



EU-GCC Dialogue on Economic Diversification
A Project funded by the European Union

GCC Countries - Economic Freedom 2021 Annual Report Rankings & Opportunities for EU-GCC Collaboration



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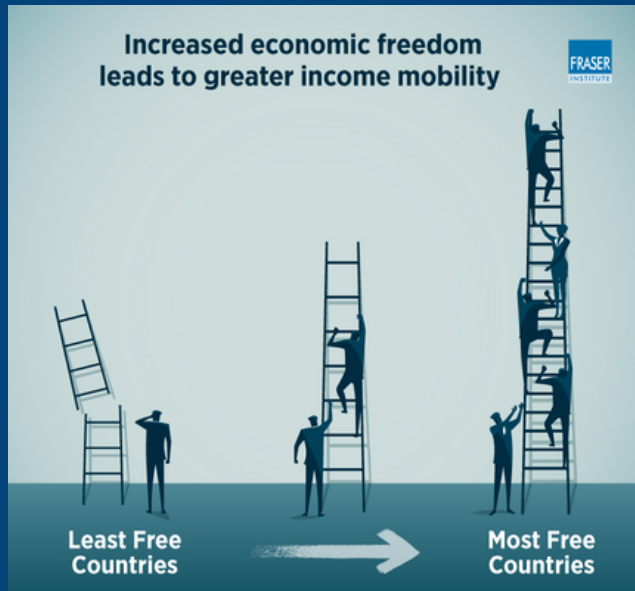
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The Economic Freedom Index: Role in Policymaking

- Economic rights are fundamental rights in the sense that without them there can be no political freedom or civil freedoms.
- Economic rights are a prerequisite for growth and development.
- 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.



Index Methodology

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



- 1.** Objective sources of data 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 provides 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 the ratings of the subcategories, and how these ratings are used to construct both the area and summary ratings.

Framework of the Economic Freedom Index 2021

The index measures the degree of economic freedom present in five major areas:

1. Size of Government focuses on how government expenditures and tax rates affect economic freedom. Area 1 components 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. Area 2 components measure how effectively the protective functions of government are performed.
 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. Area 3 components measure the extent to which people in different countries have access to sound money.
 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. Area 4 components measure a wide variety of trade restrictions.
 5. Regulation measures how regulations that restrict entry into markets and interfere with the freedom to engage in voluntary exchange reduce economic freedom. Area 5 focuses on regulatory restraints that limit the freedom of exchange in credit, labor, and product markets.
- 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 165 countries.

Key changes to the EFW Index in the 2021 Annual Report

Since the World Bank “Doing business” report will not be released, the components of the EFW index that rely on this report could not be completely updated.

In 2020, the World Bank made modifications to the Women, Business, & the Law database that have changed the composition of the gender-adjustment factor used to modify Area 2 of the EFW index: Legal system and property rights. As a result of these changes, there are now 17 variables used to calculate the Gender Legal Rights Adjustment: 16 variables that overlap with the previous gender adjustment factors plus the new property rights variable. These 17 factors are:

1. Can a woman apply for a passport in the same way as a man?
2. Can a woman travel outside the country in the same way as a man?
3. Can a woman travel outside her home in the same way as a man?
4. Can a woman choose where to live in the same way as a man?
5. Can a woman get a job in the same way as a man?
6. Can a woman work at night in the same way as a man?
7. Can a woman work in a job deemed dangerous in the same way as a man?
8. Can a woman work in an industrial job in the same way as a man?
9. Is there no legal provision that requires a married woman to obey her husband?
10. Can a woman be head of household in the same way as a man?
11. Can a woman sign a contract in the same way as a man?
12. Can a woman register a business in the same way as a man?
13. Can a woman open a bank account in the same way as a man?
14. Do men and women have equal ownership rights to immovable property?
15. Do sons and daughters have equal rights to inherit assets from their parents?
16. Do male and female surviving spouses have equal rights to inherit assets?
17. Does the law grant spouses equal administrative authority over assets during marriage?

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 & Property Rights

- A. Judicial independence
- B. Impartial courts
- C. Protection of property rights
- D. Military interference in rule of law & politics
- E. Integrity of the legal system
- F. Legal enforcement of contracts
- G. Regulatory costs of 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 & exporting
- C. Black-market exchange rates
- D. Controls of the movement of capital & people
 - (i) Financial openness
 - (ii) Capital controls

5. Regulation of Credit, Labour & 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 & minimum wage
 - (ii) Hiring & 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 are the highest scores across GCC countries for each index area (on a scale of 1 to 10).

Index areas	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
Size of Government	6.73	5.96	5.11	5.94	4.70	5.41
Legal System & Property Rights	4.73	4.94	5.24	5.37	6.14	5.94
Sound Money	9.24	8.01	8.23	8.34	8.75	9.06
Freedom to Trade Internationally	8.25	7.29	7.61	8.36	7.39	8.48
Regulation of credit, labour, and business	7.71	7.38	7.28	7.47	7.29	7.51

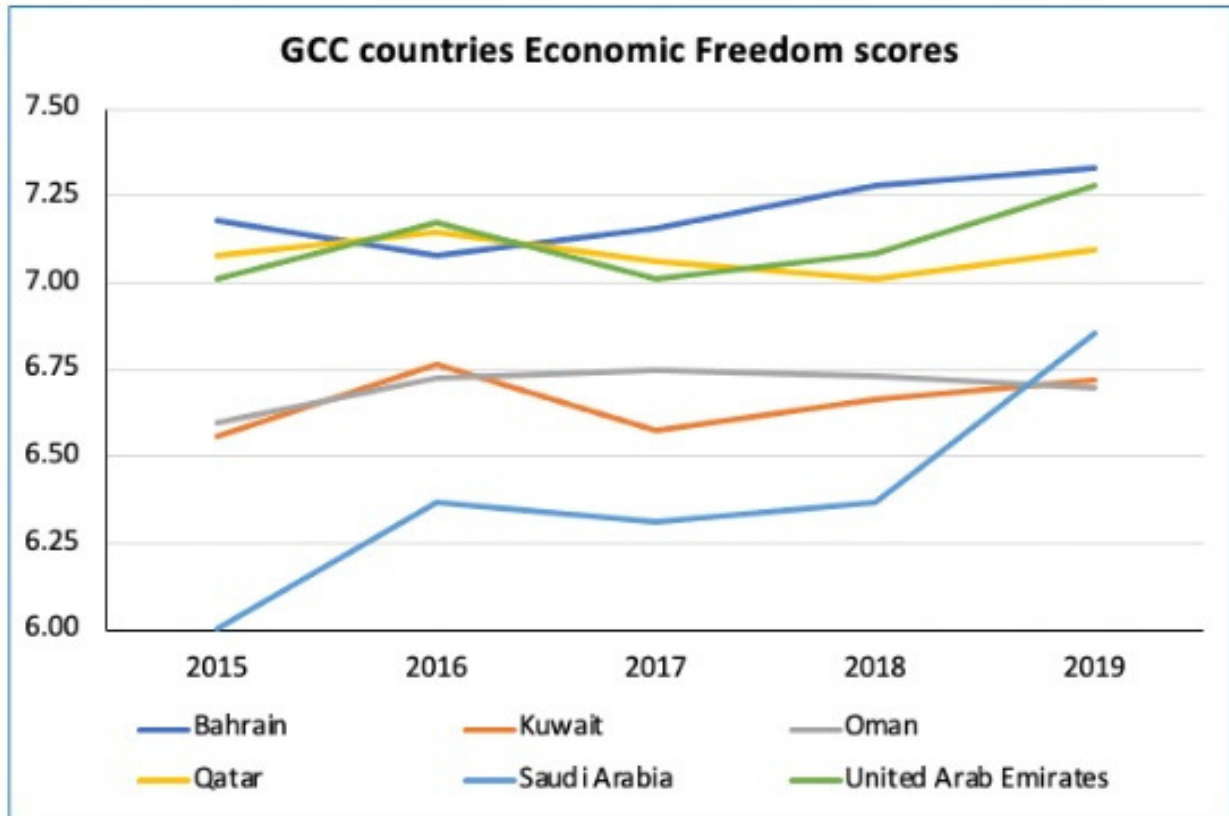
Economic Freedom Ranking - Regulation of credit, labour & business

Highlighted are the highest scores across GCC countries.

Component and sub-components	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
Regulation of credit, labour, and business	7.71	7.38	7.28	7.47	7.29	7.51
Credit market regulations <ul style="list-style-type: none"> • Ownership of banks • Private sector credit • Interest rate controls/negative real interest rates) 	7.61	10	7.49	8.33	7.89	7.67
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 	7.90	5.52	6.69	6.03	7.10	6.72
Business regulations <ul style="list-style-type: none"> • Administrative requirements • Regulatory Burden • Starting a business • Impartial Public Administration • Licensing restrictions • Tax compliance 	7.61	6.62	7.65	8.03	6.87	8.13

Source: Based on Fraser Institute Economic Freedom dataset
<https://www.fraserinstitute.org/studies/economic-freedom>

GCC Countries - Economic Freedom Index Trends



Country	2019 World ranking (out of 165 countries)
Bahrain	65
Kuwait	98
Oman	102
Qatar	80
Saudi Arabia	91
United Arab Emirates	68

Source: Based on Fraser Institute Economic Freedom dataset
<https://www.fraserinstitute.org/studies/economic-freedom>

Key Areas where EU can support GCC Economic Diversification Processes

	Freedom to Trade Internationally	Regulation of credit, labour, & business
Bahrain	Regulatory trade barriers: <ul style="list-style-type: none"> • Non-tariff trade barriers • Compliance cost of importing & exporting 	Labor Market regulations: <ul style="list-style-type: none"> • Hiring and firing regulations • Mandated cost of worker dismissal Business regulations <ul style="list-style-type: none"> • Administrative requirements
Kuwait	Regulatory trade barriers <ul style="list-style-type: none"> • Non-tariff trade barriers • Compliance cost of importing & exporting <p>Capital controls</p>	Labor Market regulations: <ul style="list-style-type: none"> • Hiring and firing regulations • Mandated cost of worker dismissal • Hours regulations • Centralized collective bargaining Business regulations: <ul style="list-style-type: none"> • Administrative requirements • Regulatory burden • Impartial public administration
Oman	Regulatory trade barriers <ul style="list-style-type: none"> • Non-tariff trade barriers <p>Capital controls</p>	Labor Market regulations: <ul style="list-style-type: none"> • Hiring and firing regulations • Hours regulations • Centralized collective bargaining Business regulations: <ul style="list-style-type: none"> • Administrative requirements • Regulatory burden • Impartial public administration
Qatar	Regulatory trade barriers <ul style="list-style-type: none"> • Non-tariff trade barriers <p>Capital controls</p>	Labor Market regulations: <ul style="list-style-type: none"> • Hiring and firing regulations • Mandated cost of worker dismissal • Hours regulations Business regulations: <ul style="list-style-type: none"> • Administrative requirements • Regulatory burden • Impartial public administration
Saudi Arabia	Regulatory trade barriers <ul style="list-style-type: none"> • Non-tariff trade barriers • Compliance cost of importing & exporting <p>Capital controls</p>	Labor Market regulations: <ul style="list-style-type: none"> • Hiring and firing regulations • Mandated cost of worker dismissal • Hours regulations Business regulations: <ul style="list-style-type: none"> • Administrative requirements • Regulatory burden • Impartial public administration
United Arab Emirates	Regulatory trade barriers <ul style="list-style-type: none"> • Non-tariff trade barriers <p>Capital controls</p>	Labor Market regulations: <ul style="list-style-type: none"> • Hiring and firing regulations • Hours regulations Business regulations: <ul style="list-style-type: none"> • Regulatory burden

Report & data available at:



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

About the EU-GCC Dialogue on Economic Diversification Project

The EU-GCC Dialogue on Economic Diversification is a project funded by the European Commission Service for Foreign Policy Instruments under the Partnership Instrument.

The project contributes to stronger EU-GCC relations by supporting the GCC countries in the ongoing process of economic diversification away from hydrocarbon-dependent sectors, including by funding regular EU-GCC Business Fora.

The purpose of this project is to promote climate-friendly trade, investment, and economic affairs-related policy analysis, dialogue, and cooperation between stakeholders from the EU and GCC at both regional and country levels in the context of the GCC economic diversification process.

For more information on the EU-GCC Dialogue Project, and to download research reports and other publications, please visit:

https://eeas.europa.eu/headquarters/headquarters-homepage/87855/eu-gcc-dialogue-economic-diversification-project_en

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