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Industrial Policy in Tunisia

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Foreword

Productivity growth is a precondition for increasing people's welfare and maintaining competitiveness in a globalized economy. Low total factor productivity is the key reason for persisting poverty and social deprivation in many developing countries. The challenge for them is not only to devise more productive ways of doing business as such, but also to accelerate the structural transformation from low-productivity activities in agriculture, trade, and services to more knowledge-intensive activities that require a skilled workforce, produce a higher added value, and exploit the potential offered by inter-firm specialization. Undoubtedly, the main driver of structural change is the private sector. Still, governments have an important role to play in setting policy frameworks that allow for competition among economic agents and foster innovation in society, in addition to their importance for correcting market failures and limiting unwanted social or environmental effects. It may thus be important to encourage activities that do not emerge spontaneously because they require the performance of several interrelated investments that exceed the possibilities of individual entrepreneurs. It may also be important to promote activities that do not pay off immediately but will likely produce positive spillovers in a wider time frame. Governments may thus decide to step in and support structural change and learning processes towards more sophisticated and higher value-added activities. *This is what industrial policy is all about.*

The term 'industrial policy' shall be understood here in its *broad sense*, as any government measure, or set of measures, that aim and/or help to promote or prevent structural change in ways which the government views as desirable. 'Industrial policy' is thus not necessarily restricted to only supporting the development of the manufacturing sector, but may also contribute to promoting activities in agriculture or services. By the same token, industrial policy does not only address economic goals *per se*, but very often also target adjacent policy fields. In any case, the main aim of industrial policy is (or should be) to foster overall long-term growth in total factor productivity in ways which are *economically viable, socially inclusive, and ecologically sustainable* – i.e. that allow for "a development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (definition of sustainability by the UN Brundtland Commission of 20 Mar. 1987).

Even though there are still many controversies about the right degree, the right focus and/or or the right timing (and sequencing) of intervention, it is now widely accepted that industrial policy *may* work well in countries with meritocratic civil services, effective public administrations and institutionalized systems of 'checks and balances' that ensure a sufficient degree of political inclusiveness, transparency, and accountability. Opinions, however, diverge with regard to the role of industrial policies in low- and lower-middle income countries where financial resources are often severely limited and some core institutions still need to develop. In any case, the appropriate policy mix is unlikely to be the same as in rich countries, because both the requirements and the capacity for intervention and support are substantially different. Yet, most empirical case studies of industrial policy focus on the old industrialized countries or the global success stories of technological catching up in East Asia and Latin America. Much less is known about the quality, the experiences, and the outcomes of industrial policies in low- and lower-middle income countries. Further empirical research will be needed to this end.

This report on industrial policy in Tunisia hopes to make a contribution towards filling this gap. It is part of a research project on 'Industrial Policy in Low- and Lower-Middle Income Countries' funded by the German Ministry for Economic Cooperation and Development (BMZ) and supported by the German Technical Cooperation (GTZ). Besides Tunisia, country cases included Egypt, Ethiopia, Mozambique, Namibia, Nigeria, Syria, and Vietnam. The project also comprised a background report which takes stock of the industrial policy debate and discusses the peculiar challenges faced by less developed countries (Altenburg 2010). The findings presented in this paper have been obtained in the course of two research stays, which were possible thanks to the financial support of BMZ and the logistical support of GTZ. In the course of these stays, numerous interviews were made with policy makers, business representatives, and sector experts, which crucially complemented the (limited) number of written contributions in this regard.[1] This has only been possible thanks to the generous and helpful support of both Tunisian and foreign representatives. I am particularly indebted to the Tunisian Ministry of External Affairs (MAE), the Tunisian Ministry of Industry, Energy, and SMEs (MIEPME), the GTZ Programme for the Support of Entrepreneurship and Innovation (PAEI), the German-Tunisian Chamber of Industry and Commerce (DTIHK), and many others whom I cannot mention for lack of space. My warmest thanks and best regards to all of them.

This study was finalised before the outbreak of the protests which have led to the downfall of President Ben Ali. These events show that the successful socio-economic liberalisation and modernisation which Tunisia has undergone in the last two decades – not least as a result of the regime's policies themselves – have not been accompanied by political reforms which could have allowed it to defuse or accommodate the mushrooming discontent at social level. Even though the regime had rightly identified youth unemployment and mounting social disparities as *the* key challenges, it has not been able to correct and overcome them. The example of contemporary Tunisia therefore points not only to the potentials and opportunities which industrial policy offers in and for developing countries, but also to its constraints and limits.

Steffen Erdle January 2011

1 These interviews complemented the field research I had carried out from 2001–2003 in the context of a research project on 'Elite Change in the Arab World', which had been hosted by the Stiftung Wissenschaft und Politik and funded by the Thyssen Foundation. The results formed the basis of my Ph.D. thesis on 'Ben Ali's 'New Tunisia' (1987–2009). A case study of authoritarian modernization in the Arab world' which has recently been published.

Contents

Abbreviations

AAN	Annuaire de l'Afrique du Nord
AECID	Agencia Española de Cooperación Internacional para el Desarrollo (Spanish Agency for International Development Cooperation)
AFD	Agence Française de Développement (French Development Agency)
AfDB	African Bank for Development
AFI	Agence Foncière Industrielle (Industrial Land Agency)
ANETI	Agence Nationale pour l'Emploi et le Travail Indépendant (National Employment Agency)
API	Agence de Promotion de l'Industrie (Industrial Promotion Agency)
APIA	Agence de Promotion d'Investissement Agricole (Agricultural Investment Promotion Agency)
ATCE	Agence Tunisienne de la Communication Extérieure (Tunisian Agency for External Communication)
BCT	Banque Centrale de Tunisie (Tunisian Central Bank)
BFPME	Banque pour le Financement des Petites et Moyennes Entreprises (Bank for the Financing of Small and Medium-Sized Enterprises)
BIAT	Banque Internationale Arabe de Tunesie
BMN	Bureau de Mise à Niveau (National Upgrading Office)
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Federal Ministry for Economic Cooperation and Development)
BOO	Build-Operate-Own
BOT	Build-Operate-Transfer
BP	Barcelona Process
BTS	Banque Tunisienne de Solidarité (Tunisian Solidarity Bank)
CA	Centre d'Affaires (Business Centre)
CEPEX	Centre de Promotion des Exportations (Export Promotion Centre)
CF	Centre de Formation (Training Centre)
CT	Centre Technique (Technical Centre)
COMESSA	Communauté des Etats Sahélo-Sahariens (Community of Sahel-Saharan States)
COPIL	Comité de pilotage
CNCS	Caisse Nationale de Compensation Sociale
DTIHK	Deutsch-Tunesische Industrie- und Handelskammer (German-Tunesian Chamber of Industry and Commerce)
EC	European Community
EEC	European Economic Community
EIB	European Investment Bank
EIU	Economist Intelligence Unit
EMAA	Euro-Mediterranean Association Agreement
EMFTZ	Euro-Mediterranean Free-Trade Zone
EMP	Euro-Mediterranean Partnership
ENP	European Neighbourhood Policy
ERSAP	Economic Reform and Structural Adjustment Programme
ETAP	Entreprise Tunisienne d'Activités Pétrolières (Tunesian Enterprise for Petroleum Activities)
ETE	Europe-Tunisie Entreprise
EU	European Union
FAMEX	Fonds d'Accès aux Marchés d'Exportation
FDI	Foreign Direct Investment

FIPA	Foreign Investment Promotion Agency (Agence de Promotion de l'Investissement Extérieur)
FNE	Fonds National de l'Emploi (National Employment Fund)
FNS	Fonds National de la Solidarité (National Solidarity Fund)
FODEC	Fonds de Développement de la Compétitivité Industrielle (Fund for the Development of Industrial Competitiveness)
FOPRODI	Fonds de Promotion et de Développement Industrielle (Fund for Industrial Promotion and Development)
FTA	Free-Trade Agreement
FTZ	Free-Trade Zone
GAFTA	Greater Arab Free Trade Area
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	Generalised System of Preferences
GTAI	Germany Trade & Invest
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)
HDI	Human Development Index
IAA	Industrie Agro-Alimentaire
ICT	Information & Communication Technology
IFI	International Financial Institution
IMEE	Industries mécaniques, électriques et électroniques (Mechanical, Electrical & Electronic Industries)
IMF	International Monetary Fund
IBRD	International Bank for Reconstruction and Development ('World Bank')
INS	Institut National de Statistique (National Statistical Institute)
IP	Industrial Policy
ISET	Institut Supérieur d'Enseignement Technique (Higher Technical Training Institute)
ITP	Investissements Technologiques à Caractère Prioritaire (Priority technology investments)
ITH	Industrie du textile et de l'habillement
JA	Jeune Afrique Magazine
KfW	Kreditanstalt für Wiederaufbau (German Bank for Reconstruction)
LED	Loi sur les Entreprises en Difficulté (Law on Enterprises in Difficulty)
MAE	Ministère des Affaires Etrangères (Ministry of Foreign Affairs)
MDG	Millennium Development Goals
MENA	Middle East and North Africa
MES	Ministère de l'Enseignement Superieur et de la Recherche Scientifique (Ministry of Higher Education and Scientific Research)
MFA	Multifiber Agreement
MIEPME	Ministère de l'Industrie, de Energie et des Petites et Moyennes Entreprises (Ministry of Industry, Energy, and Small and Medium Enterprises)
MTI	Mouvement de la Tendance Islamique (Islamic Tendency Movement)
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation & Development
ONTT	Office National de Tourisme Tunisien (National Tourist Office)
OPEC	Organization of Petroleum Exporting Countries
PAEI	Programme d'Appui à l'Entreprenariat et à l'Innovation (Support Programme for Entrepreneurship and Innovation)

PC	Pôle de Compétitivité
PDG	Président Directeur-Général (~Chief Executive Officer)
PEDIP	Programa Específico de Desenvolvimento Industrial em Portugal (Portuguese industrial development programme)
PMI	Programme de Modernisation Industrielle (Industrial Modernisation Programme)
PMN	Programme de Mise à Niveau (National Upgrading Programme)
PND	Parti National Destourien (National Constitutional Party)
PPP	Public Private Partnership
PPP	Purchasing Power Parities
PSD	Parti Socialiste Destourien (Socialist Constitutional Party)
PSO	Public Sector Organisation
RCD	Rassemblement Constitutionnel Démocratique (Democratic Constitutional Rally)
SG	Secretary-General
SME	Small and Medium-Sized Enterprises
SOE	State-Owned Enterprise
TD	Tunisian Dinar
TI	Transparency International
UfM	Union for the Mediterranean
UGTT	Union Générale des Travailleurs Tunisiens (General Tunisian Labour Union)
UMA	Union du Maghreb Arabe (Arab Maghreb Union)
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
UTICA	Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat (Tunisian Union for Industry, Commerce and Handcrafts)
VAT	Value-Added Tax
WBG	World Bank Group
WEF	World Economic Forum
WTO	World Trade Organization
ZI	Zone Industrielle (Industrial Zone)

Summary

Tunisia's industrial policy has achieved very respectable results during the past two decades. A previously semi-closed and inward-oriented statist economy (heavily dominated by the public sector and insulated from foreign competition) has increasingly been turned into an outward-oriented and export-fuelled market economy, which is based on the manufacturing sector, and run by private entrepreneurs. In this way, a largely rent-based, lower middle-income developing country has been transformed into an increasingly skill-based, and industry-driven 'emerging economy', which has produced growth rates and welfare gains well above the regional average and not too far from the world's frontline economies. Importantly, Tunisia has absorbed the numerous shocks that have shaken the MENA region since the beginning of the 21st century relatively smoothly. It has done so better than most of its neighbours, and much better than analysts predicted some time ago.

Why has Tunisia managed to prosper, economically speaking, despite the ongoing presence of structural constraints? Because of four main factors: first, its geographical proximity to, and cultural familiarity with, its European partners and clients, which provided it with an important competitive edge over rivalling countries; second, the ability of the government to correctly identify, and exploit Tunisia's main comparative advantages *vis-à-vis* competing nations, which enabled it to make use of the economic opportunities and market niches in its near abroad, and face up to the increasing presence of East European and Asian producers on these same markets; third, its ability to translate these analytical insights into reasonably consistent policy choices; and finally, its ability to make a critical number of stakeholder groups in their society adhere to and support these choices.

What has allowed Tunisia to achieve these results? First, there are very cohesive ruling elites whose leading representatives have achieved a substantial agreement on core policy issues (including on a 'national project' of industrial development). Second, when implementing their policies, they can fall back on both a broadly meritocratic and professional civil service that is able to 'deliver', and a broadly inclusive and cohesive ruling party that is able to 'follow up'. Third, their choices are largely compatible with the structures built up by their predecessors, as well as with the key preferences pursued by their main allies at home and abroad. All of this has substantially added to the coherence, consistency, credibility, and effectiveness of their policy.

But it also must be recalled that the country is only half on its way toward becoming an industrial society: A first major problem is that the economic foundation of the Tunisian 'miracle' is still rather fragile: The country is still highly dependent on both a handful of foreign markets, and a handful of economic sectors, whose main focus is moreover on simple assembly activities (although there is a qualitative upward trend in many sectors). A final problem is the still high degree of fragmentation: between *on-shore* and *off-shore* sectors, between *import-substituting* and *export-oriented* businesses, and between the *few large* and the *many small* firms. In fact, the Tunisian economy is still *essentially* a 'dualist economy', which has so far only been very partially integrated into global value chains.

These problems are compounded by the fact that the Tunisian government continues to be torn apart between two conflicting goals: On the hand, it seeks to support the acceleration of local capital accumulation, and the deepening of industrial value chains, in order to prepare for a comprehensive upward shift towards more sophisticated goods, and thereby

achieve the qualitative breakthrough towards a fully developed economy. This would require a concerted and sustained effort of both public and private actors, and absorb the country's limited financial and human resources for years to come. At the same time, however, Tunisians are still very concerned with the preservation of the economic fabric (predominantly made up of financially and technologically weak family and micro-enterprises, active in the most protected sectors of the national economy) and the creation of new employment opportunities in order to absorb the country's growing workforce and maintain socio-political stability. However, any wholesale opening of the national economy would inevitably lead to the forced market exit of many business actors (and the concurrent loss of many jobs). Even though the constitution of more integrated economic entities (with a more sophisticated product policy and larger international export radius) is still a declared industrial policy goal of the Tunisian government, it is difficult to enforce in the light of incompatible social policy concerns. The problem is that it is very difficult for such a small country 'to have it both ways'; i.e. 'to eat its cake and have it, too'.

It must also be remembered that there are still a certain number of structural problems *at an institutional level*, which could jeopardise the success of this policy. First, the political system is still largely devoid of effective and institutionalised 'checks and balances', which could ensure the impartiality and accountability of policy making and policy enforcement. As there are no truly independent control mechanisms *vis-à-vis* key decision makers, this means that the necessary consistency of policy choices and their implementation on the ground entirely depend on the cohesion and determination of the political leadership and the inner circle elites. Second, the legal-institutional framework is still full of politically motivated loop-holes, such as special clauses and waivers for politically important pressure groups and clients, despite recent improvements at this level. Even though the government has generally pursued a policy of non-discrimination, it has maintained special legislation for supposedly sensitive sectors. The combination of political concentration with legal-institutional fragmentation, however, heightens the sense of insecurity for the majority of business actors, fosters opportunities and incentives for rent-seeking, and thereby prevents from investing heavily in skill-intensive sectors, which would be a *conditio sine qua non* for the long-term success of the government strategy.

1 Introduction

In most contemporary international rankings analysing worldwide performances in terms of socio-economic development, the countries of the Middle East and North Africa (MENA) score rather moderately. In spite of significant improvements on numerous levels, MENA countries are often seen as not having been able to fully capitalise on their generally favourable endowment with natural resources, and as lagging behind the more successful 'newly industrialising countries' of other world regions. This, however, is only a part of the picture. As these surveys tend to rely on – and result in – highly aggregate data, they are also liable to produce artificial averages that risk missing out the 'essential'. The methodological dangers inherent in such quantifying international comparisons become particularly palpable when looking more closely at the *political economy of contemporary Tunisia*.[2]

It is generally acknowledged that this small country of currently 10 million inhabitants has often acted as an important 'pioneer' within its regional context.[3] Tunisia was in the first group of Arab countries that introduced sweeping societal reforms in the 1950s; (unsuccessfully) experimented with quasi-socialist (collectivist) policies in the 1960s; resorted to semi-liberal *infitâh* policies in the 1970s; and suffered the full blow of the various crises ravaging the region in the 1980s. Tunisia was also among the first wave of Arab countries to conclude an Economic Recovery and Structural Adjustment Programme (ERSAP) with the International Monetary Fund (IMF) and the World Bank (IBRD); accede to multilateral free-trade regimes like the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO); and participate in trans-Mediterranean cooperation initiatives like the Euro-Mediterranean Partnership (EMP), the European Neighbourhood Policy (ENP), and most recently the Union for the Mediterranean (UfM).

It is for these reasons that Tunisia has often been regarded by Western state officials, international financial institutions, and private sector representatives as a political 'role model' in its regional context. Three arguments are usually advanced to support these claims: firstly, that Tunisians have pursued economic reforms with more determination than most of their neighbours; secondly, that they have adopted the necessary policies in this regard; and thirdly, that they have actually implemented these policies 'on the ground'. This might also explain why there are three more things which most observers seem to agree on: firstly, that the Tunisian government actually *does* have a fully articulated strategy for furthering industrial development (and has broadly adhered to this strategy in its policies); secondly, that the processes of industrialisation which are observable in the country represent the outcome of said strategy (or are at least substantially influenced by it); and thirdly, that this experience is also relevant to other developing countries.

2 The period under scrutiny is the time that has elapsed since the 'Change' of 1987: i.e. the ousting of President Habib Bourguiba (Tunisia's first, and until then only, head of state since the achievement of independence in 1956 and the abolition of the monarchy in 1957) by his Prime Minister Zine El Abidine Ben Ali (who has been ruling the country ever since).

3 A major contributing factor to this 'vanguard function' seems to be the fact that as a relatively small and resource-poor country, Tunisia tends to be more immediately affected by developments in its geopolitical context, and consequently tends to react more vigorously than others *vis-à-vis* changes on this level.

The aim of this paper is to critically test these assumptions.[4] It will focus on the following issues: To what extent have Tunisians been able to achieve the key goal of industrial policy – namely *long-term growth in total factor productivity*? Does the Tunisian government really have a full-fledged industrial policy – one that is *deliberate, coherent, and consistent*? If yes, what are the specifics of this policy, in particular when comparing it to the approaches pursued by other countries? What are the main qualitative differences between the two political eras, the 'First Republic' of President Bourguiba and the 'Second Republic' of President Ben Ali? Which actors have been involved in crafting these policies, and for which reasons? To what extent have these policies been followed through in daily practice, and with which results? And finally, to what extent are the industrialisation processes observable on the ground the outcome of these policies? Is the Tunisian state really the driving force behind industrial development – or are other forces at work in this regard?[5]

In order to provide answers to these questions, I will proceed in five steps: In Chapter 2, I will give a brief introduction into Tunisia's political economy; this will include a short overview of the main economic policy choices by the new ruling elites, the institutional features of the new order they created, and the root causes of the systems crisis which brought down the *Ancien Régime*. In Chapter 3, I will elaborate on its consequences for Tunisia's political system; this will include a brief overview of the decision making structures of the *Nouveau Régime*, the changing power relations among key socio-political actors, and the main preferences which they exhibit in their transactions. In Chapter 4, I will sketch out the new regime's approach to industrial policy; this will entail a brief outline of what constitutes the overall parameters of its economic strategy, how these relate to ongoing trends at the global level, and how they differ from the earlier era. In Chapter 5, I will present the main policy mechanisms which the new rulers have created, and specifically discuss whether these can be regarded as *effective*, *inclusive, and sustainable*. In Chapter 6, I will elaborate on this by looking more closely into a particularly important policy tool, namely the Tunisian Industrial Upgrading Programme (PMN). In Chapter 7, I will conclude by examining whether Tunisian's industrial policy has overall been able to promote 'comprehensive development', to what extent observable outcomes are attributable to policy choices, and to what extent they can serve as a model for others. And in Chapter 8, I will come up with a number of suggestions of what can be done to fully exploit Tunisia's potential, and thereby reach the next stage of economic development.

2 Opportunities and constraints for industrial development in the New Republic

Colonialism was late in coming to the MENA, but came with a vengeance. Tunisia was actually among the first countries of the southern Mediterranean to fall prey to European

4 For more information on the various definitions, rationales, and trajectories of industrial policy (IP), see: Altenburg et al. (2008); Noland / Pack (2003); UNIDO (2009).

5 The author is not aware of recent academic publications with a nation-wide IP focus. Most available studies deal with specific sectors, have been written by practitioners or consultants, and have been commissioned by foreign donors or the Tunisian authorities themselves. Regrettably, for lack of time, the author has not been able to make use of works in Arabic, written by Tunisian authors for a local audience.

expansionism, and it would remain under French rule for exactly 75 years: from 1881–1956. This was not a long time compared to the trajectory of other countries, and the impact of colonial rule on Tunisian society was *much lighter* than elsewhere. It was, however, long enough to change the fabric of that society. By establishing direct control over key assets, by tailoring productive structures to metropolitan preferences, by creating a modern bureaucracy, and by setting up a secular education system, the French made a decisive contribution to transforming the overall parameters of social life. The structures and dependencies they created or fostered would not simply disappear with their departure, but would continue to cast their shadows for a long time to come. In Tunisia, like in other countries of the region, the main aim of industrial policy was thus precisely to neutralise – and possibly reverse – the detrimental effects of the colonial experience, while regaining control over the parameters of development (Owen 1981; Issawi 1982; Perkins 2004).

To do so, the new ruling elites around Habib Bourguiba – the prime leader of the 'pro-independence movement' which in turn rallied behind the Neo-Destour Party – could fall back on a number of assets. Their first major asset was a strong state bureaucracy which had effectively imposed its authority over the country, 'taming' autonomous powers at social level. There were no more local strongmen, tribal leaders or other parochial actors strong enough to openly defy the power of the capital. Their second major asset was a fairly homogeneous and integrated population that was devoid of major ethnic or religious cleavages (almost all Tunisians are actually Arab-speaking Sunnis). Their third major asset was a socially mobile and educated middle class that also had important socio-political and professional traits in common. They were mostly social risers from the east coast provinces ('Sahel'), had received a modern training in French-inspired institutions, and experienced their political socialisation within the Neo-Destour. Tunisia had thus managed to achieve what its neighbours were only beginning to countenance: namely the promotion of national cohesion under the guidance of a strong, territorial state (Moore 1970; Hermassi 1972).

A further important asset was the fact that national independence had essentially been won at the negotiating table, and that the ousting of the French had been achieved with a minimum of casualties. The new polity was thus not overburdened from the very start by bitter memories about past 'injustices', and the desire to 'settle scores'. Instead, it would be run by an elite of civil politicians whose views converged on a number of issues – e.g. the importance of settling conflicts with a minimum of violence, keeping the army out of politics, and giving absolute priority to national development (which they called the '*supreme struggle*', or '*al-jihâd al-a'lâ*'). The majority movement within the new ruling elites was wise enough not to cut all ties to their former masters, or sever links with their neighbours. Rather, they would build on and harness the former's still formidable resources and strategic interests in the MENA (in conjunction with their country's pan-Mediterranean heritage and their own pro-European outlook) to achieve what really mattered to them: namely building a modern nation state. It was clear to them that this would not be feasible without support from abroad (Deeb / Laipson 1991; Murphy 2002).[6]

6 These Tunisian concerns actually coincided with European designs. It must once again be recalled that the political project of a united Europe was from the very beginning linked to the process of decolonisation: From the perspective of Paris and other capitals, the establishment of a Common European Market was meant to at least partially compensate for the loss of one's overseas territories. The progressive conclusion of association agreements with the newly independent countries of the southern Mediterranean

Bourguiba himself played a key role in all this: For him, as well as for those around him, the modernisation of society would have to go hand in hand with a concentration of power. Following his nomination as prime minister in 1956, his deposal of the last Husaynid Bey in 1957, and his election as the new President of the Republic in his stead, Bourguiba followed a multi-track approach. He made sure no other force would be able to challenge his 'National Coalition'.[7] He concentrated decision making powers within his own government apparatus. He created the conceptual and institutional parameters necessary for a rapid socio-economic modernisation of the country. And in doing so, he 'accidentally' destroyed the symbolical resources, as well as the organisational capacities, of political rivals and antagonistic ideologies. (Prior to this, large parts of the country's school and court system, and a significant share of its farm lands and real estate sector, had been under the direct control of Islamic scholars). The overwhelming powers he had acquired for 'his' new state would allow him to push through momentous reforms, particularly in the fields of social and educational policy, and with regard to family and gender issues.[8]

In the overall framework of the Bourguibo-Destourian state, real power was now limited to those occupying leadership positions in the three institutions that truly mattered, politically speaking (also referred to as '*as-sulta*' or '*le pouvoir*' in local parlance). These were, first, the *central state bureaucracy* which had already been created by the Husaynid reformers in the 19th century, was further strengthened by the colonial authorities and finally captured by the 'National Movement'; second, the *Neo-Destour Party* which, after pushing its rivals aside, had imposed itself as the 'quasi-natural' ruling party of the new polity; and third, the *associations nationales*, corporatist organisations for certain status groups (workers, farmers, businessmen, women) that were created or seized by Destourians in order to integrate and control the population. Groups which had previously played a major role in the national struggle were either excluded from politics *per se* (Islamic scholars and jurists) or relegated to subordinate positions within the ruling alliance (labour leaders and businessmen).

Henceforth, Bourguiba's powers at the top of this system were close to being absolute. He was at once the head of state and of government, chairman of the Destour, minister of defence, and commander-in-chief of the armed forces. As such, he was endowed with sweeping decision-making powers. He could determine the guidelines of public policy; make or veto legal acts (which included the right to issue bills and rule by decree); appoint or demote senior officials (such as ministers, governors, ambassadors, magistrates, as well as the heads of the police and the army); and last but not least dissolve parliament and declare a state of emergency. As a result, he would totally dominate all other political actors in the new state, such as the council of ministers, the parliament, the judiciary, and even the 'ruling' party. Within just three years, Bourguiba, who had only been a *primus inter pares* in the struggle against the French, had become the *supreme decision maker of the new polity*. In this sense, the 'Supreme Combatant' (as he came to be referred to) com-

(including Tunisia) from the late 1950s on would play an important role in this regard (cf. also Schumacher 1998; Jacobs 2003).

7 The adoption of single-list majority voting for elections to the National Assembly proved decisive, as this excluded small parties from political power and thereby pre-configured political life for a very long time.

8 The new civil status law which entered into force in 1957 was instrumental in this: it destroyed the legal bases of the traditional patriarchal family, liberated women from their religiously sanctioned dependency on male family members, and prepared the ground for their active participation in the modern labour market.

bined the powers and prerogatives of both the *former Husaynid beys* and the French *résidents-généraux*.

The above developments were only the first manifestations of what would become a full-fledged party-state during the following decade. Party members captured the upper ranks of the state bureaucracy with the same ease as government representatives assumed control of the leading party bodies. Still, the Bourguibo-Destourian Republic was an *inclusive* rather than an exclusive system. In principle, the party welcomed any citizen, irrespective of his or her social status, profession, confession, race, gender or age. It was *a priori* possible for anybody to participate in its activities, or rise up through the ranks. The power to make strategic decisions, however, was reserved to a very small stratum of senior political leaders. The political order that resulted from these crucial first years was *inclusive* as long as one was willing to 'play by the rules' and bow to the leader; it turned *exclusive* as soon as one dared to question his choices or covet his place. The clear red line for any legitimate political activity was the *unity of the nation*, as epitomised by the party's monopoly and Bourguiba's authority. Any attempt to cross either of those was nipped in the bud.[9]

In the political project of the new rulers, industrial policy was clearly attributed a key role. It should enable citizens to break free from the shackles of misery and dependency, and lead a life in liberty and dignity (while allowing to mobilise the patronage resources necessary for consolidating the party-state). On the way toward achieving these goals, however, they were confronted with a considerable number of serious challenges: In fact, most profitable and/or strategic assets had been owned or controlled by the French state or by European settlers. This applied to about 20 percent of arable land and 40 percent of farm produce. At the moment of independence, there were only 290 enterprises of more than 50 employees, 85 percent of them owned by foreigners. Industry employed only 2 percent of the workforce, with very few Tunisians in executive positions. Finally, there was not a single institution of higher education in the entire country. This was, in short, "a classical peripheralised economy, with industry limited to an enclave sector dominated by foreign monopolies and oriented toward the demands of the colonial centre."[10]

These problems were actually compounded by the country's geographical situation and demographic structure. A small nation of then barely five million people, it was flanked by two larger neighbours, one of which had just become independent (Libya), and the other of which was still struggling to do so (Algeria). Both would be led by rather quixotic, highly authoritarian regimes pursuing a politically expansive, pan-Arab agenda that did not really foster evolutionary change and peaceful cooperation in the region. Further, cross-border connections (in terms of trade, communication, and transport) generally followed a vertical (north-south), not a horizontal (east-west) direction. Economic exchanges among the Maghreb countries were negligible. In Tunisia itself, demographic and economic intensities declined along a North/East-South/West axis. The majority of people lived and worked in a narrow corridor along the east coast; the interior provinces along the Algerian border were

9 For these reasons, Bourguibo-Destourian Tunisia is usually associated with the bureaucratic-authoritarian regime type, as it was found in many other Arabs countries as well (cf. Pawelka 2000a; 2000b for further reading).

10 M. Romdhane quoted in Bellin (2002, 13).

far less populated and developed. These disequilibria (which have basically remained in place until today) posed (and still pose) severe challenges for policy makers.[11]

Industrial policy was further complicated by the country's fragile ecology and its rather moderate natural resources. Tunisia disposed of only few fossil and mineral assets (mainly phosphates and iron ore) and even more limited processing and refining capacities. Due to its semi-arid climate, summers are usually hot and dry, while winters are cold and humid. If at all, rain falls in spring, but this varies strongly over time. The very limited quantities of surface water and the equally limited number of irrigation facilities meant that Tunisia's farming sector was (and still is) heavily dependent on seasonal rainfall. For socio-historical reasons (like agnatic family structures and redistributive inheritance laws), most Tunisians toiled on small, fragmented plots with outdated and rudimentary tools. Furthermore, large parts of fertile lands were then still controlled by Islamic foundations or Europeans settlers (the former being nationalised in 1957, and the latter in 1964). In short, Tunisia has always had a strong potential as an agricultural producer (due to its fertile soils and short winters), but it was clear that exploiting this potential would require heavy investment at all levels.

As a result of these structural constraints and intervening variables, but also following their own instincts and interests (as well as those of their main allies, the middle classes of the coastal provinces), the new rulers initially pursued a conservative economic policy which mainly focused on preserving macro-economic stability. Since the private sector was supposed to become the driving force of economic development, they tended to avoid every step that could possibly upset private property owners (many of them still foreign citizens). It soon became apparent, however, that such a 'hands-off' approach lacked any sound long-term perspective. There was simply no modern, indigenous business elite dynamic enough to assume the economic catalyst role ascribed to it. The small native bourgeoisie, mostly confined to agriculture and commerce, had neither the means nor the skills (nor the guts) to kick-start industrialisation, and the rapid exodus of the European settlers further drained the country of the resources it needed for its development.

The year 1961 thus saw a veritable u-turn in economic policy: from 'liberalism' toward 'collectivism'. The driving force behind this new policy was Ahmed Ben Salah, the former secretary-general of the national labour union, who was appointed minister of planning and finance. This new position offered him the opportunity to implement his vision: rapid, public sector-led, import substitution-based growth. In order to do so, he could utilise the assets which had fallen into the hands of the state after the departure of the French: including plants, ports, railways, mines, and banks. As a result of this new policy, the number of state-owned enterprises and public sector organisations increased from less than 25 in 1960 to about 185 in 1970, and their share of national investment grew from 1.8 percent to 33.7 percent (cf. Belev 2000, 14ff. and 55ff. for further data about the growth of Tunisian SOEs and PSOs). This made the state the country's largest proprietor, producer, investor, and employer – and *eo ipso* the prime 'mover and shaker' in economics and fi-

11 Tunisia's 24 provinces (gouvernorats) can be aggregated into 6 regional clusters: the Greater Tunis area (comprising Ariana, Ben Arous, Manouba, and Tunis-Ville); the North-East (Bizerte, Nabeul, Zaghouan); the North-West (Béja, Jendouba, Le Kef, Siliana); the Centre-East (Mahdia, Monastir, Sfax, Sousse); the Centre-West (Kairouan, Kasserine, Sidi Bouzid); and the South (Gabès, Gafsa, Kebili, Medenine, Tataouine, Tozeur).

nance. By renaming itself from Destourian *National* Party (PND) to Destourian *Socialist* Party (PSD) in 1964, the ruling party formally and totally committed itself to this new line.

It is important to understand, however, that *collectivism* did not mean *socialism*; it was still about *national development*, not *class struggle*. The objectives pursued by the regime had not really changed, only its strategies of how to attain them had done so. Economic planning was not so much a voluntary choice, but rather an emergency measure to compensate for market failure. This is illustrated by the fact that private property continued to be protected by the law and respected by the state, only this time within the framework of the Plan, and under the guidance of the state. 'Salahism' not only claimed to offer a viable blueprint for the rapid development of a peripheral economy, but was also able to present itself as a direct extension of the Bourguibist project itself. However, this attempt failed for various reasons. It overstretched the regulatory capacities of the new state; it failed to raise enough foreign receipts to finance the quickly growing imports; it affected vital interests of key elite groups; and it alienated policy makers from their social support base. When all of these interests joined forces, the fate of Ben Salah was sealed. In late 1969, he was dismissed, arrested on charges of high treason, and sentenced to ten years of hard labour.

As a consequence of this failure, the new Prime Minister Hedi Nouira spearheaded another policy switch: from an *administered economy* aimed at rapid industrialisation through collectivism and protectionism, to a *mixed economy* containing a peculiar combination of import substitution and export promotion. There was a particular focus on manufacturing (mainly textiles) and services (mainly tourism) where Tunisia was supposed to enjoy major comparative advantages: because of its reasonably skilled and cost-effective workforce; its good institutional and physical infrastructure; its political and social stability; its proximity to major European markets; and its familiarity with European cultural habits. This new formula continued to reserve the lead role for the public sector, while offering more opportunities to private operators. But the launch of the *infitâh* was more than a simple re-adjustment of government policy; it implied a thorough redefinition of the 'contract' governing the relationship between state and society, or between 'ruler' and 'ruled'.

Two laws, adopted in 1972 and 1974, ushered in this new era; the former opening up foreign trade, the latter focusing on domestic markets. In order to coax the private sector into assuming a more active role, the state offered a raft of incentives. These included *extensive institutional and technical support*, deployed through new state bodies like the Industrial Promotion Agency (API) or the Export Promotion Centre (CEPEX); *fairly rapid and secure returns* (via high external tariffs, strict import quotas, restrictive licensing practices, etc.); and *other direct or indirect subsidies* (like long tax breaks, preferential credits, subsidised inputs, etc.). In order to facilitate this process, civil servants were allowed to temporarily or permanently work in the private sector. The result was up to expectations: About 800 new industrial ventures emerged the following years, effectively doubling industrial capacity, and laying the economic groundwork of today's manufacturing sector. The private share in industrial investment went up from 22 percent in the 1960s, via 41 percent in the 1970s, to 43 percent in the mid-1980s. The vast majority of the new firms, however, were very small, 94 percent starting with less than TD 500,000 and employing less than ten workers (cf. Bellin 2002, 32ff. for further data about the growth of Tunisia's private sector at that time).[12]

It must be noted, however, that the relations between state and business were supposed to be governed by the rules of *complementarity* and *subsidiarity*: "Whereas the private sector focused on the least capital-intensive, the least technologically sophisticated, and the most immediately profitable branches, the state carried the burden of basic, heavy industries that were beyond the capability and interest of the private sector" (Bellin 1991, 51). This might also explain why the public sector continued to grow even during the *infitâh* period: The percentage of government expenditure of GDP further rose from 28.7 percent in 1972 to 32 percent in 1984, while the share of transfers to SOEs as a percentage of government expenditure more than doubled: from 8 percent in 1972 to 17.5 percent in 1984. The result was an economy characterised by the *awkward co-existence of four sectors*: an *offshore sector* that was geared toward external markets and dominated by foreign players; an *onshore sector* that was heavily protected from competition and regulated by the state; a *public sector* which included all large firms, and monopolised strategic sectors; and a *private sector* which primarily consisted of small business units, and focused on simple assembling activities.

At the end of the day, Hedi Nouira's *infitâh* policy was nothing but a *political hybrid*: a compromise between the 'disciples of the plan', and the 'partisans of the market'. On the one hand, the state encouraged private sector growth and foreign direct investment while, on the other hand, it tightly regulated market access and resource allocation. It also maintained direct control of the 'commanding heights' of the economic system (which mainly concerned the mining, energy, transport, telecommunication, and banking sectors). Unsurprisingly, this mixed policy produced mixed results: It was successful in that it produced high growth rates for several subsequent years, rising living standards for broad social strata (particularly for the middle classes of the main urban hubs) and substantially enhanced opportunities for social upward mobility (mainly via the rapid expansion of the public sector). However, it was unsuccessful in that these positive results were achieved by ultimately unsustainable methods, and more specifically by constant deficit spending policies of the central state, made possible by the increasing availability of external rents.[13]

In actual reality, Tunisia's political economy suffered from a large number of structural deficits. The first major problem was the very narrow basis of the economic system (which made it very vulnerable to all kinds of external shocks). The bulk of national income was derived from just a handful of sources, basically extraction (hydrocarbons, phosphates), agriculture (olives, fruits), manufacturing (clothing, textiles), services (construction, tourism), and external transfers (development aid, migrant remittances). The second main problem was the lopsided structure of the national economy (which combined a low degree of *differentiation* and *specialisation* with a high degree of *fragmentation* and *sectorialisation*). There were very few horizontal linkages between the aforemen-

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12 The main targets of Tunisian exports were the member states of the European Economic Community (EEC). This was mainly due to the overall distribution of purchasing power in the wider neighbourhood; the still substantial links with the former colonial metropolis; the low degree of economic integration among the Maghreb countries; and the rather limited interest of OPEC countries for Tunisian products.

13 It is for these reasons that Bourguibo-Destourian Tunisia is usually qualified as a semi-rentier economy (cf. Pawelka 2000a, 2000b for further reading).

tioned four sectors of the Tunisian economy, which could have served as a launch pad for a sustainable course toward industrial development. Before being able to export, Tunisia was forced to import practically everything: from basic inputs past capital goods and spare parts to end products. This lack of integration not only undermined the twin goals of industrial consolidation and capital accumulation, it also drained the country's financial assets and cash reserves.[14]

It was obvious that maintaining this system would ultimately hinge on the ability of the state to continuously secure financial inflows from abroad, while skilfully balancing the different elements of the ruling contract. Achieving this task, however, would be no easy feat, as the main sources of income were concentrated in highly volatile markets and thus liable to periodically occurring slumps. A deterioration of prices in any one of these was bound to immediately 'ripple through' to other sectors, and gradually 'rub off' on the entire economy. This is precisely what happened when two consecutive droughts destroyed large parts of the local harvest in the early 1980s; financial inflows from exporting industries and migrant communities dried up (due to plummeting oil prices and contracting customer markets); and financial costs incurred from servicing past loans and securing fresh money shot up (due to soaring dollar prices and worsening exchange rates). When the debt service ratio crossed the 20 percent threshold in 1983, reaching 33 percent in 1986, it was clear that the game was over; Tunisia was no longer in a situation to raise the external surplus necessary for running such a system; it could have imported large quantities of either capital or goods, but not both of them *simultaneously* and *indeterminately*.

Faced with deteriorating living conditions, youth unemployment, and public rioting, the regime began to fall apart. No longer able to secure its imports, finance its deficits, or service its interests, it had no other option but to ask for foreign help. In 1986, the new Prime Minister Rachid Sfar concluded an ERSAP with the Bretton Woods Institutions. The drastic spending cuts which this entailed, however, further exacerbated social conflicts. These were now spearheaded by Rachid Ghannouchi's Islamic Tendency Movement (MTI) which (after the political neutralisation of the labour unions) had become the only serious alternative to the incumbent regime. Bourguiba's tendency to increasingly rely upon the armed forces for maintaining public order had an important side effect, namely the rapid political promotion of General Ben Ali, the former head of the national security service, who first became minister of the interior, then prime minister, and finally secretary-general of the ruling party. When it finally appeared that this crisis might spiral out of control and bring down the system itself, part of the political elites acting under the leadership of Ben Ali decided to pull the emergency break: In order to avert a revolt 'from below', they agreed to reform the system 'from within'. This necessitated the removal of Bourguiba whom they no longer regarded as a part of the solution, but as a *part of the problem*.

14 As Francis Ghilès (1996) has rightly observed, the weak point of the Nouira approach was that "it enacted a policy which encouraged exports and investment in the exporting sector but failed to encourage Tunisian companies to compete in international markets and discouraged competition in domestic markets". The main purpose of this policy was actually "the reduction of unemployment among unskilled workers (…) and emigration to Europe. It was not part of a general strategy based on conquering new markets".

3 The main actors and institutional parameters of the 'New Tunisia'

The first hand-over at the helm of the state since the achievement of independence and the abolition of the monarchy happened so smoothly that most people only learnt about it from the morning news. During the night of 7 Nov. 1987, troops loyal to Ben Ali had occupied the most strategic premises without encountering serious resistance.[15] Ben Ali justified his move by invoking Bourguiba's incapacity to govern for health reasons. In his first speech as head of state, he not only promised to restore 'law and order' in the country, but also to admit (more) pluralism and participation in politics. At the same time, he vowed to abolish both the life-time presidency, and the automatic succession rule, which Bourguiba had established in 1974. He promised, in short, the launching of a 'New Era' in Tunisian politics, based on the restoration of the founding principles of the Bourguibist Republic.[16]

The first phase of the New Regime's political life lasted until 1989/90. Its main goal was to curb the multiple effects of all the crises that had sprung up during the closing phase of the old regime. Ben Ali began to carefully open the political system, and overhaul existing institutions. This included the systematic renewal of the regime elites, as well as the tailored political integration of formerly 'marginal' groups. The presidency-for-life was abolished, to the effect that the head of state could not serve more than three consecutive terms of five years each. Political parties were legalised, with the exception of those organised along religious, ethnic, or regional lines. The PSD was renamed the *Constitutional Democratic Rally (RCD)*, followed by the confirmation of Ben Ali as its chairman. At the same time, the new rulers carried on the ERSAP of their political predecessors, which contained the usual elements of the 'Washington Consensus': *stabilisation* of external accounts and state budgets; *liberalisation* of market access and foreign trade; *reduction* of state interventions and price distortions. Most progress was made on the macro-economic front, while foot-dragging was much stronger on micro-economic issues. But the *structural* deficits of the Tunisian economy basically persisted, as the Gulf Crisis would reveal shortly afterwards.

One year after the 'Change', the leaders of the various political parties (including the MTI) signed a National Pact which spelled out the basic parameters of the 'New Era'. In spite of this apparent agreement on substantive issues, however, peace was not to last for long: The regime was clearly unwilling to admit a religious party into the 'political arena', while the MTI was equally unwilling to sacrifice its dream of building an 'Islamic state'. It was the first post-coup elections of April 1989 which rang the 'funeral bell' of the 'Tunisian Spring'. Disappointed by the regime's adamant refusal to grant it legal status (despite the fact that they had renamed themselves *Hizb an-Nahda*, or *Renaissance Party,* to comply with the party law), yet encouraged by the respectable electoral results of their 'independent' candidates (as well as by the meteoric rise of Islamist parties in other Arab countries), the MTI decided to take the plunge: They openly defied the authorities, riding the

15 Several key figures of the Ancien Régime were literally arrested out of their beds and condemned to heavy prison sentences, but were subsequently pardoned or released on parole (apparently on condition that they stay out of politics for the rest of their lives). The 'Supreme Combatant' himself was escorted to his home town, Monastir, where he would spend the rest of his life (until his death in 2000) under house arrest.

16 Cf. also S. Gharbi / F. Soudan: "Cette nuit-là…", JA 1402, 18/11/1987, 32–41

wave of anti-Western feelings which swept the region during the Gulf crisis. Following an escalation of conflicts, the regime elites decided to 'eliminate' their only serious rival, sensing that they could do so with complete impunity at that particular junction. After two years of massive repression, the Islamist movement had *de facto* ceased to exist 'on the ground'; its activists had been rounded up, its organisations dismantled, and its leaders imprisoned or exiled.

The second phase of the New Regime's political life lasted until 1994/95. The new rulers systematically re-asserted state power and reverted to central rule. Having crushed the Islamist movement, they began to target all those formations of the secular opposition and in civil society which openly declared themselves opposed to their rule or policies. This even included those who had initially sided with them and/or did not really compete with them (such as human rights or labour activists). At the same time, the former intensified the pace and scope of socio-economic reforms and renewal. They systematically replaced the remaining elements of the 'Elite Bourguiba' by a new generation of techno-bureaucrats who took over senior positions in the state apparatus. They also systematically transformed the heavily regulated and insulated statist economy they had inherited into an increasingly outward-oriented, market-driven economy that would be attuned to the rhythm of globalisation. Following the accession to the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO), Tunisia was among the first wave of Arab countries to join the Euro-Mediterranean Partnership (EMP) launched in 1995, and to conclude a Euro-Mediterranean Association Agreement (EMAA) in 1996. While the former envisioned the gradual establishment of a Euro-Mediterranean Free Trade Zone (EMFTZ) by the year 2010, the latter spelt out in detail how to put this into practice *bilaterally*. For Tunisia, the signing of these documents represented a 'point of no return'.[17]

It was clear that the association with Europe would entail both *sizeable opportunities* and *momentous challenges* for Tunisia (Naboultane 1995; Chourou 1998; Cassarino 1999). On the one hand, it threatened to expose Tunisian society to enormous competitive pressures, having the potential to endanger large parts of the industrial fabric, destroy a sizeable percentage of national income, and lead to profound disruptions at the social level (potentially exacerbated by the scheduled phasing out of the Multi-Fibre Agreements in early 2005). On the other hand, it promised to reinforce comparative advantages over regional competitors, which might allow it to achieve growth rates higher than in the past, absorb the projected yearly 80,000 new entrants to the labour market, and compensate for the expected mass layoffs in the manufacturing sector (which would mainly concern the large number of small import-substituting firms). In principle, Tunisia stood to gain from this: first, be-

17 EMAAs are novel 'third-generation' agreements that cover all aspects of mutual relations and penetrate deeply into the internal affairs of the contracting parties. They contain detailed provisions on how political cooperation and economic liberalisation are to develop. In doing so, they follow a sequential, differential, and asymmetrical approach: Trade liberalisation is obligatory for manufactured goods, with its applicability varying between different categories. All tariffs have to be phased out over a 12-year period from the date the accord comes into effect. European industrial exports have to be totally exonerated from customs duties by the year 2010 at the very latest. Trade liberalisation for agricultural products, services and public procurement, however, is only tentative, with negotiations beginning five years after the ratification of the accord. Any opening of these sectors must be based on the principle of reciprocity, taking into account developments within the WTO. Officially, the accord came into effect in 1998, following its ratification by all EU member states, but Tunisia had begun to implement it unilaterally in 1996, in order to underline its commitment to the process.

cause the institutional guarantees of the association accord – and the fact that it made the opening of markets virtually irreversible – served as a 'policy anchor' for the entire reform process and simultaneously enhanced the legal security of private investors; second, because the asymmetrical dismantling of customs tariffs temporarily reduced factor costs and offered extra benefits to private operators; and third, because Tunisia would benefit from the numerous support mechanisms and technical assistance programmes which the EU and other international donors promised to put into place.[18]

The main benefit which a new-generation FTA like the Euro-Tunisian EMAA offered to local firms thus consisted of improved access to three main 'targets': first, to a worldwide stock of productivity-enhancing knowledge; second, to foreign intermediate and capital goods; and third, to foreign factor and consumer markets. All of this was supposed to support the creation of new sources of national income; accelerate the inward transfer of modern technological and organisational know-how; intensify the necessary development of further downstream and upstream activities; and thereby contribute to the stabilisation of the country's balance of payment. The authors of a recent study on the association process have thus correctly concluded that "since Tunisia stands to gain limited additional access for its exports to the EU, except for a few agricultural products, the expected growth of exports will result mostly from a re-allocation of resources from import-substituting production to export industries, increased investment in these industries, and productivity gains" (Bchir / Chemingui / Hammouda 2009, 132f.). This is precisely what the architects of this process seem to have had in mind from the beginning.

The third phase is still ongoing. It is mainly concerned with managing the consequences of the above decisions. Ben Ali's apparent aim is to develop a politically sustainable order that will allow him to integrate emerging social forces, without relinquishing ultimate political control. His preferred strategy has been a controlled pluralism in the parliamentary sphere. Since 1994, 'cooperative' opposition parties have been offered a growing share of the available seats in the assembly system (rising to 25 percent in October 2009), and since 2004, opposition candidates have also been admitted to presidential elections (which is a real 'first' in Tunisian history). This strategy has been complemented by the establishment of all kinds of consultative bodies and quota systems for groups underrepresented within the official sphere. A landmark of this system reconfiguration was the successful 'deconstruction' of the succession issue. A public referendum launched in 2002 abolished the constitutional restrictions which Ben Ali himself had introduced after his coup, and which would have prevented him from standing for another term. The amended constitution no longer puts a limit on the number of presidential terms, and only maintains an age limit of 75 years for eligible candidates. Unsurprisingly, Ben Ali was re-elected in 2004 and 2009, albeit this time with 'only' 94.59 percent and 89.62 percent of the votes.

Ben Ali's 'New Tunisia' actually features a peculiar mix of *change* and *continuity*. On the one hand, there are clearly many similarities between both political eras. Supreme control

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18 Feasibility studies commissioned by the Tunisian authorities around that time distinguished between three groups of local enterprises: one third was already fit for the world market and would not need further assistance; another third would stand a real chance of facing up to international competition if given time and support; and a last third would not have no chance of coping with free trade, no matter what happened (Naboultane 1995). It must be noted that the Tunisian economy still enjoyed a high level of effective protection by that time, with an average customs rate of 43 percent, plus quantitative restrictions on many products.

of political decision making continues to be vested in the same old 'power triangle' of Bourguibist times, made up of *state, party, and presidency*. As before, leading positions within state institutions are reserved for party members, while leading positions within party structures are occupied by government officials. And, also like before, the ruling party is expected to defend government policies, in the same way as the state bureaucracy is supposed to implement the Destourian ideology. Thus, Tunisia has on all accounts remained a party-state, in the same way as the RCD has remained the state-party – if not *de iure*, then at least *de facto*. Crucially, this complex is still wholly dominated by the presidency. As before, Ben Ali is not only at once the head of state and of government, but also the chairman of the ruling party and the commander-in-chief of the armed forces. In addition, he also assumed the chairmanship of the new constitutional council. Thus, the Tunisian Republic in many respects continues to resemble a 'secular monarchy' – once again *if not by name, then in fact*. Unlike other countries in the region, Tunisia is still not heading for a stronger *differentiation* or *decentralisation* of political functions and powers.

This means that regular, substantial influence on strategic political issues is still restricted to a very small circle of top decision makers, who control the upper echelons and the key institutions of the central state and the ruling party. Essentially recruited via the Destour and clustering around the presidency, they continue to control the levers of power and determine the grand lines of public policy. Deliberative institutions, such as the Chamber of Deputies (the 'Lower House'), or the Chamber of Advisers (the 'Upper House'), only play a minor role. Even though most regime institutions (including the ruling party itself) have become somewhat more heterogeneous and more representative since the 'Change', this has not included the effective, comprehensive, or irreversible institutionalisation of peaceful, open-ended, and free-wheeling competition among different political formations for supreme political power. Nor has it entailed the institutionalisation of government accountability *vis-à-vis* the preferences of the majority of the population through the ballot box. The system which has resulted from this is reasonably inclusive on the distributive ('output') side, but still relatively exclusive on the participatory ('input') side (cf. also World Bank 2003a). This means that in spite of all the changes that have taken place since 1987, Benalist Tunisia continues to exhibit essential characteristics of an authoritarian system.

At the same time, however, it is clear that the country has indeed witnessed profound changes since Nov. 1987: It has experienced an almost complete renewal of its ruling political alliance, a far-reaching rebuilding of its economic system, and a substantial reconfiguration of its political order. This process has not only entailed the comprehensive exchange of all those occupying leadership positions in the party-state, it has also resulted in an in-depth reshuffling of the societal coalition which used to underpin the latter. All of this has profoundly altered both the power relations and working relations between all groups and institutions that make up the political system of the 'New Tunisia'. It has also redefined ascribed socio-political functions and roles, affected well-established circulation and interaction patterns, and modified both intra-elite and state-society relationships. This process has not only created new avenues and opportunities for socio-economic advancement and participation at the level of society as a whole, it has also widened the availability of, and access to, power and influence at the level of the party-state itself.

These changes have not been without consequences; they have not simply *reproduced* but *transcended* the *status quo ante*. The reforms which the new ruling elites have enacted have not only seriously affected the overall power relations among the main political actors, they have also substantially modified the 'source code' of Tunisian politics. They have not only altered the basic rules which had previously characterised the political game, and the main intervening variables which determined decision making, they have also changed the social coalition the regime is based upon, and the political contract linking it to the people. At the same time, these changes have increased the overall number of politically relevant actors, and diversified the power resources available to them. They have not only created new forms of political socialisation and representation within the regime, but have also offered new channels of revenue generation and upward mobility to the citizens. In doing so, they have affected both the nature and the exercise of authority and legitimacy in the country. All of these arguments shall support my hypothesis that the Ben Ali Regime substantially differs from its Bourguibist predecessor, and represents a *qualitatively new form of political rule*.

A threefold power shift has occurred within the ruling political elite: The most important change has been the further *presidentialisation* of political decision making. On the one hand, Ben Ali has maintained direct control over all the institutions which still dominate policy making, the state bureaucracy and the ruling party in particular. At the same time, he has created the new power structure of a full-fledged presidential *makhzen* which associates a professional palace administration, an expansive security apparatus, as well as an extended clientelist network clustered around the presidential family itself. The constituent elements of this new power structure have gradually become a new 'shadow elite' alongside the formal party-state elites, and are increasingly representing the inner circle (or hard core) of the ruling coalition. Of course, this is not at all to say that the Destour or state bureaucracy have lost all power and influence. As we shall see, Ben Ali would find it impossible to rule the country (or just maintain himself in power) without their help. And yet it is true that both have become the *instruments* rather than being the *centres* of power; they are no longer the prime 'movers and shakers', but rather 'implementers and amplifiers' of decisions taken by the president and those around him.[19]

This has allowed Ben Ali to gain direct personal control over crucial power resources which include the managerial skills of a modern palace bureaucracy, the dissuasive 'push' of a large and loyal security apparatus, and the persuasive 'pull' of an equally substantial and largely uncontrolled presidential 'shadow' budget. At the same time, it has allowed him to build up direct, personal links to key social actors, which include the country's 'grand old families', its emerging business elites, and its new technical intelligentsia. This means that he has concentrated enough administrative, 'coercive', and 'co-optative' capacities around the presidential palace to be able to formulate, impose, and enforce public policies from there. And he has brought enough financial and symbolical resources under his personal control to be able to craft his own clientelist networks independent of the party-state. Ben Ali's regime is thus characterised by a hub-and-spokes structure which makes him the undisputed axle of the political system. All command chains in the Tuni-

19 It must be recalled in this context that the actual centralisation of the decision making process (and hence the possibility of Tunisians to participate in it) can vary widely from time to time and from issue to issue: This means that not only membership in the ruling elites is shifting, but also access to political power as such. While actual participation can be severely restricted in some cases (e.g. with regard to internal or security affairs), it may be more open in others (e.g. with regard to social or economic policy). Here, political executives and business representatives are indeed often able to provide input, and to influence the outcome of decisions.

sian state emanate from the president and converge toward him. This strategic position increases his discretionary powers. He can either use his ties to the private sector (and control over the state budget) to sideline state institutions, or he can use his control of state institutions (and the ambiguity of the existing legislation) to rein in the private sector.

This far-reaching restructuring of the regime institutions has been accompanied by (and inter-acted with) an all-encompassing renewal of the political elites. In fact, Ben Ali has systematically purged the upper echelons of the party-state, replacing the 'old guard' of Bourguibists, while propelling his own men into positions of power. In doing so, he has both relied upon and departed from established circulation patterns. On the one hand, he has continued (and completed) replacing 'politicians' with 'techno-bureaucrats' and 'public managers', that is, people who possess special professional experiences and technical skills rather than representing specific political agendas or social groups (or, to put it differently, experts for 'outputs' rather than 'inputs'). At the same time, he has given preference to 'outsiders' and 'newcomers', that is, people who were previously marginalized or excluded from politics, for various reasons. Ben Ali has thus not only maintained, or re-established, previous mechanisms and channels for elite circulation and upward mobility, he has also produced a new system of clientelist networks constituted around people whose political breakthrough commenced with the 'Change'.

There appear to be two main reasons for why Ben Ali has effectuated such a sweeping elite change, and why he has relied on these particular groups: firstly, because he needed *loyal* followers to fend off challengers from both within and without; and secondly, because he needed *capable* executives to carry out the reforms needed for economic stabilisation and modernisation. The more he came to trade his initially rather abstract *political* legitimacy for more concrete *socio-economic* promises, the more he had to adjust his style of governing. In fact, contrary to a large number of Arab rulers, he does not have extensive natural resources at his disposal, which would provide him with the means to buy allegiance or crush contestants at will. Instead, he needs to mobilise resources externally, and this pre-supposes both having full access to foreign (Western) political circles and factor markets, and having local aides capable of ensuring such inward transfers and maximising their potential. In fact, one of the main reasons for the smooth consolidation of the Benalist regime is that he has quite deftly combined strategies of elite renewal with efforts to ensure social inclusion. Since 1987, the public sector and the ruling party have largely been able to resume their former functions as vehicles for national integration and upward mobility. In this sense, they continue to represent the main *communication systems* and *social escalators* for 'ordinary Tunisians', who may possess ambition and talent, but lack funds or social status.

This shows that Ben Ali has saved the system he 'inherited' by changing it 'from within'. He has preserved the basic politico-institutional make up of the old Bourguibo-Destourian order, with its politically hegemonic ruling party, a strongly centralised state bureaucracy, as well as a state-dominated corporatist complex; while superimposing on these the new power structure of a full-fledged presidential *makhzen* which associates a modern palace administration, a formidable security apparatus, and many leading business clans. These new elements have allowed him to mobilise and incorporate all those political resources which he needed to consolidate and perpetuate his rule.

4 Overall guidelines of Tunisia's industrial policy

In the politico-economic universe of Bourguibo-Destourian Tunisia, the state used to be the centrepiece and linchpin of both politics and economics. It was meant to determine not only the allocation of resources, but also the distribution of social opportunities. In this context, the banking sector used to play a particularly crucial role. Banks, which themselves were either owned or controlled by the state, used to administer and distribute the lion's share of national savings. They were not only used for channelling money into priority sectors, but also served to 'reward' politically important groups. By the same token, they were charged with covering up the state's deficit spending, and supply it with fresh capital. By the time of the 'Change', however, it had become clear that the state had 'overstretched' itself, was no longer able to perform all of its functions, and would thus be forced to cede a part of its powers. It was also clear that the question of how to reform such an entity would touch upon the very heart of the existing 'social contract', cut deeply into the clientelist networks of the ruling elites, and thereby rock the very pillars of the political system (Henry 1996; Dillman 1998; Belev 2000).

The sensitivity of these issues can be gleaned from the sluggish progress of public sector reform. It started timidly in the early 1980s with the decision to limit price controls to 'basic products' (even though this decision was only restrictively implemented). It did not, however, involve the sale of a single public firm until the late 1980s (except for the reversal of agricultural collectivisation in the late 1960s). Even with the start of the ERSAP, this very cautious approach to economic reform was not abandoned: In fact, government authorities had made it quite clear from the very beginning that all 'strategic sectors' should be excluded from the privatisation process. This notion included both *utilities* (e.g. power generation, water supply, public transport) and *commodities* (e.g. mining, chemicals, steel). This meant that reforms were at that time mainly concerned with *stabilisation,* not *restructuring*; they stopped at the macro-economic *surface*, without getting into the micro-economic *substance*. This defensive strategy produced rather unimpressive results, as evidenced by the sharp economic slump of the early 1990s. Poor results were not only due to the obstinate foot-dragging of powerful vested interests and the deliberate decision of the political leadership to keep the economic opening from touching on the system's core; they were also (and maybe even more so) attributable to the aforementioned structural constraints of the national economy, as well as to several 'adverse' developments in the international context, that were largely beyond the reach of Tunisian policy makers.

All of this prompted the new ruling elites around Ben Ali to carry out an in-depth revision of their economic policy (Dillman 1998; 2001; Murphy 1999, 2001). *This rethink partly resulted from, and partly contributed to, the aforementioned elite renewal.* A major result of this process was a newfound consensus among the 'inner circle elites' that economic development should be achieved through *market forces* rather than through *state planning*, and that *private businesses* rather than the *public sector* should act as the driving force. An increasingly deregulated, predominantly private sector-owned industrial and services sector should have a key role here. By penetrating global value chains, they should produce the inward financial transfers needed for maintaining political stability. This new policy opted for a stepped-up integration into the world market, based on the systematic capture of new market segments via a deliberate exploitation of one's comparative advantages. Access to foreign export markets and the generation of sustained resource inflows were preferably to be pursued through the means of free trade agreements and privileged economic relations with Tunisia's most important trading partners. The primary outcome of this rethink was the decision to transform the highly protected and regulated *infitâh economy* into an increasingly open and outward-oriented *market economy*.

At first glance, it appears that '*les hommes du changement*' had fully endorsed the main tenets of the 'open regionalism approach'. The basic idea behind this policy was to build up geographically defined political orders and economic clusters, which would consist of countries linked to each other by special economic relations and preferential trade agreements, while remaining open to similarly structured entities elsewhere in the world (and to the world market at large). The argument put forward to justify this (pro)position was that Tunisia was much too small to mobilise large-scale private investment capable of generating growth rates commensurate with demographic pressures. Only as a part (and possibly the hub) of a larger regional market, and of an economically integrated Maghreb, could Tunisia justify its labour costs and fully exploit its human capital. The conclusion of the proponents of this viewpoint (especially after the failure of the Arab Maghreb Union, which was the initially preferred option of the new regime) was that achieving meaningful economic growth rates allowing for the maintenance of the socio-political *status quo* would only be feasible through their country's re-insertion into the global market. The most advantageous option (if not the only conceivable one) for their country would lie in its sequential association with the Common European Market *via* the Euro-Mediterranean Partnership initiative launched at the Barcelona Conference in late 1995.

This in-depth re-definition of the national development strategy had a profound impact on the specific role which the state was supposed to perform in this regard. Henceforth, the public authorities should limit themselves to providing those goods which the 'market' could not deliver. These involved ensuring macro-economic stability (low inflation, stable interests, realistic exchange rates), providing basic socio-economic services (education, health, transport, water, electricity), and establishing an 'enabling' legal-institutional framework (little bureaucratic interference, secure property rights, effective legal redress). Other important functions which the state ought to assume in this equation included maintaining public order, securing national independence, and promoting social cohesion. The state was thus expected to become less important as an 'actor' that actively interferes in productive life, and arbitrarily determines factor prices, while it was supposed to become more important as an 'arbiter' that decides on the 'rules of the game', and enforces them *vis-à-vis* the rest of the 'players'. Finally, it was seen as being instrumental for managing relations between the 'social partners', determining the distribution of the spoils, and ensuring a peaceful settlement of the conflicts that might arise. This meant a shift from acting as a 'producer' and 'director' toward becoming more of a 'manager' and 'regulator'.

Business, in turn, was expected to fill the gap left by the state. Private operators were from now on attributed even more importance for achieving the traditional twin goals of economic modernisation and industrial development. It would be up to them to 'innovate', generate economic growth, enhance factor productivity, and provide the additional jobs necessary for upholding the regime's 'welfarist promise' of both collective advancement and individual improvement. This was not necessarily a *change of paradigm*, but it certainly implied an *inversion of roles*. Before, the state used to (or claimed to) take the lead when it came to charting the way forward for the country as a whole, and allocating the resources needed for this task – while business was expected to follow in its wake, and fill in the niches left by it. This means that the private sector was actually attributed a subordinate role compared to the public sector. From that point on, it would rather be the other way round. Private enterprise was now supposed to act as the main driver for development, while the public authorities were called upon to assist it in achieving this task. This means that business was expected to become the *motor of the economy* and a *catalyst for progress* – while the state remained in the driver's seat and continued to chart the course.

However, it must be noted that in spite of many regime elites' apparently rather neo-classical worldview, they still deviate from the 'Washington Consensus' in numerous ways. Ben Ali has made it very clear on countless occasions that he regards economic development as serving a more comprehensive purpose. Referring to the related chapter of the National Pact which stresses that "le développement intégral et équitable est la finalité suprême du combat du peuple tunisien et de la politique de l'Etat" (Republic of Tunisia 1994, 17). For him, the overriding goal of economic policy should be the "edification of an open and balanced economy that reconciles economic efficiency with social prosperity" (anniversary speech of 7 Nov. 2000). At the end of the day, its main *raison d'être* is to help secure and perpetuate the socio-political contract on which the Bourguibo-Destourian state is based and dependent. From this point of view, economic growth and technological progress are only desirable *insofar and as long* as they do not undermine political stability or social cohesion. This also means that the state would have to provide for a 'just distribution of the fruits of growth' among the 'different categories of Tunisian society' – while being the one who defines what this actually means in practice.

It was clear for everybody that the successful implementation of this new strategy would not be an easy feat. The state's pull-out from 'micro-management' – together with the gradual opening of the domestic market – meant that business would have to take over at least a part of the functions which the state used to perform, while simultaneously coping with the multiple pressures resulting from the gradual introduction of direct competition with foreign businesses. This dual task was likely to be a difficult undertaking given the lopsided situation of the private sector. To be sure, the industrialisation process had progressed considerably by the mid-1990s. Industry's share of Tunisia's GDP rose from 11.9 percent in 1980 to 20.3 percent in 1995, and its share in exports soared from 36 percent in 1980 to 75 percent in 1995. Between 1992 and 1996 alone, the manufacturing industry showed an average annual growth rate of about 20 percent (Englert 1997). However, a number of deficits remained, and it was clear that these not only threatened the success of the national development strategy, but also the survival of many private firms.[20]

The answer of the state authorities consisted of a pro-active support policy that facilitated the competitive reconversion of the local manufacturing industry, and managed the potentially negative repercussions of the transformation process. The main starting point for this new policy should be the structures put into place under Bourguiba: the *light manufacturing industry* (primarily textiles, garments, footwear, leather work and, increasingly, mechanical and electrical appliances), as well as the *services sector* (mainly the tourism in-

20 These deficits concerned in particular the very small size and the weak capitalisation of many companies. A 1995 survey found that 60 percent of Tunisian enterprises employed less than 20 workers, and only 1.4 percent more than 300. Among the 8552 enterprises registered at that time, 53 percent were capitalised at less than TD 50,000, and only 8 percent at over 500,000. Industry was still dominated by the textile sector which accounted for almost 50 percent of manufactured exports, and for over 50 percent of industrial jobs (Naboultane 1995).

dustry and adjacent sectors).[21] Both should follow an approach that would gradually broaden the base of production, add further components to the product cycle, help narrow existing gaps in the local value chains, and diminish national dependency on foreign inputs. Further, by stepping up the quality of the offer, they should help achieve more significant returns for the local economy. There were three main reasons for making this choice. The first was the *overriding importance* of these two sectors for the Tunisian economy. Taken together, textiles and tourism still accounted for about half of total foreign revenues in the early 1990s, with textiles at around 30 percent, and tourism at around 20 percent. The second reason was the existence of *major comparative advantages and other enabling factors* (such as Tunisia's reputation for stability, the existence of a cost-effective workforce, and the availability of a fairly modern infrastructure). The third reason was the availability of *certain geopolitical rents and temporary windfalls* (including their own proximity to Europe, the involuntary market exit of several competitors following the breakdown of the Yugoslavian Republic, and the obvious eagerness of Western firms to outsource labour-intensive activities to low-cost countries).

This strategy was further fleshed out in the following years. Several changes were of particular importance. The first was the subsequent redefinition of the word 'strategic', which had a profound impact on the actual unfolding of public sector reform. More and more presumably 'strategic' sectors were opened to private enterprise: including transport, energy, telecoms, audiovisuals, education and banks. The second major change was the increasing focus on immaterial aspects: on issues like marketing, branding, standardisation, certification, quality management, human resources, etc. As the national upgrading programme shifted into a higher gear, it became increasingly clear that progress at this level would be key to its later success. Improvements in terms of management procedures and production processes thus came to be seen as being at least as important as improvements at the level of cost-efficiency and product quality itself. The third major change was the increasing focus on the services sector: on branches like business consulting, financial services, data processing, market research, customer relations, etc. These were not only increasingly regarded as constituting crucial variables for industrial upgrading, but also as representing potential economic 'drivers' in their own right.

The ICT sector has particularly moved up in the political hierarchy as of late. It is increasingly perceived as constituting a sort of 'interface' and 'missing link' between Tunisia's education policy on the one hand, and its economic policy on the other, which offers promising development perspectives for industrial late-comers. The government clearly hopes it will help the country break out of its age-old geo-political predicament as a small, peripheral, resource-poor country, and enter straight into the new age of the 'knowledge society'. As a former government member stated: *"We are capable of competing with the Europeans in sectors which require human skills. This is why we will concentrate on the knowledge society which in addition offers the possibility of rapid development."*[22] Thus, ICT have not only been identified as an area of high priority for national development, but also as one of the priority sectors for public investment.[23]

21 Surprisingly, traditionally important and employment-intensive sectors like handicrafts, commerce, and agriculture were almost completely absent from the regime discourse at that time (and some of them still are).

22 Fethi Merdassi, quoted in Le Figaro, 04/09/02, 15

23 Cf. the two Special Dossiers "Tunisie : Le pari de haute technologie", JA 2268, 27/06/04, 48–68 and "Voyage en Cyber-Tunisie", JA 2317, 05/06/05, 67–95.

In 2008, the Tunisian government finally adopted its new industrial strategy '*Horizon 2016*', following a long process of reflection and deliberation which was coordinated by the Ministry of Industry, Energy and SMEs, and which associated a large number of stakeholders (Republic of Tunisia 2009).[24] This strategy sought to define the main parameters which ought to guide Tunisian industrial policy until the year 2016. A major premise of '*Horizon 2016*' has been that competition is set to grow among the participating countries of the Barcelona Process. This particularly applies to their attempt to attract FDI, particularly in the field of high value-added activities. The authors of the study therefore conclude that Tunisia will need to define and communicate its comparative advantages much more aggressively and pro-actively *vis-à-vis* potential target groups at home and abroad – especially as its competitors in Europe enjoy considerable advantages at various levels. In their eyes, Tunisia would thus be well advised to not only rely on its low costs, but to advance 'qualitative arguments', such as its political stability, sound business environment, well-trained workforce, logistical capacities, and the general quality of life. According the authors, in particularly the 'ability to innovate' will be a key factor.

The prime medium-term goal of Tunisian industrial policy, as expressed in *Horizon 2016*, is the creation of an economy that is *quality-based, skill-driven, innovation-oriented, and knowledge-intensive*. Its aim is to position Tunisia as one of the top five regional hubs in the wider Mediterranean basin. In doing so, it will not seek to *renounce*, but rather to *capitalise* on the country's past success as an industrial 'back office' and 'near-shore' for foreign, mainly European, companies. In this context, Tunisia shall attempt to become a regionally and globally connected commercial hub and production site which is capable of providing both vertically and horizontally integrated industrial and commercial operations and services for foreign (and chiefly European) customers and investors. As the authors of the study conclude: "By catering to what investors are looking for, Tunisia can put itself ahead of competitors, standing out from who it is in 'cost' competition with, and positioning itself as a more developed country" (Republic of Tunisia 2009, 19).

According to the architects of this new strategy, Tunisian industrial policy will build on four main components: *growth, quality, diversification, and cross-fertilisation*. The declared objective is to double exports and triple investment between 2008 and 2016: from TD 15 to 30 billion and from TD 1 to 3 billion, respectively.[25] These *quantitative* achievements are to be accompanied by *qualitative* improvements. This means that Tunisians shall move beyond traditional sectors (such as textiles & clothing, leather & footwear, agribusiness, mechanical & electrical industries, building materials, phosphate chemical industries) and specifically target more sophisticated sectors with a higher added value (such as electronic industries, automotive & aeronautics industries, technical plastics, pharmaceutical & paramedical industries, ICTs & service centres). In this way, a new generation of firms emerging in a new set of sectors will complete the make-up of the national economy, and result in a fruitful cross-over between various sectors. The goal is to

24 The strategy is based on a study which was drawn up at the behest of the MIEPME by a team of experts, (three internationals, two Tunisians) under the supervision of the API and with the support of the PMI. The work of these experts was monitored by a steering committee chaired by the UTICA.

25 Horizon 2016 expects IMEE activities to have the highest growth, accounting for 46 percent of industrial exports in 2016, up from 25 percent in 2006. They are also projected to have the highest growth rates with regard to investment, followed closely by the phosphate chemical industries and construction materials.

raise the average annual growth rate from 5 to 6 percent between 2008 and 2016, mainly by promoting know-how-intensive sectors and thereby raising total factor productivity.

Five countries that have been particularly successful at attracting a large amount of foreign investment are said to be Tunisia's main sources of inspiration: namely *the Czech Republic, Morocco, the Netherlands, Singapore, and Turkey*. All of these are presented as having excelled in various ways: the *Czech Republic* in the field of cluster development and international matchmaking; *Morocco* with regard to external communication and regional development; the *Netherlands* thanks to its logistics and trade infrastructure; *Singapore* in terms of human development and training; and *Turkey* as a dynamic producer and exporter. All of them are said to have opted for a limited number of 'best practice' elements, that include the focus on clear priorities and target sectors with a high added value and return component; the clustering of priorities and activities according to their respective strengths and advantages; the adoption of pro-active commercial and industrial strategies with a strong external promotion and networking component; and finally, the achievement of a high degree of global visibility and economic integration. The fact that these policies have been adopted at the highest level of the state is said to have generated a surplus of credibility, which has further facilitated the realisation of their goals.

5 Key strategic elements of Tunisia's industrial policy

Institutional and administrative framework

According to official sources, one of the main concerns of state policy has been to create an 'enabling' institutional environment that encourages private entrepreneurship. During the first phase of the ERSAP, a raft of measures were passed that were meant to limit bureaucratic interference with business affairs, reduce political hazards for private operators, and help unlock the growth potential of the national economy. Reform policies clustered around three pillars. The first one was about rehabilitating financial stability and reducing inflationary pressures, mainly by cutting back on public expenses and tightening money supply. The second one aimed to deregulate market access and facilitate foreign trade, by easing or lifting import restrictions and licensing practices. The third one aimed to enhance market mechanisms and reduce price distortions.[26] During the second phase of the ERSAP, the government systematically passed legislation that aimed to enhance 'the ease of doing business', persuade private investors to assume a more active role, and lure foreign capital into the country. This was accompanied by substantial changes at the institutional level. Alongside the establishment of two new bodies tasked with promoting private investment in industry and agriculture (FIPA and APIA respectively), these concerned the overhaul of the existing agencies in industry and export (namely API and CEPEX).

In 1992, a new law on off-shore free-trade zones was passed, which offered exporting companies numerous benefits. These included a very attractive legal and fiscal framework (providing *inter alia* a multi-year tax exemption and duty-free imports of components), in

26 By the end of 1994, the overwhelming majority of domestic prices had become 'untied', except for a small number of basic products (such as bread, milk, oil, sugar, paper, etc.) that continued to be state-administered.

addition to substantial technical and financial assistance from the state (including free basic infrastructure and partial reimbursement of investment costs).[27] In 1994, the new '*code d'incitations aux investissements*' entered into force. Unifying existing legislation in this field, it covered *nearly* the entire range of economic activities, and provided for a considerable simplification of administrative procedures.[28] Henceforth, new firms set up on Tunisian soil would benefit from special customs duties or tax rates for imported or locally purchased goods and inputs. Further, it was now possible to deduct re-invested income or profits for up to 35 percent of taxable net income or profits. Importantly, from now on, foreign investors could freely dispose of their capital, moving it in or out of the country at any time and for any reason (while resident companies had to repatriate their profits).[29]

Particularly lush incentives are available for certain priority sectors: A very privileged treatment has been reserved for 'fully exporting companies', *especially when established off-shore.* A 'light version' is available for 'partially exporting companies'.[30] They enjoy complete exemption from corporate (profit) or personal (income) taxes over a period of ten years, followed by a 50 percent bonus for another ten years. Further, the state grants duty-free access to all inputs and equipments, plus full tax deduction for re-invested profits or incomes. Finally, the state provides the infrastructure necessary for the realisation of the project, and assumes the employers' contributions for all local employees to the *Caisse nationale de compensation sociale* (CNCS) over a five-year period. Special incentives are also provided for private investments concerning other priority fields, such as 'regional' and 'agricultural development'. In the case of the former, the state assumes 15–30 percent of total project costs, plus 50–75 percent of related infrastructure costs (in addition to largely the same benefits as those available to export-only companies), depending on how far the investment is located from the coast. In the case of the latter, the state offers a seven-percent bonus, and a ten-year tax holiday (plus additional tax breaks for re-invested profits, and preferential VAT/customs rates for project-related equipment costs).[31]

It must be noted, however, that private investment in many sectors is still dependent on the express authorisation of the public authorities. This applies in particular to all those sectors which are regarded as politically 'relevant' or otherwise 'sensitive' (e.g. construction, infrastructure, transport, communication, culture, education, publishing, and food processing). The same rule applies to a majority takeover of a local company by a foreign investor (as has occurred recently with regard to a number of banks). By the same token, those four sectors that can be suspected to be of particular interest to potential investors (and which have indeed attracted large quantities of FDI as of late) are still exempt from the single investment code and governed by special regulations. These are the mining, energy, com-

27 The first two zones, located in Bizerte (north of Tunis) and Zarzis (south of Sfax), were inaugurated two years later. They are still operational by the time of writing.

28 The investment code was complemented by the presidential decree 94-492, itself modified by the decrees 97-503 of 1997 and 2000-821 of 2000.

29 Companies are considered non-resident when at least two thirds of their equity has been imported (also allowing them to open convertible currency accounts without prior authorisation).

30 Theoretically, export-only companies can now sell up to 30 percent of their total production on the local market (up from previously 20 percent). However, the large number of 'special qualifications' made clear that this should remain the exception rather than becoming the rule.

31 Special conditions are also available for private investments in other fields, namely those concerning SMEs, start ups, and other priority sectors, such as health care, childcare, education, professional training, youth entertainment, leisure parks, cyber parks, and business incubators.

mercial, and financial sectors. There are private (foreign) businesses being active in these four sectors, but they are only allowed to do so for a transitory period, and under special conditions. With the exception of the foreign banks now operating in the financial sector, permissions have generally been given on a concessionary basis or under a PPP regime, which means that the state remains in full control of the associated risks.[32]

Broadly speaking, the privatisation process has passed through three phases since 1987: The first phase (1987–94) predominantly concerned small and failing enterprises in the tourism, trading, fishing, and agro-foods sectors. The operations were mostly realised in the form of sales of assets, which generally entailed splitting up the companies concerned into various operating units. The second phase (1994–98) also concerned larger and profitable enterprises, e.g. in the manufacturing and transport sectors. Operations were now mainly carried out through the sale of blocks of controlling shares based on tender offers and/or public offers, following the promulgation of the corresponding law in August 1994. The third phase, in force since 1998, has allowed for the inclusion in the privatisation programme of quite large, employment-intensive companies in previously closed and distinctly strategic sectors. This has also involved regular recourse to international investment banks and consulting firms, and to more elaborate techniques, e.g. concessions. Altogether 217 companies (worth TD 6059 million) have been divested between 1987–2008.[33]

In addition to this, the government has further fine-tuned its arsenal of support tools. Measures include broadening the financial guarantee lines within the state's main support instrument (the *Fonds de promotion et de développement industrielle*, or FOPRODI); the creation of a new fund for supporting upgrading processes in the industrial sector (the *Fonds de développement de la compétitivité industrielle*, or FODEC); as well as launching a new fund for helping exporters access foreign markets (the *Fonds d'accès aux marchés d'exportation*, or FAMEX).[34] Other measures involve the creation of a special risk fund component for business start-ups, which is managed by commercial banks and co-funded from the state budget, as well as the creation of a special investment bank for SMEs (the BFPME), which provides low-interest loans in the credit range of TD 100,000–5,000,000. It must be noted, however, that there is still no indigenous investment bank to finance large-scale projects in the fields of industry and infrastructure; for these, Tunisia still has to rely on funding from abroad.[35]

Another important novelty has been the gradual creation of an institutional framework that is more conducive to the launch of new businesses. Thus, new 'one-stop shops' ('*guichets uniques*') have been set up all over the country in order to provide all the services an investor needs to carry out his project. This now involves a simple declaration of intent pre-

32 It is important to note that the Tunisian government has generally preferred to follow a BOT model ('build-operate-transfer') rather than a BOO model ('build-operate-own').

33 The takeover of a 35 percent share of Tunisie Télécom by Dubai's 'Tecom' corporation in 2006 (for the equivalent of € 1.8 billion) represents half of the total income from the privatisation process. More information can be found at www.privatization.gov.tn.

34 The undisputed 'flagship' of this policy, namely the Industrial Upgrading Programme (PMN) launched in the mid-1990s, will be described in more detail in a separate chapter below.

35 The other public credit mechanisms – those which are mainly tasked with providing micro-credits for start-ups – will be described in more detail in the following chapter.

sented to the authority in charge, which will then assume the follow-up of the project.[36] These have been complemented by the successive creation of further support structures, which are tasked with helping prospective entrepreneurs set up their companies. These include, first, the creation of 'business centres' in all of the provincial capitals, which are mainly targeted at local start-ups and micro-enterprises; second, the creation of 'regional development offices' and 'investment societies' which are mainly charged with supporting the socio-economic development of the interior provinces; and third, the creation of '*espaces d'entreprendre*' within the national employment agency ANETI, which are supposed to help the jobless set up their own business. An important role is also played by the *Technical Centres* which have been set up since the 1970s in the country's main economic hubs, and which provide vital technical services to private industrial companies.[37]

The creation of industrial zones plays a fundamental role for Tunisia's industrial policy. From 1973 (date of its creation) until 2006, Tunisia's Industrial Land Agency (*Agence Foncière Industrielle, AFI*) has overseen the launch of 83 industrial zones (ZI) (with a total area of 2434 ha): According to figures provided by the MIEPME and GTZ's Re-CapZI Project (Renforcement des Capacités de Gestion Durable des Zones Industrielles), 53 of these are situated in the capital and coastal areas, and 30 are located in the Western and Southern provinces. In 2004, another 37 ZI (with a total area of 1390 ha) had been set up by sub-national authorities. Importantly, there are still very few ZI built and/or managed by private investors. According to official figures, there are altogether 122 ZI on Tunisian soil at the time of writing: Of these, however, only 17 appear to be fully operational, some 30 seem to be at least partially operational, and the rest is reported to only exist on paper. In spite of important improvements in recent years, only a small fraction of Tunisia's industrial zones operate according to approved international standards (especially in terms of waste management and environmental protection), and almost half of them still have no special management or maintenance structures.[38]

In order to facilitate and accelerate the emergence of more integrated and developed business clusters on a local and regional level, the government has declared its intention to support the country-wide launch of *Pôles de compétitivité* (PCs) (partially following the French model in this regard). PCs are supposed to bring together the three fields of *training*, *research*, and *production*. To this end, they aim to create an integrated framework helping to connect private companies in the business services and manufacturing sector, representatives of higher education and applied research institutes, and industrial support structures and training institutions. PCs are supposed to support innovation processes at the business level, foster the international competitiveness of Tunisian industry and promote foreign inward investment in Tunisian industry. Under the guidance of the MIEPME

36 These are the API (Industrial Promotion Agency) for investments in industry or services, the APIA (Agricultural Investment Promotion Agency) for agriculture, the ONTT (National Tourist Office) for tourism, and the ETAP (Tunisian Enterprise for Petroleum Activities) for the energy sector.

37 Related support structures, such as technopôles, business incubators (pépinières d'entreprises) and French-style business clusters (pôles de compétitivité), will be described in more details in the following paragraphs.

38 Only 68 ZI have so far a special management unit, responsible for maintaining the area, which not only includes the management and rehabilitation of the infrastructure and buildings, but also the collection and treatment of solid waste and waste water. Note that industrial zones involve heavy follow-up costs, as the entire infrastructure needs to be replaced after a relatively short time because of pollution and depreciation.

and the MES, each PC will be run by one of the country's large firms and dedicated to a specific sector: Sousse (Amen Bank/Tunisie Leasing) will focus on mechanical, electrical, and electronical industries; Bizerte (Banque de Tunisie) and Monastir (BIAT) on textile and garment industries; Sfax (Postes de Tunisie) on information and communication technologies; while Gafsa (Mines de Gafsa) will be open to all sectors.[39]

Compared to the situation a few decades ago, and some deficiencies notwithstanding, private investors and company owners are now facing a significantly more coherent and efficient legal-institutional framework, including a substantially better performing and more targeted technical and financial support base. At the same time, however, they are still confronted with a large number of special safeguard clauses and legal exceptions creating legal frictions and confusion. On the one hand, this has given the public authorities more discretion and flexibility when it comes to dealing with requests and complaints from the private sector. On the other hand, it has added to the complexity and opaqueness of the business framework, which is in itself not particularly conducive to the workings and success of private enterprise. Moreover, all of this has contributed to creating a large number of incentives and opportunities for 'political capture' and 'rent seeking', i.e. to non-productive and discriminatory arrangements and practices *which more often than not work both ways*; they may lead to the *harassing and bullying of businesses by the state*, but can also result in the *fleecing and blackmailing of the state by business*.[40]

Economic and social infrastructure

The state authorities were also fully aware at an early time that the country's physical and non-physical infrastructure – and particularly its communication, transport, education and vocational training sectors – would have to be upgraded if their bid for competitiveness was to be successful. Hence, they began to devise new (mixed) financing mechanisms for large-scale infrastructure investments, in order to lure private money into related projects.

There has so far been a clear focus on *transport* and *energy*, with budgetary allocations being substantially increased since the 1990s. As a result, Tunisia's physical infrastructure is generally in a good state. There are altogether six commercial sea ports and eight international airports; the national road system is fairly developed (the railway system less so); and all of them are currently undergoing modernisation and extension. Important projects underway or in the pipeline include the construction of a major new airport and deepwater port complex at Enfidha (east of Tunis); the extension of the national highway system (westbound to Algeria, southbound to Libya); and finally the installation of major new power generation capacities all over the country. It must be noted that Tunisia's very limited fossil assets force policy makers to make the most of existing resources in order to cover the growing energy demand of the country's quickly growing manufacturing industry and its consumption-hungry middle classes. Significant investments are currently being

39 Importantly, the managing authority will not only be entrusted with the management and maintenance of the PC, but also with its marketing and advertising.

40 Several of my interlocutors have pointed out that the Tunisian state has tended to become entrapped by its own incentives, in the sense that businessmen have become so 'addicted' to these 'carrots' that they refuse to budge unless they are provided with 'input' from 'above'.

injected into this sector and major new production facilities will come on-stream soon; PPP contracts with foreign companies have played a key role in this regard.[41]

Another focus has been on *information* and *communications*, which both have undergone a significant overhaul since the 1990s. After a relatively late start, rising demands for mobile lines rapidly exceeded the supply capacities of the only public provider, *Tunisie Télécom (TT)*. Thus, it was decided to admit a private provider into the telecom business and, in 2002, the license was awarded to *Tunisiana*, a joint venture of Egypt's *Orascom* and Kuwait's *Wataniyya.* As a result, prices have fallen, and coverage has increased. Penetration rates have risen from 15 percent in 2001 to 99.9 percent in 2007. At the same time, the availability and quality of internet connections and online services have also improved. The number of subscribers has risen from 30.000 in 1999 to 253.000 in 2007, while the number of users is estimated at 1.7 million. The state has encouraged this trend by offering financial incentives for purchasing personal computers and by creating a country-wide network of subsidised internet shops for less affluent citizens (*publinets*). This means that in spite of some problems, the ICT sector is no longer the national 'bottleneck' it used to be only a decade ago; it has rather become a driving force for economic development.[42]

A clear key role has been reserved for *education* and *training*. In fact, the entire sector has undergone major changes since the early 1990s, which have all greatly modified the parameters and opportunities for skill generation and social mobility: The government has not only significantly increased its allocations to this sector, but has also greatly broadened its accessibility to citizens. Today, education facilities (including those for higher learning and professional training) have become available across the nation. The sector receives almost 30 percent of the state budget (the equivalent of 7.5 percent of GDP), which may also explain why Tunisia has become a regional frontrunner in this policy field. Overall, literacy rose from 65 percent in 1990 to 79 percent in 2006. Current enrolment rates stand at 97 percent for primary education, 75 percent for secondary education, and 25 percent for tertiary education. The number of students has risen tenfold since the 'Change': from about 40,000 in 1986/87 to almost 400,000 in 2009/10. The number of *diplômés* has equally seen significant increases over time. Of the currently annually 90,000 newcomers to the national labour market, at least 50,000 have a high school certificate – and their number is expected to grow further in the future.[43]

At the same time, however, it must be noted that these reforms have not been able to do away with a certain number of structural problems facing the country's education system: First, Tunisian universities still fail to produce sufficiently large numbers of high-quality graduates in science and technology; 60 percent of their students are still enrolled in liberal arts, social sciences, law, or economics, which is more than the labour market can actually absorb in the foreseeable future. Second, public policy is still almost exclusively focused on teaching, with research being neglected. Likewise, expenditure has been directed mostly at the improvement of facilities and equipment, while the upgrading of cur-

41 Abdelaziz Barouhi "Soif d'énergie", JA 2282, 03/10/04, 40–41

42 Jean-Philippe von Gastrow "Le pari 'high-tech'", JA 2278, 05/09/04, 59–60

43 370.000 students (over half of whom are women) are currently enrolled in one of the 190 institutions of higher learning in the country (which include 13 universities). This means that the share of young Tunisians (18–24 years) receiving a higher education has risen from 7.5 percent in the early 1980s to 25 percent at present. Further data can be found at www.mes.tn.

ricula and teaching staff has relatively been neglected. This, however, is incompatible with the envisaged qualitative breakthrough in economic life. Third, Tunisian universities still often fail to provide their students with the skills needed to succeed in the labour market.

Measures enacted by the government with the aim of addressing these deficiencies include a growing focus on the creation of applied research and vocational training schemes on the one hand, and a growing concern with the promotion of knowledge-based and skill-intensive employment opportunities on the other. The most important steps in this regard have been the creation of a country-wide network of *Instituts supérieurs d'enseignement technique* (ISET) and *Centres de formation* (CF), which are supposed to produce the urgently needed technicians and skilled workers for the country's growing manufacturing and crafts sectors; plus the creation of 'techno-cities' and business incubators (*Technopôles* and *Pepinières d'entreprises)* at the level of universities, which are supposed to bridge the gap between economic production, applied research, and higher education, to provide a propitious framework for a new generation of 'hi-tech' start-ups, and to lay the foundations for the next stage of industrial development, based on the principle of innovation.[44]

At the same time, the government has created a vast array of support schemes and incentive structures to encourage private firms to employ young people and thereby reduce social tensions. Among them are special traineeship programmes for university students (*Stages d'insertion à la vie professionnelle*), unemployed graduates (*Programmes de formation complémentaire*), young non-academics (*Programmes d'insertion et d'attestation professionnelle*) as well as for redundant workers (*Programmes de réinsertion professionnelle*). Additionally to these, there are programmes dedicated to supporting start-ups as well as programmes at the disposal of the regions. This means that private companies employing university graduates will get more than 50 percent of their additional costs reimbursed from the state budget, and this for a period of one year. The aim of this policy is quite clear: it consists of creating as many employment opportunities for qualified young people as possible – *coûte que coûte*. This leads us to the next issue, which – from the perspective of the government – is not only absolutely crucial for the maintenance of political stability, but also for the success of its industrial policy *as such*.

Social and labour policy

When designing and implementing the above policies, the ruling elites have been careful to not only stay in control of the process of change, but also to cushion their impact on society. A case-in-point is the hesitant reform of the labour code. Adopted in 1966, it spelt out the general provisions for industrial relations.[45] As a general rule, employees received

44 Government plans foresee the establishment of 24 technopôles, one for each governorate. Each technopôle shall concentrate on a specific sector. Only one, however, is fully operational at the time of writing, namely 'El-Ghazala' in Tunis-Ariana (ICT, founded in 1999). Seven more are currently under construction: in El Fejja-Manouba and Monastir (ITH); Sidi Thabet (pharmaceuticals, biotechnology); Borj Cedria (vegetable biotechnology, renewable energy); Sousse (IMEE); Safx (ICT); and Bizerte (IAA). Others are still at the planning stage: in Ennahli and Manouba (ICT); Medenine; and Jendouba. However, only 'El-Ghazala' with its 82 companies has so far managed to attract noticeable amounts of private investment (cf. Abdelaziz Barrouhi "Frénésie de technopôles", JA 2544, 11/10/09, 75–76 for more information in this regard).

45 For instance, it allowed workers to organise in any firm above a certain size (usually in 'industrial firms' with more than 20 employees), although these provisions were not enforced until the 1970s.

life-time contracts which employers could only revoke for two reasons: when their firm was in economic difficulties, or when an employee had committed a serious offense. For employers to lay off employees, they needed the authorisation of both the ministry of social affairs, and the general labour inspectorate. This process normally proved lengthy and costly for businesses, as officials tended to side with the employees.[46] In 1972/73, the labour code was complemented by the newly created ‘collective framework conventions’. Negotiated every few years between the ‘social partners’ (i.e. the government, the labour union UGTT, and the business federation UTICA), the conventions laid down basic rules applicable to the entire economy, including minimum wages, working hours, and pay rises. On the basis of these accords, the ‘social partners’ would then conclude sectoral accords detailing pay scales, working rules, and other rights and duties for workers and owners in that sector. The only real novelty was collective wage bargaining, i.e. abandoning the monopoly of the state in determining the level of wages.

The main reason why this system ran into trouble over time was the growing *discrepancy between theory and practice* or, to put it another way, between the official rules and their actual application. Labour laws were rarely fully enacted in the private sector because most units were very small and fell under the minimum threshold established by the labour code. Moreover, many employers tended to regard their firms (and those working in them) as their private property. Furthermore, the labour code had not been updated for many years, and its provisions had thus become totally outdated. The parties involved were clearly interested in keeping labour legislation as vague (and as flexible) as possible. This situation, however, had changed by the early 1990s in that the same parties were now lobbying for a revision of the code. The UTICA was pressing for its *liberalisation* to allow them to adjust their workforce to the growing market fluctuations. The UGTT was pressing for its *clarification* to help them gain a better foothold in the private sector. The government itself was increasingly sympathetic to these demands, but not willing to make a move before the crisis was over. This was the case in 1992.

Labour code reforms were enacted in two rounds: first, by Law 94-29 of February 1994, and then, by Law 96-62 of July 1996 (cf. Alexander 2000; 2001 for further details). The most important provisions of law 94-29 were to streamline the diverse plant committees into a single *commission consultative* for all firms with more than 40 employees, and to provide for a more precise definition of a ‘serious offense’ (even though the latter would still remain quite pervasive). The most important provisions of law 96-62 were to broaden the list of cases where employers could hire workers under fixed-term contracts, while narrowing down the list of clauses under which employers could fire them due to ‘economic difficulties’. Henceforth, employee performance was to play a role in determining wage levels, and employers gained more leeway for the internal organisation of working processes.[47] Labour code reforms thus once again confirmed some typical features of the

46 In order to lay off workers, employers had to obtain the approval of a commission (presided over by the ministry of social affairs) which normally worked to prevent dismissals. If it consented, employers were often taken to court by union representatives who tried to extract hefty indemnities for dismissed workers. The labour code provided some ‘back doors’ for short-term contracts but the extensive obligations involved clearly indicated that these were supposed to remain the exception rather than becoming the rule.

47 Similar amendments were made to the collective convention system; the institution of tri-annual negotiations under the supervision of the ministry of social affairs was maintained, but the leeway of sectoral negotiators to deviate from the provisions of the general accords was broadened.

Tunisian reform process. Despite the collective interests and advocacy activities of 'social partners', both the timing, and the outcome of the reforms were essentially decided by the *state*. And despite sometimes strong pressures from external parties, the regime elites have consistently taken a very *political* approach to these issues, and were unwilling on issues which they considered essential. From their point of view, reform was certainly about upgrading productivity and competitiveness in the business sector, but not at the expense of social peace and political stability in the country as a whole.

A major step forward was made in the mid-1990s when two new 'national funds' were launched by the state authorities: the National Solidarity Fund (FNS), created in 1994; and the National Employment Fund (FNE), created shortly afterwards. Originally, the aim of the FNS was to finance basic physical and social infrastructure in particularly disadvantaged and underdeveloped areas. However, it underwent a major change two years later. Its mission was now substantially widened, and its scope extended, to every corner of the country, and every aspect of social life.[48] The goal of the FNE, in turn, was to support training and employment schemes for young and jobless Tunisians. It was soon complemented by other support mechanisms for adversely affected groups, the most important one being the Tunisian Solidarity Bank (BTS), created in 1997. It offers special credits to university graduates and other applicants, the amount of which may vary between TD 5000 and TD 100,000. In this sense, the BTS bridges the gap between micro-credits (which are normally extended through so-called development associations *via* a special credit line created in 1999) and normal start-up credits (which may be obtained through the Bank for the Financing of SMEs, or BFPME, created in 2004). It is clear that the Tunisian government attributes great importance to social policy issues, and the results of these policies shall be scrutinized more closely in the context of chapter seven.[49]

6 A case in point: The programme de Mise à Niveau (PMN)

The national upgrading programme '*Programme de mise à niveau*' (PMN), which was first adopted in 1995, and then successively revised over time, has become *the* key tool for helping Tunisian companies face international competition and survive in an open market economy.[50] It specifically targets the most sensitive sectors of the national economy, those

48 Officially, the FNS is funded through 'voluntary contributions' from private donors. However, these are practically mandatory for businessmen, since a refusal to pay has almost invariably been followed by a visit from the tax inspector. In this sense, the FNS actually resembles a new social levy (or informal capital tax), and exemplifies the shadow fiscality as it has developed during the past two decades.

49 At first glance, the achieved results appear quite promising: Since their inception, the national funds have mobilised TD 900 millions and covered 1829 underdeveloped areas with 1.3 million inhabitants. 580.000 'operations' (both micro-projects, and micro-credits) with a total investment volume of over TD 1 billion have been approved by the BTS so far (cf. the Special Dossier "Les Années Ben Ali, 1987–2009", JA 2541, 20/09/09, 51–75 for more details). The main downside of these schemes is that they still do not allow for a direct involvement of the grant-giving authority in the management of the start-up during the critical first years.

50 Interviews with the Director Generals of the BMN on 21 Oct. 2002 and 24 June 2009. Cf. also the results of the (unpublished) interim evaluation PMN 2004 and the (publicly available) minutes of the 10th anniversary conference "Bilan d'une décennie de mise à niveau industrielle", hosted by the MIEPME on 16 May 2006.

most concerned by the establishment of free trade with Europe.[51] Initially limited to private companies in the manufacturing sector, it has come to encompass the near entirety of Tunisia's business actors. It is mainly financed via the Fund for the Development of Industrial Competitiveness (FODEC), which was created in 1994 as the PMN's financial base and which is itself funded via a one percent tax levied on the sales of local goods and the value of finished imports.[52] The very existence of the PMN thus indicates the implicit acknowledgement by Tunisian authorities that their manufacturing firms were (and still are) in need of a major collective effort to make them ready for international competition.

The PMN intervenes at two levels: at the level of the environment of an enterprise, and at the level of the enterprise itself. Initially, it consisted of two separate tracks: a pilot scheme, scheduled for five years, and limited to a sample of 100 firms; and the main programme, scheduled for ten years, and also accessible to the rest of Tunisian industry. Successful applicants would get a certain share of their costs reimbursed, covering up to 20 percent of *tangible* investments, and up to 70 percent of *immaterial* investments (the grant element being directly related to the financial engagement of the company owner). In 2000, the scope of the programme was broadened, while procedures were streamlined. Participation was now also available for sectors whose modernisation was considered to be critical for the success of the programme, like business services, public administration, education, and banking. At the same time, a new facility called *Priority Technology Investments* (ITP) was created, offering tailor-made support for certain priority measures. Partly as a result of these amendments, the pace of the programme quickly picked up.

Several characteristic features make the PMN a generally recognized 'success story': On the one hand, programming was kept deliberately lean. The PMN's concept and objectives are *not* based on a specific legislative text; only its operational mechanisms and its financial resources have been laid down in a special regulation. It was decided early on that *any* firm operating in manufacturing and related services sectors could participate, as long as it had been active for less than two years, was not in public hands, and not in financial difficulties. Applicants were *not* required to comply with particularly elaborate criteria or pass through a formalised tendering process, but had to define the problems facing them and propose ideas of how to tackle them. This would serve as the basis for an action plan to be drawn up with the help of a consulting firm, the bank involved, and/or the Technical Centres.[53]

At the same time, decision making would be highly centralised. It was thus decided that responsibility for the PMN would lie *entirely* with the ministry of industry. The obligatory entry point for any applicant was the newly created *Bureau de mise à niveau* (BMN), located within the ministry of industry, and led by a senior representative of the ministry. The BMN actually constitutes the 'heart and soul' of the PMN, responsible for mediating

51 The PMN's main reference point was the Portuguese industrial development programme PEDIP, launched in 1988 to prepare Portuguese manufacturing industries to face the European Single Market.

52 EU support has been made available from 1996–2002 via the ETE (Europe-Tunisie Entreprise) and from 2003–2008 via the PMI (Programme de modernisation industrielle). The ETE's contribution amounted to € 20 million, and the PMI's to € 50 million. Add to this the support offered by some IFIs and national donors. Interviews with representatives of the ETE and the PMI on 19 Apr. 2001 and 25 June 2009, respectively.

53 Importantly, the funding made available in the framework of the PMN was used to build up a national pool of business consultants who were supposed to play an important role for the country's economic future.

between the administration and the participants. Once it has examined and approved an application, the entire dossier would be submitted to a special steering board, the *Comité de pilotage* (COPIL), chaired by the minister of industry, and gathering the main stakeholders in the country: this includes not only various line ministries (currently the ministries of finance, development & international cooperation, industry, energy & SMEs, commerce & handicrafts, as well as education & training), but also the concerned 'social partners' (banks, employers, and labour unions). The COPIL would then decide on whether to approve an application or not, the last word in this regard belonging to the minister of industry.

The Tunisian authorities have made it clear from the very beginning that the entire programming and selection process would be a *political* and *collective* exercise. From their point of view, procedures and instruments would have to remain lean and flexible, which should not only allow them to account for the very different needs of participating firms, but also to safeguard the coherence of the programme. The entire process would not only involve government representatives, but also concerned non-state actors, even if the last word was left to the former. Finally, it was made clear that the modalities of the programme would be devised by Tunisians *and by nobody but them*; contributions from foreigners were welcome, but not allowed to dictate the terms. "These decisions amounted to a strong degree of centralisation in terms of the formulation and management of the programme, and an accompanying restrictiveness with regard to the public debate or the opportunities allowed for interest groups to oppose or derail the process" (PMN 2004, 32).

Over time, the implementation of the programme has considerably picked up speed. The manufacturing sector clearly remains its main area of intervention. According to figures provided by the MIEPME, altogether 4310 applications from manufacturing companies were received by the end of May 2009; 2925 of them were approved, and 1376 remain 'under consideration'. Overall investment amounted to TD 4837 million, which included a grant element of TD 676 million. With regard to services, 277 applications were received; 114 of them were approved, and 163 remain 'under consideration'. Overall investment amounted to TD 57 million, which included a grant element of TD 14.5 million.[54] Sectoral and regional participation more or less reflects the basic structure of the national economy, with one important exception. Large firms are clearly over-represented among beneficiaries. According to the official data, the participants' turnover rose by 10 percent and their employment figures by 20 percent as a result of the programme.

The 11th Plan (2007–2011) foresees the adhesion of 1500 companies with regard to the PMN as well as of 2500 companies with regard to ITPs, with a total investment of TD 800 million and a grant element of TD 280 million. Moreover, several new tools have been created since the new programme phase was launched in 2006: a 'coaching' and a 'quality' component targeting the participation of 400 and 300 companies, respectively; a 'stock exchange' component aimed at helping companies going public; and a final component aimed at facilitating the development of *pôles de compétitivité* and the restructuring of companies (by forming business networks and export consortia); a fifth component to support the financial restructuring of firms and the advancement of their personnel; a

54 The figures for the ITP at the end of March 2006 read as follows: Of 1705 applications received, 1578 were approved, involving TD 80 million of total investments, and a grant element of TD 36 million.

sixth component to accompany the introduction of quality management systems by the establishment of the related control mechanisms; and a seventh component to help companies save energy (*inter alia* by carrying out energy audits via the state's agency).

The Tunisian efforts to upgrade their industries have been supported from the very beginning from various directions, most strongly by the European Community, but also including bilateral development cooperation. Some EU member states have been particularly active in this regard, notably France (via the AFD), Germany (via GTZ and KfW), Spain (via AECID), and Italy (through UNIDO). Within the framework of its Programme d'appui à l'entrepreneuriat et à l'innovation (PAEI), GTZ has been assisting the BMN (and the MIEPME more generally) in upgrading and fine-tuning their working procedures (which also includes technical assistance to support structures at the sub-national level). Special attention has been paid to issues such as improving the firms' quality management, upgrading their workforce, improving their resource management, and increasingly to the question of how to promote *innovation in general*. KfW has contributed € 80 million to help improve management at the level of firms and banks, and thereby facilitate their supply with funding and know-how. AFD has mobilised € 94 million to facilitate the financial restructuring of the private sector and improve management structures at the bank level.

In retrospect, PMN (2004) identifies five key choices which have shaped the unfolding of *mise à niveau* in Tunisia. The first one was to secure Tunisian ownership of the PMN, and to reject external interference with key decisions. The second one was to put the PMN at the heart of the national development strategy, with unequivocal support from the core elite. The third one was to include important stakeholders into decision making, such as the ministries, banks, employers, and unions concerned. The fourth one was to address the social dimension of industrial modernisation, by timely providing back-up schemes to buttress the impact of restructuring, and (partly) compensate the victims of the process. And the fifth one was to extend the PMN to adjacent sectors that were relevant for the modernisation of industry, and also affected by the association with Europe.

However, it must be noted that in spite of these successes, a number of issues remain to be tackled: To begin with, the weak capitalisation of many firms has posed serious problems for programme implementers, reinforced by the structural deficits of the banking sector. Further, despite the incentives offered in the framework of the programme, most investments are still focused on *tangible* goods, whereas the real deficits of many companies are still to be found in the area of *immaterial* goods (such as the quality of management and employees, the improvement of branding and marketing, etc.). Also, the *mise à niveau* still leaves out many traditional sectors with considerable employment potential, e.g. small traders and craftsmen. Also, all declarations of intent notwithstanding, actual participation (and thus state support) is still heavily slanted in favour of large companies, which often already are fairly competitive (at least more so than the many thousands of small firms which remain grossly under-represented among the beneficiaries of the programme).[55]

55 One of the most important obstacles encountered by the PMN is precisely the specific structure of Tunisian SMEs described in more detail above: particularly the lack of distinction between 'firm' and 'owner', the patriarchal habitus displayed by many patrons, as well as the traditionally rather half-hearted and lack-luster, compliance with legal and fiscal obligations. All of this might explain the reluctance of businessmen to exhibit the degree of transparency required for participation in the programme. The inevitable consequence of these structural features was that "the momentum of mise à niveau has

Aware of the challenges awaiting their country in the context of economic liberalisation, the state authorities decided to create another legal 'safety net' as a 'downstream' complement to the national upgrading programme: namely the Law 95-34 for 'enterprises in difficulty' (LED). The LED was adopted by parliament in 1996 in order to provide the state with a tool that would allow it to save firms from bankruptcy. According the legal text published in the Tunisian official journal, the aim of the LED is to "help firms which, owing to economic difficulties, can no longer (1) secure their activities, (2) maintain their jobs, and (3) repay their debts".[56] The guiding principle of the new law is that the survival of the firm (and *eo ipso* the preservation of jobs) definitely takes priority over the recovery of debts (and *eo ipso* the interests of the creditors).

For the purpose of this study, it is important to understand that both the PMN and the LED greatly enhanced the power of the state which will from now on be able to intervene, directly or indirectly, in the affairs of companies. Thanks to both tools, the state is now in a position to gather valuable insights into private companies, and its decisions to allocate or withhold resources will be crucial for the success or the survival of many companies. Very much like the PMN, the LED is extremely vague in its operational definitions, e.g. about what 'economic difficulties' means, or how long the recovery programme should last. In either case, the outcome of the process is ultimately at the discretion of the state. "The judge remains the sole decision maker affecting the survival of the firm, and his decision may be at the expense of either the entrepreneur or his creditors".[57]

7 Outcome and impact of Tunisia's industrial policy

Tunisia's domestic market has undergone a significant opening since the mid-1980s. Factor prices are now largely governed by market forces (except for some sensitive products). A clear majority of SOEs have been divested over time. Market openness has constantly improved for private investors (again with some qualifications for sensitive sectors). Shares in operating companies can now be purchased without prior authorisation for up to 50 percent of a company's equity. Foreigners investing in agriculture can hold up to 66 percent of a local company. Foreign investors can repatriate profits and proceeds from capital sales. The Tunisian Dinar has been made convertible for current transactions since 1994. Any foreign company with its head office in Tunisia can transfer all capital income, both for commercial and production-related transactions. Private firms are allowed to build and run public facilities on the basis of PPP contracts.[58]

diminished as the programme has been rolled out to the weakest and most conservative elements of the industrial sector" (PMN 2004, 30).

56 JORT 33, 25 Apr. 1995, 792–795

57 See: Cassarino 1999, 69: The first serious test for the LED was the crash of BATAM in 2002. By offering credit-financed consumer goods to middle-class Tunisians, BATAM had within a few years become one of the largest firms in the country. The 'Affaire BATAM' quickly took on a national dimension, not only for financial reasons (nearly all of Tunisia's banks and thousands of its citizens were involved), but also for political reasons, BATAM having turned into a publicly vaunted 'success story' of the 'New Tunisia' (cf. Rida Lahmar: "Qui arrêtera la chute de BATAM?" Réalités 877, 17 Oct. 2002, 12–14; "BATAM: les vrais chiffres", Réalités 883, 28 Nov. 2002, 24–27).

58 The fact that agriculture and agri-business have been excluded so far from tariff dismantling explains why the Tunisian economy as a whole continues to feature a comparatively high level of external protection.

Today, Tunisia's economic relations with its main partner countries are governed by free-trade agreements. The EMAA is fully applicable since 2008, with the result that industrial exchange among both sides is no longer subject to quantitative restrictions or customs duties or measures having an equivalent effect. (Behind-the-border trade barriers, like technical standards or sanitary rules, are a different matter and are being addressed at the level of bilateral committees and in the framework of the WTO; the same applies to agriculture and services). Tunisia is also a member of the Greater Arab Free Trade Area (GAFTA) which currently encompasses 18 member states. The GAFTA agreement which became fully applicable in 2005 has been complemented by bilateral FTAs with other countries, such as Egypt, Morocco, Jordan, Libya, and Turkey. Tunisia also benefits from reduced tariffs under the Generalised System of Preferences (GSP) for agricultural, manufactured, and handmade exports to Japan, Canada, the USA, and others.[59]

When designing and implementing the above policies and programmes, the ruling elites were careful to not only stay in control of the process of change, but also to cushion its impact on society. Generally, they have chosen to follow a rather careful, incremental approach to economic and social reforms: meaning they were eager to accompany them with all kinds of safeguard mechanisms in order to mitigate disruptive effects on the social fabric. Despite sometimes strong misgivings and open criticism from both its own economic liberalisers, and foreign donors, the regime has been eager to avoid any move that could have led to a popular backlash. Ben Ali himself made this very clear in a speech he gave in 1995, where he stated that the most successful countries, in terms of developing without social disruptions, had been those that, "in formulating and implementing their plans, had ensured complementarity between economic and social reforms".[60]

Generally speaking, the ruling elites have combined two approaches. On the one hand, they have maintained the existing social security schemes, which were primarily focused on key social groups (like state officials and public sector employees). Benefits include subsidised commodities and utilities (e.g. staples, fuel, health care, local transport, education, and housing). A noteworthy decision is also the maintenance of minimum wages. At the same time, they have created new support schemes which now specifically target politically important elements (such as the 'new' middle classes and the urban poor). These include preferential customs rates for small cars, subsidised personal computers for low-income families, and subsidised internet rates via the *publinets*. Another important novelty is a much stronger focus on the interior provinces. It must be noted, however, that these schemes are partly run outside the state budget, and often granted in an *ad-ho*c fashion. This applies in particular to the national funds which are directly controlled by the presidential palace and usually targeted at a very specific population: namely those groups who provided the popular base for the anti-Bourguibist opposition.

59 Tunisia has also adhered to the COMESSA, which aims to foster economic exchanges across the Sahara. In addition, it benefits from preferential access to some African countries, like Senegal, Burkina Faso, and Niger.

60 Ben Ali quoted in AAN 1995, 800 (emphasis added).

All things considered, this economic policy has produced quite remarkable results so far.[61] Since the early 1990s, the Tunisian economy has achieved sustained growth rates of over five per cent per year, well above the MENA average (with strong annual variations, however, due to shifting agricultural outputs). GDP has risen to TD 54.1 billion in 2008, and GDP per capita to TD 4810 (US$ 7875 in PPP terms). Despite the current global downturn, GDP growth has continued in 2009, albeit at a slower pace, at about 3 percent. On average, during the 2000s, private consumption accounted for 63–64 percent of GDP, state consumption for 14–16 percent, and gross fixed investment for 22–24 percent. Moreover, economic growth has been largely trade-driven (with trade growth generally *doubling* GDP growth since 1985). Annual foreign trade flows amounted to TD 53.8 billion in 2008, with exports at TD 23.6 billion (+21.9 percent), and imports at TD 30.2 billion (+23.7 percent) (tourism accounted for another TD 7 billion). This has raised Tunisia's *market openness ratio* from about 40 percent in the early 1980s to over 100 percent today.

Importantly, gains in economic growth have *not* been bought at the expense of macroeconomic stability. Most indicators at this level show a very healthy performance to date. In 2008, inflation averaged 3 percent, the budgetary deficit stood at 3 percent, the public debt had fallen to 39.2 percent (down from 58 percent in 1986). In 2008, the foreign debt service consumed 7.9 percent of current receipts, a very moderate figure in historical perspective. Foreign cash reserves currently stand at a comfortable US$ 8.9 billion. Broadly speaking, inflows and outflows are more or less balanced. Persisting structural deficits in Tunisia's foreign trade (themselves a result of the necessity to import a wide range of goods, from primary products and raw materials via machines and spare parts to consumer and investment products) are generally counter-financed by surpluses in other fields (mainly tourist receipts, migrant remittances, ODA transfers, and gas pipeline royalties). In 2007, the current-account and balance-of-payment deficits were a manageable TD 2.876 billion and 905 million respectively. Crucially, this quite bright overall picture has so far been affected surprisingly little by the current global economic crisis.[62]

Moreover, these high economic growth rates have translated into substantial welfare gains for broad social strata – something that cannot be said for many other parts of the developing world. Today, most Tunisians (80 percent of whom are officially rated middle class) enjoy considerably higher living standards than some time ago. Poverty rates have substantially decreased, with less than 5 percent of people now living below the poverty line (<$2 per day), and zero percent living in absolute poverty (<$1 per day). Most Tunisians now have access to basic public services: 80 percent are connected to the sewage system, and over 90 percent to the electricity grid. National health figures have constantly improved: Life expectancy now stands at almost 75 years, and child mortality at 21/1000. Education-related figures are among the best in the region: Primary enrolment rates have risen to 99 percent, and the overall literacy rate to about 75 percent. All these advances are

61 The following data were mainly derived from www.investintunisia.tn. Cf. also the country reports of the Economist Intelligence Unit as well as the Special Dossier "Les Années Ben Ali, 1987–2009", JA 2541, 20/09/09, 51–75 for further details and cross-comparisons. Annex 1 provides a short overview.

62 Tunisia enjoys good credit ratings with international rating agencies: It has been awarded a 'Baa2' by Moody's, a 'BBB' by both Standard & Poor's and IBCA, and an 'investor grade status' by the EUI. Tunisians are thus increasingly able to refinance themselves on commercial conditions on the international markets.

reflected by Tunisia's constantly improving Human Development Index (HDI), which has been rising from 0.516 in 1975 via 0.623 in 1985 and 0.696 in 1995 to 0.769 in 2009.

After two decades of rapid growth, the fabric of the country's economy has changed significantly. *Industry* (and specifically *manufacturing*) has gained a lot in importance (its share of GDP rising to about 30 percent, up from 20–25 percent in the late Bourguibist era), while agriculture has lost (its share falling to about 10 percent, down from 20–25 percent two decades ago). The services sector still stands at about 60 percent, half of which is owned by the state. All of this means that Tunisia has gone at least some way toward becoming an industrial society. At the end of 2007, there were 5700 industrial companies registered with API, 2670 of them totally exporting altogether employing 478,000 people. Total production has risen to TD 30.7 billion, and total investment stood at TD 1.184 billion (an annual increase of 9 percent and 5 percent respectively since the early 2000s).[63] 80 percent of total exports are now *industrial* products, and 90 percent of industrial exports are *manufactured* products (up from 40 percent in the early 1980s). This has been accompanied by major structural shifts within the manufacturing sector, which can be seen from a closer look at its two main components: namely the textile & garment industries (ITH), and the mechanical, electrical & electronic industries (IMEE).[64]

The *textile & garment industries*, and to a lesser extent also the *leather & footwear industries*, are still key pillars of the national economy, which, however, suffer from a traditionally low degree of vertical integration into the local economy, and an equally strong focus on simple assembly activities with low added value. Even though the companies in these sectors have indeed been negatively affected by the ending of the MFA in 2005 and the growing competition from Chinese producers, they have so far been able to economically survive and even partially recover (at least before the onset of the current crisis).[65] A three-year government programme launched in 2005 has so far provided assistance to 800 firms. Especially the large firms have been able to move into higher-value markets, with a greater emphasis on innovation, quality, and speed of delivery. A key variable has been their readiness and ability to capitalise on their familiarity with, and proximity to, European markets. Partly as a result of this, several large transnational producers, like Benetton and Adidas, have relocated production to Tunisia. There is thus a good chance that these two sectors will manage to hold their ground in the future, even though it is very unlikely that they will be able to expand in size beyond the current level.[66]

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63 Of the 1874 foreign companies registered with API at the end of 2007 (most of them from France and Italy), 1106 were 100 percent foreign owned, and 1570 were totally exporting. Cf. also Annex 2 for further information about the current situation of Tunisia's manufacturing sector.

64 The ITH sector is made up of 2400 companies; these export 25 percent of their output, but represent only 4 percent of GDP. The IMEE sector, by contrast, is made up of only 300 companies; these export almost the same proportion, namely 26 percent, of their output, but this represent 5 percent of GDP. Cf. Pascal Airault & Marie Barraud: "Comment passer à travers les mailles chinoises" JA 2296, 09/01/05, 106–108 and Samir Gharbi "La Tunisie met le turbo", JA 2543, 04/10/09, 61–63 for further details on these two sectors.

65 It must be noted, though, that the ITH sector has indeed been negatively affected by the current crisis, with exports declining by 15 percent and investments by 20 percent during the first six months of 2009.

66 IHK Tunis therefore considers that these two sectors are particularly useful examples of how a proactive state policy can help a 'strategic' industry to face up to international competition (Interview 16 June 2009).

The *mechanical, electrical, and electronic industries* have become another central pillar of the national economy, with an annual growth rate of over 7 percent since the early 2000s (mainly steel processing, white goods, car and aircraft cables and components). In 2008, they surpassed textiles as the most important manufacturing sector. In 2007, it contributed 22 percent to total manufacturing output and 4.1 percent to GDP. Most companies in this sector are outward-oriented: They export 80 percent of what they produce, and 80 percent of these exports go to Europe. The sector has attracted hundreds of EU and US manufacturers of vehicle and aircraft-components. The most recent 'acquisition' has been Airbus Industries, which is about to set up a major new plant in the Greater Tunis area. The overall number of jobs is expected to increase from currently 30,000 to over 50,000 in 2011. Even though the sector has been affected by the current global slowdown and particularly by its effects on the European car industry, it has suffered less badly than expected, and certainly less badly than others (due to the 'cash-for-clunkers' programmes adopted by several European governments, and its relative cost efficiency *vis-à-vis* foreign competitors).[67]

Foreign direct investment inflows have continuously increased over the past two decades, passing from TD 402.9 million in 1997 to TD 3,127.3 million in 2008 (while portfolio investment was a mere TD 198.5 million). In that year, they accounted for 6.5 percent of GDP, 20 percent of gross fixed capital formation, and 20 percent of all newly created jobs.[68] There are currently nearly 3000 registered foreign companies, employing altogether over 300,000 people. Traditionally focused on a handful of branches (mainly energy, textile, and tourism), FDI have seen a considerable diversification in recent years. Regarding their sectoral distribution in 2008 (energy excluded), data analysis reveals that services accounted for the largest share with TD 646.7 million (43.2 percent), followed by manufacturing with an investment volume of TD 641.6 million (42.8 percent) and tourism with an investment volume of TD 192 million (12.8 percent). The strong annual variations in foreign investment inflows are largely due to the uneven progress of the privatization process, as foreign participation in public markets (with the energy sector in the first place) still represents a major share of foreign involvement. At the same time, inward investments from the Arab Gulf states have come to play an increasingly important role.[69]

The relative robustness of Tunisia's economic advances can also be seen from the fact that the country (very much like the majority of its neighbours) has so far not been overly affected by the current crisis. Brach and Loewe (2009) have distinguished between four kinds of adverse effects: *asset effects* (depreciation of assets held abroad), *financial effects* (reduction of inward investment), *economic effects* (reduction of export earnings), and *transfer effects* (reduction of migrant remittances and development aid). As far as Tunisia is concerned, the first two effects have so far had hardly any impact at all. The state itself

67 Thus, while exports have declined by 10 percent during the first six months of 2009, investments have grown by 15 percent, which points to the relative optimism prevailing among most producers.

68 In UNCTAD's FDI Performance Index which measures the relative importance of a country's FDI against its economic size and its share in global GDP, Tunisia is ranked 42nd in the world.

69 In 2007, investment inflows from the Gulf States even briefly surpassed those of the West. In the case of the Maghreb, Gulf investments have so far been mainly targeted at the real estate, construction, and tourism sectors (cf Jean-Michel Meyer "Golfe: OPA sur le Maghreb", JA 2472, 25/05/09, 22–27 for further details).

has not invested abroad, and banks are still little integrated into global circuits.[70] The same observation applies to the fourth effect: Most Tunisian migrants have become nationalised by their host countries (and thus are not subject to reprisals), and most ODA transfers are tied to long-term reform programmes. The largest impact has so far been exerted by the third effect: Exports to Europe have declined significantly since early 2009, most notably in important sectors like the IMEE. The shrinking income from European tourists has been mitigated by the growing number of Arab visitors, mainly from neighbouring countries.[71] Importantly, there have been no major reductions in FDI inflows, and the majority of foreign companies present on Tunisian soil seem determined to maintain their presence. (To some extent, Tunisia could even expect to benefit from the crisis, as its pretty attractive cost-benefit ratio seems to have become more salient for its foreign clients.) Finally, losses in export earnings have been largely offset by reductions in fuel prices. As a result, growth is projected to continue in 2009, albeit at a slower pace, in the order of 3–4 percent.[72]

Tunisia's fairly positive performance in most international economic rankings reflects the country's undeniable progress in many regards (see Annex 5 for more details). Thus, the fact that Tunisia has scored very well in the latest issues of the World Bank's 'Ease of Doing Business' Report, the World Economic Forum's 'Global Competitiveness Index', and Transparency International's 'Corruption Perception Index' certainly points to the fact that Tunisia's business climate has considerably improved over the past two decades. However, some structural shortcomings still overshadow the Tunisian 'success story':

1. The country continues to be entirely dependent on just a handful of foreign markets. European countries still account for about 70 percent of all Tunisian imports, 80 percent of all exports, and 90 percent of all FDI. Three countries alone (France, Italy, and Germany) absorb two thirds of Tunisia's foreign trade, and represent over three quarters of all non-resident manufacturing companies. South-South trade, on the contrary, has still not seen a real take-off, and continues to stagnate at about eight percent of Tunisia's foreign trade. These very modest figures reflect the almost total lack of major alternative outlets in the near abroad. There are simply no economic hubs in the wider neighbourhood that could serve as a viable substitute to European markets (as the Gulf Countries have done for the Arab Mashreq, for instance). Algeria and, to a lesser extent, Libya are the only Arab countries that truly matter, economically speaking, to Tunisia.

2. The Tunisian economy is still extraordinarily dependent on just a handful of sectors. The ongoing predominance of the textile and garment sector, reinforced by the leather

70 On the contrary, the Tunisian stock exchange has gained another 48 percent in 2009 compared to 2008 (the strongest increase in any North African country), and the real estate market has also continued its upward trend (even though some major investment projects by Arab Gulf investors have been put on hold).

71 Arab visitors have largely replaced European tourists as one of Tunisia's main sources of national income (with Libyans in the order of 2.5 million per year, and Algerians in the order of 1 million) (cf. also FN 74).

72 Cf. Jean-Michel Meyer "Le Maghreb résiste au choc de la crise", JA 2515, 22/03/09, 79–81 plus the two Special Dossiers "Pourquoi les investissements ne connaissent pas la crise", JA 2527, 14/06/09, 65–84 and "Comment résister à la crise", JA 2495, 02/11/08, 63–80. Cf. also the interview with minister of finance M. Rachid Kechiche in JA 2541, 20/09/09, 62–64 for a short overview of Tunisian safeguard measures.

and shoe sector, is a particular reason for concern. In mid-2009, the country's registered 2100 textile firms (plus another 300 leather firms) accounted for 42 percent of all industrial exports (over TD 6 billion) and 50 percent of total industrial employment (almost 250,000 jobs). This makes Tunisia one of the largest textile producers, and the main textile producer per capita, worldwide. Thus, the textile sector is still Tunisia's '*point fort*', but also its '*maillon faible*'. The strong growth of the mechanical, electrical, and electronic sector in recent years has somewhat reduced this one-sided dependency, and simultaneously strengthened Tunisia's industrial foundation, but it must be noted that the latter itself is also quite vulnerable to negative developments in the world market, as evidenced in by the various adverse effects of the current economic slowdown.[73]

3. Most of Tunisia's buoyant manufacturing industry is still limited to rather simple assembly activities (although there is a trend from sub-contracting to end products in many segments). Tunisia is still hardly in a position to produce sophisticated equipment or investment goods, and continues to focus on low-cost intermediary or consumer products (albeit with more promising perspectives for the ICT sector). Foreign financial inflows are still largely attracted by cheap local inputs and/or some specific natural advantages, and not so much by dynamic market developments and/or specific technological advances on the ground. Thus, Tunisia has still not been able to make the *long-planned qualitative breakthrough* toward a fully developed industrial economy. Most private industrialists are still reluctant to venture into capital, knowledge, and technology-intensive sectors, and prefer to focus on relatively simple, well-known, and low-risk activities, which require little financial, technical, and logistical input, but generate quick, easy, and secure profits. These preferences are not only attributable to the many still problematic incentives on a legal-institutional level, but also to the internal logic of these family holdings.

4. Tunisia's economy is highly fragmented. In fact, one can still find almost the same basic economic fault-lines as during the former era. These concern in particular the cleavages between *public* and *private*, between *on-shore* and *off-shore*, between *import-substituting* and *export-oriented* businesses, and between the *few large* and the *many small* firms. Even though the state has progressively withdrawn from the field of production and reduced its previously high level of economic interference, it continues to be the prime actor in economic life. It is still the main proprietor, producer, employer, investor, and creditor in the country, employing up to 40 percent of the national workforce, and accounting for well over 50 percent of GDP. In addition, it continues to *directly or indirectly* control all those sectors and bodies that affect the thrust of development and/or the exercise of power. Certainly, the private sector has become much more developed than before. A variety of new branches have emerged, particularly in the manufacturing industry and business services. The number of private firms

73 Some qualifications are also in order for the tourism sector, another pillar of the Tunisian economy. Following a drastic slump in the early 2000s, it has largely recovered, the losses on traditional markets mostly compensated by inroads into new market segments, such as inter-Arab tourism. Still, it suffers from excess capacities at home, and a low spending per capita. At the time of writing, Tunisia's tourism industry generates about 400,000 jobs, attracts almost 20 percent of its foreign revenues, and represents almost 7 percent of its GDP. It is therefore still fulfilling a vitally important stabilising function as an economic safety valve (cf. Frida Dahmani: "Tunisie: Ciel bleu, sable blanc … mais encore?" JA 2593, 19/09/10, 44–45 for further details).

is estimated at 60–70,000, 10–12,000 of which are considered industrial companies. However, it must be noted that compared to public enterprises, even the largest private ventures are still fairly small, and that within the private sector, these ‘heavy weights’ are still relatively scarce.[74]

5. The current state of the financial sector is another reason for concern.[75] Sure, the number of institutes has been consolidated, their working procedures have been modernised, and their balance sheets cleaned up. But the entire sector continues to suffer from a certain number of structural deficiencies: First, Tunisian banks are still very small and under-capitalised, even by MENA standards.[76] Second, Tunisian banks are still relatively indebted – even though soft loans have reportedly fallen below the 20 percent mark.[77] Finally, Tunisian banks are still quite ‘politicised’ (their senior management still being very much inter-twined with the political leadership, which makes them structurally vulnerable to demands emanating from there). In short, Tunisia’s banking system is still characterised by a very high, albeit slowly declining level of vertical fragmentation and asset concentration. Commercial banks still hold about two thirds of national financial assets, and the state still owns almost half of the capital of these banks.

Therefore, a closer look reveals that some fundamental disequilibria of the Tunisian economy persist, which need to be addressed urgently. First, the Tunisian economy is still *essentially* a ‘dualist economy’; its most dynamic and competitive elements are usually owned by foreign investors (or by the few large domestic groups), are largely turned toward external markets, and are little integrated into their local context. Second, social inequalities and regional disparities have not disappeared, but might have actually increased; economic growth has mostly been confined to the coastal cities, with the interior provinces further falling behind.[78] Third, and most importantly, the traditionally high unemployment, particularly among young city dwellers, has not been reduced, but is growing rapidly; many Tunisians are still out of work (15 percent officially, 25 percent unofficially).

Globally speaking, un(der)employment remains the challenge No. 1 for Tunisians. The labour force numbered 3.6 million in 2007, 52 percent of the working-age population. The share of women has risen to about one quarter of the total. Around 16 percent of the workforce are employed in agriculture (including seasonal workers), around 32 percent in industry, and about 52 percent in services (including the public sector). Large numbers are also employed on a temporary or seasonal basis, especially in agriculture and construction. The turnover of the informal sector is estimated to be equivalent to 15 percent of GDP. Officially, the number of jobless was around 510,000 in 2007, about half of whom were

74 Senior representatives of the MIEPME, for instance, consider 95 percent of all Tunisian companies to be ‘SMEs’ (with a coût global d’investissement equal or inferior to TD 5 million).

75 Cf. the Special Dossier “Tunisie: le secteur financier face à la crise”, JA 2514, 15/03/09, 85–96 for further details in this regard.

76 In 2008, the two largest banks, STB and BIAT, were ranked only 94th and 96th among the 100 largest Arab banks, their equity standing at only US$ 351 million and US$ 330 million; cf. Middle East Magazine, October 2009.

77 Credits to individuals have more than doubled, rising from TD 3.1 billion in 2003 to TD 7.3 billion in 2008; they now constitute 28 percent of total bank credits, with 68 percent tied up in real estate.

78 The recent increases in inward investment might reverse this trend over time, but it still appears too early to make further statements in this regard.

under 25. A major concern for the government has been the rising unemployment among university graduates (over 20 percent to date).[79] Unemployment most seriously affects the north-west and south-west where it exceeds 20 percent and 25 percent, respectively.

All of this might explain the strong political undertow of Tunisian industrial policy.[80] It is in the first degree about short-term job creation, and only in the second degree about longer-term industrial deepening, and resource allocation by the government clearly reflects these priorities. One cannot avoid the strong impression that the ruling elites around Ben Ali are actually more concerned with *maintaining political stability* than with *increasing economic efficiency* – and are prepared to pay a price for this. Absolute priority is given to maintaining social peace and public order, even at the cost of reduced economic growth and higher opportunity costs. This can be seen in their very cautious approach toward socio-economic reforms. Their visible reluctance to 'rush' into public sector and social policy reforms is clearly inspired by the painful experiences of the later Bourguibist era and other Arab countries. As Sadiki (2002, 59) has pointed out, "the regime is taking no chances with welfarism. Thus it has absorbed the lessons of the past, from within and without, that state failure in this domain opens up space for not only pro-active Islamist-led grassroots social engineering, but also for all kinds of other non-state activism." Nobody within the regime has so far dared to openly attack this line of thinking.

One example for this very cautious approach is the stalled liberalisation of money markets, especially with regard to the convertibility of the dinar. In fact, the state's monetary policy has played a key role in the country's economic development.[81] As its traditional primary purpose is to maintain a current account balance, the government has systematically depreciated the dinar since the 1980s, with the double aim of curbing the appetite of domestic consumers for imported goods, and boosting the international competitiveness of local manufacturers. Indeed, this is still one of the most important, but also the most sensitive issues in Tunisian politics. The state of affairs is that the national currency has been made fully convertible for current account transactions of non-Tunisian resident companies, which face no restrictions when it comes to exporting or repatriating their profits or their invested capital. When travelling abroad, Tunisian citizens can also change small sums of foreign currency and, with the prior approval of the Central Bank, Tunisian firms can make overseas investments. However, in spite of all the inconveniences which this brings in daily life, the regime has so far shied away from crossing the threshold of full convertibility. The option of controlling financial flows is considered too attractive, and the lessons of the current crisis have rather served to strengthen this way of thinking.[82]

79 It must be noted that 50-60,000 of the 80-90,000 annual newcomers on the labour market now have higher education, and these figures are bound to increase further in the years ahead. Some unofficial estimates even put Tunisia's current graduate unemployment rate at about 50 percent. Cf. Cécile Manciaux "Un diplômé = un boulot?" JA 2576, 22/06/08, 70–71for further reading in this regard.

80 This very strong politicisation of economic policy is actually quite usual for the wider MENA region, as both Henry / Springborg (2001) and Nabli et al. (2006) have pointed out.

81 Traditionally, Tunisian exchange rate policy consists of a controlled floating, with an implicit peg to a representative basket of European currencies (since 2003 mainly the Euro).

82 GTAI Tunis considers that there has been no increase in wages in real terms over the past 15 years. The government generally keeps wage increases slightly above the inflation rate, while neutralising the effects of this policy by a controlled depreciation of the Tunisian Dinar (Interview, 19 June 2009).

Another example is the ongoing delay of a major land reform, despite (or because of) the central role which this sector plays for the economy. In fact, it must not be forgotten that agriculture continues to matter for Tunisia. Farming and fishing still represent over 10 percent of GDP, and provide over 30 percent of total employment. However, the large majority of Tunisian farms continue to be tiny, under-capitalised, and under-equipped plots, with very little non-traditional technical and managerial know-how. Deficits concern a range of issues: availability of credit, technical support, marketing tools, etc. Although most people seem to agree that the farming and food processing sector has an enormous and untapped potential, discourse has tended to be followed by inaction. The main reason for this is that distribution is still controlled by the state, and many food products are still sold at artificially low prices in order to keep the urban population calm. Also, European markets are still very difficult to access for Tunisian producers, which severely limits the production of cash crops. There are certainly indicators that suggest that the recent price rally on world food markets has contributed to changing the minds of quite a number of Tunisians, but it is still too early to make definite judgements in this regard.[83]

A final example is the stalled liberalisation of large parts of the services sector, which is still regulated by special legislation and largely shielded from international competition. In fact, with 60 percent of GDP, the services sector is still a corner stone of the national economy. This observation applies in particular to many 'traditional' sectors, such as tourism, gastronomy, construction, transport, and retail trade (even though new sectors, like telecoms, logistics, leisure and entertainment, financial services and customer relations are quickly gaining in importance). At the same time, most businesses in these sectors are still very small. In fact, '*les petits metiers*' (i.e. small shop owners, restaurant owners, and craftsmen) continue to play a fundamental role in everyday life. The well-known transnational chains are still conspicuously absent from daily life. Services directly related to industry are the only part of this sector that is *de facto* open to the outside world. Even though this cautiousness is certainly vindicated from various points of view, it comes at great expense for the envisaged development of the national economy.[84]

8 Resume and suggestions

All in all, Tunisia's industrial policy has yielded quite remarkable results. Over the past two decades, a previously relatively closed and inward-oriented *state-driven economy* (heavily dominated by the public sector and insulated from foreign competition) has been turned into an increasingly outward-oriented and export-fuelled *market economy* which is more and more based on a modern and competitive manufacturing industry, and run by a vibrant and dynamic entrepreneurial class. In this way, a largely rent-based, lower middle-income developing country has been transformed into an increasingly skill-based, industry-driven 'emerging economy', which has consistently produced growth rates and welfare gains above the regional average and not too far from some of the 'Asian Tigers'. It does not

83 Cf. also the two Special Dossiers "Tunisie: (r)évolution verte", JA 2549, 15/11/09, 67–78 and "Tunisie: le défi agricole", JA 2470, 11/05/08, 61–73 for further reading in this regard.

84 Cf. Galia Skander: "Tunisie: la grande distribution capte uniquement 5% du commerce", Tunisie Affaire, 18/04/08 and Jamel Arfaoui: "Tunisie: l'extension urbaine menace les petits commerces", Magharebia, 17/07/09

seem exaggerated to argue that Tunisia has gone at least some way toward becoming an industrial society – with significant repercussions for the accessibility and allocation of national resources and social opportunities, for the structures and mechanisms regulating the production and distribution of values and goods, and *last but not least* for the configuration and interaction among the various social and political actor groups within the country.

In fact, it appears that Ben Ali's 'New Tunisia' has digested the economic transition process launched over three decades ago remarkably well. It has implemented economic liberalisation and restructuring without major shake-ups or hold-ups so far. This has substantially strengthened the country's international competitiveness and broadened its economic base, which has in turn reduced the importance of *rentier* elements and diminished its vulnerability *vis-à-vis* exogenous pressures. Finally, Tunisia can claim generally rising living standards as well as diminishing poverty rates, both in line with the regime's original promises and its policy goals.[85] Even 15 years into the association process, the country has not witnessed any mass layoffs or mass shutdowns, in the same way as the often predicted large-scale social disturbances and disruptions have not materialised so far. Importantly, the Tunisian economy has relatively smoothly absorbed the numerous external shocks that have shaken the region since the beginning of the 21st century. It has done so rather better than many of its peers, and much better than analysts had predicted some time ago. There are no signs of a massive cutback of private investment or a comprehensive withdrawal of foreign operators (although Tunisian subcontractors in the automobile industry *have* been affected), which attests to their confidence in the robustness of the Tunisian economy.[86]

It is, of course, difficult to clearly attribute these developments and outcomes observable at the socio-economic level to activities and decisions taken at the (industrial) policy level: Overall, it is beyond doubt that Tunisian policy makers have a remarkable ability to shape societal processes in their country. Thanks to the strong concentration of decision making, and the remarkable cohesion of the party-state elites, the government is still clearly in a position to determine strategic objectives and allocate public resources accordingly. At the same time, it still also has the ability to communicate its choices both to its own political followers and the broad public, and to mobilize their allegiance and support for them (or at least to prevent the crystallisation of resistance). This also applies to industrial policy: Since the beginning of collectivisation in the 1960s, the emergence of a private manufacturing sector in the 1970s, and the structural adjustment policies of the 1980s and 1990s, the Tunisian state has repeatedly shown that it is able to shape both the intensity and the quality of economic life and industrial development in the country. The combination of

85 Tunisia is among the few Arab countries that are likely to reach a significant proportion of the 'Millennium Development Goals' (MDG) adopted by UN member states at the 2000 'Millennium Summit' in New York.

86 The Tunisian government's remarkable adroitness in harnessing foreign development assistance has also played an important role in this respect. Even though ODA inflows appear modest at first glance (especially when measured against Tunisia's GDP and its population), it must be noted that they have made major contributions to the economic success of Tunisian policies. Large parts of the country's physical and non-physical infrastructure have been built up with the help of foreign technical and financial assistance. This is also why the government is so determined to defend its access to this source of funding. At the same time, it must also be noted that the overall thrust ─ the 'nuts and bolts' ─ of Tunisia's industrial policy are determined by Tunisian policy makers and by nobody but them; external actors (donors, advisers, investors, etc.) are certainly able to exert a degree of influence, but this is mostly concerned with the details of this policy (as well as its implementation on the ground), but not with the substance as such. The Tunisian ownership can thus be regarded as very high, even if this does not always entail an equally pro-active approach toward donor coordination.

both direct and indirect incentives, coupled with the provision of both financial and technical support, has developed enough credibility and traction to persuade private investors (both within and without) to follow up these policies with their funds.

However, the ability of the state to influence and direct the corporate strategies and investment decisions of economic operators clearly has its limits. As noted before, the majority of Tunisian businessmen (and the same observation also applies *grosso modo* to the majority of foreign investors active on Tunisian soil) are only prepared to invest in relatively simple and low-risk activities which promise quick and secure profits or, to put it differently, they are not ready to invest their personal fortune into economic products which take a long time (and substantial funding) to develop, require complex organisations and external investment, and/or involve extensive technological know-how and industrial research. This is also one of the reasons why neither Tunisian entrepreneurs nor their foreign counterparts have so far managed (or bothered) to produce sophisticated technological products and/or high-end consumer goods. The main exceptions to this rule are once again to be found in the area of business services.[87]

In fact, the country is only halfway to becoming an industrial society. A major problem in this regard seems to be that the government continues to be torn between two conflicting goals: On the hand, it seeks to support the further acceleration of capital accumulation and deepening of local value chains, in order to lay the groundwork for the envisioned upward shift towards more sophisticated goods with a higher added value. This, however, is a very time and capital-intensive endeavour that would require a major, concerted, and sustained effort of both public and private actors, and thereby absorb most of the country's limited financial and human resources for years to come. On the other hand, Tunisians are still very much concerned with the creation of new jobs and the accumulation of employment opportunities in order to absorb the country's growing labour force and maintain societal stability. According to official figures, state subsidies for 'vital products' (mainly staples, fuels, and medicine) amounted to TD 3.7 billion in 2008 alone, that is, 7 percent of the country's GDP! The problem with this strategy is that it is very difficult for such a small country 'to have it both ways' or, to put it differently, 'to eat its cake and have it, too'.

Partly as a consequence of these conflicts, Tunisia's industrial policy has never been as coherent and systematic as those applied by East Asian countries (cf. Noland / Pack 2005). Unlike them, it has never systematically pursued local content policies, pushed for high-tech development within the manufacturing sector, or tied state support to proven results on the world market. Instead of trying to identify some specific sectors and market niches with an over-proportionate growth potential and return component (and shift public resources in their direction), it has until recently tended to apply incentives across the board, hoping that this would somehow elicit a positive response from business and that the results of this response would somehow 'add up'. The only real *systematic* discrimination that is actually *applied* is between on-shore and off-shore – and more recently between investments in 'normal' and in 'priority' sectors. Of course, there is a whole array of dis-

87 Even though the Tunisian government had already announced in the mid-1990s that it wanted to foster technologically demanding activities through the technopôles approach, there are still relatively few tangible results until the present time as the implementation of this policy almost took a decade to gather momentum. This 'time lag' has to be taken into account when attempting to evaluate the effectiveness of Tunisia's IP.

criminatory laws, but these are generally rather reactive and 'adhocish', i.e. meant to cushion, or foster, certain branches or groups in a given situation and context.[88]

The *partial* lack of response on the part of business is of course not only due to some inconsistencies at the level of policy implementation, but also due to specific interests among key business groups which prevent them from venturing head-on into technologically demanding fields. These are mainly related to the continuing availability of economic windfalls ('quasi-rents'). They include the possibility (especially for the powerful and well-connected owners of the country's large, family-based holdings) to exploit the opportunities available to them thanks to the country's still strongly fragmented factor markets, and their own personal relationships with the political leadership. Many of these business leaders and of the presidential relatives have thus come to form highly integrated networks of 'privilege' and 'redistribution'. All of these allow them to yield an income which is definitely above what they would have been able to realise in the 'marketplace'. No wonder that this definitely reduces their appetite for 'unnecessary risks'.

It appears that the policy pursued so far has somewhat reached the limits of its potential and that further substantial amendments at various levels will be needed to consolidate the numerous achievement of the past decades and reach the next stage of industrial development. The envisaged economic transition and qualitative breakthrough towards a fully industrialised and high value added economy will not only require profound changes with regard to the policies that regulate the allocation of national resources, but also with regard to the functioning of those institutions which govern transactions among economic subjects. Such a transition, in order to be successful, will also require a larger degree of capital accumulation (including at the level of human capital). Tunisians will need to go beyond a policy that is still mainly focused on attracting FDI, creating jobs, and boosting exports, but which refuses to fully free private operators from state tutelage. The government must allow investors unrestrained access to local factor markets (including supposedly 'sensitive' ones), and award them the necessary degree of *institutionalised* protection against predatory behaviour of whichever sort. As an informed observer has rightly pointed out recently, *"Tunisia actually has no choice if it wants to retain its vigour and remain the development model which it still is. Not in order to make its critics shut up, improve its image or give in to foreign pressures, but because its future is at stake (...). Otherwise, we risk seeing Tunisia stagnate, at a certainly very respectable level, but far from its presumable potential.*"[89]

88 Even though the government has repeatedly announced that it wants to foster the emergence of 'economic beacons' and 'national champions', it has failed to come up with a policy that would enable it to deliver on its discourse (which would entail a profound change of existing laws). The same applies to its announcements to support the development of SMEs: apart from a few incentives on a fiscal level, there is no systematic policy in place to ensure its implementation on the ground. So far, Tunisian policy responses have therefore covered a very wide range: from strict non-intervention via market-enhancing policies (both targeted and untargeted) to supply-side policies (again both targeted and untargeted). In general, the Tunisian government has clearly preferred untargeted supply-side policies; whenever it has pursued targeted supply-side policies, this seems to have not been a pro-active, voluntary choice on its own, but rather an involuntary, reactive attempt to deal with an existing or emerging problem.

89 Marwane Ben Yahmed "Où va la Tunisie?" JA 2547, 01/11/09, 24–27

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Annexes

Annex 1: Key Economic Data (billion TD, December 2009)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP, Current Terms			32,170	35,194	37,767	41,408	45,564	50,955*	55,806*
Change (%)	4.9	1.7	5.6	6.0	4.2	5.4	6.3	4.7*	2.8*
Consumer Price Change			2.7	3.6	2.0	4.5	3.1	5.0	3.7*
Exports	9,536	9,747	10,343	12,055	13,794	15,558	19,410	23,637	19,462*
Change (%) (EIU)				7.8	3.2	4.4	7.2	5.5	1.6*
Imports	13,697	13,511	14,039	15,960	17,292	20,004	24,437	30,239	25,692*
Change (%) (EIU)				3.5	1.1	6.6	5.3	5.6	3.2*
Current Acc. Balance					-1.1	-2.0	-2.5	-4.2	-3.8*
Investment (GFCF)					8,479	9,690	10,965	12,790*	14,630*
Change (%) (EIU)				0.1	2.4	4.1	4.8	5.4	3.2
* Estimates									
Source: Own compilation from various sources (INS; API; CEPEX; FIPA; EIU; GTAI; NB: there are certain inconsistencies among these data)									

Annex 2: Tunisian Industrial Statistics (2008)

a) Number of enterprises

	TE*	ATE*	Total	%
Agro-alimentary	156	857	1013	18
Building materials, ceramic and glass	24	400	424	7
Mechanical and metallurgical	135	411	546	10
Electric, electronic and household appliances	221	130	351	6
Chemical (without plastic)	101	390	491	9
Textile and clothing	1 731	355	2 086	37
Wood, cork and furniture	29	161	190	3
Leather and footwear	209	93	302	5
Diverse	64	235	299	5
Total	**2 670**	**3 032**	**5 702**	**100**
*: TE: Totally exporting; *: ATE: Other than totally exporting				

b) Production and value-added

	Production	Value-Added
Agro-alimentary	8 959	1 404
Building materials, ceramic and glasses	2 315,5	867
Mechanical and metallurgical	3 382	981
Electric, electronic and household appliances	3 761	602
Chemical (without plastic)	3 006	213
Textile and clothing	5 241	1 677
Wood, cork and furniture	1 320	302
Leather and footwear	1 278	520
Diverse	1 454	403
Total	**30 716,5**	**6 969**

c) Investments in manufacturing

	Million TD	%
Agro-alimentary	270	23
Building materials, ceramic and glass	189,4	16
Mechanical and metallurgical	133	11
Electric, electronic and household appliances	153	13
Chemical (without plastic)	140	12
Textile and clothing	150	13
Wood, cork and furniture	33,5	3
Leather and footwear	30	3
Diverse	85	7
Total	**1 183,9**	**100**

d) Employment in manufacturing

	No. employees	%
Agro-alimentary	63 603	13
Building materials, ceramic and glass	27 576	6
Mechanical and metallurgical	32 200	7
Electric, electronic and household appliances	62 490	13
Chemical (without plastic)	23 776	5
Textile and Clothing	210 112	44
Wood, cork and furniture	9 640	2
Leather and footwear	30 214	6
Diverse	18 214	4
Total	**477 825**	**100**

e) Exports of manufactured goods

	Million TD	%
Agro-alimentary	1 616	11
Building materials, ceramic and glass	302,4	2
Mechanical and metallurgical	1 186	8
Electric, electronic and household appliances	3 566	25
Chemical (without plastic)	1 107	8
Textile and clothing	5 185	36
Wood, cork and furniture	63	1
Leather and footwear	870	6
Diverse	454	3
Total	**14 349**	**100**

f) Imports of manufactured goods

	Million TD	%
Agro-alimentary	2 042	11
Building materials, ceramic and glass	207,2	1
Mechanics and metallurgical	4 098	23
Electric, electronic and household appliances	3 659	20
Chemical (without plastic)	2 231,1	12
Textile and clothing	3 532	20
Wood, cork and furniture	283	2
Leather and footwear	368	2
Diverse	1 583	9
Total	**18 003,3**	**100**

Source: API Online, June 2009

Annex 3: Classification of Enterprises (Annual Turnover)

The top ten enterprises of Tunisia (Turnover 2006–2007, Dinar in thousand)			
Ste Tunisienne des Industries de Raffinage (STIR)	Petroleum & petroleum products	2.298.700	2.720.900
Ste Tunisienne de l'Electricité et du Gaz (STEG)	Energy	1.493.600	1.632.400
Groupe Chimique Tunisien (GCT)	Mines/Chemicals	1.109.000	1.368.000
Ste Nationale de Distribution de Pétrole (AGIL)	Petroleum & petroleum products	1.159.533	1.262.782
Tunisie Telecom (TT)	Telecommunication	1.134.510	1.193.769
Entreprise Tunisienne des Activités Pétrolières (ETAP)	Petroleum & petroleum products	772.037	1.022.149
Groupe Tunisair	Transport	949.455	960.730
Régie Nationale Tabacs et Allumettes (RNTA)	Agro-alimentary	802.200	872.400
Tunisiana	Telecommunication	580.046	682.551
Total Tunisie	Petroleum & petroleum products	519.000	618.156
Shell	Petroleum & petroleum products	515.550	599.469
Pharmacie Centrale de Tunisie (PCT)	Pharmaceutics	508.757	568.858
Compagnie des Phosphates de Gafsa (CPG)	Mines/Chemicals	338.100	414.000
Nouvelair	Transport	335.757	378.486
Office Nationale de l'Huile	Agro-alimentary	351.169	327.756
The top ten private groups of Tunisia (Turnover 2006–2007, Dinar in thousand)			
Groupe SFBT	Agro-alimentary	938.360	992.030
Poulina Group Holding	Diverse	662.428	826.497
Groupe Elloumi	Diverse	600.000	785.000
Groupe Mabrouk	Diverse	750.000	750.000
Groupe Delice	Agro-alimentary	591.716	678.569
Groupe TTS	Tourism/Transport	435.300	489.500
Groupe One Tech	Electric-Electronic	343.000	402.000
Groupe Karthago	Tourism/Transport	342.477	377.855
Groupe Loukil	Diverse	254.000	356.000
Groupe Meublatex (El Mouradi)	Hotel/furniture	324.900	325.960
Groupe Mohsen Hachicha	Diverse	280.000	317.000
Groupe Hamrouni	Diverse	267.000	305.000
Groupe Jal Tunisie	Leather/footwear	220.000	220.000
Holding Hedi Djilani	Diverse	n.d.	204.529
Groupe Bayahi	Diverse	200.000	200.000
Source: L'Economiste Maghrébin 487/488, Jan. 2009			

Annex 4: Tunisia's Industrial Strategy 'Horizon 2016': Main Target Branches

Cross-Over	electronics/ ICT applied to automobile & aeronautical industries	biotechnology applied to the environmental and agri-food sectors	mechatronics	plastic industries applied to paramedical & pharmaceutical industries
	Electrical applications used in renewable energies	IT applied to bioinformatics	environmental services applied to textiles industries	-
Industrial Services	ICT	business support services & business process outsourcing	logistic services	other services
Emerging Sectors	electronic industries	automobile & aeronautical industries	technical plastics	pharmaceutical & biotechnological industries
Traditional Sectors	agri-food industries	textiles/clothing & leather/footwear industries	phosphate & chemical industries	mechanical & electrical industries
Source: MIEPME & API				

Annex 5: Tunisia's latest results in economy related international rankings

Name of ranking	Issuing organisation	Score obtained	Position obtained	Countries surveyed	Further information
Human Development Index (2009)	United Nations Development Programme (UNDP)	0,769 (+0,006) Medium Developed Country Scale of 0,0 – 1,0	98	182	http://hdr.undp.org/en/media/HDR_2009_EN_Complete.pdf
Bertelsmann Transformation Index (2008)	Bertelsmann Foundation / Centre of Applied Politics	Status Index: 5,37 – Democracy 3,95 – Market Economy 6,79 Management Index: 4,75 Scale of 1 – 10	73 93 35 73	125 125 125 125	http://www.bertelsmann-transformation-index.de/
Economic Freedom Index (2009)	Heritage Foundation / Wall Street Journal	58 (-2,1) Mostly unfree Scale of 0 – 100	98	179	http://www.heritage.org/Index/
Global Competitiveness Index (2009)	World Economic Forum (WEF)	–	40	133	http://www.weforum.org/en/initiatives/gcp/index.htm
Ease of Doing Business Report (2009)	World Bank / International Finance Corporation (IFC)	–	73	181	www.doingbusiness.org/economy/rankings
Corruption Perception Index (2007)	Transparency International (TI)	–	61	180	http://www.transparency.org/publications/gcr

Source: Own compilation from various sources

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