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TUNISIA, SLOW PROGRESS IN A TURBULENT REGION

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In the months and year ahead, the future of Tunisia will be shaped by its regional environment and by the capacity of its leaders to enact bold reforms. While Algeria has helped its smaller neighbour confront terrorism, the country's interplay with Libya has been altogether more complex. The impact of the Libya crisis on the Tunisian economy has not been easy to decipher but a World Bank report now allows for a better understanding of the complex interplay of economic and social factors between the two countries since 2011.

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Those who are corrupt are happy to keep the many state controls which characterise the management of the Tunisian economy because they offer them myriad opportunities to collect bribes. The more control, the easier corruption sets in. Thus is the way of the Arab world which many Tunisians are keen to break out of.

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Depriving a long chain of wealthy intermediaries, most of whom have strong relays in Nidaa Tunes, the lay coalition party founded by President Essebsi in 2012 and which runs the government and the Islamist Ennahda, its junior partner, is an uphill battle. If it is lost, the future of democracy in Tunisia is dark indeed.

Slow progress marred by loss of finance minister

Two events characterised the domestic last August. One was President Beji Caid Essebsi's initiative to ask the National Assembly to allow Tunisian women to marry non Muslim foreign men, which meant abolishing a ministerial decree dating from 1973. He also asked that gender equality be considered where inheritance is concerned. This speech underlines the president's wish to continue in the steps of the founder of modern Tunisia, President Habib Bourguiba who granted, in the Statut du code personnel in 1956, greater rights to women than in other Arab country. The second was the resignation of the minister of finance and foreign investment, Fadhel Abdelkefi, in the wake of attacks on his integrity regarding a customs lawsuit eventually dismissed by the courts. These attacks suggested the deep state will stop at nothing to destroy those who dare fight corruption, a cancer which - if unchecked, risks destroying this nascent democracy.

September was also marked by a new law enacted by parliament which grants an amnesty to those under prosecution by the state which holds any civil servant accountable if his decisions, while in the discharge of his official duties earned him illegitimate benefits. The majority of the 9000, mostly civil servants accused were found guilty of nothing. For seven years they have been de facto persecuted. The accusations were politically motivated after the fall of Ben Ali. The law took two years to make its way through parliament. Opposition deputies, particularly on the left did not even attempt to amend the bill, which excludes businessmen and often skipped parliamentary sessions. The debates, broadcast live on television, showed them making fools of them. The need for an amnesty was essential as article 96 of the penal code, inherited from the years of Bourguiba and Ben Ali, was used to launch a witch hunt during which many civil servants were presumed guilty until proven innocent. Blanket inquiries were launched which shackled civil servants who were very reluctant to authorize the expenditure of public funds – which were thus frozen. This both weakened the authority of the state and slowed desperately needed public spending.

But the broad remit of the law allows former ministers, senior civil servants who worked under Ben Ali to be prosecuted. As for businessmen, the faster the investigations for corruption under way are cleared up, the healthier the investment climate will be. Critics argue that MM Beji Caid Essebsi and Chahed did little to explain the ins and outs a complex and emotional subject but nor did opposition parties attempt a serious debate with the government. Others hope the law will help clear the air and get the country back to business.

After he was appointed earlier this year, Mr Chahed ordered the arrest of half a dozen businessmen whose are notoriously corrupt. To mention but two of them, Chafik Jarraya, the country's banana king, does not hide his links with the former presidential family, Qatar and the Libyan Al Watan party leader, Abdelhakim Belhadj while Yacine Chennoufi, for head of customs has recognised a scam on fish with the Trabelsi family, part of the Ben Ali clan. Public opinion had reacted positively when the prime minister, a young technocrat of 39 who speaks well had them arrested but the manner of Mr Abdelkefi's departure and the reluctance of the prime minister to defend him have left a bitter taste.

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Founded by the former minister's father Ahmed, Tunisie Valeurs could hardly be more symbolic of that part of Tunisia which is modern, daring and believes in integrity. Here as in other companies such as Cofamat, One Tech Holding, Poulina, Unimed, MEdis, etc., entrepreneurs are developing new sectors such as IT and pharmaceuticals which pull Tunisian manufacturing up the value chain. They set an example. By the same token, those who are corrupt, built companies which survive thanks to state patronage or have spent all their life in politics, are often jealous of such success. They are happy to keep the myriad state controls which characterise the management of the Tunisian economy because they offer them myriad opportunities to collect bribes. The more control, the easier corruption sets in. Thus is the way of the Arab world which many Tunisians are keen to break out of.

Tunisian leaders need to re-establish the authority of the state which has been badly damaged since 2011. Where security is concerned the last two governments, helped by respected professionals at the ministry of the interior have done a good job. Foreign tourists are slowly returning after the terrorist attacks in Tunis and Sousse in 2015, the frontier with Libya is far from totally secure but matters have improved – the flow of weapons in particular appears to be under control. With Algeria, the situation has stabilised. But the government needs to shrink the informal economy where goods are smuggled in from Libya or through ports. Moncef Bey Market in Tunis and the port of Radès next to Tunis are emblematic of this bazaar economy.

According to a survey by Joussour last July, 64% of Tunisians thought the customs were the main source of corruption in the country. Earlier this summer, Mr Abdekefi dared sack six senior customs officials, a crime de lèse majesté. Businessmen I spoke to argued that depriving a long chain of wealthy intermediaries, most of whom have strong relays in Nidaa Tunes, the lay coalition party founded by President Essebsi in 2012 and which runs the government and the Islamist Ennahda, its junior partner, is an uphill battle. If it is lost, the future of democracy in Tunisia is dark indeed.

Mr Chahed leaves Tunisians guessing about whether he will stand in the next presidential elections in 2019 but the present incumbent might choose to stand for a second term, by which time he will 92. That would put both men on a collision course. Mr Chahed's appointment, as indeed that of his predecessor Habib Essid, raises a further question, to which there is no easy answer. Why, since he was elected and Nidaa Tunes won a plurality of seats in parliament three years ago has Si Beji chosen two prime ministers who have little political experience? Why did he not appoint, to give but one example, the former ambassador to Algeria, Minister of Social Affairs, governor of Sfax and CEO of the state phosphate company, Mohamed Fadhel Khelil? Respected across the political board, his candidature had been endorsed by the powerful UGTT trade union (Union Générale Tunisienne du Travail), the leading industrial families of Tunis and Algeria, an important player in the country's affairs. The answer probably lies in the fact that the president likes be in control – thus denying his prime minister the full powers granted to him in the new constitution of 2015. Si Fadhel Khelil was a very popular man who throughout his career dared to confront vested interests. Indeed he was the only senior Tunisian official who refused to take down a statue of the founder of modern Tunisia, Habib Bourguiba, in Tabarka, when ordered to do so by President Ben Ali and never belonged to the ruling party. A strong and popular prime minister however would not have been to the liking of Si Beji.

Meanwhile, as Tunisia's finances deteriorate and its foreign indebtedness increases, the country will be forced to follows the advice – some would say the injunctions, of the International Monetary Fund. The leaders of the two leading parties may find no objection to that but many in Tunis will.

The World Bank hardly made itself popular by giving its full support to Ben Ali and then recanting in a report published after his fall. Imprisoning corrupt businessmen is all fine and dandy but tackling the real sources of "rente" should be the government's priority. Beyond taming the informal sector, public investment should be directed to worthwhile projects rather than white elephants which do nothing to reduce the huge regional disparities in wealth. Why spend 1bn Tunisian Dinars (TND) on a new bridge in the northern town of Bizerta – hardly a deprived area, which will add few jobs and do little to increase wealth? Why project a new airport due north of Tunis at Utique when the one in Tunis handles only 4m passengers compared with Nice (of comparable size) which handles 12m? Tunisia already boasts a huge airport, built a decade ago, at Enfida, due south of the capital which only handles a few flights every day. Why accept that state banks invest no money in the poor regions of Kasserine, Le Kef, Jendouba, Saliana, Kairouan, Tataouine, Kebili and Gafsa? It is in region where youth unemployment can be as high as 35% that young entrepreneurs are desperate for funds to start a business. The revolt of 2010-11 started in the poorer uplands and south, as did the bread revolt of 1984.

Critics of current economic policy like to point to UGTT as a major brake on reform. UGTT did indeed get the former minister of education, dismissed because his reforms were unpalatable to teachers. As the state employs around 850,000 people in the civil service and state companies, the union is indeed powerful. But the employer's federation is equally obstructive: it refuses to allow foreigners a level playing field in any number of sectors, thus allowing Tunisian businessmen who have the franchise of many foreign names to market their goods at high prices. The president does not dare confront UGTT, a key ally in his fight against Ennahda; the Islamist are keen on free enterprise but that does not means modern capitalism – a bazaar economy suits them fine and many entrepreneurs play both sides in order to keep their businesses afloat.

Complex relations with Libya

Ever since the death of Colonel Muammar Gadaffi and the collapse of the regime he led in Libya for 42 years, the impact the turmoil in that country has had on its neighbours has ranged from ever increasing flows of illegal African immigrants into Italy, a devastating attack on the Algerian gas field of In Amenas four years ago and the near collapse of Mali. Last but not least, there has been a broad spillover effect on its neighbour to the north, Tunisia.

In the absence of well document analysis and statistics, all kinds of figures – both of Libyans living in Tunisia, their impact on the economy of the host country and the cost to the Tunisian economy of these events have been bandied around. Now, thanks to a very thorough World Bank study, we can assess the situation with greater clarity.

Before addressing these questions however it is worth painting a broad brush picture of the human and economic toll the crisis has taken on the Libyan people and the economy. The World Food Programme estimates the number of Libyans in need of humanitarian assistance and protection at 2.44m, 40% of the population, 55% of who are women and children. Half this number is at risk of food insecurity. The report does not consider the plight of the hundreds of thousands of (mostly) African refugees who survive in far worse condition that the Libyans. GDP meanwhile contracted by 24% in 2013, 24% and 10% respectively in the two following years as production of crude oil fell in 2015 to the lowest level on record, around 0.4mbd, one quarter of potential output. As a result per capita income has dropped by two thirds to $4.500 while the fiscal deficit has skyrocketed from 4% of GDP in 2013 to 75% in 2015.

The first question now is to consider the number of Libyans who sought residence in Tunisia after 2011. It does not come as a surprise therefore that in 2014, 1.8m Libyans entered Tunisia and 1.4m exited which suggests that the number of long-term (more than six months) and short term (less than six months) Libyan residents and visitors is larger than the census estimate of 12,783 individuals of whom 7,212 are long term residents. These hail from the middle class have lived in Tunisia for more than three years and enjoy significant purchasing power - $50 a day which is a level two to three times higher than the average Tunisian household. It is worth noting that more than half of short term residents are in the country for medical care. Their sharp decline recently has resulted in a major cash crisis for the many private clinics in Tunis.

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The number of Tunisian workers in Libya who returned home between 2010 and 2014 is estimated by the report to be 60,000 out of 91,000 officially registered. Official remittance inflows declined by 32% to TND 38m in 2014 compared to four years before. The poorer southern region of Tunisia has been hardest hit, which helps to explain the huge rise in contraband and illicit trade across the boarder. Family links between the south of Tunisia and the north west of Libya are long standing. The population of the south where most of Tunisia's oil, gas and phosphate reserves are situated feel all the more aggrieved as, since independence the richer coastal regions and Tunis have paid little heed to their needs. The fracture between a relatively prosperous coastal area and a land of siba (dissidence) remains as great as it was when Ben Ali fell in January 2011.

The World Bank report then considers the level and dynamics of illicit informal trade and cash flows between the two countries. In seven Tunisian banks the report surveyed, Libyan deposits amounted to 12% of total deposits. They are funded by wages, including payroll transfers from the Central Bank of Libya. Cash is also brought over the frontier, some declare, some not. Informal currency exchange agents (Sarrafas) processed an estimated TND814m (Libyan dinar 1.25bn) in 2015, a figure three times lower than in 2013 due to the sharp depreciation of the Libyan currency, the decline in the number of Libyans entering Tunisia and the overall deterioration in the economic and security situation in the country.

The next point to consider is the value of informal trade between the two countries. In 2015 informal imports from Libya can be estimated at TND596.9m, driven by a large increase in fuel imports –TND296.9m as against TND66.8m two years earlier. Cigarettes were the next on the list. Meanwhile the value of Tunisian subsidized goods such as pasta, coucous, sugar and milk exported illegally to Libya and seized by Tunisian customs has doubled between 2013 and 2015 to TND1.1bn.

Tunisia has been forced to increase its defence and security spending sharply as a result of the turmoil in Libya – between 2011 and 2015, such expenditure has almost doubled to TND4.7bn. In broader terms the report estimates the impact of the Libyan crisis as follows:

The manner of the reconstruction of Libya which dictate how stable the region is in the decades ahead.

1) It contributed 24% to the overall drop in Tunisia's growth between 2011 and 2015.
2) This has amounted to a welfare loss of TND8.8bn or about \$880m a year, 2% of 2015 GDP. This loss is driven by the spill over effect on private investment and tourism which account, respectively for 60.1% and 36% of the slowdown in growth. One can add the reduction in remittances from Libya and the reduced purchasing power of Libyans in Tunisia. The fiscal cost to Tunisia has been \$580 over a five year period –2011 to 2015– which amounts to 6.3% of the tax take every year.
3) To cover such losses through taxation would require large tax increases while financing it with debt would increase the government's financing needs by TND7bn over a five year period (or 15% of the 2015 public debt-to-GDP ratio). This amount includes TND274m in additional interest payments and TND920m in additional debt amortization costs.

The report concludes that Tunisia would be well advised to "forthwith address the regulatory and infrastructure obstacles to trade and investment in Libya." This would allow Tunisia make full use of "the many comparative advantages in its trade with Libya – including a shared language and proximity." The future reconstruction and recovery of Libya must not be allowed to fuel "the already large informal crossboarder markets (and the security and economic challenges associated with illicit trade." Such a policy would have the further advantage of promoting economic development in the poorer regions of the country.

Needless to say, the West –not least France and the United Kingdom who, with the US, spearheaded the operation to rid Libya of Gadaffi despite having no UN mandate to do so- might wish to support such a policy. Instead of constantly moaning about terrorism and illegal immigration from Libya they could do worse than revisit their reckless policy of 2011 and, while continue to support Tunisia and its nascent democracy vigorously look at the region as a whole. If and when it comes, the manner of the reconstruction of Libya which dictate how stable the region is in the decades ahead. Weapons are not the key, even if the aforementioned nations are addicted to selling them to the Arab world. Good economic planning, clear rules of trade and investment, particularly in poorer regions will act as a solid anchor of stability.