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IDENTITY CONFRONTATIONS WILL NOT CREATE NEW JOBS IN TUNISIA

Francis Ghilès Senior Research Fellow, CIDOB

A 1,85% decline in Gross Domestic Product and a big fall in tourist receipts is not a very large price to pay for the freedom to speak and vote after 23 years of increasingly corrupt rule by Ben Ali.

International financial aid for Tunisia was enough to help the country through a turbulent year which saw strikes and absenteeism in the public sector weaken the control of the state and a sharp fall in the production of phosphates, a major foreign income earner.

The Central Bank has played a key role in stabilising the country's economy which was also negatively affected by the fighting in Libya.

Free elections and the advent of a *En Nahda* party dominated government have so far led to a rise in identity politics which do little to address the growing gap between an impoverished western and southern hinterland and a much richer and better educated coastal region.

Tunisia's hard won status as a reliable exporter of high value added products in the mechanical and electronic sector is being eroded.

Unless it addresses these challenges head on, the new government led by Hamadi Jebali will quickly come to appreciate that identity confrontations divide Tunisia and will hasten the exit of foreign companies which to date has been limited to 170.

The toppling of General Ben Ali just over a year ago was accompanied by only short lived violence and no foreign intervention: the Tunisian uprising was followed by democratic elections last October 23rd which brought to power a coalition government whose brief was to draft a new constitution within twelve months. An interim government headed by the veteran politician Beji Caid Essebsi made a good job of keeping the ship of state afloat in the difficult months that followed the revolt and ensuring a free vote. The Islamist party *En Nahda* won a plurality of votes and very much dominates the new government which came into office two months ago. The cabinet headed by Hamadi Jebali includes 51 ministers and secretaries of state, four fifths of whom are *En Nahda* appointees. The other ministers belong to the minor partners in the coalition, the *Congrès pour la République* - headed by the new president of Tunisia Moncef Marzouki, whose powers are essentially symbolic and the *Forum Démocratique pour le Travail et les Libertés* - headed by Mustafa Ben Jaffar who chairs the Constitutional Assembly.

The momentous events of 2011 generated huge expectations for the 10.5m inhabitants of North Africa's smallest country whose population is relatively well educated and whose women enjoy rights none of their Arab sisters do thanks to the *Code du Statut Personnel et de la Famille* enacted in 1956 by the founder of modern Tunisia, Habib Bourguiba. The young people who led the uprising and suffered the worst casualties came from the poorer west of Tunisia where unemployment rates among the young can reach fifty per cent – they hoped that the change they helped engineer would bring the jobs they desperately crave, a step on a social ladder which had all but disappeared under Ben Ali. One year on they are discovering the miracle harder to materialise than they expected.

Selected indicators

	2009	2010	2011e	2012f	2013f
Real GDP, % change	3.1	3.0	-0.5	3.2	4.0
CPI, % change, eop	4.1	4.0	4.2	3.1	3.7
Exchange Rate, eop, (DT/$)	1.32	1.44	1.50	...	...
Current Account Bal., $ bn	-1.2	-2.1	-3.1	-2.9	-2.7
% of GDP	-2.8	-4.8	-6.6	-6.2	-5.6
Official Reserves, $ bn	11.1	9.5	7.4	7.5	8.2
Months of Imports	5.7	4.3	3.2	3.0	3.1
External Debt, % GDP	48.2	46.0	47.6	51.2	53.6
Budget Balance, % GDP	-2.7	-1.3	-3.7	-5.6	-5.0
Public Debt, % GDP	42.9	40.5	43.0	45.9	48.2

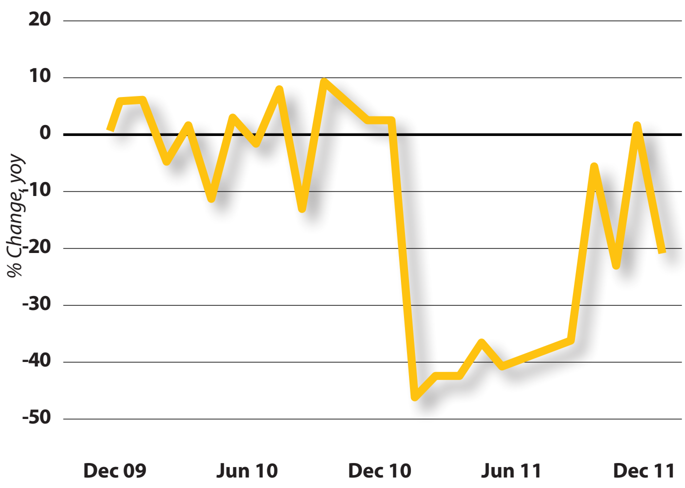
e = Estimate / **f** = forecast. **Source:** IFF january 2012

Yet all is far from bleak in Tunisia today: every citizen appreciates the freedom to speak and write. Public opinion is out and it will not be able to put that genie back in the bottle. The other enormous relief is the virtual disappearance of a heavy handed and hated security force which never shied from using torture to break opponents. Though economic activity declined last year, a 1.85% decline in Gross National Product is a small price to pay for such a momentous achievement. The current account deficit widened to $3.2bn. Equivalent of 7.4% of Gross Domestic Product (GDP) in 2011 from $2bn in 2010 but while the trade surplus remained stable, the surplus in net services and transfers declined from $2.5bn to $1.6bn as a consequence of the fall in tourist receipts and remittances (150,000 Tunisian workers fled Libya). Inflation increased, an inevitable consequence of the monetary easing last year which was initiated to starve off economic collapse but the sharp rise in prices overall – in January 2012 alone it was 0.7%, is explained by the rise in the price of fruit and vegetables, not least owing to strong demand from Libya. The external debt remains manageable at 47% of GDP because bilateral and multilateral creditor account for 72% of medium and long term external debt while debt service payments are equivalent to 9.5% of exports of goods and services. As the International Institute for Finance points out in it slates report on the country "the level of official foreign exchange reserves, while declining, appears to be adequate at 170% of short term debt" [1].

1. **Institute of International Finance** *Tunisia: Headwinds Impede a Strong Rebound in 2012*, January 23, 2012

Last year Tunisia was able to mobilise sufficient financial help from multilateral and bilateral donors: but loans each from the World Bank and the African Development Bank (worth $500m each), monies from the European Union and bilateral aid - from the *Agence Française de Développement Extérieur* – Eur185m, the European Union - Eur55m and Algeria - $100m) were not enough to prevent a decline in official foreign exchange reserves by $2bn at year end 2010 to $7bn at the end of February 2012, equivalent to just over three months of imports. Tunisia should be able to mobilise equivalent sums this year. Meanwhile, its rating has declined a little, from BBB+ to BBB- which spells higher borrowing costs were it to test the waters of the international bond market. On a visit to Tunis last January, the Director General of the IMF, Christine Lagarde told the government that the IMF was more than willing to help Tunisia if necessary. Mustafa Nabli is adamant that the independence of the institution of which he has been the steward since the fall of Ben Ali should not be compromised: the governor of the Central Bank is playing an active role in drumming up international financial support for Tunisia but has warned that it would be unwise to pursue last year's policy of monetary easing in 2012.

Tourist Arrivals



Source: IFF january 2012

Unemployment has soared to an estimated 800,000 meanwhile, fuelled by the 50% decline in foreign tourists visiting Tunisia. This sector accounts for 7% of direct GDP and employs 400,000 people. Foreign income from tourism was in 2010 equivalent to 6% of GDP. Many hotels are closed and unlikely to reopen soon as the crisis in Europe acts as a major brake on holiday budgets with the exception of Germany. The Tunisian administration is functioning *a minima*: many state projects are in abeyance as provincial governors and mayors dare not take any decisions while payments to local suppliers are delayed, thus forcing the downsizing or closure of scores of small companies. In the phosphate mining region of Gafsa, an offer by the state *Groupe Chimique* to create 4000 new jobs to alleviate the great poverty which bedevils the region led to tribal rioting – 17,000 new jobs were needed in a situation which has been compounded by endless strikes which have cut the production of phosphate rock by more than half and the export of phosphate rock and derived products by 34.8%.

Cultural war games contribute nothing to rebuilding trust, law and order

The break down of law and order affects the economy in three ways. As the machinery of government has weakened, industrial sites are being robbed of all kinds of raw materials and machines by gangs which are never brought to trial. In the port of Radès outside the capital, a flood of private goods, notably Chinese, flows through without paying custom duties and contributes to a fast growing informal sector which some observers say accounts for roughly 30% of GDP today and explains why the state fails to collect 40% of the overall tax receipts it is due. This breakdown of law in the ports threatens the survival of many small companies in Tunisia. It is worth noting at this point that one of *En Nahda's* main sources of financing is the informal sector where a building boom is under way, fostered by the fact that after the revolution, building permits were deemed unnecessary. This has provoked both a shortage of cement and a rise in the cost of building materials across the board.

Tunisian or foreign are in agreement on one point: investment intentions, which dropped by a quarter last year, will only pick up if and when the government demonstrates its capacity to re-establish law and order.

The partial withdrawal of the state is affecting the economy as strikes and go slows, not to mention absenteeism have become widespread and not just in the state sector. Workers feel able to vent their frustration after years during which they feared repression and clamour for higher pay and better working conditions. Private sector companies which export high value added products such as harnesses for the automotive industry pay and treat their workers well. In other sectors, the challenge is to grant longer term contracts to workers who were on short term ones and did not benefit from social security. A third and very political factor is at play: many ministers of the new government appear to have been appointed on the basis of the number of years they spent in prison rather than of their professional qualifications let alone the capacity they have to grasp complex economic matters and run a ministry. The quality of the administration in Tunisia has been traditionally rather good and senior civil servants are not happy as they watch their new masters fail to respond to the worst flooding in the country's north west in decades.

Many ministers and the top leader of *En Nahda*, Rachid Ghannouchi, are focusing on subjects which divide Tunisian society deeply. He has explained in countless interviews to the international press that *shari'a* will be one of the principle sources though not necessarily the only one of law in Tunisia (*a-charia masdarun assassiyun min masâdir a-tachri*). This statement arouses deep fears, not just among women but among many men, that Tunisia risks going backwards socially.

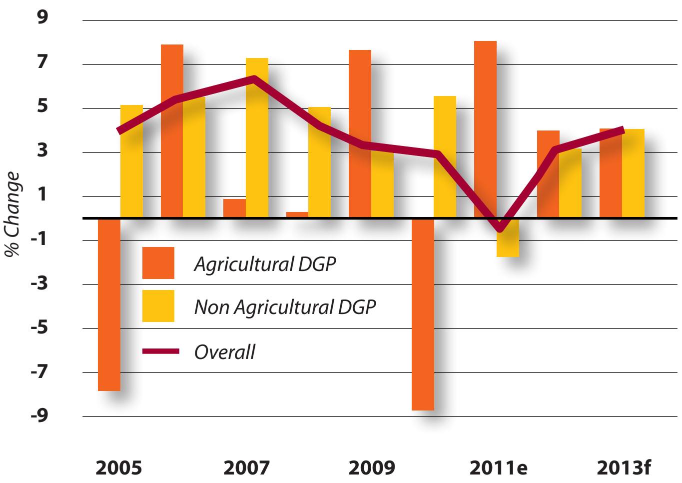
None of a number of recent events arresting journalists, allowing firebrand Egyptian preaches into the country, showing indulgence towards hard line Salafist activists, is calculated to improve a business climate which is sullen. Nor will they improve the image Tunisia projects abroad, notably in France and Europe, source of much of the foreign investment the country enjoys. Investors hate uncertainty and while few foreign companies have left – 172 according to the Foreign Investment Agency, leading to the loss of 8-9000 jobs, most are playing a game of wait and see. Important foreign and local investors increased industrial last year compared with 2010 by 10.2% to $4bn. Private entrepreneurs, be they Tunisian or foreign are in agreement on one point: investment intentions, which dropped by a quarter last year, will only pick up if and when the government demonstrates its capacity to re-establish law and order. Such an outcome is a *sine qua non* if Tunisia is to maintain its record as the most attractive southern rim Mediterranean country in which to do business. The savvy of many Tunisian firms was confirmed as exports in the textiles, electronic and mechanical subsectors posted a growth of 16% last year despite the post revolutionary turmoil. If private investment fails to pick up this year, the country's economy will be set adrift.

Radhi Meddeb, makes the point very bluntly. "Tunisia fought hard to win its reputation as a leading Southern Mediterranean exporter of high valued added goods in the electrical and mechanical subsectors. The number of faulty units used to be 1 per million, it has now shot up to 10,000 per million. A country's reputation as a reliable supplier is arduous to win and easy to lose" [2]. The sectors where Tunisia has won a reputation as the most reliable supplier among Southern Rim Mediterranean countries include electrical harnesses, mechanical spare parts for the automotive and aerospace industries and circuit boards. What has been painstakingly achieved could be lost quite swiftly. The climate of freedom since the fall of Ben Ali has spawned any number of demands: some are reasonable, others less so; some can be met quickly, others not. Many skilled workers have convinced themselves that there is no reason they should be paid a sixth of their French or German counterpart. Such arguments are fine but will do little to avoid production being moved elsewhere if greater stability and reliability do not return some time soon. That there should be much resentment among workers and skilled workers at the manner in which Ben Ali and his family hijacked the state and enjoyed illicit gains; that many ordinary Tunisians should express disgust at what they see as the duplicity of international organisations and Western governments too happy to laud Ben Ali for being a good steward of Tunisia's economy and liberties is understandable.

2. **Radhi Meddeb** founded the association *Action et Développement Solidaire a year ago. In Ensemble, Construisons la Tunisie de Demain, Modernité, solidarité et performance* published in november 2011, he puts forwards a number of proposals to build a new Tunisia. He is also chief executive of Comète Engineering.

Western governments, particularly in Europe made fools of themselves for years. Two recently published books make uncomfortable reading for certain members of the French media and political establishment, not least former ambassadors to Tunis who did not shy away from accepting seats on the boards of companies close to the Ben Ali family and helping the presidential clan enrich itself [3]. The French adage *l'argent n'a pas d'odeur* sums up the behaviour of diplomats whose ethical standards General de Gaulle would have regarded as pitiful.

Real GDP



Source: IFF january 2012

The world however is an unsentimental place and the Tunisians are not even likely to enjoy the satisfaction of seeing much of the capital exported abroad by Ben Ali return any time soon. An estimated $100m has been recovered so far and the stalled effort to pursue any more than a couple of hundred cases inside the country may be hampering the attempt to identify and recover funds stashed in 200 suspect bank accounts and companies around the world. As important for the future will be how the government manages the companies taken over – these companies are worth billions of Tunisian Dinars, they involve a lot of often good jobs and the employees were themselves largely blameless.[4] In a broader sense, Tunisians have to fight their corner in the world. They enjoy some notable advantages, not least the number of jobs Libya will offer to Tunisians when the rebuilding effort gets under way. Tunisia's support for its Libyan brothers fleeing last year's fighting was exemplary and the former government did all it could to ease the flow of foreign weapons to those fighting Muammar Gaddafi – this was a hard headed decision by the former prime minister, one which fitted entirely with the mood of his countrymen who hated the former Libyan dictator.

Being realistic when it comes to investors is one thing, playing its foreign policy cards cleverly is another. Tunisia is not doing so on the North Africa front. The president, having apparently refused an invitation to pay his first foreign visit to France, went on a tour of North Africa last month: instead of starting by Algeria, as his country's interests would have dictated, Moncef Marzouki flew to Morocco where he was brought up and where his father is buried. There he talked of the urgent need to re launch talks to kick start the very sleepy *Union du Maghreb Arabe*. He then travelled to Algeria where he was courteously received and left with three *burnous* (a traditional north African cloak he has taken to wearing as well as not sporting a tie) rather than a $100m cheque as his predecessor Beji Caid Essebsi had last summer.

Structural internal imbalances may fuel tensions if not addressed

Back in Tunis, the scene is already set for what could turn out to be a confrontation between *En Nahda* and the *Union Générale des Travailleurs Tunisiens* (UGTT) which could shape the country's future. The latter played a key role in Tunisia's fight for independence after the Second World War and its falling out with the government led, in 1978, to the worse riots Tunis had witnessed since independence in 1956. The other great uprising before last year occurred in January 1984 and was sparked by Habib Bourguiba's decision to double the price of bread, a decision he rescinded after the poorer south and west of the country rose in fury and trouble spread to the capital. UGTT is present throughout a work force which pays its taxes and is committed to a modern though much more equitable Tunisia; *En Nahda* draws its strength from disenfranchised Tunisians and those who control the informal sector, do not pay taxes and are often wealthy.

Many in Tunis are convinced that the Islamists also enjoy the patronage of wealthy individuals in Saudi Arabia, Qatar and other Gulf states. Such was the case of the *Front Islamic du Salut* in Algiers in the early 1990s though Saudi Arabia only owned up to as much later on. The Emir of Qatar visited Tunis last month and offered a $500m with an interest rate of 3.5%. But why use such monies when Japanese aid money carries a 0.85% interest tag? More important is the fact that *En Nahda* has offices all over Tunisia and a superb modern high rise in the heart of the business district of *Montplaisir* in Tunis. *En Nahda's* leaders refuse to publish the party's accounts thus fuelling the rumour mill. If one analyses the outcome of forty years of Gulf and Saudi investments in North Africa, the story is one of a persistent mismatch. [5] Such investments have never been a priority for either region and have tended to be concentrated in capital intensive sectors such as telecommunications, banking and real estate/tourism, all of which required support at a senior political level. More often than not such investments were rent seeking rather than of a kind which developed local skills and promoted innovation.

3. **Bechir Turki**, *Ben Ali le Ripou* Kapitalis.com, Tunis 2011 & **Lénaig Bredoux, Mathieu Magnaulex**, Essais HC, Paris 2012
4. **Borzou Daragahi** *No sign of Missing Ben Ali funds one year alter he fled uprising*, Financial Times 14 January 2012
5. **Mahieddine Raoui,** *Investissement of Gulf countries in North Africa* CIDOB-OCP Seminar on *Transitions in North Africa in Times of Scarcity: Finance, Employment, Energy and Food* 11-12 Novembre 2011, Barcelona

In Tunisia examples of such behaviour abound (though Western companies can also be rent seekers). Real estate developments such as the upmarket *Berges du Lac* in Tunis and any number of hotels along the coast are more akin to speculative deals where the Middle Eastern investor borrows local funds and, with the help of well connected political actors, siphons money out of the country. Other factors are also at play: labour in North Africa cannot compete with Asia in terms of wages (higher in Tunis) nor in terms of skills with Eastern Europe (much lower). In other words, Tunisia's comparative advantage has eroded overall over the past twenty years. All of which does not rule out future interest from some Gulf or Saudi investors but suggests caution as to the volume and impact such investments may have. They are unlikely to increase skills in Tunisia, added value to its exports and, more broadly, modernise the economy.

The good news will be that, unlike in their recent past, Tunisians will be able to hold accountable those who did not live up to the general expectations, and thus vote for a new government, if they wish to do so.

The government's mismanagement of the worse snowfall and flooding in decades in the poor north west of the country in the second half of February has done little to improve an image which hardly smacks of competence. At Kalaa Kasbah, a small town near El Kef close to the Algerian boarder demonstrators waived Algerian flags and shouted they wanted to become Algerians in despair at the lack of government aid. The Islamic economics announced by the Prime Minister will be of little use to indebted farmers who have lost their cattle or this year's crop around the towns of Jendouba and Bou Salem badly hit by last month's floods. Yet as the previous government had made clear in its *Livre Blanc du Développement Régional*, the fracture between its coastal and interior region bedevils Tunisia: poor infrastructure, few banking facilities, little training and popularizing new farming techniques have turned the inhabitants of the regions of Kasserine and Jendouba into second class citizens. The fracture extends to medical services: not a single one the 21 major hospitals in Tunisia is based inland: all are built on the coast, 16 in Tunis alone.

The truth is that Tunis is stunting the growth of the country. It is hardly surprising to find that the figures of private investment per inhabitant (TD 9.508 in the province of Zaghouan due west of Tunis, TD 2,601 in the province of Siliana) and those of unemployment (28.3% in Gafsa, the capital of the very poor mining region and 11.1% in the central coastal areas, with unemployment among people of under 30 double these figures) reinforce this sorry tale of strong regional discrimination. The image of jasmine and hedonistic beaches Tunisian tourist officials promoted for decades told half the story, that of the coast. Nobody bothered to mention the magnificent Byzantine/Ottoman/French fortress of El Kef or the Roman/Carthaginian ruins of Dougga, in the country's more remote hinterland close to the frontier with Algeria.

Steep road ahead

As the first Arab country to throw out a hated and corrupt dictator, the learning curve Tunisia is going through is steep: how best consolidate a democracy whose roots are as yet shallow? How best improve the rate of economic growth which alone can offer desperately needed jobs and rebalance regional development? How best reconcile the poorer hinterland with the richer coastal area? How events unfold in Tunisia is being keenly watched by the country's Maghreb neighbours and further afield.

All experiences have their ups and downs but engaging in cultural skirmishes which risk turning into wars, will not foster greater wealth and employment. Cultural wars, if kept alive, will breed unrest and resentment. Luckily the army general staff and the Sureté Nationale are in the hands of Tunisians who put their country's integrity and interests above party politics: General Rachid Ammar and Ahmed Chebir. The government headed by Mohamed Jebali was elected after the first free elections since Tunisia achieved independence more than half a century ago. Its legal remit, indeed its democratic duty is to draw up a new constitution and promote the well being of the 10.5m Tunisians at a time of strong international and domestic economic headwinds.

The politics of Tunisia could turn ugly if ordinary Tunisians, many of whom are poor, gain the impression that the newly elected leaders are indulging in identity politics rather than address the great economic and social challenges the country faces – in other words "fiddling while Rome burns". Tunisia does not deserve such a fate. The good news will be that, unlike in their recent past, Tunisians will be able to hold accountable those who did not live up to the general expectations, and thus vote for a new government, if they wish to do so.