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TUNISIA TURNS A POLITICAL CORNER BUT IMF INSPIRED MEASURES MAY NOT OFFER THE RIGHT ECONOMIC PRESCRIPTION

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Tunisians are smiling again. For any regular visitor to Tunis, the change of atmosphere in the capital compared to last autumn, indeed the past two years, is striking. The country's economic situation has hardly improved however and the fight against terrorism claims regular victims. But the adoption of a new constitution last January which enshrines the equal rights of men and women and the rule of law offers a rare example in the Arab world: a revolt against a dictator ushering in a period of progress, however turbulent and costly in the short term, the respect for the rule of law and, since the appointment of Mehdi Jomâa, a good government. The prime minister has been blunt about the dire economic situation two years of Islamist government have left the country in. For the first time since independence, a Tunisian prime minister speaks frank language of economic truth to those he serves, in vernacular Arabic rather than the pompous classical version usually preferred by Ennahda leaders and the former president. His tone is quiet and businesslike, a reflexion of

the character of the inhabitants of the town from which he hails, Mahdia, which lies down the coast from Tunis.

His message is as brutal as the bare statistics. GDP growth has averaged 2.3% annually since the fall of Ben Ali, 0.8% if one

subtracts government wages (100,000 new recruits have joined the civil service and state companies –many of which post huge deficits– often lacking in qualifications. That is the price paid for the Troika's (Ennahda, CPR and Ettakatol) political-economic expediency. Wages overall have grown by 40%, productivity by 0.2%. The cost of state subsidies to oil and gas products and foodstuffs has rocketed by 270% over three years. The budget deficit was 7% last year and expected to rise to 9% in 2014. Foreign debt meanwhile has risen by 38% over three years to over 50% of GDP. Such figures are unsustainable.

Strikes, many of them illegal, are increasing exponentially. Emboldened by their success in convincing the Islamist government to leave office, the Tunisian General Labour Union (UGTT) now seems to

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be acting as a government in waiting. Its national leaders are happy to denounce inflation but recoil at the idea of any austerity measures. Some UGTT members, notably regional leaders, seem to think that nationalising or renationalising loss-making industries will save them. Having seen its staff treble in three years and its production collapse by more than 75% and lost many of its export markets, the Groupe Chimique-Compagnie des Phosphates de Gafsa symbolises the dire straights the economy is in: its workers seem to work one day every ten. The UGTT section in Gafsa, the main town in south western Tunisia, appears to have become a state within a state. If Tunisia does not get back to work, the economy could well derail the political process

The explosion of the informal sector, caused by the failure of the formal economy to provide jobs, is now fuelling inflation. It also has the perverse result of lowering the tax take. The state is probably receiving half the tax it is owed by its citizens. Urgent measures are needed to put state finances back on a sounder footing and mop up the huge amount of informal money washing around Tunisia. However, as William Lawrence, George Washington University professor explains, “in a country whose revolution was launched by a desperate and demoralized informal fruit seller subject to government harassment, further cracking down on the informal sector is unwise, if not foolish. Accordingly, the UGTT, whose rank

The adoption of Tunisia’s new constitution helped rekindle a sense of national unity. It is the most democratic and liberal charter in the Muslim world, protecting civil liberties, separating legislative, executive and judicial powers and guaranteeing women parity.

and file were instrumental in publicizing Bouazizi’s fate and turning it into a revolution will likely oppose the necessary measures”. And with the UGTT –and leftwing parties supporting the current caretaker government– playing the populist card, the worsening financial disorder will prevent Tunisia from turning the next corner, which is an economic one. Social and political disorder will feed on one another and, when set against existing security concerns, will exacerbate the overall sense of drift.

Tunisia comes close to the brink

In the months which followed the assassination of a second left wing deputy, Mohammed Brahmi last July, North Africa’s smallest country seemed to be on the brink. The Islamist led government, headed by Ali Larayedh and opposition *Nidaa Tunes* coalition of parties, traded mutual accusations and insults as to who was responsible for the dire straights Tunisia was in – a fast deteriorating economy and an ever worsening security situation. In the immediate aftermath of the murder, tens of thousands of Tunisian men and women demonstrated against the government, insisting it should respect the equal rights of men and women, fight terrorism wholeheartedly and

reign in corruption. Despite having no lost love for a government they viewed as supremely incompetent, the trade union leaders, with the help of the employers federation Utica whose members were alarmed at the explosion of the informal economy and growing insecurity, the League of Human Rights and the bar association did everything in their power to broker an agreement between government and opposition. With UGTT as the master supervising physician –the other three played minor legitimizing roles– they acted as midwives to the agreement which finally delivered a government of technocrats to lead the country in the run up to general elections. These elections will be the second free and fair ones of their kind and are expected within a year.

As the polarisation of Tunisia grew worse, portraits of the founder of modern Tunisia, Habib Bourguiba, started reappearing in shops and cafes. The man ousted by a “medical coup” in 1987 and kept under house arrest for a decade till he died in 2000, is now the subject of many television and radio debates. Tunisia’s post independence history is being discussed, more critically than was possible when Bourguiba ruled. He may well have been a dictator but he gave Tunisian women rights they enjoyed no where else in the Arab (and indeed much of the European) world in 1956, along with the advancements in education and health. He helped build a middle class and institutions which, despite the attempts of Ben Ali to dismantle

them, survived to help steer the 2011 revolution towards calmer waters. It is the sons and grandsons, the daughters and granddaughters of Bourguiba who refused to countenance attempts to impose *sharia* law. He must be smiling in his grave at the posthumous effects of his conviction that Tunisia could become a modern state.

Tunisia offers a political example Turkey no longer does

Throughout their two years in power, the leaders of Ennahda complained that the deep state entrenched under Ben Ali was plotting to overthrow them. Events in Egypt and Turkey early last summer certainly fuelled such fears. They grew increasingly alarmed over the summer and autumn of 2013 by the events unfolding in Egypt and Turkey and their possible fall out in Tunisia. The military coup which ousted Mohammed Morsi from the Egyptian presidency offered a sharp reminder that counter revolution can easily follow revolution. The deep state did indeed exist in Egypt but one of its vital components, a strong army, with considerable economic interests, was lacking in Tunisia. Equally disturbing for Tunisian Islamists were the riots in Istanbul last June and their brutal repression by the Justice and Development Party (AKP) led by the charismatic prime minister, Recep Tayyip Erdogan.

The stability and prosperity that Turkey had enjoyed over the past decade had associated that country with a political arrangement known as the “Turkish model”. As that model

came unstuck, a transition to Muslim authoritarianism no longer looked implausible. Ever since, events in Turkey are doing daily injury to the very idea that Islam and democracy can share the public sphere. Turkish politics are poisoned by bitter fighting between leaders who view compromise as cowardice and further complicated by the fall out between two erstwhile Islamist allies, the Gülen movement and AKP. The Turkish prime minister and his friends in Ennahda in Tunis often resort to conspiracy theories in an attempt to delegitimize their opponents. The veteran leader of *Nida Tunes*, the eighty seven year old Beji Caid Essebsi, never did. This explains why Turkey has been unable to agree on a new constitution – it is still governed by the 1982 military one. Mr Erdogan’s attempt to push through a new constitution last December failed because AKP wanted the new text to maximise presidential power at the expense of the judiciary and legislature. When Rachid Ghannouchi stepped back from his earlier insistence of establishing Tunisia as an Islamic state, the opposition saw this concession as a token of goodwill. Despite its birth pangs, the adoption of a new constitution helped rekindle a sense of national unity. When deputies of all parties hugged one another and chanted *Mabrouk alina* (congratulations to us all) they were celebrating the fact that Ennahda leaders had come to understand that the tolerance they were showing of hard line Salafi groups was destroying their political credibility.

Rachid Ghannouchi liked to boast of his close ties with the Turkish Prime Minister – but no longer. Mr Erdogan cultivates a very confrontational form of politics and uses his speeches as a bully pulpit. Mr Ghannouchi spent two years giving provocative speeches but, since last autumn, as if he were being coached by some US political consultant, he has become all sweet and reason. He practically sounds like a European Christian Democrat. Now that the party he leads is out of government and spared the consequences of its disastrous management of the economy, he is concentrating on winning the forthcoming elections. Ennahda proved to be a lousy steward of the country’s economy, AKP has fared better on that front. But Mr Erdogan’s insistence that a global network of financiers (by which he means Jews) is trying to weaken Turkey rather contradicts the economic policy he has conducted and which has exposed Turkish consumers to what he calls the “interest rate lobby”. The country’s foreign debt has nearly tripled since the AKP came to power.

The leader of Ennahda has also been blessed with an opponent who maintains a statesmanlike demeanour. Mr Beji Caid Essebsi’s refused to rise to the bait and respond in kind to the stream of insults some Islamist leaders threw at him after he handed the keys of the interim government he headed over to them in December 2011. He politely but firmly refused to accept the Islamist attempts to disqualify him and thousands of other Tunisians who had belonged to the ruling RCD party which was dissolved in the wake of the fall of Ben Ali to stand in the forthcoming elections. His on and off boycotting of the talks to form a new government last autumn may have been a good tactic but the statesmanship was, at that point, more of a public face. If Tunisia reaches the next elections

without a major upset, both leaders will have assured their place in history. Tunisia’s new constitution is the most democratic and liberal charter in the Muslim world, protecting as it does civil liberties, separating legislative, executive and judicial powers and guaranteeing women parity in political bodies. It declares that Islam is the country’s official religion but protects religious freedom for all. This achievement of sorts is maybe less surprising if one remembers that the first ever written constitution in the Muslim world, which set up a constitutional monarchy, was promulgated a century and a half ago, in 1861, by Bey Muhammad as-Sadik III, the then ruler of Tunisia.

Though Qatar remains a strong supporter of the Tunisian Islamists, the former’s fall out with Saudi Arabia and other Gulf States suggest the emirate will henceforth act more prudently abroad in general and in Tunis in particular. Ennahda had been the toast of the town in London and Washington during its first eighteen months in power. But, as hard line Tunisian Salafi Islamists took to murdering politicians and members of the security forces –while the government turned a blind eye, as thousands of young Tunisians were recruited for the jihad in Syria and travelled to the Middle East by way of Libya and Turkey and the government did not succeed in stopping them– American and German warmth towards Tunisian Islamists cooled. Some German and US diplomats began to

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wonder whether moderate political Islam might not be a contradiction in words.

Unlike Egypt, Tunisia’s army is not powerful but, faced with mounting disorder and an explosion in the informal economy, including weapons and drugs, it might have been tempted, with the discreet backing of its Algerian peer, to put an end to a government whose major badge of distinction was its ineffectiveness in the face of serious challenges. Maybe no government could have surmounted the J-curve of the economy after the revolution. Piling on the pressure of civil society, senior Algerian military leaders made quite clear to Mr Ghannouchi during a visit he paid to Algiers last September that they would not stand by with their arms crossed if Tunisia descended into chaos. The US played its cards well, refusing to explicitly endorse more international aid for Tunisia until the country had delivered a modicum of economic reform. Its attitude also effectively froze loans from the World Bank and the IMF which were predicated on Tunisia enacting economic reforms. By relinquishing the government, the Ennahda leaders proved that they were more cast as Tunisian capitalists than as a Muslim Brotherhood international group. They demonstrated that they were prepared to act more in the interests of the Tunisian people than in favour of the Islamic *Internationale*. Some members of Ennahda would have preferred to turn Tunisia into a more Islamic state but Ghannouchi and other Ennahda leaders realised that if they pursued that aim, they could tip the country into civil war.

A dire economic situation

Since he was appointed two months ago, the prime minister's priority has been to try and rein in smuggling and the informal sector. He has paid visits to the customs at the port of Tunis, travelled to different places on Tunisia's frontiers with Algeria and Libya through which an ever growing flood of very diverse goods is causing enormous damage to domestically produced goods. The streets of Tunis and major cities are full of informal vendors selling anything from pharmaceuticals to cigarettes, petrol from Algeria, foodstuffs and alcohol. While the informal sector was enormous before the revolution, it has grown. The government has long estimated that the informal sector represents 30% of the economy; the employer's federation Utica has raised that estimate to 50%. The shortfall in tax revenues is estimated at 50% - and the UGTT section decides all tax offices will go on strike for a week. The end of the walk-out fails to reopen tax offices and the movement goes on illegally. UGTT leaders refuse to condemn its supporters who are on strike. The authority of the government is in question. The UGTT leader Houcine Abassi may be one of the most courted men in Tunisia today but if he chooses to dictate economic policy to the prime minister, Tunisia is in for a bumpy ride.

Every major international financial institution has sent representatives to talk to the new government, four of whose mem-

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bers, Mehdi Jomâa, Kamel Bennaceur, Hakim Ben Hammouda and Lassâad Lachâal have worked in international companies or financial institutions. They speak the same language and understand each other well. It would be a pity however, as the respected Tunisian economist Mohamed Chawki Abid remarks, if the IMF, which had negotiated reforms with the two previous Ennahda-led governments imposed its time honoured recipes on Tunisia: these include a sharp cut in subsidies across the board, a restructuring of the banking system, the privatisation of leading state companies in sectors such as electricity (STEG) and the post office. The IMF seems to want to impose the prescriptions of the now discredited Washington consensus on Tunisia, despite these having failed in many countries. Abid believes a bold economic austerity plan is essential in order to stop the "financial haemorrhage" which is akin to a "fire which is devouring us" as he wrote on the news website *Kapitalis*.

How these measures are selected and sequenced will determine their success or failure. The devil here is in the details. The price of tins of tomato sauce, a vital commodity for poorer Tunisians has increased, in two stages, by 29% in the past six months: at the end of February when the government cut state subsidies and last September when producers argued they needed a higher price to cover new costs. Whatever the merits of last September's rise says Abid, last month's decision is not warranted. Subsidies on petroleum products are to be cut but would it not be wise to cut them on petrol used by tourism ve-

hicles which are used by the middle classes but avoid it on fuel oil and diesel used by tractors and collective taxis? As noted above, subsidies have increased by 270% since 2010, to Euros 2.5bn today. Yet indiscriminate cutting of those subsidies which affect staples and other goods used by poorer Tunisians could provoke a social explosion.

Chawki Abid also proposes to suspend the importing of luxury goods such as perfumes, cosmetics, alcohols and luxury cars and push added value taxes to 25% on such items. That would require suspending some clauses of the free trade agreement signed with the EU and the OMC. Such a measure would rein in consumption, conserve precious foreign currency and reduce the deficit on the balance of payments. Three other measures suggested seem eminently sensible: a 1% tax of financial transactions between banks, insurance companies, mobile telephone operators and car dealers; launching a large domestic bond without inquiring where their funds originated to absorb the large sums of black money circulating in Tunisia and reduce the size of the informal sector. He points to the absurdity of recapitalising Tunisian banks, which is a pet IMF idea, at this stage. That would cost Euros 500m over two years, equivalent to 3% of the budget. Surely that can wait until after the elections which are due within a year. One last measure would be to facilitate the sale of luxury houses and flats, often located in tourist areas, to other nationals of the Maghreb:

there would certainly be no shortage of Algerians and Libyans willing to buy.

There has been no debate in Tunisia on how an austerity package might be designed. Instead the Prime Minister

travelled to the Gulf in the hope of raising up to Euros 5bn, most of which was earmarked to fund the budget deficit which amounts to 9% of GDP. He was rebuffed however as Gulf governments are interested in investing in projects. Mr Jomâa knows that foreign oil and gas companies working in Tunisia are believed to evade tax to the tune of Euros 2bn annually and that the informal sector does so to the tune of Euros 1.5bn at the very least. He should put Tunisia's house in order before travelling abroad with a begging bowl. He should also be mindful that were he to swallow a Washington-consensus-inspired reform plan, he could well forfeit the trust of the Tunisian people. A bold government policy is essential but there is no reason why foreign donors, whether they are international organisations, European or Arab aid donors, be generous if Tunisia does not make its homework first. Tunisia is the leading and possibly single democratic success story in the Arab world today but there is no shortage of good Tunisian economists. A public debate on these issues would be in keeping with the new mood of pluralism which has engulfed the country.

As many of the hopes to which the Arab uprisings of 2011 have given way to bloody internal turmoil (Libya), brutal military counter revolution (Egypt) if not outright savagery (Syria), Tunisia offers that elusive prize, the promise of reconciling people whose creed is Islam with state institutions with respect for the rule of law, freedom of expression and the separation of religion and state.