PRIVATIZATION AND ECONOMIC GROWTH IN TUNISIA:
LINKS TO DEMOCRATIC INSTITUTIONS

by

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PRIVATIZATION AND ECONOMIC GROWTH IN TUNISIA: LINKS TO DEMOCRATIC INSTITUTIONS

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Title: Privatization and Economic Growth in Tunisia: Links to Democratic Institutions

For the past two decades, privatization policies have been a popular mean for tackling economic problems and improving growth rates in developing countries. Although regarded as controversial, the implementation of privatization policies (the transference of economic activity from the public to the private sector) can have fundamental and structural changes when it comes to the dynamism of economic activities in a certain country.

The thesis’s take on the topic of privatization policies, unlike the majority of the studies in this field, is from a macro scale. We discuss, at the first stage, the practical experience of Tunisia with privatization, from Ben Ali’s regime to Tunisia post-uprising with regards to the nation’s economic growth, while taking a closer look at the roles of the country’s national debt and foreign direct investment levels in the privatization process. If privatization programs are considered as an effective step to encourage competition in an open market economy, then we may argue that with the privatization process in action, a certain percentage of higher economic growth may be eventually achieved.

The second stage of the thesis, will deal with democratic institutions’ interaction with the implementation of privatization programs in Tunisia. Post Ben Ali, the nation went through drastic changes on the economic, political and social levels. Hence, there was the introduction of newly evolved democratic institutions including the guarantee of political rights and civil liberties for all citizens. Our study will shed light on the relation between economic growth and privatization, in the light of democratization process.
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CHAPTER I

INTRODUCTION

Throughout the years, developing countries have been trying to implement different strategies and policies in order to promote economic development but at the same time achieve higher levels of economic growth. In order to ameliorate people’s standard of living, there should be a focus on the improvement of both social and economic indicators and the most important step, in this entire process, will be each country’s ability to employ the policies that best fit with the requirements of the society at play.

In this thesis, privatization programs or strategies are defined as the process of transferring state-owned productive assets (SOEs) and enterprises (usually industrial companies and utilities) to the private sector - companies, individuals, associations or partnerships. This tool has really become a very popular trend across the world, especially in developing and transition economies. According to the Privatization Barometer Report for the year 2013-2014, world’s privatization transaction proceeds totaled at US$1.1 trillion (for the period between January 2009 and November 2014), scoring one of the highest levels since the beginning of this worldwide trend in the UK (Pelletier, 2015). Privatization policies will not only prompt a structural change in the country’s economy through boosting the role of the private sector and increasing competition, but it is considered as a prerequisite for achieving higher levels of economic growth (Razavi, 2004).
The privatization phenomena first emerged back in the late 1970s, early 1980s, in Great Britain during the Thatcher administration and became a common tool used in both developing and developed countries. Prior to that period, only a handful of countries implemented systematic privatization strategies, like Chile where they sold the majority of their productive public enterprises, along different phases, and generated more than US$1.4 billion in revenues (Sader, 1993). The idea of the transference of state’s assets to the private sector gained momentum in the transition process from planning to a market economy. As during the soviet era, all the SOEs were put under the central government’s control for ideological reasons and a smooth planning process (Estrin, 2007). Hence, we can see the crucial importance of privatization in building and encouraging the creation of a market economy: “…privatization is not just one of the many items on the economic program. It is the transformation itself.” (Estrin, 2002).

One of the main triggers for countries to use liberalization strategies – like privatization – is to decrease in the existing size of the government or the public sector (especially in the case for developing countries). Many states have become overextended and overwhelmed with ineffective levels of bureaucracy that are negatively affecting the productivity of the SOEs, given the fact that the public sector does not have economic goals (Ghorbani, 2015). Privatization comes as a solution to restructure these underperforming public enterprises by transferring them to the private sector, where there is proper allocation of economic, human and natural resources, resulting in the amelioration of the country’s overall economic performance. This liberalization policy will have a direct positive impact on the development of the market economy by shifting the focus from politically oriented goals to economic goals (Poole, 1996). Downsizing the central government can ultimately limit its role in negatively
impacting the nation’s economy, including crowding out private investments (Poole, 1996) as etatism, bad governance and government corruption have a negative impact on economic growth (Easterly, 2001).

Privatization programs can have huge positive spillover effects on the country’s fiscal situation. Many nations use the revenues and the proceeds of this strategy in order to pay off a portion of their national debt, hence, gaining reductions in interest rates while raising the investment levels in the country. Now that the government reduced its expenditures, they can now start the collection of taxes of all the newly privatized firms, ultimately helping put an end to the continuous overbrowning and the exponential increase in the national debt, especially for the developing countries (Poole, 1996). In many cases, the privatization may be to transfer the public asset to another state or a public sector enterprise like France, China and Italy. Privatization will also help in attracting foreign direct investments and having positive effects on growth, which in turn the economy can witness an inflow of more advanced technology, enhanced levels of management skills and an open access to international industrial production networks (Ghorbani, 2015). It is important to note that in order for the government to maintain control over particular industries (like water and electricity) and prevent monopoly, it restrains the privatization of those enterprises (Uchida and Cook, 2003).

In the past twenty years, the majority of privatization strategies in the Middle East and North Africa took place in Turkey, Morocco, Egypt, Jordan and Tunisia, which constituted 94.5% of the overall sales revenues in the MENA region (Foudeh, 2015) as part of the structural reform initiatives proposed by the IMF and the World Bank. The implementations of these policies were largely encouraged through foreign capital, given the low levels of domestic savings in those five developing countries. This study
will focus on the Tunisian experience with privatization through both economic and political variables. Tunisia’s economy has been taken hostage for the past thirty years by the Ben Ali administration, including the privatization process that was structured to serve only the regime and its entourage. However, everything changed with the Jasmine revolution, back in late 2010. With the fall of Ben Ali, the economy was liberated through a new constitution, a fresh reevaluation of the country’s economy and a strong will for a smooth democratic transition. The thesis will take a closer look at the implementation of the privatization strategies in Tunisia in two stages. The first stage will discuss the economic variables (foreign direct investment and national debt levels) in terms of economic growth and their interaction with the privatization variable. The second stage will study the correlation between economic growth and privatization in light of democratic transition (post uprisings) by looking into the evolution of democratic institutions: civil liberties and political rights.

The structure of the paper will be as follows. The following chapter will discuss Tunisia in depth by giving an overview about the history of privatization in the country, the regime’s control over the government policies and the economy in general and present a snapshot of the different economic and political variables (specified above) throughout the years. We will then present a literature review about the topic. I will then move on to describe the data used in this thesis and the reasons they were chosen. This will be followed by the model used and by an explanation about the econometric techniques behind it. The interpretation of the results comes next; finally, a concluding chapter where the results will be revisited.
Tunisia is a North African country, located between Algeria and Libya and situated on the Mediterranean Sea. At 163,610 square kilometers, the nation’s coastal and the northern parts are moderately temperate with mild rains, while the upper part of the Sahara Desert causes extremely harsh climate conditions for the southern regions of Tunisia.

In the years preceding the Jasmine revolution (in late 2010), Tunisia has been achieving a growth rate of five percent (on average) surpassing the growth levels of other North African and Middle Eastern nations, hence, achieving one of the highest GDP per capita numbers in the region and among middle-income countries. The country’s GDP per capita went from $2,713 in 2005 to reach $3,720 in late 2010. Tunisia’s economy was largely diversified, with the important role of the tourism sector, going from fifty-five percent in the 1990s to sixty-two percent in 2010 (Achy, 2011). On the other hand, the agriculture sector’s contribution to the GDP decreased from thirteen percent to eight percent since the 1990s. Before the uprisings, the economy’s growth rate was expected to reach 5.4 percent; the budget deficit was predicted not to exceed 2.5% of GDP and the debt to GDP ratio to remain below the forty percent threshold (Achy, 2011).

Tunisia is a complex case, despite its encouraging macroeconomic performance, for the past thirty years the country has been stuck in an authoritarian bargain scenario
between the Ben Ali regime and the society as whole. Basically, the regime made sure to provide social and economic gains to a large share of the population as a mean to consolidate its legitimacy and maintain political stability in return. However, the increasing levels of unemployment among the educated youth (and the inability of the economy to create new jobs), the ever growing regional disparities and the inequality in the distribution of resources eventually resulted in the crumbling of the regime. Repression was no longer an efficient tool to keep political stability, where the “losers” from the *de facto* situation became more than the “winners” (Achy, 2011).

With the downfall of the Ben Ali regime, the country’s economy witnessed dramatic deterioration; the tourism sector decreased by more than fifty percent, foreign direct investments plummeted by about twenty percent and over eighty foreign international companies and enterprises left the country. The situation in the labor market worsened, especially due to the overwhelming inflow of Tunisian migrants from Libya (Achy, 2011). The number of unemployed people jumped from about 500,000 by the end of 2010 to more than 700,000, increasing the unemployment rates from fourteen percent before the uprisings up to seventeen percent post revolution. Tunisia’s fiscal and monetary indicators were also exacerbated with large increases in the current account and in public deficits, liquidity shortages and rising costs of receiving foreign finance, which resulted to a downgrade to the country’s sovereignty rating (Achy, 2011).

According to the latest World Bank report (2015), post Ben Ali’s downfall, Tunisia has been experiencing slow economic activity, scoring a real GDP growth rate of only 2.3 percent in 2014 and around 1.4% in 2015. However, these recent GDP figures are a large improvement from 2011’s economic situation with a record low
growth of -3.57% (World Bank, 2015). The IMF projects the country’s growth level to reach 1.6% in 2016 and around 4.7 percent by the year 2020 (World Economic Outlook Database, 2016). Tunisia has also been suffering from a lack of recovery in external demand, and the domestic demand has been explicitly affected by tighter macroeconomic strategies. The year 2015 started off with two devastating terror attacks on the Bardo Museum and the Sousse holiday resort which had direct negative effects on the year’s growth rate, creating escalating levels of social tensions. The scenario was worsened with declines in the oil and gas industries, the commercial services sectors (particularly transport and tourism) and in the mining sector with the creation of social tensions in the phosphate sector. The labor market scored unemployment rates reaching to about 15.2% in 2015 and the World Bank projects a 14% rate for 2016.

However, it is important to note, the success of the Tunisian national dialogue platforms that paved the way for a full political transition, which was concluded with the appointment of a new government (for a five-year term) in 2015. Hopes are high on the government’s ability of taking on the task of tackling the country’s pressing economic and political challenges.
A. The Tunisian experience with privatization:

The post colonial era of Tunisia (post 1959) enabled the country to acquire different infrastructural facilities (like railways, ports, lands, mines, water and gas) and the majority of the banking system was soon nationalized (Ayubi, 1995). During that time period, the private sector was significantly small and the government policies inhibited its expansion. The state put their central focus on the public sector and the SOEs (part of the *le dirigisme plantifié* policy) and marginalized the private sector as complementary. But throughout the years, the private sector grew and in some industrial fields became dominant, contributing about forty-four percent in the agriculture sector, ninety four percent in tourism and about sixty percent in textile industries (Al-Mahjub. 1989). However, between 1982 and 1986, the pillars of the Tunisian economy started to
crumble; the GNP growth rate hit a record low of 2.3%, a drastic deterioration of the balance of payments and an increasing level of commercial deficit (Ayubi, 1995). By 1986, the situation worsened with the fall of petroleum prices, large drops in the agriculture and tourism sectors and systematic increases in their external debt that amounted to about five billion dollars and an amount of $1.2 billion due for debt service.

In the midst of these dire economic conditions, the Tunisian government resorted to the World Bank and the IMF for help. These institutions came to the rescue with their infamous blueprints and formulas of solutions like the application of the Washington Consensus that includes the encouragement of exports and reducing the size or the weight of the state (Romdhane, 1990). At this stage, the central government was still in control of approximately two-thirds of the GDP and in charge of sixty percent of all investments. In addition, Tunisia had about three hundred public enterprises (five hundred if we include the indirect participators). These enterprises were distributed among different industries and fields within the economy, such as insurance, banks, metallic industries, agriculture and transport (Midoun, 1985). With the deterioration of the financial situation of these companies, the state could no longer balance their public finance, which triggered an agreement with the World Bank to initiate the start of the privatization process (as part of a development program extending from 1987-1991) that will allow the private sector to take control up to 65% of all the investments in the manufacturing sector (Al-Mahjub, 1989).

Tunisia became the first systematic privatizer in the MENA region, which was later followed by Egypt and Morocco (Sader, 1995). The very first companies that underwent privatization were in the tourism, construction materials and textiles sectors.
(Saghir, 1993). Société Général des Industries Textiles (SOGITEX), Société Hôtelière et Touristique de Tunisie (SHTT) and Société Tunisienne des Industries et Matériaux de Construction (SOTIMACO). Smaller public companies like cinema SATPEC, Thala marble factories, IMAL aluminum workshops, trading companies and some fisheries companies were also subjected to privatization (Ayubi, 1995). But the main obstacle during that time period was the limitation and the scarcity of financial capital in the private sector, in addition to the weakness of the country’s entrepreneurial circles (Midoun, 1989), which enhanced the role of foreign investors. Recent cases of major privatization transactions in Tunisia took place mainly in the infrastructure facilities like the acquisition of the majority of the shares of Tunisiana, the telecommunication operator, by Qatar Telecom, British Gas’s development of the offshore gas field, Miskar and the construction of Enfidha International Airport by the Turkish TAV enterprises. As for the Banking sector, French Crédit Mutuel’s acquisition of BT shares (Bass, 2015).

Tunisia was considered the shining start of neo-liberal reforms, for the period 1990s-2010, and the country’s experience with policy changes was extremely lauded by both the World Bank and the IMF (Pheifer, 2014). However, as the revolution made clear, not everything was as it appeared; the regime made use of government policies like privatization and export promotion, as tools to create an environment of crony capitalism by which they can control the now dependent business entrepreneurs seeking the state administration for access to power (or even favors) and transforming the concept of patronage into a spreading epidemic of corruption throughout all segments of the Tunisian society (Achy, 2011).
Before the uprisings, the Ben Ali regime and his entourage were receiving almost twenty-one percent of the majority of the private sector’s profit in the country, through their two-hundred firms and enterprises (Rijkers et al., 2014). In other words, the nation’s economy was centrally planned and completely controlled by the regime. One of the main strategies used by the Tunisian administration to maintain their companies and accumulate the profits, was by creating inefficient governmental bureaucratic steps that became the most hindering factor in doing business in the country and eventually plummeting the economy’s level of competitiveness (Obayashi, 2012).

Figure 2: Depicts how firms and corporations associated with Ben Ali’s regime receive more than 1/5 of net corporate profits in Tunisia; while only accounting for less than one percent off all wage jobs (in 2010). Source: Rijkers, 2014.
The controlling phase of the economy by the Ben Ali regime started with the economic liberalization stage, where the rent-seeking behavior and corruption levels of the ruling elite increased exponentially. There was direct interference in the public procurement and privatization strategies, the main privatization deals lacked transparency, which permitted the promotion of ill-acquired enterprises and firms in sectors like banking, transport, real estate, tourism, media and telecommunication (Obayashi, 2012). The deals were made in the sole purpose of serving the rent-seeking behavior of the regime and its entourage. Some practical examples, mirroring the above statements, can be found in the car retail distribution sector; for example, the major car deals of Porsche, Kia, Peugeot, Jaguar, Hyundai and Ford went to Ben Ali’s family, where they use to get illegal import licenses and people dealing with these brands received loans at low interest rates (Obayashi, 2012). “Ennaki” (the distributor of Audi and Volkswagen) and “Le Moteur” (the distributor of Fiat and Mercedes) were both subjected for privatization and eventually sold to the president’s son in law. The fact that the Tunisian business environment was based on political opinion, rent-seeking behavior and patronage system, ultimately distorted the business environment within the private sector and the foreign enterprises and companies (Obayashi, 2012). According to a 2011 study by the Arab Institute of the Head of Companies (IACE), eighty-six percent of the surveyed Tunisians consider that corruption forms a major concern and an important socio-economic problem. Post-revolution Tunisia partially tackled the issue of corruption and in the hopes that the new government will continue this task.
B. The Tunisian Experience with Debt and Aid for Development

The story of Tunisia with debt began with the country’s independence, back in 1959, where they inherited all the debt accumulated in the colonial era. With the 1970s, the debt began to increase, as banks had cash overflowing to lend to developing nations (because of large increases in oil prices). However, the rise of U.S. interest rates (in the 1980s) exacerbated the situation and increased the debt burden. This situation had direct negative effects on the Tunisian economy as a whole, which in turn created tensions on the streets and protests against the country’s current economic situation (World Bank, 2015).

The systematic increase in national debt levels paralyzed the government and by 1986 Tunisia could no longer afford to pay up the debt payments. IMF offered assistance and to pay off the country’s accumulated loans to creditors. By mid-1990, with the help of international organizations like the World Bank and the IMF and the implementation of austerity measures, the country started witnessing some growth and improvements in its economic situation. Tunisia began opening up its economy and pioneering a free trade deal with the European Union (back in 1995), while receiving large direct financial support from the EU in return (World Bank, 2015).

Tunisia was known for its cautious borrowing and was rated by the World Bank and the IMF as a moderately indebted nation. Since the 1990s, the economy widely improved including the ratios of debt to export and debt to GNP. The central government made sure early repayment of the debt outstanding by the implementation of several policies and strategies, including privatization, which in turn ameliorated the overall country’s debt situation. However, with the fall of the Ben Ali administration,
the country was left with US$15 billion in national foreign debt and since then, the
government has been covering up the debt payments by using the nation’s foreign
currency reserves. IMF came to rescue with a package deal (liberalization and austerity
conditions attached) of US$1.75 billion, over two years that would help Tunisia in
covering its debt payments (World Bank, 2012). In 2011 alone, the Tunisian
government spent about US$ 2.4 billion on external debt payments (almost 16% of the
overall state’s revenue), compared to US$2.8 billion spent on public education (about
19% of state’s revenue) and US$1.5 billion on public health (ten percent of state’s
revenue). According to the Tunisian Ministry of Finance’s latest numbers for 2016, the
country’s external debt constitutes about 64% of the total debt, which is about the same
level as in 2014 (61% of the overall public debt). The majority of the debt is in Euros
(77.1%) and the remaining is distributed between Kuwaiti dinars (9.7 %), Yen (4.4%)
and in US dollars (4.3%).

The aid received for Tunisia’s development, especially after the uprisings, came
mainly from the G7 nations: Germany, France, Italy, Canada, Japan, United Kingdom
and the United States (OECD, 2015). Since 2011, the European Union more than
doubled its financial support and cooperation, as grants, with Tunisia and provided
assistance, in terms of loans (part of EU’s macro-financial assistance program), of about
300 million Euros. The European Investment Bank (EIB), on the other hand,
contributed EUR1.5 billion, ever since the uprisings. The U.S. has also allocated
financial support to Tunisia, especially after 2011, the latest was back in June of 2016,
where the US’s department of Treasury signed a loan agreement of US$500 million to
help the country achieve economic development and growth. This counts as the third
attempt by the US to provide assistance for the Tunisian development process, the first one was back in 2012 (US$485 million) and the second in 2014 (US$500 million).

The role of multilateral development banks has also been crucial in helping Tunisia post uprising. For the period between 2011 and 2015 the World Bank and the IMF allocated about US$1.75 billion and US$1.9 billion in loans (respectively), followed by a four year loan of US$2.9 billion, in June 2016, to support the state’s new economic plan (World Bank and IMF reports, 2016). It is also projected that the World Bank will commit to an additional US$770 million in loans by the end of 2016.

Figure 3: Depicts the Tunisian government’s debt to GDP ratio from 1990-2014. Source: Tunisian Central Bank database, 2016
C. The Tunisian experience with foreign direct investment (FDI):

Multinational enterprises and transnational corporations form an important source of private foreign capital investment, with their sophisticated and modern technology and their international marketing strategies. Hence, the role of foreign investments should not be underestimated because under an appropriate environment they make a significant contribution to the country’s development process (Pyakuryal, 1995).

Tunisia’s new set of liberalization strategies implemented in the nineties, especially trade liberalization and signing multilateral trade deals, contributed in the doubling of the inflow of foreign capital from 1991 to 1995; it went from US$125 million to US$250 million, which fostered the country’s internal infrastructure development. The Tunisian government was one of the first states to value the importance of FDI on infrastructural development, and had scored high FDI to GDP ratio (in comparison to other developing nations) between 1995 and 2000 (Friedman, 2010).

By 2009, net FDI increased to reach about US$1.6 billion and by 2010 it represented three percent of the total Tunisian GDP. Interestingly with time, foreign investors and entrepreneurs shifted their sector of preference; in 1992, more than sixty percent of the foreign direct investments were directed toward the agriculture sector, while only ten percent was invested in the mechanical or the electrical sectors. However, by 2006 the scenario changed and twenty-two percent of the FDI was now concentrated in the agricultural sector, compared to more than thirty percent now invested in engineering fields (Friedman, 2010). In general, Tunisia’s FDI had some
positive effects and features; however, skeptics questioned its developmental value and
criticized its strong emphasis on export and energy production that leaves the country
open to externally-triggered crisis (Pheifer, 2012). Between 2005 and 2007 foreign
capital inflow peaked at thirteen percent, reaching US$3.3 billion in 2006 and then
falling by fifty-four percent from 2006 to 2010 (Dhaman, 2011).

The literature argues that large foreign direct investment inflow would increase
the total private investment and compensate for the fall in public investment. However,
although the share of FDI did grow from the overall level of investment, it failed to
increase the total Tunisian investment because much of the inflow was concentrated on
taking over pre-existing companies (Pheifer, 2014). A second FDI theory suggest that
with more foreign capital inflow, the small and medium enterprises (SMEs) will
blossom and start generating new jobs; however, the majority of the Gulf sourced
capital investments favored the extravagant mega-projects in Tunisia like hotels, resorts,
and shopping malls or the semi-privatized public infrastructure enterprises like airports,
ports and utilities. In turn, these projects created only temporary jobs in the construction
field and, except in tourism, some permanent jobs (Pheifer, 2014). A third argument
backs the idea that FDI will ultimately diversify the host country’s economy; however,
the European entrepreneurs, which constituted 70-90 percent of the nation’s FDI from
2008-2010, poured their capital into the energy sector absorbing between 54 and 62
percent of the total foreign investments (Pheifer, 2014). Tunisia’s lack of domestic
investment and its large dependence on FDI and exports made the economy vulnerable
for Western’s economic crisis like the 2008-2010 global financial crisis that exacerbated
the social and economic situations, including poverty, unemployment, income
inequality and uneven regional development (Pheifer, 2014).
Post-awakening Tunisia witnessed a sharp decline in FDI flows of 29.2% in 2011, compared to 2010. More than 182 foreign firms left the country (61 French, 10 German and 64 Italian) consequently leading to the loss of more than 10,000 jobs, especially in the tourism sector where the losses were about 83%, followed by the manufacturing industry with 43% and 19% in the energy sector (Pheifer, 2014). With the 2012 economic recovery, FDI flows rebounded and even surpassed the 2010 rate by about 3%; in the first quarter, more than 70 new foreign enterprises (mainly concentrated in the manufacturing and energy sectors) created about 6,500 new jobs (Pheifer, 2014).

Figure 4: Shows the evolution of privatization and FDI in Tunisia (1990-2012). Source: Foudeh (2015)

Today, the Tunisian government has a positive attitude towards encouraging FDI flows into the country. Even with the decline witnessed in 2013 and in 2014, mainly due to the country's deteriorating security situation, the numbers became more
encouraging between 2015 and 2016. According to the Tunisian Agency for the Promotion of Foreign Investment, the FDI level increased by 20.7% in 2015 (compared to 2014); these investments were mainly concentrated in the industrial field and declined in the service sector.

Figure 5: Tunisian FDI inflows between 1994 and 2016.
Source: Tunisian Central Bank Database (2016)

D. Evolution of democratic institutions in Tunisia:

After the fall of Ben Ali’s regime, Tunisia was finally liberated from a 23-year dictatorship, creating opportunities and hubs for respect for human rights. Citizens were now enjoying “new liberties” like freedom of expression, association, press and assembly (Blibech, 2014). With the release of political prisoners and the return of long
time exiled Tunisian human rights activists, reenergized the country’s civil society by allowing it to function without any government disruption or interference or intimidation (Balibech, 2014). In this section, we will shed light on the evolution of democratic institutions (i.e. political rights and civil liberties).

1. Political rights:

Looking into the Tunisian experience, it becomes obvious that authoritarian regimes like the Ben Ali administration can inhibit a country from developing an inclusive, viable and a healthy political culture. Oppressing the opposition and silencing the opposing parties will only create gains in political expertise and governance strategies exclusively for the regime’s inner circle (Piser, 2014).

Ever since the first constitution draft was submitted, back in August 2012, political rights and the degree of freedoms have been drastically improved. The newly established Ministry of Human Rights and Transitional Justice created an environment for dialogue between different members of the civil society and the politicians, in order to produce a first draft law supporting the efforts of the transitional justice system in the country (Piser, 2014). In addition, the post-revolution government dissolved the former regime’s party (Constitutional Democratic Rally) and enacted the General Amnesty Act, concerning people involved in political cases, releasing more than five-hundred political prisoners.

The new constitution is all about respecting the political rights of the civilians, especially in their right to change their government within a peaceful process. Notably, more than 100 political parties had the opportunity to run for the Constituent Assembly
elections, where the process was closely monitored by the Tunisian League for Human Rights (LTDH) and international NGOs and was labeled as transparent, fair and free (Piser, 2014). A large importance was also given to the citizens’ right and freedom of assembly by enacting the Emergency Law, that requires the attainment of a permit from the central government by the demonstrating party and so far there have been no cases of permit refusal (Piser, 2014). However, one of the most important steps taken in regards to political rights is making the registration process for new political parties much smoother and easier, while inhibiting the role of some government entities to delay or hinder the process. The law also made sure that the Ministry of Interior has no authority in abolishing a political party or any association without passing the case through the Tunisian court system (Piser, 2014).

The 2014 parliamentary election was extremely successful and constituted a stepping stone toward a full fledge democracy. Other than managing to score high participation rates (about 67%), this election was successful in enhancing the role of other, previously marginalized, parties in government formation including the Free Patriotic Union (with 16 seats), the Popular Front (with 15 seats) and Afek Tounes (with 8 seats). This success story was later followed by another accomplishment with the presidential elections, where more than 20 candidates ran for office (Freedom House report, 2016). In the end, Beji Essebi won with 40% of the votes and according to local and international observers there was no evidence of any systematic violations that affected the electoral results.

Since the fall of the regime, Tunisia witnessed major improvements when it comes to government transparency. In 2011 the government released the internal documents of public institutions to public; and in the 2014 constitution, they highlighted
on the public’s right to access to information (Freedom House report, 2016). Tunisia has come a long way in ensuring political rights for its citizens, as Essebsi once said: “removing a citizen’s right to political participation is tantamount to taking his nationality.” Tunisia scored an impressive 1 on the Freedom House index for political rights in 2016, reflecting the fact that the country is enjoying a vast range of political rights, including fair and free elections.

2. Civil Liberty:

In general civil society organizations (CSOs) pressure the autocratic regimes for change, while they democratize from below (Foley, 1996). Authoritarian regimes are usually aware that the secret for their longevity is their ability to adapt. Hence, the importance of implementing the concept of “authoritarian reliance”, where the administration tries to compromise between the needs and the demands of the international community for democratization, while reinforcing the pillars of their own regime (Aarts, 2013). This strategy was largely used by the Ben Ali regime, as they initiated selective liberalization reforms while co-opting and monopolizing the civil society framework and repressing all the other CSOs acting outside the regime’s circle (Deane, 2013).

The escalating levels of repression with dire economic conditions, in Tunisia, sparked new levels of horizontal relations and association between the country’s civil societies in the face of the kleptocratic and elitist Ben Ali administration (Dieane, 2013). This new spirit of solidarity constituted the core of the Tunisian revolution and the adaptive autocratic mechanism managing the civil society, previously implemented
by the regime, stood powerless against the country’s new social capital. Since the revolution, the room for action for CSOs has drastically increased, especially the role of the youth as they are considered the “avant-garde of the revolution” (M’rad, 2014). Many local actors, including women, youth and human rights activists were joined by trade unionists and lawyers and initiated alternative dialogue platforms focused on pressing political issues. This constituted an important step that prevented the country from a serious escalation of the political crisis (Schafer, 2015).

The civil society pushed for new reforms in regards to human rights issues, rule of law and transparency. Some of these changes proved their effectiveness and were largely implemented; however, there was only a partial improvement of human rights in Tunisia, since 2011. According to Human Rights Watch and Amnesty International reports, violations against human rights laws were still taking place in prisons and police forces were still using excessive force against protestors. A robust civil society is key for sustainable democratic movements, but they can only be efficient paired with political associations. Hence, the need that the state institutions co-evolve with the civil society in order to have a smoother transition (Deane, 2013).
CHAPTER III
LITERATURE REVIEW

The widespread popularity of privatization programs in the world, especially in
developing nations, prompted systematic evaluation of this policy on economic growth.
However, the assessment of the direct effects of such policy changes can face many
methodological hindrances. First, with the implementation of new governmental
policies rises the need of a counterfactual scenario, which can be highly problematic to
create (Parker, 2003). The evaluation of a counter scenario of the economy with the
absence of policy change, in this case privatization, will be highly controversial and
uncertain.

Second, the assessment of causality between economic performance and
privatization policies is still very much unclear. According to Li Qiang’s study “The
political economy of privatization and competition” that was publish back in 2001, the
government will restrain from implementing privatization of state ownership if there is
high levels of profitably and increasing amounts of fiscal deficit. Brune and Garrett
(2000), highlight in their study “The diffusion of privatization in the developing World”
that an encouraging economic environment is the main trigger for privatization. Nas,
Megginson and D’Souza argue, in a 2001 study “Determinants of performance
improvements in privatized firms”, that relatively faster growing nations are more prone
for privatization gains than others. Looking at these different empirical works, it
becomes evident that establishing causation can be extremely complex with different
factors and considerations at play in the opportunities and motivations of government
asset sales to the public (Manzetti, 1999).
Thirdly, economic growth is highly sensitive to other factors of change within a country’s economy itself, from liberalization of capital flow, stabilization of macroeconomic conditions and encouragement of competition. Hence, pinpointing the exact effect of privatization initiatives will be problematic.

These restrictive factors can explain the inconclusiveness found in studying the effects of privatization on economic performance. However, researchers explored the relation between these two variables from different perspectives. Many studies looked into the effect of privatization on economic growth through studying the firms’ post privatization performance (i.e. efficiency and output). Megginson et al. (1994), tried to compare the mean performance of 61 firms (in more than 30 different industries) for 18 countries for the three years before and the three years after their privatization. The study concluded that the privatization of these firms resulted in higher levels of efficiency, productivity, more capital investment and larger sales. This empirical work was later backed by D’Souza and Megginson (1999) and Malatesta and Dewenter (2000), where they reported post-privatization firms incurred increases in productivity, return on sales and assets profitability, which in turn effecting positively on the overall economic growth.

Studying the impact of privatization on economic performance through case studies became extremely popular, given their efficiency in addressing the quantitative and qualitative effects and present specific responses that can be lost in the aggregation that is applied in econometric analysis. Lavoro (2004) came up with a model in order to test the impact of privatization on output in Britain in the long run; the study focuses on real GDP and uses its determinants as controlling variables for the role of privatization. After the co integration techniques were implemented, the results yielded a weak
relationship between the growth and privatization. Dolenc (2009) studied the Slovenian case, in an attempt to understand the macroeconomic impact of privatization for the period 1992 -2005. He concludes that the implementation of privatization policies in the country had no significant effect on the economic performance. However, the study notes that the Slovenian privatization program was solely implemented for lowering the country’s overwhelming public debt.

Industry specific case studies are also very important in understanding the pros and cons of privatization on a country’s economy. Gray (2001) studied the electricity sector in four Latin America countries: Chile, Peru, Argentina and Brazil. He concluded that in fact the sector benefited from the policy, with higher labor productivity, fewer blackouts and a decrease in prices and electricity losses. However, some countries were not so lucky in having privatization success stories, due to the government’s incentives to privatize and its administrative and managerial capacity to effectively implement such policies (Cook, 1999). The 2002 study by Parker links the delays occurring in Taiwan’s privatization program to the weakness of the country’s administrative and political institutions and machinery, because these reform strategies go beyond the promotion of economic growth and efficiency to serve a certain group in the society for payoffs or political favors (Commander and Killick, 2000). Parker goes on to conclude that rent-seeking and self-seeking governments are incompetent of running successful industries, and they are most certainly incompetent of efficiently and effectively privatize. Sachs et al. (2000) argues that reform steps must go beyond privatization, “…if complementary reforms are not sufficiently developed, change-of-title privatization may have negative performance impact” (i.e. increasing market competitiveness and budget constraints).
Other studies, however, have attempted to understand the dynamic relationship between privatization policies and economic growth from a macro, economy-wide perspective. Richards and Fowler (1995) argue that privatization programs should not be encouraged, as they found no negative effect on the economy’s performance resulted from the privatization of public enterprises but they believe these enterprises can have a more positive impact on the economy as whole. However, one of the most famous studies conducted on the topic of growth and privatization is by Plane (1997), where he used Probit and Tobit econometric models for thirty-five developing nations between 1988 & 1992 and analyzed the interaction between these two variables. The study concluded that infrastructure privatization will ultimately have a positive effect on growth (while the privatization of service orientated sectors has a more insignificant effect).

Later works in this field like Richardson and Davis (2000) and Barnett (2000) found that economic performance will be positively and significantly affected by the implementation of privatization programs. Barnett, in his IMF paper, “Evidence on the fiscal and macroeconomics impact of privatization” found that declines in the level of unemployment, increases in tax proceeds and higher rates of GDP can all be associated with the country’s implementation of privatization policies. Zinnes et al. (2001) backed the theory of a positive relationship, in his study of Eastern Europe’s transition economies, where he argues that the transference of the state’s productive enterprises to the private sector will incur positive spillover effects on transition economies.

One of the most comprehensive studies conducted that tackled the dynamism between economic growth and privatization in developing countries, is by Uchida and Cook (2003): “Privatization and economic growth in developing countries”. They used
extreme bounds analysis for sixty-three developing nations over the period 1988-1997 and the result was a significant negative relationship between GDP growth and privatization programs. A 2005 empirical work, on ninety-two developing countries, by Adnan Filipovic backs the Uchida study, where he found negative (though insignificant) relationship between privatization and economic performance. These works where followed by Bennett, Urga and Estrin’s 2007 study on the impact of privatization methods on economic performance using the generalized method of moments (GMM), for 26 transition economies for the period 1990-2003. Their results yielded no direct explicit relation between growth and privatization; however, they found significant impact between private sector and capital market development and growth, which led to the conclusion that nations that adopt speed mass privatization programs will achieve higher growth rates (compared with nations that use other methods). On the other hand, Gouret work (2007) found that mass privatization had only a small positive effect on growth compared with more gradual ways to privatize.

Boubakri and al. (2009) found a significant positive link between privatization and economic performance in their study: “Privatization dynamics and economic growth”, where they used generalized method of moments (GMM) econometric technique on fifty-six countries (both developing and developed) between the years 1980 and 2004. Recently, a case study of Iran investigated in the context of the dynamism growth/privatization by Shahraki (2011), where he used the auto regressive distributed lag technique and concluded the presence of a positive relationship between them.

Other recent works like Naguib (2010) and Boubakri (2013), tried to incorporate the concept of FDI in studying the relationship between economic growth and privatization. Naguib (2010) used time series model to estimate the effect of FDI
and privatization on economic growth in Argentina for the period extending from 1971 till 2000. Her results showed a negative (significant) relationship between privatization and growth; she explains that this negative result was mirroring the FDI’s negative effect on economic performance, given the fact that 63% of privatization proceeds (privatization variable proxy) are generated from FDI. Boubakri, Debab, Valery and Cosset (2013) also tried to study the link between privatization and foreign direct investment in 55 developing nations over the period 1984-2006, by applying the GMM approach and carrying out a panel causality tests. The study concluded that FDI fosters privatization initiatives as new capital inflows; these new technologies and managerial skills that accompany foreign investment create an encouraging economic environment that is competitive and efficient; which in turn fosters GDP growth.

The second stage of the thesis will investigate the role of democratic institutions (i.e. civil liberty and political rights) with the concept of privatization programs. In the past years, researchers have tried to study the link between democracy and economic growth and they basically reached different sets of conclusions. David Leblang (1996) in his paper “Property rights, Democracy and Economic Growth”, used a pooled cross section – time series approach – found a positive and a significant relation between democracy and growth. On the other hand, Helliwell (1994) used historical democracy as an instrumental variable and found no significant effect that democracy could have on economic growth. One of the most popular studies conducted in this field is by Przewoski et al., in 2000, where they used a sample data of 4000 country observations, between 1950 and 1990, to study the effect of democracy on growth. They found that the output or the economy grows at the same rate under autocracies and democracies; however, when the study takes the GDP per capita as its dependent variable there is
evidence that democratic systems enjoy higher GDP/capita rates. Other empirical works like Tavares and Wacziarg (2001) found positive links of democracy on growth, while Lake and Baum (2003) found no correlation between the two variables. In his book “Democracy, Governance and Economic Performance”, published in 2005, Yi Feng concludes that democracy indeed enhances economic performance by strengthening economic freedoms and generating political stability. Henry Knutsen (2011) also found robust positive effect of democracy on economic performance by including more than 10,000 observations for more than 150 countries, with a time series data going all the way back to the 1800s. Danis and Biglaiser (2002) argued, in their empirical work “Privatization and Democracy”, that indeed economic and democratic transitions are directly related. This claim was backed by later works like Opper in 2004 and Pinotti and Bortolitti in 2005. Tabellini and Giavazzi (2005) clarify in their paper: “Economic and political liberalization”, published in the Journal of Monetary Economics, the important idea about the difficulty in determining the true or correct direction of the causal interaction between political and economic transition, while backing up the previous studies and concluding a positive relationship between the variables. Persson and Tabellini (2007) explicitly endorsed the argument that economic liberalization are largely promoted under stable democratic regimes, hence, having a significant positive effect on the economic performance of the country. Other studies like Rodrik and Wacziarg (2005) and Papaioannou and Siourounis (2008), on the other hand, found a two-way relationship between economic outcomes and democracies (with an emphasis on economic growth as the main trigger for the implementation of economic policies).

An important idea was put forward in Opper’s work (2004), that the privatization process cannot exclusively be explained by higher levels of productivity
and efficiency because the process in itself entails a change or a shift in the overall system of societal resource distribution. Hence, a large number of empirical studies focused on the relationship between the types of political regimes within a country and privatization strategies. While some argue that “unpopular” reform programs like privatization are more likely to be implemented by authoritarian regime systems, given the mere idea that they are indifferent about public support (Denis, 2002); others like Biglaiser and Denis (2002) came up with a different conclusion by studying the implementation of systematic privatization strategies in seventy-six different developing countries, for the period 1987-1994, that wealthier underdeveloped democratic nations incur higher privatization sales than other regime types.

Denis and Biglaiser’s (2002) conclusion is attributed firstly, to the fact that with wealthy democracies the nationalistic fears that accompany privatization strategies are significantly reduced, given the high potential that the buyers will ultimately be domestic. Secondly, democracies are more prone to implementing policies such as trade and capital liberalization and the enforcement of property rights against fraud and state level corruption. In addition, Bortolotti et al. (2003) analyzed more than thirty-four countries for the period 1977-1999 and argued that privatization is more common in wealthy democracies governed by credible right-wing politicians (market oriented), with a common-law practice or tradition (not present in the German or the French civil laws) and in democracies that are highly affected by increasing levels of national public debt (backed Denis, 2002). In other words, these two important empirical works denote the argument that democratic state are more inclined to implement liberalization policies, like privatization, because they enjoy the cooperation and the full support of their citizens.
When studying the relationship between political and economic liberalization, we can find a few empirical papers discussing the topic. Fidrmuc (2003) studied 25 transitional economies between the period 1990-2000 and found a positive relationship between the indices of democracy and liberalization. In his study, liberalization is measured by a proxy developed by the European Bank for Reconstruction and Development that takes the average of different reform indicators (i.e. privatization, governance, price liberalization, enterprise restructuring, competition policies, foreign exchange and trade) and democracy is measured by the indicators of Freedom House’s civil liberties and political rights. In addition, according to the empirical work by Shleifer and De Long (1993), where they studied the period extending from 1050 to 1800, found that regime characteristics is key in understanding the variations between Western European regions and cities, especially when it comes to economic dynamism. They argue that among these European cities, regimes with more extensive civil and political liberties are prone to grow much faster than cities with less extensive liberties. Scully (1988) notes in his paper that countries that suppress and marginalize political, economic and civil liberties reduce the standard of living of their own citizens. Another study by Isham et al. empirically shows that higher levels of civil liberties are linked to better economic returns on government ventures and projects.

Ulubasoglu and Doucouliagos (2008) conducted an extensive and comprehensive Meta analysis of all the studies on democracy and growth published before December 2005. They noted that from the 84 published growth-democracy works: 21% show the estimates are negative but statistically insignificant, 15% negative and statistically significant, while 37% of the estimates yielded positive but insignificant results and 27% showed the estimates to be positive and statistically
significant. This study mirrors the inclusiveness present, in the literature, when it comes to determining the sign of the final effect of democracy on economic growth.

Ulubasoglu and Doucouliagos (2008), maintain that “most of the differences in the results are due to either sampling error or differences in the research process”. They conclude that democracy in itself has no direct explicit effect on economic growth but positively effects growth through increasing economic freedom and human capital, reducing inflation and the presence of political instability.
A. Methodology

In general, there is no consensus for a theoretical framework guiding empirical studies on economic growth. In addition, the existing models out there are not explicit in specifying the controlling variables while conducting research on the relationship between economic performance and the primary variable of interest. Hence, creating a diverse literature where only a limited number of studies control for the variables already analyzed by other researchers (Ghorbani, 2015).

In this thesis, we will estimate the effect of privatization policies on growth using time-series ordinary least-squared regression with a dataset for the period extending from 1990 to 2014 in Tunisia, while taking a closer look on the impact of different economic and political variables on privatization’s effect on economic growth by introducing interaction terms between privatization and foreign direct investment, debt, civil liberties or political rights. The theoretical justification for the use of an interaction term comes from the possibility that the dependent variable (GDP/capita growth rate), as the primary independent variables changes (privatization proceeds), depends directly on the value of another independent variable (FDI, debt, political rights or civil liberty) (Filipovic, 2005).

We address the problem of simultaneity bias by taking the lagged values of our independent variables. Lagging these variables will partially solve the problem as lagged variables are predetermined and not strictly exogenous; but as \( t \) becomes larger, the bias involved becomes negligible (Baltagi, 1995). Hence, given the size of our data
of 24 years, we consider that the resulted bias will be of second order significance.

Another reason for lagging the explanatory variables is the simple fact that the independent variables involved do not incur instantaneous effects on our dependent variable, GDP/capita growth rate (Ceriani, 2011).

**B. Data Description:**

The data was taken from the World Bank Database and the Freedom House Data Center for Tunisia, between 1990 and 2014. The table below gives a comprehensive overview of the definitions of the variables used in the model.

<table>
<thead>
<tr>
<th>Variables Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP_capita_growth</td>
</tr>
<tr>
<td>AID</td>
</tr>
<tr>
<td>DEBT</td>
</tr>
<tr>
<td>FDI</td>
</tr>
<tr>
<td>GCV_Budget</td>
</tr>
<tr>
<td>INF</td>
</tr>
<tr>
<td>OPEN</td>
</tr>
<tr>
<td>POP</td>
</tr>
<tr>
<td>PRIV</td>
</tr>
<tr>
<td>SAV</td>
</tr>
<tr>
<td>SKL</td>
</tr>
<tr>
<td>CIVIL</td>
</tr>
<tr>
<td>POLI</td>
</tr>
</tbody>
</table>

*Note: All these variables are for the period 1990-2014*

Table 1: Summarizes all the variables’ definitions in this study.
We next make sure that the data used is in fact stationary. Hence, we conducted the Unit Root test for the dependent and all the explanatory variables involved in the study and the results are summarized in the table below.

Table 2: Unit Root Test for all the variables used in the study.

The table above shows that all the data included in the study is stationary, using both the Augmented Dickey-Fuller and the Phillips-Peron tests.
Using the E-views software, we summarized the main statistical values for the data used in the table below.

<table>
<thead>
<tr>
<th></th>
<th>CIVL</th>
<th>DEBT</th>
<th>FDI</th>
<th>GDP/gapda</th>
<th>GNP</th>
<th>INFL</th>
<th>OPN</th>
<th>POP</th>
<th>PAP</th>
<th>SAV</th>
<th>Rf</th>
<th>PRN</th>
<th>SCL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>1.06705</td>
<td>3.947124</td>
<td>2.986625</td>
<td>3.341553</td>
<td>-2.196625</td>
<td>1.9775</td>
<td>91.23899</td>
<td>1.875</td>
<td>1.96475</td>
<td>21.40125</td>
<td>5.776401</td>
<td>0.03829</td>
<td>0.015127</td>
</tr>
<tr>
<td>Median</td>
<td>5</td>
<td>3.966629</td>
<td>2.7565</td>
<td>3.957399</td>
<td>-3.160545</td>
<td>1.468</td>
<td>88.59877</td>
<td>2</td>
<td>1.721869</td>
<td>31.64</td>
<td>3.586401</td>
<td>0.31</td>
<td>0.02555</td>
</tr>
<tr>
<td>Maximum</td>
<td>4</td>
<td>4.105494</td>
<td>6.14</td>
<td>5.085397</td>
<td>0.03</td>
<td>7.689</td>
<td>115.3962</td>
<td>3</td>
<td>2.025274</td>
<td>33.11</td>
<td>9.445401</td>
<td>6.637</td>
<td>0.100233</td>
</tr>
<tr>
<td>Minimum</td>
<td>3</td>
<td>3.705300</td>
<td>0.62</td>
<td>-3.54561</td>
<td>-4.68</td>
<td>1.9</td>
<td>77.00511</td>
<td>1</td>
<td>0.087679</td>
<td>10.73</td>
<td>8.308889</td>
<td>0</td>
<td>0.016782</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.25</td>
<td>0.1100326</td>
<td>2.18493</td>
<td>2.251564</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skewness</td>
<td>0.0307584</td>
<td>0.0205333</td>
<td>1.730097</td>
<td>-1.254296</td>
<td>-0.048899</td>
<td>0.192249</td>
<td>0.887121</td>
<td>0.054095</td>
<td>0.085921</td>
<td>-0.012488</td>
<td>1.114776</td>
<td>0.070904</td>
<td>0.049598</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>1.056967</td>
<td>2.33333</td>
<td>5.944596</td>
<td>5.932904</td>
<td>4.036758</td>
<td>2.8186917</td>
<td>3.167194</td>
<td>2.6882</td>
<td>2.629992</td>
<td>1.801662</td>
<td>4.048732</td>
<td>11.4337</td>
<td>3.184599</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>1.66019</td>
<td>1.059395</td>
<td>13.74952</td>
<td>12.12307</td>
<td>0.714741</td>
<td>2.451475</td>
<td>2.137768</td>
<td>0.079557</td>
<td>2.695998</td>
<td>0.859392</td>
<td>6.070377</td>
<td>150.8829</td>
<td>1.144397</td>
</tr>
<tr>
<td>Probability</td>
<td>0</td>
<td>0.394051</td>
<td>0.001054</td>
<td>0.003293</td>
<td>0.696025</td>
<td>1.187279</td>
<td>0.348099</td>
<td>0.963899</td>
<td>0.061159</td>
<td>0.19376</td>
<td>0.048057</td>
<td>0</td>
<td>0.356763</td>
</tr>
<tr>
<td>Sum</td>
<td>49</td>
<td>51.152099</td>
<td>46.57</td>
<td>50.21452</td>
<td>-35.13</td>
<td>61.564</td>
<td>145.744</td>
<td>30</td>
<td>21.67577</td>
<td>342.42</td>
<td>9.05102</td>
<td>19.9312</td>
<td>0.795054</td>
</tr>
<tr>
<td>Sum Sq. Dev.</td>
<td>19975</td>
<td>51.17207</td>
<td>71.03879</td>
<td>76.24823</td>
<td>16.70599</td>
<td>41.05201</td>
<td>135.104</td>
<td>3.75</td>
<td>3.099792</td>
<td>14.16438</td>
<td>1.05024</td>
<td>46.8278</td>
<td>0.018277</td>
</tr>
</tbody>
</table>

Table 3: Summary of the main statistical values of the data set.
CHAPTER V

ECONOMETRIC MODEL AND RESULTS

A. Control Variables

Including control variables elevates the validity of the overall study. Hence, we based our selection of controls on two empirical works by Uchida and Cook (2003) and Adnan Filipovic (2005).

Our first set of controlling variables will be included in a basket, Z. Our first controlling variable in this group is the degree of trade openness (OPEN), given its positive effects on a country’s economic performance. According to studies like Kessides (1991), Papageorgiou et al. (1990), Varnvakidis (1998), Frankel and Romer (1999), Miller et al. (2000) and Baldwin (2003), there is a significant positive relationship between trade openness and higher GDP growth rates. Efficient trade openness strategies attract foreign and domestic entrepreneurs, promote technology transfers, increase foreign currencies, help in the creation of new markets and improve levels of productivity (Khemais, 2016).

The second variable included in Z is the government budget balance (GOV_BUDGET), a proxy for bad governance and political corruption (Uchida and Cook, 2003). We are controlling for government budget balance because countries might privatize for the sole purpose of creating funds or revenues to close the deficit, rather than to implement the privatization policy as a tool for boosting economic performance (Filipovic, 2005).

Aid for development (AID) is also controlled in the Z basket. This variable can directly affect policy reforms and economic growth (Filipovic, 2005). Previous empirical

National debt (DEBT) is controlled given the fact that higher levels of debt can impact many political and economic policies and strategies (Filipovic, 2005). According to a study by Cordella et al. (2005), where they used 79 developing nations over the period 1970-2002, they conclude the presence of a negative relationship between national debt and economic growth. Partillo et al. (2004) also found evidence of a negative correlation between growth and national debt (especially with the accumulation of external debt). Recently, Safdari and Mehrizi (2011) looked into the effect of national debt, in particular external debt, for the period 1974-2007 and found negative effects of debt on the overall economic performance.

Our second set of controls is included in another basket, B. Foreign direct investment (FDI) is controlled, because of its significant role in having positive spillover effects on economic performance through new technologies and management skills that facilitates and contributes to the growth process (Filipovic, 2005).
Inflation rate (INF) is also controlled and taken as a proxy for the condition of the investment and credit market climate (Filipovic, 2005). Although regarded as controversial, according to studies like Konnendi and Meguire (1985) and Cozier et al. (1992) there is a negative relation between inflation and economic growth. These works were later backed by Barro (1995, 1996), who also found evidence of a negative effect of inflation on growth. De Gregorio (1992, 1996) and Motley (1994) go on to validate the presence of a negative relationship between inflation and income.

Our next controlling variable is gross secondary school enrollment ratio (SKL), used as a proxy for human capital. According to Ghorbani (2015 higher level of high school enrollment has a significant positive effect on the overall economic performance.

Controlling for the population growth rate is intuitive given the fact that it has direct effects on the dependent variable in question, GDP per capita. Usually, we will have more growth with increases in population growth rate if the rate of the growth of the country is higher than the rate of population growth and vice versa (Filipovic, 2015).

The final controlling variable is the total savings level as a percentage of GDP (SAV). Based on previous studies, higher levels of savings are associated with higher levels of economic growth by facilitating the investment process, given the availability of more supply of capital for economic activists and entrepreneurs (Ghorbani, 2015).
B. Econometric Model

Our econometric model for studying the effect of privatization on economic growth, based on the methodology described in chapter four, will be by using this ordinary least square regression:

\[ Y_t = c + \alpha_1 Z_{t-1} + \alpha_2 B_{t-1} + \alpha_3 PRIV_{t-1} + \alpha_4 I_{t-1} + u_t \]

\( Y \) is our dependent variable proxied by GDP per capita growth rate. \( Z \) and \( B \) represent the two set of controlled variables (discussed in the previous section). \( PRIV \) represent our primary independent variable, privatization proceeds as a percentage of GDP. \( I \) is our interaction term between \( PRIV \) and foreign direct investment, debt or the democratic institutions (i.e. civil liberties and political rights), and \( u \) is the residual. Each of the interaction factors are included given their role in effecting the type of impact that privatization can have on economic growth.

1. Privatization

Our first regression is the simplest specification used in this study, where we examine the effect of privatization policies or strategies on the overall economic performance (no introduction of any interaction variables).

Regression #1

\[ Y_t = c + \alpha_1 Z_{t-1} + \alpha_2 B_{t-1} + \alpha_3 PRIV_{t-1} + u_t \]

One of the main pillars of the Washington Consensus is privatization, and it has been shown that with its implementation, there can be many advantages in regards to a country’s economic growth in the long run (Moshiri, 2010). According to studies like Plane (1997), Gupta et al. (1999), Barnett (2000), Zinnes et al. (2001), Boubakri (2009)
and Shahraki (2011) significant amount of evidence exists positively linking privatization to economic growth.

**Hypothesis #1:** The implementation of privatization policies will have a positive impact on Tunisia’s economic growth.

### 2. Foreign Direct Investment:

In the second regression, we introduce the interaction term between privatization and foreign direct investment (PRIVFDI). We include FDI in our study, given its important role in the privatization process:

**Regression #2**

\[
Y_t = c + \alpha_1 B_{t-1} + \alpha_2 Z_{t-1} + \alpha_3 PRIV_{t-1} + \alpha_4 PRIVFDI_{t-1} + u_t
\]

Many studies like Boubakri et al. (2005, 2013), Foudeh (2013) found that foreign direct investments participated in about 86% of all the privatization of state owned enterprises (SOEs) in developing nations while having positive spillover effects on economic growth. Boubakri et al. (2013) studied the correlation between privatization of SOEs and FDI, in more than 50 developing nations for the period between 1984 and 2006 by using the GMM model in a dynamic panel (the Tunisian case was also included in the data set) and evidence of a positive relation was found between the two. FDI can foster privatization policies with new technology, capital inflow and improvements in firm efficiency. Foudeh (2015) notes that privatization effects economic growth positively through its positive relationship with FDI.

**Hypothesis #2:** Foreign Direct Investments affect economic growth positively, through the implementation of privatization policies.
3. Debt:

The next regression will take a closer look at the role of the level of national debt on the relationship between privatization and growth through the introduction of the interaction term (PRIVDEBT). As mentioned earlier, the failure of governments in covering their large national debt payments is considered as one of the main reasons for the implementation of economic liberalization policies, especially privatization programs. The impact of large national debt on the correlation between growth and privatization cannot be predicted by theory (Filipovic, 2005). Higher levels of debt will prompt the government to use the privatization option in order to use the proceeds to pay off some of the debt outstanding. However, the sign of the interaction depends on the government’s ability to make wise strategic decisions of maximizing the gains from privatizing their SOEs based on goals of achieving economic stability, growth and efficiency improvement (positive sign) or privatization is simply a mean implemented only to create liquidity to decrease the national debt (negative sign). Some countries would be forced to sale even profitable public enterprises for low prices, for instant revenues while neglecting the goals of achieving efficiency and growth (Poole, 1996). Hence, in both scenarios revenues will be created and in the presence of increasing levels of debt, privatization might be implemented, but the effect on the privatized companies can be very different.

Regression # 3

\[ Y_t = c + \alpha_1 Z_{t-1} + \alpha_2 B_{t-1} + \alpha_3 PRIV_{t-1} + \alpha_4 PRIVDEBT_{t-1} + u_t \]

Taking the Tunisian case, according to the World Bank, there have been systematic decreases in the country’s national debt levels and that was largely due to its implementation of economic liberalization programs, including privatization (as
discussed in chapter II, section B) while enjoying healthy levels of growth. Tunisia was considered by both the IMF and the World Bank as the star of the neoliberal reform in the MENA region, due to its success story in maximizing the benefits of these policy changes (Pheifer, 2014).

**Hypothesis # 3:** Privatization proceeds were efficiently used in promoting economic growth in Tunisia.

4. Democratic Institutions:

We now turn our focus on studying the role of democratic institutions’ impact on privatization programs’ final effect on economic performance through the interaction terms (PRIVCIVIL) and (PRIVPOLI). We take as proxies Freedom House’s civil liberties (CIVIL) and political rights (POLI) indices, a measure of the guarantee of civil liberties and political rights to all citizens. The civil liberties index measures the degree of freedom of assembly, expression, religion and association guaranteed to the citizens. Political rights index, on the other hand, measures the degree of freedom that allows citizens to partake in the political process like the right to organize, the presence of free and fair elections, low level of corruption and the existence of a credible opposition. These indices are constructed on a one-to-seven scale. For our regression, we take the inverse values of these indices (more intuitive); lower scores represent lower levels of freedom, while higher scores represent higher levels of freedom.

**Regression # 4:**

\[
Y = c + \alpha_1 Z_{t-1} + \alpha_2 B_{t-1} + \alpha_3 PRIV_{t-1} + \alpha_4 CIVIL_{t-1} + \alpha_5 PRIVCIVIL_{t-1} + u_t
\]
Regression # 5:

\[ Y = c + \alpha_1 Z_{t-1} + \alpha_2 B_{t-1} + \alpha_3 PRIV_{t-1} + \alpha_4 POLI_{t-1} + \alpha_5 PRIVPOLI_{t-1} + u_t \]

According to Dahl’s book “Polyarchy: Participation and Opposition”, published in 1971, democracy entails three different dimensions, right to participate, public contestation and civil liberties, and our study includes two of Dahl’s dimensions. In addition, Berlin (1969) differentiates between positive and negative freedoms. From the political perspective, positive freedom is the level of freedom that can be attained by participating in the political process. Negative freedom, on the other hand, concerns the level of freedom related to the absence of constraints, obstacles or barriers for individual actions. Hence, a democratic country is considered free to the extent that the citizens are actively participating in the decision making process (Ceriani, 2011). In our model, political rights index can be considered as a proxy for positive freedom, and the civil liberties index can be a proxy for the negative freedom concept.

Studies like Danis and Biglaiser (2002) and Bortolotti et al. (2003), argue that democracies are more inclined to implement liberalization policies, like privatization, because they enjoy the cooperation and the full support of their citizens. Democracies create long-run growth rates, they yield greater short-term stability, handle adverse shocks more efficiently and deliver better distributional results (Rodrik, 2000). Rodrik describes democracy as THE “meta-institution” responsible for the creation of other non-market institutions. In addition, Dethier et al (1999) notes that democratic systems facilitate economic reforms like privatization programs. Civil societies, on the other hand, when they are mature and developed, they can play an important role in setting an appropriate environment (from a legal and market perspectives) for privatization.
programs (Lavoro, 2002). Dethier et al (1999), conclude that a vibrant civil society has the ultimate power to promote the adoption of economic liberalization policies.

That being said, studies like Tavares (2001), Opper (2004), Feng (2005), Knutsen (2011) and El Badawi & Makdisi (2011) have all found evidence of a positive relation between the enhancement of democratic institutions and economic growth.

**Hypothesis # 5:** The process of democratization will have positive effects on economic growth through the creation of an environment conducive to privatize.
C. Results

Our first regression results are summarized in the table below.

**Regression # 1:**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-0.777050</td>
<td>0.370530</td>
<td>-2.097135</td>
<td>0.0551</td>
</tr>
<tr>
<td>PRIV</td>
<td>0.014739</td>
<td>0.005175</td>
<td>2.848606</td>
<td>0.0137</td>
</tr>
<tr>
<td>AID</td>
<td>-0.000413</td>
<td>0.009349</td>
<td>-0.018459</td>
<td>0.9857</td>
</tr>
<tr>
<td>DEBT</td>
<td>0.127139</td>
<td>0.075597</td>
<td>1.656846</td>
<td>0.1209</td>
</tr>
<tr>
<td>FDI</td>
<td>-0.010746</td>
<td>0.004494</td>
<td>-2.396606</td>
<td>0.0323</td>
</tr>
<tr>
<td>GOV_EGDGET</td>
<td>-0.001539</td>
<td>0.006256</td>
<td>-0.261937</td>
<td>0.7975</td>
</tr>
<tr>
<td>INF</td>
<td>-0.015082</td>
<td>0.004815</td>
<td>-3.257150</td>
<td>0.0002</td>
</tr>
<tr>
<td>OPEN</td>
<td>0.287168</td>
<td>0.087010</td>
<td>3.303372</td>
<td>0.0057</td>
</tr>
<tr>
<td>POP</td>
<td>0.032088</td>
<td>0.016752</td>
<td>1.913649</td>
<td>0.0779</td>
</tr>
<tr>
<td>SKL</td>
<td>0.003938</td>
<td>0.002894</td>
<td>1.475525</td>
<td>0.1523</td>
</tr>
<tr>
<td>SKL</td>
<td>0.114719</td>
<td>0.154252</td>
<td>0.745707</td>
<td>0.4703</td>
</tr>
</tbody>
</table>

Table 4: Regression result of equation #1.

The above table yields some useful and interesting information on the relationship between privatization and growth. The coefficient of the privatization variable is positive and significant, this finding is in line with our hypothesis that the implementation of privatization programs has contributed positive effects on the Tunisian economy’s overall performance. The control variables are all consistent with empirical findings, except the variables FDI, DEBT and POP. Foreign direct investment was expected to positively impact the country’s economy, while debt to impact negatively; however, these two variables were largely affected by the 2008 global financial crisis and the 2011 Tunisian revolution that shocked the domestic economy.
and led to its deterioration. The positive coefficient of the population growth rate on economic growth (POP) can be attributed to the fact that, according to the World Bank Data Center, the Tunisian economy’s growth rate is higher than the growth of its population rate, especially given the growth’s proxy to be GDP/capita growth ratio.

With the introduction of the interaction term in the second regression between privatization and FDI, we find the results presented in the table below:

**Regression # 2:**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-0.821166</td>
<td>0.358027</td>
<td>-2.293580</td>
<td>0.0407</td>
</tr>
<tr>
<td>PRIV</td>
<td>0.034783</td>
<td>0.014926</td>
<td>2.330045</td>
<td>0.0381</td>
</tr>
<tr>
<td>PRIV*FDI</td>
<td>0.002565</td>
<td>0.001801</td>
<td>1.424356</td>
<td>0.1798</td>
</tr>
<tr>
<td>AID</td>
<td>-0.000612</td>
<td>0.000353</td>
<td>-1.693333</td>
<td>0.1179</td>
</tr>
<tr>
<td>DEBT</td>
<td>0.009837</td>
<td>0.077123</td>
<td>1.230989</td>
<td>0.2419</td>
</tr>
<tr>
<td>FDI</td>
<td>-0.000830</td>
<td>0.005117</td>
<td>-1.334759</td>
<td>0.2067</td>
</tr>
<tr>
<td>GOV_BUDGET</td>
<td>-0.000375</td>
<td>0.008110</td>
<td>-1.155998</td>
<td>0.2702</td>
</tr>
<tr>
<td>INF</td>
<td>-0.022113</td>
<td>0.004740</td>
<td>-4.341752</td>
<td>0.0051</td>
</tr>
<tr>
<td>OPEN</td>
<td>0.341205</td>
<td>0.091991</td>
<td>3.717032</td>
<td>0.0030</td>
</tr>
<tr>
<td>POP</td>
<td>0.052338</td>
<td>0.021512</td>
<td>2.432939</td>
<td>0.0316</td>
</tr>
<tr>
<td>SAV</td>
<td>0.008261</td>
<td>0.003956</td>
<td>2.082838</td>
<td>0.0593</td>
</tr>
<tr>
<td>SKL</td>
<td>0.253694</td>
<td>0.177792</td>
<td>1.429584</td>
<td>0.1786</td>
</tr>
</tbody>
</table>

Table 5: Regression result for equation #2.

The results of the second regression show a positive coefficient for the PRIV variable, in line with our theoretical expectations. The interaction term PRIV*FDI yielded a positive coefficient (insignificant) which is in line with our hypothesis and consistent with empirical findings. Hence, we can conclude that the foreign direct investments positively impacted Tunisia's economic growth through the implementation
of privatization programs, as FDI can lead to the development of new technology and efficiency improvement (Filipovic, 2005).

**Regression # 3:**

![Regression Table](image)

Table 6: Regression result for equation #3.

The above table gives us an idea on how the national debt level in Tunisia influenced the impact of privatization programs on economic growth through the incorporation of the interaction term (PRIV*DEBT). The PRIV coefficient is negative but insignificant; however, PRIV*DEBT yielded a positive result (insignificant). Hence, we can conclude that with the presence of higher levels of debt and the introduction of privatization policies into the picture had a positive impact on the economic performance in Tunisia, which is in line with our hypothesis. The country was in fact driven by the right incentives when implementing privatization, in other words, decisions made based on relative efficiency levels of a certain public enterprise and not
just as a mean to generate instant revenue from privatization proceeds to cover up the increasing levels of national debt (Poole, 1996). In fact, according to two major studies by Hassen et al. (2014) and Horchani et al. (2015) strong evidence exists about the increase in efficiency of Tunisian companies post-privatization, including the banking the sector. As mentioned before, Tunisia managed to systematically decrease its national (especially foreign) debt using privatization proceeds and, in parallel, witnessing higher levels of growth.

Although Tunisia benefited from the privatization program, in terms of growth and efficiency; however (as mentioned in chapter II) the control of the regime on the liberalization policies, the level of corruption and the cooptation present undermined the benefits resulted from the implementation of privatization. In turn, these benefits were all directed toward the regime and its entourage, which exacerbated the income disparity problem in the country (a Gini coefficient of almost 40 in 2010) and contributed negatively into Tunisia’s overall economic development. Hence, there should be more studies looking into the privatization process in Tunisia from an economic development perspective, rather than just in terms of economic growth, in order to understand the full scope of the benefits generated from the implementation of this policy.
**Regression # 4 & 5:**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-0.906128</td>
<td>0.442255</td>
<td>-2.048864</td>
<td>0.0651</td>
</tr>
<tr>
<td>PRV</td>
<td>0.014744</td>
<td>0.011472</td>
<td>1.285174</td>
<td>0.2251</td>
</tr>
<tr>
<td>PRIVPOLI</td>
<td>0.001600</td>
<td>0.004552</td>
<td>0.351365</td>
<td>0.7239</td>
</tr>
<tr>
<td>AID</td>
<td>-0.002142</td>
<td>0.002928</td>
<td>-0.269304</td>
<td>0.7929</td>
</tr>
<tr>
<td>POLI</td>
<td>-0.012582</td>
<td>0.013879</td>
<td>-0.762417</td>
<td>0.4618</td>
</tr>
<tr>
<td>DEBT</td>
<td>0.165193</td>
<td>0.097022</td>
<td>1.749330</td>
<td>0.1060</td>
</tr>
<tr>
<td>INF</td>
<td>0.015502</td>
<td>0.001990</td>
<td>2.213650</td>
<td>0.0486</td>
</tr>
<tr>
<td>GOV_BUDGET</td>
<td>-0.001477</td>
<td>0.030042</td>
<td>-0.222396</td>
<td>0.8221</td>
</tr>
<tr>
<td>OPEN</td>
<td>0.294895</td>
<td>0.100243</td>
<td>2.941340</td>
<td>0.0134</td>
</tr>
<tr>
<td>POP</td>
<td>0.334127</td>
<td>0.018186</td>
<td>1.876520</td>
<td>0.0873</td>
</tr>
<tr>
<td>SAV</td>
<td>0.002825</td>
<td>0.004942</td>
<td>0.531121</td>
<td>0.5959</td>
</tr>
<tr>
<td>SKL</td>
<td>0.03100</td>
<td>0.159677</td>
<td>0.570255</td>
<td>0.5867</td>
</tr>
</tbody>
</table>

| R-squared     | 0.746756    | Mean dependent var | 0.026165 |
| Adjusted R-squared | 0.459444    | S.D. dependent var | 0.02117 |
| Sum squared resid | 0.002147    | Schwarz criterion | -5.86415 |
| Log likelihood | 74.12980    | Hannan-Quinn criterion | -4.32489 |
| F-statistic   | 2.012529    | Durbin-Watson stat | 2.97327 |
| Prob(F-statistic) | 0.05732    |

**Dependent Variable: GDP_CAPITA_GROWTH**

| R-squared     | 0.730622    | Mean dependent var | 0.026155 |
| Adjusted R-squared | 0.435010    | S.D. dependent var | 0.022117 |
| Sum squared resid | 0.001357    | Schwarz criterion | -4.45454 |
| Log likelihood | 73.84297    | Hannan-Quinn criterion | -4.88429 |
| F-statistic   | 2.478472    | Durbin-Watson stat | 2.621248 |
| Prob(F-statistic) | 0.07173    |

Tables 7 and 8: Regression results for equations # 4 and 5.
Based on the above results, the PRIV coefficient is positive (insignificant) and in line with empirical findings. The coefficients for civil liberties and political rights yielded a negative correlation with economic growth, higher levels of democratization will negatively affect the country’s economic performance. This negative relationship may be attributed to the still nascent democracy in Tunisia which effectively began to take hold starting only in 2012. Hence, the lack of a positive impact of democracy on growth is not expected to be instantaneous but we should allow these democratic institutions to mature, in order to have their full positive impact on the overall economy’s performance (Ceriani, 2011). On the other hand, looking at the coefficients of the interaction terms (PRIV*POLI) and (PRIV*CIVIL), we can conclude that the process of democratization has positively impacted on the correlation between growth and privatization, which is in line with our hypothesis. Several international indices validate the consolidation of democracy in Tunisia in terms of good governance and human rights. The country has many strong points working for a successful transition, a significant middle class, a strong educational system, committed civil society and elites and a valuable human capital, in addition, to a predisposition for political consensus and compromise (Dieane, 2013). According to the World Bank Database (2015), for a number of reasons, post-revolution Tunisia has been witnessing slow economic recovery but, in parallel and for the past three years, the Tunisian government has been implementing neo-liberal reform policies like the privatization of land, banks and construction enterprises (Ghorbani, 2015). Hence, these policies have impacted positively the Tunisian economy and we expect to more significant impacts in the coming years (as they do not incur instantaneous effects), given more mature democratic institutions and an encouraging environment to privatize.
Tunisia’s democratization will be highly beneficial for the country’s economy and its liberalization policies. El-Badawi and Makdisi’s (2011) maintain that countries achieving successful democratization will enjoy faster growth, compared to countries that experienced reversals or those that did not attempt to democratize. The evolution of the political and civil rights, during the process of transition to a democracy, will ultimately secure and enforce property rights which is an important determinant for a successful privatization program (North, 1993). Furthermore, a successful democratic transition will allow the country to create of an ideal environment for economic reform by limiting corruption, rent-seeking behavior and the development of a system of checks and balances (Dethier et al. 1999).
CHAPTER VI
CONCLUSION

This study tried to examine the impact of the Tunisian privatization programs on the country’s economic growth. We used time series, ordinary least squares (OLS) for our data running from 1990-2014 and after plotting the equation into the E-views software, our results showed a positive relationship between privatization and economic growth.

The regressions that followed studied the impact of some political and economic variables on the overall effect of privatization on economic performance, through the incorporation of interaction terms between privatization and foreign direct investment, debt or democratic institutions (civil liberties and political rights) to the model. The results showed that privatization was positively affecting growth rates through higher levels of FDI, especially given Tunisia’s weak domestic entrepreneurial circle. In addition, the Tunisian government effectively used the privatization programs to benefit to the macroeconomic performance of the country, rather to use this policy only as a cash machine to cover up its debt payments. However, this positive spillover was undermined by the presence of high levels of corruption, cooptation and unequal distribution of income which directed all the wealth generated exclusively to the regime. Further studies are needed in order to understand the privatizations’ benefits, in Tunisia, on economic development (especially the affect on income distribution).

When it comes to the democratization process, our results showed its positive impact on economic growth through the creation of an environment conducive to effectively privatize and generate gains. According to the World Bank, post-awakening
Tunisia is experiencing slow economic recovery; however, in the past three years, the government implemented several economic liberalization policies (including privatization transactions) and we expect to witness these policies’ significant positive impact on the Tunisian economy more explicitly in the coming years, as they do not incur instantaneous effects, given a more conducive environment to privatize.

Today, Tunisia is in the midst of reinventing its society and political system through transparent and fair distribution of prosperity, employment, security, social cohesion, enabling the poor and the inclusion of different political factions (Deane, 2013). This picture strengthens the idea of Tunisia’s bright future of achieving a successful democratic transition.
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