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## **Tunisia: Can it be the Perfect Storm for Reform?**

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### **Article at a glance**

- Populism and centralized decision-making authority threaten to undermine Tunisia's transition to democracy.
- Rather than turning to the government for unilateral decision-making and to the public sector for employment, reforms should remove legal barriers that prevent the private sector from becoming the engine for job creation.
- To be successful, Tunisia's transition must encourage participation from a broad range of society, including business associations, other civil society organizations, and political parties.

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## What's Next for Tunisia and the Middle East?

In recent weeks, the Tunisian and Egyptian people have peacefully overturned decades of authoritarian rule, withstanding an onslaught of state apparatuses that have kept them in fear for decades. The new face of the Arab people – young, vibrant, educated, organized, connected, and hungry for democracy – has replaced stereotypes of a people mired in authoritarian political structures. The claims that the Arab world does not want democracy may finally be put to rest.

Subsequent calls for reform have reverberated across the Middle East – from Bahrain to Jordan, and from Lebanon to Yemen. In addition to “where next?”, the pertinent questions are whether and how these successes can be converted into real political and economic gains. Now that transitions are underway, what is next for the region? The answer depends on recognizing the importance of strengthening nascent democracies and channeling energy into real reforms.

Emerging trends in Tunisia since former President Zine el Abidine Ben Ali was ousted have been worrisome. Economic, free market-oriented discourse is on the verge of being marginalized. Talk on the street, in the media, and among the various political forces is veering perilously close to a populist rhetoric that could be potentially ruinous for the Tunisian economy and democratic transition. If these populist reforms take the lead in Tunisia, they will limit the private sector's ability to generate critically needed high-value jobs for Tunisians – especially for youth. As a result, the young people who ignited the mass movement will become increasingly disillusioned with it.

The picture does not have to be so dire. If necessary reforms are applied properly, Tunisia may be able to foster a better business climate for the domestic private sector while supporting participatory and accountable democratic

government. Such reforms will also attract foreign investors that will view a democratic Tunisia as an opportunity to do business based on the rule of law instead of on the whims of an autocratic government.

## The Perfect Storm Brewing

Tunisia's decades-old economic model was dependent on maximizing foreign direct investment (FDI) in two major sectors: tourism and manufacturing for products (such as auto parts), mainly to be exported to Europe. This model means, positively, that there has been significant European investment in Tunisia. There was an incentive to provide a competitive labor market to attract foreign companies, and jobs were created in Tunis and other coastal cities.

However, investments in Tunisia's infrastructure remained concentrated in the coastal areas and did not encourage manufacturers to establish businesses in the interior, as transportation costs were prohibitive. This resulted in a significant disparity in growth rates between the coast and the interior over the past two decades (5-10 percent growth on the coast, with stagnation or economic decline in the interior), and consequently a significant disparity in income, education, and affluence. The economic model that needed to keep labor costs artificially low and the neglect of the interior exacerbated poverty in towns and villages such as Sidi Bouzid and Kaf and led to the spark that ignited massive demonstrations.

On the other hand, the educated young population of Tunis and the coastal cities found employment in manufacturing, tourism, banking, and various service outlets. This emergent middle class had a hungry appetite for the latest cell phone technology, video games, and other hallmarks of a modern society. It needed to express itself openly and yearned for the freedoms that friends, colleagues, and fellow Facebook netizens who lived in democratic countries had. With part of the

country unemployed, another underpaid or in low-quality jobs, and yet another gainfully employed but eager for further freedoms, the status quo – that Tunisians could tolerate curbs to their freedoms in return for job opportunities and stability – was increasingly viewed as a bad deal.

Another major crack in former President Ben Ali's regime was his decaying power base. The ruling Constitutional Democratic Rally (known by its French acronym, RCD) was an important apparatus for patronage and state allegiance and influence for Ben Ali's predecessor, Habib Bourguiba. However, Ben Ali lacked the charisma and paternal respect that party activists had for Bourguiba, the founder of the Republic. Ben Ali gutted the party institution and replaced it with direct relationships with the leadership, making the party a bloated behemoth of 80,000 public sector-salaried employees with no real allegiance to him.

The private sector's voice in Tunisia was supposed to be represented by the employers' union (UTICA). However, most businesspeople felt that UTICA had ceased to serve as an advocate for improving the economic environment of the country by becoming too closely associated with the regime. In the process, Tunisian public policy development lost an important private sector voice and the trust of local entrepreneurs. The leadership of Tunisia's labor unions was similarly co-opted, and their members alienated, by the government. The Tunisian General Union of Labor (UGTT) had been one of the oldest and most powerful institutions in Tunisia and an integral ally of the state. This relationship, however, changed radically over the past decade. Ben Ali strengthened his relationship with UGTT leaders through a patronage and power-peddling system. Meanwhile, a chasm grew between the leadership and the rest of the Union, with leaders losing the loyalty of middle management and the rank-and-file.

Further undermining Ben Ali's popular support, a class of crony capitalists took advantage of close ties with the presidential palace. This crony elite

ostentatiously demonstrated its wealth – from driving expensive cars to owning pet tigers – to the growing anger and disgust of both average citizens and the broader business community. The “ruling family,” as Tunisians referred to the former President and his kin, also expanded its influence to dominate businesses through corruption, extortion, and intimidation. In so doing, it suffocated what was once an innovative private sector that would have been the main source of job and wealth generation. The combination of crony capitalism, invasive and permeating corruption, and an economic model that skewed labor market needs turned the grassroots private sector sharply against the regime.

Finally, Ben Ali's military support began to deteriorate. He continued Bourguiba's policy of keeping the military at arm's length from state affairs and further limited the army's size and influence. This had the unintended consequence of keeping the army from jumping to the defense of the Ben Ali regime, and most attribute the success of the Tunisian reform movement to the neutral position of its military and its leaders' refusal to put down the demonstrations.

All these factors contributed to the precipitous and unexpected fall of the Ben Ali regime. Once the movement for change was ignited by the poverty-ridden interior regions, the educated middle class of Tunis and the coastal cities quickly joined the movement, demanding the liberty and dignity that they had been dreaming of for years.

## **Harnessing the Potential for Reform**

Although it is too early to predict how the Tunisian reforms will progress, there are many reasons to be cautiously optimistic. Unlike other countries in the region, Tunisia's economy is upheld not by natural resources but by the productivity of its workforce and the ability and innovation of its private sector. Tunisia has many valuable assets at the ready: ample human capital, including an educated and hardworking youth population; connectivity to

the developed world; a secular middle class; and a reform-minded private sector. Tunisia therefore has immense industrial, commercial, and workforce potential. Its geography provides it with a natural market of over 100 million citizens in North Africa who share its culture and history, and will look to it as a model for their own development.

Yet the perfect storm of the mass movement and Tunisia's natural asserts must be met with a perfect storm of reforms leading to democratic and market-oriented consolidation. The perilous populist policies that are being demanded, considered, and adopted in the current fervor may result in capital flight, loss of more jobs, economic turmoil, and a return to unilateral decision-making.

The transitional government led by Prime Minister Mohammed Ghannouchi initially stumbled, keeping sovereign ministry portfolios in the hands of politicians associated with the former regime and later appointing new governors for Tunisia's 24 governorates without consulting the political forces in the country.

In the process, the government has lost crucial political capital and now feels forced to respond to the demands of the street – for subsidies, higher salaries, higher pensions, and a bigger public sector. These populist calls are being voiced by a new opposition whose leaders know what they are against, but are less inclined to articulate concrete solutions to Tunisia's economic ills. In a country that is resource poor, any government programs, – including the popularly demanded subsidies – must be supported by tax receipts that are becoming scarcer as tourism and other activities slow in the country. This is a perilous and untenable course to take.

## **The Way Forward for Tunisia**

The future holds much hope if constructive reforms rather than populist steps follow. A democratic state that is dependent on revenues generated from its citizens and businesses will necessarily become accountable to its citizens.

Ultimately, the country's leaders must come together and develop their own roadmap. Yet, it is clear that any plan would have to include some basic elements:

### **Devolution of Power**

The old economic and political model will have to be altered to emphasize regional development and infrastructure needs. Tunisia should adopt a decentralized model of governance to offer solutions that are more in-tune with local contexts, by allowing for local elections of governors, and building local accountability and avenues of local input by citizens.

### **Legal & Regulatory Reform**

There is an urgent need to harmonize and simplify the laws that govern the local economy and investment. As legal and regulatory burdens increase, opportunities for corruption also increase, which undermine the growth of the private sector and the strength of the rule of law and transparency. The country's laws were opaque by design, allowing an elaborate corrupt patronage system. Reducing legal and regulatory burdens has a direct influence on consolidating democratic governance and improving economic growth.

Onerous regulatory barriers, weak rule of law, and weak or non-existent property rights prevent entrepreneurs from participating in the economy. The individual that arguably sparked the Tunisian demonstrations – Mohammed Bouazizi – was restricted to informal sector work for these very reasons. Businesspeople such as Bouazizi perform legitimate work and provide legal goods and services but are confined to the informal sector because of a restrictive regulatory environment and the burden of entry into the formal economy. In countries like Tunisia with sizable informal sectors, taxes are not paid, corruption runs rampant, citizens are unable to participate in public policymaking, resources are poorly allocated, and the list of negative consequences goes on.

While Tunisia has already implemented some legal and regulatory reforms, it still needs to improve how it handles construction permits, registers property, facilitates obtaining credit, protects investors, and enforces contracts. Governance of the services sector – a significant contributor to gross national product – will need particular attention during the transition. Tunisians perceive that discretionary powers are abused in regulating this sector, constricting productivity.

### **Anti-Corruption**

Perceptions of corruption fueled Tunisia's popular protest. Therefore, Tunisians must make combating corruption a national priority and address it from an institutional level, including developing a robust respect for the rule of law. This means investigating the supply and demand sides of corruption, and putting into place an incentive structure that limits corrupt behavior. Transparency in decision-making means not only addressing opportunities for corruption in government institutions, but also supporting businesses' understanding of corporate governance and the many linkages between improving private and public governance.

Good corporate governance can help firms establish a transparent relationship between owners and managers, strengthen the role and capacities of boards of directors, and ensure the protection of minority owners' rights. There are many linkages between improving private and public governance, as the core values of corporate governance – fairness, transparency, responsibility, and accountability – are also the core values of democracy.

As one concrete example, Tunisia must focus on improving the integrity of customs offices, in terms of inspections and verification techniques, and municipality-level bodies. Yet this must be bolstered by updating the knowledge and training of local magistrates so that they can fairly implement the law, and providing adequate salaries to eliminate a factor in the demand of bribes.

### **Public Sector Reform**

The public sector in Tunisia is currently bloated and inefficient after years of bad policy and the perceived need to provide government jobs to alleviate public anger. Public sector reform has to be both a national priority and a focus of international assistance. Current levels of public sector employment, let alone its expansion, are simply an untenable strain on resources and a drain on the Tunisian ability to innovate and become competitive in a global market. In addition to improving the public sector through streamlining its functions, enhancing its administrative and bureaucratic capacity, and making it more transparent and accountable, improved governance of state-owned enterprises would increase the efficiency and effectiveness of the public sector.

### **The Role of Civil Society**

There is an urgent need for capacity building on democratic governance and management for Tunisia's civil society. Organizations need assistance with strategic planning and advocacy techniques so that citizens from all positions on the political spectrum can participate in the marketplace of ideas and enrich Tunisia's democratic experience.

Of special need is enhancing the capacity of civil society organizations that represent a diverse, reform-oriented private sector, including chambers of commerce, associations, and think tanks. This is necessary so that the private sector can harness its innovative, solution-oriented approach and infuse a new language into the national discourse that is currently pushing the country away from the need to generate jobs for the youth. Independence and competency of the media, as a mechanism for accountability and awareness-raising, is also a significant part of building civil society capacity.

## Political and Institutional Transformation

With crucial elections on the horizon, political parties must start building an issues-based narrative, including economic platforms so that the electoral competition can move from a heated discussion of ideologies and personalities to a competition based on the best solutions to Tunisia's developmental needs. The current political debates dangerously lack a comprehensive focus on economic solutions to key national issues. In preparing for free and fair elections, and the creation of a representative government, this discourse must include all interested parties – government, opposition, and civil society voices.

The adoption of a democratic constitution and free and fair elections will be crucial for Tunisia's democratic development. Yet, the quality of a democracy also lies in allowing the voice of the people to guide the everyday decision-making of those in power. The nature of institutions and mechanisms available for citizens to participate in policymaking and to hold decision-makers accountable are a significant factor in a democracy's ability to deliver for its citizens.

## Engaging the Private Sector in Reforms

The private sector's immediate and dedicated engagement in reforms is crucial for Tunisia to attain its development goals and gain its place as the economic powerhouse of the region. The country's youth used its collective voice to demand democratic change. Tunisia can now be the test case for a new development model for the entire Middle East, leaving behind authoritarianism and economic stagnation and moving forward with healthy improvements in economic growth, high-quality jobs, and democratic, accountable governance.

This can only be attained by ensuring that the new policymaking process includes input from diverse actors within Tunisian society – political parties, civil society, labor, and, importantly, the voice of the private sector. Crucially, the enormous

excitement generated by a “perfect storm” of favorable conditions for reform must be harnessed into positive energy if Tunisia is to realize the full potential of this golden opportunity.

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