

Tunisia

Status Index (Democracy: 3.83 / Market economy: 6.50) 5.17		Management Index 4.42	
HDI	0.753	Population	9.9 mn
GDP per capita (\$, PPP)	7,161	Population growth¹	2.0 %
Unemployment rate	-	Women in Parliament	22.8 %
UN Education Index	0.74	Poverty²	6.6 %
		Gini Index (2000)	39.8
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Annual growth between 1975 and 2003. ² Population living below \$2 a day (1990- 2003).			

A. Executive summary

As in previous periods under study, Tunisia offers the model of an apparently stable authoritarian regime with a progressing market-economy transformation.

During the last two years (2003-2005), Tunisia has witnessed stagnation and slight deterioration in the process of democratic transition. The system of power relationships and the constitutional and legal arrangements organizing political participation have remained essentially authoritarian. Legal opposition movements are mostly controlled by the authorities and there is no effective opposition to the regime inside the country. The formally “pluralistic” yet stage-managed presidential elections of October 24, 2004 underlined the regime’s tendency for a de facto re-introduction of the “presidency for life” after the 2002 constitutional amendments had allowed President Ben Ali to run for two more presidential terms.

Tunisia has taken minor steps toward a sound market economy. Economic reforms have been building on an already respectable transformation record. Ongoing economic transformation has largely followed the schedule and orientation fixed after the Association Agreement with the European Union, which has been in effect since 1998 and it is set to establish a free trade area between Tunisia and the European Union by 2008. The Tunisian leadership has reaped the fruits of earlier continuous improvements of the institutional framework of the market economy (2003-2005). Tunisia suffered an economic setback in 2002 (economic growth 1.9%) due to the joint effects of several years of drought, flat growth in Europe, the “09/11 effect” and the terrorist attack in Djerba. Yet in 2003 and 2004, the Tunisian economy has improved, with increasing growth rates of 5.5% in 2003 and 5.8% in 2004. Tunisia has maintained a macroeconomic balance in its “soft” transformation toward a socially founded market economy. This quick economic recovery highlights the degree of immunity from external shocks Tunisia’s economy has reached over the last decade in part due to the following assets: the increasing openness of the

economy, internal political stability, well-educated and yet inexpensive labor force, its well-developed infrastructure, investment incentives as well as the diversification of its industry (mainly textile, leather and electronics) and agriculture.

A number of significant flaws persist as obstacles to the consolidation of transformation toward a socially responsible market economy. These flaws include the insufficient liberalization of foreign trade, a weak and intransparent financial sector, the inertia of the Tunisian administration and high unemployment especially among young and better-educated Tunisians. The Tunisian leadership has to face these challenges in order to meet its own ambitious development targets and to avoid a potential destabilization of the political and economic system in the medium term.

B. History and characteristics of transformation

After Tunisia gained its independence on March 20, 1956, the Néo-Destour independence movement, under the leadership of President Habib Bourguiba (1959-1987), installed a post-colonial single-party regime. The 1959 constitution vested the president with hegemonic power within the state institutions. Parties other than the Néo-Destour were forbidden between 1963 and 1981.

On November 7, 1987, incumbent President Zine El-Abidine Ben Ali ousted Bourguiba. Contrary to his predecessor, President Ben Ali has regularly referred in his rhetoric to an imminent “democratic transformation”. The leadership has, since 1987, legalized a number of opposition parties and taken a set of symbolic liberalization steps mainly with reference to the formal status of human rights and the rule of law. Opposition parties have been represented in Parliament since 1994. Presidential elections have been formally pluralistic since 1999 with the lifting of legal regulations that had made oppositional candidacies for the presidency impossible.

Despite this liberal face of the regime, the regime’s democratic transformation has been stagnating since 1987. To date neither the authoritarian constitutional structure has been cut back, nor has the hegemonic position of the ruling party, renamed to Rassemblement Constitutionnel Démocratique (RCD) in 1988. The constitutional amendments of 2002 that allowed President Ben Ali to run for another two terms and established a second parliamentary chamber may be interpreted as a slight deterioration with regard to the proclaimed gradual democratization. Opposition parties lack any following in the population and largely depend on state subsidies. Parties owe their parliamentary representation to the guaranteed minimum representation introduced in 1993. Despite minor legal reforms, the adverse human rights situation has been stagnating since the early 1990s. Especially notable have been assaults on critical journalists, human-rights groups and the harassment of opposition politicians who tried to withdraw

from the imposed “national consensus” among legalized political actors. At least in the short run, further steps toward the establishment of a democracy in Tunisia seem excluded.

The constitutional modification in 2002 and the handling of the presidential and legislative elections on October 24, 2004 have on the contrary highlighted the regime’s apparent stability. Uncontrollable official figures of the presidential poll credited incumbent President Zine El-Abidine Ben Ali with more than 94% of valid votes - a large victory over his three oppositional “contenders”. According to official sources, ruling RCD won 87.6% of votes.

On the socioeconomic side, newly independent Tunisia, like many other developing countries, first followed a development strategy of state-induced industrialization and import substitution for a largely insular market. Hence, up to the 1960s Tunisia’s integration into the world market was primarily via the export of its raw materials (phosphate, crude oil and gas). After the short “socialist” period in the second half of the 1960s, Bourguiba oriented Tunisia towards a market-based economy from the 1970s. Since then, Tunisia has nearly reached the status of a newly industrialized country by exploiting numerous comparative advantages: its proximity to Europe, a diversified processing industry, its low cost yet skilled labor force and the country’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 middle of the 1980s, Tunisia underwent 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, a restrictive budget policy, and improved investment conditions to increase industrial exports. In 1995, Tunisia was the first Southern Mediterranean country to sign an association agreement with the European Union (in effect since 1998) that is providing for the complete dismantling of reciprocal trade barriers for industrial goods by 2008. In recent years, investment-friendly legislation has allowed continued world market oriented diversification of the range of goods and services offered, especially in the textile, leather and electronics industries and tourism. In this context, the *mise-à-niveau* modernization program has been designed to increase the competitiveness of Tunisian industry and agriculture. The development of a social state and the active labor market policy has so far cushioned social hardship.

The tight schedule in the target dates for complete economic association with the European Union together with the persisting economic weaknesses – the slow bureaucracy, persistent domination of the public sector, a lack of economic transparency, looming crony capitalism and corruption – will test the leadership’s management of the market economy transformation in the foreseeable future.

C. Assessment

1. Democracy

1.1. Stateness

There are no problems of stateness in Tunisia; the state's monopoly on the use of force is not contested.

Defining citizenship and who qualifies as a citizen are politically beyond dispute. All citizens have the same civic rights, which are however, restricted by the authoritarian nature of the polity. The preponderant majority fundamentally acknowledges the state's constitution.

Islam is the official state religion, and Islam is still fundamental to the personal identification and expression of most Tunisians. Unlike his predecessor, President Ben Ali has resorted, since 1987, at times to ostentatious acts of religiosity. In the 2002-2003 period, the President sponsored the building of a new mosque north of Tunis. Religious dogmas have, however, no noteworthy influence on politics or law. Any potential opposition demanding a more prominent place for Islam in Tunisia can be expected to face severe suppression, as observed with the Ennahdha movement in the early 1990s. The small Christian and Jewish minorities are granted freedom of religion.

The state has at its disposal a differentiated administrative apparatus throughout the country, making it possible to extract and allocate state resources on a broad basis. The administration's autonomy is in fact limited when clashing with personal interests of those close to the presidential clan.

1.2. Political participation

Formally, all citizens have the right to vote and campaign for political office. However, Tunisians do not in fact have the choice to decide over who rules. Potentially critical Tunisians encounter problems in registering on electoral rolls. Presidential and state party (RCD) hegemony, the lack of press freedom, the discriminatory electoral system and the manipulation of election results prevent meaningful competition among candidates.

Because of Tunisia's authoritarian context, there are no veto powers and political enclaves.. Effective power lies with the president and his personal environment and, partly, with the government and RCD officials.

Relevant opposition parties, especially the Islamist Ennahdha movement in the early 1990s, have been prohibited or systematically disabled. The selectively

legalized opposition parties do not have a mass following and they are largely maintained by state subsidies. The fact that these parties are often historical offsprings of the ruling party based on disaffected personalities and regionalized affiliations contributes to their inability to challenge the regime credibly. When voicing criticism, legal parties are periodically obstructed or subjected to manipulation. Freedom of assembly is not assured everywhere.

Civic organizations, even when not formally legalized, are sometimes tolerated when they support the regime or are not outspokenly critical of it. The president's often expresses his commitment to a more pluralistic press. However, in May 2004, the (not legalized) Tunisian League of Human Rights and LTDH denounced again the government's firm grip on newspapers and television. Newspapers of legalized opposition parties represented in parliament receive direct subsidies (some 45,000 euros in 2004) and a set of indirect government support. Criticism is tolerated within "red lines" which vary over time. Censorship is anchored in Tunisian legislation insofar as current issues of opposition newspapers are subjected to censorship prior to publication. In addition, mechanisms of self-control apply.

1.3. Rule of law

While several state powers exist, they do not check and balance one another. The president can rule in most legislative fields by decree. Parliament has in theory and in practice extremely restricted powers to check the executive, given the overwhelming parliamentary majority of the governing RCD (since 2004: 80% of parliamentary mandates). Opposition members of parliaments critical of this situation have faced varieties of intimidation and judicial harassment in recent years. The establishment of a second parliamentary chamber scheduled for summer 2005, which was introduced by constitutional amendment in 2002, may further neutralize the already weak lower house. One-third of the members of this new upper house will be nominated by the president and elected indirectly by municipal councils and corporatist civil society organizations.

Judges are constitutionally "independent". However, they are appointed by the president and thus prone to political pressure. The Constitutional Court cannot set or monitor any standards independently. Criminal judges in particular must comply with "political proceedings" against dissidents. When it comes to the issues of the economy and personal property and when compared with regional standards, the Tunisian justice system has however, obtained excellent international ratings.

There are laws against corruption and sporadic campaigns decry and prosecute corruption to set an example. Nevertheless, according to countless reports in the Western media, officeholders and individuals close to the ruling "presidential clan" can exploit their office for private gain free of legal prosecution. Practices of

crony capitalism are said to be gaining ground. Yet, due to the absence of transparency, it is hard to determine the extent to which such practices permeate the economy as a whole.

The Tunisian constitution of 1959 guarantees human rights “within the limits of the law”. Since the late 1980s, the government has successfully tried to create an image of itself as the regional champion of human rights, especially in terms of religious tolerance and gender equality. In practice, critical opposition members, independent human rights activists and journalists have regularly been denied their civil rights and suffered from varying degrees of intimidation, repression and unfair trials. A law on “combating terrorism” was promulgated on December 10, 2003 which leaves considerable room for interpretation.

1.4. Stability of democratic institutions

There are no democratically legitimated institutions in Tunisia. Hence, the obvious institutional stability proves primarily the inertia of the authoritarian regime. Due to the undisputed national identity, the administration of state institutions is capable of performing, particularly by regional standards.

Tunisia looks back on a long tradition of well-developed state institutions. Given this tradition and the basic acceptance of central political institutions, once democratized, stable and performing institutions might become genuine assets for a possibility of democratic consolidation in the future.

1.5. Political and social integration

Due to the hegemonic character of the Tunisian party system, questions referring to its fragmentation and polarization or the degree of voter volatility cannot be reasonably answered. The seven legalized opposition parties (as of 2004) have practically no following in society and depend on state subsidies. The results of the presidential and legislative elections of October 24, 2004 have, as previous polls in 1994 and 1999, led to an artificial (over-)representation of the docile “opposition” parties. When voicing criticism of the executive, opposition parties are periodically played against one another or face different kinds of repression and are provoked, which leads to internal splintering. Independent new opposition forces have not been discernible inside the country over the evaluation period.

Societal interests are not mediated freely into the political sphere, owing to the authoritarian nature of the Tunisian regime. Due to administrative barriers and economic restrictions, civil society groups remain overall present in isolated social segments only; they cooperate little and they are poorly balanced. Hence, certain social interests especially of young, unemployed and those dealing with political rights remain underrepresented.

Acting partly as a functional equivalent, the governing party RCD and its affiliated associations has traditionally offered a densely woven network of state-controlled interest groups. Especially since the late 1980s, the RCD has been diversified organizationally. It has ensured a relatively broad integration of young and well-educated people. In addition, out of what can be termed “state feminism”, women have been integrated into the political process through an internal quota system (the percentage of female ministers of parliament are high by regional standards). However, women have not yet attained “hard ministerial” posts. Hence, there exists some stable and relatively effective pattern of corporatist representation. Wage negotiations are held every three years under the aegis of the state between the employers’ association and the unions. This has so far guaranteed that wages, particularly in the lower brackets, continue to rise in a controlled manner. Interest conflicts occurring in this context are not dealt with openly. The right to strike is officially guaranteed but has not been used, since the 1980s, as a means of handling political disputes.

Divergent views of state-controlled groups and of civil society groups operating illegally or from abroad have in recent years illustrated the limits of this kind of state led interest representation and the lack of a truly free civil society.

In the absence of reliable data, we can suppose that the concept of “Western democracy” enjoys high esteem, at least at an abstract level, among urban elites and the middle classes. Yet, due to the lack of democratic traditions, authoritarian patterns of behavior do certainly persist, which might seriously inhibit any potential democratic consolidations in the future

Despite a well differentiated and, by regional standards, high education level, self-organization in civil society clashes with authoritarian intra-societal relationships and with the lack of previous democratic experiences. Furthermore, the emergence of civic structures is countered by the tendency to build relationships along family lines or through cronyism. This may be attributed to the lack of political representation produced social tensions that materialized in the late 1980s. In the end however, the absence of a violent history and of ethnic and religious conflicts together with the pronounced culture of tolerance in the country and the economic and cultural homogeneity of Tunisians may be conducive to building social capital. The lack of political representation produced tensions that materialized in social upheavals with student protests in the late 1980s.

2. Market economy

2.1. Level of socioeconomic development

Given its medium level of development Tunisia, is still a far from ensuring adequate freedom of choice for all citizens. Yet, as in the previous evaluation period, the state has, since 2003, successfully sought to increase Tunisia’s overall

development level. Measured in terms of its HDI, Tunisia's absolute development status has increased from 0.703 (HDI 1998) via 0.734 (HDI 2000) and 0.740 (HDI 2001) to 0.745 (HDI 2002); in relation to other countries Tunisia thus increased its ranking from 101st (1998), 97th and 91st to the 92nd position worldwide (2002). Leaving aside the rich oil-exporting Gulf States, the level of social exclusion due to poverty, education or gender discrimination is considerably low in Tunisia by regional standards. Hence, the absolute GDP per capita has increased to 2,300 euros by 2004 compared to 1,600 euros in 1998. Taking into account power purchase parities, per capita income has reached \$6,760 by 2002 compared to \$6,390 in 2001. These figures partly hide the relative squeezing the traditional middle classes have experienced in recent years.

2.2. Organization of the market and competition

By regional standards, the Tunisian leadership has increased the fundamentals of market competition in recent years. According to recent World Economic Forum statistics, Tunisia was ranked the second most competitive African economy after South Africa (globally: 41st position of 104 ranked countries). Pricing is 90 % free, and foreign investors have been granted free disposition and transfer of profits, along with significant tax and tariff relief. A gradual transition toward a floating exchange rate has been scheduled for 2010 to attract more FDI, to increase the competitiveness of Tunisian products and facilitate companies' access to capital.

Yet, on a global level, in 2000 the country ranked only 63rd in the "mostly free" category on the Heritage Foundation's Index of Economic Freedom, with a score of 2.9. This evaluation has been due to continued heavy regulation, the persistence of strong protectionist tendencies and the significance of an informal market.

The formation of monopolies and oligopolies is regulated only occasionally. In fact, the influence of powerful clans and practices of crony capitalism are looming and may be watering down economic freedom increasingly. Yet, it is difficult to tell to what extent such practices permeate the economy as a whole.

Foreign trade is among the most liberal in the region. Tunisia is a member of the WTO and it has signed a free trade agreement with the European Union (in effect since 1998) which has scheduled complete mutual trade liberalization for 2008. Foreign trade still suffers from a high degree of regulation and from the existence of import licenses and quota settings. Tax receipts still highly depend on foreign trade tariffs.

The weakly developed banking sector and capital market reflect the reality of a traditionally state-dominated economy. Efforts have been taken recently to bring debt profiles under control and to introduce international standards and capital ratios. However, significant weaknesses of the sector persist and they are

frequently cited as a hindrance to economic modernization. This concerns especially the banks' relative undercapitalization and the high level of non-performing loans, which in 2004 reached 23.4% as a share of bank assets according to Maghreb Rating.

2.3. Stability of currency and prices

Since the end of the 1980s, the Tunisian government has effectively implemented inflation control and an appropriate exchange-rate policy. The central bank is not independent. Slightly up compared to the previous evaluation period, fluctuations in the inflation rate have persisted just above 3% since 2003.

In budgetary matters, Tunisia's government traditionally heralds a "stability culture". According to World Bank and IMF data, the budget deficit has hovered around 3% between 2002 and 2004. Absolute foreign indebtedness (59% of GDP in 2004, 60% in 2003, 62% in 2002) and debt service (2002: 13.5% of exports, 2003: 13%) stagnated at relatively high levels, despite a favorable debt structure.

2.4. Private property

Property rights and the acquisition of property are legally well defined. Foreigners are still not formally allowed to buy land, but permanent leases are possible. Problems persist given the lack of the rule of law. During the evaluation period, increasing practices of crony capitalism and a lack of respect for private property on the part of clans close to the regime have increasingly been cited as factors inhibiting investment from domestic and external actors.

Private enterprises can operate freely in principle, but they often confront several economic and political barriers. State-owned enterprises continue to have an important economic position; the announced privatization of state-owned companies has stagnated during the evaluation period. With the close connection of political and economic spheres, *de facto* monopolies and practices of crony capitalism seem to be on the rise.

2.5. Welfare regime

Social security provisions and genuine access to them are declining overall. Nevertheless, the systems in place remain considerable for the region. Citizens can take advantage of free basic outpatient medical care in clinics. Employees with official contracts must pay social insurance contributions. In 2002, this 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 doctors' offices. Due to declining standards in state-run social security systems and the emergence of a new rich social class, private nursing providers

are becoming more and more significant. Government employees have a right to a pension.

The state makes efforts to boost economic and social equality to cushion social hardship linked with economic liberalization. Thus, the state offers both financial and direct help for needy families and fosters private home ownership and the founding of small businesses through low-interest loans. Given the high level of unemployment (officially approximately 14.3% in 2004, but likely higher) and the role of the informal sector, private solidarity networks remain important.

Tunisian society has traditionally been relatively homogeneous over the last 40 years. In addition, in the context of ongoing economic liberalization, the Gini-Index of 39.8 in 2002 compared to 41.7 in 1995 suggests a closing social gap in recent years. Especially due to targeted social transfers, the number of persons living on less than \$1 per day has been reduced to approximately 4% by 2004, according to *Jeune Afrique L'intelligent* (less than 2% according to HDR 2002). However, these figures partially mask the relative squeezing that traditional middle classes such as teachers, doctors or public sector workers have experienced in recent years. In addition, with some 7% of the population living on less than \$2, many people live just above the official poverty level. Assistance mechanisms for women, the disabled and socially disadvantaged are available, particularly in education. "State feminist" efforts have been made to promote gender equality in education and the workplace. Women now have almost equal access to secondary and tertiary education, but they remain disadvantaged socially as well as economically, especially in terms of income and public office.

2.6. Economic performance

Tunisia has shown high growth rates by regional standards since the early 1990s (on average more than 4%). After a dip in growth in the aftermath of September 11, 2001 (2002: 1.9%), the Tunisian economy has again embarked on solid growth with rates of above 5% in 2003 and 2004 and an estimated growth of 5% in 2005. Since the 1990s, growth has been due primarily to strong exports (2003: 9.1%, 2004: 13.3%, respectively first three-quarters compared to the same period of the previous year), based on the successfully diversified processing industry (textile, leather and electronics), in connection with ongoing trade liberalization, Tunisia's proximity to European markets and the strong euro, the high level of education and the low wages. Abundant rainfall in 2003, 2004 and early 2005 together with more tourists entering the country have also contributed to growth. This overall good economic performance is complemented by moderate inflation and fiscal discipline. The high levels of unemployment and debt as well as the weaknesses of FDI and private investments remain structurally critical.

2.7. Sustainability

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

Following official figures, Tunisia's education spending at the end of the 1990s was an excellent 7.7 % of GNP, or 19.9 % of the budget; nearly all children attend school irrespective of their gender. Yet, in recent years educational standards have deteriorated outside urban middle class areas, and this both in the state-run primary and secondary education as well as at university level. Schools are operating double shifts to cope with the number of pupils, university lecturers frequently complain that classes are crammed with under-achievers who might otherwise be registered as unemployed. Graduates of state universities lack an efficient career orientation. Deteriorating standards have added to high unemployment among youth. Conversely, private educational institutions are becoming more important. Despite some efforts to foster dual vocational training, serious deficits remain in this field. With 0.3% of the GNP, expenditures for research and development over the 1990–2000 period were not internationally competitive.

3. Management

3.1. Level of difficulty

Structural constraints on governance have been low over the evaluation period. This was due to the efficient state administration, the enormous power at the hands of the executive, the development level already attained, the overall good social and economic performance and the absence of ethnic and religious conflicts. Stagnating political transformation has proven the lack of will to undertake democratic transformation and protect human rights effectively.

Despite the traditionally well-rooted civic organizations, the authoritarian nature of the regime has since 1956 hindered civil society from flourishing. The corporatist top-down initiation of liberalization and associations close to the RCD have since 1987 partly served as a functional equivalent to open spaces for civil society activities.

The lack of prospects for the younger and better-educated generation has led to a limited number of popular uprisings in the 1970s and 1980s and the emergence of political Islam in the 1980s. Social lines of division have been reduced thanks to the economic successes of the 1990s and through the active social policy.

Virtually no irreconcilable ethnic or religious cleavages currently restrain the leadership's leeway to engage reforms. The emerging class of "nouveau riches" and recurrent though limited uprisings of youth in less developed areas seem to indicate, in recent years, that social cleavages may soon become more important.

Profile of the Political System

Regime type:	<i>Autocracy</i>	Constraints to executive authority:	0
System of government:	<i>Presidential</i>	Latest parliamentary election:	24.10.2004
		Effective number of parties:	1.5
Head of State:	<i>Zine el Abidine Ben Ali</i>	Cabinet duration:	01/03-present
Head of Government:	<i>Moamed Ghannouchi</i>	Parties in government:	1
		Number of ministries:	28
		Number of ministers:	28
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i. Number of ministries/ ministers denotes the situation on 1 January 2005.</p>			

3.2 Steering capability

As in the previous evaluation period, the political leadership has claimed to pursue the goals of democratization and the transformation to a market economy. Democratization in this respect amounts essentially to establishing a cosmetic façade of political institutions. In the economic realm, the leadership has undertaken targeted and consistent measures after identifying effective mid- and long-term goals for transformation toward a market economy, and gives them precedence over short-term goals in its policies.

During the 2003-2005 period, the leadership followed a coherent policy with clearly defined scheduled dates, keeping the inflation rate low and maintaining budget discipline. In line with its international obligations, the government continued to liberalize foreign trade, improve the climate for investors and foster agriculture. The government also supported the development of poor regions and invested in infrastructure and education with legislative consistency. As previously, the government has been trying since 2003 to cushion the social costs of market economy transformation through an active labor market policy, which includes education measures and the support of small-business owners. Overall, the reform of the banking sector and the administration, along with liberalization of foreign trade, must be pursued more resolutely. Tunisia's leadership score suffers from the contrast between a highly efficient economic policy and political stagnation.

The political leadership, which is neither democratically elected nor accountable to the legislative branch or the judiciary, is formed of technocrats. Leaving aside

the call for further democratization, these officials have proven to act responsively toward popular needs in recent years. With an overall successful and legitimate economic and social policy, the scale of policy innovation initiated over the last two years has been minimal. For the same reason, the leadership's readiness to change their policy in the light of mistakes and failed policies has not been tested over the last two years.

3.3 Resource efficiency

For the most part, the government has been using available personnel, organizational resources and the favorable macroeconomic conditions effectively to facilitate transformation toward a market economy. In so doing, it has been using the country's comparative advantages and is expanding on some of them. These include the proximity to European markets, a diversified processing industry, a well-trained yet low-cost labor force, and the targeted use of the country's natural beauty for tourism. For resources to be used more efficiently, more comprehensive reforms need to be taken in the areas of administration, banking and the effectiveness of universities. This overall positive evaluation has been flawed over the last two years by the lack of willingness to use human resources and the available social capital in order to trigger a democratic transition. Here, the government is not making sufficient use of implicit resources such as the tradition of moderation and the lack of social and ethnic tension.

The government was able to attain most of its economic reform goals during the evaluation period and, in so doing, acted coherently. Yet, this evolution reflected an effective technocratic way of handling economic transformation more than a genuine political coordination between conflicting interests.

Given that it is impossible for independent institutions to review state spending policies and citizens' access to information is partial, the Tunisian leadership cannot be said to curb crony capitalism and corruption successfully. On the contrary, the perception of a "presidential clan" among the Tunisian population is high and generally views all political decision makers as more or less corrupt.

3.4 Consensus-building

Relevant political and societal actors agree with the leadership's stated reform goal of a market-based democracy. The overall consensus on reforms in the population has been fostered by the fact that the fruits of social progress could already be reaped over recent years. The Islamist movement Ennahdha, which in the early 1990s called for the establishment of an "Islamic" state model, was repressed at that time. Given the lack of transparency in the country, it is difficult to tell today the extent to which the ideological base for political Islam has effectively been eradicated.

The often-proclaimed consensus on transition to a market-based democracy does in fact amount to a kind of state ideology. As for the proclaimed transformation goal of democracy, this goal remains for the time being more propaganda than reality. As for market-economy reforms, legal opposition parties and interest groups, in fact, cannot block the process in parliament or through any other bargaining power. While basically agreeing with presidential directives, the UGTT union and the small left-leaning opposition parties have thus far urged for stronger social cushions for economic transition.

Given the authoritarian character of the Tunisian polity, discussions of “anti-democratic” veto actors are only partly meaningful. As far as the issue of democratization is concerned, the leadership clearly lacks the will to even partially reduce its control over society. Dissent within the regime about the measures taken in the course of transformation toward a market economy has thus far been handled through cabinet reshuffling and the assignment or withdrawal of career chances within the RCD and administration. The military does not represent an important veto power within the regime. Reform-oriented actors in society, among opposition parties and in intellectual circles, seem politically irrelevant today.

Potential societal cleavages have no legal mode of expression in the controlled hegemonic party system. In fact, ethnic and regional tensions, societal conflicts over income distribution and religious schisms have thus far not shown any major virulence in Tunisia. The leadership has successfully depolarized possible friction especially between Islamists and secularists or between poor and the “nouveau riches” through its economic successes and active social policy. Riots flaring up in recent years among students in the underdeveloped regions of the south point however to the risk of increased social tension, especially in the case of a long-lasting economic crisis, which the regime may find hard to handle within the given authoritarian context.

The Tunisian leadership faces a dilemma insofar as it is building social capital through its education efforts and its active authoritarian corporatist way of interest mediation. However, given the authoritarian logic of the regime, the Tunisian leadership has proven intrinsically distrustful of all forms of independent civic engagement. The leadership partly fosters traditionally deep-rooted Islamic societal solidarity through a number of institutions such as the National Solidarity Fund and the National Fund for Employment. This institutionalized form of social solidarity primarily allows the government to appear a benefactor by granting direct financial aid to the needy, while avoiding independent oversight over the financial resources allocated.

While leaving civil society actors barely any autonomous space for political action, the Tunisian leadership, again in recent years, has accommodated quite successfully the interests of large sections of the population. The leadership has been helped by the well-developed organizational grassroots network of the ruling

RCD party. Independent civil society actors are not integrated as such in the political process. In the medium and long term, the regime may run the risk of neglecting central societal interests, especially those of the younger, better-educated social strata with difficult job prospects.

3.5. International cooperation

In recent years, the Tunisian leadership has consistently cooperated with bilateral and multilateral international donors to improve its economic transformation record. Tunisia has been a WTO member since 1995. Tunisia's traditionally close cooperation with the European Union peaked with the free trade agreement, which is to establish free trade by 2008.

However, due to the authoritarian nature of the regime, it is safe to assume that the Tunisian leadership will pursue cooperation primarily in order to serve its own objectives. Over recent years, the leadership has managed to establish Tunisia as the world leader in raising financial assistance, ahead of Jordan, Morocco, Senegal, Turkey and Algeria. For the period 2005-2008, financial aid from the World Bank will amount to some 20% of Tunisian needs in external capital, which has been estimated at some 10 billion dollars; some 10% of this sum is supposed to be covered by bilateral help, some 25% by FDI, and the rest through international loans. The Tunisian leadership has also recently sought technical assistance in managing the complete liberalization of the exchange of its currency.

With respect to democratic transformation, the role of external actors has so far been minimal. Again, given the authoritarian nature of the regime, we can hardly see the Tunisian leadership accepting "intrusion from outside," which would affect the domestic political arena. Hence, Tunisia's reliability on political reform agendas, such as that involved with the EMP, is questionable.

Tunisia is seen as a reliable and cooperative partner by international donors and organizations. This has much to do with the fact that Tunisia has never had to restructure debts, regarding the successful implementation of its international obligations (structural adjustment from 1986 to 1991, Association Agreement with the European Union from 1998). Tunisia has confirmed this assessment over the 2003-2005 period by keeping up a conservative monetary policy and by improving investment conditions. This tendency has been reflected in moderate exchange-rate premiums in the black market compared with the rest of the region and through the country's top ranking—again, compared to the rest of Africa, in the World Economic Forum's African Competitiveness Report and other risk ratings (for example, Moody's, Standard and Poor, and COFACE). Again, due to the authoritarian character of the regime, it is questionable whether the leadership will ever comply with international pressure beyond the point where this clashes with the vital interests of the regime.

The Tunisian leadership often heralds its close cooperation with neighboring states and complies with the rules set by regional and international organizations. Tunisia has currently no territorial and economic ambitions, which could lead to conflicts with its neighbors. As a small and weak country, Tunisia tends to mediate between conflicting interests of its neighbors, especially between Morocco and Algeria. Tunisia is, together with Egypt, Morocco and Jordan, one of the signatory countries of the Aghadir Agreement that has set the framework for increased regional cooperation and, ultimately, a regional free trade area. Again, it is worth keeping in mind that regional regimes such as the Union of the Arab Maghreb, of which Tunisia was one of the founding members in 1989, have not, so far, evolved to the degree that Tunisia's commitments have clashed with vital interests of the regime. The leadership's readiness to cooperate regionally has yet to be tested.

4. Trends in development

4.1. Democratic development

Concerning minimum requirements for democracy under the rule of law, Tunisia has witnessed stagnation if not slight deterioration between 2001 and 2004. While accentuating the undemocratic character of the polity, the amendment of the constitution by referendum in 2002 has obviously been designed in order to serve the personal interests of incumbent President Zine El Abidine Ben Ali. The regulations for candidacy were changed to allow Ben Ali to run for a fourth mandate at the elections of October 24, 2004. The president was also granted legal immunity for acts committed beyond the end of his presidency. Thirdly, the amended constitution stipulates a second, consultative parliamentary chamber. Two-thirds of the delegates of this chamber will be elected indirectly in 2005 by the municipal counselors, and the business association and workers' union; the remaining third will be appointed by the president. This overall negative assessment is supported by the general level of despondency and the provoked splintering of the MDS, one of the few older (legalized in 1983) and better-institutionalized opposition parties.

Given the authoritarian character of the Tunisian polity, questions regarding changes in efficiency and acceptance of democratic institutions, the stability and anchoring of political parties as well as political and social integration are pointless with respect to their impact on the "democratic framework".

4.2 Market economy development

After the dip in growth in 2002, Tunisia has again seen its economy growing by rates of around 3% to 5% in 2003 and 2004. Due to this recovery and building upon economic decisions taken in the past, the fundamental development indicators document a slight and steady improvement of the existing mid-level

development status over the past five years. Due the favorable economic and climate conditions, and state financial aid the absolute poverty level has again declined.

The institutional framework for market-based action has not changed significantly over the evaluation period.

As in the previous report, overall economic development in Tunisia has again improved significantly over the years 2001 to 2004. After the slight dip in growth in 2002 (1.9%), the annual economic growth rate was 5.5% in 2003 and 5.8% in 2004.

Table: Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004
Growth of GDP in %	4.7	5.2	1.7	5.5	5.8
Export growth in %	14.9	18.7	1.5	9.1 ¹	13.2 ¹
Import growth in %	16.6	16.7	-1.4	5.1 ¹	10.8 ¹
Inflation in % (CPI)	2.9	1.8	2.7	2.7	3.5
Investment in % of GDP			25.2	25.1	
Tax Revenue in % of GDP			21.5	20.6	
Unemployment in %	15.6	15.0	14.9	14.3	
Budget deficit in % of GDP	-2.4	-3.3	-3.1	-3.2	-2.7
Current account balance in billion \$	-0.821	-0.863	-0.746	-0.738	

Source: 2000-2001: Institut National de la Statistique (www.ins.nat.tn; accessed 14/02/05), International Monetary Fund at www.imf.org (Accesses 14/02/05) and World Bank.¹ respectively first three quarters of 2003 and 2004 (Jeune Afrique l'intelligent special edition 2005).

D. Strategic perspective

Tunisia lacks the democratic experience and constituent elements needed for democratic transformation. A number of institutional reforms, including especially voting reforms and the announced establishment of a bicameral parliament, were initiated in the late 1980s. These reforms were intended primarily to create a "façade of democracy". At the same time, institutional modifications, the reform of the state party RCD, authoritarian corporatist procedures and cabinet reshuffles have enhanced the efficiency, responsiveness and thus stability of the authoritarian system.

Genuine democratic transformation would require fundamental reforms in the rule of law, political participation, and the development of party-based political and social integration. Given the absence of a relevant opposition, the apparent economic success of the regime and its international support, such change can hardly be expected in the short and medium term. External supporters of democratic reform should therefore persistently refer to the regime's own rhetoric

while demanding further democratization and underline obvious misuses of state power. In terms of outside pressure, demanding political reform as a quid pro quo for financial and other assistance may provide tangible change. Depending on the international context, the readiness of international donors to use the “assistance weapon” to bring about political change may ultimately be limited by the fear of destabilizing a regime renowned for its firm stance against political Islam.

However, constant and seemingly balanced socioeconomic development efforts since the 1970s and especially since the early 1990s, have led Tunisia to the status of an emerging economy. Economic and social policy has, during the period under review, kept up with this successful development model. After the brief dip in growth in 2002, the impressive growth rates of 2003 and 2004 have highlighted the degree of immunity from external shocks that Tunisia’s economy has attained. The Tunisian leadership has thus far built its development strategy upon the following assets: an increasingly open economy, internal stability, a well-educated labor force, well-developed investment incentives, and the diversification and general modernization of agriculture and the processing industry.

Nevertheless, a set of shortcomings continue to hamper Tunisia’s complete transformation toward a functioning social market economy. These shortcomings must be resolved if Tunisia is to cope with upcoming challenges. Persistently high unemployment poses serious challenges. Tunisia needs a continuous growth of more than 6% to reduce unemployment reasonably (officially, around 14% to 15%, independent estimations put forward figures up to 30%). Other factors hampering economic development include administrative inertia as well as inertia in parts of the economy and the accrued competition facing Tunisia’s economy. Related to this, there are risks inherent to the dismantling of the multi-fiber preference regime for Tunisian textile exports to the European Union in early 2005. The Tunisian textile industry with its 240,000 employees comprises up to 50% of Tunisian industrial exports.

In order to cope with upcoming challenges, the Tunisian leadership must combat the following: the persistent dominance of the public sector within the Tunisian economy, the lack of judicial transparency and assurance, crony capitalism and corruption, bureaucracy, a weak banking sector and capital market. In order to cope with these challenges, the Tunisian leadership will have to press further with market reforms that result in greater liberalization and more transparency while they further expand the social state. Tackling these issues effectively requires persistent and more pronounced efforts to modernize. Doing so may underscore, in the medium term, the limits of Tunisia’s authoritarian approach to transformation.

In addition to reform efforts on the part of the regime, effective modernization of the Tunisian economy demands a more global change in mentality. The prevalent business culture remains conservative, family-oriented, inward looking and resistant to innovation. While the *mise-à-niveau* program has had some success

with larger, export-oriented firms, small and mid-size companies remain reluctant to change and are very much in danger as free trade with Europe affects them. Further support for this sector is vital, particularly in human resource development.