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The Illusion of Peace and Shared Prosperity

Tunisia between the "Marshall Plan" bait and the Reality of the Structural Adjustment Plan.

The long-awaited Tunisia 2020 investment conference was concluded on 30 November. For two days, delegations of friendly countries along with European and international financial institutions declared their commitment to support Tunisia in its economic recovery. Two days of pledging loans and grants.

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During this conference, European Commissioner for Neighborhood Policy and Enlargement Negotiations, Johannes Hahn, reiterated the EU's continuous support to the country, repeating what was already announced on September 29th in the Joint Communication to the European Parliament and the Council "*increasing its annual financial assistance to €300 million in 2017, and maintaining a sustained level of funding for the period until 2020*". Indeed five agreements for a value of € 248 million were signed, in support of the "ambitious investment and reform program undertaken by the Tunisian authorities."[1]

[1]https://eeas.europa.eu/sites/eeas/files/cp_signature_5_cf_avec_efi_fr.pdf

Two months before, on 14 September, a European Parliament Resolution on "The EU relations with Tunisia in the current regional context" was passed. The 18-page document includes 70 bullet-points structured in four sections as follows:

a) political and institutional reforms;
b) economic and social development;
c) security and defense;
d) mobility, research, education and culture.

Outlining a political framework with a global approach, this resolution has the particularity of proposing a **Marshall Plan**[2] for Tunisia. This plan is based on two pillars formed by the EU's and Tunisia's commitments.

On the one hand, the European Union is committed to increase its financial support to Tunisia through available EU instruments as well as through the conversion of debt into investments. The EU would also facilitate the mobility of Tunisians through an "ambitious visa facilitation agreement".

On the other side, Tunisia commits itself to the implementation of political and institutional reforms linked to furthering the democratic process and the respect of human rights, as well as structural economic and legal reforms. Tunisia would also commit to better security cooperation under the global fight against terrorism, the control of migratory flows and the readmission of refugees.

While the announcement of a possible visa facilitation process had made a positive effect on the Tunisian public opinion, some recommendations[3] included in this resolution were more negatively perceived. However one significant characteristic that needs to be understood is that this resolution is not binding for EU member states. Issues of debt conversion, mobility, and granting of visas largely remain dependent on specific national political, economic, and security priorities of each member state.

It must be pointed out that the European Parliament, on 10 May 2012, had already voted on a resolution that *"considers the public external debt of countries in North Africa and the Middle East to be odious debt, considering that the debt was built by dictatorial regimes, mostly through the personal enrichment of the political and economic elite and the purchasing of arms, often used to oppress their own populations; therefore calls for the reconsideration of this debt, and notably that related to arms expenditure"*. Since then, none of the

[2] Referring to the Marshall Plan (1947-1952) or the European Recovery Program, which aimed to help rebuild Western European economies after the end of World War II. By the means of US loans conditioned to the import of US Equipment and products, thereby absorbing the US production surplus and to push the European countries to adopt the liberal economic model to prevent the spread of communism.

[3] Such as repealing Article 230 of the penal law that criminalizes "sodomy".

European creditor countries has audited the Tunisian debt, neither reviewed or cancelled these debts, and the proposal of debt conversion requested by the Tunisian authorities has been skillfully used by some creditor countries, such as France or Italy, to negotiate other migration-related issues, or to increase bilateral debt envelopes related to investment projects to the benefit of the private sector operating in creditor countries.

Despite the decision of the European Commission to freeze the assets of 48 persons deemed to be responsible for the misappropriation of state funds in Tunisia, and despite the adoption by the Council of a new legislative framework that authorizes EU member states to release frozen assets; none of the European member states has restituted these misappropriated funds. On the contrary, very weak international judicial cooperation has made this restitution even more improbable.

The Marshall Plan bait

Per the new EU ambassador to Tunis, Mr. Patrice Bergamini[4]: *"The Marshall Plan, is being implemented for five years"*, referring to loans granted by the European Union to Tunisia, in exchange of institutional, economic and legal reforms that the country had to put in place.

Indeed, after the downfall of the Ben Ali regime and the spread of popular uprisings in the region, the EU has revised its neighborhood policy twice. In 2011, the "More for More" principle was introduced. This **Conditionality Approach** is explained by the EU as: The more a country shows an attachment to the universal human rights values, to democracy and the rule of law, the more support it has from the EU; and the more institutional and economic reforms are implemented by this country, the greater is the financial support of the EU to this country.

This new neighborhood strategy has put at the center of conditionality the proposal of a Deep and Comprehensive Free Trade Agreement (DCFTA) which requires the gradual dismantling of trade barriers as well as a regulatory convergence in areas that impact on trade. This comes in addition to fresh negotiations for a Euro-Mediterranean open skies agreement and a Mobility partnership signed in 2014 to contain migratory flows and facilitate readmission of refugees into Tunisia. The newly revised 2015 Neighborhood Policy has focused even more on security cooperation, migration control and counter-terrorism programs, while strengthening negotiations of the DCFTA.

In order to accelerate the trade negotiations, the EU has adopted exceptional temporary measures such

[4]http://tuniscope.com/article/103811/actualites/tunisie/ue-bergamini-soutien-tunisie-541517

as raising the duty-free quota of olive oil by 35,000 tons in 2016 and 2017[5] as well as an exceptional macro-financial assistance of €300 million adopted in 2014 and €500 million approved in 2016[6]. It has also associated Tunisia to the Horizon 2020 program[7], offering funding opportunities to Tunisian researchers and academics starting from 2016. Visits of EU high representatives and statements about the EU political support to the **2016-2020 Tunisian Strategic Plan** have also increased as part of the EU's communication strategy. This plan includes all the structural economic and legal reforms, as well as state projects presented to investors during the *Tunisia 2020 Conference*. The plan hasn't been discussed by the Tunisian Parliament[8].

According to the EU Cooperation report 2015, the EU support to Tunisia from 2011 to 2015 amounted to about €2.8 billion in total, including €1.5 billion from the European Investment Bank (EIB) and €1.3 billion from different EU financing instruments in the form of budget loans, grants, and program-specific funding such as the reform of the legal system, the media, or assistance to civil society programs.

The same report, though, points out that the amounts actually disbursed have not exceeded €1 billion in five years, which is far less compared to the needed €20 billion to contribute to Tunisia economic recovery as estimated by reliable economists.[9]

The heavy costs of reforms required by the EU is in stark contrast with the meager support provided to the country. In fact, the binding nature of the reform policy relies on the very need of financial assistance that Tunisia is seeking to face its economic and social crisis. The Tunisian economy suffers from endemic youth unemployment that is the cause of continuous social unrest, and on another front there is a security threat due to regional turmoil that puts the country into a deadlock with very few choices.

The reality of the Structural Adjustment Plan

This binding effect is reinforced by the reform-based agreements the International Monetary Fund (IMF) concluded with Tunisia. Which are a core condition stipulated by the EU's Macro-Financial-Assistance (MFA), in addition to the economic policy and financial conditions set out in the

[5] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R0153&from=EN

[6] Of which only € 200 million were disbursed http://europa.eu/rapid/press-release_IP-15-6085_fr.htm?locale=EN

[7] https://ec.europa.eu/programmes/horizon2020/en/what-horizon-2020

[8] A vote was originally scheduled for June 2016, as announced in the letter of intent sent by the Tunisian government to the IMF in May 2016.

[9] http://www.gnet.tn/temps-fort/appel-pour-un-plan-marshall-pour-la-tunisie-presente-jeudi-a-paris/id-menu-325.html

Memorandum of Understanding signed between the EU and Tunisia in 2014.

Thus, Article 4 of the EU (MFA) decisions of 2014 and 2016 states that "the Commission shall decide on the release of the installments subject to the fulfillment of all of the following conditions:

a) the pre-condition set out in Art. 2; (referring to respect of democracy and human rights)
b) a continuous satisfactory track record of implementing a policy program that contains strong adjustment and structural reform measures supported by a non-precautionary IMF credit arrangement; and
c) the satisfactory implementation of economic policy and financial conditions agreed in the Memorandum of Understanding."

Indeed, in April 2013, a three-year IMF agreement Stand-By Arrangement of SDR 1,146 million (Special Drawing Rights)[10] in return for Tunisia's economic adjustment and reform program, has been approved by the IMF Board. Afterwards a four-year program of Extended Fund Facility was approved in May 2016 for SDR 227.29 million.

[10] Special Drawing Rights (SDR) were created by the IMF in 1969 as a supplementary international reserve asset, the value of the SDR is determined by a basket of currencies, SDR 1 = € 1,28.

The main legal reforms included in these agreements pertain to the legal framework such as the investment code, the Central Bank law, the law on competition, the Private-Public Partnership framework, banking regulations, and the bankruptcy law. Other measures include the recapitalization of three public banks suffering from uncollected debts of the Ben Ali clan[11], in order to improve their financial statements and prepare for their privatization, the reform of pension funds, the wages and recruitments freeze, the adoption of an automatic formula for oil prices, the suppression of basic foodstuff subsidies replaced by a targeted system.

These reforms are essentially intended to prepare the legal framework for free trade, secure foreign investments, improve access to public procurements by multinational companies without offering any incentive for new investors to employ young Tunisians, limit their energy consumption or decrease their

[11] STB, BNA, BH are the major public banks that had, for decades, contributed to the economic development of the country. Before the revolution, loans were granted by these banks to Ben Ali's family without guarantees. Since the flight of the clan in January 2011, the banks have been facing uncollected debt problems. A recapitalization was approved by the National Constituent Assembly under pressure of the 2013 IMF agreement. Restructuring plans for the three banks are part of the reforms demanded by the 2016 IMF agreement. See more at : http://nawaat.org/portail/2015/08/26/tunisie-recapitalisation-banques-publiques-realite-du-secteur-bancaire-public-perspectives-reanimation/

pollution. At the same time, these measures put pressure on government spending, by imposing austerity policies which emulates the exact same Structural Adjustment Plans, of the 80's, that led to Bread uprisings in the region.

In addition, the Memorandum of Understanding signed between EU and Tunisia for the decision on Macro Financial Assistance of 2014 lists very concrete actions to be implemented by the Tunisian government in exchange for loans. For example: the second installment will be disbursed only if the Government adopts a decree on tax reform. The third installment is conditioned on the adoption of a new regulation on electronic products to be published in the Official Gazette of the Republic of Tunisia. This latter is set in order to force legislative alignment and thus accelerate the conclusion of the Agreement on Conformity Assessment and Acceptance of industrial products (ACAAs) currently in negotiation with Tunisia[12].

These findings come as no surprise when understood within the worldwide dynamic of globalization. In fact, within the framework of the World Trade Organization, the Doha Round has removed Singapore's issues from multilateral negotiations – namely public procurement, competition, and investment – under pressure from developing countries; while the General Agreement on Trade and Services (GATS) does not integrate the liberalization of airspace traffic; the European Union is using the loan conditionality to accelerate and facilitate the conclusion of its DCFTA and various other agreements negotiated in parallel, thereby pressing to secure issues of public market access, investment, competition, and regulatory convergence in its bilateral negotiations.

This is what commissioner Hahn meant by "cutting the red tape" as a condition for the EU's increased support to the country, in his official address during the *Tunisia 2020 Conference*.

The illusion of peace and shared prosperity

In case the European Union prioritizes democratic values to the degree it promotes them vis-à-vis Tunisia and puts these values as the first condition for granting loans, it should recognize that such IMF agreements are not subject to the constitutional procedures and cannot be challenged by the population.

[12] Norms and standards are considered as non-tariff barriers to trade. The regulatory alignment will admit European products in the negotiated sectors in Tunisia according to European standards. Reciprocally, Tunisian products will be admitted to Europe only if they conform to European standards adopted in national regulation.

The resolution is not binding. What is really binding is the debt dependency cycle. The cost of reforms are not sustainable for Tunisia. These reforms are likely to produce a negative effect of capital flight, capital concentration, and more disparity in a polarized global context. On the contrary, local solutions and smart regulated trade have the potential to bring sustainable development, social peace and decreased migration in the Mediterranean basin.

While the communicated objective of the European Union in the region is to promote employment and socio-economic resilience as the best counter-measure to radicalization and migration, it is difficult to believe that austerity policies and an increased dependence on European countries can contribute to the effort of an “area of peace and shared prosperity”.

The **Rosa Luxemburg Stiftung** is an independent institute for political education, affiliated with the German Left. Our office in Tunis works with organisations and individuals in North Africa with regards to socio-economic development without oppression and foreign domination. In this respect, analyzing the effects of European politics with regards to North Africa is a focus.

Another one is dialogue between societal groups working on social justice in North Africa and Germany/Europe for fostering sovereign, democratic development for all. In this respect, we irregularly publish short analyses and opinions about relevant issues. These don’t necessarily represent positions of the Rosa Luxemburg Stiftung, but should be viewed as input into local, regional or international debates.

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