



Ministry for Foreign
Affairs of Finland

TRADE UNIONS AND TRADE

The issues of the AfCFTA agreement in
Tunisia and its impact on the Tunisian
General Labour Union (UGTT)



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Authors

Tunisian General Labour Union (UGTT): Mohamed
Faical Kadhkadhi, Mongi Smaili and Hedi Dahmene

Email: ded.ugtt@yahoo.fr

Editorial team

ITUC Africa: Eric Manzi (Eric.Manzi@ituc-africa.org)

LRS: Trenton Elsley (trenton@lrs.org.za); Marie Daniel
(marie@lrs.org.za)

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List of Abbreviations

ADB	African Development Bank
AfCFTA	African Continental Free Trade Area
AFD	French Development Agency
AMU	Arab Maghreb Union
BTP	Building and Public Works
BCP	Business Continuity Policies
CAP	Common Agricultural Programme
CBT	Central Bank of Tunisia
CFTA	Comprehensive Free Trade Agreement
CGE	Computable General Equilibrium
CNDS	National Council for Social Dialogue
CO²	Carbon dioxide
COMESA	Common Market for Eastern and Southern Africa
CSR	Corporate Social Responsibility
DC	Developing countries
DFI	Development Finance International
DWCP	Decent Work Country Programme
ECSC	European Coal and Steel Community
EKC	Environmental Kuznets Curve
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GFSN	Global Financial Safety Net
GHG	Greenhouse gas emissions
GIZ	German Agency for International Cooperation
GTAP	Global Trade Analysis Project
IBRD	International Bank for Reconstruction and Development
IDD	Instance du développement durable et des droits des générations futures
ILO	International Labour Organisation
IMF	International Monetary Fund SDR
JICA	Japan International Cooperation Agency
LDCs	Least Developed Countries



TRADE UNIONS IN AfCFTA:

THE ISSUES OF THE AfCFTA AGREEMENT IN TUNISIA AND ITS IMPACT ON THE TUNISIAN GENERAL LABOUR UNION (UGTT)

LT	Long term
MENA	Middle East and North Africa region
MT	Medium term
NAFTA	North American Free Trade Agreement
NDC	Nationally Determined Contribution
NTBs	Non-tariff barriers
OECD	Organisation for Economic Co-operation and Development
OHADA	Organisation for the Harmonisation of Business Law in Africa
PE	Partial equilibrium
PHH	Pollution Haven Hypothesis
RFA	Regional Financial Arrangements
R&D	Research and Development
RPTA	Regional Preferential Trade Agreements
RTAs	Regional Trade Agreements
SAP	Structural Adjustment Programme
SDG	Sustainable Development Goals
SDR	Special Drawing Rights
SME	Small and medium-sized enterprises
SMIG	Interprofessional Guaranteed Minimum Wage
SO₂	Sulphur dioxide
ST	Short term
SWOT	Strengths, Weaknesses, Opportunities, and Threats
UGTT	Tunisian General Labour Union
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UTICA	Tunisian Union of Industry, Commerce and Handicraft
VA	Value added
WAEMU	West African Economic and Monetary Union
WTO	World Trade Organisation



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EXECUTIVE SUMMARY

This research is an exploratory study of the possible effects of the implementation of the AfCFTA agreement and its impacts on the Tunisian General Labour Union (UGTT). Using two maps on the issues at stake in the AfCFTA agreement in Tunisia, a SWOT matrix is developed for research purposes and used to design a trade union monitoring framework. This framework can serve as a basis for the UGTT's perspective on the AfCFTA agreement. The agreement poses major challenges for the UGTT in terms of the attainment of decent work, the informal economy, immigration, and again through the profound changes in the post-COVID-19 period and the role of climate change, which together risk compromising the UGTT's responses in the short term and its sustainability in the long term.

Our literature review aiming at identifying the multidimensional effects of FTAs in comparative international experiences focuses on three levels of research:

- »» 1st level of social and sustainable development,
- »» 2nd level targeting the informal economy and migration and the
- »» 3rd level related to general economic and welfare effects.

The research paid particular attention to social and sustainable development issues in a broader sense (also encompassing the informal economy and migration flows) in all possible dimensions given that they seemed marginalised in most studies of international institutions wedded in an agenda ignoring the welfare of African populations. The literature review, with the exception for a few mixed results, paints a bleak picture of the impacts of FTAs, raising concerns about the tendency of free trade advocates to greatly exaggerate the beneficial effects of FTAs skewed mainly towards high-income countries.

At the social and sustainable development level:

Trade liberalisation is marked by substantial job losses, particularly in manufacturing and agriculture, a reduction in real wages, a drop in demand for unskilled workers and a downward levelling of working conditions tending towards greater flexibility and precariousness, based on the restriction of trade unionism and threats of closure, which are extremely likely to stifle trade union activity, which is

moving away from the sectors most exposed to liberalisation. Inegalitarian trends in income distribution are strongly observed, exacerbated mainly by the widening of the wage gap between skilled and unskilled workers on the one hand and intra- and inter-industry wage disparities on the other.

Trade liberalisation was often presented as gender neutral, however experiences show structural inequalities in household economies and local labour markets and a strong gender bias against women labelled by gender wage gaps and macroeconomic aggregation policies involved in stabilisation and without any reference to women finding refuge in expanding and unskilled labour-intensive sectors.

Free trade risks validating the PHH pollution haven hypothesis and indirectly contributing to climate change through international externalities of great concern.

With regards to the spatial dimension of development, trade liberalisation deepens regional disparities and the dispersion of wages and employment opportunities between regions favoured by free trade such as coastal and border areas and disadvantaged regions, however these development asymmetries intensified by the impacts of FTAs and the absence of programmes to support vulnerable groups lead to an erosion of the peasantry, and the massive exodus of rural workers and peasants (deprived of their land and crops, left to fend for themselves and fleeing from rising tensions and conflicts in the rural space) to urban areas and favoured regions, thus leading to territorial polarisation and the emergence of mega-cities, non-agricultural employment, urbanisation of rural areas associated with increased pressure on aquifers and ecosystems, or intensive immigration to other countries.



In the informal economy :

The literature review overwhelmingly confirms that the arguments put forward in favour of trade liberalisation as capable of attracting the informal, parallel and unstructured sphere to the formal economy in DC are erroneous and completely misleading (with few exceptions, trade liberalisation will have little or no statistical effect on the informal economy). Indeed, robust empirical evidence points to the fact that trade liberalisation is associated with a colossal rise in the informal economy in all its dimensions.

Statistically significant results based on multiple approaches and different data sources, particularly from developing countries, point to a vicious expansion in the size of the informal economy and its share of countries' GDP with accelerated and permanent recourse to informal employment. Indeed, FTAs, which essentially offer opportunities for economies of scale and impose increased competition and a race to the bottom in prices, push and encourage formal economic actors to make a partial or complete transition to informal production processes in the interests of competitiveness, cost reduction and survival, productivity and increasing their market share. In the context of FTAs, too, the opportunity for economies of scale for large local and foreign firms encourages the continued use of unstructured and informal subcontractors, resulting in the entrenchment of flexible, precarious and domestic work (especially for women), which in practice institutionalises a systematic undermining of decent work and increased recourse to low-cost production factors. In a liberal context, the most striking observation is the intense immigration.

In terms of immigration :

It is widely accepted that rising socio-economic inequalities and developmental polarisation are at the root of increased migration and immigration. However, this rational rule, while universally held to be true, remains a partial truth, given that the essence of the development of informality is illegal immigration in particular. Indeed, the association of liberalisation with the informal economy based on the paradigm of returns to scale and consumer welfare (through the levelling down of prices), and not forgetting the biased practices of large firms and multinationals, embed the use of precarious labour practices that put profit and increased market share ahead of vulnerable workers and human dignity. This reality has stimulated the massive recourse to informal subcontractors who have a vulnerable low-wage labour force made up of illegal immigrants, so that these large firms prefer informal subcontractors and avoid awarding their orders to structured companies in

order to avoid any risk of disruption of production chains or satisfaction of supplies due to possible conflicts between structured companies and trade union bodies on the one hand, and to guarantee the control of excessively low costs and the accumulation of profits on the other, thus in all cases favouring the anchoring of informal production processes, informal and precarious employment, the undermining of the principles of decent work, the restriction of social dialogue and the weakening of trade union activity, and the massive stimulation of illegal immigration to continually feed the informal economy (by exploiting the laxity of local jurisdictions).

At the economic level :

- ➔ **Productivity:** with mixed empirical results, it appears overall that liberalisation increases the productivity of firms mainly through specialisation as well as the decline of inefficient firms. Indeed, increased exposure drives out the least efficient firms. In many cases, improvements in aggregate productivity result from a reallocation of resources and output from less efficient to more efficient producers. Economies of scale are found to be an important channel for productivity growth.
- ➔ **Small and Medium-sized Enterprises (SMEs):** For SMEs, while it is widely believed that trade liberalisation presents opportunities for competitiveness, productivity, economies of scale and innovation for SMEs, they remain particularly vulnerable to exchange rate shocks, with a high exit rate for manufacturing firms.
- ➔ **Overall economic and welfare effects:** these are the most enigmatic and have raised questions and conceptual criticisms about the appropriateness of the foundations of trade liberalisation subject to broader theoretical weaknesses. FTAs appear to have a statistically insignificant effect on economic growth and general welfare improvement, with little empirical evidence that trade liberalisation is a reliable mechanism for self-sustained growth in output, employment and poverty reduction. Similarly, studies show that FTAs have entailed considerable short-term adjustment costs and rather mixed results regarding long-term economic gains, which seem hypothetical and locked into a static approach.

The improvement of **exports** through **liberalisation** is highly debated and questioned, with some arguing that export growth is the result of a stable and realistic exchange rate. The **risks of trade diversion**, especially for countries with weak institutional security, are most pronounced.



Cautions were raised regarding ex ante projections of the impacts of the AfCFTA.

Most ex-ante projections use CGE (Computable General Equilibrium) models which are the most widely used for estimating the effects of FTAs: these approaches lack credibility and generally tend to overestimate gains and underestimate social, fiscal and adjustment costs. Experience has shown time and again that there is a considerable gap between ex-ante simulations and ex-post assessments and particularly regarding the effects of FTAs on social welfare, wages and employment. The research presented substantial theoretical and empirical evidence confirming the low credibility of ex ante simulations of CGE models.

Trade union monitoring framework :

- The exposure of Tunisian SMEs operating in the formal sphere to increased competition and the concern for competitiveness and low prices to ensure their survival on the market, risks pushing them towards informal production processes based on informal employment in order to reduce costs.
- Structured Tunisian SMEs that subcontract for large Tunisian companies benefiting from economies of scale under the AfCFTA agreement may, in order to meet these orders, move towards informal production processes based on informal employment to increase their productivity.
- Large, structured Tunisian firms that can derive returns to scale from the AfCFTA agreement and in order to increase their productivity, risk moving towards practices that undermine decent work and systematically restrict trade union activity or subcontract to production structures that operate in the informal sphere.
- The AfCFTA agreement may offer opportunities for large foreign firms and multinationals to design semi-finished products or transformation processes on raw materials. These firms can target Tunisia, given its industrial know-how and the good quality of its competitive workforce, in this regard these companies in the concern to control their costs and increase their productivity can easily stimulate informal subcontractors which will fatally affect Tunisian firms, especially SMEs operating in the formal sector and consequently push them to import in turn informal production practices and the anchoring of informal work.
- The AfCFTA agreement may offer opportunities for large foreign firms and multinationals, as Tunisian subcontractors to satisfy the supplies of these companies, in addition to their informal production processes, may turn to foreign labour and very low wages, thus stimulating increased illegal and clandestine immigration.
- Under the AfCFTA, Tunisian firms are not immune to unfair competition from other African firms given the NTB non-tariff barriers, institutional desertification, increased laxity in standardisation and the entrenchment of precarious and informal labour practices that are widespread in most African economies. Consequently, Tunisian firms in order to respond to unfair competition by putting pressure on prices will inevitably turn to the restriction of trade union activity and/or informal production processes.
- All of the above cases assert that the AfCFTA agreement will systematically lead to an infernal rise of the informal sphere which will find in this frantic race to increase productivity, satisfy the supplies of large firms, maintain competitiveness and survival and draw economies of scale; its essence in particularly illegal immigration.
- The informal economy and illegal immigration are two phenomena that feed off each other continuously in the context of trade liberalisation, the AfCFTA agreement will not be an exception, thus causing a systematic attack on the principles of decent work, human rights, and dignified life of the human being and a stifling of the trade union entity and sustainability: The UGTT is not safe from such a fate which may be inevitable in case of tacit and/or explicit governmental alignment with the interest of capital.
- The disruption of global supply chains during the COVID-19 pandemic and the rise of nativism, protectionism and export restrictions have resulted in the emergence of a new global trade order reflected in a new mapping of these chains. The possible relocation of global supply chains to the African space, while is itself an opportunity, risks accelerating the pace of climate change and the exacerbated water crisis in many North and Sub-Saharan African countries and consequently increased immigration in all its dimensions pushing towards human trafficking, undermining the principles of decent work, human rights, dignified living and stifling trade unionism.
- The post-COVID-19 period will be marked in the short term by the emergence of a new debt paradigm exacerbated by a plunge of most African countries into excessive debt given the deterioration of their public finances (structurally, but also because of containment), which will subject states to abdicate their social roles vis-à-vis vulnerable groups and those affected by the adverse



effects of the AfCFTA agreement; Thus it is quite likely that illegal immigration will increase to systematically feed the informal economy and threaten trade unionism.

- The post-COVID-19 context will lead to a colossal rise in the digitalisation of work, teleworking and platform economies accelerating the emergence of new forms of employment based on flexibility, the absence of social protection, freelancing and the difficulty of tracing violations and abuses: all the indicators in Tunisia testify to the tacit and progressive embedding of this trend by the multinationals operating in the services sector (particularly banking and insurance). The AfCFTA agreement, by imposing its rules of competitiveness and increased competition, is seeking to re-feed informal employment and the unstructured economic sphere in this niche raising so many atypical challenges for the UGTT, which may in the absence of forward-looking responses to the future of work weaken the organisation.
- The increase in the informal sphere, the parallel economy and the intensification of illegal immigration could systematically exacerbate the practices of undermining decent work, human trafficking and the violation of human rights principles. While the UGTT has always stood up to counter all these violations against African workers, the implementation of the AfCFTA agreement is likely to seriously undermine the UGTT's capacity to respond, especially in the event of an unbridled rate of illegal immigration and smuggling.
- The development of the informal and parallel economy under the AfCFTA agreement is a very likely scenario. These spheres, in constant race to satisfy the orders of large firms, are in search of low-cost labour (low wages and no social protection), for which illegal immigrants are the ideal prey. These practices weaken wages and social legislation, especially in the case of nonchalance or incapacity on the part of governmental and even trade union institutions. The deterioration of workers' living conditions is observed in the quest for cheap production by subcontractors, benefiting even more the large companies, generally multinationals or their local branches.
- There is a strong possibility that the AfCFTA will become a springboard for the diversion of the high VA and welfare gains expected from trade liberalisation to other non-member countries and to multinationals seeking to increase their market share as a result of the agreement by transferring revenues to those foreign firms that manage to locate profits in low-tax jurisdictions or tax havens.
- The AfCFTA agreement may lead to adverse effects such as trade diversion to third and non-member countries through multinationals.
- In the context of the AfCFTA agreement, the pandemic crisis offers the opportunity to digitalise energy, develop renewable and clean energy (and exploit the enormous potential available to the African continent) and thus break with the old pollution-intensive production models and move towards a green economy to reduce the threats of climate change, including immigration.
- Among the interesting opportunities of the AfCFTA agreement, the integration of a continental electricity network is quite beneficial for African countries and particularly for Tunisia, allowing it to reduce its energy deficit, to acquire surpluses from other African countries which can in turn avoid inefficient production, to considerably reduce costs, to mutually increase their earnings through cross-investment.
- Within the framework of the AfCFTA agreement, the opportunity exists in terms of potential for mutually beneficial trade at the sub-regional level (between Tunisia, Algeria, Libya) and at the regional level (the AMU: Arab Maghreb Union, WAEMU: West African Economic and Monetary Union and OHADA: Organisation for the Harmonisation of Business Law in Africa).
- The AfCFTA agreement, under the conditions of harmonising strict legal rules eliminating any kind of unfair competition and social dumping and laxity in standardisation, and by mobilising for a common mastery of climate change: can build continental resilience to economic shocks and crises and sustained growth.
- The AfCFTA agreement could strengthen South-South cooperation and solidarity among African trade unions and even a robust and resilient African trade union movement.
- The UGTT and the African trade union movement must advocate for the urgent implementation of strictly injunctive and dissuasive provisions against all forms of infringement of the principles of decent work, human rights and dignified life in the various implementing texts relating to the AfCFTA agreement.
- It is strongly recommended that the UGTT and all African trade unions advocate for the implementation of 3 institutions, each integrating trade union officials, in charge of the management of trade and environmental disputes, normalisation, and standardisation of social and environmental regulations towards an acceptable level of harmonisation and rigour.



- Continuous foresight is required in order to implement robust conflict anticipation and management mechanisms.
- The UGTT and the trade union movement must avoid the trap of all the spurious promotions of the multinationals, especially those of CSR, and can to this end considerably reduce the manoeuvres of these companies through a trade union response to any abuse based on solidarity at the continental, regional, sub-regional and sectoral levels.
- The UGTT and African trade unions should encourage innovation and entrepreneurial initiative in the development of clean and renewable energy.
- The UGTT and African trade unions should advocate for the removal of rentier barriers and all suspicious manoeuvres against Tunisian and/or African investors in the development of renewable and clean energy.
- It is crucial that the UGTT and the African trade union movement move towards the elimination of all environmental laxity.
- Digital, energy and ecological inclusion and the transition to a green economy is no longer a luxury but rather a necessity confirmed more than ever in order to reduce the systemic threats of climate change, which alone risks affecting the AfCFTA agreement.
- It is recommended that the UGTT bases its perspective on the AfCFTA agreement on a SWOT matrix reflecting the state of play in terms of structural, conjunctural and factual strengths and weaknesses, and an identification of not only national opportunities and threats, but essentially those threats that are widespread in international free trade experiences.

INTRODUCTION

African countries have signed a free trade agreement (AfCFTA)¹ which aims to create a single market for trade in goods and services for a population of 1.2 billion people with a combined gross domestic product of \$3.4 billion with the objective of boosting intra-African trade (by over 50%) through the development and promotion of regional and continental value chains. The agreement entered into force on 1st January 2021². Given the arguments presented by proponents of free trade who have always argued for its beneficial effects on economic welfare, improving productivity, achieving economies of scale, promoting exports, stimulating economic growth, increasing incomes and improving consumer welfare; it is argued that the AfCFTA agreement offers new prospects for integration into the global economy, inclusion, economic growth and a new development paradigm, however its implementation poses some very critical challenges. In this sense, it is observed that the arguments put forward in favour of free trade are embedded in an economic aggregation perspective, marginalising social, societal and sustainable development concerns at every turn.

Worryingly, the various international experiences of free trade reveal three central elements:

- » Free trade is associated with adverse societal effects including: job losses, wage inequality, increased energy consumption, environmental degradation, expansion of the informal economic sphere, multidimensional increases in migration flows and trade diversion.
- » The “fallacious” and “static” aspects of free trade motivated primarily by economies of scale rather than comparative advantage.
- » The lack of credibility of ex-ante projections (frequently used to simulate the impacts of FTAs), as evidenced by ex-post evaluations. Ex-ante simulations have generated hypothetical or even speculative results, which overestimate gains and underestimate losses, but their biggest flaw is the absolute silence regarding social issues (employment, poverty, income).

A successful implementation of the AfCFTA agreement requires a full awareness of the African trade union movement as an important player at the continental level. To go further, the African trade union movement in general and the UGTT, must more than ever in the light of the COVID-19 pandemic, embed levers of solidarity, and rigorously consider the opportunities and threats associated with international free trade experiences, with a view to objectively elaborating a common trade union vision in relation to the various possible pitfalls of the AfCFTA agreement, notably employment protection and decent work. In particular, the perspective of the UGTT should be based on a holistic and forward-looking analysis, paying particular attention to the systematic risks concerning the informal economy, immigration in all its dimensions, post-COVID-19 issues and the role of climate change. Likely, the AfCFTA agreement through the informal economy - immigration - post-COVID-19 mutations - climate change, has the potential to undermine the trade union response of the UGTT in the short term: and more importantly, its

1 So far 54 countries have signed the agreement, only 37 countries have ratified it.

2 Tunisia ratified this agreement in the Assembly of People's Representatives (ARP) on 22 July 2020.

sustainability in the long term if the Tunisian state aligns with the interests of capital.

In the framework of this work, we will present an exploratory study of the possible effects of the implementation of the AfCFTA agreement, particularly its impacts on the UGTT. Methodologically, the research started from a global and dynamic analysis of the situation in Tunisia towards an exhaustive review of the literature relating to the various international experiences in trade liberalisation, thus allowing to map the various systematic opportunities and threats of free trade at the international level (what is called international mapping).

Through our interviews with very high-level personalities (trade unions, politicians, diplomats, economists and academics):

- With reference to our global and dynamic analysis of the situation in Tunisia, we have drawn up a national mapping of Tunisia's strengths and weaknesses.
- Based on the international mapping and the national mapping of Tunisia's strengths and weaknesses, we have developed a national mapping of the opportunities and threats specific to Tunisia

However, using the two national mappings, and based on our in-depth understanding of the issues of the COVID-19 pandemic, a methodological framing of the UGTT's perspective: **a SWOT matrix** is developed for research purposes to design **a trade union monitoring framework** that can be used as a **basis for the UGTT's strategic perspective on the AfCFTA agreement**.

Our research will be structured as follows: the first chapter is devoted to establishing a global and dynamic analysis of the situation in Tunisia, the second chapter will focus on the opportunities and threats in the various international experiences of free trade, the third chapter will present our warnings and recommendations in the form of a trade union monitoring framework.

CHAPTER I: GLOBAL AND DYNAMIC ANALYSIS OF THE STATE OF AFFAIRS IN TUNISIA

Introduction

Within the framework of this chapter, the first section is devoted to a multidimensional diagnosis of the Tunisian economy, presenting in a historical and a dynamic perspective, all the socio-economic aspects and macro-economic indicators relating to Tunisia from a structural angle. Then, the second section highlights the Tunisian model of social dialogue, presenting a socio-political reading of the experience of the National Dialogue led by the National Quartet and which ended up obtaining the Nobel Peace Prize. In the third section, the research presents a reading of the impacts of the COVID-19 pandemic, with particular attention to its future challenges. The aim of this chapter is to provide a first comprehensive and dynamic overview of the state of play in Tunisia, which will consequently allow for a better processual approach to the exploration of the issues and prospects of the AfCFTA agreement in Tunisia.

1

Multidimensional diagnosis of the Tunisian economy

a. A historical overview of the Tunisian economy.

Historically, Tunisia is a land of experience, having experienced both the capitalist market economy on the eve of independence and collectivisation and centralised planning. The trajectory of development in Tunisia was marked by the following four phases:

- 1 The 1st phase: from independence (in 1956) to 1960: state control of several sectors while remaining liberal.
- 2 The 2nd phase: from 1961 to 1969: a march towards socialism that intensified from 1967 to 1969.
- 3 The 3rd phase: from 1970 to 1986: a return to the market economy and capitalism. However, the state maintained tight control over prices and private investment as well as external protectionism. It was a mixed economy at the time.
- 4 The 4th phase: from 1987, marked by the structural adjustment plan and for the first time since its independence, Tunisia embarked on the liberal path without restriction, whether it was a question of domestic markets or of opening to imports.



THE 1ST PHASE.

As early as 1956, the working class of the modern sector organised itself within the trade union centre: the UGTT, which had an influence on political orientations. In its socio-economic report, the UGTT advocated centralised planning and the collectivisation of the means of production in the modern sector. The socialist alternative, although it guided the development policy of the second phase, was rejected in 1956, but certain theses of the trade union centre regarding the control of certain key sectors were adopted by the Tunisian state, which nevertheless maintained a capitalist market economy. In this phase, everything suggested at the time that development would continue in a liberal perspective, but the growing importance of the UGTT's theses would steer Tunisia towards the path of socialism.

THE 2ND PHASE.

An increased interest in industrialisation caused an increase in inflation and a serious deficit in the balance of payments, which was subsequently stabilised within the framework of the 2nd plan (1965-1968) and 3rd development plan (1969-1972) prepared with a view to preserving the internal balance. During this stage, which triggered the collectivisation process, the creation of cooperatives and the acceleration of the socialist pace, the Tunisian economy was marked by the rapid development of industry, the acceleration of the collectivisation pace, the coexistence of sectors (private - cooperative - public) and the choice for a controlled market economy, the abrupt end of the socialist experiment in September 1969 by decision of President Bourguiba (following a confidential report of the World Bank which revealed the extent of the deficits of the parastatals) putting an end to the collectivisation of land but maintaining the cooperatives. Finally, in mid-1970, Tunisia returned resolutely to the market economy and to private property.

THE 3RD PHASE.

A new development policy was adopted, the Tunisian state opted for the conservation of the basic sectors by the state and the privatisation of the rest of the economy, the re-establishment of market mechanisms, the prioritisation of agriculture as a development sector, the renunciation of large projects and heavy industries in the industrial sector in order to invest according to the profitability and employment created, while granting more interest to the transforming industries and SMEs, and the encouragement of foreign investments.

However, Tunisia qualified its return to the liberal path by maintaining a system of approved prices for various products and the entire administration of the financial sector. Protectionism prevailed by maintaining very high tariffs and a regime of quantitative restrictions with import licences. Although this mixed economic regime (partly controlled and partly free) performed well due to oil shocks, favourable rainfall and investment returns (in 1960 in education and infrastructure), the context became unfavourable in the 1980s (especially in 1985-1986) following the fall in oil prices, drought and the return of migrant workers to Libya. Despite these handicaps, the state continued the path of mega public investments and went into massive debt to the point that the country was threatened by a financial crisis, forced to take painful and drastic measures that were insufficient on their own, the change of economic policy and the submission of a structural adjustment programme in 1978-1988 were inevitable.

THE 4TH PHASE.

The period of the 6th plan (1982-1986) witnessed an important change in the economic evolution compared to that of 1972-1981: a substantial deceleration of growth or even economic stagnation and the aggravation of real and financial imbalances at the internal and external levels. Admittedly, the unfavourable evolution is due to internal and external causes, some of which are cyclical, but above all structural, and has led Tunisia to move from stabilisation programmes to the adoption of a structural adjustment plan aimed at creating the conditions for a significant resumption of economic growth.

This programme has profoundly changed the functioning of the Tunisian economy: for the first time since independence, it has moved to a competitive environment.



It is true that the state continues to play an important economic role because of the parastatal sector in infrastructure and industry and the banking sector and the volume of public investment, but what is certain is that the rules of the game have changed radically, marking the end of the socialist approach. However, the notable continuity of the policies pursued should be emphasised: regardless of the phase of development, the rate of public investment remains high and there is an increased priority for education.

The observable effects of these measures at the time were:

- The compression of domestic demand: the constraints imposed have slowed down the growth of sectors oriented towards the local market.
- External debt is better controlled.
- The balance of payments situation has improved. (the current account deficit has been limited to an average of 1.3%)
- Foreign exchange reserves have strengthened significantly (covering about 2.5 months of imports).
- Exports benefited from the devaluation of the dinar and its nominal depreciation (exports of goods and services increased, mainly driven by textiles and mechanical and electrical industries).
- Drought and low agricultural production in 1988 reduced the effects of the change.
- Investment continued its downward trend in 1987 and 1988, although there was some improvement in 1989.
- The evolution of domestic demand and investment (especially private) has not been able to improve the employment situation, as the unemployment rate remains high (for the population aged 18-59).
- Public finances remained under pressure due to the effects of the drought, higher-than-expected compensation costs, and the burden of external debt repayments.

The implementation of structural adjustment policies and the economic and social changes that accompanied it raised two major questions:

i- The ability to control the negative consequences, in the short term, during the stabilisation phase of the adjustment programme which has serious social repercussions, namely:

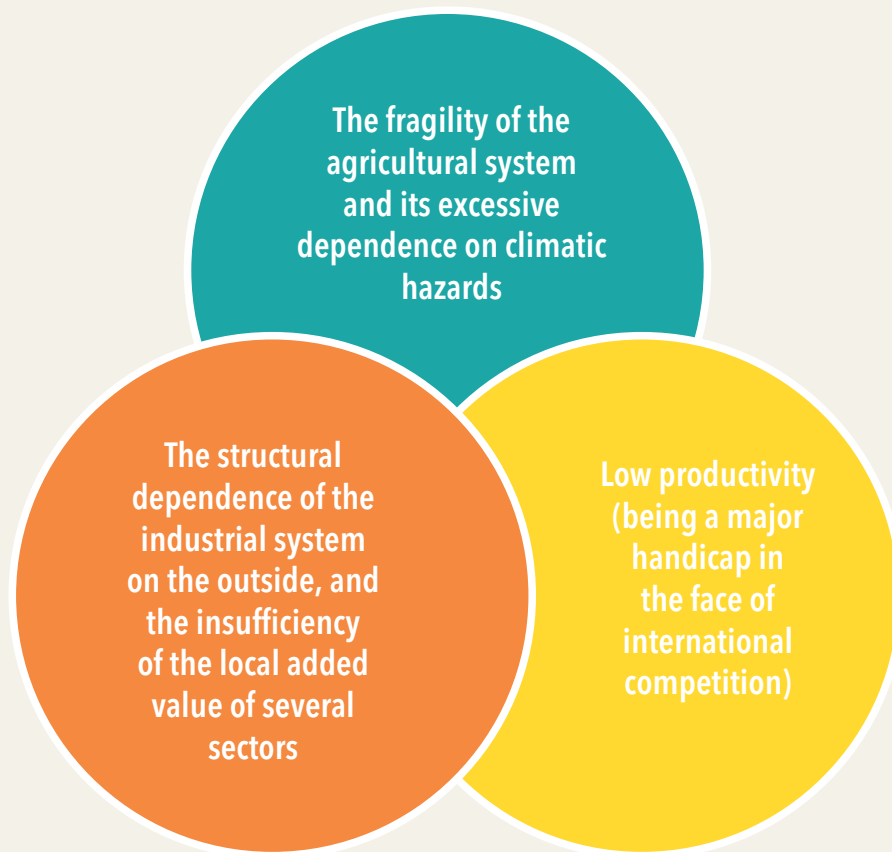
- the deterioration of the employment situation.
- the adverse effects on income and its distribution.
- the access to reduced food rations.
- the modest social protection and limited access to essential social services (education - health - hygiene, etc...).

Some groups of the population were particularly vulnerable and subject to the deterioration of their material conditions, social devaluation and even increasing marginalisation (not forgetting that, in practice, the measures undertaken to cushion and correct the direct effects of stabilisation and restructuring came up against insufficient information or a certain asymmetry in the characteristics of the population: In practice, the measures undertaken to cushion and correct the direct effects of stabilisation and restructuring came up against insufficient information or a certain asymmetry in the characteristics of the population (e.g. the degree of access of the various consumption groups (food, non-food, education, health, social insurance), as well as the modes of supply (official markets, parallel circuits, etc.) according to the status of the population and the form of insertion in the fabric of economic activities).

ii- The evolution of the Tunisian economy from a centralised, administered and protectionist economy to a market economy has exposed important handicaps, in fact the productive structure of the country shows three essential grey areas, sources of important concerns for the future:

Fig. 2 summarises the three former structural problems of the Tunisian economy on its way to a market economy and more open trade policies.

Figure 1: Structural problems of the Tunisian economy to cope with a market economy.





b. Analysis of the Tunisian economy³

Tunisia's economic policies over the past two decades prior to the revolution have produced widely recognised results. Tunisia, one of the first countries in the MENA (Middle East and North Africa region) to undertake early structural reforms, which contributed to its strong economic performance in the mid-1990s, has made significant parallel progress in social and human development indicators. However, the same policies have failed to create inclusive growth in the broadest sense of the term, as economic progress has often been considered a fundamental priority since the country's independence in 1956, while socio-political stability has frequently been achieved at the cost of depriving people of public and political freedoms. Strong economic growth and a generous and determined social policy (especially in difficult circumstances) formed the basis of the tacit social contract between the state and the citizens, which promised to ensure socio-economic development and prosperity. In the end, economic and social exclusion ended up hindering the process of sustainable economic growth, partly because of the following factors:

- a protective regulatory environment generating a substantial lack of competition.
- a significant bureaucratic burden exacerbated by an inappropriate legislative and institutional architecture.
- development and resource management policies deepening social inequalities and regional disparities.
- a financial sector plagued by governance gaps.
- labour regulations, paradoxically, favouring job insecurity.
- limited governance and the spread of corruption.

c. Scoreboard of the Tunisian economy

- Sharp drop in economic growth in 2020 (estimated at -9.3%) in relation to the fallout from the COVID-19 pandemic.
- Inflation stabilises in January 2021 for the third consecutive month at 4.9% in the G.A. compared to 5.9% a year earlier. In Q1-2021, inflation is expected to ease slightly to 4.8% after 5.0% in Q4-2020.
- Downward revision of the inflation outlook for 2021 and 2022. All other things being equal, inflation rates could reach 4.9% and 5.1% respectively, compared to 5.6% in 2020.

- The budget balance at the end of November 2020 was -7.1 billion dinars, compared with -3.7 billion a year earlier.
- Reduction of the current account deficit to -7.5 billion dinars (or 6.8% of GDP) at the end of 2020, compared with -9.7 billion (and 8.5% of GDP) in 2019.
- Foreign exchange reserves amounted to USD 8,318 million (or 158 days of imports) at the end of January 2021, down by 2.7% compared to the end of 2020 (USD 8,545 million or 162 days of imports).
- Bad debts are high, especially in public banks.
- Tunis Re's financial strength rating at AA (tun) [rating on the performance of the risk management system] "Very Strong" with a stable outlook.
- The Tunisian dinar depreciated by 5% against the euro and appreciated by 5.7% against the US dollar in May 2021.

MACROECONOMIC POLICIES

- The budget deficit and the public debt have increased sharply.
- Tunisia's external debt has reached 30 billion Euros or 100% of GDP.
- Taxes are already high and weigh particularly heavily on job creation in the formal sector and private initiative. Tax incentives reduce tax revenues and are not very effective.
- The pension system is not sustainable, especially in view of the increase in life expectancy.
- Subsidies benefit the richest households the most. They encourage excessive consumption and fraud and harm the environment.
- Investment
- The decline in the rate of business investment accelerated after 2010. Sectoral, regulatory and administrative restrictions are hampering private initiative.
- Tunisia's ranking in terms of logistics and trade facilitation has deteriorated.
- Access to finance is difficult for new and fast-growing companies.
- The notable decline in FDI.

³ For more details, see Annex I.



EMPLOYMENT INEQUALITIES BETWEEN INDIVIDUALS AND REGIONS

- Unemployment is high, especially among young graduates.
- Job creation is low. Relatively high contributions encourage a shift to the informal sector.
- Gender disparities exist in the labour market.
- Small businesses and low-income households make little use of financial services.

- Regional disparities in living and employment amenities are marked.

The following diagram reflects a macro-economic assessment of the current situation in Tunisia, which requires however the consideration of the old structural problems of the Tunisian economy, but also requires a multidimensional reading of a political, developmental and cyclical nature (linked to the fallout of the COVID-19 pandemic).





2

Focus on social dialogue in Tunisia

In synergy with the first section of this study devoted to the multidimensional and multidisciplinary aspect of the dynamic diagnosis of the socio-economic situation of the Tunisian reality, we reserve this second section to the process of social dialogue in its roots, its trajectories and its historical evolution in relation to societal changes in a continental, regional and global environment.

Indeed, according to the usual definitions of the International Labour Office, social dialogue includes all types of negotiation, consultation or simply exchange of information between representatives of governments, employers and workers on matters of common interest relating to economic and social policy.

Being the best tool to promote decent living conditions, this process, deeply rooted in Tunisia's modern history, has gone through several phases and developments in relation to the national and international political situation.

Moreover, this process of social dialogue process is evolving in an environment of democratic transition after the January 2011 revolution, and the probable and possible perspectives depending on the balance of power between the central government and the employers' and trade union organisations.

Despite the distortions between the different holders of political power, Tunisia has been able to condense its social achievements, especially through its **social contract signed on 14th January 2013**, and thus committing the government and social partners to work for the building of a civil and democratic republic based on respect for human rights and the guarantee of individual and collective freedoms and the entrenchment of the principles of citizenship, justice, equality and the fight against poverty, discrimination, exclusion and marginalisation in all its forms and the preservation of trade union rights and freedoms through support for economic activity and the spirit of initiative.

These values were translated and even consolidated by the constitution adopted, signed and promulgated in early 2014, thus instituting trade union rights in a clear and unequivocal manner, especially with regard to the rights to strike and free and committed trade union action.

These historic achievements were implemented thanks to the process of dialogue in which the UGTT played a decisive role, crowned by the promulgation of **the 2017 law establishing the National Council for Social Dialogue (CNDS)** and setting its attributions and the modalities of its functioning.

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This council is responsible for organising and managing dialogue on social and economic issues of common interest to the three social partners. The provisions give it decision-making and consultative powers to ensure an efficient tripartite social dialogue and to act in order to create a social climate that encourages and promotes investment and guarantees decent working conditions.

It should be recalled that Tunisia has ratified almost all the conventions relating to social dialogue and Tunisian law has been influenced by the various recommendations of the **International Labour Organisation (ILO)** in this area.

At the same time as the establishment of the **National Council for Social Dialogue** and the signing of the social contract, this reference framework was overloaded by the creation of **the Instance du développement durable et des droits des générations futures (IDD)**.

Thanks to these three institutions, Tunisia would be equipped with mechanisms and guarantees allowing the establishment of a culture of systematic recourse to effective and real social dialogue, especially with the new participatory dynamics of the representatives of civil society.

Nevertheless, these new institutions of social dialogue are at risk of structural dysfunction aggravated by the effects of the political situation and the structural economic crisis impacted by the negative fallout of the **COVID-19** pandemic.

Indeed, the development of the social dialogue process remains vulnerable and even threatened by the negative indicators related to galloping unemployment, inflation and, above all, the continuous degradation of the purchasing power and the hegemony of the informal economy accompanied by the emergence of new categories at the expense of the middle social class, which formed the main pillar of national society and title of a certain societal balance and a relative calm although vulnerable.

In parallel with this regulatory infrastructure for social dialogue, Tunisia has engaged in a process of national dialogue crowned by the award of the **Nobel Peace Prize** to the **quartet made up of the UGTT, the UTICA, the League for the Defence of Human Rights and the Bar Association**. This distinction is in recognition of the commitment of the social partners to the building of republican values based on the norms of political and social democracy that propelled the negotiations of the new constitution guaranteeing fundamental rights and freedoms. However, in view of the new partisan distortions and the clear lack of political will to adopt a national plan of public salvation through the initiative put forward by the **UGTT** in the form of a roadmap for national dialogue, these

achievements remain vulnerable and face new challenges.

Indeed, the slowness observed in the functioning of the National Council for Social Dialogue risks staining it with ineffectiveness, especially in the face of the imperative nature of structural reforms affecting fiscal justice, the governance of social transfers linked to the benefits of the compensation fund, social protection, especially with regard to the financial situation of the social security funds, which are observing a structural deficit, and the reform of public enterprises in ruin.

This is in addition to the possible overlapping of prerogatives and the pressing need to ensure an update of the reference systems governing social law, as well as the need to harmonise national legislation with the new values of the constitution on the one hand and universal law on the other.

The social partners are challenged by a socio-cultural evolution of the social dialogue allowing for the implementation of a new wage policy based on equity, motivation and considering new forms of employment and international standards.

A revision of the labour code would be appropriate to fill the legal vacuum in terms of collective bargaining. The judicial system for resolving professional disputes is outdated, hence the intensive use of the courts and the accumulation of requests to the various administrative and supervisory bodies in the face of the malfunctioning of the tripartite arbitration boards. In order to overcome these structural shortcomings, the national council for social dialogue should accelerate its effective and operational installation so that its attributions are not drowned in laxity. The application procedures should be subject to urgent negotiations, thus opening prospects for reform and efficiency.

The risks of ineffectiveness regarding the attributions of the National Council for Social Dialogue project major challenges which could discredit not only the institution, but also the national expectations as well as the results expected by the stakeholders, either at the level of the international authorities and the donors so attentive to the destinies judged modelled for other experiences of the developing countries characterised by the political mutations towards nascent democracies.

The disfunctions encompass both organisational and operational aspects in relation to the organisational chart and overlapping competences interpreting the inefficiency of the social dialogue process, especially in the face of strikes and social protests that are not well controlled or framed in the face of the manipulation of anti-union populist movements.



This unfavourable situation does not allow the adoption of real barometers or measurement indicators capable of gauging the levels of success of social dialogue stained by instrumentalization.

The main challenges facing the process of social dialogue and in particular its authorities, are inherent to the objectives agreed upon and related to the resumption of collective bargaining, to the acceleration of the pace of the work of the CNDS, to the upgrading of the labour code in an alternative of adoption, or even adequacy, with new forms of professional conflict resolution, following the example of mediation, which has proven successful in the Nordic countries. The social climate is very tense because of the ambivalence of the choices/procedures and the disengagement of a part of the employers discredited by the non-application of the conventions or resolutions signed at the level of the enforceable administrative bodies of the labour inspectorate. In view of these constraining aspects, individual and collective labour disputes are constantly worsening, thus calling for an overhaul of procedures within a framework of reforms and a new social contract that would be sponsored by a government of national salvation in charge of implementing a consensual plan resulting from a credible and feasible national dialogue. Nevertheless, and in the absence of indicators/barometers to measure either at the academic or professional level, of the efficiency of social dialogue in view of the current socio-economic situation aggravated by the repercussions of the coronavirus on workers' rights and the sustainability of the companies on the one hand, and the absence of a political allowing the recovery of the national experience on the other hand, the conscious alternative would be in the form of a forum of competences and experts capable of proposing rational recommendations breaking away from political illusions without programmes based on the praxis.

It is imperative to institute a job loss fund for workers laid off for economic reasons and to ensure the harmonization of social transfers for the benefit of the poor classes and vulnerable categories through an unemployment benefit served on the basis of a digital platform ensuring transparency and governance. The fight against all forms of corruption, social or political stigmatisation, marginalisation or exclusion through violence or harassment, cannot be envisaged solely through the ratification of conventions or the signing of dead agreements. The way out is within the reach of our partners who would be able to build a new momentum in the national interest and in a spirit of continental and regional cooperation on the basis of free trade agreements serving the rights of peoples to peace and prosperity and guaranteeing a bright future for

future generations in an alternative of social mobility and professional advancement resulting from education and skills improvement plans.

3

The socio-economic impact of the COVID-19 pandemic

a. Macroeconomic and financial impacts of the pandemic in Tunisia

For ten years now, Tunisia has been the laboratory of a unique political experiment. Its democratic transition, marked by a series of free and pluralist elections, remains a singularity in the Arab-Muslim world. The transition process has withstood multiple political crises and security threats and has held up despite an unstable economic and social context. Today, however, Tunisia's democratic gains could collapse at any time as a result of the systemic crisis caused by COVID-19.

The health crisis has revealed the shortcomings of a vulnerable state that is incapable to respond to the needs expressed by its citizens, despite the mobilisation of health personnel who are committed to their public service mission. The inconsistencies and contradictions of the official communication have reinforced the feeling that the situation is out of control. Beyond the impression, there is an implacable statistical reality: Tunisia has recorded nearly 12,000 deaths from COVID-19, one of the heaviest human tolls in relation to the population, with over 900 deaths per million inhabitants. This is almost three times more than India, according to statistics from the Johns Hopkins Coronavirus Resource Center. This tragic toll can only worsen given structural failures and a severe lack of resources to deal with the health crisis. The COVID-19 pandemic has exposed the weaknesses of a health system that was once praised for its regional excellence. Moreover, a remarkable number of doctors trained in Tunisia now work in the French, Belgian, German, Canadian, etc. health systems.

COVID-19 has infected many Tunisians and has strongly affected the economy, which is highly dependent on its partner Europe. Real GDP fell by 8.8% in 2020, after increasing by 1% in 2019, due to the general decline in economic activity and the tightening of financial conditions put in place to combat inflation. Output fell in all sectors except agriculture and fisheries (**the only sector that showed notable resilience during the pandemic**).



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The services sector, especially tourism, a growth driver, has been dramatically affected by the pandemic. On the demand side, the sharp decline in investment and exports testifies to the magnitude of the pandemic shock. Inflation nevertheless fell in 2020, to 5.9% from 6.7% the previous year, thanks to a slowdown in domestic demand and a fall in energy prices. The fiscal deficit increased to 13.1% of GDP from 3.5% in the previous year due to a significant increase in pandemic-related expenditure combined with lower revenues. As a result, the consolidation efforts put in place under the 2018 programme with the International Monetary Fund were halted. After posting a deficit of 8.5% in 2019, the current account deficit stabilised at 8.1% in 2020, due to lower imports and private remittances.

Tunisia's real GDP is expected to rebound and increase to 2% in 2021 and 3.9% in 2022, provided the pandemic subsidies and allows for a recovery of the global economy, particularly in Europe on which Tunisia is heavily dependent. Inflation should continue to fall in the medium term, reaching around 5.7% in 2021 and 4.3% in 2022, thanks to a prudent monetary policy. The budget deficit is expected to improve to 8.6% of GDP in 2021 and 8% in 2022. The current account deficit is expected to decline in the medium term to 4.1% in 2021 and 3.6% in 2022 as the recovery continues. The main risks in this scenario are a third wave of the pandemic, political instability at national and regional level, increased public protests against social conditions, insufficient financial resources available to businesses, and even a slower than expected recovery of the European economies.

b. Impact of the pandemic on employment and unemployment

In the first quarter of 2021, the number of employed persons **continued to decline, falling** by 4.6 thousand in the first quarter of 2021 compared to the previous quarter. In the first quarter of 2021, the number of employed persons stood at 3428.8 thousand compared to 3433.4 thousand in the fourth quarter of 2020, **a decrease** of 4.6 thousand. This population is divided into 2418.0 thousand men and 1010.8 thousand women.

Unemployment rate increases to 17.8% in Q1 2021. The estimated number of unemployed in the first quarter of 2021 is 742,800 of the total labour force, compared to 725,100 unemployed in the fourth quarter of 2020. The unemployment rate increased in the first quarter to 17.8%, from 17.4% in the previous quarter.

c. Socio-economic impact of the pandemic on the private sector and SMEs in Tunisia

- 1- The majority of businesses were open in the fourth quarter (Q4) - 78.4% of businesses were open: 10.9% of establishments remained open without interruption (12.2% in Q3) and 67.5% reopened after an interruption.
- 2- Permanent business closures increased sharply - 10.4% of businesses were permanently closed: 2.6% because of the pandemic (1.5% in Q3) and 7.8% for other reasons (3.9% in Q3). In addition, 11.2% of businesses were temporarily closed: 10.2% by decision of the business and 1% by decision of the authorities. Finally, 65.4% of the companies that were open in Q4 stated that they are likely to close permanently under the current conditions, compared with 37.2% in Q3.
- 3- The health crisis has severely disrupted business activities despite a slight improvement after de-containment - 85.9% of businesses reported a drop in turnover during November, compared to 82.3% in July. Of those that continued to operate, 86.4% reported a drop in cash flow, 79.5% reported a drop in addressed demand, 54.9% reported difficulties in accessing financial services, 52.1% reported difficulties in sourcing raw materials and 48.9% were facing a drop in hours worked.
- 4- Private sector companies made greater employment adjustments in November - Only 37.1% of companies reported that making no employment-related adjustments, compared to 44.7% in April and 39% in July. In addition, 25.9% of companies made layoffs, 11.6% granted paid leave and 9.8% granted leave without pay. Finally, 15.7% of enterprises have resorted to salary cuts, 30.5% reduced the number of hours worked and only 5.3% of companies have recruited.
- 5- Companies have increased their use of digital solutions in response to the health crisis - 12.7% of companies increased their online presence in Q4, compared to 9.3% in Q3. This online presence was primarily to facilitate telecommuting and administrative tasks. The use of new technologies increased significantly in the sales, marketing and payment sectors.
- 6- The use of resilience plans and business continuity policies remains very limited - Only 10.1% of companies reported having a Business Continuity Plan (BCP) in Q4, down from 14.8% in Q3. These BCPs include telecommuting for 52.5% of companies in Q4, compared to 62.9% of companies in Q2.



- 7- Businesses want more support measures to cope with the crisis - The three measures that businesses say they need most are tax exemptions and reductions (37%), direct cash injections (36.8%) and tax deferrals (24.1%). However, more companies reported taking advantage of government measures, up from 21% in Q3 to 25.5% in Q4. Of the companies that did not take advantage of the measures, 34.3% said they had applied for them, 15.5% expressed no interest and 14.5% cited the complexity of the process.

d. A thorough understanding of the issues of the Covid-19 pandemic in the international context

The COVID-19 pandemic is a strong human tragedy, which rapidly turned into an economic tragedy. Due to its impact on Tunisia, the post-COVID-19 period raises:

- » In the short term: two issues related to supply chains, debt and public finances
- » In the medium and long term: two issues related to digitalisation, and climate change.

Short-term challenges of the pandemic.

SUPPLY CHAINS:

In addition to its direct impacts, the COVID-19 pandemic has highlighted the lack of provisions in existing trade agreements to deal with such a crisis (Agarwal and Mulenga, 2020), and therefore has accelerated this call for supply chain regulation in the US, Europe and elsewhere (Meyer, 2020). The pandemic has revealed the fundamental insensitivity of global supply chains to geopolitical or demand shifts (Free and Hecimovic, 2020). It is highly likely that the pandemic is prone not only to introduce new patterns of global trade, but to affect trade relations and globalisation, creating winners and losers, as well as fuelling a growing shift towards national manufacturing sovereignty (Barua, 2020).

When the crisis hit, many developed countries realised that their supply chains for medical and pharmaceutical supplies were concentrated in China and elsewhere. Developed countries (like the EU member states: Tunisia's and Africa's main economic partner) face potentially significant shortages of medical supplies and products essential to the public health response (Meyer, 2020; Sykes, 2020). The global trade landscape is thus marked by a chaos of export restrictions, political reversals, price increases and quality problems, and most worryingly, export restrictions could trigger a spiral of retaliation with developing countries (more exposed to the downside) bearing the brunt (Bown, 2020)⁴.

Least Developed Countries (LDCs) in Africa are particularly likely to be severely affected due to :

- i. **their high dependence on trade and low degree of diversification** (Agarwal and Mulenga, 2020; Yaya et al., 2020). Indeed, as the COVID-19 pandemic made clear, trade rules limit the options available to governments to regulate supply in a preventive manner. In doing so, they encourage states to wait for a crisis before acting to neutralise supply chain risks. Such delays risk amplifying both the severity and frequency of crises (Meyer, 2020). Again, with the imposition of border closures and strict migration measures, there have been major disruptions in global supply chains that have strongly impacted on Africa, particularly in terms of employment, poverty and productivity⁵ (Yaya et al., 2020).
- ii. **declining economic activity with major trading partners, particularly China**, rising commodity prices, falling prices for non-essential goods, declining combined trade flows (Barua, 2020)⁶, disruption of global and regional value chains, a sharp decline in demand for tourism, and increased capital outflows due to risk aversion in financial markets (Garcia et al., 2020).

4 It should be noted in this regard that developed countries have imposed export restrictions that go well beyond personal protective equipment to include hospital equipment, pharmaceuticals and food (Bown, 2020).

5 The situation has also been aggravated by falling oil prices and a decline in global demand for African non-oil products. The agricultural sector, which should cushion these shocks, is also affected by the implementation of containment measures that threaten people's livelihoods and food security (Yaya et al., 2020).

6 As long as economies suffer, world trade and flows will decline, mainly due to demand and supply shocks. In the global market, the two combined global trade flows [of commodities and non-commodities] will decline as the latter constitute the majority of global production and trade (Barua, 2020).



As there will be other important changes in addition to the changes in trade flows, such as:

- The significant change in competition and trade relations in the global market through, for example, the reduction of Chinese dominance.
- New forms of trade barriers and renewed trade agreements and relations between nations (Barua, 2020).
- All things considered, the economic crisis will be followed by social and public health consequences, with adverse effects due to lack of care for chronic diseases (Garcia et al., 2020).

African LDCs need to ensure that no new protectionist measures are erected against them in times of crisis, while promoting local production to reduce their dependence on other countries. In this sense, the AfCFTA may present an opportunity to stimulate trade cooperation among them and promote resilient regional trade relations, including through the enhancement of food security by building crisis-proof supply chains (Agarwal and Mulenga, 2020).

DEBT AND PUBLIC FINANCE:

The COVID-19 pandemic has resulted in a destructive global economic impact in all regions of the world⁷ (Goodell, 2020) marked by excessive volatility in financial markets (Gallagher and al., 2021; Zhang and al, 2020) and the deterioration of the flow of confidence to financial institutions, which remain insufficiently explained by the traditional finance paradigm (Bansal, 2020), as well as a substantial decline in investment (Brown and Rocha, 2020; Yue and al., 2020), affecting economies, financial markets, corporate finance and the cost of capital, banks and insurance companies, governments and the public (Goodell, 2020). The COVID-19 pandemic threatens to jeopardise economies (whether large or small, developed or developing), as the end of this situation remains unknown (Barua, 2020) as it has ushered in a new climate of uncertainty

that fuels protectionism (Arato and al., 2020; Oldekop and al, 2020), nationalist discourses (Oldekop and al., 2020; Yaya and al., 2020), nativism (Free and Hecimovic, 2020) and not to mention that policy responses can create new uncertainties in global financial markets (Gallagher and al., 2020; Zhang and al., 2020). However, the crisis has revealed the fragility of today's interdependent world and forced advanced economies to re-adopt massive rescue packages to stabilise corporate balance sheets and mitigate the damage to the households most affected by the lock-in (Kozul-Wright, 2020) and the mobilisation of redistributive policies (Hevia and Neumeyer, 2020) and stimulus packages (Lütkehermöller and al., 2021). However, these same governments have been unwilling to reach out to developing countries where a combination of precarious working conditions, over-indebtedness and insufficient fiscal and policy space have amplified the disastrous economic damage of the COVID-19 shock (TDR 2020)⁸, especially for poverty and welfare (Loayza, 2020).

Many developing economies are facing serious difficulties in securing fiscal space to fight the virus and to protect the vulnerable (Volz and al., 2020). DCs characterised by large informal sectors, limited fiscal space, poor governance and relatively limited resources and capacity are particularly vulnerable to the pandemic and the measures needed to contain its impact (Loayza, 2020). While the presence of default risk restricts fiscal space and presents these DCs with a trade-off between pandemic mitigation and fiscal distress (Arellano and al., 2021). This situation is even more critical given that the fiscal space of many developing countries has been reduced by the growing debt pressure that was already apparent before the pandemic (Kozul-Wright, 2020), as the global economic downturn has hampered the ability of many developing countries to mobilise resources and many are using 30-70% of their minimal revenues on debt service (Volz et al., 2020).

7 For more details on the economic and financial impact of the COVID-19 pandemic see (UNCTAD - TDR 2020)

8 Cited in R Kozul-Wright (2020): "Recovering Better from COVID-19 Will Need a Rethink of Multilateralism", Society for International Development, (United Nations Conference on Trade and Development), vol. 63(2), pp.157-161, December, 2020.



The Covid-19 crisis has revealed the fragility of today's interdependent world and forced advanced economies to re-adopt massive rescue packages to stabilise corporate balance sheets and mitigate the damage to the households most affected by the lock-in.

This is partly a consequence of the unbalanced global recovery from the 2008 global financial crisis, but also of decades of premature capital account liberalisation and financial deregulation that have turned developing country debt into a development policy tool and a speculative financial asset, with external borrowing relying more on private creditors than on bilateral and multilateral creditors (Kozul-Wright, 2020).

The COVID-19 pandemic is probably the biggest macroeconomic shock that economies (developed and developing) have faced in the last hundred years (Hevia and Neumeyer, 2020). The current COVID-19 pandemic and the associated economic crisis contribute to what the IMF has warned may become an emerging market debt crisis (Lütkehermöller and al., 2021). The pandemic crisis may disproportionately harm low- and middle-income countries, as most lack the resources and capacity to cope with a systemic shock of this scale (Loayza, 2020). However, the high degree of uncertainty and the initial lack of coordinated policy responses intensified panic and market volatility, leading to a flight to safety that resulted in the largest outflow of portfolio capital from emerging and developing

economies in history and a global shortage of dollar liquidity (Gallagher and al., 2020). Most of these countries will have to shift scarce resources from debt servicing to fighting the new coronavirus, in response, the G20 has called for a temporary halt to bilateral public debt sector debt incurred by 72 of the poorest countries (Bolton and al., 2020). Debt levels in many developing countries have outpaced economic growth, and the ongoing pandemic is pushing tens of millions of people into extreme poverty, destroying years of progress (Lütkehermöller and al., 2021).

The COVID-19 crisis highlighted the underlying weaknesses of the Global Financial Safety Net⁹ (GFSN) (Gallagher and al., 2020). New data on the activities of the IMF and RFAs since the start of the pandemic show that the FSFM global financial safety net is not meeting these needs (Stubbs and al., 2021). Therefore, the GFSN needs to be strengthened with measures that will enable the world to contain crises such as COVID-19, save lives and jobs, calm markets, and steer finance towards a more skilful, sustainable and inclusive global economy (Gallagher and al., 2020).

⁹ The COVID-19 crisis threatened the stability of the global financial system and tested the institutions and mechanisms in place to support countries facing liquidity crises. The crisis has shown that the protection offered by the existing multi-tiered Global Financial Safety Net (GFSN) - including countries' foreign exchange reserves, central banks' bilateral swap lines and the financial resources of global financial institutions, in particular the International Monetary Fund (IMF) and Regional Financial Arrangements (RFAs) - is insufficient to deal with a crisis of the current magnitude.



In addressing the socio-economic impact of COVID-19 on African countries, it is argued that governments should prioritise social protection programmes to provide people with the resources to maintain economic productivity while limiting job losses. International donors are committed to assisting Africa in this regard, but usually in the form of loans (adding to the debt burden) rather than grants (Yaya and al., 2020). The COVID-19 crisis and the hesitant efforts of the international community to agree on emergency debt suspension and relief measures have once again highlighted the crippling fragmentation and complexity of existing procedures, the potentially extraordinary powers of creditors to sabotage restructurings, and the resulting ineffectiveness of crisis resolutions (Kozul-Wright, 2020).

Medium- and long-term challenges of the pandemic.

DIGITALISATION:

The preventive measures associated with the COVID-19 pandemic (such as containment) led to severe societal and economic restrictions and a huge push towards digitalisation (Dannenberg and al., 2020). COVID-19 has considerably accelerated digitalisation in all sectors. E-work and digitally organised logistics have played a role in mitigating the impacts and promise to be expanded during the recovery (Oldekop and al., 2020). With the rise of employee safety requirements along the value chain, the digitalisation of production and logistics are increasingly under pressure (Pujawan and Bah, 2021).

In the water sector, the COVID-19 pandemic has had an impact on multiple aspects of the urban water sector in addition to those related to engineering processes, including health, economic, and social consequences that may have significant effects soon. Moreover, the pandemic seems to come at a time when the water sector is already undergoing a fourth revolution, in transition to the digitalisation of the sector (Poch and al., 2021).

In the energy sector, the impacts of the COVID-19 pandemic are marked by: structural changes in energy demand and consumption, apparent spatial and temporal differences in energy intensity. The pandemic poses 4 major challenges for the energy sector, namely

- fluctuations and uncertainties in demand,
- structural and pattern changes,
- associated environmental impacts and
- the challenge of recovering energy demand and especially of digitalising energy (Jiang and al., 2021).

CLIMATE CHANGE:

The COVID-19 crisis is likely to have dramatic consequences for progress on climate change. The COVID-19 crisis demonstrated the importance of prevention and early action, and this may be even more important to avoid the worst consequences of the climate crisis (Manzanedo and Manning, 2020). Effective global governance for both climate change and COVID-19 is a challenge in an era of economic nationalism, but ensuring that efforts to adapt to the short- and medium-term shocks of the COVID-19 pandemic are aligned with long-term climate change mitigation efforts requires closer coordination between countries (Oldekop and al., 2020). The COVID-19 crisis is itself a reality check for climate policy, international governance, and prevention in general (Fuentes and al., 2020).

The COVID-19 pandemic can be seen as a rapid learning experience on how to deal more effectively with climate change, in this sense government responses to the COVID-19 crisis must be linked to environmental sustainability and climate action (Botzen and al., 2021). The biggest driver of long-term COVID-19 climate impact is through fiscal stimulus packages, as well as possible institutional changes (at national and international level). Green fiscal stimulus packages can act to decouple economic growth from GHG emissions and reduce existing welfare inequalities that will be exacerbated by the pandemic in the short run and climate change in the long run (Hepburn and al., 2020).



Conclusion of Chapter 1.

In the framework of this first chapter, the study proceeded to a global and dynamic analysis of the situation in Tunisia. Our analysis has highlighted all the socio-economic aspects and macro-economic indicators, in this sense, it is emphasized that the Tunisian economy, despite certain assets, historically displays structural failures which remain at the present time more and more imposing and worrying. Indeed, the Tunisian economy presents acceptable levels of sectoral diversification, openness and resilience while relying on human capital and a competitive workforce. However, structural anomalies persist and are even deepening. There is widespread evidence of Tunisia's increasing dependence on its main economic partner, the European Union, which consequently raises questions about Tunisia's ability to diversify its economic partnerships, especially given Tunisia's debt burden, which remains alarmingly high and is reaching unprecedented levels. Tunisia's indebtedness is associated with a worrying deterioration of public finances, which increasingly compromises the social role of the Tunisian state, all in a situation marked by persistent regional disparities, widening social inequalities and a fragmented and unbalanced labour market, the slippage of the national currency, the rise of the informal economy and finally a socio-political instability exacerbated by increased social tensions, a bureaucratic burden, a modest level of political governance that sows uncertainty (especially following the exceptional measures of the president of the republic on 25th July 2021).

In addition to these mixed findings, Tunisia has certain assets, namely an institutional and legislative infrastructure that guarantees the avoidance of violations of the rule of law and the supremacy of the state in a fair minimum. The same is true of the notable achievements constantly praised by the international community in the fields of education, gender equality and social dialogue.

In this context, Tunisia has an exceptional experience of social dialogue crowned firstly by the enhancement of its social achievements thanks to the social contract

signed on 14th January 2013 and the enshrinement of economic and social rights (in particular the right to organise in the constitution of the 2nd Republic of Tunisia), secondly by the award of the Nobel Peace Prize led by the quartet sponsoring the National Dialogue (orchestrated principally by the trade union centre UGTT) in 2015, and thirdly by the institutionalisation of social dialogue through the creation of the National Council for Social Dialogue. In Tunisia, awareness of the crucial importance of sustainable development is widespread, despite the progress that has been made in most of the SDGs, notably SDG 5 (gender equality), and to a lesser extent SDG 8 (decent work and economic growth) and SDG 16 (peace, justice and effective institutions); nevertheless, there is still potential for improvement with regard to SDGs 1 (no poverty) and 10 (reduced inequalities). In this niche, it is SDG 13 (action on climate change), which remains a telling indicator of the delay in addressing this issue, exacerbated by the water crisis, and most worryingly climate change is a major issue in the post-pandemic period of COVID-19.

Certainly, our analysis in this chapter notes the immediate disastrous repercussions of the pandemic: on the financial, macroeconomic and socio-economic levels, inflicting heavy consequences on the national community, marked by a frightening rate of exit from SMEs. Nevertheless, it is clear that in this context, Tunisian workers have paid the price through massive job losses, the loss of decent work, an orientation towards informal production mechanisms, and a recourse to informal employment. Our research, while acknowledging the seriousness of the impacts of the pandemic from a socio-economic perspective, emphasises that the pandemic is far from over. Indeed, the crisis is so deep that it heralds the imminent emergence of new interrelated paradigms: in ST, the relocation of supply chains, the plunge into excessive debt and the deterioration of public finances; in MT and LT: digitalisation and climate change. These 4 post-pandemic issues are systematically linked. To protect workers, upstream preparation for these new paradigms remains inevitable.





CHAPTER 2: INTERNATIONAL FOCUS ON FREE TRADE AGREEMENTS

Introduction

In this chapter, we present a synthesis of the impacts of FTAs in international experiences, based on a review of the literature on three dimensions of analysis: a first level: social and sustainable development (from a holistic perspective), a second level: relating to the informal economy and immigration and finally a third level: economic. In this sense, we present the different findings (conceptual and practical) of the impacts of FTAs at the international level. However, we highlight various caveats related to the ex ante simulations used to assess the impacts of FTAs. We develop an international mapping of the opportunities and threats of FTAs at the international level. Finally, in the light of our analysis of the state of play in Tunisia and the international mapping, we propose a methodological framing of the strategic perspective of the Tunisian General Labour Union (UGTT) in relation to the AfCFTA.

1

Opportunities and threats in international experiences with free trade agreements

a. Summary of the literature review on the impacts of trade liberalisation agreement¹⁰.

The central principle of free trade is based on the efficient allocation of resources (Harrison, 1994; Krishna and Mitra, 1998), by allocating factors of production in areas where a country has a comparative advantage (Harrison, 1994), thereby allowing for a less costly use of resources, leading to the exploitation of economies of scale and increasing productivity (Pavcnik, 2002; Treffler, 2004; Van Biesebroeck, 2005; Broda and al, 2006; Lileeva and Treffler, 2010; Bustos, 2011). It is argued that a more liberal regime will lead to an increase in exports which, in turn, will have a positive effect on economic growth and job creation (Jenkins, 1996). It is widely believed that free trade promotes economic growth (Yanikkaya, 2002; Berggren and

Jordahl, 2005). Going further, it should be noted that the emerging literature also identifies a number of ways in which openness might affect long-term growth (Harrison and Hanson, 1999). Generally, the traditional argument in international economics is that free trade improves welfare and raises incomes (Krishna and Mitra, 1998; Schwanen, 2001; Pavcnik, 2002; Broda and Weinstein, 2004; Treffler, 2004), allows for a better response to society's needs (Schwanen, 2001), encourages innovation and competition and the spread of democratic values (Froning, 2000).

However, proponents of free trade have often argued in favour of free trade, strongly emphasizing its beneficial effects on economic welfare, increased competition, improved productivity, the realisation of economies of scale, the promotion of exports and

¹⁰ For more details, see Annex II.



subsequently the stimulation of economic growth, increased incomes, and improved consumer welfare. Although the beneficial effects of free trade have been widely debated, little insight is offered into the social, environmental and sustainable development impacts of free trade agreements. These dimensions seem to be marginalised or even ignored, while the identification of the impacts of free trade agreements tends to be confined to an economic

To this end, our literature review focuses on:

»» The level of social and sustainable development.

»» The level of the informal economy and immigration.

»» The general economic level.

Our review of the literature on international comparative experiences with the impacts of free trade agreements raises some very worrying findings at both the conceptual and practical levels.

b. At the 1st social and sustainable development level.

With a particular focus on labour-intensive sectors such as manufacturing, agriculture and peasantry, the literature review shows that:

Employment, wages and social parameters (poverty, inclusion, unemployment, trade union activity, etc.).

- Trade liberalisation is associated with substantial job losses, particularly in the manufacturing and industrial sector, and if one includes the shift from full-time to part-time employment during this period, the job loss is even greater.
- A decline in demand for less skilled workers.
- The first two effects are pervasive in most OECD countries.
- Very negative impacts on the employment of production (unskilled) and non-production (skilled) workers with a heterogeneous effect on the latter.
- For agriculture, the results are mixed, although there is a trend of job reduction. However, the majority of rural workers have seen their employment conditions deteriorate temporarily, precarious and 'flexible'.
- The results regarding poverty reduction are ambivalent and the evaluation simulations are strongly criticised or even overestimated, as shown by the post-liberalisation worsening of poverty in both developed and developing countries.
- Rural poverty remains widespread, and discrimination is still pervasive, with many social conflicts in the rural space being exacerbated.
- The massive dislocation of jobs in the context of trade liberalisation has overshadowed job creation.
- Trade liberalisation is marked either by a significant reduction in wages (even dramatic in some countries) or by slow growth in real incomes, especially at the lower end of the income distribution.
- FTAs tilt the economic playing field in favour of investors and against workers, leading to a 'race to the bottom' in wages (especially for production staff: unskilled workers), working conditions and living standards.
- The impact on vulnerable groups is manifold, with de-industrialisation and job losses reducing the tax base on which social and municipal services depend, resulting in social deterioration and a significant weakening of social security and protection.
- In many countries that have not experienced a rise in income inequality, unemployment has increased instead.
- The weakening of workers' collective bargaining powers and their ability to organise in trade unions, which is also associated with reduced benefits and long-term job insecurity and career prospects.
- The spectre of capital mobility, and the economic insecurity it creates, has served to restrict trade union activity in a period of tight labour markets.
- It has been found that the acceleration of capital mobility has had a devastating impact on the extent and nature of union organising campaigns, where threats of plant closures or relocations are not only extremely prevalent with employers in union election campaigns, they are also very effective and have been shown to be unrelated to the financial situation.



- Unions have reoriented their activities away from the industries most affected by liberalisation, trade deficits and capital flight.
- Growing inequality and impoverishment are closely linked to the dissolution of the social contract between workers and capital and to countries that abandon welfare and flanking policies or in most cases take unserious and inappropriate measures leaving workers and their families to cope with the distress of economic restructuring on their own.

Trends in income distribution.

- There is strong evidence that FTAs have increased unequal patterns of distribution of earnings between trading partners and distribution of income between different socio-professional groups.
- Debt burdens, trade and financial liberalisation have led to an immediate increase in income inequality, as the short-term costs of adjustment have not been shared equitably by all income groups, and there is no evidence to reverse this trend in the longer term.
- The widening of the wage gap between skilled and unskilled workers. Mixed results on increasing the skill wage premium, especially in export-oriented industries.
- It can be concluded that there is strong evidence to support the view that trade liberalisation leads to increased wage inequality.
- An increase in intra- and inter-industry wage inequalities.
- The "superstar economy" (i.e. the pure rents earned by sports and entertainment stars, and the rising compensation bonuses of CEOs and other senior executives), combined with the role of de-unionisation, immigration and free trade are pushing incomes down, and have led to a wide divergence between productivity growth rates, average pay and median pay.
- With the increase in wage dispersion across the country, regional wage differentials have widened and appear to be largely explained by regional disparities in terms of the variation in regional access to trade and foreign investment and the regional opportunities offered by free trade.

Dimension Gender.

- Women workers are overpopulated in the agricultural sector (especially in Africa and many Asian countries). In this situation, trade liberalisation policies that affect unskilled, informal or agricultural workers generally put African women workers at a disadvantage.
- Women with low levels of education tend to be concentrated in labour-intensive sectors, so trade liberalisation has not resulted in a relative increase in female employment.
- Empirical and consistent evidence suggests that the expansion of female labour-intensive sectors is accompanied by contractions in male labour-intensive sectors. Thus, male labour is reallocated from declining (male labour intensive) sectors to expanding (female labour intensive) sectors, where the ratio of capital to labour declines creating a widening of the gender wage gap and a decline in women's share of labour. This means that women lose out in absolute and relative terms.
- An increase in structural gender inequalities between women and men in household economies and in local and transnational labour markets.
- There is no equitable distribution of the benefits and risks of free trade by gender within DCs. Opening to the international economy increases the risks for women and requires policies that ensure equal opportunities for women, which so far continue to address economic and generally gender-insensitive aggregates.
- The relevance of gender discrimination is evident in the context of liberalisation. Competitive concerns in the female-intensive portion of products in terms of the gender composition of the workforce are marked by very low prices (and hence very low wages for women) have minimised the domestic value added generated in international markets compared to what would have been possible if women's relative wages were not so low (without compromising the profit share).





Environment, energy and climate change.

- Free Trade Agreements (FTAs) play a key role in the global value chain. Meanwhile, they also upset the world's environmental balance.
- Considering that economic growth alone increases energy consumption, a less developed country that liberalises its market may suffer from environmental degradation before it can benefit from liberalisation.
- Robust and statistically significant empirical evidence shows that for all countries (high, middle and low income), further trade liberalisation leads to increase per capita emissions of SO₂ and CO₂ on average.
- The results of the effects of FTAs on bilateral CO₂ pollution imply that low-income countries have a larger pollution effect even after the implementation of an FTA due to lenient environmental standards.
- Strong empirical evidence has identified that among the environmental impacts of trade liberalisation¹¹, scale and composition effects¹² combined accelerate pollution in developing countries due to the concentration of polluting industries.
- Many empirical investigations support the validity of the HHP pollution haven hypothesis in the liberal context¹³ (Johnson and Beaulieu, 1996). Trade liberalisation will increase emissions in the poorest countries (low- and middle-income economies) as their comparative advantage consists of pollution intensive industries and exploiting lax environmental regulations, while it will decrease emissions in richer (high income) countries that acquire environmentally friendly technologies or relocate their polluting industries to countries with lenient environmental regulations
- Applying the Environmental Kuznets Curve (EKC) hypothesis¹⁴, the empirical literature captures the theoretically pronounced effect of a country's income growth on bilateral CO₂ emissions that is particularly sustained in the context of trade liberalisation.

11 The environmental impact of trade liberalisation is classified into three effects: scale, technical and composition (Antweiler and al., 2001; Grossman and Krueger, 1995; 1991).

12 The scale effect refers to the increase in the size of an economy that results from the increase in market access brought about by liberalisation. The more environmental the degradation, the more likely it is to be the result of the scale effect. The composition effect indicates that following an episode of trade liberalisation, the industrial structure of an economy will change as each country increasingly specialises in activities in which it has a comparative advantage. The actual impact of the composition effect on the environment therefore depends on the determinants of a country's comparative advantage. The technical effect refers to the changes in production methods that accompany trade liberalisation. As trade and growth increase incomes, the demand for environmental regulations will generally increase. In isolation, the technical effect is likely to be beneficial to the environment. (Cole and Elliott, 2003; Cole and Rayner, 2000).

13 This hypothesis argues that low-income countries will have more pollution after an FTA because of having lenient environmental standards. For example, pollution intensive industries will deliberately migrate to areas of lax environmental standards. On the other hand, some argue that low-income countries have more labour-intensive goods that are less hygienic than capital-intensive goods. These contrasting arguments are based on the Factor Endowment Hypothesis (Yao and al., 2019; Korves et al., 2011; Liddle, 2001). The FEH hypothesis holds that trade flows are determined by the amount and type of resources held by trading partners. Typically, developing countries produce more labour-intensive products that are clean and developed countries produce capital-intensive products that are dirty goods (Copeland and Taylor, 2013). As a result, FTAs between developed and developing countries can make developed countries more polluting (Nemati et al., 2019; Korves et al., 2011).

14 The CEK hypothesis is mainly used to examine the relationship between economic growth and environmental pollution (Pata, 2018). According to the CEK hypothesis, additional economic growth can improve environmental degradation after an economy has reached an adequate level of economic growth. In the early stages of economic growth, when primary production dominates, there is an abundance of natural resources and limited waste generation due to limited economic activity. During development and through industrialisation, there is a significant depletion of natural resources and waste accumulates. During this phase, there is a positive relationship between economic income or growth (per capita) and environmental degradation (per capita). As economic growth continues, services, improved technology and the spread of information limit the material base of the economy and lead to a reduction in environmental degradation (Panayotou, 2003). The relationship between environmental degradation (per capita) and income growth (per capita) is represented by an inverted U and is similar to the original curve proposed by Simon Kuznets in 1955 regarding the relationship between income inequality and economic growth (Caviglia-Harris et al, 2009; Kaika and Zervas, 2013; Pata, 2018; Ulucak and Bilgili, 2018; Usman al., 2019).



- In the long run, there is evidence of a causal relationship between: energy consumption and exports (i) and energy consumption and imports (ii). This means that in the long run, energy or environmental policies that reduce energy consumption will reduce exports and imports, putting energy conservation policy aimed at reducing greenhouse gas emissions at odds with trade expansion policy.
- The literature identifies both positive and negative effects of trade liberalisation on the environment:
 - i) Positive effects include increased growth with the distribution of environmentally friendly and high-quality goods, services and technologies.
 - ii) Negative effects arise from the expansion of the scale of production and consumption which could potentially threaten the regenerative capacities of ecosystems while increasing the danger of natural resource depletion.
- Although trade itself is not the main cause of anthropogenic climate change, there is evidence that trade liberalisation has indirectly contributed to anthropogenic climate change through increased transport activities and increased use of fossil fuels (e.g., CO₂).
- The analysis of climate change in the context of liberalisation becomes complicated by the existence of countries and regions. The international aspects further compound the problem of externalities inherent in climate change.
- Empirical evidence shows that trade liberalisation is strongly associated with greater concentration of economic activity and territorial polarisation.
- Market liberalisation policies have triggered a widespread erosion of local peasant economies and social communities.
- The exclusion of the peasant population and the deterioration of the social situation of rural peasants and the transition from peasantry to de-peasantry.
- Higher levels of migration from rural areas to urban areas or other countries and increased pressure on ecosystems.
- Rural poverty remains widespread, and discrimination is still pervasive, with many social conflicts in the rural space being exacerbated.
- The impoverishment and depression of the rural economy.
- The expansion of a landless peasant class.
- The emergence of mega-cities, particularly in developing countries.

c. At the 2nd level: the informal economy and immigration.

The informal economy.

- With the exception of a few studies¹⁵, the majority of empirical evidence to date has confirmed that trade liberalisation is associated with an increase in the size of the informal economy, particularly in developing countries.
- The majority of studies have emphasized that trade liberalisation has led to the accelerated growth of informal employment in DCs and in particular in the industrial and agricultural sectors exposed to foreign competition and imports.
- The slowdown in formal employment or the decline in formal employment in manufacturing has been accompanied by a process of increased transition and orientation of workers who have lost their jobs into the informal sphere in many LDCs.

Regional, urban and rural development.

- The overall effect of trade opening is to increase regional inequalities.
- There is no evidence that trade liberalisation significantly reduces urban concentration.
- It seems impossible to rely on trade openness alone to bring about more balanced regional development, i.e. narrower disparities in regional income and poverty, which are important policy objectives in many developing countries.

15 See for example (Farjadi and Dowlatabadi, 2018; Goldberg and Pavcnik, 2003; 2004).



- In most LDCs, and given the insignificant effect of free trade on reducing unemployment, job seekers are moving overwhelmingly into informal self-employment and/or informal employment.
- Trade liberalisation has resulted in the rapid growth of informal employment through the channels of: wages, labour welfare, trade unionism, social security, job security, labour flexibility.
- Empirical evidence in many developing countries confirms the increase in informal employment not only in the informal sphere but also in the formal sphere, notably within the manufacturing and agriculture and commodity sectors.
- There is strong evidence that liberalisation policies have encouraged firms to cut costs and outsource to the informal economy.
- The impact of trade liberalisation on wages in the informal economy is less clear and depends on specific assumptions, although the trend is towards a race to the bottom.
- It seems that governments in several DCs were implicitly a strong and active agency behind the transition to informal production processes, the achievement of decent work and the entrenchment of precarious work, exacerbated by the strong orientation towards subcontracting in response to increased competition and the concern for cost reduction. Governments have supported this orientation through formal policies and a progressive alignment with the interests of capital to the detriment of workers left to their own devices given the nonchalance of institutions and the restriction of trade unionism.
- International experience has shown that FTAs have failed to develop developing countries' economies and increase integration into local labour markets, and most studies have pointed out that FTAs have failed to reduce both legal and illegal migration flows.
- Despite a perennial debate between the thesis that trade liberalisation and emigration are substitutes and the thesis that trade liberalisation and emigration are complementary. In the context of FTAs and rising unemployment, emigration represents a safety valve that reduces pressure on local labour markets in DCs and LDCs.
- Changes due to liberalisation have led to higher levels of migration from rural to urban areas (rural areas are increasingly urbanised, and urban areas are increasingly ruralised) or from other countries.
- Agricultural liberalisation increases illegal immigration, while liberalisation of the high-tech sector reduces it.
- Trade liberalisation increases the migration of unskilled and financially constrained workers, while the migration of skilled workers is subject to mixed results and depends on the socio-political stability of DCs.
- Capital mobility in the country of origin makes trade policy ineffective in controlling illegal immigration.
- In the context of capital mobility, an increase in home country restrictions on capital inflows increases the level of illegal immigration and reduces the effectiveness of border control efforts by the host country.

Immigration.

- Regardless of the different regional outcomes, the configuration of a global political economy has been marked by two common phenomena: the growth of the informal economy and increased migration. Both are seen as the effect of rising economic inequality and socio-economic polarisation in the liberal context.

d. At the 3rd level: the economic effects.

Productivity.

- With mixed empirical results, it appears that overall liberalisation increases firm productivity mainly through specialisation as well as the decline of inefficient firms.
- Trade policies aimed at facilitating access to foreign markets, such as multilateral trade liberalisation, can have a positive effect on business performance.



- The increase in trade specialisation has been greatest in industries characterised by medium to high technology content, and in the fastest growing industries in world trade.
- Evidence of productivity improvements within factories that can be attributed to liberalised trade for factories in the sector competing with imports.
- Exposure to trade, or increased exposure, drives out the less efficient firms. In many cases, improvements in aggregate productivity result from the reallocation of resources and production from less efficient to more efficient producers.
- With mixed empirical results, it is widely observed that firms that have increased their productivity are those that are export-oriented, i.e. exporters are more productive than non-exporters. Nevertheless, it has been argued that exporting alone does not improve productivity but rather increases the degree of specialisation and self-selection in international markets.
- Economies of scale are proving to be an important channel for productivity growth.
- Heterogeneous empirical evidence on the improvement of general well-being sometimes described as slight or insignificant.
- The improvement of exports through liberalisation is highly debated and questioned, with some arguing that export growth is the result of a stable and realistic exchange rate.
- Risks of trade diversion, especially for countries with weak institutional security.

e. The main conceptual findings.

Despite the general presumption in favour of trade liberalisation (Cockburn and al., 2007), there is a tendency to greatly exaggerate the systematic evidence in favour of trade liberalisation, which has consequently generated considerable influence on global policy and expectations that are unlikely to be met (Rodriguez and Rodrik, 1999).

Earlier, Conroy and Glasmeier (1992) stated that the most cautious and articulate proponents of the proposed free trade agreement base their arguments on comparative and static theories of international trade, they point out that formal international trade theory offers little insight into the theoretical distribution of benefits or costs to different inherent: social groups, regions or, in many cases, the different industries subject to trade liberalisation. Again, as Jacob Viner made popular in the 1950s, not all trade agreements necessarily lead to economic welfare for the nations that enter them (Barnekow and Kulkarni, 2019).

Economists have not reached a clear consensus on a number of important issues, such as the impact of trade reform on the labour market (Beaulieu, 2000). While the social impacts of trade liberalisation are not only complex but, due to a number of key variables, differ across countries and over time (Shwannen, 2001).

There is little evidence that open trade policies are significantly associated with economic growth (Hur and Park, 2012; Rodriguez and Rodrik, 1999). The expected contribution of trade liberalisation to long-term productivity gains remains hypothetical and/or speculative and extremely limited in relation to economic development and poverty reduction

SMEs.

- While it is widely recognised that trade liberalisation presents opportunities for competitiveness, productivity, economies of scale and innovation for SMEs, they remain vulnerable.
- The turnover of SMEs is marked by a high exit rate, particularly for manufacturing companies.

Economic growth, exports, welfare and specific effects.

- The evidence shows that FTAs have created considerable short-term adjustment costs and rather mixed results in terms of long-term gains on the economy.
- FTAs appear to have a negligible effect on economic growth performance.
- Only macroeconomic stabilisation and distortion reduction effects are most observed.



(Ackerman, 2005; 2002). It has been strongly argued in this sense that the conceptualisation, experience and determinants of poverty are multidimensional, deep and resistant to change (Sachs and al., 2005).

The distribution of possible benefits of liberalisation among trading partners is indeterminate, subject to influence (Akyüz, 2005). It is pointed out that reasonable economists would agree that free trade is neither sufficient to increase exports¹⁶, nor does it guarantee a better balance of payments for any country (Pacheco-Lopez, 2005), while the ability of DCs to increase their productivity through trade liberalisation is suspected (Andresen and Babula, 2009).

f. Caveats to ex-ante projections of the impacts of the AfCFTA

In this sub-section, we present caveats to the impacts of FTAs from an empirical perspective. We take the example of the study “The African Continental Free Trade Area Economic and Distributional Effects” developed by the IBRD of the World Bank Group in 2020 which sought to quantify the impacts of the AfCFTA. This study was based on the CGE Computable General Equilibrium model calibrated on the database produced by the Global Trade Analysis Project (GTAP). The study carried out an ex-ante assessment of the short- and long-term economic and distributional implications of the AfCFTA agreement, including:

- a. to economic growth.
- b. to international trade.
- c. to poverty.
- d. employment in general and from a gender perspective.

This study presented its results¹⁷ based on an ex ante simulation and using GTAP software.

Indeed, our research points out that many studies that seek to identify the impacts of FTAs, and particularly those that use ex-ante simulations, are likely to be highly biased. In this sense, it is appropriate to present some insights to African trade union leaders in relation to ex ante projections:

- Many previous studies that emphasise a positive link between free trade and long-term economic performance and growth are plagued by serious econometric and data problems (Harrison and Revenga, 1995; Harrison and Hanson, 1999). These studies are seriously hampered by measurement problems (Andersen and Babula, 2009; Rodriguez and Rodrik, 1999; Edwards, 1997), and broader theoretical weaknesses (Ackerman, 2005).
- Regarding the welfare, wage and employment effects of FTAs: there was considerable evidence of a gap between ex ante projections on the one hand and ex post assessments on the other. Most ex ante models tended to overestimate the benefits and underestimate the costs of free trade (Grumiller, 2014).
- Experience has revealed time and again the low credibility of ex-ante simulations (Grumiller, 2014; Sapir, 2007; Ackerman, 2005; 2004; 2002), particularly those based on CGE models which are the methodological essence of most ex-ante assessments of the impacts of FTAs (Grumiller, 2014)¹⁸. The influence of these models continues to spread in policy applications, with increasing use (Ackerman, 2002).
- Computable General Equilibrium analyses are often criticised for their lack of foundation (Kepaptsoglou and al., 2010; Hertel and al., 2007; McKittrick and Ross, 1998), for their static conceptualisation (Sapir,

16 The improvement in exports is largely the result of a more realistic and stable real exchange rate and not of free trade (Jenkins, 1996). While the empirical evidence strongly doubts the hypothesis of pushing exports to stimulate growth and development (Jung and Marshall, 1985).

17 For more details, see Annex II: (Tab. 13. Summary of ex-ante simulations of the effects of the AfCFTA agreement in the IBRD (2020) study “The African Continental Free Trade Area Economic and Distributional Effects”).

18 The two main CGE models used to estimate the ‘gains’ from global trade liberalisation are LINKAGE, developed at the World Bank, and GTAP (Global Trade Analysis Project).



2007) and that they are heavily biased towards high-income countries (Ackerman, 2005). CGE models are widely used by researchers to estimate the effects of international trade liberalisation. However, the technical shortcomings of these models are well known (Sapir, 2007)¹⁹.

- The models exacerbate conceptual drawbacks, mainly: their silence on the employment effects of trade liberalisation, and often fail to consider the presence of persistent unemployment in DCs, and

hypothetical and speculative productivity gains (Ackerman, 2005)²⁰.

- However, it is observed that studies seeking to identify and quantify the impacts of FTAs tend to use the CGE approach even for short- and medium-term effects, although PE models are the most appropriate for capturing such effects (Abler, 2007).
- It should also be noted that most studies tend to underestimate the loss of tax revenues and to marginalise the magnitude of the administrative costs of adjustment for DCs.

¹⁹ The assumptions about the elasticity of demand and supply are largely unrealistic. Furthermore, one of the most important problems with models such as LINKAGE and GTAP is that they all assume the existence of an equilibrium situation, both at the outset and following the implementation of the agreements. It should be added here that the acceleration in the number and speed of transactions, as well as the degree of competition, can have a directly unbalancing effect. Finally, these models do not take into account the 'opportunity costs' induced by trade liberalisation; more generally, it is the failure to take into account the costs of trade liberalisation that makes the results of models such as LINKAGE and GTAP suspect. (Sapir, 2007).

²⁰ In the presence of unemployment, trade liberalisation may simply displace workers from protected low-productivity sectors into unemployment (Ackerman, 2005).



2

Mapping the opportunities and threats of FTAs in comparative international experiences.

Finally, in order to better understand the overall effect of FTAs, we thought it appropriate to highlight the opportunities and threats (in relation to the three levels of analysis developed above) and to map them by level of analysis and by dimension or theme.

Tables 13, 14 and 15 together form a mapping of the opportunities and threats of FTAs in the different international experiences in relation to the three levels studied, i.e:

»» The 1st level of social and sustainable development.

»» The 2nd level: the informal economy and immigration.

»» The 3rd level: the general economic aspect.

Tab. 13: International mapping of FTA impacts at the 1st social and sustainable development level.

Axis	Dimension	Opportunities	Threats
1	Employment	Reallocation to the most productive, expanding and technology-based sectors	Job losses in manufacturing and agriculture
			Declining demand for lower-skilled workers
	Job quality		Flexibility, precariousness, lack of social security and infringement of decent work principles
	Salaries	Increasing wages to technology-based competence for qualified personnel	Wage cuts for unskilled staff
	Social aspects		Social exclusion
			Increasing unemployment
			Deterioration of social conditions and social protection of workers
			Restriction of trade union activity
2	Income distribution policies	Potential increase in income for skilled personnel	Widening wage gap between skilled and unskilled workers
			Widening of the inter- and intra-industry wage gap
			Inequalities in the distribution of gains between trading partners
			Impoverishment and increased poverty
3	Gender	High employment potential for women in labour-intensive and/or export-oriented and/or service sectors	Structural gender inequalities in household economies and in local and transnational labour markets
			Widening wage gap between women and men
			Race to the bottom in wages for unskilled women



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4	Environment	Improving the environmental situation through technical effect	Environmental deterioration through scale and composition effects
		Validation of the EKC hypothesis (Environmental Kuznets Curve hypothesis)	Validation of PHH (Pollution Haven Hypothesis)
	Energy	Reduction of energy intensity through the technical effect	Increased energy consumption
		Validation of the EKC hypothesis	
	Climate change	Validation of the EKC hypothesis	Validation of the PHH hypothesis
			International externalities
5	Regional development	Rapid development of trade areas (access to employment opportunities and wage increases)	Deepening regional disparities
			Territorial polarisation
	Urban policy	Emergence of mega-cities	Increase in urban concentration
	Rural policy	Reallocation to non-agricultural employment	Erosion of the peasantry and the depression of the rural economy

Tab.14. International mapping of FTA Impacts at the 2nd Level of the informal economy and immigration.

Axis	Dimension	Opportunities	Threats
6	The size of the informal sphere	Attraction of the informal sphere to the formal sphere through tariff reductions and social protection	Increase in the size of the informal economy as a share of GDP of the formal economy
			Implicit alignment of governments with informal production processes (due to competition and the incentive to increase productivity and reduce costs)
	Informal employment	Promoting formal employment through social protection	Growth of informal employment through the anchor of precarious and flexible work, the restriction of trade union activity, the undermining of the principles of decent work, the absence of social security or to a lesser extent the deterioration of social conditions
7	Migration	Increased income for skilled personnel	Massive exodus from rural to urban areas or from disadvantaged areas to areas favoured by free trade (border, coastal, etc.)
			Social dumping and unfair competition
	Immigration	Improving collaboration on skills transfer	Increased illegal migration, undermining of decent work and human trafficking
		Improving competition and innovation	Social dumping and unfair competition


Tab. 15. International mapping of FTA impacts at the 3rd level of economic and welfare effects.

Axis	Dimension	Opportunities	Threats
8	Productivity	Increased productivity in the manufacturing sector	Short-term slowdown in labour productivity
		Increase in the productivity of the labour factor	Productivity growth may be biased by exchange rate shocks and returns to scale
		Improving the degree of trade specialisation for exporting companies	
		Improving the international competitiveness of firms	
9	SME	Potential for productivity improvement and international competitiveness through factor cost channels, specialisation, technology-based competence and innovation	Increased exit rates, particularly for manufacturing firms and to a lesser extent for agricultural firms
		Returns to scale for firms linked to large firms	Increased vulnerability to exchange rate shocks and currency volatility
10	Overall economic effects	Long-term gains due to efficient reallocation of resources	Considerable short-term adjustment costs
		Overall welfare, especially for consumers due to lower prices	Losses and/or to a lesser extent reductions in income for producers
		Returns to scale	Slowing growth in the short term
		Falling inflation	Insignificant effects on growth which tends to be unsustainable growth (output, employment and poverty reduction)
		Creation of new trade and term effects	Trade diversion
		Increased exports	Deterioration of the trade balance
			Insignificant effects on reducing unemployment or even increasing it due to job losses
			De-industrialisation and the erosion of agriculture and the peasantry



3

Proposed methodological framing of the UGTT's perspective on the AfCFTA agreement

As discussed earlier in this section, the AfCFTA offers potential opportunities that remain hypothetical or even speculative, especially since its implementation still poses critical challenges given the systematic threats to free trade in various international experiences. The AfCFTA agreement could present the African continent with new trade facilitation opportunities based on a collaborative approach, knowledge transfer and solidarity.

Indeed, it is increasingly clear that African countries should strengthen their solidarity in order to increase their resilience to potential economic shocks and crises. However, although various studies by international institutions state that the agreement offers the African continent the potential for integration into the global economy, poverty reduction and inclusion, the various analyses of the impact of the agreement are embodied in a logic of economic aggregation and not sustainable development, thus marginalising the possible static and spurious aspect of the agreement, as evidenced by the exclusion of African trade unions from the negotiation process: this further intensifies the trade union concerns which are quite justified.

More worryingly, the promulgation of the AfCFTA agreement comes in a context marked by the disastrous fallout from the COVID-19 pandemic where everything seems to confirm that the crisis is far from over, on the contrary, changes relating to the post-COVID-19 period are rapidly beginning to emerge: If the relocation of supply chains and over-indebtedness are imminent, the African trade union community must be deeply concerned about the atypical changes imposed by the pandemic, namely digitalisation and climate change.

For all these reasons, we believe that:

- The African trade union movement should rigorously consider all the systematic threats reported in the scientific literature and build in levers of solidarity and continuous monitoring.
- The UGTT should inevitably base a prospective perspective on a transversal analysis considering: a multidimensional reading of the Tunisian landscape and the mapping of opportunities and threats specific to Tunisia.

Thus,

A. Given

- A1-** The degradation of the social role of the state in several African countries and particularly in Tunisia.
- A2-** The various social and societal concerns raised (about the impact of trade liberalisation) that are well recognised in the literature and of which the AfCFTA will be no exception.
- A3-** The repercussions of the COVID-19 pandemic both in the short term on the one hand, and in the medium and long term on the other, which clearly implies that the African trade union movement remains the sole guarantor of the protection of human capital, the defence of universal human rights principles in general (in particular the principles of decent work), as well as the protection of vulnerable groups.



B. Based on the fact that the AfCFTA agreement comes in a critical context marked by the interdependence between three major issues

B1- The structural vulnerability of most African economies exacerbated by inadequate development models, the trend towards a rent-based economy, the expansion of the informal economy, deepening poverty and unemployment, social and regional disparities, social exclusion and the increased marginalisation of vulnerable groups.

B2- Structural changes that are taking place at a rapid pace, including

- digital transition
- energy transition
- economic transition
- emergence of the concept of the future of work
- climate change

B3- Impacts of the COVID-19 pandemic :

- i. Marked by substantial job losses: which revealed the depth of the structural crisis in African economies.
- ii. The imminent effects relate mainly to the relocation of supply chains and the emergence of a new debt paradigm.
- iii. As well as the medium- and long-term implications (increased digitalisation and climate change) which are likely to accelerate structural change and embed the obvious need for alignment with the above changes to ensure the continued sustainability of African economies.

C. Highlighting

C1- The inappropriate institutional and legislative architecture in most African countries.

C2- The failure of political and democratic constructs exacerbated by weak governance, the spread of corruption and smuggling reaching infernal levels, the lack of respect for the supremacy of the law and the rule of law and the vulnerability of the concept of citizenship.

Thus, taking into account elements A, B and C, and considering the non-homogeneity of African regulatory frameworks governing trade which further complicates the understanding of the process of sub-regional _ regional _ and continental interactions, all African trade unions are called upon to engage in the design of a common holistic vision and the elaboration of an advocacy in relation to the possible impacts of the AfCFTA agreement whose exploration based on the rigorous identification and analysis of the strengths & weaknesses /opportunities & threats dyad in a forward-

looking perspective is inevitably required. weaknesses/ opportunities/threats dyad from a forward-looking perspective are inevitably required.

In addition to the context mentioned above, the AfCFTA agreement comes in a rather particular and specific context for Tunisia which, following the advent of the 2011 revolution, is experiencing profound changes at the political and socio-economic levels which have marked all the foundations and institutional structures of the country and additionally:



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- a completely unstable, troubled and even uncertain political situation following the events of 25 July 2021.
- an unstable and tense regional situation at the security and diplomatic levels, particularly in neighbouring countries which have long been strategic economic partners of Tunisia.

In this rather complex context, and by virtue of its historic national mission, the UGTT plays a key role in supporting the democratic transition process, which was crowned by the award in October 2015 of the Nobel Peace Prize to the quartet that initiated the national dialogue, aimed at ensuring the sustainability of republican institutions and guaranteeing social peace based on universal values.

However, in addition to the revolutionary demands in Tunisia for employment and a dignified life on the one hand, and the current unprecedented structural crisis of the Tunisian economy on the other, it should be noted that the situation has been further aggravated by the COVID-19 pandemic, which has led to unstable, tense and even turbulent regional conditions and record levels of insecurity and unemployment. It goes without saying that the balance sheet is very alarming, with such endogenous and exogenous factors having a profound effect on:

- the fundamental rights of workers, the right to decent work and the security of their jobs.
- the social fabric in Tunisia in general and particularly the vulnerable categories.
- the Tunisian economic fabric made up essentially of SMEs.

In this respect, it should be stressed that the agriculture, tourism and manufacturing sectors are the most affected by the above-mentioned effects, mainly due to political instability, massive job losses (worrying job losses due to the structural crisis, (worrying job losses due to the structural crisis, unprecedented job losses due to the direct consequences of the COVID-19 pandemic), all this in the absence of a job loss insurance fund, as well as legislative references aggravated by the weakness of the Tunisian state institutions and the deterioration of public finances.

These different factors have generated a negative growth rate with heavy repercussions on Tunisian companies (marked essentially by a dramatic exit rate for SMEs), dramatic consequences on the fundamental rights of workers, thus favouring a surge in the informal sector, smuggling and the rise in illegal migratory flows (exacerbated further by climate change and the water crisis). Any contextual consideration of the situation in Tunisia leads the trade union leaders of the UGTT to worry about a structural rise in the informal economy and illegal immigration under the AfCFTA agreement.

Taking into account all these factual, contextual and structural elements, but also the potential of the Tunisian economy, starting from a holistic diagnosis of the different aspects and indicators that could serve as a barometer of the responsiveness of the trade union movement to the UGTT, in a perplexing and constantly changing context, the position of the UGTT regarding the AfCFTA agreement certainly depends on the transversal evaluation of the impacts of this agreement in relation to several parameters, dimensions and levels of analysis. In this sense, it is strongly recommended that the UGTT draw up a prospective - comprehensive - rational picture: a SWOT matrix allowing to explore possible scenarios and not only probable ones.





Conclusion of Chapter 2.

In this chapter, we have conducted a literature review on three levels of analysis. Our synthesis of the impacts of FTAs in international comparative experiences paints a bleak picture. Indeed, in relation to the first level (social and sustainable development), free trade is marked by substantial job losses in the manufacturing and agricultural sectors, a deepening of wage inequalities, structural gender inequalities and an increase in precarious and domestic work for women. The literature shows a shift in female employment only towards low-skill sectors. From an ecological point of view, free trade acts through two effects: composition and scale, with a systematic risk of validating the pollution haven hypothesis (PHH), especially for countries with lax environmental regulations. However, some studies indicate that free trade can contribute to climate change through international externalities. On the other hand, the effects are so adverse when dealing with the spatial dimensions of development, with territorial polarisation, urbanisation of rural areas and mass migration of rural farmers to urban areas and/or other countries.

At the 2nd level, robust empirical evidence confirms that free trade is associated with the rise of the informal economy through mechanisms related to the embedding of informal production processes and the massive recourse to informal employment. This trend in turn feeds immigration, especially illegal immigration, which remains the essence of the informal economy. Except for a few studies, it is strongly emphasised that free trade increases the size of the informal sphere and illegal immigration as a result. Under free trade, the informal economy and immigration are inextricably linked.

At the 3rd level, much empirical evidence has confirmed that the relationship between free trade and economic growth is nuanced, while it is strongly argued that free trade is neither a reliable mechanism for promoting long-term self-sustaining growth, nor exports, nor general welfare. On the other hand, productivity gains

remain hypothetical, stemming rather to a large extent from the decline of inefficient firms, and to a lesser extent from specialisation channels. For small and medium-sized enterprises (SMEs), free trade may offer the possibility of returns to scale, however SMEs are exposed to exchange rate volatility and a high exit rate. It is noted that trade diversion is a systematic risk of FTAs.

In view of the above, we have reviewed all these results in the light of various conceptual and practical criticisms that confirm that little theoretical insight is offered into the relationship between free trade and economic growth. Again, all studies related to the quantification of economic impacts of FTAs suffer from various econometric anomalies, static designs, and broader theoretical weaknesses. However, we have presented further caveats to the widely used ex-ante projections to simulate the impacts of FTAs based on the CGE (Computable General Equilibrium) approach. These simulations have repeatedly proven to have low credibility as evidenced by ex-post evaluations. The major shortcoming of these simulations is closely related to social issues. The various ex-post evaluations have indicated a considerable gap between the ex-ante simulations and reality.

From the present research, in light of the literature review and the various underlying findings, we proceeded to map the impacts of FTAs in international experiences by classifying them as opportunities and threats on the three levels of analysis carried out by the research. Finally, we present a proposed methodological framework for the strategic perspective of the Tunisian General Labor Union (UGTT) in relation to the AfCFTA agreement. This methodological framework takes into account all the parameters, dimensions and levels of cross-cutting reflection in relation to the AfCFTA agreement. The methodological framework will be used to develop a SWOT matrix (strengths, weaknesses, opportunities and threats) to outline the strategic positioning of the UGTT.



CHAPTER 3: RECOMMENDATIONS AND TRADE UNION MONITORING FRAMEWORK

Introduction

At the beginning of the 2nd chapter, the study presented a mapping of the different opportunities and threats inherent to international free trade experiences: according to the three levels of analysis developed previously (social and sustainable development level - informal economy and immigration level - general economic level). We have also proposed a methodological framing of the perspective of the Tunisian General Labour Union (UGTT) in relation to the AfCFTA agreement. It is emphasized that opportunities and threats must be carefully considered by UGTT union officials, given our belief that if these impacts have been seen before at the international level: it is possible that the AfCFTA agreement will not be the exception. Therefore, and based on our interviews with very high-level officials²¹ and our methodological framing of the UGTT perspective:

- The study presents a multidimensional reading of the overall analysis of the situation in Tunisia, mapping the various strengths and weaknesses of Tunisia (which will be referred to as national mapping 1).
- The study will draw on the international mapping to develop the mapping of opportunities and threats of the AfCFTA agreement in Tunisia (which will be referred to as national mapping 2).
- Based on national mappings 1 and 2, we will develop a SWOT matrix (Strengths, Weaknesses, Opportunities and Threats matrix) for a thorough and comprehensive understanding of the issues at stake in the AfCFTA agreement by the UGTT.
- A trade union monitoring framework with a set of warnings and recommendations. This trade union monitoring framework is dedicated to the UGTT (and may be used by other African trade unions), the framework is designed as a tool to assist trade union decision making and the development of the UGTT's strategic perspective on the AfCFTA agreement.

21 Trade union, political, diplomatic, economic and academic personalities, to consult the interviews: see Annex III.



1

SWOT Matrix.

a. Multidimensional reading: Tunisia's strengths and weaknesses.

In the first chapter, we carried out a global and dynamic analysis of the situation in Tunisia. The global and dynamic analysis of the state of affairs in Tunisia enabled us to refine our interviews. Based on a multidimensional reading of the Tunisian reality and our methodological framing of the strategic perspective of the UGTT, we have consequently mapped the different strengths and weaknesses of Tunisia according to specific dimensions. The following two tables summarise the strengths and weaknesses at the Tunisian level (the two tables will form the national mapping 1):

Table 1 : National mapping 1 (forces at the Tunisian level)

Dimensions	Strengths
Economic	Economic diversification
	Competitive and qualified workforce
	Good quality of the Tunisian product
	Know-how, expertise and specialisation in all sectors
	Comparative advantages
	Orientation towards skill-intensive services
	Adaptation to trade openness
Human development	Human capital
	Gender equality
Political, democratic and social dialogue architecture	Strong trade union organisation (UGTT)
	Employers' organisation (UTICA)
	Embedding of social dialogue mechanisms marked by successful national dialogue in 2014
Institutional design and governance	Progress in terms of institutionalisation (e.g. institutionalisation of social dialogue)
Resources	Huge potential in renewable energy (solar energy)
	Geographical advantages (coastal extent and strategically convenient location)



Table 2 : National mapping 1 (weaknesses at the Tunisian level)

Dimensions	Weaknesses
Economic	Structural economic failure
	Infernal increase of the informal sphere and smuggling
	High economic and trade dependence on the EU
	Potential high post-COVID-19 vulnerability to economic shocks
	Very excessive debt
	Increased deterioration of public finances
	Economic fabric formed mainly by SMEs with a very high exit rate
	Inflation and deteriorating purchasing power
	Rent-based economy
	Investment recession
	Increased energy deficit
	Fragmented job market marked by a mismatch between supply and demand and a mismatch with higher education curricula
Human development	Lack of skills mapping
	Skills drain
Sustainable development	Development model unable to create equitably distributed wealth
	Persistent poverty
	Increased unemployment especially for higher education opportunities
	Social inequalities
	Regional disparities
	Laxity in digital-energy-ecological inclusion
	Modest compensation and support measures for socio-professional groups
	Lack of financial arms to accompany Tunisian companies in terms of investment opportunities outside Tunisia
	Lack of a holistic logistics infrastructure
	Lack of adequate tax and income distribution policies to reduce social inequalities
	Lack of a holistic and inclusive logistics infrastructure (regular transport in all its dimensions, and related services)
Political, democratic and social dialogue architecture	Political and governmental instability
	Continued political uncertainty about the completion of the democratic transition process and the expiry of the exceptional measures stage
	Lack of social dialogue at company level
Institutional design and governance	Bureaucratic burden
	A low level of governance and the spread of corruption
Strategic	Low political awareness of African issues in particular
	Lack of strategic and forward-looking vision and an increased lack of forward planning



b. Opportunities and threats specific to Tunisia under the AfCFTA agreement.

In the first chapter, we conducted a global and dynamic analysis of the state of affairs in Tunisia, based on our interviews, we were able to present a multidimensional reading of the Tunisian reality and therefore map the various strengths and weaknesses inherent to the situation in Tunisia. In the 2nd chapter, the study presented a methodological framing of the UGTT's perspective on the AfCFTA agreement and mapped the opportunities and threats identified in international free trade experiences. However, throughout our interviews, the crucial importance of upstream preparation on various levels in order to enhance strengths and reduce

weaknesses was strongly emphasised. Based on these recommendations, we considered it appropriate to map the specific opportunities and threats for Tunisia in the context of the AfCFTA agreement according to:

- ➔ Tunisian strengths and weaknesses in the first place.
- ➔ International opportunities and threats.
- ➔ A thorough understanding of the post-pandemic-COVID-19 issues.

The following table reflects our mapping of opportunities and threats specific to Tunisia:

Table 3: National mapping 2 (opportunities and threats specific to Tunisia under the AfCFTA).

Dimensions	Opportunities	Threats
At the general economic and welfare level	Strengthening the openness of the Tunisian economy	Aggregation effect
	Improving the degree of economic diversification	Increased decline in producers' incomes due to increased competition
	Consumer welfare due to lower prices	Social dumping and unfair competition
	Productivity improvement and specialisation	Trade, welfare, and VA diversion by multinationals and third countries
	Strengthening the international competitiveness of large Tunisian firms	Importation of agricultural products that may be harmful to the health of consumers due to the absence of phytosanitary standards
	Implementation of a complete Tunisian solution to keep the VA in Tunisia or in Africa	Short-term intellectual property and long-term land ownership
	Returns to scale for SMEs outsourcing to large firms	Decline of independent or poorly structured manufacturing and craft SMEs
In the informal economy	Reduction of cross-border trade sometimes associated with risky and smuggling activities into the formal sphere	<p>Concerns about productivity, low prices and the satisfaction of the large firms' supplies lead to the development of subcontracting from the informal sector, which results in:</p> <ul style="list-style-type: none"> -An intense illegal immigration. -Anchoring of informal production processes, the undermining of decent work and the exacerbation of precarious and informal employment. -Weakening of trade unionism. -Decline of local enterprises, especially structured SMEs operating in the formal sector. -Diversion of welfare and high VA to multinationals.



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	Gender benefits by reducing the vulnerability of female cross-border traders who can benefit from social protection by entering the formal sphere.	<p>The shift to smuggling causing:</p> <ul style="list-style-type: none"> • Adverse health impacts. • The increase in conflict, crime, organised crime and terrorism. • Economic collapse.
In terms of immigration		Massive migration from disadvantaged to highly developed areas under the agreement
		Intensification of legal and illegal immigration, exacerbated by climate change and the water crisis, which may lead to human trafficking and consequently the systematic undermining of decent work and the stimulation of precarious informal employment and unfair competition
		The concern to satisfy the supplies of large firms by subcontractors leads to the weakening of wages and the abolition of social protection, which mainly benefits the multinationals
		Illegal immigration is likely to undermine the UGTT's responses to abuses and violations relating to the infringement of decent work and human rights and human trafficking and informal employment
		Colossal increase in the size of the informal sphere and smuggling
Trade unionism	Agreement can strengthen continental trade union solidarity	Agreement potentially leads to a very rapid development of the informal economy and the intensification of immigration, which systematically weakens trade unionism
		Under the agreement, the government's explicit, implicit or lenient alignment with the informal practices of capital and the interests of multinationals will affect trade union sustainability.
At sectoral level Agriculture	Agricultural collaboration through export of services and participation in joint agricultural investment	Strong competition that can damage the agricultural sector: particularly for irrigation-based vegetables and fruit, and to a lesser extent marine fishery products
	Recovery of agricultural surpluses from countries that lack know-how or technology or the capacity to process, preserve and store them	
At the sectoral level Industry	Economies of scale for the manufacturing industry: textiles, mechanical and electrical spare parts, plastics, PVC, processing industries	Strong competition for national raw material industries (wood, metals)
	Recovery of surplus raw materials or products from countries that lack know-how or technology or the capacity to process, preserve, add value to and store them	



At the sectoral level Services	Increased exports of market services (e.g. ICT, consulting, financial advice and intermediation, architecture, infrastructure consulting, quality and upgrading, standardisation, hospitality)	
At sectoral level Building and public works (BTP)	Potential for infrastructure mega-projects	
At the sectoral level Energy	Better reallocation of resources and considerable cost reduction through cross-investment of electricity, which consists of the integration of a common electricity network allowing the exchange of surpluses and the avoidance of inefficient production	
	Digitalisation of energy and the development of clean and renewable energies (solar and hydroelectric) allowing for an improvement in energy efficiency and the transition to a green economy and a complete break with the old pollution-intensive and unsustainable production models	
	Significant reduction in the energy balance deficit	
	Transfer of skills, know-how, technology	
At the level of regional integration	Sub-regional opportunities for mutual gain with Algeria and Libya	
	Regional opportunities in the AMU area	
	Regional opportunities with the WAEMU and OHADA zones	

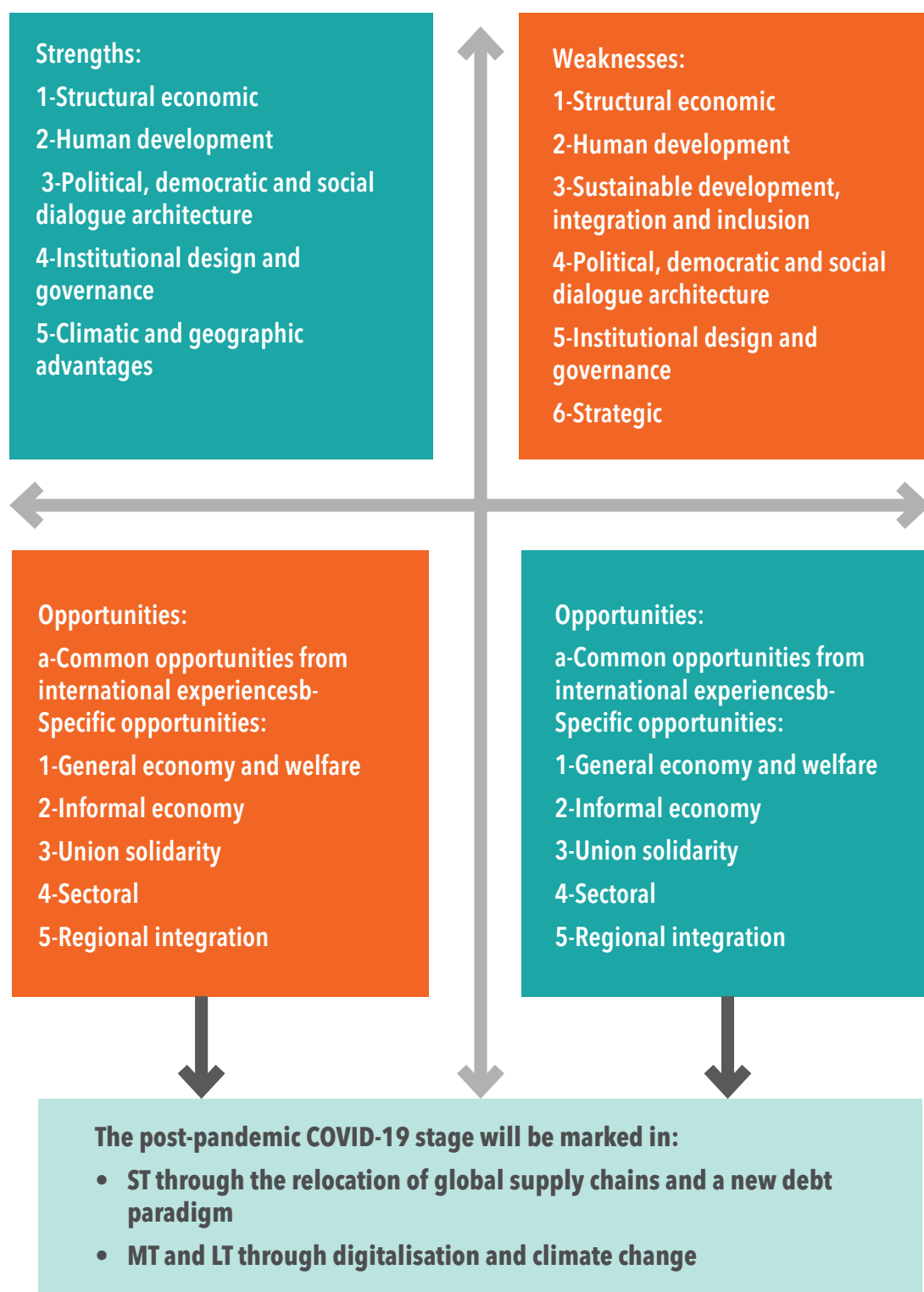
c. SWOT matrix as a tool for assessing the impacts of the AfCFTA agreement on the UGTT.

It is strongly recommended that the UGTT (as well as any African labour organisation) base its perspective on the AfCFTA agreement on a SWOT matrix. Given that it is a practical and indispensable analytical tool for planning and strategic positioning of organisations (Pickton and Wright, 1998; Helms and Nixon, 2010) , our matrix is designed after the following process:

- The multidimensional reading of the situation in Tunisia, allowing the mapping of Tunisian strengths and weaknesses.
- A thorough understanding of post-COVID-19 issues.
- Rigorous consideration of the various opportunities and threats identified in international experiences (free trade)
- The methodological framing of the UGTT's strategic perspective.
- In relation to the exploration of possible impacts at national level.



Figure 2 : SWOT matrix for the AfCFTA agreement in Tunisia.





2

Trade union monitoring framework.

One of the main challenges facing the UGTT is to deal with the interdependence of potential multidimensional drawbacks of the AfCFTA agreement. Although the AfCFTA agreement can offer African economies in general and Tunisian economies in particular: the possibility of a structural transition and a new development paradigm, a set of pre-requisites is required upstream to be able to seize the opportunities, including:

- i. Necessary support programmes.
- ii. An inclusive and holistic infrastructure to stimulate investment and ensure mutually beneficial trade integration.

Given that free trade is likely to stimulate growth in output is to allow a country to exceed its local limits of regeneration and absorption by 'importing' these capacities from other countries (Daly, 1993), and that free trade is an idea that has irretrievably lost its innocence motivated more by economies of scale than by comparative advantage (Krugman, 1987): **The UGTT must be concerned about potentially uncontrollable increases in the informal economy and immigration following the implementation of the AfCFTA agreement, all in a post-pandemic and climate change context; inevitably threatening the UGTT's capacity to respond and probably the organisation's sustainability in the long term, indeed:**

- The exposure of Tunisian SMEs operating in the formal sphere to increased competition and the concern for competitiveness and low prices to ensure their survival on the market, risks pushing them towards informal production processes based on informal employment in order to reduce costs.
- Structured Tunisian SMEs that subcontract for large Tunisian firms benefiting from economies of scale under the AfCFTA agreement may, in order to meet these orders, turn to informal production processes based on informal employment to increase their productivity.
- Large, structured Tunisian firms that can derive returns to scale from the AfCFTA agreement and in order to increase their productivity, risk moving towards practices that undermine decent work and systematically restrict trade union activity or subcontract to production structures that operate in the informal sphere.
- The AfCFTA agreement may offer opportunities for large foreign firms and multinationals to design semi-finished products or transformation processes on raw materials. These firms can target Tunisia, given its industrial know-how and the good quality of its competitive workforce, in this regard these companies in the concern to control their costs and increase their productivity can easily stimulate informal subcontractors which will fatally affect Tunisian firms, especially SMEs operating in the formal sector and consequently push them to import in turn informal production practices and the anchoring of informal work.
- The AfCFTA agreement may offer opportunities for large foreign firms and multinationals, as Tunisian subcontractors in order to satisfy the supplies of these companies, in addition to their informal production processes, may turn to foreign labour and very low wages, thus stimulating increased illegal and clandestine immigration.
- Under the AfCFTA, Tunisian firms are not immune to unfair competition from other African firms given the NTBs, institutional desertification, increased laxity in standardisation and the entrenchment of precarious and informal labour practices that are widespread in most African economies. As a result, Tunisian firms in order to respond to unfair competition by putting pressure on prices will inevitably turn to the restriction of trade union activity and/or informal production processes.
- All of the above cases assert that the AfCFTA agreement will systematically lead to an infernal rise of the informal sphere which will find in this frantic race to increase productivity, satisfy the



supplies of large firms, maintain competitiveness and survival and draw economies of scale; its essence in particularly illegal immigration.

- The informal economy and illegal immigration are two phenomena that feed off each other continuously in the framework of trade liberalisation, the AfCFTA agreement will not be an exception, thus causing a systematic attack on the principles of decent work, human rights, and dignified life of the human being and a stifling of the trade union entity and sustainability: The UGTT is not safe from such a fate which may be inevitable in case of tacit and/or explicit governmental alignment with the interest of capital.
 - The disruption of global supply chains during the COVID-19 pandemic and the rise of nativism, protectionism and export restrictions have resulted in the emergence of a new global trade order reflected in a new mapping of these chains. The possible relocation of global supply chains to the African space, while in itself an opportunity, risks accelerating the pace of climate change and the exacerbated water crisis in many North and Sub-Saharan African countries and consequently increased immigration in all its dimensions pushing towards human trafficking, undermining the principles of decent work, human rights, dignified living and stifling trade unionism.
 - The post-COVID-19 period will be marked in the short term by the emergence of a new debt paradigm exacerbated by a plunge of most African countries into excessive debt given the deterioration of their public finances (structurally, but also because of containment), which will subject states to abdicate their social roles vis-à-vis vulnerable groups and those affected by the adverse effects of the AfCFTA ; Thus it is quite likely that illegal immigration will increase to systematically feed the informal economy and threaten trade unionism.
 - The post-COVID-19 context will lead to a colossal rise in the digitalisation of work, teleworking and platform economies accelerating the emergence of new forms of employment based on flexibility, the absence of social protection, freelancing and the difficulty of tracing violations and abuses:
- all the indicators in Tunisia testify to the tacit and progressive embedding of this trend by the multinationals operating in the services sector (particularly banking and insurance). The AfCFTA agreement, by imposing its rules of competitiveness and increased competition, is seeking to re-feed informal employment and the unstructured economic sphere in this niche raising so many atypical challenges for the UGTT, which may in the absence of forward-looking responses to the future of work weaken the organisation.
- The increase in the informal sphere, the parallel economy and the intensification of illegal immigration could systematically exacerbate the practices of undermining decent work, human trafficking, and the violation of human rights principles. While the UGTT has always stood up to counter all these violations against African workers, the implementation of the AfCFTA agreement is likely to seriously undermine the UGTT's capacity to respond, especially in the event of an unbridled rate of illegal immigration and smuggling.
 - The development of the informal and parallel economy under the AfCFTA agreement is a very likely scenario. These spheres, in constant race to satisfy the orders of large firms, are in search of low-cost labour (low wages and no social protection), for which illegal immigrants are the ideal prey. These practices weaken wages and social legislation, especially in the case of nonchalance or incapacity on the part of governmental and even trade union institutions. The deterioration of workers' living conditions is observed in the quest for cheap production by subcontractors, benefiting even more the large companies, generally multinationals or their local branches.
 - There is a strong possibility that the AfCFTA will become a springboard for the diversion of the high VA and welfare gains expected from trade liberalisation to other non-member countries and to multinationals seeking to increase their market share as a result of the agreement by transferring revenues to those foreign firms that manage to locate profits in low-tax jurisdictions or tax havens.



- The AfCFTA agreement may lead to adverse effects such as trade diversion to third and non-member countries through multinationals.
- In the context of the AfCFTA agreement, the pandemic crisis offers the opportunity to digitalise energy, develop renewable and clean energy (and exploit the enormous potential available to the African continent) and thus break with the old pollution-intensive production models and move towards a green economy to reduce the threats of climate change, including immigration.
- Among the interesting opportunities of the AfCFTA agreement, the integration of a continental electricity network is quite beneficial for African countries and particularly for Tunisia, allowing it to reduce its energy deficit, to acquire surpluses from other African countries which can in turn avoid inefficient production, to considerably reduce costs, to mutually increase their earnings through cross-investment.
- Within the framework of the AfCFTA agreement, the opportunity exists in terms of mutually beneficial trade potential at the sub-regional level (between Tunisia, Algeria, Libya), and at the regional level (AMU, WAEMU and OHADA zones).
- The AfCFTA agreement, under the conditions of harmonising strict legal rules eliminating any kind of unfair competition and social dumping and laxity in standardisation, and by mobilising for a common mastery of climate change: can build continental resilience to economic shocks, crises and consequently stimulate sustained growth.
- The AfCFTA agreement could strengthen South-South cooperation and solidarity among African trade unions and even a robust and resilient African trade union movement.
- The UGTT and the African trade union movement must advocate for the urgent implementation of strictly injunctive and dissuasive provisions against all forms of infringement of the principles of decent work, human rights and dignified life in the various implementing texts relating to the AfCFTA agreement.
- It is strongly recommended that the UGTT and all African trade unions advocate for the implementation of 3 institutions, each integrating trade union officials, in charge of the management of trade and environmental disputes, normalisation, and standardisation of social and environmental regulations towards an acceptable level of harmonisation and rigour.
- Continuous foresight is required in order to implement robust conflict anticipation and management mechanisms.
- The UGTT and the trade union movement must avoid the trap of all the spurious promotions of multinationals, especially those of CSR, and can to this end considerably reduce the manoeuvres of these companies by means of a trade union response to all abuses based on solidarity at continental, regional, sub-regional and sectoral levels.
- The UGTT and African trade unions should encourage innovation and entrepreneurial initiative in the development of clean and renewable energy.
- The UGTT and African trade unions should advocate for the removal of rentier barriers and all suspicious manoeuvres against Tunisian and/or African investors in the development of renewable and clean energy.
- It is crucial that the UGTT and the African trade union movement move towards the elimination of all environmental laxity.
- Digital, energy and ecological inclusion and the transition to a green economy is no longer a luxury but rather a necessity confirmed more than ever in order to reduce the systemic threats of climate change, which alone risks affecting the AfCFTA agreement.
- It is recommended that the UGTT base its perspective on the AfCFTA agreement on a SWOT matrix reflecting the state of play in terms of structural, conjunctural and factual strengths and weaknesses, and an identification of not only national opportunities and threats but also the threats that are widespread in international free trade experiences.



Conclusion of Chapter 3.

In our research, we adopted a processual approach. Indeed, and based on our work in the previous two chapters, our understanding of the impacts of the COVID-19 pandemic, and our interviews, we have developed three mappings: the first concerns the impacts of FTAs in different international experiences in terms of opportunities and threats. The second is a national mapping of the various strengths and weaknesses of Tunisia. The third is a mapping of the opportunities and threats specific to Tunisia in the context of the AfCFTA. Based on the methodological framing of the UGTT's strategic perspective, which deepens our cross-cutting and multi-level understanding of the issues at stake in the AfCFTA agreement (both at the national and international levels), the research has designed a SWOT matrix for a comprehensive, in-depth and synthetic understanding of the issues at stake in the AfCFTA agreement. Finally, the study develops a trade union monitoring framework that can be used as a tool to assist in the decision making and design of the strategic perspective of the Tunisian General Labour Union (UGTT) in relation to the AfCFTA agreement.





GENERAL CONCLUSION.

The AfCFTA has the potential to stimulate the integration of African economies, increase economic growth and establish a new development paradigm based on inclusion, poverty reduction and collaboration. Indeed, successful implementation of the agreement offers the prospect of well-being for all African people. However, the agreement raises as many critical social, societal, environmental and developmental issues.

To date, these questions remain unanswered if not marginalised, where the watchword remains purely economic. Historically, comparable free trade experiences have had as many negative and even dramatic impacts illustrated by substantial job losses, deteriorating social conditions, undermining of decent work, widening poverty, widening wage inequalities, deepening spatial disparities, environmental degradation, and above all so many vulnerable people left to fend for themselves. In short, the case for free trade is strongly challenged and there is little systematic evidence from developing countries to the contrary.

Certainly, it is strongly emphasised that the impacts of free trade are ambivalent and mixed, but the trend, particularly in developing countries, underpins the validity of these findings. On the basis of this conviction, the AfCFTA agreement potentially risks not derogating from the rule or, to a lesser extent, leading to differential effects that depend on the degree of upstream preparation of each African country, as well as its institutional fabric, structural capacities and human capital. Clearly, the African trade union movement appears to be the only guarantor of a balanced implementation of the agreement, where the key words will inevitably be the right to organise and the right to decent work. These issues require the embedding of South-South solidarity levers, the strengthening of collaboration and a seizure of the lessons of the COVID-19 pandemic with a view to strengthening African resilience to crises. The AfCFTA agreement

comes in an atypical context marked by the disastrous fallout from the COVID-19 pandemic, which revealed the enormous failure of the African institutional fabric, the structural vulnerability of African economies, and the glaring delay in terms of the digital - ecological - energy transition. In addition to its dramatic fallout, the COVID-19 pandemic may present a springboard to promising prospects, if proper preparation for future emerging paradigms is made.

Tunisia, due to its suffocating socio-political crisis and its unprecedented economic collapse, is faced with a new prospect this time in its natural space, i.e. the African continent. A better seizure of the opportunities presented by the AfCFTA agreement, depends essentially on an upstream preparation as much on the infrastructural, political and strategic level, in this sense a prospective vision is required. Given the conventional opportunities and threats of free trade agreements, the AfCFTA agreement risks systematically stimulating informal subcontracting, creating a whole dynamic of informal production centred on informal employment, and consequently the systemic achievement of decent work.

It is from this angle that the Tunisian General Labour Union (UGTT) must formulate its perspective: to face a possibly uncontrollable rise of the informal sphere that will seek to feed itself through illegal immigration. Our main contribution in the framework of this research is to dissect these pitfalls and to state that: the UGTT, in the framework of the AfCFTA agreement, is faced with the interdependence of several parameters that strongly risk compromising its short-term responses and long-term sustainability. These parameters are mainly: the informal economy, illegal immigration, post-pandemic COVID-19 issues related to the deterioration of public finances and climate change which will in turn intensify illegal immigration, fuel the informal economy and smuggling.



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