund”) that will only invest in projects that meet private sector investment criteria.

2. Related and Supporting Industries

By looking at the breakdown of clusters in the Tunisian economy and its exports portfolio (figure 2 below), we see that tourism, textiles and apparel occupy the biggest share of exports in Tunisia. However, growth in these clusters is stagnant at best. Tourism and Apparel, Tunisia’s two most important clusters are actually regressing in terms of share of the global market.

Figure 2: Exports Portfolio by Cluster, 2000-2010



Source: GCI – Institute for Microeconomic Competitiveness

3. Demand Conditions

While the World Economic Forum (WEF) evaluates Tunisia’s demand conditions as better than some European countries’, and the Global Competitiveness Project ranks the quality of demand conditions for Tunisia ahead of all comparable countries (exhibit 13), there is reason to believe

that this assessment should be more nuanced. Though Tunisian offshore industries face a sophisticated European demand (exhibit 14), these firms cannot sell locally and are subject to a different tax code. The resulting protectionism of local industries stifles competitiveness and local demand conditions.

4. Context for Strategy and Rivalry

Our analysis suggests that the government's over-regulation, its central planning approach, and its corruption are the main obstacles for competitiveness in Tunisia:

- While certain regulations in Tunisia improve Demand Conditions (such as the protection of the environment), many cripple the economy in key sectors (like online payment regulations).
- The state's central planning approach to the economy (through subsidies, incentives and state agencies) severely distorted the feedback loop of the marketplace and invited many incompetent entrepreneurs to take risks on taxpayers' expense (this is especially true in Tourism).
- Finally, Ben Ali's regime used to forcefully expropriate successful local firms, pushing many entrepreneurs to remain discrete and control their growth. This explains why despite the fact that most Tunisians consider starting a business a desirable career choice according to the Global Entrepreneurship Monitor Report (2011, GEM Consortium), Tunisia trails across the same pool of comparator countries in terms of start-ups and new enterprises (see exhibit 15).

Finally, most Institutions for Competitiveness (IFC) were controlled by the state apparatus who indirectly appointed the members of their boards. Dysfunctional IFCs result in the lack of constructive communication between the public and private sectors, let alone the absence of collective efforts by the private sector to improve the competitiveness of the clusters.

IV- National value proposition and strategic positioning

Our analysis reveals that while Tunisia's competitiveness suffers from flaws on each of the three levels that determine it (endowment, macroeconomics, and microeconomics), it is generally in a good position to make a significant economic leap forward if it plays its cards well.

Indeed, Tunisia enjoys a very strategic location (Central in North Africa, closest to Europe); it has a rich and diverse endowment (climate, geography, and heritage); it has modern civic-laws and strong institutions that promise to survive the current instability; it has relatively good demand and factor conditions (education, infrastructure, and finance); and it enjoys good macroeconomic health (despite two structural challenges: inequality and youth unemployment).

Stifled for too long by an overbearing and corrupt regime, Tunisia seems finally ready to surge.

To tackle its challenges and achieve its great potential, Tunisia must start by repositioning itself.

The country's current national value proposition focuses on its 'comparative' rather than 'competitive' advantage, touting itself as "Europe's cheap offshore unit." This is neither empowering nor sustainable (as the standards of living start to rise).

Instead, Tunisia, must harness the political change it is witnessing to reposition itself as the Service Hub of the Mediterranean (financial, medical, logistic and business services). By doing so, Tunisia would not only diversify and upgrade its industry, but also revive its historic role in the south Mediterranean.

V- National Recommendations

National Diamond	Challenges	High-Level Recommendations	Responsible Actors
Factor Conditions	A. Underdeveloped & struggling financial market	A.1 Restructure non-performing loans to recapitalize domestic banks	A. Central Bank
	B. Stifled entrepreneurship	B.1. Fund (Ajyal) & channeling foreign investment to SMEs B.2. Change curricula to encourage critical thinking & entrepreneurship	B.1. Min. of Fin, FIPA B.2. Min. of Ed
	C. Mismatch between Labor supply & demand	C.1. Adapt higher & vocational education curricula to the market needs C.2. Target & attract sophisticated industries, harnessing existing clusters (electronics, apparel, petrochemicals) to employ qualified labor	C.1. Min. of Higher Ed., Min. of Voc. Train. C.2. Min. of Industry, Clusters' IFCs
	D. Low R&D Spending	D.1. Improve lower education curricula in math, reading & science D.2. Create fund that co-sponsors R&D by private institution & IFCs	D.1. Min. of Ed D.2. Min. of Higher Ed. & Scient. Rsrch, IFCs
Demand Conditions	A. Sub-optimal capitalization on sophisticated demand	A.1. Raise quality standards on the touristic product A.2. Increase competition by : <ul style="list-style-type: none"> • relaxing restrictions on participation of offshore companies in local economy • lowering protectionist taxes on these offshore companies 	A.1. Min. of Industry A.2. <ul style="list-style-type: none"> • Min. of Industry • Min. of Finance
	Related & Supporting Industries	A. Diversification opportunities within reach but remain untapped B. Clusters are losing their market share	A.1. Capitalize on Tunisia's institutions, modernity & location to host headquarters of international companies & institutions for Africa A.2. Restructure & liberalize further the banking sector B.1. Conduct an analysis on declining clusters & determine how to improve competitiveness of strategic clusters
Context for Strategy & Rivalry	A. Heavy-handed central planning approach	A.1 Implement anti-trust policies to regulate uncompetitive behavior. Abstain from picking winners but let the markets decide.	A. Min. of Industry
	B. Rigid e-regulations	B.1 Eliminate e-payment restrictions	B. Min. of Finance
	C. Corruption	C.1 Prioritize fight against corruption, increase transparency	C. Govrnmt, CSOs
	D. Weak linkages between offshore & local firms slow competitiveness	D.1. Reduce barriers & transaction costs of interaction between local & offshore firms. Incentivize backward linkages. D.2. Reduce the excessive tax burden and improve general fiscal context for domestic industries	D.1. Min. of Finance D.2. Min. of Finance
	E. Ineffective IFCs	E.1. Reduce government capture of IFCs and promote transparency in the governance of IFCs	E. PPP, IFCs

PART II: CLUSTER

II- Cluster Diamond Analysis

1. Factor Conditions

Building on the analysis on national level, we chose to focus on the most significant feature of the factor conditions: the underutilization of urban infrastructures.

a) Medinas and cities

Urban public space (pedestrian streets, squares) and building facades in old cities represent an infrastructure that can be exploited to turn old medinas into touristic attractions, and promote the spread of tourism services (hotels, restaurants, cafes). Unlike Morocco (Fez, Marrakesh), Malta (Valletta, Medina), Spain (Barrio Gotico in Barcelona, Cordoba, Sevilla), or even Lebanon (Beirut, Tripoli), Tunisia's urban infrastructure remains largely inadequate for tourism, leaving the majority of its old medinas unexploited (with a few exceptions in parts of Tunis, Sousse or Monastir). This is a crucial point, knowing that one of Tunisia's main challenges in tourism is diversification towards higher value added tourism (such as cultural and city tourism).

b) Public-transport

Good public transportation allows tourists to move easily in a city, consume more and depend less on tour-operators. While Tunisia's transport infrastructure ranks highly in global rankings, intra-city and inner city *public transport* remains largely substandard. Only 1st class wagons in the railroad system meets European standards, while basic information on the frequency of service, timing, and prices of intercity and inner city lines remain very inaccessible to tourists. Despite a developed ICT infrastructure and high Internet penetration rates, this information is also not readily available online.

2. Demand conditions

a) Static snapshot

According to exhibit A, Malta and Jordan attract the greatest number of tourists per local inhabitant, while Jordan and Morocco are the most heavily dependent on Tourism revenues. Tunisia attracts as many tourists as Jordan, but contains its dependence at levels comparable to more developed economies (Turkey, Malta). At first sight, these are encouraging indicators.

b) Dynamics overview

Among the five comparable countries, the growth of Turkey's tourist cluster is the most spectacular (exhibit B): the number of tourists has almost quadrupled since 1995. Conversely, Tunisia increased its number of tourist arrivals (from 4 million to 7 million) at a slower rate than both Jordan and Morocco. In fact, the latter started with almost half of Tunisia's touristic arrivals in 1995 but surpassed it in 2005, now boasting around 8 million arrivals.

A look at touristic receipts (exhibit C) reveals that Morocco has managed to grow its touristic revenues much faster than Tunisia. The gap in total touristic receipts is much more significant than that in arrivals, indicating increasing average tourist spending gap. In fact, over the last 15 years, the average spending per tourist in Tunisia has fallen (exhibit D) and the country has constantly 'underperformed' compared to the other countries. In contrast, Morocco's tourist cluster generates the greatest spending per tourist, indicating a developing tourism cluster that is able to induce tourists to spend.

Unsurprisingly, an analysis of the cluster's growth confirms that Tunisia is in fact losing ground in terms of its share of tourist revenues in the world while all five comparator countries are experiencing positive growth, with Morocco leading the way (exhibit E).

c) Source of tourists

Europeans represent about 55% of all tourist arrivals in Tunisia (exhibit F). Roughly half of those are from France. Tunisia's neighbors are also a major source of tourism, accounting for 41% of all arrivals. However, a breakdown of overnight stays by nationality reveals that the latter only account for 4% of total overnight stays, indicating that regional tourists are likely to be day-tourists, or less likely to consume traditional touristic products (hotels, tours). European tourists account for the largest group of hotel overnights – 24% France, 15% Germany, 9% England, 6% Italy and 4% Belgium. It is also interesting to note that local tourists account for 10% of overnight stays, with a similar average quality of demand (exhibit G), which indicates a meaningful, albeit improvable, local demand.

d) Sophistication of the Demand

The source of tourist is not sufficient to understand the level of sophistication of the demand. European tourists for instance could be low-end as well as high-end. We need to understand the type of tourists that Tunisia attracts.

Our research shows (exhibit H) that besides Malta, all comparators perform better than Tunisia in attracting high-end tourists. For instance, despite having tourists coming from poorer countries on average, Morocco's tourism cluster induces higher per capita tourist expenditure than Tunisia. Even in Jordan, where tourists are likely to come from the poorest group of countries, the average tourist spends about the same as in Tunisia. As expected, tourists spend the highest amount in Turkey, confirming the higher level of sophistication of its tourism cluster.

e) Reasons behind low levels of sophistication in demand

We investigated the reasons behind the Tunisia's inability to attract more high-end tourists

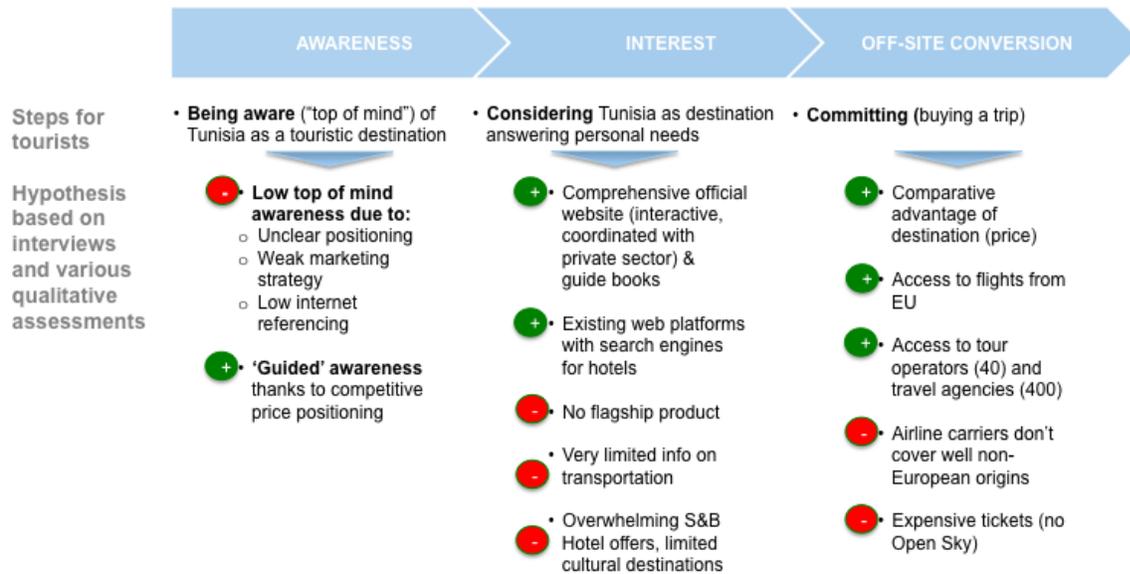


Exhibit I: Qualitative Funnel Study, Source: authors

There could be three main potential failures. First, Tunisia could be poorly marketing itself as a touristic destination, consequently attracting lower-end tourists. Second, the quality and diversity of the touristic product itself could be failing to convince the high-end tourists, even after they are attracted by a marketing campaign. Finally, the cluster could also fail in offering suitable accessibility (price, quality, flexibility of flights).

Our analysis reveals that although the marketing is an important obstacle, the main constraint is the touristic product itself (including flights), which fails to meet the expectations of the available pool of sophisticated tourists. While Tunisia lags behind, Morocco, in contrast has developed more sophisticated tourism products with multiple and flexible low cost airlines, city-trip infrastructure, renovated historic cities like Fez, boutique hotels, high end festivals and events, etc. We conclude that the health the cluster in Tunisia greatly depends on the improvement of its supply side.

3. Related and Supporting Industries

Different branches of the tourism cluster have unequal levels of development. Previous sections have addressed the strength and challenges pertaining to the related industries (transportation, infrastructure) and supporting services (education, marketing). In general, while related industries provide adequate support, supporting services, regulatory bodies and the institutes for collaboration (IFCs) are generally weak.

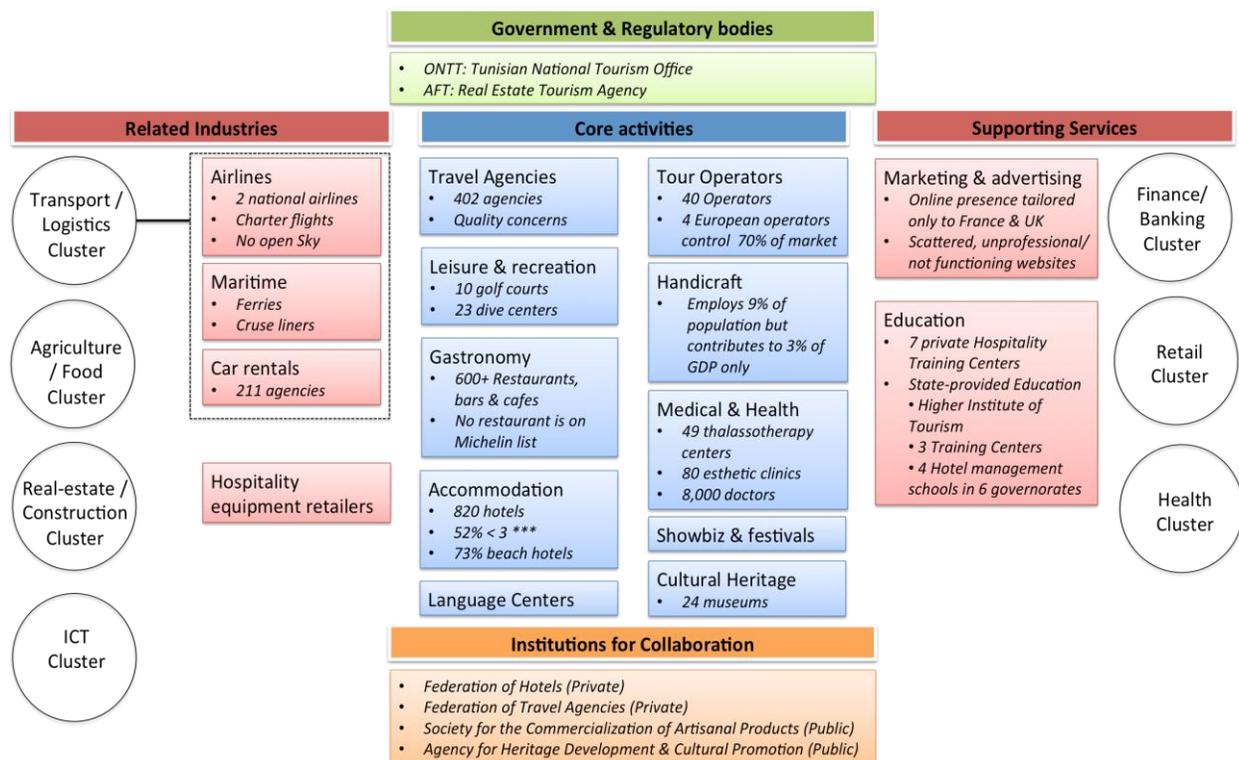


Exhibit J: Cluster map

a) Core

Of the 820 hotels registered in Tunisia, 73 % are located at the beach, 52 % are rated at or below three stars, and 80 % are rated below four stars. Given that the rating system for hotels in Tunisia is overly generous [citation], the accommodation sector is overwhelmingly focused on lower-end beach hotels. The 241,528 beds accounted for are possessed by less than 200 owners. The biggest hotel conglomerate owns 9% of market alone; the next three own 9,000 beds. Those

same chains have exclusive partnerships with international brands.⁵ Despite good occupancy rates,⁶ a large number of hotels are in financial difficulty with US \$ 2,450 million in outstanding debt in 2010 and many foreclosures. All in all, there is little diversity and no focus on the luxury accommodation that would attract high-spending tourists. As can be seen in exhibit K, accommodation is a binding constraint to the advancement of the sector.

b) Niches and related industries

We identified four promising niche tourisms that could contribute to the diversification and upgrading of the cluster: City tourism, Education tourism, Retirement tourism, Medical tourism. In the limited space of this report, we concentrate on the latter niche because it growing fastest.⁷ With medical services being 40 to 60% cheaper than in Europe, Tunisia is an attractive destination, and has become in recent years the second most favorite destination for thalassotherapy in the world after France. Indeed, the number of medical tourists coming to Tunisia for esthetic surgery and other medical treatments has tripled since 2003.⁸ Medical tourism is a desirable niche to occupy as medical tourists spend four to five times more than beach tourists, and the sector typically creates more jobs (Lautier 2005). Today, 80% of medical tourists hail from Libya and only 15% from Europe, with an increasing flow of Sub-Saharan customers (World Bank 2008); but there has recently been a strong interest from Japanese and GCC investors for medical clinics. However, a few concerns cast a shadow over the potential success of this niche. First of all, this market is still dominated by just a few clinics (World Bank 2008). Second, and most concerning, there is no regulatory body watching over the market and

⁵ French Sofitel-Accor and Spanish Iberostat have partnerships with the Tunisian Travel Services (TTS), Spanish Sol-Melia-Tryp with El Mouradi, and the American Sheraton with Affès.

⁶ The occupancy rate per bed places for Tunisia in 2009 was of 51% -- comparable to Spain and Turkey, and healthier than Jordan, Morocco or Italy.

⁷ Tunisia has 80 such clinics, 49 thalassotherapy centers with capacity for 6,500 daily customers, and some 8,000 doctors.

⁸ From 42,000 in 2003 (AFD) to over 120,000 in 2009

ensuring that international standards are respected.⁹ Tunisian prices remain more expensive than South East Asian or Brazilian medical services. Therefore, the competitive advantage of Tunisia is still a comparative one, due to its close location, rather than a competitive one.

c) Institutions for Collaboration (IFCs)

Why has Tunisia not identified high-potential niches such as medical tourism and city tourism, and invested in them accordingly? One reason for such poor coordination and vision is the lack of competent, interdisciplinary Institutes for Cooperation (IFCs). IFCs for the sector are overwhelmingly either private trade unions (Fédération des Hôteliers or Fédération des Agences de Voyage), or government regulatory bodies doubling as promoters. Clarify references to unions. The heads of both types of organizations were typically assigned by the government rather than organically elected from the private sector. Therefore, rather than providing a genuine forum for collaboration that fosters collaboration between public agencies and private associations and encourages public-private partnerships, there is a notable absence of cluster-focused IFC that attracts membership throughout the cluster. This results in weak inter-industry linkages, a lack of regionally specialized vision, and the absence of a unified image abroad. The major IFCs, their activities and challenges are presented in exhibit L.

4. Context for Strategy and Rivalry

In addition to the absence of top-down vision resulting from weak IFCs, one noticeable absence is the scarcity of grassroots activity to live up to the potentially sophisticated demand. The context for strategy and rivalry is such that there exist major barriers to entry for small and medium enterprises (SMEs), such as overburdening regulations and market concentration. Specifically, four foreign (European) tour operators control 80 % of the Tunisian tourism market,

⁹ On the other hand, stringent regulations on the nationality of doctors and limits on foreign investment in hospitals and clinics that are not 100% off-shore limit the niche's development (World Bank 2008).

creating a funneling effect, and reducing the bargaining margin of local, alternative and independent establishments. These operators dictate most of a tourist's interface with Tunisia. For example, in the absence of an open sky policy,¹⁰ the only two options for flying to Tunisia are either the high-priced traditional carriers, or charter flights controlled by the tour operators. The only entities able to compete with tour operators in this climate are a few rare vertically oligopolies, whose connections with the previous regime have allowed them to diversify into many industries in the clusters.¹¹ The dependency on tour operators is exacerbated by the poor Internet marketing of tourism-related services, from private travel agents to local public transport, further limiting a tourist's choices. This lack of internet presence is majorly due to crippling e-regulations and e-commerce which prohibit internet transactions. Strong regulations such as these severely limit entry of smaller, more nimble, players. On one hand, Tunisian regulations protect endowments and the environment but on the other, they prevent leveled competition, limiting market innovation. Two other factors deteriorate the context for strategy and rivalry. The first is poor quality standards; for example grading of hotels is based on initial capital investment rather than quality of service leading to big discrepancy between local and international standards. The evaluation of hotel ratings was subject to corruption as well, and as a result, after the regime fell. 27 hotels were shut-down due to quality concerns in 2011. Finally, the red-tape and slow permitting makes it prohibitive for SMEs to operate.

¹⁰ Tunisia's index on the restrictiveness of air transport regulation is one of the highest in the world; higher than competitors such as Turkey and Morocco (source: WEF). The Restrictive Air Service Agreements in Tunisia prevent competition and keep air travel prices higher than competitors. For example, the price of a two-way Paris-Casablanca ticket hovers around € 330 whereas a Paris-Tunis one goes for € 430 (source: Expedia).

¹¹ For example, Tunisian Travel Services (TTS) owns: air transport (20% of charter flights market), Top Travel Operator (20% of market share), 6 Hotels (4,000 beds) partnership with Spanish Hotels, residential real estate, Ground Transport (80 busses), Golf courts and other leisure activities

Cluster Diamond Synthesis



III- Strategic Positioning of the cluster

The strategic positioning of the tourism cluster should echo Tunisia's surge as the Service Hub of the Mediterranean. We propose a threefold strategy:

Send a resounding signal of transformation and create a new image

- Outreach and marketing to higher end customers, in a wider range of regions
- Build a global landmark architectural oeuvre that sends a credible signal to the market
- Organize a Tunisian web-surge that brings the renovated cluster closer to the world's reach

Diversify to higher-level products by focusing on five niches

- Focus on city-trips, medical tourism, education tourism, retirement tourism and ecotourism
- Launch a large scale public-private urban transformaiton project focused on the medinas
- Higher standars, less red tape and a wider tolerance to alternative products and innovation

Cut the middle man and encourage entrepreneurship

- Dismantle the control of tour operators by opening the sky and bolstering e-commerce
- Encourage SMEs and increase competition

Tunisia needs a global landmark that positions it on the map the way the Guggenheim Museum did to Bilbao, or Burj Al-Arab did to Dubai. The launching of a world-class architectural competition to build a major regional facility such as a ‘Museum of the Mediterranean Civilization’ is a very powerful way to mark the turning point towards a new strategic position. The regional relevance of the function and high quality of its architecture should reflect Tunisia’s new role as Capital of the South Mediterranean and its most attractive destination.

Once the signal is sent, Tunisia still has to deliver on its promise of a better product: an major public-private effort to upgrade the eight largest medinas of Tunisia should form the base of a city-trip strategy that, when combined with an Open sky policy, will encourage European tourists to visit Tunisia multiple times even if it’s for a shorter period. City-tourism is a niche that attracts higher end tourists, is particularly favorable to SMEs, and maximizes positive



externalities towards local development (housing, public space, and public transport upgrade). The remaining niches of medical tourism, educational tourism (language courses or African students coming to study in Tunisia’s good universities), and eco-tourism all converge with city-tourism to nurture an image of high quality, consolidating Tunisia’s new strategic position.

Finally, all these niches would not flourish if tourists remain dependent on Tour Operators. A major reason behind this dependence are that high airfares with traditional airlines, which

channel tourists towards tour operated charter flights. Dismantling their control starts by opening the sky and allowing a wide range of low-cost flights to service Tunisia, thus lowering prices and increasing the volume of tourists. This step should also be accompanied by a surge in e-marketing and e-commerce in order to allow direct client-service provider relation, and encourage frequent independent tourists to choose Tunisia as their destination. Many other steps are needed to implement change, but in this part we tried to sketch a vision that can frame the remaining coordinated actions that will increase the cluster's competitiveness. In the next part we list a series of such actions organized according to the diamond framework.

IV- Cluster Recommendations

Cluster Diamond	Challenges	Cluster Recommendations	Responsible Actors
Factor Conditions	A. Urban fabric unexploited (medinas, public spaces & public transport)	A. Launch a major urban renovation strategy that focuses on favoring touristic activity (pedestrian streets, squares, green spaces, ...)	A. PPP
	B. No renowned major touristic amenities with global standards (casino, entertainment parks, etc.)	B. Build a major cultural amenity with global relevance & an outstanding & landmarking architecture	B. Government
	C. Public Transportation information not readily available/reliable	C. Improve customer information on timing & price of public transport services, increase reliability of busses and trams	C. STT*, SNCFT**
	D. Service culture is not widespread among hospitality staff	D.1. Encourage collaboration & coordination on R&D between universities & tourism businesses D.2. Improve quality & quantity of trainings to match aspiration of upgraded & diversified market	D. ONTT***, IFCs, hospitality schools, Min. Vocational
Demand Conditions	A. Lack of diversity attracts seasonal tourism	A. Develop tourism niches such as culture, educational, medical & retirement/residential tourism	A. PPP, IFCs
	B. Low-end image attracts low-spending tourists	B. Execute proactive & coordinated marketing promoting a new image of Tunisia targeted at sophisticated demand pools in Europe	B. ONTT, IFCs
	C. Too dependent on Europe; Middle east market untapped	C. Outreach with marketing campaign targeted to Levant & Gulf regions	C. Private sector, IFCs, ONTT
	D. Local demand not as sizable and sophisticated as potential	D. Launch an “aspirational” marketing campaign targeting high-end local consumption	D. Private sector, IFCs, ONTT
Related & Supporting Industries	A. Low average quality of hotels, travel agencies, medical facilities	A. Strengthen independent quality evaluation bodies (<i>Plan Jasmin</i>) & implement ISO standards across niches & industries	A. All concerned ministries
	B. Minimal presence of boutique hotels & alternative establishments	B. Use incentives such as tax credits & cut red-tape to crowd in private entrepreneurs to diversity & innovate the touristic product	B. Government
	C. Lack of coordination & strategic direction in cluster	C.1 Give cluster actors incentives to organize good IFCs & collaborate C.2 Change AFT & ONTT role from (central) planning to cluster support	C.1 Min. of Tourism C.2 Min. of Tourism
Context for Strategy & Rivalry	A. Investments centrally planned	A. Relax regulations on FDI (especially for SMEs)	A. Min. of Finance
	B. Tour operators control the market	B. Reduce dependence on tour operators & increase direct relation between local service providers & tourists by: <ul style="list-style-type: none"> Releasing restrictions on online payment modes to facilitate e-commerce; improving e-promotion; Reducing dependence on charter flights by opening the sky 	B. Government
	C. Red-tape & corruption	C. Accelerate permitting, remove administrative hurdles	C. Government

*Société des transports de Tunis

** Société Nationale des Chemins de Fer Tunisiens

*** Organisation Nationale de Tourisme Tunisien

Annex

Interviews

INTERVIEWEE	PROFILE	MAIN SUBJECT OF FEEDBACK
Former minister of Tourism Mehdi Houas	CEO of Talent, Paris. Consultant and economist	Went over his inter-ministerial note to his successor, and his analysis of the cluster
MP Moncef Cheikh-Rouhou	Professor at HEC, Paris. Former banker and business man	Urban project developments in Tunis, general state of political institutions
Mr. Nouredine Khoufi	Retired Travel Agent, member of board of national bank	History of Tourism sector, main obstacles and potentials
Ms. Afef Khoufi	Urban Planner and Phd candidate on urban tourism	State of medinas and urban tourism in Tunisia
Mr. Hammouda Checkir	Financial consultant	Tourism economy in general
Mr. Mehdi El-Ghali	Investment consultant	State of financial markets and investment in Tunisia and Algeria.
Prof. Ishac Diwan	Former World Bank Country Director for West Africa	Regional economic conjunction and state or economic reforms
Prof. Ricardo Hausmann	Head of Centre for International Development at HKS	Comparison between Tunisia, Morocco and Egypt's Macro economy and industry
Ms. Nadaa Ghozzi Farhat	Managing Director, Select Travel Tours	Travel agencies challenges in Tunisia
Mr. Nouredine Zekri	Director General, Foreign Investment Promotion Agency	How Tunisia encouraged Foreign investments

Figures and Tables

Exhibit 1: GDP Per Capita Growth (%) (WDI)

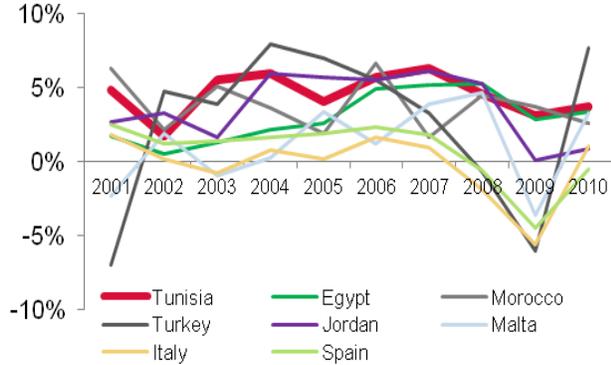


Exhibit 2: Fiscal Performance (WEF)

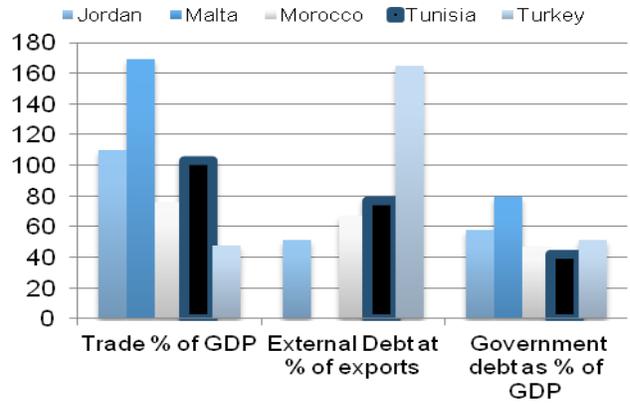
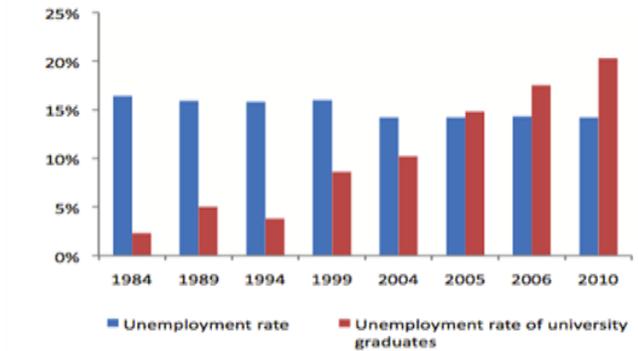


Exhibit 3: Tunisian Dinar Trend (DNR/EUR)(IMF)



Exhibit 4: Unemployment rate in Tunisia (INS)



Source: INS (National Institute of Statistics) and the World Bank

Exhibit 5: FDI Inflows (% of GDP) (WDI)

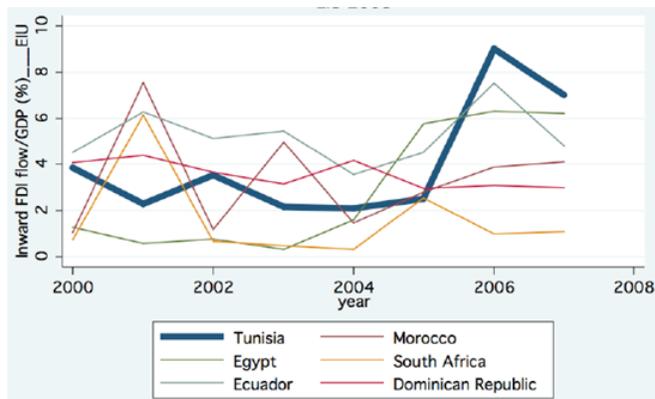


Exhibit 6: Global Competitiveness Index (WEF)

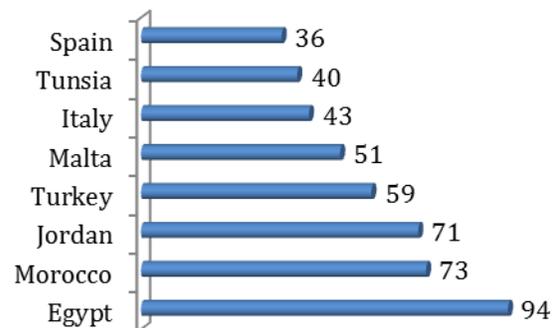
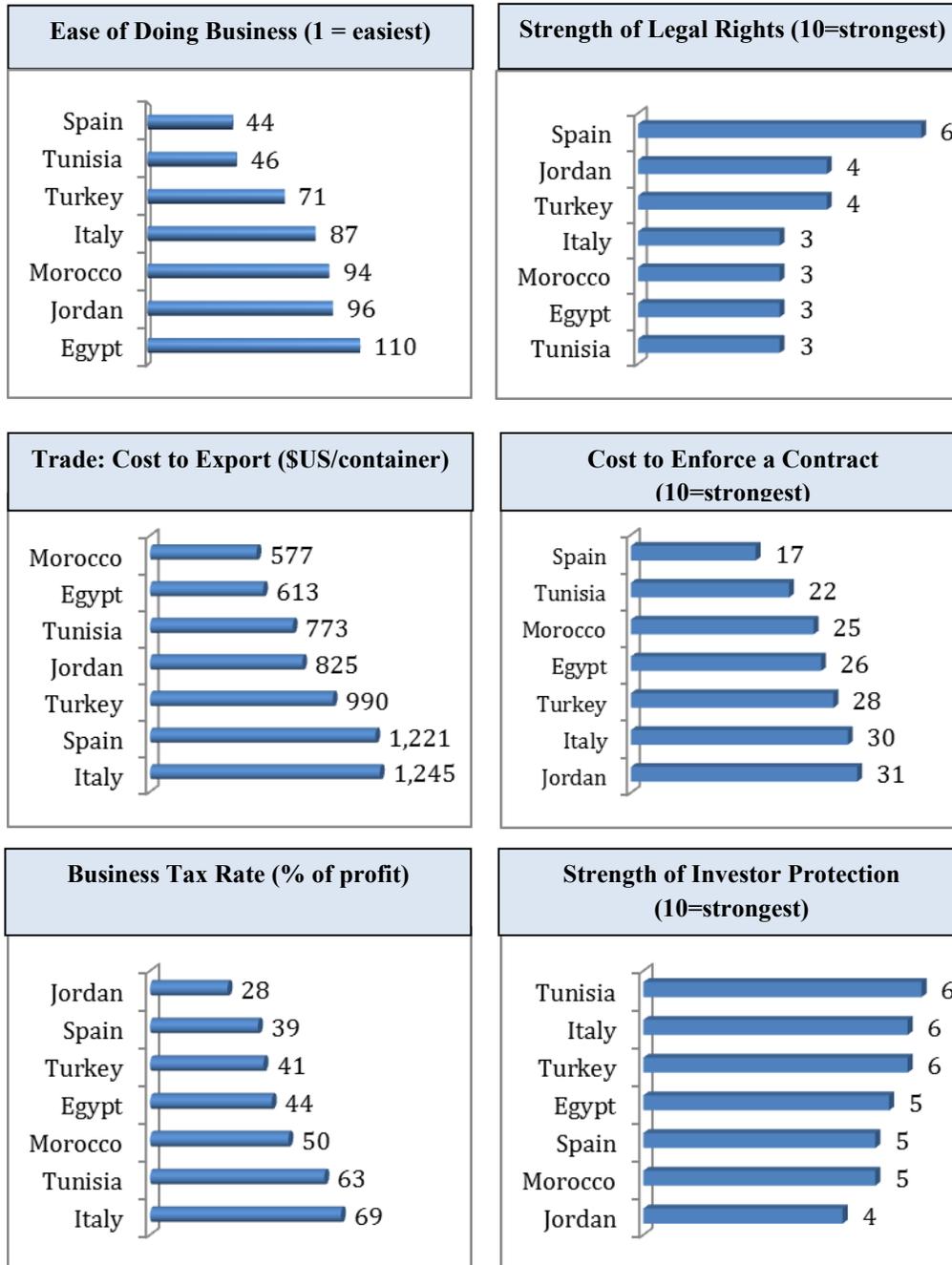


Exhibit 7:



Source for charts in Exhibit 8: Worldbank Databank

Exhibit 8: Quality of Infrastructure (WEF)

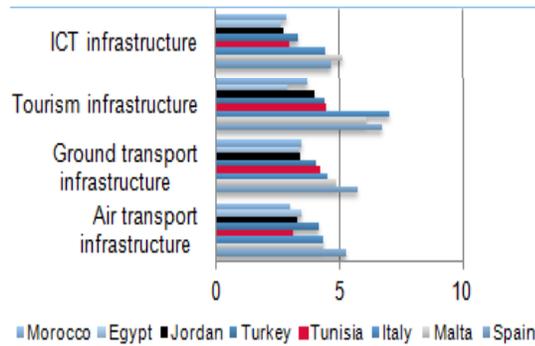


Exhibit 9: Restrictiveness Indices in Air Transport Regulation (WEF)

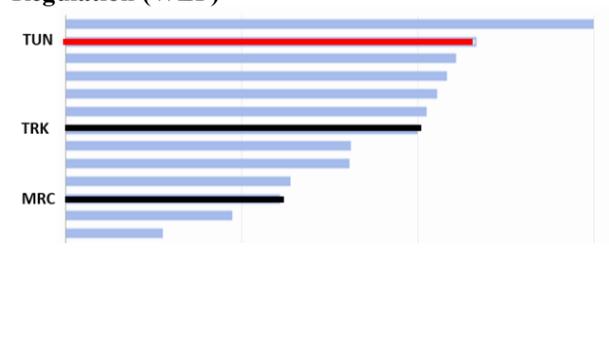


Exhibit 10: (PAE)

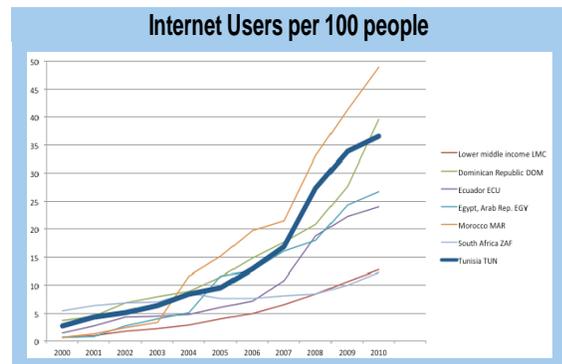


Exhibit 11: FDI Inflows as % of FDI (WDI)

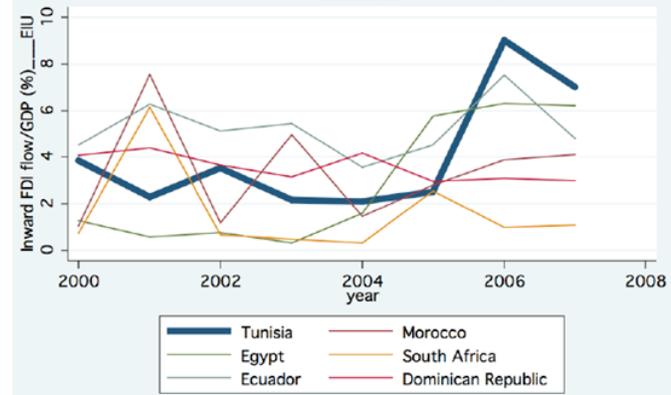


Exhibit 12: Nonperforming loans as % of Gross Loan Amounts (WDI, IMF)

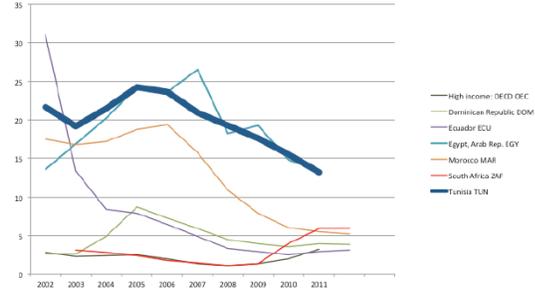


Exhibit 13: Quality of Demand Conditions (GCI)

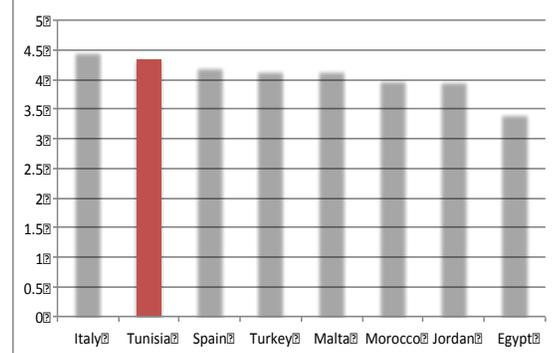


Exhibit 14: Small market size (access to domestic & foreign markets) - 2011 (GCI)

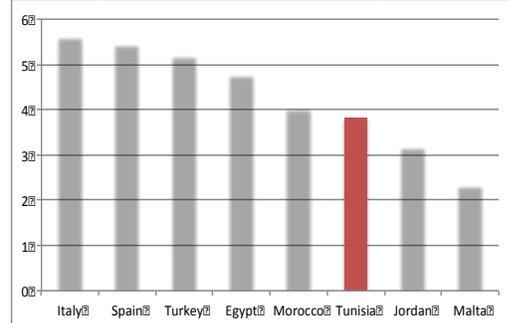
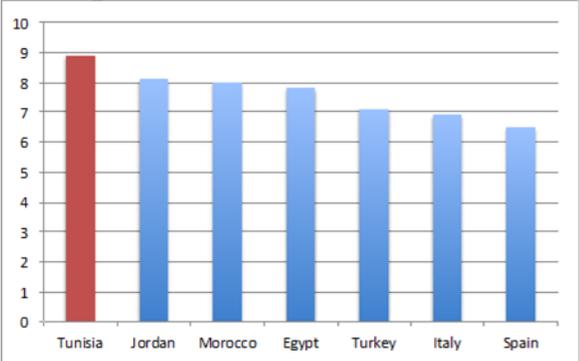
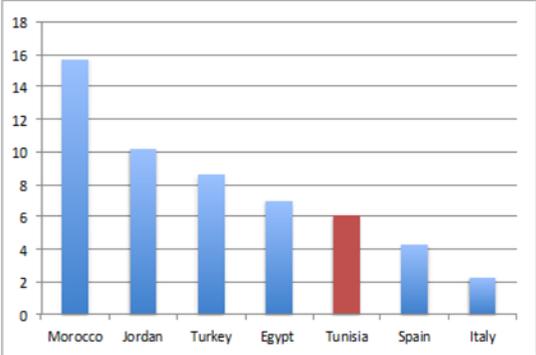


Exhibit 15 (source: GCI)

Entrepreneurship as Desirable Career Choice (2011): Percentage of 18-64 population who agree with the statement that in their country, most people consider starting a business as a desirable career



Total early-stage Entrepreneurial Activity (2011): Percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business



Part II

Exhibit A: select macro indicators on tourism - UNWTO

	Tunisia	Morocco	Jordan	Turkey	Malta
Carrying Capacity (arrivals/population)	0.65	0.29	0.68	0.34	2.85
Inbound tourism expenditure over GDP	8.1	9	15.1	4.0	12.9
Inbound tourism expenditure over exports of goods and services	17.7	27.2	31.8	17.2	17.7

Exhibit B Number of touristic arrivals – National Institute of Tourism of Tunisia (NITT)

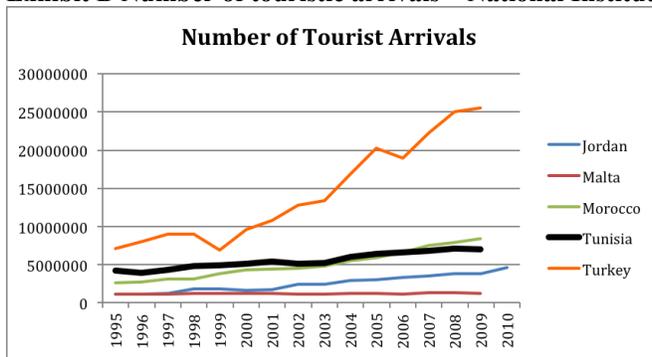


Exhibit C: Total tourist receipts (current US\$) – NITT

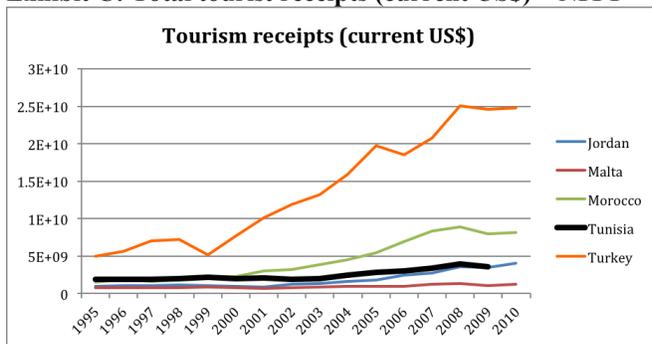


Exhibit D: Receipt per tourist (constant 2000 US\$ - inflation adjusted) – NITT

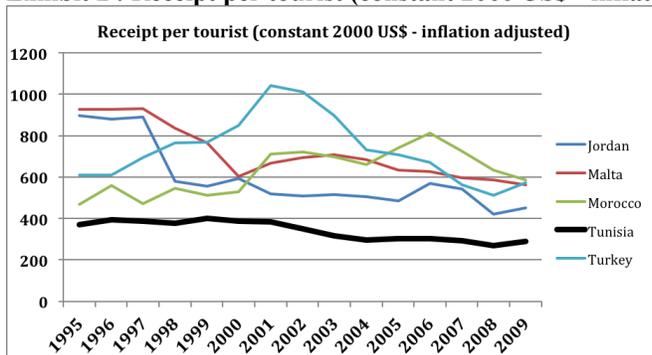


Exhibit E: Performance of Tunisia’s tourism cluster in global markets – Institute for Strategy and Competitiveness

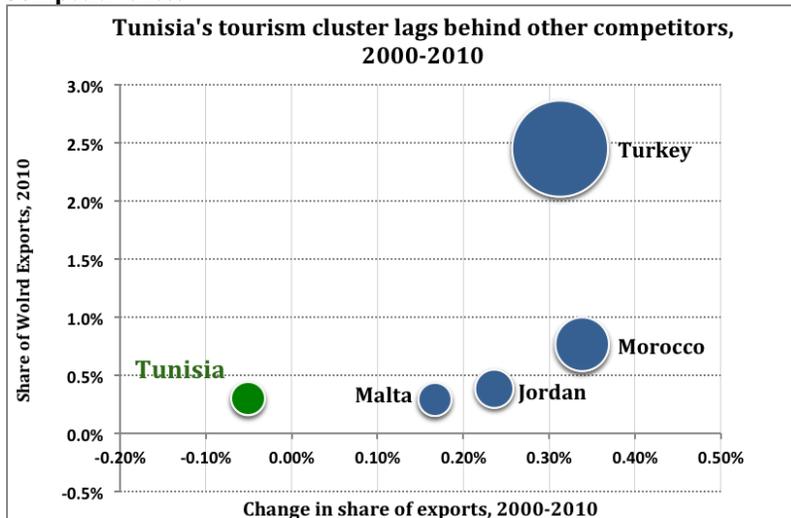


Exhibit F: Comparison of the origin of tourists – UNWTO

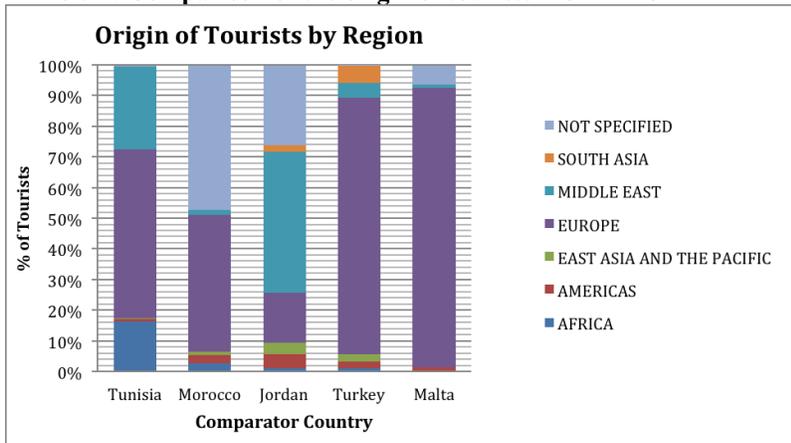


Exhibit G: Distribution of nights by nationality – National Institute of Tourism of Tunisia

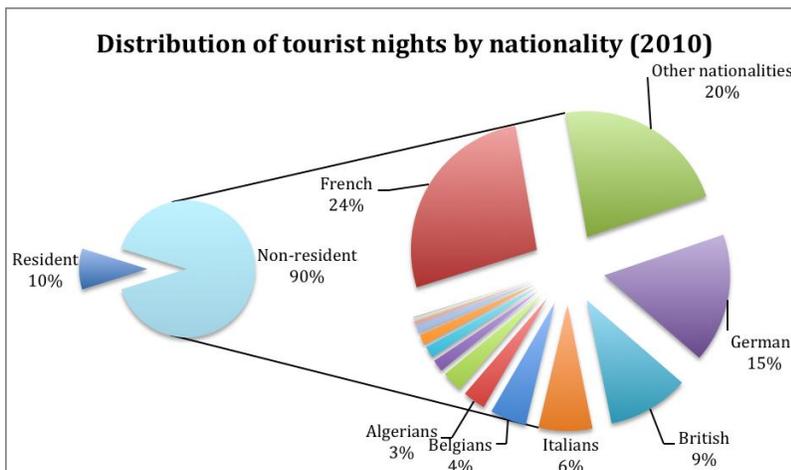


Exhibit H: Proxy for cluster sophistication – World Bank, UNWTO

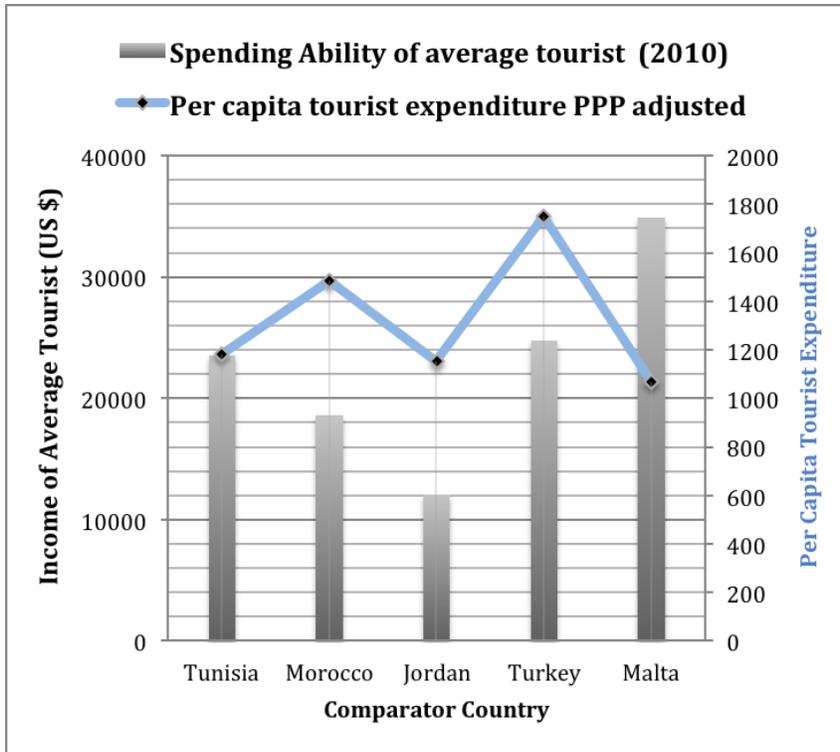


Exhibit K: State of the Related and Supporting Clusters, 2000- 2010

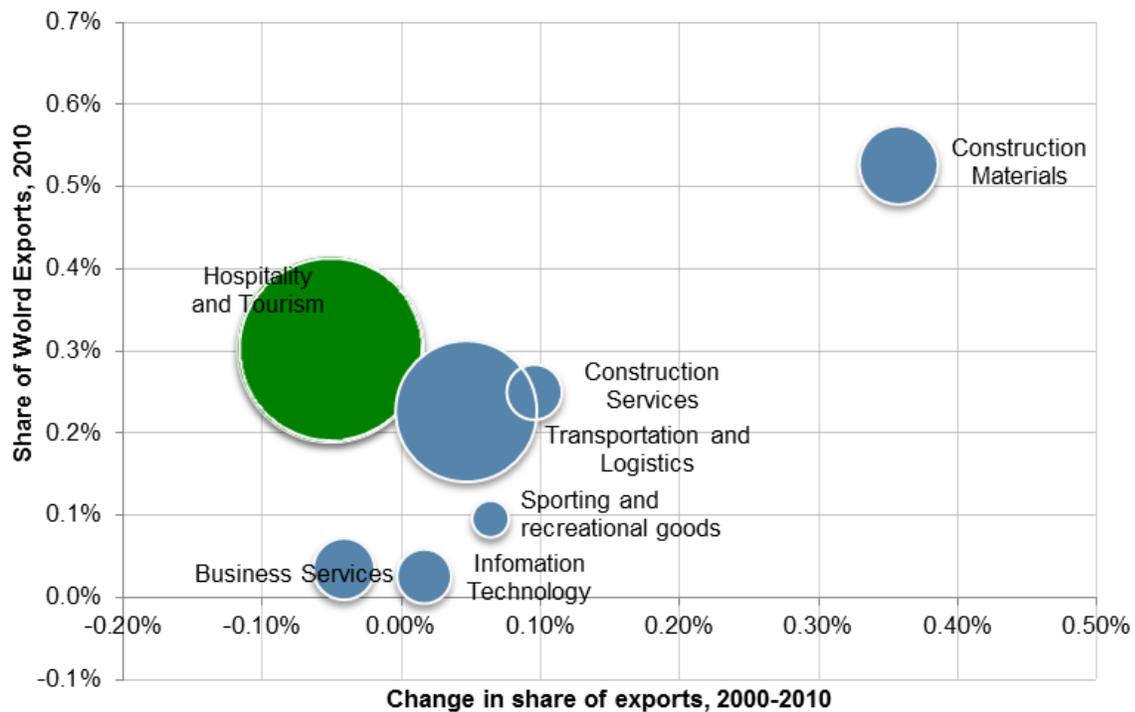


Exhibit L: State of IFC Development

Key IFCs	Activities	Challenges
Tunisian National Tourism Office (ONTT)	Marketing Trainings	No country-specific coverage (except for UK & France) Quality control Poor E-marketing Participation to Fairs limited to France
Real Estate Tourism Agency (AFT)	Management of touristic real estate	Poor financing Unclear mandate
Agency for Heritage Development & Cultural Promotion	Manages museums and sites	None for the moment. Technical Assistance from World Bank strengthened it
Society for the Commercialization of Artisanal Products	Some 3,000 artisans get their supplies from SOCOPA per year. Some 600 artisans sell their products through SOCOPA each year	Few artisans go through SOCOPA. Really poor website (intended for online shopping but doesn't work)
Private Federations (<i>Hotels, Travel Agencies, Artisanal Producers</i>)	Unions	Strictly Sector-focused. Cluster-wide membership organization inexistent

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