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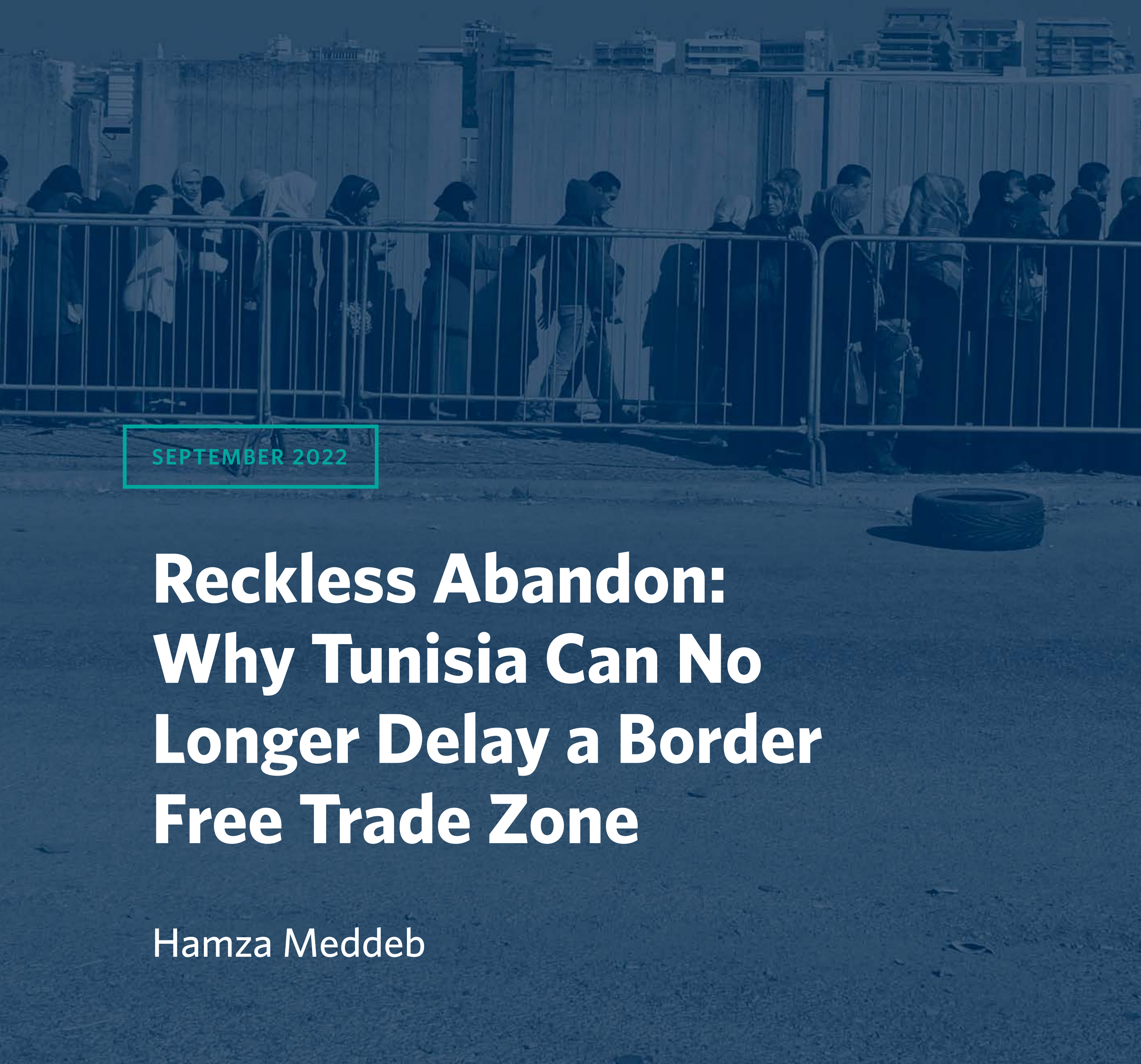

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Reckless Abandon: Why Tunisia Can No Longer Delay a Border Free Trade Zone

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CONTENTS

Summary

In 2012, Tunisia announced the establishment of a free trade and logistics zone (FTZ) in Ben Guerdane, near the Libyan border. The aim is to develop marginalized southeastern border regions and formalize informal economic actors. However, the plan has stalled due to institutional resistance, political divisions, and an incapacity to exploit international geopolitical rivalries. If this persists, the project may become irrelevant because of emerging FTZs in Libya, denying Tunisia revenues its ailing economy needs.

Key Themes

- The Tunisian-Libyan border region has long relied on informal cross-border trade. This was tolerated as it reinforced social stability in a poor region.

- The Tunisian and Libyan uprisings in 2010–2011 disrupted the border economy. A fragmented security landscape in Libya, the erosion of supply chains, and heavy-handed Tunisian border security measures exacerbated the distress of the border population, pushing the authorities to propose Ben Guerdane's FTZ as a solution.

- The FTZ is aimed at upgrading trade and investment infrastructure, generating regional economic development, and encouraging entrepreneurs of the informal economy to formalize their activities.

- The project has suffered multiple delays caused by its conceptual shortcomings, negotiations over property rights, institutional resistance related to tax incentives and currency regulations in the FTZ, rivalries between economic elites, and ambiguity around Tunisia's participation in international competition over Mediterranean trade routes.

Findings and Recommendations

- The Tunisian authorities must revive the FTZ project as soon as possible to capitalize on Tunisia's economic potential and give hope to the population of the border area.

- Tunisia urgently needs to formulate an attractive regulatory and incentive framework for the Ben Guerdane FTZ to appeal to Tunisian and foreign investors. Its success will also depend on a credible strategy to formalize the informal economy, as the main goods being traded informally—gasoline and cigarettes—will not be covered by the FTZ.

- Failure to position Tunisia in a competitive regional and global environment—a positioning the FTZ will advance—will exacerbate Tunisian economic hardships. Until now, however, Tunisia has been buffeted by rivalries between China and Western states.

- One element of this regional and global positioning is to move forward on identifying a strategic private-sector international operator to invest in the FTZ. This process has been deferred since 2015.

- Time is of the essence, as western Libyan cities are also engaged in similar projects, with Misrata having already established a dynamic FTZ and Zuwara planning to do so. Continued progress in Libya could soon make the Ben Guerdane project irrelevant.

Introduction

The Tunisian-Libyan border region around the southeastern Tunisian city of Ben Guerdane has long relied on informal cross-border trade.[1] This is tolerated by the authorities as it provides a measure of social stability in a long-neglected region on Tunisia's periphery. Cross-border trade, both formal and informal, flourished for over two decades under the regimes of Tunisian president Zine el-Abidine Ben Ali and Libyan leader Muammar Qaddafi. However, it declined following the 2010–2011 uprisings in the two countries that led to the overthrow of both leaders.[2]

Developments on either side of the border contributed to reducing trade flows.[3] In Libya, the intensification of conflict between armed groups in western regions of the country after Qaddafi's downfall led to a deterioration in the economic situation. In Tunisia, the authorities' efforts to ensure that the instability in Libya would not spread across the border included implementation of rigorous border security measures starting in 2014.[4] This combination of factors negatively affected Tunisia's southeastern border areas. The resulting adversity gave rise to frequent protest movements in Ben Guerdane, exacerbating popular grievances resulting from the region's marginalization.[5]

In 2012, the deterioration of the economic and social situation prompted the Tunisian government to move forward on a potentially transformative project, namely the establishment of a free trade and logistics zone in Ben Guerdane.[6] The government sought primarily to achieve two things: reducing its revenue losses caused by the informal trade and revitalizing the border region. Aside from developing border areas to reduce social discontent, the plan was aimed at formalizing the informal sector by encouraging entrepreneurs of the informal economy to take advantage of the facilities offered and legalize their activities, which would create jobs and boost exports.

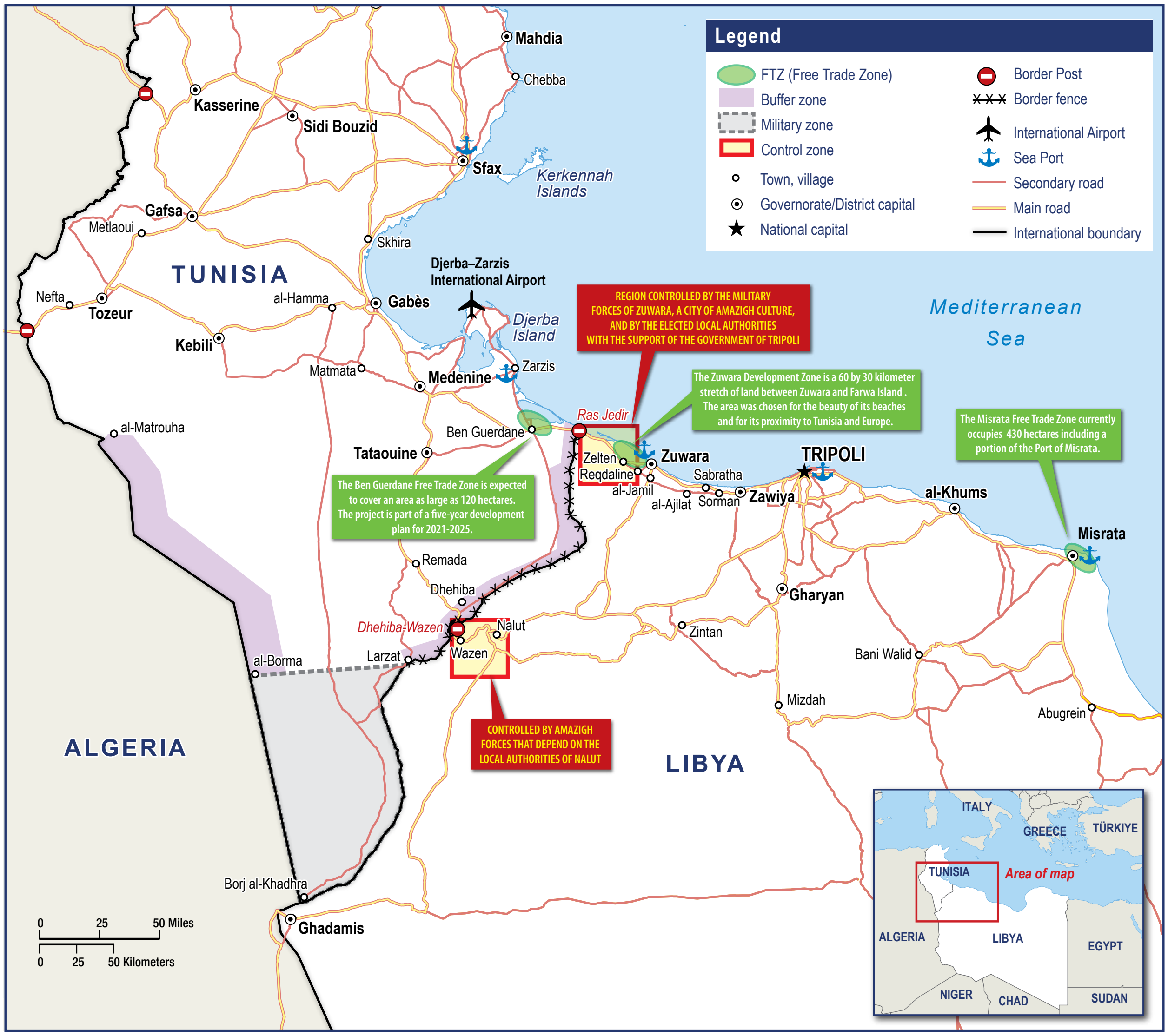
The FTZ would offer warehousing, storage, and distribution services and, as a priority, reexport imported goods to Libya, as well as to other African countries and to Europe.[7] Located 45 kilometers from the Zarzis port and 60 kilometers from Djerba airport, the FTZ would fulfill the ambition of post-2011 governments to transform southeastern Tunisia into a trade and logistical hub. However, for the project to be competitive and attract interest, the Ben Guerdane FTZ requires investment in storage spaces, high-quality infrastructure, and facilities offering logistical services. It also must offer investors tailored regulations and incentives, such as lower tax rates, special customs regulations, and a flexible currency regime.

Despite the state's support for the project, progress has been slow. The government announced in 2019 that the FTZ would be operational in 2021, but as of August 2022, it has not yet opened.[8] And the delays are expected to last. In March 2022, the authorities announced the creation of the company that would operate the FTZ through a public-private partnership.[9] However, the state has not yet found a strategic foreign partner to participate in the FTZ, nor has it formulated an appealing model to begin operations. Indeed, the process of organizing an international tender to select a foreign partner is on hold.[10]

The failure to deliver on the FTZ project is a consequence of many factors, including institutional resistance in Tunisia, political divisions in Tunisia and Libya, and geopolitics. These are undermining attempts to develop the border region. The FTZ project is at a crossroads today. If the obstacles persist, Tunisia will pay a

MAP 1.

FTZ Increasingly Shaping the Cross-Border Trade Between Tunisia and Libya



heavy price. By delaying the formalization of the informal trade, the country will continue to face an opportunity cost in terms of cross-border trade, at a time when it needs to increase its revenues. Social grievances among the border population will only rise, feeding instability and delegitimizing the political authorities. Continued immobility would also make the project increasingly irrelevant, as cities in western Libya have already begun investing in the creation of FTZs of their own.[11] At a time when Tunisia is facing serious economic difficulties, the country cannot afford such outcomes.

Increasing Uncertainty Along the Tunisian-Libyan Border

Informal cross-border trade between Tunisia and Libya has long been a driving force in Tunisia's economy, playing a key role in the country's supply chains. By providing cheap oil and goods from Libya, the informal trade bolstered social stability in underdeveloped southeastern Tunisia.[12] The uprisings in both countries, by ending the old border arrangements and disrupting the border economy, forced Tunisian governments to reconsider their options and adapt to a highly unfavorable situation.

During the years of Ben Ali rule (1987–2011), a vibrant community of traders exploited the border differentials between Tunisia and Libya and supplied Tunisia's economy with a wide variety of goods. These included household appliances, clothing, automotive spare parts, electronic devices, tobacco, and most importantly cheap fuel.[13] Outside the legal channels, the border economy was characterized by two types of exchange—smuggling and the informal trade. Smugglers fully avoided border crossings and therefore also avoided customs controls and oversight by the security services. In contrast, informal traders, operating through the Ras Jedir border crossing, partially avoided trade regulations and underreported the value of their goods. Under this fraudulent system, customs officers underassessed the tariff value of goods in exchange for bribes and kickbacks.[14]

The Tunisian security services tolerated the informal cross-border trade. Yet this didn't mean the government was unable to enforce law. By not doing so, however, the security forces were able to build clientelist networks among those dependent on their leniency, even as the informal trade acted as a broader safety valve for the region, allowing a majority of people to conduct subsistence-level economic activities, while a happy few accumulated wealth.[15] This official tolerance was part of a low-cost governance approach in the border regions. Given the overall lack of government-supported development in those regions, had the customs authorities and police opted to combat the informal trade, they would have created hotbeds of protest and instability. For a population suffering economically and socially from prolonged state indifference, the revenues derived from informal cross-border trade were the only viable substitutes. Ben Ali's regime understood the importance of allowing such trade to continue.[16]

After the fall of the Ben Ali and Qaddafi regimes, participation in the border economy expanded beyond the circles previously formed of the security services' clients.[17] The involvement of Libyan armed groups in the trafficking of illicit commodities, such as drugs, narcotics, and alcoholic beverages, created connections between the war economy and the border economy in western Libya. Fierce competition among trading networks and the heavy implication of militias involved in protection rackets disrupted the economic arrangements that had previously been in place.[18]

After Qaddafi's overthrow in October 2011, the Amazigh city of Zuwara, which had been politically marginalized and excluded from the border economy throughout his rule, began playing a more prominent role.[19] Zuwara's militia seized control of Ras Jedir and officially annexed the border post to the administrative zone under the control of the Zuwara municipality. This constituted an important step toward establishing the city as a true power center in the increasingly fractious country.[20] The commercial and military rise of Zuwara, which is nominally under the authority of the Tripoli-based Libyan government but enjoys wide autonomy, destabilized the trading networks that had been established between Ben Guerdane's traders and their counterparts from Arab cities in western Libya.[21] The reshaping of the politicomilitary landscape impacted the border economy. In order to do business with their traditional trading partners in Zelten, Al-Jamil, Al-Ajaylat, Reqdaline, and elsewhere, Tunisian merchants had to deal with the fact that the Amazigh Zuwarans, with whom relations were strained, controlled the border post.

In fact, control over border crossings became a strategic element in economic competition and identity politics in western Libya. In Nalut, another Amazigh town, the local militia has taken over the nearby Dhehiba-Wazen border crossing.[22] Ras Jedir and Dhehiba-Wazen are the only border crossings between Tunisia and Libya, with the former considered a gateway for goods and passengers, whereas the latter has historically been dedicated exclusively to passengers. In 2015, the Tunisian government under Habib Essid announced that it would allow the transit of goods through Dhehiba-Wazen as well, although this has not begun yet because of delays and extension work on the crossing.[23]

Since Libya collapsed as a unitary state with the start of the civil war in 2014, Tunisia's border areas have faced three major, and increasingly overlapping, challenges. First, the fragmentation of the security landscape in western Libya has led to periodic fighting between militias and the frequent closure of the Ras Jedir border post.[24] This has significantly disrupted trade, with disastrous consequences for Tunisian traders supplying the market of Ben Guerdane, subjecting them to increasing uncertainty.

Second, the Libyan banking crisis, which began in 2016 because of falling oil production and revenues, made Tunisian traders more vulnerable to business volatility in Libya.[25] This vulnerability was exacerbated by the intensification of anti-smuggling efforts in Libya against subsidized goods, which weakened the resilience of border communities that relied on cross-border trade for their livelihood.[26] The interruption of oil production because of the civil war, combined with the fall in oil prices during the years before the COVID-19 pandemic, caused a monetary crisis and a decline in state revenues and foreign exchange reserves.[27] In addition, there was a rise in the use of falsified letters of credit to transfer money outside of Libya without supplying the Libyan market, undermining the border economy and drastically limiting the flow of goods from Libya to Tunisia.

Third, the heavy-handed approach to border security pursued by the Tunisian authorities intent on preventing a spillover of the Libyan conflict into Tunisia also led to the frequent closure of Ras Jedir.[28] This brought about a further deterioration in the economic and social situation in border regions, which the pandemic made still worse. Security concerns, combined with the lack of development and loss of revenues from the illicit trade, pushed the authorities to think strategically in addressing the situation.

Tunisia's revenue losses are far from negligible, given the poor macroeconomic situation with which the country has been struggling for a decade now. Since 2011, Tunisia has faced a host of economic problems, including declining gross domestic product (GDP) growth rates, high unemployment, and low levels of investment. From 2011 to 2019, the country experienced low growth, with an average GDP growth rate of 1.7 percent, before a sharp decline in 2020 to a negative rate of –9.2 percent when the pandemic shut the country down.[29] These macroeconomic trends had a damaging impact on public finances, with the budget deficit increasing from 3.4 percent of GDP in 2011 to 11.4 percent in 2020.[30] Tunisia's public debt, in turn, increased from 47.7 percent of GDP in 2012 to 87.6 percent in 2020.[31] Unemployment rose from 13 percent in 2010 to 16.8 percent in 2021.[32] With the COVID-19 pandemic, the poverty level jumped from 12.7 percent in 2018 to 19.1 percent in 2020.[33] This heightened social tensions and public disenchantment with the political order, culminating in the election in October 2019 of Qaïs Saied.[34] A populist president, Saied conducted an effective coup in July 2021, in which he concentrated power and announced the end of the 2014 constitution and political system.[35]

According to reports issued by the World Bank between 2013 and 2015, Tunisia's informal economy accounted for between 39 and 50 percent of the country's GDP.[36] In 2015, informal imports represented 15–20 percent of the total of Tunisia's traded goods.[37] The World Bank estimated informal trade between Tunisia and Libya at around $498 million for the same year, with cigarettes accounting for $200 million, fuel for $148 million, and other goods for $150 million.[38] The total revenues from smuggled and informally imported goods were estimated at 2 billion Tunisian dinars ($700 million), with 50 percent coming from fuel and tobacco.[39] In 2015, the loss of revenues from informal cross-border trade was estimated to be at least 1.2 billion Tunisian dinars, equivalent to $500 million, of which around 500 million dinars ($200 million) were in lost customs duties; this amounted to more than one-sixth of total customs duties.[40] Given the magnitude of these losses and the scale of informal cross-border trade, the Tunisian state had no choice but to adopt a new approach. Creation of an FTZ was seen as a way to address these developmental, economic, and fiscal concerns.

The Obstacles Delaying Ben Guerdane's Free Trade Zone

In 2012, former prime minister Hamadi Jebali's government announced its intention to establish an FTZ in Ben Guerdane.[41] According to the most recent project plans, from 2018, this was projected to create 2,000 direct jobs and 6,000 indirect jobs in a region where the unemployment rate was estimated at almost 24 percent of the working population, in comparison to an average of 18.5 percent nationally.[42] By complementing the Zarzis port and the Djerba airport, the FTZ would also seek to address Tunisia's lack of transportation and trade infrastructure. The total estimate for the project was $850 million, which would be invested by a foreign partner, not yet chosen, that would play a strategic role in implementing and operating the FTZ.[43]

However, a decade after the announcement, there has been little progress in advancing the Ben Guerdane FTZ project. The failure of post-2011 governments to move quickly on this front has been tied to conceptual shortcomings, as well as to domestic and international factors that have been exacerbated by Tunisia's political instability and uncertainty during the past decade. The domestic factors have included problems tied to land tenure and property rights in the area where the FTZ will be situated, as well as institutional resistance and elite competition. The political and economic elites from Tunisia's coastal areas oppose steps to integrate peripheral elites that have emerged through the informal trade.[44] Internationally, because Tunisian governments have not formulated an attractive model for the FTZ, which has delayed the selection of a strategic partner for the project, they have not been able to position Tunisia advantageously in a regional and global environment marked increasingly by political and economic competition among states. These delays are threatening to make the FTZ project superfluous.

Conceptually, Tunisia has yet to devise an appealing regulatory and incentive framework for the FTZ to entice Tunisian and Libyan entrepreneurs. The most successful FTZs around the world, such as Jebel Ali in the United Arab Emirates, usually grant companies and operators advantages such as exemptions from paying income and business taxes for a long period, the ability to freely repatriate all their profits, and the absence of foreign exchange restrictions.[45] The success or failure of the Ben Guerdane FTZ will, similarly, depend on its business model and ability to pull investors in by offering tax holidays, reduced tax rates, special customs regimes, and a credible framework to absorb the informal economy. The formalization of informal trade would also require encouraging peripheral entrepreneurs who operate on the border to register their businesses, secure import licenses, and regularize cross-border trade. However, ten years later, businesses are still waiting for the government to decide on a tax regime. The company that will operate the FTZ was only created in March 2022, and still needs to find a foreign partner that will be willing to invest in the zone.[46] And the uncertain situation on the Libyan side of the border has continued to cause delays. All this suggests a lack of commitment to the project, but also conflicting visions of the FTZ's future.

Reversing this lethargy is a necessity if Tunisia is to benefit from the revenues of cross-border trade and if peripheral parts of the country are to become stable. The regulatory and incentive framework is crucial for the FTZ to have a positive impact on its neighboring regions by boosting supply chains and creating job opportunities. Transforming southeastern Tunisia into a logistical hub requires long-term thinking that integrates the FTZ and the Zarzis port into broader development of the peripheries.

Another conceptual shortcoming is that the FTZ project suffers from major exemptions. Two of the leading products driving trade in the border region will most probably be outside the FTZ's scope, namely gasoline and tobacco.[47] Indeed, 17 percent of the fuel consumed in Tunisia in 2014 (the last year for which figures are available) came from Libya, as did 40 percent of cigarette packages purchased in Tunisia.[48] That is why the contribution of the FTZ to the formalization of informal trade will only be partial, helping to reduce the size of the informal economy but not eliminate it altogether. Moreover, the FTZ itself may become a source of illicit trade if the activities taking place there are not subjected to adequate customs regulations. Aside from conceptual problems, other obstacles too have hindered progress.

Land Tenure Problems

The FTZ project is to be implemented in a 150-hectare (370-acre) site, which will include a logistics zone covering 70 percent of the area, a commercial zone covering 20 percent, and a leisure and medical zone with hotels, restaurants, and clinics covering 10 percent.[49] However, problems tied to land tenure initially blocked the project for years, before this was resolved in 2017. As the FTZ is supposed to be established on tribal land, the authorities had to negotiate land prices and the transfer of property rights with the local Twazine tribe before work could begin.[50] Unlike Zuwara on the Libyan side of the border, where problems related to land tenure continue to block the progress of the city's FTZ,[51] in Ben Guerdane the situation was resolved thanks to the commitment of the local population, which saw the project as an opportunity.[52] The decline of the Ben Guerdane market, also called the Souk al-Magharebi, led the city's merchants to support the FTZ project in order to compensate for their losses.[53]

The tribal land tenure system is very common in Tunisia's southern and interior regions. According to this property regime, land is subject to collective tenure and is managed by tribal councils. In many parts of the country the system has proven to be an impediment to investment because of tensions over land ownership within and among tribes, which can lead to communal disputes over boundaries and delays in the implementation of public or private projects.[54] The delay in implementing the Ben Guerdane FTZ project is no exception. Completion rates for funded public projects have been relatively low in the last decade, which has caused popular dissatisfaction.[55]

In addition to the problems of land tenure, progress in the FTZ project has also suffered from the inadequacy of infrastructures in the border region.[56] This includes a shortage of drinking water, which requires construction of an additional desalination plant. Another shortcoming has been the limited availability of electricity. Large projects, such as establishing an FTZ, require prior investment in renewable energy sources to produce more electricity, as well as water availability and the upgrade of sanitation networks.

Institutional Resistance

The delay in delivering the FTZ has also been due to institutional resistance from the central bank and the Tunisian customs service regarding the regulatory and tax incentives scheme that is to be adopted. Preparing a tailored regulation framework was never going to be easy given the large variety of actors operating in the border economy. According to estimates from 2013, there were sixty wholesalers operating in Ben Guerdane.[57] They imported products from Libya and sold them to retail traders from other Tunisian regions. The challenge is to offer a taxation system and access to financial services that would incentivize these actors to operate legally in the FTZ. In addition to wholesalers, 1,200 retailers form a network connecting Ben Guerdane to other regions in Tunisia.[58] There are also 600 transporters who carry goods from Libya to Tunisia, and some 2,000 petty traders who travel back and forth between the two countries to make a living.[59] This plethora of informal entrepreneurs is a challenge when it comes to developing a regulatory structure that encompasses all of these market actors.[60]

Entrepreneurs favor a clear and stable regulatory and operating environment over one that is continuously shifting. For Ben Guerdane's FTZ, this would require that the central bank authorize adaptable currency exchange legislation. Because Tunisians are only allowed to access U.S. dollars and euros when they travel abroad, such legislation could permit Tunisian customers, for example, to use part of that tourism allowance in foreign currencies to shop from the FTZ. Similarly, the customs service should support low taxation in the FTZ. However, the Tunisian central bank and customs have opposed granting a special fiscal status to the zone.[61] The central bank fears losing control over the exchange rate in a sensitive economic context. The two institutions have also rejected the idea of allowing Tunisians to spend 10–20 percent of their tourist allowance in Ben Guerdane. They fear that allowing people to buy goods in Ben Guerdane would create higher overall demand for foreign currency, especially among those who rarely travel internationally (and therefore ordinarily would not use their allowance), which would deplete foreign reserves.[62] The customs authorities, and with them the security agencies, also had a different reason for opposing the FTZ. In exchange for receiving protection, entrepreneurs of the informal economy and smugglers provide rents to the security agencies and customs. If the activities of informal economic actors are regularized, those rents would disappear.

Elite Competition

The resistance to the FTZ plan within the state bureaucracy has hidden a more complicated reality. State institutions are also acting on behalf of well-established, politically connected business interests that seek to block the emergence of a competing business elite formed by entrepreneurs of the informal border economy.[63] By doing so, these institutions have also enhanced their role as gatekeepers of the economy through their ability to protect the privileges of economic actors that gained influence after Tunisia's independence in 1956, while barring others.

After independence, Tunisia put in place an implicit tradeoff between the regime and communities on the country's social and economic margins.[64] The regime allowed the population of the peripheries to engage in illicit economic activities that would allow them to subsist, in exchange for which border communities would grant the regime political obedience.[65] The system changed over time, however. While the first post-independence president, Habib Bourguiba, based his power on clientelism, his successor Ben Ali put in place a system that mixed repression and cooptation.[66] Because this system favored politically connected elites, for decades Tunisia's peripheries remained underrepresented in national institutions. Under Ben Ali, regional inequality was exacerbated by the uneven distribution of state investments, which were mainly directed at northern and eastern coastal areas where most of the political and economic elites were located.[67] This prevented the rise of a private sector that could generate income for the population in border and interior regions. Promoting a private sector would have required public investment to allow for the upgrade of infrastructure as well as access to banking credit and public procurement contracts. However, this would have meant fewer revenues and opportunities for the connected elites that had profited from the post-independence settlement, while leading to the rise of a peripheral business elite with a power base that was independent of the regime.[68] The fact that a successful FTZ project might do precisely this is why it has generated concerted opposition from a combination of state institutions and economic elites that stand to lose as a result.

Tunisian Ambiguities and Geopolitical Competition

Geopolitics, especially the inability of post-2011 governments to exploit regional and international rivalries, has also been an impediment to the FTZ. The project was designed as a Public-Private Partnership (PPP), but has suffered from delays in Tunisia's adoption of a PPP law.[69] Such legislation was approved by parliament in 2015. However, its implementation has always faced resistance from the main labor union, the Union

Générale Tunisienne du Travail, which views the law as part of a larger effort to dismantle the public sector.[70] The absence of a strategic partner to operate the Ben Guerdane FTZ has greatly impeded the project's progress.[71] The challenge is to find a foreign partner that would engage with the Tunisian state to invest, operate, and manage the zone. Yet the selection of such a partner is a highly political decision, given that private companies also reflect the interests of their nations, which are competing for influence in Tunisia. This is especially true in a context of escalating geoeconomic rivalries over ports and FTZs in the Mediterranean.

Chinese partners have explicitly expressed an interest in operating the Ben Guerdane FTZ. In 2018, Tunisia officially joined Beijing's Belt and Road Initiative (BRI) and Chinese companies seriously explored investing in southeastern Tunisia's infrastructure—the Zarzis port, and the railway project connecting Gabès to Medenine via Zarzis as well as the Ben Guerdane FTZ.[72] The Chinese authorities, who seek to transform Tunisia's southeastern regions into a logistical hub, have funded feasibility studies of these projects to prepare the groundwork for the signature of agreements to operate in the region.[73] However, following rounds of negotiations, the Tunisian government decided in 2019 not to sign any agreements with the Chinese.[74]

Among the major reasons for this was pressure from certain Western countries, with different sources mentioning France or the United States, not to do so.[75] Competition in the Mediterranean over ports and infrastructure logistics led Tunisian officials to oppose Chinese ambitions and avoid alienating Tunisia's more established Western partners. Moreover, Chinese interest in the Ben Guerdane FTZ was driven less by an attraction to the Tunisian market than by a desire to position China for Libya's reconstruction once the conflict in the country ends.[76] In that context, a presence in southeastern Tunisia would provide a safe logistical hub allowing Chinese companies to operate in Libya. The episode reflected the weakness of the Tunisian government and its inability to impose on foreign partners a strategic direction of its choice through its conception of the FTZ project. It also exposed the disarray in governing circles and economic elites, which are too divided to exploit rivalries among global powers to Tunisia's advantage.

Indeed, influence over ports and FTZs in North Africa appears to be a critical feature of the geoeconomic landscape of the Mediterranean.[77] The position of the Mediterranean in the global economy, connecting Asia to Europe, led to a 477 percent increase in the amount of cargo handled by Mediterranean ports between 1995 and 2018.[78] Yet southern Mediterranean countries are only partially benefitting from these economic opportunities. In many countries, including Tunisia, this has been due to poor port development strategies and a lack of interest in investing in infrastructure and logistics.

China has become a key player in global markets, and in the Mediterranean more specifically.[79] By involving a Chinese company in the FTZ and investing in southeastern Tunisia's infrastructure, Beijing would be able to strengthen its relations with Tunis and, as a consequence, enhance its economic positioning in the Mediterranean.

Unlike Tunisia's trade relations with European partners, which have been on a downward slope since the 2011 uprising, Tunisian economic relations with China have been increasing. The rise in imports from China (40 percent between 2010 and 2019) corresponds to a decrease in imports from France and Italy (–28 percent and –2 percent respectively).[80] China is Tunisia's third-largest supplier of goods. In 2018, Tunisia's imports from China amounted to $2 billion, including consumer goods, electrical and electronic equipment, plastics, and organic chemicals.[81] These figures do not reflect the reality of Chinese imports, which were underreported, but they do show China's growing role as a trading partner in Tunisia.[82]

Tunisia has shown an interest in developing relations with China, not only by joining the BRI but also by becoming a member of the Asian Infrastructure Investment Bank.[83] It has signed various BRI agreements since September 2018 with a view to attracting Chinese investment, particularly in infrastructure, which would compensate for the trade deficit between the countries.[84] Yet the partnership with China has faced opposition from Tunisian business and political elites for several reasons. There is continued disagreement over how the country should position itself amid broader global geoeconomic rivalries.[85] At the same time, these elites have different views, and are part of competing interest groups, when it comes to defining the role Tunisia must play in Libya's future reconstruction. This combination of factors has undermined any agreement over a major Chinese economic presence in the country.[86]

The delay in implementing the FTZ threatens to make the project irrelevant, given the competition that is emerging from western Libyan cities engaged in similar projects. Misrata, located over 200 kilometers east of Tripoli, has already established a dynamic FTZ that is operating as a gateway to the Libyan economy.[87] Turkish companies have been investing in this hub and using it to expand their economic and commercial presence in Libya.[88] Turkey, as an emerging regional power, aspires to widen its sphere of influence in North Africa, where it has sought to bolster its power economically, politically, and culturally, as well as militarily through its presence in Libya. In the new Turkish strategy, North Africa is a desirable target for Turkish trade, with a market of about 250 million consumers, and a source of potential economic alliances that would allow Turkey wider access to the Maghreb and sub-Saharan Africa.[89]

The success of Misrata's FTZ has created incentives for other cities to do the same. This is the case in Zuwara, 35 kilometers from Tunisia's border. The city's local council (*al-majlis al-mahalli*) has demonstrated an interest in increasing its revenues and gaining prominence in western Libya through the control of cross-border trade. The city has invested in the construction of an airport and port facilities and announced the creation of an FTZ.[90] Following an economic rationale, businessmen from Zuwara want to promote the city as an import-export platform that can compete with the chaos-ridden capital of Tripoli, or with Misrata. The consolidation of the cross-border economy would also bring in revenues allowing it to strengthen its position militarily in a hostile environment. At the same time, a political rationale has encouraged Zuwara to try to become the most influential city in western Libya. The examples set by Zuwara and Misrata show that the political and economic order that emerges in Libya will be the result of fierce competition among cities, in which FTZs will play an important part.

The risk for Tunisia is that the approach adopted by Libyan cities will turn them into regional transshipment hubs and that instead of cooperating, these cities will engage in competition, with international investors refraining from investing in all of them as they focus on the most stable, secure, and efficient ones. Tunisia has definite advantages, including greater stability than Libya and a more developed banking sector, which allow it to play the role of a hub that can benefit from Libyan reconstruction. However, to do so the country should move quickly on formulating an investment strategy and building strategic partnerships with international operators and investors.

The example of the Moroccan industrial port complex, Tanger Med, which plays a pivotal role in trade between Africa and Europe, shows that acting early and engaging in strategic positioning are key steps for gaining an advantage in a saturated market. Before 2007, Tunisia was better ranked than Morocco and other North African countries in terms of connectivity—or the intensity and quality of port connections with the rest of the world.[91] A decade later, Tanger Med has become one of the leading logistical platforms worldwide, whereas Tunisia is lagging behind all its neighbors.[92] According to the DHL Global Connectedness Index, which measures the integration of countries into global networks in terms of trade, capital, people, and information, Tunisia was ranked seventy-second out of 169 countries in 2020, behind its major southern Mediterranean counterparts. Malta was ranked tenth, Lebanon fifty-fourth, Turkey fifty-fifth, and Morocco sixty-second. Only Egypt was behind in 103rd position.[93]

The failure to advance the FTZ project and garner the likely benefits will only exacerbate social anger and feed national disenchantment with politics, undermining the country's already shaky political situation. At a time of heightened global competition, Tunisia's economy is actually deteriorating. President Saied, who has led a political transition in the country and prioritized political and constitutional change over economic requirements, is not giving precedence to major projects such as the Ben Guerdane FTZ. However, with Tunisia now negotiating an agreement with the International Monetary Fund and in dire need of investment, it is inevitable that the FTZ project will be revived. That is why the authorities must give new impetus to the project, exploit their country's economic potential, and perhaps most importantly, provide a measure of hope to their population, thereby reinforcing Tunisia's stability.

Conclusion

Tunisia is at a critical juncture. The impact of COVID-19 has increased the importance of logistics and supply chains in responding to the post-pandemic global demand for goods. Logistics need to evolve in order to build stronger supply chains, while countries have to position themselves strategically in the global networks of trade and transportation in order to profit from this situation. In this context, the emergence of multiple FTZs in North Africa will inevitably bring challenges for Tunisia. If the country's leaders continue to fail to convince investors of the attractiveness of the Ben Guerdane project and to partner with a strategic operator, Tunisia will face a major setback.

Today, the future looks gloomy in Tunisia and Libya. The Tunisian political leadership has been busy redrafting the country's constitution with the aim of concentrating power and reviving an illiberal political system. After the adoption of a new constitution on July 25, 2022, which gives the president wide prerogatives, the priority should shift to tackling pressing economic problems. This might prove challenging given the president's lack of economic vision. Developments in Libya, meanwhile, may revive armed clashes, further destabilizing that country. Political rifts are thwarting growth and development opportunities in both countries, which are engaged in a race to the bottom. Tunisia needs to put its economy first. The FTZ project could be a cornerstone of such an effort, but requires political stability and a bold and innovative vision for what needs to be done. For now, neither is present.

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