

# TUNISIA: THE EFFECTS ON THE REAL ECONOMIC SECTOR AND THE OPPORTUNITIES OF THE COVID-19 CRISIS

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## ABSTRACT

*Tunisia, like all other countries in the world, is going through a particularly uncertain and evolving period with the COVID-19 pandemic. A period that is generating dramatic situations for millions of people, and which is generating tensions and opposing thoughts on the right measures to take in the immediate future. However, the anguish of this period is not incompatible with the hope of giving ourselves the means to build a more united, socially, and economically resilient Tunisia.*

**Keywords:** Economic, Job Market, COVID-19, Opportunities, Tunisia.

## INTRODUCTION

The Organization for Economic Co-operation and Development (OECD) published a report in early March 2020 on the economic impact of the coronavirus epidemic on economic activity worldwide. The main conclusions of this study confirm that the world economy is at risk, revise the global growth rate downwards, and outline two scenarios for the future.

The first scenario, a soft hypothesis, considers that the epidemic will peak in the first quarter of 2020 before declining in China the following quarter and that its spread to the rest of the world will be relatively contained.

The second, more alarmist scenario highlights "*a domino contagion, widely spread and difficult to control*". In this case, the effect on world GDP could rise to 1.5%. Also, it is the latter scenario that is currently spreading worldwide.

Unfortunately, the impact of the crisis on MENA countries is likely to be more violent than for other emerging countries in the short term.

Tunisia, like all other countries in the world, is going through a particularly uncertain and changing period. A period that is generating dramatic situations for millions of people, and which is giving rise to tensions and opposing thoughts on the right measures to take in the immediate future. However, the anguish of this period is not incompatible with the hope of giving ourselves the means to build a more united, socially, and economically resilient Tunisia.

The article will first focus on the impact of the pandemic on the real sector in Tunisia, before briefly addressing, in a second phase, the impact of this crisis on the job market and, in a third phase, the opportunities of this health crisis on the Tunisian economy.

## Impact of COVID-19 on the Real Economic Sector

In contrast to the financial crisis of 2008, in which the monetary injection into the banks was sufficient, the health crisis of COVID-19 had a very significant effect on the real economic sector. On the supply side, and with the total and directed confinement imposed by the Tunisian government, the cessation of major country activity was the source of a drop in supply. On the other hand, a drop in demand due to the drop in consumption, production, and exports. Besides, measures to curb the circulation of the virus have also led to a general decline in commodity prices, with the decline being particularly marked for energy products and, to a lesser extent, industrial metals. Of course, this very critical situation has had a direct effect on households and companies.

There are several reasons for this. First, MENA countries are more engaged in international trade than most emerging countries. The share of exports and imports in national income is much higher than in many Latin American and Asian countries; Tunisia is one of the most outward-looking countries in the region. It will, therefore, be doubly affected according to Saidane (2020): a fall in revenue (-4% in terms of growth) and a fall in the growth with its partners (-10% in terms of growth). However, the concentration of our exports by country of the destination means that our 4 main European partners (France, Italy, Germany, and Spain) alone account for more than 70% of our total exports of goods. The dynamics of our exports are therefore strongly dependent on the growth dynamics of these 4 countries, which are among the countries hardest hit by the pandemic.

Second, the Covid-19 pandemic has shown that the length and complexity of global value chains (GVCs) have been at the root of shortages and sometimes even supply disruptions for some products. Indeed, GVCs split the production process between several companies located in different countries. This fragmentation in the production process has led to companies specializing and no longer having to produce entire goods.

Indeed, the recently appointed Tunisian government faces a chaotic record even before the COVID-19 crisis. In this context, Moody's warns the Tunisian government on March 17, 2020, under penalty of lowering its rating, to make its access to international loans more difficult and expensive. Similarly, Tunisia suffers from the worsening of the trade deficit of around 18% of GDP, an increase in public debt greater than 76% of GDP, and a reduction in savings. (CBT, 2019). These conditions complicate the government's mission.

The spread of the pandemic and the lack of visibility in the short, medium and long term suggest that inflation is likely to embrace the coming months, with observers fearing the worst, either a rise in inflation juxtaposed with negative growth or a situation of stagflation with devastating economic and social repercussions. Indeed, after the effort deployed by the Central Bank of Tunisia (CBT) to curb inflation, the INS underlines, in its bulletin published on April 5, 2020, a resumption of inflationary pressures by recording a generalized increase of 5.1% in food prices.

At the sectoral level, SMEs are the first link in a country's economic progress, in both developing and developed countries. Also, it is important to study the situation of SMEs in the face of this health crisis. *“Under these settings, most enterprises have difficulty operating.*

*Especially, for small and medium-sized enterprises these problems are more serious than for other enterprises as a result of the considerable decline in the demand for goods and services.*

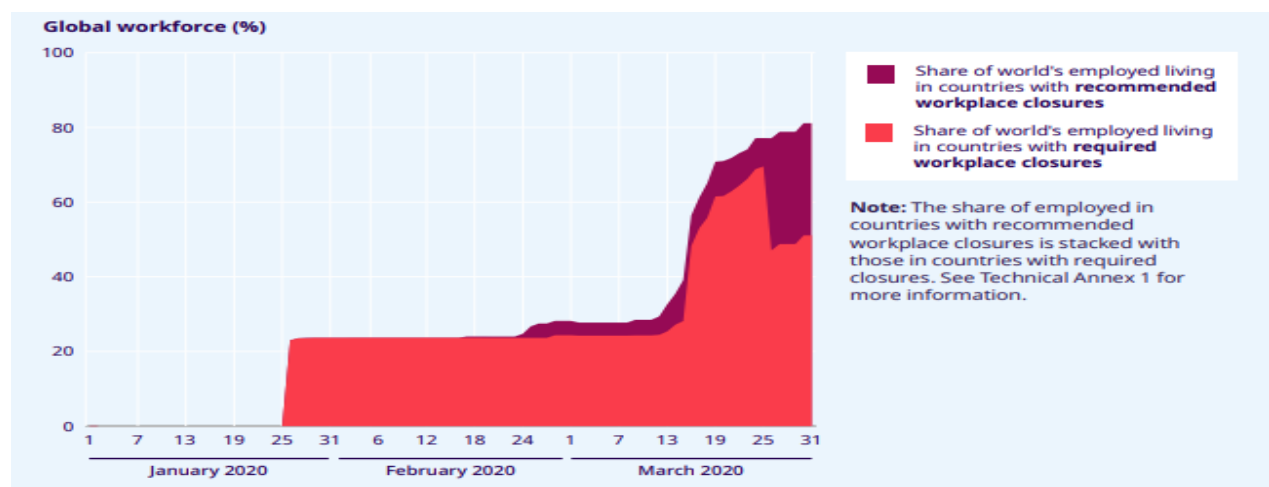
*SMEs with their limited ability to counterattack the involved risks and afford the costs due to the slowed down business activities are facing the difficult problems of the lack of funds and liquidity, employees, customers, and technology. As SMEs are severely hurt last 4-month period, they are unable to service their clientele, to pay salaries to their employees and be compliant to their commitment with their suppliers. Consequently, many small and medium-sized enterprises are expected to go out of business under and after COVID-19” (Syriopoulos, 2020).*

For Tunisia, SME represents 90% of the total economic fabric, with SMEs in the industrial sector accounting for about 99% (Zine, 2018). According to Mr. Ahmed Bettaieb, Director General of the Promotion and Industry Agency (API), in Monastir (May 2020), 50% of these SMEs confirm that they have profoundly regressed economically. This percentage represents, in particular, companies that have found it difficult to obtain a movement permit for their employees and workers.

So, the dominance of small and medium-sized enterprises, as well as a blocked tourist season and a stoppage of most industrial companies, have a very significant effect on jobs and the industrial fabric. For companies working with the public sector, they have a problem with debt and liquidity since the state does not have the means to repay them at present. For companies in the private sector, they suffer from a problem of indebtedness, lack of liquidity, and lack of savings, which can be the source of bankruptcy and job losses. This raises the question of the effect of this crisis on the labor market.

### Impact of COVID-19 on the Job Market

This health crisis will have a heterogeneous effect on the labor market around the world, According to ILO (International Labor Organization) estimation over 24 million jobs could be lost worldwide as a result of the coronavirus. *“Particularly in low- and middle-income countries, hard-hit sectors have a high proportion of workers in informal employment and workers with limited access to health services and social protection”* in Figure 1 (ILO, 2020).



**FIGURE 1**  
**EMPLOYMENT IN COUNTRIES WITH WORKPLACE CLOSURES**

*Source: ILO, 2020*

In Tunisia, this market is characterized by:

1. A large and very vulnerable part, exposed to the risk of job loss in the face of the first manifestation of the crisis.
2. A very important informal (non-structural) market
3. Very high structural unemployment

This very negative balance sheet makes the recovery policy very difficult. Within this framework, the basis of this part will be the measurement of the employment elasticity of economic growth. Indeed, the theory of acceleration and deceleration in economics Evsey & Elena, (2017) supposes that in case of acceleration, 1 point of growth allows the creation of 12,000 to 15,000 jobs. And in case of deceleration, a loss of 1 growth point can lead to the loss of more than 25000 jobs.

For Tunisia, taking into consideration the openness rate of the economy which is about 98% (GDP/export), the export and import rates have regressed respectively by 29.2% and 29.5% compared to the year 2019, according to the National Institute of Statistics (2020). However, the rate of integration of the economy affirms the hypothesis that the crisis will be absorbed during the months of March, April, and May, which will cost 1.5 points of decline per month and 25,000 job losses per month. This situation will lead to an increase in the unemployment rate of 3 to 4 points by the end of 2020 because, in addition to the jobs lost, the young population that will enter the job market must be taken into consideration.

Therefore, this global crisis will not have the same effects on all economies. For example, Spain, which has an unemployment rate of 20%, is a well-structured country so the situation will be different from Tunisia. Indeed, the latter suffers from a fragile economic situation with a problem of visibility during this last period. The socio-economic effects of the COVID-19 crisis will be difficult to manage even with the intervention of the State which has tried to give social aid in the order of 200 DT (60 euros) for this fragile category but it is very insufficient.

*“One of the most observable changes which occurred as a result of the Covid-19 pandemic has been the shift of many employees to work from home arrangements across occupations”* Amit & Karen (2020), as the only solution to guarantee the continuity of business and services provided by companies.

Indeed, to fight against the spread of Covid-19 in Tunisia, many public and private companies, national financial and other institutions, schools and universities, etc. have decided to start teleworking. This type of organization has pushed civil servants to reorganize themselves and above all to establish new rules for daily operations.

In this framework, the International Labor Organization has proposed strategies for countries characterized by a large number of unemployed and an informal economy in Figure 2.



Source: ILO, 2020

**FIGURE 2**  
**POLICY FRAMEWORK: FOUR KEY PILLARS TO FIGHT COVID-19 BASED ON INTERNATIONAL LABOR STANDARDS**

But will Tunisia be able to implement this strategy?

### **Covid-19 crisis: What Opportunities for Tunisia**

Frequently the crisis framework leads to several risks for the economy but this does not prevent the nations from learning several lessons. The great global crisis, for example, which hit the world in 2008, has led to several opportunities in terms of financial and government regulations. The COVID health crisis has nothing to do with this last crisis. Even analysts and economic vulnerabilities affirm that it is comparable to the First World War. Beyond its risks, this crisis may also present several opportunities worldwide (increased international solidarity) as well as national.

Although its huge loss, Tunisian industries revealed its robustness to fight the crisis: A number of companies are already fully engaged in the fight against Covid-19 with contributions ranging from donations to redirecting production to supply the health care industry with medical gear and equipment. One of the companies involved in this effort is "Consumed", a medical equipment manufacturer that is currently operating double shifts to produce 50,000 facemasks daily. further, "Sartex", Located in the governorate of "Monastir", which is a local denim and sportswear manufacturer that has turned part of its production line to make face masks. Such initiatives clearly demonstrate the strong potential of Tunisia's industrial base and, more broadly, its drive to unite the public sector, private sector, and civil society in addressing the crisis.

*The rapid and massive development of digitalization, administratively (distribution of social assistance), technically (Guard robot), financially (mobile payment), educationally (Education) and on other levels:* The crisis revealed the fruit of investments in high-value segments such as electronics, engineering, and technology that Tunisia has loaded in recent years. Relying exclusively on existing raw materials and equipment, engineers from "German

*automotive parts manufacturer Kromberg & Schubert*", on "Beja", have created face shields using 3D printing technology.

In another development to promote medical staff, the engineers have developed a specific and multifunctional device, with infrared camera and GPS, which allows officers to request identification papers and issue verbal warnings to those breaching lockdown rules. At the same time, the local start-up Enova Robotics has produced, "Veasense", the robot that allows the hospital's health care staff to remotely realize preliminary diagnoses and control patients without physical contact.

First seen on the streets of Tunis on March 24, "PGuard", a robot soil vehicle, was acquired by the Ministry of Interior to monitor the application of the country lock rules. Not forget the effort of our engineers to develop online-service sales through "télétravail", distance education with potential certifications, and training in the distance through E-education. Further than the improvement of e-commerce this ensures the distribution circuits' control. This momentum of digitalization on which we must build has been accompanied by simplification procedures for citizens and businesses.

The continuous of these digitals transformation, at an accelerated pace during COVID-19, would allow Tunisia to gain not only in productivity but also in competitiveness, at a time when the digital maturity of nations becomes a crucial criterion to attract international investors. Moreover, this new dynamic would benefit from being generalized in the future to all public/private initiatives witch strengthen the integration of the informal sector into the formal economy.

***Strengthening its market share on an international scale:*** it is important to note that the value chain's transformation in the world gives the chance for Tunisia to supply new markets. The pandemic COVID-19 demonstrated to the world the high independence degree of the developed countries and China's electric and pharmaceuticals products. The health crisis has acted as an indicator of this dependence and China will probably no longer be in this position after this crisis. Thus, we hear an important aggressive strategy and a high movement to relocate certain activities that were previously relocated, in emerging countries. Europe, for example, must ensure the security of its supplies by diversifying its provider in a closer geographical area, such as Tunisia where costs remain low, with a skilled workforce. It is therefore essential for Tunisia to grasp the current opportunity to reposition on the international scale. Nonetheless, it should also work to improve its position in the global value chain, Strength the strategic sectors (investment, infrastructure, governance...), and reinforce the digital tools.

Rebuild confidence and prepare the post-crisis recovery; The coronavirus crisis could be a great chance for Tunisia to put an end to the tension, overcome all doubts, regain confidence in the quality of our talents, and in our workforce, to prepare the post-crisis recovery. This requires the mobilization of all forces to create synergy between the state, businesses, the private and public sector, national organizations, and civil society. The task will not be easy; it involves major restructuring, reform, investment and short-term sacrifices.

## CONCLUSION

The COVID-19 pandemic is causing high and rising human costs worldwide, and the confinement measures are sharply impacting economic activity. As we have seen, the

containment measures imposed by the coronavirus are expected to significantly contract the global GDP by –3 percent in 2020, much worse than during the 2008–09 financial crisis, according to the IMF report.

In the Tunisian case, total containment was not without consequences for the general economy in general and the real sector dynamic in particular. Indeed, the COVID-19 pandemic occurred at a time of economic weakness: in recent years, there has been deterioration in GDP per capita, as well as an increase of structural unemployment and a very important informal (non-structural) activity. These consequences, adding to TND deterioration, transformed the health crisis into an economic pandemic, leading to the paralysis of all economic activity, except that linked to food and health security.

Therefore, economic and social measures to support individuals, businesses, employees, and poor peoples have been decided by the government and by the Central Bank of Tunisia which cost more than 3 billion dinars.

The birth of this crisis has strengthened the Tunisian economy's weakness but also it creates new opportunities for the economy. This crisis has revealed talented Tunisians in all fields: high-flying engineers, managers, and creative start-ups. More than ever, the development of national talent promoting anticipation capacities. The projection anticipates that the post-period crisis will strengthen the Tunisian market share on an international scale since the supply shortages highlighted the higher dependence of the developed countries with china. This will give the chance for Tunisia to supply new markets, which are close geographically. It is therefore essential for Tunisia to grasp the current opportunity to reposition on the international scale. Nonetheless, it should also work to improve its position in the global value chain, Strength the strategic sectors (investment, infrastructure, governance...) and reinforce the digital tools.

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