



How Neoliberalism Fosters State Capture: Insights from Tunisia

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 **EU-LISTCO**

Europe's External Action and the Dual Challenges
of Limited Statehood and Contested Orders

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ABSTRACT

Despite the popular protests that took place in 2011, the political economy of Tunisia remains largely characterized by processes of state capture and cronyism. While benefiting the ruling class, the social and economic costs of these mechanisms are detrimental to most of the population. There is a tendency in policy and academic circles to characterize state capture as the result of a late-development syndrome and unfair competition. This policy paper, however, proposes to adopt an alternative outlook. It argues for the need to critically reflect on the key role of the current neoliberal economic model in sustaining these dynamics. Based on the pursuit of the profit rate, the push for neoliberal reforms in Tunisia have sustained predation and rentierism since the late 1980s. In such a context, the European Union (EU) should rethink its terms of economic engagement based on neoliberal premises, and instead sustain an economic agenda aiming to regulate the rights and responsibilities of local and international capital in the interest of all.

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INTRODUCTION*

Ten years have passed since the so-called ‘Arab Spring,’ but there were no festive celebrations marking these revolts in Tunisia. Since 16 January 2021, nationwide protests have erupted against the government and, more importantly, in reaction to the economic crisis plaguing the country during the current global pandemic. Unfortunately, the wave of discontent that led to the fall of long-standing governments in the Middle East and North Africa region (MENA) has not produced the desired results—meaning better socio-economic conditions and political freedom. In this policy paper, I argue, in fact, that the political economy of Tunisia remains characterized by processes of state capture and cronyism, whose social and economic costs have detrimental consequences towards most of the population. There is a tendency in policy and academic circles to characterize state capture as the result of a late-development syndrome and unfair market-competition. This policy paper, however, proposes to adopt an alternative outlook. It argues for the need to rethink the key role of the current neoliberal economic model in sustaining these dynamics. Based on the pursuit of profit, the push for neoliberal reforms in Tunisia since the 1980s has sustained predation and rentierism. In such a context, the EU should rethink its terms of economic engagement based on free-trade agreements, and instead sustain an economic agenda aiming to regulate the rights and responsibilities of local and international capital in the interest of nature and for the majority of society.

The importance of this research to EU-LISTCO lies in how it reveals the role and the interlinkages between local, national, regional, and external actors in fostering (or undermining) resilience in areas of limited statehood or contested orders (ALS/CO). As a result, this policy paper mainly recommends for the EU to:

- Put an end to free trade agreements.
- Develop a more egalitarian economic agenda with countries of the Southern Neighborhood.

The paper is divided in three main sections. In the first one, it examines how mainstream analyses present the problem of state capture in Tunisia. The second part explains how state capture has emerged in Tunisia under neoliberal conditions of development. The last section provides two main policy suggestions to overcome this impasse.

STATE CAPTURE? BEYOND THE LATE-DEVELOPMENT SYNDROME

When mainstream analyses focus on the nature of the progressive informalization and pauperization of the Tunisian economy, they often stress and link it to the issue of state capture (Diwan et al. 2019). Their main argument lies in demonstrating how political authorities pursue policies that allow them to receive favours with great economic value. To capture the state, private and public actors collude and rely on the systematic abuse of formal institutions in order to accu-

*A longer and more articulated version of this policy paper is forthcoming, see Capasso (2021) ‘From Human Smuggling to State Capture: Furthering Neoliberal Governance in North Africa’ In: *Journal of Labor and Society*.

mulate power and wealth. Like many other states in the MENA region, Tunisia's political economy is described as based on deals between political and economic elites rather than on the enforcement of clear and impartial rules. Some analysts have argued that politics have driven economic development in the MENA region, and this has not allowed their population to benefit fully from the process of economic globalization, distorting the inherent degree of dynamism of a market-oriented society (Clement and Springborg 2010). In the aftermath of the 2011 revolts, the World Bank conducted a study that laid out this argument in an emblematic fashion, arguing that state capture in Tunisia under Ben Ali had been driven by an abuse of regulatory measures used to protect his clan. In other words, the state intervened 'too much' in the economy. Interestingly, these interpretations agree that state capture is the result of weak institutions or a late-development syndrome, and the political economies of these states appear as detached or not fully part of the global neoliberal economy.

However, as this policy paper argues, the liberalization of these countries' economies lies at the core of these dynamics of rentierism. When poorer, less secure countries with weak production capacity open up their markets, the interests of the ruling class become integrated—and thus, dollarized—in the safer international financial markets (Kadri 2015). As a result, the national resources, capital and labour flee the national market. Why? Because it is not nationalist enthusiasm or charitable proclivities that allocate resources, but it is the pursuit of profit. In other words, neoliberalism has served as a belt for the interests of the ruling elites and their international allies, albeit to the detriment of the lower segments of the population. In doing so, the ruling elites further renounced their traditional constituencies of farmers, workers, and low-level civil servants, seeking instead the political support of the international business elite.

As we shall see, those interlinkages cannot be underestimated in the case of Tunisia, and we should keep them in mind when thinking about sources of risks and threats, and the societal resilience of the Southern Neighbourhood.

THE NEOLIBERAL EXPERIENCE IN TUNISIA

The liberalization of the Tunisian economy, which begun with President Ben Ali in the late 1980s, had highly disruptive consequences for the country, since the introduction of market forces allowed the ruling elites to consolidate the process of state capture (Brésillon 2020). Both the EU and international financial institutions (IFIs) did not refrain from supporting the adoption and promotion of legislative and economic measures that, while pushing for privatization, led to a massive deterioration of the conditions of workers.

This process, in fact, led to a significant shift in the economy by the end of the 1990s, whereby the inner circles around Ben Ali started to control investments and private projects. Ben Ali's clan managed to establish a vast and lucrative business empire through a process of increasing privatization accompanied by tax evasion. As a study from the World Bank notices, the enterprises confiscated in the aftermath of 2011, linked to the Ben Ali family, represented approximately a fifth of all private sector profit: They were 'on average significantly larger than their competitors and record spectacularly higher levels of output, profits and growth' (Rijkers and Freund and Nucifora 2014, 24). Liberalization

of the economy has turned out to be a source of profit and wealth for the ruling elites, but it has also acted as a source of potential risks (i.e., loss of work or acceptance of increasingly precarious working conditions) and thus reduced resilience of farmers, peasants and working classes, more generally. In fact, the formal sector remained under the control of rent-seeking elites who reaped the benefits of opening the economy to international capital, which significantly affected the distribution of wealth and power within and among the local population (Hibou 2011). Those differences emerged clearly in the imbalance of economic and social reforms and developmental policies that the state implemented predominantly in the coastal areas and the capital, Tunis, leading to the marginalization of the other regions (Santini 2018). Such disparities not only hindered local resilience but also led to several rounds of contestation and governance breakdown, as they exploded in late 2010. As a poll conducted after the revolution shows, most of the respondents believed that the revolution had been induced by the youth (96%), the unemployed (85.3%), and the disadvantaged (87.3%) (SIG-MA Group 2011).

Moreover, the political lexicon concerning the objectives of agricultural policy changed dramatically from the end of the 1980s. The integration of Tunisia's agriculture into the global market has created a structural food dependence and a general impoverishment of the peasantry, unable to supply their own food security (see Ayeb and Bush 2019). This shift was based on the reorientation of agricultural, economic and 'natural' resources to the benefit of investment in agribusiness, promoting the interests of those who benefitted from state investment in irrigation to the detriment of family farming (El Safi 2016). Far from being a simple political slogan, those policies produced large-scale changes. Tunisian agricultural strategy no longer focused on producing more for those in need but became instead a strategy to produce more to export (Ayeb and Bush 2019: 93–122). As a result, these neoliberal reforms triggered the pauperization of the economy—such as a rise in precarious working activities, particularly in the long-neglected regions of the South, including the increasing participation in human and oil smuggling (Capasso 2021; Meddeb 2017). As a result, the progressive deterioration of socio-economic conditions not only encouraged societal discontent before 2011 (Yousfi 2017) but played a significant role in fanning the flames of the popular protests that resulted in the overthrow of Ben Ali (Hibou and Khiari 2011).

After 2011, Tunisia continued to be praised as a successful revolutionary story. Yet, the economic elites have further entrenched their position by hijacking the transition process, while unemployment, particularly youth unemployment, is on the rise (Schaefer 2018), and currently standing at 35-6% (World Bank 2019). The transitional government seized the assets of the Ben Ali affiliated-clan, resulting in several prosperous state-linked companies being sold in a call for tender opened to local investors. While on the surface this suggested a restructuring of the economy, its structural conditions have not shifted significantly. After 2011, neoliberal reforms and Structural Adjustment Policies (SAPs) have continued to be pushed by various coalition governments. The Ennhanda-led budget in 2013, for instance, was formulated on a logic of austerity, including a regressive tax policy, cuts on social spending, and a limited increase in wages (Erol 2019). At the same time, rent-seeking elites continue profiting vis-à-vis the global economy. In this regard, tax evasion provides an important example. By way of illustration, in 2018 employees paid 5,488.4 million dinars in taxes; double the amount paid by the companies that employ them (i.e., 2,713.8 million dinars) (Abderrazek 2020). Furthermore, oil companies only contributed 4% of total tax revenue, despite generating very large profits (ibid.). The Panama Papers further show how big industrial tycoons continue operating offshore accounts, and the documents include the names of Tunisian businessmen whose operations range across oil and gas, real estate, and financial services (Ben Hamadi et al. 2016).

WHAT CAN THE EU DO?

This policy paper argues that state capture in Tunisia should not be understood as the result of a late-development syndrome and unfair market-competition, as mainstream analyses often highlight. Rather this process has consolidated under three decades of neoliberal policies undertaken by the Tunisian ruling class in cooperation with EU member states and IFIs. To promote a more egalitarian model of development and reduce socio-economic inequalities in Tunisia, the policy paper proposes two main policy recommendations for the EU:

POLICY RECOMMENDATION 1: PUT AN END TO FREE TRADE AGREEMENTS.

The EU's approach to the Deep and Comprehensive Free Trade Agreement (DCFTA) with Tunisia is dictated by its own commercial interests. Such agreements reduce the societal resilience of the local society exposed to the pressures of global markets and competition, while allowing ruling elites to enrich themselves further. In other words, it reifies historical and structural economic legacies rooted in deep power imbalances. While inserting the most profitable Tunisian companies into the European free market, it will condition how the Tunisian market is to supply the EU. It will force—for instance—a shift toward production of fruit and vegetables for export, creating a dependence on imports for the basic cereals that make up most Tunisian diets. In doing so, such agreements will exploit Tunisian cheap local labour force for the extraction of profits (Riahi and Hamouchene 2020). By opening the local economy to global competition without any form of protectionism (i.e., import quotas, tariffs on imported goods, etc.) for local production, the EU-Tunisia trade liberalization agenda represents a concrete risk to the socio-economic conditions of Tunisian workers, peasants and small farmers. Therefore, free trade agreements should come to an end.

POLICY RECOMMENDATION 2: FOCUS ON THE ELABORATION OF AN ECONOMIC AGENDA IN THE INTERESTS OF NATURE AND TUNISIAN LABOUR.

Such an initiative should begin to focus, for instance, on policy reforms that tackle economic and mobility issues (Alternative Trade Mandate 2014). On the one hand, it could advance discussions promoting the creation of reciprocal conditions of mobility between the two shores of the Mediterranean. On the other, it requires to identify the necessary conditions to improve the lives of Tunisian labourers, particularly those working on informal markets, small farmers, peasants and young graduates. This could take place through the launch of technological and scientific exchange on equal bases between Tunisia and the EU, which would allow improving the quality of Tunisian productions. Moreover, a bigger focus should be posed on the ways in which EU trade policy can enhance the right of countries and regions to develop their local and regional trade, rather than global one (for example, in the agricultural sector).

After all, state capture is not a unique feature of Tunisia, rather this process is a defining feature of more advanced neoliberal economies, such as the United States and United Kingdom. Recent studies have documented how neoliberal policies create rentier mechanisms, where politicians use rental income to indulge in clientelist practices that help them to stay in office (Standing 2016) via processes of financial rentierism (Piketty 2020; Mazzucato 2018). This is a global problem and the EU—now, more than ever—is called to provide leadership and emphasize the need for a more egalitarian international political-economic model that alleviates the aggressive progression of neoliberalism, whose impact on the Southern Neighbourhood has become a concrete source of threats for the EU.

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