

Tunisia

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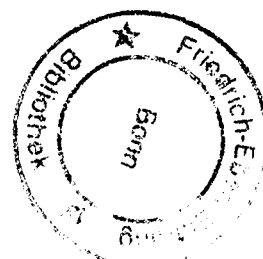
- * It is its social and foreign policies that have given Tunisia the moderate, liberal image it has in the Western world.
- * In the eyes of Westerners and the Tunisian intelligentsia the harshness and intolerance of the regime are serious shortcomings. But for the mass of the population, it must be said, President Ben Ali has been a success.
- * The government has certainly been successful in implementing budgetary and financial reforms, but the structure of the country's economy is changing more slowly than it pretends.
- * The government has been particularly cautious in its approach to privatisation, but the tax system was reformed, the annual budget deficit had been cut to below 2 per cent of GDP, exchange controls were removed on all current transactions and the banking system was changed to a free market model.
- * It is the view at the top of the Tunisian government that the quickest, most decisive way of modernising the economy is to link it more closely to Europe.

Image and reality

The Tunisian government likes to present its country to the outside world as progressive and stable. The ministers and the functionaries who run the state commercial enterprises see themselves as transforming Tunisia to enable it to trade freely with Europe by the end of the first decade of the next century. This is the major provision of the treaty of association with the

European Union, signed in July last year. Tunisia was the first non-member Mediterranean country to enter the new type of accord with the Union. There is now much talk in Tunis of the *mise á niveau* - the process of bringing Tunisia industry and services up to the level at which they will be able to compete with European companies' products.

In the long term the hope is that this trans-



formation will produce a society which is sufficiently prosperous to be able to evolve as a democracy, but for the present the government feels it has to rule with a firm hand. Since the beginning of the 1990s militant Islamist opposition has been crushed, and the authorities have become steadily less tolerant even of secular, liberal opposition parties. The regime has been concerned not only with threats which might arise from within the country but with de-stabilising influences from Algeria, which has been in a state of virtual civil war since late 1993, and Libya, which has a record of intervening in its neighbours' domestic politics.

The reaction of the establishment to foreign criticism of its undemocratic policies, and the poor human rights record that goes with them, is summed up by the recent comments of two officials of the governing, and almost sole, political party, the Rassemblement Constitutionnel Democratique (RCD). One remarked to a Financial Times journalist that "when you're running at 200 miles an hour, you cannot afford to stop so someone can have a cigarette". Another, in the course of a private conversation last summer, said that "wanting political reform (was) like having the intention of becoming an industrialised company - it's an aim, but you cannot do it quickly - you have to create institutions first". The official view, in other words, is that authoritarian government may be unfortunate but for the time being is a necessity.

Members of the government hope that the lack of political freedom is masked by the relatively liberal social regime that has evolved since Tunisia became independent from France in 1956, and by the country's pragmatic foreign policies. These are very much the types of policies that the Europeans and Americans would like to see other Arab countries pursue.

The government's attitude to social issues, particularly the role of women and the place of religion, was formed by Habib Bourguiba, who won Tunisia its independence and was then its President, until 1987. Under Bourguiba, whose intellectual formation was in the French socialist mould of the 1930s and 1940s, European provisions for divorce replaced the Shariah (Islamic) law, under which a man can divorce himself by the simple process of renouncing his wife in front of a judge. The new legislation allowed wives as well as husbands the petition for divorce. Polygamy was banned. Great emphasis was placed on female education and the provision of services and opportunities for women. The result was that women have come to play a bigger role in public life in Tunisia than they do in most other Arab countries, and Tunisian children have been healthier and better educated. Bourguiba missed no opportunity to promote secular ideas. It is said that whenever he was told of the establishment of a new committee he would ask, "does it have a Jew and a woman?"

In foreign policy, Bourguiba's pragmatism showed clearly in the government's attitude to-

wards Israel. As early as the 1960s the President declared that he believed that one day the Arab world would have to accept Israel. Recently, under his successor, Zine El-Abidine Ben Ali, his views have been given concrete expression in the government's decision to recognise Israel. It was announced in January this year that Israel and Tunisia will open "interest sections" in each other's countries in April. This will make Tunisia the fourth Arab country, after Egypt, Jordan and Morocco, to have diplomatic links with Israel.

It is its social and foreign policies that have given Tunisia the moderate, liberal image it has in the Western world. This image has made Europeans and Americans assume that the country's economy and domestic political life must be relatively liberal by Arab standards. They tend to accept the government's rather defensive explanation of the repressive measures it has taken in the last few years. In fact, the officially promoted image of Tunisia as the fast changing economy in which, temporarily and regrettably, opposition has to be carefully controlled, is not entirely accurate.

The government has certainly been successful in implementing budgetary and financial reforms of the type recommended by the International Monetary Fund, but the structure of the country's economy is changing more slowly than it pretends. Although lip service is paid in official circles to a market economy,

socialist instincts still pervade the establishment. The country's major industries are still owned by the state, as are the big banks, though since the end of the 1980s these have been operating on Western banking principles. The stock exchange was only separated from the Ministry of Finance in October last year. Foreign purchases of Tunisian stocks are restricted. The situation was summed up recently by a Tunisian economist. *"What I have seen in the last four years," she said, "is a large gap between the way in which Tunisia is perceived by outsiders and what is actually happening. Tunisia signs all the treaties and conventions; it is able to say 'we're the first country in Africa, or the Arab world to do such and such'. But what the government signs is not the same as what it implements. I would say we are at a hundred per cent as far as the legal framework is concerned, but at only twenty per cent on implementation."*

Similarly, the government's repressive measures since the end of 1989 have been carried out with less regret than it pretends. The instinct of the President and his advisors is for "control" of the traditional sort known to Arab governments. Much of the Tunisian middle class and most of the senior people in the ministries and state companies still associate themselves with the government or the government party. The establishment may say it believes in democracy, but its instinct is to adhere to the ruling party and to regard opposition as unpatriotic and a threat to its own comfortable position.

Authoritarian government

The development of Tunisian politics since Zine El-Abidine Ben Ali came to power in 1987 has been a disappointment, both to the independent-minded sections of the Tunisia intelligentsia and to Western governments that see the country as a potential ally in an unstable part of the world. To put what has happened in context, it is necessary to go back briefly to the way Tunisian society and politics evolved under Bourguiba.

In its early years there is no question that the Bourguiba government was a success. By the middle of the 1970s the country presented a picture of a prosperous, fairly sophisticated society in which a well educated labour force working in quite efficient industries and services was enjoying nearly full employment. Some modest oil revenues were starting to flow. However, its planners faced some problems. The population was growing fast and there seemed to be no obvious direction for further development. Bourguiba was ageing and the officials who surrounded him and his forceful wife, Wassila, were obviously corrupt. Unemployment and cynicism began to push young people towards various opposition movements.

Starting in the late 1970s the tranquillity of Tunisian life was disturbed by strikes and demonstrations, and then by increasingly violent con-

frontations between students and unemployed youths and the police. From January 1984, when cuts in food subsidies led to a week of rioting, the principal opposition was the fundamentalist Mouvement de la Tendance Islamique (MTI). The government responded to the disturbances with mass arrests and imprisonments. In 1986 the President appointed Ben Ali, a general with a reputation for toughness, to the post of Minister of the Interior, and then, in September 1987, made him Prime Minister. Finding that Bourguiba's behaviour was becoming increasingly erratic, Ben Ali arranged to have him deposed. He had seven doctors declare Bourguiba to be senile, which since the great man had made himself President for Life in 1974 had become the only legitimate grounds for his replacement. On 7 November Ben Ali himself became President.

As soon as Ben Ali came to power, the tension seemed to go out of Tunisian society. The confrontations between students and the police, which had been happening almost daily, stopped. Thousands of prisoners were released. Newspapers that had been suspended were allowed to be published again.

The President began to build himself a broad power base. He had never been active in Bourguiba's Destourian Socialist Party and on

coming to power he had pushed out of office a large number of its functionaries. Partly to compensate for this he sought the goodwill of the Islamists. As one of his first acts he went on a pilgrimage to Mecca. He reversed some policies that seemed almost aggressively anti-Islamic. He reopened the religious university at El-Zeitouna, which the former President had closed because he believed that a progressive, socialist state had no need for religious scholars (ulema). New regulations allowed television programmes to be interrupted at prayer times, and it was ordered that the beginning of Ramadan, the month of fasting, which depends on a sighting of the moon, should be declared by the ulema and not by the state.

In April 1988 a law was passed to legalise political parties in addition to the Destour, whose name was changed to the Rassemblement Constitutionnel Democratique (RCD). The law - like electoral laws in several Arab countries - contained a provision which banned any party which had a purely linguistic, regional or religious character, but it was still hoped that the Mouvement de la Tendance Islamique would accept enough of the country's secular constitution for it to be registered. The Mouvement's leader, Rached Ghanouchi, compromised a bit. He said that in general terms he accepted the Constitution and he declared his organisation to be a political party, the Hizb An-Nahdah (Renaissance Party). Yet he would not go quite far enough in spelling out principles and policies that were acceptable to the government, and the

Prime Minister, Hedi Baccouche, who believed that mixing religion and politics was "the work of the Devil", refused to make the party legal.

In the general election of April 1989 the Islamists fielded various "independent" candidates whose sympathies were known. The election was generally considered to be fair, and the Islamists collected 18 per cent of the vote but because the system did not work on a proportional representation basis, they took no seats in the National Assembly. The defeat marked a parting of the ways. Most of the Islamist leaders, including Ghanouchi, left the country and from the safety of Europe began sending their fellows cassette tapes full of abuse of the government. Two senior figures who stayed behind and wrote articles libelling the President were sent to prison. El-Zeitouna was closed. Then the old cycle of demonstrations and confrontations between youths and the police began again. In February 1991 the Islamists set fire to an office of the RCD and accidentally killed two night watchmen. Three months later the government discovered what appeared to be a plot to overthrow it. The police found caches of arms at the universities of Tunis and Sfax, with lists of people who were to be assassinated. The government gave enormous publicity to both events - probably exaggerating the gravity of the plot. Hundreds of people were arrested. From that time onwards there has been no overt Islamist opposition in Tunisia.

While these events were taking place, the

government was also slowly losing the goodwill of the new secular opposition parties. Before the 1989 election it had suggested to the six parties that had registered that they should enter a coalition with the RCD which would result in a few of their candidates being allowed to run unopposed. This would have had the advantage, for the government, of showing the population that Tunisia was no longer a one party state while giving it control of the opposition. Like many Arab governments, the regime liked the idea being able to label itself democratic, and having a more spirited public debate on things that it felt should be debated, but it could not see the benefit of an opposition that might obstruct or embarrass it. The opposition leaders thought about the government's offer, but when they discovered that they were not being offered any say in the formation of policy they declined it. In the elections their party suffered from being virtually unknown and having little financial backing. Between them they took only 1 per cent of the vote. None of their candidates was elected.

In the next few years the secular parties gave the government their tacit support in its moves against the Islamists, and periodically held further talks about their being given some representation in the Assembly. When a general election was held in April 1994 the RCD once again swept the board, while the President, in a separate poll, was re-elected with 99 per cent of the vote. This time after the elections the government decided that it had to have some

opposition members in the Assembly, and it duly modified the electoral law to give the parties 19 out of 144 seats. Later the members were given some seats on parliamentary committees. The opposition leaders were not particularly grateful for this treatment and they complained that there had been irregularities in the elections. They said the same, more loudly, in May 1995, after the RCD carried an unlikely 4,084 of the 4,090 seats being contested in municipal elections.

The discontent of the parties led in August to Mohammad Mouadda, the leader of the biggest organisation, the Mouvement des Democratres Socialistes (MDS), writing a letter to the President complaining of government excesses in the campaign against the Islamists and asking why there had been so little progress towards the democracy that had been promised after Ben Ali came to power in 1987. The President's advisors informed Mouadda that they would not hand the letter to Ben Ali, and on 9 October the MDS made the letter public. Mouadda was promptly arrested, and a day later the government duly announced that a search of his home had produced money and documents which revealed his "relations with a foreign power".

The fact is that the government has become intolerant of all opposition. A report published by Amnesty International in November last year gave details of arrests, torture and unfair trials which it said were designed to "punish, intimidate and silence political opponents, government critics, victims of human rights violations, their

relatives, lawyers, human rights activists, journalists and others". People seen as more minor irritants are harassed and obstructed in their professional lives. Ironically, the government still allows a branch of the Arab Organisation for Human Rights to have an office in Tunis, but it is not permitted to take up individual cases. Its purpose is just to educate the people on human rights generally, its officials explain. Its head is an elderly gentleman whom the President has recently asked to stay in his post. It seems that the government has decided that having a human rights organisation in the country is good for Tunisia's image, but it wants to make sure the body is ineffective.

Much of the government's attitude stems from the personality of the President. In the words of a retired European ambassador he is "a hard, tidy minded man who sees opposition as just getting in the way". In Tunis people refer often to his background as a general and interior minister. It is said that in the evenings he indulges his enthusiasm for computers by tapping into the files of provincial police stations. Whether or not this rumour is true, it tells much about how Ben Ali is regarded.

In the eyes of Westerners and the Tunisian intelligentsia the harshness and intolerance of the regime are serious shortcomings. But for the mass of the population, it must be said, President Ben Ali has been a success. The people are far less nervous than they were in the later days of Bourguiba. They are grate-

ful for their country's stability, and because they were alienated from the Islamists by the violence of 1991 they seem not to have been too concerned by the government's repressive measures since. If these have been the price to be paid for avoiding the chaos and bloodshed of Algeria, to most Tunisians they have seemed worthwhile.

The population's attitude has been reflected in the small support given to secular parties in the elections, which may not have been totally fair in 1994 but were still less manipulated than they would have been under many other authoritarian regimes. Even fair elections, though, are not as good a guide to popular views in the Arab world as they are in Western countries, because voters are not used to democratic politics and tend not to take opposition parties seriously. In countries which used to be single party states - notably Tunisia and Egypt - there is a widespread feeling that voting for the government party is the "right" or "patriotic" thing to do, and that to have ones constituency represented by a government party member is likely to bring benefits to it. Except among the intelligentsia, people have little respect for independent-minded opposition politicians who argue against the government. They are widely seen as irrelevant, self-indulgent intellectuals. Unless they carry Islamist labels, their ideologies are difficult to distinguish from those of the government parties, which are best described

as "reformed socialist". They are ignored by the largely state controlled media - and particularly by the television and radio. They have little money with which to advertise - which they are not allowed to do on the television - or publish their newspapers. For all these reasons it is difficult to see how opposition parties can prosper in former single party states, unless the governments withdraw all financial and media support from their own political organisations.

In Tunisia the population's acceptance of its government's policies has been influenced by more than its gratitude for domestic stability and its lack of interest in opposition parties. People have been impressed by how the government has been able to introduce economic changes and, remarkably, benefit the population even in the short term. In recent years it has increased pensions for agricultural and casual labourers, improved social services and established a solidarity fund for social projects, to which the whole population contributes. The spending has been financed, at the same time as the budget deficit has been reduced, by the introduction of value added tax, cuts in the rate of income tax, which have made people more willing to pay, and more efficient tax collection.

The minimum wage has been increased to some \$130 a month, which is almost on a par with Portugal, twice the Moroccan level and six times the Egyptian level. With social

security charges, the cost of a Tunisian textile worker, doing one of the most common and menial industrial jobs, has been increased to \$2.82 an hour, which compares with \$1.28 in Morocco and \$0.96-1.25 in parts of eastern Europe. These increases may not have helped the long term competitiveness of the Tunisian economy but they have prevented strikes - there has not been one for seven years - and they have helped reduce differentials in the wealth of the population. A much bigger proportion of the population than in other Arab countries can be considered middle class in Tunisia. Very few people, under 7 per cent of the population, live below the poverty line. All of this has made Tunisia quite a cohesive society - as it has been for most of the time since its independence. The government has been most anxious to maintain this cohesion while it has slowly worked towards liberalising its economy. It has wanted to keep the good points of its socialist past and only reform when it has built a consensus in favour of change.

Much of this careful management of change is attributed to Ben Ali, who has awarded himself the description of *l'artisan du changement* (Bourguiba was *le combattant supreme*). The President has tried to make himself an example to his people. He has stamped out the corruption at the top of government which flourished under his predecessor. He has made it known, even to relatively unsophisticated parts of the population, that he works hard and is anxious

that his country be a success. There have been references to his wanting to introduce the American work ethic. Ordinary Tunisians have

come to accept that Ben Ali has the interests of their country at heart.

Economic reform

Although Ben Ali has been associated with economic change in Tunisia, the beginning of this process was slightly before he came to power. The government's mounting debts, caused by its trying to maintain a relatively high standard of living for its people - mainly through overstaffing state companies and subsidising food and energy - led to a financial crisis in 1986. **The government negotiated a structural adjustment loan, but not a rescheduling of its debts, with the World Bank, and as a condition of the credit it agreed to implement a standard package of financial reforms and begin a programme of privatisation. Slowly it cut the subsidies it gave its people, though even now it keeps small subsidies on bread, pasta and semolina (for couscous) and there are price controls on gasoline. The tax system was reformed. By 1994 the annual budget deficit had been cut to below 2 per cent of gross domestic product.**

The dinar was devalued, initially by 14 per cent, and then the Central Bank organised a managed float, which allowed it to drift slowly downwards against European currencies. Exchange controls were removed on all current transactions and on the capital trans-

actions of foreign investors. Officials now talk of the currency as being "convertible", though there are still restrictions on Tunisians transferring capital out of the country.

The banking system was changed from a socialist to a free market model. Under Bourguiba the banks had operated as arms of the state, taxing the people (in effect) by channelling private savings, on which low rates of interest were paid, to finance the government's deficit and the losses of state companies. The authorities determined how much the banks should lend to each sector of the economy and what rates should be charged to each type of borrower. All substantial transactions had to be approved by the Central Bank. **In the early years of Ben Ali the banks were freed to borrow and lend on a commercial basis. To encourage saving interest rates were allowed to rise above the rate of inflation. A normal Western regime of prudential control, adherence to Cooke Ratios, and auditing to international standards was introduced.**

All of the changes were brought in carefully and in stages. The reason was not only that the government was committed to social cohesion as

a general principle; it remembered very well the week of rioting in January 1984. On that occasion it had been forced to bow to popular pressure and reverse its abrupt cuts in food subsidies. The opinion of foreign creditors, particularly the World Bank and the International Monetary Fund, has been that in recent years the government has been too cautious. They argue that the Tunisia economy has been sound enough for the government to have been able to pursue its reforms with more vigour, and that had it done so the country would have achieved a stronger rate of growth than the 4.5 per cent it averaged in the early 1990s.

The government has been particularly cautious in its approach to privatisation. It is this part of the reform programme which shows how much the instinct for control and the preservation of the interests of the bureaucracy are still ingrained in its thinking.

It began privatising in 1989. Between then and 1992 it sold some forty loss making enterprises, many of them hotels, to groups of local and foreign buyers. Some of the privatisations were striking successes. Several companies that were on the verge of bankruptcy were quickly turned round and have since expanded, diversified and taken on new labour. The government, however, was worried that in some sectors the same groups were buying several companies, and, as its officials said, it did not want "to move its economy from a public monopoly to a private

one". So it brought the programme virtually to a halt. In the next two years it sold only a few small transport companies.

The pressures on it to continue privatisation did not go away. Although its debts and spending were under control by the early 1990s, the government was finding that it had to link its economy more closely with Europe, and that to do this its industry had to be brought up to a competitive standard. This required capital for investment which the state did not have. At the same time the government was under pressure from private investors, local and foreign, who were arguing that it was not attractive for them to invest in an economy where their taxes were being used to finance inefficient competitors in the state sector. The government claimed it had never intended completely to stop privatisation - during the pause after 1992 it was simply looking at its methods.

It began the process again in November 1994. This time it made it known that it would sell its holdings either wholly or partly on the stock exchange, which it considers more democratic than sales by negotiation to private groups. Where it sells only a small part of a company, such as the 15 per cent of Tunis Air it disposed of in the summer of 1995, it does the transaction entirely on the stock exchange. Where it sells whole companies, which so far has happened only once, its policy is to find "core buyers" for majorities of the stocks and float the rest. The aim of this policy is to ensure that companies are

controlled by Tunisian or foreign firms with expertise in their field of operations. In the first fifteen months of the new policy the government sold parts of only five companies, and in most cases the percentages of each were so small that they could hardly be classed as privatisations.

In all there are some 250 government companies or holdings which might be sold. The government has not published a list, because its officials say, with disarming frankness, that to do so might create problems with the managements and unions. They add that they would lose flexibility and possibly expose themselves to criticism for failing to meet their targets. In broad terms, they say their choices are determined by the aim of getting the state out of companies in which it is competing with the Tunisian private sector.

So far there has been no suggestion of the government selling its controlling holdings in the commercial banks, or in phosphate mining and fertilisers, even though the companies in the latter sector are making big losses and are bad polluters. (Recently, the government passed a law to control phosphate pollution in the Gulf of Gabes, but gave its companies a generous thirty years to comply.) Both the banks and the phosphate companies are regarded as "strategic" assets. In the case of phosphates the government also worries about the effects privatisation might have upon unemployment in a politically sensitive area near the Libyan border. Concerns about unemployment, currently running at

around 15 per cent, have long acted as a break on the privatisation programme. In negotiations with private buyers the government has usually sought to ensure that there will be no wage reductions, no changes in social policies and no lay-offs - or, at least, generous indemnities when they are unavoidable.

Another, less creditable, reason for the slow rate of sales, and the small shareholdings offered in most cases, has been the lack of enthusiasm of officials. The civil service and the governing party establishment may accept the necessity of privatisation in an intellectual sense, but many officials still dislike the loss of control of the economy which is involved. They can also see practical disadvantages for themselves. For many functionaries in the ministries and banks the state companies have provided directorships, which have been an important source of prestige, supplements to salaries, cars and other benefits.

The government's privatisation programme has been paralleled in its deregulation of the stock market. Here its reforms began in 1990, when it made dividends and capital gains for individual investors tax free, and exempted individuals from tax on whatever part of their incomes they used to buy shares. It also reformed the bourse regulations, delisted 38 companies whose stocks were inactive and authorised the establishment of mutual funds on the French model. The Paris Bourse was brought in to reorganise the trading system. In November 1994 a new law provided for the transfer of ownership of the bourse from

the Ministry of Finance to the brokers and for the establishment of a regulatory body. Both of these changes took effect in October last year. The President of the bourse remains a former director general of the Ministry of Finance. In July 1995 legislation was introduced to allow foreign investors to own up to 10 per cent of a Tunisian company. Previously they had only been able to invest after obtaining the permission of the Central Bank and paying a fee - barriers that had had the effect of excluding them altogether.

The Tunisian investing public has responded to the reforms with enthusiasm. There has been a rush to establish stock broking firms - there are now 40 - and mutual funds. Turn-over at the bourse and market capitalisation have soared. A number of private companies have gone to the market for equity capital and debt finance for the first time. What has given the boom a slight air of unreality has been the very small number of companies quoted. At the end of last year there were just twenty five.

For all the government's caution in liberalising its economy, there is no doubting that official attitudes are gradually changing and that the process is set to continue. Last year the government decided that it should opt for build-own-operate (BOO) arrangements for power stations, desalination plants and highway construction, and although no contracts have yet been awarded it seems certain that

this radical policy will be implemented. Now that the state has decided to allow not only private companies but also foreigners to own such strategic assets, private businessmen in Tunis believe that the emotional resistance to privatising the banks and the phosphates industry will gradually be undermined.

Part of the reason why the authorities have been prepared to be more ambitious - and why the bureaucracy has become gradually less obstructive - is that the economy has performed fairly well during the period of reform. While controlling its spending - it is aiming to keep its budget deficit at around 2 per cent of GDP in the next few years - the government has been able to reduce the burden of its external debt. Foreign borrowings are now \$9.4 bn. After deducting some \$1.5 bn of foreign assets the net indebtedness equates to about half of GDP. Debt service is accounting for 20 per cent of the country's foreign exchange income. These improvements mean that Tunisia is no longer classified by Western governments as a country eligible for development aid. In future it will rely almost entirely on the international bond markets for finance. Along with two other Arab countries, Kuwait and Jordan, it has recently received an investment grade rating from the Moody's and IBCA credit rating agencies.

Gradually the economy has become more diversified. It has become less dependent on

agriculture, which is an advantage, given the unpredictable nature of rainfall in north Africa. Agriculture is now estimated to account for some 15-16 per cent of GDP, compared with 18-19 per cent in the later 1970s, though, given that a third of the population still works on the land and that every Tunisian has relations in the country, the fate of the harvest is still of great emotional importance. Much of the recent development of the economy has been in tourism and garments production. Tourism, like agriculture, is susceptible to shocks over which the country has no control.

The steady pace of development has enabled the country to keep unemployment to a notional 15 per cent. This is the figure generally quoted, but it means little because the jobless are not required to register at any government office (and do not receive benefit) and are therefore hard to count. Estimates are complicated by the existence of a significant black or informal economy, which gives some part time employment to those in the 18-25 age group which is worst affected. It is also noticeable that some young men seem happy to be without a job and live off a share of the wages of their sisters working in the garments factories.

Association with Europe

It is the view at the top of the Tunisian government that the quickest, most decisive way of modernising the economy is to link it more closely to Europe. This should have the direct effects of forcing Tunisian companies to make their operations more competitive and encouraging European investment in Tunisia, in services as well as industry. It is also a clever way of persuading the Tunisian public, particularly the bureaucracy and business classes, to accept some of the government's reforms. Given that the Tunisian middle classes, like their counterparts in Algeria and Morocco, regard themselves as being as much European as Arab or African, reforms that can be presented as being necessary to bring the country into line with

European practice become more palatable. This applies to changes in the tax regime, the removal of protective tariff barriers and privatisation.

Tunisia responded more promptly than any other non-EU Mediterranean state to the EU proposal, mooted at the end of 1992, that the various co-operation protocols between the Union and its neighbours should be replaced with a new style of association agreement. Negotiations between Tunisia and the Commission moved ahead rapidly in 1994 and the early months of 1995, and on 17 July Tunisia became the first partner country to sign a treaty. The most important part of the accord, which will come into effect at the beginning of 1997, will give European ex-

ports tariff-free access to Tunisia. Tariffs on 40 per cent of Union members' exports to Tunisia will be phased out over five years, and on the remaining types of exports they will be phased out over twelve years. Tunisia's own exports are relatively little affected by the treaty. Its industrial goods have entered Europe tariff-free since 1978, and the Europeans have not been able to make major concessions on access for its agricultural products. The agreement provides for small annual increases in the tariff-free quotas for such items as new potatoes, tomato concentrate, oranges and apricots, and endorses the existing regime for olive oil, which is Tunisia's most important agricultural export. The olive oil agreement is due to be renegotiated in 1999.

To aid flows of investment the two parties have agreed to treat each other's companies as if they are their own nationals, and, in stages, to open their service industries to each other. There are certain exceptions to these provisions, mainly concerning air transport. To help ease the changes that parts of the treaty will involve for Tunisia, the Europeans are making available some financial and technical assistance.

The fiscal reforms and company restructuring required of the Tunisians are considerable. Although they have liberalised their tariff regime a little in the course of structural adjustment since 1986, average import tariffs are still 43 per cent and on some items, mainly luxury goods, they run as high as 300 per cent. There will be

significant losses to the government's budget as these taxes are scaled down and eliminated. In the first year of the treaty's operation it is reckoned that the loss will be equivalent to 2 per cent of the 1996 budget. The government will make up the shortfall mainly by extending the scope of VAT.

The impact on Tunisian companies will be more painful still. Very rough calculations - which are much the same as similar calculations made in Morocco - suggest that if they do not restructure themselves a third of Tunisian companies, public and private, will fail and another third will experience difficulties.

To help those companies which are capable of changing and surviving, the government has established programmes to determine what their problems are and how they might solve them. It will also assist companies in finding the finance they need. It insists that it will not allow companies to survive if they do not have the potential to be profitable. In general terms its view is that companies that need radical restructuring should think of making themselves niche industries, producing specialist goods for export. Given that Tunisia has a population of only 8.7 million it is not thought there will be much scope for companies improving their performance by introducing major economies of scale.

The whole programme of change, if it is to be success, will need to be underpinned by substantial inflows of foreign investment. In recent years Tunisia has been receiving about \$70m a

year of investment outside the oil and gas sector. Much of this capital has been going into garments manufacture, which is the country's biggest industrial employer. There are now more than 300 foreign companies operating in this sector. For the free trade deal to be a success from Tunisia's point of view, and for the economy to absorb all the young people coming onto the labour market, the country will need to more than double the foreign investment inflow, outside the hydrocarbons business. And it needs to have companies putting their money into bigger projects. If it can attract this volume of investment, the World Bank calculates it will be able to increase its growth rate by 1-2 per cent, to around 6 per cent a year. (The Bank also believes it could have increased its growth by 2 per cent if it had privatised faster.)

It is far from certain that Tunisia will be able to attract the capital it needs. Its domestic market is too small to appeal to European investors - and, under the rules currently in force, any foreign company that is interested in manufacturing primarily for the domestic market needs a Tunisian partner. As a base for export orientated manufacturing Tunisia is only moderately attractive. Its government exempts from taxes foreign companies that export more than 80 per cent of their output - though the Moroccan government, which is its competitor for investment, gives companies similar tax advantages. The Tunisian labour force is, on average, better educated than the Moroccan or Egyptian, but it is con-

siderably more expensive. Foreign companies already in Tunisia complain of rigidities in employment law, low productivity and absenteeism.

The flow of investment may also be held back by companies feeling that Tunisia is somewhat hesitant about turning itself into a liberal, free market economy with the attitudes towards business that European, American and Far Eastern companies have become accustomed to in south-east Asia and Latin America.

Investors may likewise be concerned about the country's political stability. Companies need to feel confident about places in which they invest, and at present, although Tunisia seems stable, there is no question that this stability is, in part, a product of repression. It might be that Tunisia would be stable under a softer, more liberal government - it seems that most Tunisians are disenchanted with militant Islam - but until the government allows a freer expression of people's opinions it is difficult to be certain about this.

Part of the purpose of the association treaty is to encourage liberal, democratic political development - there are references in the treaty to political co-operation - although they do not impose any obligations on the Tunisians. From the European point of view the original purpose of the new type of treaty was to help stabilise the north African countries and reduce pressures for immigration into Europe. The European governments were responding to the north Afri-

cans warning them in 1990 not to forget their southern neighbours when they turned their attention to the east. A popular cry of the Tunisian, Algerian and Moroccan intelligentsia at that time, and since, was *la misère et la richesse ne peuvent pas cohabiter* - extreme poverty and wealth cannot live together. The Tunisian government may feel that all that is required to

give it stability, now that it has the new treaty, is increased investment and flourishing trade. But it may be that unless it can liberalise politically, and in doing so prove to foreign investors that its country is set to evolve in a stable fashion in the long term, it will not enjoy quite the level of confidence that will bring it the investment it wants.