



EU-GCC Dialogue on Economic Diversification

A Project funded by the European Union

GCC countries – Economic Freedom 2020 Annual report rankings



A project implemented by
GFA Consulting Group GmbH
Centre for European Policy studies
DMI Associates



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The Economic Freedom Index:

Role in policymaking

- The index published in *Economic Freedom of the World* measures the degree to which the policies and institutions of countries are supportive of economic freedom.
- The cornerstones of economic freedom are personal choice, voluntary exchange, freedom to enter markets and compete, and security of the person and privately owned property. Economic freedom is based on the concept of self-ownership. Because of this self-ownership, individuals have a right to choose—to decide how to use their time and talents to shape their lives. When economic freedom is present, the choices of individuals will decide what and how goods and services are produced.
- Since the first publication in 1996, numerous studies have used the data published in *Economic Freedom of the World* to examine the impact of economic freedom on investment, economic growth, income levels, and poverty rates. Virtually without exception, these studies have found that countries with institutions and policies more consistent with economic freedom have higher investment rates, more rapid economic growth, higher income levels, and a more rapid reduction in poverty rates.

Source: Economic Freedom of the World Annual Report 2020

Index methodology

The construction of the EFW index is based on three important methodological principles.

1. Objective components are preferred to those that involve surveys or value judgments. With that said, given the multi-dimensional nature of economic freedom and the importance of legal and regulatory elements, it is sometimes necessary to use data based on surveys, expert panels, and generic case studies.
2. The data used to construct the index ratings are from external sources such as the International Monetary Fund, World Bank, and World Economic Forum that provide data for a large number of countries. Data provided directly from a source within a country are rarely used.
3. Transparency is present throughout. The report provides information about the data sources, the methodology used to transform raw data into component ratings, and how the component ratings are used to construct both the area and summary ratings.

Source: Economic Freedom of the World Annual Report 2020

Framework of the Economic Freedom Index 2020

- The index measures the degree of economic freedom present in five major areas: Size of Government, Legal System and Property Rights, Sound Money, Freedom to Trade Internationally, and Regulation of credit, labor, and business.
 1. Size of Government focuses on how government expenditures and tax rates affect economic freedom. Taken together, the five components of Area 1 measure the degree to which a country relies on personal choice and markets rather than government budgets and political decision-making.
 2. Legal System and Property Rights focuses on the importance of the legal system as a determinant of economic freedom. Protection of persons and their rightfully acquired property is a central element of economic freedom.
 3. Sound Money focuses on the importance of money and relative price stability in the exchange process. Sound money—money with relatively stable purchasing power across time—reduces transaction costs and facilitates exchange, thereby promoting economic freedom.
 4. Freedom to Trade Internationally focuses on exchange across national boundaries. This area measures a wide variety of trade restrictions: tariffs, quotas, hidden administrative restraints, and controls on exchange rates and the movement of capital.
 5. Regulation measures how regulations that restrict entry into markets and interfere with the freedom to engage in voluntary exchange reduce economic freedom.
- Within the five major areas, there are 24 components in the index. Many of the components are themselves made up of several sub-components.
- In total, the index incorporates 42 distinct variables. Each component (and sub-component) is placed on a scale from 0 to 10 that reflects the distribution of the underlying data.
- The study includes 162 countries.

Economic Freedom Index measures

1. Size of Government

- A. Government consumption
- B. Transfers and subsidies
- C. Government investment
- D. Top marginal tax rate
 - (i) Top marginal income tax rate
 - (ii) Top marginal income and payroll tax rate
- E. State ownership of assets

2. Legal System and Property Rights

- A. Judicial independence
- B. Impartial courts
- C. Protection of property rights
- D. Military interference in rule of law and politics
- E. Integrity of the legal system
- F. Legal enforcement of contracts
- G. Regulatory restrictions on sale of real property
- H. Reliability of police

3. Sound Money

- A. Money growth
- B. Standard deviation of inflation
- C. Inflation: most recent year
- D. Freedom to own foreign currency bank accounts

4. Freedom to Trade Internationally

- A. Tariffs
 - (i) Revenue from trade taxes (% of trade sector)
 - (ii) Mean tariff rate
 - (iii) Standard deviation of tariff rates
- B. Regulatory trade barriers
 - (i) Non-tariff trade barriers
 - (ii) Compliance cost of importing and exporting
- C. Black-market exchange rates
- D. Controls of the movement of capital and people
 - (i) Financial openness
 - (ii) Capital controls
 - (iii) Freedom of foreigners to visit

5. Regulation of credit, labour, and business

- A. Credit Market regulations
 - (i) Ownership of banks
 - (ii) Private sector credit
 - (iii) Interest rate controls / negative real interest rates
- B. Labor Market regulations
 - (i) Hiring regulations and minimum wage
 - (ii) Hiring and firing regulations
 - (iii) Centralized collective bargaining
 - (iv) Hours regulations
 - (v) Mandated cost of worker dismissal
 - (vi) Conscription
- C. Business regulations
 - (i) Administrative requirements
 - (ii) Bureaucracy costs
 - (iii) Starting a business
 - (iv) Impartial public administration
 - (v) Licensing restrictions
 - (vi) Cost of tax compliance

Economic Freedom ranking comparison across GCC countries

Highlighted in green are the highest rankings across GCC countries for each index area.

Index major areas	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
Size of Government	79	125	147	129	156	139
Legal System & Property Rights	95	87	58	61	101	69
Sound Money	67	99	87	96	80	75
Freedom to Trade Internationally	73	77	40	56	91	34
Regulation of credit, labour, and business	52	98	109	84	112	60

Source: Fraser Institute Economic Freedom dataset <https://www.fraserinstitute.org/economic-freedom/dataset?geozone=world&page=dataset&min-year=2&max-year=0&filter=0>

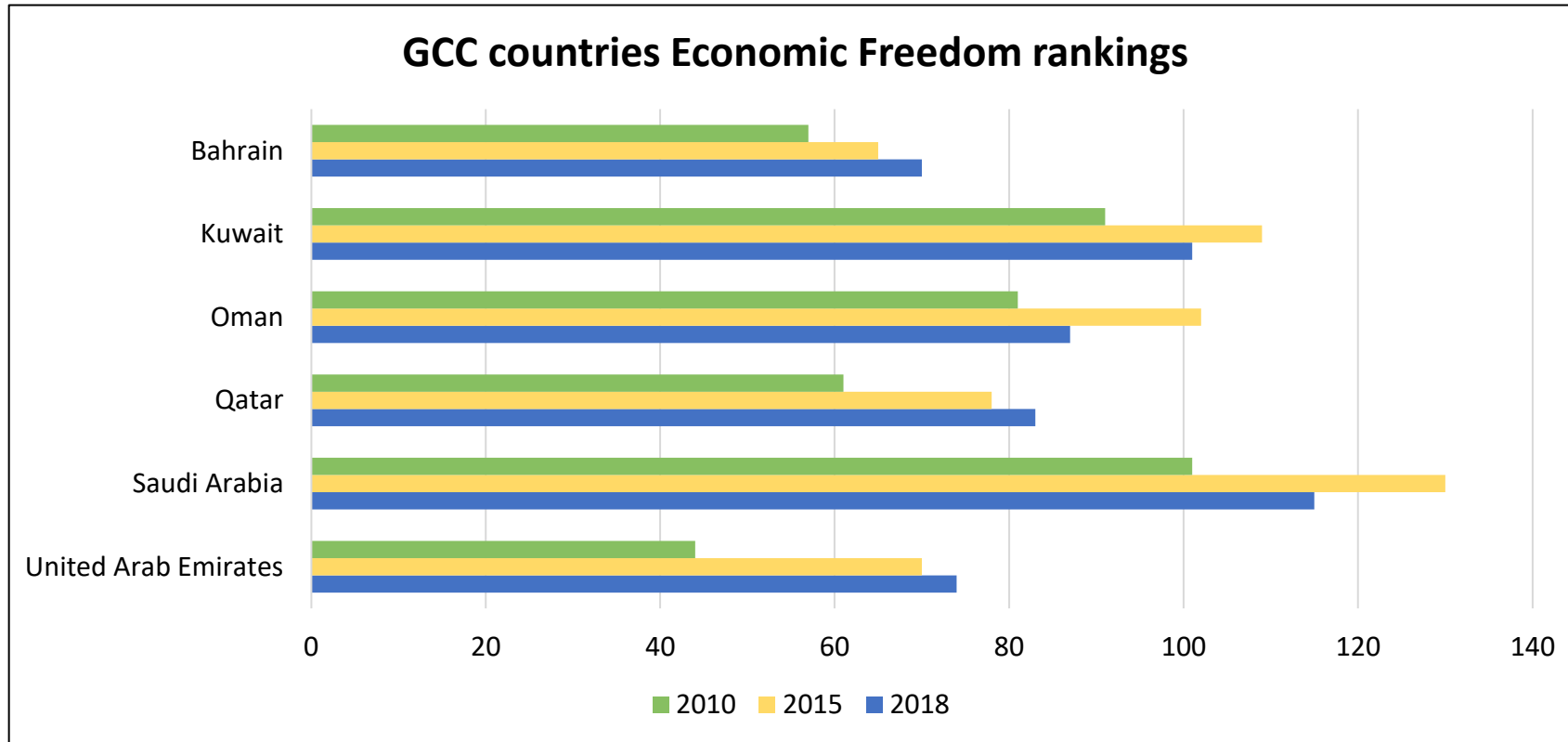
Economic Freedom ranking – Regulation of credit, labour and business

Highlighted in yellow are the highest rankings across GCC countries.

Component and sub-components	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
Regulation of credit, labour, and business	52	98	109	84	112	60
Credit market regulations <ul style="list-style-type: none"> • Ownership of banks • Private sector credit • Interest rate controls/negative real interest rates) 	116	62	146	122	142	113
Labor market regulations <ul style="list-style-type: none"> • Hiring regulations and minimum wage • Hiring and firing regulations • Centralized collective bargaining • Hours Regulations • Mandated cost of worker dismissal • Conscription 	24	120	71	101	55	69
Business regulations <ul style="list-style-type: none"> • Administrative requirements • Regulatory Burden • Starting a business • Impartial Public Administration • Licensing restrictions • Tax compliance 	42	107	36	30	81	27

Source: Frasier Institute Economic Freedom dataset <https://www.fraserinstitute.org/economic-freedom/dataset?geozone=world&page=dataset&min-year=2&max-year=0&filter=0>

Economic Freedom Index trends



Source: Fraser Institute Economic Freedom dataset <https://www.fraserinstitute.org/economic-freedom/dataset?geozone=world&page=dataset&min-year=2&max-year=0&filter=0>

Key areas where EU can support the GCC economic diversification processes

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
Freedom to Trade Internationally	Regulatory trade barriers <ul style="list-style-type: none"> • Non-tariff trade barriers • Compliance cost of importing and exporting 	Regulatory trade barriers <ul style="list-style-type: none"> • Non-tariff trade barriers • Compliance cost of importing and exporting Financial openness	Regulatory trade barriers <ul style="list-style-type: none"> • Non-tariff trade barriers • Compliance cost of importing and exporting 	Regulatory trade barriers <ul style="list-style-type: none"> • Non-tariff trade barriers • Compliance cost of importing and exporting 	Regulatory trade barriers <ul style="list-style-type: none"> • Non-tariff trade barriers • Compliance cost of importing and exporting Financial openness	Regulatory trade barriers <ul style="list-style-type: none"> • Non-tariff trade barriers • Compliance cost of importing and exporting
Regulation of credit, labour, and business	Labor Market regulations: <ul style="list-style-type: none"> • Hiring regulations and minimum wage • Hiring and firing regulations Business regulations - Administrative requirements	Labor Market regulations: <ul style="list-style-type: none"> - Hiring and firing regulations Business regulations: <ul style="list-style-type: none"> • Administrative requirements • Regulatory burden • Licensing restriction 	Labor Market regulations: <ul style="list-style-type: none"> • Hiring regulations and minimum wage • Hiring and firing regulations Business regulations: <ul style="list-style-type: none"> • Administrative requirements • Regulatory burden • Licensing restriction 	Labor Market regulations: <ul style="list-style-type: none"> - Hiring and firing regulations Business regulations: <ul style="list-style-type: none"> • Administrative requirements • Regulatory burden 	Labor Market regulations: <ul style="list-style-type: none"> • Hiring regulations and minimum wage • Hiring and firing regulations Business regulations: <ul style="list-style-type: none"> • Administrative requirements • Regulatory burden • Licensing restriction 	Labor Market regulations: <ul style="list-style-type: none"> - Hiring and firing regulations Business regulations: <ul style="list-style-type: none"> • Administrative requirements • Regulatory burden

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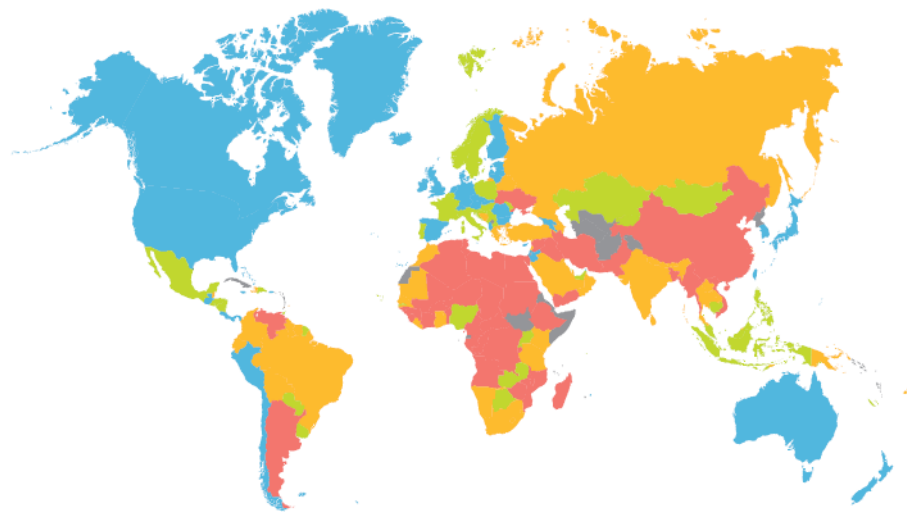


ANNUAL REPORT

Economic Freedom of the World 2020

Report and data available at:

<http://www.fraserinstitute.org/studies/economic-freedom>



○ MOST FREE ○ 2ND QUARTILE ○ 3RD QUARTILE ○ LEAST FREE



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