

# Critical Crossroads: Tunisia's Choice between a Comprehensive EU Partnership and Economic Collapse

by Ghazi Ben Ahmed

Since the International Monetary Fund (IMF) and the Tunisian authorities reached in October 2022 a staff-level agreement to support Tunisia's economic policies, Tunisian President Kais Saied has been standing at the Rubicon. Lacking a vision to revive the Tunisian economy, President Saied has opted for a strategy of diversion and scapegoating. By blowing on the embers of xenophobia among his supporters and more recently by stoking the flames in the Middle East, he continues to deflect attention to conceal his economic short-sightedness and claims autonomy from foreign – mainly European – aid, in the name of sovereignty. This posture has now trapped him in his own rhetoric at a time when the Tunisian economy struggles without signs of recovery or resilience in a challenging regional and global landscape. Time is ticking, the situation remains grim, and the country may miss another opportunity to resume economic growth.

## *A country on the verge of economic collapse*

The risk of economic collapse in Tunisia is real. Tunisia is currently undergoing severe financial losses and grappling with significant economic hardships, finding it challenging to restore its financial reserves. The Tunisian government's negotiations with the IMF for a 1.9 billion US dollar loan hit a roadblock when Kais Saied rejected the agreement, labelling it as foreign "diktats" "that come from abroad and cause only more impoverishment",<sup>1</sup> for fear of increased unpopularity and social unrest from the requested subsidy reforms and restructuring of the country's public sector.

<sup>1</sup> Tarek Amara, "Tunisia President Rejects IMF 'Diktats', Casting Doubt on Bailout", in *Reuters*, 6 April 2023, <https://www.reuters.com/world/africa/tunisian-president-rejects-imf-diktats-says-public-peace-not-game-2023-04-06/>; Souhail Karam, "Tunisian Bonds Plunge After Leader Rejects IMF's 'Diktats'", in *Bloomberg*, 6 April 2023, <https://www.bloomberg.com/news/articles/2023-04-06/tunisia-leader-rejects-imf-diktats-preaches-self-reliance>.

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As a result, concerns sparked among Tunisia's international partners. The High Representative of the EU, Josep Borrell, described the situation in Tunisia as "very dangerous" and feared a "collapse"<sup>2</sup> – a sentiment echoed also by his US counterpart, Antony Blinken, who mentioned that the country "risks falling off the deep end".<sup>3</sup>

Tunisia doesn't have many alternatives left to provide a lifeline to its economy. Its needs are substantial, and it will find it challenging to continue to rely on Saudi Arabia or Algeria. And the President's pledge to crack down on corrupt businesspeople and retrieve 13.5 billion Tunisian dinars (4.8 billion US dollars) "stolen from the people" has failed so far.<sup>4</sup>

The time for reflection has not simplified the alternative: even though Tunisia depends on external sources for financing its economy and repaying deadlines, including the one in February 2024 (850 million euros), the option of negotiating with the IMF appears politically unacceptable for Kais Saied at this stage, especially in view of the forthcoming presidential elections in November 2024 – if maintained.

Tunisia's socio-economic situation is so precarious that it risks igniting at the slightest misstep.

To be sure, Tunisia possesses both the necessary ingredients (skills and human resources) and the capacity to revitalise its economy and become a "Mediterranean tiger." However, this potential has largely remained untapped since the dawn of its 2011 uprising. Worse, the Tunisian industrial fabric is under threat especially since Kais Saied has taken all the powers. The business environment has been marred by corruption and numerous other hurdles, creating an atmosphere that is not conducive to significant investment and the establishment of enterprises. Furthermore, the Tunisian President has considerably increased pressure on the wealthy in a desperate search for fresh funds. At the same time, small and medium enterprises have suffered significantly due to the absence of clear rules and widespread corruption.<sup>5</sup> Reforming and establishing external partnerships are crucial steps towards mitigating the challenges encountered by the private sector in Tunisia.

### *Tunisia's needs – and how the EU may support them*

The country needs to attract investments in innovative entrepreneurship and implement new financing models, given the dire state of Tunisian businesses at present. Sales are concentrated in a small local market,

<sup>2</sup> European External Action Service, *Foreign Affairs Council: Press Remarks by High Representative Josep Borrell at the Press Conference*, Brussels, 20 March 2023, [https://www.eeas.europa.eu/node/427338\\_en](https://www.eeas.europa.eu/node/427338_en).

<sup>3</sup> AFP, "IMF: Potential Bailout of Tunisia in Question", in *VOA Africa*, 26 July 2023, <https://www.voaafrica.com/a/7198521.html>.

<sup>4</sup> Francesca Ebel, "Tunisia: President Vows to Fight Corruption, Retrieve Stolen Money", in *Middle East Eye*, 29 July 2021, <https://www.middleeasteye.net/node/221026>.

<sup>5</sup> Hayet Kaddachi and Naceur Ben Zina, "The Impact of Corruption on Economic Growth in Tunisia: Application of ARDL Approach", in *MPRA Papers*, October 2022, <https://mpra.ub.uni-muenchen.de/114869>.

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where purchasing power is diminishing day by day, and opportunities for development and internationalisation are limited by existing legal, administrative and financial obstacles.<sup>6</sup> All of this happens in the absence of reforms that could help navigate the crisis in the short or medium term. To mitigate this vulnerability and avoid a complete economic collapse, it is crucial for Tunisian businesses to pursue international diversification in the short term.

Last year Italy has become Tunisia's leading trade partner.<sup>7</sup> Italy could therefore play a pivotal role in enhancing Tunisia's integration into international trade through greater participation in global value chains (GVCs). Tunisia may subsequently reap the benefits of complementarities between economies, increased demand and access to innovation across the supply chain.

The challenge will then be for Tunisia to seize the opportunity offered by this regional reorganisation of the production and supply model. A robust and enduring partnership between Italy and Tunisia hinges on a far-reaching vision that provides Tunisians the necessary incentives to

implement sustained reforms. These changes must enjoy widespread support, particularly among the youth, to alleviate political pushback. This new vision is not likely to materialise unless Tunisian policymakers and public opinion recognise that a market economy is not inherently negative, profit is not a flaw, and globalisation is not necessarily a threat. It is crucial to reshape the narrative around the significance of GVCs, trade openness and regional integration, emphasising that these factors, when combined, can be a source of wealth and a prelude to social justice.

This new approach should prompt Tunisia to resume negotiations with the EU under the Association Agreement. A shrewd agreement should focus on specific sectors that could promote economic modernisation and growth to strengthen and stabilise the country.

Italy ought to steer EU policies toward Tunisia, forging a new path by working alongside the private sector to devise innovative approaches for fostering democracy and economic growth. Just as Tunisia shouldn't adopt economic reforms simply due to "foreign diktats" but to revive its economy and generate employment, the journey toward democracy should not occur as a result of "blatant foreign interferences"<sup>8</sup> but because it aligns with the Tunisian people's desire for a better life.

Italy could also call upon the European Commission to reallocate the 60

<sup>6</sup> Organisation for Economic Co-operation and Development, "Tunisia. A Reform Agenda to Support Competitiveness and Inclusive Growth", in *Better Policies Series*, March 2015, <https://www.oecd.org/economy/Tunisia-a-reform-agenda-to-support-competitiveness-and-inclusive-growth.pdf>.

<sup>7</sup> "Tunisia: Italy's Historical Result which Confirms Itself as the First Trading Partner ahead of France and Germany", in *Agenzia Nova*, 20 December 2022, <https://www.agenzianova.com/en/news/?p=166840>.

<sup>8</sup> "Kais Saïed rejette «l'ingérence flagrante de l'étranger» dans les affaires de la Tunisie", in *Kapitalis*, 21 April 2023, <https://kapitalis.com/tunisie/?p=7549399>.

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million euros returned by Tunisia to DG Near<sup>9</sup> to a technological co-development fund. This fund could be channelled through European financial institutions and entrepreneurial development banks and serve as a leverage for financing and developing innovative and technology-oriented Tunisian companies. As highlighted recently, this could be a concrete outcome;<sup>10</sup> it could be an easy, quick win to implement and additional proof that the EU genuinely seeks to assist the Tunisian economy. Supporting young, innovative entrepreneurs should become the European mantra. It could be translated to a stronger cooperation on research, education and culture, as well as developing talent partnerships, opening up new opportunities for skills development and mobility for youth.

Introducing a special visa for entrepreneurs and service providers to facilitate Tunisians' mobility within the EU and people-to-people contact would also be reciprocally beneficial.

In addition, there is an urgent need to broaden the range of financing and support mechanisms for innovative entrepreneurship, because, on one hand, this sector contributes to local

prosperity through the development of technology and intellectual property. On the other hand, it attracts both local and international talent, effectively mitigating the brain drain phenomenon that has reached alarming levels in Tunisia.

Such collaborative efforts can help Tunisia ride out the multicrisis and mitigate the multiple shocks and socio-economic situation. Supporting Tunisian cross-border innovative firms will not exacerbate competition in Europe but will add efficiency and competitiveness to the continent's industry as a whole and create synergies and new opportunities for both.

### Looking ahead

Failure to implement the long-term structural reforms required to transform a rent-seeking and state-dominated economy into a modern one that embraces both digital and ecological transformation and recognise the salutary impact of competition and private enterprise is the major cause of Tunisia's ills. Today, Tunisia is at the mercy of external shocks, such as a steep increase in oil prices or a severe agricultural crisis due to the drought that has been affecting the country for the past five years.

Against this backdrop, an agreement with the IMF has become inevitable. It is a question of time. The President knows it, and he is confronted with the formidable challenge of articulating this deal to the Tunisian public without jeopardising his image and the narrative he has crafted. Saied leverages storytelling and populism to bolster his

<sup>9</sup> Jorge Liboreiro, "In Stunning Move, Tunisia Snubs Brussels and Refunds €60 Million in EU Aid", in *Euronews*, 12 October 2023, <https://www.euronews.com/my-europe/2023/10/12/in-stunning-move-tunisia-snubs-brussels-and-refunds-60-million-in-eu-aid>.

<sup>10</sup> CDP and SIMEST, *Italy Meets Africa: Leveraging the Private Sector in Africa. Business Opportunities for African and Italian Companies* (video), 7 November 2023, <https://businessmatching.cdp.it/en/dashboard/events/italy-meets-africa-leveraging-the-private-sector-in-africa?id=84>.

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popularity, which makes it challenging for him to contradict his stance by accepting foreign diktats.

The time for reflection has elapsed, and the Tunisian President is dithering, playing a wrong tune, like in Goethe's popular poem, "The Sorcerer's Apprentice". The latter has filled the vacuum left by the lack of foresight from the EU concerning Tunisia and its broader southern neighbourhood, compounded by the belief that a strongman could be instrumental in handling migration and serving other EU interests.

If the Tunisian President persists in refusing any economic reform as well as the IMF and EU assistance, the awakening will be even harsher when the populist bubble bursts.

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