POLICY BRIEF

BACK FROM THE BRINK: A BETTER WAY FOR EUROPE TO SUPPORT TUNISIA'S DEMOCRATIC TRANSITION

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June 2021

SUMMARY

- Tunisia is seeking a major IMF bailout loan – but the risks of securing it are almost as great as the risks of failing to, given the conditionality that would ensue.
- Democratic reforms in Tunisia have stalled, but post-revolution economic progress has never even begun.
- Tunisian politicians urgently need to combine receipt of a new loan and its accompanying austerity with economic reform and renewal to grow their way out of the crisis.
- The Tunisia policy of the EU and its member states is similarly stalled, but they can assist Tunisian leaders by providing new investment – and thereby reboot the democratic transition.
- Success in this endeavour could provide a model for political and economic reforms elsewhere in North Africa, which is in the EU's interest as it pursues its goal of strategic autonomy in the face of other powers' growing influence in the region.

Introduction

Tunisia is the only country in North Africa whose transition to democracy remains alive after the Arab uprisings of 2011; but the country is facing an economic crisis born of political failure. After ten years in which its leaders failed to reform Tunisia's economy or complete the democratisation of the political system, it teeters on the brink of bankruptcy. While half of Tunisia's political system tries to agree a deal that could convince the International Monetary Fund (IMF) to save the country from default, the other half is working against it, attempting to use this precarious moment for political advantage.

Tunisia's prime minister, Hichem Mechichi, is seeking to negotiate a new bailout with the IMF. To achieve this, he is looking to cobble together a coalition from across Tunisia's fractious political system, including powerful unions and a divided parliament. But Mechichi and the country as a whole are caught in a Catch-22. Although soft loans from friendly states have kept Tunisia's economy afloat up to now, failure to secure a bailout would be catastrophic for the country and could lead to rapid currency devaluation or even a broader economic collapse. The resulting chaos and destitution could, in turn, empower those seeking to return Tunisia to authoritarianism.

That being said, if Mechichi does obtain the financing Tunisia needs, the structural reforms demanded by the IMF would place the heaviest burden on those least able to carry it. Tunisians are already fed up with the lack of progress over the past ten years. There have been recurrent protests about the paucity of economic opportunities, the failure to tackle corruption, and the oppression that persists under a legal system that has not been upgraded to reflect the country's new democratic character. If the IMF demands further retrenchment, it could be the final straw for Tunisia's people, sparking riots and spreading fatalism over democracy's capacity to deliver. Moreover, given Tunisia's crippling debt repayment obligations, a bailout on its own would be unlikely to solve Tunisia's economic problems, but would only buy the country more time.

If Mechichi is to succeed in using the exceptional coalition he is forging under the pressure of the moment to alter Tunisia's long-term trajectory, he will need two plans: one to secure the IMF bailout, and another to use the time and financing the bailout buys him to foster sustainable economic growth in Tunisia. To win the support of the Tunisian people and finally begin delivering the change they demanded in 2011, Mechichi needs a programme to develop new, future-proofed industries that can absorb Tunisia's young and increasingly well-educated workforce, as well as training and financial aid packages to help the people who lose out in a restructuring of the country's economy.

Tunisia needs assistance to meet this complex set of challenges. The European Union should offer technical and financial support to the country's government, helping it renew Tunisia's economy and surmount the obstacles thrown up by domestic or foreign blockers. By reinvigorating the "privileged partnership" founded in 2012, and identifying incremental but clear steps to harmonise Tunisia's internal regulations with those of Europe, the EU can help Tunisia escape its downward spiral. The EU should make its financial support conditional on a new Tunisian initiative to complete the reform of the political system, in the form of a national dialogue to develop plans for appointing judges to the constitutional court, forming the national commissions called for in the country's post-revolutionary constitution, and upgrading Tunisia's statute book to reflect the rights enshrined in the constitution. If the EU and key member states can make their engagement with Tunisia more focused and cohesive, Europe could help Tunisia become a successful democratic model in North Africa, as well a valuable partner for Europe in a geopolitically competitive region.

Democracy in progress

Protests in Tunisia have been a continual feature of the decade since the revolution. Public demonstrations are an expression of the enduring democratic spirit of Tunisia's people, but also an indication of the country's failure to complete its political transition and offer improved socio-economic opportunities to its population.

Since 2011, successive presidents, prime ministers, and parliaments have failed to complete the process that the revolution started. The emergence of the lauded "politics of consensus" that produced the new constitution in 2014 did nothing to overcome the gulf between Tunisians and their leadership. The issues that Tunisians feel most keenly remain unaddressed: a deficit of justice in their dealings with the state, widespread unemployment and job insecurity, persistent regional disparities that leave some parts of the country locked in disadvantage, and a stagnant economy that is unable to cater for a younger, more diverse, and better educated Tunisian workforce. Meanwhile, politicians appear ever more insular and detached, playing out an internal soap opera as they try to dominate the government du jour, but succeeding only in producing a succession of ineffectual governments that are unable to devise, let alone implement, much-needed reforms.

Tunisia has had ten different governments in the past ten years. The regular chopping and changing of political leadership has drained the democratic revolution of the necessary energy to progress further than an electoral process and the new constitution. More than 500 laws still need to be updated to fit the 2014 constitution or modern international standards. These include Tunisia's penal code and code of criminal procedure, meaning that constitutional rights and freedoms remain inaccessible – a problem that has become more troubling as the interior ministry responds to unrest in an increasingly heavy-handed way. Tunisia retains its authoritarian-era administrative red tape and restrictive provisions, which were designed to protect an economic system built on cronyism. Neither of the two political parties that dominated in the period of consensus after 2014 – the Muslim democratic Ennahda party and the secular nationalist Nidaa Tounes party – showed much interest in reforming the prevailing structures of power.

Even the political system has not completed its democratisation, as the parliament, presidency, and judiciary have found themselves unable to navigate the polarising process of appointing judges to a constitutional court. The absence of this body has left Tunisia prey to a series of constitutional crises as prominent politicians focus on strengthening their positions rather than advancing the political and economic reforms the country needs.

Tunisia's gummed-up political system, the strength of its unions, and the economic malaise driving regular protest have pushed successive governments into a default policy of increasing public sector employment. Far from solving Tunisia's problems, this has just increased the national debt and the debt of large public sector corporations without addressing the structural flaws in the economy or popular criticisms of the political elite.

Bankrupt politics

Popular frustration at the failure of the political class since 2014 produced a surprise outcome in the 2019 presidential election: the landslide victory of a political outsider, the constitutional law professor Kais Saied, who campaigned on a populist promise to overturn Tunisia's elite-driven politics. The low turnout of 41.7 per cent in the subsequent parliamentary election (down from 67 per cent in 2016) further reflected popular fatigue with the political establishment. Unfortunately, the outcome was

Tunisia’s most fragmented parliament since the revolution.

The divided parliament made decisive government all but impossible. The new president’s lack of political acumen, and the enduring self-absorption of Tunisia’s political class, have led to a continuing power struggle between the head of state and the parliament. Although the presidency’s powers are largely confined to foreign and security policy, Saied has pushed against these limits and tried to tilt the country towards a more presidential system. Meanwhile, as popular discontent grows, politicians have turned towards more polarising and nationalist discourses to appeal to the national mood. Abir Moussi, head of the Free Destourian Party, has spearheaded this as she tries to capitalise on the popular frustration with post-revolutionary politics by offering a return to the nostalgic comfort of the pre-revolutionary era. Moussi has also sought to revive the sectarian tensions of the immediate post-revolutionary period by attacking the Ennahda party as a terrorist organisation.

These dynamics have been aggravated by the geopolitical competition taking place in the region between powers such as Turkey and the United Arab Emirates. Turkey has tried to build on the supposed affinity between its ruling Justice and Development party and Ennahda as fellow “Islamic democrats”, aiming to build a support base within Tunisia’s most popular and developed political party. As conflict flared in Libya in 2019 and 2020, Turkey played on Tunisian concerns about the actions of the renegade Libyan general Khalifa Haftar, who Turkey is fighting in Libya, to try to create deeper working partnerships with Tunisia’s security services. Conversely, the UAE has seemingly given support to Moussi as part of its broader policy to oppose democratisation in the Arab world and combat any expression of Islamist politics. Meanwhile, Nabil Karoui, the media magnate who leads the influential Qalb Tounes party, allegedly has associations with Qatar.

Politics in the time of the coronavirus

The early part of the covid-19 pandemic in Tunisia was marked by political paralysis and economic contraction. Following the parliamentary election in October 2019, it took until February 2020 for a government to be approved – with the social democrat Elyes Fakhfakh as prime minister – only for it to collapse five months later. Meanwhile, the economy shrank by 21.6 per cent in the second quarter of 2020, driving Tunisia into its worst recession since independence, in 1956. In a country where most people work in the informal sector, where the private sector is largely composed of small and medium-sized enterprises, and where unemployment was already rife, the economic repercussions of lockdown were devastating. Emergency financing packages from the IMF, the EU, Italy, and the Islamic Development Bank were quickly used up, as financial assistance was directed to companies and the recently unemployed, and was used to service Tunisia’s already ballooning debt.

Ennahda and Qalb Tounes, the largest parties in parliament, tried to use the fall of the Fakhfakh government in July 2020 to increase their political influence. Saied, however, ignored parliament’s recommendations for prime minister and instead nominated Mechichi, who was his former adviser. In doing so, Saied may have sought to provoke parliament to vote down the nomination, which would have allowed him to trigger a new parliamentary election that could have weakened the parties he sees as his adversaries. If so, his machinations went awry, as he overestimated Mechichi’s loyalty and underestimated the demands of the crisis. Mechichi reached out to the main parliamentary parties as well as the unions, aware that he would need a broad base to survive and take steps to repair the country’s dramatically deteriorating economy. But, to Saied, this was a betrayal. Even as Mechichi was sworn into office in September 2020, the president gave a Trumpian speech claiming that his enemies were behind a treasonous conspiracy that he vowed to confound.

A growing impasse

Despite having a new government, Tunisia’s political impasse worsened as parliamentary divisions deepened and Saied grew ever more obstructive. As a result, Tunisia’s pandemic response stalled and the new government did nothing to help the economy. Over the course of 2020, Tunisia’s economy contracted by more than 8 per cent, its fiscal deficit rose to more than 12 per cent of GDP, and public debt expanded to more than 90 per cent of GDP. Even state-owned companies, which previous governments had used to increase employment and head off discontent, were starting to suffer badly. In February 2021, a court temporarily froze the bank accounts of the national airline, Tunisair, over outstanding payments to a Franco-Turkish operator. Similarly, the Gafsa Phosphate Company, which was formerly Tunisia’s biggest exporter, has seen its revenues steadily fall and its costs rise as local communities disrupt its activities with protests calling for greater local employment, higher salaries, and improved corporate social responsibility.

Tunisia’s increasingly oppressive debt repayments, its weakening economy, and its increasing import dependency frightened capital markets and made it next to impossible for the state to borrow further to finance its budget or offer additional covid-19 assistance packages to citizens and businesses. Price increases were triggered by the IMF-imposed depreciation of the Tunisian dinar and by the need to increase imports at a time when the main sources of foreign currency income (phosphates and tourism) were drying up.

As the situation got worse, the government tried to respond by making public sector pay cuts and increasing indirect taxation. In response, Tunisians ushered in the new year with perhaps the biggest protests since the revolution. The heavy-handed response by the interior ministry only aggravated the situation. Six months on, the demonstrations have become a back-and-forth of protest and violent state response, with the interior ministry accused of crimes as severe as murder. People are demanding their constitutional rights from a ministry that acts as if it is still the shield of a dictatorship.

Mechichi tried to exploit the unrest of the first weeks of 2021 to reshuffle his cabinet and reflect his realignment towards parliament and away from the president. Although parliament approved the reshuffle on 27 January, Saied refused to swear in the new appointees as the constitution requires. The dispute was a reminder of the costs of the failure to appoint a constitutional court, which has left the president in a position to assert his right to interpret the constitution's provisions. The showdown also came to intersect with the protests, as supporters of the rival camps took their disagreements onto the streets.

In an echo of 2014, a national dialogue was proposed to break the impasse and create a consensual plan for much-needed economic reform. However, Saied shut this down by claiming he would not negotiate with "thieves". Similarly, the president vetoed a political play by Rachid Ghannouchi, leader of Ennahda and the speaker of parliament, to push MPs to finally nominate judges to the constitutional court. Saied's action was a missed opportunity. With a less absolutist approach, he could have had a role in appointing the judges – moving Tunisia's democracy forward and reaping political credit for ending the stalemate.

Unable to finance the budget for this year without external assistance, or to pay back the $1 billion owed to international creditors by August, Mechichi was forced to go it alone: he tried to negotiate an acceptable reform proposal to take to the IMF, working quietly with unions and other key actors despite the continuing political standoff. However, while the governor of Tunisia's central bank and finance minister went to Washington in May to negotiate an ambitious $4 billion stimulus package, they were undermined at home. Despite their best efforts to work behind the scenes, some controversial elements of the proposal were leaked to major news outlets. Tunisia's general labour union, the UGTT, withdrew the agreement it had given in private and said it could not support the proposal.

Given the proposal's focus on reforming subsidies, cutting the public sector payroll (which 680,000 of Tunisia's twelve million people are on), and restructuring state-owned enterprises, it was in the political interest of UGTT secretary-general Noureddine Taboubi to take a public stance against it.

Many public sector workers feel their interests have been sacrificed to the concerns of a narrow elite that has continued to protect its privileges despite the revolution. Indeed, given prior failures to reform the economy, increases in regressive taxation such as VAT – which have hit the poor hardest – and the population's dependence on subsidies, any reform programme that cuts the safety net without trying to create a gentler landing will likely provoke extreme social unrest.

Tunisia finds itself in a perilous situation. Soft loans from Libya and Qatar have held off a default, but the governor of the central bank, the finance minister, and other senior figures warn that Tunisia could face a financial crisis similar to those of Venezuela, Argentina, or Lebanon if it does not reach a deal with the IMF. A consensus position is currently in the process of being forged with the main unions and political parties – the goal of which is to agree on a deal and reform package by the end of summer 2021. However, there is a risk that key groups will renege on their support under public pressure once the details of the deal become public. There is also a risk that Saied will refuse to sign off on the deal, as a final attempt to create conditions to allow him to force through his desired constitutional changes. To avoid this, Mechichi's alliance will have to improve how it communicates developments to the public and create a plan to quickly develop other parts of the economy to compensate for cuts to the public sector budget.

A failed economic revolution

The common denominator of the demands of Tunisia's 2011 revolution was economic. After all, the tipping point for the revolution was the self-immolation of a street seller exasperated by an oppressive state and economy. Economic transformation was a central focus of the revolution but, while Tunisia's political democratic transition stalled, its economic transformation never even got off the ground. Instead, the country has faced ten years of distractions generated by the soap opera among the political elite. Political leaders have paid very little attention to the economy other than negotiating with the IMF, giving pay rises to public sector workers, and hiring heavily on the public payroll to appease the unions. This meant that by 2019 – before the steady slide towards default began – unemployment stood at 15 per cent, slightly higher than it had been before the revolution.

Tunisia's current fiscal crisis is rooted in structural factors stretching back over a decade. The debt that Tunisia was forced to take on immediately after the revolution initiated a vicious cycle by hindering the country's access to capital markets. An inability to raise capital makes reforms harder, which feeds popular discontent and, in turn, drives political dysfunction and power games. On 19 January 2011, in the immediate aftermath of the revolution, Moody's downgraded Tunisia's credit rating to Baa3

– just one grade above junk status. Despite recognising that Tunisia's economic fundamentals looked significantly healthier than when the rating had been upgraded in its last move in 2003, the agency applied a negative outlook merely because of the regime change. This effectively punished Tunisia for its revolution and hamstrung the nascent democracy.

The downgrade drove Tunisia towards the Deauville Partnership with Arab Countries in Transition – a framework to provide transitioning countries with loans that sits under the G7 and includes the World Bank, the IMF, Turkey, and Gulf countries. The conditions attached to the loans meant that Tunisia's policymaking bandwidth was taken up with institutional reforms such as liberalising the central bank and ensured that any economic planning would be in line with the IMF's neoliberal orthodoxy, which was at odds with protesters' demands. The loan sent Tunisia's public debt soaring from 41 per cent of GDP in 2010 to 71 per cent in 2018 – yet the country has still had to repeatedly turn to the IMF in search of additional funds. Today, Tunisia is ensnared in a debt trap. The country needs to borrow $7.2 billion to finance its 2021 budget, which includes $5.8 billion in debt repayments alone.

Tunisia's dependence on funding from the IMF has allowed the organisation to dominate Tunisia's reform agenda even as the country's economic situation worsens. Although Tunisia has stalled on, or even ignored, some IMF conditions, such as clamping down on public sector spending, they have still had an impact. The focus on these austerity-orientated demands has prevented Tunisia from exploring reform options that might have grown the economy or fixed administrative blockages, as governments navigated between the IMF's conditions and the limits imposed by Tunisia's street and unions. When Tunisia has met IMF terms, this has come at a high cost. Chief among these was a demand for the government and central bank to introduce a more flexible exchange rate, which caused the Tunisian dinar to lose almost 20 per cent of its value against the euro in the course of 2017. Although the economic logic employed by the IMF was intended to promote exports, it overlooked Tunisia's dependence on imports as well as the structure of Tunisia's export sector. The result was an increase in Tunisia's trade deficit. A further package of IMF reforms was pushed through in a 2018 finance law that sought to reduce the budget deficit by freezing public sector recruitment and wages, introducing early retirement, and increasing indirect taxes. These were a double blow to Tunisians dependent on public sector employment, who also saw the price of their everyday goods rise even more.

The impact of IMF reforms on Tunisia's ability to control monetary policy also left it unable to prevent price inflation during the economic slowdown caused by the pandemic. Although Tunisia's most immediate problem today is debt, the economic drivers of 2011 remain unaddressed. If Tunisia is to satisfy the demands of its people and prevent a spiral of austerity and debt repayments, it will need to upgrade its infrastructure and develop new industries – both of which are capital-intensive processes.

Despite high expectations in 2011 for a redistribution of wealth between Tunisia's regions and sectors, inequalities have become more entrenched over the past ten years. Today, there are fewer opportunities for a larger workforce that is increasingly well educated and includes a greater proportion of women. Tunisia struggles to stimulate its economy because of widespread doubts over its political stability and the security of its rule of law, preventing the country from attracting significant levels of foreign direct investment (FDI). Indeed, FDI has remained flat over the past few years and remains focused on areas of interest for existing elite networks based in and around the capital city.

Tunisia's malaise has also impeded efforts to improve key pieces of infrastructure. The port of Radès, which plays a central role in Tunisia's foreign trade, is a case in point. Since 2012, there have been plans to invite tenders for construction projects to increase the efficiency of the port's operations. But a parliamentary hearing in June 2020 found that the continued failings of the port cost the Tunisian economy around one billion dinars a year. Private companies and others attempting to invest in Tunisia encounter a common problem of unclear lines of responsibility and accountability, leaving them confusedly dealing with multiple Tunisian counterparties at the same time.

Despite sporadic initiatives to address glaring issues such as Radès, no Tunisian government since the revolution has attempted to formulate a comprehensive economic strategy. Tunisia's economy is faltering on a macro level from a host of deficiencies that demand an integrated, broad response. Simply put, the country is in dire need of an industrial strategy. Only through such action will it be possible to raise the state's revenues and drive down public debt, which is dangerously close to exceeding 100 per cent of GDP. If Tunisia can institute measures such as improving administrative efficiency with digitalisation, following through on long-promised decentralisation, rebuilding and expanding infrastructure, and introducing more progressive forms of taxation, it will be able both to cut costs and raise revenues independent of the IMF. But implementing this agenda will not be easy.

Given that Tunisia's economy remains focused on the public sector, any strategy to create economic growth will require the cultivation of the private sector. This, in turn, means that Tunisia must create new reasons for outsiders to invest in and enhance the value of what Tunisia adds to the globalised economy. Currently, Tunisia's role in the global supply chain is to import goods, largely from China, and assemble them for export to Europe, creating limited added value in the process. To make investment in Tunisia more attractive, the state should use public spending to develop new industries. This involves looking beyond the industries that are currently central to Tunisia's private sector, such as automobiles and textiles, and identifying emerging industries into which Tunisia can channel investment to leverage its educated workforce and add more value to the global supply chain. This would also involve improving legal and regulatory frameworks, and enforcing greater transparency. A more transparent system would minimise the space for corruption and make Tunisia's system easier for potential investors to engage with.

Despite the fatalism that currently lingers over Tunisian politics, there are opportunities for progress in the economic sphere. The approach that led to Tunisia's revised investment law of 2017-2018, which comprehensively rewrote a series of earlier laws and codes, highlights a route to effective policymaking that should serve as a model for managing reform in Tunisia. This programme leveraged new policy vehicles such as task forces and brought the private sector into the process. A similar approach lay behind parliament's decision to pass the 2018 Startup Act and a three-year action plan to simplify regulatory and administrative procedures, which helped improve Tunisia's position in the World Bank's Ease of Doing Business Index.

Tunisia's current crisis has finally forced much of the political class to recognise that it needs another loan from the IMF. However, following ten years of steady decline in which a disproportionate burden has been placed on the sections of society least able to bear it, Tunisia will require more than just a loan if it is to escape its vicious cycle of debt and decline. Tunisia needs a new economic strategy, a stronger regulatory framework, support for the country's administrative capacity, and an upgraded governance process. But, given Tunisia's ever-deepening political rivalries and record of avoiding real reform, it will require outside assistance to meet these goals. Europe – through the EU and key member states such as France, Italy, Germany, and Spain – remains best placed to provide that highly technical assistance. Europeans have an interest in shoring up Tunisia's position because the country is the only democracy in their southern neighbourhood, and because their ties in multiple sectors create many opportunities for further development.

Europe's renewed interest and opportunity

Europe has been a keen and consistent partner of post-revolutionary Tunisia. Since 2011, it has provided over €2 billion in grants and €800m in macro-financial assistance to back up its proclaimed commitment to the country's transition to democracy. However, much like Tunisia's democratisation process, Europe's Tunisia policy has grown stagnant, doctrinal, and incapable of stimulating mutually beneficial developments.

Tunisia's status as the poster child of the Arab uprisings, and its rapid initial progress towards democracy, fast-tracked its privileged partnership with the EU. The relationship quickly evolved into a five-year action plan to facilitate deeper engagement with a range of EU programmes, frameworks, and partner institutions. Tunisia also became the southern neighbourhood's main beneficiary of 'umbrella funds', a supposed incentive mechanism that rewards successful reforms with funding to support progress. But Tunisia's institutional incoherence meant that it struggled to absorb and make use of the considerable development assistance flowing its way.

As crises started to rack up – with Syria's catastrophic implosion, the war in Libya, migration emergencies across the Mediterranean, and the rise of the Islamic State group – Tunisia's low-profile 'success story' received a decreasing share of European attention. Other than counter-terrorism and border-management partnerships with Tunisian security services, Tunisia hardly figured in the regional policies of EU member states other than France and Italy, which have colonial-era ties to the country.

Nevertheless, Tunisia's stagnation, its inability to raise its governance standards, and its failure to improve its economic management remained causes for concern among European programmes and diplomatic missions. These missions pushed the EU to deepen its support for Tunisian state-building, a traditional European area of focus. Attempts were made to jump-start the relationship with a joint communication in 2016, and in the framework of the European Neighbourhood Policy with a new set of strategic priorities in 2018. However, these were not much more than expensive reformulations of the same approach that had failed to make an impact previously. The EU created a comprehensive framework that articulated Tunisian and European interests, and that identified key problem areas. But the bloc was unable to translate that framework into solutions that Tunisia was able to implement.

The Deep and Comprehensive Free Trade Agreement (DCFTA) is a perfect example of how the textbook approach applied by the EU did not fit with Tunisia's needs. Negotiations for this agreement were first launched in 2015, with the intention of extending free trade beyond a few industrial goods and agricultural products, and of harmonising Tunisian regulation with EU standards to reduce non-tariff barriers. For the EU, this initiative was the centrepiece of its Tunisia policy – which it hoped would be a shot in the arm for the country's economy by enabling immediate duty-free access to EU markets while allowing Tunisia to open itself gradually to the EU. However, four years and four rounds of negotiations later, the DCFTA has barely moved closer to completion. European policymakers are exasperated by what they see as constantly shifting goalposts and concerns expressed by an ever-changing cast of their Tunisian counterparts.

Most Tunisians have not even heard of the DCFTA, and those that have are either sceptical or fearful of it. The unions and many on the left of the political spectrum are concerned that a broad-based free trade agreement would lead to local enterprises being taken over by European corporate giants. The agricultural sector was supposed to be one of the areas where the DCFTA would have the most impact, but 90 per cent of Tunisians in that sector were not even aware of it. More than anything else, this shows how the initiative has failed to connect with ordinary Tunisians' concerns. The dominant opinion among Tunisian experts is that the DCFTA is too complex and unwieldy to be a useful instrument in promoting innovation and equipping Tunisian enterprises to seize opportunities in particular sectors. Moreover, they argue that high-level negotiations unaccompanied by improvements in public administration are not capable of instigating genuine reform in today's Tunisia.

Nevertheless, European policymakers have recently started to devote more attention to their southern neighbourhood – which could help generate the political capital necessary to revolutionise the EU's approach to Tunisia. North Africa is increasingly viewed by key EU capitals as a region where Europe should develop greater strategic autonomy, as well as a place that can contribute to European economic growth. Although the driving forces behind these shifting perspectives are not Tunisian, Tunisia still reflects key European aspirations for political reform and represents an opportunity for Europe to help establish a successful model of accountable and responsive governance that could, in time, encourage further progress elsewhere in North Africa.

In turn, Tunisia could help the EU take the first step towards a sustainable model for migration policy – one of the most sensitive issues in the EU. Over the past year, Tunisia has become North Africa's main staging point for external migration, as increasing numbers of Tunisians flee the country and third-country nationals use it as their preferred departure point. Migration has not only increased because of the economic crisis caused by covid-19 but has also taken on new forms, as 'self-smuggling' and local networks increasingly replace established groups of transnational people smugglers. The shift towards more local and informal methods of migration means that the securitised approaches that Europe has favoured in the last half-decade are becoming less and less effective.

On a geopolitical and economic level, the same logic that fast-tracked Tunisia to a privileged partnership with the EU ten years ago remains valid today. Democracies are simply better allies than authoritarian states, which suppress domestic problems in a way that stores up future crises, as well as pursuing destabilising actions in their region. Democratic states that are able to overcome vested interests and respond to popular economic aspirations are more attractive partners for Europe's developed economies. Given Tunisia's geographical and economic proximity, Europe will be the main external beneficiary if the country's economy evolves. In 2020 the EU accounted for 70.9 per cent of Tunisia's exports and 48.3 per cent of its imports. If Europe were to help stimulate Tunisia's private sector, the two would only grow closer.

Europe has a clear geostrategic interest in supporting Tunisia, as a way to counteract the activities of global actors such as China, Russia, Turkey, and the Gulf states, which often lead with economic promises. This support also gives European countries the opportunity to expand in the Maghreb. As Europeans look to the southern neighbourhood once more to defend against threats, seize opportunities, and establish their strategic autonomy in what is becoming an increasingly contested part of the world, they should make Tunisia the focus of their efforts. Such an agenda would be consistent with the EU's recent joint communication on a renewed partnership with its southern neighbourhood.

How the EU can help Tunisia

While IMF funding is Tunisia's only hope of economic survival this year, Europeans can help the country make the most of the breathing space that a bailout from the organisation would provide. Through bilateral partnerships and the EU, Europeans can apply targeted assistance to promote economic diversification and offer their own incentives to restart the democratisation process. If Europe can spur progress in the right areas, it could provide enough momentum for Tunisia to escape its debt trap, reverse destabilising political and economic trends, and deliver the reforms its people are crying out for. This is the most direct route to making Tunisia a democratic example for the region.

If Europe is to be effective, it will have to learn from the past ten years and adapt its approach accordingly. One key lesson would be to avoid trying to negotiate a comprehensive package such as the DCFTA, and opt instead for targeted assistance that can quickly have an impact. Another would be to offer Tunisia grants and other assistance packages as incentives to ensure reform happens. Given the country's debt repayment issues, further loans would cause more problems. The past six months have shown that, despite the worsening malaise, the prime minister (with the help of Ennahda and some savvy politicking) can secure parliamentary majorities when he is able to demonstrate that the state is under existential pressure either from the markets or the public. Europeans have a role to play in helping bring the president on board and allowing him to feel ownership of reforms so that he does not turn against them. Communicating any assistance effectively to the wider population will also be important, so that they perceive Europe as an ally rather than a predator.

Economic diversification

One of the key challenges of the coming year will be to reduce Tunisian dependence on state-owned companies, which have become too bloated to be effective assets for the state. Instead, they are a liability that could destabilise the entire country, given the impoverishing effects that restructuring them will have on their many employees.

To successfully diversify away from this harmful dependence, Europeans should help Tunisia make itself a more attractive investment location, assist its development of future-proofed industries in line with the new agenda for the Mediterranean, and help create more jobs for young people.

Europeans should target their reforms at Tunisia's economic alignment with Europe's internal market on a sector-by-sector basis. This will involve taking small steps where feasible to gradually reach alignment, in place of the all-or-nothing approach of the DCFTA. Even a slow but steady harmonisation of Tunisian standards and procedures with those of the EU would help to attract private European investment and facilitate closer partnership and further support.

A necessary part of this will be for Tunisia to improve its investment climate by modernising its legal framework, regulations, and economic institutions. This would also help Tunisia out of its current system of cronyism without threatening existing business interests, as it would broaden the pool of opportunity rather than target existing activity. To support this effort, the EU delegation in the country should build out a joint version of the successful model that was used by Tunisians to design their investment law. A joint steering group with leading Tunisian economic actors could identify necessary reforms, as well as the obstacles to implementing them. This group could be incentivised by further FDI and political pressure from EU member states to ease the reform process. It could also play the role of coordinating between European needs and Tunisian capacities in specific sectors. To win Tunisian public support for the programme, the EU should widely communicate the conditionality of European grants, private sector involvement, and direct support for larger projects.

Alongside working with Tunisian partners to improve the investment environment, Europeans can directly help to stimulate growth in key fields that align with broader European interests in the southern neighbourhood. Key among them is natural resources management, particularly in the water and energy sectors. Directly subsidising infrastructure development in these key areas would help reduce Tunisian water insecurity, making the country more resilient against the anticipated impact of climate change. Moreover, helping Tunisia's transition to green energy would help lessen the destructive impact of subsidy reforms and the cost of providing energy and fuel. Given Tunisia's unattractiveness to capital markets and poor regulatory framework (which discourages private sector investment), projects such as this require the support of foreign states. If the EU does not take such opportunities, they could become entry points for intervention from competing powers such as China.

Europe can also help meet its own migration targets by supporting Tunisia's fishing industry, which has collapsed due to overfishing and climate change. This caused some in the industry to shift into the lucrative business of human smuggling. The EU should provide financial incentives to scrap old boats instead of allowing them to be used for trafficking. It could also provide structural adjustment assistance to create alternative sources of income for those dependent on fishing while working with relevant Tunisian municipalities to revitalise their regions and develop more constructive industries to make up for the decline of fishing.

As part of the switch to helping Tunisia gradually integrate with Europe's internal market, the EU should try to emulate its agricultural agreement with Morocco and give Tunisian agriculture streamlined market access to Europe. This could give an immediate boost to the agricultural industry, to counteract the recent losses caused by the pandemic. Similarly, Europe could provide assistance to Tunisia's burgeoning medical supplies sector, which could grow into a potentially lucrative export industry and help Europe bring the manufacturing of personal protective equipment and pharmaceuticals closer to home. Harmonising Tunisia's medical sector with Europe's could also help European medical companies grow in the country, which has become a regional centre for health tourism.

Although such steps can help stimulate the economy, Tunisia's prime minister will still require assistance from European states to create social welfare programmes that can absorb the immediate social costs of the IMF deal. This will involve setting up a more progressive taxation system to bolster the state's revenues, reducing capital flight, and reforming the subsidy programme.

Steps towards a deeper partnership

The EU and its member states should work together to advance a cohesive engagement approach to Tunisia that builds a deeper partnership through a series of incremental steps. Youth engagement is an important example of how the sides can join forces to secure European interests, help Tunisia's economy, and develop a closer relationship. For example, they could upgrade the EU-Tunisia Youth Partnership, founded in 2016, so that it provides scholarships for education and vocational training in

Europe. This could involve giving participants a period of time in which they were allowed to work in an EU member state after graduating. Such a step would improve the skills of young Tunisians and create ties with European industry that could eventually lead to increased trade. Such programmes could also help stem the tide of young Tunisians attempting illegal crossings into Europe, by providing more legal pathways with greater opportunities. It would also reduce the brain drain of professionals permanently leaving the country.

In addition, the EU could help provide grants for entrepreneurs in fields such as technology and encourage exchanges between European and Tunisian entrepreneurs. Similarly, through the Nicosia Initiative organised by the European Committee of the Regions, Europe could help Tunisia's nascent decentralised political system grow roots by using twinning programmes to share experiences of how to improve the efficacy of municipalities and popular engagement with them. Strengthening municipalities would help to counteract the privileged position of Tunisia's capital and coastal regions, which would benefit the whole country. This twinning model could be broadened to include other institutions: for example, European civil services could share their experiences to help Tunisia's reform efforts.

The EU should leverage its support and financial assistance to promote the full democratisation of Tunisia's political system. But, to prevent obstructionist politicians from attacking the European effort as neo-colonialist, the EU needs to position itself as trying to help Tunisians advance democratisation and economic growth. Member states can back the EU up on this by pressuring Saied for a renewed national dialogue to implement the Tunisian constitution. This would involve a road map for appointing judges to the constitutional court and completing the national commissions provided for in the constitution on issues such as good governance, anticorruption, human rights, and sustainable development. Such a proposal would create a more constructive conduit for the president's desire to retain popularity, by allowing him to publicly lead a national constitutional project. This could also help discourage him from adopting a destructive focus on rewriting the constitution following his failed gambit to force early elections.

Mechichi would gain greater leverage over parliament if Europe clearly linked financial assistance for the implementation of his economic reforms to parliament's efforts to update hundreds of outdated laws and the penal code. Since the next elections will be heavily influenced by the aftermath of the IMF deal, all parliamentary groups will have an incentive to show themselves to be part of the solution rather than part of the problem.

Tunisia's dalliance with disaster is forging a constituency of political actors willing to drive positive change. This gives Europeans an opportunity to raise the privileged partnership first envisioned in 2012 to a new level. But, to do this, Europe will need to take decisive and integrated action to give Mechichi confidence that he will be supported following the IMF deal. A clear message of strong international backing contingent on Tunisian progress towards reforms can help pull Tunisia back from the brink.

If Europeans work with their Tunisian partners across the political spectrum to identify clear reform targets and devise a plan for the EU to integrate its assistance, experience, and resources into driving Tunisian reform policy, there might be a glimmer of hope. But this will require a team effort between the EU and key interested member states, such as France, Germany, Italy, and Spain: together, they must devise an iterative model of financial support for specific capacity-building measures and use their diplomatic influence to co-opt obstructive political actors.

There is no guarantee that Europe will capitalise on this opportunity. But, if it fails to, the stress of the IMF deal will foment instability and imperil the Arab uprisings' only democratic success – opening the door to other geopolitical players to entrench themselves in Tunisia and reduce European credibility as an ally of other Maghreb states.

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Acknowledgments

This paper was made possible by support for ECFR's Middle East and North Africa programme from Compagnia di San Paolo and the foreign ministries of Denmark, Norway, and Sweden.

The author would like to thank a number of interlocutors across Europe and Tunisia for their considered engagement and assistance in developing the ideas laid out in this paper.

Fondazione Compagnia di San Paolo

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 ISBN: 978-1-914572-03-6. Published by the European Council on Foreign Relations (ECFR), 4th Floor, Tennyson House, 159-165 Great Portland Street, London W1W 5PA, United Kingdom.