

BTI 2010 | Tunisia Country Report

Status Index	1-10	4.98	# 80 of 128	
Democracy	1-10	3.78	# 102 of 128	➔
Market Economy	1-10	6.18	# 51 of 128	⬇
Management Index	1-10	4.32	# 87 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

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Key Indicators

Population	mn.	10.2	HDI	0.77	GDP p.c.	\$	7520
Pop. growth	% p.a.	1.0	HDI rank of 182	98	Gini Index		40.8
Life expectancy	years	74	UN Education Index	0.77	Poverty ²	%	12.8
Urban population	%	66.1	Gender equality ¹	-	Aid per capita	\$	30.3

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

From 31 January 2007 to 31 January 2009, the system of power relationships and the constitutional and legal arrangements organizing political life in Tunisia have remained essentially authoritarian. In other words, the country is still lacking free and fair elections as well as a minimum of checks and balances to control executive power. There is no effective opposition; legalized “opposition” movements and civic associations are mostly controlled by the government.

After being called on by civic associations close to the regime to run for president again in the elections to be held in the fall of 2009, President Ben Ali finally announced his candidacy during the convention of the ruling Rassemblement Constitutionnel Démocratique (RCD) party in July 2008. Earlier indications of Ben Ali’s worsening health conditions have not been substantiated during the period under evaluation.

On the economic side, Tunisia started to feel the impact of the current economic crisis beginning in the fall of 2008. Once again, international rankings have lauded the country’s overall economic performance; solid economic growth rates in 2007 (6.3%) and 2008 (5.1%) have proven the robustness Tunisia’s economy has secured in recent years. As in earlier review periods, the assets of economic stability have been growing exports, fairly good tourism seasons and an influx of FDI. Nevertheless, socially motivated riots in March 2008 have reminded the government of the need cushion the impact of economic development in society.

Considering the moderate level of difficulty in carrying out reforms, and taking into account the government’s ambitious development objectives Tunisia’s decision makers have once again advanced transformation too sluggishly. Despite the formal abolition of trade barriers for industrial goods with the European Union as of 1 January 2008, in practice, Tunisia has seen too little progress in terms of trade liberalization. Tunisia’s financial sector remains weak and opaque; and inertia in the administration, pervasive crony capitalism and increasing corruption have not been properly addressed.

History and Characteristics of Transformation

After Tunisia won independence on 20 March 1956, the Neo-Destour independence movement, under the leadership of President Habib Bourguiba (1959 – 1987) installed a post-colonial single-party regime. The 1959 constitution gave the president hegemonic power within the state's institutions. From 1963 to 1981, parties other than the Neo-Destour were forbidden. Workers' unions, which had played an important role in the struggle for independence, were incorporated by force into the regime after 1956.

On 7 November 1987, Tunisia's prime minister, Zine El-Abidine Ben Ali, ousted President Bourguiba, bringing an end to a cumbersome era of *fin de règne* politics. Since then, the government has taken a set of symbolic steps toward liberalization that are concerned mainly with the formal status of the rule of law and with establishing a façade of pluralism. Since 1994, there has been a quota within the electoral system that guarantees legal opposition parties a minimum representation in the chamber of deputies. To date, opposition parties lack support among the population and depend largely on state subsidies. Since 1999, however, Tunisia has held, in formal terms, pluralistic presidential elections.

On the whole, since 1987, Tunisia's political system has remained essentially authoritarian, as evidenced by elections that are not free and fair, a minimum of checks and balances in place to control the executive, and the persistent hegemony of the ruling Rassemblement Constitutionnel Démocratique (RCD). Constitutional amendments made in 2002 allowed President Ben Ali to run for a fourth and fifth mandate in the presidential elections of 2004 and 2009, respectively. The amendments also established a second (consultative) parliamentary body, the Chamber of Counselors, which further blurred parliament's role within the Tunisian polity.

Despite minor legal reforms introduced since the early 1990s, the human rights situation has remained bleak. Especially notable in this regard are the continued fact of unfair trials, extralegal arrests of and assaults on journalists critical of the government, judges seeking to implement independent justice, restrictions being placed on human rights groups, and the harassment of opposition politicians who have tried to withdraw from the implicit "national consensus" imposed upon legalized political actors.

After achieving independence, Tunisia, like many other developing countries, pursued a development strategy of state-induced industrialization and import substitution, which produced a highly protected market. Until the 1960s, Tunisia's integration into the world market was primarily managed via the export of phosphates, crude oil and gas. Since 1972, the government has successfully established a set of tax and regulatory measures aimed at attracting foreign investors. It has therefore made better use of its comparative advantages for international subcontracting, which include its proximity to Europe, its low-cost yet skilled labor force, a serviceable infrastructure, as well as political and social stability. In addition to Tunisia's growing export potential, the foreign currency influx from tourism and successful cooperation with international organizations have aided Tunisia's development.

In order to re-install macroeconomic stability, Tunisia embarked on a structural adjustment program in 1986 that included the progressive liberalization of foreign trade, privatization of state-owned enterprises, devaluation of the national currency and a restrictive budget policy.

Beginning with subcontracting in the textile sector and spreading particularly to the mechanical and electrical sectors, Tunisia has attracted increasingly more activities of a high value-added and high knowledge-content nature. An economic upgrading program in place since the 1990s has increased the competitiveness of export-oriented firms. The development of a social welfare state and an active labor market policy have, to some extent, cushioned the social hardships resulting from the country's economic policies. As of 1 January 2008, the process of dismantling reciprocal trade barriers for industrial goods with the European Union has – theoretically – been completed. Nevertheless, there are several stumbling blocks on Tunisia's path toward a full-fledged market economy, including a heavily regulated foreign trade regime, a slow bureaucracy, the public sector's continued dominance over the private sector, as well as corruption and a lack of economic transparency.

Transformation Status

I. Democracy

1 | Stateness

Due to the high degree of state institutionalization (including the near omnipresence of state security forces), the state's monopoly on the use of force has virtually no competition anywhere in its entire territory. This finding remains valid despite the rioting of unemployed youths in the Gafsa region in the spring of 2008 and the slightly growing risk of terrorist attacks in western regions, as reported by Western intelligence services. Two Austrian tourists kidnapped in southern Tunisia in February 2008 were only freed in northern Mali in November 2008 as a result of Libyan mediation.

Monopoly on the use of force

Defining citizenship and who qualifies as a citizen are issues that are politically beyond dispute. Contrary to the Berber-Arab cleavage existing in neighboring Algeria, citizens widely accept the nation-state and the prevailing notion of nationhood as legitimate. In formal terms, citizens enjoy the same civic rights; restrictions on these rights result from the authoritarian nature of the polity rather than from ethnic, religious or cultural discrimination.

State identity

Islam is the official state religion and is undoubtedly essential to the self-identification and expression of (more and more) Tunisians. Nevertheless, in principle, the state is defined as secular, and civil and criminal laws are primarily based on European models. Today, most high-ranking decision makers and civil servants seem to share a quasi-secularized notion of the state. Any potential opposition group demanding a more prominent place for Islam in Tunisia seems bound to face severe repression, as was observed in the early 1990s with the Ennahdha (renaissance) movement. Under these circumstances, religious dogmas currently have no noteworthy influence on politics or the law.

No interference of religious dogmas

Nevertheless, with religious feelings gaining ground – particularly among the younger generation – future political elites may be more inclined to make decisions based on religious grounds. In recent years, political leaders have been noticeably trying to draw more legitimacy from religion, as can be seen, for example, by the

president's appearances in mosques on religious holidays. The tiny Christian and Jewish minorities (which, together, account for about 0.3% of the population) enjoy freedom of religion – and the state media make a particular point of noting how this freedom is extended to Jews so as to highlight the country's tolerance.

An operable and differentiated basic administrative structure exists, and public security and order are assured throughout the country. Beyond fairly efficient day-to-day services, the administration's performance remains deficient insofar as it often requires personal ties to administrative bodies in order to successfully resolve more complex issues. Likewise, the administration's autonomy seems more and more limited when it clashes with the interests of persons close to the presidential clan. External investors can count on preferential treatment.

Basic
administration

2 | Political Participation

Presidential and parliamentary elections have been held at fairly regular intervals since independence. However, to date, the hegemony of the ruling RCD party, the interpenetration between the party and the state apparatus, the lack of press freedom and the absence of effective opposition parties have prevented meaningful competition among candidates more effectively than the sheer manipulation of election results could have possibly done.

Free and fair
elections

In the past, Tunisians critical of the regime seemed to encounter problems in registering to vote, or they merely refrained from registering to vote in the belief that national elections were irrelevant. In the summer of 2008, the government lowered the voting age from 20 to 18, thereby extending the active right to vote to some 500,000 more young Tunisians for the upcoming elections in October 2009.

Owing to the discriminatory electoral system (plurality vote in multi-member constituencies), legalized opposition parties have no chance of winning mandates against the dominant RCD party in "the regular way." In an effort to artificially "pluralize" the composition of the Chamber of Deputies, since 1994, the government has granted opposition parties an arbitrarily fixed "minimum parliamentary representation," regardless of the total number of votes they win. As a result, in 2004, legalized opposition parties collectively obtained around 20% of all seats in the lower house (with an official 12.2% of votes). For the 2009 parliamentary elections, a 25% minimum representation has been granted to legal opposition parties.

Rulers are not democratically elected. Given Tunisia's legal-bureaucratic authoritarian system, effective power lies partly with the president, his personal entourage and, closely connected to these, the security services, technocratic government elites and RCD officials. There are no veto powers or political enclaves.

Effective power to
govern

Freedom of assembly is formally guaranteed within (tight) limits or legislation as well as subject to (selective) permission by the Ministry of the Interior. The (Islamist) protest movement Ennahdha has been prohibited since the early 1990s. While some of the legalized parties (e.g., the Mouvement des Démocrates Socialistes (MDS), Ettajdid and the Parti d'Unité Populaire (PUP)) actually have historical roots, others have been launched by the regime in what seems like an attempt to "bridge" certain cleavages (e.g., with the 2006 creation of the Parti des Verts pour le Progrès). A number of other parties (e.g., the Parti Ouvrier Communiste Tunisien) have thus far sought in vain to be legalized by the Ministry of the Interior.

Association /
assembly rights

All the selectively legalized opposition parties are de facto subject to a kind of implicit "national consensus." This consensus includes acknowledging the leading role of the RCD in political life. As in previous evaluation periods, a number of legalized opposition parties (e.g., the Parti Social Libéral (PSL) and Union Démocratique Unioniste (UDU)) more or less freely support President Ben Ali's candidacy for the 2009 elections. Opposition parties that try to free themselves from this imposed consensus or criticize political stagnation have periodically been subject to different kinds of pressure, including legal harassment and government-induced splintering.

Freedom of assembly is not guaranteed. Legalized civic organizations are mostly incorporated into the regime. Under these circumstances, their task is to display a façade of "civil society" that meets the regime's needs. The workers' union Union Générale des Travailleurs Tunisiens (UGTT) was incorporated into the regime after 1956.

Following the president's oft-repeated commitment to a more pluralistic press, in recent years, open legal censorship has been lifted – most notably with the state's abolishment of the requirement that the state screen all press releases prior to their publication. However, self-censorship and the close interconnection between government, administration and the media form persistent and powerful mechanisms that work against freedom of the press. As a result, when voicing criticism – especially on political stagnation – parties and organizations (e.g., human rights organizations) are still being repressed or subjected to manipulation.

Freedom of
expression

During the period under investigation, while the state-controlled media were forced to acknowledge the social unrest in the Gafsa region in the spring of 2008, some journalists were still forced to stand trial for providing allegedly critical coverage of the events. Fahem Boukados, for example, was sentenced to six years in prison.

In another blow to media freedom, the opposition periodical al-Mawqif (which has close ties with the Parti Démocratique Progressiste (PDP)) was sued by a number of large Tunisian companies after publishing a critical report about allegedly rancid Tunisian olive oil having been exported to Algeria. A political background cannot be excluded.

Public gatherings are subject to prior approval by the Ministry of the Interior. In some cases, the government has allowed organizations close to the regime to hold marches protesting against Israel's policy toward Gaza in early 2009 in order to "channel" popular discontent. Spontaneous protests, such as those organized by the families of youths arrested in the Gafsa region in early 2008, have resulted in suppression by the security forces.

With regard to Internet-based media, Tunisia is Africa's best-connected country. Nevertheless, for blocking access to news sites deemed "undesirable," the country has been numbered among the 12 countries across the world considered "enemies of the Internet" by Reporters Without Borders (RSF). Cybercafés are placed under surveillance and e-mail is filtered. Blogs, including those of critical journalists (e.g., Zied el-Heni), are blocked, and critical news sites are strictly controlled or even shut down. Access to a number of Internet pages (e.g., Facebook, which was blocked for a number of days in the summer of 2008), was re-opened after mounting discontent – especially that expressed by expatriate Tunisians.

3 | Rule of Law

Tunisia has a bicameral parliament, a president and a government appointed by the president. Nevertheless, the separation of powers as well as parliament's contribution to the legislative process is weakly developed even according to the terms of the Tunisian constitution. The president can rule in most legislative fields by decree. In practice, the parliament serves as a rubber stamp to governmental decisions. The establishment of the Chamber of Counselors as a second parliamentary chamber in 2005 (which was previously endowed with a consultative function) has blurred the parliament's legislative role even more. Much like other recently established upper houses in the region (e.g., in Algeria), the members of the Chamber of Counselors are partially nominated by the president and partially elected indirectly by municipal and regional members of parliament as well as employers' and workers' unions. In 2005, and again in 2008 when the upper house was heavily pro-RCD, union members refused to elect their "representatives" from pre-established lists, which resulted in those seats remaining vacant.

In terms of parliamentary control, a constitutional provision from 1976 – theoretically – gives the lower house a right to topple the government with a vote of no confidence. In 2002, this provision was amended to read that the success of such a motion demands its adoption by an absolute majority of members of parliament, whereas before it had been a two-thirds majority. Yet, the overall authoritarian circumstances, combined with the hegemony of the ruling party (the RCD holds currently 80% of the seats in parliament and will probably hold around 75% after the 2009 elections), makes the effectiveness of this separation of powers all the more theoretical.

Separation of
powers

Constitutionally “independent,” judges are nominated by the Conseil de la Magistrature. However, since members of this body are appointed by the president, it is prone to political pressure. Criminal judges, in particular, are compelled to allow “political proceedings” against dissidents. When it comes to the economy and personal property, by regional standards, the Tunisian justice system has obtained excellent international ratings. The administration’s autonomy is limited when it clashes with the interests of those close to the presidential clan.

Independent
judiciary

Corruption cannot be discussed publicly. Based on reports and observations of their day-to-day experiences, most Tunisians are extremely cynical about the corruption of officeholders. In fact, according to countless (Western) media reports, officeholders and individuals close to the ruling presidential clan can exploit their office for private gain with impunity, and practices of crony capitalism are said to be gaining ground. Although corruption is less pervasive than it is in neighboring countries, there are reports of more and more unfair practices and corruption among prospective local partners as well as within those institutions that delay or block investment or procurement decisions. While obtaining overall preferential treatment, foreign investors may justly feel the need to collaborate with the “right partner” in the country.

Prosecution of
office abuse

The Tunisian Constitution of 1959 guarantees civil rights “within the limits of the law.” Since the late 1980s, the government has successfully created an image of itself as the regional champion of human rights, especially in terms of religious tolerance and gender equality. In practice, however, critical opposition members, independent human rights activists and journalists have regularly been denied their civil rights and suffered from varying degrees of intimidation, repression or unfair trials. In recent years, it would appear that young women wearing the Islamic veil have faced various acts of discrimination in schools and universities, such as not being admitted to exams. Faced with political Islam and increasing social unrest, especially among young Tunisians, in recent years, the government has sometimes arbitrarily arrested young male Tunisians. During the period under review, based on the 2003 “anti-terrorist legislation,” in September and October 2008, a number of young male Tunisians suspected of preparing terrorist attacks and hoping to join the Iraqi underground were convicted and sentenced to prison terms ranging from eight months to eight years. This legislation has been particularly criticized by opposition parties and human rights activists. These trials were not very well-covered by the state-controlled media. Likewise, arrests of a number of young Tunisians during the period of social upheaval in the spring of 2008 in the Gafsa region and their prison sentences were highly criticized by human rights activists abroad.

Civil rights

4 | Stability of Democratic Institutions

To date, there are no democratically legitimized political institutions. Political power is highly concentrated in the hands of the president, both formally and in practice. Both chambers of parliament mainly serve to rubber stamp the decisions of members of the government and the ruling RCD party.

Performance of democratic institutions

Central political actors – that is, primarily the president, ministerial technocrats and the ruling party – do perform their duties in a fairly effective and efficient way. Any potential democratic transition in the aftermath of Ben Ali’s rule would require a reorganization of powers as well as a fundamental change in the political culture.

There are no democratic institutions as such. Nevertheless, central political actors – and especially the president and government elites – do accept the restricted functions of existing (albeit) non-democratic institutions as true embodiments of a specifically Tunisian type of authoritarianism. This is particularly true when it comes to the central role of the president and his advisers, the ministerial elite and, to a lesser extent, both chambers of parliament and municipal councils. Given the authoritarian character of the political system, any of these institutions may be circumvented as soon as their inner logic clashes with the interests of the ruling elite.

Commitment to democratic institutions

5 | Political and Social Integration

Since Tunisian parties (apart from the ruling RCD) play no role in mediating between society and the state, it is difficult to establish meaningful information regarding fragmentation, polarization, voter turnout or volatility in the country’s party system. Despite the historical roots of parties such as Ettajdid (an offshoot of the former Tunisian Communist Party) or MDS and PUP (which splintered from the ruling Destour party in the 1970s), these and the other five opposition parties legalized as of early 2009 – that is, PDP, UDU, PSL, Parti des Verts pour le Progrès (PVP) and Forum Démocratique pour le Travail et les Libertés (FDTL) – basically lack any substantial following in society.

Party system

The weak integration of Tunisian opposition parties primarily stems from the hegemony of the RCD and the absence of political competition in Tunisia’s authoritarian regime. Thus, rather than reflecting real cleavages within the populace, Tunisia’s controlled pluralism is more or less designed to uphold the regime’s pluralistic façade.

In fact, as long as they subscribe to the imposed “national consensus,” opposition parties are artificially stabilized by state subsidies. On the other hand, to a certain degree, the weakness of the party system can also be attributed to the somewhat

elitist approach of most opposition parties and their unresponsiveness to popular needs. After voicing criticism of the executive, opposition parties have periodically been played against one another or faced different degrees of repression. Independent new opposition forces have not been discernible inside the country during the period under evaluation.

There is de facto no freely constituted network of associations or interest groups that can mediate between society and the political system. The officially legalized 9,400 civil society organizations are mostly incorporated into the regime in order to “cover” certain sociopolitical issues, such as the regime’s modernistic views on gender, development or environmental issues. The few existing independent civic associations (e.g., LTDH, which is one of Africa’s oldest human rights movements) cooperate little among each other, and they are often subject to different kinds of government pressure. Hence, certain social interests – particularly those of the young, the unemployed and those advocating improvements in political rights – remain underrepresented.

Interest groups

Acting partly as a functional equivalent, the governing RCD party has traditionally collaborated with affiliated associations so as to create a densely woven network of state-controlled interest groups. This has ensured a relatively effective integration of young and well-educated people. Women have been integrated into the political realm through an internal quota system. Although the percentage of female ministers and members of parliament is high by regional standards, women have not yet attained “hard” ministerial posts.

There is a stable and relatively effective pattern of interest representation through authoritarian corporatist means. Wage negotiations are held every three years under the aegis of the state between the employers’ association and the unions. This has so far guaranteed that wages, particularly in the lower brackets, have continued to rise in a controlled manner. Interest conflicts occurring in this context are not dealt with openly. The right to strike is officially guaranteed but has not been used since the 1980s. Diminishing real incomes of the populace and mounting tensions between the regime and state-controlled union UGTT have recently shown the limits of this authoritarian corporatist interest representation. Recent negotiations between the UGTT and the employers’ organization Union Tunisienne de l’Industrie, du Commerce et de l’Artisanat (UTICA) begun in May 2008 only led to an agreement at the end of 2008.

In an effort to better integrate the interests of young Tunisians, in 2008, the government launched the Dialogue with the Youth program, which entails a series of discussion meetings on local, regional and national levels that bring together pre-selected legal “civil society” associations, youths, politicians and party officials.

Despite the absence of reliable survey data, at least on a theoretical level, the concept of Western democracy seems to enjoy relatively high esteem among middle-aged, well-educated urban elites and the middle class, especially when this concept is understood mainly in terms of an appreciation for respecting human rights and legal norms. Nevertheless, this overall positive perception of Western democracy occasionally seems to be counterbalanced by some allegedly negative features of Western policies, such as restrictive EU visa policies, U.S. involvement in Iraq and, more recently, Israel's policies toward the Gaza Strip. Pointing to a lack of democratic traditions and established patterns of authoritarian behavior, many Tunisians display cynicism when asked about the prospects for a democratic transition in their country.

Consent to
democratic norms

Despite the presence of a well-rooted urban middle class and an educational level that is high by regional standards, self-organization in civil society clashes with authoritarian intrasocietal relationships, the absence of freedom of association and a lack of interpersonal trust. The emergence of civic structures is countered by the tendency to build relationships along family lines or through cronyism. In the long term, the overall level of socioeconomic development, the absence of a history of violent ethnic and religious conflicts, and the country's widespread culture of tolerance may be conducive to building social capital.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

Key economic indicators show Tunisia to be a middle-income country. According to the latest HDI statistical update released on 18 December 2008, Tunisia saw a slight setback by ranking only 95th compared to 87th in 2004 (101st in 1998). Between 2004 and 2006, per capita GDP (adjusted for PPP) slightly decreased, from \$7,768 to \$6,860. Compared to other middle-income countries, Tunisia still features appreciably low levels of social exclusion in terms of absolute poverty, and the proportion of people earning less than \$1.25 per day sank to an impressive 2.6%. At the same time, though, 12.8% of the population earns less than \$2 per day. On a global level, Tunisia is still far from ensuring adequate freedom of choice for all its citizens.

Socioeconomic
barriers

Like many other countries in the region, Tunisia fares relatively poorly in terms of human poverty when compared to medium-developed countries in general, primarily due to its relatively high rate of adult illiteracy (23.1%). As in previous

review periods, unemployment remained steady at around 14%, affecting young and, increasingly, well-educated Tunisians, in particular. According to World Bank data, the unemployment rate for individuals between 20 and 24 years of age is more than three times higher than it is for those above 40. While the rights of Tunisian women are impressive by regional standards, they still suffer gender-related discrimination stemming from traditional mindsets.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	28129.3	28967.8	30962.2	35019.9
Growth of GDP	%	6.0	4.0	5.7	6.3
Inflation (CPI)	%	3.6	2.0	4.5	3.1
Unemployment	%	14.2	14.2	-	-
Foreign direct investment	% of GDP	2.3	2.7	10.7	4.6
Export growth	%	7.8	4.9	4.8	8.5
Import growth	%	3.5	-1.9	8.2	6.1
Current account balance	\$ mn.	-551.1	-299.3	-619.4	-904.2
Public debt	\$ mn.	16230.6	14794.5	15425.4	16579.1
External debt	\$ mn.	19994.6	17860.5	18761.4	20231.1
Total debt service	% of GNI	8.0	7.5	8.6	7.5
Cash surplus or deficit	% of GDP	-2.8	-3.1	-2.7	-2.2
Tax Revenue	% of GDP	20.7	21.0	20.6	21.2
Government consumption	% of GDP	15.4	15.4	14.7	14.4
Public expnd. on edu.	% of GDP	7.5	7.2	7.1	-
Public expnd. on health	% of GDP	2.4	2.4	2.3	-
R&D expenditure	% of GDP	1.0	1.0	-	-
Military expenditure	% of GDP	1.6	1.6	1.6	1.3

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Tunisia has pursued economic reforms aimed at maintaining a prudent macroeconomic framework, further liberalizing domestic prices and controls, and reducing the public sector's role in economic activity. According to Tunisian statistics, the openness level of the economy at current prices reached around 97.7% in 2007 compared to 86.3% in 2006 and 52% in 1986. This picture is partially confirmed by the 2008/2009 Global Competitiveness Report of the World Economic Forum, which ranks Tunisia 36th out of 134 developed and emerging countries, making it the most competitive Maghreb and African economy. Particularly relevant with regard to market-based competition, Tunisia performed well in the area of stability of state institutions, trust of the public in politicians' decisions and the efficacy of public spending. Tunisia ranked slightly lower when it came to macroeconomic stability (at 75th out of 136 countries), banking performance and labor market flexibility.

Market-based
competition

This overall positive picture is flawed in a number of ways. According to the revised methodology of the 2009 Index of Economic Freedom (compiled by the Heritage Foundation), Tunisia currently ranks only 98th out of 183 countries (making it a "mostly unfree" economy now, as compared to its "mostly free" ranking in the 2007 report), and 11th out of 17 countries in the Middle East and North Africa regions. In fact, the country's decreased scores in three out of the 10 economic freedoms primarily involved trade and investment freedom.

Nevertheless, according to data provided by the Heritage Foundation, the country recently scored better with regard to business freedom and government size. Regulation has become more efficient and streamlined. According to the foundation, starting a business now takes around 11 days, as compared to the global average of 38 days. Obtaining a business license takes much less time than the world average of 225 days, but associated costs remain fairly high. Beyond the mere establishment of a business, bureaucratic procedures often remain cumbersome and inconsistent, especially when one has no "direct contacts" in ministries and the bureaucracy.

Income and corporate tax rates remain burdensome despite a tax cut in 2007. While tariff dismantling has led to a decrease in tariff revenues, any losses have been compensated for by more burdensome tax rates for onshore companies. The top income tax rate and the top corporate tax rate for onshore companies are 35% and 30%, respectively. Overall tax revenue as a percentage of GDP currently stands at 14.9%. Attempts to broaden the tax base have been abandoned owing to mounting social unrest over rising food and fuel prices.

A study based on World Bank data has estimated that, in 2000, informal activity made up 38.4% of GNP, which is just below the African average. Although there is no recent and complete data, it appears that the government tolerates an informal market for small dealers. In some Tunisian companies, informal forms of employment seem to be favored over those involving cumbersome registration procedures as well as relatively rigid labor regulations, the relatively high non-salary cost of labor and the difficulty of firing a worker under formal employment schemes.

While pricing is almost free, the state can set prices for subsidized, socially relevant commodities (e.g., flour or gasoline) and influences prices through regulation and state-owned utilities and enterprises.

The formation of monopolies and oligopolies is regulated only occasionally. The influence of powerful clans and practices of crony capitalism may be increasingly watering down economic freedom. It is difficult to determine how much these practices permeate the economy as a whole.

Anti-monopoly
policy

Tunisia's foreign trade regime is one of the most liberal among Middle Eastern and North African countries. The country was the first in the region to reach – theoretically – free trade in the industrial sector with the European Union as of 1 January 2008. Between 1995 and 2007, trade between Tunisia and the European Union nearly tripled, from \$1.8 billion to \$5.7 billion; exports to the European Union nearly doubled between 2003 and 2007. Having signed the 2004 Agadir Agreement, the country has committed itself to lifting commercial barriers with Morocco, Egypt and Jordan. On a bilateral basis, trade barriers with Libya, Morocco and Turkey have been lowered in recent years. In 2008, the Tunisian government entered into negotiations with the United States and Algeria aimed at establishing free trade arrangements. On the whole, Tunisia has profited considerably from the opportunities offered by its growing integration into the world market. In recent years, exports have grown rapidly, reaching around 54.3% of GDP in 2007 (46.8% in 2004). Today, exports amount to approximately 78% of imports. This success is inseparable from the presence of the roughly 2,900 foreign export-oriented (i.e., offshore) companies currently in the country.

Liberalization of
foreign trade

Despite all these efforts, a 2005 WTO report still criticized the dualism existing within the economy between an export sector that is dominated by offshore companies and whose competitiveness depends largely on concessions (e.g., tax, customs and foreign exchange concessions) and a domestic sector that is still heavily protected. The 2009 Index of Economic Freedom has emphasized that imports of industrial goods often suffer from heavy regulation (e.g., excessive non-tariff import restrictions, licensing requirements or quota settings). These are joined by inefficiencies and corruption related to customs. European legislation that gives

more autonomy to European offshore-firms when it comes to declaring the origin of imported commodities has only hesitantly been put into practice by Tunisian duty services.

Foreign investment is restricted in some sectors so as to minimize the impact on domestic competitors. Foreign investment is generally screened, and foreigners may still not own agricultural land. Investments in non-tourism onshore companies with a capital share larger than 49% require government authorization. In general, domestic trading can be carried out only by a company in which the majority of the share capital is held by Tunisians and the management is Tunisian. Nevertheless, according to legislation from 1972 (amended in 1993), foreign investors who create offshore companies (and, traditionally, those active in the textile and automotive-parts fields) receive “positive discrimination,” such as state subsidies for investing in certain regions and tax exemptions for varying periods according to the geographic location of the company. In these cases, employers’ contributions to social coverage systems are partly covered by the state.

During the period under review, Tunisia once again attracted higher levels of FDI in a number of sectors. On the whole, investors were encouraged by the highly supportive macroeconomic environment and fiscal incentives for investors, by the relatively cheap and skilled labor force, and by the country’s proximity to European markets. As a result, between 1995 and 2007, there was a quadrupling of FDI. In 2007 alone, some \$1.7 billion were invested in the country. The proportion of FDI outside the energy sector reached some €6 billion by 2006, as compared with the €0.6 billion from 10 years earlier. By the end of 2007, no fewer than 2,895 foreign companies (1,600 in the mid-1990s) were active in Tunisia and employed some 291,000 people. According to current figures, one out of every four new jobs is created by a foreign company.

It can be noted that the limited degree to which the Tunisian financial sector is integrated into the global economy recently shielded the country – at least at first – from the international financial crisis. Nevertheless, the poorly developed Tunisian banking sector and capital market are regularly cited as one major hindrance to the country’s economic modernization. Although they have been formally brought up to international standards, financial supervision and regulation remain subject to political influence. This is partly due to direct state control over financial flows and partly to the state’s direct involvement therein. Although it sold its stakes in two banks in 2002 and 2005, respectively, the state remains the controlling shareholder in at least four other banks because it controls 50% of their assets. Under these conditions, top-rank bank executives are de facto appointed by the president through a controlling body.

Banking system

After decades of state control, banks remain structurally undercapitalized. State-mandated lending to certain companies on the basis of personal ties to political

decision makers or, in some cases, to certain industry branches (e.g., in tourism and agriculture) as well as the legal difficulty of settling with debtors have made for a high level of non-performing loans (currently estimated to involve 17% of the credits granted).

On the other hand, desperately needed credits for small and medium-sized firms are not easily available. In the medium term, the successful sale of public shares to international investors (as has been mentioned in earlier BTI reports) may boost efforts to introduce international standards in the banking sector.

8 | Currency and Price Stability

Since the end of the 1980s, the Tunisian government has effectively implemented inflation control and an appropriate foreign exchange-rate policy. The central bank is politically dependent. After an elevated inflation rate in 2006 of 5%, inflation dropped to 3.1% in 2007. Due to higher food prices (owed in part to bad harvests and soaring energy costs), in 2008, inflation rose again to around 5% on average.

Anti-inflation /
forex policy

The national currency's exchange rate is fixed by the state on a daily basis but reflects the de facto market price against the euro and the U.S. dollar. For foreign investors, the Tunisian dinar has been convertible since 1994 for currency transaction transfers and the repatriation of profits. These advantages are presently combined with strong incentives for Tunisian entrepreneurs to seek foreign partnerships in different sectors. For Tunisians, on the other hand, the holding of foreign exchange accounts is subject to restrictions and prior approval by the central bank. Capital transactions, in general, are subject to many restrictions and controls, and there remain controls, quantitative limits and other restrictions on payments and transfers. A gradual transition toward a floating exchange rate – which aims to attract more FDI, increase the competitiveness of Tunisian products and facilitate access to capital for Tunisian companies – has been scheduled on several occasions by the government (most recently for 2010) but without results.

According to World Bank standards, Tunisia is a “moderately indebted country” and has traditionally promoted a culture of stability in fiscal as well as debt matters. According to official Tunisian data (which, it should be noted, are of questionable accuracy), between 2006 and 2008, external indebtedness as a percentage of the GDP was lowered from 47.6% to 42.1%. Likewise, in recent years, the budgetary deficit of around 5% in the mid-1990s has been hovering at around 3% (2008: 3%). Growing state subsidies for basic goods (e.g., flour and fuel) have proven costly for the Tunisian budget. Social upheaval in the Gafsa region in the spring of 2008 – which was followed by extra infrastructure projects for the region – and the fact that 2009 is an election year make it likely that the government will accept slightly rising budget deficits in order to cushion social hardship.

Macrostability

9 | Private Property

In legal terms, property rights and the acquisition of property are not always well-defined. The acquisition of land by foreign investors is subject to prior permission. Such permission is easily given in the case of offshore companies investing in industrial areas designated as such. Foreigners may not own agricultural land.

Property rights

Problems persist, however, due to shortcomings in the rule of law. Commercial cases take a long time to resolve, and legal procedures are complex. In recent years, increasing practices of crony capitalism and a lack of respect for private property on the part of clans close to the regime have increasingly been cited as factors inhibiting investment by external actors.

Although Tunisia's intellectual property rights law is designed to meet the WTO's minimum standards, pirated print, audio and video media products are openly sold. According to the 2009 Index of Economic Freedom, customs agents do not investigate copyright violations in the absence of a complaint by the copyright holder. The illegal copying of software, CDs and DVDs is widespread.

Private enterprises – or, more precisely, private groups owned by influential families – have come to form the backbone of the Tunisian economy. In principle, they can operate freely, but they often confront structural economic barriers, especially those connected to the weaknesses of the banking sector and the bureaucracy. Successful private players in new sectors may spark the interest of parts of the “ruling family” to become “associated” with their businesses, which is one major reason why some companies look for foreign partners. Nevertheless, state-owned enterprises continue to have a de facto privileged position, primarily on account of their close ties to the political sphere and the administration as well as easier access to credit. During the period under evaluation, 14 state-owned companies of differing sizes were privatized, including a hotel that was sold to the Société Magasin Général, one of Tunisia's major food retailers. Given the close connection between the political and economic spheres, arrangements that are in effect monopolies and practices of crony capitalism seem to be on the rise.

Private enterprise

10 | Welfare Regime

The Tunisian public health care system ensures free or grant-maintained basic health care for around 90% of the population. Employees with official contracts pay social insurance contributions; in 2007, this included approximately 50% of the population and covers maternity leave and some other services in addition to basic medical care. Due to declining standards in state-run social security systems and the emergence of private nursing providers, the 2007 reform of public health insurance

Social safety nets

provided for a better integration of private and public health care providers. Since 2007, those insured under the public insurance scheme have been able to receive refunds for services and treatments they have paid for in the private sector.

Government employees have a right to a pension. In order to cushion the social hardship linked with economic liberalization and to combat unemployment, the state offers both financial and direct aid to needy families and provides low-interest loans to encourage private home ownership and the founding of small businesses. The role of the informal sector as well as private solidarity networks remains important.

Tunisian society has traditionally maintained relatively low levels of income inequality. The Gini coefficient measured 39.8 in 2000 (more recent data is unavailable), as compared to 41.7 in 1995. This drop reflects the increasing number of Tunisians joining the middle class, which today makes up close to 80% of the population. Nevertheless, the socially motivated riots in the spring of 2008 in the Gafsa region can be seen as indicating that social disparities have grown in recent years despite the economy's strong development performance.

Equal opportunity

There are assistance mechanisms in place for disabled and socially disadvantaged Tunisians and women, particularly in primary education. The state has undertaken efforts to promote gender equality in education and the workplace. Women now have almost equal access to secondary and tertiary education, but they remain disadvantaged socially as well as economically, particularly when it comes to income levels and holding public office.

11 | Economic Performance

During the period under review, Tunisia was once again among the region's top performers when measured by most macroeconomic criteria. Over the past five years, Tunisia's GDP has risen by a yearly average of 5.5% even in the face of tougher international competition and soaring oil prices. The recent IMF mission in the summer of 2008 confirmed Tunisia's basic economic orientations, especially the recent reduction of state indebtedness (2007: 55.6% of GDP; 2008: 52.9%; 2009: estimated at 51.1%), the consequently reduced debt service (17.3% in 2007 compared to 24% in 2004) and managed budget deficits (around 3%). The country has kept up with the relatively high growth rates of the previous evaluation period by reaching 6.3% in 2007. This result was well in-line with the ambitious annual growth target of 6.1% set by the 11th five-year development plan (2007 – 2011), which was badly needed in order to lead to a tangible reduction in unemployment (which, according to official figures, has been stagnating at around 14% for several years). As in previous review periods, this success has primarily been due to: the growing influx of tourists as the primary provider of foreign currency (income from

Output strength

tourism grew 9% in the first nine months of 2008); strong growth in exports, especially in the automotive and textile industries (fostered by ongoing trade liberalization and the depreciation of the Tunisian dinar); the continuing influx of FDI; and growing domestic oil and gas production (up 50% since 2005), which has somewhat cushioned higher world market prices for crude oil. This positive overall economic performance has been complemented over the evaluation period by moderate inflation, fiscal discipline, mounting FDI and decreasing state indebtedness and debt service.

Nevertheless, in structural terms, the high level of unemployment and the low level of private investment continue to be critical issues. Moreover, economic growth still depends too much on domestic consumption, which has been fueled – especially in the period between 2003 and 2006 – by the granting of easy credit to private households (out of which some 45% went toward things like cars, which are hardly profitable in economic terms). Based on central bank data, the average Tunisian household currently has debts of over \$2,000. As it has before, the recent IMF mission called for reform in the banking sector and, in the medium term, a reduction in state subsidies for fuel and basic commodities.

At 5.1%, 2008 saw a slight dip in growth. This was mainly due to low growth in the agriculture industry caused by insufficient rainfall in early 2008. Moreover, the recession in the European automotive and textile sectors that began in late 2008 had an almost immediate impact on Tunisian exports in the electronic parts industry. Deutsche Bank Research forecasts predict that the Tunisian economy will decrease to less than 3% growth in 2009 – primarily because the automobile and textile industries have been hit by the crisis. Although exports has been a driver of growth (with rates of 13.5% between 2000 and 2007), it has begun to slow down significantly. Large infrastructure projects (mainly financed by investors from the United Arab Emirates) have now come to a halt. Despite the current negative impact of the ongoing crisis, in the medium term, Tunisia may become an even more interesting subcontracting destination for the automotive industry. Among the factors that might cushion this downward trend in 2009 has been abundant rainfall in the spring of 2009, which might promise good harvests and continually strong domestic demand.

12 | Sustainability

In Tunisia, environmental protection was first institutionalized in 1992 with the creation of the Ministry of Environment. Likewise, in their discourse, political decision makers address environmental issues regularly. In practice, the government has set up significant policies and institutional schemes for many years, such as those to combat erosion and desertification in the central Tunisian plains, to provide for wastewater treatment in the municipalities, and to subsidize private households that purchase solar-based water-heating units.

Environmental
policy

However, on the whole, environmental concerns continue to take a back seat to growth considerations. This is palpable, for example, when it comes to issuing construction permits in environmentally sensitive areas. At times, the notion of “environmental policy” is blurred by authorities who broaden it, for example, to include planting trees and other measures to embellish urban environments. When it comes to “eco-tourism” or “sustainable tourism,” although these notions have made their appearance in public debate in recent years, public authorities and private actors alike are still unsure about how to employ such concepts to enrich their tourism portfolio.

In recent decades, investment in human capital has undeniably been an important feature of Tunisia’s overall positive development. In its 2008/2009 Global Competitiveness Report, the World Economic Forum particularly lauded Tunisia’s successes in primary and higher education (top among the African and Arab countries). Primary school enrolment is 97% for children between six and 12, irrespective of gender. The number of university students increased tenfold from 1986 to 2006, an impressive 59% of them are now women, and the current enrollment figures are well beyond 300,000. According to official figures, Tunisia’s spending on education in 2007 was one-fourth of its budget, or some 7% of Tunisia’s total GDP.

Education is mandatory and free of charge until the age of 15. Nevertheless, with a U.N. Education Index rating of only 0.766 in December 2008 (ranking 122nd out of 176 countries), Tunisia must still be considered – just like most other countries in the region – an underachiever in educational matters compared to its combined ranking of 95th in the latest HDR. The adult literacy rate continues to hover around 77%. In recent years, educational standards have deteriorated outside urban middle-class areas both in state-run primary and secondary education as well as at university level. There is a significant attrition rate among students. The vocational training sector is underdeveloped, which undoubtedly adds to high unemployment among youth. Underachievers often seem to be kept within the educational system in order to avoid their being categorized as unemployed. About 50% of the young people looking for work are recent college graduates.

State-run education and training facilities are available for most relevant industrial and service sectors, but they vary widely in terms of quality. Despite some efforts, dual vocational training has hardly been established so far. Private educational institutions – also of very differing quality – are becoming more important. According to government data, R&D expenses accounted for 1.07% of GDP in 2006, up from 0.53% in 2001. According to the current development plan, R&D as a proportion of GDP should reach 1.25% by 2011. Private industry is still insufficiently committed to fostering R&D.

Transformation Management

I. Level of Difficulty

While remaining moderate, structural constraints on the political leadership's governance have become slightly more difficult compared to those of the previous evaluation period. As before, the leeway granted to political decision makers remains considerable (owing to the authoritarian polity and the absence of veto powers). This finding also remains true with regard to the structural socioeconomic conditions, given the fairly efficient state administration, the medium development level already reached, the overall positive social and economic performance, and the absence of ethnic and religious conflicts. In addition to the "traditional" factors slowing down reforms (e.g., the hegemony of the public sector, a lack of economic transparency, persistent crony capitalism and growing corruption within certain segments of the regime), there have been growing income disparities. Mounting social tensions combined with the ramifications of the current crisis suggest that the government's financial leeway may become more restricted in the short and medium term. The government may particularly feel the need to constantly provide more subsidies for basic food commodities, which have significantly increased in price since 2007. This situation may continue in the medium term if the country has more bad harvests.

Structural
constraints

Civil society traditions remain weak. Since 1956, the Tunisian government has systematically hindered the growth of civic organizations outside the structures linked to the dominant party. Since the short-lived period of liberalization following Ben Ali's takeover in 1987, NGO activities have either been systematically suppressed or channeled toward "system-compatible activities." As a result, today, there is widespread cynicism within Tunisian society regarding the possibility of civic engagement. The corporatist, top-down initiation of associations close to the RCD has served, to some extent, as a functional equivalent to open spaces for civil society activities. In this context, a number of events and organized "debates" – such as the highly mediatized Dialogue with the Youth or discussions about urgent social matters (e.g., unemployment) – have been held since 2007 through the channels of the ruling party and with the participation of legalized civic organizations and parties as well as the UGTT trade union.

Civil society
traditions

Leaving aside the authoritarian nature of the regime, the weakness of civil society is inseparable from deeply entrenched patterns of authoritarian behavior within Tunisian society, the tendency to build relationships along family lines or through cronyism, and the lack of private initiative. Nevertheless, were political restrictions on civil society to be lifted, Tunisia might well profit from its hospitable setting for the emergence of a viable civil society when compared to other countries in the Middle East and North Africa. Conditions that stand to facilitate such a development include a relatively well-differentiated and high level of education, the absence of a history of violent ethnic and religious conflicts along with a tradition of tolerance, and the relative economic and cultural homogeneity of Tunisians. The remarkably spontaneous solidarity between the families of the youths arrested during the riots in the Gafsa region in 2008 and local trade union activists indicates that there is a potential for civic engagement outside “official channels” once people feel concerned by local or even personal matters.

This latter phenomenon might also be interpreted in the light of what the historian Muhammad Hedi Cherif has described as a unique form of “self-regulation” between state and society in Tunisia. According to this theory, during periods of economic or political crisis, Tunisians accept a strong state that intervenes to restore order and prosperity. At the same time, the same state also generates countervailing social forces that kept it in check when it becomes too powerful.

As in previous evaluation periods, during the period under consideration, there were no irreconcilable ethnic or religious cleavages. Still, this social stability must be attributed at least partly to the authoritarian environment and the absence of free association and open discussion. Nevertheless, while social lines of division – which had been on the rise throughout the 1980s – were able to be reduced throughout the 1990s, social cleavages have become sharper again in recent years. As a result, several factors present since January 2007 have seemed to indicate that socially inspired violence is becoming a serious problem. For example, in the Gafsa region in early 2008 – where unemployment is at 30%, compared to approx. 14% nationwide – a faulty employment recruitment process of a big state-owned company triggered violent social protests among unemployed youths, who were quickly backed by their families and other mine workers. In the summer of 2008, social negotiations between trade unions and the UTICA employers’ organization took longer than they had in previous years to lead to a government-mediated solution.

Conflict intensity

II. Management Performance

14 | Steering Capability

Given their technocratic capabilities and political leeway, along with the absence of political opposition or relevant internal veto players, political decision makers prioritize and organize their policies according to long-term strategic aims. In spite of their official rhetoric, decision makers' policy aims and objectives hardly correspond to the normative requirements of establishing a constitutional democracy.

Prioritization

In the economic realm, the official policy of establishing a socially responsive market economy – which is often-touted in official speeches (e.g., the presidential speeches on the 20th anniversary of President Ben Ali's accession to power on 7 November 2007) – has more substance. Technocratic experts in government, in particular, seem genuinely committed to modernizing infrastructure and economic structures in order to enable the country to compete on the global scale, to invest in Tunisia's human resources, and to embark on social measures and establish incentives in order to attract more FDI.

Tunisia's free trade agreement with the European Union's industrial sector, which went into effect on 1 January 2008, illustrates the country's continued commitment to achieving the goal of a socially integrated market economy. Faced with the initial ramifications of the economic crisis beginning in the autumn of 2008, the Tunisian government intervened quickly with a clear priority for cushioning social hardship – but at the expense of budget discipline (which had, nevertheless, been considerable in recent years). For example, the Tunisian government has subsidized social insurance contributions for companies that have had difficulties facing the current crisis. The government has also provided banks with new liquidity, and the central bank has lowered mandatory levels of bank reserves.

External influences on Tunisian decision makers' steering capability remain moderate in light of a manageable debt burden and the fact that Tunisia has been meeting its international commitments. Thus far, Western governments have been reluctant to make steps toward democratization a precondition for further cooperation.

During the period under evaluation, Tunisian decision makers once again refrained from implementing democratic reforms. Nevertheless, according to official – though questionable – figures, the Tunisian government has seemed broadly effective at implementing social and economic modernization efforts. Economic

Implementation

growth of 6.3% in 2007 (in line with forecasts by the 11th development plan) and of 5.1% under the more difficult conditions of 2008, managed inflation rates (though slightly higher than they were in earlier evaluation periods), and – at least until late 2008 – the maintaining of budget discipline gave the government leeway to carry out additional economic reforms and cushion social hardship. The government constantly invested in infrastructure (e.g., with the completion of a southbound motorway reaching the southern industrial area of Sfax in the summer of 2008 as well as the initiation of construction work for a new international airport, a logistics hub and a deep-water harbor 80 km south-east of Tunis). In addition to investments in the petrol and gas sectors and in huge real estate projects, the rise in FDI in the automotive and textile industries throughout 2007 and 2008 reinforced government efforts to attract new investors in the industrial sectors.

This overall impressive picture is, in reality, not as true-to-life as it might first seem. In many cases, government measures seem primarily motivated by the inner logic and inefficiencies of an authoritarian state apparatus rather than by considerations of how to meet development goals most effectively. This is particularly true when it comes to the multiplication in recent years of ministry-affiliated institutions that are supposed to “guide” social and economic development. In the economic realm, faced with government domination of many decision-making procedures, a number of economic actors have tended to invest capital in real estate rather than in industrial activities.

As in earlier evaluation periods, during the period under review, Tunisian leaders gave off the appearance of attempting to make improvements in everyday economic and social issues. Nevertheless, what seemed to be flexibility could hardly obscure the prevalence of a strictly state-centered notion of development linked mainly to the authoritarian character of the polity. Under these circumstances, decision makers refrained from implementing democratic reforms, despite the fact that the “authoritarian development path,” which has been followed by Tunisian governments with considerable success for some decades, has displayed increasing limitations in recent years. Given the overall success and legitimacy of economic and social policies in everyday politics, the scale of policy innovation initiated has thus far been (perhaps too) minimal. Hence, the leadership’s readiness to change policies in response to mistakes that have been made was not tested during the period under review. Forced to face socially motivated riots in the Gafsa region in the spring of 2008, the government resorted to a classic sticks-and-carrots policy in two ways. First, they suppressed demonstrations and brought the riot leaders to court and, second, they launched a number of infrastructure projects in the region. The highly mediatized Dialogue with the Youth program in the autumn of 2008 was organized through the channels of the ruling RCD party and controlled civic organizations and can consequently be interpreted as a rather traditional attempt to co-opt the younger generation in an authoritarian, corporatist way.

Policy learning

15 | Resource Efficiency

Given the overall positive economic and social developments in Tunisia, the country can be viewed as a relatively successful example of how leaders can trigger social and economic – and also political – developments by authoritarian means. Under these circumstances, for many years, the Tunisian government has been making rather efficient use of the country's human and (limited) economic and natural resources. This success is also owed to a well-trained and internationally experienced technocratic elite that has succeeded in maintaining the reform pace agreed upon within the state apparatus. Conversely, shortcomings in efficiency have been due to the inefficiencies inherent to authoritarian rule rather than to a lack of clear goals.

Efficient use of assets

A recent IMF mission in the summer of 2008 once again lauded Tunisia's efficient use of state resources, the recent reductions in state indebtedness and the government's continued budget discipline (the deficit hovered at around 3% in 2007 and 2008). Given the government's quick intervention in order to preserve jobs in industrial sectors hit by the ongoing crisis, budgetary discipline may well suffer beginning in 2009 as a result of decisions to preserve social stability rather than impose austerity measures.

Regarding the use of human resources, the government's efficiency suffers from an oversized state apparatus, competition between ministries over overlapping responsibilities, politically motivated out-rotation of ministers and an ongoing multiplication of state institutions concerned with the implementation of different policies (e.g., in the environment sector). While considerable efforts have been made in recent years, public services are neither very reliable nor of good quality.

On a political level, Tunisia is still suffering from an insufficient amount of will to use human resources and social capital (e.g., the country's history of moderation and moderate level of social tension) to trigger a democratic transition. On the whole, the combined legacies of past French domination and Tunisia's authoritarian tradition have created a climate of acceptance for more rather than less state action. Within this context, even optimal state action may not be able to handle the challenges associated with Tunisia's integration into world markets.

Despite some legal efforts to endow municipal and regional administrative entities with more competences, administration remains largely centralized.

Despite the authoritarian nature of the political system, on the whole, Tunisian decision makers have a respectable record of integrating and balancing conflicting objectives and interests so as to form coherent policies. National policy guidelines are laid down in five-year plans (the 11th development plan, which is currently in

Policy coordination

effect, covers the period between 2007 and 2011) and fine-tuned regularly in presidential speeches (most recently on 7 November 2008) that usually set the tone for the nation's political life. The coordination and coherence of policies is then put into practice by mostly well- (and often internationally) trained technocrats in the ministries. Open intragovernmental friction is not likely given the sustained power of President Ben Ali. Nevertheless, in recent years, the continued reshuffling of government and prevalence of competition between ministries tasked with similar responsibilities (e.g., there are three ministries concerned with different aspects of education and training) have resulted in overlap and gaps in the administrative structure.

In the absence of a political pluralism and other channels of free communication within civil society, the governing party and its affiliated associations have traditionally offered a densely woven network of state-controlled interest groups that inform decision makers about the needs and grievances of the population. Since the late 1980s, the RCD has been diversified organizationally, which ensures the relatively broad integration of young and well-educated people into the party. Moreover, the close connections between the regime, the employers' organization UTICA and the UGTT workers' union have helped balance potentially conflicting interests by preserving the pace of economic reforms, jobs and macroeconomic stability. The recently drawn-out wage negotiations between UTICA and UGTT in 2008 may indicate that this implicit authoritarian, corporatist social contract is nearing its end.

In line with the character of the authoritarian regime, there is neither effective access to information for citizens or the media nor officially published data about corruption. To a certain degree, the government does implement effective measures to audit state spending in rather technical fields. With regard to resources, such as those allocated to the president, the security services or the defense forces, no such regulations are implemented. Legislation regarding party financing does exist, but it is only occasionally and selectively employed against opposition parties – while the ruling party seems to be exempt from such rules.

Anti-corruption
policy

To date, the government has not tried very hard to implement integrity mechanisms for officeholders, such as rules concerning declaring assets, conflicts of interest and codes of conduct. Formally transparent rules regarding procedures for calls for tender do exist, but they do not seem to provide enough barriers against corruption in the context of public procurement.

16 | Consensus-Building

Relevant political players (e.g., the president, high-ranking officials in the ruling RCD party and technocrats in certain ministries and state institutions) are currently not pursuing the aims of democratic transformation. Most political actors would

Consensus on goals

still claim to subscribe to the normative aim of further “deepening” democratization. At the same time, though, political leaders emphasize the need to proceed cautiously with further liberalization given the risk of the potential emergence of extremist groups.

While there is a degree of fundamental consensus among relevant political actors and technocratic elites about opening the economy even further, the level of reform commitment among relevant players seems to reach its limit when individual economic interests are concerned. On the whole, practices of crony capitalism seem to be gaining ground, and reforms are sometimes hampered by gaps in the administrative apparatus. The consensus for establishing a market economy is openly supported by interest groups, including the UTICA employers’ association and the UGTT workers’ union, which is closely connected to the regime. Although they are not easy to discern in the absence of pluralism and a free media, the limits of this consensus would presumably concern policy priorities, such as how much cushioning should be provided in order to alleviate social hardship.

As no relevant political actors are advancing democratic reforms, one cannot identify actors (e.g., religious or military leaders) who could hinder processes of democratization. However, the growing influence of Islamist groups does raise fears that more openness toward democratic values cannot be expected in the short and medium term.

Anti-democratic
veto actors

For many years, the political leadership has fairly successfully prevented cleavage-based conflicts from escalating, such as those between rich and poor, different regions and religious/conservative strata and those advocating a more “Westernized” life-style. For decades, this absence of virulent political cleavages has been maintained not only by political repression, but also by relative economic prosperity and a consensus among the growing middle class about a state-induced social, economic and political development path that includes, for example, gender equality.

Cleavage /
conflict
management

During the period under evaluation, this ability of the government to bridge cleavages within Tunisian society was seemingly more at stake than it has been in previous periods. On a more general level, there seems to be a growing cleavage – throughout all social strata – between those Tunisians representing a “Westernized” lifestyle and those advocating a more prominent place for Islam in everyday life. On the other hand, the basic level of social cohesion – which has been so characteristic of the Tunisian development path in recent decades – seems to be at stake owing to mounting social discrepancies and persistent unemployment. The social upheaval in the southwestern region of Gafsa in the spring of 2008 seems to indicate a mounting level of discontent, particularly among younger Tunisians facing difficult social conditions. The solidarity of lower UGTT trade union ranks toward this social movement, as well as the unusually drawn-out social negotiations

between the UGTT and the UTICA employers' union, may well indicate the limits of the authoritarian, corporatist way of interest accommodation. Urgent actions taken by the government (e.g., recent infrastructure investment in the Gafsa region) have yet to prove their efficacy in reducing social cleavages in the region.

During the period under review, the political leadership once again excluded autonomous civic associations from the political process. Voluntary associations and non-legalized opposition parties alike have been widely suppressed. On the other hand, there has been a semblance of "civil society" organizations, which are closely connected to the ruling RCD party and which occasionally serve as "rubber stamps" to endorse government policies. For example, prior to President Ben Ali's declaration in July 2008 that he will run for re-election in 2009, legalized civic organizations had called on him to do so as early as in 2006.

Civil society
participation

Nevertheless, it should not be overlooked that, to a certain degree, legalized organizations affiliated with the ruling RCD party act as the functional equivalent of a free civil society by allowing certain societal interests and strata of the population (e.g., youths and women) to integrate into the political realm. It is in this context that we should interpret the highly mediatized Dialogue with the Youth, a series of symposia on the regional and national levels concerning the needs of the younger generation that was held in the summer and autumn of 2008.

Given the absence of major ethnic or religious cleavages, Tunisia has experienced only minor historical injustices. Therefore, no major reconciliation projects are underway.

Reconciliation

17 | International Cooperation

Despite the absence of a democratic reform agenda, Tunisia's political leadership has consistently worked with bilateral or multilateral international donors that seek to support the implementation of its economic and social reforms. In these fields, international financial as well as technical assistance usually matches with clear road maps regarding different economic and social development goals. These maps mostly focus on issues such as economic reforms, strengthening the private sector, infrastructure, the environment (e.g., wastewater treatment or measures against desertification), vocational training and regional development.

Effective use of
support

By regional standards, Tunisia has a highly diversified institutional framework for implementing such reforms – which is one of the reasons why Tunisia numbers among the region's most important receivers of bilateral and multilateral international aid – and Tunisian leaders have managed to advertise the country as an example of regional stability and a relatively successful model of social development and gender equality.

Tunisian technocrats in ministries and institutions have made considerable use of international assistance in order to learn know-how related to economic reforms, to adapt external advice to domestic realities, and to integrate international assistance into the domestic agenda of reforms. Nevertheless, the implementation of internationally supported reform programs continues to be hampered by political inconsistencies, the large number of state institutions involved, bureaucratic procedures and the flight (or “brain drain”) of disillusioned specialists to the private sector.

Cooperation with outside actors is nearly nonexistent as relates to democratic transformation or closely connected issues, such as improving the rule of law or implementing decentralization measures. Foreign political foundations act highly cautiously by stripping their programs of issues that might elicit government suspicions of “intrusion from outside.”

In 2008, Tunisia explicitly supported French President Nicolas Sarkozy’s initiative for the creation of the Mediterranean Union, and Tunis aspires to be a future host to the permanent secretary of this institution.

Tunisia has long been seen in a highly critical light by international NGOs (e.g., Amnesty International), journalist associations, political foundations and the international media when it comes to its democratic reform agenda (or lack thereof).

Credibility

On the other hand, during the period under review, the country has again been viewed by international organizations, partner countries, donors, foreign investors and risk-rating agencies as a credible and reliable partner owing to its commitment to – and effectiveness with – economic and social reforms. The recent IMF mission in the summer of 2008 lauded Tunisia’s basic economic orientation, the country’s good – and further improving – investment conditions as well as the government’s conservative monetary policy (especially the recent reduction in state indebtedness, the low budgetary deficit (3% in 2008) and reduced debt service (17.3% in 2007, as compared to 24% in 2004). As in its previous evaluations, the IMF mission called for reforms in the banking sector as well as for a cautious reduction in state subsidies for fuel and basic commodities that still takes into account the risk of social upheaval.

In its 2008/2009 Global Competitiveness Report, the World Economic Forum ranked Tunisia the most competitive economy in the Maghreb as well as in all of Africa. Several risk-rating agencies confirmed this evaluation in 2007 (Standard & Poor’s: BBB; Moody’s: Baa2; IBCA: BBB). These ratings reflect the considerable degree of confidence the country enjoys among the international financial community and foreign investors.

Tunisia currently has no territorial and economic ambitions that could lead to conflicts with its neighbors. While the authoritarian nature of the Tunisian political system (just like those of its neighbors) places an implicit limitation on supranational arrangements, Tunisian decision makers are well-aware that growing economic integration among Maghreb countries offers a considerable growth potential for the country's export-oriented economy. For this reason, the Tunisian government has long been advocating and acting to endow regional multilateral agreements, such as the Arab Maghreb Union of 1989 (which has been in crisis since 1994), the Agadir Agreement (between Morocco, Tunisia, Egypt and Jordan) and the GAFTA, which were signed in 2004 and 2005, respectively. On a bilateral basis, trade barriers with Libya and Morocco have been lowered. However, trade and currency exchange have so far only been liberalized with Libya. The bilateral trade agreement between Tunisia and Algeria concluded in December 2008 has recently opened up possibilities for the establishment of a complete free-trade arrangement between the two countries.

Regional
cooperation

Strategic Outlook

During the period under evaluation, Tunisia did not undergo any progress of note when it comes to achieving the minimum requirements for democracy and the rule of law. At the elections scheduled for October 2009, President Ben Ali is most likely to be re-elected by some 90% of the official votes against a number of candidates pre-selected from legalized opposition parties. On the basis of the current discriminatory electoral system, 75% of seats in the newly elected Chamber of Deputies will be occupied by deputies drawn from the ruling RCD party. Legal “opposition parties” will have some 25% of the mandates stipulated by the government-imposed quota.

Although Tunisia has been a fairly successful example of a country following an “authoritarian development path” for many years, the closed character of its political system is currently becoming one of the main obstacles to further development. Given growing social discontent and the traditionally authoritarian political culture, a hasty process of democratization does not seem a viable option. Nevertheless, even within the existing authoritarian polity, a strengthening of the state of law, as well as combating crony capitalism and corruption, could enhance the efficiency of the political and administrative structures. For this reason, promoting young economic and administrative elites within the ruling party and a more equitable dialogue with the civic associations close to the regime (particularly the UGTT workers’ union) may help integrate badly needed talent and creativity into the political process.

In terms of its economy, Tunisia’s internationally acclaimed overall performance and macroeconomic stability indicate that the country has been able to secure a robust economy in recent years. Nevertheless, socially motivated riots in the spring of 2008 and recent tensions with the workers’ union will have made the government more cautious about the risks that accompany growing social disparities and persistently high unemployment. For this reason, in the years to come, decision makers will have to promote economic transformation more resolutely in order to lay a minimal foundation for the annual growth rates of more than 6% that are needed in order to effectively curb unemployment in the medium term. In this context, reforming a weak and nontransparent financial sector seems as important as streamlining bureaucratic procedures, effectively liberating foreign trade, strengthening the rule of law and combating the pervasive presence of corruption. Still, it is questionable whether the current Tunisian leadership will be willing or able to effectively address these shortcomings.

Taking into consideration the current economic crisis and recent forecasts predicting a significant decline in growth, it can be doubted that the country’s economic goals will be reached in 2009 or 2010. Perhaps the most crucial question for the near future is how the Tunisian regime will keep up political and social stability in times of economic hardship. At present, the government has maintained its legitimacy with its economic success and development achievements, which have indeed created a comparably well-to-do and broad-based middle class.

For Tunisia to take better advantage of globalization (and, more precisely, of the opportunities inherent to the current crisis) in the coming years, the main challenge will relate to preserving the assets that have already given the country the status of an emerging economy: the increasing openness of the economy; political stability; a well-educated and yet inexpensive labor force; a well-developed infrastructure; political and social stability; investment incentives; the ongoing diversification of its industrial basis and successful cooperation with international organizations; and its resorting to external financing when necessary while maintaining a controllable level of foreign debt. While the country has invested a lot in its infrastructure in recent years, it desperately needs a qualitative leap on various levels of education, including vocational training. As a country poor in raw materials, investing in human resources will be crucial in allowing Tunisia to continue to be appreciated as a destination for businesses seeking relocation.