

Supporting the challenges of democratic transition in Tunisia

A call for prompt action from the G8

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26 May 2011

While the ‘Jasmine Revolution’ brought down Ben Ali’s corrupt and repressive regime in an unprecedented uprising of Tunisians in quest of dignity, justice and freedom, and sparked a wave of similar revolutions around the Arab world, what remains unclear is whether Tunisia will succeed in its transition towards a fair and democratic regime. Will the revolution produce inclusive and sustainable economic and social development and meet Tunisians’ aspirations for a better future?

In light of the G8 meeting on May 26-27 in Deauville, a commitment by the world’s major economies to provide a comprehensive and credible plan to support Tunisia’s political and economic transition is paramount. This plan should comprise a combination of immediate and medium-to-long-term measures, including political and financial support and technical assistance to underpin an inclusive and sustainable socio-economic development model for the prosperity of the country. No (or delayed) action by the developed world will put the Tunisian people’s quest for democratic values at risk, particularly when other repressive regimes, such as those in Libya and Syria are quashing resistance in order to consolidate their political power. Other Arab countries, such as Algeria and Morocco, are playing a waiting game – either to push forward for credible democratic reforms or, conversely to push back towards political repression.

As the lead country in the wave of Arab revolutions, Tunisia could become a model for successful democratic transition in the Arab world. Or, on the other hand, it could succumb to its inherent difficulties: a deeply anchored power structure and ideology; inexperienced political parties that are highly fragmented, poorly organised and lack socio-economic vision; a weak civil society and a deteriorating economic situation. These internal pressures are exacerbated by the external dimension of war in Libya and the potential terrorist infiltrations that would reduce any chance of success for the country’s transition.

Today, the estimated cost of the Tunisian revolution amounts to some 4% of the country’s GDP.¹ Tunisia faces heightened economic pressures ranging from worsening fiscal and external balances, to higher inflation and lower prospects for foreign direct investment, remittances and tourism

¹ As reported by the Tunisian Government and confirmed in a study by the African Development Bank (see Audrey Verdier-Chouchane, Natsuko Obayashi, and Vincent Castel, “The Revolution in Tunisia: Economic Challenges and Prospects”, Economic Brief, 11 March 2011, African Development Bank.

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receipts (and subsequent job losses), thus leading to lower forecasts in GDP growth (see macroeconomic data for Tunisia in the tables below and at the end of this commentary). In combination, these pressures make it more difficult for the economy to absorb high numbers of unemployed and to face further costs resulting from the unsatisfied and growing social demands and the financial needs to organise the forthcoming elections (planned in July 2011).

Table 1. Macroeconomic indicators for Tunisia

	2009	2010	2011(p)	2012(p)
Real GDP growth	3.0%	3.7%	1.1%	3.3%
CPI inflation	3.5%	4.4%	4.7%	4.6%
Budget balance (% GDP)	-2.7%	-2.6%	-5.2%	-4.8%
Current account (% GDP)	-2.8%	-4.7%	-7.6%	-5.6%

Note: p = Predictions for most likely (i.e. middle) scenarios.

Source: African Development Bank.

All in all, short- and medium-term comprehensive actions must be put forward to support this first experience of democratic transition in the Arab world. These actions must respond to the **immediate needs** of the country, chiefly: 1) to support the democratic transition to achieve successful, fair and inclusive elections in July and to promote meaningful reforms of the national apparatuses; 2) to halt the worsening of the economic conditions due to the incurred losses post-revolution and the continuous economic downward spiral that will be disastrous for the capacity of the country to pay back its financial commitments and to maintain the budgetary deficit to acceptable levels; 3) to respond to the social demands for job creation and the provision of a social safety net to overcome the ongoing economic difficulties; and 4) to be able to respond to the humanitarian and health crisis resulting from the war in Libya.

Further equally important actions of a **medium- to long-term nature** are essential to prepare the ground towards a sustainable and inclusive socio-economic development model to respond to the people's aspirations for a better future.

For the immediate actions, G8 support can be committed to the following emergency measures, which will provide a combination of political and financial support and technical assistance. A financial package ranging from \$5 to 10 billion to be disbursed over 2011 and 2012 will help cover the 4% of total GDP loss incurred after the revolution, current and future costs to prepare the infrastructure for the future elections and past and future costs resulting from the humanitarian crisis in Libya and other measures as outlined below.

To accompany the political transition to deep and sustainable democracy, commitment to the following actions must be taken:

1. To establish the fund targeted to meet the financial needs of the democratic transition (e.g. to set up the infrastructure of the elections, support credible political parties and relevant actors of the civil society, fight against corruption...) and to provide technical assistance to respond to the capacity-building imperatives, particularly in terms of the reform of the political, constitutional and judicial systems and national security apparatus. Existing structures in Europe can be used to channel the funds and deliver the technical assistance.

To avoid a disastrous economic negative spiral, the following measures should be considered:

2. To organise a major campaign in the G8 countries to promote tourism in Tunisia and to raise the public awareness among the emigrants to maintain continuous flows of remittance;
3. To provide budgetary support and debt relief to lift the pressure on the transition government; and
4. To encourage foreign investors to maintain and increase their activities immediately through reinvestigating the MIGA guarantee schemes to insure against political risk.

To help Tunisia in its response to the socio-economic demands of high unemployment among the educated and rising inequalities and poverty particularly in the rural areas, the following actions must be considered:

5. To co-finance a new decentralised social fund in cooperation with the relevant authorities that a) provides Tunisian entrepreneurs with funds to start projects in their area of origin to be later on financed by targeted financial instruments; and b) helps poor families to maintain a minimum level of subsistence. This fund will be transformed in due time to an instrument for regional/rural/agricultural development to co-finance pilot projects.
6. To encourage foreign companies operating in Tunisia to create more jobs.

To help alleviate the humanitarian and sanitary crisis resulting from the war in Libya, the G8 must act accordingly to end the bloodshed and provide Tunisia with the necessary financial means to continue standing by the Libyans in the war.

In the medium-to-long-term, a combination of policy, financial and technical assistance is necessary to allow the Tunisian people to reap the benefits of their revolution. These actions are:

- 1- Support a comprehensive strategy for infrastructure projects (e.g. transport, green energy, technological parks), social housing (particularly in the rural areas) and development of micro, small and medium-sized companies, while international donors – the European Investment Bank (EIB), the European Investment Fund (EIF), the European Bank of Reconstruction and Development (EBRD), the World Bank and other bodies such as the Secretariat of the Union for the Mediterranean (UfM) – collaborate and coordinate their actions to support this development;
- 2- Facilitate greater trade ties through new deep and comprehensive free trade agreements, particularly with countries such as the US, Japan and Canada; and
- 3- Encourage quicker and deeper economic integration of Tunisia with the European Union (EU) by providing Tunisia with the status of an associated partner with for instance the possibility to access the structural funds of the EU and concluding a mobility partnership that makes full use of the EU Visa Code.

Collectively, these actions will help Tunisia in its challenging quest for democracy and sustainable and inclusive socio-economic development.

Key indicators: Tunisia 2000-2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Population (mln)	9.6	9.7	9.8	9.8	9.9	10.0	10.1	10.2	10.3	10.4
GDP (US\$bn)	19.4	20.0	21.0	25.0	28.1	29.0	31.0	35.6	40.8	39.6
GDP per capita (current US\$)	2,033	2,066	2,152	2,540	2,832	2,888	3,057	3,483	3,955	3,792
GDP per capita, PPP (current international \$)	4,826	5,119	5,230	5,607	6,057	6,445	6,962	7,584	8,029	8,273
Real GDP growth (%)	4.7	4.9	1.7	5.6	6.0	4.0	5.7	6.3	4.6	3.1
Unemployment (%)	15.7	15.1	15.3	14.5	13.9	14.2	14.3	14.1	14.2	
Unemployment, youth total (% of total labor force ages 15-24)						30.7				
Unemployment with primary education (% of total unemployment)	45.6	47.0	44.5	44.1	42.3	41.4				
Unemployment with secondary education (% of total unemployment)	37.5	35.9	35.0	35.7	36.3	37.7				
Unemployment with tertiary education (% of total unemployment)	6.6	6.7	8.0	9.0	8.6	13.6				
Inflation, consumer prices (annual %)	3.0	2.0	2.7	2.7	3.6	2.0	4.5	3.1	4.9	3.8
Average exchange rate (DT per US\$)	1.37	1.44	1.42	1.29	1.25	1.30	1.33	1.28	1.23	1.35
Central government debt, total (% of GDP)	62.6	62.3	61.5	60.4	59.7	58.4	53.9	50.0	47.5	47.1
Central government fiscal balance (% of GDP)	-2.4	-3.5	-2.3	-2.9	-2.1	-2.3	-2.6	-2.6	-0.7	-2.7
Current account balance (% of GDP)	-4.2	-4.2	-3.5	-2.9	-2.0	-1.0	-2.0	-2.6	-4.2	-3.1
Current account balance (BoP, current US\$bn)	-0.8	-0.8	-0.7	-0.7	-0.6	-0.3	-0.6	-0.9	-1.7	-1.2

Sources: World Bank and African Development Bank.



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