

## MIDDLE EAST/NORTH AFRICA (REGION D)

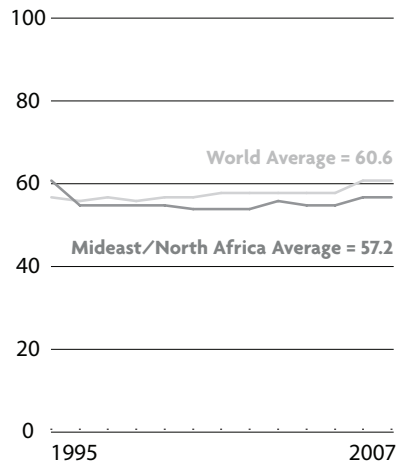
The Middle East/North Africa region encompasses some of the world's most ancient civilizations. Stretching from Morocco's Atlantic shores to Iran and Yemen's beaches on the Arabian Sea, the Middle East remains central in the world's affairs. Today, however, most of the economies in this region are not free. Cursed in some ways by enormous natural oil resources, the local populations experience extreme concentrations of wealth and poverty.

The Middle East has a comparatively high GDP per capita. At \$7,002 per person, the regional GDP is dead center: lower than Europe and the Americas but higher than Asia and sub-Saharan Africa. The difference between the highest GDP per capita and the lowest is enormous: an estimated \$27,400 in Qatar versus \$879 in Yemen. Structural problems clearly abound, as the regional unemployment rate, which averages 13.6 percent, is the highest in the world. Despite the outflow of crude oil, the Middle East is also second worst among the regions in exports and imports (\$24 billion and \$21 billion, respectively), indicating a lack of economic dynamism.

Chart D1 shows the 1995–2007 time series of the simple average economic freedom score for the region, compared to the world average. Using a population-weighted average, the people of the Middle East/North Africa region have the least economic freedom in the world. Paradoxically, the Middle East/North Africa region is also the only *Index* area to increase its average economic freedom over the past year. Yemen and Morocco made the biggest leaps forward with 3.0 percent and 4.4 percent increases, respectively. The United Arab Emirates (UAE), Tunisia, Qatar, Jordan, Libya, Kuwait, Lebanon, Israel, and Egypt also improved their economic freedom scores, marking a definite regional trend.

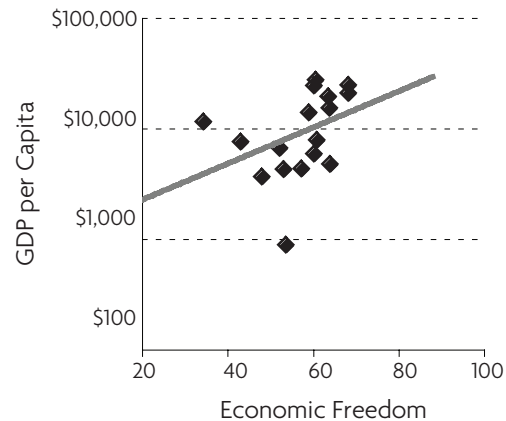
Yet even in this region, there is a correlation between freedom and prosperity. Chart D2 shows the positive relationship between high levels of economic freedom and high GDP per capita. The ongoing transformation of innovative states in Bahrain, Qatar, and the UAE

Chart D1: Middle East/N. Africa  
Average Economic Freedom



Source: Tim Kane, Kim R. Holmes, and Mary Anastasia O'Grady, 2007 *Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2007), at [www.heritage.org/index](http://www.heritage.org/index).

Chart D2: Economic Freedom vs.  
GDP per Capita in the Middle East  
and North Africa

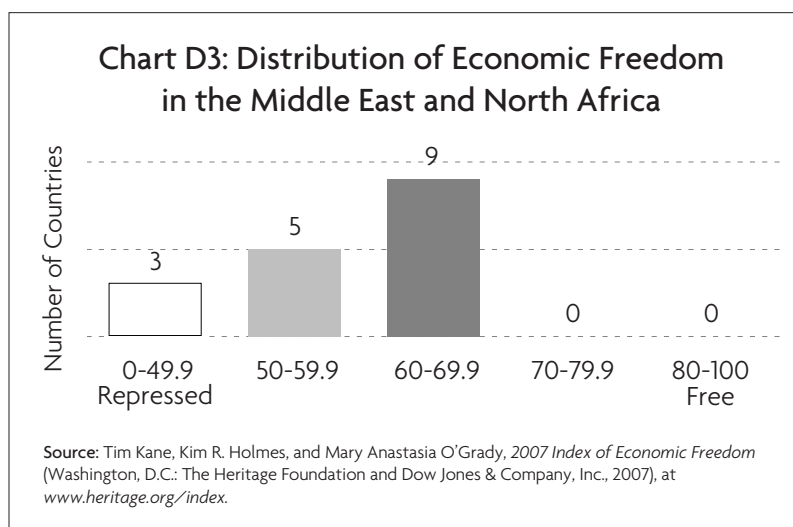


Sources: World Bank, World Development Indicators Online, at [publications.worldbank.org/subscriptions/WDI](http://publications.worldbank.org/subscriptions/WDI) (October 19, 2006; subscription required); Central Intelligence Agency, The World Factbook 2005, at [www.cia.gov/cia/publications/factbook/index.html](http://www.cia.gov/cia/publications/factbook/index.html) (October 19, 2006); International Monetary Fund, World Economic Outlook database, April 2006, at [www.imf.org/external/pubs/ft/weo/2006/01/data/index.htm](http://www.imf.org/external/pubs/ft/weo/2006/01/data/index.htm) (October 19, 2006); and Tim Kane, Kim R. Holmes, and Mary Anastasia O'Grady, 2007 *Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2007), at [www.heritage.org/index](http://www.heritage.org/index).

## Table D1: Economic Freedom Scores for the Middle East and North Africa

2007 World Rank	2007 Regional Rank	Country	Economic Freedom 2007	Change from 2006	Business Freedom	Trade Freedom	Fiscal Freedom	Freedom from Government	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
37	1	Israel	68.4	1.7	69.7	75.2	72.0	60.0	84.2	70	50	70	63	70.1
39	2	Bahrain	68.4	-2.6	80.0	69.6	99.6	56.7	80.1	50	90	60	58	40.0
53	3	Jordan	64.0	0.2	54.8	64.2	88.8	64.1	83.5	50	60	50	57	67.9
54	4	Oman	63.9	1.6	63.6	73.8	99.0	37.7	79.1	50	50	50	63	73.2
57	5	Kuwait	63.7	1.1	67.9	72.2	99.9	39.2	78.8	50	50	50	47	81.7
69	6	Tunisia	61.0	1.8	78.3	61.8	80.8	82.1	80.0	30	30	50	49	67.9
72	7	Qatar	60.7	0.3	60.0	71.4	99.9	54.6	72.4	30	50	50	59	60.0
74	8	UAE	60.4	0.7	49.2	70.0	99.9	60.3	75.3	30	40	40	62	77.2
77	9	Lebanon	60.3	1.8	56.2	67.4	95.9	64.3	83.5	30	70	30	31	74.4
85	10	Saudi Arabia	59.1	-2.3	52.9	65.4	99.6	46.1	80.1	30	40	50	34	92.9
96	11	Morocco	57.4	4.4	74.3	51.0	75.5	76.3	83.3	70	40	30	32	41.9
122	12	Yemen	53.8	3.0	52.7	56.4	88.8	65.1	68.2	50	30	30	27	69.7
127	13	Egypt	53.2	1.0	39.9	52.2	93.6	73.6	69.0	50	30	40	34	49.8
134	14	Algeria	52.2	-1.1	73.7	56.0	82.6	47.9	80.6	50	20	30	28	53.7
142	15	Syria	48.2	-2.3	56.6	49.0	88.3	57.5	68.9	30	10	30	34	57.4
150	16	Iran	43.1	-0.2	54.9	50.4	84.8	59.8	61.3	10	10	10	29	61.2
155	17	Libya	34.5	0.2	20.0	29.6	87.8	23.5	78.9	30	20	10	25	20.0

Source: Tim Kane, Kim R. Holmes, and Mary Anastasia O’Grady, *2007 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2007), at [www.heritage.org/index](http://www.heritage.org/index).



overall freedom scores. It also includes the change from last year’s score, the country’s world rank, and each country’s 2007 scores for each of the 10 economic freedoms. Israel, Bahrain, and Jordan—three nations that are radically different politically but all have made a commitment to economic freedom—rank highest. Two leading oil-producing nations—Oman and Kuwait—round out the

may yet light the way for economic growth regionally.

Table D1 ranks the countries in the region from most free to least free based on their

top five. The lowest ranking countries are Syria, Iran, and Libya, a group of fairly disparate nations that are united by their lack of economic or political liberalism. Chart D3 shows

the distribution of countries across five different categories.

The Middle East does not have any countries in the ranks of the world's 20 most free. Israel, the region's most free nation, is ranked 37 globally, Bahrain is ranked 39, and Jordan is ranked 53. Oman, Kuwait, and Tunisia are the last countries in the top 70. The lack of economic freedom reflects the region's sluggish economic growth and hints at the reason why its GDP per capita lags behind the rest of the world.

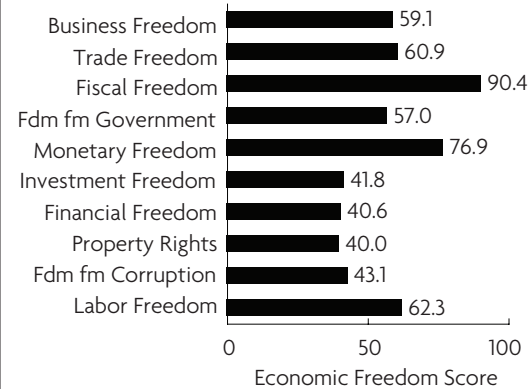
The Middle East's stunted economic growth may be due to its over-reliance on oil wealth. To determine whether this is so, we divided the region into two halves, categorizing 12 of the 17 countries as oil exporters (with such exports in excess of 10 percent of total GDP) and the other five as non-oil countries. The most oil-dependent economies in the Middle East are Qatar (60 percent), Oman (49 percent), Algeria (45 percent), Saudi Arabia (43 percent), Libya (33 percent), and the UAE (32 percent). Our analysis reveals that the non-oil countries have 10 percentage points more economic freedom, using a population-weighted average. They also have lower inflation and slightly better employment and income levels, although their growth rates have been insignificantly lower.

Economists subscribe to a theory known as the "Dutch disease," which holds that natural resource wealth can inhibit the development of other sectors by skewing wages. In contrast, resource-poor countries must give their citizens a certain amount of economic freedom in order to create a living for themselves, developing human capital in order to create value. This means that people must be invested with skills.

Oil revenue, on the other hand, comes from the ground. In most Gulf states, even the process of extracting the oil is in the hands of foreigners. It requires no investment in labor, no investment in humans, and only a marginal amount of investment in the land. People need different freedoms to be productive, but oil does not generate the incentives needed for societies to create those freedoms.

The Middle East is the absolute world leader in only one category: fiscal freedom. Fiscally,

**Chart D4: The Middle East and North Africa Ten Economic Freedoms**



Source: Tim Kane, Kim R. Holmes, and Mary Anastasia O'Grady, *2007 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2007), at [www.heritage.org/index](http://www.heritage.org/index).

its 90.4 percent average score is well above the world average of 82.8 percent, a level reached because of the extremely low income taxes common to oil kingdoms. The region does score above the world average in other areas, however, such as monetary freedom and freedom from corruption—a result that may reflect the measures regional leaders are taking to cut back on bribery and government malfeasance.

Israel is the leader in half of the categories. Oil-exporting states top the five factors, with Kuwait as the leader in fiscal freedom. Oil states need flexible labor markets to hire foreign workers, and their governments require little tax revenue. Bahrain is moving toward a more business-friendly environment, possibly influenced by the success of the Dubai model.