



## EU - Gulf Cooperation Council (GCC) Dialogue on Economic Diversification

# EU – GCC Dialogue on Economic Diversification Gulf Cooperation Council (GCC) countries

Project Identification No.  
EuropeAid/138630/DH/SER/Multi  
Service Contract No. PI/2017/393165

GCC countries – Economic Freedom of the World 2022 Report and  
opportunities for EU-GCC collaboration

February 2023



This project is funded by  
the European Union



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

Your contact persons within  
GFA Consulting Group GmbH are

Mr. Lukas Kudlimay (Project Director)  
Mr. Douglas Aitkenhead (Team Leader)  
Ms. Daniela Stratulativ (International Trade and Foreign Direct Investment Expert)

**EU-GCC Dialogue on Economic Diversification  
Gulf Cooperation Council (GCC) countries**

Contract Number PI/2017/393165

Author:  
Ms. Daniela Stratulativ, International Trade and Foreign Direct Investment Expert

<p><b>Disclaimer</b></p>
--------------------------

*This publication was produced with the financial support of the European Union. Its contents are the sole responsibility of GFA Consulting Group GmbH and Ms. Daniela Stratulativ and do not necessarily reflect the views of the European Union.*

GFA Consulting Group GmbH  
Eulenkrogstr. 82  
D-22359 Hamburg  
Phone: +49 (40) 6 03 06 170  
Fax: +49 (40) 6 03 06 159  
E-mail: [lukas.kudlimay@gfa-group.de](mailto:lukas.kudlimay@gfa-group.de)

## Contents

Abbreviations.....	iii
1 The Economic Freedom of the World Index - Role in policymaking.....	1
1.1 Economic Freedom of the World Index Methodology .....	1
1.2 Framework of the Economic Freedom of the World Index .....	1
2 Key findings.....	3
3 Economic Freedom of the World ranking comparison across GCC countries and EU27 Member States .....	4
4 Key areas where EU can support the GCC economic diversification processes .....	7
4.1 EU assistance related to Freedom to Trade Internationally .....	9
4.2 EU assistance related to the Regulation of Credit, Labour and Business .....	10
5 Next steps .....	12
6 References .....	13

## List of Figures

Figure 1. Framework of the Economic Freedom of the World Index .....	2
Figure 2. EU27 Economic Freedom of the World scores .....	4

## List of Tables

Table 1. GCC countries Economic Freedom scores, 2015-2020 .....	4
Table 2. GCC countries Economic Freedom of the World score, rank and scores by index area .....	5
Table 3. Economic Freedom ranking – Freedom to Trade Internationally .....	5
Table 4. Economic Freedom ranking – Regulation of Credit, Labour and Business .....	6
Table 5. Areas where the EU27 MS can support the GCC countries to improve the business environment .....	7
Table 6. EU27 MS scores – Freedom to Trade Internationally .....	9
Table 7. EU27 MS scores – Regulation of Credit, Labour and Business.....	10

## Abbreviations

CP	content provision (OSI subindex)
EPI	e-participation (OSI subindex)
EPI	E-Participation Index
EU	European Union
GCC	Gulf Cooperation Council
HCI	Human Capital Index
ICT	information and communications technologies
IF	institutional framework (OSI subindex)
MS	Member State
OSI	Online Services Index
SDG	Sustainable Development Goal
SP	services provision (OSI subindex)
TEC	technology (OSI subindex)
TII	Telecommunications Infrastructure Index
UAE	United Arab Emirates
UN	United Nations
UN DESA	United Nations Department of Economic and Social Affairs

## 1 The Economic Freedom of the World 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.

### 1.1 Economic Freedom of the World 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 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 the ratings of the subcategories, and how these ratings are used to construct both the area and summary ratings.

### 1.2 Framework of the Economic Freedom of the World Index

The degree of economic freedom is measured in five broad areas.

#### Area 1: Size of Government

As government spending, taxation, and government-controlled enterprises increase, government decision-making is substituted for individual choice and economic freedom is reduced.

#### Area 2: Legal System and Property Rights

Protection of persons and their rightfully acquired property is a central element of both economic freedom and civil society. Indeed, it is the most important function of government.

#### Area 3: Sound Money

Inflation erodes the value of rightfully earned wages and savings. Sound money is thus essential to protect property rights. When inflation is not only high but also volatile, it becomes difficult for individuals to plan for the future and thus use economic freedom effectively.

## Area 4: Freedom to Trade Internationally

Freedom to exchange—in its broadest sense, buying, selling, making contracts, and so on—is essential to economic freedom, which is reduced when freedom to exchange does not include businesses and individuals in other nations.

## Area 5: Regulation

Governments not only use a number of tools to limit the right to exchange internationally, they may also impose onerous regulations that limit the right to exchange, gain credit, hire or work for whom you wish, or freely operate your business.

Forty-two data points are used to construct the index. The EFW index rates 165 jurisdictions. The data are available annually from 2000 to 2020.

Figure 1. Framework of the Economic Freedom of the World Index

<p><b>1. Size of Government</b></p> <p>A. Government consumption</p> <p>B. Transfers and subsidies</p> <p>C. Government investment</p> <p>D. Top marginal tax rate</p> <p style="padding-left: 20px;">(i) Top marginal income tax rate</p> <p style="padding-left: 20px;">(ii) Top marginal income and payroll tax rate</p> <p>E. State ownership of assets</p> <p><b>2. Legal System and Property Rights</b></p> <p>A. Judicial independence</p> <p>B. Impartial courts</p> <p>C. Protection of property rights</p> <p>D. Military interference in rule of law and politics</p> <p>E. Integrity of the legal system</p> <p>F. Legal enforcement of contracts</p> <p>G. Regulatory costs of sale of real property</p> <p>H. Reliability of police</p>	<p><b>3. Sound Money</b></p> <p>A. Money growth</p> <p>B. Standard deviation of inflation</p> <p>C. Inflation: most recent year</p> <p>D. Freedom to own foreign currency bank accounts</p> <p><b>4. Freedom to Trade Internationally</b></p> <p>A. Tariffs</p> <p style="padding-left: 20px;">(i) Revenue from trade taxes (% of trade sector)</p> <p style="padding-left: 20px;">(ii) Mean tariff rate</p> <p style="padding-left: 20px;">(iii) Standard deviation of tariff rates</p> <p>B. Regulatory trade barriers</p> <p style="padding-left: 20px;">(i) Non-tariff trade barriers</p> <p style="padding-left: 20px;">(ii) Compliance cost of importing and exporting</p> <p>C. Black-market exchange rates</p> <p>D. Controls of the movement of capital and people</p> <p style="padding-left: 20px;">(i) Financial openness</p> <p style="padding-left: 20px;">(ii) Capital controls</p> <p style="padding-left: 20px;">(iii) Freedom of foreigners to visit</p>	<p><b>5. Regulation of Credit, Labour, and Business</b></p> <p>A. Credit Market regulations</p> <p style="padding-left: 20px;">(i) Ownership of banks</p> <p style="padding-left: 20px;">(ii) Private sector credit</p> <p style="padding-left: 20px;">(iii) Interest rate controls / negative real interest rates</p> <p>B. Labor Market regulations</p> <p style="padding-left: 20px;">(i) Hiring regulations and minimum wage</p> <p style="padding-left: 20px;">(ii) Hiring and firing regulations</p> <p style="padding-left: 20px;">(iii) Centralized collective bargaining</p> <p style="padding-left: 20px;">(iv) Hours regulations</p> <p style="padding-left: 20px;">(v) Mandated cost of worker dismissal</p> <p style="padding-left: 20px;">(vi) Conscription</p> <p>C. Business regulations</p> <p style="padding-left: 20px;">(i) Administrative requirements</p> <p style="padding-left: 20px;">(ii) Bureaucracy costs</p> <p style="padding-left: 20px;">(iii) Starting a business</p> <p style="padding-left: 20px;">(iv) Impartial public administration</p> <p style="padding-left: 20px;">(v) Licensing restrictions</p> <p style="padding-left: 20px;">(vi) Cost of tax compliance</p>
---	--	---

Source: Compiled from Economic Freedom of the World: 2022 Annual Report

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.

## 2 Key findings

The Economic Freedom of the World: 2022 Annual Report uses the most recent comprehensive data, that are available from 2020. Hong Kong remains in the top position, though its rating fell an additional 0.28 points. Singapore, once again, comes in second. The next highest-scoring nations are Switzerland, New Zealand, Denmark, Australia, United States, Estonia, Mauritius, and Ireland.

The rankings of some other major countries are Japan (12<sup>th</sup>), Canada (14<sup>th</sup>), Germany (25<sup>th</sup>), Italy (44<sup>th</sup>), France (54<sup>th</sup>), Mexico (64<sup>th</sup>), India (89<sup>th</sup>), the Russian Federation (94<sup>th</sup>), Brazil (114<sup>th</sup>), and China (116<sup>th</sup>).

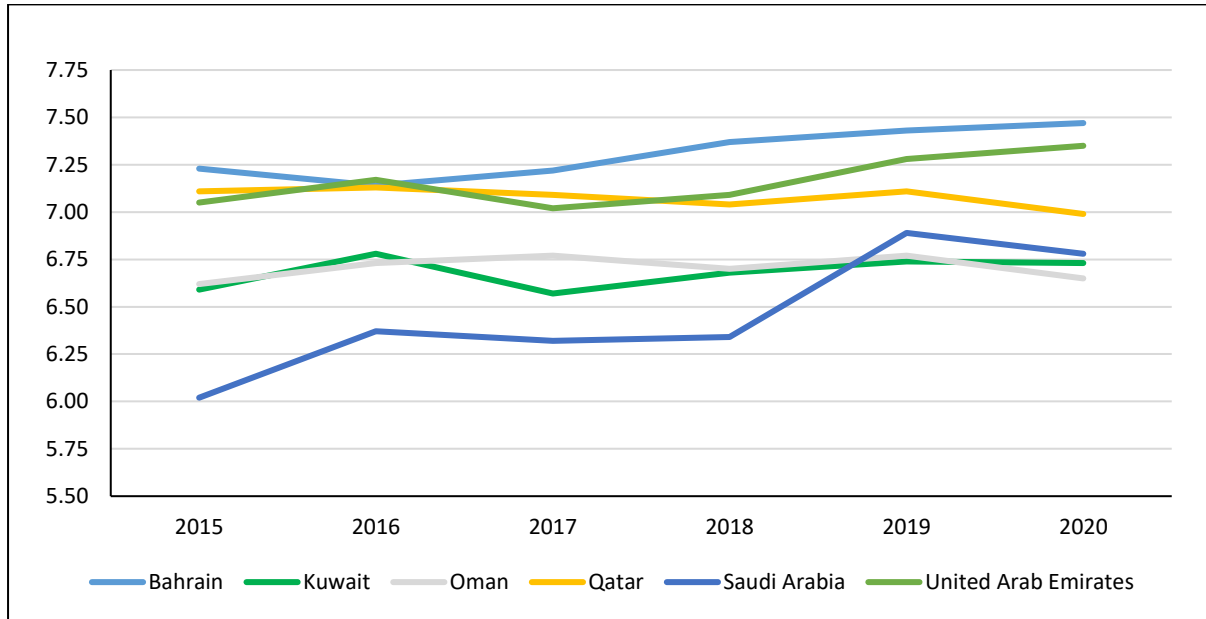
Nations that are economically free out-perform non-free nations in indicators of well-being. Nations in the top quartile of economic freedom had an average per-capita GDP of \$48,251 in 2020, compared to \$6,542 for nations in the bottom quartile (PPP constant 2017, international \$). In the top quartile, the average income of the poorest 10% was \$14,204, compared to \$1,736 in the bottom quartile (PPP constant 2017, international \$). Interestingly, the average income of the poorest 10% in the most economically free nations is more than twice the average per-capita income in the least free nations. In the top quartile, 2.02% of the population experience extreme poverty (US\$1.90 a day) compared to 31.45% in the lowest quartile. Life expectancy is 80.4 years in the top quartile compared to 66.0 years in the bottom quartile.

Economic freedom continues to grow, despite the policy responses to the coronavirus pandemic, responses that undoubtedly contributed to an erosion of economic freedom for most people in 2020. In 2020, the average rating fell to 6.84 from 7.00 in 2019—erasing about a decade's worth of improvement in economic freedom in the world. Even after the recent decline, between 2000 and 2020 the average economic-freedom rating increased to 6.84 from 6.59.

### 3 Economic Freedom of the World ranking comparison across GCC countries and EU27 Member States

The Economic Freedom of the World scores range between 0 and 10, with 10 indicating the best performance. The GCC countries scores over time indicate that reforms have been implemented in several areas measured by the EFW Index contributing to a score increase. However, there are instances where performance decreased. The trends are provided in Table 1.

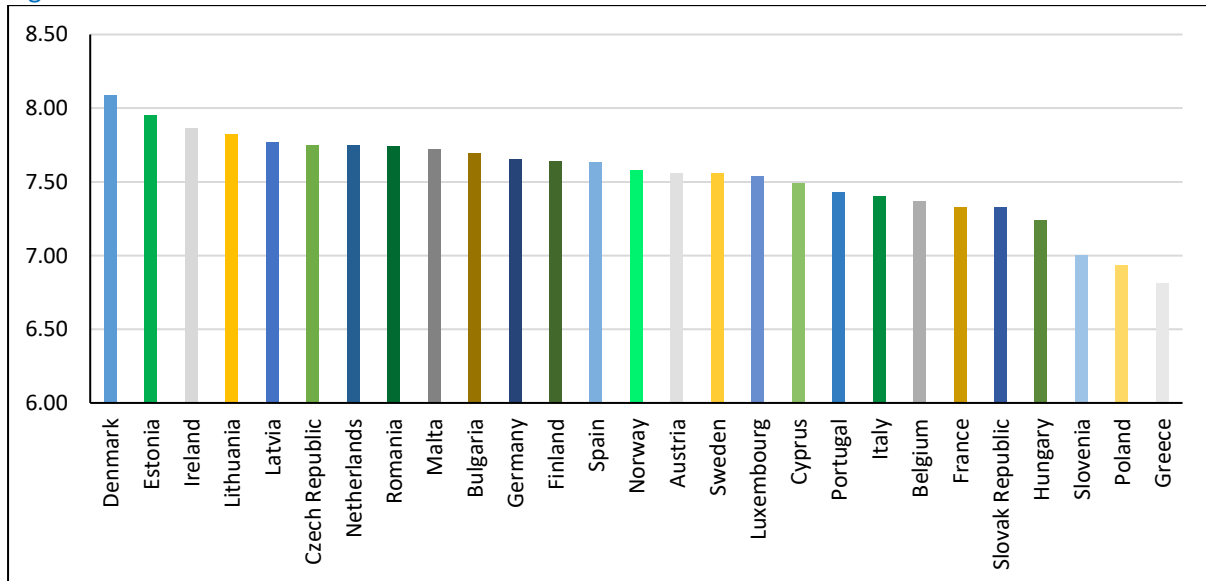
Table 1. GCC countries Economic Freedom scores, 2015-2020



Source: Author’s analysis based on Economic Freedom of the World data

In the EU27, the average Economic Freedom of the World Index score is 7.54. The EU27 Member States scores are presented in Figure 2.

Figure 2. EU27 Economic Freedom of the World scores



Source: Author’s analysis based on Economic Freedom of the World data



The scores of each GCC country for Size of Government, Legal System & Property Rights, Sound Money, Freedom to Trade Internationally and Regulation of Credit, Labour and Business are provided in Table 2.

Table 2. GCC countries Economic Freedom of the World score, rank and scores by index area

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
<b>Economic Freedom Summary Index</b>	7.47	6.73	6.65	6.99	6.78	7.35
<b>Rank</b>	39	88	93	76	86	49
<b>Index area</b>						
<b>Size of Government</b>	7.08	5.93	4.66	5.94	4.71	5.15
<b>Legal System &amp; Property Rights</b>	4.92	4.98	5.26	5.43	6.81	7.04
<b>Sound Money</b>	9.43	8.58	8.77	8.6	8.97	9.08
<b>Freedom to Trade Internationally</b>	8.26	6.76	7.56	7.57	6.43	7.96
<b>Regulation of Credit, Labour and Business</b>	7.68	7.38	6.98	7.43	6.99	7.53

Source: Analysis based on Economic Freedom of the World data

The results by area indicate there are specific measures that offer the opportunity for reform and policy changes that would contribute to increasing the economic freedom in each of the GCC countries, thus accelerating economic growth.

In the area of Freedom to Trade Internationally (Table 3), tariffs, regulatory barriers to trade including non-tariff barriers and compliance cost of importing and exporting, as well as restrictions on movement of capital and people can be addressed in most of the GCC countries to improve the business environment. The best performers in each aspect related to the Freedom to Trade Internationally are highlighted in green.

Table 3. Economic Freedom ranking – Freedom to Trade Internationally

Index component and sub-components	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
<b>Overall score for Freedom to Trade Internationally</b>	8.26	6.76	7.56	7.57	6.43	7.96
<b>Tariffs</b>	8.37	8.77	7.84	8.35	6.35	9
<ul style="list-style-type: none"> <li>Revenue from trade taxes (% of trade sector)</li> <li>Mean tariff rate</li> <li>Standard deviation of tariff rates</li> </ul>						
<b>Regulatory trade barriers</b>	6.74	4.65	7.29	7.05	6.8	7.72
<ul style="list-style-type: none"> <li>Non-tariff trade barriers</li> <li>Compliance cost of importing and exporting</li> </ul>						

Black market exchange rates	10	10	10	10	10	10
Controls of the movement of capital and people	7.93	3.62	5.13	4.87	2.59	5.13
<ul style="list-style-type: none"> <li>• Financial openness</li> <li>• Capital controls</li> <li>• Freedom of foreigners to visit</li> </ul>						

Source: Analysis based on Economic Freedom of the World data

The results of the Economic Freedom of the World assessment indicate there are a number of regulatory barriers that limit the economic freedom (Table 4). The best performers are highlighted below in green.

Table 4. Economic Freedom ranking – Regulation of Credit, Labour and Business

Index component and sub-components	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
Overall score for Regulation of Credit, Labour, and Business	7.68	7.38	6.98	7.43	6.99	7.53
Credit market regulations	7.61	10	6.67	8.33	6.84	7.67
<ul style="list-style-type: none"> <li>• Ownership of banks</li> <li>• Private sector credit</li> <li>• Interest rate controls / negative real interest rates)</li> </ul>						
Labor market regulations	7.9	5.52	6.69	6.03	7.1	6.72
<ul style="list-style-type: none"> <li>• Hiring regulations and minimum wage</li> <li>• Hiring and firing regulations</li> <li>• Centralized collective bargaining</li> <li>• Hours Regulations</li> <li>• Mandated cost of worker dismissal</li> <li>• Conscription</li> </ul>						
Business regulations	7.54	6.62	7.58	7.94	7.02	8.2
<ul style="list-style-type: none"> <li>• Administrative requirements</li> <li>• Regulatory Burden</li> <li>• Starting a business</li> <li>• Impartial Public Administration</li> <li>• Licensing restrictions</li> <li>• Tax compliance</li> </ul>						

Source: Analysis based on Economic Freedom of the World data

Note: Highlighted are the best scores across GCC countries (on a scale of 1 to 10).

## 4 Key areas where EU can support the GCC economic diversification processes

This chapter identifies the areas where EU can support GCC countries in increasing their economic freedom. Specific recommendations are included by country and area. In addition, for each GCC country and area, the EU27 Member States who can assist are identified.

The areas for EU-GCC collaboration for each GCC country are included in [Table 5](#). These have been identified based on the analysis of the Economic Freedom of the World Index areas, specific sub-components and individual measures.

**Table 5. Areas where the EU27 MS can support the GCC countries to improve the business environment**

Country	Freedom to Trade Internationally	Regulation of Credit, Labour and Business
<b>Bahrain</b>	Regulatory trade barriers: <ul style="list-style-type: none"> <li>• Non-tariff trade barriers</li> <li>• Compliance cost of importing and exporting</li> </ul> Capital controls	Labour Market regulations: <ul style="list-style-type: none"> <li>• Hiring and firing regulations</li> <li>• Mandated cost of worker dismissal</li> </ul> Credit market regulations – private sector credit Business regulations: <ul style="list-style-type: none"> <li>• Administrative requirements</li> <li>• Regulatory Burden</li> </ul>
<b>Kuwait</b>	Regulatory trade barriers: <ul style="list-style-type: none"> <li>• Non-tariff trade barriers</li> <li>• Compliance cost of importing and exporting</li> </ul> Financial openness Capital controls	Labour Market regulations: <ul style="list-style-type: none"> <li>• Hiring and firing regulations</li> <li>• Mandated cost of worker dismissal</li> <li>• Hours regulations</li> <li>• Centralized collective bargaining</li> <li>• Conscription</li> </ul> Business regulations: <ul style="list-style-type: none"> <li>• Administrative requirements</li> <li>• Regulatory burden</li> </ul>
<b>Oman</b>	Regulatory trade barriers:	Labour Market regulations:

Country	Freedom to Trade Internationally	Regulation of Credit, Labour and Business
	<ul style="list-style-type: none"> <li>• Non-tariff trade barriers</li> </ul> <p>Capital controls</p>	<ul style="list-style-type: none"> <li>• Hiring and firing regulations</li> <li>• Hours regulations</li> <li>• Centralized collective bargaining</li> </ul> <p>Credit market regulations – private sector credit</p> <p>Business regulations:</p> <ul style="list-style-type: none"> <li>• Administrative requirements</li> <li>• Regulatory burden</li> </ul>
<b>Qatar</b>	<p>Regulatory trade barriers - Non-tariff trade barriers</p> <p>Capital controls</p>	<p>Labour Market regulations:</p> <ul style="list-style-type: none"> <li>• Hiring and firing regulations</li> <li>• Mandated cost of worker dismissal</li> <li>• Hours regulations</li> <li>• Conscription</li> </ul> <p>Business regulations:</p> <ul style="list-style-type: none"> <li>• Administrative requirements</li> <li>• Regulatory burden</li> </ul>
<b>Saudi Arabia</b>	<p>Regulatory trade barriers:</p> <ul style="list-style-type: none"> <li>• Non-tariff trade barriers</li> <li>• Compliance cost of importing and exporting</li> </ul> <p>Capital controls</p>	<p>Labour Market regulations:</p> <ul style="list-style-type: none"> <li>• Hiring and firing regulations</li> <li>• Mandated cost of worker dismissal</li> <li>• Hours regulations</li> </ul> <p>Credit market regulations – private sector credit</p> <p>Business regulations:</p> <ul style="list-style-type: none"> <li>• Administrative requirements</li> <li>• Regulatory burden</li> </ul>
<b>United Arab Emirates</b>	<p>Regulatory trade barriers - Non-tariff trade barriers</p> <p>Capital controls</p>	<p>Labour Market regulations:</p> <ul style="list-style-type: none"> <li>• Hiring and firing regulations</li> </ul>

Country	Freedom to Trade Internationally	Regulation of Credit, Labour and Business
		<ul style="list-style-type: none"> <li>Hours regulations</li> <li>Conscription</li> </ul> Business regulations - Regulatory burden

Source: Author's recommendations based on analysis of the Economic Freedom of the World data

#### 4.1 EU assistance related to Freedom to Trade Internationally

Table 6. EU27 MS scores – Freedom to Trade Internationally

	EU27 Member State	Freedom to Trade Internationally
1	Netherlands	8.60
2	Romania	8.49
3	Portugal	8.44
4	Denmark	8.42
5	Malta	8.40
6	Latvia	8.36
7	Italy	8.34
8	Estonia	8.33
9	Lithuania	8.33
10	Cyprus	8.22
11	France	8.21
12	Greece	8.17
13	Sweden	8.13
14	Austria	8.09
15	Spain	8.09
16	Czech Republic	8.08
17	Belgium	8.03
18	Germany	7.98
19	Ireland	7.96
20	Bulgaria	7.91
21	Finland	7.86
22	Luxembourg	7.79
23	Poland	7.67
24	Hungary	7.62
25	Norway	7.60
26	Slovak Republic	7.59
27	Slovenia	7.44

Source: Author's analysis based on the Economic Freedom of the World data

**EU27 MS that can assist each GCC country in regards to barriers to trade:**

The top 9 countries in the table above have higher scores than **Bahrain** and therefore can assist Bahrain to implement measures and policies that will increase the freedom to trade.

**Kuwait and Saudi Arabia** could benefit from assistance from any of the EU27 MS, Kuwait score being 6.76 and Saudi Arabia 6.43.

Any of the top 26 EU27 MS in the table above could assist **Oman and Qatar** in improving their legal and regulatory framework to address the barriers to trade internationally.

The **UAE** performance is much higher than most of the other GCC countries'. The top 18 EU27 MS in the table above could assist UAE in addressing some of the barriers to trade.

## 4.2 EU assistance related to the Regulation of Credit, Labour and Business

Table 7. EU27 MS scores – Regulation of Credit, Labour and Business

	EU27 Member State	Regulation of Credit, Labour and Business
1	Denmark	8.43
2	Estonia	8.21
3	Ireland	8.14
4	Latvia	8.06
5	Malta	7.96
6	Czech Republic	7.91
7	Bulgaria	7.89
8	Netherlands	7.78
9	Belgium	7.75
10	Finland	7.72
11	Lithuania	7.72
12	Luxembourg	7.69
13	Sweden	7.67
14	Italy	7.66
15	Germany	7.66
16	Norway	7.65
17	Slovak Republic	7.46
18	Spain	7.30
19	Romania	7.22
20	Austria	7.20
21	France	7.20
22	Hungary	7.13
23	Cyprus	7.12
24	Poland	7.07
25	Slovenia	6.80
26	Portugal	6.28
27	Greece	6.01

Source: Author's analysis based on the Economic Freedom of the World data

**EU27 MS that can assist each GCC country in regards to regulation of credit, labour and business:**

Bahrain could benefit from knowledge sharing and assistance from the top 12 EU27 MS in the above table. Kuwait and Qatar, with close scores of 7.38 and 7.43 respectively, can be assisted by the top 17 EU27 MS.

Oman and Saudi Arabia performance in this area are lagging compared to the other GCC countries. The top 24 EU27 MS could contribute to Oman and Saudi Arabia improvement of regulatory frameworks related to credit, labour and business.

The UAE, as a high-performer, could benefit from knowledge sharing and assistance from the top 16 EU27 MS.

## 5 Next steps

The EU-GCC Dialogue on Economic Diversification Project will follow up on the recommendations above with the European Commission, the EU27 Member States and the project stakeholders to assist them in leveraging these opportunities to contribute to the GCC economic diversification process and to improve the business environment in the GCC countries, which would increase the trade and investment opportunities between EU and GCC countries.



## 6 References

Report:

Fraser Institute, 2022, Economic Freedom of the World: 2022 Annual Report

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

Data:

Economic Freedom of the World database, last accessed February 2023

<https://www.fraserinstitute.org/resource-file?nid=14828&fid=18375>