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## **Tunisia 2019: The Success and Failures of the Arab Spring**

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In December 2018 a Tunisian journalist, Abderrazk Zorgui, age 32, died after he set himself ablaze in the city of Kasserine.<sup>1</sup> Then in January 2019, 670,000 Tunisian workers went on strike for one-day. This was called by the Tunisian General Labor Union (UGTT) and included public sector workers across the country. The strike followed the failure of negotiations between the union and the government led by Prime Minister Youssef Chahed. The UGTT's main demands included an increase in public sector wages, safeguards against privatization, and a change in the government's economic reform program that has been designed with the International Monetary Fund (IMF).<sup>2</sup>

In January 2018, nearly 800 people were arrested after protesting against tax increases and other government policies after a series of clashes with the police.<sup>3</sup> After protests marking the seventh anniversary of the Tunisian revolution, the government said that it would take steps to ease the plight of the poor and the unemployed. Discontent, especially in the poorer towns in the interior of the country, was spurred by inflation that reached 7.5% in 2018. Among the measures announced were increased government aid to 120,000 poor families and plans to make health care available to all Tunisians.<sup>4</sup>

Zorgui's immolation occurred eight years after a street vendor, Mohammed Bouazizi, died when he set himself ablaze and thus ignited the Arab Spring. What has happened in Tunisia that caused Zorgui to follow Bouazizi's suicidal path and for the country to experience so much unrest? Two questions need to be answered. The first is how far has Tunisia's political system changed since President Zine El Abidine fled the country in January 2011? Has it become the only democracy in the Arab world or were the political changes merely a camouflage for more of the same? We will look at one aspect of this issue: change of ownership and control in the economy.

The second question is what has happened to the economy. This is closely connected with the issue of ownership and control. One of the main reasons for the outbreak of the Arab Spring was anger regarding the corruption of the regime headed by Zine El Abidine Ben Ali. The World Bank's world governance indicators show that although Tunisia's government has become much more accountable, its effectiveness has declined since 2010. The index of political stability, namely, the security situation in the face of ongoing violence/terrorism, has deteriorated along with that of the quality of state regulation. There have been no significant changes in the indices of the rule of law or control of corruption.<sup>5</sup> While terrorism can be considered at least partly an exogenous factor, corruption is completely endogenous. The failure to bring corruption under control is one of the most contentious issues in Tunisia because it suggests that little has changed since the ousting of Ben Ali.

According to a recent study,<sup>6</sup> when the Tunisian government seized the assets of the Ben Ali clan in 2011, successful companies were sold to some members of the business elite who had started to intervene directly in politics to consolidate their resources and find new opportunities. Examples included three car dealerships owned by members of the Ben Ali clan that were purchased by members of the business elite. This sale was possible as a result of the expropriation of the assets owned by the Ben Ali clan. A holding company was created to manage them until privatizations and transfer some of the assets to the subsidiary of a newly created state-owned institutional investor, the Caisse des Dépôts et Consignations (CDC). However, major private business groups lobbied to stop the transfer of the most profitable companies to the CDC.

When Ben Ali fled in January 2011, a rebellion developed in the business association UTICA. Hedi Djilani, a close ally of the Ben Ali clan, had been obliged to resign from the position he had occupied since 1988 as its head. A long process of negotiations with young entrepreneurs led to the cooptation of some of them into UTICA's executive board along with well-established family groups. In addition, the elections of the delegates of UTICA in 2013 have been supervised, for the first time, by independent observers. In addition, UTICA restored some legitimacy when it had received the Nobel Prize, along with the national trade union UGTT, the human rights league and the bar association. UTICA now plays a major role in national politics.

Different political parties needed members of the business elite to fund their campaign and/or provide them with economic expertise and networks. In the post-Arab spring, liberalized environment, entrepreneurs were no longer afraid of entering parliament. One prominent example was Slim Riahi. While the activities of his family business were mainly located in Libya, he returned to Tunisia in 2011 to create a new political party, the Free Patriotic Union (UPL). He became the president of the football team (Club Africain) and one of the richest businessmen in the country. The combination of money, networks and popularity earned him the title 'the Tunisian Berlusconi'. Following the elections of 2014, his party became the third largest in parliament but in 2017 he was suspected of money laundering and an investigating judge froze all his assets in Tunisia. Riahi was obliged to resign both from the presidency of Club Africain and the UPL.<sup>7</sup>

These developments suggest that the post-Ben Ali regime is subject to manipulation and is influenced, if not dominated, by the interests of a small number of families and individuals. The similarity of this with the conduct of the Bin Ali regime suggests that Tunisian democracy is a fraud. The dominance of a small number of people in the economy is not unique to Tunisia.<sup>8</sup> This issue is a source of growing unease worldwide, but what matters is what Tunisians think. They are influenced by the links between business and politics and by the severe economic conditions that they face.

Further evidence of the severity of corruption and lack of confidence has been the misreporting of imports and exports designed to facilitate illegal capital outflows. In 2015, UN trade data indicate that these outflows equaled 9.2% of Tunisia's total

external trade compared with an average of 8.4% for all developing countries.<sup>9</sup> This represents a loss of badly needed tax revenues.

The weak performance of the economy has been a major cause of tension. In the period 2011 to 2017, the average annual growth rate of GDP was 1.7% while that of the population was 1.1% leaving very little for raising living standards. Slow economic growth was the main reason for high unemployment levels. In 2018 the total unemployment rate was 15.3%. That among females aged 15 to 24 years was 39.6% and among males in the same age group it was 34.8%.<sup>10</sup> These are among the highest rates in the world. Most of the unemployed were low-skilled, but university graduates had the highest unemployment rate, which increased from 15% in 2005 to 23% in 2010 and 31% in 2017.<sup>11</sup> Unemployment is one of the main causes of poverty that was estimated by the Tunisian government in 2015 at 15.2%. The Tunisian dinar depreciated by more than 40% against the euro since 2016, reducing purchasing power. With inflation at 8% annually, the cost of living has increased by more than 30% since 2016, driving households into debt. Regional disparities are growing, and unemployment remains high. These factors have combined to accelerate both a brain drain and capital flight.<sup>12</sup>

The weakness of the economy has also been manifest in chronic deficits on the balance of payments. Between 2010 and 2017, the current account deficit (the balance of exports and imports of goods, services and incomes) increased from the equivalent of 4.8% of GDP to 10.2%. This was funded by borrowing abroad and resulted in an increase in foreign debt from nearly 49% of GDP in 2010 to almost 83% in 2017. The government's budget was also in deficit because spending exceeded revenues. The budget deficit rose from 0.6% of GDP in 2010 to 5.9% in 2017 and as this was financed by borrowing, public sector debt rose from nearly 41% of GDP in 2010 to over 70% in 2017. The difficulties of financing these twin deficits resulted in Tunisia turning to the IMF, not for the first time.

In 2016, the IMF agreed to extend a four-year, \$2.9 billion loan to Tunisia. The Fund announced a reform program that was part of the agreement for the loan. Measures would be introduced to consolidate macroeconomic stability; tax and spending policies would create space for capital spending and put public debt on a downward

path. Monetary policy would be used to containing inflation (i.e. higher interest rates). More exchange rate flexibility would be permitted to preserve foreign currency reserves in the face of important exogenous shocks. This implies a willingness to devalue the Tunisian dinar that would increase the cost of imports and make Tunisian exports more competitive in the global market.<sup>13</sup>

Reforming public institutions and modernizing the public administration to improve efficiency and effectiveness and support inclusive growth remains a priority. The policy package will include reforming civil service to improve public service delivery and help contain the government's wage bill, progressing with energy subsidy reform while strengthening the social safety net, fostering the monitoring and performance of the state-owned enterprises boosting equity-friendly revenue mobilization, and strengthening public financial management and transparency efforts, including through enhanced anti-corruption initiatives.

The public sector suffers from overmanning, low efficiency and financial difficulties. According to official data, 37 out of 107 public sector institutions face financial problems. The revenues of public sector bodies fell from 14 billion dinars in 2014 to 11.6 billion dinars in 2016. During the same period, their cost of wages increased by almost fifty percent from 1.3 billion dinars (\$410 million) to 1.7 billion dinars (\$600 million). The government has proposed the voluntary resignation of 120,000 employees by 2020 to reduce the number of civil servants to around 500,000.

Other measures agreed with the IMF include the creation of a modern banking system, with strong supervision and competition. This will include measures aimed at strengthening banking sector resilience and promoting financial intermediation. This requires continued progress on public bank restructuring, a risk-based supervision system, a proper resolution framework, and strengthened regulations. All these reforms, and the implementation of the new bankruptcy law, will help banks actively resolve their non-performing loans. Financial inclusion will be helped through the development of microfinance institutions.

A new investment code, the streamlining of tax incentives, and the simplification of procedures to reduce entry barriers and protect investor rights are also proposed. The

simplification of some 530 tax, customs, and business formalities completed over the past two years are expected to reduce the bureaucratic burden faced by businesses and increase efficiency.<sup>14</sup>

These economic issues have developed along with severe tensions between President Béji Caïd Essebsi and Prime Minister Youssef Chahed over the past two years. While they were both members of the secular Nida' Tounes party, the Prime Minister has relied on votes from the Islamist Al-Nahda (also spelled Ennahda) party in parliament to remain in office. In September 2018, the President announced the end of a four-year alliance between Nida' Tounes, and the Islamist party Ennahda. The alliance between Essebsi and Ennahda's Rached Ghannouchi began in August 2013 helped diffuse a crisis sparked by a political assassination. After Essebsi and his party won the 2014 elections, the consensus with the runner-up Ennahda was then codified in a grand coalition that has ruled since then.<sup>15</sup>

Since 2016, when Chahed became head of a national unity government, Ennahda has strengthened its power by placing supporters in senior posts in the public administration, state-owned companies, as well as government offices and agencies in the capital and provinces. In this way, it has changed the composition of patronage networks controlling state resources and access to credit, private monopolies and oligopolies. Over time, this will reduce the economic predominance of more prosperous northern coastal region over the poorer southern hinterland.<sup>16</sup>

Tunisia has avoided much of the violence and repression that occurred after the Arab Spring occurred in Egypt. This was due to the moderation of key political forces, but their maneuverings in and out of government and the deals done with business groups have hampered the development of better administration and the achievement of faster economic growth. This in turn resulted in budget and balance of payments deficits. The need for IMF aid meant that deflationary economic policies were adopted that resulted in high unemployment and low wages. These austerity measures became the sources of instability.

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<sup>1</sup> Lilia Blaise, “Nearly 800 Arrested in Economic Protests in Tunisia,” *The New York Times*, January 12, 2018.

<sup>2</sup> Max Gallien, “As Tunisia’s political consensus cracks, IMF austerity may hit the rocks,” *Middle East Eye*, January 18, 2019.

<sup>3</sup> Tunisia Institute of National Statistics, price index, <http://www.ins.nat.tn/fr/themes/prix#2848>.

<sup>4</sup> Lilia Blaise, “Tunisia’s Government Pledges Improvements after Protests,” *The New York Times*, January 14, 2018.

<sup>5</sup> Readers may select the parameters on the World Bank governance index to view changes over time by region or by country for several factors, including ‘rule of law’ and ‘control of corruption’, [info.worldbank.org/governance/wgi/index.aspx#reports](http://info.worldbank.org/governance/wgi/index.aspx#reports). For definitions and methodology see, Daniel Kaufmann, Aart Kraay, and Massimo Mastruzzi, “The Worldwide Governance Indicators: Methodology and Analytical Issues” World Bank Policy Research Working Paper No. 5430, September 2010. Available at SSRN: <https://ssrn.com/abstract=1682130>.

<sup>6</sup> Mohamed Oubenal and Houda Ben Hamouda, “The Political Economy of Business Elites in Tunisia: Actors, Strategies and Identities,” *Economic Research Forum Working Paper*, No. 1273, December 2018.

<sup>7</sup> Ibid.

2018. [erf.org.eg/publications/the-political-economy-of-business-elites-in-tunisia-actors-strategies-and-identities/](http://erf.org.eg/publications/the-political-economy-of-business-elites-in-tunisia-actors-strategies-and-identities/).

<sup>8</sup> Thomas Piketty, *Capital in the Twenty-First Century*. (Belnap Press, 2014); Oliver Cann, “[Of course Davos should talk about taxing the rich. But there's more to solving inequality.](#)” *World Economic Forum*, February 1, 2019.

<sup>9</sup> Click on each country to see its figures, “Illicit Financial Flows to and from Developing Countries 2006 – 2015” *Global Financial Integrity* (GFI) (No date, no author). [www.gfintegrity.org/issues/data-by-country](http://www.gfintegrity.org/issues/data-by-country)

<sup>10</sup> *World Bank*, Tunisia’s Economic Outlook, April 2018, no author, [www.worldbank.org/en/country/tunisia/publication/economic-outlook-april-2018](http://www.worldbank.org/en/country/tunisia/publication/economic-outlook-april-2018).

<sup>11</sup> IMF country Reports, Tunisia, 2014 and 2018.

<sup>12</sup> *International Crisis Group*, “Watch List 2019,” excerpt on Tunisia, “Tunisia in 2019: a pivotal year?” <https://www.crisisgroup.org/middle-east-north-africa/north-africa/tunisia/tunisia-2019-pivotal-year>.

<sup>13</sup> Mongi Saidani, “Tunisia State Institutions Incur more than \$2.2 Billion Losses,” *Asharq Alawsat*, February 16, 2019.

<sup>14</sup> *International Monetary Fund*, “Press Release: IMF Executive Board Approves US\$2.9 billion Extended Arrangement under the Extended Fund Facility for Tunisia,” No. 16/238, <https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr16238>.

<sup>15</sup> See footnote 11.

<sup>16</sup> Sharan Gera and Shadi Hamid, “[Tunisia just lost its anchor of stability. That’s a good thing.](#)” *Brookings: Order from Chaos*, October 15, 2018.