



# The Rebirth: Tunisia's potential development pathways to 2040

## Conclusion

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## Conclusion

The new administration tasked with redefining Tunisia's future trajectory faces numerous challenges, not least crafting a coherent development vision among the fragmented parties represented in Parliament. Tackling the macroeconomic challenges faced in the country will require great understanding, sacrifices and tough decisions by all Tunisians.

Tunisia shares many characteristics of an upper middle-income economy and has the potential for much more rapid economic growth. However, inclusive and sustainable growth has remained elusive in spite of the political gains made with the Freedom and Dignity Revolution.

The country's enormous potential has stagnated as a result of an opaque political and insider/outsider economic system that constrains opportunity and forces many into the informal and parallel economy. Tunisia lacks a clear development vision and orientation that can drive the allocation of scarce resources for the future. Meanwhile, challenges such as high unemployment rates — especially among university graduates — and regional inequalities persist.

Tunisia's poor economic performance is deeply rooted in its highly protective regulatory environment, the dominance of state-owned enterprises, outdated regulations and corrupt customs, lack of competition, inefficient agricultural system, problematic labour rules, and its constrained social and political space that promotes exclusion and inequalities. Collectively these impede greater productivity and growth.

With almost one-third of goods traded in the domestic market imported illegally because of high import taxes and poorly designed regulations, only a comprehensive review of regulations and customs practices can draw Tunisians back into the formal economic sector. Regional instability feeds off Tunisia's large shadow economy and the rampant smuggling in southern border towns such as Ben Guerdane. [1]

Our analysis indicates that none of the three policy options is available to Tunisia without better business regulation that introduces substantive competition, much more economic freedom, less corruption, improvements in primary and secondary education and an end to the distortions from energy and other subsidies.

Only once these are addressed will Tunisia attract more FDI, reduce poverty and inequality, and unlock its human capital potential for more rapid inclusive growth. To achieve this, the government has to promote more substantive democratic and accountability measures in political governance, as spelled out in the country's progressive constitution of 2014.

Tunisia finds itself at a crossroad that requires radical but necessary economic and socio-political reforms if it is to achieve inclusive development.

In summary:

**Opening the economy:** Tunisia needs to open up its economy with a series of policy reforms to level the playing field, improve competition and remove market barriers in the form of restrictive business regulations. This would significantly boost productivity and job creation to reduce unemployment, particularly in sectors such as services, where Tunisia has a comparative advantage. This transformation needs to happen alongside cuts in public spending, including a gradual rollback from the current subsidy system in favour of a more targeted social safety net programme for the most vulnerable and poor.

**Formulating a labour policy and addressing inequality:** The government of Tunisia needs to formulate a more coherent

labour policy to address gender bias and other social and economic inequalities in the country. In addition, a progressive labour policy augmented by a much less restrictive business environment, greater economic competition and an end to the multitude of state-owned enterprises would reduce the size of the informal sector and boost income tax revenues.

**Improving the quality of education:** Although educational attainment levels are relatively high, the country needs to ensure that gains made in the education system are not eroded. Apart from maintaining high enrolment levels, the quality and relevance of education from primary throughout the education pipeline is key to sustaining a robust economy.

**Managing natural resources and adapting to climate change:** Tunisia is already under water stress and will likely suffer water-related challenges in the future given the projected impacts of climate change. Proper and efficient use of water at the industry and household level is critical to mitigate these impacts.

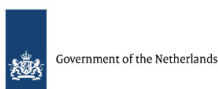
**Improving food security:** Tunisia needs a food security policy that does not undermine development of the agricultural sector. Moreover, it has the potential to improve agricultural yields and overall productivity through greater efficiency in the agricultural system. This can be achieved by strengthening institutional aspects such as investing in both soft and hard infrastructure (like land ownership, access to finance and transport systems).

Tunisia has the structural foundations needed to facilitate sustained and robust growth. It now needs to undertake comprehensive and deliberate reform to unlock economic growth and ensure the equitable distribution of opportunity for all Tunisians.

## Endnotes

1. S Quillen, *Informal economy presents Tunisia with thorny issue*, *The Arab Weekly*, 30 July 2017,

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## About the authors

Dr Jakkie Cilliers is the ISS's founder and former executive director of the ISS. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria office of the ISS. His 2017 best-seller *Fate of the Nation* addresses South Africa's futures from political, economic and social perspectives. His three most recent books, *Africa First! Igniting a Growth Revolution* (March 2020), *The Future of Africa: Challenges and Opportunities* (April 2021), and *Africa Tomorrow: Pathways to Prosperity* (June 2022) take a rigorous look at the continent as a whole.

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