

## Chapter 7

# The Impact of Corruption on Economic Growth in Tunisia: An Application of ARDL Approach

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### ABSTRACT

*This chapter aims to examine the impact of corruption on economic growth in Tunisia between the years 1998 and 2018. Using time series data to obtain relationships of an empirical nature. The processing of time series data starts with checking individual series, and ADF and Zivot and Andrews tests help identify variables' stationarity. The mixed order of integration levels recommends using ARDL to obtain the long-run relationships between the variables. The estimation results confirm that corruption demoralizes and discourages private investment in the short and long run. In both the long and short run, the indirect impact of corruption is negative and insignificant for public spending. However, the interaction between human capital and the corruption perception index is positive and insignificant in the short run but negative and significant in the long run.*

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## **1. INTRODUCTION**

Tunisia has undergone a democratic transition characterized by a peaceful succession of governments and numerous political parties ranging from Islamists to liberals to perceived freedom of expression. According to the Global Democracy Rankings Report (2015), Tunisia gained points on the democracy scale (+32 points) between 2010 and 2014. However, the influence of democracies on economic growth remains a matter of debate (Barro 1997). In fact, political instability, which external shocks have reinforced, has contributed to the country's economic difficulties and has revealed the extent to which many problems have worsened. In addition, contagious corruption remains among Tunisia's main complications and is costing the country about 4% of its GDP.

In 2017, Tunisia obtained a score of 42/100 and occupied 74th place out of 180 countries in the world. It has gained one point compared to 2016. But it lost 15 places between 2010 and 2017, the day before the fall of the supposedly very corrupt Ben Ali regime. In contrast, the country has supposedly become a democracy, a democracy more corrupt than a dictatorship.

In this index edition, Denmark and New Zealand shared the first position and recorded a high score of 90. Tunisia arrives, thus, at the head of the Maghreb countries since Morocco is ranked 81st (40 points), Algeria points to 112th place (33 points), Mauritania the 143rd place (28 points) and Libya the 171st place (17 points) but, Syria (178th), South Sudan (179th) and Somalia (180th) close the march of this TI index. Transparency International (2018).

On the other hand, according to Meddeb (2018), the percentage of citizens reporting that the level of corruption has increased “a lot” increased from 42% in 2015 to 55% in 2018, an increase of 13% in three years. In 2019, with a score of 43, Tunisia remained at a standstill on the CPI.

The ambiguous situation that occupied Tunisia in 2019 shows the extent of corruption that has plagued the country's machinery and public administrations, which operate in an uncontrolled environment. Mismanagement, waste and all types of smuggling and trafficking take place in the “black market” and are prevalent in all sectors. Corruption is a major problem facing humanity, destroying lives and communities, nations and institutions. It can also provoke popular anger, further destabilize society and fuel violent conflict.

The first section reviews the literature on the impact of corruption on economic growth. The second section presents the specification of the models and methodological issues. The third section provides a critical discussion of the empirical results. Finally, the “Conclusions” section summarizes the results and policy implications for future research.

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