

Tunisia

Status Index (Democracy: 1.6 / Market economy: 3.3)		4.9	Management Index		4.3
System of government	Autocracy		Population	9.6 mill.	
Wahlbeteiligung	91.5 % (Parliamentary elections 1999)		GDP p. c. (\$, PPP)	6,390	
Women in Parliament	11.5 %		Unemployment rate	15.6 %	
Population growth^a	2.0 %		HDI	0.740	
Largest ethnic minority	0.97 %		UN Education Index	0.73	
			Gini Index	41.7 (1995)	
Data for 2001 – if not indicated otherwise. ^a Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

1. Introduction

The evaluation period covered in this report does not coincide with any decisive points or changes of course in Tunisia's political history. The current President, Zine el-Abidine Ben Ali, took power on November 7, 1987. Since then, changes at the top of this technocratic government team, most recently the appointment of economic expert Mohamed Ghannouchi as premier on November 17, 1999, have come primarily for opportunistic reasons related to the forced transition to a market economy. The evaluation period began around the same time that an Association Agreement with the European Union took effect, March 1, 1998. This agreement provides for total reciprocal trade liberalization for industrial goods by 2010.

Over the course of the last five years, from 1998 to 2003, the democratic transformation has essentially stagnated. No intentional moves toward a democratic transformation have been made, nor has socioeconomic development spurred any further transformation progress. The incontestable success of socioeconomic development and the, progressive government project valued by large segments of the populace have instead served to consolidate the authoritarian regime.

However, notable advances were made in the market-economy transformation. The pre-existing medium level of economic freedom and the favorable socioeconomic environment, present until 2001, have not impaired the success of management in this area. The Association Agreement with the EU will put decision makers in a tight spot in the future, when it comes to further modernizing

the existing organization of the market and competition, and securing the sustainability of economic development.

2. History and characteristics of transformation

After Tunisia gained its independence on March 20, 1956, the *Parti du Néo-Destour* independence movement, led by the charismatic Habib Bourguiba from 1957 to 1987 installed a post-colonial single-party regime. The democratic transformation has been a central normative point of reference in the state discourse since the current President, Zine el-Abidine Ben Ali, took office in 1987.

Since the late 1980s, Parliament has been pluralistic, thanks to the approval of a number of small parties that are not truly anchored among the populace, along with the reform of the election system. To date, however, neither the authoritarian constitutional structure, which is tailored to the president, nor the role of the hegemonic official party, *Rassemblement Constitutionnel Démocratique* (RCD), has been cut back. The adverse human-rights situation has been stagnating since the early 1990s. Especially notable here are assaults on critical journalists, human-rights groups and opposition politicians who tried to withdraw from the state-decreed “national consensus.”

Economic development in the 1950s and 1960s was dominated by a strategy of state-induced industrialization and import substitution for largely insular markets. At that time, Tunisia’s integration into the world market was primarily export of raw materials such as phosphate and small amounts of crude oil and natural gas.

Following the economic paradigm shift that occurred in the early 1970s, the country underwent a market-economy transformation. From the early 1970s through the period of study, Tunisia changed into a newly industrialized country by exploiting numerous comparative advantages, including: proximity to European markets; an increasingly diversified processing industry; a well-trained, skilled and yet low cost labor force; and the targeted use of the land’s natural beauty for tourism. The state’s development plans still determine general development specifications and the focal points of state investment.

After the financial crisis of the mid-1980s, Tunisia committed itself to a structural adjustment program from 1987 to 1991, which included broad liberalization of foreign trade, privatization of state-owned enterprises, devaluation of the national currency and creation of a better investment climate to increase industrial exports. This program culminated in signing an Association Agreement with the European Union in 1995, which provided for the gradual dismantling of all reciprocal trade barriers for industrial goods by 2010. In recent years, investment-friendly

legislation has allowed continued, world-market-oriented diversification of the range of goods and services offered, especially in the processing industries including textiles, leather and electronics.

Spurred by the free-trade agreement, a comprehensive modernization program, *mise à niveau*, has been aiming to significantly increase the Tunisian economy's competitiveness. In addition, the development of a social state, the transfer of financial aid to needy families and an active labor-market policy are intended to cushion social inequalities. In 2002, Tunisia's economic growth suffered a major slump. This dip in growth was a result of the cumulative effects of several years of drought, flat growth in Europe, as well as the effects of September 11, 2001 and the terrorist attack in Djerba. The current flat growth and the target dates for the Association Agreement with the EU will test the state's management of the market-economy transformation in the coming years.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

So far, Tunisia has not managed to effectively transform its system into that of a completely developed democracy. This finding stands regardless of a number of reform measures concerning political representation and the rule of law that have been enacted since Zine el-Abidine Ben Ali came into office.

3.1.1 Political organization

(1) *Stateness*: There are no problems of state identity in Tunisia. The state monopoly on the use of force has no limitations. Defining citizenship and who qualifies as a citizen are politically beyond dispute. All citizens have the same civic rights. The state religion is Islam, but the political process is largely secularized. The small Christian and Jewish minorities enjoy freedom of religion. An effective administrative system and public safety and order are guaranteed.

(2) *Political participation*: All citizens have the right to vote and the right to campaign for office. One criteria of a democracy, direct elections, is limited by the planned introduction of a second house of Parliament, which would include both indirectly elected delegates and those appointed by the president. Pluralistic elections are accepted as the method for allocating authority. Competitive elections have been hindered by the hegemony of the president and the state party, the RCD; the lack of freedom of the press; and manipulation of elections. The president and the rest of the government together, along with members of the official party, exert effective power to govern.

Opposition parties that might influence the government are forbidden. The selectively legalized opposition parties do not have a massive following. They are maintained by the state and are periodically obstructed when they speak critically of the government. In Tunisia, independent political and civic groups may form only if they are not critical of the regime. Despite recent changes in the law, the media is under strict control and is subject to censorship, sometimes even from its own ranks.

(3) *Rule of law*: An effective balance of powers is precluded by the dominance of the executive branch in form and in fact. This is demonstrated by the parliamentary majority of the official party, the RCD, which has held 81 % of the mandates since 1999; the second house of Parliament, with its combination of indirectly elected and appointed members; and the president's hegemony in political life. Tunisia's judicial branch is institutionally separate and effective. Especially when it comes to questions of the economy and personal property, the Tunisian justice system receives excellent marks in the African context in international ratings. Despite its official independence, the judicial branch is not in fact protected from the exertion of political influence. Judges are appointed by the President. The constitutional court cannot set or monitor any standards independently. Criminal judges in particular must be considered to be independent of "political proceedings," e.g., against dissidents.

There are laws against corruption. Sporadic campaigns decry and prosecute corruption to set an example. Nevertheless, there are countless reports in the Western media of cases of corruption by the highest-ranking members of the government and their families. Civil rights are formally anchored in the constitution and laws, and the government presents itself to the public as a champion of human rights. In practice however, the human rights of members of the opposition, independent human-rights activists, and critical journalists are abused regularly. These human-rights abuses include intimidation, repression and exaggerated sentences for even minor "offenses." The government reacts flexibly to international pressure when it comes to human rights.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: The autocratic character of the political institutions in Tunisia means that questions about the stability and acceptance of "democratic institutions" by the relevant actors in the sense of this study cannot be answered reasonably.

(2) *Political and social integration*: The legal opposition maintained by the state is more of an "alibi" than anything else, making study-related questions about articulation through a stable, modern party system anchored in society very

difficult to answer. The official party currently serves rather successfully as a functioning equivalent of the intermediary between society and the political system. Since the late 1980s, it has been organizationally diversified, and more and more young people comprise its members.

The RCD guarantees broad integration of women in the political process through an internal system of quotas. Influential women's associations have also led the government to establish itself in effect as an advocate for women's rights and a champion of a "modernization project" vis-à-vis conservative religious, but politically unorganized, currents in society. In addition, Tunisia has traditionally had a densely woven network of state-controlled interest groups. The example from the human-rights arena underscores the government's strategy of competing with the relevant civic groups that must operate illegally.

In concert with the employers' association, the unions, which traditionally have a large membership, are parts of an informal authoritarian-corporate arrangement. This arrangement allows a limited albeit effective way of articulating and aggregating interests. Centrally directed wage negotiations held every three years under the aegis of the state have so far guaranteed that wages, particularly in the lower brackets, continue to rise in a controlled manner. Conflicts of interest, however, are not dealt with openly or even in a conflicting manner. The right to strike is officially guaranteed, but has in fact not been used as a means of handling political disputes since the 1980s.

On a general, confused level, "Western democracy" enjoys high esteem. Within the circumstances of the Tunisian political system, the level of the populace's agreement with democratic norms and processes can hardly be ascertained objectively. The absence of ethnic and religious conflicts, the pronounced culture of tolerance for religious minorities such as Jews and Christians, and the economic and cultural homogeneity in Tunisia are theoretically conducive to building social capital. The authoritarian intra-societal relationships and the lack of previous democratic experiences mean that the political culture at this point is not conducive to democracy.

Free self-organization of civil society outside the sphere of the official party is generally perceived as a threat to the state's right to control. At the same time, the buildup of civic structures clashes with the societal tendency to build relationships more along family lines or through cronyism.

3.2 Market economy

Building on the guiding principles of the last few decades, the Tunisian government has consistently pressed ahead with market-economy reforms, and

has accelerated them at times. Significant transformation shortcomings still exist in relation to rule of law, privatization of state-owned enterprises, administrative and banking-sector reform, business law, and the liberalization of foreign trade.

3.2.1 Level of socioeconomic development

The central indicators show a medium level of development. The country's increasing absolute development status (HDI 2000: 0.722, ranking: 97; 1998: 0.703, ranking: 101), is allowing more and more citizens freedom of choice. Social exclusion due to poverty, education or gender discrimination still exists; however, it continued to decrease over the evaluation period thanks to an increasing per-capita income, targeted governmental financial aid granted to underprivileged citizens, greater access to education for the lower class and the government's active support of women.

Over the period under study, Tunisia succeeded in maintaining its moderate social disparities and further decreasing its low poverty level, measured in the context of the region. The state is actively pursuing the advancement of poorly developed regions. However, this policy has been able to decrease the existing developmental imbalances only marginally.

3.2.2 Market structures and competition

Compared with the rest of the region, the fundamentals of market-economy competition are preserved in an exemplary fashion. Nevertheless, in 2000 the country was ranked only 63rd in the "mostly free" category on the Heritage Foundation's Index of Economic Freedom, with a score of 2.9. Thus, the continued dense regulation and strong protectionist tendencies, including import licenses and quota setting, are still regrettable. The continued major significance of foreign trade tariffs for tax receipts is inhibiting structural reform. The tax system is being restructured. Pricing is 90 % free. Foreign investors have been granted free disposition and transfer of profits, along with significant tax and tariff relief. The convertibility of the Tunisian dinar is given in foreign trade and for profit transfers in order to attract investors.

The danger of a number of powerful clans creating monopolies and oligopolies is looming. The restructuring of the still very heavily regulated and undercapitalized banking and financial system continued during the evaluation period by legal means and through two major mergers of several state-owned banks. In any case, the banking sector's effectiveness is encumbered by its administration and non-performing loans. This is increasingly proving to be a hindrance to development in the structural modernization of the Tunisian economy.

3.2.3 Stability of currency and prices

The government has effectively implemented inflation control and an appropriate exchange-rate policy. The central bank is not independent. The absolute level of fluctuations in the inflation rate, which from 1998 to 2003 averaged less than 3 %, and the budget deficit remained moderate during the same time. Absolute foreign indebtedness and debt service stagnated at relatively high levels, despite a favorable debt structure that included more long-term loans.

3.2.4 Private property

Property rights are not completely protected. Foreigners are not allowed to buy land, but permanent leases are possible. Private enterprises can operate freely in principle, but economic and political barriers are often thrown up before them. While the privatization of existing state-owned enterprises advanced considerably during the evaluation period, state-owned enterprises continue to have an important economic position. Nevertheless, the national economy is still very densely regulated.

3.2.5 Welfare regime

The social security systems in place to guarantee fundamental security have definite gaps when compared with OECD standards, but they are really quite well put together for a newly industrializing country. All citizens can take advantage of free basic outpatient medical care in clinics. Employees with official work contracts must pay social insurance contributions. In 2002, this plan included about 85 % of the population and covers maternity leave and some other services in addition to basic medical care, but does not cover inpatient treatment or visits to doctor's offices. Thanks to the growing middle class, private nursing providers are becoming more and more significant. Government employees have a right to a pension.

In addition, the state offers both financial and direct help for needy families; it helps clean up poor areas; and it fosters private home ownership and the founding of small businesses through low-interest loans. It did not succeed in reducing unemployment between 1998 and 2003. Thanks to an active labor-market policy, however, unemployment has remained steady at about 15 % since 1998. Private solidarity networks remain important for individual protection.

The society is not very segmented, so in principle, everyone has an equal opportunity and access to public services. Assistance mechanisms for women, disabled people and the socially disadvantaged are available particularly in

education. Women have almost equal access to secondary and tertiary education, but they are disadvantaged when it comes to income and public office. Gender-specific discrimination has recently been reduced through a reform of family law.

3.2.6 Strength of the economy

Tunisia has shown a rather high level of economic growth since the early 1990s, and even more so during the evaluation period. From 1991 to 2001, the average was 4.9 %; from 1998 to 2001 it was 5.2 %. This growth is based on the successfully diversified processing industry, which attracts foreign investment, and concurrent trade liberalization. Budget deficits and inflation remained low during the period and debt was manageable.

All in all, the government is making good use of the available growth potential: the proximity to the European markets, the high level of education, the low wages, and the country's natural beauty which can be developed for tourists. The dip in growth in 2002 (1.9 % growth) substantiates the susceptibility of the economy to climatic trials and tribulations (e.g., drought), reduced economic growth in Europe, and lack of tourists. The basic high level of unemployment, stagnating exports, growing debt service and the weakness of private investments are structurally critical.

3.2.7 Sustainability

In recent years, the decision-makers' environmental awareness has grown significantly in public discourse. Environmental protection has been anchored institutionally since 1992 by the creation of a substantially budgeted Ministry of the Environment. New construction, including the tourist sector, must be built under relatively strict environmental codes. Environmental concerns generally still take a back seat to growth considerations, however.

The state's education spending at the end of the 1990s was an excellent 7.7 % of the GNP, or 19.9 % of the budget. Tunisia has a remarkable state system for primary and secondary education. Serious deficits remain in the career orientation of graduates of the state universities. Private universities are being founded more and more frequently, and a system of dual vocational training is being created. Expenditures for research and development averaged 0.3 % of the GNP in 1990–2000, and are not internationally competitive.

4. Trend

(1) *Political regime*: Prior to the period under study, the achievement indicators of the state monopoly on the use of force, agreement on which people qualify as citizens of the state, a capable administrative system, the courts' capacity to work, the authorities' effective power to govern, and public safety and order were completely guaranteed. These were all maintained during this study's time frame. A number of measures related to political participation and the rule of law were enacted during the period, including better protection of human rights. All in all, however, the authoritarian regime continued to stabilize.

Although previously constitutionally prohibited, in 2002 an amendment was made to the constitution and the election laws allowing the president to run for a fourth term of office in 2004. Since 2002, the constitution also provides for the creation of a second house of Parliament, empowered with wide-ranging authority. Two-thirds of its delegates are elected indirectly, and the remaining third is appointed by the President.

Given the lack of democratization, questions regarding changes in efficiency and acceptance of democratic institutions and the stability and anchoring of political parties are pointless. In regard to the achievement indicators of elections; mutual monitoring of the executive, legislative, and judiciary branches of the government in a system of checks and balances; freedom of organization; human rights; freedom of speech; and independence of the judiciary branch, the domestic political discussion intensified, partly through foreign media, without any substantial improvements resulting from it.

The cooperation-oriented and consensus-oriented interaction pattern of labor and capital organizations persisted during the period. In light of the current economic stagnation, the bargaining in 2002 turned out to be difficult. The representation of women in the RCD's decision-making committees and the local assemblies improved greatly in 1998.

(2) *Market economy*: The fundamental development indicators document a slight improvement of the existing mid-level development status during the period. According to national statements, state financial aid led to a reduction in the absolute poverty level.

Table: Development of socioeconomic indicators of modernization

	HDI	GDI	GDP Index	UN Education Index	Political representation of women^a	GDP per capita (\$, PPP)
1998	0.703	0.688	0.67	0.70	6.7 %	5,404
2000	0.722	0.709	0.69	0.72	11.5 %	6,363

^a Percentage of women delegates in Parliament after the 1994 and 1999 elections.

Sources: UNDP, Human Development Report, 2000, 2002,

<<http://undp.org/hdr2000.english/FAQs.html>>, <<http://undp.org/reports/global/2002>> [accessed 02/05/2003].

The conditions for an institutional framework that supports market-economy activity have improved. The pace of reform for privatization of state-owned enterprises, the creation of incentives for foreign investors and an active labor policy increased noticeably compared to the time prior to the evaluation period. During the five-year time span, the macroeconomic data through 2001 showed a robust upturn. This favorable environment does not call into question the irrefutable success of the state's development policy. However, the remaining shortcomings in the organization of the economy, competition and the dip in growth in 2002 underscore the necessity of additional resolute reforms.

Table: Development of macroeconomic fundamentals (1998–2002)

	1998	1999	2000	2001	2002
Growth of GDP in %	4.8	6.1	4.7	5.2	1.9
Export growth in %	6.0	6.9	14.9	18.7	1.5
Import growth in %	7.9	6.0	16.6	16.7	-1.4
Inflation in % (CPI)	n. a.	2.7	2.9	1.8	2.9
Unemployment in %	15.7 ^a	15.8	15.6	15.0	14.9
Budget deficit in % of GDP	n.a.	-3.5	-2.4	-3.3	n.a.
Current account balance in billion \$	n.a.	-0.442	-0.821	-0.863	n.a.

^a 1997. Sources: Figures for 1998-2001: Institut National de la Statistique (Tunis)

<<http://www.ins.nat.tn/>> [accessed 02/06/03], except: budget deficit, current account balance, inflation: F.A.Z.-Institut. Figures for all of 2002: Jeune Afrique No. 2174, 9.-15.9.02 and No. 2187, 8.-14.12.02.

5. Transformation management

5.1 Level of difficulty

Both before and during the evaluation period, the state showed a lack of willingness to undertake a democratic transformation and protect human rights effectively. An abundance of factors during the period, however, provided good conditions for continuing with the market-economy transformation: the state monopoly on the use of force, the increasing level of economic and social development, the healthy macroeconomic framework data, the existing fundamental market-economy structures, the absence of ethnic and religious conflicts, the low level of polarization in the conflict over income distribution, and the efficient state administration.

Other factors that fostered reform included the existing objective pressure to reform brought on by the Association Agreement with the EU and the extremely favorable local and world economic conditions up through 2001. However, the state's traditionally dominant position in planning the economy, the chronic weakness of private investing and the clumsy administration stood in the way of reform. Therefore, the level of difficulty of the socioeconomic transformation during the evaluation period is rated at low to medium.

5.2 Reliable pursuit of goals

To achieve better integration and representation of society within the structures of the authoritarian system, the government undertook some very targeted and consistent measures to stabilize the authoritarian regime in the long term. The government identified the ideal mid- and long-term goals for the market-economy transformation, giving them precedence over short-term goals in its policies.

This tactic enabled the government to follow a consistent, coherent policy with definite scheduled dates, keeping the inflation rate low during the evaluation period and maintaining budget discipline. The government continued to liberalize foreign trade, improve the climate for investors, reform the banking system by passing new laws and pushing mergers, foster agriculture and underdeveloped regions, and invest in infrastructure and education with legislative consistency.

Since 1998, the government has been trying to cushion the social costs of the market-economy transformation through a significantly more active labor market policy, which includes continuing education measures and supporting small-business owners. Overall, the reform of the banking sector and the administration, along with liberalization of foreign trade, must be pursued more resolutely.

In light of the subdued economy since 2001, the government, in accordance with the EU free-trade agreement, is suspending the liberalization of foreign trade in certain areas, while rolling it back for a limited time in others. Fundamentally, the government warrants the reliability of expectations for societal and economic actors, as well as the coordination of individual macroeconomic objectives.

5.3 Effective use of resources

For the most part, the government is using available personnel, organizational resources and the favorable macroeconomic conditions to facilitate the market-economy transformation effectively. It is also consistently using the country's comparative advantages and is expanding on some of them: the proximity to European markets, the diversified processing industry, the well-trained yet low-cost labor force, and the targeted use of the country's natural beauty for tourism.

The government was able to attain most of its reform goals during the evaluation period. Public services, especially infrastructure, education, health care, and newly created initiatives are suited for additional progress in economic development. For resources to be used even more efficiently, more comprehensive reforms need to be made in the areas of administration, banking, and the effectiveness of universities.

So far, the fight against corruption has not included the productive and impartial application of the law. On a more abstract level, an increasingly effective economical use of resources requires, both on the part of banks and enterprises, the pursuit of long-term investments and a change in attitude toward self-initiated actions.

Although the government is trying to foster the modernization of the economy and society, including personal responsibility and the emancipation of women, its aims are hindered by the lack of openness in politics. Here the government is not making use of implicit resources, such as the tradition of political moderation, tolerance, minimal social tension and nonexistent ethnic tension. The government is successfully resting on traditional assets such as solidarity toward the weaker members of society (e.g., the Islamic tradition of giving alms to the poor) to help cushion the transformation.

5.4 Governance capability

The executive branch controls the reforms in a politically clever way. The leading political actors, especially the president and his inner circle, adapt quickly and are able to replace failed policies with innovative approaches. During the period

under study, a number of presidential initiatives demonstrated the government's ability to adapt and adjust political priorities. These included the restructuring of the administration and the banking sector, social support measures for economic transformation, an active labor market policy and the periodic reorganization of the government.

The government has sufficient political authority to carry out the reforms. Political resistance groups cannot organize themselves effectively because of the authoritarian government system. The reformers are politically clever when choosing individual reform steps, tools, and strategies for the economy.

The government's policies are greatly improving the markets' ability to allocate efficiently while implicitly cementing its dominant role in the economy with these policies. The weaknesses of private investments have not yet been balanced out satisfactorily. It is feared that the government's capabilities to allocate resources effectively could fail with stagnating or worsening economic framework data, perhaps because of the inherent inability of the authoritarian system to reform. There is also the danger that the rule of law, personal initiative and the self-regulating powers of the markets will not be able to develop sufficiently in the future.

5.5 Consensus-building

All relevant political and societal actors, including interest groups and unions, agree with the government's stated reform goal of a market economy because the fruits of the economic and social advances can already be tasted. There is also agreement about the government's announced goal of democracy. For the short and medium term, the proclaimed transformation goal of democracy remains more propaganda than reality.

The palpable consensus is similar to a state ideology, which was not even challenged during the so-called "election campaigns" in the 1990s. Because of the autocratic character of the political system, opposition parties and interest groups cannot block the market-economy reform process either through a parliamentary majority or their economic power. Even partial criticism of the government's course of action can be construed as disobedience and is subject to punishment. Given these circumstances, the main union, UGTT, and the legalized, more left-leaning opposition parties have thus far simply pled for stronger social cushioning of the economic transition in agreement with presidential directives. Because democratization has yet to take place, there is no sensible answer to the question of anti-democratic veto actors in Tunisia. Dissent within the regime about the measures taken in the course of the reform is handled through cabinet reshuffling

and the assignment or withdrawal of career chances with the official party and administration.

Ethnic and regional tensions, societal conflicts over income distribution and religious schisms, while thus far not having shown any major virulence in Tunisia, have no legal mode of expression in this controlled party system. So far, however, the government has been successfully fostering the integration of certain groups (e.g. the unemployed, youths) through targeted initiatives. These efforts effectively lower social polarity and expand the consensus across cleavages as part of an authoritarian, corporatist reconciliation of interests.

Riots that have flared up in recent years among students, and to a limited degree in the underdeveloped regions of the south, point out the limits of this model of integration. In the case of a long-lasting economic crisis, more serious social tensions from these groups can be expected.

The traditionally deep-rooted societal solidarity, arising from the Islamic tradition of giving alms to the poor, is fostered by the state through a number of institutions such as the National Solidarity Fund and, since 1998, the National Fund for Employment. The state has thus far channeled funds relatively efficiently to cushion the effects of the market-economy transformation on the populace. This institutionalized form of social solidarity primarily allows the government to look like a benefactor depending on the form that the intervention takes, which includes direct financial aid for the needy. At the same time, there are indications that enterprises' "donations" to these funds are actually obligatory and not insignificant. The allocation of the money from the funds eludes democratic supervision.

Past human-rights abuses have still not been prosecuted to any noticeable degree. As part of the constitutional referendum in 2002, the president was given immunity for a period of time following the end of his term in office, which is still not in view at the moment.

5.6 International cooperation

Improvements in Tunisia's economic balance have been strongly linked to strengthened cooperation with external actors, especially the EU, since the 1980s and during the evaluation period. This traditionally close collaboration peaked with the EU Association Agreement of 1995 and in the free-trade agreement, which has been in effect since 1998. The political actors are using targeted bilateral loans or the help of multilateral donors, such as the EU's Mediterranean initiative, for the economic transformation.

The role of external actors in the possible introduction of actual steps toward democracy is minimal so far. Tunisia has shown itself a reliable and cooperative partner in regional (e.g., Arabian Maghreb Union) and international organizations (e.g., IMF), unlike other regional powers. During the evaluation period, Tunisia concluded a number of intraregional agreements on the gradual realization of free trade with its neighbors in Africa and members of the Arabian world.

Internationally, the government is assessed as being extremely reliable and predictable. The successful structural adjustment from 1986 to 1991 played a big role in this, as did the signing of the Association Agreement with the EU in 1995 and the fact that Tunisia has never had to restructure debts. During the evaluation period, the government backed up this assessment with a conservative monetary policy, continual improvement of investment conditions, and the implementation of additional administrative reforms and reforms related to the transparency of the banking and enterprise organizations (e.g., in 2000, a new *Code des sociétés commerciales*).

The continually increasing trust showed in, for example, moderate exchange-rate premiums in the black market compared with the rest of the region, improving property rights, and Tunisia's top ranking—compared with the rest of Africa—in the World Economic Forum's African Competitiveness Report and other risk ratings (e.g., Moody's, Standard & Poor, and COFACE).

6. Overall evaluation

In view of the originating conditions, current status and evolution achieved, as well as the actors' political achievements, this report arrives at the following concluding evaluations:

(1) *Starting conditions*: The starting conditions for the transformation were generally positive. Prior to the observation period, Tunisia already had notable functional market-economy structures compared with other countries in the region. A capable state existed; the nation did not have to be "re-invented" first. The lack of rule-of-law, civic, and democratic traditions stand in the way of this.

These findings are valid, despite the relatively close contact with Western countries, the modern education system, an increasingly differentiated society, and the diffusion of civic and democratic values throughout the expanding middle class. During the evaluation period, as in previous years, there was a stark contrast between the progressing market-economy transformation and the absent democratic transformation.

(2) *Current status and evolution*: Tunisia lacks the constituent elements of democracy for a democratic transformation. During the evaluation period, there were no hints of a democratic transformation. This makes the questions of democratic consolidation, possible threats to democracy, rule of law, and the citizens' support of the democratic system superfluous.

The high institutional efficiency of the system of government, even in its authoritarian and corporatist aspects, is significant for political stability and also for the market-economy transformation. Building on the continued economic growth, societal integration remained remarkably high during the evaluation period.

As for the market-economy transformation, the political decision-makers continued to frame the macroeconomic indicators favorably. The structures for a market economy continued to be actively improved during the evaluation period. All in all, the economic transformation to a functioning social market economy will not be concluded in the foreseeable future.

Some significant shortcomings in structural change remain, including: the transparency and assurance of justice, the fight against corruption, an administrative reform, the establishment of a healthy banking system and capital market, a reform of the Tunisian economic system, the effective freeing of private initiative, the liberalization of trade, and the expansion of the market economy. The growth crisis at the end of the evaluation period will put state management to the test for the next few years.

(3) *Management*: The conclusion about the actors' relative management achievement during the evaluation period is ambiguous. The government did not intend to introduce a democratic transformation. The government's management strategy for the economic transformation process was largely consistent with the challenges it faced, which resulted primarily from the Association Agreement with the EU and the looming trade liberalization for industrial goods.

The management strategy built consistently on the notable achievements of the previous period, both in substance and in speed of reform, as well as in relation to the educational policy, the creation of investment incentives, and the diversification and general modernization of the processing industry and agriculture. It is clear, however, that the remaining shortcomings in economic transformation are structurally linked to the existing authoritarian political system in Tunisia.

7. Outlook

Thus far, Tunisia has not undergone a democratic transformation. Starting in the late 1980s and through the evaluation period, additional institutional reforms have been initiated, e.g., voting reforms, introduction of a bicameral parliament. However, they served mostly to stabilize the authoritarian regime, and in some aspects also to create a type of “façade democracy” that is below the threshold of a democratic transformation. A true democratic transformation would require fundamental reforms in the rule of law, political participation, and development of party-based political and societal integration, none of which are expected in the medium term.

In its market-economy transformation, Tunisia has not yet achieved the status of a completely developed market economy. In light of the unfavorable conditions at the time of independence, it must be emphasized that the country has undergone noteworthy development in this area. The transformation advanced during the evaluation period, but this would be unthinkable without the development that has occurred since the 1970s.

The successful transformation is largely due to the achievements of internal actors. The key tasks that need to be taken care of in the medium term include continued reforms of the current organization of the market and competition, especially reforms of the banking sector and the administration, further liberalizing foreign trade, consolidating the assurance of justice, protecting the sustainability of economic development, fighting corruption convincingly and expanding the social state.

The division of traditional development risks among climate, world economy, and tourism factors tends to lower the risks for market-economy reforms in the future and increase the state actors’ leeway. In addition to institutional regulations, the market-economy transformation requires better establishment of the entrepreneurial spirit in the long term, with the future of the country tied to personal initiative and the establishment of enduring competitive production branches. This development requires a change in mentality on the part of the state as well, especially in the effective opening of the authoritarian regime.