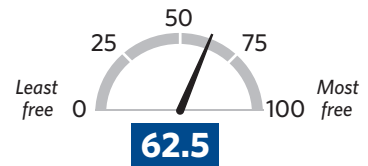


KUWAIT

Economic Freedom Score



World Rank: **71** Regional Rank: **7**

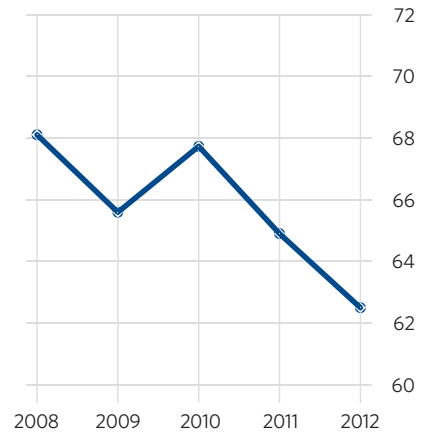
Kuwait's economic freedom score is 62.5, making its economy the 71st freest in the 2012 *Index*. Its score is 2.4 points lower than last year, with score declines in management of government spending, labor freedom, and business freedom outweighing a gain in freedom from corruption. Kuwait is ranked 7th out of 17 countries in the Middle East/North Africa region. It recorded one of the 20 largest score declines in the 2012 *Index*, but its overall score remains above the world and regional averages.

Lingering institutional weaknesses continue to constrain overall economic freedom. The judicial system lacks the capacity to defend property rights effectively. Despite some progress, corruption remains widespread, undermining prospects for long-term economic development. High oil revenues have delayed privatization and other deeper structural reforms that would diversify the economy.

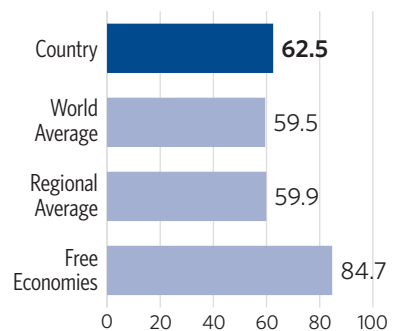
Nevertheless, Kuwait has been modernizing its economy for several years and performs relatively well in many of the 10 economic freedoms. There is no income tax, and corporate tax rates have become more competitive since 2008. Efforts to enhance the efficiency of the business regulatory framework have yielded mixed progress overall.

BACKGROUND: Kuwait has been a constitutional monarchy since 1961. Occupied in 1990 by Iraq, it was liberated by a U.S.-led coalition in 1991. Amir Sabah al-Ahmad al-Jabr Al Sabah remains committed to cautious economic reform but faces opposition from Islamist and populist members of parliament. During the "Arab Spring" of 2011, there were small demonstrations by young activists calling for anti-corruption and political reforms, as well as by stateless Arabs demanding citizenship and jobs. With an estimated 104 billion barrels of oil reserves, Kuwait controls roughly 9 percent of the world's oil supply. Oil accounts for nearly 50 percent of GDP and 95 percent of export revenues. In 2010, the government initiated a five-year, \$130 billion economic development plan to diversify the economy, reduce dependence on oil revenues, enhance the role of the private sector, and attract foreign investment.

Freedom Trend



Country Comparisons



Quick Facts

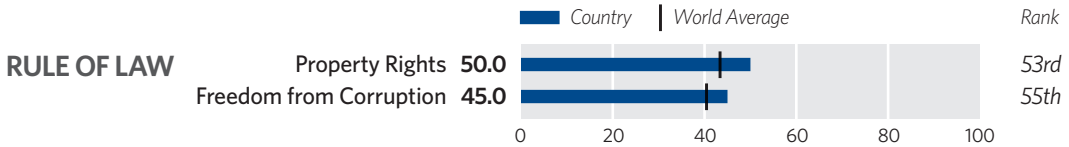
- Population:** 3.6 million
- GDP (PPP):** \$136.5 billion
- 2.0% growth in 2010
- 5-year compound annual growth 2.2%
- \$37,849 per capita
- Unemployment:** 2.2%
- Inflation (CPI):** 4.1%
- FDI Inflow:** \$80.9 million
- Public Debt:** 10.4% of GDP

2010 data unless otherwise noted.
Data compiled as of September 2011.

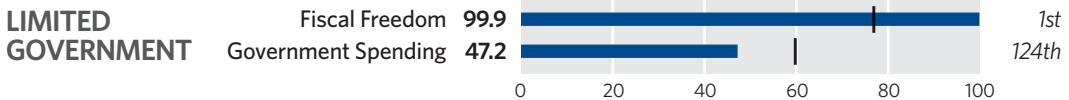
How Do We Measure Economic Freedom?

See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

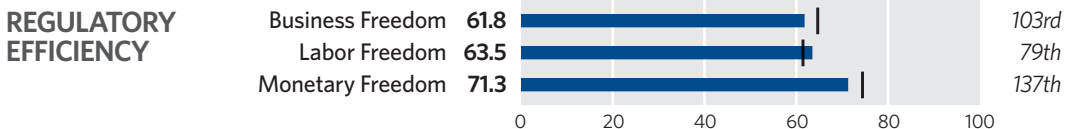
THE TEN ECONOMIC FREEDOMS



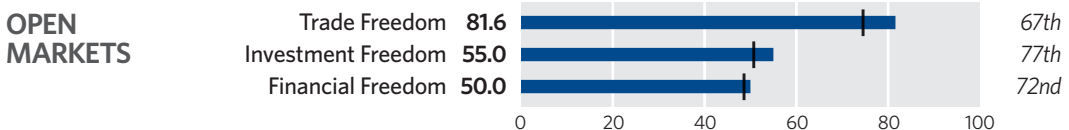
A well-functioning legal framework is absent, and the rule of law remains weak. The constitution provides for an independent judiciary, but the amir appoints all judges. The inefficient court system is susceptible to political pressures and corruption. Property rights are not protected effectively, and enforcement of intellectual property rights is seriously deficient. Corruption continues to erode the foundations of economic freedom.



Kuwait does not tax individual income. In practice, foreign-owned firms and joint ventures are the only businesses that are subject to the corporate income tax, which is a flat 15 percent. There is no value-added tax (VAT) or sales tax, and overall tax revenue (mainly from duties on international trade and transactions) is 1.5 percent of GDP. Government spending is equivalent to 41.9 percent of GDP, and public debt is about 10 percent of GDP.



Kuwait has taken steps to improve its regulatory framework, but progress has been gradual and uneven. Starting a business still takes longer than the world average of 30 days, and bureaucratic hurdles continue to add to the cost of business. Overall, labor regulations lack flexibility. Inflation has been relatively high, and the government provides numerous subsidies and controls prices through state-owned utilities and enterprises.



The trade weighted average tariff rate is 4.2 percent, with burdensome non-tariff barriers increasing the cost of trade. Foreign investment is welcome, but heavy bureaucracy hinders dynamic growth in new investment. The relatively well-developed financial system offers a wide range of financial services. In 2010, the National Assembly passed a Capital Market Law to strengthen supervision of the Kuwait Stock Market and enhance its transparency.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	0	Business Freedom	-2.6	Trade Freedom	0
Freedom from Corruption	+4.0	Government Spending	-22.5	Labor Freedom	-4.4	Investment Freedom	0
				Monetary Freedom	+2.0	Financial Freedom	0