Assessment of the impact of trade liberalization between Ukraine and Tunisia

The summary of the research conducted
by the Institute of Economic Research and Policy Consulting
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Ukraine is a small open economy, which pace of economic development depends on how successfully the country is embedded in global economic relations.

Ukraine has established free trade zones (FTAs) with several important partners, including the European Union, the United Kingdom, and most CIS countries. Negotiations with Turkey are ongoing. In addition, the conclusion of new free trade agreements with several countries of the Barcelona Process, particularly with Jordan, has been under consideration. The **FTA with Tunisia is the focus of** this study.

Although Ukraine is physically larger than Tunisia, **economically, the countries are comparable**. Ukraine and Tunisia have almost the same values of GDP per capita in PPP, with slight dominance in favor of Ukraine.

Ukraine's trade balance with Tunisia is positive; its level is shallow and does not reach even 0.5% of Ukraine's total trade. Trade is also non-diversified. Ukraine exports of goods to Tunisia consists mainly agro-food products and metals, while exports of services are mostly travels

One of the **reasons for the low level of trade is the relatively high tariff and non-tariff barriers** faced by Ukrainian exporters **in the Tunisian market.** The level of tariff protection of Tunisia is more than twice as high as the protection of the domestic market of Ukraine. **The average MFN import duty rate in Tunisia is 11.6%** compared to 4.5% in Ukraine. Traditionally, import rates for food products in Tunisia are higher than non-food.

Tunisia applies **tariff quotas for certain agricultural produ**cts, and quotas do not apply to other goods. In addition, the country has a list of goods that are **excluded from the free import regime**, mostly non-food products. Many other products, mainly food, are subject to inspection before import, including obligatory laboratory inspection.

The vast majority of Tunisia's standards for goods comply with international standards. Still, one of the **significant obstacles to the importer is customs clearance**, after which the responsible authority may prevent goods from entering the Tunisian market.

Tunisia has a relatively **vast network of free trade agreements**, covering its key partners. All seven FTAs relate exclusively to **trade in goods**. The country also has two deals on trade preferences. The signed FTAs belong to the classic agreements concerning trade liberalization by reducing or abolishing import duties. Negotiations are currently underway between Tunisia and the EU on a new deal, which will review the terms of trade, including tariff reductions.

Ukraine and Tunisia have partly **different "competitiveness profiles",** which allow each other to **complement trade flows**, thus providing benefits for both partners, given that a free trade area is created. For example, Ukraine is competitive in Tunisia primarily in products of plant origin (grains). Instead, Tunisia has a competitive advantage in exporting shoes and chemical products, such as fertilizers, to Ukraine.

The analysis of the short-term consequences of the FTA between Tunisia and Ukraine, based on the SMART model, shows a **positive but low direct impact of the liberalization of import duties on mutual trade between** partners. According to the model results, the trade balance between Ukraine and Tunisia will remain positive; the growth rate of exports will be much higher than the growth rate of imports. Among Ukrainian exporters, agrarians and metal producers will benefit the most.

Analysis based on the general equilibrium model gives similar results. The simulation shows that the **FTA with Tunisia will have a positive**, albeit not very significant, impact on the **population's well-being and GDP.** In particular, there will be a shift in the trajectory of real GDP by 0.11% and welfare - by 0.17%.

The crucial scenarios for gaining these benefits are to achieve liberalization of access to the Tunisian market by reducing import duties and non-tariff barriers. At the same time, even the full liberalization of Ukraine's import duties on trade with Tunisia will have a minimal impact on real GDP and welfare and other macroeconomic indicators.

According to the model, the **most significant increase in income will occur for capital and unskilled labor**. Still, these two factors of production are also most affected by changes in the economy. However, the scale of redistribution of factors of production between sectors will be insignificant.

The increase in exports will exceed the increase in imports due to Tunisia's higher level of protection than Ukraine and the trade structure. Under the proposed scenarios, **we can expect an expansion of the trade surplus**

Services do not play a significant role in trade with Tunisia. Therefore, the model does not show significant changes due to the almost complete absence of current trade flows.

Among the sectors**, the biggest winners are the production and exports of metals, metal ores, and crops**. It should be noted that the growth of metal and grain exports is the expected result of the FTA with Tunisia based on all three tools for assessing export potential (analysis of the identified competitive advantage, partial equilibrium model and general equilibrium model).

In sum, the **analysis shows the positive impact of the FTA with Tunisia on the economy of Ukraine.**

The full version of the analytical report will be available on the websites of the Ministry of Economy of Ukraine and the Institute for Economic Research and Policy Consulting on 19 November 2021.