Chronicles of a Death Foretold

Democracy and Dedevelopment in Tunisia

Colin Powers

April 2022

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About

Noria Research Middle East and North Africa Program

More than a decade since the eruption of the Arab Uprisings, the crises at their root—political, economic and social—remain no closer to resolution. The push for democratization and justice-oriented economic change has for the time being relented. In its wake, new anti-democratic coalitions have solidified and expanded, bound by both a shared rejection of popular governance and human rights and a shared fondness for repressive methods of control and surveillance.

With matters of ecological and fiscal sustainability, food insecurity, intensifying inequality and mass joblessness looming ominously, these developments have left the Middle East and North Africa standing before yet another critical juncture. The hopes and welfare of generations now hanging tenuously in the balance, it is imperative that a light be shone upon the local, international and transnational drivers of MENA's (re)turn to authoritarianism, and that the consequence of this distressing resurgence be interrogated in full.

Author

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Powers' research agenda primarily concerns the drivers of (under)development, violent extremism and authoritarianism in the contemporary Middle East. In addition to his position at Sciences Po (project PREVEX led by Stéphane Lacroix), he is a Resident Fellow at Noria Research.

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Executive Summary

After struggling to generate popular legitimacy and failing to consolidate key institutions for a decade running, Tunisia's parliamentary democracy gave way in the summer of 2021. The deathblow was dealt by President Qais Saied, whose invocation of Article 80 of the 2014 constitution on July 25th led to the dismissal of the Assembly of Representatives and the creeping reestablishment of supreme executive power.

In the most immediate sense, it is Qais Saied and Qais Saied alone who is responsible for the tragic end that Tunisia's grand experiment in self-government came to meet. That fact alone, however, does nothing to explain how a man of Saied's character had the opportunity to intervene so decisively in the first place, nor why he was able to sweep away the gains of the 2010-2011 uprisings with what amounted to relative ease.

Hardly thunderbolts from a clear sky, these events can only be understood in view of the political and socioeconomic conditions which crystallized over the past decade. This report explores the social and economic dimensions of said conditions in granular detail. Based on three months of fieldwork and nine months of desk research, it unearths the external and internal drivers of economic dedevelopment during the post-2011 period and traces the causal chains through which the economy's struggles affected Tunisia's political trajectory.

Regarding the external drivers of dedevelopment, our analysis accounts for a series of exogenous shocks—namely: state collapse in Libya, terrorist attacks and the outbreak of SARS-CoV-2—though primarily concentrates on effects born of Tunisia's peripheral positioning within the global financial and monetary systems, respectively. On the endogenous side of things, it focuses on the economic consequence of the country's post-2011 politics. Therein, particular attention is paid to the transition's leading partisan actors and how they both restored a corrosive modality of business-state relations and steered policy back and forth between two different dead ends: boilerplate liberal reforms and developmentally-blind, debt-financed public sector expansion.

In leaving the economy in shambles and ensuring that a significant majority of the country remained languishing between unemployment, informal employment and economic disengagement, the external and internal variables detailed above allowed for the emergence of a phenomenon called anti-politics. Chronicles contends that anti-politics in Tunisia has been expressed through a number of different forms, all of which were emanated from the same impulse: a distrust of—and disengagement from—representative systems and vertical organizations. Once reaching critical mass, anti-politics weakened the popular bulwarks against autocratic backsliding significantly, thereby leaving Tunisia's democracy significantly more vulnerable to the kind of putsch ultimately executed by Qais Saied.

Major Findings

- Exogenous shocks of different types cost the Tunisian economy billions in foregone growth and deprived itof critical foreign currency receipts. Pushing the current account into deeper deficits, exogenous shocks made the country's leadership increasingly beholden to foreign creditors.

- Tunisia's dependence on external sources of debt and equity financing combined with its subordinate position within the global financial system to limit policy choice considerably during the transition. Access to non-market sources of finance offered a brief reprieve from these restraints, though ultimately introduced conditionalities and systems of surveillance sufficient to ensure a significant degree of compliance with creditor wishes.

- Tunisia's subordinate position within the international monetary system led to the Banque Centrale de Tunisie's hoarding of FX reserves and eventual hiking of interest rates. The former contributed to the deterioration of the country's international investment position, the latter to wage compression, low labor demand, and low investment levels.

- Tunisia's dominant partisan actors not only afforded the country's wealthiest persons direct access to the political domain and the policymaking process; they also facilitated these persons' acquisition of assets seized from the Trabelsi clan.

- As a result of the modality of business-state relations consolidated post-2011, Tunisia's markets remain exceedingly concentrated and non-competitive. A small number of family-owned holding companies dominate nearly every sector of the economy.

- Policy decisions in the domains of industrial, investment and trade proved suboptimal, doing little to open up new external markets or move export-oriented industries into higher value activities.

- Fiscal policy decisions have been alternatively regressive or inefficient. The public revenues system evinces clear social biases while expenditure strategies have been largely devoid of a developmental rationality.

- Economic underperformance became politically salient through its labor market and income effects. Enduring deficiencies on the demand side of the labor market meant the volume and quality of job creation remained woefully inadequate throughout the duration of the past decade, condemning a significant majority to the indignities and precarity of unemployment, informal employment and economic disengagement. Compensation being at least loosely tied to productivity, the private sector's malaise simultaneously kept wages outside the orbit of the state low, while inflation erased much of the gains yielded by minimum wage hikes and collective bargaining.

Introduction

As the sun sank gently into the Mediterranean off the coast of Tunis in the evening hours of January 14, 2011, one had good reason for thinking anything possible. Yet unbeknownst to the throngs filling the city's streets, Zine el Abidine Ben Ali, then approaching his thirtieth year in office, had just taken to flight. Headed for refuge in Jeddah, the fact of his exile alone suggested that as the immovable had been moved, perhaps a better, more equitable Tunisia might now be built.

Heartening and understandable as such notions were, participants and observers were soon to learn that tomorrow is never molded as if from clay. A terra nullius free Tunisia was not, nor was it a place outside of time.

Of gravest and most immediate concern was the economy bequeathed onto the transition. Though its legacies still ubiquitous, what remained of etatisme was a constellation of state-owned enterprises long since unmoored from developmental or social mandates. Reordered through uneven liberal reform and elite-serving grifts of diverse type, the wider formation within which these firms nested was starved for productive investment, propelled by financial fictions, adrift from the technological frontier and externally imbalanced. The volume of job creation being a fraction of what was needed to keep pace with demographic expansion and the quality of employment opportunities being grossly inadequate as well, sizable surplus populations and a prevailing sense of relative deprivation had been rendered structural properties of contemporary social life.

All of this ought been of worry to those hoping Tunisia's imminent experiment in people's government might succeed. Harsh was the lay of the land, after all: clearing and flattening it so that a healthy social democracy might be built would take a Herculean effort. Structural blockages to growth needed be simultaneously fixed. The scale and character of labor demand needed be wholly transformed. The scourges of peripherality—which had overdetermined external imbalances, steady outflows of wealth, ongoing degradation of local ecologies, and an exclusion from the high profit rates reserved for the owners of intellectual property—needed somehow be righted. And all this (and much more) needed be done with haste, lest the demos slip into disaffection.

Slim as the odds were, Tunisia's best chance of pulling off the improbable demanded the alignment of brave and forward-looking domestic politics, deftly designed policy, good luck, and exceedingly generous treatment from the outside world. Ten years on, the country's people are still waiting for a single one of these variables to come into place. Come the summer of 2021, deprivation had intensified and expanded its reach, precarity had infested the lifeworlds of the middle classes, and engines of long-term economic development were not even idle; they were non-extant.

Into these conditions of despair did President Qais Saied arrive, offering confused pledges toward a revolution restored and a polity cleansed of the corrupt. Upon his evocation of Article 80 and suspension of parliament, constitutional crisis was added to the fiscal, financial and developmental ones already running rampant. Surveying the facts on the ground in late autumn—the debts set to mature in 2024; the inevitable return of the International Monetary Fund; the non-seriousness of the proposals coming out of Carthage; the capital holdings and organizational capacity of different social groups—it is hard to overstate how grave the outlook is.

This report, *Chronicles of a Death Foretold: Democracy and Dedevelopment in Tunisia*, furnishes a tentative economic history of the Tunisian present. Based on months of fieldwork and more than a year of desk research, it identifies and probes the diverse causalities responsible for the economy's enduring dedevelopment during the post-2011 period. Throughout, argument and demonstration importantly steers clear of two strains of reductionism frequently seen to color analysis on Tunisia. The first, premised upon methodological nationalism, seeks the provenance of the country's ills in the shortcomings of local actors alone. The second, treating Tunisia as an object of history, instead searches for causality in the plots of international financial institutions and the like. Unduly simplistic in both instances, explanations drawing on these epistemological and theoretical veins do not merely misrepresent that which propels events—they inspire misguided prognoses as well.

In terms of organization, *Chronicles* proceeds as follows: immediately following this introduction, a Preamble will provide a brief overview of the economy as it existed at the time of Tunisia's transition to democracy. Then proceeding to the meat of the analysis, Chapter One will begin by appraising the exogenous shocks that hit the Tunisian economy during the brief era of democratic governance. Situated thusly, the chapter will next evaluate the effects that Tunisia's positioning within global financial and monetary systems—something which local actors have precious little control over—has had on policy choice and economic performance. From here, Chapter Two will reset the aperture to focus in on the domestic drivers of contemporary dedevelopment. Herein, particular attention will be paid paid to the character of state-capital relations consolidated over the past decade and to an array of growth-retarding policy decisions. The report's Conclusion, finally, will summarize findings and consider how dynamics previously discussed may relate to the events of July 25th, 2021.

A Preamble: The Preconditions of Disappointment in Tunisia

The state of social and developmental affairs as Tunisia began its transition to democracy were more desperate than generally understood.

Deficient labor demand—overdetermined by misguided agrarian policy, a secular slowdown in global manufacturing[1] and many iterations of industrial policy failure—rendered informality, high unemployment and economic disengagement endemic properties of the national economy. Finding no landing spot upon graduation, educated youth, males of relative means especially, disproportionately filled the ranks of the unemployed. Their circumstance being such as to take the option of waithood off the table, those coming of age without recourse to the safety net of well-off parents were funneled into various low-value added service and construction hustles, powering the expansion of the informal sector. Facing a scarcity of opportunity and enduring cultural pressures, large majorities of women opted out from the labor market altogether, anchoring national employment to population ratios in and around 40% for the duration of Ben Ali's tenure. Nor were labor market deficiencies of concern only to those most immediately affected. Second order effects of economic disassimilation included compressed aggregate demand, persistent tax shortfalls and pension system obsolescence[2].

Equally problematic was the nature of credit intermediation. Come the winter of 2011, the country's financial sector remained dominated

1 As documented by Aaron Benanav, the growth rate of global manufacturing output dropped by nearly 30% over the course of the 1960s. From the 1980s onward, annualized average manufacturing output growth has been in the area of 3%, a figure considerably less than half the annualized averages seen in the post-war era.

2 Regarding the latter, the National Pension and Social Insurance Fund (NPSIF), which covers public sector employees, and the National Social Security Fund (NSSF), which covers formal private sector employees, were each designed on a pay-go basis, thereby directly tethering the cashflow of current retirees to the wages earned by the formally employed.

by a coterie of commercial banks, the largest of which were still partially publicly-owned, and all of which showed little capacity or willingness for risk evaluation, price discovery or growth-oriented investment. Courtesy of endless lines of credit extended to privileged persons and state-owned enterprises as well as the mountains of non-performing loans that had been accumulated on the back of tourism promotion and urban renewal initiatives, relevant public entities—the Société Tunisienne de Banque, Banque National Agricole, and Banque de l'Habitat—haunted the wider financial system with the specter of default contagion. Private and primarily Tunisian-owned banks of note had shown themselves little more disciplined when it came to speculating in the built environment. Of even greater concern, Banque Internationale Arabe de Tunisie, Amen Bank et al. had a record to suggest their primary concern lay in gatekeeping the preserves of elite society[3]. Contrary to the prevailing discourse, meanwhile, the local affiliates of foreign-owned commercial banks had hardly improved system functioning. Rather than pursue opportunities in Tunisia, these institutions demonstrated a tendency toward hoarding liquidity, using deposits accumulated in Tunisia to finance investment in more attractive environs outside the country[4].

Partially by dint of this and adding to the transition's troubles further was the condition of Tunisia's productive base. Taking advantage of the libertarian modality of corporate welfarism which had oriented industrial policy since the time of Hedi Nouira, local and foreign investors of different stripes had largely engaged Tunisia with an eye toward arbitraging tax differentials as well as taking advantage of the subsidies and state-depressed labor costs on offer within export processing zones. The result was to bias manufacturing toward low sophistication assembly activities. It also set the stage for staggering job loss and rapid deindustrialization once the local producers of generic shoes and garments—having carved out fragile Europe-centric export businesses on the back of the quotas imposed on south and east Asian competitors—saw their protections expire with the General Agreement on Trade and Tariff's (GATT) Multifibre Arrangement on January 1, 2005.

The cupboard was not entirely bare, of course. Offset clauses imposed on European automobile manufacturers seeking access to the local market in the late 1980s had given a boost to an already emergent constellation of electrical and mechanical input suppliers. Alas, the contributions these manufacturers could make to long-term development were hemmed in by the import intensity of production and their exclusion from the super-margins that was the patrimony of intellectual property rights' owners. Seen in totality and in conjunction with an import bill driven ceaselessly higher not only by industrial inputs but by growing demand for refined petroleum, natural gas, automobiles and soft wheat, the stagnation of manufactured exports ensured post-Ben Ali Tunisia would continue to face strains to its current account.

Making matters worse, the most obvious ways of ameliorating those strains across short to medium-term horizons were either laden with risk or generative of worrisome externalities. Scaling up the extraction and processing of phosphates, oil or gas would mean intensifying the ecological degradation that had already spread disease and hardship in places like Gabes. As each industry had long since accommodated itself toward exploiting accumulation by dispossession dynamics, they were also unlikely candidates for adjusting the social and spatial distribution of income in such a manner as was needed to bring social peace to Gafsa and Tataouine, crucibles alike of revolutionary agitation in the lead-up to 2011. Relying on agribusiness to close current account deficits would be problematic as well. The competitiveness of the sector's main, export-oriented players relied on both the illicit pumping of water from underground tables and the compression of labor costs, the latter of which was realized through exploiting vulnerable and predominantly female and/or immigrant workers.

3 Personal correspondence, Economic Researcher: Tunis, 10/27/2021.

4 Personal correspondence, US Treasury Official: 11/5/2021.

There was also the matter of the sector's growth outlook being restricted by both the quotas the EU imposed on market access[5] and the inelasticity of European demand for olive oil and out-of-season tropical fruits. Further afield, the odds of the tourism industry—hardly a bastion of decent jobs or ecological sustainability itself—suddenly reversing a twenty-year decline so to replenish the country's foreign currency reserves were slim to begin with and sure to get worse in the event of political instability. With Libya standing at the precipice of collapse and European devotions toward austerity condemning the continent to stagnation, even the picture for remittances looked cloudy[6].

As for the capital account, it too was in no great shakes. After flooding into to acquire much of the heavy industry offloaded by the state during the privatization process as well as choice banking and telecommunications assets, foreign direct investment (FDI) flows had tracked steadily downward from 2000 forward. If these declines in volume were troublesome enough in and of themselves, their impact was heightened further by a change in investment composition: as the percentage of in-flows originating from the Gulf progressively increased, so too did the percentage of in-flows concentrating in Tunisia's built environment. The developmental return of what amounted to speculation in luxury real estate was effectively negligible. With political uncertainty now ruling the day, such capital injections were bound to decline further just as hot money from overseas—portfolio investments in particular—and the movable assets of the domestic elite were likely to exit in search of safer pastures. A balance of payments crisis was therefore a very real possibility.

Leaving external imbalances aside, there was also the growth-inhibiting fact of Tunisia's oligarchic market structures. Consolidated and deepened for two decades running, these structures may have lost their most senior custodians upon the absconsion of the Trabelsi clan, but nevertheless retained their fundamental integrity. With remaining luminaries bound together by intermarriage as much as of shared rent and profit seeking, the beneficiaries of oligarchy were well-positioned to obstruct the changes that were needed for Tunisia to become a healthy social democracy.

As this brief review ought convey, the Tunisian economy at the precipice of the country's transition to democracy was in very precarious standing. Investment was low and poorly allocated and credit mediation alternatively predatory or exclusionary. The wider formation was deprived of meaningful competitive energies by dint of oligopolistic and monopolistic market structures. Job creation was woefully incommensurate to social and development needs and most the major sources of output growth and foreign currency—phosphates, hydrocarbons, agriculture, generic garments and tourism—engendered liabilities and externalities equivalent if not in excess to the gains produced. In these conditions, the threads that had once been used to bind a limited form of social corporatism—state-owned enterprises and expansive government employment—had frayed to their last filament, needing regular injections of debt-financing in the case of the former and rather awe-inspiring budgetary allocations in the case of the latter to prevent any further tearing.

For those about to take the reins, the challenges were therefore immense. They were made even grander by the exogenous shocks soon to rock Tunisia, and by the pressures its policy community would face as result of the country's positioning within the global financial system and international hierarchy of monetary jurisdictions.

5 Tunisia can export 56,700 tons of olive oil to Europe tariff-free. Beyond that, it is subject to levies.

6 As it turned out, remittances would decline by more than $300 million between 2014 and 2015. For the next four years, remittance receipts would remain between $1.5 and $1.63 billion before recovering to $1.871 billion in 2020.

1. Shocks and Restraints

Dedevelopmental Pulses Issued From the Outside

Economic conditions in place at the time Tunisia commenced its transition to democracy presented many daunting challenges. Not only did new and sustainable engines of growth need be discovered; the labor share of (an expanded) national income needed be boosted, profound regional and gendered inequities needed be corrected, and an incorporation crisis leaving millions of working age people languishing either outside the labor force altogether or in the informal sector needed finally be brought to an end.

Impeding the transition's capacity to overcome these challenges were a number of factors largely outside the control of policymakers and elected officials. Though not absolving local actors of their own responsibility for the outcomes ultimately realized, these factors were inimical to the building of a more prosperous and equitable economy.

1.1 Shocks from the Outside

Any fair appraisal of Tunisia's contemporary economic performance need begin by accounting for the parade of exogenous shocks that rocked the country since 2011.

Libya's dissolution, already gathering speed by the first summer of the post-Ben Ali era, devastated the Tunisian economy through a number of channels. The collapse of the Qadhafi regime brought with it a near total drying up of Libyan foreign direct investment inflows, previously amounting to roughly $2 billion per annum. In driving 60,000 expatriates home, state failure next door squeezed the Tunisian current account as well through eliciting remittance declines, while violence-induced demand compression inside of Libya—hitherto Tunisia's second largest trade partner—crushed many export-oriented industries, the building materials sector most acutely[1]. As terrorist organizations proliferated across the Libyan theater, Tunisian policymakers would also be prompted into allocating greater shares of public expenditures toward defense and security, developmental costs be damned[2]. Adding insult to injury, the resulting militarization of the border wound up ravaging and ultimately reordering the local economies of Tunisia's southeast, shifting the smuggling and sarrafas industries in favor of larger, more capitalized criminal organizations. Through perception effects, Libya's troubles are likely to have also contributed to pre-Bardo Museum attack declines in international tourist visitors to Tunisia, which fell by an annual average of 9.5% between 2010 and 2015. Taken in the aggregate, economists at the World Bank estimate annual losses incurred to the Tunisian economy as a result of Libya's civil war at 2% GDP, or $880 million per year.

Though difficult to characterize as exogenous in origins due to the intelligence failures that allowed them to transpire, the shocks precipitated by the aforementioned terrorist attack at the Bardo Museum and the follow-up three months later at Port El Kantaoui in June of 2015 dealt the economy a harrowing blow all the same. European tourist arrivals more than halved year on year between 2014 and 2015. Henceforth, total visitors and night stays were to remain significantly below pre-2010 numbers, and the tourism sector's contribution to GDP slid lower in both relative and nominal terms.

1 Property destruction and project suspensions cost Tunisian businesses in the area of $370 million.
On Libya's effects on the Tunisian cement industry—which is dominated by the SoE Carthage Cement and a small group of Spanish, Portuguese, Italian and Brazilian investors, see: Oxford Business Group, 2017.

2 Official spending on defense and security doubled between 2011 and 2015. In nominal terms, this saw on-book spending on these activities grow by $580 million per annum.

The Misconceits of the Mining Blue Gold

TIt is important to note that the tourism sector had been mismanaged into becoming a systematic risk to the wider economy well before the terrible events of 2015. Initially defined as an "economic necessity" and "priority… for upholding the external equilibrium of the economy" under the 7th Tourism Development Plan of 1987-1991, the lieutenants of Ben Ali had encouraged immense speculative energies through installing a regime of tax incentives, implicit subsidies, loose credit and cheap land sales. The ultimate yield of these efforts was an industry marred by elite rent seeking, pervasive insolvency, high market concentration[3] and declining output. Despite absorbing nearly 20% of all the private investment mobilized during the tenure of the bygone dictator, average overnight tourism receipts adjusted for currency depreciation actually declined for three decades running, while receipts as a percentage of exports and the annual import bill proved unable to reverse a slide that began all the way back in 1989[4]. In view of industry's vastly outsized contributions to the non-performing loans (NPLs) ratio that ever threatens the Tunisian financial system with crisis, it can be difficult to overstate just how destructive the state's efforts in mining "blue gold" have been.

Last but not least was the world historic outbreak of SARS-CoV-2. In throwing supply chains into disarray, grounding foot traffic and air travel to a halt, and creating liquidity problems for a great many businesses, the coronavirus would gut almost every sector of the Tunisian economy. Generally speaking, microenterprises, SMEs and non-exporting businesses made out the worst, the first two categories experiencing year-on-year revenue losses during the first year of the pandemic in excess of 80%. On a sectoral basis, the tourism and hospitality industries unsurprisingly took the biggest hit, though they hardly suffered alone. Of gravest developmental concern was the fate of the industries and firms that had previously managed to climb into higher-value added activities—information and communication technologies (ICT) firms and manufacturers of automobile and aeronautic parts in particular. By the fourth quarter of 2020, 15.2% of Tunisian ICT businesses had permanently shuttered, a sectoral closure rate nearly 50% higher than the national average of 10.4%. Having failed to diversify suppliers or markets, rising costs and delayed arrivals of Chinese-originating inputs combined with stunted demand in Europe to see the manufacturers in question swiftly run into issues of their own. Afforded little support with cashflow due to the relatively meager response mobilized by the Tunisian state and central bank following the outbreak of the pandemic, by early 2021, many owners of these businesses would be forced to accept buy-outs from cash-rich European firms[5].

Business conditions naturally implied brutal downstream effects for workers as well. Job losses, suffered predominantly by private sector wage workers, the self-employed, and microenterprise owners, were such as to push unemployment—broadly defined as those wanting to work and available to start within two weeks—to a staggering 38% as of October 2020. The most acute income losses were reserved for the informally employed, though ultimately touched a majority of households: 51% of all Tunisian households reported net income losses of some magnitude for 2020, with 36% indicating losses greater than 25%. By January 2021, the World Bank was positing that income losses amongst the bottom income quintile had been such as to force a fivefold cut in food expenditures; direct consequence of this, the FAO estimated in and around the same time that approximately 20% of Tunisians, or 2.1 million people, were consuming insufficient amounts of food on a

3 Per Adair and Abdallah, four mega holding groups collectively own in the area of 15% total bed capacity: the El Mouradi Group (local partner of Spain's Sol Melia Group), the Abou Nawas Group (a Tunisian-Kuwaiti joint venture), the Karthago Group (a property of Ben Ali's son-in-law Belhassen Trabelsi and minority partner Dubai Holding); and the Dar Jerba Group (a Libya-controlled entity). Foreign-owned management companies, principally Iberostar, Accor, Club Med, and Sheraton, run a majority of the country's four and five star offerings on behalf of local and Khaliji partners.

4 Adair and Abdallah's study demonstrates that corrected for inflation, by the early 2000s, the real nightly returns on tourism stays had declined to 1/3 of what they had been in the 1970s.

5 Personal Correspondence, Business owner of automobile part manufacturing plant: Tunisia, 10/22/2021.

daily basis. Connected to this last point, in throwing commodities markets into disarray and precipitating a spike in the price of soft and hard wheat specifically, one ought note that the coronavirus, via its effects on subsidies expenditures, also threatened the Tunisian state's fiscal health.

Crude measures though they are, both the 9% GDP decline that was recorded in 2020 and the weak recovery staged in 2021—+2.6% GDP, dragged down by woeful Q3 and Q4 performance—give some indication for the macroeconomic implications of a society stressed to these levels.

1.2 Structural Hindrances to Equitable Growth: Effects of Tunisia's Peripheral Positioning with the Global Financial System

FAs mentioned at the outset, exogenous shocks were not the only variables hindering post-2011 economic performance *from the outside*. Restraints, pressures and imperatives born of Tunisia's peripherality within the global financial and monetary systems did so as well.

The Disciplinary Power of Private Finance

Specific to the former, Tunisia's relatively meager capital endowments and consequent dependence on different forms of external finance meant foreign principals would always have a significant say on matters of nominally sovereign concern. The unbridgeable gap between the interests and preferences of these parties—which, in the case of emerging markets, centers in the maintenance of high interest rates, fiscal consolidation, wage compression, free capital movements and tax code welfarism—and the needs of the Tunisian people dictated that the effects of their say was to be unpropitious for the prospects of equitable development.

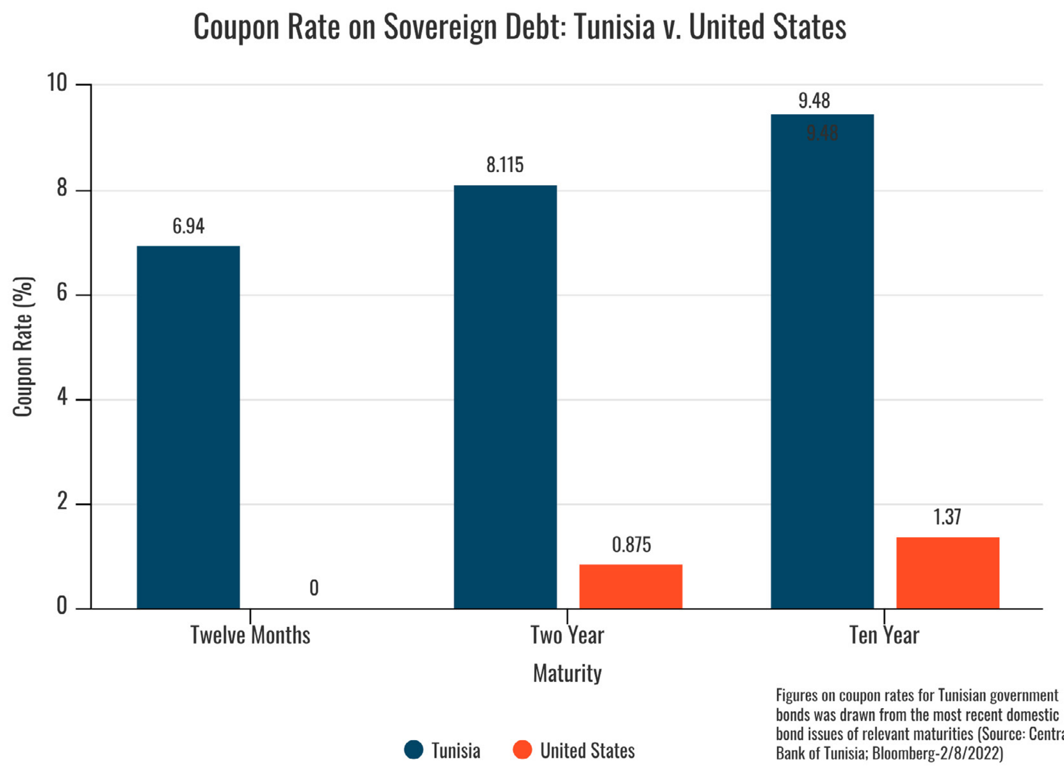
Operationally, the influence of finance capital was exerted most bluntly through the pricing of credit and conditioning of equity financing, the latter being inclusive of portfolio and foreign direct investment (FDI). As concerns credit, if not always sufficient to prompt remedial action, bidding up or down the cost at which the general government (and public and private entities of different stripes) borrowed afforded financial firms from the global core a mechanism for passing judgment on policies and political configurations in real time. More than a referendum of the rentiers, verdicts delivered through terms of lending and the coupon rates tacked onto bonds had a direct material effect on the medium-term viability of a government. In conjunction with withheld investment flows, they also retained the capacity to hasten a balance of payments crisis. Thereby able to threaten the existential on two fronts, the wishes and expectations of these actors could be ignored only at one's own peril.

Functionally, this rendered *private authorities* of Tunisia's foreign financiers, licensing them to police development across two temporalities. By providing or withholding credit facilities and purchasing (or not) Eurobonds issued by the Banque Centrale de Tunisie, external financial actors could delimit, to one degree or another, what was fiscally possible in the present. In next signaling through actions in the secondary bond market[6] and the market of sovereign credit-default swaps (CDS) how sovereign debt would be priced down the road[7], these persons (and corporate persons) could partially define the parameters of future policy deliberations as well.

The Costs of Debt Financing

Apart from a few brief interludes, borrowing costs for the states of the global north have been remarkably low since the financial crisis of 2007-2009. Due to the aggressive interventions of central banks, the interest on their sovereign debt issues post-SARS-Cov-2 dropped even further.

Contrarily, with the exception of those bond issues that were guaranteed by the governments of the United States and Japan, Tunisia's borrowing costs, like those of their peers throughout the global south, have remained high throughout the same period in question.



Figures on coupon rates for Tunisian government bonds was drawn from the most recent domestic bond issues of relevant maturities (Source: Central Bank of Tunisia; Bloomberg-2/8/2022)

6 Following Qais Saied's actions in July of 2021, the price of 2024 and 2025 dollar-denominated bonds witnessed their sharpest declines on record. The price of both dropped in the area of 6-7% overnight.

7 The spread on Tunisian 5-year credit default swaps (CDS) hit 751 bps in July of 2021 before jumping to 840 bps in September. The risk premium paid on Tunisia CDS—i.e. the difference between the spread on a CDS for a US five-year government bond and that of a Tunisian government security of the same maturity—was between 638 and 677 basis points for most of January 2022. The size of these spreads, which is one of the indicators the Council on Foreign Relations uses in ranking global sovereign default risk, ranks the Tunisian state behind only Argentina's.

More subtly, finance capital also impacted the Tunisian policy space through surveillance technologies and the curation of knowledge flows. Interventions of this nature were, in the first instance, outsourced to the world's three largest credit rating agencies (CRAs): Standard & Poor's Global Ratings, Fitch Ratings, and Moody's Investor Services. Abundant issues with the business models and analytical methods deployed by the CRAs notwithstanding, during the transition as before it, they retained unequaled credibility in the eyes of governments and market actors. This vested their statements concerning the health of a company or the state with a weight sufficient to sway policy through two distinct channels. In prompting action from (fixed income) investors, the data, explanation, and debt ratings furnished in CRA reports directly influenced local financial conditions and in so doing, altered the terms of the questions being asked of public officials. In simultaneously influencing how the officials themselves conceived economic causalities and interpreted normativity, the analyses of the CRAs also exerted an interpellative effect of sorts. As CRA claim making has been shown to be laden with anti-emerging market bias, such interpellative effects ought not be diminished.

Credit Ratings Since 2011

Tunisia's Credit Rating has steadily collapsed over the past decade. After beginning the transition with investment-grade credit evaluations from the three main Rating Agencies, the Tunisian state would be downgraded time and time again.

Fitch			Moody's			S&P
Jan '11: BBB			Jan '11: Baa3			Jan '11: BBB
Mar '11: BBB-			Feb '13: Ba1			Mar '11: BBB-
Dec '12: BB+			May '13: Ba2			May '12: BB
Oct '13: BB-			Nov '13: Ba3			Feb '13: BB-
Feb '17: B+			Aug '17: B1			Aug '13: B
May '20: B			Mar '18: B2			Dec '13: N/A
July '21: B-			Feb '21: B3			
			Oct '21: Caa1			

Fitch Ratings
BBB: Good credit quality
BB: Speculative
B: Highly Speculative

Moody's Ratings
Baa: Medium Grade Risk
Ba: Speculative and subject to medium risk
B: Speculative and subject to high risk
Caa: Speculative of poor standing

S&P Ratings
BBB: Investment Grade Long-Term Debt
BB: Non-Investment Grade Long-Term Debt
B: Speculative Short-Term Debt

In the final instance, the tools wielded by finance capital proved most efficacious when it came to disciplining policy around taxes, capital mobility, and the corporate welfare regime furnished through the Code d'Incitations aux Investissements. In view of Ben Ali's earlier reorientation of Tunisia's external financing strategy—a reorientation that saw equity financing ascend to a privileged position, and foreign investment become the foundation of the country's development model—this is perhaps unsurprising. Contrarily, the evidence suggests these tools were largely useless in pushing policymakers to institute desired deflationary adjustments. Disregarding calls to probity and heightening borrowing rates, Tunisian officials not only proceeded with public sector hiring campaigns, minimum wage hikes, and general improvements to worker compensation packages, but also attempted, albeit inadequately, to close down opportunities for exploiting the off-shore labor force. What is more, up until 2018, the Banque Centrale de Tunisie (BCT) also conspired to keep interest rates well below what was preferred on Wall Street and in Paris—and though the governors of the BCT ultimately agreed to allow the Dinar to depreciate, they nevertheless refused to ever fully float the currency.

These instances of insubordination speak in some ways to the agency that local political actors retained during the transition, structural pressures notwithstanding. They also speak, however, to the unique international political circumstance that Tunisia operated within post-2011. Indeed, it was only by virtue of the state's special access to a constellation of non-market sources of credit—a privilege it was afforded as a result of the symbolic and strategic capital it came to possess in the aftermath of the Arab Uprisings—that leadership was able to selectively buck market demands without suffering a full-blown fiscal, financial or balance of payments crisis[8]. Nor did the stay on financial market execution provided by bilateral and multilateral lenders of last resort, who collectively hold a significant majority of Tunisia's external debt, come without its own costs. To the contrary, the conditionalities that were attached to much if not all of the moneys extended by multilateral lenders often amounted to policy orders. The systems of surveillance, tutelage and direct hand holding that came with the capital injections furnished by the International Monetary Fund, multinational development banks (MDBs), and western aid agencies were also far more invasive than anything private financiers and their various proxies were ever able to summon. This being the case, the non-market credit Tunisian policymakers took refuge in ultimately offered less a means of escaping the dictates of the global financial system than one for deepening its reach.

The IMF in Tunisia

Such consequences are laid plain by a brief survey of the concessionary and non-concessionary lending packages that were mobilized by the IMF and the MDBs, respectively, following the political ruptures of 2010-2011. The former extended Tunisia two lines of credit during the years in question. (The terms of a third loan are still in negotiations at the time of writing). Both loans— 2013's Standby Arrangement (SBA) and 2016's Extended Fund Facility (EFF)[9] —were encased within a country adjustment programs approved by the IMF Executive Board. Broken into tranches scheduled for conditional release, not that access to the Special Drawing Rights[10] made available by the SBA and EFF were non-guaranteed, release being contingent upon governments' consistent observation of terms specified within the

8 This access includes bond guarantees. US and Japanese Treasuries guaranteed six of the Eurobonds issued by the Banque Centrale de Tunisie between 2011 and 2018. By dint of these guarantees, the interest rates on these bonds ranged between 1.2-2.5%, rates considerably below those attached to non-guaranteed bonds issue during the same period (3.5-5.7%).

9 The 2013 SBA conditionally furnished the Tunisian state with 1.146 billion worth of Special Drawing Rights (SDRs). The 2016 Extended Fund Facility (EFF) established provisional access to a line of credit amounting to SDR 2.046 billion.

10 Special Drawing Rights are not currency themselves, but a "potential claim on the freely usable currencies of IMF members", to use the Fund's official language. Less abstractly put, SDRs are a composite reserve asset whose value is pegged against a weighted combination of the dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling. As central banks of IMF member countries are obliged to accept SDRs in exchange for the aforementioned key currencies, even though artificial in nature, SDRs retain a high degree of moneyness.

aforementioned adjustment programs[11].

Reflecting the IMF's self-professed move away from grander missions of days past, many of the conditions included in the referenced lending arrangements concerned run-of-the-mill balance of payments and debt sustainability issues. Specific to the former, performance criteria contained within the SBA and EFF dictated that floors on net international reserves be maintained, ceilings on net domestic assets held by the Banque Centrale de Tunisie not be breached, and that no external debt payment arrears be accumulated[12]. As for debt sustainability, the 2013 credit line required that the primary balance of the central government (excluding grants) be kept within designated limits, while the 2016 facility placed a ceiling on current primary expenditures.

Technical Memorandum of Understanding and Memorandum of Economic and Financial Policies. In the case of the 2013 SBA, benchmarks were leveraged to push corporate tax reform, cuts to energy subsidies, amendments to the Code d'Incitations aux Investissements, updates to banking system regulations, greater exchange rate flexibility, and a revisiting of the financial relationship between the general government and the state-owned electricity (STEG) and oil refinery (STIR) companies. After growing frustrated by the policy direction taken in the early years of the transition, the structural benchmarks subsequently fastened to 2016's Extended Fund Facility were even more expansive in ambit[13]. Viewed in totality, the conditionalities accompanying the IMF's emergency capital injections would touch nearly every domain of development policy.

It is certainly plausible that domestic officials might have instituted many of the designated structural reforms wholly by their own accord. It is equally plausible that these parties used the IMF so as to expedite a policy agenda they in actuality supported though sought to shirk political responsibility for. Be that as it may, in the most immediate sense, it was still the lending arrangements in question which ushered monetarism into Tunisian central banking, liberalized prices, expanded market access for foreign investors, and helped transformed domestic credit mediation. It was these arrangements which reorganized the operations of state-owned enterprises, shifted the tax system and laid the plumbing for a means-tested welfare system.
Last but not least and though never a monocausal phenomenon[14] , aspects of these arrangements—namely, conditions related to greater exchange rate flexibilization and capital account liberalization[15] , the latter of which was also aggressively advocated for by World Bank officials—also unambiguously contributed to the inflationary spiral which took off in the middle of the last decade, wiping out whatever welfare gains might have been yielded by hard fought wage increases in the process[16]. To the extent that the currency depreciation which

11 As it played, unsatisfactory performance evaluations resulted in the IMF only releasing about 40% of the SDRs pledged as part of the 2016 EFF.

12 Less binding indicative targets, meanwhile, stipulated that no domestic debt arrears be accumulated either and, more progressively, that a floor on social spending be maintained.

13 These conditions stipulated, amongst other things, that the Assembly of the People's Representatives adopt new central banking, commercial banking, bankruptcy and organic budget laws; that implementation decrees be established for legislative reforms already introduced to Tunisia's competition law, public-private partnership law, and investment code; that the balance sheets of the three partially publicly owned commercial banks be restructured and their operations rationalized; that the cap on the interest rates which commercial banks could attach to their loans be raised; that the five largest state-owned enterprises be subjected to new performance-based contracts; that reforms to civil service hiring procedures be installed; that a medium-term debt strategy be announced; that an independent high anti-corruption authority be instituted; and that a databank of the country's most vulnerable households be created.

14 In Tunisia's case, inflation was also driven by loose monetary policy. Up until 2018, the BCT kept the policy rate low, reduced reserve requirements, and provided significant liquidity injections (through refinancing operations with commercial banks) in hopes of supporting credit growth. These actions increased broad money considerably, and though never effecting prices commensurately, certainly would have given an extra push to inflation.

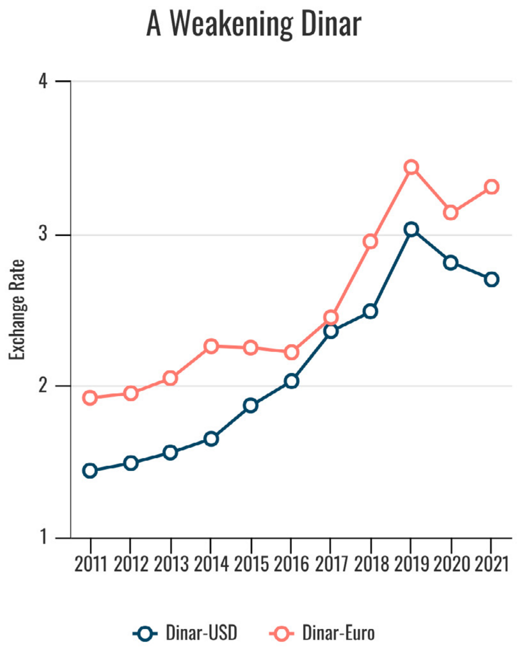
15 Some restrictions on short-term capital outflows were lifted through mandated reforms to the Code d'Incitations aux Investissements.

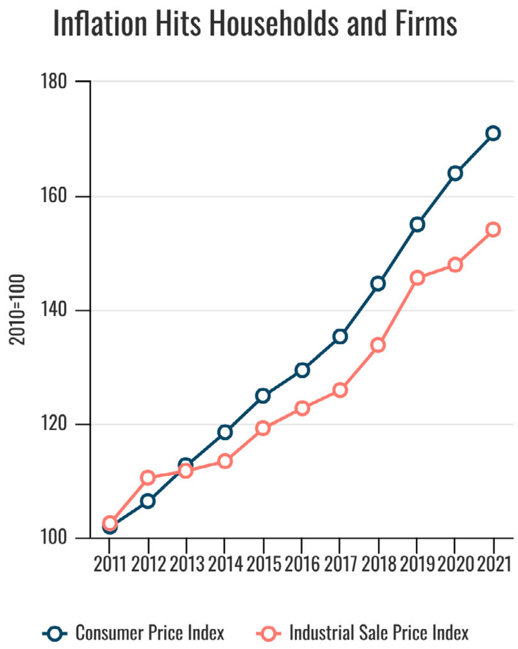
16 The relationship between currency depreciation and inflation are especially in pronounced due to the economy's staggering import dependence. Imports of goods and services are equivalent to roughly 60% GDP, and approximately half the country's imports are sourced from either Europe or the United States. This being the case, the Dinar collapsing in value against the Euro, Dollar, or most any other currency implies a commensurate increase in Dinar-based prices for local consumers.

exchange rate liberalization[17] brought about worsened the external debt burden of many state-owned enterprises—debts guaranteed by the general government itself—the IMF's push for greater exchange rate flexibility also compounded the state's fiscal problems. Suffice to say, then, that the impact of IMF lending conditionalities on the Tunisian economy has been enormous.

Currency Depreciation --> Inflationary Dynamics

While not the only variable implicated, the decision to allow the Dinar to depreciate had a major impact on inflation post-2011. Rising costs have more than canceled out the purchasing power gains of wage increases.





Source: Central Bank of Tunisia

17 Over the course of the transition, Tunisia moved from a de facto fixed exchange regime to a float (as of 2016) to a crawl-like arrangement.

Loan conditionalities were not the only means by which the Fund acted upon the Tunisian economy and policy space, either. Fund personnel were equipped with extensive oversight powers as well. These powers derived from the rights to data provisions that the IMF has tacked onto all its recent lending facilities. Such provisions not only grant the institution's staff unrestricted access to the state's books as pertains to public finances and economic performance, but vest Fund representatives with wide remit in ordering the collection of data on topics of interest. Functionally speaking, this empowers foreign technocrats to commandeer proprietary information at their discretion and to monitor government business in real time.

Due to the superior quality of the financial intelligence thereby gathered, the Fund has also retained the capacity to orient investor and aid provider perceptions of Tunisia to an even greater degree than the CRAs could. Annual publications of Article IV Consultations are most potent in these regards. As repositories of original and hitherto unseen empirics and the primary channel through which the Fund passed along its authoritative diagnostic and prognostic statements, Article IV Consultations have been shown to significantly impact how private actors and diplomats engage countries along the periphery. Indeed, despite smuggling ideology and metrics having nothing to do with liquidity into the evaluative methods employed, the Debt Sustainability Assessments (DSA) attached as appendices to the Article IV Consultations are generally accepted as official, peremptory rulings on a state's credit worthiness. If not as irrepressible in effect as loan conditionalities, the Fund's operations in the field of knowledge generation and data trafficking unambiguously swayed the course of the last ten years in their own right.

The Multilateral Development Banks in Tunisia

The (invited) interventions of bilateral partners and multinational development banks (MDBs) were similarly influential upon Tunisia's recent economic trajectory. Sticking to the domain of epistemic interventions, the World Bank Group's standing and self-regard as global knowledge lab without peer—and its designation, as of 2011, as the hub through which Tunisia's Deauville Partners would organize their efforts—meant its issuance of analytical outputs and advisory reports, like the Fund's publications of Article IV consultations, would exert sizable agenda-setting effects on the Tunisian policy process. The institution's designs for the transition were spelled out at programmatic level via 2015's Systematic Country Diagnostic (SCD). Building out from lines of argumentation initially developed in response to the ruptures of the Arab Uprisings, the SCD furnished an official record and explanation of the early post-uprisings' period. In centering certain maladies and causalities—namely, enduring barriers to market entry for foreign capital, pricing distortions and the dominance of state-owned enterprises—while omitting others from view—namely, the scarce positive externalities generated by foreign investment, the rent seeking engaged in by an elite fraction of domestic capital, and the concentration of private investment in speculative non-tradables—the document also helped determine which issues came to be perceived as ailing the Tunisian economy and, in defining these problems, delimited the spectrum of reasonable policy alternatives. In addition, in the years following its publication, the frames and metanarratives articulated in the SCD would receive regular reinforcement through the biannually released Tunisia Economic Monitor. Prior to its ignominious discontinuation in the fall of 2021, the Bank's annual Doing Business report served to buttress this ideational regime further, both by subjecting policymakers to the harsh light of comparative scrutiny and by gatekeeping access to capital markets. The dissemination of regular research outputs on more discrete matters stretching from labor management and poverty alleviation to female entrepreneurship and hydrocarbon exploration, meanwhile, allowed Bank personnel to orient the local policy discourse at more minute levels.

Hardly working by pen alone, the WBG insinuated itself into the policy process in more material ways as well. Its strategy for doing so was mapped and rationalized most comprehensively through the *Country Partnership Framework* (CPF) announced in June of 2016[18]. More than articulating policy recommendations, the CPF rendered the WBG's reform agenda expressly actionable in two ways. First, the WBG personnel responsible for the *Framework* coordinated with local government partners to ensure desired administrative changes were incorporated into relevant ministries' own five-year sectorial plans. Second, the WBG mobilized in-house financial and technical resources—and interfaced with Tunisia's other developmental partners—to directly advance elements of its reform agenda.

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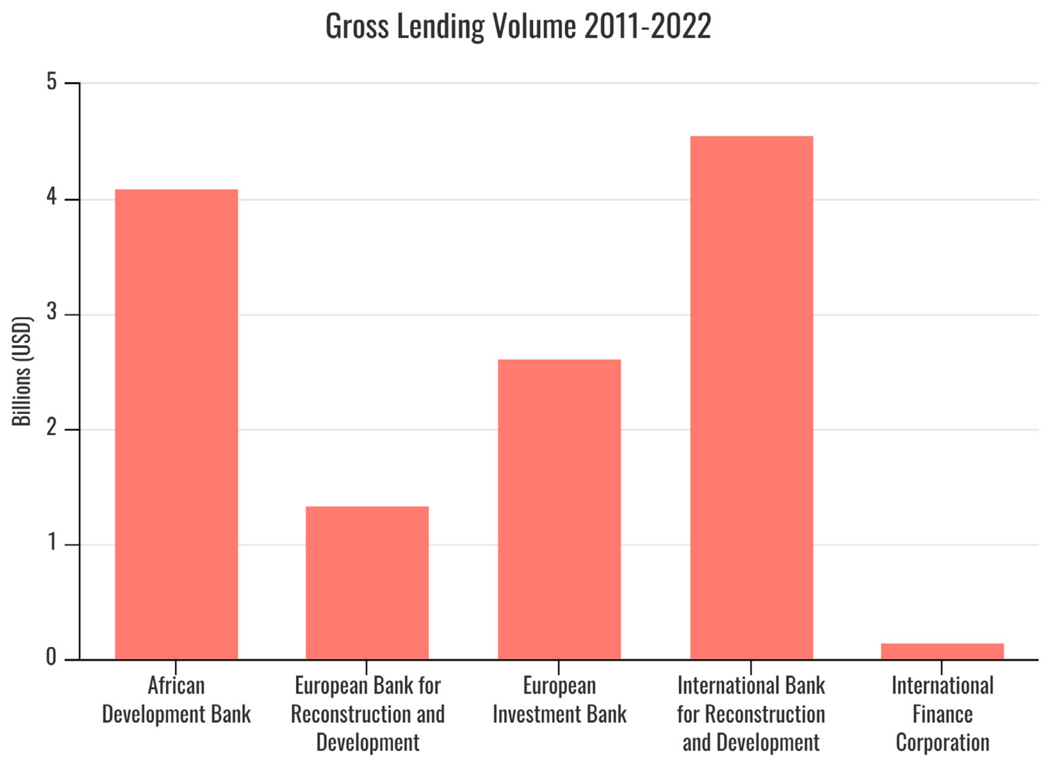
The Lending Portfolios of the Multinational Development Banks in Tunisia since the 2011 Uprisings



18 Covering fiscal years 2016 to 2020, the CPF was jointly prepared by senior staff from the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA).

When it comes to the World Bank Group itself, Development Policy Loans (DPLs) administered by the International Bank for Reconstruction and Development (IBRD) represented the preferred instrument for pushing more ambitious (and well-funded) policy interventions. The three largest of such loans prompted change to social welfare policy[19] , the existing tariff system for public utilities, and business and banking system regulations while enhancing creditors' rights in bankruptcy hearings[20]. In massaging the Code d'Incitations aux Investissements in particular, the record shows that the WBG operated through both the IBRD and the International Finance Corporation (IFC). Outside the domain of policy proper, note that the debt and equity financing mobilized by the IFC was also used to consolidate Tunisia's food security strategy[21] , advance the reach of microfinance, and back the privatization of healthcare[22]. Professions against picking winners or any other variety of vertical industrial policy notwithstanding, note as well that these investment activities have been predominantly steered toward a narrow fraction of Tunisian and foreign capital, and have benefited some of the problematic principals discussed at length in Section Two of this report[23].

In conjunction with moneys mobilized by the IBRD, the project-based financial arrangements provided by the main MDBs with whom the WBG coordinates in Tunisia—principally, the African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD), and European Investment Bank (EIB)—have covered much of the Tunisian government's capital expenditures in the post-2011 period. These critical interventions have not come without tradeoffs, however. Indeed, in exchange for capital, Tunisia has seen choices related to domestic credit mediation, agriculture policy, and the public financing of infrastructure, climate resilience and utilities swayed considerably. Over the years in question, the AfDB has developed an enormous and highly diversified portfolio in Tunisia. While its lending has funded essential outlays into public sanitation and water treatment systems, power grid repair and road construction and helped support the credit market for small enterprises, it has also financed the WBG-led effort to promote public-private partnerships (PPPs) and good governance reform. In terms of the number of projects initiated, the EBRD's lending has been biased toward the financial sector and efforts aimed at expanding financial inclusivity. In terms of capital mobilized, the institution's most significant allocations were in support of Tunisia's transportation infrastructure and in the form of a EUR 300 million restructuring facility for the state-owned electricity and gas company. If the latter most certainly provided a critical lifeline, it will likely lead to significant changes in the domestic pricing of energy. Like the IFC, note that the EBRD has extended lines of credit to mega export-oriented agribusinesses (specifically, the foreign-owned Pont Family Holding and Compagnie Générale des Industries Alimentaires), too[24]. The EIB, finally, has predominantly invested in infrastructure, urban development, energy, and financial sector support projects.

Tunisia's peripherality within the global financial system affected the organization and performance of the post-2011 economy in ways obvious and

19 A $500 million development policy financing project launched in 2018 successfully induced reductions to the energy and gas subsidy regime and instituted greater cost recovery in electricity provision. A series of subsequent lending projects, the most recent of which was 2021's Tunisian COVID-19 Social Protection, then solidified the move to means-tested social protection by providing funding and technical assistance for the development and administration of the AMEN database.

20 Though failing to achieve all of its objectives, a $500 Development Policy Financing Project inaugurated in 2017—entitled Tunisian Business...—shifted the business environment in the direction desired through enhancing creditors' standing in bankruptcy hearings and lifting anti-competitive regulatory measures.

21 In December of 2020, the IFC announced it would be extending the CHO Group, a Sfax-based olive oil producer majority owned by Abdelaziz Makhloufi, Moncef Rekik and Abderazzak Tounsi, a loan of 30 million Euros. The IFC previously extended the Group a $33 million loan in 2015. The CHO Group was Tunisia's second largest export earner in 2021, bringing in TD 390 million.

22 Starting in 2009, the IFC began making equity investments in Tunisia's private hospital network through COMAR Insurance.

23 In addition to supporting the CHO Group—owned by some the most powerful colons in Tunisian agriculture—direct financing was extended by the IFC to Amen Bank and COMAR Insurance, both of which are majority-owned by the Ben Yedder family. It also provided capital injections for Morocco's Attijari Bank, where the Driss and M'Zabi family hold sizable equity stakes, and for Canada's oil and gas company Candax Energy.

24 The EBRD extended COGIA a TD 20 million loan in 2021. COGIA is wholly owned by the Dubai-based IFFCO Group.

discreet. As has been detailed, market actors used the price, maturity and terms of debt financing, taut preconditions of equity financing and control of knowledge flows to enforce compliance in a number of policy areas. In those instances where the pressures imposed were resisted, relief proved temporary, as deliverance came via non-market creditors, who imposed even greater policy demands on local officials. None of these demands sufficed to deprive local actors of their own agency—and the gravity external finance exerts upon Tunisia can at least partially be attributed to policy failures themselves. Nevertheless, it is indubitable that the restraints and incentives which the global financial system foisted onto Tunisia helped push the transition down avenues leading away from equity and growth.

1.3 Structural Hindrances to Equitable Growth: Effects of Tunisia's Positioning with the International Hierarchy of Monetary Jurisdictions

Tunisia's peripherality within the global financial system was not the only structural encumbrance to healthy development over the past ten years. The Dinar's peripherality within the global monetary system—itself a function of Tunisia's subordinated position within the international hierarchy of monetary jurisdictions—also impacted economic performance negatively.

The Global Monetary System

As conceptualized by Murau, Pape, and Pforr, the international monetary system is best understood as a "world spanning payments system in which daily money flows are settled mainly through the interactions of private financial institutions." After Keynes' hopes for an international clearing union and new global reserve currency (the Bancor) were dashed at Bretton Woods, the US Dollar would come to serve as the *key currency* for this payments system throughout the post-war epoch.

King though the dollar was and is, its supply during tranquil periods of the financial cycle is not subject to the control of American public authorities. Upon the emergence of the Eurodollar market in London and Paris in the 1950s, dollar-denominated private credit money has primarily been created by institutions operating in off-shore financial centers. If the debt instruments issued by these institutions—overnight time deposits, typically—furnish levels of dollar liquidity appropriate to the trade and investment needs of the global economy when goings are good, the same cannot be said of crisis times. At these junctures, offshore actors are perforce limited in their capacity to supply dollar liquidity due to the restrictions of their balance sheets. The Federal Reserve, singularly vested with the authority to create dollars “out of thin air” by the mere act of issuing new loans, henceforth alone retains the ability to provide the credit money required for national financial systems and international trade to continue to function.

From the Federal Reserve’s exclusive control over the origination and distribution of emergency dollar liquidity comes much of the structure of the global monetary system. Since the financial crisis of 2007-2009, the Fed has used this power to structure a four-tiered hierarchy of monetary jurisdictions by virtue of it affording different central banks different degrees of access to emergency dollar liquidity. Immediately below the United States, which is of course at the apex of this hierarchy, one finds the central banks of the fourteen countries/regional unions with whom the Fed has established either temporary or permanent swap lines over the past fourteen years[25]. In principle, these swap lines furnish the central banks in question with unlimited access to dollars[26]. One level down are those monetary jurisdictions made eligible to receive emergency USD liquidity through the Fed’s Foreign and International Monetary Authorities (FIMA) repo facility, which began operations in April of 2020. This repo facility allows designated central banks to pledge US treasury bonds held on their own balance sheets as collateral and in exchange receive an equivalent value of dollar-denominated central bank deposits created by the Fed on the spot. While affording immediate and on demand access to emergency dollar liquidity just as the swap line does, the volume of dollars available to those institutions engaging the Fed through the FIMA repo facility are expressly limited by the US government securities that they hold on their own balance sheets. Assembled at the bottom of the hierarchy, finally, are those monetary jurisdictions whose only access to emergency dollar liquidity is mediated through the Special Drawing Rights (SDRs) system managed by the International Monetary Fund. For the governments using them to shore up liquidity needs, one ought note that access to SDRs is limited by a country’s quota subscription[27] and that SDR borrowings have a concessional interest rate attached to them.

In combination with a central bank’s access to emergency dollar liquidity, it is ultimately the strength, size, and macroeconomic stability of a national economy which conveys different degrees of moneyness onto different currencies. A currency’s moneyness—its capacity to perform the functions of money internationally by serving as a means of settlement, unit of account, and store of wealth—is captured in what is called a liquidity premium. Higher liquidity premia correspond to currencies with higher degrees of moneyness. As one descends the hierarchy of monetary jurisdictions sketched above, currencies decline in their ability to act as money internationally, and thereby bear lower liquidity premia. By the time one reaches a country like Tunisia, one finds a currency that can act as a store of wealth during non-turbulent times of the financial cycle, though perform no other function of money internationally.

Though at a delay, Tunisia’s subordinate place within the global monetary system influenced post-2011 economic performance most saliently through the upward pressure it put on interest rates. In Tunisia as elsewhere along the periphery, these pressures stem from the currency’s low liquidity premium. This premium necessarily raises the risk profile of domestic assets and in so doing, constitutes a disincentive to foreign lending and investment. Cognizant of this and the need to balance reward against risk, policymakers in contexts of external financial dependence are backed into installing high interest rates and accepting price stability as their primary mandate. Such actions boost yields for prospective creditors, reduce the risk of asset prices being devalued through inflation, and, in compressing wages, juice the profit rate for productive

25 These central banks are the Bank of Canada, the Bank of England, the Bank of Japan, the Swiss National Bank, the Reserve Bank of Australia, the Banco Central do Brasil, Danmarks Nationalbank, the bank of Korea, the Banco de Mexico, the Reserve Bank of New Zealand, Norges Bank, the Monetary Authority of Singapore, Sveriges Riksbank, and the European Central Bank.

26 Per Murau et alia, swap lines are “contingent instruments through which the Fed stands ready to create new USD-denominated central bank deposits on demand, while accepting instruments as collateral that are issued by partnering central banks, denominated in their respective unit of account.” To the extent that each partnering central bank faces no limits when it comes to creating the instruments that the Fed has agreed to accept as collateral—to the extent that the Bank of Japan is unrestricted in its capacity to issue credit money denominated in the yen—the volume of dollars available to such institutions via the swap line is theoretically unlimited. In practice, this mechanism facilitated $449 billion of swaps in March of 2020 alone. In terms of economic consequence, access to swap lines not only affects the borrowing rates that commercial banks in the aforementioned jurisdictions can secure in crisis times, but the degree to which a central bank can defend its national currency in FX markets.

27 Tunisia’s current quota subscription entitles it access to 545.2 million SDR. To build up reserves, as of October 2021, the Banque Centrale de Tunisie had withdrawn 96% of its SDR quota.

investment. On the domestic front, the hiking of interest rates also provides local elites with highly remunerative savings vehicles and thereby contributes to wealth polarization.

Despite facing these pressures, one need note that Tunisian policymakers actually refused to bend the knee as concerned interest rates for much of the transitional period. If relatively high in nominal terms, in real terms, rates were negative for most of the last decade. The BCT also cut reserve requirements and initiated major refinancing operations with domestic commercial banks for the purpose of supporting credit growth.

Come 2018, however, by dint of both the (IMF-coerced) passage of Law No. 2016-35[28] and the eventual appointment of Marouane el Abassi as central bank governor, whatever resistance had previously been summoned relented. Accepting the monetarist obligations incumbent upon peripheral monetary jurisdictions, between taking his post in February of 2018 and the end of the calendar year, el Abassi would lift the key rate by 175 basis points to 6.75%. For short-term corporate borrowers (<1 year), this translated to interest rates of 8.5%; the cost of long-term debt for households (>7 years), most of which is in the form of mortgages, tipped 9%.

Over the course of 2019, el Abassi oversaw another key rate hike of 100 basis points. From this peak of 7.75%, the key rate would be cut to 6.75% in March 2020 upon the arrival of SARS-CoV-2. What happened next would be most instructive of the restraints and imperatives imposed upon Tunisia due to its peripherality within the global monetary system. At a time when central banks from the global core took the most extreme actions witnessed in generations to breathe life into financial markets—dropping interest rates to zero or below, propping up bond markets and directly purchasing corporate debt, and creating facilitates to provide small businesses with direct lines of low-interest credit, to name but a few of the measures implemented—el Abassi et al could offer Tunisians little more than effete half measures. Facing the greatest economic shock the modern has ever encountered, the BCT managed only an interest rate cut of 50 basis points and a handful of auxiliary measures, including a partial monetization of new sovereign debts[29].

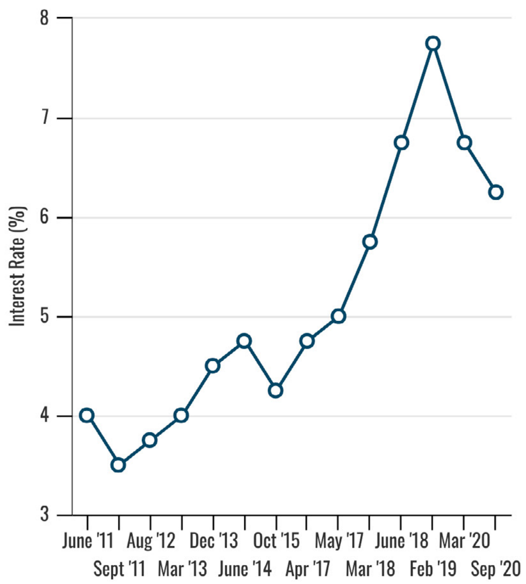
Given both the stark interest rate pass through detailed above and inelastic credit demand that is evinced in Tunisia, the weak monetary response in Tunisia resulted most immediately in businesses and households being forced to take on loans with double digit interest rates, provided, of course, that they could cobble together the absurd collateral requirements which commercial banks demand of borrowers in the first instance. The implications of these new debts for financial system stability—where lending rates are certain to lead to a jump in the non-performing loan ratio as soon as coronavirus-era abatements on debt repayments are lifted—are likely to be significant. In the long-term, the high interest rate regime is also likely to weigh down domestic investment, provoke a structural demand gap through the wage and job creation compression which will result from this investment decline, and in lowering the growth curve, encourage non-export oriented fractions of local capital to move their money abroad in search of higher yield markets. Control inflation a smidgen though interest rate hikes may have, the social and developmental effects of monetary tightening are poised to be enormous.

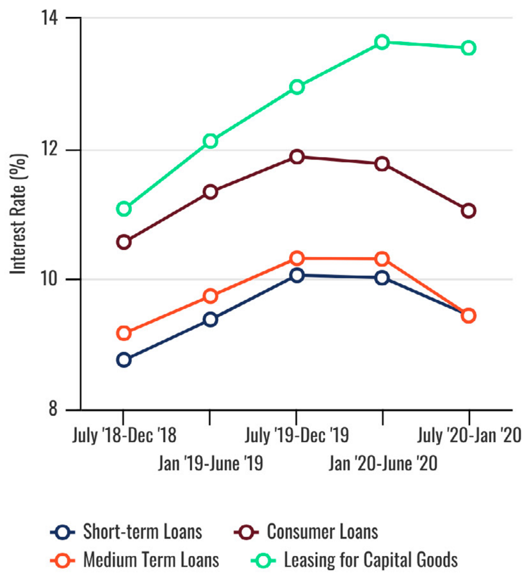
28 Law No 2016-35 granted the Banque Centrale de Tunisie greater institutional autonomy and total authority over the conduct of monetary policy. Democratic prerogatives were retained only by way of an amendment declaring the CBT would need be accountable to parliament for “the achievement of its objectives.” Law No. 2016-35 also established price stability as the primary mandate of the monetary authorities.

29 The BCT agreed to purchase some of the bonds it issued in 2020.

Pricing Credit: Interest Rate Policy Post-2011

The Banque Centrale de Tunisie resisted raising interest rates for much of the transitional period. Since 2017, however, rates were raised considerably. The consequence for borrowers was significant.



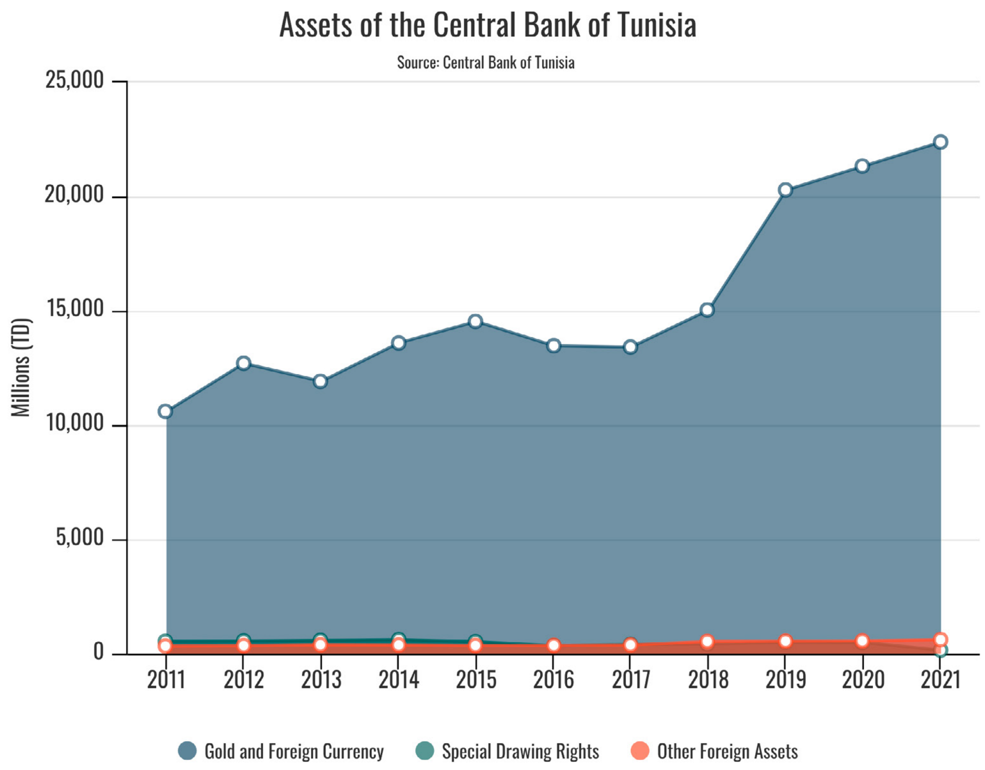


Source: Central Bank of Tunisia

During the transition as before it, the structural asymmetries of the global monetary system and the Tunisian Dinar's weakness within it also forced policymakers to institute a number of defensive measures. These measures were (and are) necessary to protect the currency against speculative forces and ensure continued access to international capital and commodities markets. They prominently include attempts at hoarding foreign currency reserves and other highly liquid assets. Though these reserve assets were run down between 2016 and 2018 due to the intensity of the economy's current account imbalances, the composition of the BCT's balance sheet pre and post-uprisings attest to their accumulation being fundamental to the prevailing asset development strategy of the BCT.

FX Reserve Hoarding

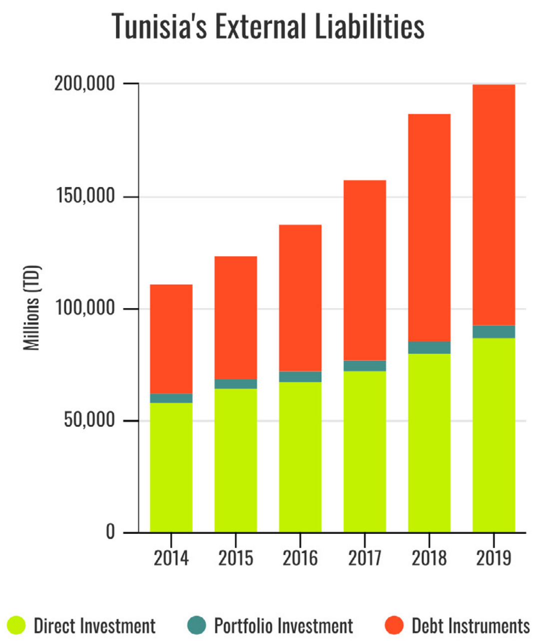
Like so many other central banks in the global south, the asset development strategy of Banque Centrale de Tunisie has centered on the accumulation of low-return reserve assets.

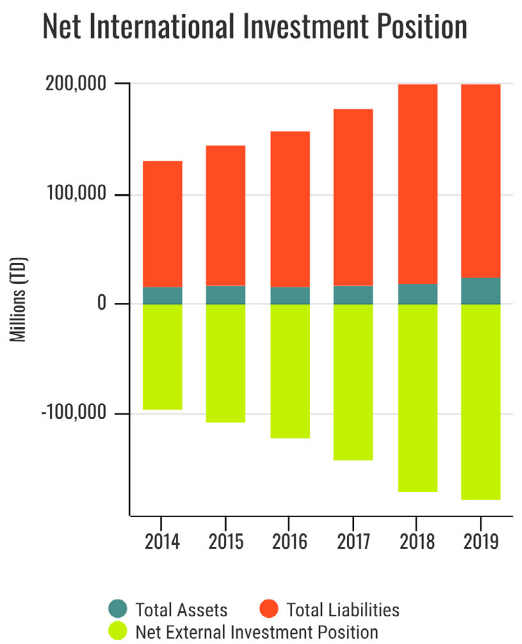


Evaluated in full, the developmental consequence of the BCT's hoarding of FX reserves and similarly liquid assets—an action policymakers had little choice over given the structural asymmetries of the global monetary system—likely balance out as negative. On the positive side, this international investment strategy helped buoy the Dinar and cover the country's import bill as current account deficits brought on by the collapse of the tourism industry and disruptions with phosphates and oil production worsened. At the same time, the stockpiling of reserve assets—both by the BCT and private parties—functioned to facilitate substantial outward transfers of wealth. This latter effect stemmed from the differentials in return generated by Tunisia's international investments versus those generated by non-nationals' investments inside Tunisia. Whereas the reserve assets prized by the BCT generate little to no yield, the fixed income, debt, property, and productive assets that Tunisia has sold to the rest of the world generate annual returns of significant magnitude. The spread in yield is such as to result in a steady deterioration to Tunisia's net international investment position—even when the volume of asset purchases is larger the volume of asset sales.

Worsening International Investment Position

In stockpiling low-return reserve assets while selling high-return equity and debt assets, Tunisia's external investment position has steadily worsened over the past ten years. The losses being run imply an outward flow of wealth.





Source: Central Bank of Tunisia

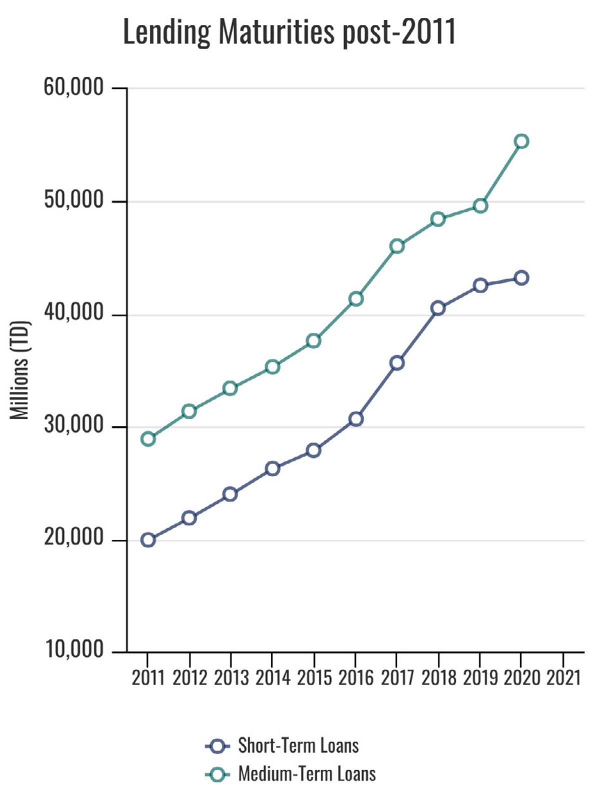
Beyond conducting outward transfers of wealth, the asset development strategy followed by the BCT has also had quasi-fiscal costs and created new channels through which externally generated financial shocks may transmit to the Tunisian economy in the future. The former derive from the meager profits that the BCT generates as a result of its investment strategy—profits which are transferred to the Ministry of Finance—and from the opportunity costs implied by the reserving of such levels of public capital for foreign exchange interventions. Exposure to external financial shocks, meanwhile, has heightened due to the BCT expanding its foreign asset holdings to the degree it has. The growth in the bank's external balance sheet perforce increases the capital losses that the institution stands to suffer should exchange rates shift in a manner that decreases the value of the cash reserves they hold, or should markets for US treasuries or European sovereign debt turn bearish. Risks of such a downturn are far from theoretical. Had it been allowed to continue and not been reversed by the unprecedented interventions of the Federal Reserve, the precipitous collapse of the US Treasuries market in March of 2020 would have devastated the BCT's balance sheet.

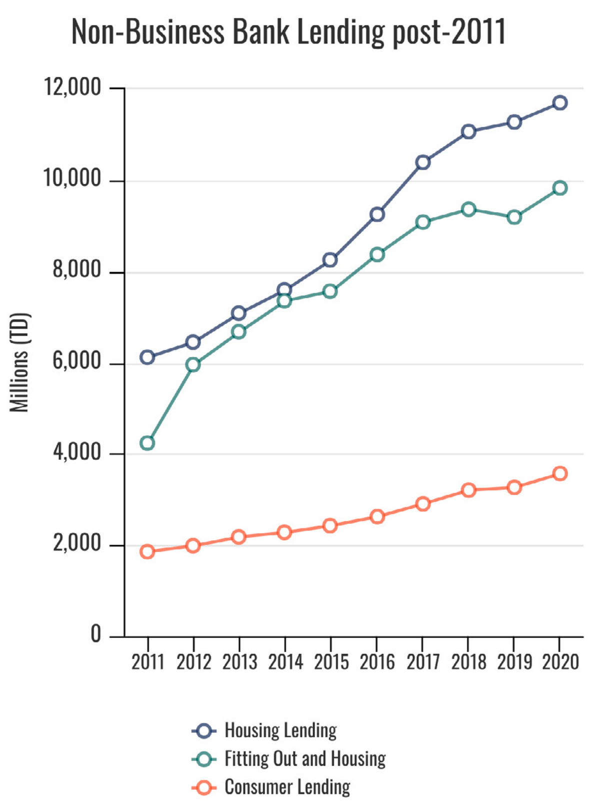
Last but not least, the BCT's defensive accumulation of reserve assets accumulation has intensified the financialization of the post-2011 economy as well.

This effect stems from the sterilization operations the Banque Centrale de Tunisie is forced to conduct to insulate the domestic monetary base from the effects of its investment activity. These operations—typically taking the form of bond sales—alter the composition of domestic commercial banks' balance sheets in such a manner as to push them to build up their holdings of short term assets. This push encouraged such institutions to increase their lending to households and consumers and to engage in more speculative activities. Each action contributed to the financial sector's growth relative to other sectors of the economy, the financialization of housing, and to larger segments of the population being absorbed within the social relation of debt. Associated as financialization is with deindustrialization and income and wealth polarization, the knock-on effects of hoarding FX reserves (via sterilization) may prove long lasting.

Sterilization and Financialization

The growth rate of short-term lending since 2011 has outpaced the growth of medium and long-term lending: the result is that the short-term debt stock has more than doubled in ten years. Non-business lending, most of which is designated for household and consumption financing, has increased starkly.





Source: Central Bank of Tunisia

Tunisia's economic performance during the transition was always going to be swayed by variables outside the control of local actors. As it played out, such variables—inclusive of exogenous shocks and structural restraints—proved non-conducive to the prospects of equitable growth, to say the very least. The conditions created put an incredible premium on intelligent policy design, which, due to the environment Tunisia found itself operating in, became the country's only real hope for holding off a slide into real peril.

Alas, as the next section will clarify, intelligent policy is not what Tunisia got.

2. Dedevelopment's Local Aides

In view of conditions bestowed by history alone, pulling off the kind of developmental leap that was needed to fasten down the hatches of Tunisia's emergent democracy was always to be a tenuous prospect. Probabilities of success were lowered still due to the combination of exogenous shocks and structural restraints, as discussed in the previous section.

And yet, it is not as if elected officials or the policy community more broadly had no cards to play. Certainly, the costs of a false move were to be steeper in Tunisia than for those operating in the global core, and freedom of maneuver was to be limited by the country's financial, energy and food dependence. The rents and indemnities political leadership might be allowed collect by dint of their country being the last hope of the Arab uprisings, moreover, would only ever be such.

Be that as it all may, what has stood out over the past ten years is not just the degree to which the deck was stacked against Tunisia's transition, but how poorly domestic actors played the cards they had in hand.

2.1 Post-Revolutionary Politics

Before addressing consequences, gaining purchase on the drivers of policy failures during the post-uprisings' period requires one first grapple with matters of post-uprisings' politics.

Before July 25th as after it, these were a politics structured and animated by an absence: namely, the absence of a party interested in or capable of representing Tunisia's popular forces. The non-presence of such an actor can be traced to a handful of variables. Having been forced to rely on horizontalism in order to elude the repressive apparatus of Ben Ali's state, the radical movements which rose to the fore in 2010-2011 were understandably ill-prepared for the transition from contentious to electoral politics. Lacking resource mobilization capacity and not infrequently evincing ideological contempt for representative institutions, their summoning of a bid for governing authority was therefore out of the question from the start. For those who stood to benefit most from a revolutionary project—the poor, unemployed and informally employed—this outcome was, functionally speaking, disenfranchising. The lower political participation rates evinced by the marginalized, after all, meant that the political tendencies that were better positioned to seek power through the ballot box had little strategic reason for hitching their wagon to either the cause of socioeconomic transformation or a constituency comprised of the disinherited masses. Had the Union Générale (UGTT) decided to launch a partisan affiliate, it is arguable that Tunisia's popular forces might have wound up with an advocate inside the halls of government all the same. Entering the political fray in this manner, however, would have required that the UGTT not only give up the power and prestige that it accrued as an unsullied principal to Tunisia's grand social dialogues, but that it accept responsibility for an economy structurally disposed toward failure as well. The costs being what they were, the trade union's decision to opt out of party politics was something a foregone conclusion.

Regardless of causes, the effects that the absence of a front-footed revolutionary protagonist inside parliament or government had on the transition would prove as grave as they were wide ranging. In the big picture, they undergirded disaffection's spread and pushed those fighting for distributive change into more defensive, parochial forms of challenge. More immediately, the absence ceded politics proper to a class of actors and organizations demonstrably bereft of the intent or imagination required to break Tunisia from a desperately suboptimal status quo.

The stewards of Tunisian post-Islamism, Ennahda, most certainly fit this bill. From the moment of the party-movement's (re)legalization in March 2011, the priorities of leadership were shown to lie in organizational survival and the legal-procedural battles where it would be decided. The adoption of this agenda led pressing questions of economic development to be relegated to secondary or tertiary importance. Where and when such matters were engaged, moreover, it was rarely in a fruitful manner. This was largely due to the confused orthodoxies to which party luminaries subscribed. Like many fellow travelers in the broader family of *ikhwanism*, these persons (if not necessarily the economists that have been associated with Ennahda) align themselves with the muddled formulations of pious neoliberalism. Proceeding from the presupposition that markets themselves are unproblematic, pious neoliberalism proposes that the socialization of better and more decent economic actors in combination with an institutionalized form of *zakat* suffice to guarantee that a liberal market economy generates normative social and developmental outcomes. For empirical proof of concept, Ennahda's leadership often lifted up mistruths abounding around the AK Party's alleged economic *miracle*, ignorant or indifferent to the fact that Turkey was primed to descend into currency and debt crises brought on by a decade of extreme debt-financing and reckless attempts at harnessing financialization for growth.

Ideological confusion was not the only variable impeding Ennahda from developing an economic program commensurate to the challenges at hand: the line the party leadership took in dealing with the Tunisian oligarchy from the start of the transition also stood in the way. Rather than seek confrontation, leadership sought accommodation and partnership. Evidence of this, they not only attempted (though partially failed, it should be said) to bring on a number of major businessmen onto their electoral list in 2014, but to develop financial relationships with persons long adjacent to the cronyism of Ben Ali[1]. Situated within this wider history, Ghannouchi's decision to whip his caucus into supporting Nidaa Tounes' Economic Reconciliation Bill in 2017—a measure that established an amnesty for economic crimes committed under the previous regime—can be seen less as an aberration than *a coup de grâce*. One may dispute whether these choices reflect a necessary coming to grips with the realities of power or something more ideological. Either way, they establish that those in Ennahda's senior ranks were none too precious about professed commitments toward either competitive markets or moral rectitude.

Nor were Ennahda's shortcomings around the economy exceptional amongst Tunisia's leading partisans. The party's aforementioned rival turned partner, Nidaa Tounes, was itself wholly devoid of big, forward-looking ideas. Ideologically agnostic, some allowed themselves to be convinced that Beji Caid Essebsi's common front could be made a vehicle for emancipatory change, pointing to Nidaa Tounes' embrace of Bourguiban aesthetics, hosting of progressive elements like economist Mahmoud Ben Romdhane or the occasional tactical alliances it entered into with the UGTT as evidence. The party's very raisons d'etre—negation and opposition to the alleged Islamist threat—however, was enough to know it would aspire for nothing so bold. So too was the fact of the party's cozy relations with prominent oligarchs like Faouzi Elloumi, Farid Abbes, Moncef Sellami, Zohra Driss [2] and Nabil Karoui, and a caucus in the Assembly of Representatives laden with business elites.

Actors outside the dominant Nidaa Tounes-Ennahda dyad were generally listless as well. Social democracy's initial partisan expressions—Ettakol, the Congress for the Republic and Attayar—contested constitutional questions and matters of civil rights earnestly though offered little when it came to resolving endemic deficiencies in labor market demand. Dubious at the very best, moreover, were the socialist commitments of the tendency's leading lights, Elyes Fakhfakh most especially. Inclined to look to the past for solutions, disoriented by the assassinations of Mohamed Brahmi and Chokri Belaid, and disembedded from the constituencies in whose name they spoke, the scattered vestiges of the left proper were equally adrift. Light on ideas and organization, they could hardly set the agenda for a better tomorrow, even after Worker's Party leader Hamma Hammami managed to steer the Popular Front coalition to a modicum of success in the 2014 parliamentary elections. Lacking appeal outside a handful of moneyed coastal enclaves, meanwhile, it was only connections to domestic and foreign capital that rendered liberalism's local champions somewhat less politically marginal than their counterparts on the left. Given their attachments to boilerplate market-oriented reforms, the outsized policy influence accorded to the stewards of Afek Tounes, Hizb al Jomhouri, Tahya Tounes and the Progressive Democratic Party would prove of desperately little help to an economy wallowing in structural dysfunction[3].

For their part, the assortment of secular rightwing populists that proliferated across the post-2011 years predictably trafficked in pablum and misdirection when it came to questions of development. The partisan mouthpiece of businessman-turned media

1 Amongst others, the party secured relationships with Hedi Djilani, Mohamed Loukil and Mohamed Frikha

2 Daughter of Mohamed Driss—himself heir to one of Tunisia's grand commercial empires—Zohra Driss' business interests primarily concentrated in Marhaba Hotels, a hotel group founded by her father and partnered with the American chain Starwood. Prior to SARS-Cov-2 the Hotel Group contained sixteen different properties with a combined sleeping capacity of 5000 beds.

3 That said, one should note that this did not prevent the domestic representatives of finance capital that were hosted by the likes of Afek Tounes, the Progressive Democratic party, Hizb al Jomhouri, and Tahya Tounes—men such as Fadhel Abdelkefi, Ali Kooli and Yassine Brahim—from consistently exerting an outsized influence on policy, as will become apparent.

mogul Slim Riahi, the Free Patriotic Union, presented a program of hollow signifier in the years before its founder ran into legal troubles. If predictably skillful with messaging, Qalb Tounes—project of Nessma TV CEO Nabil Karoui, one-time member of the Nidaa Tounes' politburo—was just as short on developmental vision. Further to the fringes, Abir Moussi's Free Destourian Party, proudly claiming itself heir to the dissolved Democratic Constitutional Rally and champion of the bygone autocracy, articulated a politics of grievance and nostalgia devoid of policy content. On the Islamist side of things, the salafist populism broached by Seifeddine Makhlouf's al Karama coalition—having won a rump minority position in the 2019 parliamentary elections—can be credited with at least making pretensions toward anti-imperialism and sovereign development. That said, they have had little of significance to offer when it came to charting real alternatives. Rightfully savage the inadequacy of the state support that was mobilized to help families throughout the SARS-CoV-2 Crisis and contest Qais Saied's power grab in the summer of 2021 though al Karama might, they were not an organization prepped to lead.

2.2 Reconstituting Cronyism: Business-State Relations Post-2011

Unmoved by alternative visions of the good in the first instance and lacking capacity in the second, those taking the reins of Tunisia's democracy steered the economy back down many of the same dead ends from whence it had come.

To begin, their wayward driving not only returned the country to the developmentally corrosive form of business-state relations that had ravaged society over the past thirty years; it pushed it even deeper into cronyist territory. Carrying out a *euthanasia of the rentiers* in the post-uprisings' period was, of course, unfeasible and undesirable for any number of reasons. Reaching an arrangement whereby those controlling a large share of Tunisia's privately held wealth accepted the state's primacy and some of the obligations that were incumbent upon a nationalist bourgeoisie—which would include renouncing their age-old practice of extracting wealth via the public debt—however, was essential. And if certain to be trying, negotiating such a deal was far from impossible. While the non-Trabelsi business elite's adoption of a wait-and-see approach during the charged days of the uprisings did not make them enemies of the people, it did leave them short on allies when the dust eventually settled in the manner that it did[4]. To the extent that the books of Aziz Miled were tied closely to those of Belhassen Trabelsi[5] and the books of Hamdi Meddeb to Sakher el Materi[6] —and to the extent that the businesses of Faouzi Elloumi and the Ben Ayeds had received boosts

4 Some, like Faouzi Elloumi, openly backed the regime, unable to conceive of a world where it might fall.

5 Aziz Miled, who passed away in 2012, was tied to Trabelsi through major coinvestments in BIAT and a partnership in the aviation company Nouvelair.

6 Meddeb was el-Materi's largest business partner in the Princesse el Materi Holding Group, whose properties spanned the banking, transportation, telecommunications and real estate sectors, as will be discussed in detail below.

of considerable magnitude from the Ben Ali regime[7] —these actors would have known that some degree of circumspection and accommodation was the order of the day, all the more so once judicial authorities began temporarily confiscating the passports of persons of interest and Tunisian banks discovered a new fondness for transparency[8].

Relevant principals were not entirely beholden to Tunisia's democrats, of course. They could and did make use of the escape hatch that the global financial system affords all the holders of movable assets, precipitating a liquidity crisis for the banks in the process (a crisis, it should be said, that would contribute to the eventual depreciation of the Dinar by way of the FX auctions the Banque Centrale was forced to hold). Uprisings or not, the "structural dependence of the state on capital", as Przeworski put it long ago, still held, and particular redlines would need be respected. All the same, the redlines in question had been moved to stations more in the political classes' favor as a result of 2011's revolutionary pulses. The space needed to reach a grand bargain most certainly existed.

For reasons predicted by their ideological as much as sociological character, the political parties directing Tunisia's democratic transition did not use the points of leverage available to them for striking a bargain of this kind. Bereft of any such ambition, lawmakers brought into office through early elections concentrated their energies instead on unwinding the Trabelsi clan's positions in the market alone. Conscientiously or not, the bygone first family thereby came to serve as something of a sin-eater for all that had befallen the economy: the expropriation of their local assets (and failed attempts to reclaim their overseas ones) was offered up as a cathartic sacrifice by which the status quo ante could be cleansed and then quietly restored. Outside of these efforts and the launching of an occasional anti-corruption dragnet, inertia and more impromptu forms of engagement with the business community were allowed to set the course.

This strategy, or lack thereof, proved auspicious for the class fraction then possessing a lion's share of Tunisia's non-Trabelsi-owned private capital. Finding no enemy amongst the country's leading partisans, these persons managed, with a few exceptions, to not only skirt punishment around the ill-begotten gains of the past, but directly and indirectly penetrate the political realm for the first time in decades as well. Specific to the latter, donor relationships were welcomed with any and all of the governing parties. For those seeking a share of the limelight, opportunities for joining the main electoral lists were always available, too. As for those seeking a more direct communion with power, there was always the option of forming one's own party, a contingency especially attractive to those who could weaponize ownership of media assets and public goods like football clubs into widespread name recognition. Finally, for those who preferred the safety of a degree's removal from the muck, the now autonomous, increasingly empowered and soon-to-be Nobel Prize winning Tunisian Confederation of Industry, Trade and Handicrafts (UTICA) offered a nominally apolitical vehicle for throwing one's weight around[9].

If democracy as an abstraction had long inspired trepidation from Tunisia's moneyed elite, its actually existing institutionalization showed such fears to be unfounded. All in all—and as would also be the case for elements of the security forces, the police most especially—the transition represented a growth opportunity more than anything else. Facilitating and then supercharging their politicization, it transformed the country's oligarchs from passive though generally well-treated object of power to emboldened and unapologizing political subject.

7 Ben Ali's Ministry of Industry helped broker the Elloumi family's supply deal with Danone, Nestlé and Kelloggs. On the distribution side, the Meddeb family secured its own deal with Danone, affording its Group Delice exclusive co-branding and marketing rights within the local market. Abdelwahab Ben Ayed, one of the country's biggest investors in hotels, had benefited immensely by the corporate welfare established for the sector.

8 Play that card they did, raising few complaints when their assets were briefly seized as part of probes into the Trabelsi, or when suddenly animated regulatory bodies requested their compliance.

9 Though meant to represent more than a hundred thousand employers, the National Council of UTICA—which came to acquire considerable lobbying and even kingmaking power by dint of its position within national dialogue processes—was largely dominated by the elite fraction of domestic capital during the post-2011 period. Ouided Bouchamaoui, CEO and one of the principal heirs to the multisector conglomerate organized under the Hedi Bouchameoui Holding Group, was president of UTICA from 2011 to 2018. At the time of writing, Samir Majoul is serving as President.

Nor was facilitating the oligarchy's acquisition of a bridgehead within the democratic state the only worrisome aspect of the post-uprisings' approach to business-state relations. The extemporaneous, pandering approach adopted by leading partisans also let relevant individuals grow their fortunes and augment their market dominance.

Critical in these regards were the fates of assets expropriated from the family of Ben Ali. As the World Bank study of Nucifora et alia famously revealed, the properties of the President's extended family generated approximately 21% of all private profits in the years preceding the uprisings. Following the regime's fall, many of the entities to which these yields accrued were seized and moved under the control of public investment vehicles. Come 2013, one such institution, al Karama Holding, wound up housing the constellation of assets hitherto possessed by the Princesse el Materi Holding Group—the one-time majority-owned holding company of Mohamed Sakher el-Materi.

For a time, there was talk that some of the prized possessions within al Karama's portfolio—which included Ennakl Automobiles, City Cars, cruiseliners, real estate investments, a constellation of media properties as well as majority equity positions in both Banque Zitouna and what would later become Ooredo Tunisie—being moved under the jurisdiction of an emergent sovereign wealth fund founded through Executive Decree 85-2011: the Caisse des Dépôts et des Consignations (CDC)[10] . As the CDC was to become the primary arm through which the state directly financed locally-oriented investment, steering the steady and sizable cash flow that was generated by el-Materi's old businesses through its coffers made a great deal of sense from a public policy perspective.

Sensible or not, this was not the path Tunisia's policymakers ultimately ended up taking. Rather, the decision was made to auction off the most attractive assets on al Karama's books to private bidders. Central to this choice was Ahmed Abdelkefi. A financier of considerable reputation, Abdelkefi had, over the course of many years, built a consortium of firms across the spaces of private equity, asset management, commercial and consumer lending, and securities brokerage[11]. Despite the potentiality for conflicts of interest, Abdelkefi's wide-ranging experience—and his son's position with Afek Tounes—sufficed to convince officials that he ought be appointed President of al Karama Holding's board of directors and that he be named to the advisory board of the CDC as well[12]. As pertains to the CDC, one ought note Abdelkefi was also joined on the board by three other giants of the Tunisian economy: Jalloul Ayed, Rached Meddeb, and Abdelwahab Ben Ayed.

Leveraging the procedural and administrative powers afforded by their board positions, the persons in question successfully obstructed plans aimed at transferring properties from Karama Holding to the CDC, and to see to it that the aforementioned auction went ahead instead. Given the capital endowments on the ground—something World Bank technocrats flagged as a concern vis-a-vis privatization all the way back in 1993—it would be no surprise when al Karama's grandest properties ended up in the hands of either old local money or new foreign capital. The Ennakl empire would be divvied up locally between the Ben Yedder family—with whom Abdelkefi had direct financial dealings through sitting on the board of Comar Insurance—and the Loukils[13]. City Cars, exclusive importer for Kia Motors and a firm that managed to generate roughly $80 million in turnover in the first year of the pandemic, also stayed under domestic ownership with the Boucheamoui and Chabhchoub families acquiring a majority equity position. Foreign capital, meanwhile, primarily got in on the act on the banking and telecommunications side: France's Crédit Mutuel came away with el-Materi's shares in Ooredo Tunis and with much of the Trabelsi clan's holdings in Banque de Tunisie. Qatar's Majda Group became sole

10 The CDC was founded with the support of the French Caisse des Dépôts et des Consignations and Morocco's Caisse des Dépôts et de Gestion and became operational in 2012.

11 Abdelkefi's firms included Tuninvest Finance Group, Tunisie Valeurs, Tunisie Leasing Group, Africinvest Group

12 Per the CDC's 2019 Annual Report, Tunisia Valeuers, currently run by Ahmed Abdelkefi's son Fadhel (who is also the President of Afek Tounes), was recipient of 8 million TD of CDC financing.

13 To the Ben Yedders went Ennakl Automobiles and with it, roughly 14% market share for automobile imports. To the Loukils went, Ennakl Vehicules Industriels and the monopoly license for importing the wares of John Deere,

owner of Banque Zitouna in 2020.

These sales did not render the CDC wholly irrelevant. Come the end of 2020, the sovereign wealth fund still retained a portfolio filled with $3.1 billion worth of assets. That said, in contributing to the CDC's capital shortages[14] , the sales detailed above did hinder the institution from honoring a founding mission that had charged it with correcting the disinvestment long prevailing within the Tunisian hinterland while also spearheading investment in small and medium enterprises. In transferring such valuable properties over to some of Tunisia's wealthiest persons, the dismantling of one of the Trabelsi's commercial empires also intensified the concentration of domestic capital and deepened the market hegemony of the country's preeminent oligarchs.

Appraised in full, then, it can be seen that the transitional leadership's dealings in the domain of business-state relations served to traffic the wealthiest of the wealthy into democratic politics, facilitate transfers of assets from the family of the bygone dictator to a handful of high net worth individuals, and close the book on transitional justice (through the Economic Reconciliation Law). The developmental effects of these actions were significant. In buttressing the economic strength of the 0.1% while emancipating such persons from the social obligations that Ben Ali cronyism had once imposed, competitive energies were emptied from most sectors of the economy and job creation squeezed. In leaving dominant positions in the banking sector untouched, Tunisia's policy community also allowed a handful of families to continue weaponizing credit so to protect their position within the national class structure. In conjunction with underdeveloped equity financing markets, particularly at the Series A level[15] , this would play a key role in obstructing growth-oriented activities from securing necessary funding. It would also ensure that the BCT's pre-2018 efforts in supporting credit growth—which included keeping interest rates and reserve requirements low and providing significant refinancing operations—largely went to waste, yielding only a spike in housing prices[16] and a (developmentally dangerous) expansion to the size of the financial sector.

14 As of the end of 2020, the CDC held just short of $150 million in capital.

15 Personal Correspondence, International Finance Corporation Official: Tunis, 11/8/2021.

16 According to the Institut National de la Statisique apartment and house price indeces, the cost of accommodation more than doubled between Q4 2011 and Q3 2021.

Family Holding Companies and Their Multisector Empires

Tunisian markets are dominated by a handful of family holding companies. Operating giant multisector conglomerates integrating finance, production, distribution, and property development, these holding companies squeeze competitive energies out of most sectors of the economy.

Family	Holding Company	Cross-Sector Assets
Horchani	Groupe Horchani	Finance (Banque de l'Habitat, BIAT, Amen Bank, Wifak Bank, Tunisie Leasing et Factoring, Attijari Leasing, Tunisie Valeurs, Taysir Micofinance, La Societe Tunisienne d'Assurance et de Reassurance), Agriculture, Real Estate
Mabrouk	Groupe Mabrouk	Finance (BIAT), Agribusiness (Saida Group), Telecoms (Orange), Retail (Monoprix and Geant)
Tamarziste	Meninx Holding	Finance (BIAT, Tunisie Leasing, UBCI, Amen Bank), Distribution, Transport and Logistics, Real Estate (residential, commercial, industrial and agriculture)
Ben Ayed	Poulina Group, PIRECO, Al Badr Group	Construction, automobile manufacturing, automobile distribution, energy, aeronautics, pharmaceuticals, real estate, chemicals
Meddeb	Groupe Delice, LG Group	Finance, Food Processing, Transportation; *Former business partner of Sakher el Materi
Ben Yedder	Amen Groupe, Groupe Parenin	Finance (Ameb Bank, Comar Insurance), Construction equipment, Transportation and capital imports, Food Processing, Healthcare
Elloumi	Elloumi Group, COFICAB Group	Finance (BTK), Autopart Exports (COFAT, COFICAB, Chakira Cables), Agribusiness (Stifen Groupe)
Mhiri	Groupe Mhiri, el Mouradi Hotels	Hotels, Construction, Retail (T&R Retail)
Loukil	Groupe Loukil	Autopart exports, automobile imports, electrical parts and cables
Miled	Miled Groupe, Le Groupe TTS	Finance (BIAT), Transportation and aeronautics (Tunisie Travel Services, Nouvelair), Hotels
Bouchameoui	Hedi Bouchameoui Groupe	Autoparts Exporter, Energy, Real Estate, Agriculture and Agribusiness, football
Mzabi	Mzabi Groupe	Industrial exports, home appliances, hotels, automobile imports, real estate
Abdelkefi	Tuninvest Finance Group	Finance (Tuninvest, AfricInvest, Tunisie Lending, Tunisie Valeurs, Integra Partners
Abbes		Finance (Arab-Tunisian Bank), Sport, Energy, Autopart and Aeronautic exports, Hotels
Bousbia	Societe Frigorifique et Brasserie	Beverage production (Celtia Beer), Football (Club Africain)
Arem	Arem Group	Industrial exports, Retail, Distribution, Real Estate, Hotels
Chabchoub	Tawasol Group Holding	Infrastructure, Construction, Telecoms
Makhloufi	CHO Company	Agribusiness (Olive Oil)
Driss	Groupe Driss, Le Groupe Marhaba	Hotels, Real Estate, Chemicals, Home Appliances

2.3 Development Policy Failures

Beyond overseeing a disappointing reformulation of the state's relationship with business elite, the post-uprisings' political leadership also compromised Tunisia's developmental outlook through their effect on the composition of economic policy community and, by extension, policy itself.

Specific to the policy community, it is appropriate to begin with lawmakers. For reasons already discussed, the parties that retained caucuses of a size sufficient for setting a legislative agenda lacked the inclination, ideological clarity and technical acumen for doing so. The MPs that did evince ambitions and competence commensurate to the tasks at hand, meanwhile, were largely excluded from leadership roles within the parliamentary committees where such matters needed to gain traction in order to advance. With such persons also prevented from staffing their offices with full-time policy experts due to the generalized underresourcing of the parliament, they also had little means of affecting proceedings from their minority positions in the opposition. The upshot was that the proposing and writing of laws in post-2011 Tunisia was not infrequently ceded to persons that were not elected to fulfill such functions: principally, the office of the Presidency, the cabinet, and a constellation of foreign consultants[17]. Public protestations notwithstanding, sky high absentee rates in the parliament—be they related to voting or attendance at permanent or special hearing committees—suggest the country's parliamentarians objected little to this distribution of labor.

In accepting a relegation to the reactive role of voting up or down on what came before them, Tunisia's MPs ensured no bold economic plans would be issued from the legislature. The volatility that pervaded their chamber also hindered the executive branch from leading the charge. Riven by personalism and factionalism, parties and caucuses constantly formed only to break apart shortly thereafter, rendering flux a constitutive attribute of the party system throughout the transition. Compounded by contentious interparty dynamics, this flux prompted frequent cabinet reshuffles and the politicization of senior bureaucratic appointments[18].

In such circumstance, sticking to a coherent development strategy across time was nearly impossible. The consequence of ceaseless turnover was made worse, moreover, by the *kinds* of personnel rotated in and out of posts of economic relevance. When it came to the Ministry of Finance, Ministry of Economy and Planning (previously called Minister of Development, Investment and Cooperation), and Central Bank, appointment decisions abided by the vicissitudes of crisis. When primarily social or political in provenance, it was typically custodians of the old world—knowing their way around the release valves, debt-financed public sector hiring in particular, which have typically been pulled to calm the streets—that were called upon to steady the ship[19]. When crisis was inescapably macroeconomic in origin, liberals of technocratic-styling—recruited almost exclusively from the field of finance—were generally brought in. Below whomever happened to be the political appointee of the day, the sociological makeup of the post-uprisings' bureaucracy was broadly indistinguishable from the pre-uprisings' one, and many familiar faces from the Ben Ali-era continued to retain jobs of influence.

17 As detailed by Jihen Chandloul and Cecilia Gondard, the language of a 2015 amendment to the law on public-private partnerships was provided by the French lawyer Xavier Ghelber.
One-time Ennahda MP Riadh Bettaieb also openly acknowledged that the revising of the Code d'Incitations aux Investissements was outsourced to consultants overseen by the OECD, European Investment Bank and IFC.

18 The failure to seat the requisite number of judges needed for the constitutional court to begin functioning represents perhaps the most emblematic and costly example of the parliament's dysfunction. Ghiles

19 Per Kchouk, a full fifth of the ministers appointed to governments between 2011 and 2014 came to office having served in senior roles with the Ben Ali regime. As the tables above establish, governments established since 2014 also leaned a great deal on trusted hands.

The Post-2011 Economic Policy Community

Name	Position	Tenure	Party	Education	Professional Background
Mohamed Ridha Chalgoum	Finance Minister	2010-2011	RCR; Independent	Tunisian Institute of National Defense	Director General of Gafsa Phosphates Company
Jalloul Ayed	Finance Minister	2011	Independent	University of Tunis; University of Maryland	Citibank, Citicorp, BMCE, Axis Capital Tunisie
Houcine Dimassi	Finance Minister	2011-2012	Nidaa Tounes	University of Tunis	UGTT; Professor and Dean
Slim Besbes	Finance Minister	2012-2013	Ennahda	University of Toulouse, University of Tunis	Professor
Elyes Fakhfakh	Finance Minister	2013-2014	Ettakol	National Engineering School of Sfax, University of Evry Val d'Essone, Institut National des Science Appliquees de Lyon	Total, Cortrel
Hakim ben Hammouda	Finance Minister	2014-2015	Independent	Pierre Mendes University	African Development Bank, UNDP
Slim Chaker	Finance Minister	2015-2016	Nidaa Tounes		World Bank, Banque Tuniso-Qatari
Lamia Zribi	Finance Minister	2016-2017	Independent	University of Tunis, L'Ecole Nationale d'Administration	Finance Bank for Small and Microenterprises, Ministry of Development
Fadhel Abdelkefi	Finance Minister	2017	Afek Tounes	University Paris-Pantheon Sorbonne	Integra Partners, Tunisie Valeurs, SICAV
Mohamed Ridha Chalgoum	Finance Minister	2017-2020	Independent	Tunisian Institute of National Defense	Director General of Gafsa Phosphates Company
Nizar Yaiche	Finance Minister	2020	Independent	Ecole Centrale Paris	Capgemini Telecom, Booze Allen Hamilton, PriceWaterhouseCooper
Ali Kooli	Finance Minister	2020-2021	Afek Tounes	Ecole Superieure de Lyon	Union of Arab and French Banks, Societe Generale, Union of International Banks,
Sihem Boughdiri	Finance Minister	2021	Independent	ENA	Ministry of Finance
Mustapha Kamel Nabli	BCT Governor	2011-2012	Independent	UCLA	World Bank, United Nations
Chedly Ayari	BCT Governor	2012-2018	Independent	Paris-Sorbonne	Societe Tunisienne de Banque
Marouanne el Abassi	BCT Governor	2018-Present	Independent	Paris-Sorbonne	World Bank, Arab Institute of Business Managers
Yassine Brahim	Minister of Dev, Investment, and Int'l Cooperation	2015-2016	Afek Tounes	Ecole Centrale de Paris	Cap Gemini, Societe Generale, Ubitrade
Fadhel Abdelkafi	Minister of Dev, Investment, and Int'l Cooperation	2016-2017	Afek Tounes	University Paris-Pantheon Sorbonne	Integra Partners, Tunisie Valeurs, SICAV
Zied Ladhari	Minister of Dev, Investment, and Int'l Cooperation	2017-2019	Ennahda	University of Tunis, Paris-Sorbonne	Lawyer
Mohamed Ridha Chalgoum	Minister of Dev, Investment, and Int'l Cooperation	2019-2020	Independent	Tunisian Institute of National Defense	Director General of Gafsa Phosphates Company
Selim Azzabi	Minister of Dev, Investment, and Int'l Cooperation	2020	Tahya Tounes	University Toulouse	BIAT, Dresdner Bank
Samir Said	Minister of Econ and Planning	2021-Present	Independent	Ecole Centrale de Paris	Tunisie Telecom, Oman Development Bank, ATB, Banque Tunisie-Kuwaitienne

The developmental effects of a policy community thusly constructed would be apparent in the alternatives that were foregone as much as in the measures that were implemented. Ranking highly within the first category was the decision not to revisit the policy regime through which the state engaged foreign capital on Tunisian soil.

In both the rights conferred and obligations imposed, the regime in question— cobbled together primarily during the tenure of Ben Ali—is unambiguously disadvantageous to Tunisian development. As concerns rights, one can begin with international investors' right to seek redress against the state via external arbitration. Guaranteed through externalized policy commitments and domestic law (see Appendix 1.0), redress includes monetary compensation and policy rescindment. It is administered by tribunals hosted at various investor-state dispute settlement (ISDS) forums including the World Bank-hosted International Centre for Settlement of Investment Disputes (ICSID).

Granting private foreign parties the recourse of a hearing in such forums is problematic for any number of reasons[20] , none the least of which being the expressly one-sided form of justice adjudicated therein: ISDS bodies only receive cases brought by corporate claimants *against* government defendants, and entitle only the former to pecuniary remuneration. Just as worrisome are the types of magistrates empowered to make rulings at these sites. Despite affording state defendants the right to appoint one arbitrator to the three-person tribunals that preside over proceedings, the composition of ISDS tribunals from the 1990s onward has been dominated by an exceedingly narrow clique of US and European-based corporate lawyers[21]. Bound by shared ideological, epistemological and legal outlooks, studies have shown these individuals to be animated by a "strong market orientation" and disinclined to see themselves as bearing any responsibility toward the public interest.

One might be inclined to argue this all much ado about nothing. The Tunisian state, after all, has not been summoned before such a tribunal since the early 2000s. Such arguments, however, misunderstand the temporalities through which ISDS forums intervene in a nation's affairs: they do not only act when called upon to dole out punishment or reverse policies already instituted, but as a specter preempting policies from ever being instituted in the first instance. Globally, this chilling effect has become particularly pronounced in the area of climate policy due to the active and efficacious use of arbitration by transnational corporations' in the oil, gas and mining industries. In view of the evidence, it would be no exaggeration to say that Tunisia's ceding of juridical authority to ISDS tribunals has vested foreign investors with a kind of veto power. Used or not, the possession of this power tethers development policy to choices that do not violate the profit expectations of foreign capital. This being the case, and though one ought not diminish the consequences the economy might have suffered via capital flight had transitional policymakers disavowed commitments toward external arbitration, it is clear that retaining them restricted planners freedom of movement to corrosive effect.

Similarly costly from a developmental perspective are rights to intellectual property protection that the political leadership has not only re-endorsed but expanded and constitutionalized post-2011 (See Appendix 1.1 for full details)[22]. In Tunisia as elsewhere, these policies choices were presented as a necessary and sufficient means for powering technological convergence and knowledge generation, principally via their effect on the volume and composition of foreign direct investment (FDI) receipts. There is abundant reason to believe, however, that the effect of robust private intellectual

20 Governments also incur considerable expenses in contesting arbitration cases through ISDS mechanisms: per Roeline Knottnerus, legal costs incurred by governments seeking mediation by the International Centre for Settlement of Investment Disputes average out around $8 million.

21 Claimant and defendant are typically entitled to appoint one member each of the tribunal, while the hosting institution is charged with appointing the third.

22 In addition to rendering duties toward the protection of intellectual property a constitutional imperative via Article 41 of the 2014 constitution, post-uprisings' policymakers also upgraded state capacity when it came to policing potential intellectual property violations. Institutionally speaking, they did so by establishing a specialized intellectual property court, which has, according to the office of the US Trade Representative, "significantly increased the speed and quality of legal enforcement decisions for the US clients, with numerous high-profile wins for companies claiming trademark infringement in connection with counterfeit goods."

property on both gross FDI and knowledge transference is ambiguous, particularly when instituted along the global periphery.

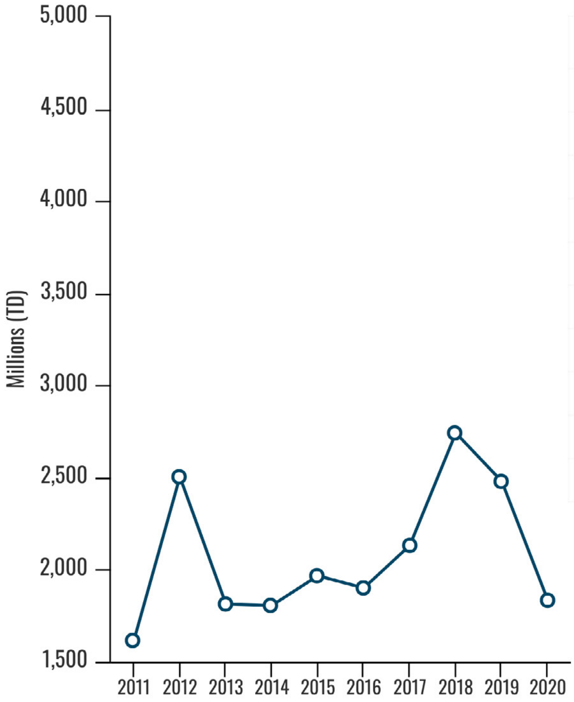
The causes of such null effects are structural in nature. Multinational corporations (MNCs) retain a fundamental interest in *not* exposing their intellectual property, from which they can derive monopoly rents within globalized circuits of production. As a general rule, foreign direct investment is also only sensitive to the intellectual property regime of recipient countries to the extent that the relevant country bears the endogenous capacity needed to engage with frontier technologies and production techniques. Regardless of the laws in place in a peripheral country like Tunisia, then, it is likely that MNCs will take excessive care in constructing supply chain relationships and licensing, franchising and subcontracting agreements so as to not transfer technology or knowledge to downstream partners. In the face of such realities, incorporating the essential coding through which know-how is legally rendered a highly valuable form of capital and deputizing the judiciary as the local enforcers of foreign-owned intellectual property was never going to do for FDI what the advocates of these policies claimed they would.

What is more, taking such a tact also bore enormous opportunity cost. After all, in enshrining intellectual property rights without also installing a competition law that might limit those holding such rights from engaging in anti-competitive practices, Tunisian policymakers expressly hurt the prospects of domestic firms. Seen in totality, then, the Tunisian policy community's approach to intellectual property protection can be seen as one that obstructed domestic actors from unilaterally adopting frontier technologies from the global commons under the assumption that this intervention would facilitate knowledge and technological transfers on the back-end through FDI. To the extent that the second part of the bargain has never actualized, the net effect of enlisting the state as a custodian of intellectual property on technological convergence is revealed as decidedly negative.

Foreign Direct Investment Shortfalls

Despite the policy community's catering to the needs of the investor class, the volume of FDI inflows has been meager throughout the past decade. Where capital did flow in, it disproportionately concentrated in the extractive sectors (oil and gas esp.). Greenfield FDI was low throughout as well, reducing the effect of more encouraging investments into the manufacturing sector, which often amounted to a merger or acquisition.

FDI Inflows 2011-2020



Sectoral Breakdown of FDI Receipts

Millions (TD)

Year	Energy	Manufacturing	Services	Telecoms	Finance
2011	1063	331	220	194	0
2012	886	532	1082	758	243
2013	1077	507	218	88	99
2014	892	454	452	83	226
2015	970	566	422	98	156
2016	796	802	282	103	5
2017	810	975	321	76	84
2018	910	1129	626	103	386
2019	909	1249	302	66	0
2020	621	1027	169	71	1.2

Source: Central Bank of Tunisia

Where's the Innovation?

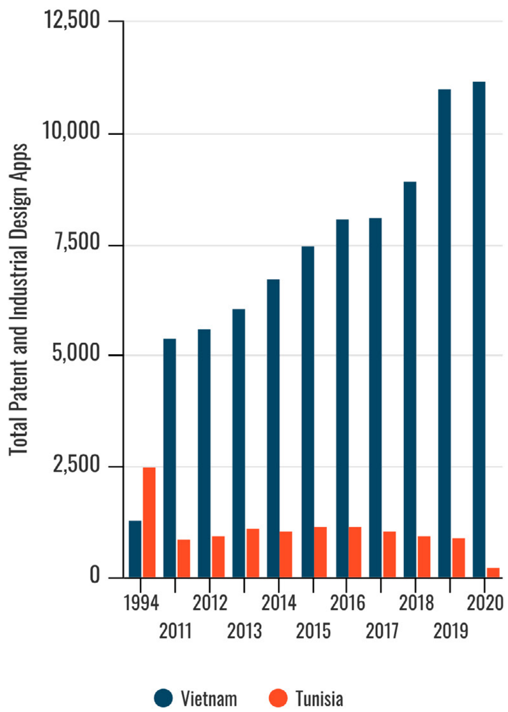
Tunisia's robust intellectual property protections have neither facilitated significant knowledge transfers, fostered an innovative business climate, nor encouraged investment into R&D. Evidence of this, patent and industrial filling applications have tracked steadily downward since the 1990s, while expenditures on R&D have remained little more than a rounding error (0.6-0.7% GDP).

Tunisia's Backsliding Innovativeness

Year	Resident Patent Applications	Total Patent Applications	Resident Industrial Design Applications	Total Industrial Design Applications
1994	39	145	113	2379
2011	137	680	179	200
2012	150	626	178	335
2013	112	549	189	574
2014	142	542	164	516
2015	180	589	129	568
2016	235	582	159	598
2017	172	555	150	493
2018	180	451	164	485
2019		349	222	552
2020		257		

Source: World Intellectual Property Organization

Falling Behind: Tunisia in Comparative Context



The disappointing returns of FDI since 2011 do not only stem from the naive approach that was adopted around intellectual property protection. They and the larger underperformance of the productive sectors of the economy also derive policymakers' furnishing foreign (and domestic capital) with broad rights to corporate welfare.

Comprised of tax breaks as well as implicit and explicit subsidies, Tunisian corporate welfare initially took shape during the days of Hedi Nouira before adopting its contemporary form upon the establishment of the Code d'Incitations aux Investissements in 1993. During the era of democratic governance—consequence of pressures imposed by Tunisia's foreign creditors, the IMF in particular, and the efforts of the Nidaa Tounes-Ennahda coalition in parliament—elements of the extant regime were reformed considerably while ther aspects were retained largely unchanged[23].

23 In addition to what is discussed in the main body of this report, note that the post-2011 policy community has also liberalized capital movements for foreign investors. Ministerial decree no.417 of 2018 establishes that the BCT must decide on foreign currency remittance requests of non-national investors within ninety days. In the event it fails to render such a decision within this time frame it also affords the investor recourse to the Higher Investment Authority, who is obliged to grant final approval for the transfer within thirty days.

Regarding what stayed the same, a variety of de facto and de jure wage compression mechanisms remain installed within the Parcs d'Activités Économiques in Bizerte and Zarzis as well as within the broader offshore economy. Tacitly aimed at guaranteeing the competitiveness of Tunisian input costs, these mechanisms are in force despite labor code provisions related to collective bargaining and union membership nominally extending to workers in special economic zones (SEZs). They are also in force despite the UGTT and UTICA having established and renewed a national framework agreement and fifty-one subsector collective bargaining agreements post-2011, the fruit of which was meant to guarantee baseline conditions pertaining to private sector labor compensation, hours and workplace safety.

The non-efficacy of labor rights in these spaces stems from three variables. The physical and semi-legal partition of the SEZs from national territory and the social vulnerability of the workers employed therein constitute a practical hindrance to unionization drives. Testament of partition's consequence, only 4% of private sector employees are formally union members, according to data from the Tunisian Labor Market Panel Survey. The footloose nature of foreign investment makes many employers' obligations toward honoring successful union drives and/or elected union leaders conditional at best[24]. Policymakers, finally, not only regularly turn a blind eye to employer manipulations and abuses of subcontracting, fixed-term contracting[25] and informal employment arrangements, but underfund the Ministry of Social Affairs surveillance and enforcement apparatuses as well. Regardless, the result is that many amongst the more than 250,000 people employed in Bizerte and Zarzis—a subpopulation representing roughly 40% of all those formally employed in Tunisia—lack, in a de facto sense, recourse to either the law or corporatist agreements. For employers, opportunities for superexploitaion are therefore considerable.

As for post-2011 revisions to corporate welfarism, they were primarily instituted via alterations to the Code d'Incitations aux Investissements[26]. Facing pressure from the state's external creditors, the investment code was reformed first via the passage of Law 2016-71 before being revised again through a series of executive decrees issued by President Beji Caid Essebsi (no.2017-389 most especially). From the perspective of international investors, key changes instated included the lifting of sector-specific barriers to market entry as well as a reduction to preexisting quotas pertaining to the mandatory hiring of local managers[27]. Equally salient to their concerns were the installation of tax holidays for all new businesses[28] and the insertion of auxiliary incentives meant to encourage investment in socially and developmentally useful areas. The relevant incentives were spelled out through the aforementioned Decree no.2017-389, which created a new legal category for investment—projects of "national interest"—as well as a series of specially designated subsidies and benefits. Projects qualify for this classification by satisfying criteria related to the volume of investment (>50 TD million); sectoral

24 The helplessness experienced by workers in the face of foreign capital's capacity to fire union leadership and disregard labor agreements prompted a hunger strike at an SEA Latelec Fouchana factory in 2014.

25 While retaining restrictions on firing, reforms to the Labor Code instituted in the 1990s greatly flexibilized the prerogatives of employers when it came to hiring. Most salient to our concerns were the installation of a contracting arrangement that allowed firms to bring on new workers on fixed-term arrangements that could be extended up to four years. Such contracts could be used even when the worker in question was fulfilling a permanent task of the business.

26 Separate legislation, principally Law 2017-8, also established new tax incentives for export operations and investments in regional development zones, agricultural development, and support & depollution activities. Note: special measures designated for new firms or capital increases in existing firms expired in 2019.

27 The new Investment Code abolished international investors need to attain authorization from the Superior Commission of Investment prior to engaging in operations within forty-nine economic activities for which such authorization was previously required. It also lifted existing ceilings as concerns the equity share foreign capital was allowed to hold in offshore companies and lifted some restrictions on foreigners' ability to purchase non-agricultural land.

28 Under the terms of the reformed Investment Code, newly created companies (excluding those operating in the domains of trade, on-site consumption, finance, non-renewable energy, mining, telecommunications, and real estate) are provided a 100% corporate income tax holiday for the first year of their operations, a 75% holiday the second year, a 50% holiday the third year, and a 25% holiday the fourth year.

allocation[29] ; prospective job creation potential over the first three years of the investment; contributions to the value-added, competitiveness, export capacity, and technological sophistication of the economy; and contributions to regional development and environmental protection. In terms of benefits, such investments are eligible for as much as a ten-year holiday on corporate income taxes; specially reduced land lease rates (1 TD per square meter); the government's assumption of mandatory employer social security contributions for up to ten years in the case of university-educated hires; subsidies for training programs leading to employee certification; investment grants reserved for targeted regions[30] ; economic yield grants for investment into research and development; and state-financing of necessary infrastructure works.

Viewed in a vacuum, there is little objectionable about the reforms described. Leveraging incentivizes to push corporate interests toward socially and developmentally useful activities is, after all, the sine qua non of industrial policy. That the reforms failed to deliver despite their reasonable design can be attributed to two causes. First, the efficacy of the incentives installed were mitigated both by loose eligibility criteria and the decision to reinstate certain unconditional tax breaks[31]. Together, these provisions offered corporations backdoor, term-free access to the welfare regime, and in so doing, ensured reforms would have a minimal effect on investment behavior. Second, the policies in question were blind to the mediating effects that a global economy structured by liberalized capital movements were certain to have on the incentives put in place. In an era of fierce competition for foreign investment and huge redundancies at the lower rungs of the value chain, multinational corporations have little reason to respond to policies aimed at pushing them to on-shore research and development operations or share IP with local affiliates or subsidiaries: if faced with such requirements, they will simply pack up and go somewhere else. This being the case, effective industrial policy along the periphery will always need include both significant, goal-oriented public investment—so to fund the developmentally critical activities that short-term profit motives disallow—as well as conditional, non-firm specific, horizontal supports for strategic industries. The policy community's omission of these kinds of measures, in conjunction, of course, with effects introduced by security and political instability[32] , condemned Tunisia's productive sectors, manufacturing especially, to a disappointing post-2011 performance.

29 Renewable energies, agriculture, biotechnology, manufacturing, and electronic/automotive/aeronautic/maritime/railway industries are designated as the qualifying sectors.

30 These grants cap out a TD 3 million.

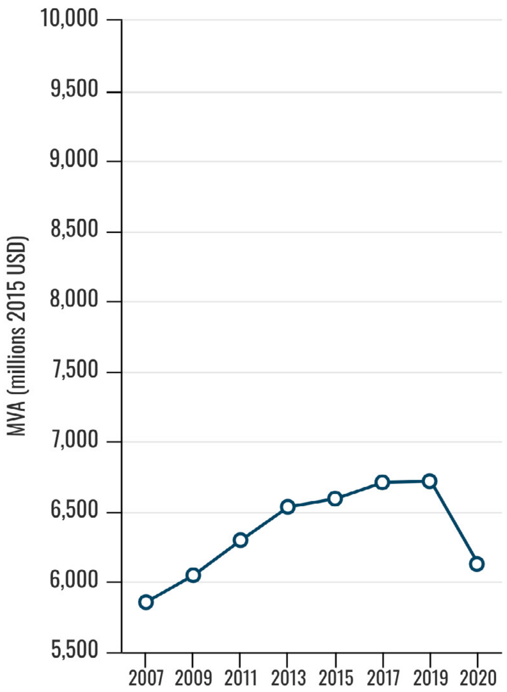
31 Specific to eligibility criteria, the new Investment Code retained language stipulating that garment manufacturers were eligible for benefits designated for projects of "national interest." As for unconditional benefits, corporate income tax rates for exportation activities remained set at 10% under the new tax code. Export-oriented firms of any kind also continued to benefit from a reduced corporate income tax rate of 15% for their non-export revenues. With some marginal differences, the system of tax reductions, customs and VAT exemptions, infrastructure support, and special grant eligibility provided to firms operating in the industrial enclaves, to agricultural investments, and in targeted regional development zones from the pre-uprisings period is still in effect as well.

32 With the exception of the extractive sectors—where FDI flows demonstrated their typically imperviousness to political risk—instability affected investment flows negatively during the post-2011 period.

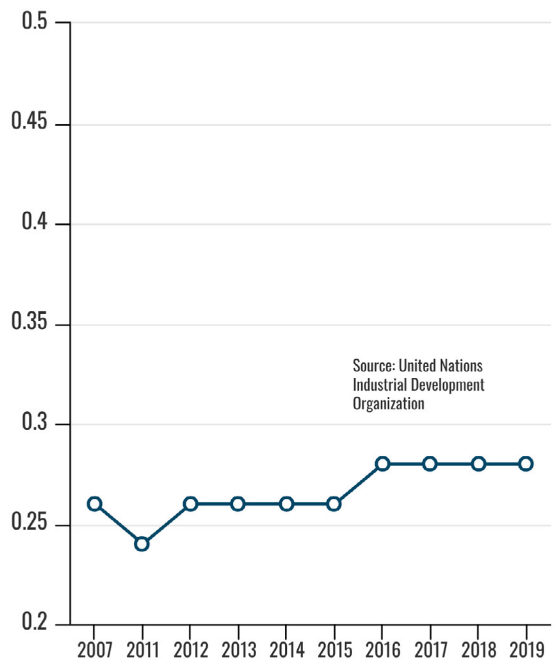
Manufacturing Slowdown

Tunisia's industrial performance has long set it apart from many peers in the Middle East and North Africa. Unfortunately, extreme competition within global value chains have combined with poor policy choices to stop the manufacturing sector's forward momentum in recent times.

Manufacturing Value Added: Post-2011 Stagnation



Share of Medium and High-Tech Manufacturing Valued Added Share in Total Manufacturing Value Added



The macroeconomic consequence of industrial and investment policy shortcomings have proven unsurprisingly profound. In conjunction with the indifference policymakers' exhibited when it came to seeking out new markets in Africa[33] and the dereliction of duty more broadly evinced by Tunisian trade representatives[34] , the inability to facilitate a move into more diverse and complex manufacturing activities would ensure that export performance remained endemically weak. This hemmed in the economy's growth potential and ability to create formal jobs while also leaving it with little means of stopping the current account's drift into deep and regular deficits once the tourism industry took a turn for the worse, phosphate and oil production ground to a halt due to the disruptive actions of the unemployed, remittances tracked downward, and the enduring misconceits of the state's food

33 As of 2019, 44.5% of Tunisia's total export income was generated from trade with France and Italy alone. Yields from trade with western and eastern Africa was effectively negligible, while exports to Maghreb nations accounted for only 7.18% total export income.

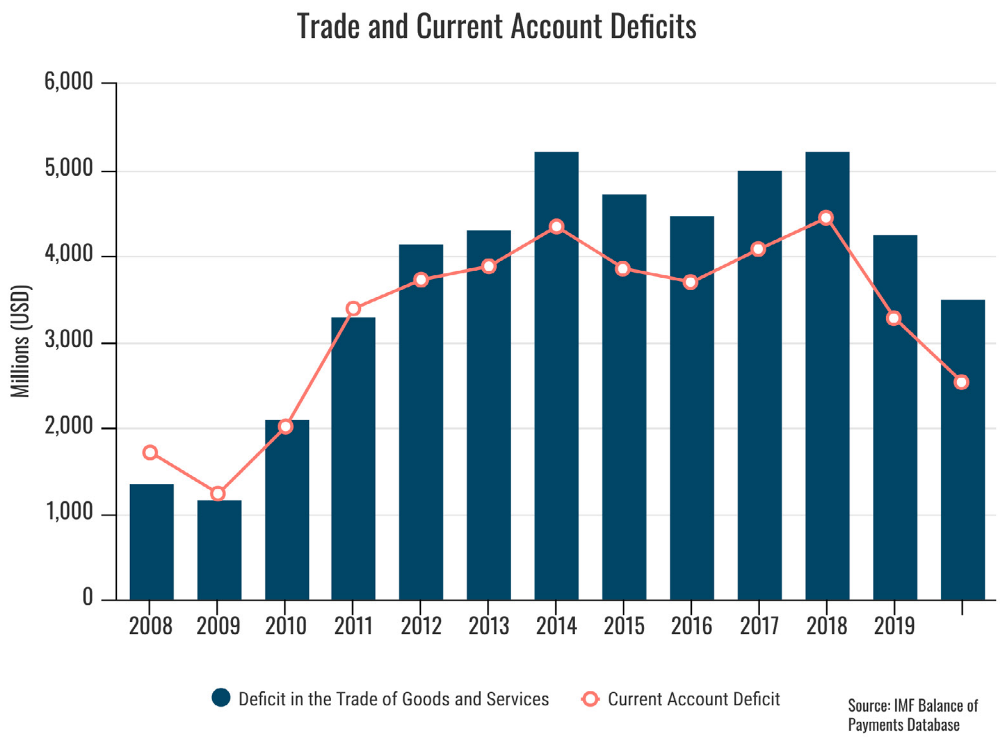
34 Personal Correspondence, Business owner of automobile part manufacturer, Tunis: 10/24/2021.

security paradigm yielded an ever-expanding food deficit (and a terrible waste of water to boot[35]). These deficits, in turn, not only made fighting off currency depreciation and with it, an inflationary spiral, increasingly difficult, but rendered officials even more beholden to foreign creditors, whose capital injections were now even more essential to staving off a balance of payments crisis.

At the root of many of the transition's most devastating economic maladies, then, stands policy-driven failures to jumpstart productive capacity.

Intensifying External Imbalance

Tunisia's trade imbalances intensified considerably in the post-2011 period. Coming at a time when its service-side surpluses--most of which derived from the tourism sector--were dwindling and remittance flows were declining, this resulted in significant current account deficits.

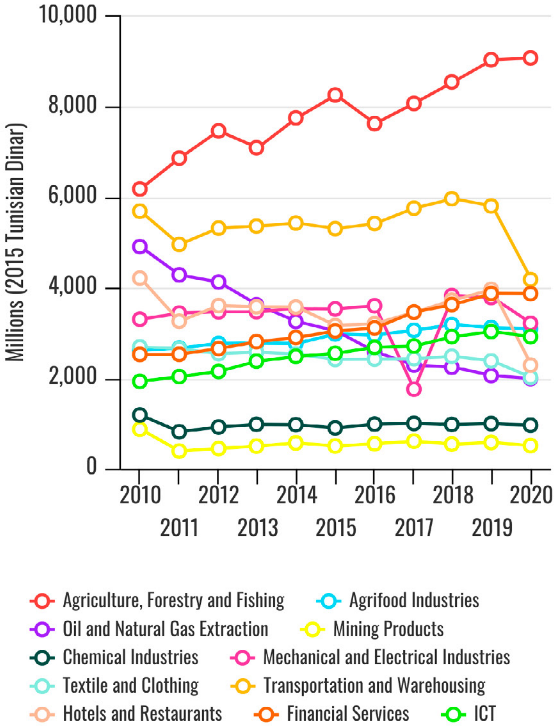


35 The illegal water pumping of export-oriented farms as well as their microclimate-indifferent seed selection have run much of Tunisia's underground tables dry and rendered non-technologically intensive family farms—unable to access the deep reserves where fresh water still exists—non-viable, propelling continuing waves of rural-urban migration.

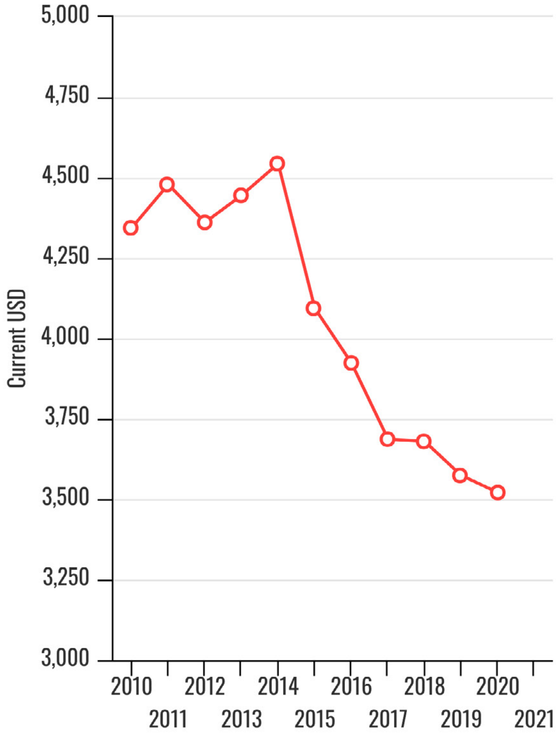
A Lost Decade

With few exceptions, most sectors of the Tunisian economy experienced significant decline over the past ten years. The sectors that have bucked this trend--agriculture/food processing, ICT and the financial industries--meanwhile, have created precious few jobs: the benefits of their growth have thereby been predominately captured by capital. The consequences of these dynamics for the labor market and the welfare of families has been significant.

Value Added by Activity Sector



GDP Per Capita



Source: Institute Statistiques Tunisie

2.4 Fiscal Policy

Finally, the book on the shortcomings of post-uprisings' economic policy cannot be closed without considering choices made as relates to the raising of public revenues and state expenditures, respectively.

Revenue System Failures

On the revenue side of things, post-2011 governments retained the general properties of the tax system laid down during the tenure of Ben Ali, though did so while also introducing measures which served to exaggerate the inherited system's distributive character. Consumption duties[36] and flat taxes on the intermediate and final sales of goods and services were not only reinstated but the rates on them increased, most recently through the Finance Law of 2018[37]. By dint of conditionalities attached to loan agreements and other forms of pressure exerted by Tunisia's multilateral creditors, the number of basic goods subjected to levies of this type and/or the rate at which their purchase is taxed were also increased iteratively throughout the past decade[38]. Contributing a plurality to the state's annual tax revenues, political leadership's reliance on these funding mechanisms have redounded to the detriment of low-income persons whose meager earnings nevertheless leave them ineligible for the targeted cash transfers currently allocated to the very poorest of the Tunisian poor[39].

Though its sociological effects emanate more from the administrative side, reforms to the design of corporate income taxes (CIT) have intensified the regressive character of the wider tax system as well. The harmonization and reduction of the general tax rate on realized corporate profits—set at 15% upon the passage of 2021's Finance Law—amounts to a more than 50% cut in tax obligations for most firms relative to 2010[40]. Tax exemptions and conditionally reduced tax rates established through the previously discussed Code d'Incitations aux Investissements—often though not exclusively benefiting export-oriented businesses owned by international investors—meanwhile, remain such that the European Council briefly listed Tunisia on its tax haven black list in 2017.

In contrast, on paper at least, post-2011 redrawings of income tax brackets have made the personal income tax system (PIT) slightly more progressive. Despite flattening rate differentials between income brackets and increasing the rate imposed on earnings between 5,000-10,000 TD per annum, in raising the ceiling on tax exempt earnings from 1,500 TD to 5,000 TD, the aggregate effect of reform was to reduce the income tax burden incurred by the median earner[41]. That being said, procedural elements and special tax code provisions related to the trading of securities[42] do function to diminish the PIT system's otherwise progressive character. Specific to the former, whereas income tax obligations of salaried persons with formal employments contracts are automatically deducted from their paychecks by their employer, those with alternative work arrangements self-file taxes each year.

36 The most relevant consumption duties are those applied to fuels, personal vehicles, tobacco, and alcohol.

37 Beginning on January 1, 2019, the standard VAT rate was increased to 19%, the reduced rate to 13%, and the rate for tourism, medical and veterinarian services (as well as paper sold to journalistic outlets) was raised to 7%.

38 Importers of fresh milk, milk flour, pure-breeding animals, devices for disabled persons, pleasure and fishing boats, and manufacturing equipment (that is not produced locally) are exempt from the VAT.

39 Targeted cash transfers are run through the National Program of Assistance for Needy Families (PFAFN). To date, the program only reaches a small fraction of those households whose income level renders them eligible.

40 One ought note that profits in the following sectors continue to be subject to a tax of 35%: banking, finance, insurance, debt collection, telecommunications, automotive dealerships, hypermarket retail, and hydrocarbon production/servicing. The local franchises of foreign brands are also subject to a 35% tax on profit.

41 Survey data gathered between March and October of 2020 by the Tunisian Institute of National Statistics and the World Bank established that 46% of Tunisian households earned less than TD 500 per month, or TD 6000 per annum. An additional 25% earn between TD 6000 and TD 12000 per annum. A median income per household of TD 6000-7000 can thereby be extrapolated.

42 Two provisions are critical in these regards. The first establishes that capital gains derived from a resident's sale of shares in the capital of a Tunisia-based company are to be taxed at a rate of 10%. The second establishes that the capital gains derived from a non-resident's sale of shares in the capital of a Tunisia-based company are to be tax exempt in the event the security in question was owned for more than one year, and taxed at a rate of 10% otherwise.

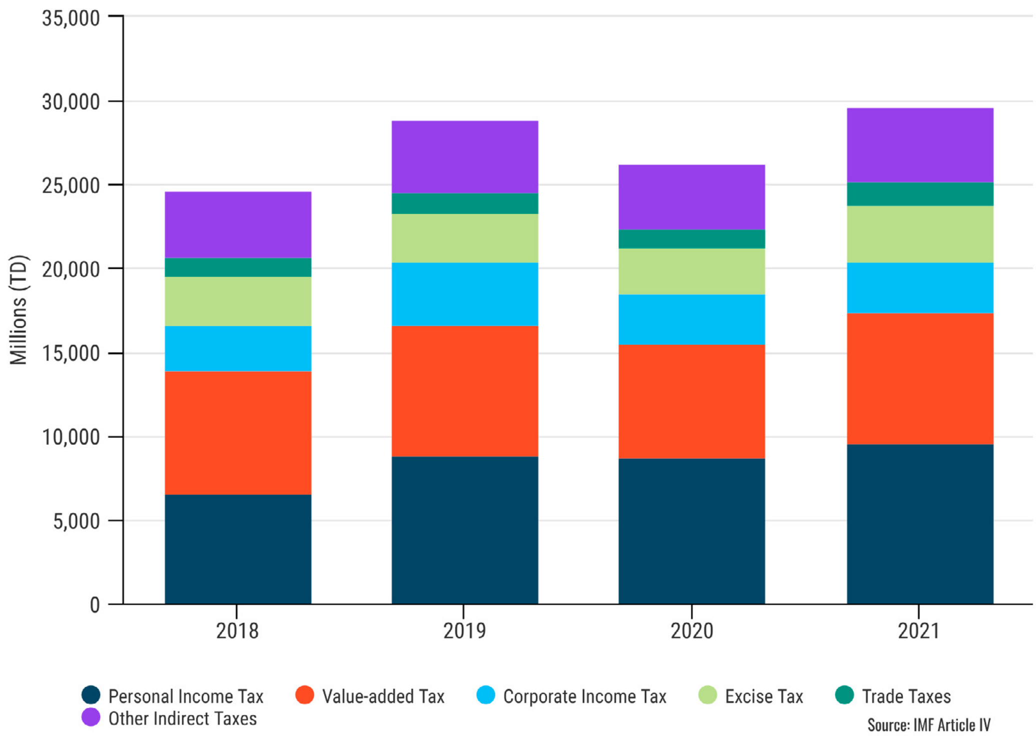
Given the limited auditing capacity of the tax administration, the result is that public sector workers and those employed by large enterprises jointly contribute in the area of 70% PIT receipts each year, while small business owners, own account workers and white collar professionals contribute sums far below what their estimated earnings suggest they should. As for the latter, notwithstanding its potential developmental utility, functionally speaking, the installment of reduced tax rates on investment earnings still constitutes a means for transferring income and wealth both upward and outward. This is due to the fact that wealthy nationals and non-nationals are far more likely to own Tunisian securities, participate in equities markets, and to derive a meaningful share of their total earnings from investments.

By consequence, taxing earnings gained through the trading of securities at a rate below the rate at which the wages of those in the bottom income bracket are levied necessarily shifts the income distribution. With political leadership also sparing these class fractions any concern with backdoor taxes on wealth[43] —and doing so despite the World Bank's Chief Economist for MENA recently stumping for the merits of these kinds of measures—tax code machinations are not unrelated to the rising inequality witnessed post-2011.

43 Transitional leadership opted to leave preexisting laws on inheritance and estate tax, property tax and capital gains realized through the sale of immovable properties unamended. Inheritance of movable and immovable goods, from ancestors and descendants, are subject to registration fees at the rate of 2.5% calculated on the basis of the inherited goods value. Should the inheritance be bequeathed by a brother or sister, the registration fee is elevated to 5%; by an aunt or uncle, to 25%; by a person for fourth degree relation (or no relation at all) at 35%. Annual taxes on property are administered at the municipal level. Individuals are also subject to a tax equal to 1.5% a properties value in the event that the property in question is not their main place of residence, used for professional activities, used for agricultural production, or in the event it generates revenues by virtue of being rented out. Capital gains on immovable properties (lands and buildings) are taxed at 10% in the event the asset was acquired more than five years before being sold and 15% otherwise. If only to drive home the prevailing approach to wealth post-2011, note that 2021's Finance Law actually lowered the tariff imposed on the purchase of yachts and sports boats, a measure rationalized by the claim that it would support the tourism industry.

The Fiscal Sociology of post-2011 Tax Policy

Tunisia's tax revenues have remained biased towards regressive levies of different type. Partially due a lack of profitability and partially due to pervasive tax evasion/avoidance, corporate income tax receipts continue to contribute a pittance to the public coffers.



Source: IMF Article IV Consultation (Feb 2021)

Consequential as matters of policy design have been, their developmental if not necessarily their distributive effects pale in comparison to those generated through policy implementation. The gravity of implementation failures stem from the state's fecklessness in combating tax evasion and avoidance. As is always the case, such fecklessness is partially a function of political contrivance. Nevertheless, it is predominantly driven by enduring bureaucratic incapacities. Despite having been on the receiving end of significant aid flows[44] and having established the National Tax Audit Programming Unit and the Brigade des Investigations et de la Lutte Contre l'Évasion Fiscale in 2017, the tax administration at the Ministry of Finance still has only 1600 tax inspectors on the payroll—400 of whom do not conduct field inspections. Understaffed to this degree, the Ministry's ability to contest fraud is, perforce, exceedingly limited.

44 The Middle East and North Africa Transition Fund, established by Tunisia's Deauville Partners, provided material support and technical assistance for upgrading the tax authorities' capacity to combat (tax) base erosion and profit shifting (BEPS) beginning in 2014. The OECD, the African Tax Administration Forum, or the African Union Commission have all provided regular trainings at the Ministry as well, and have helped officials design policy via international forums. Working with its frequent subcontractor Chemonics, USAid's $18.8 million Fiscal Reform For a Strong Tunisia (FIRST) program also claims, spuriously or not, to have trained 3,524 "key personnel."

Estimates of revenue losses incurred due to tax fraud range between $500 million and $1 billion per annum[45]. Trade misinvoicing[46] is likely responsible for a plurality if not majority of these losses, losses likely to grow in the years ahead due to the expanding volumes of Turkish and Chinese-originated goods—nominally subject to customs duties—being illicitly imported through Tunisia's ports. Beyond manufacturers from the east, counted amongst the beneficiaries of misinvoicing schemes are many of the multinational corporations operating on Tunisian soil. Through indulging in both the import and export side of trade fraud as well as other forms of legal tax avoidance, such entities cost the state $374 million in 2021 according to the Tax Justice Network, a figure roughly in line with recent trends.

Personal and corporate income tax evasion/ avoidance hurt the public coffers to a significant degree as well. A ballpark sense for the breadth of income tax evasion proper can be gleaned from the size of the informal economy—where roughly 32-40% of the labor force (or 1.092-1.6 million people) ply their trade and where nearly 40% of economic activity is hosted. While earnings for many of those working informally would place them below the threshold for taxable income, there is still a fairly significant number of small business owners and own account workers operating in the informal economy for whom this cannot be said. Offering credence to such a notion, a UGTT-commissioned study from 2014 estimated a mean annual income level of TD 18,725 for the informal sector writ large. Though such figures are skewed upward by both sampling issues and outliers at the upper bounds of the distribution and out of step with the wider literature, they do suggest that there is a critical mass of informally employed persons take home earnings of a level sufficient to be subject to income taxes. Such persons' skirting of the tax administration—and the fraud perpetrated by black market entrepreneurs[47] most especially—costs the state tens if not hundreds of millions in revenue losses each year. Revelation from the *Pandora Papers*, meanwhile, suggest tax avoidance to be a practice disproportionately indulged in by the Tunisian elite. Through the use of shell companies domiciled in offshore financial centers, these persons—including Rached Horchani, Ahmed Bouchamaoui, Ziad Miled, Mohamed Miled, Mohsen Marzouk, Sadok Mzabi, and Belhassen Trabelsi—have hid millions outside the jurisdiction of the Tunisian tax authorities.

Debt Financing Dangers

Revenue shortfalls generated by tax policy design and implementation have also engendered second order effects of distributive and developmental consequence. Most pertinent in these regards is the debt financing policymakers have regularly been forced to rely on in order to close budget gaps[48].

The distributive effects of debt financing derive from who, precisely, the state is borrowing from, at what

45 Faisal Derbal, former Ennahda MP and one-time tax reform advisor to Prime Minister Youssef Chahed, has claimed losses of $8.3 billion for the period stretching between 2011 and 2019. His estimates represent the upper bounds of the range. Public statements made by Prime Minister Najla Bouden in December of 2021—where she asserted that tax evasion cost the government amounts equivalent to nearly half the budget gap—suggests the current government believes losses to be in area of $700-750 million.

46 Per Global Financial Integrity, trade misinvoicing is a practice whereby "importers and exporters deliberately falsify the declared value of goods on the invoices they submit to their customs authorities in order to illicitly transfer money across international borders, evade tax and/or customs duties, launder the proceeds of criminal activity, circumvent currency controls, and hide profits in offshore bank accounts."
The aggregate dollar value of misinvoicing for Tunisia's transactions with the thirty-six most advanced economies in the world alone—determined by summing discrepancies in the reported values of the goods being bought and sold between countries of exportation and importation—was in excess of $6 billion per annum for the period stretching between 2009-2018. Losses thereby incurred to public revenues are, it should be said, difficult to estimate without disaggregated data on the import side of the ledger (which would enable a calculation of foregone customs and VAT income) and the export side of the ledger (which would grant insight into the magnitude corporate income tax evasion via the hiding and/or misreporting of profits). Nevertheless, it is reasonable to posit that they have totaled in the hundreds of millions for the years in question.

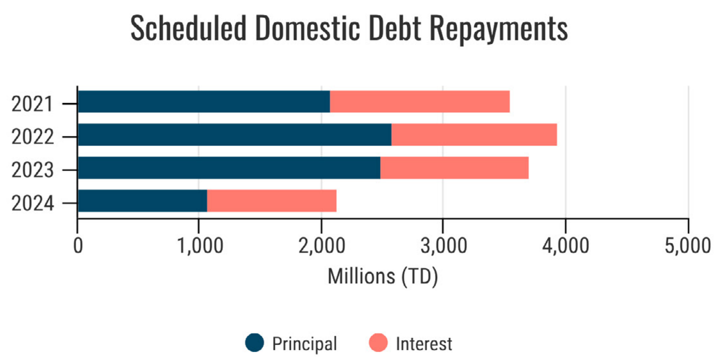
47 A number of interlocutors intimated that earnings made through the trafficking of legal and illegal products are either laundered through property and hospitality investments in Tunis or moved to financial hubs such as Singapore through informal banking intermediaries, where the money is cleaned and ultimately transferred to privacy safe havens like Switzerland.

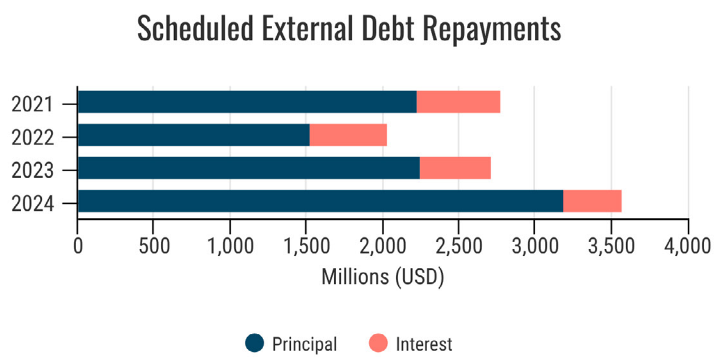
48 Between 2000 and 2017, the Tunisian general government ran an average fiscal deficit equivalent to 3.5% GDP. In the years since, fiscal deficits grew considerably: 4.5% GDP 2018, 3.9% in 2019, 9.8% in 2020, and 8.3% in 2021. The IMF projects Tunisia will run a 7.6% fiscal deficit in 2022. See: IMF Regional Economic Outlook October 2021—Statistical Appendix.

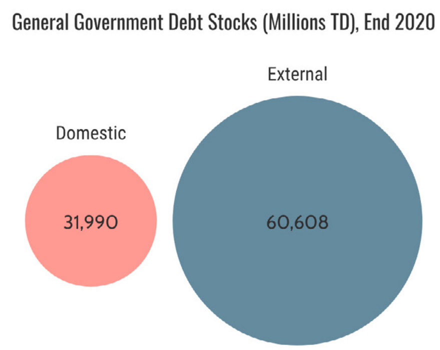
rate and at what opportunity cost. When it comes to dinar-denominated debt—which governments have disproportionately leaned on since the outbreak of SARS-CoV-2 in 2020[49] —those on the creditor end of loan arrangements (and treasury sales) are, predominantly speaking, local commercial banks. With the exception of the three partially state-owned entities—who, it should be said, collectively represent the state's largest local creditor[50] —equity in the commercial banks in question is controlled by many of the oligarchs discussed earlier in this section. The maturities of the loans extended, meanwhile, tend to be short or medium-term, and the interest rates significant. According to the IMF, gross service on the domestic debt stock of the general government exceeded TD 3.5 billion for 2021 and will edge closer to TD 4 billion in 2022. For both the years referenced, the interest share of debt repayments will be in the area of TD 1.4 billion[51].

The Social and Developmental Costs of Debt Repayments

The external and domestic debt stock of the Tunisian state has grown immensely since 2011. Though smaller in volume, domestic debts come with far higher interest rates. Paying them off introduces sizable distributive effects, and, in conjunction with the resources that need be devoted to external debts, leaves governments unable to undertake the capital spending that is so desperately needed.







*Note: the external debt stock does not include the debts of state-owned enterprises, many of which are guaranteed by the general government, and which amount to TD 23.5 billion

Source: IMF Article IV Consultancy (February 2021)

49 The state's domestic borrowing reached TD 11.126 billion in 2020 and TD 5.58 billion in 2021. Most the loans and bonds in question were of short or medium maturity lengths.

50 This is both by virtue of their lending to the state itself and to state-owned enterprises.

51 The central government is also scheduled to make debt payments denominated in USD to domestic banks of $680 million in 2022.

Borrowing to fund public spending to this degree, on these terms, and from these parties ultimately implies a significant, class-biased transfer of wealth. At one stage or another, after all, the buck of sovereign debt repayment obligations stops at the Tunisian tax payer, whose future income streams must be garnished through taxes in order for the state to make good with its creditors. To the extent that the tax system burdens low and middle-income families disproportionately, the distributive effects of debt-financed public expenditures thereby emanate from two ends. On the one hand, they precipitate relative declines in wealth for working people; on the other, they facilitate relative increases in wealth for those who own the commercial banks. Even if debt-financed public expenditures ultimately have a progressive bent, their financing dictates that their social consequence is likely to be regressive. To the extent that a vast, vast majority of the debts incurred in recent times have been used merely to pay off existing debts, this regressive effect has become increasingly pronounced.

There are also more immediate developmental consequences to consider. Favorite argument of the World Bank though it may be, it is nevertheless true that Tunisia's debt financing of government spending has indeed functioned to crowd out private investment. By providing the domestic banking sector—disinclined to undertake productive investment to begin with—with a source of low risk, high yield returns, after all, policymakers guarantee profitability while sparing any need for investing in the real economy. In loading up the balance sheets of Tunisian commercial banks with yet another relatively high risk asset class—the sovereign debt of a deeply indebted state—governments' funding strategy has also increased the risk of a system-wide financial crisis substantially. The risks of such a crisis already being high due to the banking system's sky-high and significantly undercounted[52] non-performing loan (NPL) ratio, this is akin to adding kindling to a pit already filled with tinder. Factoring in the myriad corrosive effects introduced by the state's foreign borrowings—consequences discussed at length in Section Two—the full ledger of post-2011 debt-financing becomes rather immense.

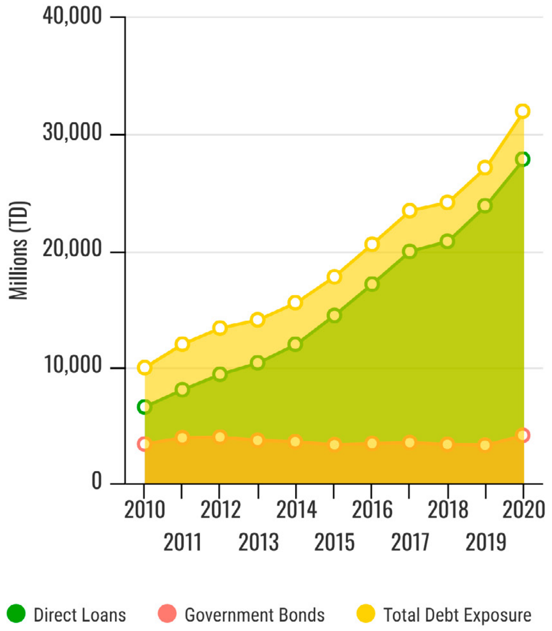
52 Abatements on debt repayment obligations introduced in March of 2020 means many of the banks debtors' currently in default—and almost certain to stay in default in the future—are not yet counted as such. Fitch estimates the actual NPL ratio is currently between 16 and 18%. An NPL ratio above the high single digits is generally thought to present systemic risk to a banking system.

Dysfunctional Credit Intermediation

In helping underwrite the fiscal deficits run up during the post-2011 period, Tunisia's commercial banks have grown increasingly exposed to government debt. This exposure has heightened financial system risk: according to S&P, Tunisian banks' direct exposure to sovereign debt--a measure that excludes their exposure to the debts of SoEs--was already equivalent to 13.2% total assets as of November 2020. After the state borrowed an additional 5.58 TD billion in 2021, that percentage jumped a few points higher.

To some extent, the banks' moves into the sovereign debt market have also crowded out long-term lending to tradable sectors.

The Financial System's Exposure to Domestic Sovereign Debt



Bank Lending to the Economy (Millions TD)

Description	2018	2019	2020
Agriculture and Fishing	2745	2910	3090
Short Term	1581	1671	1840
Medium & Long Term	1164	1239	1250
Industry	24510	25017	25785
Short Term	17490	18067	17425
Medium & Long Term	7020	6950	8360
Services	37773	40315	44223
Short Term	18321	19735	20399
Medium & Long Term	19452	20580	23824
Consumer Loans	12889	12774	13750
Housing Loans	11071	11279	11702

Source: Central Bank of Tunisia

Viewed holistically—in design and implementation—the revenue strategies adopted by Tunisian governments over the last ten years are decidedly suboptimal in their social and developmental impact. Indeed, choices made in this domain have served to facilitate income and wealth polarization, push the state into increasing dependence on foreign and domestic lenders, convey outward flows of capital, underwrite credit market dysfunction, heighten financial system risk, and limit governments' capacity to mobilize significant interventions in the economy. Given the breadth of impact, revenue strategies can be seen to have had a near constitutive effect on the transition.

Disappointing Yields from Public Expenditures

On the other side of the fiscal ledger, choices made concerning the allocation of public expenditures have also impacted both Tunisia's developmental outlook and the long-term health of the state. Most salient in these regards have been decisions concerning public sector hiring, security spending more generally, and food provision (broadly defined).

Specific to the first such decision, post-2011 recruitment to the public administration—inclusive of central and municipal government bureaucracies—saw the roster of state employees grow from 430,000 to 645,000 as of 2017. Settling thereafter, this jump of nearly 50% over five-odd years resulted in roughly 7.4% of the working age population and 18.5% of all those employed coming onto the general government's books, and translated to a wage bill equivalent to 17.4% GDP in 2020. Necessary in order to cover its sizable and growing deficits, transfers to the public sector pension system—which exhausted its reserves as of 2013—annually amount to approximately 0.4% GDP, while allotments for health and transportation benefits account for roughly 0.36% GDP per annum. If the full financial costs of benefits provided at the upper end of the civil service were accounted for—those earning in access of TD 1500 have traditionally been afforded an official vehicle—aggregate spending on the state's workforce might push 20% GDP.

Then there are the employees of state-owned enterprises to consider. Responding to the same stimuli as the civil service, these firms initiated their own hiring campaigns post-2011 and as of 2017 had 190,000 persons on payroll. Commanding a considerable higher wage premium as compares to government workers proper—34% to 18.2%, according to the IMF—aggregate compensation to SoE employees is likely in and around 6% GDP. While one can make the case for the expenditures of SoEs being excluded from an analysis of public spending due to these firms' retention of operational and partial financial independence, the fact that the general government has guaranteed their debts to the tune of 15%+ GDP and transfers sums in excess of TD 500 million to those in the transportation sector each year dictates that they must be factored in to some degree.

Accounting for opportunity cost, post-2011 expansions to the payrolls of the state and state-owned enterprises have almost certainly had a net negative impact on growth. Contrary to claims frequently put forth by Tunisia's creditors, this has less to do with public sector employment in and of itself. Rather, it is attributable to the kind of employment policymakers allocated public resources toward.

Regarding the civil service, hiring programs launched during the early stages of the post-uprisings' period amounted to little more than a mechanism for the distribution of patronage. Compromised by politicized rationalities, the Union Tunisienne du Service Public et de la Neutralité de l'Administration would find that 90% of all nominations to the public sector overseen by the Troika government between December 2011 and February 2013 were determined on the basis of partisan, regional or familial associations, employment criteria that redounded to the benefit of Ennahda supporters most especially. In view of the reasoning which informed these campaigns, that their yield included abundant redundancies and rampant absenteeism is likely unsurprising[53] , the combined effect of which would drive the labor productivity of public sector employees down by 10% as of 2015.

With little thought put into training, promotion and assignment procedures, post-2011 expansion to the public sector work force engendered marginal if not negative results for public service quality as well. Despite devoting 22% of total expenditures to ministries involved in the wider portfolio of public education, for instance—moneys which boosted the Ministry of Education's roster of employees to 170,000+ and which brought teacher to pupil ratios down to a 17.2 in primary education and

53 A study conducted by the Ministry of Public Service, Governance and Anti-Corruption in 2016 estimated the rate of unjustified absenteeism in the public sector in the area of 60%.

11.9 in secondary education—no progress was made in improving dropout and repetition rates, particularly in low-income governorates, and student performance on international evaluations actually declined. Nor did the return of the state birth the meritocratic bureaucracy of planners and regulators that Tunisia so desperately needed. By dint of political indifference and compensatory schemes rendering state employment unattractive for the highest skilled workers, the transition would fail to on-board the engineers needed to repair decaying infrastructure or the economists needed to guide the country toward new developmental horizons. By the same sword would Tunisia also lose many of the doctors which its public universities had produced to emigration, an especially costly source of brain drain in an era of pandemic.

The return on investment was similarly low for the state-owned enterprises. During the transitional period, jobs were created and distributed predominantly by those entities which had previously generated significant revenues from extracting the resources found in places like Gafsa, Tataouine and Sidi el Kilani. If this helped superficially right the wrongs yielded by decades of accumulation by dispossession dynamics and redirect some capital into the interior, it did precious little else. The jobs in question were devoid of economic function, their primary purpose being to pay off potentially recalcitrant populations in the here and now[54]. To the extent that they ultimately proved insufficient in buying social peace—President Caid Essebsi's effort in declaring mining sites military areas notwithstanding—the upshot was merely to increase the recurring expenditures of firms henceforth facing enormous declines in production. Limited to these initiatives and others aimed at squeezing a few more jobs out of suppliers granted monopolies by the state, the growing of Tunisia's SoEs would produce none of the export-oriented manufacturing or ecologically sustainable activities that the economy was in such desperate need of. Like with state employment proper, though proffering a mechanism for redistribution (albeit not an especially efficient one) and juicing aggregate demand to some degree, the multiplier effect of SoE hiring has been low. In view of the other ways with which the public's indelibly scarce resources could have been allocated, eating up nearly half annual budgets on a wage bill generating such limited returns was far from optimal.

The same can be said of on and off-budget spending on security. After being hiked 15% in 2015, funds earmarked for the Ministries of the Interior and National Defense have remained skyhigh. For 2022, the budget of the former is projected to reach TD 5.4 billion and the latter TD 3.6 billion. Leaving aside significant off-budget allocations[55] , these allotments alone represent just short of 20% of the total budget for the year. The international community is obviously implicated in Tunisia's defense-related expenditure decisions, both by virtue of the priority they have placed on counter-terrorism and migration control in dealing with the country's leadership and their direct earmarking of aid funds for these purposes. Be that as it may, the economic yield per dinar of the billions allocated to the various appendages of the Tunisian security state, like those allocated to any other security state, is smaller than virtually any other area of government spending. To devote a fifth of on-budget spending and upwards of TD 6 billion per year in off-budget expenditures to these line items has been equivalent, in many ways, to finance one's own dedevelopment.

Though not a failure of price stabilization and food subsidies themselves, finally, the aforementioned misconceits of food security policies have resulted in these measures becoming incredibly fiscally costly. This stems from the lack of domestic productive capacity, which forces Tunisia to import roughly 50% of cereals used for human consumption and 60% of those used for livestock feed per annum, and as of 2021, 90% of the soft wheat used for bread production. For the duration of the transition, such grain dependence put immense strain on the Caisse Générale de Compensation (CGC). Even

54 The Compagnie de Phosphate de Gafsa estimates it pays 13,500 non-working employees.

55 Reliable estimates of off-budget security spending are difficult to find. Nevertheless, most observers believe them to be such as to drive the annual deficit of state security institutions into the area of TD 2-6 billion.

after dropping a majority of consumer goods from the list of subsidized goods and doing away with industry subsidies on sugar and vegetable oil, the volume of Tunisia's grain dependence would combine with a weakening currency and increased prices on international markets to drive the CGC's subsidies bill from TD 730 million in 2018 to TD 1.8 billion in 2019. Once the prices of grains spiked even further due to supply shocks brought on by SARS-CoV-2—with the price of soft wheat tipping $310 per ton on international commodities markets in December of 2021—the CGC's outlays would have to be increased higher still. With Russia's invasion of Ukraine in February of 2022 prompting a historic drop in global grain supplies (and commensurate increase in grain prices), Tunisia now faces the coalescence of food and fiscal crises.

With a significant majority of public spending devoted to the items just discussed and debt servicing eating up another 16-20% annually, there has been precious little budget left for more developmentally useful current expenditures, never mind capital expenditure. In an era when leakages attributable to infrastructure laid down fifty years prior are causing 30-50% water supply losses in particular regions—and one during which SONEDE, the state-owned utilities company responsible for repairing these issues, has been subject to brutal disinvestment from the state—the costs of these foregone capital expenditures already have become existential. As interest payments on external and domestic debts alone are poised to exceed 19% projected public expenditures as of 2024, their consequence is likely to be heightened further in the years ahead.

Tunisia's transitional leadership inherited an economy that was thoroughly ensnared by the middle income trap. Conditions imposed by the country's subordinate positioning within global systems of finance, production and exchange made prospects of their leading a great escape slim from the start. Be that as it may, it was still incumbent that they use policy to spur leaps toward the global technological frontier, create an environment conducive to the upgrading of export complexity, and bolster domestic productive capacity more generally—especially in the area of food. In view of the size of the country's surplus populations, it was critical as well that tax and social protection policies be used to redistribute income domestically and provide greater security for millions of vulnerable people. Poised as small though dominant fraction of local capital was to impede such efforts or any wider movement towards greater competition, it was also necessary that they address the power of the country's oligarchs and the enormous, family-owned holding companies they possessed.

Unfortunately, Tunisia's leadership largely forewent these kinds of policy initiatives. Instead, they implemented a regime which toggled back and forth between partial and uneven liberal reform, pandering to foreign investors, traditional cronyism, and old world, developmentally-blind efforts in buying social peace. The incoherent combination delivered unsurprisingly poor outcomes. Depriving the democracy of output legitimacy, it made the events of July 25th possible as well.

3. Conclusion

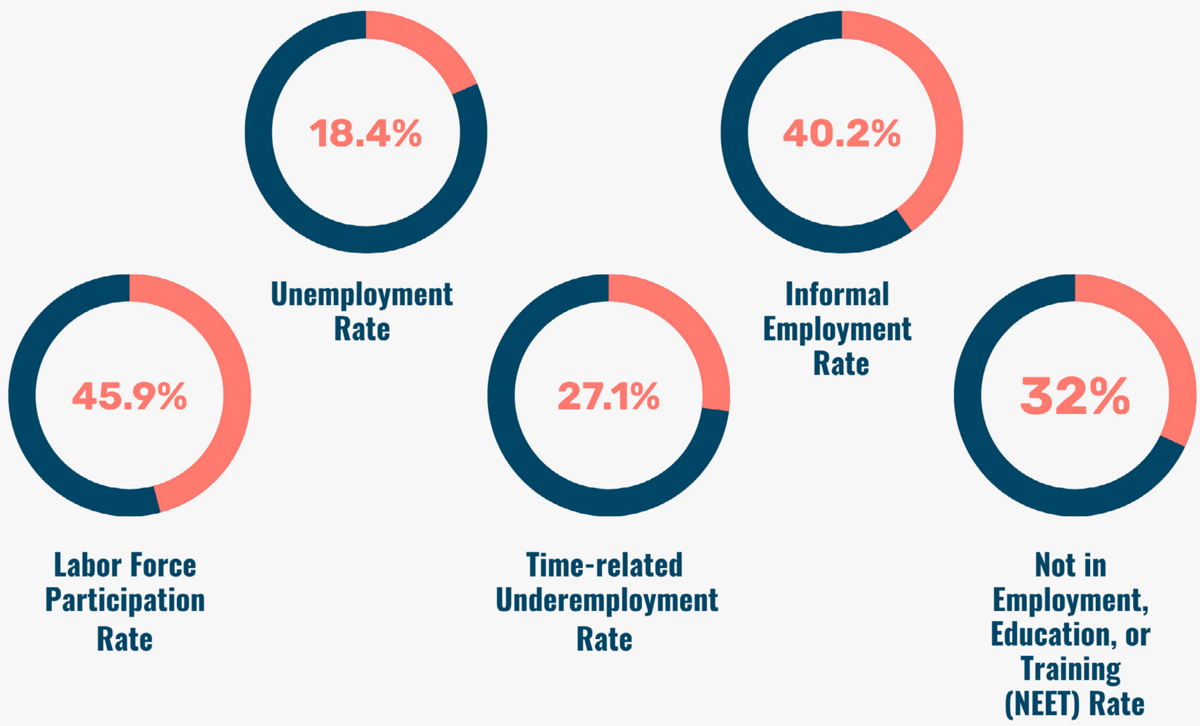
Tunisian democracy collapsed fairly swiftly during the second summer of the coronavirus. For many of those charged with interpreting maladies from distant capitals, both the rapidity with which things unwound on July 25th and the ambiguous popular response that initially followed would strike as confounding—thunderbolts from a clear sky, as it were.

Outcomes born of conjunctural causation, surely, but unknowable mysteries of nature these events were not. Most certainly implicated in their coming to pass was an accumulation of discrete political failures—prominently, the non-appointment of a constitutional court, the non-subordination of the domestic security forces, and the animus that animated inter-party relations throughout the transition. The same can be said of the contingencies of history, none more weighty than the delusion and folly of the man who carried out the final deed: Qais Saied.

It strikes as equally true, however, that absent specific socioeconomic preconditions, a man like Qais Saied never would have been able to rise to the office that he came to occupy in 2019 in the first place, and therefore never have been able to do what he did in July of 2021. That the preconditions in question might inform the wait-and-see approach adopted by large segments of the public as Saied went about sweeping the gains of the 2010-2011 uprisings into the dustbin seems exceedingly likely as well. All of which brings us back to the matters of dedevelopment engaged in this report.

As we have detailed, the coalescence of exogenous shocks, externally imposed restraints and domestic folly meant the past ten years were deprived of both growth and significant redistribution. Underperformance in these areas became politically salient through labor market and income effects. Enduring deficiencies on the demand side of the labor market meant the volume and quality of job creation remained woefully inadequate throughout the duration of the past decade, condemning a significant majority to the indignities and precarity of unemployment, underemployment informal employment and economic disengagement. Compensation being at least loosely tied to productivity, the private sector's malaise simultaneously kept wages outside the orbit of the state low while inflation erased much of the gains yielded by minimum wage hikes and collective bargaining. The despair which came to pervade the lifeworlds of millions as a result of disassimilation and declining household spending power manifested socially in a number of harrowing ways. Through one channel or another, the experience of deprivation and unmet expectations would undergird an uptick in suicide and school dropout rates. It annually pushed tens if not hundreds of thousands to risk a crossing of the Mediterranean by sea as well.

A Labor Market in Prolonged Crisis



Sources: Sources: ILO Estimates 2019 & 2021; Institute Statistiques Tunisie 2021 Q3; Tunisia Labor Market Panel Survey 2014; ITCEQ 2019

Despair would catalyze many corrosive if predictable political responses, too. By 2014-2015, politics and the more diffuse concept of the *political* had each been thoroughly sullied, deemed corrupt and corrupting by a significant majority of the population[1]. The ripple effects of a common sense thusly swayed saw those institutions and organizations which appeared to have consolidated influence during the transition be tarnished with the delegitimating brush of *politics*, whether they were expressly political in their nature or not[2]. Even organizations nominally above the fray and on the side of *the people*—the UGTT and Union of the Unemployed, for instance—came to inspire resentment and distrust, their efforts in mediation rejected and their presence amongst popular forces made increasingly unwelcome.

The spread of disaffection prefigured the emergence of something worse: what Hochuli, Hoare, and Cunliffe call anti-politics. In Tunisia as anywhere else, anti-politics emanated from a diagnosis fundamentally noxious to the prospects of democracy: namely, the (learned) notion that representative systems can neither arbitrate disparate interests nor advance collective needs. Corroborated both in the documented ineptitude, corruption, and parochialism of the Assembly of Representatives and in the steady welfare losses experienced by so many over the course of ten years, this was a diagnosis which first drove much of the Tunisian demos away from the vertical organizing and organizations that were necessary to win and use power. More than impel the turn to non-programmatic, localized forms of popular struggle—a development that in and of itself ensured the endurance of an enervating status quo—it was also this diagnosis that for many seeded the desire for a more direct communion with government. The door to Qais Saied's putsch was thereby opened.

In promising to drain the swamp and inaugurate a less mediated relation between governor and governed, after all, the President (knowingly or unknowingly) spoke to the misguided albeit understandable wishes of a great many. That Saied exhibited palpable ignorance of the economy's ills and proposed almost childish fixes for the problems he did see—requesting, for instance, that merchants voluntarily reduce prices out of some sense of national duty—ultimately would not matter in context of a public so profoundly alienated. And by the time something resembling a critical mass recognized that the President had marched them into the unknown without map or destination, it would be too late. The damage was done: parliament and constitution were gone, civil liberties annulled, security forces again ascendant and the IMF readying its return.

For all hoping Tunisia may one day find its way back to a more promising path, it is imperative that the one the country just walked be better understood. This requires interrogating the antecedents that were necessary for the political ruptures of this past summer to occur. By diving into the developmental failures of the past ten years, it is our hope that this report has contributed to this urgent analytical task. Until the time should come where the external and internal impediments to a more prosperous and equitable society are removed, it is difficult to imagine how democracy will ever thrive at the fountainhead of the Arab Spring.

1 Survey data from the Arab Barometer Wave IV (2016) established that 71.8% of Tunisians had little to no trust in the parliament and 80.1% had little to no trust in the country's political parties. Things improved little in the years since. Data gathered as part of Arab Barometer Wave V (2018) showed that 65.1% of the population had no trust at all in the parliament and 71.9% had no trust in the country's political parties. Arab Barometer Wave VI Part III (March-April 2021) showed that 70% of the Tunisian population believed state institutions and national agencies were compromised by high levels of corruption and that 62.3% had no trust at all in the Council of Ministers.

2 This spread of disaffection even affected civil society organizations (CSOs). Per Arab Barometer Wave, 56.6% of Tunisians had little or no trust in CSOs as of 2018.

Appendix: Rights Conferred onto Foreign Investors

1. External Arbitration

Since 1966, the Tunisian state has accepted the legal primacy of dispute resolution and conciliation processes administered by International Centre for Settlement of Investment Disputes (ICSID), an institutional appendage of the World Bank Group. Upon the ratification of the UN's New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards in 1967, Tunisia also pledged itself more generally toward enforcing "arbitral awards made in the territory of a state other than the state where the recognition and enforcement of such awards are sought...in accordance with the rules of procedure of the territory where the award is relied upon." The adoption of the United Nations Commission on International Trade Law's (UNCITRAL) Model Law on International Cooperation Arbitration in 1993 saw the state's obligations toward non-ICSID investment dispute settlement forums (ISDS) lent greater specificity[1]. Around the same time, the legislature also formalized the terms of the state's subordination to external arbitral bodies in domestic law through instituting reforms to the Tunisian Code of Civil and Commercial Procedures[2]. Though these reforms grant the Court of Appeals in Tunis the authority to refuse *exequatur* of rulings and awards reached through external arbitration process under specific conditions, the Court interprets this mandate very strictly in practice. In addition to allowing foreign

1 The most trafficked of these forums are those hosted by the Permanent Court of Arbitration, the Stockholm Chamber of Commerce, and the International Chamber of Commerce.

2 Many of these reforms were instituted via Law 93-42 of April 1993, which brought a new Arbitration Code into effect.

investors recourse to the arbitration mechanisms listed above, one ought note that Tunisian law also affords them the right to seek judgment under non-national courts in many instances[3].

Multilateral international investment agreements (IIAs)[4] and fifty-five bilateral investment treaties (BITS)—thirty-nine of which are currently in force—have added the conditions under which particular non-national investors can seek satisfaction via external arbitration hearings. Most conditions concern the direct and indirect expropriation of assets. The legal concept of indirect expropriation is ambiguous enough so as to render any state action resulting in the substantive deprivation of the value of an investment or the loss of present and/or expected future profits contestable through external arbitration. Regarding multilateral IIAs, one ought note that Tunisia is signatory to agreements containing provisions known as "umbrella clauses", which oblige the state to "honor any commitment or agreement they undertake with foreign investors of their IIA's counterparty, thus essentially elevating any contractual breach by host states as a violation of their IIA's treaty obligations." As for BITs, one ought note that the investment-state dispute mechanisms established under bilateral trade and investment treaties—including those Tunisia is signatory to—grant foreign corporations broad substantive rights in considerable excess of the property rights afforded domestic firms under United States' law.

3 Per Herbert Smith Freehill's 2016 Multi-Jurisdictional Review: "It is possible to enforce a foreign judgment in Tunisia by leave of the Court of First Instance (also called exequatur) at the place of residence of the defendant or, where applicable, the place of enforcement. If the defendant does not have an address in Tunisia, the action will be brought before the Court of First Instance in Tunis. However, this court will not give leave to enforce the judgment unless: (i) it was made by a competent court in the relevant jurisdiction (ii) the judgment is enforceable under the law in which judgment was rendered and final (iii) the parties have been properly represented
(iv) the decision is not contrary to Tunisian public policy. The "public policy" exception is understood in this context as the public policy of Tunisian international private law, which refers to the fundamental choices of the Tunisian legal system."

4 Articles XXII and XXIII of the General Agreement on Trade and Tariffs (GATT) of 1994—articles that were retained and unamended within Article VIII of the World Trade Organization's Agreement on Trade-Related Investment Measures—specifies signatories commitments toward dispute resolution mechanisms.

2. Intellectual Property Protection

Tunisia's legal obligations toward intellectual property protection were first introduced through the country's accession to international organizations and signing onto multilateral treaties. Most pertinent in these regards are the country's joining of the World Intellectual Property Organization and World Trade Organization (WTO) and signing on to the Paris Convention on the Protection of Patents, the United Nations Conference on Trade and Development Agreement on the Protection of Patents and Trademarks, and the Madrid Protocol for the International Registration of Marks. WTO membership obliged Tunisia to bring domestic law into compliance with the minimum standards delineated through the organization's Trade-Related Aspects of Intellectual Property (TRIPs) agreement, which it did with the passage of 2009's Intellectual Property Law. Though not-insignificant in its legal implications, the invasiveness of the TRIPs agreement on Tunisia's domestic policy space ought not be overstated. The minimum standards and general terms the agreement imposes on signatories actually afford wide discretion when it comes to implementation and legal interpretation of standards[5]. That said, auxiliary obligations incurred through acts of domestic volition and Tunisia's entrance into an assortment of bilateral trade and investment have limited recourse to this discretion considerably. Specific to the former—and despite the judicial authorities having already been lent considerable teeth when it came to the policing of counterfeitting[6] —policymakers in the post-uprisings' years opted to deepen the state's duties toward intellectual property protection through rendering them a constitutional imperative via the inclusion of Article 41 in the 2014 constitution[7]. Policymakers also made the choice to establish a specialized intellectual property court that same year, which has "significantly increased the speed and quality of legal enforcement decisions for the US clients, with numerous high-profile wins for companies claiming trademark infringement in connection with counterfeit goods."[8] As for the latter, though Tunisia had been spared the mercantalist TRIPS-Plus provisions that the European Union and United States began imposing upon economic partners through the weaponization of bilateral negotiations starting in the mid-2000s onward, policymakers in 2016 nevertheless took the odd step of taking on some of these more expansive obligations all the same, and without having come to terms on new comprehensive trade or investment treaties. They did so by signing an agreement with the EU that established automatic patent protection in Tunisia for European patent applications through the European Patent Organization.

5 The TRIPs agreement affords considerable interpretive discretion as concerns competition law and the concept of "invention", the latter of which could be used to reject patent applications. The abundant use of language like "reasonably", "unreasonably", "unjustifiable" and "unjustifiably" in defining obligations and the conditions within which they can be violated affords states another source of interpretive leeway.

6 The 2009 law in question established a minimum fine of 10,000 Tunisian Dinar for counterfeiting, and empowered customs agents to size suspected counterfeit goods at their own discretion.

7 In material terms, at the time of writing, the National Institute for Standardization and Industrial Property and associated bodies at the Ministry of Justice are charged with protecting patents for twenty years, trademarks for renewal periods of ten years, and industrial designs for up to fifteen years.

8 See: https://www.trade.gov/country-commercial-guides/tunisia-protecting-intellectual-property

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