Atlantic Council
RAFIK HARIRI CENTER
FOR THE MIDDLE EAST

ISSUE BRIEF

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# Tunisia: The Last Arab Spring Country

## OCTOBER 2015

The January 2011 Tunisian uprising that led to the overthrow of the authoritarian regime of President Zine El Abedine Ben Ali set off a chain reaction in the Arab world that came to be popularly known as the "Arab Spring." Egypt, Libya, Syria, and Yemen quickly emulated Tunisia's example, giving hope to the citizens of those countries that major political and economic transformations were underway.[1] However, four years later, Tunisia is unfortunately now the sole remaining Arab Spring country on course to realize its citizens' aspirations. Other Arab countries' transitions are stalled by the outbreak of civil wars or a return to the status quo ante of authoritarian rule.

During a visit to Washington, DC, in August 2014, then-President Moncef Marzouki claimed that Tunisia was the only hope for democracy in the Arab world and would determine the future of democratic transitions in the region.[2] Since 2011, Tunisia has, in fact, made major advances on the political front in the pursuit of establishing a democratic state. After a long drawn-out national dialogue involving the major political players in the country, the National Constituent Assembly (NCA) adopted a new constitution in January 2014, parliamentary elections were held peacefully in October 2014, and presidential elections were held in November 2014. Unfortunately, Tunisian politicians failed to fully internalize the significant impact of economic developments on the country's still nascent transition and paid only lip service to economic reforms and policies. Tunisia's five successive transitional governments between January 2011 and the end of 2014 focused their attention almost exclusively on building a consensus for the political transition and tackling security issues.[3]

The economy was secondary, despite the fact that economic factors played as important a role as political grievances in triggering the uprising. Structural and institutional economic reforms should have shared equal billing in the consensus-building political process. This preoccupation of politicians with reaching an agreement on the desired political change resulted in a floundering economy for the past four years with grim near-term prospects.[4] The situation was made significantly worse

**Rafik Hariri Center for the Middle East**
The Atlantic Council's Rafik Hariri Center for the Middle East studies political and economic dynamics in the Middle East and recommends US, European, and regional policies to encourage effective governance, political legitimacy, and stability.

1 Jordan and Morocco are generally not included in the Arab Spring group, though they did experience political turmoil and change following from the events in Tunisia in early 2011. However, the rulers in both countries remained in control and the transition was slow and managed. For a detailed examination of the political and economic developments in Morocco, see Mohsin Khan and Karim Mezran, "Morocco's Gradual Political and Economic Transition," Atlantic Council, March 2015, http://www.atlanticcouncil.org/images/publications/IIF_MoroccoEconomicTransition_WEB.pdf.

2 Jeanna Smialek, "Tunisia Needs U.S. Support as Arab Democracy Hope, Marzouki Says," *Bloomberg*, August 5, 2014, http://www.bloomberg.com/news/articles/2014-08-05/tunisia-needs-u-s-support-as-arab-democracy-hope-marzouki-says.

3 "Tunisia's Democratic Successes: A Conversation with the President of Tunisia Mohamed Moncef Marzouki," Atlantic Council, August 5, 2014, http://www.atlanticcouncil.org/events/webcasts/tunisia-s-democratic-successes-a-conversation-with-the-president-of-tunisia-mohamed-moncef-marzouki.

4 "Tunisia: Minister Paints Gloomy Financial Picture for Tunisia in 2015," *African Manager*, August 11, 2015, http://www.africanmanager.com/site_eng/detail_article.php?art_id=22393; African Development Bank, "Tunisia Economic Outlook," 2015, http://www.afdb.org/en/countries/north-africa/tunisia/tunisia-economic-outlook/; World Bank, "Tunisia Overview," April 6, 2015, http://www.worldbank.org/en/country/tunisia/overview.

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by the 2015 Bardo museum and Sousse beach terrorist attacks, which devastated Tunisia's tourism industry and reduced foreign direct investment (FDI).[5]

It seems that, at long last, the newly elected government is turning its attention to the economy. President Beji Caid Essebsi said in a press interview prior to his visit to Washington in May 2015 that " . . . above all we must keep making progress on the economic side."[6] There is a recognition, albeit somewhat belated, that if the economy continues to limp along and economic grievances remain unaddressed, the potential political upheaval would undoubtedly result in a further deterioration in the security situation. Unless the Tunisian government moves rapidly to turn the economy around, Tunisia could well turn out to be the country where the Arab Spring both was born and died.

## Political and Security Developments during 2011-15

The transitional period, from 2011 to 2014, was characterized by intense work on the constitution and ad hoc responses to security challenges.[7] The NCA, with the National Dialogue Conference providing a final push in late 2013, determined a system of government and put in place democratic freedoms and constraints that set a solid legal foundation for Tunisia's democratic future. The completion of the new constitution in January 2014 was a major achievement, the result of several years of hard and often contentious political work. Since 2014, there has also been an increased focus on overall security policy.

Following Ben Ali's departure from Tunisia in 2011, a number of interim, elected, and technocratic governments have directed the country's ongoing process of political reform (table 1).[8] The key players determining Tunisia's political, security, and economic policy choices from the revolution through the present day were at the table from the early days of 2011, and they remain prominent today. The most important of these players are the Islamist Ennahda party, the powerful Tunisian General Labor Union (UGTT), and the secular political party Nidaa Tounes.

### Table 1. Tunisia: Governments since January 2011

| | |
|---|---|
| Mohamed Ghannouchi | November 1999–February 2011 |
| Beji Caid Essebsi | February 27, 2011–December 24, 2011 |
| Hamadi Jebali | December 24, 2011–March 14, 2013 |
| Ali Larayedh | March 14, 2013–January 29, 2014 |
| Mehdi Jomaa | January 29, 2014–February 6, 2015 |
| Habib Essid | February 6, 2015–present |

Mohamed Ghannouchi, Prime Minister in the Ben Ali regime at the time of the dictator's departure from Tunisia in January 2011, had appointed Yadh Ben Achour, a leading Tunisian intellectual, as head of a commission of legal experts to draft a provisional constitution, oversee interim governance functions, draft a new electoral law, and supervise the implementation of elections in October 2011. This commission was later joined by influential civil society organizations, including the UGTT, and political parties and took the name of *Haute instance*.[9] Simultaneously, Beji Caid Essebsi, who would go on to establish Nidaa Tounes in mid-2012, was selected as Interim Prime Minister.

With the October 2011 elections, the *Haute instance* handed over governance to the NCA, the assembly responsible for drafting the nation's new constitution. In the NCA elections, the Islamist Ennahda won the largest portion of seats by a significant margin[10] and proceeded to form a coalition with two secular parties, the Congress for the Republic (CPR), led by Moncef Marzouki, and Ettakatol, led by Mustapha Ben Jaafar.

5 "Tunisia's Economy: The Other Victim," *Economist*, July 4, 2015, http://www.economist.com/news/middle-east-and-africa/21656691-terrorism-will-slow-growth-tunisias-economy-has-deeper-problems-other; Eric Reidy, "Tunisia's Economy 'Waiting for a Miracle'," Al Jazeera, July 5, 2015, http://www.aljazeera.com/news/2015/07/tunisia-economy-waiting-miracle-150705071000839.html; Hafez Ghanem, "It's Time to Support Tunisia . . . and to Focus on the Economy," Brookings Institution, April 2, 2015, http://www.brookings.edu/blogs/up-front/posts/2015/04/02-support-tunisia-economy-ghanem.

6 Carlotta Gall, "Tunisian President Looks for Help in Sustaining Arab Spring Progress," *New York Times*, May 18, 2015, http://www.nytimes.com/2015/05/19/world/africa/tunisian-president-looks-for-help-in-sustaining-progress.html.

7 For a more detailed discussion, see Karim Mezran and Lara Talverdian, "Tunisia: From Elected Government to Effective Governance," Atlantic Council, June 2015, http://www.atlanticcouncil.org/images/publications/Tunisia_Elected_Government.pdf.

8 In the same period, there were three presidents: Fouad Mebazaa, Moncef Marzouki, and Beji Caid Essebsi.

9 The full name of the commission was the *Haute instance pour la réalisation des objectifs de la révolution, de la réforme politique et de la transition démocratique*, or the Higher Authority for the Realization of the Objectives of the Revolution, Political Reform, and Democratic Transition.

10 Ennahda won 41 percent of the seats in the 2011 NCA election, with the next party winning only 13 percent of the available seats. Full election results are available in a report published by the National Democratic Institute shortly after Tunisia's October 2011 elections. See National Democratic Institute, *Final Report on the Tunisian National Constituent Assembly Elections* (October 23, 2011), https://www.ndi.org/files/tunisia-final-election-report-021712_v2.pdf.

Ennahda preferred to enter into a coalition government with two secular parties in order to dissipate fears that it would monopolize the political sphere. Several drafts of the constitution were submitted to the NCA in 2012 and 2013, but were rejected,[11] and Tunisians grew frustrated as they saw little progress on the political and security fronts. During this time, Beji Caid Essebsi established Nidaa Tounes, a new political party and secular counterweight to Ennahda. Essebsi served in several ministerial roles in the government of Habib Bourguiba, Tunisia's first President, as President of the parliament under Ben Ali, and as Interim Prime Minister following Tunisia's revolution. Nidaa Tounes brought together many diverse elements—leftist activists, businessmen, and supporters of the Ben Ali regime—all united in opposition to Ennahda.

In 2013, Tunisians' frustrations with Ennahda reached their height after the assassinations of two prominent secular opposition leaders: Chokri Belaid in February and Mohamed Brahmi in July. Many perceived Ennahda as too accommodating of extremist elements, and these assassinations were seen as the direct result of this tendency. Following Brahmi's death, Tunisians came out by the thousands to protest Ennahda's rule in what became known as the Bardo sit-in. Protests lasted for weeks, eventually forcing the NCA to suspend its meetings. The political transition was nearly derailed.

In October, the UGTT; the Tunisian Union of Industry, Commerce, and Handicrafts (UTICA); the Tunisian Bar Association; and the Tunisian League for Human Rights (LTDH) stepped in to lead a National Dialogue to negotiate a political solution. The National Dialogue was able to drive the NCA to the completion of the constitution, on the condition that Ennahda step aside in favor of a technocratic government at the Dialogue's conclusion. In January 2014, the NCA ratified the new constitution. It was a moment of unity and pride for the country to present the work of three difficult years: a consensus-based agreement and arguably one of the most progressive constitutions in guaranteeing citizens' rights in the region.

The country held national legislative and presidential elections in the fall of 2014. Despite the fact that Ennahda had regained a great deal of ground in the public eye by stepping down in favor of a technocratic leadership, rather than obstinately clinging to power and risking a violent confrontation with the secular opposition,[12] Nidaa Tounes managed to secure both the presidency, in the person of Beji Caid Essebsi, and a plurality in the parliament. After a failed attempt to create a cabinet that excluded the opposition, Prime Minister Habib Essid came back to extend a symbolic role (offering one secondary ministry and secretaries of state for health, investment, and finance)[13] to Ennahda, and formed a coalition government.

IT WAS A MOMENT OF UNITY AND PRIDE FOR THE COUNTRY TO PRESENT THE WORK OF THREE DIFFICULT YEARS: A CONSENSUS-BASED AGREEMENT AND ARGUABLY ONE OF THE MOST PROGRESSIVE CONSTITUTIONS IN GUARANTEEING CITIZENS' RIGHTS IN THE REGION.

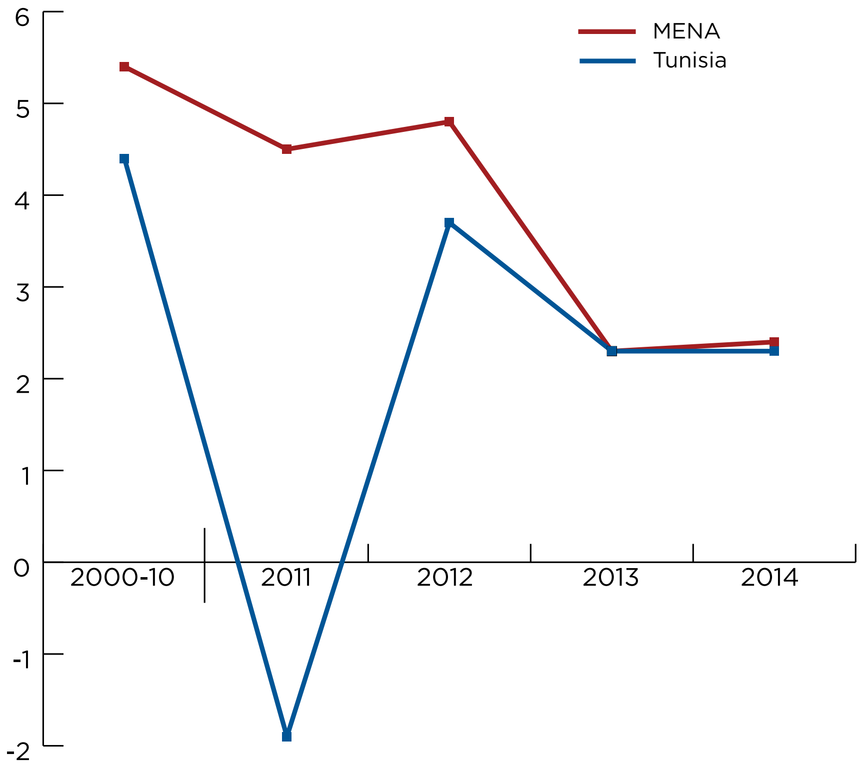
While important progress has been made in reaching political consensus and establishing a smoother path for the process of democratization and stabilization of the country, there remain many challenges to overcome. Foremost among these challenges is the security threat posed by terrorism. Security risks in Tunisia have both internal and external causes. Among the former are the deep economic inequalities between Tunisia's coast and interior, as well as between urban and rural areas, ideological extremism, and the flawed relationship between the security institutions and the people. The volatility of the regional neighborhood is the primary external factor. The perpetrators of the bloody attacks in Sousse and at the Bardo National Museum in Tunis were both trained in neighboring Libya. Following Libya's decline into a civil war, the central government has lost control of large chunks of its territory, where

11 Constitution Net, a project of International IDEA, has gathered and made available the various drafts of the Tunisian Constitution. See http://www.constitutionnet.org/country/constitutional-history-tunisia.

12 The events in Egypt of July 2013, in which the Muslim Brotherhood President Mohamed Morsi was overthrown, most likely influenced the Ennahda leadership's decision to step down.

13 Anouar Jamaoui, "The Impact of the Coalition on Ennahda and Nidaa Tounes," *openDemocracy*, March 11, 2015, https://www.opendemocracy.net/arab-awakening/anouar-jamaoui/impact-of-coalition-on-ennahda-and-nidaa-tounes; Monica Marks, "Tunisia Opts for an Inclusive New Government," *Monkey Cage* (blog), *Washington Post*, February 3, 2015, http://www.washingtonpost.com/blogs/monkey-cage/wp/2015/02/03/tunisia-opts-for-an-inclusive-new-government/.

Graph 1. Tunisia and MENA Growth Rates, 2000-14 (percent)




*Source*: IMF

terrorist organizations have established training camps for extremists. The largely unmonitored border between Libya and Tunisia has become fertile ground for movement of weapons, drugs, and terrorists. Tunisia's other major neighbor, Algeria, has seen increased terrorist attacks as well, especially along the border with Tunisia's Mount Chaambi region.

The Tunisian government is faced with hard decisions regarding the order of policies. Is it necessary for the country to achieve security before Tunisians will accept economic reforms? Or, are long-lasting economic reforms necessary for advancement toward achieving a solution to Tunisia's security threat?

So far, Tunisia has erred on the side of security and political reform first. After the massacre of foreign tourists in Sousse, President Essebsi declared a state of emergency, extending the powers of the state to implement security measures. A new anti-terror law, introduced in January 2015, became effective in July. This law had been debated for several years. However, in light of the Sousse massacre it passed almost unanimously, despite public reproof from local and international human rights groups.[14] This legislation, described by many as draconian, approves the use of the death penalty for terror crimes. According to human rights groups, the law applies a wide-reaching and malleable definition of those crimes, allowing the potential for restriction of nonthreatening political activities alongside terrorist activity. However, the question of prioritizing the stabilization of the security situation or the economy is not one Tunisia has the luxury to ask. Both the country's security and economy need to be addressed now.

## Economic Developments in the Last Four Years

Under the Ben Ali regime, Tunisia achieved emerging market status and appeared well on the way to joining the ranks of lower-income European countries.[15]

14 Amnesty International, Article 19, Avocats Sans Frontières–Belgique, Euro Med Rights, Fédération Internationale des Droits de l'Homme (International Federation of Human Rights), Organisation Mondiale Contre la Torture (World Organization against Torture), and the Carter Center, "Tunisia: Counterterror Law Endangers Rights," Human Rights Watch, July 31, 2015, http://www.hrw.org/news/2015/07/31/tunisia-counterterror-law-endangers-rights.

15 Mohsin Khan and Svetlana Milbert, "Tunisia: Turning Around Finally," *MENASource* (blog), Atlantic Council, April 24, 2013, http://www.atlanticcouncil.org/blogs/menasource/tunisia-turning-around-finally.

Economic growth over the 2000-10 decade, while not spectacular, averaged a solid 4.5 percent per year. By way of comparison, real gross domestic product (GDP) in Morocco also grew at the same rate over that period, while Egypt registered a growth rate of 5 percent per year. Growth in the whole Middle East and North Africa (MENA) region was higher with real GDP increasing at an annual average rate of 5.4 percent (graph 1).

During the decade, inflation averaged a little over 3 percent, which was among the lowest in MENA, and the country maintained a fiscal deficit below 3 percent of GDP. With tourism booming, large-scale workers remittances (mainly from Europe), and substantial inflows of foreign direct investment (FDI), Tunisia was able to build up its international reserves to a healthy level of $10 billion by 2010.

At the same time, however, the relatively good macroeconomic performance masked some major structural flaws in the economy that were exposed by the uprising, including:

- high rates of unemployment, particularly youth unemployment, which is more than twice the official overall unemployment rate;
- rampant and widespread corruption at all levels of government;
- crony capitalism benefiting the family and close associates of Ben Ali;[16]
- disparities in economic development across regions, particularly between the urban centers and rural areas;
- widening income and wealth inequalities, along with rising poverty rates;
- a large and growing informal economy;
- inadequate and aging infrastructure; and
- cumbersome regulations ("red tape") enforced by a large and inefficient government bureaucracy.

The macroeconomic picture deteriorated sharply following the uprising.[17] The economy went into recession, with real GDP falling by nearly 2 percent in 2011. This was not unusual as all the other Arab Spring countries, in addition to Jordan and Morocco, experienced significant economic fallouts from their respective political upheavals.[18] Although unemployment was one of the primary causes of the January 2011 uprising, the situation only got worse. The unemployment rate rose to 19 percent and youth unemployment reached a staggering 44 percent (graph 2). Today, unemployment is probably the most important issue in the country, and the educated are disproportionately impacted. The unemployment rate among college graduates today is nearly 50 percent, much higher than total youth unemployment. Indeed, every year, some sixty thousand college graduates enter the labor force, but only thirty-five thousand jobs are created.[19] This represents a significant economic waste and contributes to outward migration of young Tunisians and to a growing informal economy, which is estimated to be more than one third of total GDP.[20]

THE MACROECONOMIC PICTURE DETERIORATED SHARPLY FOLLOWING THE UPRISING. THE ECONOMY WENT INTO RECESSION, WITH REAL GDP FALLING BY NEARLY 2 PERCENT IN 2011.

Due to the political instability and deteriorating security, tourism and FDI—the mainstays of Tunisia's balance of payments—declined significantly. The ongoing European economic crisis also negatively affected Tunisia's exports. As a result, the current account deficit widened from 5 percent of GDP in 2010 to 7.4 percent in 2011, and international reserves fell by $2 billion that year. The fiscal deficit jumped to 2.5 percent of GDP in 2011 as the government engaged in fiscal populism—increasing wages, public employment, and food and energy subsidies—to quell the immediate demands of the population.

16 Bob Rijkers, Caroline Freund, and Antonio Nucifora, "All in the Family: State Capture in Tunisia," World Bank, March 25, 2014, http://www.wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/03/25/000158349_20140325092905/Rendered/PDF/WPS6810.pdf.

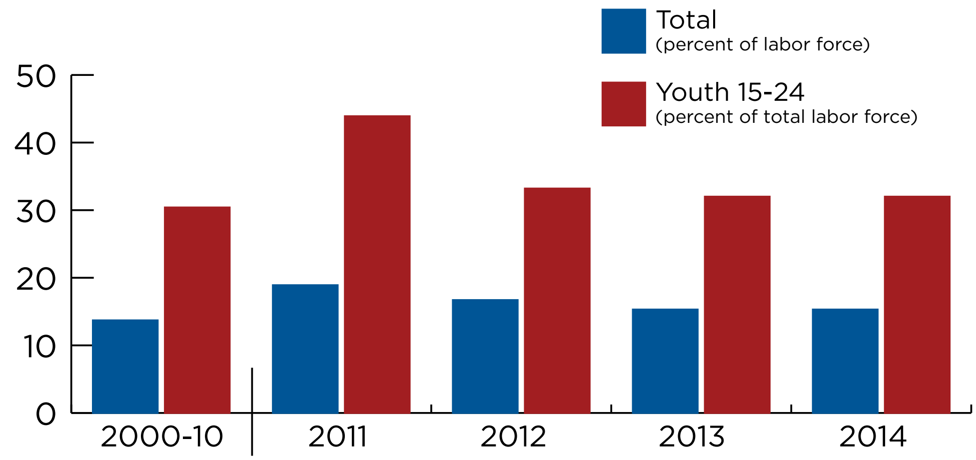
17 African Development Bank, "Tunisia Economic Outlook," 2015, http://www.afdb.org/en/countries/north-africa/tunisia/tunisia-economic-outlook/; World Bank, "Tunisia Overview," April 6, 2015, http://www.worldbank.org/en/country/tunisia/overview.

18 For a discussion of economic developments following the uprisings in the Arab world, see Mohsin Khan, "The Economic Consequences of the Arab Spring," Atlantic Council, February 2014, http://www.atlanticcouncil.org/images/publications/The_Economic_Consequences_of_the_Arab_Spring.pdf.

19 Hafez Ghanem, "It's Time to Support Tunisia . . . and to Focus on the Economy," Brookings Institution, April 2, 2015, http://www.brookings.edu/blogs/up-front/posts/2015/04/02-support-tunisia-economy-ghanem.

20 Mohsin Khan and Hanane Lahnaoui, "Tunisia Needs Entrepreneurs," *MENASource* (blog), Atlantic Council, August 21, 2015, http://www.atlanticcouncil.org/blogs/menasource/tunisia-needs-entrepreneurs.

Graph 2. Tunisia: Unemployment Rate, 2000-14 (percent of total labor force)




*Source*: IMF

In 2012, the economy started to show signs of improvement. Real GDP grew by 3.7 percent, which was still below the rate of nearly 5 percent for MENA as a whole during 2013-14 (graph 1). Unemployment declined somewhat to 16.7 percent and youth unemployment fell to 33 percent (graph 2). This positive outcome was largely the result of the fiscal stimulus, which saw the fiscal deficit expand to 4.1 percent of GDP during the year. A significant part of the reduction in unemployment was because the government increased the number of public sector employees (not including those employed in state-owned enterprises) by 17 percent in 2011-12.[21] There was a degree of recovery in FDI by about $1 billion in the previous year as the economy came out of the 2011 recession, however tourism receipts and workers remittances remained flat. The inflow of FDI allowed the Central Bank of Tunisia to increase its international reserves by $1 billion to $8.7 billion by the end of 2012.

The positive momentum of 2012 could not be maintained in the following two years despite expansionary fiscal policies that resulted in the fiscal deficit reaching 6.2 percent of GDP in 2014. Economic growth in 2013-14 averaged only 2.3 percent, although this was about the same as growth in the MENA region (graph 1). Unemployment declined modestly to 15.3 percent, although youth unemployment stayed stuck at 32 percent. Again, this decline was largely due to the increase in government employment, which averaged forty thousand a year in both 2013 and 2014. FDI fell back to $1 billion a year and the current account balance (measuring the balance on imports and exports of goods and services) reached a record high of nearly 9 percent of GDP. By the end of 2014, international reserves were down to $7.7 billion—about the same level as in 2007.

The government managed to contain the loss of international reserves that started in 2011 by attracting substantial external support in subsequent years. In June 2013, Tunisia and the International Monetary Fund (IMF) agreed to a two-year economic program, formally termed as a Stand-By Arrangement (SBA), amounting to $1.74 billion.[22] The program is on track, and Tunisia has received $1.1 billion of the loan amount.[23] In addition to IMF financing, Tunisia received a commitment of support amounting to $1.2 billion from the World Bank in 2014.[24] The country also tapped international capital markets successfully. In 2012, it sold $485 million in eurobonds using the US loan guarantee. In 2013, it issued a $400 million samurai bond and a $625 million

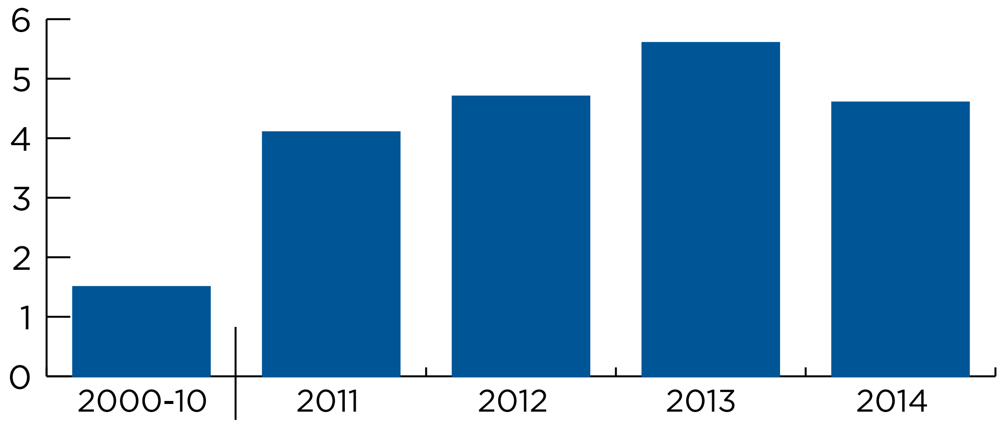
21 World Bank, "The State as Employer of Last Resort in Postrevolution Tunisia," *World Bank Research Digest*, vol. 9, no. 3, spring 2015, http://siteresources.worldbank.org/DEC/Resources/84797-1154354760266/2807421-1415212801240/9694489-1431012572538/The_State_as_Employer.pdf.

22 This program was extended by seven months in May 2015 to give the Tunisian government more time to implement banking and fiscal reforms. See IMF, press release no. 15/229, "IMF Approves 7-Month Extension of the Stand-By Arrangement for Tunisia," May 19, 2015, https://www.imf.org/external/np/sec/pr/2015/pr15229.htm.

23 A further $300 million is expected to be delivered shortly. See IMF, press release no. 15/389, "IMF Mission Concludes the 2015 Article IV Discussions and Announces Staff-Level Agreement with Tunisia on the Sixth Review under the Stand-By Arrangement," August 26, 2015, http://www.imf.org/external/np/sec/pr/2015/pr15389.htm.

24 World Bank, "World Bank Group President Announces US$1.2 Billion in Planned Support for Tunisia in 2014," April 8, 2015, http://www.worldbank.org/en/news/press-release/2014/04/08/world-bank-group-president-us-12-billion-support-tunisia-2014.

Graph 3. Tunisia: General Government Subsidies 2000-14 (percent of GDP)




*Source*: IMF

sukuk.[25] It sold a $1 billion eurobond in January 2015 and intends to issue another sukuk of $500 million later this year.[26] Clearly, the IMF program bolstered the confidence of foreign official and private lenders in Tunisia.

With the IMF program, Tunisia partially succeeded in turning around the macroeconomic indicators. In the context of the program, the government has focused primarily on introducing more flexibility in the exchange rate, generating external financing to build up international reserves, and containing the fiscal deficit through efforts to tackle subsidies, which have grown significantly in the past years. In 2010, subsidies for food and energy amounted to 2 percent of GDP; by 2013, they had risen to 5.6 percent of GDP (graph 3). In 2014, the government started to gradually reduce energy subsidies by increasing electricity tariffs and the price of natural gas for both industries and households.[27] The reforms also included raising the price of gasoline and diesel fuel. Altogether, these reforms were able to reduce total subsidies for energy and food to 4.6 percent of GDP.

On the other hand, Tunisia has made hardly any progress on economic reforms that could achieve the sustained high rates of growth (approximately 6-7 percent per year) necessary to create needed jobs and make a significant dent in unemployment. While macroeconomic stability is a necessary condition for higher growth, it is not a sufficient condition. On the basis of current policies, Tunisia will continue to grow very slowly. The World Bank and the IMF had been projecting Tunisia's real GDP to increase by 2.5-3 percent in 2015 as recently as April/May this year.[28] Following the terrorist attacks and the potential collapse in tourism and foreign investment, the growth numbers have been revised downwards sharply, with the government now projecting real GDP to rise by only 0.5 percent in 2015.[29] In fact, the signs are that the outcome could be significantly worse with growth turning out to be negative, as was the case in 2011.[30]

Moreover, Tunisia is not a particularly business-friendly country, ranking relatively low on standard international

25 A samurai bond is a yen-denominated instrument issued in Japan, while a sukuk is a financial certificate that complies with Islamic law and precludes payment of a predetermined rate of interest.

26 Elaine Moore, "Strong Demand for Tunisia's $1bn Bond," *Financial Times*, January 27, 2015, http://www.ft.com/intl/cms/s/0/24e85358-a633-11e4-abe9-00144feab7de.html#axzz3hUVhhVmn; Tarek Amara, "Tunisia to Issue $1.75 Bln Bonds, Sukuks in 2015," Reuters, January 12, 2015, http://af.reuters.com/article/investingNews/idAFKBN0KL1DN20150112.

27 World Bank, "Predictions, Perceptions and Economic Reality: Challenges of Seven Middle East and North Africa Countries Described in 14 Charts," *MENA Quarterly Brief*, July 2014, https://openknowledge.worldbank.org/bitstream/handle/10986/19283/898440REVISED00ue030JULY020140FINAL.pdf?sequence=1.

28 World Bank, "MENA Economic Monitor: Towards a New Social Contract," April 2015, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2015/04/09/000456286_20150409170931/Rendered/PDF/956500PUB0REVI020150391416B00OUO090.pdf; IMF, "Regional Economic Outlook Update—Middle East and Central Asia Department," May 2015, http://www.imf.org/external/pubs/ft/reo/2015/mcd/eng/mreo0515.htm.

29 "Tunisia Cuts 2015 Growth Forecast after Militant Attacks," Reuters, July 30, 2015, http://www.reuters.com/article/2015/07/30/tunisia-economy-idUSL5N10A4U020150730.

30 In the second quarter of this year, economic growth had fallen to 0.7 percent year-on-year. See Tarek Amara, "Tunisia's Economic Growth Slows Sharply in Q2 after Militant Attacks," Reuters, August 19, 2015, http://af.reuters.com/article/tunisiaNews/idAFL5N10U2Y120150819.

indicators of competitiveness. In the World Bank's *2015 Doing Business Report*, Tunisia ranked 60th out of 189 countries (and 4th among the 20 MENA countries in the sample). The Heritage Foundation's Index of Economic Freedom evaluates a country on more categories than the World Bank, i.e., the rule of law, limited government, regulatory efficiency, and open markets. On this index, Tunisia was in 107th place out of a total of 178 countries, and fifth lowest in the 15 Middle East countries evaluated. Finally, according to the World Economic Forum's *Global Competitiveness Report 2014-2015*, Tunisia ranked 87th out of 144 countries surveyed. All in all, the three indexes commonly looked at by businessmen and foreign investors show an economy in a state of distress with an uncertain outlook.

TO ENSURE HIGHER, MORE INCLUSIVE GROWTH, REDUCE INCOME AND REGIONAL INEQUALITIES, AND CREATE A MORE BUSINESS-FRIENDLY ENVIRONMENT REQUIRES A RANGE OF STRUCTURAL ECONOMIC REFORMS.

To ensure higher, more inclusive growth, reduce income and regional inequalities, and create a more business-friendly environment requires a range of structural economic reforms, which the transitional governments have been unwilling or unable to implement.[31] Whether the current government will be able to introduce difficult reforms is an open question. Many, if not most, of these reforms will likely generate considerable opposition from the public, trade unions, and even political parties in the coalition.

Two recent examples of the difficulties the government will face in undertaking economic reforms are instructive. One is when the UGTT rejected the government's offer of a 2.3 percent increase in salaries in March 2015, and demanded a 15 percent increase. The government then backtracked quickly and agreed to negotiate the general salary increase.[32] Another example is the small ($20) tax on foreign travelers imposed in early 2015. The Libyan government imposed a retaliatory tax on Tunisian travelers, which negatively affected border trade. After strong protests by residents of Dhiba and Ben Guerdan, two remote Tunisian towns on the Libyan border, in which a protestor was killed by the police, the Tunisian government immediately withdrew the tax.[33]

Since 2011, successive Tunisian governments recognized the need for economic reforms, and the international community has pressed Tunisia to implement them. Yet these transitional governments did little, arguing that deep economic reforms should be undertaken only by an elected government. This was a myopic view. It assumed that a future elected government would be able to garner political support for these reforms. But not moving on the reform front meant that they left Essebsi's government a poorly performing economy in need of major transformation.

What reforms are necessary for Tunisia to get out of the low-growth, high-unemployment trap in which it finds itself? The Tunisian government needs to:

- further rationalize the subsidy system and widen the tax base;
- streamline business and investment regulations to encourage domestic and foreign investments;
- improve labor market flexibility by changing existing labor laws and regulations that constrain employment;
- strengthen the financial system to make it more efficient and supportive of the private sector;
- advance the privatization process to bring efficiency and profitability into the state-owned enterprises; and
- improve the quality of training and reduce the skills mismatch between the supply and demand for labor.

One can understand the past governments' position that they did not have the political mandate to push through difficult economic reforms. Nevertheless, they could have greatly assisted the current elected

31 World Bank, "Predictions, Perceptions, and Economic Reality: Challenges of Seven Middle East and North Africa Countries Described in 14 Charts," *MENA Quarterly Brief*, August 6, 2014, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/08/06/000470435_20140806105353/Rendered/PDF/898440REVISED00ue030JULY020140FINAL.pdf.

32 Emma Guizani, "Abbassi and Essid to Negotiate Salary Increases for Public Sector," *Tunisia Live*, April 13, 2015, http://www.tunisia-live.net/2015/04/13/abassi-and-essid-to-negotiate-salary-increases-for-public-sector/.

33 Tarek Amara, "Democracy Under Way, Tunisia Turns to Tough Economic Agenda," Reuters, February 12, 2015, http://www.reuters.com/article/2015/02/12/us-tunisia-reforms-idUSKBN0LG1J120150212.

government by outlining the needed economic reforms and the guidelines for their implementation. These types of reforms have been studied and analyzed at great length and introduced in many countries around the world. With technical assistance from the United States, the European Union, the IMF, and the World Bank, a detailed blueprint of economic reforms could have been produced, thereby avoiding the delays typically associated with a new government finding its bearings.

Indeed, it is only in September this year that the Minister of Development published a five-year development plan for 2016-20 that includes reforms and government strategies along the lines listed above. This plan expects growth to average 5 percent a year over the five-year period and unemployment to fall from 15.2 percent in 2015 to 11 percent by 2020.[34] The crucial questions to consider are whether Tunisians will have the patience to wait five years to receive what they are demanding now, and whether the government will have the political will to deliver on the needed reforms. The proposed National Reconciliation Act currently under discussion is a worrisome sign in this regard. It is viewed by many Tunisians as a step backward, as it provides amnesty to those businessmen involved in corrupt financial transactions if they agree to pay back the amounts gained in those transactions to the government. While ostensibly this is to encourage domestic and foreign investment, it effectively leaves the principal beneficiaries of the Ben Ali regime to continue business as usual by allowing them to start investing without having to reveal the sources of their funds.[35]

What could the international community do to incentivize the Tunisian government to undertake major structural and institutional reforms? Certainly, some donors and international financial institutions could provide external financing that would reduce the costs of adjustment resulting from the reforms.[36] Trade agreements that would require Tunisia to continue with market-oriented reforms could also be an incentive mechanism, an idea that the Tunisian government has supported and the business community has been pushing. Negotiations with the EU for a Deep and Comprehensive Free Trade Agreement (DCFTA) continue. The Tunisians are eager to have a Free Trade Agreement (FTA) with the United States, but to date the United States has been reluctant to go beyond the 2002 Trade and Investment Framework Agreement (TIFA) between the two countries. Some variant of an FTA or other trade inducements, however, could provide strong encouragement to reformers and businesses, who could then in turn lobby the government to push ahead with a reform agenda.

**TUNISIA IS THE LAST REMAINING CHANCE FOR A SUCCESSFUL DEMOCRATIC AND ECONOMIC TRANSITION IN THE MIDDLE EAST.**

## Conclusion

Tunisia is the poster child for the Arab Spring. The country has rightly received considerable credit for demonstrating that establishing political rights and democratic institutions is possible in the Middle East. Tunisia's success or failure will have consequences for political and economic inclusiveness in other Arab countries. Political changes have taken center stage since the beginning of 2011, and it is fair to say the political landscape in Tunisia has been fundamentally altered for the better.

Unfortunately, Tunisia's successive governments failed to prioritize economic reforms. In contrast to the political situation, the economic situation in Tunisia is much worse than it was before the Arab Spring. The country is suffering from low economic growth, very high unemployment—particularly among the youth—large external and budget imbalances, rising poverty, and widening disparities in incomes between the rich and the poor, as well as between the urban and rural populations.

The lack of economic progress risks undermining all of the very painstaking political progress gained thus far. Already, Tunisians are pessimistic about democracy and do not feel that they are better off after the revolution.[37] The two main political parties have shown

34 "Tunisia Seeks to Cut Joblessness through Growth," AFP, September 15, 2015, http://news.yahoo.com/tunisia-seeks-cut-joblessness-higher-growth-145824159.html.

35 For more on the draft National Reconciliation Act (Law No. 49/2015), see David Tolbert, "Tunisia's 'Reconciliation Bill' Threatens Gains of the Revolution," *Huffington Post*, August 17, 2015, http://www.huffingtonpost.com/david-tolbert/tunisias-reconciliation-b_b_7906230.html; Tarek Amara, "Tunisians Protest Economic Amnesty Bill," Reuters, September 12, 2015, http://af.reuters.com/article/tunisiaNews/idAFL5N11I0KY20150912.

36 During her visit to Tunis on September 9, 2015, the Managing Director of the IMF pressed the government to move ahead with economic reforms and promised IMF technical and financial support to assist in this objective. See Bouazza Ben Bouazza, "IMF Urges Recession-hit Tunisia to Speed up Reforms," AP, September 9, 2015, http://hosted.ap.org/dynamic/stories/M/ML_TUNISIA_IMF?SITE=AP&SECTION=HOME&TEMPLATE=DEFAULT.

37 International Republican Institute, "Survey of Tunisian Public Opinion: May 30-June 8, 2015," August 17, 2015, Slide 25, http://www.iri.org/resource/iri-tunisia-poll-economic-reform-vital-democratic-success.

fragmentation, the central government has not begun to decentralize in favor of strengthening municipal governments, the new anti-terror law has increased executive powers at the expense of some freedoms, and while there have been some positive economic steps taken by the current government, there is as yet no coherent long-run economic strategy. If the economy continues to deteriorate, public discontent will increase, and Tunisia's fragile democracy will likely disintegrate.

Tunisia is the last remaining chance for a successful democratic and economic transition in the Middle East. If it fails, the next Arab Spring will be a long time coming. The exclusive focus on political reforms by Tunisia's successive governments at the expense of economic reforms was a mistake, and time is running short to rectify the balance. Those touting Tunisia as a political success story should hedge their bets. It is in everyone's interest that Tunisia succeeds. Although the ultimate responsibility for Tunisia's success lies with Tunisians, the international community can and should play a significant role in the country's transformation and cannot be a bystander. If Tunisia's economy does not improve soon, the transition will surely unravel.

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