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ECONOMICS WILL BE THE TEST OF TUNISIAN EXCEPTIONALISM

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Therevoltswhichstarted four years ago ushered in a period of change in the Arab world which has been more violent and chaotic than most observers foresaw. Syria is self-destructing. Libya is disintegrating. Egypt has reverted to military rule. The emergence of the Islamic State has further destabilised the region. Tunisia stands out as the one glimmer of hope in the gloom. Islamists won the general elections in October 2011 but lost them three years later. Most importantly, the Islamists accepted however grudgingly their defeat. A coalition of lay parties, Nidaa Tunes, won the highest number of votes in the second free elections but not an absolute majority. Its leader, the veteran political leader, Beji Caid Essebsi, went on to win the presidential elections on 25th December 2014, ousting Moncef Marzouki.

The challenges Tunisia has faced over the past four years have not gone away. Economic conditions have deteriorated. Getting the country back to work, rebuilding the trust of the private sector, ensuring that public investment is actually made, will be the acid test of whether Tunisia can double its growth rate to 5-6% over the next few years.

All the political nous the key actors in the presidency and government can muster will be required if desperately needed jobs are to be created. Failure would spell social and political strife and an eventual rescheduling of foreign debt would impose its own cold logic.

The private sector accounts for a paltry 20% of total investment. Half of the budgeted public sector investment has not been made since 2011. Growth has been fuelled by private consumption, sucking in imports and not investment.

An estimated 40% of the budget outside investment is accounted for by civil service salaries, the Islamists having left the poisoned chalice of tens of thousands of unqualified Tunisians recruited to an already bloated civil service.

Tunisia needs an estimated \$5-6bn in aid and loans annually over the next three years and foreign donors appear well disposed.

The pattern of voting underlines the chasm between two Tunisias – a dangerous divide through social classes which pits the elites of the coast against part of the south and west.

The massive abstention of younger people means that the new prime minister will have to inspire and lead, not just manage the government in technocratic fashion.

North Africa's smallest country had witnessed a change in the regime but not a change of regime. Thousands of educated Tunisians have come home to build what they wish will be a beacon of hope in North Africa.

The army has played a key role in helping maintain the peace during the past four turbulent years. Paradoxically, the army enjoys more power today than it did before 2011.

International aid should be conditioned, to a degree, on the next government enacting a long term energy policy worthy of what the sector could contribute to Tunisia's economic recovery.

An encouraging start for the new leaders

Mr Essebsi enjoyed a long career in the 1970s and 1980s as minister of Foreign Affairs, Defence and the Interior of the founder of modern Tunisia, Habib Bourguiba. He is committed to restoring much needed dignity to the office of president after his erratic predecessor. Since he was elected just over a month ago, *bajbouj* as he is affectionately known to most Tunisians has scrupulously followed the letter of the constitution. He has relinquished his leadership of Nidaa Tunes to Mohamed Ennaceur who has been elected president of the new chamber of deputies and endorsed the presence of Islamists in the new government, to the dismay of a large majority of the ruling council of Nidaa Tunes. On foreign affairs, the buck stops in the presidential palace in Carthage but the new prime minister enjoys greater powers than any of his predecessors since independence

in 1956. Mohsen Marzouk, a shrewd operator, will steer key diplomatic issues from the presidential palace in Carthage.

The new Prime Minister Habib Essid is 65, the personification of those well-educated officials who are the backbone of the country's civil service and a very safe pair of hands. Mr Essid is a man for all seasons. He has held jobs under former president Ben Ali, was minister of the interior in Mr Essebsi's transitional government after the revolt of 2011 and served the first Islamist prime minister, Hamadi Jebali as security advisor in 2012-2013. Ministers are drawn from Nidaa Tunes (7 portfolios), Union Patriotique Libre and Afek Tunes (3 each) and Ennahda (1). The government enjoys a comfortable majority in the chamber of deputies. The ruling council of Nidaa Tunes (86 deputies) had argued that the support of the two minor parties, Afek Tunes (6 deputies) and UPL (16 deputies), was sufficient to ensure the government could win a vote of confidence without the support of Islamist deputies (69) given the government a free hand in enacting bold policies.

The prime minister personally confirmed the somewhat controversial minister of the interior, Mohamed Gharsalli in his job. Other key posts are in the hands of competent people: the minister of finance, Slim Chaker, is respected senior civil servant; the minister of foreign affairs, Taieb Baccouche, is the vice chair of Nidaa Tunes and a former trades union leader; the minister of social affairs, Ahmed Younbai, is very close to the trades unions, a key player for the government at a time of great social tensions; the minister of education is a historian and university professor of repute; the ministry of tourism, a strategic interface with the outside world, has gone

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to Salma Rekik, who hails from one of Tunisia's most distinguished private sector families, the Elloumi – she was financial director of the Elloumi Group for many years. **Mr Essid has chosen people he has often worked with which should ensure a team spirit. However, some Tunisians regret the absence of outstanding personalities, people whose vision they feel their country badly needs.**

Getting the country back to work, rebuilding the trust of the private sector, ensuring that public investment is actually made will be the acid test of whether Tunisia can double its growth rate to 5-6% over the next few years. The Central Bank concedes that 3% growth is the best that can be achieved in 2015, compared with 2.5% last year. It has just raised a \$1bn bond on the international capital markets but the balance of trade deficit is growing, as is the foreign debt. All the political nous the key actors in the presidency and government can muster will be required if desperately needed jobs are to be created. **Failure would spell social and political strife and an eventual rescheduling of foreign debt would impose its own cold logic.**

The private sector accounts for a paltry 20% of total investment. Half of the budgeted public sector investment has not been made since 2011. Growth has been fuelled by private consumption, sucking in imports and not investment. This state of affairs spells an ever rising deficit in the balance of

foreign trade and in foreign indebtedness. An estimated 40% of the budget outside investment is accounted for by civil service salaries, the Islamists having left the poisoned chalice of tens of thousands of unqualified Tunisians recruited to an already bloated civil service.

Doubling the rate of economic growth is essential

Democratic politics are time consuming but economic factors could quickly make life uncomfortable. Tunisia needs an estimated \$5-6bn in aid and loans annually over the next three years and foreign donors appear well disposed. Tunisian leaders must demonstrate that what greater freedom of expression and voting produces is being put to good use. **However serious outside threats are, trust in the country's institutions and those who exercise power must be rebuilt. Younger people need to be appointed to senior jobs. Failing that, young Tunisians, many of whom did not bother to vote, cannot be expected to listen to a bunch of elder citizens.**

Tunisia can ill afford to wait two years while Nidaa Tunes sorts out its internal affairs. The Islamists could come back if the government cannot deliver. The pattern of voting underlines the chasm between two Tunisias – a dangerous divide through social classes which pits the elites of the coast against part of the south and west. The massive abstention of younger people means that the new prime minister will have to inspire and lead, not just manage the government in technocratic fashion. The risk of reviving political conflicts which go back to independence is real. But reality on the ground in Tunisia is more nuanced than the revolutionary/counter-revolutionary paradigm would suggest. The next two years are an acid test of Tunisia's much vaunted *exceptionalism* in the Arab world.

Whatever his faults and his unwillingness to choose a successor, Bourguiba put in place some of the essential building blocks of a modern state. He benefited from his reformist predecessors who, well before the French invasion of 1881, had enacted bold constitutional reforms – a paid civil service, the beginnings of a modern army, the Sadiki College in Tunis modelled on the French lycée and a certain separation between the state and religion. He gave Tunisian women equal rights in 1956 and family planning in 1961. These two major reforms explain the role women and the broader middle class play in the country today and the resistance they put up against the Islamists. Women are key supporters of Beji Caid Essebsi.

Tunisia's fourth president acquired earlier in his political life experience in world affairs that will be very useful today. He understands the Maghreb region and the wider world only too well. He has always enjoyed good relations with the powerful neighbour to the west, Algeria. This expertise should serve him well at a time when both armies are cooperating in the fight against terrorism along their long border. Political trust is a pre-requisite to deeper economic cooperation. Algeria gave Tunisia more money than the EU when Si Beji was prime minister in 2011 and acts as the de facto guarantor of Tunisian stability, with the discreet blessing of the US.

Hence his first state visit has been to Algiers. The continuing turmoil in Libya suggests that the new president will have the strong support of many foreign countries, none of which wish to see the turmoil in Libya spread further. At 88, Si Beji is no budding dictator but much will depend on how well the Caid Essebsi - Essid tandem works out. For Tunisia to grow deeper democratic roots, making the judiciary and police more accountable is essential.

The mix of new ministers, some political, some more technocratic, sends a positive signal that the country is back in business. The country's elite did not flee after the fall of the former dictator. The old Tunisian elites are still in control. North Africa's smallest country had witnessed a change *in* the regime but not a change *of* regime. Thousands of educated Tunisians have come home to build what they wish will be a beacon of hope in North Africa. Pessimists fear the country might be heading for a train wreck but seasoned observers remain cautiously optimistic that democracy will put down healthy roots.

Why the Tunisian revolt was successful

The Tunisian revolt, the first of a series of revolts against authority in the Arab world, was home-grown. The protesters were not supported by a foreign country. This gave their movement credibility and independence. They came from the poorer classes. Many were young people with little hope of regular employment, even when they had university degrees and especially if they lived in the underdeveloped hinterland. Crushed, they deeply resented their humiliation and had nothing to lose. By contrast the middle classes and the trades unions UGTT did have something to lose yet nevertheless they played an important role in organising the second phase of the riots along with other professional organisations such as the lawyers federation and Tunisia League of Human Rights. The army played a decisive role by not intervening. Its refusal to fire on demonstrators was where it differed from armies in other Arab states. It has played a key role in helping maintain the peace during the past four turbulent years. Paradoxically, the army enjoys more power today than it did before 2011. That weight will increase if faster growth is not restored and more jobs created in the next few years. This is one of the ironic and unforeseen consequences of 2011.

Tunisia was supposed to be the poster-child for Arab economic success. An October 27, 2010, evaluation on the website of the World Bank gushed with enthusiasm for the country's economic performance. However the report which the World Bank published in September 2014 states that "although the perception in Tunisia is that the economy is open and relatively well integrated, in fact compared to benchmark countries Tunisia remains less open (as measured by the share of exports and imports to GDP) and quite protected. Beyond the shiny façade presented by the former regime (the economy) was clearly a system asphyxiated by its own corruption."

What neither of these reports addresses is the demographic profile of Tunisia. The average young Tunisian women grew up in a family of seven children but will only bear one or two herself. Her mother was illiterate but her better educated daughter has neither the inclination nor the income to raise a large family. By 2000, Tunisia's fertility rate had already fallen below replacement and is likely to fall further. One out of ten Tunisians is an elderly dependant today and, as the present generation ages, the ratio will rise to about the same level as in Western Europe. A poor country simply has no way to manage this situation and Tunisia has not provisioned for its rising number of older people.

The second concern is the low level of much university education in Tunisia: roughly one third of secondary school graduates go on to university but the diplomas they obtain are largely worthless. Any self-respecting middle class family strives to get its children into French universities. The children of the poorer hinterland, who only started getting into Tunisian universities in recent years, find the sacrifices their parents made in the hope of getting better jobs dashed. Often there simply are no jobs. Elite schools in China and India produce engineering graduates which meet world standards but the only Muslim country which can claim to do the same is Turkey. Tunisia attracts a modest amount of foreign investment but outsourcing by foreign companies adds maybe 2000 jobs a year, or one for every 180 university students. Although Tunisian engineers will work for a fifth of the cost of their European counterparts, there are not enough good engineers let alone good jobs even for the good ones. The most qualified university graduates seek better opportunities overseas.

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Several questions remained unanswered about the revolt in Tunisia. To what degree would an uprising sparked by economic hardship make these very hardships more severe as political and social turmoil led to a fall in output and a rise in unemployment? How would private investors react to a deterioration in the political, social and security environment? Would Tunisia's key economic partners give the financial support for more democratic politics and better economic governance? It was not Islam or poverty itself that provoked the uprisings; it was the crushing humiliation that had deprived the majority of Tunisians who are under the age of thirty of the right to assert control over their own lives.

Economic and social conditions have deteriorated

The challenges Tunisia has faced over the past four years have not gone away. Economic conditions have deteriorated. Unofficial unemployment has risen. Prices of food and staple goods have soared. During the two years they governed Tunisia in 2012 and 2013, the Islamists demonstrated their lack of interest, or incapacity, to address the economic and social problems of a modernising society. Even more

damming was their failure to control the hard line *Salafi* Islamists. Insecurity does little to attract domestic or foreign investment.

When the Islamists reluctantly relinquished power a year ago, the morale of what was arguably one of the best qualified civil services in the Middle East and North Africa had sunk very low. Many of the country's frontiers were no longer under state control. Regional gangs of traders in illicit goods fuelled a huge growth in the informal sector. The consequences were dire. Cheap imported goods flooded the country and forced the closure of local manufacturing while the state lost a large chunk of the tax take, thus forcing to it borrow more, notably abroad. This problem must be set in a broader context. Tunisian leaders have long viewed aid from abroad as something they are due. They could do worse than offer the Tunisian diaspora serious incentives to invest in Tunisia. Such a policy would also encourage some of the tens of billions of domestic savings invested abroad to be repatriated

The technocratic government which took over a year ago delivered a message as brutal as the bare statistics. GDP growth had averaged 2.3% annually since the fall of Ben Ali, 0.8% if one subtracts government wages (100,000 new recruits, often lacking in qualifications, joined the public sector). That is the price paid for political expediency. Wages overall have grown by 40%, productivity by 0.2%. The

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cost of state subsidies to oil and gas products has rocketed by 270% over three years and amounts to 6% of GDP. They essentially benefit well off Tunisians. The budget deficit rose last year to 6.5% of GDP as against 5.7% the year before but would have risen much further had it not been for the very strong pressure from the IMF. The current account deficit reached 9%, essentially a reflection of a deteriorating trade balance. Foreign debt meanwhile has increased by over a third to over 50% of GDP. Such figures are unsustainable.

Strikes have proliferated as the trades union UGTT, which brokered the Islamists departure from government, continued to flex its muscles. Regional UGTT barons seem to think that nationalising or renationalising loss-making industries will save the country and the union's leadership in Tunis has difficulty in controlling its regional offshoots. The technocratic government led by Mehdi Jomaa did make some timid reforms in the run up to the recent elections. But it lacked a clear political mandate. It took important measures to re-establish security which had deteriorated during the years of Islamist government. The government started cutting subsidies notably on fuel. But the aim of the fiscal reform it enacted was limited to increasing the tax take rather than making the system more investment friendly.

The World Bank contradicts itself

The latest World Bank report has provoked controversy in Tunisia. By admitting that corruption was widespread in Tunisia, the report also opens a Pandora box: is it not widespread in other countries of the region and why does the World Bank not say so? In other words, does the old order need to be overturned and more democratic politics to prevail before the World Bank tells us the truth about its other Middle Eastern and North African clients?

The success or failure of economic reforms in Tunisia will depend on how pragmatic the new government and president chose to be. The economic priorities of the new government will have to include building major infrastructure with a view of integrating the poorer western and southern hinterlands into the country's economy; reforming the bureaucratic manner in which the country is governed and getting rid of the myriad authorisations and rules which hand far too much power to bureaucrats (159 infrastructure projects worth Euros 8.8bn are in abeyance since the end of 2010); encouraging young people to set up small companies but at the same time backing those large companies which export goods with real added value. Crony capitalism and helping insiders must be curbed, a cardinal sin in a capital where all families are related to one another. Aiming state subsidies must be targeted at those who need them, making the middle classes pay the full price for the foodstuffs and the fuel they consume.

First the government must bring the informal sector under control and ensure that the state does not lose an estimated half of the tax take it is owed by its citizens.

Mopping up the huge amount of informal money washing around Tunisia is essential to get the economy back working and to weaken the criminal networks which have flourished after the authority of the state collapsed. Being transparent, daring to debate publicly – the age of social networks and the internet has smashed censorship – and keeping the powerful trades union UGTT engaged in the debate will require high political skills. A new social compact between the government, the unions and the employer's federation UTICA is a must. The economy has proved more resilient than might have been expected, buffeted as it was by strong political and security ill-winds and a recession in Europe, Tunisia's principal export market and source of tourists. The country's central bank has played its regulatory role with poise. Its role should be reinforced – and made more independent of the government.

The first priority of the new government will be to get a budget for 2015 approved by the National Assembly. The draft submitted to parliament before last October's elections was not even debated by deputies. UGTT fully agrees that this is the priority of the incoming government. Bold reforms are however unlikely to be enacted so quickly. The second will be to offer a daring policy to rekindle foreign interest in exploring for oil and gas – energy accounts for 7.5% of GDP. Agreements need to be concluded with Italy and Algeria con-

cerning the buying and selling of electricity; to build a legal framework which encourages the production of renewable energy and shale gas; to simplify existing rules which are too many and too complex. Getting the right mix of energy policies is all the more pressing because Tunisia risks losing part of its manufacturing offshore sector the Eastern Europe because of rising costs. International aid should be conditioned, to a degree, on the next government enacting a long term energy policy worthy of what the sector could contribute to Tunisia's economic recovery.

The recent IBRD report notes that by 2010 firms belonging to Ben Ali's extended family accounted for "a striking 21.3% of all net private sector profits" which amounts to 0.5% of GDP. The Tunisian people are unlikely to recover the billions worth of property, shares and gold that the Ben Ali clan salted away in France, Switzerland, the US and elsewhere. Tunisia now would benefit from these countries' support with a mixture of loans and investment guarantees. That will help to stabilise the country and prove that democracy delivers.

The next two years are an acid test of Tunisia's much vaunted exceptionalism in the Arab world.