

ISSUE BRIEF

Aftermath of the Arab Spring in North Africa

OCTOBER 2016 MOHSIN KHAN
AND KARIM MEZRAN

It is now almost six years since the political uprisings began in North Africa. The protestors demanded fundamental political and economic changes in systems that had been in existence in the countries of the region for several decades. Enough time has now passed for an assessment of how much change has in fact occurred and to determine whether the countries in North Africa have been successful in meeting the demands of their populations as expressed at protests in the beginning of 2011.

An examination of the comparative experiences of four North African countries—Algeria, Libya, Morocco, and Tunisia—can shed some light on the extent of the political and economic changes that have taken place.¹ While all four countries faced similar economic and political challenges, they adopted differing approaches to address them. The key questions are what types of approaches were attempted and what were the results. An analysis of the political and economic developments since 2011 in each of them can provide answers to this question, as well as possible lessons for the future. With the benefit of hindsight, it is possible to determine what the countries should have done to achieve their goals and what challenges remain for them in the future.

Economic and Political Developments up to 2010

Economic Developments

The economies of Algeria, Libya, Morocco, and Tunisia are dissimilar in some important respects but face quite similar problems and challenges. Algeria and Libya are oil-dominated economies. In Algeria, oil and gas production accounts for one-third of the gross domestic product (GDP), two-thirds of government revenues, and 98 percent of exports.² The share of oil in the Libyan economy is almost 65 percent of GDP, 96 percent of

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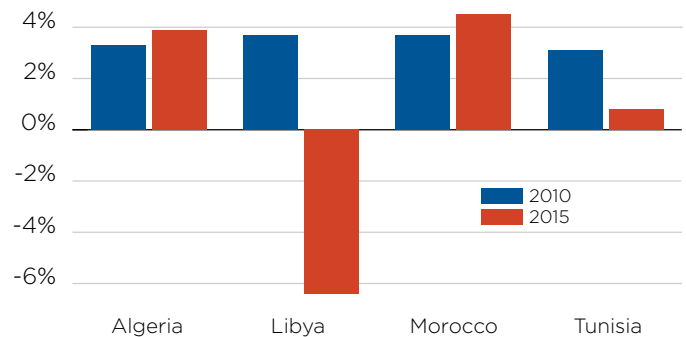
- 1 Egypt, the other major North African country, is not included in this group for purposes of this study. A detailed analysis of the Egyptian case is contained in: Mohsin Khan and Elissa Miller, "The Economic Decline of Egypt after the 2011 Uprising," Atlantic Council, June 2016, http://www.atlanticcouncil.org/images/publications/Economic_Decline_Egypt_SJC_web060316.pdf.
- 2 International Monetary Fund (IMF), "Algeria Staff Report for the 2016 Article IV Consultation," May 2016, <http://www.imf.org/external/pubs/ft/scr/2016/cr16127.pdf>.

exports, and 98 percent of government revenues.³ In both of these countries, oil production and movements in world oil prices drive the economy. Tunisia and Morocco are different in that they are more diversified and depend on agriculture, tourism, manufacturing, and mining. However, they are also exposed to exogenous shocks, such as the weather in the case of agriculture, as well as external developments, mainly in Europe, that impact tourism flows, foreign direct investment (FDI), and workers' remittances.

The main common characteristic in these countries, albeit in varying degrees, is that the state plays a significant role in the functioning of the economies. In Algeria, for example, seven of the ten largest companies are state-owned, and six state-owned banks have a combined market share of over 80 percent.⁴ In Libya, the picture is equally striking. Through its control over the oil sector and thus the economy, the Libyan government has not allowed the private sector to develop. It has imposed a variety of regulations that kept private businesses small and restricted to wholesale and retail trade and the provision of other services.⁵ Furthermore, the state-owned Special Credit Institutions provided the bulk of financial services, leaving very limited room for the few private and foreign banks to operate in the country.

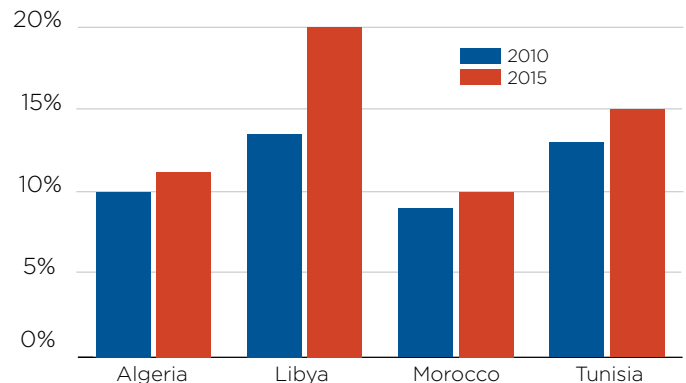
The private sector is relatively more important in the Tunisian economy, although even here state-owned enterprises operate in many sectors, including industry, energy, transport, water, and agriculture, employing five percent of the active population. Five state-owned commercial banks account for nearly 40 percent of total banking assets, with the three largest banks holding 37 percent of these assets.⁶ While the private sector in Morocco has been given room to develop and operate, the two largest companies in the country are closely controlled by King Mohammed VI and the government. The King's family holds a 60

Figure 1. Real GDP Growth 2010, 2015



Source: IMF.

Figure 2. Unemployment Rates 2010, 2015



Source: IMF.

percent stake in Morocco's largest company—Société Nationale d'Investissement (SNI)—and the state owns the Office Chérifien des Phosphates (OCP), the world's largest producer of phosphate products with revenues of over 5 percent of GDP.⁷ At the same time, however, in contrast to the other countries, the share of state-owned banks in financial system is relatively low at only 20 percent.

Macroeconomic performance in all four countries in the decade prior to 2010, while not stellar, averaged between 4 and 4.5 percent a year.⁸ In 2010, growth

3 Mohsin Khan and Karim Mezran, "The Libyan Economy after the Revolution: Still No Clear Vision," Atlantic Council, August 2013, http://www.atlanticcouncil.org/images/publications/libyan_economy_after_revolution_no_clear_vision.pdf.

4 Mohsin Khan and Karim Mezran, "No Arab Spring for Algeria," Atlantic Council, May 2014, http://www.atlanticcouncil.org/images/publications/No_Arab_Spring_for_Algeria.pdf.

5 Khan and Mezran, "The Libyan Economy after the Revolution."

6 International Monetary Fund, "Tunisia Request for an Extended Arrangement Under the Extended Fund Facility," International Monetary Fund, June 2016, <http://www.imf.org/external/pubs/ft/scr/2016/cr16138.pdf>.

7 Mohsin Khan and Karim Mezran, "Morocco's Gradual Political and Economic Transition," Atlantic Council, March 2015, http://www.atlanticcouncil.org/images/publications/IIF_MoroccoEconomic-Transition_WEB.pdf.

8 For a more detailed discussion of economic developments in the pre-2011 period, see Mohsin Khan, "The Economic Consequences of the Arab Spring," Atlantic Council, February 2014, http://www.atlanticcouncil.org/images/publications/The_Economic_Consequences_of_the_Arab_Spring.pdf.

slipped somewhat below the average over the previous decade to 3.7 percent in Libya and Morocco, to 3.3 percent in Algeria, and to 3.1 percent in Tunisia (figure 1). The unemployment rate remained high in all the countries, averaging over 11 percent for the group (figure 2), with youth unemployment at least twice that rate. The two bright spots on the macroeconomic front were inflation and the external balances. Through the use of price controls and subsidies, as well as reasonably stable monetary policies, the inflation rate in 2010 was kept low, ranging from only 1 percent in Morocco to 4.4 percent in Tunisia. The continuing rise in oil prices obviously benefitted Algeria and Libya, allowing these two countries to substantially build up their international reserves. By the end of 2010, Algeria's international reserves reached \$162 billion, and Libya increased its international reserves to \$102 billion. The flip side of this rise in oil prices was that Morocco and Tunisia were hit with the higher import costs of oil. Nonetheless, both countries managed to keep international reserves from falling because of rising tourism receipts, workers' remittances, and FDI inflows. In 2010, Morocco's international reserves stood at \$23.6 billion and Tunisia's at \$9.5 billion.

Political Developments

In 2010, the political situations in these North African countries were, to a large extent, similar. In Tunisia, the hopes raised in 1987 with the peaceful overthrow of longstanding President Habib Bourguiba by General Zine El-Abidine Ben Ali and his statements in favor of opening Tunisia to democracy had been rapidly reversed. Under the distracted eyes of Western countries, what began as a mild authoritarian regime incrementally closed all space for political and economic participation and adopted a typical crony capitalist system. Large segments of the population were excluded from political as well as economic participation, and economic disparities were reinforced by development policies that favored the coastal areas to the detriment of the interior and southern regions. The dismal economic situation coupled with an increasingly brutal police state were among the main causes of the revolts that swept the country in December 2010.

The Libyan revolt that exploded in 2011 was a revolution for dignity and a quest for political freedoms. . .

Despite the relatively wider popular consensus enjoyed by their regimes, both Algeria and Morocco saw the birth of protest movements that contested the most authoritarian aspects of their political systems and the consequences of their economic policies. These movements demanded sweeping reforms to make the political systems more inclusive and the decision-making processes more transparent. They also called for economic reforms to provide broad-based growth and much needed jobs. Both Morocco's King Mohamed VI and Algeria's President Bouteflika appeared to accept the validity of most of these demands and announced far-reaching amendments to the constitutions of their respective countries. This reaction prevented the protests from becoming widespread and violent and bought the regimes time to prepare countermeasures to ensure their survival.

The Libyan revolt that exploded in 2011 was a revolution for dignity and a quest for political freedoms that had only a minimal basis in economic grievances. In Libya, the isolation in which Muammar al-Qaddafi kept the country until the mid-2000's led to a deeper crisis. The relative opening of political and economic spaces in Libya starting in 2004-05 exposed the country to foreign influence and the population—including the youth—to different models of governance.

When the population realized that the regime was not willing to further increase its opening and promote more inclusiveness, the revolts of 2011 broke out. In fact, the three pillars on which the Qaddafi regime had based its power—a strong coercive security apparatus, vast rents from the sale of oil, and a traditional divide and rule approach—were all still intact and showed no cracks until the uprisings occurred, catching most observers totally by surprise.

Political and Economic Developments up to 2016

Political Developments

While the causes of the uprisings, and therefore the immediate challenges to be overcome by the new political elites, were relatively similar in the four countries, their post-revolt political evolutions took

different directions.⁹ From the beginning, Tunisia embarked on a process of reforming its legal and political structures in order to allow for a transition to a more pluralistic and inclusive system. An interim constitution was drafted to regulate the beginning of the transition, and in 2011, Tunisia's first free and open elections were held to select an interim legislature, the National Constituent Assembly. The resulting governing coalition was dominated by the Islamist party Ennahda, led by the charismatic Sheikh Rachid Ghannouchi. The success of the Islamists generated opposition among a large segment of the population fearful of losing its more secular way of life, which had been acquired over the past decades. Tensions emerged between the supporters of an Islamist vision and those in favor of a more secular one. To resolve the ensuing crisis and avoid a dangerous polarization within society, the Tunisian political elites decided to join a national dialogue process that facilitated the completion of a new constitution and the consequent appointment of a technocratic government in January 2014. This agreement defused tensions and allowed for the holding of presidential and legislative elections at the end of 2014. A government led by Prime Minister Habib Essid took charge in February 2015.

This new government faced daunting challenges, especially in the realm of security and political reforms.¹⁰ A native radicalism caused by decades of repressive governance in conjunction with the instability caused by the revolts in Libya rapidly emerged as one of the major threats to the stability of Tunisia. In order to face this challenge, the Tunisian government needed to reform its security forces not only in training and organization but also in culture and mentality. The transition from a security force designed to protect an authoritarian regime into one whose paramount objective is the security of the citizen is crucial. On this front, the government was slow, in part due to the difficulty of balancing the need for stricter security measures with that of ensuring citizens' rights and freedoms. Another major challenge for the Tunisian leadership was to transition the political system from a strongly centralized model into a decentralized one, where more decisions and responsibilities would fall to

local authorities. Other important reforms that needed to be addressed included the implementation of a transitional justice process, the appointment of critical institutions such as the Constitutional Court, and the further strengthening of parliamentary powers. On all these fronts as well, Essid's government was slow to act.

In Algeria, the protest movement saw a rapid decrease in popularity and consistency. The traditional capacity of the regime to divide its opposition through a mixture of repression and buy-out seems to have worked, at least until now. The constitutional reforms announced in 2011 were only revealed in mid-2014 and adopted in February 2016; they were neither as deep nor extensive as those originally demanded by the protesters.¹¹ Meanwhile, the political system continues to be run in the same way as always, with opacity and exclusivity. The appearance of stagnation is broken only by events and news tied to the intra-elite struggle for the succession to ailing President Bouteflika.

The constitutional reforms enacted in Morocco appear to be more incisive, especially the ones dealing with the political process. A notable reform was the decision to appoint the Prime Minister—who had previously been directly appointed by the king at his discretion—based on the leader of the winning party in legislative elections. Coupled with other minor reforms, the trend in Morocco seemed to limit some of the more authoritarian aspects of the regime in favor of empowering political parties. These reforms allowed the Islamist opposition party, which has been leading the government for the past five years, to rise to power in the 2011 elections.¹² The political arrangement between the monarchy and the Islamists seems to be working by maintaining the stability of the system while allowing a progressive, albeit slow, opening.

The challenges facing Libya were even more extensive due to the devastating impact of Qaddafi's forty years of dictatorship on the population. Qaddafi's erratic and idiosyncratic style of governance left the Libyan people with a weak national identity, a very low level of education, no meaningful state institutions, and no alternative political class that could run the country

9 Karim Mezran, "North African Transitions in 2014," *MENASource*, January 7, 2014, <http://www.atlanticcouncil.org/blogs/menasource/north-african-transitions-in-2014>.

10 Karim Mezran and Lara Talverdian, "Tunisia: From Elected Government to Effective Governance," Atlantic Council, June 2015, http://www.atlanticcouncil.org/images/publications/Tunisia_Elected_Government.pdf.

11 Karim Mezran, "Constitutional Reforms in Algeria," *MENASource*, January 12, 2016, <http://www.atlanticcouncil.org/blogs/menasource/constitutional-reforms-in-algeria>.

12 Karim Mezran, "Is Morocco Leading by Example?" *MENASource*, July 21, 2014, <http://www.atlanticcouncil.org/blogs/menasource/is-morocco-leading-by-example>.



An anti-Gaddafi fighter fires a heavy machine gun during clashes with pro-Gaddafi forces at the frontline in Sirte October 19, 2011. *Photo credit: Vittoare/Flickr.*

after the fall of the regime.¹³ The post-revolution elites were therefore incapable of facing these challenges and made one mistake after another. The 2011 revolt had been conducted by local militias carrying out fragmented operations against the regime without a unifying command. At the fall of the regime, most of these militias kept their weapons and entrenched their positions, dominating local realities and projecting power on a national level. The new political elites understood the need to create a national army and national police force, but could not overcome the opposition of the leaders of the various militias who refused the orders to disband. Rather than confront the militias, Libya's successive governments opted to pay them a salary, hoping to buy their allegiance. This proved to be a fatal decision, as more often than not the militias pursued their own particular interests,

which often conflicted with those of the legitimate institutions.

Moreover, it rapidly became apparent that the revolution against Qaddafi was not the revolt of a whole people against a dictator and a few mercenaries, but was, in reality, a civil war between those who still believed in the Jamahiriyya project¹⁴ and those who were intent on changing the system altogether. Rather than create a national dialogue forum that could lead to a shared solution to the divisiveness and consensually define a national identity and national project, the new political leaders decided to move rapidly to national elections.¹⁵ The elections, held in July 2012, proved to be even more divisive and further polarized the political actors and society. In 2014, the rivalry between pro- and anti-

¹³ Karim Mezran, "Libya in Transition: From Jamahiriya to Jumhuriyyah?" in Fawaz Gerges (ed), *The New Middle East* (Cambridge: University Press, 2014).

¹⁴ Jamahiriyya is the name that Qaddafi gave to his revolutionary project, which roughly translates into "state of the masses."

¹⁵ Karim Mezran, "Libya: Negotiations for Transition" in I. William Zartman (ed), *Arab Spring: Negotiating in the Shadow of the Intifadat* (Athens, GA: UGA Press, 2015).

Islamist factions led to the division of the country into two spheres of influence, the first centered around the former capital of Tripoli and the latter in the eastern city of Tobruk. This rivalry has de facto paralyzed all economic activities and allowed for the spread of criminal and terrorist organizations, of which the most dangerous is the Islamic State of Iraq and al-Sham (ISIS).

Economic Developments

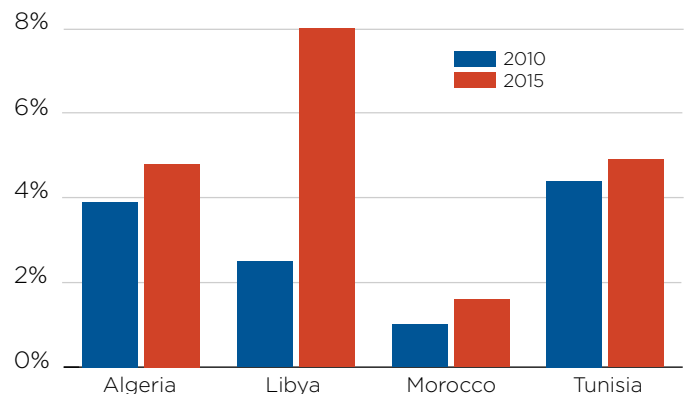
The relatively good macroeconomic picture in 2010 actually hid many deep structural fault lines in the four economies that were exposed by the political upheavals in early 2011. These included, among others, the following:

- very high rates of unemployment, especially among the youth of the region;
- large-scale subsidies that strained the public finances;
- an overall business climate that was generally unfriendly toward domestic and foreign investors;
- lack of diversification of the economy, particularly in the case of Algeria and Libya;
- inadequate and deteriorating infrastructure; and
- large, and growing, income and wealth inequalities.

Clearly, the governments could not address all of these problems simultaneously and needed to prioritize. The first order of business was to achieve and maintain macroeconomic stability. A key component of the stabilization policies was to reform the extensive subsidies system and improve the public finances.¹⁶ It was believed that addressing macroeconomic stability would lead to high growth and reduced unemployment. However, confronted with widespread political turmoil, and in the case of Algeria potential turmoil, the countries made political stability and political transition their highest priority. Economic stability and growth were viewed as secondary and to be tackled later. Consequently, for the first couple of

¹⁶ World Bank, "Predictions, Perceptions and Economic Reality: Challenges of Seven Middle East and North Africa Countries Described in 14 Charts," MENA Quarterly Brief, July 2014, <https://openknowledge.worldbank.org/bitstream/handle/10986/19283/898440REVISED00ue030JULY020140FINAL.pdf?sequence=1>.

Figure 3. Inflation Rate 2010, 2015



Source: IMF.

years none of the countries came up with a program to address the economic challenges they faced, and economic policies were given short shrift.

Algeria, which was continuing to benefit from high oil prices, had the financial resources to launch a massive \$286 billion five-year public spending program aimed at increasing the growth rate to a level high enough to absorb the expanding labor force. However, the growth rate in 2015, following the plan period, turned out to be less than 4 percent, just barely above the growth rate in 2010 (figure 1), and unemployment actually rose to 11.3 percent (figure 2). Inflation was contained, despite a jump in 2011-12 (to 7 percent) due to the expansionary government spending plan and an increase in food prices. In 2015, inflation came down to less than 5 percent (figure 3), although this was achieved largely through the use of price controls and subsidies. Direct and indirect subsidies in Algeria amount to 14 percent of GDP and were maintained at that level from 2010 to 2015.

In 2011, the Libyan economy collapsed as the civil war caused oil production to fall from 1.7 million barrels per day (mbd) in 2010 to less than 0.5 mbd. The fall in oil production, the mainstay of the economy, led to real GDP dropping by a shocking 60 percent. There was a rebound in 2012, with growth increasing to 100 percent as oil production came back on line. But since then, political and security shocks have resulted in continued negative annual growth rates. In 2013-14, real GDP fell by a cumulative 37 percent, and then by a further 6.4 percent in 2015 (figure 1). The size of the Libyan economy in 2015, measured by nominal GDP, shrank to \$39.7 billion, nearly two-thirds of what it had been

in 2010. Unemployment continued to rise, reaching 20 percent in 2015 (figure 2). Inflation increased sharply in 2011 to 16 percent, but then settled down to 8 percent in 2015 (figure 3). There were no new significant economic policies implemented and only some existing policies maintained. As in Algeria, government subsidies are a large component of public spending, and between 2010 and 2015 they were increased from 10 percent of GDP to 14 percent in an effort to buy peace and appease the population. In the absence of continued large oil revenues, this additional spending was primarily financed by running down international reserves, which fell from \$102 billion in 2010 to \$72 billion in 2015.

The Moroccan economy was able to manage the initial shocks of the political protests and the European financial crisis because agriculture expanded as a result of good weather conditions. In 2011, real GDP grew by 5.6 percent, well above the growth rate in 2010. The government continued with broadly the same economic policies, even though it was becoming evident that external pressures were increasing as tourism receipts and workers' remittances began to decline. In 2012, the government decided to approach the International Monetary Fund (IMF) to help design an economic program that would attract external financing. In August 2012, the IMF approved a Precautionary and Liquidity Line (PLL) of credit amounting to \$6.21 billion for a period of two years.¹⁷ Even though Morocco had adequate international reserves and did not require immediate external financing, the signing of the agreement with the IMF was important in that it signaled to foreign investors and international capital markets that Morocco had an economic program endorsed by the international community.

The economic plan agreed upon with the IMF focused primarily on reducing the large fiscal deficit by gradually reducing government subsidies, maintaining monetary

stability to keep inflation in check, and attracting FDI and foreign capital to improve the balance of payments. By and large, Morocco succeeded in achieving the main goals of the program—inflation was kept very low, the country was able to borrow in the international capital markets, and it received new FDI amounting to over \$10 billion during 2012-15. As such, by 2015 the country was able to bring its stock of international reserves up to \$23.6 billion, very close to the level they were in 2010. Considerable progress was also made in reducing government subsidies. In 2011, subsidies amounted to 6 percent of GDP and by 2015 had been brought down to 1.4 percent, aided considerably by the slump in oil prices that year. While macroeconomic stability had been achieved in 2015 with a comfortable level of international reserves, and inflation running at less than 2 percent (figure 3), the growth and unemployment picture was not very bright. In 2015, growth reached 4.6 percent, which, though respectable, was still only

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the same that it was in the decade ending in 2010 (figure 1). As this rate of growth is not sufficient to absorb new entrants into the labor force, unemployment rose from 9 percent in 2010 to 10 percent in 2015 (figure 2), with youth unemployment rising above 20 percent.

Tunisia was more severely impacted by the 2011 uprising than Morocco.

The economy went into recession, with real GDP falling by 1.8 percent that year and unemployment rising to a high of 19 percent.¹⁸ The fiscal deficit expanded as the government adopted populist policies that were largely politically motivated. It increased public sector wages and employment as well as food and energy subsidies. Both tourism and FDI declined in the face of political instability and the deteriorating security situation. By the end of 2011, the country had lost some \$2 billion of its international reserves. There was a modest turnaround in 2012 with growth picking up and unemployment falling, however the decline in unemployment was primarily due to a 17 percent increase in government employment rather than an expansion of the private sector.¹⁹

Lacking a coherent economic reform program, and unlike Morocco, in need of substantial external financial

17 International Monetary Fund, "Press Release: IMF Executive Board Approves US\$6.2 Billion Arrangement for Morocco under the Precautionary Liquidity Line," August 3, 2012. <https://www.imf.org/external/np/sec/pr/2012/pr12287.htm>. The PLL is a line of credit that would only be drawn if needed. In any event, Morocco did not utilize the original PLL. A further PLL agreement for \$5 billion for another two years was reached in July 2014, followed by a similar agreement in July 2016 for \$3.47 billion.

18 Youth unemployment reached a historical high of 44 percent.

19 Khan and Mezran, "Morocco's Gradual Political and Economic Transition."



IMF Managing Director Christine Lagarde meets with Tunisia's President Beji Caid Essebsi in Tunis, Tunisia, on September 8, 2015. *Photo credit: IMF/Flickr.*

support, the government turned to the IMF. In June 2013, Tunisia and the IMF reached agreement on a “24-month Stand-By Arrangement” (SBA) amounting to \$1.74 billion.²⁰ This SBA was later extended to May 2016, and a total of \$1.6 billion was dispersed.²¹ The agreement with the IMF greatly relieved balance-of-payments pressures, as it led to additional inflows from the World Bank and other donors. Tunisia was also able to sell bonds in the international capital markets, aided by US loan guarantees. The government furthermore committed to reduce subsidies for fuel and food that were creating a serious hole in the budget. In 2010, these subsidies amounted to 2 percent of GDP, but by 2013 had risen to 7.8 percent. As part of the IMF program, these subsidies were brought down to 2.9

percent of GDP by 2015. The decline in fuel subsidies was partly due to government actions to increase electricity tariffs and the price of natural gas, but mainly due to the sharp fall in world oil prices in 2015. With some control of the fiscal deficit and a generally stable monetary policy, inflation was kept below 5 percent in 2015 (figure 3).

The preoccupation with political transition in Tunisia made serious economic reforms a secondary priority. This showed up in the growth figures. Real GDP growth was only 0.8 percent in 2015, compared to 3.1 percent in 2010 (figure 1). Even though agricultural production reached a record level in 2015, it was offset by declines in mining, energy, and tourism. While the unemployment rate did fall, it still remained high at 15 percent in 2015 (figure 2).²²

20 International Monetary Fund, “Press Release: IMF Executive Board Approves a 24-month US\$1.74 Billion Stand-By Arrangement with Tunisia,” June 7, 2013, <https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr13202>.

21 The SBA was replaced in May 2016 by a 4-year Extended Arrangement amounting to \$2.8 billion. IMF, “Tunisia Request for an Extended Arrangement Under the Extended Fund Facility,”

22 IMF, “Tunisia Request for an Extended Arrangement Under the Extended Fund Facility.” In 2015 youth unemployment was 35 percent, female unemployment was 23 percent, and the unemployment rate for young graduates was 67 percent.

Political and Economic Outlook

Political Outlook

This historic moment is a critical one for Tunisia. The progress made in promoting more pluralistic and inclusive institutions is threatened by a growing insecurity caused by terrorist threats as well as by the dire economic circumstances. Recently, the political system has shown fractures, evidenced by the split in the majority party, Nidaa Tounes, between a component led by former Secretary-General Mohsen Marzouk and a component loyal to the son of the President Beji Caid Essebsi. Particularly worrisome is the return to the political scene of many personalities belonging to the Ben Ali regime. Their presence may be the cause of the slowing down of political and economic reforms, as they are undoubtedly more comfortable in a crony capitalist system than a transparent, democratic one. Other actors, such as the Tunisian General Labor Union (UGTT) and the highly centralized bureaucratic institutions, also have interests in opposing effective reforms.²³ The main challenge for the new political elites, therefore, is to overcome this resistance and undertake the necessary actions to keep Tunisia's democratization on track. It remains to be seen whether the new national unity government headed by Prime Minister Youssef Chahed can tackle these issues more effectively than his predecessor.²⁴

Despite headline-making events such as the dismissal of the long-time Algerian head of military intelligence (DRS) Mohammed Medienne (who was considered by many the real kingmaker in Algeria), as well as sweeping reforms in the security establishment, politics seems to go on as usual in Algeria. The traditional opacity of the system prevents a full understanding of the real behind-the-scenes situation. In the face of a looming economic crisis due to the fall in oil prices, the apparent focus of all political activity seems to be centered around the succession of President Bouteflika. The opposition movement is marginalized and incapable of pressuring the dominant elites into engaging with the political and economic reforms that the country undoubtedly needs to overcome its difficulties. This inward and paralyzed elite is preventing Algeria from moving more decisively toward playing a role in its

increasingly dangerous region. In fact, despite a strong rapprochement between the Algerian and Moroccan security establishments, the relationship between the two major Maghrebi states remains tense. This is hampering both countries from playing a constructive role in supporting their immediate neighbors. This ultimately creates more instability in their own territories, thus creating a catch-22.²⁵

The domestic state of affairs in Morocco presents a more positive outlook, despite some relevant dark spots. In fact, the strategy of slow but increasing reforms and incremental political openings undertaken by the monarchy seems to be succeeding.²⁶ The change to the previously discretionary process of appointing a prime minister has led to a more open political process. The parliament has become more effective in debating and contesting government actions. This, in turn, has led to a positive perception of political parties by the population, which may increase participation and thus diffuse extremist impulses, particularly among the youth. A reform of the security apparatus, intended to make it more responsive and accountable to the citizenry, has been undertaken, but with modest results so far amid continuing reports of police brutality. More recently, arbitrary detentions of journalists have given a perception of rising intolerance on the part of the authorities. While these issues undoubtedly raise an alarm, they are not yet enough to condemn the monarchy's strategy of progressive liberalization.

Libya in 2016 is, in many respects, a failed state. Eighteen months of UN-led negotiations aimed at resolving the country's civil strife did not produce the results hoped for by most, namely a clear agreement to form a national unity government and reunification of the country under a single leadership. The Libyan Political Agreement concluded in the Moroccan city of Skhirat in late 2015 has only partially been ratified by the Tobruk-based House of Representatives, while the Government of National Accord, which was appointed on the basis of the agreement, has yet to

23 Ian Hartshorn, "Tunisia's labor union won the Nobel Peace Prize. But can it do its job?" *Washington Post*, February 26, 2016.

24 Karim Mezran and Elissa Miller, "Can Tunisia's New Government Deliver?" *MENASource*, August 24, 2016, <http://www.atlanticcouncil.org/blogs/menasource/can-tunisia-s-new-government-deliver>.

25 For a deeper discussion of Algeria's political and economic situation, see: Robert Looney, "Does Algeria Still Have Time to Turn It Around?," *Foreign Policy*, September 23, 2016, <http://foreignpolicy.com/2016/09/23/does-algeria-still-have-time-to-turn-it-around-bouteflika/>.

26 Karim Mezran, "Morocco's Local Elections: A Polarized Political Landscape," *MENASource*, September 9, 2015, <http://www.atlanticcouncil.org/blogs/menasource/morocco-s-local-elections-a-bipolar-political-landscape>.

be ratified.²⁷ This has left the political system of the country in a dangerous limbo. Entrenched regional interests predominate and supersede national ones, thus creating a state of anarchy and disorder. Criminal gangs and terrorist organizations are profiting from this unsettled situation, expanding their grip on power and entrenching their illegal trafficking.²⁸ The looming economic crisis adds more difficulty, potentially turning a tense political situation into a humanitarian tragedy. The failure of the UN-led process may force Libyan elites and the international community to rethink a way to maintain a united Libya while at the same time returning a modicum of order and security. The failure of the UN top-down approach might induce some to try a bottom-up approach, which would consist of establishing a national conference or assembly that would comprise representatives of tribes, municipalities, militias, as well as political parties. The assembly's main tasks would be to agree on a national charter that would define a national identity and a national project, and appoint a government of unity that could carry out the necessary actions to establish state institutions and restore the rule of law.

Economic Outlook

All four economies have been through very trying times since 2011. While there has been some progress, the overall economic picture today is still grim. In many respects, the economies of all four countries are in no better shape, and in some cases much worse shape, than they were in 2010. The main goals of job creation and broad-based growth still remain elusive. In order to make a serious dent in unemployment, these economies need to grow by at least 6-7 percent a year on a sustained basis. However, the rates of growth experienced recently are well below the required rate. Even more worrisome is the fact that projected growth rates are also low (table 1).²⁹

How can these countries get out of this low-growth and high-unemployment trap? Among the many deep structural reforms required to transform the economies

Table 1. Growth Projections for 2016 and 2017

	2015	2016	2017
Algeria	3.9%	3.6%	2.9%
Libya	-6.4%	-3.3%	—
Morocco	4.5%	1.8%	4.8%
Tunisia	0.8%	1.5%	2.8%

Source: IMF.

fundamentally, the countries have to focus on two particular ones to start with: labor market reforms and improving the business climate to encourage and promote private sector activity. It is widely accepted that the private sector ultimately will drive the economy and create jobs.³⁰

The labor markets in all four countries are extremely rigid. The governments have to enact labor laws that make it easier to hire and fire workers. The almost virtual guarantee of job tenure makes potential employers reluctant to hire workers because they cannot be dismissed. Furthermore, there is a serious skills-mismatch problem—the skills training received by potential workers in existing educational institutions are not the skills demanded by the private sector. Lacking demand from the private sector, governments have become the employer of first and last resort. Other characteristics of the labor markets are high wage growth relative to productivity and high payroll taxes. New labor laws and national employment strategies are necessary for these countries to provide jobs for their young and growing populations.

Improving the business climate to encourage domestic and foreign investors is critical for all four countries, none of which rank high on standard international indicators of the business climate (table 2).

As seen in table 2, Morocco and Tunisia are in the middle of the sample of countries surveyed, and Algeria is close to the bottom.³¹ In the Middle East, the United Arab Emirates (UAE) has the highest rankings, coming in at 31 in the World Bank's 2016 *Doing Business Report*, at 16 in the World Economic Forum's 2016-17 *Global Competitiveness Report*, and at 25 in the Heritage Foundation's 2016 *Index of Economic Freedom*.

27 Fadel Lamem and Karim Mezran, "Libya and the HoR Vote: What May Come Next," *MENASource*, August 24, 2016, <http://www.atlanticcouncil.org/blogs/menasource/libya-and-the-hor-vote-what-may-come-next>.

28 Jason Pack, Karim Mezran, and Mohamed Eljarh, "Libya's Faustian Bargains: Breaking the Appeasement Cycle," Atlantic Council, May 2015, http://www.atlanticcouncil.org/images/publications/Libyas_Faustian_Bargains.pdf.

29 The 2016 growth projection for Libya seems to be a serious overestimate. There are no projections for 2017.

30 World Bank, "Predictions, Perceptions and Economic Reality."

31 It is likely that Libya would also be at the lower end if the rankings had been done for it for 2016-17.

Table 2. Business Climate Rankings

Survey	Algeria	Libya*	Morocco	Tunisia
World Bank's 2016 <i>Doing Business Report</i> (out of 189)	163	—	75	74
Heritage Foundation's 2016 <i>Index of Economic Freedom</i> (out of 178)	154	—	85	114
World Economic Forum's 2016-17 <i>Global Competitiveness Report</i> (out of 138)	87	—	70	95

*No rankings are available for Libya.

Generating higher growth and employment and creating a business-friendly environment for private sector-led development requires a host of structural and institutional reforms.³² So far, all the countries have made limited progress in this area, although they have been formulating reform plans. Algeria has a provision in the new constitution that explicitly commits the government to improving the business environment, and in this connection it is overhauling the investment code to encourage domestic and foreign investors.³³ Morocco has made some progress to improve the business climate by setting up simpler and more transparent procedures covering customs, property registration, and establishing businesses. It has also launched a national strategy to fight corruption and has given the Competition Council substantial powers to investigate noncompetitive practices.³⁴ The Tunisian government has outlined a five-year economic vision in which the main focus is private sector development. The vision has five main components:³⁵

- transparent and effective public institutions;
- economic diversification;
- human development and social inclusiveness;

- reduced regional disparities; and
- “green” economic growth.

The specific policies and reforms to achieve these goals are contained in the five-year development plan, which is to be presented at an investors conference in November 2016. The government also recently announced a new investment law to be enacted in 2017, which will protect investor rights and create financial incentives for foreign investors as well as more flexibility to repatriate profits.³⁶

Conclusion

Is there any lesson then for contemporary theory on democratic transitions to be drawn from the different paths taken by the four North African countries under consideration?

Tunisia advanced furthestmost in building a more open, inclusive, and pluralistic political system. However, the country finds itself today in grave difficulty because of the lack of attention paid to the economic challenges present in its system.

Morocco moved ahead in its politics of slow enlargement of democratic spaces while ensuring the stability of the country. The country has reached a discrete result by proceeding at the same time with economic reforms intended to create more space for new actors and more participation in economic development.

Algeria did not move on the political reform area until very recently and moved very timidly on the economic reform area. Because of the sudden collapse of oil revenues, Algeria has lately undertaken wider and more

32 World Bank, “MENA Economic Monitor: Towards a New Social Contract,” April 2015, http://www-wds.world-bank.org/external/default/WDSContentServer/WDSP/IB/2015/04/09/000456286_2_0150409170931/Rendered/PDF/956500PUB0REV1020150391416_B000UO090.pdf; International Monetary Fund, “Regional Economic Outlook Update—Middle East and Central Asia Department,” May 2015, <http://www.imf.org/external/pubs/ft/reo/2015/mcd/eng/mreo0515.htm>.

33 One major obstacle to foreign investment is the requirement of minimum 51 percent Algerian ownership in foreign investments.

34 International Monetary Fund, “Morocco Request for an Arrangement Under the Precautionary and Liquidity Line and Cancellation of the Current Arrangement,” August 2016, <http://www.imf.org/external/pubs/ft/scr/2016/cr16265.pdf>.

35 IMF, “Tunisia Request for an Extended Arrangement Under the Extended Fund Facility.”

36 “Newly approved Law on Investment will come into force on January 1, 2017,” *Tunis Afrique Presse*, September 17, 2016, <http://www.tap.info.tn/en/Portal-Economy/8249927-newly-approved-law-on-investment-will>.

relevant initiatives to restructure its economy. The lack of transparency and openness of the political system is nevertheless exacting a toll on how much longer the apparent stability of the country can be maintained.

Libya has turned out to be a disaster on both the political and economic fronts since the fall of Qaddafi. There is yet no settlement among the various warring parties on who will rule the country and how they will rule. Mainly due to the continuing political stalemate, as well as the drastic fall in oil production and prices, the economy has been in a free fall since 2011 and there is no relief in sight.

The main lesson to be drawn from the experiences of the four North African countries is, therefore, that in

the search for a new social contract that establishes wider consensus-based political legitimacy, the elites have to be willing to undertake openings and reforms in the political area and adopt far-reaching economic reforms simultaneously. Putting off economic reforms can undo any progress on the political front.

Mohsin Khan is nonresident senior fellow at the Atlantic Council's Rafik Hariri Center for the Middle East.

Karim Mezran is resident senior fellow at the Atlantic Council's Rafik Hariri Center for the Middle East.

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Atlantic Council

1030 15th Street, NW, 12th Floor,
Washington, DC 20005

(202) 463-7226, www.AtlanticCouncil.org