

Economic Freedom, TFP and Growth: Comparative Analysis of GCC and East Asian Newly Industrialized Economies (NIEs)

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Abstract

This study tests empirically the contribution of economic freedom in explaining the observed gap in GDP per worker between GCC countries and East Asian NIEs. It uses both «Fraser Institute» and «Heritage Foundation» indexes in their aggregated and disaggregated forms and finds robust evidence that lower economic freedom in GCC region is a major source behind its low productivity compared to East Asian NIEs, over the last five decades. The bulk of this effect transmits through Total Factors Productivity. Indeed, depending on the index used, economic freedom, alone, explains between 55 and 65 percent of the observed TFP differential and between 68 and 72 percent GDP per worker differential across these two regions. Such result clearly appeals GCC's governments to further free their economic institutions.

Keywords: Economic Freedom, TFP, GDP per worker, GCC, East Asian NIEs.

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