

# Governance and Economic Growth in Tunisia (1996-2017): A Descriptive Study

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**Abstract:-** This article aims to theoretically and statistically study the relationship between governance indicators and economic growth over the period (1996-2017). To do this, we examined the economic situation in Tunisia in the first section. Subsequently, we studied the state of governance in Tunisia in the second. And finally in the third, we studied the impact of governance indicators on economic growth. This approach has allowed us to show that certain governance indicators such as political stability, the rule of law and regulatory quality exert a positive influence on economic growth in Tunisia. Thus, the fight against corruption can further boost economic growth. On the other hand, other governance indicators such as government effectiveness and voice and accountability are not producing expected growth effects. As a result, political authorities need to improve governance indicators, including political stability, and control of corruption. Since 2011, successive governments have continued their efforts to put Tunisia on the path to sustainable growth. The measures are increasing, although the improvements are still simple.

**Keywords:-** Governance, Economic Growth, Corruption, Political Stability, Rule of Law, Regulatory Quality.

## I. INTRODUCTION

The question of the impact of governance on economic growth has been of great interest to researchers. However, the relationship between these two components is far from understood. Theoretically, current work concludes a positive, negative or insignificant relationship. Empirically, the econometric results also obtain mixed results. Some studies show a positive and significant effect of governance on growth. Others conclude that governance has no direct effect on economic growth.

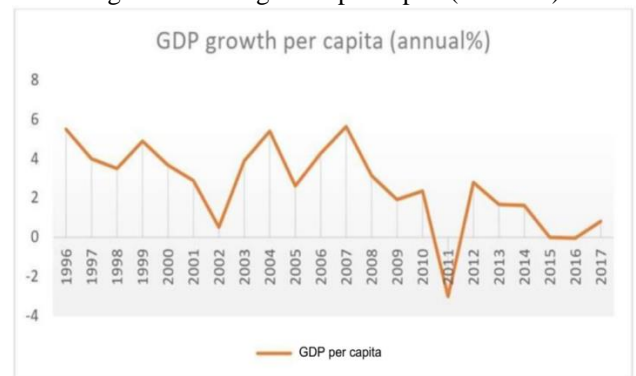
This article intends to theoretically and statistically study the relationship between governance indicators and economic growth over the period (1996-2017). To do this, we will examine the economic situation in Tunisia in the first section. Subsequently, we will study the state of governance in Tunisia in the second. And finally in the third, one study was the impact indicators of the governance on economic growth.

## 1. The evolution of the Tunisian economy

### 1.1. The evolution of GDP per capita

For several decades, Tunisia has experienced sustained growth, which has helped reduce poverty. GDP per capita increased from 5.5% in 1996 to 0.51% in 2002. Then, it increased slightly, reaching about 5.41% in 2004, and from 5.65% in 2007, according to the estimates of the International Monetary Fund (see figure 1).

Figure 1 : GDP growth per capita (annual%)



Source: compiled by us (in Excel), using data from the World Bank .

The effect of the 2011 revolution on living standards does not allow Tunisia to take advantage of the slowdown in OECD countries due to the financial crisis and thus accelerate the pace of its convergence. GDP per capita remains well below that of OECD countries and many emerging countries. It should be noted that the difference in GDP per capita is due to differences in productivity and employment rates. Tunisia's productivity level is quite high compared to other emerging countries. However, it has declined rapidly since 2011 to reach -3.02%. However, the employment rate is significantly lower than the rate in the OECD and in emerging countries.

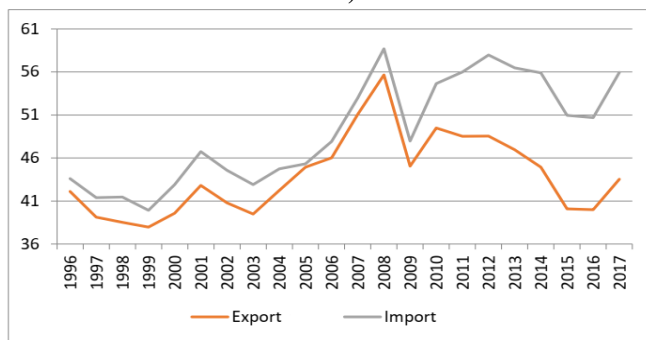
### 1.2. Evolution of exports and imports of goods and services

The various measures generated, in the 1990s, a sustainable growth in exports of about 5% per year. In 2008, exports represented 55.6% of GDP, then fell to less than 50% due to the recession in Europe (Tunisia's main economic partner). However, exports of goods have increased steadily since 2010. This increase in exports is linked to the performance of olive oil and the progress of energy balance and improvement of industrial exports. Regarding services, exports also increased (by 5% between 2015 and 2016).

Regarding imports, they also started to increase from 2010 with a value of 54.65%. The statistics governmental indicate an increase of 5.3% between 2015 and 2016 (Figure 2) . This is a particular increase in imports of consumer goods and foodstuffs. This category of goods also reflects the fragility of the economic situation in Tunisia. This category of goods also reflects the fragility of the economic situation in Tunisia. At this stage, ideas are developed on imports of consumer goods from Turkey and their impact on the competitiveness of Tunisian products.

As regards concerning trading partners, Europe remains the main partner with 76.4% of total exports Tunisia and 68% of Tunisian imports 2015. A close to the European market is one of the strengths of Tunisia (Coface, 2017). Indeed, with the return of more positive growth prospects (and therefore demand) in Europe, this could help Tunisia to increase its exports to Europe.

**Figure 2 : Export and import of goods and services (% GDP)**

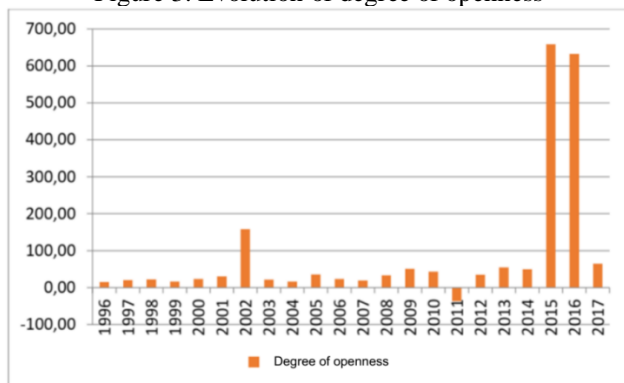


Data source: Excel established by us, based on data from the World Bank, Indicators of development in the world.

**1.3. Evolution of the degree of openness**

The degree of openness of the economy is calculated by the average of imports and exports divided by the gross domestic product. It experienced an increase exceeding 100% in 2002 with a value of 158.32%. Thus, in 2011, it recorded a decrease of -36.85%. Indeed, the degree of openness reached by the Tunisian economy has experienced a strong increase of around 658.87% in 2015 and around 632.22% in 2016 (figure 3) .

**Figure 3: Evolution of degree of openness**



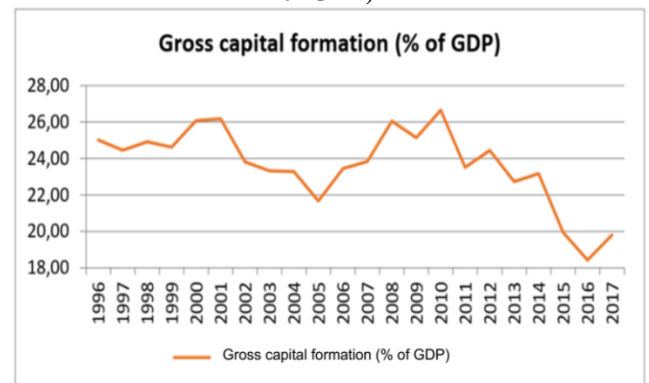
Source: compiled by us (in Excel), using data from the World Bank

**1.4. Evolution of gross fixed capital formation (GFCF)**

Since the early 2000s, gross fixed capital formation also known as "Investment" structurally weak in Tunisia. It experienced a decline which accelerated from 2011 to around 23.52% of GDP (see figure 4) . Its level is low compared to that of other emerging countries .

In Tunisia, the investment was approximately 20% of GDP in 2017, which is below the average of the OECD and the level observed in most emerging economies.

**Figure 4 : Evolution of gross fixed capital formation (% of GDP)**



Source: compiled by us (in Excel), using data from the World Bank

**1.5. Evolution of Inflation**

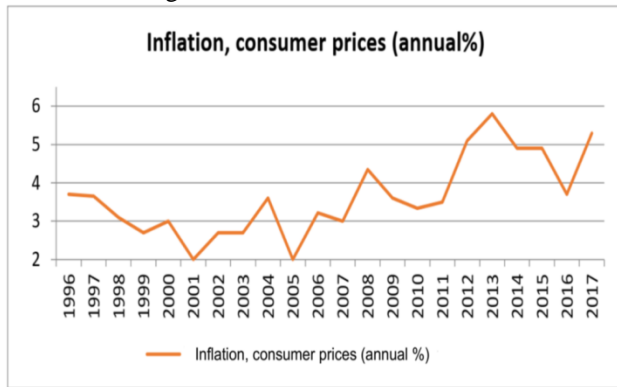
In the long term, the increase in consumer prices in Tunisia has been controlled by prudent monetary policies, with the aim of guaranteeing production costs and maintaining the purchasing power of the population. The annual change in the overall price index was just over 5% on average.

In order to support the policy of economic recovery in the period (2011-2015), the Central Bank of Tunisia (BCT) applied an appropriate monetary policy based on increased acts on the capital market with essential injections of about 5 billion dinars on average and through unprecedented reductions in required reserves to some extent increasing inflationary pressures.

In fact, the inflation rate reached 3.5% in 2011, 5% in 2012 and reached a peak of 6% in 2013 against 3.5% in 2011 (see figure 5) . Since the second half of 2015, inflationary pressures have eased somewhat, despite an accumulation of 3.9% in 2015, which allowed the BCT to relax its monetary policy by reducing the benchmark interest rate by 50% . basis points in November 2015 to reach 4.8% .

The inflation rate decreased slightly in 2016 by 3.7%, but it increased in 2017 by 5.3%. Inflation is expected to increase in 2018, with the rise in the prices of imported goods and energy following the depreciation of the dinar, which fell by around 10% against the euro in 2016. Since April 2017, the The central bank increased its key interest rate twice, from 4.5% to 5% (World Bank, October 2017).

Figure 5 : Evolution of inflation

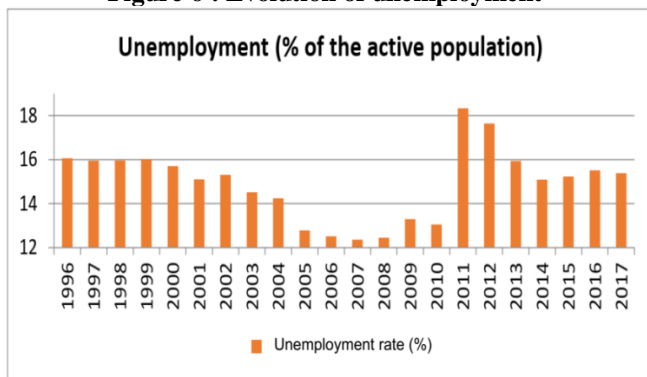


Source: compiled by us (in Excel), using data from the World Bank .

**1.6. Evolution of unemployment**

The Tunisian economy has experienced high unemployment rates (over 15% between 1996 and 2002 and between 13% and 15% between 2003 and 2010). The unemployment rate started to rise again in 2011. (Figure 6).

Figure 6 : Evolution of unemployment



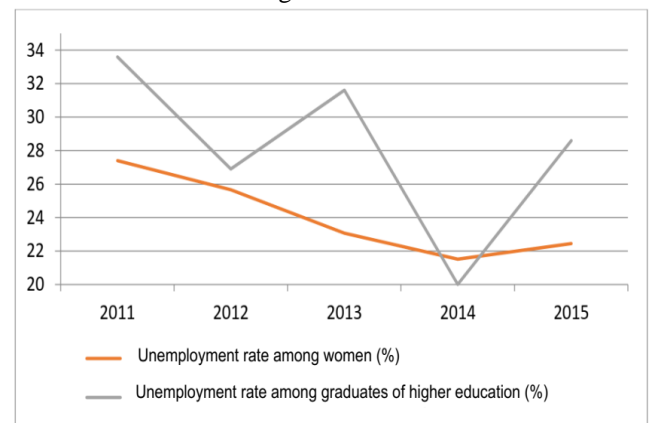
Source: compiled by us (in Excel), using data from the World Bank

After the revolution, unemployment remains particularly sensitive, with a peak in unemployment in 2011 of 18.3% according to the World Bank. Par a result, the unemployment rate begins to slightly decrease to 15.5% in 2016 and 15.38% in 2017. The unemployment affects mainly young, with almost 30% of the unemployed aged 15-24 and 24 % among those aged 24 to 29, compared to less than 4% among adults aged 40 to 49. The development of Tunisia, based on intensive labor production, has increased the demand for unskilled labor.

In general, in Tunisia, if the level of education is high, then the unemployment rate is high (especially among young graduates) (Figure 7). This shows in recent years the decline in poverty in uneducated households (from 32% to 25%) compared to educated households (around 15%). These statistics show the challenges of the Tunisian government in the field of employment and indicate by a need to modify the education system, particularly through a modification of the courses to the needs of the labor market.

There after, according to the Tunisian National Statistics Institute, the unemployment affects still more women than men and affects notammen t graduates of enseig higher ment with a rate of about 30% in 201 5. Although the fight against unemployment has been the main priority of Tunisia's economic policy for several years, but the government has failed to provide a sufficient number of dedicated jobs to young graduates.

Figure 7 : Unemployment rate among women and young graduates



Source: compiled by us (in Excel), based on data from the National Statistics Institute (INS) .

The employment rate is low, especially among women, while the unemployment rate is high, with almost a third of young people looking for work. Given the extent of the informal sector, the quality of employment is also a major problem in Tunisia. Employment increased, but the job market encountered several challenges. The labor force has grown over the past decade, but to a lesser extent since 2011. After 2011, hiring in the public sector enabled employment to pick up. However, the increase in the labor force noted in 2016 reflects, to a large extent, an increase in the number of unemployed.

**II. STATE OF GOVERNANCE INDICATORS IN TUNISIA**

**2.1. Evolution of corruption**

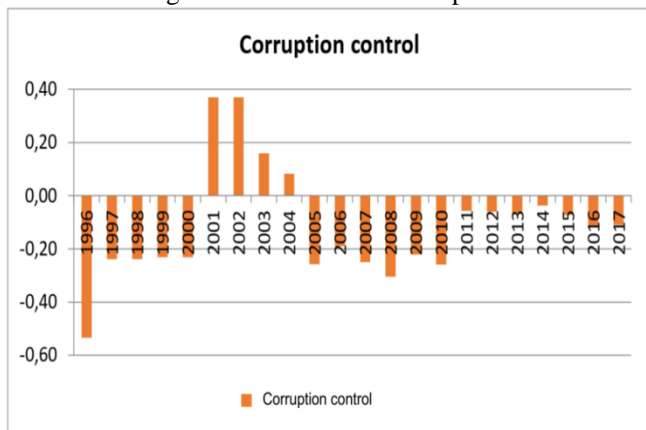
The dissatisfaction of the Tunisian people with the corruption prevalent under the Ben Ali regime was one of the main reasons that led to the J asmin revolution in 2011 . However, in practice, corruption is still very present in Tunisia and the country remains at the center of the regional classification according to the corruption transparency index created by Transparency International (TI).

According to a 2015 report by Transparency International, the Tunisian defense and security sector is at high risk of corruption (due to lack of transparency and vigilance in procurement, budgeting, institutional oversight and responsi bility . There is also little public debate on the defense sector, could undermine confidence between f rce of Tunisian security. to fight against corruption, the Tunisian

government should publicly sanction corrupt people without complacency and without exception .

Tunisia appears to have suffered and continues to do so in part from different types of corruption, especially that born from the confusion of state authorities in the hands of a political group, grand corruption, political corruption and senior corruption. administration, petty corruption; and judicial corruption.

Figure 8 : Evolution of corruption



Source: compiled by us (in Excel), using data from the World Bank .

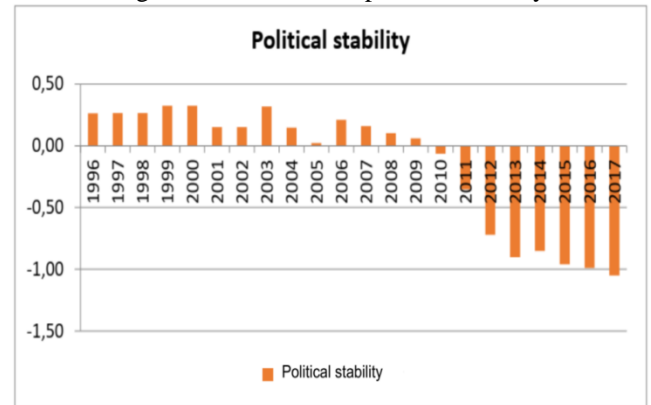
**2.2. Evolution of political stability**

The term "stability", which translates in the unreasonable sense of political stability, leads to institutional stability and ultimately covers economic stability. Thanks to these transformations in this direction, losses are created between the political system and the economic situation, the supposed stability of one ensuring the miracle of the other, the latter, in turn, reputed to promote stability or even political democracy.

Since the 1990s, the Tunisian discourse has given way to "good governance", sustainable development, the fight against poverty and "stability" as a guarantee of the continuation of the reforms deemed to initiate the emergence process. So, during the years 1996-2009, the political stability stabilized positively between 0.26% and 0.06 %, but after the revolution of 2011 recorded a decrease until 2017 of about -1.05 % (see figure 9) .

The political and security instability that followed the Tunisian revolution had a negative effect on the country's sovereign ranking. The sovereign risk estimates conducted by Tunisia are combined by the four rating agencies and lead to almost equivalent classifications, placing them in the speculative category. The country went from an investment level with a positive outlook in January 2011 to a speculative level with a negative outlook at the end of 2013, according to the four international agencies (Standard & Poor's, Moody's, Fitch and R&I). Given that Tunisia is a young democracy, and even in a declining state, Fitch believes that the risk of political instability, especially during big elections, remains high.

Figure 9 : Evolution of political stability



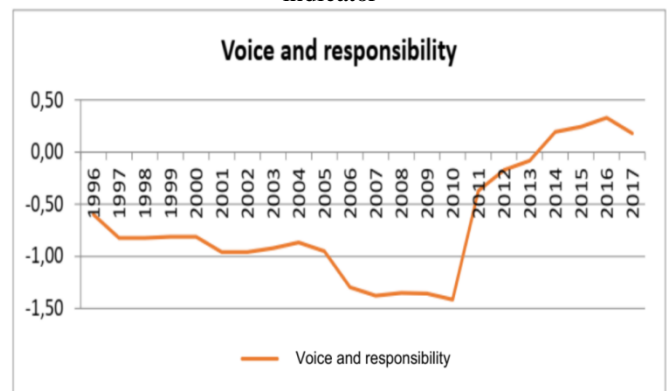
Source: compiled by us (in Excel), using data from the World Bank .

**2.3. Evolution of voice and responsibility**

Freedom of expression is one of the great achievements of the 2011 revolution. Since the country's independence in 1956, journalists have always been under management, they have only known the system of freedom since January 14, 2011.

The most important event, even for the country, is the finalization and adoption of the new Tunisian constitution on January 26, 2014. This founding text lays the foundations for a democracy that respects the rights and freedoms of all citizens , in particular freedom of expression, freedom of information and freedom of conscience. It also assigns an executive to two levels and gives a reduced place to religion, a new and unique fact which obliges the state to ensure the representation of women in elected councils.

Figure 10 : Evolution of the voice and responsibility indicator



Source: compiled by us (in Excel), using data from the World Bank .

The voice and responsibility indicator shows an increase from -0.60 in 1996 to 0.18 in 2017 . The new constitution allows the possibility of a new phase in Tunisia's political history, including the possibility of increasing the participation of young people in decision-making and the role of civil society that young people are prepared to occupy. The time has come to consider interventions to maintain the aspirations of young people, to encourage their participation at local and national levels and

to restore their confidence in the decision-making institutions they are seizing in the face of the roles they have long sought, and the access road is now open.

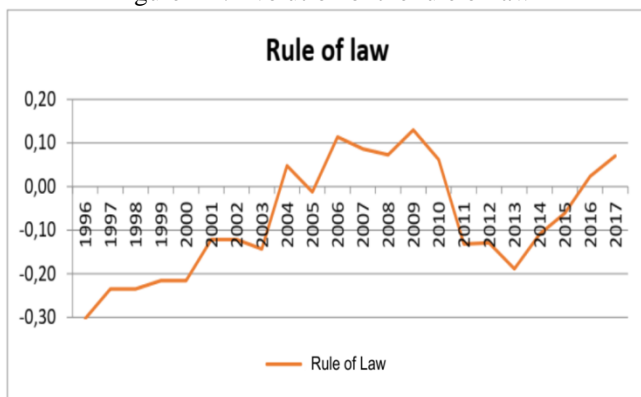
**2.4. Evolution of the rule of law**

The rule of law is a legal system in which everyone is subject to the law, whether individuals or groups, as well as the governing public authorities. This notion is very closely linked to respect for a hierarchy of legal norms, to the effectiveness of the separation of powers and to the guarantee of fundamental rights. It is also closely linked to the spread of constitutional regimes. The notion of the rule of law is essentially incompatible with dictatorial regimes, often based on the violation of the fundamental rights of individuals and groups. The rule of law in Tunisia increased from -0.30 in 1996 to 0.13 in 2009. Subsequently, it begins to decline after the 2011 revolution (see figure 11).

In Tunisia, like many other countries in transition, strengthening the rule of law remains a key priority. After the 2011 revolution, UNDP established a close partnership with the Ministry of the Interior, the Ministry of Justice and the Ministry of Human Rights and Transitional Justice in order to support initiatives in the field of reform of the justice and security sector.

Tunisia occupies 61st place out of a total of 126 countries. In the Middle East region, Tunisia is ranked third, behind the United Arab Emirates (1) and Jordan (2). Note that 8 countries in the Middle East and North Africa region are included in this ranking, namely Algeria, Egypt, United Arab Emirates, Iran, Jordan, Lebanon, Morocco and Tunisia.

Figure 11 : Evolution of the rule of law

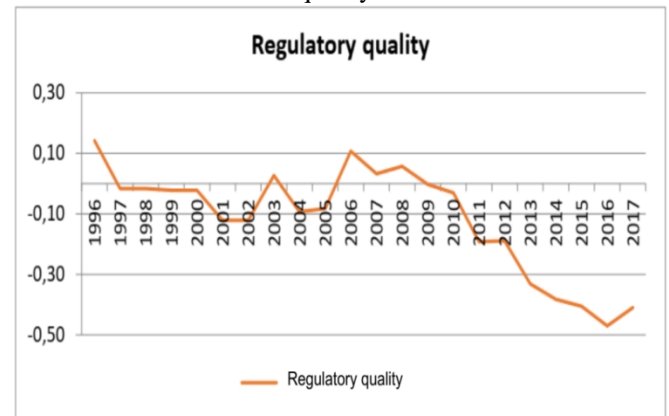


Source: compiled by us (in Excel), using data from the World Bank .

**2.5. Evolution of regulatory quality**

Regulation is the key instrument of economic governance. The arguments for economic regulation are based on the need to address market failures occur in all economies and are more prevalent in low-income economies. Regulation aims to correct these market failures and therethat oby support market efficiency and economic growth.

Figure 12 : Evolution of the indicator of the regulatory quality



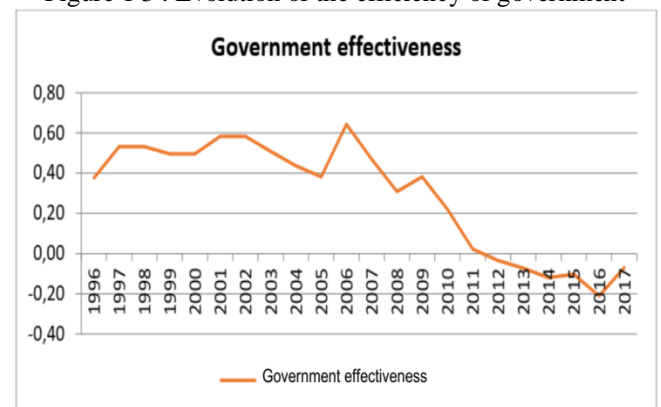
Source: compiled by us (in Excel), using data from the World Bank .

**2.6. Evolution of government efficiency**

Government Effectiveness provides information on the quality of public services, administrative performance and the quality of policy development, and the credibility of government commitment to these policies.

In Tunisia, during the period 1996-2010, the efficiency of government increased and then begins to decrease after the 2011 revolution until reaching 0.07 in 2017.

Figure 1 3 : Evolution of the efficiency of government



Source: compiled by us (in Excel), using data from the World Bank .

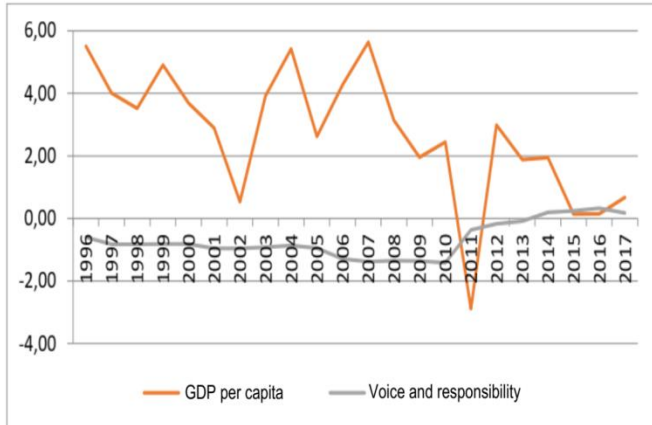
**III. THE EFFECT OF GOVERNANCE INDICATORS ON ECONOMIC GROWTH**

**3.1. The effect of voice and responsibility on GDP per capita**

At the voice and accountability indicator, the numerical value of this indicator increased from -0.60 in 1996 to 0.18 to 2017. For cons, GDP per capita has experienced a decline 5.50% in 1996 to 0.67% in 2017 (that is, when the voice and responsibility indicator increases GDP per capita decreases and when this indicator decreases, GDP increases) . It appears from this development that the conditions for citizens' participation in the selection of their leaders as well as the freedom of expression, association and

media freedom have deteriorated, despite the dominant multi-party political context (see figure 14).

**Figure 14 : Voice and responsibly and GDP per capita**

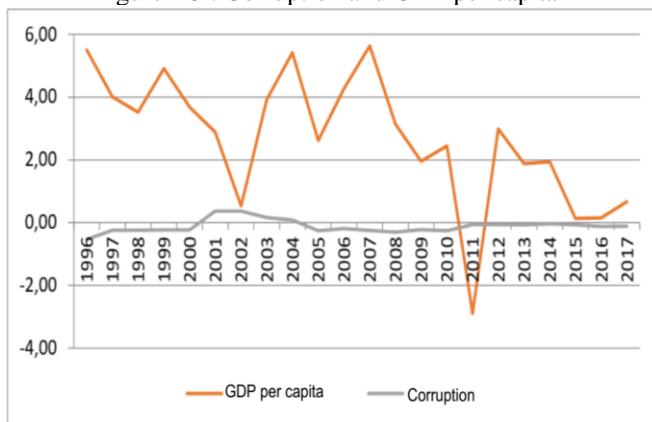


Source: compiled by us (in Excel), using data from the World Bank

**3.2. The effect of Corruption on GDP per capita**

The economic implications of corruption are perhaps the most obvious. The World Bank and the International Monetary Fund (IMF) consider corruption to be a major obstacle to achieving sustainable economic growth and equitable development, and several academic studies have found an inverse relationship between levels corruption and economic growth. The cost of corruption is also very high. According to some studies, in the decade leading up to the revolution, Tunisia lost on average an amount equivalent to around 2% of its gross domestic product per year. According to the graph above, when there is an increase in corruption (0.37 in 2002 and -0.06 in 2011), we notice a decrease in GDP per capita (0.51% in 2002 and -3.02% in 2011). Indeed, the decrease in corruption goes hand in hand with an increase in GDP. By focusing on the control of corruption, Mauro (1995) indicates that countries with a very high corruption index tend to experience a very low level of growth.

**Figure 15 : Corruption and GDP per capita**

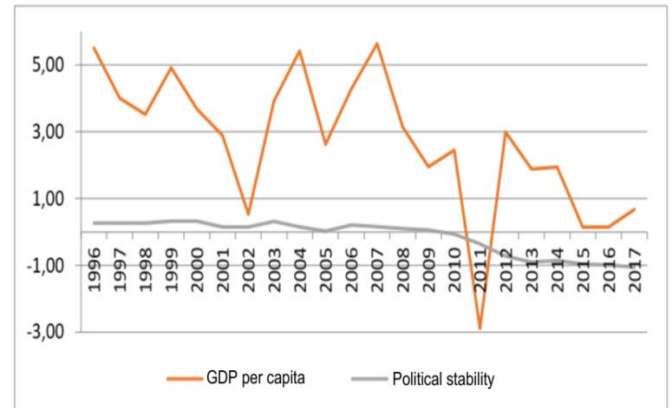


Source: compiled by us (in Excel), using data from the World Bank

**3.3. The effect of political stability on GDP per capita**

The increase in GDP per capita is followed by an increase in political stability and vice versa. The GDP per capita experienced a sharp decrease in 2011 because of the revolution of about -3.02. Thus, the index relating to political stability fell from 0.26 in 1996 to -0.35 in 2011 indicating a sharp decline in political stability which resulted in multiple coup attempts (see figure 16).

**Figure 16 : Political stability and GDP per capita**

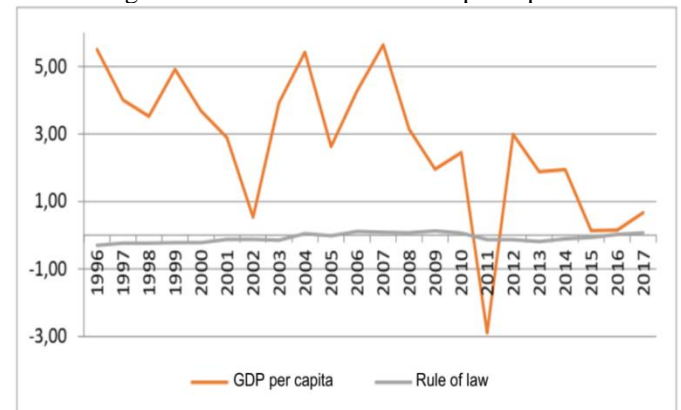


Source: compiled by us (in Excel), using data from the World Bank

**3.4. The effect of the rule of law on per capita GDP**

Today, the World Bank regards the rule of law as an important dimension of governance in sustainable global development. It is argued that a low level of rule of law implies a low rate of GDP per capita, for example in 2011 a decrease in the rule of law of -0.13 implies a decrease in GDP per capita of a value of -2.89% (see figure 17).

**Figure 17 : Rule of law and GDP per capita**



Source: compiled by us (in Excel), using data from the World Bank

In summary, the idea is that in countries with a high rule of law, ensure that no one is above the law and therefore corruption can decrease and GDP per capita increases. (for example, in 2006 the rule of law registers 0.11 and the GDP per capita registers 4.2%) .

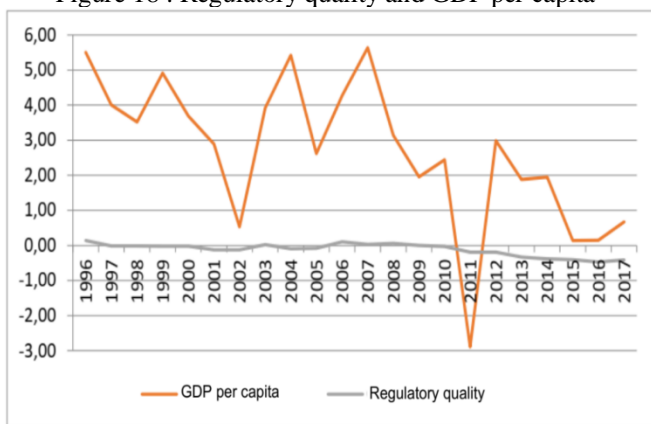
In almost all the relevant studies it is accepted that the relationship between the economy, the institutional structure and the rule of law occupies an important place at every stage of the life of individuals and of the state and that this

relationship is a all inseparable. Recently, the growing population of the world indicates that the balance between economics and law is more and more sensitive as the level of the economy seriously affects the political state of the country, and that it even surpasses the political and plays a decisive role.

**3.5. The effect of regulatory quality on GDP per capita**

Economic dynamism remains hampered by unresolved institutional weaknesses, hampered by the absence of decisive government action. The regulatory regime, despite some improvements, remains cumbersome and deters dynamic business growth. The rigid labor market has stagnated and has not generated dynamic employment growth. The government did not cut public spending in 2017, but kept the subsidies unchanged.

Figure 18 : Regulatory quality and GDP per capita

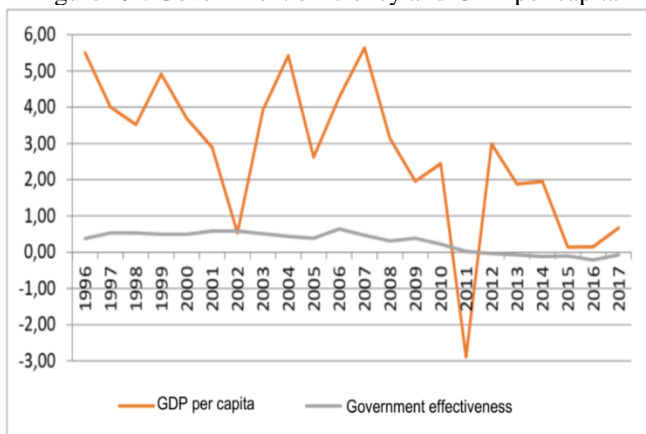


Source: compiled by us (in Excel), using data from the World Bank .

**3.6. The effect of government efficiency on per capita GDP**

The slight increase in government efficiency leads to an increase in the growth rate of GDP per capita . Subsequently, the structure of the growth rate of GDP per capita was modified in 2008. It fell sharply with a peak of -3.02% in 2011. This decrease was offset by a decrease in government efficiency.

Figure 19 : Government efficiency and GDP per capita



Source: compiled by us (in Excel), using data from the World Bank

**IV. CONCLUSION**

Our study allowed us to show that certain governance indicators such as political stability, the rule of law and regulatory quality exert a positive influence on economic growth in Tunisia. Thus, the fight against corruption can further boost economic growth in countries rich in natural resources and which apply democratic principles. In contrast, other governance indicators such as government effectiveness and accountability voice do not produce expected effects on economic growth. As a result, political authorities need to improve governance indicators, including political stability, and control of corruption.

Since the 2011 revolution, Tunisia, engaged in a democratic process, balances between the difficult economic situation and a desire to achieve a sustainable democratic, economic and social transmission. However, since 2011, successive governments have continued their efforts to put Tunisia on the path to sustainable growth. The measures are increasing, although the improvements are still simple.

Thus, Tunisia continues to face challenges in terms of lowering unemployment and inequalities, reforming the public sector and strengthening the economy. The expectations of international organizations continue to remain optimistic for 2017. The international community is aware that despite the challenges, Tunisia will be able to progress on the path of growth, maintained with the support of international organizations and by its proximity to the European market.

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