

BTI 2008 | Tunisia Country Report

Status Index	1-10	5.37	# 73 of 125	
Democracy	1-10	3.95	# 92 of 125	➔
Market Economy	1-10	6.79	# 35 of 125	➔
Management Index	1-10	4.77	# 73 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	10.0	HDI	0.76	GDP p.c.	\$	7,447
Pop. growth ¹	% p.a.	1.0	HDI rank of 177	87	Gini Index		39.8
Life expectancy	years	73	UN Education Index	0.75	Poverty ³	%	6.6
Urban population	%	65.3	Gender equality ²	-	Aid per capita	\$	36.4

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

During the period under review, Tunisia's oft-touted process of democratic transition has largely stagnated. The system of power relationships and the constitutional and legal arrangements organizing political participation have remained essentially authoritarian. Insofar as legal opposition movements are mostly controlled by the regime, there is no effective opposition to the regime inside the country. Rumors of incumbent President Ben Ali's health declining rapidly have been increasing among political observers and the population. In addition, the discovery of a well-developed Islamist terrorist network at the end of December 2006 has proven the limited effectiveness of political repression. According to government statistics (which, it should be noted, are of questionable accuracy), the Tunisian economy has again grown by impressive rates in 2005 (4.2%) and 2006 (6%). Again, as in previous periods, other data have highlighted the assets that have formed the basis of economic growth since the end of the 1980s: increasing openness of the Tunisian economy, political stability, a well-educated and yet inexpensive labor force, a well-developed infrastructure, investment incentives as well as the diversification of its industries (textiles accounted for 33% of export revenues in 2005; and leather and electronics also figure centrally into this picture) and agriculture. Yet, considering Tunisian government's ambitious development objectives and given the imminent abolition of trade barriers for industrial goods with the European Union by 1 January 2008, Tunisia's decision makers have advanced transformation too sluggishly toward a socially responsible market economy. During the period under evaluation, Tunisia has witnessed too little in the way of trade liberalization, its financial sector remains weak and opaque, and inertia in the administration has not been addressed properly. These shortcomings also highlight the limits of an "authoritarian development" model, which the Tunisian government has at times cited in the way of justification.

History and Characteristics of Transformation

After Tunisia won independence on 20 March 1956, the Néo-Destour independence movement, under the leadership of President Habib Bourguiba (1959 – 1987), installed a post-colonial single-party regime. The 1959 constitution gave the president hegemonic power within the state's institutions. Parties other than the Néo-Destour were forbidden from 1963 to 1981. Workers' unions, which had played an important role in the struggle for independence, were incorporated by force into the regime after 1956. Yet, relations between the regime and the union have been characterized by conflicts on several occasions since then (e.g., during the general strike in 1978). Since the current prime minister, Zine El-Abidine Ben Ali, ousted Bourguiba on 7 November 1987, a number of opposition parties have been legalized and the government has taken a set of symbolic liberalization steps concerned mainly with the formal status of human rights and the rule of law. Re-legalized opposition parties have been represented in parliament since 1994. Also, presidential elections have been formally pluralistic since 1999, when laws that had, until that point, made it impossible for opposition candidates to run for president, were modified.

Despite President Ben Ali's formal commitment to "democratic reforms," the country's transformation toward democracy has been stagnating since 1987. To date, neither the authoritarian constitutional structure has been cut back, nor has the hegemony of the ruling Rassemblement Constitutionnel Démocratique (RCD) party. The constitutional amendments of 2002 allowed President Ben Ali to run for a fourth mandate at the 2004 presidential elections and granted the president legal immunity for acts committed beyond the end of his presidency. The constitutional amendment in question also established a second parliamentary body – the Chamber of Counsellors – parallel to the Chamber of Deputies, the former being endowed with consultative powers. In accordance with constitutional provisions, one-third of the members in the Chamber of Counsellors were appointed by the president in 2005. Two-thirds were originally to be elected indirectly by the municipal counselors, the business association, and workers' union. However, union members refused to act as a "rubber-stamp" by electing their "representatives" from pre-established lists.

Opposition parties lack support among the population and largely depend on state subsidies. They owe their parliamentary mandates to the minimum representation guaranteed by electoral legislation introduced in 1993. Despite minor legal reforms, the human rights situation has remained poor since the early 1990s. Especially notable in this regard are the unfair trials, extralegal arrests, assaults on journalists critical of the government, judges trying to implement independent justice, restrictions placed on human rights groups and the harassment of opposition politicians who tried to withdraw from the "national consensus" imposed upon legalized political actors. After

independence, Tunisia, like many other developing countries, followed a development strategy of state-induced industrialization and import substitution, which produced a highly protected market. Until the 1960s, Tunisia's integration into the world market was primarily managed via the export of phosphates, crude oil and gas. Starting in the 1970s, Bourguiba directed Tunisia toward a market-based economy. Since then, Tunisia has made prodigious use of its numerous comparative advantages, for example, its proximity to Europe, a progressively diversified processing industry, its low-cost yet skilled labor force, serviceable infrastructure, and natural beauty and appeal for tourists. Additionally, investment incentives, the ongoing diversification of its industry and successful cooperation with international organizations, and success in balancing external financing with a controllable level of external debt have aided Tunisia's development.

After the financial crisis of the mid-1980s, Tunisia embarked on a structural adjustment program including liberalization of foreign trade, privatization of state-owned enterprises, devaluation of the national currency, a restrictive budget policy, and improved investment conditions to increase industrial exports. In 1995, Tunisia was the first Southern Mediterranean country to sign an association agreement with the European Union (the agreement went into effect in 1998) providing for the complete dismantling of reciprocal trade barriers for industrial goods by 2008. In recent years, investment-friendly legislation has allowed for the continued export-oriented diversification of the range of goods and services, especially in the textile, leather and electronics industries and even the new information technologies. The modernization program, "Programme de mise-à-niveau," especially designed to increase the competitiveness of Tunisian industry and agriculture internationally, has been particularly successful with larger, export-oriented firms. The development of a social welfare state and an active labor market policy have cushioned the social hardship resulting from the country's economic policies to some extent.

Today Tunisia has reached the status of a newly industrialized country, and in many respects it is competitive with countries like Romania, Bulgaria and Turkey. The leadership faces several management hurdles in the near future, including the need to meet the target dates for complete economic association with the European Union as well as the persistent loci of economic weaknesses – a slow bureaucracy, the public sector's continuing dominance over the private sector, a lack of economic transparency, looming crony capitalism and corruption.

Transformation Status

I. Democracy

1 | Stateness

There is virtually no competition with the state's monopoly on the use of force throughout the entire territory. This finding remains valid despite the discovery in late December 2006 of a terrorist network.

Monopoly on the use of force

Defining citizenship and who qualifies as a citizen are politically beyond dispute. All citizens have the same civic rights, though these are restricted by the authoritarian nature of the polity. Despite widespread cynicism about the authoritarian nature of the polity, the majority of citizens acknowledge the state's constitution.

State identity

Islam is the official state religion, and Islam is undoubtedly essential to the self-identification and expression of most Tunisians. However, the state is defined in principle as a secular order, civil and criminal law is mainly based upon European models. Hence, religious dogmas have no noteworthy influence on politics or law. Nevertheless, with religious feelings gaining more popularity within the population, the regime has cautiously been trying to draw legitimacy from religion, for example through a recent program to refurbish or extend existing mosques. Nevertheless, any potential opposition demanding a more prominent place for Islam in Tunisia can be expected to face severe repression, as observed with the Ennahdha (Renaissance) movement in the early 1990s. The miniscule Christian and Jewish minorities (which account for about 0.3% of the population) enjoy freedom of religion.

No interference of religious dogmas

An operable, but basic administrative system is present throughout the country, and public security and order are assured throughout the country. The administration's autonomy is limited when clashing with interests of those close to the presidential clan.

Basic administration

2 | Political Participation

Full or partial elections have been held since independence but have limited influence in actually determining who governs. While all citizens formally have the right to vote and campaign for political office, Tunisians critical of the regime may encounter problems in registering to vote. A number of indirect strategies specific to the Tunisian brand of authoritarianism have prevented meaningful competition among candidates more effectively than the sheer manipulation of election results could have possibly done. These include the hegemony of the ruling Rassemblement Constitutionnel Démocratique (RCD) party, the clientelistic interpenetration between the party and state apparatus, the lack of press freedom, the discriminatory majoritarian electoral system as well as the absence of meaningful opposition parties. Legal opposition parties have been granted minimum parliamentary representation (and hence state subsidies) irrespective of their respective electoral score by legislation since 1993 (recently on 24 October 2004).

Free and fair elections

Given Tunisia's legal-bureaucratic authoritarian system, effective power lies partly with the president and his personal entourage and partly with the remainder of the government and RCD officials. There are no veto powers or political enclaves.

Effective power to govern

Opposition parties with any relevance for governance have been prohibited or systematically disabled – as was the case with the Islamist Ennahdha in the early 1990s. While some of the legalized parties have deep historical roots (such as Ettajdid, the historical offspring of Tunisian Communist Party) others have simply splintered from the ruling party in recent decades. Still others have been deliberately launched by the regime in order to “cover certain cleavages” (e.g., the Green Party, which was created in 2006). Given this situation as well as the absence of a political “project,” the selectively legalized opposition parties do not have a mass following and are largely maintained by state subsidies. Parties that have tried to emancipate themselves from this imposed “national consensus” (such as FTDL of Mohamed Boujaafar) have regularly been repressed or been subject to different kinds of manipulation, including government-provoked divisions. Freedom of assembly is not assured. Legalized civic organizations are mostly incorporated into the regime. In this context, their task is to display according to the needs of the regime a facade of “civil society.”

Association / assembly rights

When voicing criticism on certain issues, parties and organizations such as human rights organizations are regularly repressed or subjected to manipulation. After the president's often reiterated commitment to a more pluralistic press, flagrant legal censorship has been lifted in recent years (most notably in the state's abolishment of the requirement that all press releases be screened by the state

Freedom of expression

before publication). However, self-censorship and the close interconnection between government, administration and the media form persistent and powerful mechanisms against the freedom of the press. Yet, the relative “openness” by which state-controlled media have at least mentioned security forces’ clampdown on terrorist networks in early 2007 as well as recent health problems of the president may be interpreted as acknowledging facts that can no longer be denied. Public gatherings must be approved by the Ministry of the Interior. As in previous evaluation periods, certain allowed gatherings (e.g., students’ “strikes” against Israel in late 2005; trade union’s solidarity “rallies” after the hanging of Saddam Hussein in early January 2007) are tolerated or initiated in order to channel popular discontent.

3 | Rule of Law

There is formal separation of powers between the executive and the legislature in terms of legislation. Yet the hegemony of the ruling party in parliament (The RCD has 80% of the seats in parliament) and the overall authoritarian context make the effectiveness of this separation of powers questionable, insofar as the parliament lacks the independence to check the power of the executive. Formally, a constitutional provision from 1976 gives the Chamber of Deputies the power to topple government with a motion de censure. In 2002, this provision was amended to read that the success of such a motion demands its adoption by the absolute majority of members of parliament, whereas before 2002 a two-thirds majority was required. The establishment of a second parliamentary chamber in 2005 (which complied with a constitutional amendment of 2002), has further blurred parliament’s position within the Tunisian polity, insofar as this body is partially nominated by the president and elected indirectly by municipal and regional members of parliament as well as employers’ and workers’ unions.

Separation of powers

Constitutionally “independent,” judges are nominated by the Conseil de la magistrature, a body which is, in turn, appointed by the president, and hence prone to political pressure. Criminal judges in particular are compelled to comply with “political proceedings” against dissidents. When it comes to the issues of the economy and personal property, the Tunisian justice system has obtained excellent international ratings by regional standards.

Independent judiciary

There are laws against corruption. Nevertheless, according to countless reports in the Western media, officeholders and individuals close to the ruling “presidential clan” can exploit their office for private gain with impunity. Practices of crony capitalism are said to be gaining ground. Foreign investors must be aware of the need to collaborate with the “right partner” in the country.

Prosecution of office abuse

The Tunisian Constitution of 1959 guarantees human rights “within the limits of the law.” Since the late 1980s, the government has successfully created an image of itself as the regional champion of human rights, especially in terms of religious tolerance and gender equality. In practice, critical opposition members, independent human rights activists and journalists have regularly been denied their civil rights and suffered from varying degrees of intimidation, repression and unfair trials. Faced with social conservatism and political Islam gaining ground, the government has, on several occasions (and especially after dismantling a terrorist network in early 2007), arbitrarily arrested young male Tunisians. During the evaluation period, young women wearing the Islamic veil seem to have faced various acts of discrimination in schools and universities, such as non-admission to exams.

Civil rights

4 | Stability of Democratic Institutions

There are no democratically legitimized political institutions. Political power is highly concentrated in the hands of the president, both formally and in practice. Parliament serves mainly as an acclamatory instrument for the decision makers in the government and the ruling RCD. Any potential democratic transition in the aftermath of Ben Ali’s rule will demand a reorganization of powers held by various branches as well as a fundamental change in political culture.

Performance of democratic institutions

There are no democratic institutions as such. In the event of a future democratic transition, however, the long tradition of well-developed state institutions might be an asset for acceptance of democratic institutions among relevant political actors and potential veto players alike.

Commitment to democratic institutions

5 | Political and Social Integration

Due to the ruling party’s hegemony system, questions referring to the party system’s fragmentation, polarization or the degree of voter volatility do not yield reasonable information regarding its meditative potential between society and the state. The eight legalized opposition parties (as of early 2007) lack any substantial following in society and largely depend on state subsidies. Rather than reflecting cleavages within the populace, Tunisia’s controlled pluralism is basically designed to uphold the regime’s pluralistic façade. When voicing criticism of the executive, opposition parties have periodically been played against one another or face different degrees of repression. Independent new opposition forces have not been discernible inside the country over the evaluation period.

Party system

Given the authoritarian nature of the Tunisian political sphere, there is no freely constituted network of associations or interest groups to mediate between society

Interest groups

and the political system. Legalized civic organizations are mostly incorporated into the regime in order to promote certain sociopolitical issues, such as the regime's modernistic view with regard to gender, development or environmental issues. Truly independent civil society groups cooperate little, and they are poorly balanced. Hence, certain social interests – especially of the young, the unemployed and those addressing deficiencies in political rights – remain underrepresented. Acting partly as a functional equivalent, the governing party RCD and its affiliated associations have traditionally offered a densely woven network of state-controlled interest groups. It has ensured a relatively broad integration of young and well-educated people. Women have been integrated into the political process through an internal quota system (the percentage of female ministers and members of parliament is high by regional standards). However, women have not yet attained “hard” ministerial posts. Hence, there are some stable and relatively effective patterns of interest representation through authoritarian corporatist structures. Wage negotiations are held every three years under the aegis of the state between the employers' association and the unions. This has so far guaranteed that wages, particularly in the lower income brackets, continue to rise in a controlled manner, but conflicts of interest occurring in this context are not dealt with openly. The right to strike is officially guaranteed but has not been used since the 1980s. Moreover, diminishing real incomes and mounting tensions between the regime and state-controlled union UGTT have recently shown the limits of this authoritarian corporatist interest representation.

Despite the absence of reliable data, it is observable that the concept of “Western democracy” enjoys relatively high esteem among middle age, well-educated urban elites and middle classes, especially when this concept is understood mainly as “respect of human rights” or “respect of legal norms.” Despite their approval of the concept, however, most Tunisians would agree that due to the lack of democratic traditions and remaining authoritarian behavior patterns the country is not yet fit for democracy as a means of political organization.

Consent to
democratic
norms

Despite presence of a well-rooted urban middle class and a high education level by regional standards, self-organization in civil society clashes with authoritarian intra-societal relationships the absence of freedom of association and a lack of interpersonal trust. The emergence of civic structures is countered by the tendency to build relationships along family lines or through cronyism. In the long term, the overall level of socioeconomic development together with the absence of a violent history and of ethnic and religious conflicts and the prevalent culture of tolerance in the country may be conducive to building social capital.

Associational
activities

II. Market Economy

Driven by growing levels of exports, investment, and private consumption witnessed, the Tunisian economy has been one of the most dynamic economies in recent years in the Middle East/North Africa region, with growth rates of around 5%. Gradual liberalization and careful management have enabled Tunisia to benefit from its integration in the world economy. Moreover, a highly diversified economy has enabled Tunisia to withstand external shocks such as the 2002 Djerba attack and subsequent drop in tourism. Studies by consulting firms have concluded that Tunisia offers one of the most profitable climates for investment throughout the region, particularly in terms of operating costs.

6 | Level of Socioeconomic Development

Key economic indicators show Tunisia to be a middle income country. Tunisia's strong development performance compared to other emerging countries over the last 10 years is best reflected by the fact that the country ranked 87th in 2004 in terms of HDI compared to 101st in 1998. GDP per capita (PPP) has doubled over the past ten years, and reached \$7,768 in 2004. Compared to other middle-income countries, Tunisia features appreciably low levels of social exclusion in terms of absolute poverty (people earning less than \$1 per day) sinking to an impressive 2.2% today, from 7% in 1990 and 40% in 1960 as well as wealth inequality, as measured by the Gini Index. On a global level, Tunisia is still far from ensuring adequate freedom of choice for all citizens. Like many other countries in the MENA region, Tunisia fares relatively poorly in terms of the Human Poverty Index when compared to other medium developed countries, mainly due to its relatively high adult illiteracy rate (25.7%). Unemployment has hovered at high levels (officially around 14%) among young people, and increasingly among well-educated Tunisians. According to World Bank data, the unemployment rate for 20-24 year olds is more than three times higher than that for those above 40. While Tunisian women's rights are impressive by regional standards, they still suffer gender-related discrimination.

Socioeconomic
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	21,047	24,992	28,129	28,683
Growth of GDP	%	1.7	5.6	6.0	4.2
Inflation (CPI)	%	2.7	2.7	3.6	2

		2002	2003	2004	2005
Unemployment	%	14.9	14.7	-	-
Foreign direct investment	% of GDP	3.8	2.2	2.1	2.5
Export growth	%	-3.7	0.1	7.8	3.2
Import growth	%	-3.8	-0.5	3.5	1.1
Current account balance	\$ mn.	-745.6	-730.3	-550.8	-302.9
Public debt	\$ mn.	10,933.5	13,234.5	14,574.9	12,982.3
External debt	\$ mn.	15,400.5	18,341.5	20,007.9	17,789.3
External debt service	% of GNI	7.4	6.8	7.7	7.6
Cash surplus or deficit	% of GDP	-2.4	-2.4	-2.8	-3.0
Tax Revenue	% of GDP	21.5	20.6	20.7	21.3
Government consumption	% of GDP	15.9	15.7	15.4	15.5
Public expnd. on edu.	% of GDP	6.4	8.1	-	-
Public expnd. on health	% of GDP	-	2.8	-	-
R&D expenditure	% of GDP	0.6	-	-	-
Military expenditure	% of GDP	1.6	1.6	1.5	1.6

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

By regional standards, the Tunisian leadership has increased the fundamentals of market competition in recent years. According to the World Economic Forum's Global Competitiveness Report 2006 – 2007, Tunisia has the most competitive Arab and African economy. Internationally, Tunisia ranked 30th out of 125 countries, climbing seven positions compared to last year's ranking results. This ranking partly reflects the strong role of exports, which forms an important pillar of Tunisia's GDP. This success is also inseparable from the presence of more 2,748 foreign companies at the end of 2006, up from some 1,600 in the mid-1990s. Currently one out of four jobs in Tunisia is created by a foreign company. The stock of foreign direct investment (FDI) outside the energy sector has reached some €6 billion in 2006, as opposed to €105.6 million ten years before. Pricing is 90% free. For foreign investors the Tunisian dinar has been convertible

Market-based
competition

for currency transaction transfers, or repatriation of profits since 1994. For Tunisians, however, changing dinars into foreign currencies is restricted, and in 2006, this was capped at the equivalent of €1,200. A gradual transition toward a floating exchange rate – aimed at attracting more FDI, increasing the competitiveness of Tunisian products and facilitating companies’ access to capital – has been scheduled for 2010. While tariff dismantling has led to a clear decrease in tariff revenues, this was compensated for by the fact that, at the same time, tax revenues increased to a rate of 9 to 10% and the tax burden has increased to some 20%. This overall positive picture is flawed in parts by persistently heavy regulation, the persistence of strong protectionist tendencies and the significance of an informal market. Hence, according to the revised methodology of the 2007 Index of Economic Freedom published by the Heritage foundation Tunisia ranked only 63rd in the “mostly free” category out of 161 states.

The formation of monopolies and oligopolies is regulated only occasionally. The influence of powerful clans and practices of crony capitalism are looming and may be watering down economic freedom increasingly. It is difficult to determine the extent to which such practices permeate the economy as a whole.

Anti-monopoly
policy

Tunisia is a member of the WTO. The free trade agreement with the European Union (in effect since 1998) will come into effect on 1 January 2008. While being among the most liberal in the Middle East/North Africa region, foreign trade still suffers from a high degree of regulation such as the existence of import licenses and quota settings (for example in the automotive sector) along with inefficiencies and corruption at the customs. In autumn 2006, new rules deferring more autonomy to European offshore-firms for the declaration of origin of imported commodities, as scheduled within the free trade agreement, were only hesitantly put into practice by Tunisian duty services.

Liberalization of
foreign trade

The weakly developed Tunisian banking sector and capital market are more and more often cited as a hindrance to economic modernization. Among these weaknesses are the banks’ undercapitalization, the high level of non-performing loans as a share of bank assets as well as the high cost of credit for medium- and small-sized firms (around 11%) and direct state interference (appointment of top rank bank executives by the president). Ongoing international consulting efforts from the Economist Intelligence Unit (EIU) and the successful sale of public shares to international investors (Union Internationale des Banques to Société Générale or the recent purchase of Banque du Sud shares by Moroccan Attijari Bank in autumn 2006) may boost efforts to introduce international standards and capital ratios in the medium term.

Banking system

8 | Currency and Price Stability

Since the end of the 1980s, the Tunisian government has effectively implemented inflation control and an appropriate exchange rate policy. The central bank is not independent. Compared to the previous evaluation period, in which inflation averaged around 3%, inflation has risen, averaging 5% in 2006.

Anti-inflation /
forex policy

Tunisia is a “moderately indebted country” according to World Bank standards and has traditionally heralded a “stability culture” in fiscal as well as in debt matters. According to official Tunisian data (which, it should be noted, is of questionable accuracy), foreign indebtedness as a percentage of the GDP was lowered to 49.1% in 2006, down from 54.5% in 2005 and 62% in 2002, and is forecasted to increase to 50% by the end of 2007. This aim has been reached by the sale of shares in public companies, such as Tunisie Telecom in 2006. Debt servicing as a percentage of exports rose to 19.4% in 2006 (this figure was 16.1% and 13.7% in 2004 and 2005, respectively), but is expected to drop to 14.6% by the end of 2007. Servicing of external debts has absorbed on average 13.8% of current revenue over the 2002 to 2006 period, down from 17.8% in 1996. In the past, Tunisia has always honored its external obligations and never rescheduled its debt. Also, the budgetary deficit of around 5% in the mid 1990s has been hovering round 3% in recent years (2006: 2%).

Macrostability

9 | Private Property

Property rights and the acquisition of property are legally well-defined. Foreigner investors can buy land in order to launch a project in tourism, industry or services when located in an industrial area. Agricultural land is subject to lease for a period of up to 40 years. Problems persist, however, as a result of the lack of the rule of law. During the evaluation period, increasing practices of crony capitalism and a lack of respect for private property on the part of clans close to the regime have increasingly been cited as factors inhibiting investment by domestic and external actors. Moreover, while Tunisia has signed the Paris declaration on patent protection, fake products are often sold in the informal sector.

Property rights

Private enterprises can operate freely in principle, but they confront structural economic barriers, especially those connected to the weaknesses of the banking sector and bureaucratic barriers. State-owned enterprises continue to have a privileged position. The privatization of state-owned companies has seen some progress over the evaluation period, such as the 2006 sale of some of the state’s shares of Tunisie Telecom. Given the close connection between political and economic spheres, arrangements that are in effect monopolies and practices of crony capitalism seem to be on the rise.

Private
enterprise

10 | Welfare Regime

The Tunisian public health system ensures free or grant-maintained health care to around 50% of the population. Employees with official contracts pay social insurance contributions. In 2005, this included about 86% of the population and covers maternity leave and some other services in addition to basic medical care. Inpatient treatment, visits to doctors' cabinets or unemployment are not covered by the social security system. Due to declining standards in state-run social security systems and the emergence of a nouveau riche social class, private nursing providers are becoming more and more significant. Government employees have a right to a pension. In order to cushion the social hardship linked with economic liberalization and to combat unemployment (which, according to official statistics, was approximately 14% in 2006, but is likely to be higher in reality) the state offers both financial and direct aid to needy families and fosters private home ownership and the founding of small businesses through low-interest loans. The role of the informal sector as well as private solidarity networks remain important.

Social safety nets

Tunisian society has traditionally maintained relatively low levels of income inequality. The Gini-Index measured 39.8 in 2000, as compared to 41.7 in 1995. This drop reflects the increasing number of Tunisians joining the middle classes, which today make up to 80% of the population. The overall positive economic development together with targeted social transfers have helped reduce the number of persons living on less than \$1 per day to under 2% in 2004 (HDR 2006). There are assistance mechanisms in place for women, the disabled and the socially disadvantaged, particularly in education. "State feminist" efforts have been made to promote gender equality in education and the workplace. Women now have almost equal access to secondary and tertiary education, but they remain disadvantaged socially as well as economically, especially in terms of income and public office.

Equal opportunity

11 | Economic Performance

After growth dipped to 1.7% in 2002, the Tunisian economy has secured stronger growth in recent years, with rates measuring 4.2% in 2005 and 5.3% in 2006. Since the 1990s, growth has been due primarily to strong exports, based on the successfully diversified processing industry (consisting primarily of textiles, leather, electronics, and spare parts). In connection with ongoing trade liberalization, Tunisia's proximity to European markets, the depreciation of the Tunisian dinar against the euro, along with the relatively high level of education and the low wages. Abundant rainfall in 2005 and the first half of 2006 together with increased levels of tourism (total of six million visitors) have contributed to

Output strength

this achievement. This positive overall economic performance is complemented by moderate inflation (though rates soared in 2006) inflation, fiscal discipline and mounting FDI, which reached €600 million in 2005, up 27% from 2004). The high levels of unemployment as well as the weakness of private investment remain structurally critical.

12 | Sustainability

The environmental awareness of decision makers has consistently grown in public discourse in recent years. Environmental protection was institutionalized in 1992 with the creation of a generously funded Ministry of the Environment. While new constructions, including those in the tourist sector, must be built under environmental codes, environmental concerns continue to take a back seat to growth considerations.

Environmental
policy

Investment in human capital has undeniably been an important feature of Tunisia's overall positive development in recent decades. Primary school enrolment is 97% for children between six and twelve, irrespective of their gender. The number of university students increased tenfold from 1986 to 2006; the current enrollment figures are at 365,000. According to official figures, Tunisia's education spending in 2006 again accounted for 7% of GNP, or 19.9 % of the budget. Education is mandatory and free of charge until the age of 15. Yet, with a UN Education Index of only 0.75, Tunisia can be considered, just like most other countries in the region (cf. recent Arab HDRs), an underachiever in educational matters compared to its ranking of 87th in the latest HDR. The adult literacy rate continues to hover around 77%. In recent years, educational standards have deteriorated outside urban middle class areas, both in the state-run primary and secondary education as well as at university level. There is a significant attrition rate among students, and the vocational training sector is underdeveloped, undoubtedly adding to high unemployment among youth. Underachievers seem often to be kept within the educational system in order to avoid their registering as unemployed. About 50% of young people looking for work are young college graduates. Private educational institutions are becoming more important. Despite some efforts, dual vocational training has hardly been established so far. According to recent official data, R&D accounts for 1.07% of GDP in 2005 up from 0.3% of the GNP over the period from 1990 to 2000. Private industry is still too weakly committed to R&D; 78% of R&D investment comes from the state.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

As in previous evaluation periods, structural constraints on the political leadership's governance were moderate from 2005 to 2007. This is true insofar as the leeway of political decision makers is concerned (authoritarian polity, absence of veto powers). It has also been true for the structural socio-economic conditions, given the fairly efficient state administration, the development level already reached, the overall positive social and economic performance and the absence of ethnic and religious conflicts. Factors slowing down reforms include slow bureaucratic procedures, the domination of the public sector, a lack of economic transparency, looming crony capitalism and growing corruption within certain segments of the regime. In general, as in previous evaluation periods, where political and economic transformation has stagnated, this was rather due to the lack of will within the regime than to the difficulties of the setting.

Structural
constraints

The regime has since 1956 systematically hindered the growth of civil society organizations outside the structures linked to the dominant party. NGO activities, on the rise since the late 1980s, have systematically been suppressed or channeled toward "system-compatible activities" which fall within the organizational framework of the regime. The corporatist top-down initiation of liberalization and associations close to the RCD have since 1987 to some extent served as a functional equivalent to open spaces for civil society activities. Leaving aside the authoritarian nature of the regime, the weakness of civil society is inseparable from deeply rooted authoritarian behavior patterns within society, the tendency to build relationships along family lines or through cronyism, and the lack of private initiative. Yet, once political restrictions on civil society are lifted, Tunisia may well profit from a hospitable setting for the emergence of a viable civil society compared to other countries of the Middle East/North Africa region. Conditions that stand to facilitate such a development include a relatively well differentiated and high education level, the absence of a violent history and of ethnic and religious conflicts along with a tradition of tolerance and the relative economic and cultural homogeneity of Tunisians.

Civil society
traditions

The lack of prospects for the younger and better-educated generation has led to a limited number of popular uprisings and was among the many internal and external factors that fueled renewed support for political Islam in the 1970s and 1980s. Social lines of division have been reduced throughout the 1990s thanks to the economic successes in that decade and through an active social policy. Virtually no irreconcilable ethnic or religious cleavages currently restrain the leadership's leeway to engage reforms. However, recurrent though limited uprisings of mostly unemployed youth in less developed areas, mounting violence in certain strata of the population (sometimes referred to as the problem of hooliganism) and the discovery of an Islamist terrorist network in December 2006 seem to indicate that socially and religiously inspired violence may become more important in the medium term, hence limiting the political leeway of political decision makers.

Conflict intensity

II. Management Performance

14 | Steering Capability

Given their technocratic capabilities and their considerable political leeway, along with the absence of political opposition or veto players, political decision makers do prioritize and organize their policies according to longer-term strategic aims. Notwithstanding official rhetoric, however, decision makers' policy aims and objectives correspond only partly to the normative requirements of establishing a constitutional democracy and a socially responsible market economy. "Democratization" in the Tunisian context amounts to establishing a cosmetic façade of political institutions. In the economic realm, the official policy of establishing of a socially responsive market economy has more substance. Political elites – especially most technocratic experts in government – seem genuinely committed to modernizing economic structures in order to enable the country to enter global competition, investing in Tunisia's human resources, and embarking on social measures and establishing incentives to recruit unemployed youth in order to cushion social hardship. Given the absence of crises and the absence of a stalemate, the overall success of economic reforms, the authoritarian nature of the polity, and the absence of relevant opposition, immediate concerns of electoral competition have not influenced government policies. External influence on Tunisian decision makers' steering capability seems moderate in the light of a manageable debt burden and decreasing dependence of Tunisia on external help. Also Tunisia's good

Prioritization

reputation with international organizations – due to its economic and social successes – gives the decision makers considerable leeway in defining their political priorities.

Over the 2005-2007 evaluation period, decision makers refrained from implementing democratic reforms. According to official figures, however, the Tunisian government was widely effective in implementing reforms aimed at further establishment of a socially responsible market economy. Consistent growth of around 5% per annum, low inflation, and the maintenance of budget discipline enabled the government to continue this reform. In line with its international obligations, the government continued to liberalize foreign trade (demonstrated, for example, in its acceptance of EUROMED 1 certificates of origin for importers), continue privatization efforts (as was the case in 2006 with parts of Tunisie Telecom) and further improved the climate for investors. The government also fostered agriculture, supported the development of poor regions and invested in infrastructure and education. As in past years, the government has been trying since 2005 to cushion the social costs of market economy transformation through an active labor market policy, which includes education measures, incentives for employers to recruit fresh graduates and the support of small-business owners. The reform of the banking sector and the administration, along with liberalization of foreign trade need to be pursued more resolutely.

Implementation

During the period under the evaluation, Tunisian decision makers consistently refrained from implementing democratic reforms, in spite of the fact that the “authoritarian development path,” which experienced considerable success for some decades, has displayed increasing limitations in recent years. Given the degree of social development that the country has reached, further development without opening the political system could put the stable situation and constant economic growth at risk in the medium term. Conversely, a more pluralistic and open political field could protect the country from political radicalism. Should rumors concerning President Ben Ali’s worsening health condition prove being true, the question of who will be his successor may well become urgent even in the short term. So far, the question has not been dealt with openly. To the contrary, well before the presidential elections scheduled for 2009 the state controlled mass media campaign for Ben Ali’s standing again as candidate. Tunisian decision makers, especially technocratic ministers and high-ranking civil servants, have been responsive to popular needs in recent years. Given the overall success and legitimacy of economic and social policy in everyday politics, the scale of policy innovation initiated has thus far been (perhaps too) minimal. Hence, the leadership’s readiness to change policies in response to mistakes made has not been tested during the review period.

Policy learning

15 | Resource Efficiency

As in former evaluation periods, the government has been using some available economic, human and organizational resources more efficiently than others to pursue its transformation policy. Differences in efficiency have been due to authoritarian logic rather than the lack of clear goals. In terms of state resources, the state budget has been widely balanced and state debt remains manageable at around 60% of GDP. Despite having considerable organizational resources, the state has yet to conduct an effective audit. In human resources, the government's efficiency suffers from an oversized state apparatus (as of 2006 there were 28 ministries) and from competing responsibilities between different ministries (no less than three ministries were concerned with different aspects of education and training). Ministers and state secretaries have regularly been shifted between different ministries. According to some observers, this is done to prevent ministers from building up autonomous power resources within the administration. There is also a well-trained and internationally experienced technocratic elite that has been recruited through competitive procedures. This level has succeeded in maintaining the reform pace agreed upon within the state apparatus. While considerable efforts have been made in recent years (via Internet-based services, among other things), public service is neither very reliable nor of good quality, and the public administration lacks professionalism. It suffers from the insufficient will to use human resources and insufficient social capital to trigger a democratic transition. The government is not making sufficient use of implicit resources such as the tradition of moderation and the lack of social and ethnic tension. Despite considerable legal efforts to endow municipal and regional administrative entities with more competences (most recently in 2006), administration remains largely centralized. In sum, for resources to be used more efficiently, more comprehensive reforms are needed in the areas of administration, banking and the effectiveness of universities. In addition to this, a fundamental liberation of civil society and social capital is needed. The combined legacies of French domination and Tunisia's authoritarian past have created a climate of acceptance for more, rather than less, state action. Within this context, even optimal state action may not be able to handle the challenges associated with Tunisia's integration in world markets.

Efficient use of assets

On the whole, Tunisian decision makers have a respectable record of integrating and balancing conflicting objectives and interests to form coherent policies. National policy guidelines are laid down in five-years-plans (With the eleventh plan starting in 2007) and fine-tuned regularly in the president's November 7 speeches marking Remembrance Day of the takeover of power of incumbent President Ben Ali. In the context of its extremely limited pluralism, the governing party and its affiliated associations have traditionally offered a

Policy coordination

densely woven network of state-controlled interest groups that inform decision makers about the population's needs and grievances of the population. Since the late 1980s, the RCD has been diversified organizationally, thus ensuring a relatively broad integration of young and well-educated people into party structures. Also the close connection between the regime, the entrepreneurial organization Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat (UTICA) and the workers' union Union Générale des Travailleurs Tunisiens (UGTT) have traditionally helped balance potentially conflicting interests like keeping the pace of economic reforms, preserving jobs and maintaining macroeconomic stability. The UGTT's refusal in 2005 to elect their "representatives" from pre-established lists as well as hints in early 2007 of the imminent establishment of a new regime-backed "alternative" workers' union may indicate that this implicit social contact is nearing its end. Potential intra-governmental friction can hardly be evaluated from the outside but is not probable given the strong authoritarian power of President Ben Ali. Things may be changing though, even in the short term, in the event of a further worsening of the president's health condition. Redundancies and lacunae have existed in recent years due to recurrent government reshuffles.

According to Transparency International's 2006 Corruption Perception Index (CPI), Tunisia still ranked a fairly respectable 51st place among 163 countries, coming before most other MENA countries but also before some European countries. Yet this ranking marked a worsening from previous years, when Tunisia ranked 43rd and 39th (in 2004 and 2005, respectively). This reflects the decreasing ability – or willingness – of the Tunisian leadership to successfully curb crony capitalism and corruption. Integrity mechanisms such as auditing of state spending, regulation of party financing, accountability of officeholders and transparent public procurement systems are either non-existent or not effectively implemented. Given that corruption is not publicly discussed, it does not seem to be effectively persecuted. The general perception among the population that "all political decision makers" are more or less corrupt fosters a climate of general cynicism.

Anti-corruption
policy

16 | Consensus-Building

While relevant political players (president, high ranks of the ruling RCD) do not pursue the aim of a democratic transformation, they agree on the aim of a socially responsible market economy. While there has not been a "pact" in Tunisia comparable to those concluded in many states between reform-minded political actors with old elites or potential opponents, this consensus is supported by important interest groups and economic actors closely connected to the regime. Transformation toward a market economy is also supported by a broad

Consensus on goals

consensus among today's political elites that have been socialized since the 1970s when basic economic reforms had already been initiated. In many cases, however, political actors' commitment to economic reforms reaches its limits where individual economic interests are concerned.

Given the authoritarian, nearly totalitarian nature of the political system, there are no relevant political actors who would really advocate democratic reforms. The political sphere is essentially closed to dissident views.

Anti-democratic veto actors

The political leadership has long been fairly successful in preventing cleavage-based conflicts - such as rich vs. poor, religious/ conservative strata vs. those advocating a more "Westernized" life-style - from escalating. Apart from political repression, this absence of virulent political cleavages seems to have profited for decades from a basic consensus among the growing middle class around voluntaristic, state-induced social, economic and political development, including, for instance, gender equality. This basic consensus may be at stake especially with younger generations in the light of mounting social insecurity and the persistent absence of a political opening.

Cleavage / conflict management

The political leadership suppresses and excludes civil society actors from the political process. Voluntary associations like genuine opposition parties are widely suppressed. On the other hand there is a façade of "civil society" closely connected to the ruling party RCD which acts at times as "rubber stamp" to endorse government policies and is instrumentalized to prove the "pluralistic" character of Tunisian civil society. This has been the case at the UN World Summit on the Information Society in Tunis in November 2005. Since late 2006, legalized civil society organizations have publicly been calling on Ben Ali to run again in presidential elections scheduled for 2009. Nevertheless it should not be overlooked that that legalized organizations affiliated with the ruling RCD frequently act partly as a functional equivalent to a free civil society by allowing the integration of certain societal interests and strata of the population (such as youth, women) into the political realm.

Civil society participation

Compared to other developing countries Tunisia has experienced only minor historical injustices, especially given the absence of major ethnic or religious cleavages. As such, this question cannot be answered meaningfully and is therefore not taken into account for the aggregate rating.

Reconciliation

17 | International Cooperation

The political leadership has consistently worked with bilateral or multilateral international donors and made considerable use of international assistance in order to learn from international know-how with regard to economic reforms, to

Effective use of support

adapt external advice to domestic realities and to integrate international assistance into the domestic agenda of reforms. In recent years, the leadership has managed to establish Tunisia as one of the most successful countries in the region in raising financial assistance, ahead of Jordan, Morocco, Senegal, Turkey and Algeria. For the period from 2005 to 2008, financial aid from the World Bank, will account for some 20% of Tunisian needs in external capital, which has been estimated at some 10 billion dollars. Ten percent of this sum is to be covered by bilateral assistance, 25% by FDI, and the rest through international loans. These funds amount to important GDP growth in recent years, and can be compared with the situation in 2004, when official development aid received as part of the GDP was only 1.2% (3.2% in 1990). In general, the government has again shown a steadfast willingness to meet requirements imposed by international donors, and for the most part, it makes effective use of the resources provided by international partners. Tunisia earns guardedly positive marks from the WTO, IMF and World Economic Forum. Tunisia's traditionally close cooperation with the European Union is peaking with the establishment of a free zone for industrial goods from 1 January 2008. Preferential agreements apply with regard to agricultural goods preferential agreements apply. On the other hand, cooperation with outside actors is nearly nonexistent with regard to the democratic transformation process or closely connected issues such as improving the rule of law or implementing decentralization. In fact, over the evaluation period the Tunisian leadership has again been extremely sensitive toward perceived "intrusion from outside." Hence, in early 2007, the government banned co-financing by the Ebert Foundation (which is associated with the German Social Democratic Party) of a conference on "the civil society in the Maghrib" organized by the opposition Journal "Mouwatinun" on the grounds that this was not in line with Ebert Foundation's legal status in the country.

On a whole, the Tunisian leadership acts as a credible and reliable partner in its relation with the international community as well as by international donors and organizations. This is particularly true as far as its commitment to economic reforms is concerned. This has much to do with the fact that Tunisia has never had to restructure debts, and with the successful implementation of its international obligations, including structural adjustment programs from 1986 to 1991, Association Agreement with the European Union from 1998. Tunisia has confirmed this assessment over the evaluation period by keeping up a conservative monetary policy and by improving investment conditions. In the latest Global Competitiveness Report published by the World Economic Forum, Tunisia ranked 30th out of 125 developed and emerging countries in terms of global competitiveness. Tunisia ranked 26th in terms of business competitiveness and, for the first time, it ranked as the top African economy (ahead of Botswana and Mauritius) due to its competitiveness in certain

Credibility

economic sectors such as automotive parts, textiles and new information and communication technologies. Several risk ratings agencies have confirmed this appreciation in 2006 (Standard & Poor's: BBB; Moody's: Baa2; IBCA: BBB). These ratings reflect the considerable degree of confidence which the country enjoys with the international financial community and will further facilitate Tunisia's access to the international financial markets on account its favorable ratings compared to other emerging economies. On the political side, Tunisia has again been criticized by Amnesty International and Reporters sans Frontières reports for its lack of political reforms.

Tunisia has currently no territorial and economic ambitions which could lead to conflicts with its neighbors. To the contrary, Tunisian leadership often heralds its close cooperation with neighboring countries. This is particularly true for its commitment to economic liberalization. On a bilateral basis, trade barriers with Libya and Morocco have been lowered. Libya has become the country's most important trade partner in the region. Tunisia has long advocated stronger regional integration within the Arab Maghreb Union (established in 1989), which has been in crisis since 1994, mainly due to Moroccan-Algerian tensions. Tunisia is, together with Egypt, Morocco and Jordan, one of the signatory countries of the Aghadir Agreement signed in 2001 that has set forth the framework for the establishment of a regional free trade area. However the authoritarian nature of the Tunisian political system places an implicit limitation on such supranational arrangements.

Regional cooperation

Strategic Outlook

As in previous years, Tunisia made no progress of note in achieving the minimum requirements for democracy and the rule of law during the period under observation. Over this period, the system of power relationships and the constitutional and legal arrangements organizing political participation have remained essentially authoritarian. Genuine democratic transformation would require fundamental reforms in the rule of law, political participation, and the development of party-based integration of the population into decision-making structures. The current situation is far from this ideal: the authorities control, for the most part, legal opposition movements, and there is no effective opposition to the regime inside the country. However, contrary to the previous evaluation period, rumors have multiplied that incumbent President Ben Ali's tenure in office may be coming to an end due to his presumably declining health. Nevertheless, state-controlled media and "civil society" organizations initiated a campaign "asking" Ben Ali to run again for office in the 2009 presidential elections at the end of 2006, well before his fourth term had even ended. Additionally, the country's security situation seems more tenuous than in previous years, given the discovery of "Islamist" terrorist networks (which operate in the name of Islam) in late December 2006. In this context, Tunisia has seen unfair trials and arbitrary arrests of several hundred supposed or actually "radical" young people in different parts of the country.

Given Tunisia's overall level of economic development and its social complexity, political stagnation appears to have grown increasingly entrenched. Also, the country's near-totalitarian political system, which may have been legitimated to some extent by developmental successes over the first 50 years of Tunisian independence, has progressively become one of the main obstacles to further development. Given the absence of a relevant opposition and the lack of non-authoritarian experiences, combined with the regime's apparent economic success and its international support, such change can hardly be expected in the short to medium term. Any potential successors to Ben Ali in a supposedly "smooth" power transfer will – at best – cautiously open the political sphere. While Tunisia lacks the democratic experience as well as the political culture and social capital needed for a genuine democratic transformation, such an opening will undoubtedly be facilitated by Tunisia's tradition of political moderation and quietism.

Tunisia has continued its respectably steady transformation toward establishing a socially embedded market economy. To an even greater extent than in previous evaluation periods, the Tunisian economic agenda has been defined by

a progressive opening to international competition, that can be seen primarily as the result of the imminent abolishment of tariff barriers in the industrial sector with the European Union, which will go into effect on 1 January 2008. Ongoing economic transformation has largely followed the schedule and orientation fixed after the association agreement with the European Union (which has been in effect since 1998). In this context, Tunisia has again been building upon the processes – begun in the 1970s and accelerated in the early 1990s – that gave it the status of an emerging economy: the increasing openness of the economy; internal political stability; a well-educated and yet inexpensive labor force; its well-developed infrastructure; investment incentives; the ongoing diversification of its industry (which is dominated by textiles, leather, and electronics) and successful cooperation with international organizations, resorting to external financing when necessary, while maintaining a controllable level of external debt.

As far as economic growth is concerned, the country has kept up with previous high growth rates in 2005 (4%) and 2006 (5.3%) according to macroeconomic data provided by the Tunisian government. New projects – laid out in the recent XI. Development plan (2007-2011) – aim to increase the annual growth rate to around 6% and to double per capita income. In addition, other fundamental development indicators document a slight and steady improvement of the country's existing mid-level development status during the period under observation. One encouraging indicator for the growing competitiveness of the Tunisian industry has been the recovery of its textile industry, which suffered a significant setback with the dismantling of the multi-fiber preference regime for Tunisian textile exports to the European Union in early 2005.

A number of significant obstacles to the consolidation of transformation toward a socially responsible market economy do persist. These obstacles include a weak and intransparent financial sector, the persistent inertia of the Tunisian administration, and high levels of unemployment, especially among young and better-educated Tunisians. Additional problems are posed by mounting corruption, particularly among the highest ranks of the political elite. It is questionable whether the current Tunisian leadership will be able to face these challenges and facilitate its own ambitious development targets while avoiding the destabilization of the political and economic system that poses a medium-term threat.