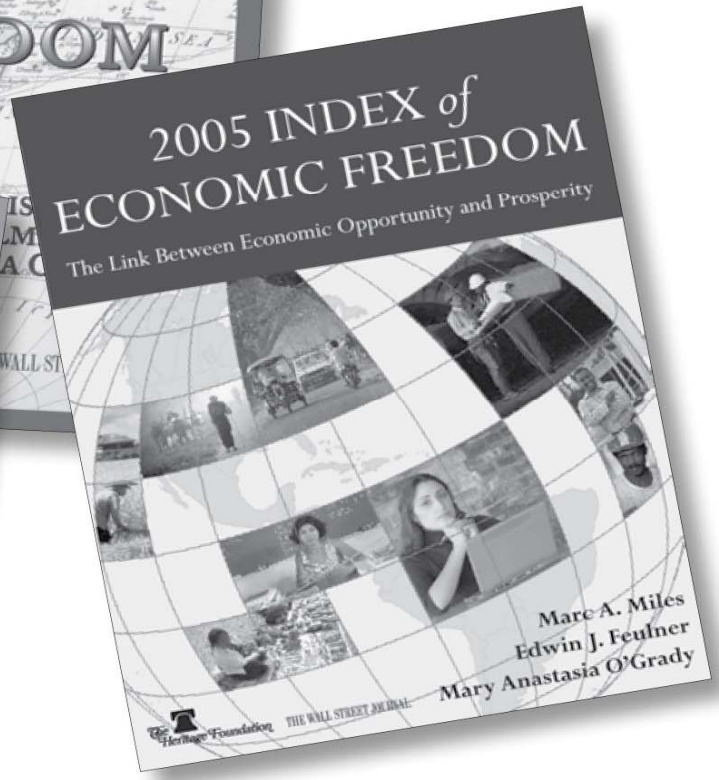
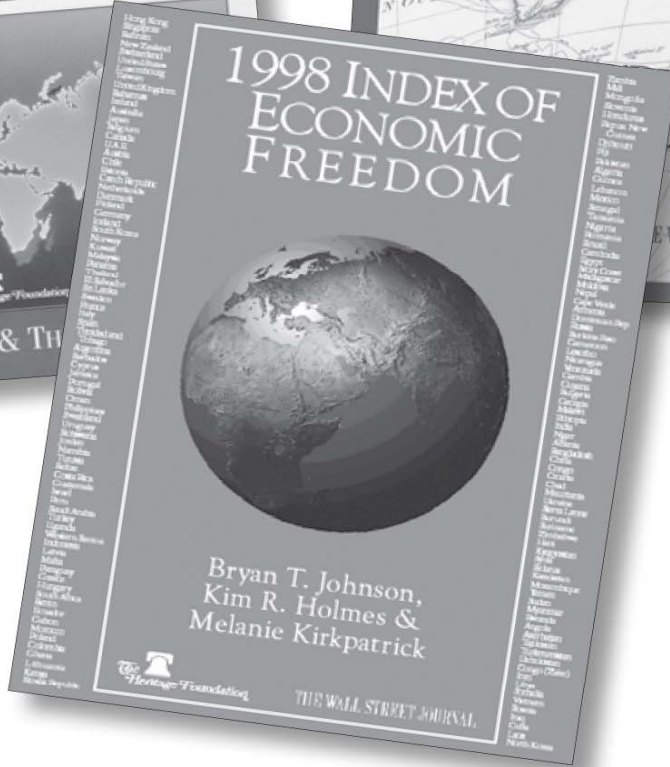
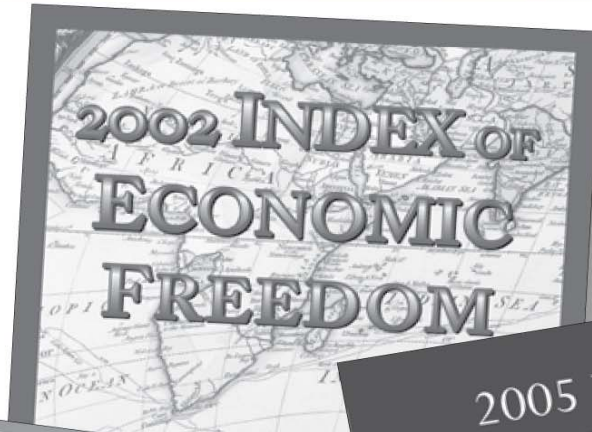
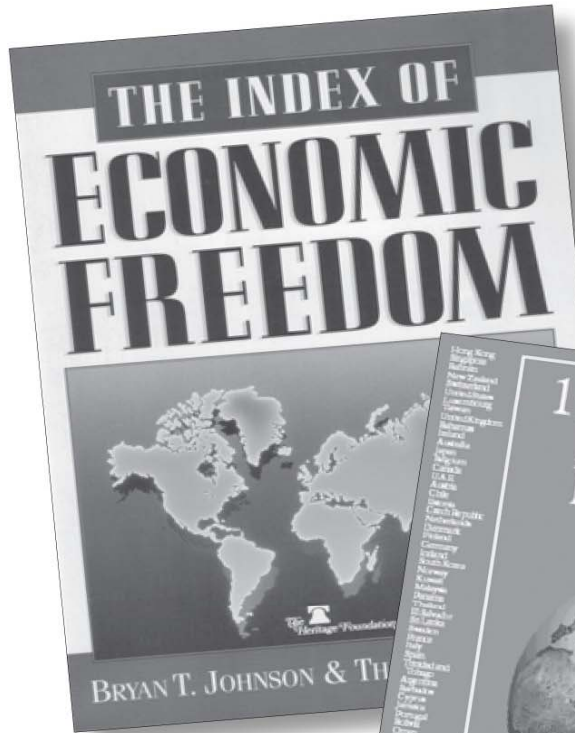


Economic Freedom and Tunisian Development

*Ambassador Terry Miller
Director
Center for International Trade and Economics
The Heritage Foundation*



Principles of Economic Freedom

1. Individual empowerment

- *Personal control of where to live and work*
- *Property rights*

2. Non-discrimination

- *No preferences based on race, gender, religion, or class*
- *Transparent decision-making*

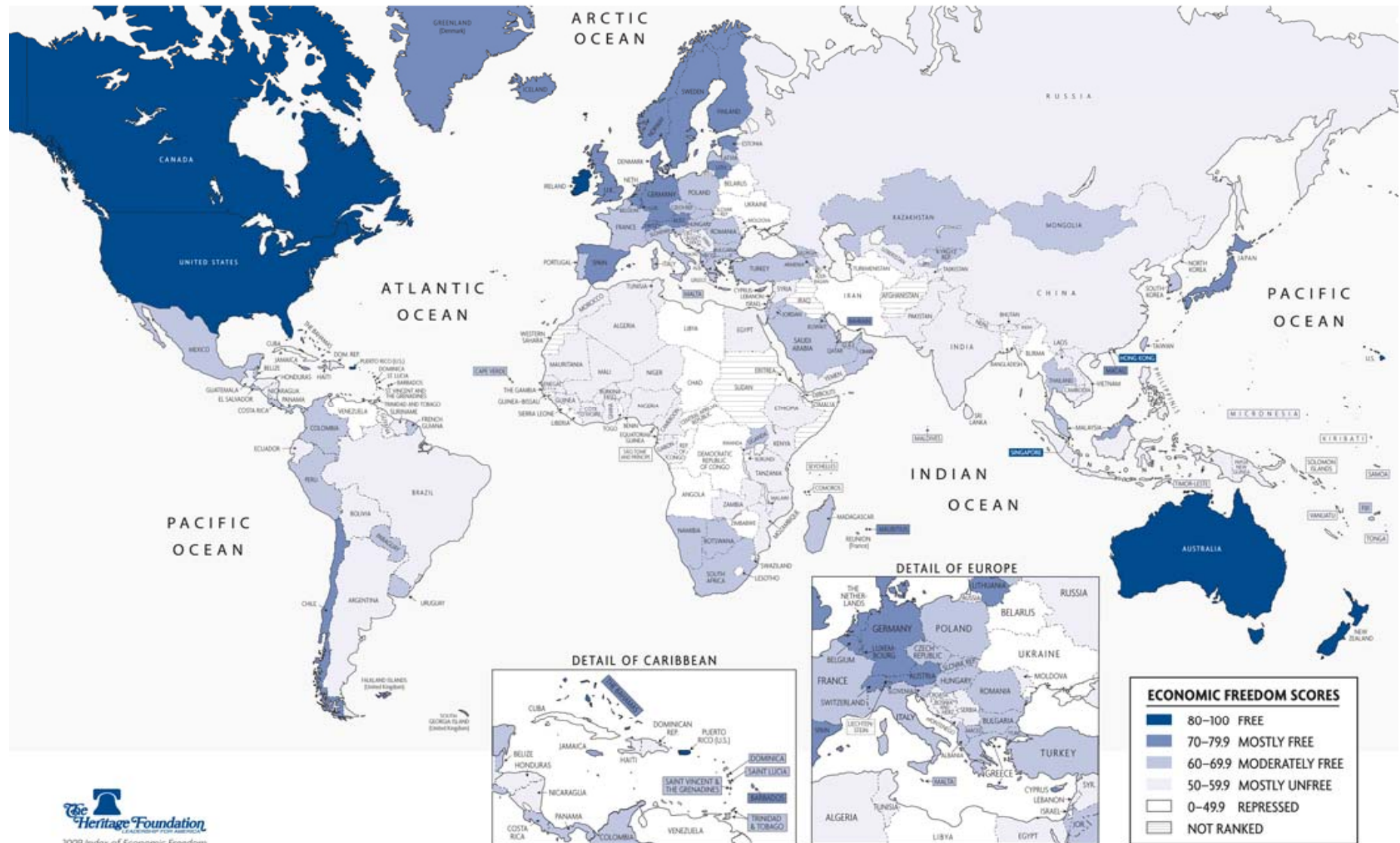
3. Dispersion of power

- *Foster competition*
- *Separation of political and economic power*

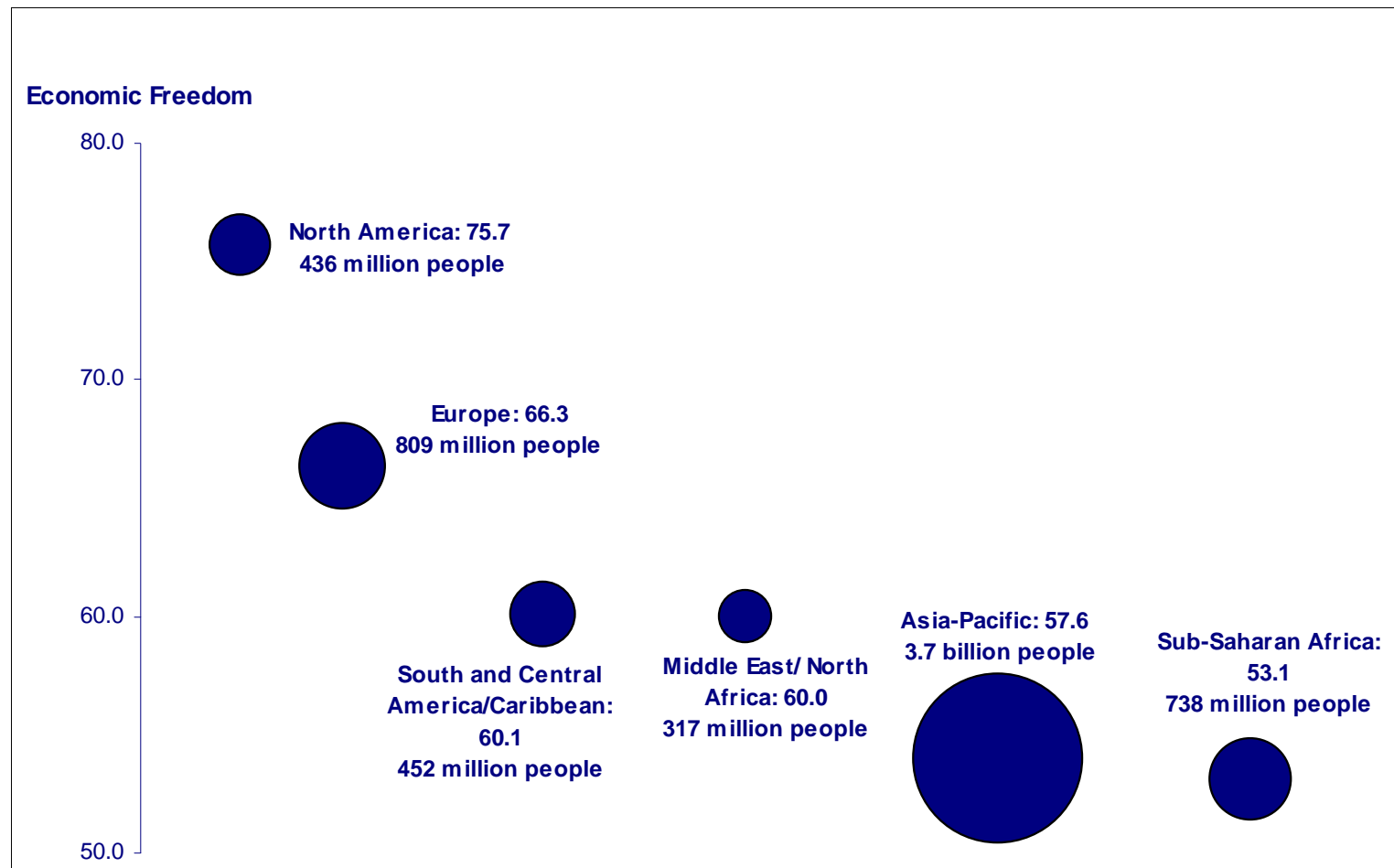
Measuring Economic Freedom

- 1. Business Freedom***
- 2. Trade Freedom***
- 3. Fiscal Freedom***
- 4. Government Size***
- 5. Monetary Freedom***
- 6. Investment Freedom***
- 7. Financial Freedom***
- 8. Property Rights***
- 9. Freedom from Corruption***
- 10. Labor Freedom***

DISTRIBUTION OF ECONOMIC FREEDOM



Economic Freedom by Region



Sources: Terry Miller and Kim R. Holmes, 2009 *Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2009), at www.heritage.org/index; International Monetary Fund, World Economic Outlook database, April 2007, at <http://www.imf.org/external/pubs/ft/weo/2008/01/weodata/index.aspx>; World Bank, World Development Indicators Online, at publications.worldbank.org/subscriptions/WDI (subscription required);

Which Countries Enjoy More Economic Freedom?

Top 10

1. Hong Kong
2. Singapore
3. Australia
4. Ireland
5. New Zealand
6. United States
7. Canada
8. Denmark
9. Switzerland
10. United Kingdom

Bottom 10

179. North Korea
178. Zimbabwe
177. Cuba
176. Burma
175. Eritrea
174. Venezuela
173. Dem. Rep. of Congo
172. Comoros
171. Libya
170. Sao Tome & Principe

98. Tunisia



World Rank: 98

Regional Rank: 11

Tunisia's economic freedom score is 58, making its economy the 98th freest in the 2009 *Index*. Its score is 2.1 points lower than last year, reflecting decreased scores in three of the 10 economic freedoms. Tunisia is ranked 11th out of 17 countries in the Middle East/North Africa region, and its overall score is just below the world average.

Tunisia has pursued economic reforms aimed at maintaining a prudent macroeconomic framework, liberalizing domestic prices and controls, and reducing the public sector's role in economic activity. However, progress has been mixed.

Tunisia scores well in business freedom and government size. Regulation has become more efficient and streamlined. Property rights are largely respected even though the executive branch is the supreme arbiter. Tunisia scores low in trade freedom and investment freedom. Excessively high tariffs, import restrictions, and licensing requirements limit trade freedom. Protectionist investment policies and cumbersome bureaucracy stifle foreign investment. Inflation remains moderate, but the state can set prices in some circumstances. Income and corporate tax rates remain burdensome despite a tax cut in 2007. The financial sector is subject to political influence, and corruption remains significant.

BACKGROUND President Zine al-Abidine Ben Ali has undertaken gradual free-market economic reforms, including privatization of state-owned firms, simplification of the tax code, and more prudent fiscal restraint, since the early 1990s. The economy includes significant agricultural, mining, energy, tourism, and manufacturing sectors. Tunisia's 1993 association agreement with the European Union, which has helped to create jobs and modernize the economy, was the first such agreement between the EU and a Maghreb country. The economy has also benefited from expanded trade and tourism. The political system has been dominated by a single party since independence, and Tunisia has had only two presidents in 50 years. Progress toward democracy and greater respect for human rights and civil liberties has been slow.

How Do We Measure Economic Freedom?

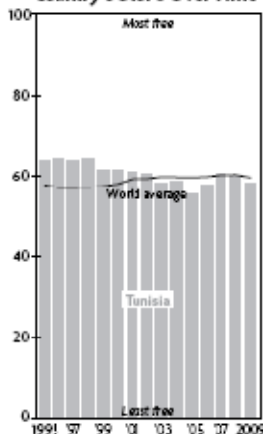
See the appendix (page 441) for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

TUNISIA

Economic Freedom Score



Country's Score Over Time

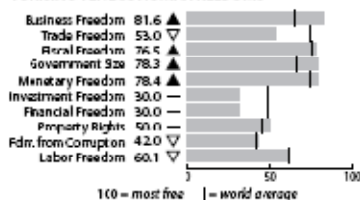


Quick Facts

- Population: 10.1 million
- GDP (PPP): \$69.5 billion
- 5.5% growth in 2006
- 4.5% 3-year compound annual growth
- \$6,862 per capita
- Unemployment: 14.1%
- Inflation (CPI): 2.1%
- FDI inflow: \$3.3 billion

2006 data unless otherwise noted

TUNISIA'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 81.6

The overall freedom to conduct a business is relatively well protected under Tunisia's regulatory environment. Starting a business takes 11 days, compared to the world average of 38 days. Obtaining a business license takes much less than the world average of 225 days, but costs are fairly high. Bankruptcy proceedings are easy and straightforward.

TRADE FREEDOM — 53

Tunisia's weighted average tariff rate was 18.5 percent in 2005. Import restrictions, some prohibitively high tariffs, import taxes and fees, some import licensing requirements, export promotion programs, and inconsistent customs administration add to the cost of trade. Ten points were deducted from Tunisia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 76.5

Tunisia has burdensome tax rates. The top income tax rate is 30 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a vehicle tax. In the most recent year, overall tax revenue as a percentage of GDP was 14.9 percent. Attempts to broaden the tax base were abandoned because of growing social unrest over rising food and fuel prices.

GOVERNMENT SIZE — 78.3

Total government expenditures, including consumption and transfer payments, is moderate. In the most recent year, government spending equaled 26.9 percent of GDP. Despite strong infrastructure, privatization has been sluggish. Nine enterprises were privatized in 2007. The state retains a large role in economic activity and raised food and energy subsidies in 2008.

MONETARY FREEDOM — 78.4

Inflation is moderate, averaging 3.4 percent between 2005 and 2007. The government can set prices for subsidized goods and influences prices through regulation, subsidies, and state-owned utilities and enterprises. Ten points were deducted from Tunisia's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 30

Tunisia restricts foreign investment in some sectors to minimize the impact on domestic competitors. Foreign

investment is screened. Investments in non-tourism onshore companies with a capital share larger than 49 percent require government authorization. In general, domestic trading can be carried out only by a company in which the majority of the share capital is held by Tunisians and management is Tunisian. Bureaucratic procedures are cumbersome and inconsistent. Residents and non-residents may hold foreign exchange accounts, subject to restrictions and approval. There are some controls, quantitative limits and other restrictions on payments and transfers. Capital transactions are subject to many restrictions and controls. Foreigners may not own agricultural land.

FINANCIAL FREEDOM — 30

Financial supervision and regulation have been brought up to international standards, but the financial sector remains underdeveloped. The government maintains firm control of the three largest banks. Banking remains burdened by a high level of non-performing loans. Five banks control 70 percent of deposits. The government sold its stake in two banks in 2002 and 2005 but remains the controlling shareholder in at least four other banks that control 50 percent of assets. State-mandated lending and the legal difficulty of dealing with creditors have hurt financial development. Capital markets are small and dominated by government securities. Tunisia's stock exchange has become more active in recent years with increased foreign participation.

PROPERTY RIGHTS — 50

The executive branch is the supreme arbiter of events in the cabinet, government, judiciary, and military. Commercial cases take a long time to resolve, and legal procedures are complex. Tunisia's intellectual property rights law is designed to meet the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPS) minimum standards. Customs agents do not investigate copyright violations without a complaint by the copyright holder. Pirated print, audio, and video media products are sold openly. Illegal copying of software, CDs, and DVDs is widespread.

FREEDOM FROM CORRUPTION — 42

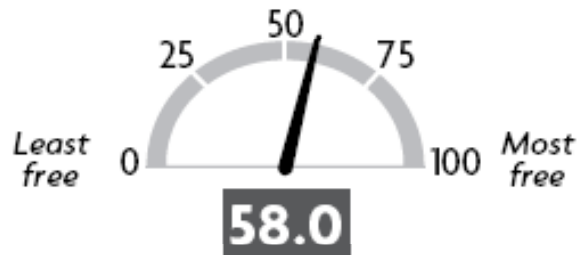
Corruption is perceived as significant. Tunisia ranks 61st out of 179 countries in Transparency International's Corruption Perceptions Index for 2007. Corruption is less pervasive than in neighboring countries. There are reports that unfair practices and corruption among prospective local partners can delay or block specific investment proposals and that cronyism and influence peddling affect investment decisions. There are no laws to provide government documents to citizens.

LABOR FREEDOM — 60.1

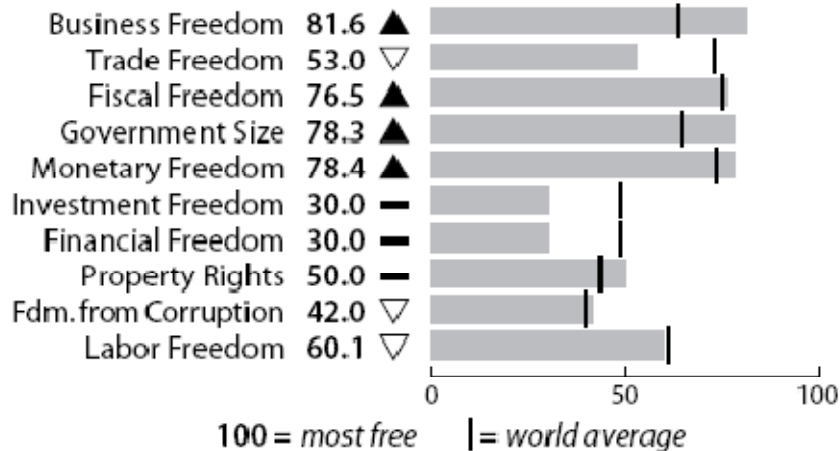
Tunisia's relatively rigid labor regulations hinder overall employment and productivity growth. The non-salary cost of employing a worker is high, and the difficulty of hiring a worker creates a disincentive for additional hiring.

Tunisia's Economic Freedom

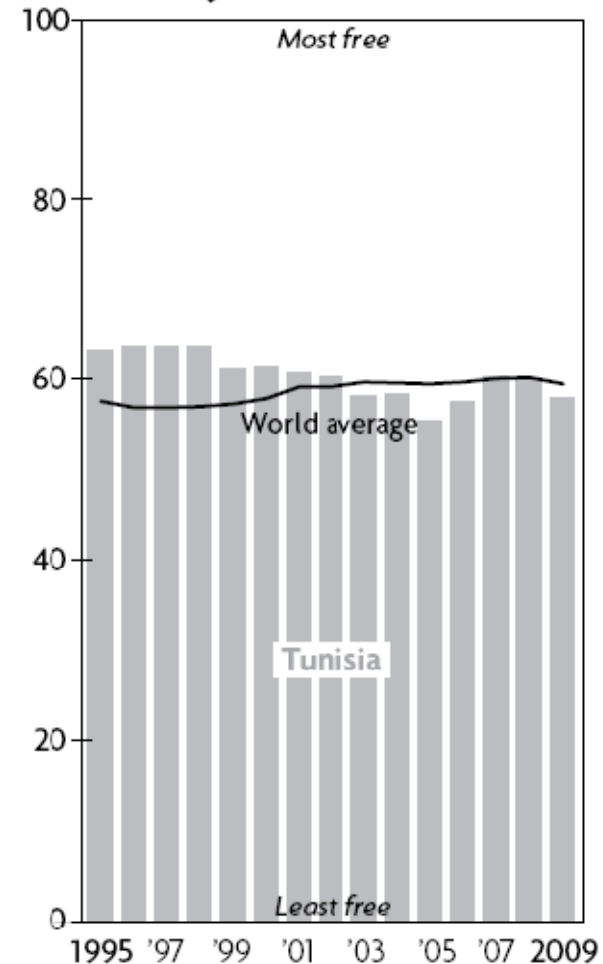
Economic Freedom Score



TUNISIA'S TEN ECONOMIC FREEDOMS



Country's Score Over Time



World Rank: **98**

Regional Rank: **11**

Economic Freedom in Tunisia

Notable Gains

- “...a prudent macroeconomic framework”
- Regulation “more efficient and streamlined”
- Reforms “liberalizing domestic prices and controls”
- Reduced public sector role in economic activity
- Property rights “largely respected”

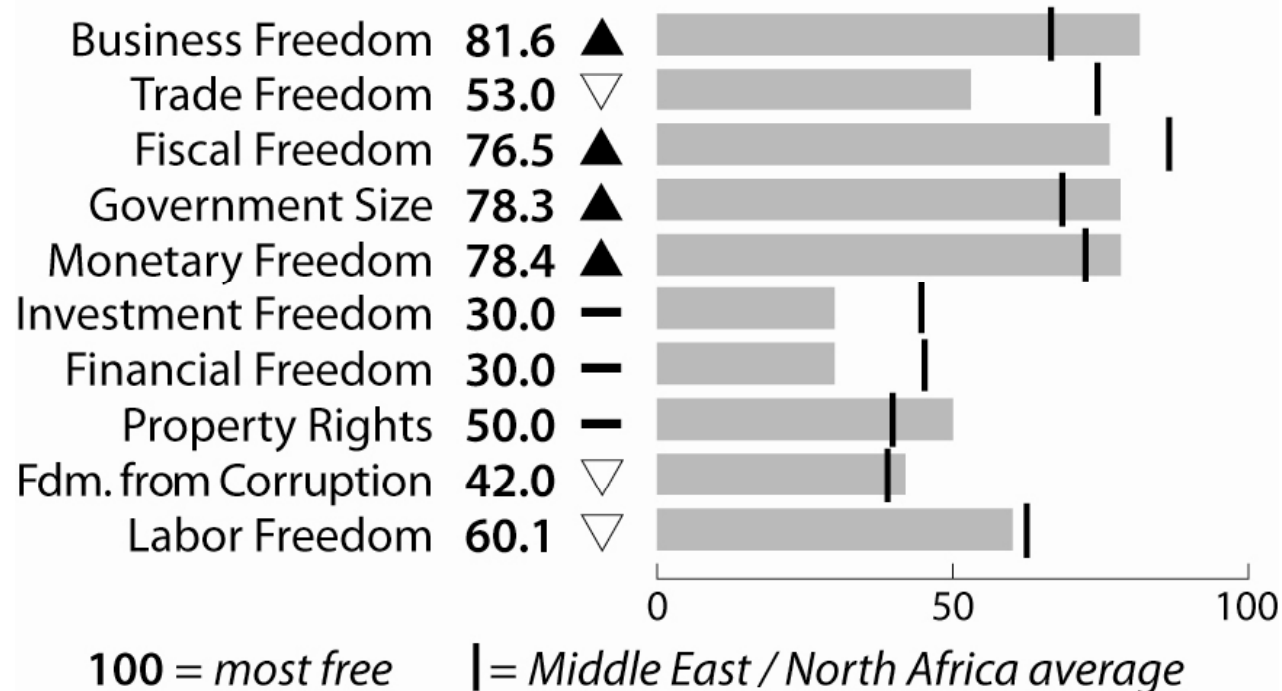
Economic Freedom in Tunisia

Areas of Concern

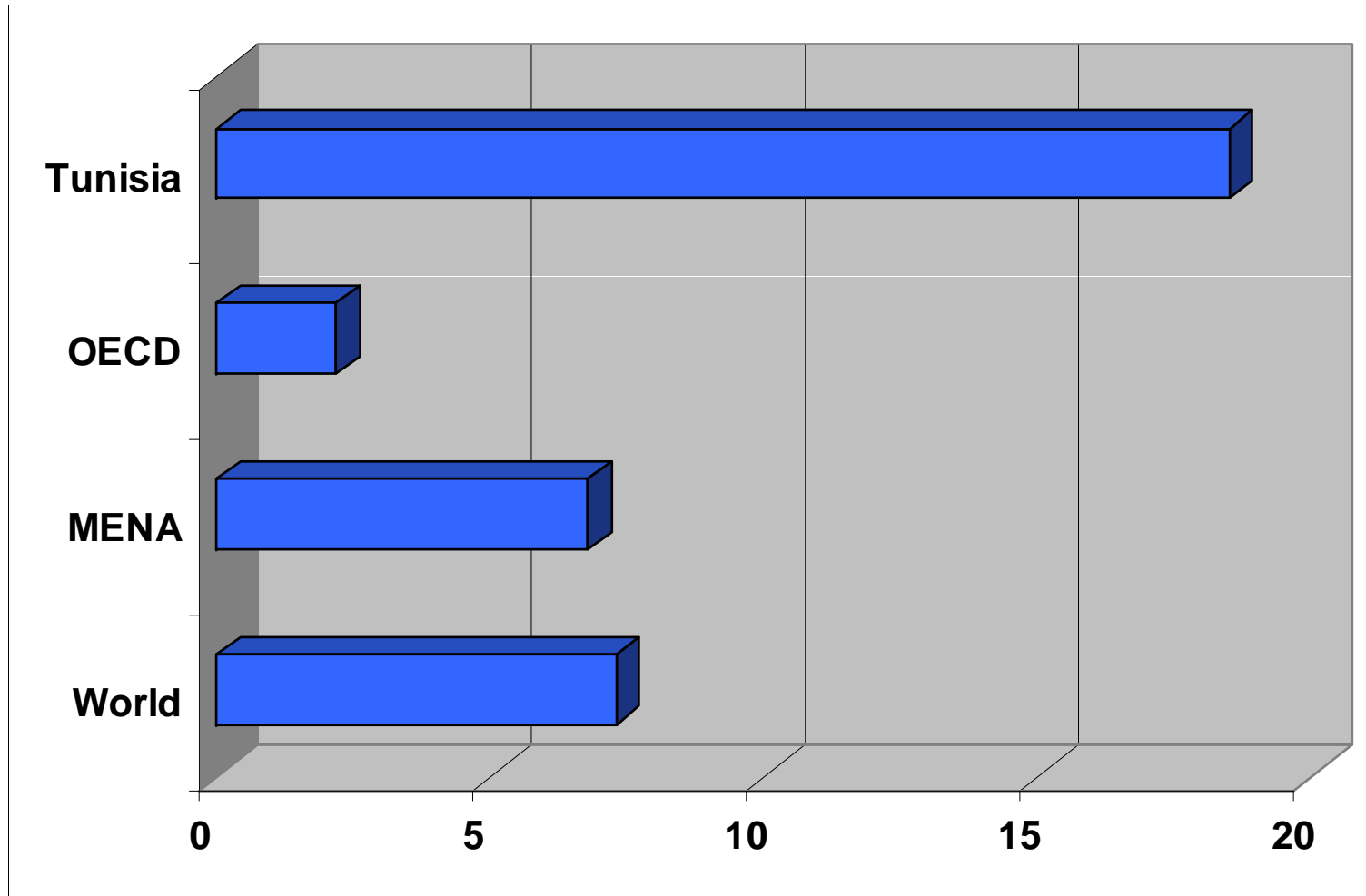
- “...excessively high tariffs”
- “...protectionist investment policies”
- “...tax rates remain burdensome”
- Financial sector “subject to political influence”
- Corruption remains “significant”

Tunisia and the Middle East/North Africa

TUNISIA'S TEN ECONOMIC FREEDOMS



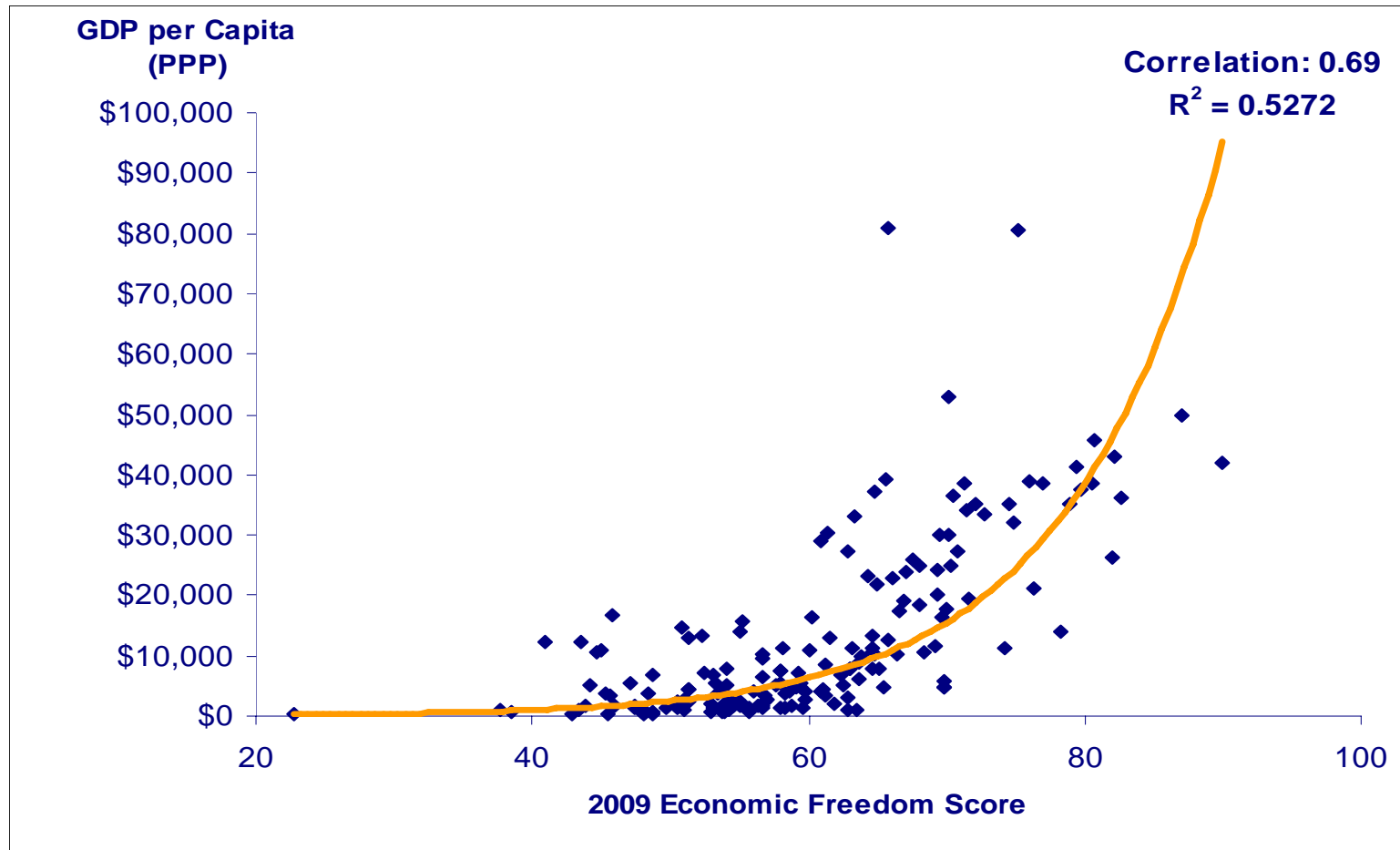
Average Weighted Tariff Rates in 2009



Economic Freedom Matters

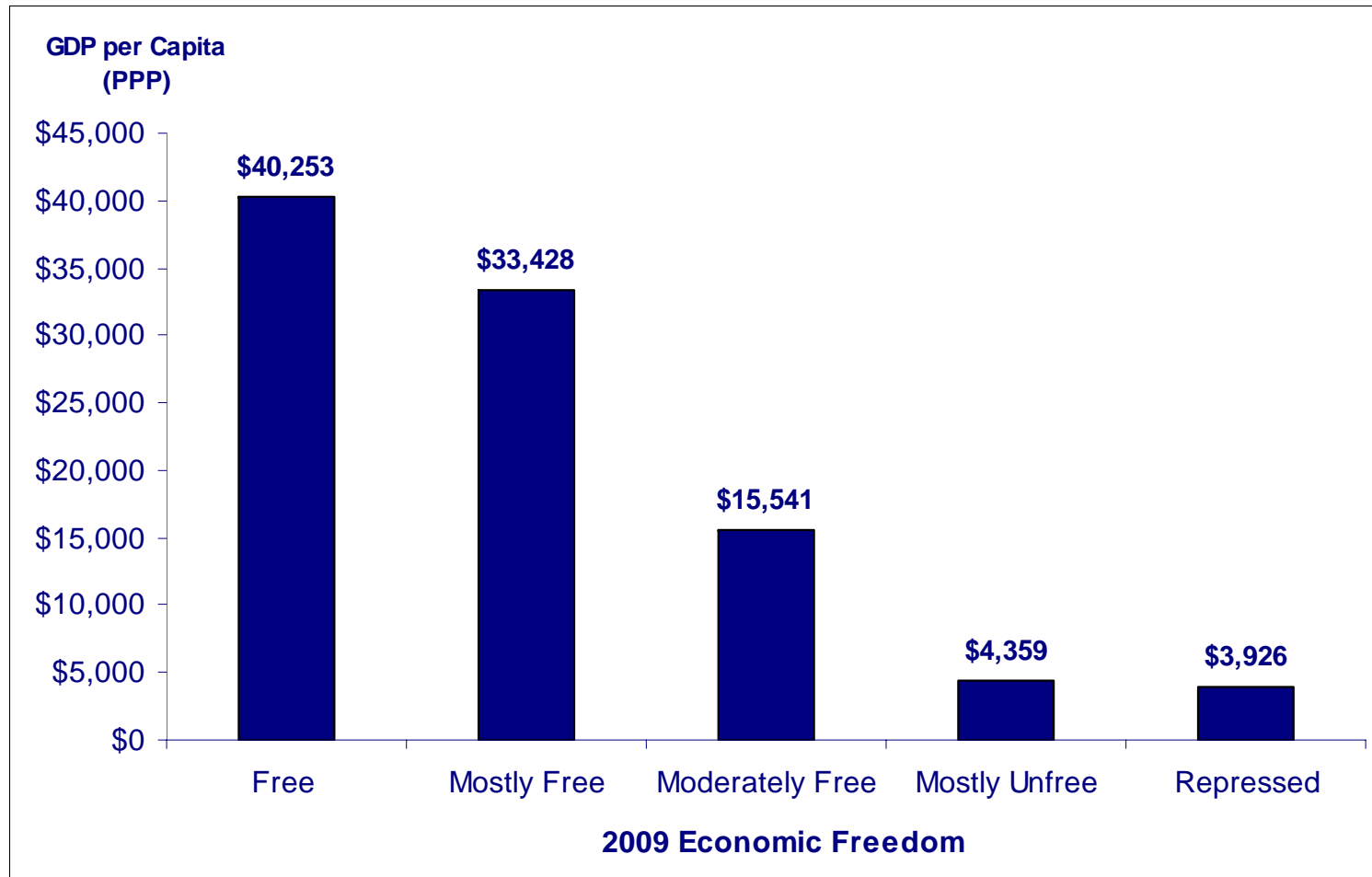
- *Prosperity*
- *Democracy*
- *Human Development*
- *Reducing Poverty*
- *Environmental Protection*

Economic Freedom is Key to Prosperity



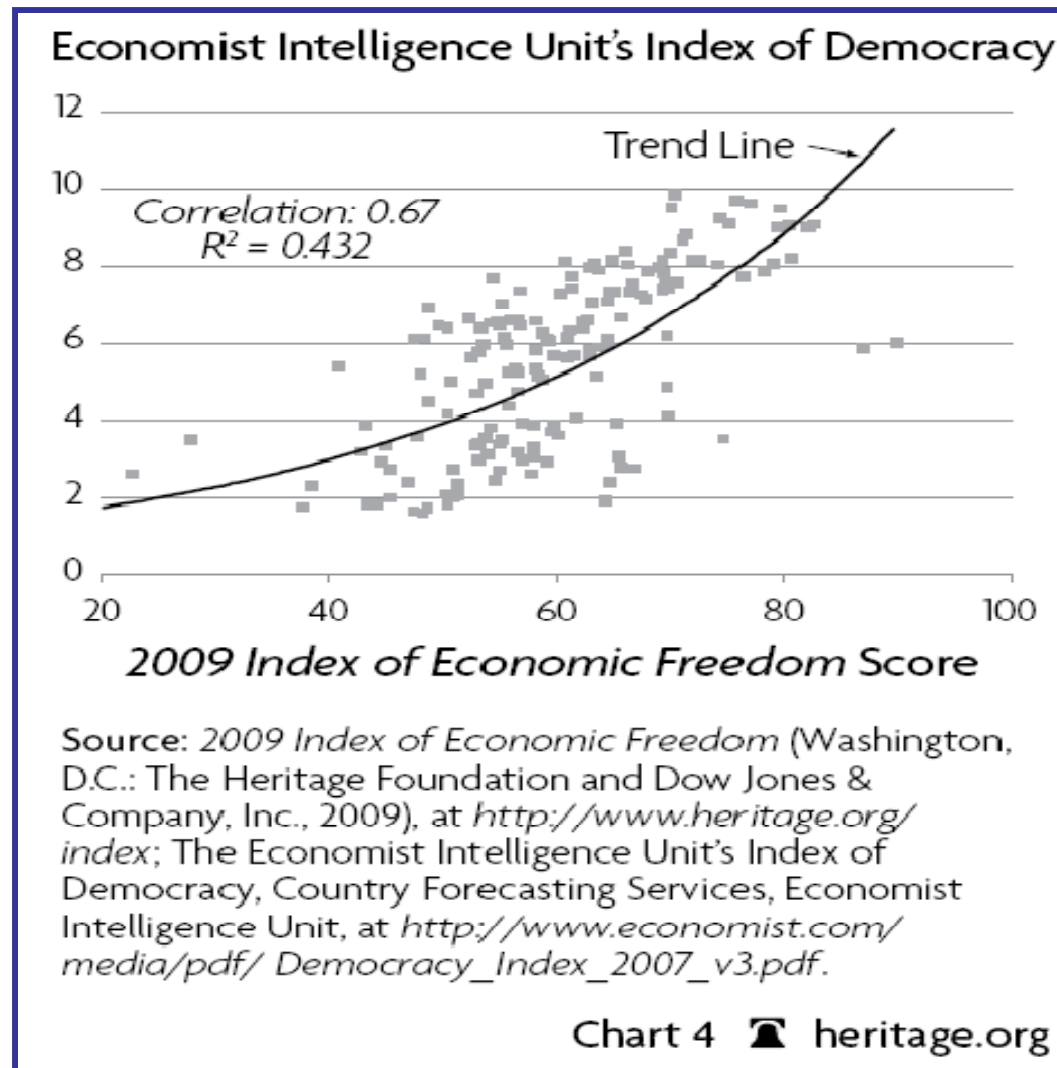
Sources: Terry Miller and Kim R. Holmes, 2009 *Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2009), at www.heritage.org/index; International Monetary Fund, World Economic Outlook database, April 2007, at <http://www.imf.org/external/pubs/ft/weo/2008/01/weodata/index.aspx>

The Greater Economic Freedom, The Higher Standard of Living

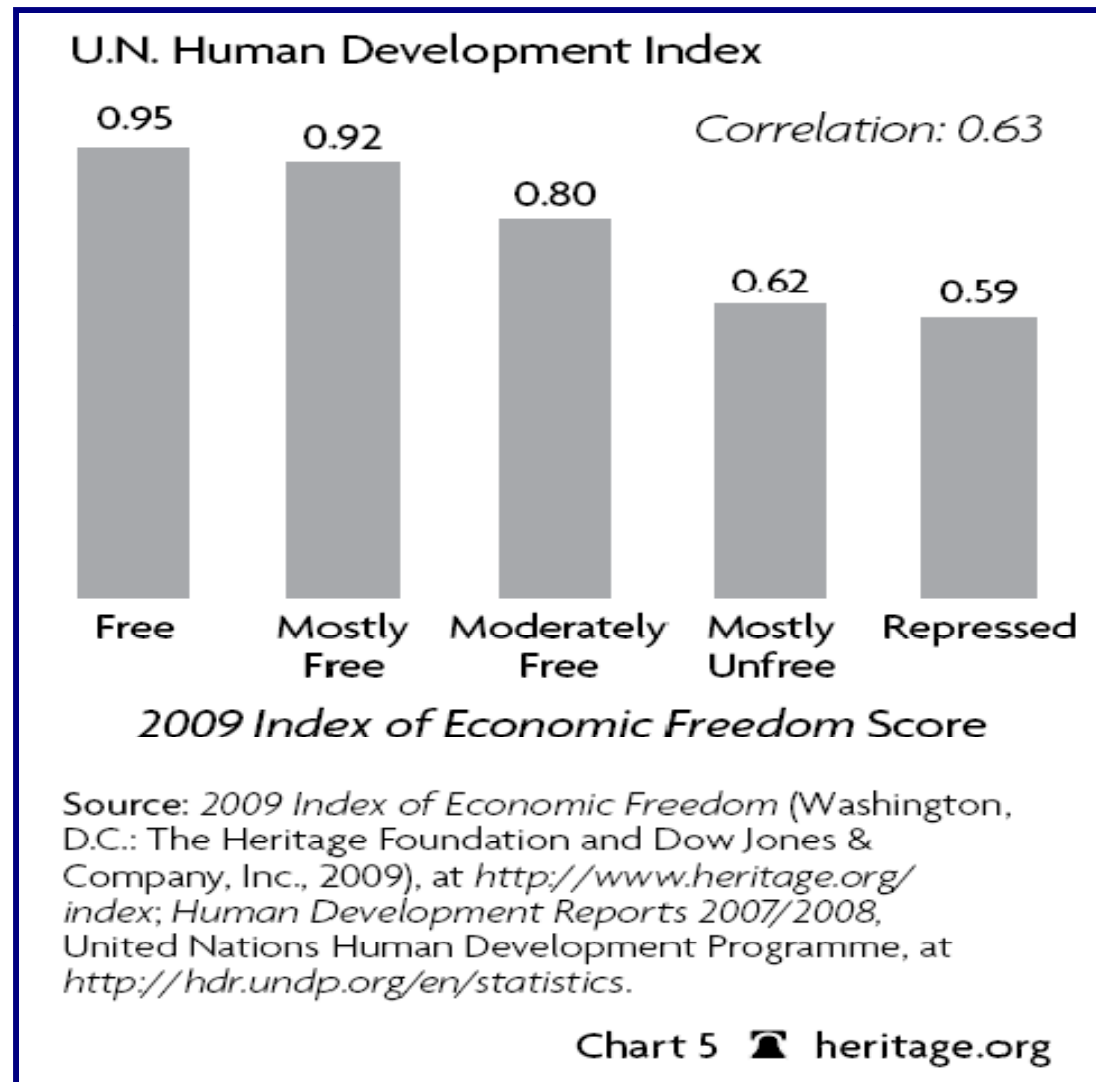


Sources: Terry Miller and Kim R. Holmes, 2009 *Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2009), at www.heritage.org/index; International Monetary Fund, World Economic Outlook database, April 2007, at <http://www.imf.org/external/pubs/ft/weo/2008/01/weodata/index.aspx>

Economic Freedom Promotes Democracy



Economic Freedom Promotes Human Development



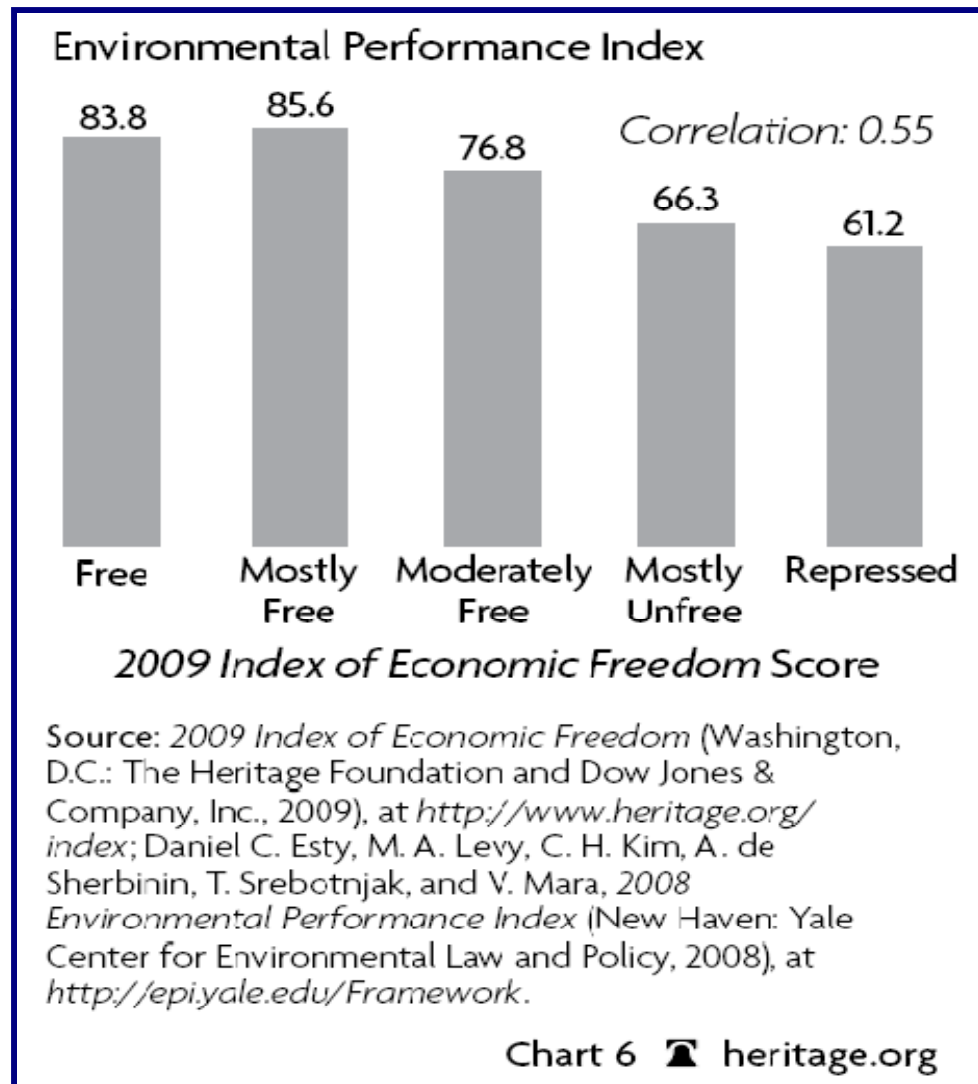
Economic Freedom Reduces Poverty

Human Poverty Index (HPI)	1997	2007/ 2008	Change in the Percentage of the Population in Poverty
All countries	31.3	26.6	-4.7
Countries that <i>gained</i> economic freedom	33.0	28.0	-5.0
Countries that <i>lost</i> economic freedom	27.3	23.4	-3.9
Countries that <i>gained at least 5 points</i> of economic freedom	35.5	29.7	-5.8
Countries that <i>lost at least 5 points</i> of economic freedom	23.3	23.7	0.4

* A negative change reflects a decrease in poverty.

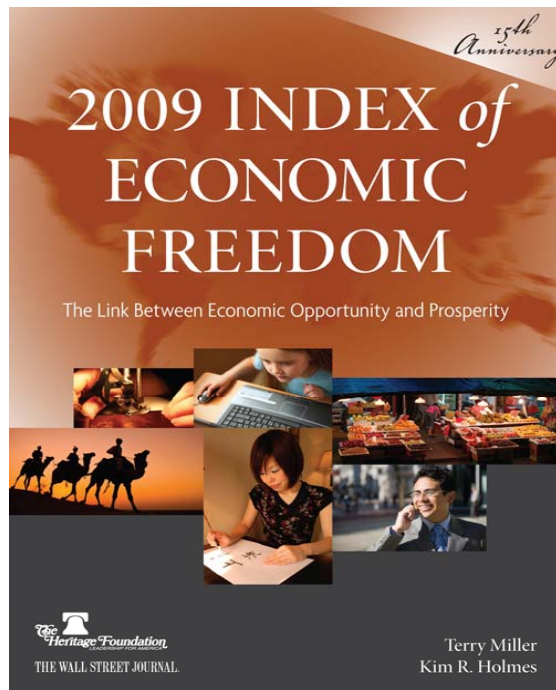
Table 2  heritage.org

Economic Freedom Promotes a Clean Environment



Good Corporate Governance Promotes Economic Freedom

- ***IACE Code of Best Practice***
 - ***Disperse Power***
 - ***CEO separate from Chairman of board***
 - ***Minority shareholder rights***
 - ***No interlocking Directorates***
 - ***Transparency***
 - ***Employees' rights***
- ***Principles of Economic Freedom***
 - ***Individual empowerment***
 - ***Transparency***
 - ***Competition***



www.heritage.org/index