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A LONG OVERDUE DEBATE ON THE TUNISIAN ECONOMY

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The dismissal of the governor of the central bank of Tunisia, the Banque de Tunisie, on 18 February 2018 was long overdue. It marks an important date in the history of a country trying to put down democratic roots in the face of mounting economic and political challenges. Chedly Ayari, who was 84, was not noted for his competence. He was replaced by Marouane El Abassi, a respected economist, whose integrity is unquestioned and has held senior jobs in Tunisia and the World Bank. The choice of El Abassi was made by the Prime minister, Youssef Chahed and supported by the president, Beji Caid Essebsi. It was endorsed by more than two thirds of the deputies, as required under the country's new constitution.

The autonomy of a key pillar of democracy had been gravely compromised by the dismissal of Mustafa Nabli, a man of integrity, who ran the Central Bank from the fall of Ben Ali in January 2011 to July 2012 when he was sacked by president Moncef Marzouki. The decision on 7 February 2018 by the European Parliament to include Tunisia in the list of countries most at risk from money laundering and terrorist financing was a warning to the country to tighten its regulatory regime, notably failures in the oversight over various financial transactions which can be exploited by individuals and groups to fund terrorist organisations operating in North Africa. Marouane El Abassi has his work cut out for himself.

It requires great political skills to navigate the treacherous waters of transition towards democracy in a country beset by political infighting, rising inflation and indebtedness in a region troubled by turmoil in Libya, one of Tunisia's main trading partners and incubator of jihadi terrorism.

Many of the senior company managers and trade union leaders of the 1990s are still active and impose a form of omerta which prevents an honest debate on how to modernise the phosphates' and fertilisers' sector.

Back in 2009, Tunisia was the most competitive country in Africa but now it has slipped from the 40th to the 92nd rank in the Davos Forum Global competitiveness.

Tunisia's European partners are meanwhile putting strong pressure on the government to tighten up the rules of financial transactions so as to avoid the risk of financing terrorism.

Some observers argue that the UGTT's greatest failure since the fall of Ben Ali has been its refusal to split trade union activities and politics and sponsor a party which could unify the forces of the left.

Tunisian stability cannot be guaranteed if an ever larger number of Tunisians hover just above the poverty line and the middle class, the bedrock of the regime since independence, becomes poorer.

The economic difficulties Tunisia faces today hardly come as a surprise. It requires great political skills to navigate the treacherous waters of transition towards democracy in a country beset by political infighting, rising inflation and indebtedness in a region troubled by turmoil in Libya, one of Tunisia's main trading partners and incubator of jihadi terrorism. Tunisian leaders showed determination in tackling the threat of terrorism after the attacks on the National Bardo Museum and the beach resort of Sousse three years ago. They were helped by leading European countries, and the US. Algeria has stood firm by its smaller neighbour's side since the fall of Ben Ali in 2011. Today the risk of terrorist attacks is much reduced and tourists are returning to the beaches of Hammamet and Monastir.

The same leaders have proved less adept at tackling the economic crisis which is much worse than in 2015. Successive governments have failed to articulate a coherent policy, offering instead piecemeal, if not counterproductive reforms. Bold reforms are promised and then put off to the increasing frustration of many of Tunisia's well-wishers in France, its major trading partner and source of foreign investment, the World Bank and the IMF. The appointment of El Abassi offers the government an opportunity to articulate a coherent blueprint to come out of this protracted economic crisis on top. The country's foreign partners need convincing that their financial aid does not simply provide a cloak which allows Tunisian leaders to put off, if not avoid, painful reforms and to tackle rampant corruption.

Tunisia's foreign partners are not without blame for the way recent history has unfolded in Tunisia. The World Bank, the European Investment Bank and successive French presidents promoted the country as a model of modern inclusive development, right up to the fall of Ben Ali. It is to the credit of the World Bank that, in a report[1] of March 2014, it had the courage to acknowledge its misjudgement. The European Investment bank and Ben Ali's European cheerleaders never apologised to the Tunisian people for endorsing a system "asphyxiated by its own corruption" and whose extended ruling family accounted for "a striking 21.3% of all net private sector profits" according to the same report.

Tunisia is trying to put down democratic roots in the face of mounting economic and political challenges.

A few figures illustrate the seriousness of the crisis. Public expenditure and the civil service wage bill have doubled to Tunisian Dinars 32bn and TD14bn respectively since 2011. This rate of increase, were it to continue unchecked, spells disaster. The rate of economic growth hovers around the 2% mark because the key engines of growth are stalling: industry, tourism, phosphates and fertilisers and energy all face difficult times. As exports of goods and services falter, the foreign trade deficit has doubled to TD 12bn (Euros 4bn) with the result that foreign currency reserves have fallen dramatically. They cover three months' worth of imports. Exports declined last year leading to a worsening of the current account deficit. The Dinar has lost 40% of its value since 2010.

Three examples among many illustrate the complexity of the crisis the country is mired in. In each case, the difficulties go back to before 2011, sometimes to the 20th century. Production in the phosphate rock and fertiliser sector has declined by two thirds while the workforce multiplied by three in the six years to 2017, which spells a 90% decline in productivity. Tunisian production of crude oil and gas covered 93% of the country's needs in 2010 but only 50% today. Meanwhile many hotels stand empty and the government has failed to get most of them sold as their owners clamour for prices which no longer reflect the underlying value of the properties.

Recent history goes some way to explaining why it is so hard to start an informed debate about restructuring these sectors. Bold policies to modernise the phosphate and fertiliser sector and associate foreign capital with the latter were launched and implemented in the early 1980s[2]. They then lost steam as successive governments failed to create jobs, which were being lost in the phosphate mines, in what is the poor south west of Tunisia. They also refused to grant those who managed an increasingly complex sector the managerial freedom which has, over the past decade, transformed the state owned Office Chérifien des Phosphates in Morocco from a sleeping beauty into a nimble international player.

By the 1990s the sector got mired in increasingly bad management and corruption. Joint ventures eventually folded as foreign investors from Europe and the Gulf who had invested in the fertiliser industry departed Tunisia while in the phosphate mines, a number of the local UGTT (Union générale tunisienne du travail) leaders became thoroughly corrupted. Some even went so far as setting up private companies which recruited cheap labour, in defiance of the logic of their union duties. This led to a bitter revolt in Metlaoui in 2009 which gave a foretaste of the events of 2011. The protracted crisis which has hit this sector since 2011 has roots which can be traced back two decades. Many of the senior company managers and trade union leaders of that period are still active and impose a form of *omerta* which prevents an honest debate on how to modernise this sector.

The difficult situation the energy sector faces is the consequence of a disinformation campaign, launched in 2015 by no less than the former head of state Moncef Marzouki, which alleged widespread corruption among those who managed country's slender oil and gas resources. The consequences were disastrous. Production declined and many foreign oil companies left Tunisia, never to return. His campaign was taken up by certain NGO's abroad whose alleged aim was to increase transparency in the management of natural resources. In some cases their "experts" on Tunisia were poorly informed about the issues they were discussing and had very little knowledge of the history of this sector in Tunisia. When the predatory nature of the Ben Ali family became public knowledge, many people made it their job to hunt corruption even where there was none. Social media relayed the most lurid stories. The result was to seriously weaken a key economic sector which had always been run by men of integrity and competence.

1. Freund, Caroline; Nucifora, Antonio; Rijkers, Bob. *All in the family : state capture in Tunisia (English)*. Policy Research working paper; no. WPS 6810. Washington, DC: World Bank Group. 2014. http://documents.worldbank.org/curated/en/440461468173649062/All-in-the-family-state-capture-in-Tunisia

2. See the chapter on Tunisian phosphates. By Francis Ghilès and Eckart Woertz. In: Verhoeven, Harry (ed.) *Environment Politics in the Middle East, Local Struggles Global Connections*. London: Hurst Publishers, 2018)

The tourist sector for its part is not just a victim of terrorism but of a period when blue gold (tourism) dethroned black gold (oil). The infatuation with tourism development which by the millennium had become a craze was encouraged by the fast growth in world tourism in the 1990s. It also offered a convenient way for many Tunisians to launder their ill-begotten gains and then multiply those gains by speculating. Well connected "investors" were able to acquire state land for a song and borrow up to 90% of the funds needed to build a hotel. An added bonus was using the labour to build private homes and even sometimes shops for themselves and their children on part of the land. The loans have all too often been non-performing and would have sunk a bank like the Société Tunisienne de Banque had they been made public. Those who built hotels often had no interest in managing hotels and avoided training the staff properly. Ben Ali for his part was keen to promote tourism as it encouraged foreign media to present an image of Tunisian openness that belied a domestic regime of control which was becoming harsher by the year.

Tunisia offered a vision of what the social scientist Waleed Hazbun called "a post-modern Médina Mediterranea, where diverse elements of Tunisia's Mediterranean identities (were) brought together within a space exposed to the gaze of international tourists and sustained by the hard currency they bring."[3] This paradoxical form of "openness" also characterises patterns of development in Egypt, Jordan, Lebanon and the Gulf. The challenge posed by the tourist sector is many faceted: it means attracting new investment to modernise hotels; finding ways to market Tunisia in a world which has changed in the last decade or so; and cleaning up the balance sheets of important Tunisian banks. It may be that the future of this sector lies as much in the many excellent "maisons d'hôtes" which have sprung up across the country in recent years. Offering proper training to existing hotel staff would also be a wise investment for the country.

It is hardly surprising that, in such circumstances, Tunisia should have slipped from the 40th to the 92nd rank in the Davos Forum Global competitiveness. Back in 2009, Tunisia was the most competitive country in Africa. It has since been downgraded by Moody's. Mystifyingly, the former governor seemed to take every piece of bad news in his stride and lost any shred of credibility he might have initially enjoyed when, in 2014, he attempted to grant himself a four-fold increase in salary. The new governor starts with a clean slate. Tunisia's European partners are meanwhile putting strong pressure on the government to tighten up the rules of financial transactions so as to avoid the risk of financing terrorism.

Not all outside observers are pessimistic. Renaissance Capital, a Russian owned investment and banking firm, specialising in emerging markets, argued in recent note[4], that the sharp decline in the Dinar and an educated workforce offered the country a comparative advantage in attracting foreign investment. That begs the question of whether would-be international investors can rely on political and social stability and the government enacting bold reforms.

What economic policy is required?

Tunisian leaders must face up to some uncomfortable truths. The stability of North Africa's smallest country cannot be guaranteed if an ever larger number of Tunisians hover just above the poverty line and the middle class, the bedrock of the regime since independence, becomes poorer. The revolt of 2010-2011 was spearheaded by young unemployed people from the poor western uplands where unemployment affects more than one third of people under 24. These regions have witnessed a decline in employment opportunities and living standards since 2011. Here and in the wealthier coastal towns, one out of every two young Tunisian abstained in the parliamentary and presidential elections in 2014. In next May's local elections the abstention rate in this age group could rise to 75%. A younger generation which should be helping build democracy openly vents its weariness with politics as they are presently conducted.

> The economic crisis is much worse than in 2015. Successive governments have failed to articulate a coherent policy, offering instead piecemeal, if not counterproductive reforms.

Tunisian public investment has been declining since the 1980s and now accounts for a meagre 14% of government expenditure, the wage bills eats up 41% of expenditure, subsidies 26% and servicing the debt 22%. That decline however accelerated sharply after 2011, the consequence of a brutal fall in savings, growth and market share of Tunisian goods in the European Union, the country's major export market. The neo-liberal orthodoxy which still prevails to quite some degree at the World Bank and among many in Tunis holds that private investment, not least from foreign sources, remains the saviour of the Tunisian economy. Nothing could be further from the truth. It is investment, not exports, that lead China's economy. This is not to argue that the state must return to its ways of yesteryear and invest in productive capacity. It must focus on investing in education and professional training, in hospitals whose state of disrepair is worrying and in transport infrastructure. Training and recruiting nurses and doctors and teachers across the regions would promote a feeling of inclusiveness which is sorely absent in poorer parts of the country. By recruiting 140,000 new civil servants to an already bloated state since 2011, Government

3. Hazbun, Waleed. "Images of Openness, Spaces of Control: The Politics of Tourism Development in Tunisia". *Arab Studies Journal* (Vol. XV No. 2/XVI No. 1). Washington, DC, Fall 2007/Spring 2008.

4. Renaissance Capital. *Tunisia: Outperforming in the 2020s*. 25 January 2018 https://www.shemsfm.net/uploads/FCK_files/RenMan_Tunisia-250118_(1).pdf

has de facto redistributed income - which was of the aim of those who led the revolt of 2011.

Free market forces will not, alone, be able to guarantee the social cohesion of Tunisian society. The government needs to come up with a Franklin Roosevelt style New Deal which gives hope to ordinary people. That alone would offer a measure of hope to a deeply demoralised country. The government would then be in a stronger position to plead for more support from the EU and the World Bank.

Re-establishing the authority of the state means first and foremost fighting the informal sector. This in turn means reforming the management of the major ports, cleaning up the customs and fighting the barons of the informal economy, such as Chafik Jarraya, who has been in prison since last spring. Such Mafiosi characters use their ill-begotten gains to spread the cancer of corruption politics. When they socialise openly in smart restaurants in Tunis for all to see, they fuel a growing rejection of "democratic politics". Fighting them requires courage and determination. The state loses large sums of money because of the growth of the informal economy. But it also does so because the professional classes pay a flat rate of tax of roughly one third of their declared income unlike workers and civil servants who are taxed at source. Such people, particularly when they are in politics cannot plead for wage restraint and flaunt their wealth at the same time. In such an atmosphere the government can only fail to convince Tunisians and its foreign interlocutors that it is serious in its intent to make the country more inclusive.

> The country has to prove that the international financial aid does not provide Tunisian leaders with a cloak to put off, if not avoid, painful reforms and to tackle rampant corruption.

The government could also promote a much bolder and more imaginative policy to improve skills, train young people and associate foreign schools and universities with its projects. The EU -and especially France- is more than willing to help on this front. Civil servants are deft at delaying decisions and making life for any would be entrepreneur more difficult than it need be. Recruiting new civil servants must be stopped. Morale in the civil service has been badly hit in recent years as an estimated 7,000 senior civil servants laboured until last September under the threat of court proceedings for corrupt deeds they might have committed before 2011. Parliament passed an amnesty law but restoring order and morale to what was arguably one of the better civil services in the Arab world till 2011 will be arduous.

As it seeks a way forward, the Tunisian government has – sadly– made some avoidable mistakes. The first was the wholesale and ineptly handled increases in prices and VAT announced on 1 January. These were not explained and were brutal. Increasing the tax burden on bona fide companies which face many difficulties in producing goods and exporting them makes no economic sense. Tunisia must nurture its manufacturing sector which exports everything from electrical cables to car components and pharmaceuticals as such companies set a standard of excellence, compete internationally and employ well trained people. All too often those on the left who criticise private enterprise fail to differentiate between crony capitalists and genuine manufacturers of competitively priced goods. There is strong resistance to change from those members of the employers federation UTICA who depend on myriad bureaucratic controls to enjoy a de facto monopoly on the production of certain goods.

To regain the trust of their countrymen, politicians and the media should remember that Tunisian men and women are reasonably well educated. They deserve to be told the truth, not half-truths or lies. Had the Prime minister been grilled on TV ahead of the prices increases in January, had the Nahda leader, Rachid Ghannouchi been asked point blank why he gave such strong support to Chedly Ayari for so many years, had Moncef Marzouki been presented with the blunt facts of the damage his campaign against the energy sector had wrought on the economy, their countrymen could have gained a better understanding of the background to recent events. Nor has the prime minister explained why a very competent minister of education was forced out of government by trade union pressure last year.

One issue is maybe best avoided in present circumstances, the question of privatisation to which the UGTT is fiercely opposed. This is despite the many success stories of this policy over the past thirty years. Ninety nine state companies were totally (49) or partially privatised between 1987 and 2006, for over Euros 670m. Socomena, the ship builders was close to bankruptcy when it was sold for Euros 34m in 2005. Its capital has been multiplied tenfold since and it employs more and better paid workers and engineers. The same is true of AMS (Ateliers Mécaniques du Sahel) and the Sofomeca foundry, a number of cement plants and, last but not least, the Banque du Sud which was bought by the Moroccan Attijari Bank.

UGTT fails to create a left wing party

After the collapse of the party of the former dictatorship, to which its members contributed, the chief organised force in the country was, with the exception of the military and a group of leading private sector entrepreneurs, the UGTT. Founded in 1946, the second oldest trade union in Africa played an important role in the fight for independence up to 1956. Despite single party rule after that, the UGTT retained a political dimension over and above its basic identity as a labour confederation. It participated in Tunisian parliamentary elections on three occasions, in 1956, 1981 and 1986 albeit in alliance with Habib Bourguiba's ruling Neo Destour party. On two occasions, in 1979 and 1983-4 it confronted the government in bloody riots. By the late Ben Ali years however some of its leaders had been fully co-opted into what had become a very predatory ruling family.

When the workers of phosphate basin revolted against Ben Ali in 2008, the local branches of UGTT split. As the revolt spread from the poorer south and western uplands in 2010-11, many local UGTT branches and members threw their weight behind the young people who were challenging Ben Ali. Three years later when the Nahda led government brought the country close to civil war, the UGTT joined forces with the employers federation UTICA, the national association of Tunisian lawyers and the Tunisian League of Human Rights to broker an agreement which ushered in a new technical government tasked with preparing the presidential and parliamentary elections of autumn 2014. The three organisations won the Nobel prise for peace.

Some observers argue that the UGTT's greatest failure since the fall of Ben Ali has been its refusal to split trade union activities and politics and sponsor a party which could unify the forces of the left. Had they done so in October 2011, they would probably have denied Nahda the parliamentary majority they won on that occasion. Be that as it may, it is sad to see the secretary general of the UGTT, Nouredine Taboubi, indulge in the worse form of demagoguery rather than trying to contribute to an intelligent debate about the future of the economy. Intelligent economic debate is further hindered by the fact that neither Nahda nor the lay party founded in 2012 by the head of state, Nida Tunes, have clear economic programmes either. A broad based left wing party could have articulated one vision of a way forward. Nida Tunes is a lay coalition of political forces set up to oppose Nahda but never had a clear economic program while Nahda, in keeping with other Islamist parties linked to the Muslim Brotherhood offers no economic philosophy beyond a vague preference for free enterprise which smacks more of the bazaar than modern economics.

A younger generation which should be helping build democracy openly vents its weariness with politics as they are presently conducted.

That said, and bearing in mind the generations it took countries like France the United Kingdom and Spain to build modern democracies, to articulate broad social and economic churches which allowed different economic philosophies to be moulded into a practical political programs, one should not be too harsh on Tunisia. Marouane El Abassi recently penned[5], with others in the World Bank, a very lucid report on a key challenge facing the country. Many Tunisians hope the new governor's non-political background and deep understanding of the turbulent regional context his country finds itself will allow him to help the Prime Minister craft a badly needed New Deal that offers ordinary Tunisians some light at the end of the tunnel.

5. World Bank Group. *Tunisia - Impact of the Libya crisis on the Tunisian economy (English)*. Washington, D.C. 2017. http://documents.worldbank.org/curated/en/517981490766125612/Tunisia-Impact-of-the-Libya-crisis-on-the-Tunisian-economy