

A stylized map of Tunisia composed of a grid of dots. The dots are mostly light gray, with several red dots highlighting specific locations on the map.

# Starting Points for a National Employment Strategy for Tunisia

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- Economic problems and social injustices triggered the 2011 revolution in Tunisia. Much has happened in Tunisia since then; the democratic development of the country has reaped praise worldwide. However, efforts towards economic reform have so far been scant. The young Tunisians, especially in the interior of the country, are still awaiting an economic and social »dividend« from the democratic revolution. If there is not a new impetus from employment policy, the political process in Tunisia is in danger of faltering.
- The best way to achieve social justice and societal stability over the long term is through decent, dignified and adequately remunerated work. Tunisia is characterised by underemployment, while the proportion of jobs that are precarious has been skyrocketing for some time. Many graduates of schools of higher learning and people with vocational degrees are no longer finding adequate jobs, while many others are working in the steadily growing informal sector. For this reason, Tunisia urgently needs a new industrial policy and a broad, all-embracing national employment strategy.
- There are conceivable ways out of Tunisia's job crisis. An effective employment policy presupposes a strengthening of the private business sector, especially through the promotion of small and medium-scale enterprises. Beyond this, new forms of integration of the Tunisian economy into regional and global value chains need to be instituted. It is only through reindustrialisation along a broad front that the jobs needed can be created and safeguarded on a sustainable basis.



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## Coherent, Inclusive and Sustainable Economic and Social Policy

Global competition poses a challenge not only to Tunisian companies, but also to national/governmental economic and social policy. Tunisian enterprises need to react vigorously to global competition and upgrade their technology<sup>1</sup> so that they can survive in the face of international competition among production sites; on the other hand, a policy promoting the private sector (Private Sector Development, PSD) is needed to improve the underlying conditions faced by business enterprises. Because of rampant unemployment in Tunisia, one overriding challenge is how to facilitate inclusive economic growth.

What measures should be set in motion in Tunisia to ensure that the growth process leads to the creation of jobs? How would a PSD policy that generates both higher growth and higher employment look like? How can PSD and measures combatting poverty be made to dovetail? In all these questions, the task is to accommodate differences within the Tunisian private sector, as the situation regarding entrepreneurship in Tunisia is best assessed as being characterised by diversity. A differentiated perspective is necessary, for example, in relation to micro-businesses in the informal sector, small and medium enterprises (SMEs), big and multinational enterprises, women's businesses, and public and social enterprises (*»tiers secteur«*) that, either as companies or employment agencies, seek to provide work, employment and training to disadvantaged, disabled persons and other defined target groups.<sup>2</sup> In addition, linkages and interactions among large and small enterprises differ, as do those among companies that operate in industrial clusters. Most Tunisian enterprises are SMEs (and above all micro enterprises), which frequently have only low productivity and meagre growth opportunities.

1. In relation to the term »upgrading«, a distinction is made among four forms: 1. »process upgrading«; 2. »product upgrading«; 3. »functional upgrading«; and 4. »upgrading« through participation in other value chains (including those relating to other products). The last of these four forms can occur, for instance, through a company which is entering textile production for the first time, thereby leveraging its existing know-how and skills into the value chain for clothing. In the case of »process upgrading«, a higher level of efficiency is attained through the re-organisation of production processes or the launch of new technologies that provide a competitive advantage. »Product upgrading« means that new products are launched or old ones are improved in terms of quality faster than by competitors. This is how companies can rise to higher-level product lines. »Functional upgrading« includes the adoption of new functions, such as design or marketing, within an existing value chain.

2. Cf. Hein, Wolfgang / Kappel, Robert (2016): A Background Paper on the Performance and Impact of Social Entrepreneurs, Munich: Siemens-Stiftung; [https://www.samforse.org/pdf/samforse\\_background\\_en.pdf](https://www.samforse.org/pdf/samforse_background_en.pdf).

Depending which respective characteristics are stressed, there are different approaches to fostering PSD. Organisations that nurture and encourage the informal sector and micro-businesses tend to opt for strengthening the instruments for direct promotion, while those that address the involvement of Tunisian enterprises in transnational supply chains predominantly focus on innovation and upgrading potentials. These are serious differences that translate into very different support strategies; these strategies range from technology and innovation policy all the way to promotional instruments for the informal sector.

The state also plays a pivotal role in the development of the private sector: market liberalisation alone is not sufficient to animate the private sector to invest and to generate growth. Empowerment strategies for improving the formation of human capital – i.e. through access to education, training, health, electricity, internet, and clean water – are necessary. Furthermore, all this hinges on advances in incentive systems for business enterprises, i.e. a better investment climate, more effective support institutions, bolstering of financial systems and public-private partnership instruments, along with public investment in infrastructure, strengthening of business development services as key instruments in enterprise development, and development of legal systems. Furthermore, more profound interventions through targeted promotional strategies should be considered, for example through targeted support for SMEs, export-orientated enterprises, micro-businesses operating in the informal sector, municipal and social enterprises, and women's businesses. Tunisia uses a great number of promotional tools and instruments, but small firms complain that they have limited impact on their enterprises.

The debate over an inclusive growth and social policy needs to consider the complex interactions in macro and micro relationships, and especially the following:

1. There is a need for adequate incentive systems that encourage enterprises to make investments and create jobs.
2. The elimination of structural barriers and obstacles encountered by enterprises should be at the heart of such a policy.
3. In addition to appropriate incentive systems, government and private institutions are called upon to encourage the transfer of know-how and innovation. There are many such institutions in Tunisia, but critics suggest that they fail to reach small businesses and businesses not connected to politics.

One key question is how Tunisia, a middle-income country, can improve its global competitiveness and take advantage of its relatively privileged geographical position close to the European Union. Modernisation of the private sector – through upgrading, raising quality standards, effective technology transfers, and an effective spillover of know-how<sup>3</sup> – poses a pivotal challenge to the development and growth of enterprises. In addition to SMEs, the informal sector, which employs jobless and underemployed people in large numbers, warrants special attention. The informal sector generates limited growth, but at the same time constitutes the realm of economic survival for many people.

With an expected growth rate of 3.2 percent (2016), within the current economic parameters it is not possible to put the brakes on rampant unemployment of approximately 15 percent (unemployment among young people has even soared to over 30 percent) in any sustained manner. For this reason, the Tunisian economic model needs to undergo a complete revamp. This includes the creation of a broad-based and more just fiscal system, down-scaling of subsidies, fighting favouritism, resolute combatting of corruption, introducing measures to cut red tape and bureaucracy, development of disadvantaged regions in the interior of the country, restructuring of public-sector banks, and promoting incentive systems for the development of a competitive private sector.

### Private Sector Development and Inclusive Growth

Accelerated, poverty-reducing growth can only be attained if the private sector grows. SMEs need to be strengthened, as this sector is in Tunisia a more effective engine for job creation than the large enterprises.<sup>4</sup> It is for this reason that, firstly, upgrading capabilities need to be at the heart of future strategies to push the growth of small businesses and micro-enterprises, where most of

3. »Spillover effects« is a term for effects originating beyond the target area of a decision-making process. Moreover, these effects have not been planned in any material, spatial or temporal way by decision-makers. Their consequences may be either positive or negative.

4. Cf. Kappel, Robert (2016): Von informellen Unternehmen zum African Mittelstand? Differenzierungen im afrikanischen Unternehmertum. In: Daniel, Antje / Müller, Sebastian / Stoll, Florian / Oehlschläger, Rainer (Hrsg.): Afrikanische Gesellschaften im Wandel – Mittelschichten, Mittelklassen oder Milieus? Nomos: Baden-Baden, pp. 87–110; Kappel, Robert, Birte Pfeiffer and Helmut Reisen (2017): Compact with Africa. Fostering Private Long-term Investment in Africa, Bonn: GDI Discussion Paper.

the poor, jobless and underemployed people find work in economic sectors other than agriculture. Furthermore, development of this economic potential should be improved and refined by means of industrial cluster formation and promotion of linkages among large-, medium- and small-scale enterprises. The objective should be to increase the value added generated in the country. Secondly, it will be crucial that major reforms of the public sector be undertaken and that the environment of the private enterprises is changed as these enterprises are scarcely exposed to competitive pressures and so tend to shed jobs rather than creating new ones.

Three strategies are presented in the following, highlighting options for future growth and employment: the size of enterprises, the redistribution, and the industrial clusters matter.

a) *A strategy on the size of enterprises matters*: Many African enterprises are very small and they can hardly grow, because SMEs face many obstacles (access to finance is limited, electricity is often not available, and corruption is widespread and hinders upgrading). SMEs can grow and improve their competitiveness when they are supported through better access to financial institutions, through reliable legal systems, and reduced entry costs faced by companies entering the market, *inter alia* as means of improving the ease of doing business. In comparison with other countries, Tunisia does not perform particularly well when one considers that it is already relatively developed. On the index for ease of doing business, it is only in the 74<sup>th</sup> rank among 200 countries, for example, while it ranks only as the 103<sup>rd</sup> when it comes to business start-ups; and it is as low as the 126<sup>th</sup> in terms of access to loan capital. Nor does cross-border trade appear to have been made easier (position 91 here); the picture is similar in relation to the registration of property (86<sup>th</sup> in this category). Access to electricity, on the other hand, appears to be more readily available than in other countries (38<sup>th</sup>). Because smaller enterprises are confronted with major obstacles, government policy should focus on the elimination of relevant barriers, so to foster the formation and growth of SMEs. However, many studies show that SMEs in Tunisia find it more difficult to grow and to increase productivity. They are faced with greater impediments than large enterprises.<sup>5</sup>

5. Abdelkader Boudriga / Hassen, Majdi (2013): L'entreprise et le financement: Nouvelles approches. Accès au financement des PME tunisienne. Obstacles et disparités. Tunis. IACE : <http://www.iace.tn/wp-content/uploads/2014/09/acces-au-financement-des-pme-tunisiennes.pdf>.

b) *A redistribution strategy matters*: The key to reducing poverty via a redistribution strategy is the creation of productive jobs for poor people who are living in remote areas. Strategies and measures for PSD must extend to these areas; requested are strategies for the dissemination of »best practices« and for improvements in (institutional) efficiency. In Tunisia, these areas are primarily the southern regions and those further away from the coast. To disseminate »best practices«, investment must flow into infrastructure (electricity, roads), education, and new technologies. Although there are competitive enterprises as well in southern and interior regions of Tunisia, enabling these enterprises to generate productive jobs in a sustainable manner requests that decentralised government policies concentrate on key policy areas: construction of infrastructure (roads and electricity) and IT connectivity; improvement in standards of technical and vocational education; better access to finance; and measures to accelerate the transfer of technology. Research institutions and vocational training facilities may provide the required leveraging of skills and competences, but these actors need to feed in to businesses on the ground. But, contrary to these requirements, most companies in these regions have witnessed how a large proportion of government assistance is dissipating without lasting effects, causing more unemployment there, and in this regard the trend is even to rise.<sup>6</sup>

New jobs should, for the most part, be created by competitive enterprises and in export industries. These enterprises will also be able to meet the local demand for consumer goods. A mixture of government measures to boost competitiveness is therefore important, e.g. favourable input ratios for exports, macro-economic stability, technical competence to raise company efficiency, investment in logistics systems, negotiating trade preferences, and improving knowledge of export markets. Relevant discussions in Tunisia are only at the outset. Developments show, rather, that national economic and employment policies have largely ignored these factors or have applied measures that were not implementable.

c) *A strategy of productivity and efficiency increases through industrial clusters matters*: The formation of clusters, networks and interlinkages of companies is a development that has been monitored for many years.

Conditions for growth and development of SMEs are generally better in industrial clusters. Success depends not only upon the productivity of individual companies, but also upon interactions among multiple enterprises which are linked vertically and horizontally. Successful enterprises are integrated in a *milieu* of cooperation and innovation. This embeddedness facilitates learning processes, thereby boosting collective efficiency. In clusters, for enterprises it is hence possible to grow faster, more productively and more innovatively.

Promotion of clusters is based on the expectation that an SME sector will develop in the wake of accelerating economic growth and the formation of dynamic clusters. At the same time, this strategy revolves around, among other things, more intensive cooperation among companies, joint investment and knowledge-based spillover effects among diverse actors within a cluster, such as enterprises, private and government institutions and research facilities. The development and dissemination of knowledge within clusters, especially supported through networks of public-sector and private-sector actors, leads to the upgrading of enterprises and of groups of enterprises accordingly. Such an upgrading is no longer merely a consequence of ad hoc industrial synergies, but rather becomes a pivotal factor which is influencing local innovation systems thanks to the importance of industrial clusters of innovation and knowledge. Successful upgrading takes place primarily at the local level. Expectations concerning such positive cluster effects have been very high in Tunisia, but many strategies, such as the establishment of science and technology parks, industrial development parks and of special economic zones, have not been particularly successful, neither in regard of job creation nor related to technology development.

Efficient institutions that foster the private sector, for example by reducing market entry barriers for SMEs or intensifying technology transfer to the SME sector, can stimulate economic growth and hence boost employment and raise incomes. Unfortunately, despite of many institutions in place, no efficient institutions of this nature have yet become established in Tunisia. Tunisia's economic policy has up to now not adopted a coherent and holistic development strategy for the industrial clusters; the policy approaches are missing a central focus and a clear implementation strategy. At the same time, Tunisia could benefit from learning the lessons

6. Boudriga / Hassen (2013); IACE (2016): Rapport de compétitivité 2016, Tunis; [http://www.iace.tn/wp-content/uploads/2016/04/rapport\\_annuel\\_IACE-2016.pdf](http://www.iace.tn/wp-content/uploads/2016/04/rapport_annuel_IACE-2016.pdf).

of comparator middle-income countries in this regard; some of these countries (like Malaysia and Chile) have been successful in boosting »systemic competitiveness« through cooperation and linkages among enterprises, sub-contracting of smaller companies by large enterprises, and cooperation of companies with the public-sector, research institutions, business development services and the like. Especially in Tunisia's agglomeration zones, cooperative ventures and networks can help to reap productivity gains and thus to tap the domestic demand and the export potential. However, isolating the »off-shore« and the »onshore« industrial sectors in Tunisia by respective laws, regulations and incentive systems has precluded such a cooperation. Nor does the establishment of technology and industry parks constitute an adequate strategy up to now. This approach, for the most part, maps the concept of the »extended workbench«, only resulting in limited horizontal and vertical linkages to local industry. Employment trends have been disappointing despite of the many policy initiatives.

### Dynamics in Urban Centres and Inclusive Growth

The following factors are of importance for enterprises to develop in urban centres of Tunisia:

1. *Labour market pooling*: Industry derives additional benefits from migration of workers from rural into urban areas or to Greater Tunis. Engineers and skilled workers are available in industrial centres, which play an important role in processes of industrial renewal. The process of urbanisation in Tunisia indicates a preference for Greater Tunis and other urban agglomerations. Enterprises can benefit from the greater availability of skilled workers.
2. *Intermediary inputs*: One important aspect related to agglomeration economies<sup>7</sup> is to be found in the production of inputs or upstream products. It is not the sheer number of manufacturing activities that matters in industrial centres. Rather, it is the fact that suppliers of inputs and of semi-finished products find

a ready market. There are numerous linkage effects with large enterprises. The demand for industrial suppliers rises, with positive spillover effects on the formation of industrial centres. This is also true for the industrial centres in Tunisia. A consequence is that in the wake of urbanisation and a burgeoning middle class more industrial enterprises and their suppliers will set up operations and hire workers. This ideal type of development has not been evident within the current division of labour which is based on production outsourcing. The sharp division between »off-shore« and »onshore« industrial sectors in Tunisia has prevented the emergence of a greater industrial dynamics in urban areas.

3. *Technological spillover effects and the expansion of skills and competences*: Especially important is the role of external technological effects, i.e. the attraction of industrial branches and the demand for qualified labour have the effect of transferring know-how to other sectors and firms. Intensive cooperation and communication among companies helps new technologies to disseminate rapidly, becoming accessible to many enterprises. These factors trigger learning effects, allowing all the enterprises involved to benefit if there is sufficient institutional support – vocational training, research & development, business development services, consultancies, and chambers of commerce. Although Tunisia has such a support infrastructure, especially in urban areas, it is not enough focussed to the local demand of industry.

In principle, there is a link between the growing middle class in large Tunisian cities and urban industrial centres and the differentiation of enterprises to supply relevant services, for example commercial and technical consulting, logistics and IT services, to other companies. Tunisian SMEs are to be found in the metal-working, pharmaceutical and chemical industries, the automotive and electronics industries, the health sector, the ICT sector, the building industry, the textiles and leather industry, the food production, the manufacture of consumer goods, and the transport sector, while others cater for the leisure activities of the middle class. The tourist industry is one of the most important sectors in Tunisia. But despite of the abundance of SMEs, the growth opportunities of these enterprises and the employment prospects are very limited. The urban agglomeration economies are not exploited.

7. Positive agglomeration effects can come about through spatial concentration of physical capital, business enterprises, customers and labour. These effects are generated by factors such as reduced transport costs and the development of larger markets. In addition, engineers and skilled workers are available and knowledge is more readily accessible for use by local enterprises.

Tunisia has already a considerable size of its middle class, and the number of SMEs is getting bigger in many sectors. A »medium sized enterprise sector« is emerging, but faces serious constraints to expansion. This sector has great difficulties in accessing bank loans, and is affected by widespread corruption, cronyism, lack of competition in important sectors of the economy, high taxes and levies, along with extensive government regulation with high administrative costs. All this means that Tunisian SMEs are not able to translate their potentials, their economic skills and competencies, into higher turnover, profits and employment. As a result, enterprises remain small and are only rarely able to grow, to respond to market needs and to higher new staff.

The regulatory environment significantly restricts the possibilities for local SMEs to grow and to employ more staff, and also limits the scope of activities of the foreign investors in Africa, but also in Tunisia.<sup>8</sup> Direct foreign investment focuses in Tunisia on low-wage sectors with low requirements in terms of skills of employees, while taking advantage of the generously granted tax breaks. Thus, the potential offered by labour market pooling, availability of intermediary inputs and technological spillover effects is not fully leveraged. In addition, the spending power of the middle class in Tunisia has suffered over the last few years due to losses of incomes and earnings, increasing unemployment, and decreases in real wages.

### New Industrial Policy, Inclusive Growth and Employment

In general, a *new industrial policy* can only help to reduce poverty if its impacts include the creation of additional and, above all, better jobs. What is needed is a new industrial policy agenda: an integrated investment, trade and PSD policy that also includes the modernisation of the agricultural sector and the development of interior regions. A new industrial policy requires that new paths are also be taken in labour market and social policy, competition policy, educational policy, and in investment promotion. In all these areas, however, it is apparent that reforms have yet to start in a comprehensive,

effective and sustainable process.<sup>9</sup> Although there are many plans for reform, they are not being implemented in time. Lagging reform means that new risks for employment emerge.

Fundamentally speaking, structural change needs to be brought about via a system of economic incentives that is appropriate to the economic system and above all is free of inherent contradictions. This includes the elimination of barriers to the growth of enterprises – for example through access to financial services and markets, through less bureaucracy and lower administrative costs for permits and licenses, through the leveraging of competencies and know-how, and through institutionalized and more effective technology transfer. A proactive industrial policy will make it possible for local entrepreneurship to flourish and for domestic and foreign enterprises to grow.

There are many possible ways for the government and the private-sector institutions to support SMEs: SMEs could be alerted to the opportunities offered by clusters by means of new incentive systems what requires intensive networking and more rapid dissemination of information; interlinkages between the formal sector enterprises and large private and public-sector enterprises on the one hand, and SMEs, informal sector micro-enterprises and business start-ups on the other hand, can be strengthened, also with the support of government authorities in public tenders. Thereby, informal sector enterprises and SMEs will benefit from and will contribute to structural change in Tunisia. This SME-focused development approach will contribute to broad-based and more inclusive growth. A much greater effort is necessary in Tunisia in the areas of expanding competencies, learning and knowledge acquisition, skills development, and the creation of human capital for key economic sectors to realise the required gains in productivity.

A reliable macro-level policy with transparent budgetary strategies, clear taxation and expenditure rules, and realistic exchange rates are also needed, along with a proactive trade policy to foster exports in a sustained

8. Cf. Kappel, Pfeiffer and Reisen (2017), op cit.

9. Cf. on this: Wohlmuth, Karl (2015): Gelingen die Wirtschaftsreformen in Tunesien? Der Handlungsbedarf betrifft alle Bereiche der Wirtschaftspolitik, S. 24–31, in: »Berichte«, Oktober–Dezember 2015, 25, (209), Berlin: Forschungsinstitut der IWW e.V.; and: Wohlmuth, Karl (2016): Die strategische Rolle der Universitäten in Tunesien, Impulse – Der Wissenschaftsblog, Universität Bremen; <https://blogs.uni-bremen.de/impulse/2016/04/die-strategische-rolle-der-universitaeten-in-tunesien/>.

manner and to maintain a foothold in European markets while capturing market shares in emerging economies and in markets elsewhere in Africa. Although in Tunisia instruments such as export subsidies, duty drawback schemes<sup>10</sup>, and the like exist, thus far they have been far less effective than this has been the case in East Asia's success stories. Higher and broader-based growth can be better attained through measures such as those suggested here. This is urgently necessary, as the competitiveness of the Tunisian industry has slumped since 2010 and is now even lower than in many low-income African countries.

### Integration Into Global and Regional Value Chains<sup>11</sup>

Employment policy in Tunisia appears to be stuck in an inescapable quandary. On the one hand, privatisation of state-owned enterprises has taken place since the revolution of 2011 – partly based on the assumption that more competition would not only stimulate economic growth, but also will create more jobs. However, these hopes have so far been in vain. On the other hand, between 2011 and 2015 160,000 new jobs were created in the public sector; this is about half of all the new jobs which were created economy-wide. An additional 16,000 new positions for public employees were created in the first quarter of 2016, and again more in the other quarters of 2016. However, so far there is no sign that this growth in public sector employment has made any real contribution to increasing economic dynamics and bringing about the required structural changes. A way out of this dead end in employment policy could be a »third strategy«, neither exclusively market-optimistic nor state-optimistic. What is necessary is a focus on developing industrial sectors and labour-market institutions, i.e. a meso-economic approach to employment policies.

10. Reimbursement of import levies on imports needed for local production, for example those of high-value inputs for manufacturing industries.

11. Data and sources on the ideas presented here can be found in: Bass, H. H.: Obstacles to and opportunities for the integration of an emerging market economy into Global Value Chains: The Case of Tunisia, in: *Journal of International Business and Global Economy*, Vol. 35, November 2016, pp. 169–182; and in: Bass, H. H.: Tunisia's Progress in Integration into Global Value Chains: Achievements and Obstacles, in: *African Development Perspectives Yearbook 2017*, Vol. 19, Edited by Reuben A. Alabi, Achim Gutowski, Tobias Knedlik, Oyebanke Oyelaran-Oyeyinka, and Karl Wohlmuth, Theme: Africa's Progress In Regional And Global Economic Integration – Towards New Trade And Investment Policies, Wien/Zürich: LIT Verlag, pp. 279–291.

Integration into global trade plays an especially crucial role for small economies like Tunisia due to the size constraints of domestic markets. It must furthermore be emphasised that in comparison with countries with similar income levels the Tunisian enterprises already display a high level of diversification in export-oriented production, including relatively sophisticated goods. In other words, Tunisia's export portfolio has already attained a relatively high level of »complexity«. Thus, the preconditions for export-based development in Tunisia are still relatively favourable – even if, relative to other emerging economies, the dynamics underlying export complexity have been in decline for years and a premature deindustrialisation is looming, as value-creation in manufacturing dropped from 20 percent in 2008 to 17 percent in 2014.<sup>12</sup> Therefore, industrial policy in Tunisia should concentrate a good portion of its attention on the export economy – especially that serving the European Union (EU) – with the aim to make the country an internationally linked industrial hub in North Africa. However, to maximize employment opportunities it is also necessary to look at the markets in North Africa, Sub-Saharan Africa and the Arab world. Although Tunisia has a long experience in dealing with European markets, policymakers and customers, a new strategy is also requested vis-à-vis Europe.

To achieve this aim, Tunisian economic policy must seek to integrate domestic enterprises into transnational value chains more deeply than this has been the case in the past, and to improve their positions within these chains, i.e. occupying manufacturing stages at higher levels of value creation. In transnational value chains (TNVCs)<sup>13</sup> the manufacture of product parts or the rendering of upstream and downstream services is carried out at different locations all over the world with the aim of leveraging specific advantages offered by various sites. In one stage of the production process, this can be the high innovative capacity in a country due to its advanced education, training and research system. In other stages of production this can be the advantage of low unit labour costs in a different country. TNVCs merge the fragmented production steps by means of transnational trade. Coordination is done, inter alia, through companies setting specific standards or adopting national or universal industry standards.

12. Data from the World Bank.

13. Here the notion of transnational value chains (TNVC) is used to designate both commonly used international terms: »global value chains« (GVC) and »(geo-)regional value chains« (RVC).



At present, the electronic device industry and the textile industry (including leather goods and shoes) are the most important transnational value chains for the Tunisian economy. This is shown by the figures on the *present backward integration* into TNVCs – the share of value-creation imported from abroad and further processed in Tunisia for export. The value-creation through further processing of imported products accounts for a total of 30 per cent of Tunisian overall exports. Out of this, seven per cent are from the electronic devices industry and six per cent from the textile industry.<sup>14</sup> Chemicals and electronic equipment contribute two per cent each, trade and food products less than two per cent each. This means that more than one-third of involvement in transnational value chains derives from only two industries.

In addition, there is a positive correlation in Tunisia between *accelerating backward integration* into transnational supply chains and local value creation. Industries that have been increasingly integrating into TNVCs and have been processing increasing shares of inputs from abroad in production of their exports also register rising shares of domestic value creation. This is the case, for example, with Tunisian automotive suppliers. Conversely, further processing of imported inputs for export has been growing at below-average rates in the textile, food processing and chemical industries. In addition, companies in these sectors are not able to upgrade into production segments with higher levels of value creation.

Unfortunately, especially the sectors that provide much employment – that is, the food processing and textile industries – have not been successful in further processing imported inputs for export on any significant scale. In these sectors, there is thus a risk that they will remain restricted to simple manufacturing steps. Wage rates in these sectors would then stagnate. Consequently, there would be a danger of jobs being shifted to other countries with lower unit labour costs. And such shifts have already taken place.

Broader and deeper integration into TNVCs, in contrast, offers a host of potential advantages. The production of parts for transnational supply chains can also accelerate economic structural change, thereby *in the long*

*run* safeguarding jobs (even if not guaranteeing specific jobs in the short run). Turning small and medium-sized enterprises (SMEs) that have thus far only produced for the domestic market into suppliers for transnational value chains would encourage progress in technology and company organisation along a broad front – another precondition for stable employment.

### Industrial Policy Preconditions for Successful Global Integration

An industrial policy that seeks to leverage the advantages of integration into transnational supply chains must ensure that several general preconditions are in place: openness to foreign investors, low energy and transport costs, and integration of domestic small and medium-scale enterprises into transnational value chains by means of easy access to capital, a reasonably qualified workforce and fair competition rules. None of these preconditions are sufficiently met in Tunisia at present. Tunisian SMEs face credit costs (especially the non-interest costs) that are far too high, which is why investments to boost productivity or enhance quality are rarely made. A consequence is that product quality and reliability of supply are scarcely sufficient to allow Tunisian SMEs to become part of transnational supply chains. This means that, for instance, German enterprises operating in Tunisia rarely place orders with Tunisian SMEs except for very simple products (like standard packaging).

To promote integration into transnational value chains, Tunisian economic policy should use both »functional« and »selective« instruments. Functional industrial policy seeks to improve the general functioning of institutions and markets. A general ease in access of SMEs to bank loans could be cited as one example. Selective instruments nurture specific industries. A broader integration into TNVCs, for example, could be achieved in the textile industry by support for the manufacturing of sophisticated technical textiles. Deeper integration into TNVCs could be achieved through adoption of more sophisticated international technical standards at production plants, for example via the establishment of technology transfer centres for specific industries and tailor-made vocational training and re-training programmes.

Of course, every industrial policy involves risks and trade-offs: any promotion of industries and firms plac-

14. Data for 2011; the authors' own estimates using OECD data; no newer figures are available.

es the not-supported ones at a relative disadvantage. Government intervention can put shackles on private initiative. Infrastructure projects can become »white elephants«. Technological progress with government support can displace labour-intensive production and have a negative net effect on overall employment in the wider economy...

The list of risks and trade-offs could go on and on. However, risks can be contained if economic subsidies are provided in a non-partisan manner and if promotional instruments are developed based on rational judgement. It is true that the current state of business development and economic promotion in Tunisia does not give rise to too much optimism in this respect. And more than this, the support from the international community for the progressive forces in the Tunisian administration is indispensable.

## Are There Ways Out of the Employment Crisis?

In this section, three hypotheses as to the causes of the job crisis in Tunisia are discussed. Firstly, the employment strategy for the years 2013–2017 has not so far lived up to expectations: the causes of the employment problems are not specified. Secondly, the Tunisian government has not proactively shaped the trend towards deindustrialisation, i.e. the declining proportion of jobs in manufacturing as a percentage of total employment, either before or after 2011. Thirdly, four possible paths of reindustrialisation in Tunisia that could allow a sustainable creation of new jobs have been entirely absent from discussions on economic reform since 2011.<sup>15</sup>

### National Employment Strategy and Lack of Momentum in Labour Markets

The National Employment Strategy 2013–2017, agreed in December 2012, has up to now not achieved its aims and objectives. As a strategy of the Ministry of Vocational Development and Employment, it is not effective,

as no coordination has taken place with other important national actors. Numerous line and sectoral ministries, along with employer and employee institutions, are of importance in devising and implementing an effective national employment strategy. The strategy has foreseen a large-scale promotion of small businesses until the end of 2013, and to improve vocational education to eliminate critical shortages of skilled labour. It targeted a significant reduction of the unemployment rate by the end of 2015, above all by moving the country towards a knowledge-based economy. It aimed to establish by 2017 a comprehensive new employment model that would make it possible for companies to grow by employing qualified labour. The focus on small and medium-scale enterprises – which account for around 95 percent of all enterprises in Tunisia – plays a pivotal role in the strategy. These businesses are crucial in the creation of jobs. So far, however, Tunisia has not come close to achieving the objectives laid down in the employment strategy.

The policy debate in the next few years will continue to revolve around a national employment strategy. There are several reasons for this. First, the spatial concentration of employment and the complex structure of unemployment make all-encompassing policies necessary. Employment is heavily concentrated on the region of Greater Tunis (accounting for 25 percent of total employment), East-Central (with 25.2 percent) and North-East (16 percent); by comparison, only 4.8 percent of employment is to be found in the South-West region. The rate of unemployment rose quickly after the 2011 revolution, climbing to 18.3 percent by May 2011.

Unemployment is especially pronounced among women, for whom the rate of joblessness is much higher than for men. A slight decline in unemployment, particularly among women, is due to a proactive hiring policy in public services since 2012. This hiring policy has been upheld until the present time and continues to contribute to a bloated public sector. In contrast, there is no impetus for additional employment in the private sector. Since 2010, unemployment among university graduates has fluctuated between 23 and 33 percent, with the rate for men lying between 16 and 24 percent and that for women between 33 and 45 percent. Regional differences in unemployment rates are also considerable – 12.4 percent in the East-Central region compared with 26.1 percent in the South-East region.

15. A detailed discussion complete with data sources and evidence can be found in: Wohlmuth, Karl (2016): Das Management der De-Industrialisierung und die Initiierung von Politiken der Reindustrialisierung, Elemente einer nationalen Beschäftigungsstrategie für Tunesien, IWIM, Blaue Reihe, Nummer 127, Universität Bremen.

Secondly, the dramatic deterioration in the quality of jobs requires action to be taken. The stability of employment, in terms of the number of days of employment per year, varies greatly across the three main employing sectors – it is low in agriculture, somewhat higher in industry and highest in the service sector. In the informal sector, wages are low and working conditions poor, especially for women. The informal sector is estimated to account for 39.2 percent of Gross Domestic Product (GDP), and 49.9 percent of the employees do not have any access to social security. Nor do minimum wage requirements apply to informally employed persons. 22.2 percent of employees work in the public sector and 78 percent in the private sector; however, no relevant increase in the numbers of jobs is taking place in the private sector.

Thirdly, the classic employment model of permanent contracts has long since ceased to apply, forcing policy-makers to undertake corrective action and to rapidly push through reforms. Only 38.9 percent of the employees have permanent employment contracts; the proportion of full-time jobs is also declining at an accelerating pace. These structural shifts are having negative effects on the recruitment of qualified labour and the training within enterprises. All this leads to fissures and cracks in attempts to secure income. Efforts at broad, all-encompassing systemic reforms of the labour market and social security are not making any headway in the face of extremely limited levels of trust and confidence of workers in their institutions.

### Management of Deindustrialisation and the Job Crisis

Tunisia has not successfully managed the process of deindustrialisation. The term »deindustrialisation« is here used both in a narrow sense as a decrease in the level of employment in manufacturing as a proportion of total employment in the country, and in the broader sense as a continuous decline in the proportion of Gross Domestic Product accounted for by manufacturing. Manufacturing has many positive spillover effects on the overall economy; these occur along a broad front, affect several sectors and cause cumulative improvements in productivity, technological learning, and networking among different sectors of the economy, among other things. The management of deindustrialisation is therefore of key importance to employment.

There are several important causes of deindustrialisation: demand for services grows with rising per capita income, productivity in manufacturing rises faster than in other sectors, more of the services needed for manufacturing take place in the tertiary sector, income elasticity of demand for industrial goods drops as incomes rise, and the growing effects of international division of labour and global technological competition have especially great impact on this sector. Active management of deindustrialisation makes it possible to promote those sub-sectors of the economy that display growth and lead to more employment. Tunisia has not been very successful in such management. The contribution of manufacturing to GDP fell from 19.5 to 16.8 percent between 2008 and 2015. However, the share of employment accounted for by this sector only dropped from 20.1 to 18.4 percent between 2008 and 2010 and has scarcely changed since then. The share of manufacturing in overall employment has therefore seen more resilience than the share of manufacturing in GDP. This is mainly due to measures taken to protect jobs at the expense of increases in labour productivity.

Jobs that from a macro- and micro-economic perspective were unproductive have been created or preserved both in the public sector and in government-owned enterprises. Drives to hire unemployed persons take place on a regular basis, but cannot compensate for the absence of an active and future-oriented employment policy. Structural change has been stagnating since the 1990s. Structural change takes place when labour from sectors with low productivity migrates to sectors with higher productivity, for instance from agriculture to industry and/or to the service sector. This process is lagging in Tunisia. For this reason, increases in productivity are only taking place within sectors, for instance in services when new IT companies specialising in software for industrial applications are created, or in manufacturing when companies specialising in modern IT and telephony devices are founded.

Five key factors are most important in accounting for the inadequate management of deindustrialisation in Tunisia:

First, rents are being earned in the form of various state aids and tax breaks, mostly through programmes for the promotion of exports, investment, regional development and industry. These funds are not generally invest-

ed in a productive manner because performance criteria either were not effectively applied at the time of their use, or no such criteria were specified in the first place. Tunisian industrial policy has initiated a great number of such programmes – for export promotion, modernisation of industry, regional development, investment incentives – but these programmes have not contributed to structural change and employment.

Second, the national innovation system of Tunisia has not been significantly strengthened or fundamentally reformed. The share of expenditure devoted to research and development (R&D) by private and government-owned companies is rather low – less than 0.2 percent of GDP.<sup>16</sup> Moreover, various programmes aimed at fostering R&D are inadequately coordinated and not evaluated in any systematic manner. The R&D system comprises quite many public research institutions – more than 600 institutions with 15,000 researchers –, but no systematic relationships and interactions exist with enterprises to facilitate technology transfer and innovation. In addition, the numerous small and medium-scale enterprises do not benefit from government measures to encourage R&D.

Third, there are no incentives for the reallocation of qualified labour across sectors; the mobility of workers across sectors and between enterprises in Tunisia is very low. This impedes the modernisation of industry and growth of enterprises. The two-tier labour market, with an ever-smaller percentage of employees having permanent contracts and a growing labour force with time-limited contracts and often precarious working conditions, provides no incentives either for mobility of these workers across sectors and enterprises or for initial and further training within enterprises.

Fourth, entry of persons with vocational and academic training into the economy is too low in absolute terms. There is a demand for untrained and semi-skilled labour in the economy, which means that unemployment in these groups is relatively low. Unemployment among people with academic and vocational degrees, on the other hand, is significantly higher. People with academic

degrees are mostly employed in sectors with low value creation and in the public service. This has severe impacts on the innovation process in the country, affecting overall employment in sectors with higher value creation.

Fifth, Tunisia has not been successful in reforming active labour market instruments, social security systems and social safety nets in a productive manner and in coordinating these measures with one another to bring about a greater mobility of workers, along with basic income security for employees and unemployed persons. The high costs of subsidising foodstuffs and fuel, from which the upper class and the rich also benefit, could be reduced and currently rudimentary social security networks instead improved and expanded.

### Job Creation Through Four Paths to Reindustrialisation

Reindustrialisation is a popular concept in developed economies. It refers to the strengthening of the industrial base, which is considered as the engine of technological development and increasing productivity. The notion of reindustrialisation is also being intensively discussed in Africa. The task is to seize upon the positive elements of import substitution and to link these with elements of export diversification and knowledge-based and resource-based industrialisation.

For Tunisia, this means four possible paths to reindustrialisation. These four paths offer a considerable job creation potential; and, Tunisia's production model would be changed considerably if they were implemented. The four paths are not to be viewed as alternatives; they are, rather, largely complementary strategies. Reindustrialisation offers Tunisia the opportunity to achieve several development objectives at the same time: combatting poverty, reducing unemployment, accelerating structural change, initiating a more intensive use of human capital in sectors with high levels of value creation, promoting a technological modernisation of industry, approaching a reduction in regional social and economic imbalances, and furthering the growth of small and medium-scale enterprises and a deeper integration into global value chains.

*Path to reindustrialisation 1* (establishment of integrated value chains with high job creation potential in sectors other than manufacturing) assumes that integrated val-

16. By comparison: In South Africa expenditures by enterprises on research and development are significantly higher at 0.54 per cent of GDP and 59 per cent of total expenditures for R&D; cf. on this OECD data at: <https://www.oecd.org/sti/outlook/e-outlook/sticountryprofiles/south-africa.htm>.

ue chains with major potential for job creation can be established in agriculture, mining, construction and some service sectors. This can only be successful, however, if basic underlying sectoral policies are consistent with one another, in other words if coherent development strategies are implemented. There is a major need for reform in all these areas to leverage the tremendous employment potential offered by integrated value chains. Weaknesses in agricultural policy are particularly debilitating: direct support funds and protectionist measures tend to strengthen large agricultural operations producing products that are not particularly competitive. Downstream industries, »green industries« and regional industries, on the other hand, cannot take advantage of employment opportunities. Revitalizing value chains in sectors such as agriculture, mining, construction, and services will have the potential to generate huge employment gains. Also, public utilities (such as electricity, water, and sanitation) provide plenty of opportunities to reorganize value chains.

*Path to reindustrialisation 2* (establishment of industrial value chains and infrastructural development in the interior of the country) assumes that new strategies are needed for regional development. The creation of production networks that link the coastal and the hinterland regions is a paramount task for employment policy. The strict separation of »offshore« and »onshore« sectors rendered an inter-regional involvement of the hinterland regions in value chains impossible in Tunisia from the outset. Moreover, bureaucratic obstacles faced by »onshore« sector enterprises (both in the export sector and the sector supplying the domestic market) in hinterland regions are even greater than in the coastal regions. A new industrial policy for the integration of hinterland regions is based on three pillars: first, establishment of industrial development zones in those hinterland regions in which economic links to enterprises in coastal regions can be successfully expanded; second, formation of investment promotion schemes based on the specific resources and comparative advantages of hinterland regions; and third, creation of training, consulting, start-up and technology centres in backward regions by offering support in the training of employees and jobless persons, by developing and nurturing of entrepreneurship, and by organising for technology transfer to local enterprises. Three industrial development zones have already been proposed to link up the hinterland regions with regional growth poles.

*Path to reindustrialisation 3* (deepening of vertical and horizontal integration into global value chains) assumes that the considerable R&D potential of the country can be leveraged to more deeply integrate the Tunisian economy into the international division of labour. Tunisia is vertically integrated in a few global value chains, but lacks deep vertical integration through the production of key components (i.e. complex intermediate goods) and complex end products for the world market. Vertical integration to date has primarily brought about employment for less-skilled workers in sectors like textiles and clothing, electrical and electronic systems, and in foods and beverages. Moreover, a presence in several new sectors – above all in knowledge-intensive areas – is both possible and necessary to scale up employment of skilled labour on a massive scale through horizontal integration into global value chains. For instance, in Tunisia there is a potential for the »fusion« of technologies in the promising field of medical technology – at the interface of the health sector, electrical and electronic industries, and information and communication technologies. Also, other possibilities for a »fusion« of technologies exist in Tunisia; in most cases involving information and communication technologies. In principle, the Tunisian companies can benefit from a wide-ranging public R&D and innovation promotion system; this system can promote innovation and technology transfer in support of integration into global value chains – both vertical and horizontal. However, so far it has not been used to bring about deeper integration into global value chains.

*Path to reindustrialisation 4* (broad usage and further development of already existing potentials in the guise of »green growth« and »green industries«) assumes that in times of climate change and environmental problems urgently new industrial solutions are requested. Increasing numbers of qualified young workers will be needed in Tunisia to tap into the potentials for »green growth« and »green industries« in social enterprise models, in social and community projects, in cooperatives<sup>17</sup>, and as well in conventional profit-oriented enterprises. Rampant youth unemployment, especially in hinterland regions, and the high rate of unemployment among persons with vocational and academic training, could be reduced over the medium and longer term – especially if training profiles

17. Thus, the ILO's COOP model for Tunisia constitutes an attempt to acquaint young entrepreneurs and craftsmen and craftswomen in El-Kef, Gafsa and Tunis with the cooperative model; cf. COOP News No. 1, 2012, p. 10; <http://www.diktio-kapa.dos.gr/keimena/CoopNewsILO1.pdf>.

and curricula at all levels of education were to be adjusted along these lines. A strategy of reindustrialisation via the route of »green industries« offers a wide variety of opportunities for sustainable development and, in both the medium and long term, for job creation in all regions. This especially holds true for the following areas: renewable energies and energy efficiency; tourism and ecotourism; the waste economy, recycling and re-manufacturing; organic agriculture; the construction sector; and environmental protection services in mining. And, all the programmes related to start-up companies and entrepreneurship development should be pooled with the objective of fostering clean-tech companies. Newly conceived programmes for the promotion of industry and exports; environmental and sustainability programmes; conventional, community and social entrepreneurship programmes; and various social security, labour market restructuring and training programmes can all support this process in a targeted manner.

#### Focus and Implementation of the Employment Strategy

A parallel implementation of these four paths to reindustrialisation offers major advantages in terms of employment policy. This gives rise to synergies and ensures that all important political forces and business interests are included. It is a task, however, that can only be tackled successfully if all the key political, social and economic stakeholders are involved. The employment strategy for 2013–2017 was devised under the auspices of the Ministry of Vocational Development and Employment; but this ministry is only one among various labour, social protection and employment institutions in Tunisia. Therefore, all the offices being relevant for this broad national political task need to play a role in Tunisia. All important decision-makers have to be involved in a long-term, multi-sectoral, and binding employment strategy: all line ministries that deal with the economy, agriculture, infrastructure, trade, science, training, investment and enterprises; the government's and the political parties' economic advisors; the employers' and employees' associations with different political orientations; key players from science, technology and innovation centres and universities; representatives of business enterprises of different sizes and with different capital ownership arrangements; business enterprises with export and domestic market interest; business

representatives from interior regions; representatives of social and municipal enterprises and cooperatives, and many more.

Ongoing discussion about the Cooperation Agreement between the EU and Tunisia, ALECA (*Accord de Libre-Echange Complet et Approfondi*), illustrates how civil society and economists in Tunisia are following negotiations very closely and in a very critical manner. However, little exists in terms of hard facts or information regarding ALECA's expected impacts. Issued in 2013, the frequently cited ECORYS Report<sup>18</sup> draws ambiguous conclusions regarding the impact of ALECA on growth, employment, trade and the environment. While agriculture (vegetables and fruit) and several industrial products would register gains, net disadvantages would tend to accrue in the case of textiles, clothing and leather as well as for non-mineral and petrochemical products. Projected effects on the service sector also appear to be mixed. In addition, increasing scarcity of water is putting constraints on the expansion of agriculture, a sector otherwise could benefit. The IACE study also presents mixed results for agriculture and the services sector; for ALECA to be a success, very high rates of expansion (in production, exports and productivity) would have to be achieved.<sup>19</sup> Such high expansion rates would necessitate very favourable external impacts (from the EU and the world market), but also positive internal impacts from domestic reform policies and domestic politics.

The ITCEQ study, on the other hand, forecasts advantages for employment in the service sector, as there would be greater demand for skilled labour following deregulation.<sup>20</sup> These positive effects can only be achieved, however, if there is a surge in reforms along a broad front of service sectors in Tunisia. The protocol from the first round of negotiations between the EU and Tunisia (18–21 April 2016) shows that discussions are only just be-

18. ECORYS (2013): Trade Sustainability Impact Assessment in support of negotiations of a DCFTA between the EU and Tunisia, Final Report and Annexes-Final Report, 25. November 2013, Rotterdam; [http://trade.ec.europa.eu/doclib/docs/2013/november/tradoc\\_151923.pdf](http://trade.ec.europa.eu/doclib/docs/2013/november/tradoc_151923.pdf) and <http://www.trade-sia.com/tunisia/wp-content/uploads/sites/3/2014/06/FR-Tunisia-annexes.pdf>.

19. Cf. on the IACE study: <http://www.iace.tn/articles/la-4eme-edition-du-tunis-forum-2>.

20. ITCEQ (2016) : Evaluation de l'impact de la libéralisation des services dans le cadre de l'Accord de Libre Echange Complet et Approfondi (ALECA) entre la Tunisie et l'U.E., Etude no. 04/2016, République Tunisienne, Ministère du Développement, de l'Investissement et de la Coopération Internationale, Institut Tunisien de la Compétitivité et des Etudes Quantitative.

ginning and could last for two to three years.<sup>21</sup> Only then would the complex EU ratification process take place. No structural effects could therefore be expected before 2020; by that time the next development plan for Tunisia would already be unfolding.

Summing up, the prevailing opinion, which is probably realistic, in informed Tunisian civil society is that the positive effects would only outweigh the negative effects of the Accord if the negotiations produce very good results for Tunisia. To achieve this, it will be necessary for Tunisia to develop a coherent industrial policy as quickly as possible. The development plan for 2016–2020 does not contain any such strategy. That is why it is so important for the discussion over deindustrialisation and reindustrialisation in Tunisia to continue in a resolute manner at a conference dedicated to national employment, and for the results of this conference then to be translated into action plans.

Another issue in the debate over industrial policy is the fundamental direction of trade and integration policy. In a statement recently issued by Carlos Lopes, Executive Director of UNECA, he cogently argues that Tunisia's economic future lies in Africa; this is very pointedly indicated by the latest results of studies on Tunisia's respective options in trade with EU countries and with Arab and African countries.<sup>22</sup>

Regional cooperation with African countries, for instance within the framework of the envisaged CFTA (Continental Free Trade Area), offers opportunities for Tunisian enterprises in sectors such as consumer goods, trade, construction, and various services. Regional value chains and cooperative ventures in the areas of mineral resources, oil and gas offer opportunities vis a vis the Arab countries, for example in treaties like GAFTA (Greater Arab Free Trade Area) and AMU (Arab Maghreb Union). Tunisia can nevertheless continue to benefit from cooperation with EU countries in some global industrial value chains as well as in the areas of agricultural products and tourism.

For reasons of employment policy, in addition to cooperation with Europe (ALECA), cooperation is also necessary with Africa (CFTA) and the Arab countries (GAFTA and AMU); global value chains would then be supplemented through regional value chains. The traditional integration into vertical value chains would be replaced by deeper forms of global and regional integration; also the formation of horizontal economic interlinkages in value chains would become possible.<sup>23</sup> Agreements with the EU have tended to be overemphasised in Tunisia's economic history and have led to serious structural problems: concentration on only two global value chains without any clear trend towards further development in depth and breadth, along with very limited effects on employment, i. e. upon the quantity and quality of jobs.

The ALECA programme has very lofty aims and is arousing great expectations, but experiences to date show that the cooperation between Tunisia and the EU cannot fulfil the aims in this manner.<sup>24</sup> Defining Tunisia practically as a »part of the European Single Market« may be fascinating for some observers in Tunisia, but how realistic are these prospects? For this reason, a redefinition of the global and the regional focus is of tremendous importance to Tunisia's employment strategy.

It is just as important for the private sector in Tunisia to get much more involved in this discussion than it has been so far the case and to adopt a very clear position towards the government and its administrative levels with regard to the required reforms. Employment policy and treaties like ALECA do not only involve government initiatives and negotiations among governments: all the initiatives and steps in negotiations need to be coordinated with enterprises and their various associations and chambers, and a feedback needs to be obtained from these. However, this presupposes fundamental changes in the economic system. The economic model in Tunisia continues to be based on very tight interlinkages of large, state-owned, private and privatised enterprises and the government – through various channels, like corruption,

21. ALECA (2016): Rapport conjoint du premier round de négociation sur un accord de libre-échange complet et approfondi (ALECA) entre la Tunisie et l'Union Européenne, Tunis, 18–21 avril 2016; [http://www.aleca.tn/wp-content/uploads/2016/04/220416-Tunisia-ALECA-1st-round-report\\_final.pdf](http://www.aleca.tn/wp-content/uploads/2016/04/220416-Tunisia-ALECA-1st-round-report_final.pdf).

22. Lopes, Carlos (2015): Tunisia's economic future is in Africa, 16 November 2015; <http://www.uneca.org/es-blog/tunisia%E2%80%99s-economic-future-africa>.

23. UNECA (2016): Promoting Regional Value Chains in North Africa, Addis Ababa: ECA/Economic Commission for Africa; [http://www.uneca.org/sites/default/files/PublicationFiles/sro-na\\_promoting\\_regional\\_value-chain\\_en.pdf](http://www.uneca.org/sites/default/files/PublicationFiles/sro-na_promoting_regional_value-chain_en.pdf).

24. EIB/European Investment Bank (2015): Structural Transformation and Industrial Policy: A Comparative Analysis of Egypt, Morocco, Tunisia and Turkey and Case Studies (Case Study Tunisia, pp. 39–68), FEMISE/FEMIP; [http://www.eib.org/attachments/country/femip\\_study\\_structural\\_transformation\\_and\\_industrial\\_policy\\_en.pdf](http://www.eib.org/attachments/country/femip_study_structural_transformation_and_industrial_policy_en.pdf).

elimination of competition, paternalism, over-regulation, arbitrary taxation, political proximity, and non-transparency – while small businesses traditionally receive no support, and are instead subject to excessive administrative burdens and taxation, corruption, and a wide array of levies and requirements.

Significant portions of private earnings are siphoned out of the enterprise sector and as a result cannot be invested to generate jobs. In the early years following the »Arab Spring«, this was also emphasised by the Tunisian government as a key cause of economic problems.<sup>25</sup> Reform efforts remain stagnant, however, while symbolic measures have not been able to turn things around. The public sector and government-owned enterprises, as well as large private enterprises, suffer significant negative effects of government »job creation campaigns«, i.e. »obligations to hire workers are imposed on them«, as has been noted in the foregoing. This is not the path to competitive production or to investments that will create more jobs.

Stakeholders and actors in the private sector should take autonomous roles in efforts towards a comprehensive employment strategy for Tunisia and as well at the national employment conference to plan for this strategy. Independence from government is necessary in the formulation of programme components. The inclusion of employers' associations other than UTICA<sup>26</sup> – such as CONECT<sup>27</sup> and IACE<sup>28</sup> – and of associations of private SMEs as well as craft associations, associations of informal businesses, start-ups, cooperatives, municipal and social enterprises is particularly vital, as is the participation by private SMEs and other enterprise players in the decision-making process on employment generation measures. All these associations and organisations need to be involved in the proposed National Employment Conference on an appropriate scale. Greater autonomy for these associations and organisa-

tions vis-à-vis the Tunisian government is crucial, and at the same time a precondition for the success of national employment policies. Regarding the role of trade unions, independent employee representatives are to be involved in addition to the UGTT<sup>29</sup>. Some NGOs and CSOs are very active in Tunisia on employment issues and can provide important inputs to a national employment conference.

For this reason, as a first step a frame for National Employment Conference has to be established to work on the cornerstones for a national strategy for increased employment, in order then to delineate the framework for a comprehensive employment programme. Actual implementation of draft plans for a new employment strategy will commence when the core elements of the strategy are spelled out as laws and regulations. The example of reforming the Tunisian Investment Law<sup>30</sup> (finally ready since the parliamentary process in September 2016 and applicable since January 2017) shows that it may take many years before a decision is made in the ministries and in the Council of Ministers. After this, decisions are to be made in committees of the Parliament and in the plenary sessions of the Parliament. Finally, to issue the necessary decrees in ministries to implement these laws and regulations and to organise administrative processes by the authorities in charge in such a manner that efficient administrative action ultimately emanates from the employment strategy is a further step. Then the reforms which are inherent in the Investment Law 2016 need to be properly implemented in economic practice and in the business world. Monitoring and Evaluation of the Investment Law 2016 is further important step, as already critical comments on the relevance and applicability of the new Law are raised. The implementation cycle for reforms therefore needs be resolutely and significantly curtailed. All this should be discussed and decided upon at a forthcoming National Employment Conference.

25. The African Development Bank (AfDB) / The Government of Tunisia (GoT) / The Government of the United States (GoUS) (2013): Towards a New Economic Model for Tunisia, Identifying Tunisia's Binding Constraints to Broad-Based Growth; [http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Towards\\_a\\_New\\_Economic\\_Model\\_for\\_Tunisia\\_-\\_Identifying\\_Tunisia\\_s\\_Binding\\_Constraints\\_to\\_Broad-Based\\_Growth.PDF](http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Towards_a_New_Economic_Model_for_Tunisia_-_Identifying_Tunisia_s_Binding_Constraints_to_Broad-Based_Growth.PDF).

26. Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat (UTICA); <http://www.utica.org.tn/Fr/>.

27. Confédération des Entreprises Citoyennes de Tunisie (CONECT); <http://www.conect.org.tn/>.

28. Institut Arabe des Chefs d'Entreprises (IACE); <http://www.iace.tn/>.

29. Union Générale Tunisienne du Travail (UGTT); <http://www.ugtt.org.tn/>.

30. See Investment Law 2016, Promulgated on the 17<sup>th</sup> of September 2016, Invest In Tunisia; [http://www.investintunisia.tn/En/publications\\_21\\_196\\_D11#.WOPFXaKkLcs](http://www.investintunisia.tn/En/publications_21_196_D11#.WOPFXaKkLcs)



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