The Tunisian Tourism Cluster

The Microeconomics of Competitiveness

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Introduction & Summary

This paper will explore and analyze the Tunisian tourism cluster using the Diamond framework and tools used in The Microeconomics of Competitiveness course. We first analyze Tunisia's competitiveness at the national level, finding strengths in many areas, including a stable political and macroeconomic environment and well developed business factor conditions. Weaknesses at the national level include a detrimentally heavy state involvement in the economy and a lack of institutes for collaboration, non-governmental organizations and vehicles for business advocacy.

At the cluster level of our analysis, we find a local tourism sector that has a strong history of growth, but that has stalled in recent years, due to changing demand, restrictive regulation, and an undue focus on hotel development that ignores a broader cluster approach to the industry.

Our recommendations will propose changes to mitigate these challenges at the national and cluster level.

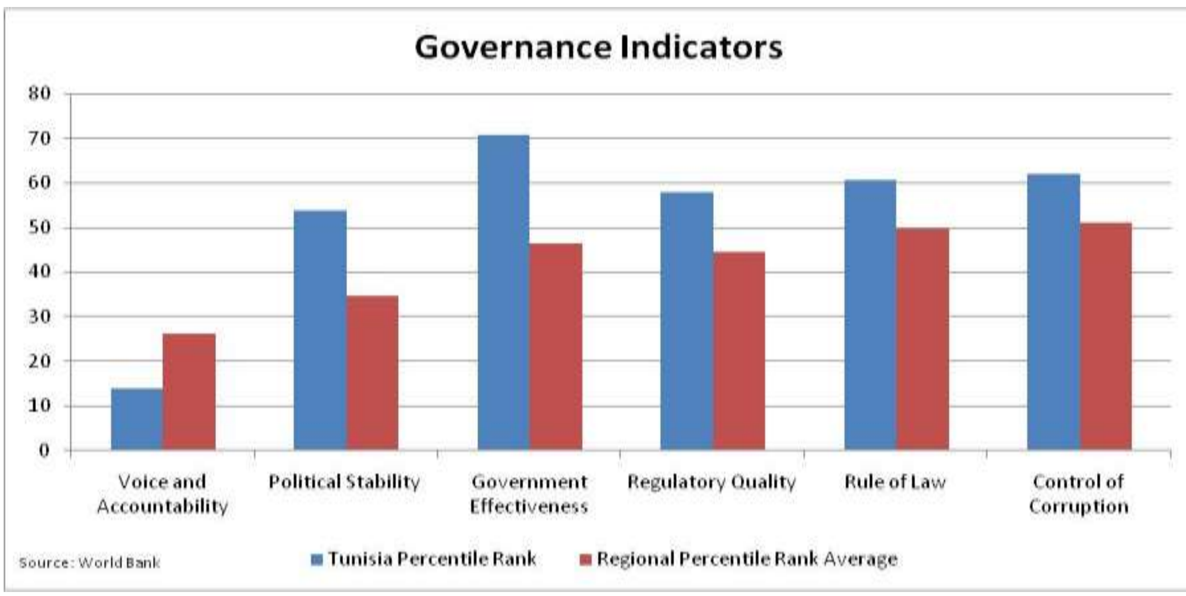
NATIONAL ANALYSIS

Tunisia Political & Social Overview

Tunisia is a small nation on the North Africa coast. It covers 155,360 square kilometers and is bordered by Algeria on the west, Libya on the south and the Mediterranean on the north and east. It has a population of 10.2 million, which is 98% Arab Muslims. (CIA, "The World Factbook")

Tunisia dates as a modern state to 1956, when it gained independence from the French protectorate status that had been in place since 1881. Though Arabic is the dominant language, French is also commonly used in business, and the legal system draws from both French civil law and Islamic law. (CIA, "The World Factbook")

In 1957, the year following independence, the Tunisian Parliament established the nation as a republic, with President Habib Bourguiba instituting a series of progressive changes, with a particular focus on expanding the rights of women. At the same time, his government became increasingly intolerant of dissent, a legacy that continues to this day. In particular tensions have long existed between the secular vision of the state and suppressed Islamist groups. (EIU, 2007) However, Tunisia leads the region on several good governance and development indicators, like political stability, government effectiveness, regulatory quality, rule of law, though in a global comparison, (WB, 2007) they rank nearer the middle, with a UN Human Development Index Rank of 91. (UNDP, 2008)



With effectively single-party rule, political suppression and strict controls on the press, Tunisia is currently labeled as "not free" in the *Freedom in the World* report, (Freedom House, 2007) and is lagging and falling behind in freedom of speech, press and citizen participation World Bank Governance Indicators. (WB, 2007) Tunisia currently ranks number 61 on the Transparency International Corruption Perceptions Index, down from 51 in 2006, though it retains the highest ranking among North African nations. (Transparency International, 2007)

Macroeconomic Outlook

Tunisia has had a sustained expansion in recent years, averaging 4.6% growth in real GDP from 2002-2006. In absolute terms, Tunisian GDP per capita stands at $8,371. This figure compares favorably with peer countries as it is equal to that of Turkey and nearly doubles that of Morocco. This growth has been accompanied by a stable monetary policy and prudent fiscal policies. Tunisia has a managed floating exchange rate, which has averaged 1.31 dinars to the dollar over the period 2002-2006. During 2007, the dinar appreciated 4% against the dollar and depreciated 4.5% against the Euro. Interest rates have remained stable at or near 5%, and the consumer price index has likewise been stable, averaging 3% over this same time period. (IMF, 2007) Foreign direct investment has been growing rapidly in recent years, to just over a billion dinar, reflecting foreign investor confidence. (EIU, 2008)

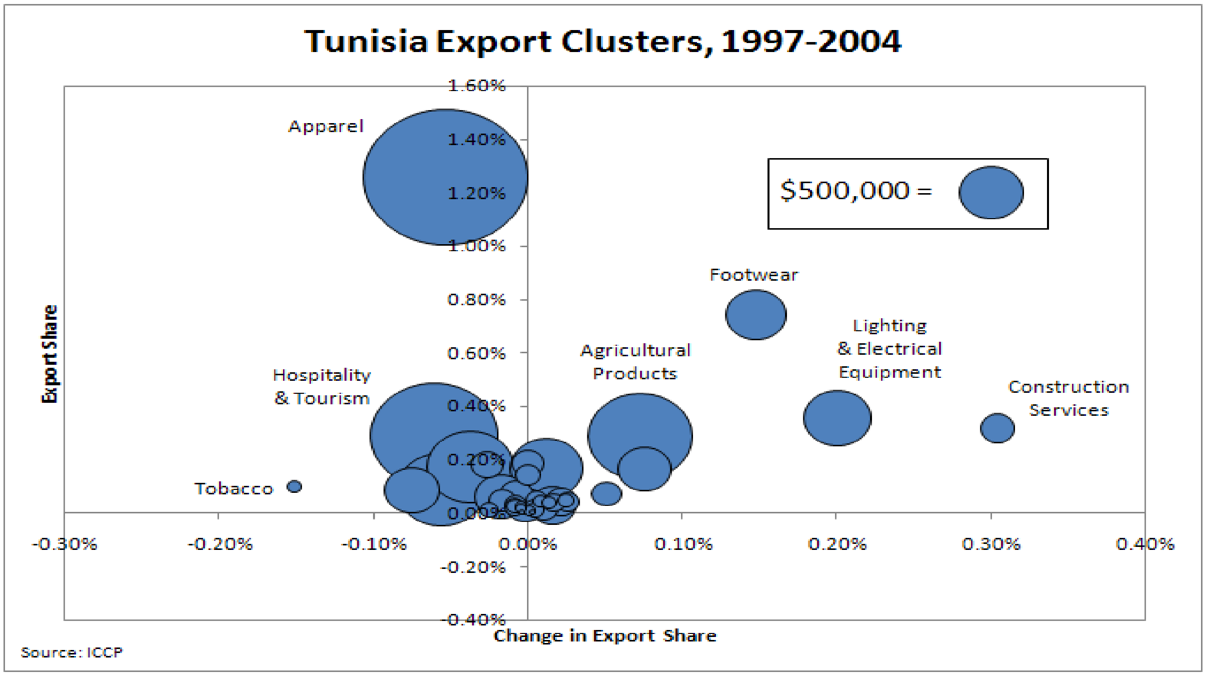
Tunisia has also run an annual budget deficit of about 3% of GDP, and has a persistent current account deficit of 2% as of 2006. The IMF has characterized this imbalance as "sustainable." (IMF, 2007) Public debt in 2006 stood at 56.6% of GDP, though this should decline slightly as a result of proceeds from recent privatizations that are being applied to early pay-downs. Ratings for Tunisian foreign debt are "BBB" for both Fitch and S&P with a stable outlook, though Tunisia has higher unemployment and higher public debt than the median of BBB-rated countries. (Dorothée Gasser, 2007)

These generally positive and stable macroeconomic indicators are tempered by underlying concerns within the economy. Despite growth, unemployment remains stubborn at 14%. (IMF, 2007) And of additional concern, a broader European economic slowdown may adversely impact Tunisian growth, though projections still place GDP growth above 5% for

2008-2009. (Dorothée Gasser, 2007) This is in line with current government economic goals, which call for increasing average growth to 6.1% during the period 2007 to 2011.

Economic Clusters

Manufacturing, agriculture and tourism sectors have been dominant in the Tunisian economy. In recent years, strong economic growth was provide by manufacturing, which has expanded, driven by off shoring of automotive parts plants from Europe, and by oil and mining thanks to higher commodity prices. (EIU, 2008) However, some of the main Tunisian economic clusters have been facing challenges in the last years, especially textiles and tourism. The end of the Multi-Fibre Agreement with European Union is resulting in stiff competition in the textiles sector, and Tunisia is at competitive disadvantage from a labor-cost perspective vis-à-vis big production countries like China. (Dorothée Gasser, 2006) In the tourism sector, Tunisia has experienced a drop in visitors from its main markets and a decline in days spent and spending per visitor as detailed below. Reversing this trend is an important policy priority to meet economic goals in the coming years. In contrast to the difficulties in these sectors, agriculture, another important cluster experienced a rebound in 2007 after being hit by drought in 2006. (EIU, 2008)



Overall Business Competitiveness

The business climate in Tunisia ranks well among its regional peers. The country's overall Business Competitiveness Index (BCI) ranking (25 out of 127) is higher than that of its North African and Mediterranean peers (only France, Israel have higher rankings). (WEF, 2008)

Competitiveness Ranking of Tunisia & Peers, 2007						
	Tunisia	Greece	Turkey	Croatia	Morocco	Egypt
BCI ranking	25↑	56↓	46↑	60	63↓	70↓
Quality of the National Business Environment	25↑	52↓	48↑	61	59↓	71↓
Company Operations and Strategy	33↑	57↓	41↑	63	75↓	69↓

Source: Global Competitiveness Report 2007-2008. Positive trend market by ↑, negative by ↓. For Croatia no clear trend identified.

The narrower World Bank 'Doing Business' analysis gives a better ranking for Turkey but otherwise supports the main picture of the BCI. Two important competitors in the tourism sector, Egypt and Croatia have shown major positive progress in improving the business environment. (WB, 2008)

World Bank 'Doing Business' Rankings, 2008						
	Tunisia	Greece	Turkey	Croatia	Morocco	Egypt
Overall rank	88	100	57	97	129	126
Starting a Business	68	152	43	93	51	55
Dealing with Licenses	96	42	128	162	88	163
Employing Workers	113	142	136	139	165	108
Registering Property	66	93	31	99	102	101
Getting Credit	97	84	68	48	135	115
Protecting Investors	147	158	64	122	158	83
Paying Taxes	148	86	54	43	132	150
Trading Across Borders	28	65	56	96	67	26
Enforcing Contracts	80	87	34	45	114	145
Closing a Business	30	38	112	78	60	125

Source: Compiled from World Bank Doing Business Report, 2008. The total number of countries covered is 178.

However, the government faces still major challenges in improving economic governance, the regulatory framework, transparency and reliability. (OECD, 2006) According to the World Bank, the large scale state interference in the workings of the economy, the granting of privileges to certain sectors and the low levels of acceptance of responsibility, freedom of expression and participation all have damaging effects on the business climate. Recently new legislation was passed to remedy the situation, to encourage foreign investors, companies and individuals to buy land and premises and invest in Tunisian economy. (OECD, 2006)

National Diamond: Factor (Input) Conditions

Tunisia's proximity to European markets, fast growing and well-educated working age population, energy resources, and mild climate all present strong factor conditions for businesses. Social and institutional stability and the high level of education of its labor force are advantages, which should enable Tunisia to develop new activities, especially in the service sector. (OECD, 2006)

Schooling levels are relatively high at 97 per cent in primary education, 73 per cent in secondary education and 20 per cent in higher education, though illiteracy remains a problem for 22.9 per cent of the population (2004 estimate). (OECD, 2006)

The transportation infrastructure is well developed and in good condition, including 450 km of motorway, 2000 km of railway, 6 international airports and 7 major commercial ports. Upgrading projects are in progress and financed by the regional development banks and the European Investment Bank. However, the country lacks an adequate legal framework, which makes it difficult for the transport infrastructure sector to find private sector investors and set up public private partnerships. (OECD, 2006) The quality of telephone/fax infrastructure has an index ranking of 47 but the Internet and cellular networks developments are lagging behind (51 and 74 respectively). (WEF, 2008)

The overall stability and security in Tunisia is relatively high and the police services are reliable (WEF, 2008), but the terrorist attack in Jerba in April 2002 as well as the kidnapping of tourists in March 2008 have damaged the reputation for safety, which is impacting negatively the tourism industry. (Fitch Ratings, 2004)

Access to financing is another key problem, impeding private business development. Banking sector reforms are in progress; however the Tunisian banking sector remains fragmented and of limited size. (IMF, 2007) Foreign direct investment flows to Tunisia remain modest (628.6 mill euro in 2005) and the funds are targeting the development of infrastructure, textiles and clothing. (European Commission, 2007)

National Diamond: Context for Firm Strategy and Rivalry

The underdeveloped property rights and intellectual property protection explain at least partly the relatively low Foreign Direct Investment (FDI) level. Tunisia ranks low, 60 in the intensity of local competition. Ranking 47 in terms of the trade barriers reflects the lack of fair competition in the country, which impact directly the business environment, its development and competitiveness. (WEF, 2008) Also, the process of price liberalization and abandonment of subsidies is slow. (OECD, 2006)

Tax rates, tax regulations, inefficient government bureaucracy as well as restrictive labor regulations are considered among the most problematic factors for doing business in Tunisia. (WEF, 2008)

National Diamond: Demand Conditions

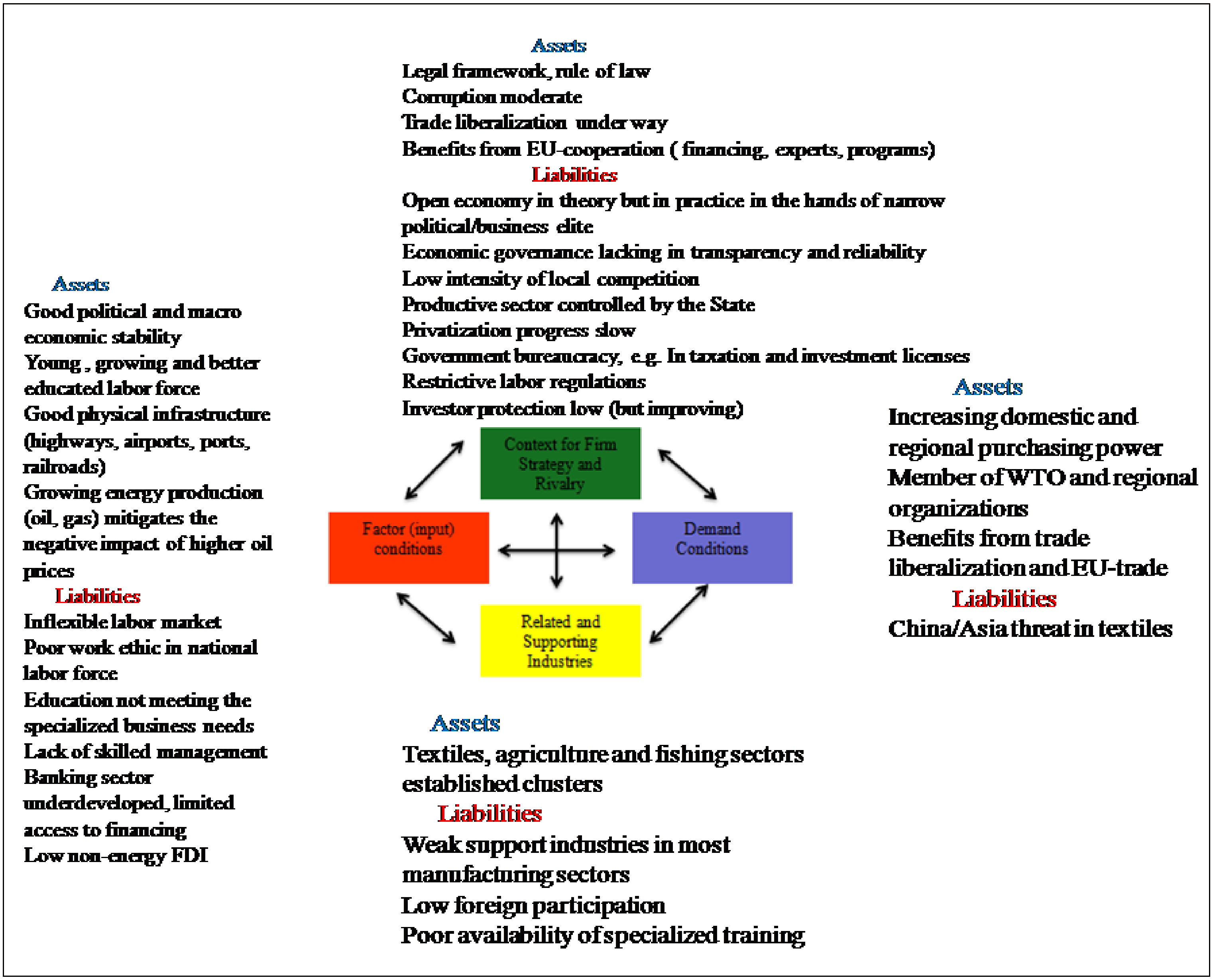
The growing active population together with a higher standard of living supports the national market demand. However, the buyer sophistication index has remained relatively stable around 25-27 last five years. Safety and environmental standards are developing only slowly. (WEF, 2008)

The EU is Tunisia's first trading partner, currently accounts for 74 per cent of Tunisia's imports and 31 per cent of Tunisia's exports. Nearly 82 per cent of Tunisia's tourism receipts are from the EU. Tunisia benefits from its membership in the Association Agreement and from the European Neighborhood Policy with the EU, which provide for tariff free exports in industrial goods to the EU, liberalization of trade in services, expert support and financing).

National Diamond: Related and Support Industries

The local supplier quality and quantity have still lower than the overall BCI ranking. The limited role of the FDI in the Tunisian economy has kept the technology and management capacity transfer limited. Financial markets sophistication is low but improving. Agriculture and textiles industries are well enough established to form clusters. Otherwise the cluster building is limited and the most manufacturing sectors have very weak support industries.

National Diamond Analysis



National Recommendations

Reform Labor Markets

While Tunisia has a well-educated workforce, available labor does not always match the needs of local industries. Despite the need for specialized skills, the Tunisian government maintains onerous requirements for Tunisian labor in preference to foreign labor. Relaxing such requirements would help encourage knowledge transfer into the country through foreign companies and staff and would allow Tunisian business companies to modernize their management and business practices and increase their competitiveness.

Allow And Encourage The Development Of Viable Business And Civil Society Institutes For Collaboration And Organizations

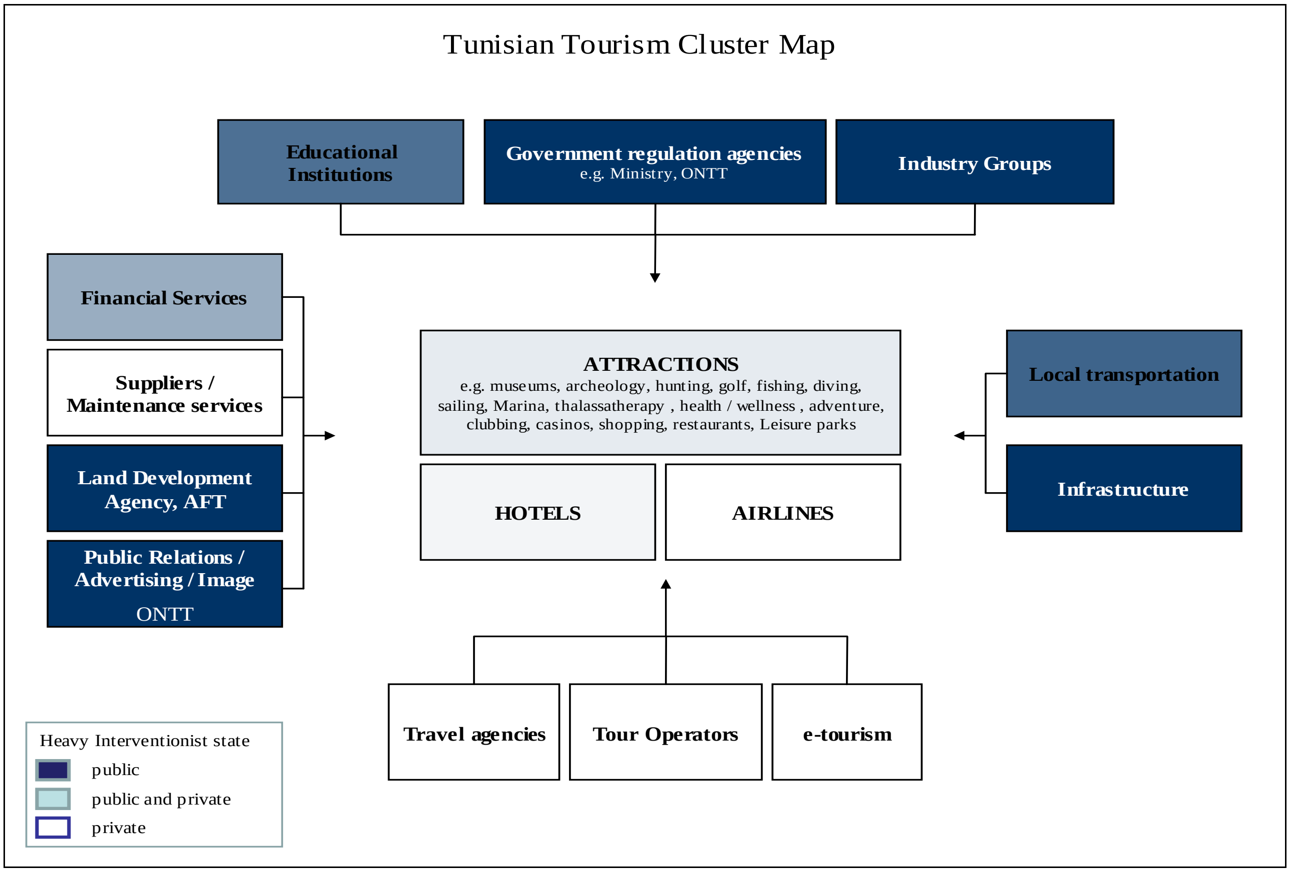
Lack of freedoms of speech and association are problems that Tunisian government is advised to address by encouraging the development of organizations independent of the government, in the civil society as well in the business sectors. This would facilitate the exchange of ideas and knowledge between sectors and transform industries and clusters into learning, more dynamic and competitive actors. Also these organizations and institutes could advocate and lobby for the sectors' interests and agendas for change. The industry associations currently existing in Tunisia are either de facto controlled by the government, or are too closely aligned with the government and the ruling elite and are ineffective in promoting and advocating for opening the industries and economy to competition and innovation.

CLUSTER ANALYSIS

Cluster Mapping

The tourism cluster map below outlines the major institution involved in the Tunisian Tourism Cluster, and points to the dominant role played by the government in its development.

The Tunisian Government has been pursuing its policies in developing the tourism sector through the many public institutions represented in the Tunisian Tourism Cluster Map below.



The Ministry of Tourism is in charge of the implementation of the government's policy in the tourism sector, (Government of Tunisia Official Website), counts 50 staff members and serves as a coordinating body. The ministry established an Upgrading Office in charge of improving the tourism industry's competitiveness through financial incentives, (Tunisian Tourism Official Website).

The National Tourism Office (ONTT) has the mission to implement the policy defined by the government, is structured in 12 departments, 8 regional offices and 19 international offices, with a total personnel of 1200 people. Its regional offices are in charge of the quality control of the tourist infrastructure and the organization of local tourist events, fairs and festivals. The international offices are responsible for the design and implementation of marketing and media campaigns for the tourist sector.

Advertising and Promotion of the Tourism Sector: The National Tourism Office (ONTT) has been the leading actor in designing and implementing communication and marketing campaigns for the tourism sector and promotion of the country. Tunisia spends annually 28 Million Euros for marketing, advertising and communication campaigns for the tourist sector. (WB Report, 2002) Sixty-four percent of its marketing budget is spent on targeting potential clients in Germany, UK, Italy and France. The rest is spent on the secondary markets in the Benelux countries, Spain, Switzerland, Central Europe and Arabs countries. The Tunisian media plays a limited role in promoting the sector inside or outside the country. There are two specialized magazines – TourismMag (www.tourismag.com) and Tourism Info, which have limited impact for the sector.

The National Tourism Council is a board of all government ministers led by the prime minister, which meets on a bi-annual basis and provides recommendations to enhance coordination between ministries in promoting and developing the tourism sector.

Tourism Land Agency (AFT) a public institution, **c**reated by the Government in 1973 to "acquire, manage and cede the land situated in areas destined for tourism", (Tunisian Tourism web site) developments, ensures the rational management of the coast by adopting and imposing development and construction standards. The Agency played a key role in the sector's remarkable development in the 1970s, but by segregating tourism developments from residential and commercial zones, the AFT contributed directly to the emergence of the artificial tourist areas disconnected from the rest of Tunisia, perpetuating the dependence on coastal tourism. (Fitch Ratings, 2004)

Tourism Observatory is a public agency created in 1998 to collect and centralize the data and statistics on the tourism sector. But the observatory failed in becoming a data base and a center of knowledge and best practices for the tourism sector.

Competition Development Fund was created to finance incentives provided by the government to the sector, and to finance tourism marketing and promotion campaigns through the tax on hotels and restaurants (1%) and from the travel agencies' revenues.

Educational Institutions: The High Institutes of Hotel Business and Tourism, established in 1976, was the first public university dedicated to hospitality. (Institut des Hautes Etudes Touristiques) Currently, ten public High Institutes of Hotel Business and Tourism operate in Tunisia, educating every year 1200 students. Also, the country has a large network of training programs targeting the tourism sector: 14 private training centers, 19 programs on tourism functioning within the public universities; 13 training programs operating within the private universities. (Fitch Ratings, 2004) According to analysis conducted by the Fitch Ratings in 2004, educational institutions have failed to adjust their curriculum to the fast changing demands of the industry. (Fitch Ratings, 2004)

Industry Associations: Industry associations are weak and have failed to define effective channels of communication and advocacy with the Government. Created in the early 1960s, the Tunisian Federation of Hotels promotes the sector, represents and defends its members in its relations with the government and provides recommendations for tourism development. The Federation is formed of 8 regional organizations that comprise among its members the key hotels of the regions. (Tunisian Tourism Federation) The Federation is considered ineffective in achieving its mission, representing the private sector or playing a role in policy development for the tourism sector. (WB Report, 2002)

Financial Services: The Government has established the National Bank of Tourism Development to finance and facilitate investment in the tourism sector. Banks both private and public, have also played a prominent role in financing the development of new hotels and touristic infrastructure.

Attractions: The government owns and manages museums and historical sites that are key attractions for tourists. Tunisia has one of the largest museums in the world and in Africa - Le Bardo with a unique collection of mosaics. One of the sector's primary problems is the quantitative and qualitative weakness of its leisure infrastructure - restaurants, cafes, bars, nightclubs. Also, the sector lacks professional staff with expertise in running cultural and entertainment events in tourist areas. In their efforts to diversify the Tunisian tourism offerings, the government and private actors have started to invest in alternative attractions like spas, hunting, fishing, diving, sailing, marina, and golf. Most of these efforts have fallen short, though spas in Tunisia have enjoyed success.

Infrastructure, Local Transportation and Hotels: The transportation infrastructure is well developed, as outlined in the national analysis above. The Government has also invested heavily in its hotel infrastructure and the tourism sector comprises today 825 hotels offering 231,838 beds spread over 11 tourist sites. (Fitch Ratings, 2007)

Tour Operators: The biggest tour operators active in Tunisia are Neckerman, and TUI. Tour operators have consolidated in Europe, and these tour operators now command a large portion of the incoming tourists to Tunisia.

Tourism Cluster Performance

Government's investment in infrastructure resulted in a steady and continuous increase in the number of hotels and lodging capacity. Back in the 1960s, Tourism's infrastructure was limited to 91 hotels with capacity of 2,498 rooms, half of which being placed in the capital Tunis. By the end of 2003 the number of hotels increased to 800 hotels with capacity of 222,000 beds, but almost 70,000 of beds required major renovations to meet the level of the more recent installations. In 2006, the number of hotels reached 825 offering 231,838 beds spread over 11 tourist sites, the sector's revenue constituting 5.2% of the GDP and 13% of Tunisia's exports. (Fitch Ratings, 2007)

Today, hotels account for 95% of Tunisia's lodging capacity, holiday villages represent 4.3% and apartment hotels 0.7%. Beds supply increased by 4.7% and 5.7%, respectively, in the 1980s and 1990s, but the growth over the 2000-2006 period was limited to 2.7% due to the problems faced by the industry and banks' reticence to further support the industry." (Fitch Ratings, 2004)

Seaside tourism infrastructure continues to be dominant and to capture most of the existing lodging capacity, and to attract most tourism investment (both lodging and entertainment investment), despite government incentives to channel private investors' interest towards other tourist sites. Hotels are concentrated in three major seaside tourist zones: Nabeul-Hammamet, Sousse-Kairouan and Jerba- Zarzis, which accounted in 2003 for almost 65% of the total number of hotel beds in Tunisia and cornering 70% of total bed nights. (Fitch Ratings, 2004)

Lodging diversity is low in Tunisia, most hotels being of the resort type, 67% of beds are in the three- and four-star category, five-star hotels' share is growing, representing currently 11% of total hotel bed. New lodging infrastructure such as rentals, boutique hotels (which reached 30 units in 2007), serviced apartments (self-catering) or cottages (agro-tourism) is almost non-existent and investment in its development is still low. (Fitch Ratings, 2007) Tunisian hotels are, for the most part, independent units owned and managed by their owners. International hotel chains currently manage almost 33% of the total number of beds, two-thirds of which are situated in the three main tourist zones mentioned above. Nevertheless, many Tunisian hotel owners remain opposed to management of their establishments by international hotel chains, fearing that the management charges would eat up a disproportionate share of their income compared with the added value that such chains' involvement would bring.

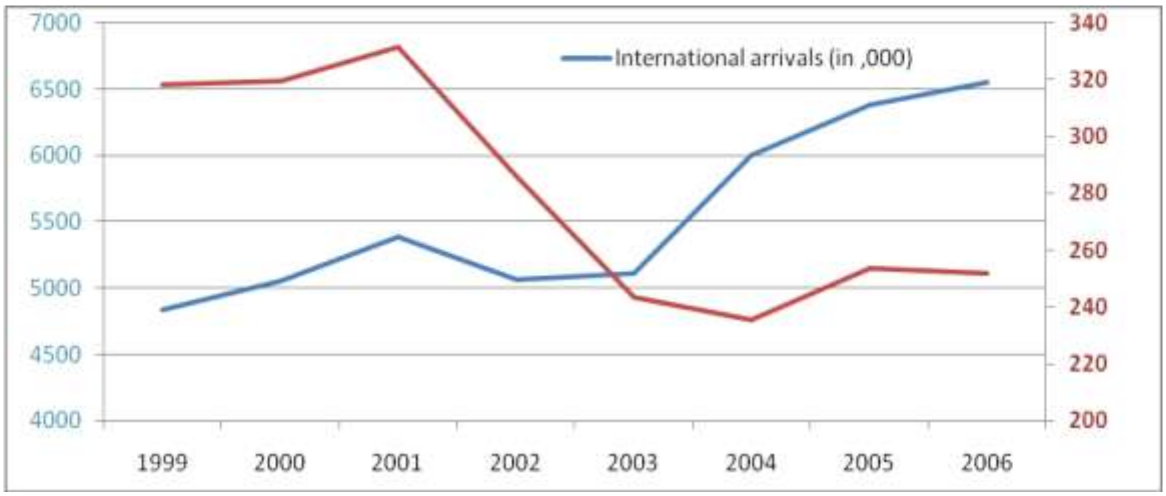
In recent years, Tunisia's tourist industry has been badly hit by the terrorist attacks in U.S. in September 11th, 2001 and in Jerba in April 2002. These resulted in the decline in tourist arrivals; bed night bookings dropped by 17% in 2002 and foreign currency earnings by 13%. The war in Iraq in 2003 also negatively impacted the tourism sector; bed nights went down by 1.4% and foreign currency earnings by 4.6%. (Fitch Ratings, 2004)

During 2003-2006, the number of visitors ranged between 5 and 6.5 millions, a significant increase from 1 million in 1975, giving Tunisia 0.75% of total global tourist flows, and 23% of tourist flows of the Mediterranean basin, excluding France, Italy and Spain. (Fitch Ratings, 2007)

While the lodging capacity has been increasing, the occupancy rate has dropped, from 52% during 1990-2001 to 44% in 2002 and 42% in 2003, largely as a result of external factors, terrorist attacks being one of them. During 2004-2006, tourist entries increased on average by 8.8% but the average tourist length of stay fell from 6.6 to 5.2 days from 2000 to 2006. (Fitch Ratings, 2007) Domestic clients' share of bed nights increased from 6.4% in 2000 to 10% in 2003. (Fitch Ratings, 2007)

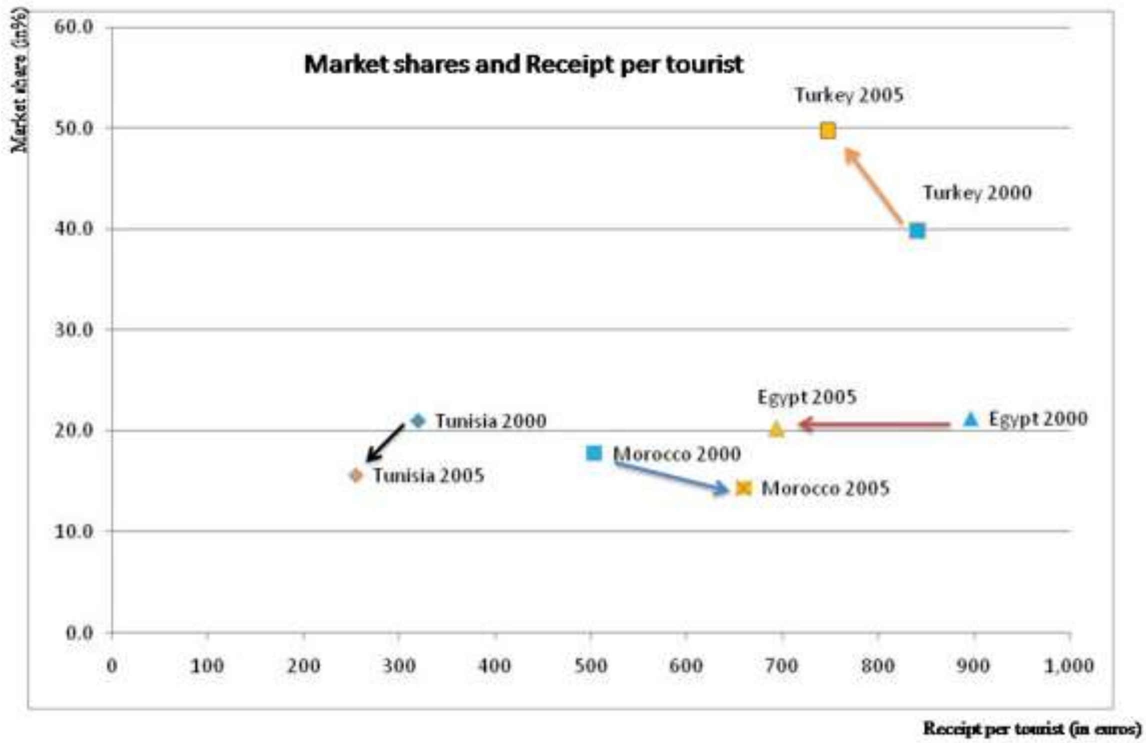
In terms of revenue receipts, Tunisia's average income from each of its tourists has been well below that of its regional peers. In 1999, the Tunisian average income per tourist was just

17% of Turkey's, 25% of Greece and Morocco's, and 33% of Egypt's average income earned per tourist. Tourists spend less during their stays in Tunisia. (Fitch Ratings, 2007) In 2002 while the number of tourists dropped by 6%, foreign currency earnings decreased by 13.7%. During 2001-2006, the country experienced a sharp decrease of 20% in the amount spent per tourist, from EURO 332 to EURO 252, (see graph below). (Fitch Ratings, 2007)



Source: Fitch Ratings, " Tunisian Tourism Industry – Business Model Needs Re-engineering", December 2007

During 2000-2005, Tunisia experienced a loss in its market share in comparison with its peers, from 20% to 16%. In 2000, a tourist spent on average EURO 504 in Morocco and only EURO 304 in Tunisia. This proportion further decreased in 2005 when the average tourist spent EURO 660 in Morocco comparing with EURO 252 (see graph below). (Fitch Ratings, 2007)



These trends led to the tourism sector's current serious financial difficulties. In 2002 several hotels were obliged to negotiate a rescheduling of their debt and the Tunisia's 2004 tax law authorized banks to cancel interest charges on overdue, unpaid debts held by tourist operators and the operators' tax penalties.

Tourists' Profile

Tourism in Tunisia historically has been highly dependent on European markets and customers. In 2000, the European profile of tourists visiting Tunisia was still dominant. German, French and Italian nationals combined accounted for 48% of total visitors, and contributed to 65% of bed nights. But in 2006 as a consequence of increasing international competition and Tunisia's inability to adjust its tourism package to changes in demand, the number of European visitors dropped to 34% of total tourists and their contribution to total bed nights dropped to 52%. (Fitch Ratings, 2007)

In the last five years, Tunisia's image as a low-cost tourist destination has increasingly attracted more North African visitors, mainly from Libya and Algeria; their proportion reached 37% of total visitors in 2006, but their contribution to bed nights remained low at 2.9%." (Fitch Ratings, 2007)

The tightness of the local market (Tunisia has 10 million inhabitants) and negligence by the authorities and the industry of the domestic customer led to low and unsophisticated domestic demand for tourist services and its marginal contribution to the sector's revenues. Domestic customers are buyers of the high season services, when hotel occupancy rates are high, but their share of bed nights represented only 6.4% in 2000 and increased to 10% in 2004. (Fitch Ratings Report, 2004)

With the increased international competition, unsophisticated and less competitive tourist offerings and a large capacity surplus, Tunisia has started to redirect its marketing campaigns to new markets like the Czech Republic and Poland in Eastern Europe, Canada, the United States, Japan, Iran and China.

Peer Comparison

According to The Travel & Tourism Competitiveness Report 2008, launched by the World Economic Forum, Tunisia is ranked 39th out of 130 countries analyzed in the report, "with an excellent assessment of the prioritization of Travel & Tourism (8th) – similar to countries such as Spain and Switzerland – with high government spending on the sector, effective destination-marketing campaigns, and attendance at most major international tourism fairs."(WEF, 2008)

In comparison with other countries in the region, Tunisia is perceived relatively safe from crime and violence – ranked 25th. Price competitiveness is a positive attribute, ranked 13th, with very competitive hotel prices, reasonable fuel levels, and reasonable taxation, but ticket taxes and airport charges are comparatively burdensome. Health and hygiene is an area of concern (75^{th}), with low physician density and a low concentration of hospital beds. (WEF, 2008)

Comparing Tunisia's ranking of Travel & Tourism Competitiveness Indexes with its most relevant competitors, Morocco, Egypt, Turkey and Croatia, we can observe that: (1) Tunisia has the highest ranking among the 5 countries in terms of policy rules and regulations, environment sustainability and safety and security; (2) Tunisian government support for the T & T industry is the highest among these countries, and even highest among the 130 countries covered by the report (8^{th}); (3) In terms of price competitiveness in the T&T industry, Tunisia is falling behind Egypt, which is ranked number 2^{nd} among 130 countries, but is placed 13^{th}, far ahead of Morocco, Croatia and Turkey; (4) Though Tunisia's tourism infrastructure is worse than that of Croatia, it is the best in comparison with that of Morocco, Egypt and Turkey; (5) Tunisia is ahead of its neighbors in terms of its human resources and availability qualified labor, ranked 35^{th}, in comparison with Morocco, Egypt and Turkey that are ranked 56^{th}, 80^{th} and 85^{th} respectively. (WEF, 2008)

Also, since the late 1980s, Tunisia has become a less popular tourist destination than its Mediterranean competitors (Morocco, Egypt, Greece and Turkey). As outlined above, it has recorded a slowdown in its arrivals growth rate and, furthermore, the lowest average level of receipts per tourist among its competitors. "Between 2000 and 2005, Tunisia lost around 5.3% of its regional market share while Turkey's regional market share progressed by 9.9%. Tunisia's receipts per international tourist are the lowest among its Mediterranean competitors, which emphasizes the country's image of a low-cost destination." (Fitch Ratings, 2007)

Cluster Diamond Analysis

Despite reports and analysis by the Tunisian government and outside institutions, the question remains: what could explain the poor performance of the Tunisian tourism industry during the last decade and its worsening competitive position compared to the country's competitors in the Mediterranean zone? What weaknesses have hindered industry progress that couldn't be captured by the WEF analysis? How could Tunisia outperform Morocco according to the WEF (Tunisia ranked 29 (out of 130 countries) and Morocco ranked 67) when our analysis clearly points to a stagnation if not a decline in the Tunisian tourism cluster?

WEF uses a different approach in Tunisian comparing to Morocco and Egypt. In Tunisia, the WEF established a partnership with the Arab Institute of Business Managers. In Morocco and Egypt the WEF partners are universities and research centers. The University Hassan II and the Egyptian Center for Economic Studies. Did the Tunisian confederation of business' managers honestly highlight investors' concerns?

Cluster Diamond: Demand conditions

We examined the nature of the demand and its recent evolution. Is there a sophisticated demand that pushes the industry to continuously innovate and upgrade? Is there a demand for innovative products and services that permit the industry to anticipate the evolution of the international market?

Three factor conditions influence the capacity of the Tunisian investors to compete and anticipate and adjust to the changes in the local and international markets' demands: the changing tourist profile, the negligence of the domestic tourism market, and the lax government ratings of tourist businesses.

Changing Tourist Profile

As mentioned above the number of North African tourists visiting Tunisia has grown by 87%. This increasing trend is not the result of Tunisian's effort to expand and capture this market, but was generated by the inability of the North African tourists to travel and reach European destination because of the visa procedures and price differences. This shift in the tourist profile resulted in a less demanding customer and a less sophisticated demand for the Tunisian touristic products and services. As a consequence the Tunisian sector has not been forced to innovate and upgrade.

Negligence Of Domestic Tourism

Hotels have historically focused on the international market and neglected domestic tourism. Two reasons have led to this situation. There has been a focus on hard currency, because of the advantages associated with revenue in international currency. Also, hotels commonly lack direct customer (retail) experience, because they sell their entire capacity once or twice a year in international fairs to the major international tour operators.

Lax Government Ratings

Permissive government classification is based on quantitative aspects (e.g. size, number of beds) rather than managerial aspects (service quality, innovative managerial practices). With a less sophisticated international demand, a poor domestic demand and permissive classification standards, Tunisian tourism operators have evolved in a comfortable environment, disconnected from the competitive pressures of the international market and weren't encouraged to continuously upgrade and innovate.

Cluster Diamond: Related And Supporting Industries

Do tourism operators have access to specific and specialized suppliers that accentuate their innovative capacities? Did related clusters develop to boost the tourism industry? Our analysis of the related industries highlighted characteristics that strongly handicapped the tourism industry.

Restrictive legislation and regulation hampers supporting industries. For example, international franchises are not allowed to open affiliates in Tunisia (McDonalds, Speedy, Pacha, or even Guggenheim museum). Importation of foreign wine is not permitted. And foreign boats are requested to repeat customs formalities even when they move between two Tunisian ports. Further, there are difficulties accessing international suppliers because the domestic service sector isn't open to international competitors.

The heavy state presence isn't only a problem through restrictive legislation. The state still directly controls important supporting industries such as the cultural sector. The Tunisian government owns and operates major museums, and organizes and finances major Tunisian festivals.

The decline in tourism has also affected local supporting industries. Tourism used to represent a sophisticated buyer playing a major role in the development of several industries (e.g. agribusiness, traditional carpets). The changing tourist profile and the decline in receipt per international tourist is creating a vicious circle and a perilous degradation of services and product quality.

In the face of these challenges, there is little action on the part of institutions for collaboration. The principal confederation of hotel managers ('Fédération hôtelière") is not active in their advocacy, and not truly representing the industry. (Tunisia Hotel Federation Web Site) Instead these organizations are largely acting as echo chambers for the official state strategy.

Finally, there is a lack of related clusters that could complement the tourism cluster. Surprisingly, the exceptional development of the tourism cluster in past decades did not generate the growth of other related clusters. Clusters that usually develop related to tourism are still in their infancy in Tunisia (e.g. cuisine, clubbing, shopping, arts). Tunisian tourism is not viewed by policy makers as a true "cluster." Instead, incentives and advantages focus only on hotels that are at the center of their development efforts.

Cluster Diamond: Factor conditions

Tunisia has good general factor conditions (e.g. human resources, infrastructure, and administration) but is weak in terms of specialized factors. The infrastructure serving the tourism cluster is poor. Airports are unclassified in the major quality and security rankings. (Skytrax, Airport Council International, www.airports.org and www.airlinequality.com) According to the Economist Intelligence Unit ranking of world cities in terms of access to health services, safety, culture, environmental conditions and infrastructure, Tunis placed at the 38th percentile. Cities above 36% face significant challenges in terms of these measures. (EIU, 2007)

There is good general access to education but standards are low and there is a lack of specialized human resources. The existing universities and training centers have not adapted to the tourism cluster's changing needs. Entertainment and dining are seen as major activities lacking specific skills. (Fitch Ratings, 2007)

The Tunisian legal framework contains restrictive provisions that also constrain the tourism cluster's development in Tunisia. The "government established the financing schema required in order to be eligible for a building permit, subsidies and bank financing", (WB Report, 2002) these models includes ratios and impose limits on different expenses (e.g. architects, engineers). Constraints also limit the access to suppliers; foreign architects for example are not allowed to practice in Tunisia. Cluster participants other than hotels suffer from unclear legislation that is more restrictive to foreigners than for local investors. Licenses to serve and sell spirits for example are issued to individuals, not businesses and rarely delivered to foreigners.

Access to capital is problematic, though a national bank was created to focus on small and medium enterprise development. (Fitch Ratings, 2007) However, these options are not available to the entire cluster. Restaurants and nightclubs for example suffer from access to adequate sources of finance.

Cluster Diamond: Strategy structure and Rivalry

We examined local competition and examined how the business environment impacts the industry and pushes investors to improve, innovate and upgrade, or alternatively, maintain the status quo.

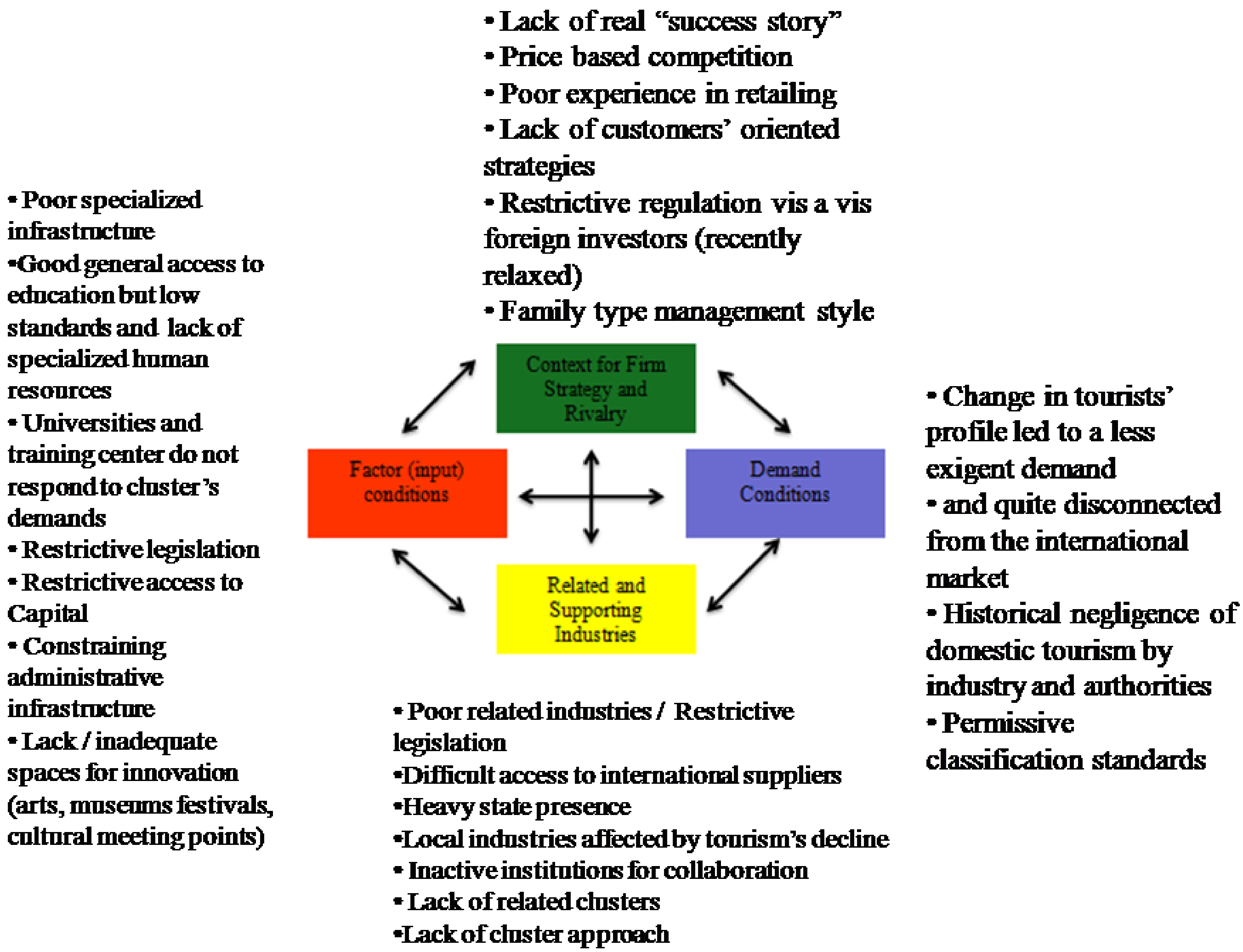
Our first finding confirms the idea of a disconnection between the industry and the final consumer. The recent consolidation among tour operators accentuated the gap between hotels and customers. With three to four "big" clients, the industry lacks true retail experience with customers. This development has resulted in competition driven by price. Quality is no longer measured and rarely at the heart of the tourist sector strategy.

We also noticed a lack of any real successful hotels that outperform the industry with a great international reputation. Hotel "Residence" is generally considered a successful example but it remains a local success without accompanying international success. We believe that the industry needs "flagships" that drive the sector and contribute to the country's image.

The poor presence of foreign investors in the hotel sector (between 7% and 9% of tourism investment in 2005 and 2006) (Fitch Ratings, 2007) could explain the lack of international successes. Recently, regulations against foreign investors (land property restrictions) have been relaxed and should boost FDI in the tourism cluster.

"Family or privately owned hotels raise governance concerns in terms of corporate resources' management, separate personal and corporate banking relationships and decision making reliability". (Fitch Ratings, 2004) This problem is accentuated by inheritance problems as the first generation of entrepreneurs in the tourism sector are retiring and transition is sometimes problematic.

DIAMOND ANALYSIS



Cluster Recommendations

Our first concern is: why were the clear recommendations stated in JICA study (2001), in the World Bank study (2002 and 2003), in Fitch Rating studies (2004 and 2007) ignored by the Tunisian administration. Why did the ministry launch a new call for tender for a new study in 2008 when clear solutions and positioning strategies are available?

Recommendations On Government Impact On The Diamond:

Before formulating the recommendations that will address the diamond four dimensions we see an urgent need in the government sphere to:

(1) First, cancel the invitation to tender for the new study

(2) Reorganize the National Tourism Board (ONTT) and the Tourism Land agency (AFT), by: Reducing the size of the ONTT and integrate its international offices and staff into the FIPA agency, whose mission is to promote and encourage FDI in Tunisia. The ONTT's staff could play an important role in attracting foreign investors to the development of the tourism sector.

(3) Redefine the mission and mandate of the ONTT, which should focus its resources and efforts to encourage tourism cluster development and managing the Tunisian brand. It is advisable that the ONTT be advised by a board (15-20 members) representing both the public and private sectors, with equal representation of the tourism cluster. Successful Tunisian expatriates willing to contribute to Tunisia's tourism cluster development should be invited to be part of the board too.

(4) Encourage and facilitate the creation of regional Institutes for Collaboration, to enable an increased dialogue between the public and private sectors, including representatives of the tourism cluster stakeholders. The regional IFCs could be in charge of managing the regions' marketing campaigns and developing regional tourism brands and products, targeting different markets segments.

(5) Redefine the mission and responsibilities of the Tourism Land Agency (AFT), encourage and facilitate the participation and involvement of international investors and real estate developers in the development of tourist areas. The AFT is encouraged to work closely with the FIPA to attract investors and to reduce their micromanagement of local real estate development.

Recommendations On The Diamond:

The key actors of the tourism sector need to bridge the gap between themselves and the final consumer. The sector can not compete on the international market without having full access to international expertise, knowledge and resources. Our key recommendations target the four Diamond dimensions.

Demand Conditions:

(1) Encourage the establishment and enforcement of foreign classification and ranking agencies.

(2) Send clear signal by downgrading hotels.

(3) Encourage the engagement of international tourism press in Tunisia.

(4) Related and Supporting Industries

(5) Create collaborative task forces with representatives of the regional IFCs (restaurants, clubs, golf, museum, spas, adventure, fishing, medical) to define and communicate recommendations to the ONTT.

(6) Extend measures and incentives to the whole cluster.

Factor Conditions

(1) Enable full access to international resources.

(2) Facilitate and relax work permits for foreigners.

(3) Encourage and attract foreign investment in the tourism sector through FIPA.

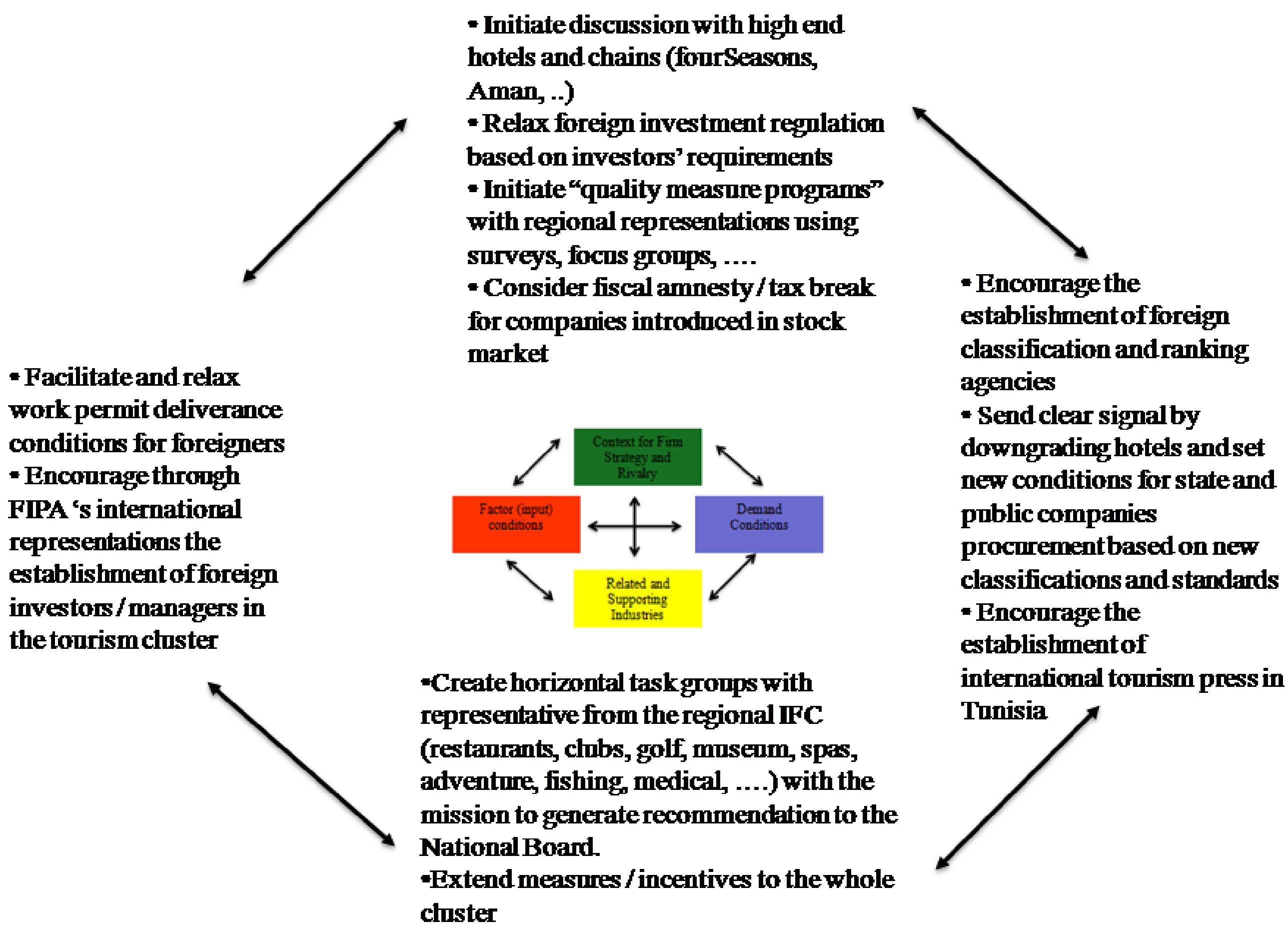
Context For Firm Strategy And Rivalry

(1) The ONTT and the FIPA should initiate discussions to attract high end hotel chains to help anchor the industry.

(2) Apply "quality measure programs" with regional representations using surveys and focus groups.

(3) Consider tax breaks for companies issuing public offerings in the stock market.

CLUSTER RECOMMENDATIONS



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