2013 Index of Economic Freedom

Contributors

Ambassador Terry Miller is Director of the Center for International Trade and Economics and Mark A. Kolokotrones Fellow in Economic Freedom at The Heritage Foundation.

Kim R. Holmes, Ph.D., is Vice President for Foreign and Defense Policy Studies and Director of the Kathryn and Shelby Cullom Davis Institute for International Studies at The Heritage Foundation.

Edwin J. Feulner, Ph.D., is President of The Heritage Foundation.

Paul A. Gigot is Editor of *The Wall Street Journal* Editorial Page.

Anthony B. Kim is Senior Policy Analyst in the Center for International Trade and Economics at The Heritage Foundation.

Ryan Olson is Research Assistant in the Center for International Trade and Economics at The Heritage Foundation.

Bryan Riley is Jay Van Andel Senior Analyst in Trade Policy in the Center for International Trade and Economics at The Heritage Foundation.

James M. Roberts is Research Fellow for Economic Freedom and Growth in the Center for International Trade and Economics at The Heritage Foundation.

Robert J. Barro, Ph.D., is Paul M. Warburg Professor of Economics at Harvard University and a senior fellow at Stanford University's Hoover Institution.

Matthew Mitchell, Ph.D., is Senior Research Fellow at the Mercatus Center at George Mason University.

Myron Brilliant is Senior Vice President for International Affairs at the U.S. Chamber of Commerce.

John A. Robinson is pursuing a Ph.D. in the Department of Economics at George Mason University.

2013 Index of Economic Freedom

Ambassador Terry Miller
Kim R. Holmes, Ph.D.
Edwin J. Feulner, Ph.D.

with Anthony B. Kim, Bryan Riley,
and James M. Roberts

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Preface

At the end of the Second World War, political philosophers who upheld the principles of economic freedom were in a distinct minority. The free economic order that was the 19th century West's crowning glory seemed hopelessly discredited by World Wars I and II. Collectivism was the order of the day, and socialism was the wave of the future in the West no less than in the East. Leviathan, it seemed, had triumphed everywhere.

Leviathan's triumph was especially evident in the area of developmental economics. There, it was taken for granted that economic development required extensive state control. Even worse, it was widely believed that only "modernizing dictatorships," as they were then called, could successfully manage the transition from a traditional society to a modern one. After all, it took a great deal of capital to industrialize a country and provide for the needs of the new urban work force. And the only way to get that capital was for the state to seize it from the peasantry. And since the peasants—who invariably comprised the majority of the country—would not surrender their crops and livestock voluntarily, they would have to be coerced into doing so. Hence the need for a dictatorship.

As for the role of the world's developed nations in the development process, most progressive theorists believed that in order to encourage economic development, their governments should actively assist the modernizing dictatorships by providing them with foreign aid. Thus it came about that, as one of the fiercest critics of this approach, P. T. Bauer, has written: "Large-scale expropriation, expulsion and even massacre has been perpetrated, encouraged or tolerated by governments which receive official aid from the West."

As it happens, back in 1965 I was a student of P. T. Bauer—later Lord Bauer—at the London School of Economics, and I was privileged to hear him systematically dismantle the arguments put forward by defenders of modernizing dictatorships. But I was well aware that Bauer was an isolated figure. Only a handful of conservative economists agreed with him.

But reality has a way of undermining even the most tenaciously defended of false theories—and starting in the late 1970s, the case for economic freedom was scoring impressive victories around the world. It was a historic process of breath taking proportions, and it began in December 1978, when the Chinese Communist Party launched a series of free-market agricultural reforms leading to the most remarkable explosion of farm output in the history of the world. It also saw such dedicated free market advocates as

Margaret Thatcher in Great Britain, and Ronald Reagan in the U.S., elected to the highest offices in their lands. And it culminated in 1991, with the collapse of the Soviet Union itself.

This great, global revival of freedom has massively important consequences: Suddenly, it began to dawn on people, and even on economists, that the human spirit was the real engine of economic prosperity and development, and that the human spirit was at its most creative when it was free.

And yet, powerful as this insight was, it did not penetrate the great Western and international bureaucracies in charge of disbursing foreign aid. When, for example, conservatives approached the State Department's Agency for International Development, and suggested that foreign aid be used to encourage economic freedom, the answer was always the same: "Economic freedom—what does that mean? And how can you possibly measure it?"

It was at this point that my brilliant and accomplished friend, Ambassador J. William Middendorf, approached our Board of Trustees with a terrific idea: Let The Heritage Foundation go ahead and develop a measurement, or index, of economic freedom throughout the world. Such an index would have to be comprehensive, strictly objective, and based on rock-solid research.

Well, to make a long story short, I thought Bill Middendorf had a great idea, and in 1995 we released the first volume in our *Index of Economic Freedom* series. Initially, Heritage published the *Index* on our own, but in 1997 we partnered with the *Wall Street Journal*, and as the phrase goes, we've been together ever since.

Looking back on my two decades of involvement with the *Index of Economic Freedom*, I feel profoundly blessed to have played a role in the global struggle for economic freedom. Not having the gift of prophecy, I won't venture to predict whether the gains in economic freedom that we have witnessed in recent decades will continue. With all my heart and soul, however, I pray that we will all find the moral and intellectual resources to avoid the terrible mistakes of the 20th century, and that this still-young era of ours will come to be known as "Freedom's Century."

Edwin J. Feulner, Ph.D., President
The Heritage Foundation
November 2012

Acknowledgments

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The Heritage Foundation's Center for International Trade and Economics (CITE) produces the *Index*. The CITE team of Anthony Kim, Bryan Riley, and James Roberts were responsible for grading the 10 components of economic freedom, analyzing the results, and producing the country reports included in this edition. Research Assistant Ryan Olson and interns Dylan DelliSanti, Katherine Elliott, Wesley Gwinn, Mark Lamborn, Kyle Niewoehner, Sylvia Oh, and Ella Peterson also contributed substantial research.

Others at The Heritage Foundation also made valuable contributions to this year's *Index*. In the Kathryn and Shelby Cullom Davis Institute for International Studies, Janice A. Smith, Special Assistant and Policy Coordinator for the Vice President of Foreign and Defense Policy Studies, provided important production assistance. A great debt is owed to the policy experts who wrote country backgrounds informed by their regional expertise. This year's contributors were Ariel Cohen, James Phillips, and Ray Walser of the Douglas and Sarah Allison Center for Foreign Policy Studies; Lisa Curtis, Bruce Klingner, Derek Scissors, and Director Walter Lohman of the Asian Studies Center; and Luke Coffey and Morgan Roach of the Margaret Thatcher Center for Freedom.

The *Index of Economic Freedom* is a substantial publication brought to print each year by the incredibly talented team in Creative Services. Director Melissa Bluey, Elizabeth Brewer, Doug Sampson, and Alex Harker were responsible for all aspects of the production process.

The *Index* stands on its commitment to accuracy, and once again we wish to express our deepest appreciation to Senior Editor Richard Odermatt, who is responsible for final review of the completed text, and Senior Copy Editor William T. Poole, who bears the primary responsibility for perfecting the text of the entire book. We are likewise grateful to Senior Data Graphics Editor John Fleming, who produced an automated system for generating some of our charts and carefully reviewed all graphics included in the book.

The availability of the entire *Index* and related raw data online at www.heritage.org/index has greatly expanded the publication's reach and accessibility. The transposition to the Web each year would not be possible without the expertise of Vice President of Information Technology Michael Spiller and his team, including Director of Online Communications Tim McGovern, Maria Sousa, Roger Spurzem, Jim Lawruk, Steve Sharman, John O'Keefe, Jeph Christoff, and Martha Galante.

The continuing support from Phil Truluck, Executive Vice President of The Heritage Foundation; Becky Norton Dunlop, Vice President, External Relations; Mike Franc, Vice President, Government Studies; Genevieve Wood, Vice President, Marketing; and Michael Gonzalez, Vice President, Communications, is sincerely appreciated.

As always, we acknowledge our enduring debt to Heritage Trustee Ambassador J. William Middendorf II, who originally encouraged us to undertake such a study of global economic freedom. Very special thanks go to Paul Gigot and Mary Anastasia O'Grady at *The Wall Street Journal*, whose enduring partnership and support we truly cherish.

Finally, we would like to express our appreciation to the many people who respond so enthusiastically, year after year, to the *Index of Economic Freedom*. To those who read, share, and use the *Index* findings to engage in discussions about economic freedom, we thank you. The support and encouragement of people in all parts of the world continue to inspire The Heritage Foundation and *The Wall Street Journal* in their ongoing collaboration on this important work.

Ambassador Terry Miller
Kim R. Holmes, Ph.D.
Edwin J. Feulner, Ph.D.
November 2012

Executive Highlights

- Countries with higher levels of economic freedom substantially outperform others in economic growth, per capita incomes, health care, education, protection of the environment, and reduction of poverty, according to data collected for the 2013 *Index of Economic Freedom*.
- Regrettably, the results also indicate that economic freedom is not advancing strongly. Only 31 countries have increased their economic freedom scores by 1 point or more over the past year, and 35 registered declines of that magnitude. The average world economic freedom score increased only 0.1 point, reflecting policy stagnation that in turn is reflected in lower world growth rates.
- Government spending scores improved somewhat on average, heralding serious efforts in many countries to halt the rapid budget growth that accelerated during the financial crisis and recession. By contrast, regulatory efficiency declined as countries attempted to stem growing unemployment by increasing minimum wages or otherwise tightening labor market controls. The failure of those policies was evident in many countries around the globe.
- Five emerging economies have notably improved economic freedom in recent years, surviving the global economic turmoil with sustained positive growth rates: Colombia, Indonesia, Jordan, Poland, and the United Arab Emirates. With a cumulative score improvement of 3.5 points or more, each of these countries has achieved five consecutive years of improving economic freedom and turned the global economic crisis into an opportunity to upgrade its economic system.
- On the other hand, two advanced economies and one developing country have registered five consecutive years of declining economic freedom: the United States, Ireland, and Equatorial Guinea. Each has recorded a cumulative score decline of 5 points or more since 2008. All have suffered from substantial declines broadly across the 10 components of economic freedom, particularly in the areas of the rule of law and limited government.
- The importance of political stability to economic freedom and prosperity is illustrated this year by the suspension of Libya and Syria from the *Index* rankings. Ongoing conflicts in those two countries have made it impossible to

gather the necessary data to grade all aspects of their economic freedom, and it is obvious that economic development has ground to a halt at least temporarily in both countries.

THE RULE OF LAW

Given the political turmoil engulfing the Middle East and the ongoing problems in other regions of the world, the 2013 *Index* includes a number of special studies focusing on the importance for development and economic prosperity of maintaining and advancing the rule of law.

- Dr. Robert Barro of Harvard University examines the relationship between "Democracy, Law and Order, and Economic Growth" and, with particular relevance in view of the ongoing turmoil in the Middle East, concludes that reform efforts in poor countries should concentrate on establishing the rule of law, property rights, and free markets rather than democracy, which has little relationship to future economic performance.
- The relationship between "Economic Freedom and Government-Granted Privilege" is extraordinarily destructive, according to Dr. Matthew Mitchell of the Mercatus Center at George Mason University. Government interventions on behalf of specific firms and individuals violate one of the fundamental tenets of economic freedom—equitable treatment for all—and lead to unproductive behavior and a loss of efficiency. Dr. Mitchell concludes that such privileges are "pathological," limiting the prospects for mutually beneficial exchange, raising prices, lowering quality, and discouraging innovation.
- The protection of property rights is the key to ensuring beneficial development outcomes in countries seeking to exploit endowments of natural resources, according to James M. Roberts of The Heritage Foundation and John A. Robinson. They explain that "Property Rights Can Solve the 'Resource Curse,'" encouraging investment, entrepreneurship, and innovation. By contrast, bad outcomes follow when abundant resources are made available to a corrupt regime.
- According to Myron Brilliant, Senior Vice President for International Affairs of the U.S. Chamber of Commerce, "Good Business Demands Good Governance," and better international metrics for the rule of law would inspire government reforms that would improve investment flows and job creation in countries that maintain high standards and are effective in controlling corruption.

THE WORLD RANKINGS

- Hong Kong again leads the world rankings, followed by Singapore, Australia, New Zealand and Switzerland. These economies, judged economically free according to the *Index* criteria, demonstrate the benefits of policies that consistently strive to protect and expand economic freedom.
- The top performers in the *Index* come from all parts of the world. Hong Kong, Switzerland, Canada, Chile, Mauritius, and Bahrain each claimed a regional crown, with scores among the dozen best overall.
- With Ireland's decline in rank from 9th place to 11th place, the eurozone is no longer represented in the *Index* Top 10. A significant realignment of European countries is underway in terms of economic freedom. Sweden, Germany, Georgia, the Czech Republic, Norway, Poland, Romania, and Bulgaria all recorded their highest economic freedom scores ever in 2013. France, Greece, Italy, Portugal, and the United Kingdom all registered scores about the same or lower than those they first registered nearly two decades ago when the *Index* began recording economic freedom.

2013 *Index of Economic Freedom* World Rankings

World Rank	Country	Overall Score	Change from 2012	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
1	Hong Kong	89.3	-0.6	90	84	92.9	88.9	98.9	86.2	82.1	90.0	90	90
2	Singapore	88.0	0.5	90	92	91.1	91.3	97.1	91.4	82.0	90.0	75	80
3	Australia	82.6	-0.5	90	88	66.4	62.8	95.5	83.5	83.8	86.2	80	90
4	New Zealand	81.4	-0.7	95	95	71.5	33.2	99.9	89.5	83.3	86.8	80	80
5	Switzerland	81.0	-0.1	90	88	68.1	63.8	75.8	87.9	86.2	90.0	80	80
6	Canada	79.4	-0.5	90	87	79.8	44.8	91.7	82.3	75.2	88.2	75	80
7	Chile	79.0	0.7	90	72	77.6	83.7	70.5	74.2	84.6	82.0	85	70
8	Mauritius	76.9	-0.1	70	51	92.1	81.9	78.2	72.3	75.4	87.9	90	70
9	Denmark	76.1	-0.1	90	94	39.8	5.9	98.4	91.1	80.0	86.8	85	90
10	United States	76.0	-0.3	85	71	69.3	47.8	90.5	95.5	75.0	86.4	70	70
11	Ireland	75.7	-1.2	90	75	73.8	28.8	83.4	76.6	82.8	86.8	90	70
12	Bahrain	75.5	0.3	55	51	99.9	72.4	75.8	90.4	72.5	82.8	75	80
13	Estonia	75.3	2.1	85	64	79.7	56.2	78.2	56.0	77.1	86.8	90	80
14	United Kingdom	74.8	0.7	90	78	57.0	27.7	94.1	71.6	72.4	86.8	90	80
15	Luxembourg	74.2	-0.3	90	85	65.0	47.1	74.8	39.0	79.3	86.8	95	80
16	Finland	74.0	1.7	90	94	66.9	12.2	94.8	45.3	79.5	86.8	90	80
17	Netherlands	73.5	0.2	90	89	52.1	24.7	83.0	58.6	81.1	86.8	90	80
18	Sweden	72.9	1.2	90	93	39.6	21.0	93.2	53.6	82.1	86.8	90	80
19	Germany	72.8	1.8	90	80	61.8	37.3	92.1	43.8	81.2	86.8	85	70
20	Taiwan	72.7	0.8	70	61	80.5	84.9	94.3	53.3	82.9	85.0	65	50
21	Georgia	72.2	2.8	45	41	88.2	68.9	90.6	91.1	72.6	89.2	75	60
22	Lithuania	72.1	0.6	60	48	92.8	53.6	77.6	64.1	78.3	86.8	80	80
23	Iceland	72.1	1.2	90	83	72.7	36.2	91.5	58.9	75.8	87.8	65	60
24	Japan	71.8	0.2	80	80	69.2	45.0	81.3	80.3	90.6	81.8	60	50
25	Austria	71.8	1.5	90	78	51.1	23.5	73.6	80.4	79.3	86.8	85	70
26	Macau	71.7	-0.1	60	51	73.5	91.5	60.0	55.0	81.3	90.0	85	70
27	Qatar	71.3	0.0	70	72	99.8	81.2	69.4	63.4	80.3	82.5	45	50
28	United Arab Emirates	71.1	1.8	55	68	99.9	85.1	74.0	77.6	83.9	82.6	35	50
29	Czech Republic	70.9	1.0	70	44	82.0	43.5	65.8	85.5	81.7	86.8	70	80
30	Botswana	70.6	1.0	70	61	79.5	65.1	69.0	69.8	72.0	79.7	70	70
31	Norway	70.5	1.7	90	90	51.0	40.3	92.6	44.7	76.9	89.3	70	60
32	Saint Lucia	70.4	-0.9	70	70	76.9	63.6	85.3	76.4	84.7	71.9	65	40
33	Jordan	70.4	0.5	60	45	93.6	68.8	69.2	75.5	82.0	79.6	70	60
34	South Korea	70.3	0.4	70	54	73.0	72.8	93.6	48.7	77.9	72.6	70	70
35	The Bahamas	70.1	2.1	70	73	97.0	84.9	71.3	81.6	75.8	47.0	30	70
36	Uruguay	69.7	-0.2	70	70	84.2	68.3	73.4	70.7	72.5	82.9	75	30
37	Colombia	69.6	1.6	50	34	76.1	75.2	90.2	79.3	78.7	72.2	70	70

2013 *Index of Economic Freedom* World Rankings

World Rank	Country	Overall Score	Change from 2012	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
38	Armenia	69.4	0.6	30	26	88.0	82.1	87.6	77.1	73.0	85.4	75	70
39	Barbados	69.3	0.3	80	78	74.5	54.2	74.8	84.4	72.1	60.5	55	60
40	Belgium	69.2	0.2	80	75	45.0	14.5	91.6	69.8	79.3	86.8	80	70
41	Cyprus	69.0	-2.8	70	63	79.8	32.7	80.7	62.8	84.1	81.8	75	60
42	Slovakia	68.7	1.7	50	40	84.7	58.0	71.0	72.2	79.1	86.8	75	70
43	Macedonia	68.2	-0.3	35	39	91.4	69.1	80.3	78.4	84.0	84.6	60	60
44	Peru	68.2	-0.5	40	34	79.9	89.1	72.3	67.1	84.3	85.0	70	60
45	Oman	68.1	0.2	50	48	98.5	69.1	68.1	80.9	72.7	78.7	55	60
46	Spain	68.0	-1.1	70	62	53.9	43.0	80.3	54.3	79.9	86.8	80	70
47	Malta	67.5	0.5	75	56	61.2	44.1	61.1	65.4	80.4	86.8	85	60
48	Hungary	67.3	0.2	65	46	79.7	29.7	79.1	64.4	77.1	86.8	75	70
49	Costa Rica	67.0	-1.0	50	48	82.9	90.1	58.3	60.4	75.4	85.1	70	50
50	Mexico	67.0	1.7	50	30	81.1	79.4	81.4	59.7	77.7	80.6	70	60
51	Israel	66.9	-0.9	70	58	60.2	39.3	66.1	63.7	78.6	83.0	80	70
52	Jamaica	66.8	1.7	40	33	77.5	67.7	84.3	69.3	76.1	75.0	85	60
53	El Salvador	66.7	-2.0	40	34	85.7	85.4	61.8	62.0	79.6	79.0	70	70
54	Saint Vincent and The Grenadines	66.7	0.2	70	58	74.2	67.1	77.6	76.6	80.3	73.3	50	40
55	Latvia	66.5	1.3	50	42	84.4	53.6	75.7	64.4	78.3	86.8	80	50
56	Malaysia	66.1	-0.3	55	43	85.1	73.5	79.9	72.3	79.8	77.0	45	50
57	Poland	66.0	1.8	60	55	76.0	43.0	64.0	62.9	77.7	86.8	65	70
58	Albania	65.2	0.1	30	31	92.6	75.1	81.0	49.0	78.4	79.8	65	70
59	Romania	65.1	0.7	40	36	87.9	62.2	70.4	63.5	74.7	86.8	80	50
60	Bulgaria	65.0	0.3	30	33	94.0	64.2	73.6	74.8	78.6	86.8	55	60
61	Thailand	64.1	-0.8	45	34	78.9	83.7	73.2	72.9	68.3	75.2	40	70
62	France	64.1	0.9	80	70	53.0	5.6	84.0	50.5	81.1	81.8	65	70
63	Rwanda	64.1	-0.8	30	50	80.4	75.9	65.6	80.3	75.5	78.0	65	40
64	Dominica	63.9	2.3	60	52	72.0	50.1	77.0	68.8	85.3	74.3	70	30
65	Cape Verde	63.7	0.2	70	55	77.9	65.4	58.9	40.3	78.0	66.9	65	60
66	Kuwait	63.1	0.6	50	46	99.9	61.5	57.7	62.8	71.6	76.8	55	50
67	Portugal	63.1	0.1	70	61	61.6	28.3	82.8	31.0	79.4	86.8	70	60
68	Kazakhstan	63.0	-0.6	35	27	93.2	84.5	71.8	88.4	72.2	78.2	30	50
69	Turkey	62.9	0.4	50	42	77.0	64.9	68.2	43.1	73.3	85.2	65	60
70	Montenegro	62.6	0.1	40	40	92.4	41.5	72.7	71.4	79.9	83.0	55	50
71	Panama	62.5	-2.7	30	33	86.2	77.8	72.5	40.1	75.9	74.8	65	70
72	Trinidad and Tobago	62.3	-2.1	50	32	84.9	60.4	55.1	76.7	73.7	69.9	60	60
73	Madagascar	62.0	-0.4	40	30	90.0	94.6	63.5	47.4	74.9	74.6	55	50

2013 *Index of Economic Freedom* World Rankings

World Rank	Country	Overall Score	Change from 2012	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
74	South Africa	61.8	-0.9	50	41	70.5	69.2	74.7	55.6	75.8	76.3	45	60
75	Mongolia	61.7	0.2	30	27	82.5	62.6	70.4	79.2	75.6	79.8	50	60
76	Slovenia	61.7	-1.2	60	59	65.7	22.3	80.7	40.4	81.6	86.8	70	50
77	Ghana	61.3	0.6	50	39	86.0	52.5	61.5	61.6	64.8	67.8	70	60
78	Croatia	61.3	0.4	40	40	75.4	48.7	63.0	42.4	81.1	87.5	75	60
79	Uganda	61.1	-0.8	30	24	80.6	84.3	48.4	87.9	77.2	73.6	55	50
80	Paraguay	61.1	-0.7	30	22	95.9	85.4	59.1	25.6	79.8	82.7	70	60
81	Sri Lanka	60.7	2.4	40	33	84.7	86.5	77	60.8	69.1	76.2	40	40
82	Saudi Arabia	60.6	-1.9	40	44	99.6	52.2	68.2	69.2	65.7	77.3	40	50
83	Italy	60.6	1.8	50	39	55.5	25.3	76.9	52.0	80.2	86.8	80	60
84	Namibia	60.3	-1.6	30	44	66.4	71.5	68.4	76.7	74.9	81.5	50	40
85	Guatemala	60.0	-0.9	30	27	79.6	93.6	50.8	48.7	75.5	85.2	60	50
86	Burkina Faso	59.9	-0.7	30	30	81.4	82.0	61.2	56.4	80.6	72.5	55	50
87	Dominican Republic	59.7	-0.5	30	26	83.7	92.6	53.7	55.6	72.9	77.8	65	40
88	Azerbaijan	59.7	0.8	25	24	85.5	67.8	69.2	79.4	73.5	77.2	55	40
89	Kyrgyz Republic	59.6	-0.6	20	21	94.8	56.4	73.2	88.6	66.7	75.4	50	50
90	Morocco	59.6	-0.6	40	34	71.4	64.3	76.4	30.1	78.9	70.8	70	60
91	Lebanon	59.5	-0.6	20	25	90.8	74.6	50.3	57.2	76.5	80.4	60	60
92	The Gambia	58.8	0.0	30	35	75.1	82.7	59.5	59.3	71.1	60.5	65	50
93	Zambia	58.7	0.4	30	32	72.9	80.3	60.4	58.4	66.0	82.3	55	50
94	Serbia	58.6	0.6	40	33	84.2	40.3	60.2	70.4	65.3	77.9	65	50
95	Cambodia	58.5	0.9	30	21	90.9	88.4	39.4	54.2	81.3	70.2	60	50
96	Honduras	58.4	-0.4	30	26	85.3	79.2	61.0	26.8	73.9	77.1	65	60
97	The Philippines	58.2	1.1	30	26	79.3	90.2	53.1	51.0	76.6	75.5	50	50
98	Tanzania	57.9	0.9	30	30	79.9	77.9	48.6	61.9	71.8	73.5	55	50
99	Gabon	57.8	1.4	40	30	74.2	80.1	56.5	63.1	77.5	61.1	55	40
100	Brazil	57.7	-0.2	50	38	70.3	54.8	53.0	57.2	74.4	69.7	50	60
101	Benin	57.6	1.9	30	30	76.1	86.1	45.4	49.7	79.9	59.3	70	50
102	Belize	57.3	-4.6	30	0	82.2	72.6	72.6	71.4	77.3	77.2	40	50
103	Bosnia and Herzegovina	57.3	0.0	20	32	83.2	26.9	54.3	61.2	79.0	86.4	70	60
104	Swaziland	57.2	0.0	40	31	74.4	51.3	66.0	70.3	74.7	69.7	55	40
105	Fiji	57.2	-0.1	25	20	78.0	78.0	65.7	74.9	72.8	68.0	40	50
106	Samoa	57.1	-3.4	60	39	80.6	34.3	72.4	80.4	78.5	66.0	30	30
107	Tunisia	57.0	-1.6	40	38	74.5	63.7	82.8	70.1	77.8	58.1	35	30
108	Indonesia	56.9	0.5	30	30	83.4	89.2	50.2	50.8	75.5	75.0	35	50
109	Vanuatu	56.6	0.0	40	35	97.3	80.5	56.4	57.7	81.4	48.0	30	40
110	Nicaragua	56.6	-1.3	15	25	78.7	65.1	51.2	62.2	73.2	85.4	60	50

2013 *Index of Economic Freedom* World Rankings

World Rank	Country	Overall Score	Change from 2012	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
111	Mali	56.4	0.6	30	28	69.6	83.9	50.1	64.6	79.9	73.2	45	40
112	Tonga	56.0	-1.0	20	31	87.1	64.7	76.6	84.4	71.1	75.6	30	20
113	Yemen	55.9	0.6	30	21	91.5	72.8	61.3	55.3	65.7	81.5	50	30
114	Kenya	55.9	-1.6	30	22	77.5	73.5	58.0	57.1	73.8	66.7	50	50
115	Moldova	55.5	1.1	40	29	87.2	50.1	69.7	40.9	73.4	80.0	35	50
116	Senegal	55.5	0.1	40	29	65.2	75.6	56.7	41.3	79.6	72.2	55	40
117	Greece	55.4	0.0	40	34	66.2	24.7	77.1	42.1	73.4	81.8	65	50
118	Malawi	55.3	-1.1	40	30	78.4	60.0	41.1	58.8	72.5	71.8	50	50
119	India	55.2	0.6	50	31	78.3	77.9	37.3	73.6	65.3	63.6	35	40
120	Nigeria	55.1	-1.2	30	24	82.6	74.6	55.7	67.2	73.3	63.9	40	40
121	Pakistan	55.1	0.4	30	25	80.5	89.0	70.7	47.9	67.0	66.0	35	40
122	Bhutan	55.0	-1.6	60	57	82.7	38.8	60.5	84.4	67.3	49.5	20	30
123	Mozambique	55.0	-2.1	30	27	76.2	64.5	63.9	37.9	74.7	75.4	50	50
124	Seychelles	54.9	1.9	50	48	77.6	56.9	69.2	63.5	75.6	33.4	45	30
125	Egypt	54.8	-3.1	35	29	85.6	69.4	63.3	43.3	58.4	73.8	50	40
126	Côte d'Ivoire	54.1	-0.2	25	22	77.9	79.8	43.3	54.6	77.8	70.3	40	50
127	Djibouti	53.9	0.0	30	30	79.4	48.8	30.0	59.6	76.6	59.6	65	60
128	Niger	53.9	-0.4	30	25	77.0	80.1	35.2	39.3	85.4	71.7	55	40
129	Guyana	53.8	2.5	30	25	67.9	61.1	66.3	75.4	75.9	71.2	35	30
130	Papua New Guinea	53.6	-0.2	20	22	67.4	72.3	58.3	73.4	72.4	85.0	35	30
131	Tajikistan	53.4	0.0	20	23	92.8	78.1	61.7	55.5	64.6	78.2	20	40
132	Bangladesh	52.6	-0.6	20	27	72.7	92.1	68.0	51.9	65.4	54.0	55	20
133	Cameroon	52.3	0.5	30	25	69.3	87.1	46.8	55.5	69.9	54.9	35	50
134	Mauritania	52.3	-0.7	25	24	80.3	74.7	43.3	51.1	75.1	64.8	45	40
135	Suriname	52.0	-0.6	40	30	71.6	72.5	40.2	77.5	66.7	66.3	25	30
136	China	51.9	0.7	20	36	70.2	83.3	48.0	62.6	71.6	72.0	25	30
137	Guinea	51.2	0.4	20	21	69.6	82.6	46.1	63.8	62.8	61.2	45	40
138	Guinea-Bissau	51.1	1.0	20	22	89.1	82.0	41.3	54.0	72.7	65.3	35	30
139	Russia	51.1	0.6	25	24	86.9	54.4	69.2	52.6	66.7	77.4	25	30
140	Vietnam	51.0	-0.3	15	29	75.6	72.4	63.8	65.5	65.3	78.6	15	30
141	Nepal	50.4	0.2	30	22	85.8	89.2	57.2	44.3	75.1	60.8	10	30
142	Central African Republic	50.4	0.1	20	22	65.1	92.4	35.2	47.9	78.1	57.8	55	30
143	Micronesia	50.1	-0.6	30	30	97.5	0.0	54.1	82.5	76.1	81.0	20	30
144	Laos	50.1	0.1	15	22	79.7	85.8	62.1	54.7	73.0	58.7	30	20
145	Algeria	49.6	-1.4	30	29	80.4	44.1	65.2	52.6	76.6	67.8	20	30
146	Ethiopia	49.4	-2.6	30	27	74.2	89.6	52.4	46.9	64.7	64.0	25	20
147	Liberia	49.3	0.7	30	32	76.6	77.8	56.5	47.2	72.0	61.4	20	20

2013 *Index of Economic Freedom* World Rankings

World Rank	Country	Overall Score	Change from 2012	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
148	Burundi	49.0	0.9	20	19	71.5	22.6	58.4	66.4	68.7	78.9	55	30
149	Maldives	49.0	-0.2	25	25	98.8	14.5	88.7	64.0	70.4	43.7	30	30
150	Togo	48.8	0.5	30	24	68.5	81.6	39.9	44.2	78.5	56.7	35	30
151	Sierra Leone	48.3	-0.8	10	25	80.7	75.9	51.5	26.3	68.5	70.2	55	20
152	Haiti	48.1	-2.6	10	18	80.7	66.3	33.4	63.6	74.2	74.8	30	30
153	São Tomé and Príncipe	48.0	-2.2	20	30	86.9	45.3	53.5	38.6	66.0	60.0	50	30
154	Belarus	48.0	-1.0	20	24	88.8	43.5	75.2	76.9	40.7	80.8	20	10
155	Lesotho	47.9	1.3	40	35	48.2	0.0	63.7	62.8	75.7	69.1	45	40
156	Bolivia	47.9	-2.3	10	28	88.8	64.1	55.8	30.8	67.4	74.3	10	50
157	Comoros	47.5	1.8	30	24	64.7	82.4	44.7	51.2	74.6	68.8	15	20
158	Angola	47.3	0.6	15	20	82.6	60.6	43.1	44.8	61.5	70.2	35	40
159	Ecuador	46.9	-1.4	20	27	80.1	47.3	51.5	48.0	66.9	68.1	20	40
160	Argentina	46.7	-1.3	15	30	64.3	52.1	60.1	47.4	60.4	67.6	40	30
161	Ukraine	46.3	0.2	30	23	78.2	29.4	47.6	49.9	71.0	84.4	20	30
162	Uzbekistan	46.0	0.2	15	16	90.2	67.8	71.2	61.0	63.0	66.1	0	10
163	Kiribati	45.9	-1.0	30	31	71.2	0.0	59.2	78.5	78.4	55.4	25	30
164	Chad	45.2	0.4	20	20	50.4	75.5	25.2	40.5	74.6	55.6	50	40
165	Solomon Islands	45.0	-1.2	30	27	66.2	6.1	66.6	66.4	75.4	72.6	10	30
166	Timor-Leste	43.7	0.4	20	24	64.7	0.0	44.8	81.2	69.3	73.0	40	20
167	Congo, Rep. of	43.5	-0.3	10	22	61.4	80.3	31.5	44.8	74.3	60.7	20	30
168	Iran	43.2	0.9	10	27	80.8	80.5	65.3	55.0	58.0	45.7	0	10
169	Turkmenistan	42.6	-1.2	5	16	94.0	91.7	30.0	30.0	70.6	79.2	0	10
170	Equatorial Guinea	42.3	-0.5	15	19	75.4	39.3	44.4	43.1	72.8	58.8	25	30
171	Congo, Dem. Rep. of	39.6	-1.5	10	20	71.4	60.1	38.7	36.3	56.5	63.0	20	20
172	Burma	39.2	0.5	10	15	81.9	96.8	20.0	20.0	65.1	73.6	0	10
173	Eritrea	36.3	0.1	10	25	57.0	54.6	17.3	54.6	55.5	69.1	0	20
174	Venezuela	36.1	-2.0	5	19	75.6	50.6	45.6	34.5	47.3	58.8	5	20
175	Zimbabwe	28.6	2.3	10.0	22.0	71.8	66.4	33.4	21.90	0.0	50.4	0.0	10.0
176	Cuba	28.5	0.2	10	42	62.7	0.0	10.0	20.0	67.4	62.7	0	10
177	North Korea	1.5	0.5	5	10	0.0	0.0	0.0	0.0	0.0	0.0	0	0
N/A	Afghanistan	N/A	N/A	N/A	15	N/A	83.2	59.7	75.8	69.5	N/A	65	N/A
N/A	Iraq	N/A	N/A	N/A	18	N/A	N/A	47	70.1	N/A	N/A	N/A	N/A
N/A	Kosovo	N/A	N/A	30.0	29.0	93.5	73.0	52.4	77.7	50.0	N/A	65.0	N/A
N/A	Libya	N/A	N/A	10	20	N/A	N/A	N/A	N/A	64.8	85	10	20
N/A	Liechtenstein	N/A	N/A	N/A	N/A	N/A	N/A	70.0	N/A	N/A	90.0	N/A	80.0
N/A	Somalia	N/A	N/A	N/A	10	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	Sudan	N/A	N/A	N/A	16	N/A	89.9	57.4	65.4	64.5	N/A	15	N/A
N/A	Syria	N/A	N/A	20	26	86.2	N/A	59.3	48.9	71.5	72.8	10	20

Chapter 1

Economic Freedom: Global and Regional Patterns

Ambassador Terry Miller and Anthony B. Kim

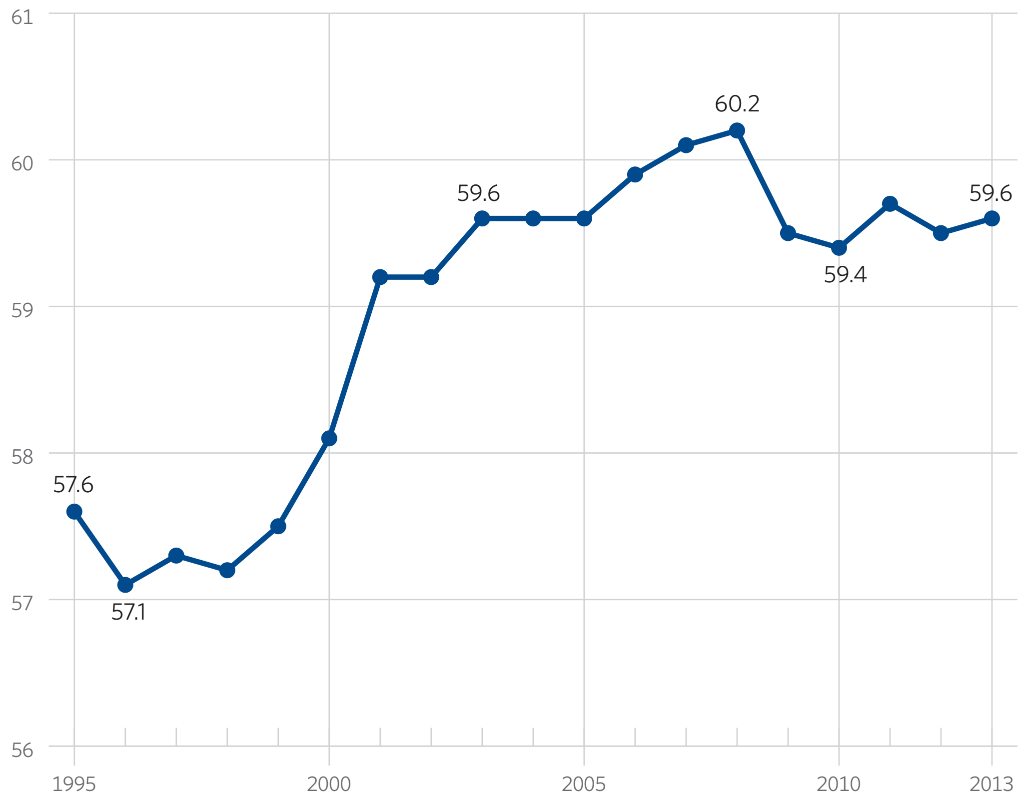
On a worldwide basis, the advance of economic freedom has ground to a halt. Since peaking in 2008, when the average economic freedom score reached 60.2 on the *Index* 0–100 scale, global economic freedom has failed to advance, and this year's average score of 59.6 is no better than the score achieved a full decade ago in 2003.

Still, there are bright spots around the world:

- **Four Asia–Pacific economies and Switzerland earned designation as truly "free" economies in the 2013 *Index*.** Each achieved a score above 80 on the grading scale. Hong Kong was able to hold its position as the world's freest economy, a position it has held for 19 consecutive years. With another strong advance in economic freedom, Singapore remains a close second and has narrowed the gap between it and Hong Kong. Australia, New Zealand, and Switzerland maintained their previous standings of 3rd, 4th, and 5th, respectively. The relative strength of these five free economies is no accident. Their continuing commitment to rule of law, limited government, regulatory efficiency, and open markets has been the source of impressive resilience during uncertain economic times.
- **Seven emerging economies and one advanced economy joined those considered "mostly free" in the 2013 *Index*, raising the number of countries in that category to 30. The eight countries are Georgia, United Arab Emirates, Czech Republic, Botswana, Norway, Jordan, South Korea, and the Bahamas.** Notably, in the 2013 *Index*, Jordan became a "mostly free" economy for the first time, and Georgia recorded the largest score improvement over the past year.
- **The scores of 91 countries improved, and 24 recorded their highest scores ever in the *Index*.** Of the 91 economies that recorded score gains, 71 are considered developing or emerging economies. Of those developing economies, 23 come from the Sub-Saharan Africa region, 16 are from Europe, and 15 are from the Asia–Pacific region.
- **Five emerging economies have recorded notable increases in economic freedom**

Global Average Economic Freedom

Average Score in the *Index of Economic Freedom* Since 1995



Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index.

Chart 1 heritage.org

over the past five years, maintaining high economic growth rates despite the difficult international economic environment. The five countries are Colombia, Indonesia, Jordan, Poland, and the United Arab Emirates. With a five-year cumulative score increase of 3.5 points or more, each of these countries has achieved five consecutive years of improving economic freedom since 2008 and turned the global economic crisis into an opportunity to upgrade its economic system.

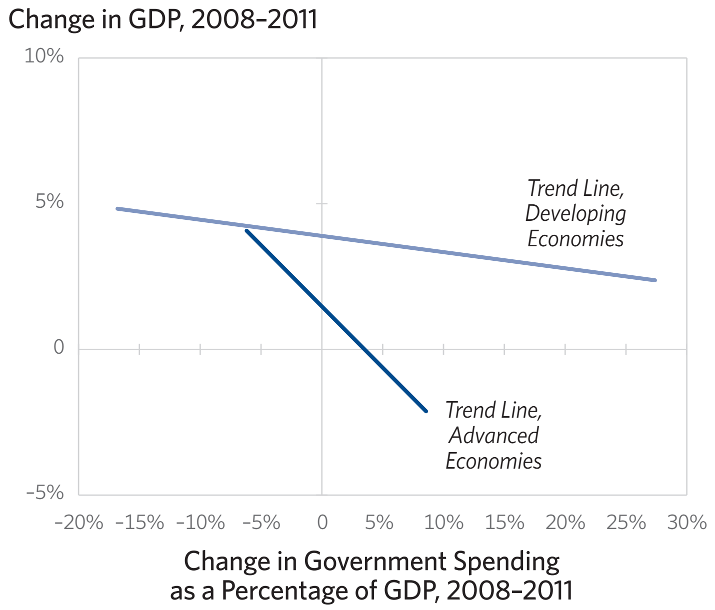
- **Every region continues to be represented by at least one of the top 20 freest economies, but some notable reshuffling has occurred in the 2013 *Index*.** Half of the leading economies are in Europe, led by Switzerland and Denmark. The Danish economy has climbed to the 9th spot, overtaking the United States and Ireland. Losing its status of one of the world's 10 freest economies, Ireland has fallen to 11th place. Germany and Sweden have replaced Macau and Cyprus in the top 20. Five top performers are in the Asia–Pacific region, with Taiwan, just squeaking in at number 20, joining world leaders Hong Kong, Singapore, Australia, and New Zealand. Canada and the U.S. represent North America. The other regions are represented by one country each: Chile (South and Central America/Caribbean region); Mauritius (Sub-Saharan Africa region); and Bahrain (Middle East and North Africa region).

ECONOMIC LEADERS IN DECLINE

The overall stagnation observed in worldwide levels of economic freedom has coincided with significant setbacks in countries previously regarded as leaders in economic freedom. In particular, the United States and Ireland, which had risen in previous years as high as 4th place in the rankings, have seen their scores drop substantially in recent years. Both suffered declines in economic freedom again this year.

Seventy-eight countries registered declines in economic freedom in the 2013 *Index*, and another eight recorded no change in overall score. It remains to be seen whether the global economy is undergoing the leading edge of a fundamental realignment of countries along the continuum of economic freedom or whether the breaks in progress in many countries are just transitory manifestations of a loss of commitment to advancing economic freedom.

Higher Government Spending Equals Lower Economic Growth



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index; World Bank Group, World Development Indicators Online, http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/0,,menuPK: 476823~pagePK:64165236~piPK: 64165141~theSitePK:469372,00.html (accessed November 5, 2012); and International Monetary Fund, World Economic Outlook Databases, http://www.imf.org/external/ns/cs.aspx?id=28 (accessed November 5, 2012).

Chart 2 heritage.org

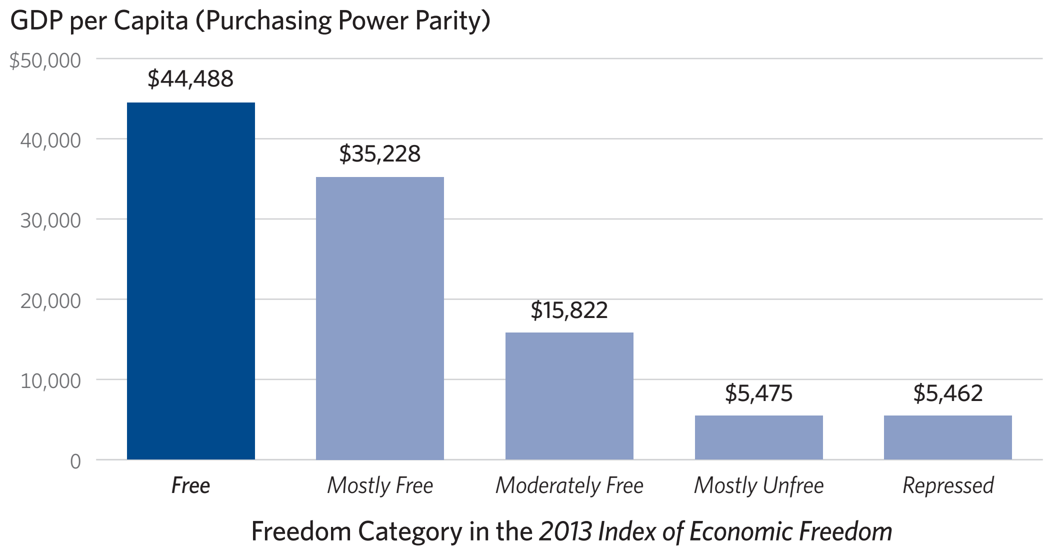
LIMITED GOVERNMENT ENHANCES ECONOMIC DYNAMISM

A pleasant surprise in the *Index* rankings this year was the strong evidence that many countries are putting substantial effort into getting their fiscal houses in order. The *Index* category that measures restraint in government spending showed one of the largest improvements of any of the 10 economic freedoms, with the worldwide average score rising from 59.8 to 61.1. Fiscal freedom improved as well, with many countries continuing efforts to streamline tax systems and lower marginal rates.

Three years of data are now available on the impact of government stimulus on economic growth rates. The 2011 *Index* first reported the negative impact of government spending in the early days of the global recession for advanced economies that are members of the Organisation for Economic Co-operation and Development (OECD). The full data set now available for a much greater number of countries shows a similar negative relationship between increases in government spending and economic growth.

Interestingly, the relationship is far more negative in the case of advanced economies than it is for developing and emerging economies

Greater Economic Freedom, Higher Standard of Living



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index, and International Monetary Fund, World Economic Outlook Databases, http://www.imf.org/external/ns/cs.aspx?id=28 (accessed November 6, 2012).

Chart 3 heritage.org

(correlation coefficient –0.46 versus –0.09). Over the past three years, countries that have increased government spending have tended to record lower economic growth rates.

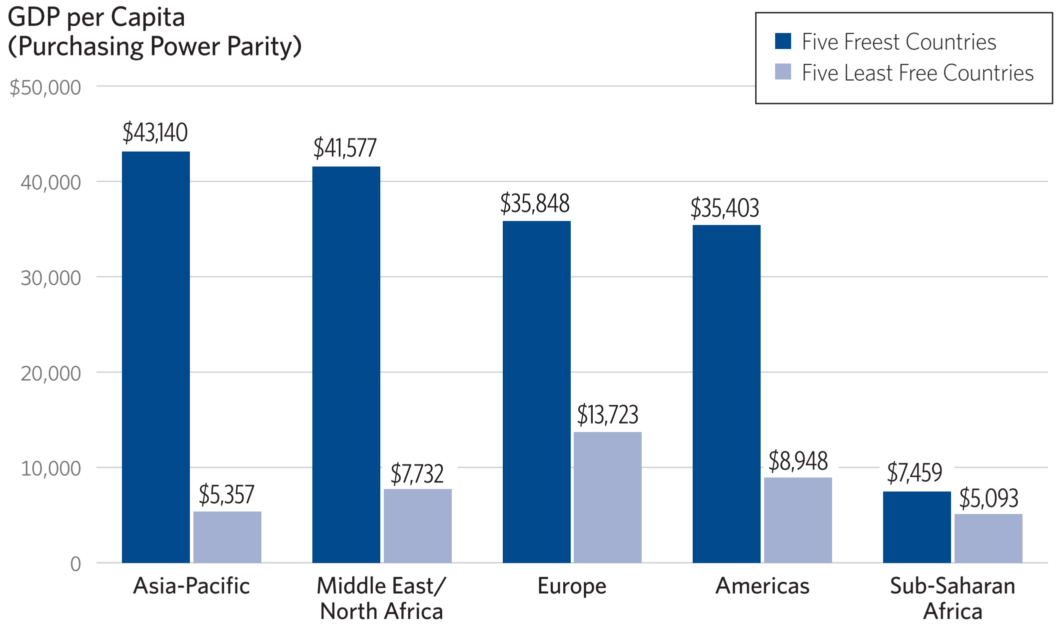
MARKET-OPENING MEASURES CONTINUE, BUT REGULATORY EFFICIENCY DECLINES

The economic freedom category that improved the most in the 2013 *Index* is investment freedom. Average scores in this category increased to 52.2 from 50.7 in the 2012 *Index*. Countries clearly continue to recognize the benefits of integrating as fully as possible into global economic markets.

Regulatory efficiency, by contrast, declined significantly. Average scores dropped in every economic freedom related to regulatory efficiency, with labor freedom suffering the most. Many countries apparently believe that improvements in well-being for poorer workers can be achieved through legislative fiat. Even top-ranked Hong Kong has experimented with a minimum wage, and labor market rigidities and bureaucratic and costly business regulations continue to drive many people into informal types of economic activity, particularly in developing countries.

THE RULE OF LAW

The 2013 *Index* focuses on the impact on economic growth and social well-being of the rule of law, one of the four pillars of economic freedom. The five essays included in a Special Focus Section provide a comprehensive overview of the subject. Measures in the *Index* related to the rule of law include indices related to the protection of property rights and corruption, and the composite of these two indicators is even more highly correlated than overall economic freedom scores with high levels of per capita GDP. Those countries that have improved the rule of law over the past five years show an average growth rate of 4.4 percent over the period, while those economies where the rule of law has declined have grown less than 3 percent per year on average.



Economic Freedom Promotes Prosperity

Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index; World Bank Group, World Development Indicators Online, http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/0,,menuPK:476823~pagePK:64165236~piPK:64165141~theSitePK:469372,00.html (accessed November 8, 2012); International Monetary Fund, World Economic Outlook Databases, http://www.imf.org/external/ns/cs.aspx?id=28 (accessed November 8, 2012).

Chart 4 heritage.org

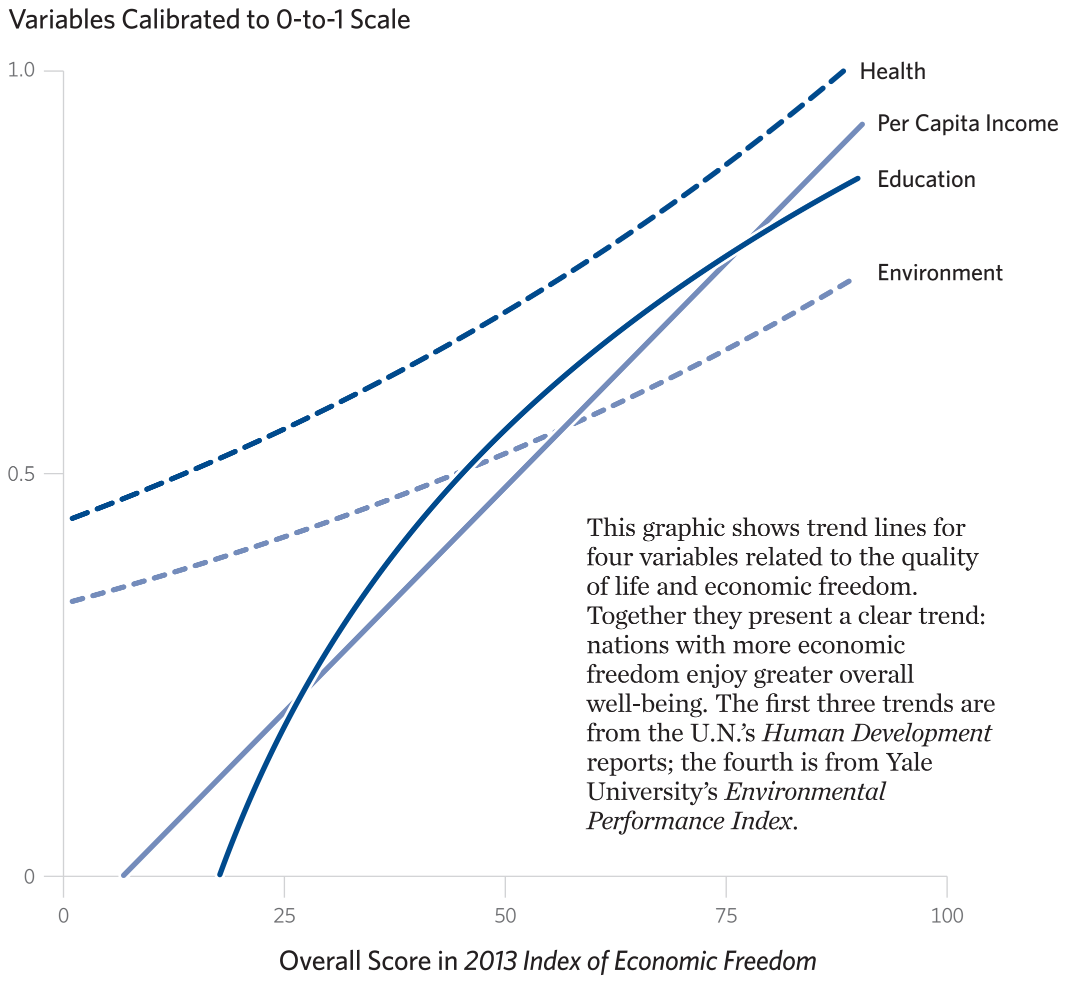
Not surprisingly, the rule-of-law indicators are highly correlated with high levels of investment and job growth. Their impact is more striking within the developing and emerging countries than it is for more advanced economies (coefficient of correlation 0.70 versus 0.53), perhaps because there is more variability in scores among the developing and emerging countries. The *Index* thus regards the rule of law as a foundational aspect of economic freedom, essential for achieving economic progress and societal prosperity.

ECONOMIC FREEDOM AND PROSPERITY

The results of the 2013 *Index* reinforce the conclusion that advancing economic freedom in the areas of rule of law, limited government, regulatory efficiency, and open markets is the most effective way to generate broad-based economic dynamism, creating more opportunities for people to work, higher levels of productivity, and gains from market opening and trade that elevate prosperity and reduce human poverty. This multidimensional relationship between economic freedom and true human progress has been empirically documented in the *Index* over the past 19 years, and other similar studies have confirmed its findings.

The most basic benefit of economic freedom, confirmed now with data covering 19 years, is the strong relationship between economic freedom and levels of per capita income. For countries that achieve scores that reflect even moderate levels of economic freedom (60 or above), the relationship between economic freedom and per capita GDP is highly significant. Countries moving up the economic freedom scale show increasingly high levels of average income.

Four Clear Trends: Economic Freedom Is Key to Overall Well-Being



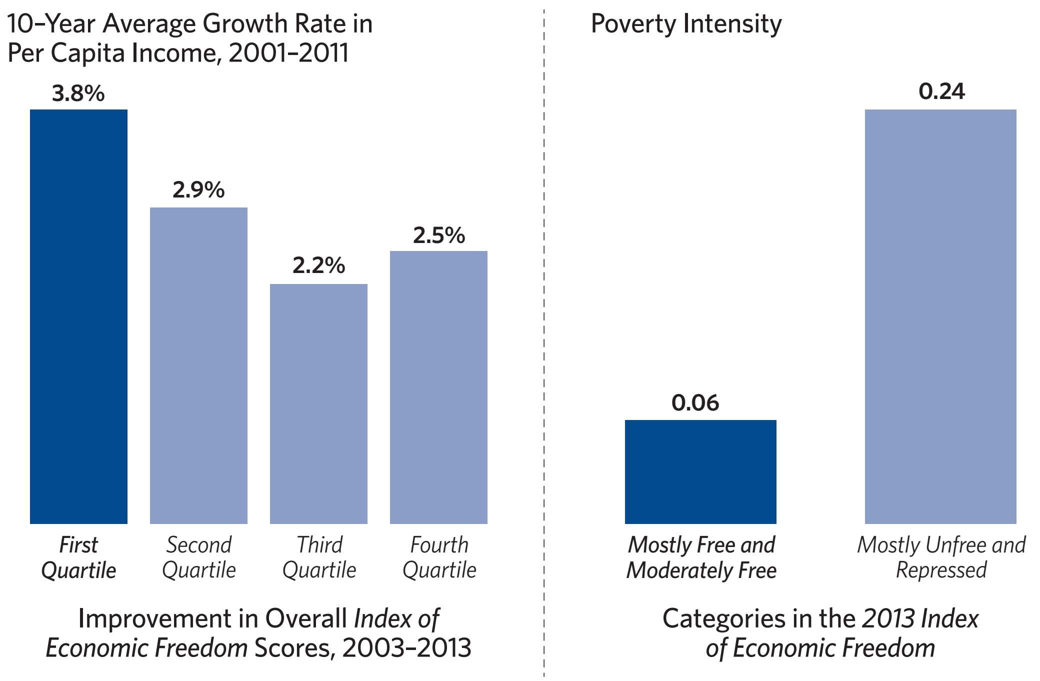
This graphic shows trend lines for four variables related to the quality of life and economic freedom. Together they present a clear trend: nations with more economic freedom enjoy greater overall well-being. The first three trends are from the U.N.'s *Human Development* reports; the fourth is from Yale University's *Environmental Performance Index*.

Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index; J.W. Emerson, A. Hsu, M.A. Levy, A. de Sherbinin, V. Mara, D.C. Esty, and M. Jaiteh, *2012 Environmental Performance Index and Pilot Trend Environmental Performance Index* (New Haven: Yale Center for Environmental Law and Policy, 2012), http://epi.yale.edu/downloads (accessed November 7, 2012); and United Nations, *Human Development* reports, http://hdr.undp.org/en/reports (accessed November 7, 2012).

Chart 5 heritage.org

Given the strength and empirical durability of the relationship between higher levels of economic freedom and greater prosperity, it can only be regarded as a human tragedy that the majority of the world's people still live in countries where economic freedom is either repressed or heavily regulated. The governments of China and India bear a special responsibility in this regard. The policy environments that they set for economic activity affect the lives of more than 2.5 billion people. Both economies are considered "mostly unfree."

Greater levels of economic freedom have had a major positive impact on poverty levels over the past decade. Based on the United Nations Multidimensional Poverty Index, the intensity of poverty in countries whose economies are considered mostly free or moderately



Economic Freedom, Economic Growth, and Poverty

Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index; United Nations, *Human Development Report 2011*, Multidimensional Poverty Index, http://hdr.undp.org/en/reports/global/hdr2011/ (accessed November 7, 2012); World Bank Group, World Development Indicators Online, http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/0,,menuPK:476823~pagePK:64165236~piPK:64165141~theSitePK:469372,00.html (accessed November 7, 2012); and International Monetary Fund, World Economic Outlook Databases, http://www.imf.org/external/ns/cs.aspx?id=28 (accessed November 7, 2012).

Chart 6 heritage.org

free is only one-fourth the level in countries that are rated less free. Poverty rates have declined more significantly in freer countries as well.

The societal benefits of economic freedom extend far beyond higher incomes or reductions in poverty. Countries with higher levels of economic freedom enjoy higher levels of human development, including better education and more comprehensive health care. They live in cleaner environments and do a better job of making the most efficient use of energy and other natural resources.

REGIONAL VARIATIONS

Economic freedom varies noticeably by region, with inhabitants of North America and Europe continuously enjoying greater levels of economic freedom on average than those who live in other regions of the world.

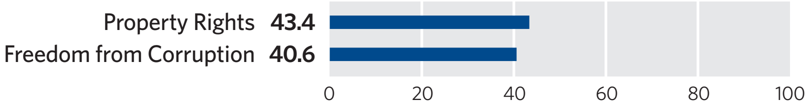
In the 2013 *Index*, Europe and North America were the only two regions that recorded score improvements from last year, with improvements of 0.5 point and 0.3 point, respectively. In the other four regions of the *Index*, economic freedom declined. The South and Central America/Caribbean region recorded the largest average loss of economic freedom: 0.6 point. The Middle East and North Africa region showed the second-largest decline: 0.3 point, a number that would likely have been even higher had grading been possible for Libya and Syria. Both the Asia–Pacific region and Sub-Saharan Africa lost one-tenth of a point of economic freedom.

The Ten Economic Freedoms: A Global Look

Score Changes

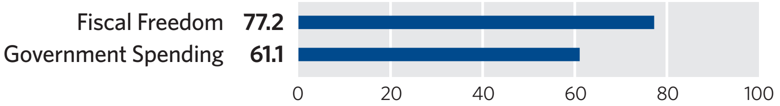
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.3	Business Freedom	-0.1	Trade Freedom	0
Freedom from Corruption	+0.2	Government Spending	+1.3	Labor Freedom	-0.8	Investment Freedom	+1.5
				Monetary Freedom	-0.7	Financial Freedom	+0.2

RULE OF LAW



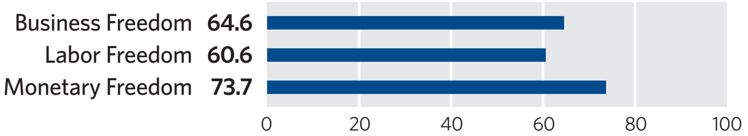
The rule of law continues to be undermined by political instability, particularly in the Middle East and North Africa. Corruption has worsened in some countries as state interference in economic activity has grown, and perceptions of corruption in Europe and the South America/Caribbean region have increased significantly. Respect for property rights declined in 16 countries; only nine countries improved their property rights scores.

LIMITED GOVERNMENT



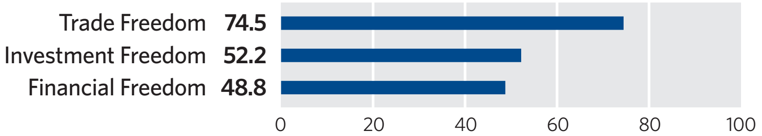
Despite the challenging economic and political environments, tax-system reform has progressed, and the growth of government spending was at least marginally restrained in a number of countries. The average top individual income tax rate is 28.4 percent, and the average top corporate tax rate is 24.3 percent. The average overall tax burden as a percentage of GDP is 22.4 percent, and average government spending as a share of GDP is 35.1 percent.

REGULATORY EFFICIENCY



While some countries have continued to streamline and modernize their business frameworks, reforms have stalled in many others, seemingly as a result of some combination of reform fatigue and complacency. For the world as a whole, labor freedom has declined significantly. In a large number of countries, increases in the minimum wage have exceeded labor productivity growth. Inflationary pressures have inched up around the world.

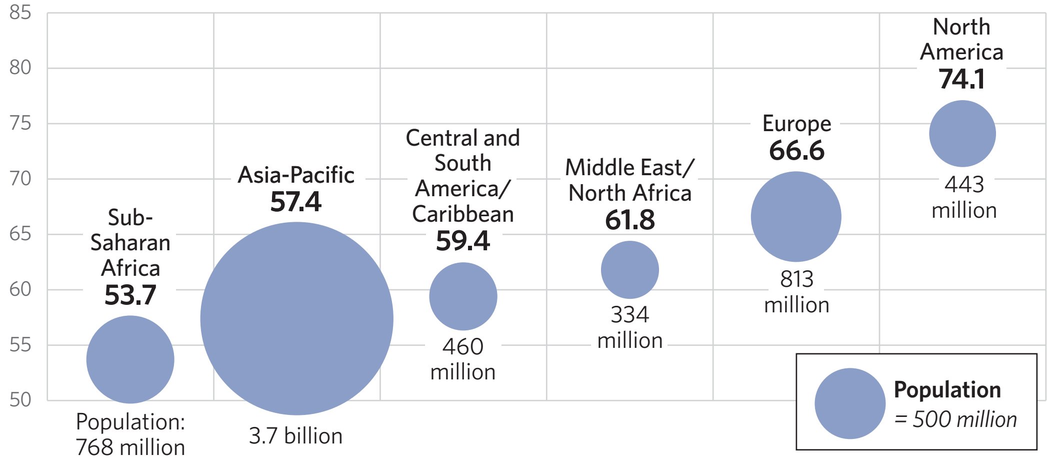
OPEN MARKETS



Trade freedom remained essentially unchanged, with little apparent momentum for further liberalization. Investment freedom improved substantially as many countries sought to ease the foreign investment process. Progress in financial freedom was largely stagnant, reflecting a lack of reform in developing countries and uncertainty in advanced economies. The global financial system remains highly vulnerable to the ongoing European sovereign debt crisis.

Economic Freedom by Region, with Population

Average Score in the *2013 Index of Economic Freedom*



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index; World Bank Group, World Development Indicators Online, http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/0,,menuPK:476823~pagePK:64165236~piPK:64165141~theSitePK:469372,00.html (accessed November 7, 2012); and International Monetary Fund, World Economic Outlook Databases, http://www.imf.org/external/ns/cs.aspx?id=28 (accessed November 7, 2012).

Chart 7 ☎ heritage.org

Comparing Regional Average Scores to the Global Average

Above Global Average

Below Global Average

	North America	Europe	Middle East/ North Africa	South and Central America/ Caribbean	Asia-Pacific	Sub-Saharan Africa	GLOBAL AVERAGE
Overall	74.1	66.6	61.8	59.4	57.4	53.7	**59.6**
Rule of Law							
Property Rights	75.0	61.2	43.7	40.2	38.5	30.9	**43.4**
Freedom from Corruption	62.7	55.3	42.3	38.1	36.7	29.9	**40.6**
Limited Government							
Fiscal Freedom	76.7	72.5	88.4	79.2	79.7	74.6	**77.2**
Government Spending	57.3	41.1	66.6	68.1	65.0	70.2	**61.1**
Regulatory Efficiency							
Business Freedom	87.9	77.6	67.5	61.7	65.2	51.2	**64.6**
Labor Freedom	79.2	61.2	63.1	59.7	65.4	54.3	**60.6**
Monetary Freedom	76.0	77.1	73.3	74.2	72.2	71.3	**73.7**
Open Markets							
Trade Freedom	85.1	85.5	74.8	73.5	71.0	67.1	**74.5**
Investment Freedom	71.7	71.2	49.3	51.6	38.9	46.4	**52.2**
Financial Freedom	70.0	63.3	48.7	47.9	41.7	40.7	**48.8**

Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index.

Table 1 ☎ heritage.org

North America

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index.

Map 1 heritage.org

In every region, however, the evidence continues to show that economic freedom is the key to greater prosperity and overall human development.

NORTH AMERICA

North America continues to be the world's economically freest region in the 2013 *Index*. The region recorded a score improvement of 0.3 point from last year, with Mexico's notable score improvement outweighing economic freedom declines in Canada and the United States. With Canada continuing to be the region's freest economy since 2010, the North American region has two "mostly free" economies (Canada and the U.S.) and one "moderately free" economy (Mexico).

North America scores above the world averages in rule of law, regulatory efficiency, and open markets but continues to lag in the pillar of limited government, which consists of fiscal freedom and the management of government spending. Compared to last year, on average, the region has improved in the areas of investment freedom, trade freedom, and the management of public spending while registering score declines in business freedom and monetary freedom.

EUROPE

Narrowing the gap with North America, the European region has the world's second-highest level of economic freedom. Europe is the most improved region in the 2013 *Index*, with a

Economic Freedom in North American Countries

World Rank	Region Rank	Country	Overall Score	Change from 2012	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
6	1	Canada	79.4	-0.5	90.0	87.0	79.8	44.8	91.7	82.3	75.2	88.2	75.0	80.0
10	2	United States	76.0	-0.3	85.0	71.0	69.3	47.8	90.5	95.5	75.0	86.4	70.0	70.0
50	3	Mexico	67.0	1.7	50.0	30.0	81.1	79.4	81.4	59.7	77.7	80.6	70.0	60.0

Table 2 heritage.org

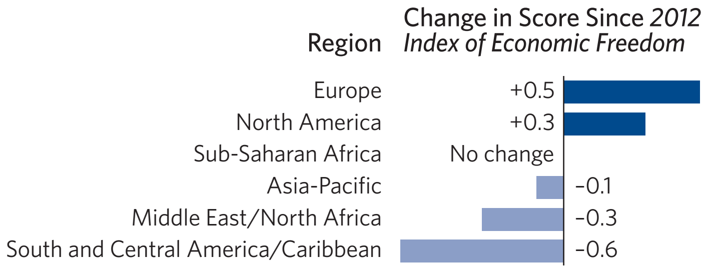
score gain of 0.5 point. The scores of 32 countries improved, while just nine countries lost economic freedom. Switzerland continues to be the only "free" economy in the region, and about 81 percent of the 43 European countries score between 60 and 80 and are considered either "moderately free" or "mostly free." Europe has two "repressed" economies that score below 50: Ukraine and Belarus.

There are five European countries whose economic freedom status has changed notably in the 2013 *Index*. Georgia, Norway, and the Czech Republic have become "mostly free" economies. Cyprus has dropped into the "moderately free" category, while Italy has regained that status. Georgia achieved the largest score improvement in the 2013 *Index*, and two other countries, Estonia and Poland, were among the world's 10 most improved.

Taken as a whole, the European region scores higher than the world averages in rule of law, regulatory efficiency, and open markets. Despite some progress in constraining government spending over the past year, European countries fall almost five points below the world average in fiscal freedom and more than 20 points below the world average in government spending scores—a reflection of continuing problems in public finance management that result from years of financing the growth of the public sector.

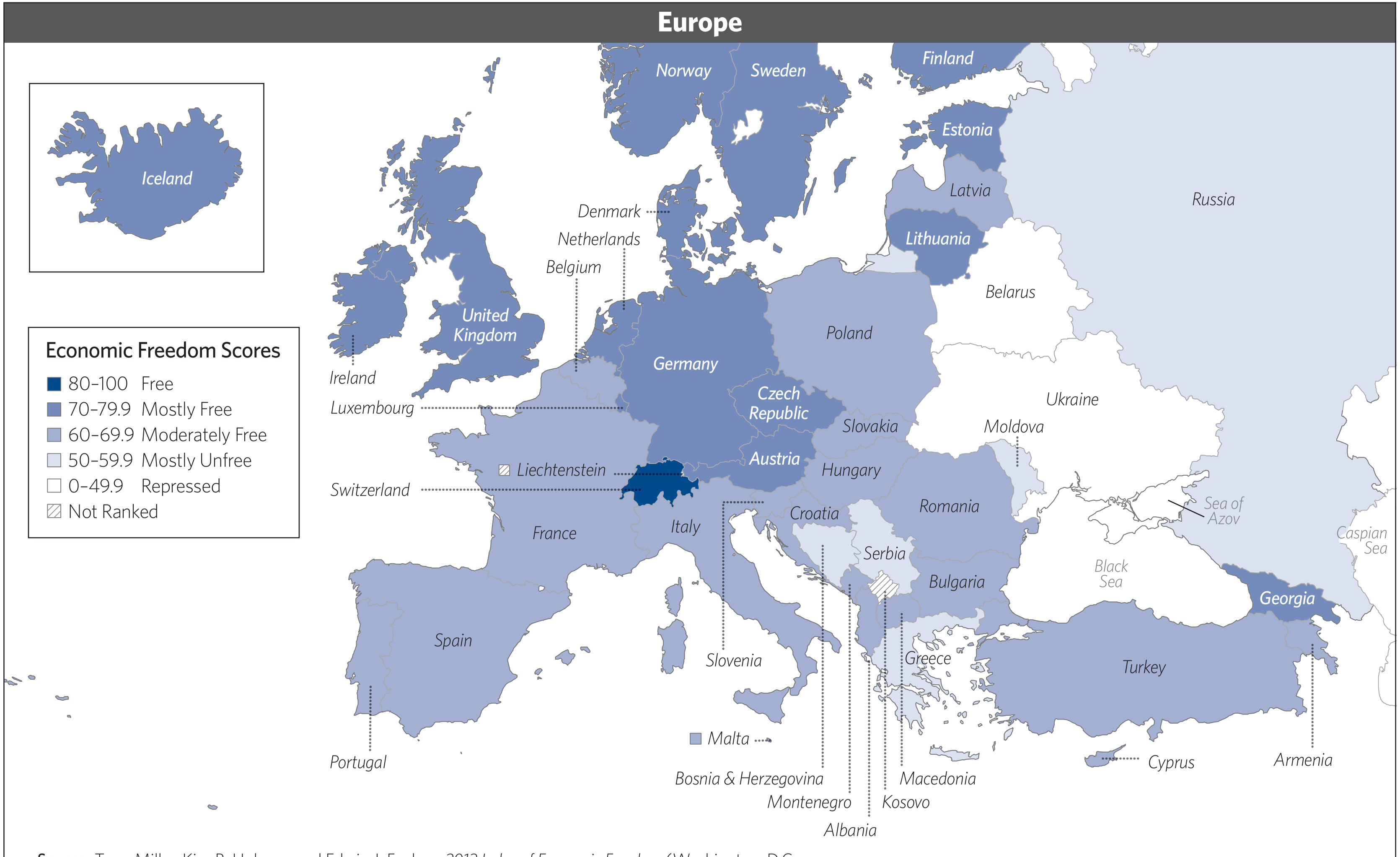
Europe has been undergoing tumultuous and uncertain times epitomized by the ongoing sovereign debt crisis in the eurozone. Stagnant growth continues to exacerbate debt levels, leaving many European countries with no choice but to cut spending to reduce unsustainable fiscal deficits. In comparison to last year, Europe has improved on average in the areas of management of public spending and investment freedom while showing deteriorations in monetary

One-Year Freedom Score Change



Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index.

Chart 8 heritage.org



Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index.

Map 2 heritage.org

Economic Freedom in European Countries

World Rank	Region Rank	Country	Overall Score	Change from 2012	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
5	1	Switzerland	81.0	-0.1	90.0	88.0	68.1	63.8	75.8	87.9	86.2	90.0	80.0	80.0
9	2	Denmark	76.1	-0.1	90.0	94.0	39.8	5.9	98.4	91.1	80.0	86.8	85.0	90.0
11	3	Ireland	75.7	-1.2	90.0	75.0	73.8	28.8	83.4	76.6	82.8	86.8	90.0	70.0
13	4	Estonia	75.3	2.1	85.0	64.0	79.7	56.2	78.2	56.0	77.1	86.8	90.0	80.0
14	5	United Kingdom	74.8	0.7	90.0	78.0	57.0	27.7	94.1	71.6	72.4	86.8	90.0	80.0
15	6	Luxembourg	74.2	-0.3	90.0	85.0	65.0	47.1	74.8	39.0	79.3	86.8	95.0	80.0
16	7	Finland	74.0	1.7	90.0	94.0	66.9	12.2	94.8	45.3	79.5	86.8	90.0	80.0
17	8	Netherlands	73.5	0.2	90.0	89.0	52.1	24.7	83.0	58.6	81.1	86.8	90.0	80.0
18	9	Sweden	72.9	1.2	90.0	93.0	39.6	21.0	93.2	53.6	82.1	86.8	90.0	80.0
19	10	Germany	72.8	1.8	90.0	80.0	61.8	37.3	92.1	43.8	81.2	86.8	85.0	70.0
21	11	Georgia	72.2	2.8	45.0	41.0	88.2	68.9	90.6	91.1	72.6	89.2	75.0	60.0
22	12	Iceland	72.1	1.2	90.0	83.0	72.7	36.2	91.5	58.9	75.8	87.8	65.0	60.0
23	13	Lithuania	72.1	0.6	60.0	48.0	92.8	53.6	77.6	64.1	78.3	86.8	80.0	80.0
25	14	Austria	71.8	1.5	90.0	78.0	51.1	23.5	73.6	80.4	79.3	86.8	85.0	70.0
29	15	Czech Republic	70.9	1.0	70.0	44.0	82.0	43.5	65.8	85.5	81.7	86.8	70.0	80.0
31	16	Norway	70.5	1.7	90.0	90.0	51.0	40.3	92.6	44.7	76.9	89.3	70.0	60.0
38	17	Armenia	69.4	0.6	30.0	26.0	88.0	82.1	87.6	77.1	73.0	85.4	75.0	70.0
40	18	Belgium	69.2	0.2	80.0	75.0	45.0	14.5	91.6	69.8	79.3	86.8	80.0	70.0
41	19	Cyprus	69.0	-2.8	70.0	63.0	79.8	32.7	80.7	62.8	84.1	81.8	75.0	60.0
42	20	Slovakia	68.7	1.7	50.0	40.0	84.7	58.0	71.0	72.2	79.1	86.8	75.0	70.0
43	21	Macedonia	68.2	-0.3	35.0	39.0	91.4	69.1	80.3	78.4	84.0	84.6	60.0	60.0
46	22	Spain	68.0	-1.1	70.0	62.0	53.9	43.0	80.3	54.3	79.9	86.8	80.0	70.0
47	23	Malta	67.5	0.5	75.0	56.0	61.2	44.1	61.1	65.4	80.4	86.8	85.0	60.0
48	24	Hungary	67.3	0.2	65.0	46.0	79.7	29.7	79.1	64.4	77.1	86.8	75.0	70.0
55	25	Latvia	66.5	1.3	50.0	42.0	84.4	53.6	75.7	64.4	78.3	86.8	80.0	50.0
57	26	Poland	66.0	1.8	60.0	55.0	76.0	43.0	64.0	62.9	77.7	86.8	65.0	70.0
58	27	Albania	65.2	0.1	30.0	31.0	92.6	75.1	81.0	49.0	78.4	79.8	65.0	70.0
59	28	Romania	65.1	0.7	40.0	36.0	87.9	62.2	70.4	63.5	74.7	86.8	80.0	50.0
60	29	Bulgaria	65.0	0.3	30.0	33.0	94.0	64.2	73.6	74.8	78.6	86.8	55.0	60.0
62	30	France	64.1	0.9	80.0	70.0	53.0	5.6	84.0	50.5	81.1	81.8	65.0	70.0

(continued on next page)

Table 3 heritage.org

Economic Freedom in European Countries (continued)

World Rank	Region Rank	Country	Overall Score	Change from 2012	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
67	31	Portugal	63.1	0.1	70.0	61.0	61.6	28.3	82.8	31.0	79.4	86.8	70.0	60.0
69	32	Turkey	62.9	0.4	50.0	42.0	77.0	64.9	68.2	43.1	73.3	85.2	65.0	60.0
70	33	Montenegro	62.6	0.1	40.0	40.0	92.4	41.5	72.7	71.4	79.9	83.0	55.0	50.0
76	34	Slovenia	61.7	-1.2	60.0	59.0	65.7	22.3	80.7	40.4	81.6	86.8	70.0	50.0
78	35	Croatia	61.3	0.4	40.0	40.0	75.4	48.7	63.0	42.4	81.1	87.5	75.0	60.0
83	36	Italy	60.6	1.8	50.0	39.0	55.5	25.3	76.9	52.0	80.2	86.8	80.0	60.0
94	37	Serbia	58.6	0.6	40.0	33.0	84.2	40.3	60.2	70.4	65.3	77.9	65.0	50.0
103	38	Bosnia and Herzegovina	57.3	0.0	20.0	32.0	83.2	26.9	54.3	61.2	79.0	86.4	70.0	60.0
115	39	Moldova	55.5	1.1	40.0	29.0	87.2	50.1	69.7	40.9	73.4	80.0	35.0	50.0
117	40	Greece	55.4	0.0	40.0	34.0	66.2	24.7	77.1	42.1	73.4	81.8	65.0	50.0
139	41	Russia	51.1	0.6	25.0	24.0	86.9	54.4	69.2	52.6	66.7	77.4	25.0	30.0
154	42	Belarus	48.0	-1.0	20.0	24.0	88.8	43.5	75.2	76.9	40.7	80.8	20.0	10.0
161	43	Ukraine	46.3	0.2	30.0	23.0	78.2	29.4	47.6	49.9	71.0	84.4	20.0	30.0
N/A	N/A	Kosovo	N/A	N/A	30.0	29.0	93.5	73.0	52.4	77.7	50.0	N/A	65.0	N/A
N/A	N/A	Liechtenstein	N/A	N/A	N/A	N/A	N/A	N/A	70.0	N/A	N/A	90.0	N/A	80.0

Table 3 heritage.org

freedom and financial freedom. Europe's rule of law also has been undermined by a higher level of perceived corruption and the weakened protection of property rights.

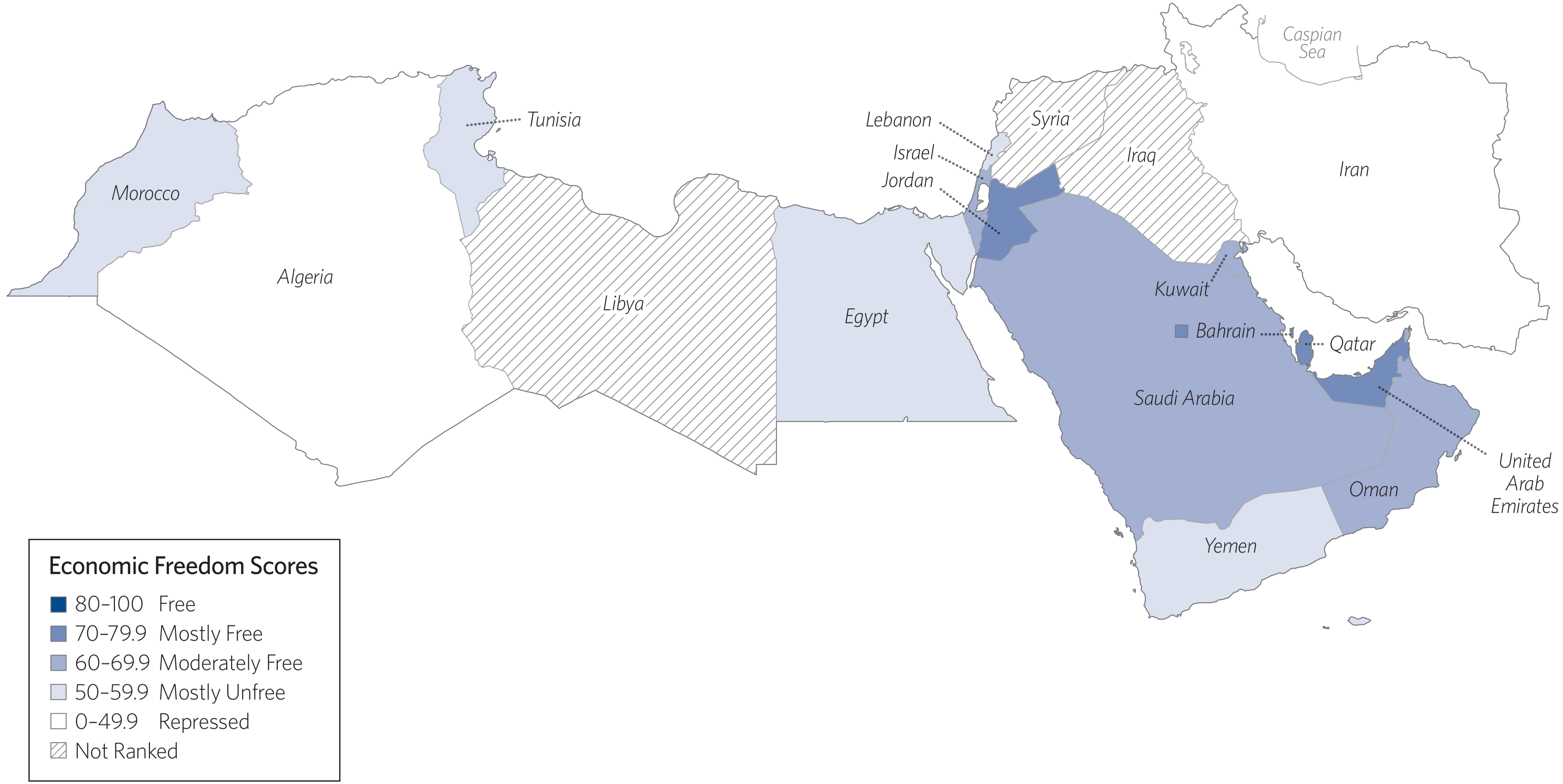
MIDDLE EAST/NORTH AFRICA

The Middle East/North Africa region has experienced widespread turmoil. The region's overall economic freedom has decreased by 0.3 point since the 2012 *Index*, and grading of economic freedom for Libya and Syria has had to be suspended. Many of the region's economies remain only "moderately free" or "mostly unfree." Algeria and Iran are considered "repressed," scoring below 50. Structural and institutional problems abound, and the regional unemployment rate, which averages more than 10 percent, is among the highest in the world and is most pronounced among younger members of the labor force.

Many countries in the region have been undergoing political and economic upheaval since early 2011, and the gradual rise in economic freedom observed in prior years has come to a halt. Unfortunately, economic problems will not be solved simply by holding elections or allowing greater expressions of dissent. Policies and practices that restrict economic freedom are deeply ingrained, and it remains to be seen whether the region's new political leaders have the political will to undertake the fundamental economic reforms that are needed.

Scores for most of the 15 countries in the region are concentrated between 50 and 70. In the 2013 *Index*, seven of the region's 15 economies

Middle East/North Africa



Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index.

Map 3 heritage.org

Economic Freedom in Middle East/North African Countries

World Rank	Region Rank	Country	Overall Score	Change from 2012	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
12	1	Bahrain	75.5	0.3	55.0	51.0	99.9	72.4	75.8	90.4	72.5	82.8	75.0	80.0
27	2	Qatar	71.3	0.0	70.0	72.0	99.8	81.2	69.4	63.4	80.3	82.5	45.0	50.0
28	3	United Arab Emirates	71.1	1.8	55.0	68.0	99.9	85.1	74.0	77.6	83.9	82.6	35.0	50.0
33	4	Jordan	70.4	0.5	60.0	45.0	93.6	68.8	69.2	75.5	82.0	79.6	70.0	60.0
45	5	Oman	68.1	0.2	50.0	48.0	98.5	69.1	68.1	80.9	72.7	78.7	55.0	60.0
51	6	Israel	66.9	-0.9	70.0	58.0	60.2	39.3	66.1	63.7	78.6	83.0	80.0	70.0
66	7	Kuwait	63.1	0.6	50.0	46.0	99.9	61.5	57.7	62.8	71.6	76.8	55.0	50.0
82	8	Saudi Arabia	60.6	-1.9	40.0	44.0	99.6	52.2	68.2	69.2	65.7	77.3	40.0	50.0
90	9	Morocco	59.6	-0.6	40.0	34.0	71.4	64.3	76.4	30.1	78.9	70.8	70.0	60.0
91	10	Lebanon	59.5	-0.6	20.0	25.0	90.8	74.6	50.3	57.2	76.5	80.4	60.0	60.0
107	11	Tunisia	57.0	-1.6	40.0	38.0	74.5	63.7	82.8	70.1	77.8	58.1	35.0	30.0
113	12	Yemen	55.9	0.6	30.0	21.0	91.5	72.8	61.3	55.3	65.7	81.5	50.0	30.0
125	13	Egypt	54.8	-3.1	35.0	29.0	85.6	69.4	63.3	43.3	58.4	73.8	50.0	40.0
145	14	Algeria	49.6	-1.4	30.0	29.0	80.4	44.1	65.2	52.6	76.6	67.8	20.0	30.0
168	15	Iran	43.2	0.9	10.0	27.0	80.8	80.5	65.3	55.0	58.0	45.7	0.0	10.0
N/A	N/A	Iraq	N/A	N/A	N/A	18.0	N/A	N/A	47.0	70.1	N/A	N/A	N/A	N/A
N/A	N/A	Libya	N/A	N/A	10.0	20.0	N/A	N/A	N/A	N/A	64.8	85.0	10.0	20.0
N/A	N/A	Syria	N/A	N/A	20.0	26.0	86.2	N/A	59.3	48.9	71.5	72.8	10.0	20.0

Table 4 heritage.org

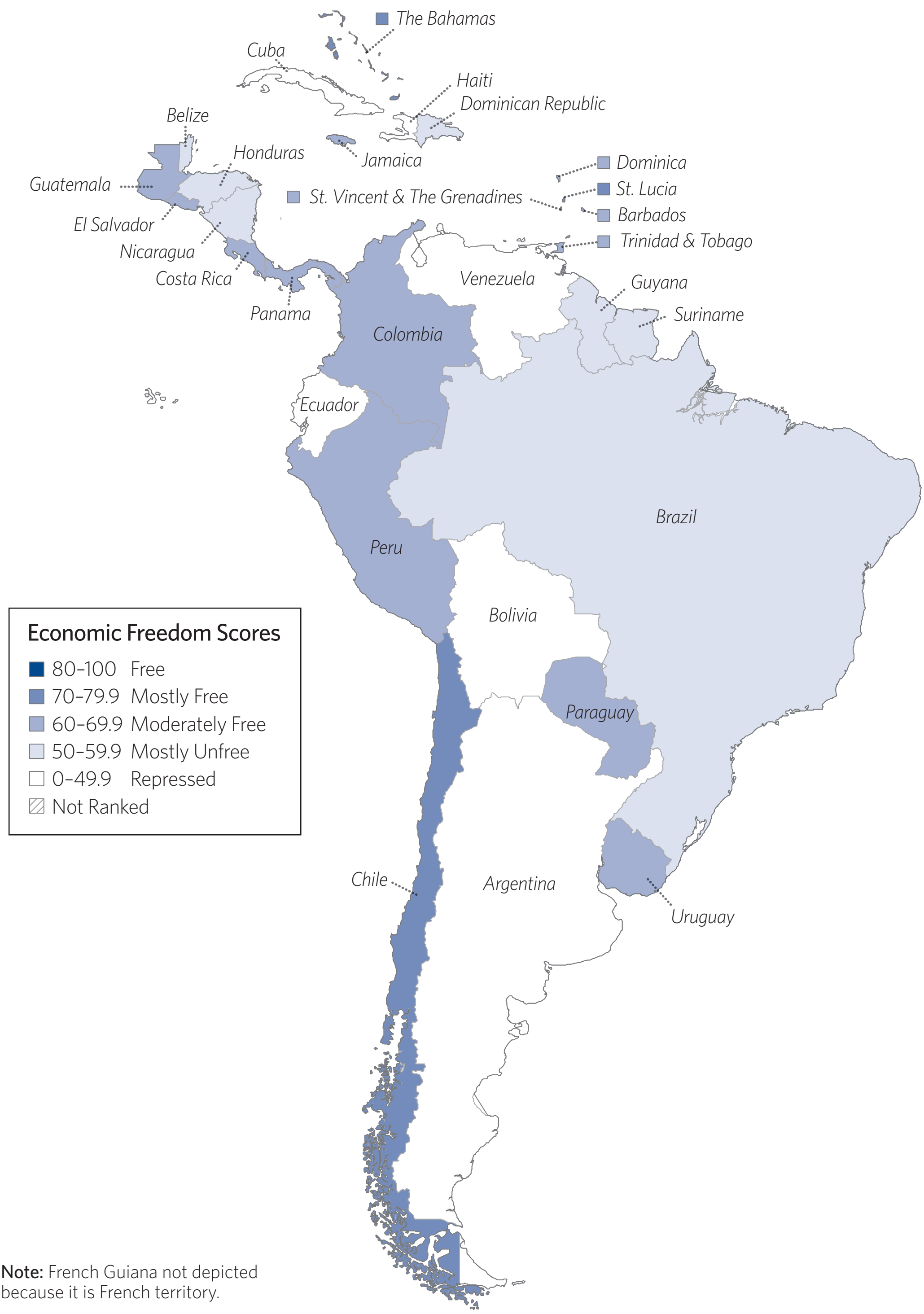
improved their economic freedom, and the same number of countries lost economic freedom. Five countries in the region recorded notable changes in their economic freedom status. The United Arab Emirates and Jordan have advanced into the "mostly free" category, while Lebanon and Morocco have slid back into "mostly unfree" status. Algeria has become a "repressed" economy for the first time in its *Index* history. While no countries in the region were among the world's 10 most improved in the 2013 *Index*, Egypt recorded the third-largest score decline.

The Middle East/North Africa region has scores that are lower than the global average in half of the 10 economic freedoms, including property rights, freedom from corruption, monetary freedom, investment freedom, and financial freedom. Reflecting the fragile foundations of economic freedom in the region, the scores for rule of law have continued to deteriorate. Business freedom, labor freedom, trade freedom, and investment freedom have also declined.

SOUTH AND CENTRAL AMERICA/ CARIBBEAN

With mixed progress toward greater economic freedom in the region's individual countries, the South and Central America/Caribbean region is ranked fourth out of the six regions in

South and Central America/Caribbean



Note: French Guiana not depicted because it is French territory.

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index.

Map 4 heritage.org

Economic Freedom in South and Central America/ Caribbean Countries

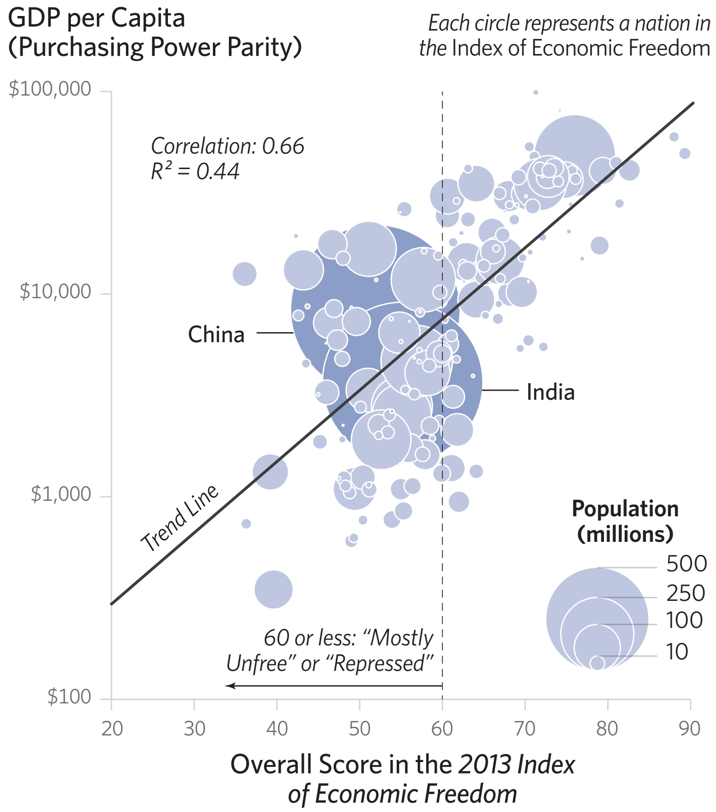
World Rank	Region Rank	Country	Overall Score	Change from 2012	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
7	1	Chile	79.0	0.7	90.0	72.0	77.6	83.7	70.5	74.2	84.6	82.0	85.0	70.0
32	2	Saint Lucia	70.4	-0.9	70.0	70.0	76.9	63.6	85.3	76.4	84.7	71.9	65.0	40.0
35	3	The Bahamas	70.1	2.1	70.0	73.0	97.0	84.9	71.3	81.6	75.8	47.0	30.0	70.0
36	4	Uruguay	69.7	-0.2	70.0	70.0	84.2	68.3	73.4	70.7	72.5	82.9	75.0	30.0
37	5	Colombia	69.6	1.6	50.0	34.0	76.1	75.2	90.2	79.3	78.7	72.2	70.0	70.0
39	6	Barbados	69.3	0.3	80.0	78.0	74.5	54.2	74.8	84.4	72.1	60.5	55.0	60.0
44	7	Peru	68.2	-0.5	40.0	34.0	79.9	89.1	72.3	67.1	84.3	85.0	70.0	60.0
49	8	Costa Rica	67.0	-1.0	50.0	48.0	82.9	90.1	58.3	60.4	75.4	85.1	70.0	50.0
52	9	Jamaica	66.8	1.7	40.0	33.0	77.5	67.7	84.3	69.3	76.1	75.0	85.0	60.0
53	10	El Salvador	66.7	-2.0	40.0	34.0	85.7	85.4	61.8	62.0	79.6	79.0	70.0	70.0
54	11	Saint Vincent and The Grenadines	66.7	0.2	70.0	58.0	74.2	67.1	77.6	76.6	80.3	73.3	50.0	40.0
64	12	Dominica	63.9	2.3	60.0	52.0	72.0	50.1	77.0	68.8	85.3	74.3	70.0	30.0
71	13	Panama	62.5	-2.7	30.0	33.0	86.2	77.8	72.5	40.1	75.9	74.8	65.0	70.0
72	14	Trinidad and Tobago	62.3	-2.1	50.0	32.0	84.9	60.4	55.1	76.7	73.7	69.9	60.0	60.0
80	15	Paraguay	61.1	-0.7	30.0	22.0	95.9	85.4	59.1	25.6	79.8	82.7	70.0	60.0
85	16	Guatemala	60.0	-0.9	30.0	27.0	79.6	93.6	50.8	48.7	75.5	85.2	60.0	50.0
87	17	Dominican Republic	59.7	-0.5	30.0	26.0	83.7	92.6	53.7	55.6	72.9	77.8	65.0	40.0
96	18	Honduras	58.4	-0.4	30.0	26.0	85.3	79.2	61.0	26.8	73.9	77.1	65.0	60.0
100	19	Brazil	57.7	-0.2	50.0	38.0	70.3	54.8	53.0	57.2	74.4	69.7	50.0	60.0
102	20	Belize	57.3	-4.6	30.0	0.0	82.2	72.6	72.6	71.4	77.3	77.2	40.0	50.0
110	21	Nicaragua	56.6	-1.3	15.0	25.0	78.7	65.1	51.2	62.2	73.2	85.4	60.0	50.0
129	22	Guyana	53.8	2.5	30.0	25.0	67.9	61.1	66.3	75.4	75.9	71.2	35.0	30.0
135	23	Suriname	52.0	-0.6	40.0	30.0	71.6	72.5	40.2	77.5	66.7	66.3	25.0	30.0
152	24	Haiti	48.1	-2.6	10.0	18.0	80.7	66.3	33.4	63.6	74.2	74.8	30.0	30.0
156	25	Bolivia	47.9	-2.3	10.0	28.0	88.8	64.1	55.8	30.8	67.4	74.3	10.0	50.0
159	26	Ecuador	46.9	-1.4	20.0	27.0	80.1	47.3	51.5	48.0	66.9	68.1	20.0	40.0
160	27	Argentina	46.7	-1.3	15.0	30.0	64.3	52.1	60.1	47.4	60.4	67.6	40.0	30.0
174	28	Venezuela	36.1	-2.0	5.0	19.0	75.6	50.6	45.6	34.5	47.3	58.8	5.0	20.0
176	29	Cuba	28.5	0.2	10.0	42.0	62.7	0.0	10.0	20.0	67.4	62.7	0.0	10.0

Table 5 heritage.org

the 2013 *Index*. The economic freedom scores of 20 of the region's 29 countries declined, and the region recorded the second-largest overall loss of economic freedom (0.6 point) of any region. Half of the 10 largest declines in economic freedom registered in the 2013 *Index* came from this region, recorded by Belize, Panama, Haiti, Bolivia, and Trinidad and Tobago.

Five countries in the region have changed their economic freedom status. Bolivia and Haiti are now considered "repressed." The Bahamas has improved to "mostly free," while Belize and the Dominican Republic have fallen from "moderately free" to the "mostly unfree" category.

Asian Giants Lag in Economic Freedom



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index; World Bank Group, World Development Indicators Online, http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/0,,menuPK:476823~pagePK:64165236~piPK:64165141~theSitePK:469372,00.html (accessed November 5, 2012); and International Monetary Fund, World Economic Outlook Databases, http://www.imf.org/external/ns/cs.aspx?id=28 (accessed November 5, 2012).

Chart 9 heritage.org

On average, the countries in the South and Central America/Caribbean region perform better than the world averages in only three of the 10 components of economic freedom: fiscal freedom, control of government spending, and monetary freedom. The region continues to lag behind world averages in the other seven areas of economic freedom, particularly freedom from corruption and property rights, both of which are critical to sustaining the rule of law and stable long-term economic development. Corruption and a lack of protection for property rights are major problem areas, reflecting long-standing issues of poor governance and political instability in the region.

Noticeably, the South and Central America/Caribbean region's countries are distributed throughout the rankings in a more balanced fashion than are the countries of any other region, almost like a bell curve. All but nine countries receive an economic freedom score between 50 and 70, and 13 countries fall in the middle category of "moderately free."

ASIA–PACIFIC

The Asia–Pacific region is distinguished by the extraordinary disparity in levels of economic freedom among its economies. Four of the world's 10 freest economies—Hong Kong, Singapore, Australia, and New Zealand—are in this region,

Asia and the Pacific

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index.

Map 5 **heritage.org**

Economic Freedom in Asia-Pacific Countries

World Rank	Region Rank	Country	Overall Score	Change from 2012	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
1	1	Hong Kong	89.3	-0.6	90.0	84.0	92.9	88.9	98.9	86.2	82.1	90.0	90.0	90.0
2	2	Singapore	88.0	0.5	90.0	92.0	91.1	91.3	97.1	91.4	82.0	90.0	75.0	80.0
3	3	Australia	82.6	-0.5	90.0	88.0	66.4	62.8	95.5	83.5	83.8	86.2	80.0	90.0
4	4	New Zealand	81.4	-0.7	95.0	95.0	71.5	33.2	99.9	89.5	83.3	86.8	80.0	80.0
20	5	Taiwan	72.7	0.8	70.0	61.0	80.5	84.9	94.3	53.3	82.9	85.0	65.0	50.0
24	6	Japan	71.8	0.2	80.0	80.0	69.2	45.0	81.3	80.3	90.6	81.8	60.0	50.0
26	7	Macau	71.7	-0.1	60.0	51.0	73.5	91.5	60.0	55.0	81.3	90.0	85.0	70.0
34	8	South Korea	70.3	0.4	70.0	54.0	73.0	72.8	93.6	48.7	77.9	72.6	70.0	70.0
56	9	Malaysia	66.1	-0.3	55.0	43.0	85.1	73.5	79.9	72.3	79.8	77.0	45.0	50.0
61	10	Thailand	64.1	-0.8	45.0	34.0	78.9	83.7	73.2	72.9	68.3	75.2	40.0	70.0
68	11	Kazakhstan	63.0	-0.6	35.0	27.0	93.2	84.5	71.8	88.4	72.2	78.2	30.0	50.0
75	12	Mongolia	61.7	0.2	30.0	27.0	82.5	62.6	70.4	79.2	75.6	79.8	50.0	60.0
81	13	Sri Lanka	60.7	2.4	40.0	33.0	84.7	86.5	77.0	60.8	69.1	76.2	40.0	40.0
88	14	Azerbaijan	59.7	0.8	25.0	24.0	85.5	67.8	69.2	79.4	73.5	77.2	55.0	40.0
89	15	Kyrgyz Republic	59.6	-0.6	20.0	21.0	94.8	56.4	73.2	88.6	66.7	75.4	50.0	50.0
95	16	Cambodia	58.5	0.9	30.0	21.0	90.9	88.4	39.4	54.2	81.3	70.2	60.0	50.0
97	17	The Philippines	58.2	1.1	30.0	26.0	79.3	90.2	53.1	51.0	76.6	75.5	50.0	50.0
105	18	Fiji	57.2	-0.1	25.0	20.0	78.0	78.0	65.7	74.9	72.8	68.0	40.0	50.0
106	19	Samoa	57.1	-3.4	60.0	39.0	80.6	34.3	72.4	80.4	78.5	66.0	30.0	30.0
108	20	Indonesia	56.9	0.5	30.0	30.0	83.4	89.2	50.2	50.8	75.5	75.0	35.0	50.0
109	21	Vanuatu	56.6	0.0	40.0	35.0	97.3	80.5	56.4	57.7	81.4	48.0	30.0	40.0
112	22	Tonga	56.0	-1.0	20.0	31.0	87.1	64.7	76.6	84.4	71.1	75.6	30.0	20.0
119	23	India	55.2	0.6	50.0	31.0	78.3	77.9	37.3	73.6	65.3	63.6	35.0	40.0
121	24	Pakistan	55.1	0.4	30.0	25.0	80.5	89.0	70.7	47.9	67.0	66.0	35.0	40.0
122	25	Bhutan	55.0	-1.6	60.0	57.0	82.7	38.8	60.5	84.4	67.3	49.5	20.0	30.0
130	26	Papua New Guinea	53.6	-0.2	20.0	22.0	67.4	72.3	58.3	73.4	72.4	85.0	35.0	30.0
131	27	Tajikistan	53.4	0.0	20.0	23.0	92.8	78.1	61.7	55.5	64.6	78.2	20.0	40.0
132	28	Bangladesh	52.6	-0.6	20.0	27.0	72.7	92.1	68.0	51.9	65.4	54.0	55.0	20.0
136	29	China	51.9	0.7	20.0	36.0	70.2	83.3	48.0	62.6	71.6	72.0	25.0	30.0
140	30	Vietnam	51.0	-0.3	15.0	29.0	75.6	72.4	63.8	65.5	65.3	78.6	15.0	30.0

(continued on next page)

Table 6 heritage.org

Economic Freedom in Asia-Pacific Countries (continued)

World Rank	Region Rank	Country	Overall Score	Change from 2012	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
141	31	Nepal	50.4	0.2	30.0	22.0	85.8	89.2	57.2	44.3	75.1	60.8	10.0	30.0
143	32	Laos	50.1	0.1	15.0	22.0	79.7	85.8	62.1	54.7	73.0	58.7	30.0	20.0
144	33	Micronesia	50.1	-0.6	30.0	30.0	97.5	0.0	54.1	82.5	76.1	81.0	20.0	30.0
149	34	Maldives	49.0	-0.2	25.0	25.0	98.8	14.5	88.7	64.0	70.4	43.7	30.0	30.0
162	35	Uzbekistan	46.0	0.2	15.0	16.0	90.2	67.8	71.2	61.0	63.0	66.1	0.0	10.0
163	36	Kiribati	45.9	-1.0	30.0	31.0	71.2	0.0	59.2	78.5	78.4	55.4	25.0	30.0
165	37	Solomon Islands	45.0	-1.2	30.0	27.0	66.2	6.1	66.6	66.4	75.4	72.6	10.0	30.0
166	38	Timor-Leste	43.7	0.4	20.0	24.0	64.7	0.0	44.8	81.2	69.3	73.0	40.0	20.0
169	39	Turkmenistan	42.6	-1.2	5.0	16.0	94.0	91.7	30.0	30.0	70.6	79.2	0.0	10.0
172	40	Burma	39.2	0.5	10.0	15.0	81.9	96.8	20.0	20.0	65.1	73.6	0.0	10.0
177	41	North Korea	1.5	0.5	5.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
N/A	N/A	Afghanistan	N/A	N/A	N/A	15.0	N/A	83.2	59.7	75.8	69.5	N/A	65.0	N/A

Table 6 heritage.org

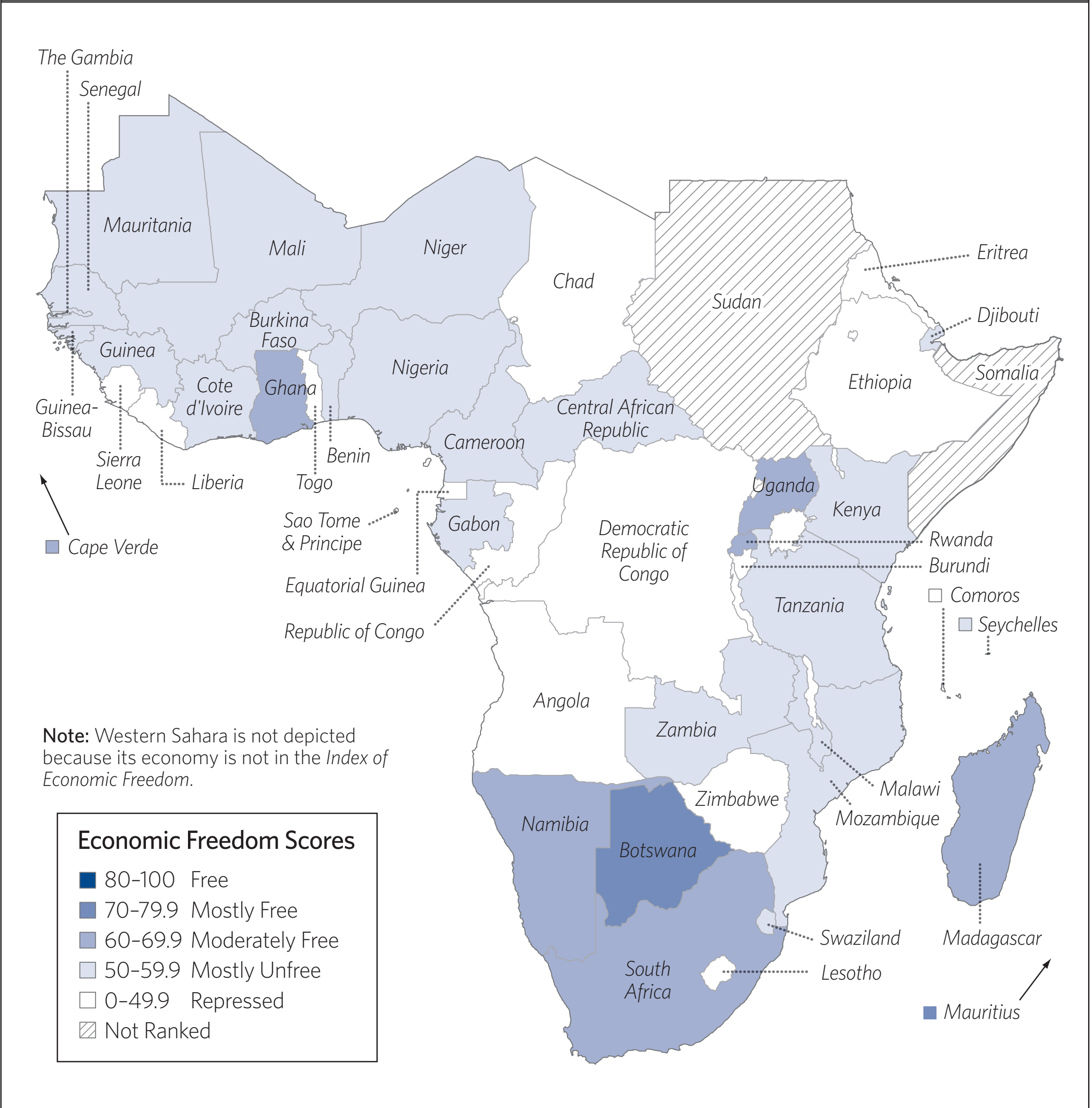
yet most of the other countries remain "mostly unfree." Countries such as Turkmenistan and Burma have economies that are "repressed." North Korea, which continues to reject any form of free-market activity, remains the least free economy in both the region and the world.

In comparison to last year, the region's economic freedom has declined by one-tenth of a point. In the 2013 *Index*, the scores of 19 countries in the region have improved, and those of 20 have declined. About 63 percent of the 41 countries in the Asia–Pacific region score between 40 and 60 on the economic freedom scale, remaining either "mostly unfree" or "repressed." Four countries have adjusted their economic freedom status. South Korea and Sri Lanka have moved up into the "mostly free" and "moderately free" categories, respectively. On the other hand, both the Kyrgyz Republic and Samoa have become "mostly unfree" economies. While Sri Lanka recorded the third-largest score improvement in the 2013 *Index*, Samoa registered the second-biggest score decline.

Although its overall economic freedom score is below the world average of 59.6 in the 2013 *Index*, the Asia–Pacific region continues to score higher than the world averages in four of the 10 economic freedoms related to limited government and regulatory efficiency: fiscal freedom, government spending, business freedom, and labor freedom. Typically lower government expenditures result in a regional government spending score that is over four points better than the world average. The region's labor freedom score beats the world average by about five points, although many small Pacific island economies still lack fully developed formal labor markets.

India and China are ranked 119th and 136th, respectively, in the world, and both remain "mostly unfree." The two countries' high econom-

Sub-Saharan Africa



Note: Western Sahara is not depicted because its economy is not in the *Index of Economic Freedom.*

Economic Freedom Scores

- ■ 80–100 Free
- ■ 70–79.9 Mostly Free
- ■ 60–69.9 Moderately Free
- □ 50–59.9 Mostly Unfree
- □ 0–49.9 Repressed
- ▨ Not Ranked

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index.

Map 6 heritage.org

ic growth has not been deeply rooted in policies that promote economic freedom. The foundations for long-term economic development continue to be fragile in the absence of effectively functioning legal frameworks. Progress with market-oriented reforms has been uneven and has often backtracked under the influence of those with a political interest in maintaining the status quo.

SUB-SAHARAN AFRICA

Sub-Saharan Africa's overall level of economic freedom remains weaker than that of any other region. With a score decline of 0.1 point that ended two years of steady improvement, the region's movement toward greater economic freedom has stalled.

Unlike other regions that have a more diverse range of "free" economies, in Sub-Saharan

Economic Freedom in Sub-Saharan Africa Countries

World Rank	Region Rank	Country	Overall Score	Change from 2012	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
8	1	Mauritius	76.9	-0.1	70.0	51.0	92.1	81.9	78.2	72.3	75.4	87.9	90.0	70.0
30	2	Botswana	70.6	1.0	70.0	61.0	79.5	65.1	69.0	69.8	72.0	79.7	70.0	70.0
63	3	Rwanda	64.1	-0.8	30.0	50.0	80.4	75.9	65.6	80.3	75.5	78.0	65.0	40.0
65	4	Cape Verde	63.7	0.2	70.0	55.0	77.9	65.4	58.9	40.3	78.0	66.9	65.0	60.0
73	5	Madagascar	62.0	-0.4	40.0	30.0	90.0	94.6	63.5	47.4	74.9	74.6	55.0	50.0
74	6	South Africa	61.8	-0.9	50.0	41.0	70.5	69.2	74.7	55.6	75.8	76.3	45.0	60.0
77	7	Ghana	61.3	0.6	50.0	39.0	86.0	52.5	61.5	61.6	64.8	67.8	70.0	60.0
79	8	Uganda	61.1	-0.8	30.0	24.0	80.6	84.3	48.4	87.9	77.2	73.6	55.0	50.0
84	9	Namibia	60.3	-1.6	30.0	44.0	66.4	71.5	68.4	76.7	74.9	81.5	50.0	40.0
86	10	Burkina Faso	59.9	-0.7	30.0	30.0	81.4	82.0	61.2	56.4	80.6	72.5	55.0	50.0
92	11	The Gambia	58.8	0.0	30.0	35.0	75.1	82.7	59.5	59.3	71.1	60.5	65.0	50.0
93	12	Zambia	58.7	0.4	30.0	32.0	72.9	80.3	60.4	58.4	66.0	82.3	55.0	50.0
98	13	Tanzania	57.9	0.9	30.0	30.0	79.9	77.9	48.6	61.9	71.8	73.5	55.0	50.0
99	14	Gabon	57.8	1.4	40.0	30.0	74.2	80.1	56.5	63.1	77.5	61.1	55.0	40.0
101	15	Benin	57.6	1.9	30.0	30.0	76.1	86.1	45.4	49.7	79.9	59.3	70.0	50.0
104	16	Swaziland	57.2	0.0	40.0	31.0	74.4	51.3	66.0	70.3	74.7	69.7	55.0	40.0
111	17	Mali	56.4	0.6	30.0	28.0	69.6	83.9	50.1	64.6	79.9	73.2	45.0	40.0
114	18	Kenya	55.9	-1.6	30.0	22.0	77.5	73.5	58.0	57.1	73.8	66.7	50.0	50.0
116	19	Senegal	55.5	0.1	40.0	29.0	65.2	75.6	56.7	41.3	79.6	72.2	55.0	40.0
118	20	Malawi	55.3	-1.1	40.0	30.0	78.4	60.0	41.1	58.8	72.5	71.8	50.0	50.0
120	21	Nigeria	55.1	-1.2	30.0	24.0	82.6	74.6	55.7	67.2	73.3	63.9	40.0	40.0
123	22	Mozambique	55.0	-2.1	30.0	27.0	76.2	64.5	63.9	37.9	74.7	75.4	50.0	50.0
124	23	Seychelles	54.9	1.9	50.0	48.0	77.6	56.9	69.2	63.5	75.6	33.4	45.0	30.0
126	24	Côte d'Ivoire	54.1	-0.2	25.0	22.0	77.9	79.8	43.3	54.6	77.8	70.3	40.0	50.0
127	25	Djibouti	53.9	0.0	30.0	30.0	79.4	48.8	30.0	59.6	76.6	59.6	65.0	60.0
128	26	Niger	53.9	-0.4	30.0	25.0	77.0	80.1	35.2	39.3	85.4	71.7	55.0	40.0
133	27	Cameroon	52.3	0.5	30.0	25.0	69.3	87.1	46.8	55.5	69.9	54.9	35.0	50.0
134	28	Mauritania	52.3	-0.7	25.0	24.0	80.3	74.7	43.3	51.1	75.1	64.8	45.0	40.0
137	29	Guinea	51.2	0.4	20.0	21.0	69.6	82.6	46.1	63.8	62.8	61.2	45.0	40.0
138	30	Guinea-Bissau	51.1	1.0	20.0	22.0	89.1	82.0	41.3	54.0	72.7	65.3	35.0	30.0

(continued on next page)

Table 7 heritage.org

Economic Freedom in Sub-Saharan Africa Countries (continued)

World Rank	Region Rank	Country	Overall Score	Change from 2012	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
142	31	Central African Republic	50.4	0.1	20.0	22.0	65.1	92.4	35.2	47.9	78.1	57.8	55.0	30.0
146	32	Ethiopia	49.4	-2.6	30.0	27.0	74.2	89.6	52.4	46.9	64.7	64.0	25.0	20.0
147	33	Liberia	49.3	0.7	30.0	32.0	76.6	77.8	56.5	47.2	72.0	61.4	20.0	20.0
148	34	Burundi	49.0	0.9	20.0	19.0	71.5	22.6	58.4	66.4	68.7	78.9	55.0	30.0
150	35	Togo	48.8	0.5	30.0	24.0	68.5	81.6	39.9	44.2	78.5	56.7	35.0	30.0
151	36	Sierra Leone	48.3	-0.8	10.0	25.0	80.7	75.9	51.5	26.3	68.5	70.2	55.0	20.0
153	37	São Tomé and Príncipe	48.0	-2.2	20.0	30.0	86.9	45.3	53.5	38.6	66.0	60.0	50.0	30.0
155	38	Lesotho	47.9	1.3	40.0	35.0	48.2	0.0	63.7	62.8	75.7	69.1	45.0	40.0
157	39	Comoros	47.5	1.8	30.0	24.0	64.7	82.4	44.7	51.2	74.6	68.8	15.0	20.0
158	40	Angola	47.3	0.6	15.0	20.0	82.6	60.6	43.1	44.8	61.5	70.2	35.0	40.0
164	41	Chad	45.2	0.4	20.0	20.0	50.4	75.5	25.2	40.5	74.6	55.6	50.0	40.0
167	42	Congo, Rep. of	43.5	-0.3	10.0	22.0	61.4	80.3	31.5	44.8	74.3	60.7	20.0	30.0
170	43	Equatorial Guinea	42.3	-0.5	15.0	19.0	75.4	39.3	44.4	43.1	72.8	58.8	25.0	30.0
171	44	Congo, Dem. Rep. of	39.6	-1.5	10.0	20.0	71.4	60.1	38.7	36.3	56.5	63.0	20.0	20.0
173	45	Eritrea	36.3	0.1	10.0	25.0	57.0	54.6	17.3	54.6	55.5	69.1	0.0	20.0
175	46	Zimbabwe	28.6	2.3	10.0	22.0	71.8	66.4	33.4	21.9	0.0	50.4	0.0	10.0
N/A	N/A	Somalia	N/A	N/A	N/A	10.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	Sudan	N/A	N/A	N/A	16.0	N/A	89.9	57.4	65.4	64.5	N/A	15.0	N/A

Table 7 heritage.org

Africa, there are only distinctions among less free economies. A majority of nations in the region are ranked either "mostly unfree" with scores between 50 and 60 or "repressed" with scores below 50. Fifteen of the world's 33 "repressed" economies are in Sub-Saharan Africa. Four countries in the region have made notable changes in their economic freedom status. Botswana has advanced to "mostly free," but Burkina Faso regressed to "mostly unfree." São Tomé and Príncipe and Ethiopia are now considered "repressed."

Sub-Saharan Africa is ranked last in seven of the 10 components of economic freedom. Some of the gaps between Sub-Saharan Africa's scores and world averages are especially striking. The region lags by about 13 points in business freedom and by over 10 points in both property rights and freedom from corruption. Labor freedom is restricted, reflecting in part the region's lack of progress in developing modern and efficient labor markets. The single factor for which the region scores higher than the world average is government spending. Ironically, however, the region scores worse than the global average in terms of fiscal freedom.

ECONOMIC FREEDOM: THE WELLSPRING OF TRUE PROGRESS

Over the past year, a critical battle has been fought around the world between defenders and oppressors of economic freedom. Global economic uncertainty has emboldened critics of the free enterprise system, who have raised questions about the best policy framework for revitalizing economic growth, employment, and overall social progress.

The broad consensus supported by volumes of evidence-based research is that vibrant and lasting economic growth is achievable only when governments adopt economic policies that increase individual choice and opportunity, empowering and encouraging entrepreneurship.

In addition to the great levels of prosperity and human development induced by high levels of economic freedom, the higher growth rates spurred by advances in economic freedom tend to inspire a virtuous cycle of openness and resilience, triggering even further improvements in economic freedom. The result is a sort of compounding that has created in the countries with the highest levels of economic freedom a level of prosperity and human well-being unmatched in human history.

Greater economic freedom also provides more fertile ground for effective and democratic governance. It empowers people to exercise greater control of their daily lives. By increasing options, economic freedom ultimately nurtures political reform as well. Economic freedom makes it possible for individuals to gain the economic resources necessary to challenge entrenched interests or compete for political power, thereby encouraging the creation of more pluralistic societies.

TIME TO RENEW COMMITMENT TO ECONOMIC FREEDOM

The current period of uncertain and fragile global economic performance represents a critical opportunity to ponder the principles that can revitalize economic growth. The results of the 2013 *Index of Economic Freedom* document economic policy stagnation in many countries around the world and record a general decline in the momentum for increasing freedom. If we are to restore economic growth, that decline is going to have to be reversed, most importantly in countries like the United States and Ireland that once led the charge for greater freedom.

As Friedrich A. Hayek once observed, "If old truths are to retain their hold on men's minds, they must be restated in the language and concepts of successive generations." That need has never been more evident to those who carry on the fight for greater economic freedom and the broader understanding and acceptance of the fundamental principles on which prosperity is based.

Chapter 2

The Rule of Law

Edwin J. Feulner, Ph.D.

Economic freedom rests on the empowerment of the individual, nondiscrimination, and open competition. None of these requirements can exist in a society that lacks effective rule of law. This special section of the 2013 *Index of Economic Freedom* offers some diverse perspectives on the rule of law and its relationship to economic freedom and prosperity.

THE RULE OF LAW AND DEVELOPMENT

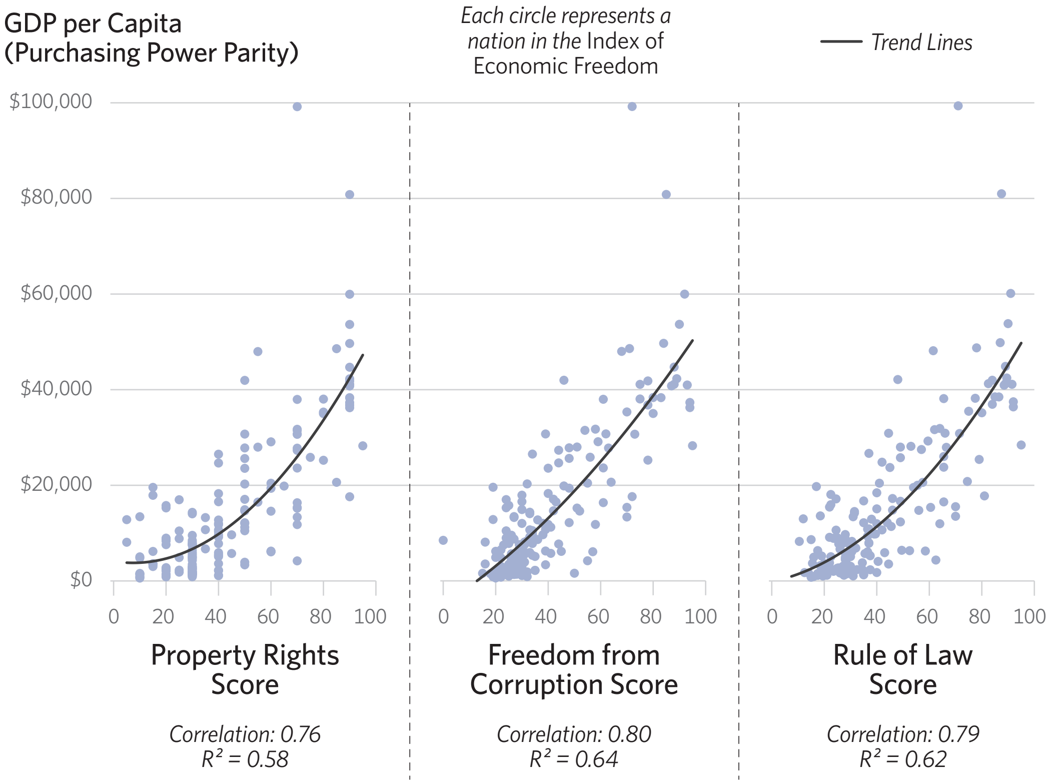
The *Index of Economic Freedom* provides unambiguous confirmation of the importance of the rule of law to economic growth and prosperity. Both of the rule-of-law indicators in the *Index* demonstrate a high degree of predictive power with respect to per capita incomes. The coefficient of correlation between the property rights indicator and per capita incomes is 0.76 (1.00 equals perfect correlation). For freedom from corruption, the coefficient is 0.80. Taken together, the rule-of-law indicators are highly predictive of per capita GDP, irrespective of other factors or the overall level of economic freedom. (See Chart 1.)

The rule of law is a critically important factor in determining which countries attract dynamic flows of global investment capital. Countries with rule-of-law scores in the top quarter have recorded levels of inward foreign direct investment that exceed levels in the lower three quarters combined. (See Chart 2.)

There is also evidence of a strong relationship between rule of law and employment. Available data from the Organisation for Economic Co-operation and Development (OECD) allow a comparison between unemployment rates and *Index* rule-of-law scores for OECD members. The top quartile of OECD members in terms of rule of law had unemployment rates averaging about 6 percent in 2011. Members that scored in the bottom half on rule of law averaged about 10 percent unemployment. (See Chart 2.)

Given the obvious importance of property rights and freedom from corruption in underpinning high levels of economic performance, it is vital that we sharpen our overall understanding of the rule of law, its various manifestations, and the ways in which it affects economic achievement.

The Effective Rule of Law Propels Prosperity



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index, and International Monetary Fund, World Economic Outlook Databases, http://www.imf.org/external/ns/cs.aspx?id=28 (accessed November 6, 2012).

Chart 1 heritage.org

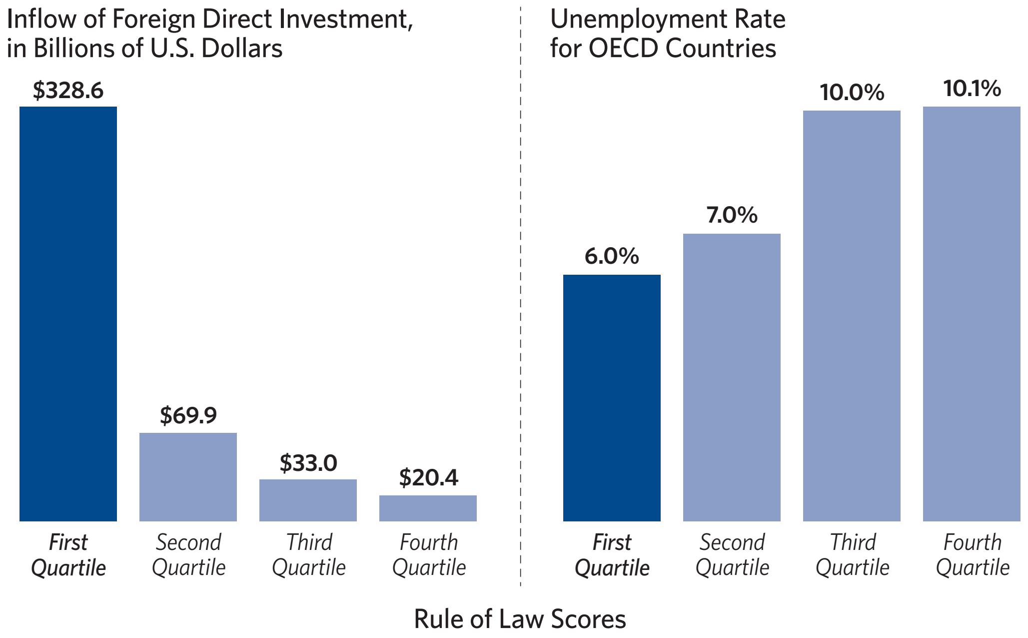
THE RULE OF LAW AND DEMOCRACY

The relationship between the rule of law and economic development was explored in depth in research by Dr. Robert J. Barro that was published in the 2000 *Index of Economic Freedom.*[1] In a groundbreaking chapter, Dr. Barro was among the first to question the relationship between the promotion of democracy and development, highlighting the practical differences between democracy and the more general concept of rule of law and concluding that rule of law, by empowering individuals within a stable and predictable environment, is the more reliable factor in promoting development.

Dr. Barro returns to the *Index* this year with an updated version of that study based on improved data and new research. His conclusion, however, is the same: Efforts to promote the rule of law can bear substantial fruit in promoting development; promotion of democracy, by contrast, is uncertain at best in spurring economic growth or laying a solid foundation for economic freedom.

At a time when the Middle East is in turmoil, with political systems in rapid evolution or even revolution, Barro's study provides a solid basis on which to evaluate the likely success of attempts by aid donors to support greater levels of freedom and broad-based economic development throughout the region.

Stronger Rule of Law Boosts Foreign Investment, Lowers Unemployment



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index; United Nations Conference on Trade and Development, *World Investment Report 2012*, http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/WIR2012_ WebFlyer.aspx (accessed November 6, 2012); and Organisation for Economic Cooperation and Development, "Statistics from A to Z," http://www.oecd.org/statistics/ (accessed November 6, 2012).

Chart 2 heritage.org

EQUITABLE TREATMENT UNDER THE LAW

In developing countries, advances in the rule of law often involve such basics as the implementation of constitutional legal frameworks, land titling procedures, and the struggle against petty corruption. In advanced economies, corruption often takes more subtle forms, involving special subsidies or tax privileges for elites, abuses of government contracting, cronyism, and selective bailouts. These, of course, exist also in developing countries. Indeed, such government-granted special privileges tend to exist any time the government claims a significant economic role, either as property holder, business operator or regulator, or through programs aimed at redistributing wealth.

Such policies and practices violate one of the three principles of economic freedom: equitable treatment for all. As emphasized in the *Index*, in free societies, individuals succeed or fail based on their effort and ability, not on their connections or class. Openness and transparency are the greatest antidotes to discrimination, but they are among the most difficult goals to achieve in government, where secrecy and bureaucracy enable corruption and graft.

In the second study in this section, Dr. Matthew Mitchell surveys the range of corrupt government practices involving special privileges for government-favored individuals or groups and highlights the economic costs they impose on society.

Next, James M. Roberts and John A. Robinson weigh in with a contribution analyzing the specific vulnerabilities of societies endowed with significant natural resources, especially minerals such as oil or diamonds. Through a comparison of countries that have handled the so-called resource curse either especially well or especially poorly, they identify the policies and legal systems most conducive to successful management and exploitation of natural resources. It turns out that strong property rights are the best cure for the "curse."

THE RULE OF LAW: GOOD FOR BUSINESS

The free-market economy depends on an open competitive environment with a level playing field. Government's proper role is to referee the competition. When it abandons its neutrality, either through outright corruption or through misguided efforts at social engineering that involve picking an economy's winners and losers, the predictable results are a loss of efficiency, a reduction in productivity, and eventual economic stagnation. Entrepreneurs have little chance of success if government is tipping the scales against them in favor of vested interests. It is a fact of life that already established firms, not tomorrow's innovators, are first in line at the government trough.

To close out this special section, the *Index* presents an essay by Myron Brilliant of the U.S. Chamber of Commerce, who argues that sustainable business success is impossible without the rule of law, which provides market predictability and due process. For Brilliant, good governance is good business, and he urges greater efforts to develop new and better indicators to measure the effectiveness of the rule of law and guide firms' investment decisions.

Indeed, the effort to identify better measures of the rule of law is a critical concern for everyone engaged in comparative studies of economic freedom. Of the four pillars of economic freedom evaluated in the *Index of Economic Freedom*,[2] the rule of law is by far the most difficult to measure. There are few standard metrics, and most published attempts to quantify and compare the rule of law in various countries rely on opinion surveys that can be subjective and unreliable.

To mitigate such deficiencies, the *Index* draws on an unusually wide variety of sources in evaluating respect for property rights, including information from international organizations, government sources, businesses, research organizations, and the media. Undoubtedly, better metrics would enable even better understanding and analysis.

THE FOUNDATION OF ECONOMIC FREEDOM AND GROWTH

The rule of law, especially for developing countries, may be the area of economic freedom that is most important in laying the foundations for economic growth, and in advanced economies, deviations from the rule of law may be the first signs of serious problems that will lead to economic decline.

There is plenty of evidence from around the world that rule of law is a critical factor in empowering individuals, ending discrimination, and enhancing competition. In the never-ending struggle to improve the human condition and achieve greater prosperity, policies that promote the rule of law may well deserve a claim of precedence over other desirable objectives.

The first and most important role of governments is to preserve the peace while simultaneously respecting human rights, dignity, and freedom. It is the rule of law that enables peaceful resolution of conflict and ensures integrity in government's interactions with individuals. The studies in this special section represent an effort to better understand, measure, and promote this key aspect of economic freedom.

Endnotes

1 Gerald P. O’Driscoll Jr., Kim R. Holmes, and Melanie Kirkpatrick, *2000 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2000).

2 Rule of law, limited government, regulatory efficiency, and open markets.

Chapter 3

Democracy, Law and Order, and Economic Growth

Robert J. Barro, Ph.D.

Economic performance depends on various aspects of government policy, but no aspect is more important than the quality of political, legal, and economic institutions. Differences in institutions have proven empirically to be among the most important determinants of cross-country differences in rates of economic growth. Consequently, basic reforms that improve institutions provide one of the surest routes for transforming a country in the long run from poverty to prosperity. This view, which underlies a good deal of recent empirical research on economic growth, is also the central theme of the *Index of Economic Freedom*.

The question of which aspects of institutions matter most for long-run economic performance has proven to be more controversial than the proposition that institutions are important overall. One strand of research has focused on democracy and specifically on the strength of political rights. The second strand has emphasized property rights and legal structures that promote the rule of law and law and order.

Some scholars, such as Milton Friedman,[1] argue that these two aspects of liberal institutions are mutually reinforcing and that both are conducive to economic performance. Recent empirical research supports the idea that rule of law and law and order are important determinants of economic growth but delivers mixed results with respect to the contributions from democracy. Before turning to this empirical evidence, it is worthwhile to assess the situation theoretically.

ECONOMIC EFFECTS OF PROPERTY RIGHTS AND THE LEGAL SYSTEM

The economic effects of secure property rights and a well-functioning legal system are clear. Since people are to a considerable degree self-interested, they tend to undertake hard work and investments only if they have a reasonable probability of enjoying the fruits of their efforts. Thus, if property rights are insecure—for example, because of high crime rates or high rates of taxation or high chances of government expropriation—people tend to work and invest little. The concept of high taxation can be extended from income taxes or other formal levies to include onerous government regulations and licensing requirements, as well as bribes required by corrupt officials.

Vigorous business activity also benefits from a legal system that allows for contracts to be clearly specified and enforced. This contracting potential influences relations of businesses with suppliers, creditors, workers, and customers. For example, if the legal system does not enforce the repayment of loans, loans will be scarce, and many productive investments will remain unexploited.

One way that businesses can react to poorly defined property rights is to reduce their levels of operations. However, another possibility, especially in response to high rates of taxation and oppressive regulations, is to move from the formal to the informal or black-market part of the economy. This informality may be better for the economy than a cessation of operations, but it does entail costs. Informal operation tends to be less efficient because businesses have to expend resources to conceal their activities. In addition, black-market participants typically lose access to useful government services, such as official enforcement of contracts. Another effect is that the government fails to raise much in taxes on black-market activities, and the amounts collected from legal enterprises must therefore rise to pay for a given level of public expenditures.[2]

The stress on property rights and the legal system does not yield unambiguous implications about the relation between economic performance and the size of the government. Some public actions, such as maintenance of internal and external security and enforcement of contracts, entail more government spending and tend to enhance economic activity. Others, such as burdensome regulations and overly generous transfer payments, hinder the economy.

ECONOMIC EFFECTS OF DEMOCRACY

What effects on the economy would we anticipate from an expansion of democracy, say in the form of an increase in electoral rights? One effect, characteristic of systems of one-person/one-vote majority voting, involves the pressure to enact redistributions of income from rich to poor. These redistributions may involve land reforms and an array of social-welfare programs. Although the direct effects on income distribution may be desirable (because they are equalizing), these programs tend to compromise property rights and reduce the incentives of people to work and invest.

One kind of disincentive involves transfers to poor people. Since the amount received typically involves income-testing and therefore falls as a person earns more income, the recipient is motivated to remain on welfare or otherwise disengage from productive activity. In other words, the effective marginal income tax rate is high for recipients of income-tested transfer payments. As an example, Casey Mulligan showed that the unusually sharp expansion of U.S. transfer payments—food stamps, unemployment insurance, Medicaid, and housing/mortgage assistance programs—from 2009 to 2011 raised the effective marginal income tax rate on poor persons by nearly 10 percentage points.[3]

The other adverse effect from expanded transfers involves the taxes to fund the programs. An increase in these taxes encourages the non-poor to work and invest less. Thus, larger transfers have a two-sided adverse impact on economic activity.

One offsetting effect is that an evening of the income distribution may reduce the tendency for social unrest. Specifically, transfers to the poor may reduce incentives to engage in criminal activity, including riots and revolutions. Since social unrest reduces everyone's incentives to work and invest, some amount of publicly organized income redistribution—notably a basic social safety net—may enhance overall economic activity. However, these kinds of "efficient" transfers do not require democracy, because even a dictator would be willing to provide transfers to the extent that the decrease in social unrest is worth the cost. Thus, the main point is that democracy tends to generate "excessive" transfers from the standpoint of maximizing the economy's total output.

Although democracy has its down side, one cannot conclude that autocracy provides ideal economic incentives. One problem with dictators is that they have the power and hence the inclination to steal the nation's wealth. More specifically, an autocrat may find it difficult to convince people that their property will not be confiscated once investments have been made. This convincing can sometimes be accomplished through reputation—that is, from a history of good behavior—but it also can be accomplished by relaxing the hold on power. Ways in which a dictator can constrain his own power include the writing of a constitution with designated rights, creating a legislature, allowing for elections with widespread participation, permitting the participation of competing political parties, and so on. In this context, an expansion of democracy, viewed as a mechanism for checking the power of the central authority, may enhance property rights and thereby encourage economic activity.

Theoretical reasoning suggests that enhanced property rights and the rule of law will encourage economic activity. The overall effects of expanded democracy, particularly in the sense of voting rights, are ambiguous. To sort out these relationships, I now turn to empirical evidence, but the first thing to consider is the measurement of democracy, the rule of law, and related concepts.

MEASURING DEMOCRACY

A number of researchers have provided quantitative measures of democracy, and Alex Inkeles found in an overview study a "high degree of agreement produced by the classification of nations as democratic or not, even when democracy is measured in somewhat different ways by different analysts."[4] One of the most useful measures—because it is available for almost all countries annually on a consistent (and contemporary) basis since 1972—is the one initiated by Raymond Gastil and his followers at Freedom House.[5]

The Freedom House concept of political rights uses the following basic definition: "Political rights are rights to participate meaningfully in the political process. In a democracy this means the right of all adults to vote and compete for public office, and for elected representatives to have a decisive vote on public policies."[6] In addition to the basic definition, the classification scheme rates countries somewhat impressionistically as less democratic if minority parties have little influence on policy.

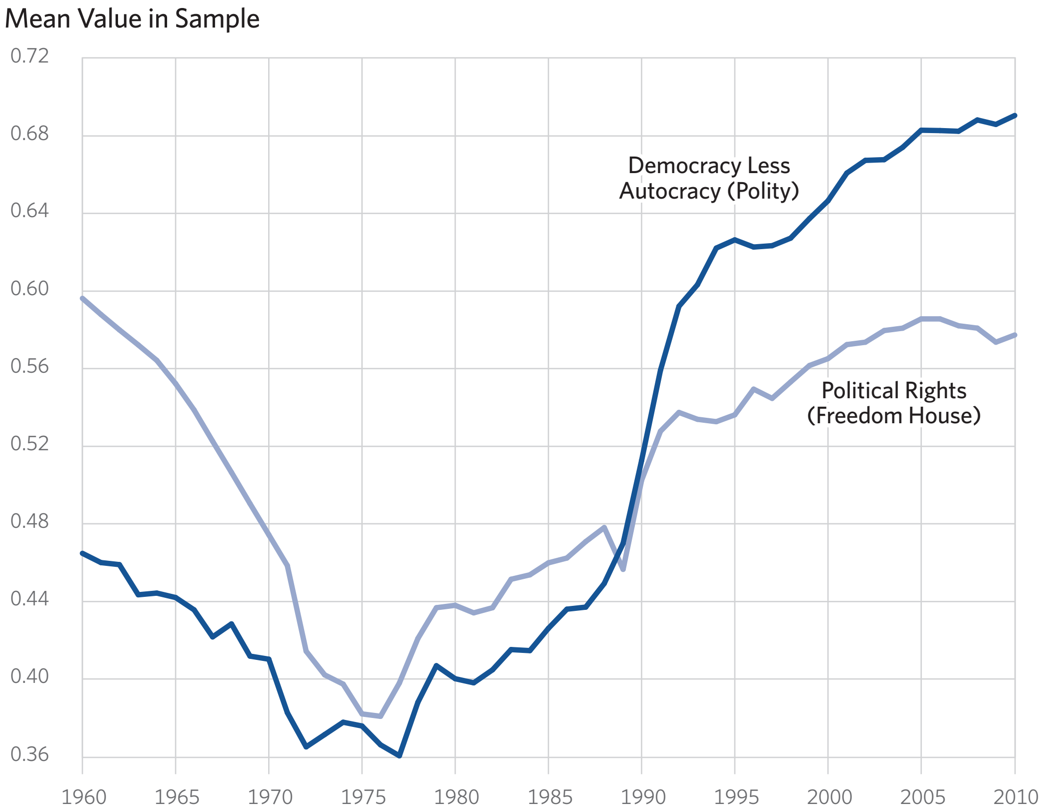
This political-rights variable was provided initially (and reported on www.freedomhouse.org) in seven subjective categories, where group one is the highest level of rights and group seven is the lowest. This classification was made by Freedom House based on an array of published and unpublished information about each country. I converted the concept to a 0–1 scale, with 0 representing the lowest rights (Freedom House category 7) and 1 the highest rights (Freedom House category 1)—effectively, full representative democracy.[7]

To fix ideas on the meaning of the 0–1 subjective scale, note that the United States and most other OECD[8] countries in 2010 and other recent years received the value 1.0, thereby being designated as full representative democracies. Some other countries that received the rating 1.0 in 2010 were Chile, Ghana, Israel, Mauritius, Taiwan, and Uruguay. Dictatorships that received the value 0.0 in 2010 included Belarus, Burma, China, Cuba, Libya, Saudi Arabia, Syria, Tunisia, and Vietnam. Places that were rated in 2010 at 0.5—halfway along between dictatorship and democracy—included Guatemala, Honduras, Kenya, Malaysia, Nicaragua, Nigeria, and Pakistan. There is a lot of persistence in the ratings of individual countries over time, although there is also a lot of change over periods of 20 or more years.

An alternative measure of democracy that is frequently used for research in political science and economics is the one compiled by Polity.[9] I use the Polity indicator for democracy less autocracy, which is classified initially on a –10 to +10 scale. To make the data comparable to the Freedom House indicator, I converted the Polity variable to a 0–1 scale, with 1 representing essentially full representative democracy. In practice, the Polity indicator tells a story similar to that for Freedom House.

Chart 1 shows the time paths of the cross-country averages of the two indicators of democracy for 1960–2010. The number of countries covered is 138 for Freedom House since 1972 and 132 for Polity since 1990, but the sample size is smaller in earlier years (as detailed in the note to the chart).

World Averages for Democracy Indicators, 1960–2010



Note: The values shown are means for each year across countries of the Freedom House and Polity indicators of democracy, both converted to a 0-to-1 scale. The Freedom House average for its political-rights indicator is for 138 countries since 1972, with 1981 data missing and therefore interpolated. The Freedom House variable is linked to the indicator from Kenneth A. Bollen, "Issues in the Comparative Measurement of Political Democracy," *American Sociological Review*, Vol. 45 (June 1980), pp. 370–390, for 101 countries in 1960 and 110 in 1965. Data for other years between 1960 and 1972 are missing and therefore interpolated. The Polity average for its measure of democracy less autocracy is for 132 countries since 1990. Earlier years have smaller samples: for example, 125 countries in 1980, 115 in 1970, and 96 in 1960.

Source: Robert J. Barro, "Convergence and Modernization Revisited," National Bureau of Economic Research *Working Paper* No. 18295, August 2012, http://www.nber.org/papers/w18295 (accessed October 31, 2012).

Chart 1 heritage.org

The chart shows that the mean of the Freedom House democracy index began at 0.60 in 1960 (based on the information from Kenneth A. Bollen[10]), fell to a low point of 0.38 in 1976, and has risen to 0.57–0.59 since 2000. Thus, there has been noticeable democratization since the mid 1970s, but the level has not quite reattained the value for 1960.

The main reason for the decline in the world average of the Freedom House political-rights measure after 1960 was the experience in Sub-Saharan Africa. Many of these countries began with ostensibly democratic institutions when they became independent in the early 1960s, but most evolved into one-party dictatorships by the early 1970s. Since the mid-1970s, there has been significant democratization in Sub-Saharan Africa and elsewhere.

The chart shows that the mean of the Polity democracy index has a pattern similar to that for Freedom House, except that the Polity average began at a lower value (0.49 in 1960), and the recovery after the low point in 1977 (0.38) was sharper. The Polity average reached 0.65 in 1995 and 0.70 in 2005 and has since remained roughly constant.

MEASURING THE RULE OF LAW AND LAW AND ORDER

Many analysts believe that maintenance of property rights and the rule of law are central for investment and other aspects of economic activity. The empirical challenge has been to measure these concepts in a reliable way across countries and over time. Probably the best indicators available come from international consulting firms that advise clients on the attractiveness of countries as places for investments.[11] These investors are concerned about institutional matters such as the prevalence of law and order, the capacity of the legal system to enforce contracts, the efficiency of the bureaucracy, the likelihood of government expropriation, and the extent of official corruption.

These kinds of factors have been assessed by a number of consulting companies, including Political Risk Services in its *International Country Risk Guide*.[12] This source is especially useful because it covers over 100 countries since the early 1980s. Although the data are subjective, they have the virtue of being prepared contemporaneously by local experts. Moreover, the willingness of customers to pay substantial fees for this information is perhaps some testament to its validity.

Among the various indicators available, the index for overall maintenance of the rule of law—now referred to as "law and order tradition"—turns out to have the most explanatory power for economic growth. This index was measured in seven categories on a 0–6 scale, with 6 the most favorable. To make the index comparable with the ones discussed for democracy, the law-and-order variable and Political Risk Services' other measures of institutional quality were converted to a 0–1 scale, with 0 indicating the poorest status and 1 the best.

To understand the scale, note that the United States and most other OECD countries had values in the top two categories (1.0 or 0.83) for the law-and-order indicator in recent years. However, only nine countries (Austria, Denmark, Finland, Ireland, Iceland, Luxembourg, Netherlands, Norway, and Sweden)—not including the United States—were in the top category in 2010. Countries outside the OECD that were rated in the second-best category in 2010 were Brunei, Chile, Cyprus, Czech Republic, Hong Kong, Israel, Kuwait, Latvia, Malta, Morocco, Namibia, Oman, Qatar, Saudi Arabia, Singapore, Syria, Tunisia, Taiwan, and Tanzania.

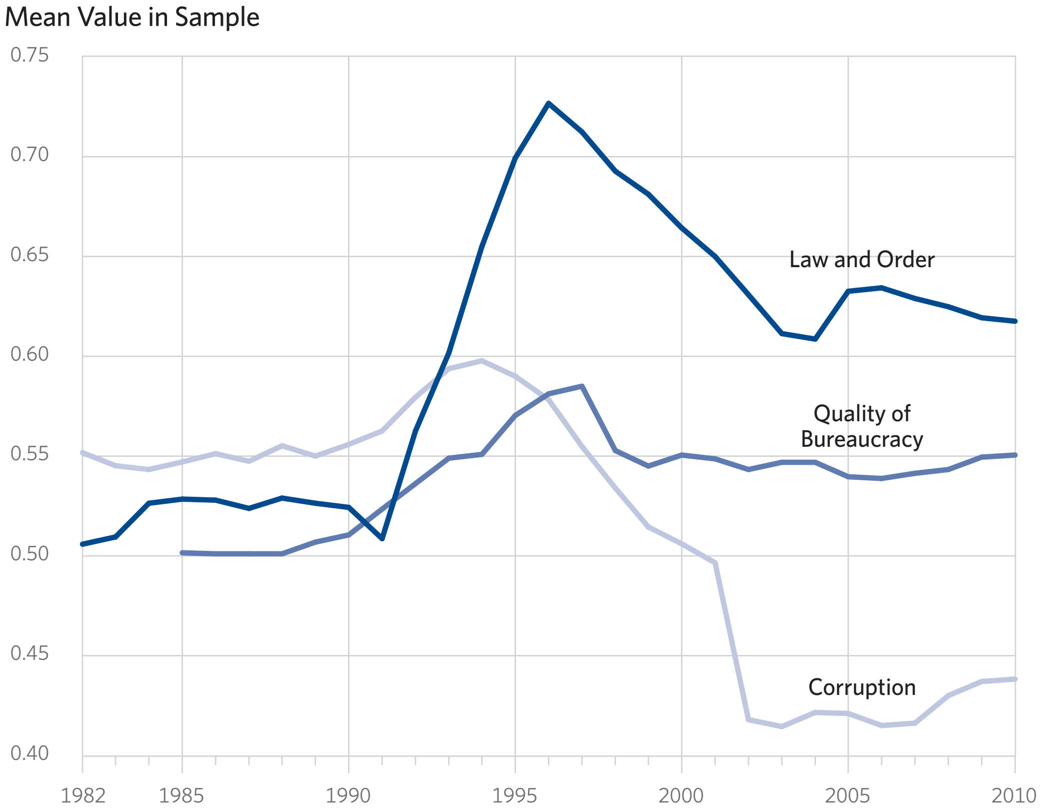
No country had a rating of 0.0 for the law-and-order variable in 2010, but just above that category were the Democratic Republic of Congo, Somalia, and Venezuela. Countries rated at 0.0 in earlier years included the Democratic Republic of Congo, Ethiopia, Guyana, Haiti, Serbia, Somalia, and Sri Lanka.

Chart 2 shows the time paths of the cross-country averages of the Political Risk Services' indicators for law and order, official corruption, and quality of the bureaucracy for 1982–2010. The number of countries covered is 127 since 1987, but the sample size is smaller in earlier years (as detailed in the note to the chart). The average of the law-and-order variable improved from 0.51 in 1982 to a peak of 0.73 in 1996 but then declined to 0.62 in 2010. Similarly, the corruption variable rose from 0.55 in 1982 to 0.60 in 1994 but then fell to 0.41 in 2006 and 0.44 in 2010. The bureaucratic quality variable rose from 0.50 in 1985 (its first year of availability) to 0.58 in 1997, then fell slightly to 0.54 in 2006 and 0.55 in 2010. Thus, the high-water mark for all of these institutional quality variables was in the mid 1990s.

My analysis of economic growth focuses on the law-and-order indicator, which can also be interpreted as a measure of the rule of law. The other two indicators are positively correlated with the law-and-order indicator, with correlations in terms of variations over time and across countries typically around 0.6–0.7. For explaining economic growth, it turns out that once the law-and-order measure is held constant, the indicators for corruption and bureaucratic quality do not contribute much.

The last finding may reflect the two-sided nature of political corruption and bureaucratic

World Averages for Indicators of Institutional Quality, 1982–2010



Note: The values shown are means for each year across countries of the Political Risk Services International Country Risk Guide indicators of law and order (previously called rule of law), official corruption, and quality of the bureaucracy. All indicators were converted to a 0–to–1 scale, with 0 indicating the poorest status and 1 the best. All of the indicators are means for 127 countries since 1987. The law-and-order variable has 126 countries for 1985–1986, 108 countries for 1984, and 88 countries for 1982–1983. The corruption variable has 126 countries for 1985–1986, 110 countries for 1984, and 87 countries for 1982–1983. The bureaucratic quality variable has 125 countries for 1986 and 119 for 1985, and is unavailable prior to 1985.

Source: Robert J. Barro, "Convergence and Modernization Revisited," National Bureau of Economic Research *Working Paper* No. 18295, August 2012, http://www.nber.org/papers/w18295 (accessed October 31, 2012).

Chart 2 heritage.org

efficiency. In some circumstances, corruption may be preferable to honest enforcement of bad rules. For example, outcomes may be worse if a regulation that prohibits some useful economic activity is thoroughly enforced rather than circumvented through bribes. However, the economy is hampered when few legitimate activities can be undertaken without bribes. Thus, the overall impact of more official corruption is ambiguous.

Similarly, enhanced bureaucratic efficiency has obvious advantages. However, if bureaucrats are carrying out activities in which they ought to be absent, the economy may suffer from more bureaucratic efficiency. Moreover, there may be a tendency for the bureaucracy to grow larger when it functions more smoothly. Thus, the predicted net effect of bureaucratic quality is also uncertain.

As an overall tendency, countries that are strong in terms of law and order (and also low corruption and high bureaucratic efficiency) tend to be strong in terms of the democracy indicators from Freedom House and Polity. However, the correlation between any of the institutional quality indicators and either of the democracy indicators is weaker than that within either of the two categories. For example, in 2010, the correlation of the law-and-order indicator with the Freedom House democracy variable was only 0.3. Thus, there are many cases in which the law-and-order indicator is high while the democracy variable is low, and vice versa. These cross-country differences between law and order and democracy make it possible to distinguish empirically the effects of these institutional/political variables on economic growth.

Cases for 1982 or 1985 in which the law-and-order indicator was high in relation to the Freedom House political-rights variable (with a gap of 0.5 or more) included Burma, Chile, Hong Kong, Hungary, Poland, Singapore, and Taiwan. For 2010, countries with these large positive gaps between law and order and democracy included Burma, China, Ethiopia, Iran, Jordan, Russia, Saudi Arabia, Singapore, Syria, Tunisia, and Vietnam. These countries maintained reasonably good law and order but had relatively little democracy. In the typical case, the country was run by a dictator or dictatorial class that nevertheless promoted property rights and a reliable legal system. Historical prototypes of this kind of dictator were the Shah in Iran, Augusto Pinochet in Chile, Lee Kuan Yew in Singapore, and Hosni Mubarak in Egypt.

Countries in which the Freedom House democracy indicator was high in relation to the law-and-order variable (with a gap of 0.5 or more) in 1982 or 1985 included Bolivia, Colombia, Cyprus, Dominican Republic, Greece, Honduras, Israel, Jamaica, Peru, Sri Lanka, Trinidad, and Venezuela. In 2010, countries in this situation included Brazil, Ghana, Jamaica, Panama, El Salvador, and Uruguay. Countries in this group maintained a lot of democracy but were relatively weak in terms of property rights and legal protections.

EFFECTS OF LAW AND ORDER AND DEMOCRACY ON ECONOMIC GROWTH

In the late 1990s, I developed an empirical framework for assessing the effects of various factors on the rate of growth of real per capita gross domestic product (GDP).[13] The growth rate is determined from an equation: growth rate = $F(y, y^*)$. The variable y represents the starting position of the economy—specifically, the initial level of per capita GDP. The variable y^* represents the long-run position toward which the economy is heading. This position depends on government policies and other factors. As an example, improved maintenance of property rights raises y^*.

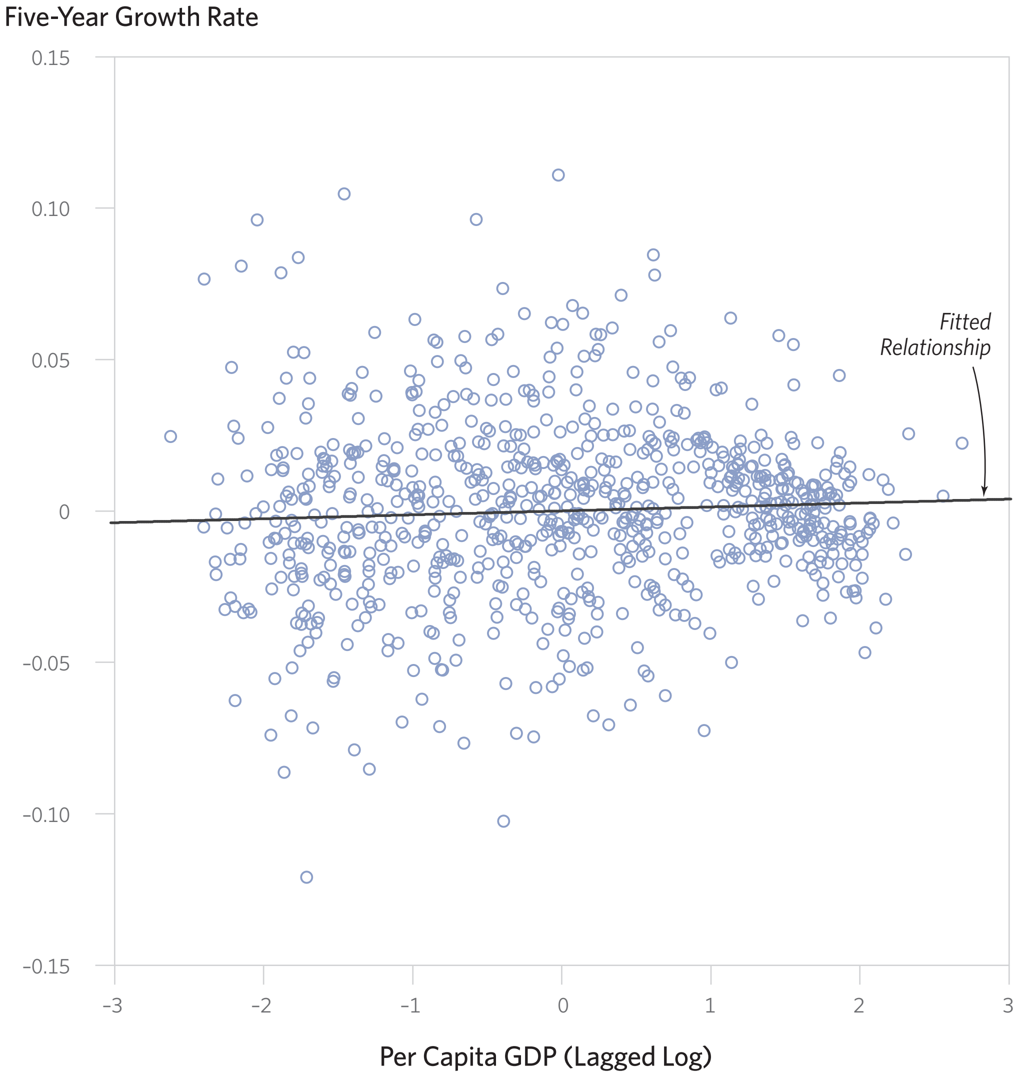
For given y^*, the growth rate falls with y because of diminishing returns to the accumulation of physical and human capital and to the assimilation of advanced technologies from leading countries. These forces tend to generate a convergence pattern whereby poor countries catch up to rich ones. For given y, the growth rate rises with y^*. Therefore, improved policies, such as better maintenance of property rights, increase the growth rate for given y.

In a recent study,[14] I reexamined the determinants of economic growth in a sample of 80 countries with GDP data from 1960 to 2009. Specifically, the analysis seeks to explain the average growth rate of real per capita GDP for each country over 10 five-year periods: 1960–1965 through 2005–2009 (where the last period has only four years of data). In this study, the GDP figures are the ones reported by Penn World Tables on an internationally comparable basis.[15] The sample includes countries at vastly different levels of economic development, and places are excluded only because of missing data.

Chart 3 shows a simple scatter diagram for the five-year growth rates against the levels of real per capita GDP at the start of each sub-period. That is, the growth rate from 1960 to 1965 is matched with the level for 1965, the growth rate from 1965 to 1970 is matched with the level for 1965, and so on. Since each country is observed 10 times (data permitting), there are roughly 800 data points (actually 783) in this diagram.

A simple convergence hypothesis would predict an inverse relationship between the growth rate and the starting level of per capita GDP. However, as is clear from Chart 3, there is no such relationship in the broad cross-country

Growth Rate and Starting Level of Per Capita GDP



Note: Data are for 80 countries. The horizontal axis has the log of per capita GDP in 1960, 1965, and so on through 2005. Values are expressed relative to the mean of this GDP variable in the full sample. The vertical axis shows the growth rate of per capita GDP for each country over the subsequent five years; that is, for 1960–1965, 1965–1970, and so on through 2005–2009. These values are expressed relative to the mean of this growth-rate variable in the full sample.

Source: Robert J. Barro, "Convergence and Modernization Revisited," National Bureau of Economic Research *Working Paper* No. 18295, August 2012, http://www.nber.org/papers/w18295 (accessed October 31, 2012).

Chart 3 heritage.org

data. If the only thing one knows about a country is how rich it is at some point in time, then this information reveals basically nothing about how fast the country will grow over the next five years (or the next 10 years and so on). This lack of simple convergence implies that there has been no tendency for equalization of per capita GDP across this broad set of 80 countries since 1960.

From the standpoint of the framework laid out in the foregoing equation, the lack of simple convergence can be explained by the role of the variables that underlie y*, which represents a country's long-run target for per capita GDP. If a country is observed to be poor—that is, to have a low value of y—at some point in time, this condition likely reflects the presence of a low value of y* for a long time in the past. A country observed to be poor in 1960, for example, was likely maintaining weak institutions and pursuing bad policies for a long time before 1960. Furthermore, a low value of y* tends to persist, partly because governments that have maintained weak institutions and pursued bad policies in the past tend to continue this pattern. Therefore, although a low value of y predicts high growth for given y*, the tendency for a low value of y* to accompany a low value of y offsets the simple convergence effect. In the cross-country data since 1960, these two influences are nearly fully offsetting so that poor countries grow, on average, at roughly the same rate as rich ones.

Chart 4 recomputes the relationship between growth rates and starting levels of per capita GDP after holding constant an array of explanatory variables that have been found to influence the target position, y*. The variables[16] are the indicator for law and order (or rule of law); the Freedom House indicator of political rights (democracy) and its square; starting levels of life expectancy at birth and the total fertility rate; starting levels of school attainment of females and males; ratios of investment and government consumption to GDP; a measure of international openness; variations in the terms of trade; and the inflation rate.

In contrast to Chart 3, Chart 4 reveals a clear and statistically significant inverse relation between the growth rate and the starting level of per capita GDP. The key reason for the difference is that Chart 4 holds constant an array of growth determinants aside from the starting level of per capita GDP; that is, it effectively holds fixed the long-run position, y*, shown in the foregoing growth-rate equation. Hence, the data exhibit a pattern of *conditional convergence* whereby the growth rate declines with y for given y*. This effect can be interpreted as diminishing returns to the accumulation of physical and human capital or to the absorption of superior technologies from leading countries. For given underlying policies and institutions and other variables, represented by the variable y*, the rate of economic growth tends to decline as a country gets richer.

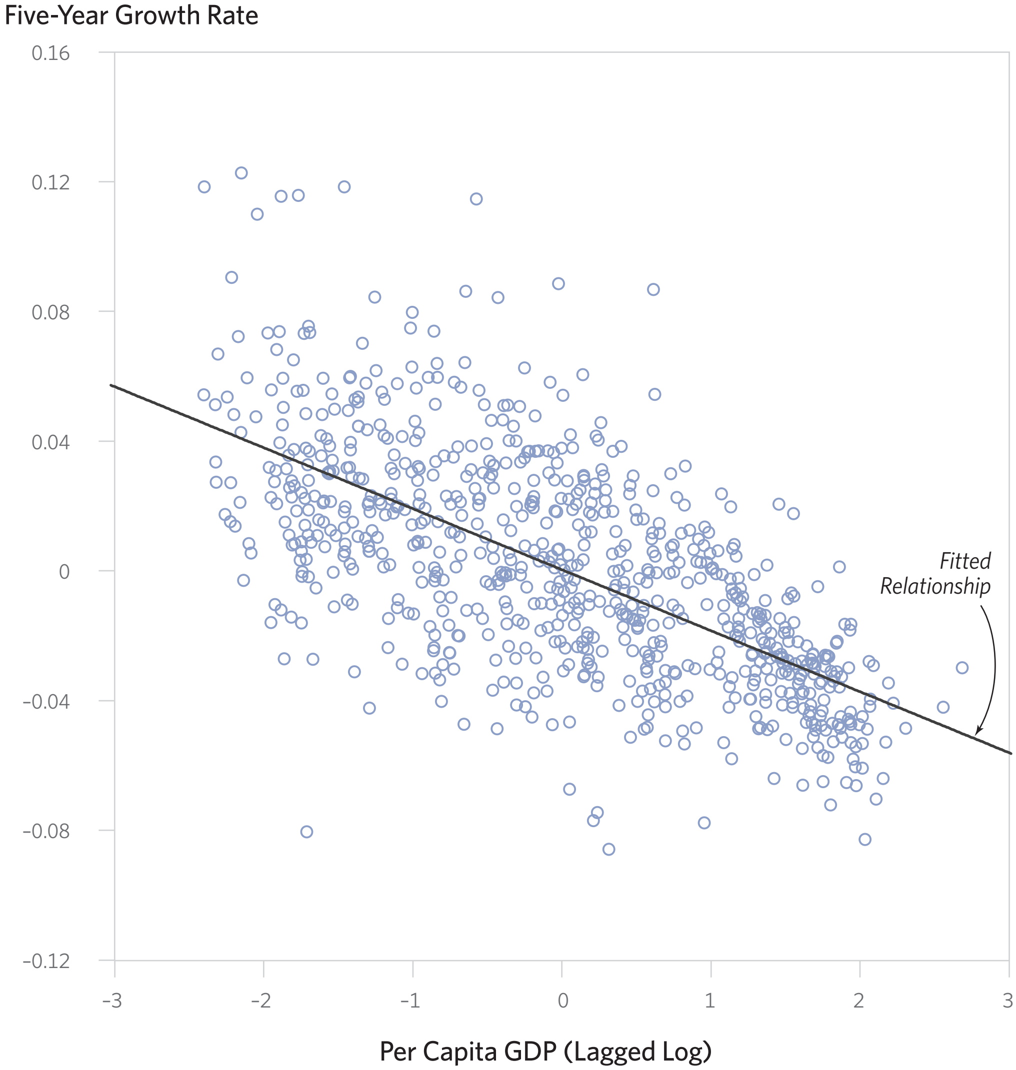
For present purposes, I want to highlight the role of the two political/institutional variables—the indicators for law and order and democracy—that were included among the determinants of the growth rate; that is, of the long-run position, y*. For the law-and-order indicator, the empirical relation with the rate of economic growth is in Chart 5. As in Chart 4, the association between the growth rate and the variable on the horizontal axis—in this case, the law-and-order indicator—is computed after holding constant the influences from a set of other explanatory variables (including now the initial level of per capita GDP).

The important implication of Chart 5 is that a higher value of the law-and-order indicator predicts a higher rate of economic growth. This relation is significant in a statistical sense. However, I am surprised that the explanatory power of the law-and-order variable is not even greater than it turns out to be. This outcome may reflect the imperfect measurement of institutional quality by the *International Country Risk Guide*.

The estimated effect of improved law and order on economic growth is substantial. Specifically, a rise by one category (among the seven used) in the indicator is estimated to raise the growth rate on impact (that is, over five years) by 0.3 percent per year, compared to the overall mean growth rate of 2.1 percent per year.[17] A change from the worst rule of law (0.0) to the best (1.0) would contribute 1.6 percent per year to the growth rate.

However, this kind of growth dividend from legal reform could arise only for cases, such as Haiti and Zaire in the past, that began as total institutional disasters. For countries that have already achieved well-functioning legal systems, such as the United States and most other OECD countries in recent years, the potential for this kind of growth enhancement through institutional improvement is limited (although, given

Relation Between Growth Rate and Starting Level of GDP Holding Other Explanatory Variables Constant

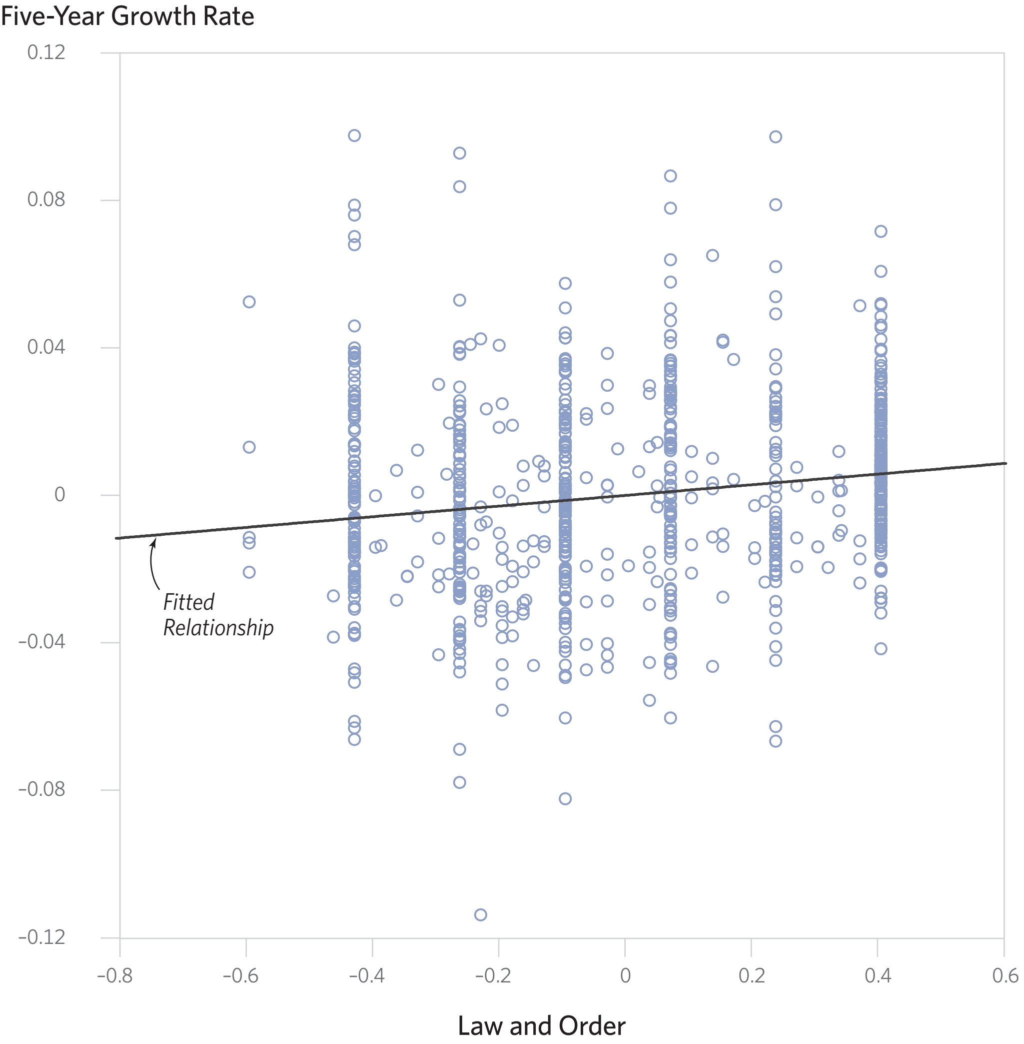


Note: The horizontal axis has the same variable as in Chart 3: the log of per capita GDP in 1960, 1965, and so on through 2005 for 80 countries. These values are again expressed relative to the mean of this GDP variable in the full sample. The vertical axis shows the growth rate of per capita GDP for each country over the subsequent five years; that is, for 1960–195, 1965–1970, and so on through 2005–2009. Unlike in Chart 3, these growth rates were filtered for the growth rate predicted by 12 other explanatory variables as estimated in Robert J. Barro, "Convergence and Modernization Revisited," National Bureau of Economic Research *Working Paper* No. 18295, August 2012, Table 1, column 3. The values shown in the graph are expressed relative to the mean of this filtered growth-rate variable in the full sample. The black line shows the fitted relationship between the filtered growth rate and the lagged log of per capita GDP.

Source: Robert J. Barro, "Convergence and Modernization Revisited," National Bureau of Economic Research *Working Paper* No. 18295, August 2012, http://www.nber.org/papers/w18295 (accessed October 31, 2012).

Chart 4 heritage.org

Partial Relation Between Growth Rate and Law-and-Order Indicator from International Country Risk Guide



Note: Data are for the 80 countries considered in Chart 4. The horizontal axis has the law-and-order indicator, with values observed from 1982 (the first date available for the variable given in the Political Risk Services International Country Risk Guide) to 2005. These values are expressed relative to the mean of this variable in the full sample. The vertical axis shows the growth rate of per capita GDP over the associated five-year intervals for each country for 1960–1965, 1965–1970, and so on through 2005–2009. As in Chart 4, these growth rates were filtered for the growth rate predicted by 12 other explanatory variables (aside from the law-and-order indicator but including the lagged log of per capita GDP) as estimated in Robert J. Barro, "Convergence and Modernization Revisited," National Bureau of Economic Research *Working Paper* No. 18295, August 2012, Table 1, column 3. The values shown in the graph are expressed relative to the mean of this filtered growth-rate variable in the full sample. The black line is the fitted relationship between the filtered growth rate and the law-and-order variable.

Source: Robert J. Barro, "Convergence and Modernization Revisited," National Bureau of Economic Research *Working Paper* No. 18295, August 2012, http://www.nber.org/papers/w18295 (accessed October 31, 2012).

Chart 5 heritage.org

its downgrading from the top to the second rank in 2003, the United States could move up one notch from its current ranking).

Chart 6 shows the relation between the growth rate and the extent of democracy as measured by the Freedom House political-rights index. The overall relation between economic growth and democracy is weak, as is clear from the fitted curve in the chart. In particular, there are examples of dictatorships (values of political rights near 0) with high and low rates of growth and similarly for democracies (values of political rights near 1).

There is some suggestion of a nonlinear relation—an inverted U-shape—in which growth rises initially with democracy, reaches a peak at a value for the political-rights index around 0.5, and then declines subsequently with further rises in democracy. This relationship, shown by the fitted curve in the chart, is only marginally significant in a statistical sense. One way to interpret this pattern is that in the worst dictatorships, an increase in democracy tends to increase economic growth because the benefit from the limitations on governmental power is the key matter. In contrast, for places that have already attained a moderate amount of democracy, a further increase in political rights impairs growth because the dominant effect comes from the intensified concern with social programs and income redistribution.

The main information from Chart 6 is that the overall relation between growth and democracy, measured by political rights, is weak. Therefore, the findings support neither the popular notion that democracy is necessary for growth nor the idea that dictatorship (in all its forms) is the route to prosperity.

DETERMINANTS OF DEMOCRACY AND THE RULE OF LAW

Thus far, the analysis has considered the impact of alternative institutional arrangements—specifically, more or less law and order and democracy—on the economy, but nothing has yet been said about how the different institutional arrangements come about and, particularly, how these arrangements are influenced by economic development.

According to the well-known "modernization hypothesis," economic development spurs the introduction and maintenance of higher-quality institutions, including well-functioning representative democracy.[18] Specifically, the research of Seymour Lipset supported the idea that prosperity, measured particularly by per capita GDP and education, stimulates democracy.[19] This idea is often called the Lipset hypothesis, although Lipset credits the basic notion to Aristotle:

> From Aristotle down to the present, men have argued that only in a wealthy society in which relatively few citizens lived in real poverty could a situation exist in which the mass of the population could intelligently participate in politics and could develop the self-restraint necessary to avoid succumbing to the appeals of irresponsible demagogues.[20]

The fair thing seems to be to refer to this idea as the Aristotle–Lipset hypothesis.

From a theoretical perspective, Lipset emphasized increased education and an enlarged middle class as key elements, and he also stressed Tocqueville's idea[21] that private organizations and institutions are important as checks on centralized government power.[22] Edward Glaeser, Giacomo Ponzetto, and Andrei Shleifer provide a rationale for the effect of education on democracy through the channel of higher education motivating greater participation in political and other social activities.[23] In some theoretical models, an autocrat would voluntarily relinquish authority—for example, by establishing a constitution, allowing power to a legislative body, expanding voting rights, and extending civil liberties—to deter revolutions and to encourage the private sector to invest (and thereby to expand the pie that the government can tax).

Previous empirical analyses using cross-country data tend to confirm the Aristotle–Lipset hypothesis. In particular, increases in various measures of the standard of living forecast a gradual rise in democracy. In contrast, democracies that arise without prior economic development—sometimes because they are imposed by former colonial powers—tend not to last.

My recent study used updated cross-country data to reevaluate the modernization hypothesis.[24] In this research, democracy was gauged by the Freedom House political-rights indicator and the Polity measures of democracy and autocracy. The data covered over 100 countries observed since 1972 (for the Freedom House data) or 1960 (for the Polity data). The results strongly confirmed the Aristotle–Lipset idea that economic development, gauged by increases in per capita GDP and years of school attainment, predicted rises in the two measures of democracy. Within education, the greatest predictive power for democracy came from female schooling at the primary level.

The modernization hypothesis was also confirmed for the indicator of law and order using the data since 1982 from the *International Country Risk Guide*. Increases in per capita GDP and years of schooling had significant predictive power for the law-and-order indicator.

My recent study also examined the modernization idea in the context of much longer-term data for 26 countries going back as far as 1870.[25] This work relied on recent compilations of long-term data on GDP and schooling, along with the Polity measures of democracy and autocracy. This setting also confirmed the idea that advances in per capita GDP and years of education predicted expansions of democracy.

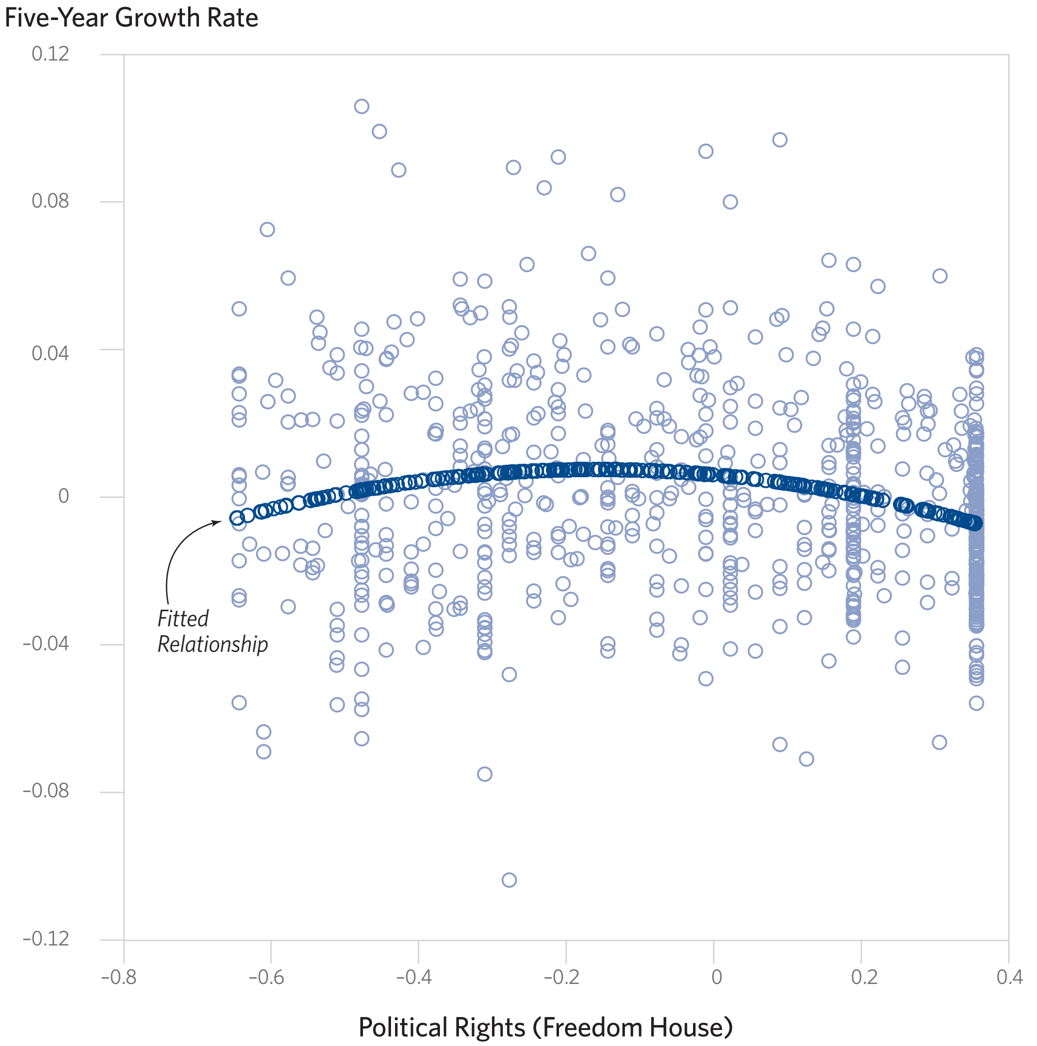
The empirical framework for explaining the indicators for democracy and law and order includes as an explanatory variable the five-year lag of the dependent variable. The estimated effects are positive (and statistically highly significant) and thereby indicate substantial inertia in changing institutions in response to changes in per capita GDP and education. In practice, the changes in institutional quality (as measured and also in reality) are often discrete, with either no change or a substantial shift occurring in a particular year. If, for example, per capita GDP or education rises, then an increase in democracy becomes more likely, and the probability of this increase occurring becomes greater as time passes.

Quantitatively, the results imply that, on average, about 20 percent of the full adjustment of democracy to a change in per capita GDP or schooling occurs over five years, and over 80 percent occurs over 40 years. Thus, after 40 or more years, the level of democracy is determined nearly entirely by the economic and schooling variables—the kinds of influences stressed by Aristotle and Lipset—and very little by the country's longer-term history of democracy.

Colonial heritage would be important for democracy and law and order if countries inherit a tendency for more or less institutional quality from their former rulers. For example, Lipset argued that British rule provided a crucial learning experience for subsequent democracy.[26] It is true that former colonies are less likely than non-colonies to be democratic; the average of the Freedom House political-rights index from 1972 to 2010 was 0.62 for 58 non-colonies and 0.47 for 117 former colonies. Similarly, the average of the law-and-order indicator from the *International Country Risk Guide* from 1982 to 2010 was 0.77 for 49 non-colonies and 0.53 for 90 former colonies.

If one adds colonial status to the empirical framework discussed earlier, the result is that former colonies are significantly less democratic, even holding constant per capita GDP and education. These negative effects on democracy show up most strongly for former colonies of France and a group of other countries (Australia, Belgium, the Netherlands, New Zealand, and the United States); more weakly for former colonies of the United Kingdom; and not significantly for former colonies of Spain and Portugal. For the law-and-order indicator, the negative effect of former colonial status shows up primarily for former colonies of Spain, Portugal, and the group of other countries and does not show up for former colonies of the United Kingdom and France. Thus, in terms of connections with economic growth, being a former colony of the United Kingdom or France does not seem to have adverse implications, because law and order is not diminished, whereas being a former colony of other countries has negative implications.

Partial Relation Between Growth Rate and Freedom House Democracy Indicator



Note: Data are for the 80 countries considered in Chart 4. The horizontal axis has the political-rights (democracy) indicator from Freedom House. These data start in 1972 but were supplemented by information from Kenneth A. Bollen, “Issues in the Comparative Measurement of Political Democracy,” *American Sociological Review*, Vol. 45 (June 1980), pp. 370–390 for 1960 and 1965. These values are expressed relative to the mean of this variable in the full sample. The vertical axis shows the growth rate of per capita GDP over the associated five-year intervals for each country for 1960–1965, 1965–1970, and so on through 2005–2009. These growth rates were filtered for the growth rate predicted by 11 other explanatory variables (aside from the democracy indicator and its square but including the lagged log of per capita GDP) as estimated in Robert J. Barro, “Convergence and Modernization Revisited,” National Bureau of Economic Research *Working Paper* No. 18295, August 2012, Table 1, column 3. The values shown in the graph are expressed relative to the mean of this filtered growth-rate variable in the full sample. The dark blue curve is the fitted quadratic relationship between the filtered growth rate and the political-rights variable.

Source: Robert J. Barro, “Convergence and Modernization Revisited,” National Bureau of Economic Research *Working Paper* No. 18295, August 2012, http://www.nber.org/papers/w18295 (accessed October 31, 2012).

Chart 6 heritage.org

One important idea stressed by Friedman and others is that political and economic freedoms are reinforcing.[27] My interpretation of this idea is that greater law and order (or rule of law) should predict more democracy in the future and that, similarly, greater democracy should predict more law and order in the future.

An extension of my recent empirical analysis fails to confirm a significant direct effect of the law-and-order indicator on the democracy measures. That is, given the current values for democracy, per capita GDP, and schooling, a higher level of the law-and-order indicator does not predict future increases in democracy. An indirect connection, however, might be important. An expansion in law and order promotes economic growth, as discussed before, and leads thereby to higher levels of per capita GDP over time. The levels of school attainment would probably also rise along with per capita GDP. Then the higher future values of per capita GDP and schooling would tend to expand future democracy. Through these channels, an improvement in law and order would lead to more democracy in the long run.

I also found from an extension of my recent empirical research that expansions of democracy do not predict increases in the law-and-order indicator. That is, given the current values of the law-and-order indicator, per capita GDP, and schooling, there is no separate predictive power from the current value of the democracy indicator. Since democracy has little connection with economic growth (as discussed before), there would also not be much indirect linkage between democracy and institutional quality working through changes in per capita GDP and schooling.

Putting the results together, my conclusion is that, given per capita GDP and schooling, the evolution of democracy and law and order are largely independent. That is why one finds numerous instances of substantial gaps between the two types of indicators of institutional quality. Nevertheless, there is also substantial persistence in the two kinds of indicators over time and also substantial positive correlation of these indicators across countries and over time.

We can explain these patterns by noting that movements in per capita GDP and schooling tend to shift the two institutional measures—democracy and law and order—in the same direction. Specifically, economic development tends to raise the levels of both indicators.

CONCLUDING OBSERVATIONS

The findings about institutional quality can be summarized by considering U.S. foreign policy toward developing countries. The U.S. focus for many years has been toward promoting democracy—notably free elections with multiple parties—in all times and places. For example:

- In 1994 when Haiti was run by a military dictator, Raoul Cedras, the United States intervened to restore the previously elected president, Jean-Bertrand Aristide, despite his doubtful credentials.
- When President Alberto Fujimori of Peru disbanded the legislature and assumed dictatorial powers in 1992, ostensibly in a temporary way to counter a terrorist threat and enact drastic economic and political reforms, the United States complained bitterly.
- When President Mobutu Sese Seko of Zaire was finally toppled by a revolution in 1997 after more than 30 years of mismanagement and corruption, the United States called immediately and unrealistically for the new leader, Laurent Kabila, to organize free elections.
- More recently, in Egypt, despite Hosni Mubarak's credentials as a relatively benign dictator, the United States supported a revolution that, although carrying out a free election with reasonable speed, has an uncertain future with regard to Islamic extremism, tensions with Israel, and so on. Similar concerns about the Arab Spring and its associated expansion of democracy apply in Tunisia, Libya, and elsewhere.

Former U.S. Secretary of State Madeleine Albright was once asked whether it was sometimes necessary to sacrifice democracy in the short run in order to promote economic growth. She replied to the effect that there was no such tradeoff because democracy was a prerequisite for economic growth. This response sounds pleasant but is simply false. The idea that democracy is necessary for growth is just as false as the proposition that dictatorship is essential for poor countries to escape poverty. The more nearly correct statement is that the extent of democracy has little relation with subsequent economic performance.

For a country that starts with weak institutions—little democracy and law and order—an increase in democracy is less important than an expansion of law and order, based on enhancement of the rule of law, as a stimulus for economic growth. In addition, democracy does not seem to have a strong role in fostering law and order. Thus, one cannot argue that democracy is critical for growth because democracy is a prerequisite for law and order.

The problem with the United States recommending democracy to a country such as Egypt or Libya is not that democracy would harm economic performance, but rather that it would have little impact. If there is a limited amount of energy that can be used to accomplish institutional reforms, then it is much better spent in a poor country by attempting to implement the rule of law—or, more generally, property rights and free markets. These institutional features are the ones that matter most for economic growth, and these features are not the same thing as democracy. Moreover, in the long run, the rule of law tends to generate sustainable democracy by first promoting economic development.

Thus, even if democracy is the principal objective in the long run, the best way to proceed is to encourage the rule of law in the short run. U.S. advice to poor countries should therefore focus more on the rule of law, property rights, and free markets and less on the romance of democracy.

Endnotes

1 Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962).

2 See, for example, Norman V. Loayza, "The Economics of the Informal Sector: A Simple Model and Some Empirical Evidence from Latin America," *Carnegie–Rochester Conference Series on Public Policy*, 1996, pp. 129–162.

3 Casey B. Mulligan, *The Redistribution Recession: How Labor Market Distortions Contracted the Economy* (Oxford: Oxford University Press, 2012).

4 Alex Inkeles, *On Measuring Democracy* (New Brunswick, N.J., Transaction Publishers, 1991), p. x.

5 Raymond D. Gastil, *Freedom in the World* (Westport, Conn.: Greenwood Press, 1982–1983 and subsequent years).

6 Gastil, *Freedom in the World*, 1986–1987 ed., p. 7.

7 I used data on an analogous concept for 1960 and 1965 from Kenneth A. Bollen, "Issues in the Comparative Measurement of Political Democracy," *American Sociological Review*, Vol. 45 (June 1980), pp. 370–390, which differs mainly in that the concept of democracy goes beyond electoral rights. Freedom House provides a separate indicator for civil liberties since 1972, but this indicator is highly correlated with the political-rights variable.

8 Organisation for Economic Co-operation and Development.

9 The data from the Polity IV version are on the Polity website, at www.systemicpeace.org.

10 Bollen, "Issues in the Comparative Measurement of Political Democracy."

11 The World Bank provides survey information on perceived quality of governance (available at www.govindicators.org), but these data have the serious shortcoming of being available only since the late 1990s.

12 See Political Risk Services Group, International Country Risk Guide, website, at www.prsgroup.com/ICRG.aspx. These data were introduced to economists by Stephen Knack and Philip Keefer. See Stephen Knack and Philip Keefer, "Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures," *Economics and Politics*, Vol. 7 (1995), pp. 207–227. Two other consulting services that construct these types of data are BERI (Business Environmental Risk Intelligence) and Business International (now a part of the Economist Intelligence Unit).

13 Robert J. Barro, *Determinants of Economic Growth: A Cross-Country Empirical Study* (Cambridge, Mass.: MIT Press, 1997).

14 Robert J. Barro, "Convergence and Modernization Revisited," National Bureau of Economic Research *Working Paper* No. 18295, August 2012.

15 The PPP-adjusted real per capita GDP data are from Penn World Tables, version 7.0, at www.pwt.econ.upenn.edu, and are in units of 2005 international dollars.

16 Detailed in Barro, "Convergence and Modernization Revisited."

17 In the framework used, this growth-rate effect persists for a long time. However, the magnitude of the effect diminishes slowly as the economy develops, and the influence in the very long run is on the level of economic activity, not its rate of growth.

18 Contributions to the modernization literature include Aristotle, *Politics*, trans. H. Rackham (Cambridge, Mass.: Harvard University Press, 1932); Seymour M. Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," *American Political Science Review*, Vol. 53 (1959), pp. 69–105; Robert A. Dahl, *Polyarchy: Participation and Opposition* (New Haven, Conn.: Yale University Press, 1991); and Samuel P. Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman: University of Oklahoma Press, 1991). Marx extended the modernization idea to a predicted collapse of organized religion under capitalism. Karl Marx, *A Contribution to the Critique of Political Economy* (Chicago: Kerr, 1913).

19 Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy."

20 Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," p. 75.

21 Alexis de Tocqueville, *Democracy in America*, trans. Henry Reeve (London, Saunders & Otley, 1835).

22 Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," pp. 83–84.

23 Edward L. Glaeser, Giacomo A. M. Ponzetto, and Andrei Shleifer, "Why Does Democracy Need Education?" *Journal of Economic Growth*, Vol. 12 (June 2007), pp. 77–99.

24 Barro, "Convergence and Modernization Revisited," Table 4.

25 Barro, "Convergence and Modernization Revisited," Table 5.

26 Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy."

27 Friedman, *Capitalism and Freedom*.

Chapter 4

Economic Freedom and Economic Privilege

Matthew Mitchell, Ph.D.

Since at least the days of Adam Smith, economists have suspected that economic freedom was a necessary, if not sufficient, condition for human prosperity. Smith wrote of freedom as a "system of natural liberty" and declared that "Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice."[1]

For most of the two centuries since Smith wrote and lectured about freedom, however, economists have had few tools to systematically test his claim. Now, with the advent of objective measures of "natural liberty" such as the *Index of Economic Freedom*, we have those tools, and scores of economists have employed them to test the relationship between freedom and prosperity.

Overwhelmingly, these researchers have reached the same conclusion: Economic freedom is indeed positively associated with economic prosperity. Consider, for example, a recent survey of the literature by Chris Doucouliagos and Mehmet Ali Ulubasoglu. After reviewing 45 separate peer-reviewed academic studies, the authors concluded that, "regardless of the sample of countries, the measure of economic freedom and the level of aggregation, there is a solid finding of a direct positive association between economic freedom and economic growth."[2]

Despite the manifest evidence that freedom and prosperity are linked, an appallingly large number of people lack basic economic freedoms. In the latest edition of the *Index*, for example, 92 countries—home to nearly 70 percent of all of humanity—were listed as "mostly unfree" or "repressed." Even among the freer nations such as the United States, economic freedom in recent years has been declining.

Why is this so? One answer is that ideas matter and that in many places throughout the world, the right ideas are simply not prevailing.[3] This answer is the raison d'être of organizations like The Heritage Foundation and the Mercatus Center at George Mason University. These groups exist—as the Mercatus mission puts it—to bridge the gap between academic ideas and real-world problems. I get up and go to work every day because I believe that there is at least some truth to this.

But there is another, far more difficult explanation for why so many humans lack economic freedom. Put simply, some entrenched interests benefit from the current lack of economic freedom and are prepared to go to great lengths to maintain the unfree status quo.

If this is not immediately obvious, it may be because the advocates of economic freedom often fail to emphasize it. Too often, those of us who argue for freedom highlight the fact that taxes are crushing, that regulations are burdensome, and that government involvement in the economy is an impediment to progress. While this is typically true, it is also true that tax dollars line the pockets of some well-connected companies, that regulations often allow some firms to profit at the expense of customers and competitors, and that almost every intervention in the market creates both losers *and winners*.

If we are to advance economic freedom, I believe it is imperative that we understand how special interests benefit from its absence. In the pages that follow, I will talk about the winners—those firms that are inevitably privileged when economic freedom is curtailed.

TYPES OF PRIVILEGE

Governments dispense privileges to particular firms and particular industries in both obvious and not-so-obvious ways.[4]

- Direct subsidies, bailouts, protection from foreign competition, and grants of monopoly status are among the most conspicuous of privileges. What is less obvious is that even the *expectation* of a bailout can be a privilege if it allows the expectant firms to obtain credit at more-favorable terms.
- Loan guarantees are another form of privilege. These tend to escape taxpayer notice unless the loan falls through.
- Tax subsidies are quite common, in part because they are hard to trace. They offer politicians a tool to dispense privilege without having to take responsibility for a line-item in the budget.
- Private contracting presents another source of privilege if the contracting process is non-competitive.
- Finally, regulations can be a lucrative and inconspicuous source of privilege. While we tend to think of regulations as burdensome, it can be a privilege to be regulated if the regulations somehow limit competition or disproportionately raise the costs of rival firms.[5]

THE COSTS OF PRIVILEGE

Whatever its guise, government-granted privilege is an extraordinarily destructive force. It undermines competition, misdirects resources, impedes genuine economic progress, breeds corruption, and undermines the legitimacy of both the government and the private sector.

The "Deadweight Loss" of Anti-Competitive Privileges. At the heart of modern economics is the notion that free and voluntary exchange is mutually beneficial.[6] In fact, a national economy, with all its sophistication and complexity, is simply a very large number of mutually beneficial trades.

The number of such trades—and therefore the gains from exchange—are maximized when markets are competitive, and the key to competition is open entry and exit. New firms must be allowed to enter the industry and compete, while old ones that fail to innovate and provide value to customers must be forced to shutter their doors. In this way, open entry and exit discipline an industry to focus on maximizing consumer benefits while minimizing production costs, and this tends to push competitive industries toward maximal gains from exchange.

When governments bestow privileges on particular firms, however, competitive forces are weakened, and this discipline goes away. Privileged firms possess pricing power that competitive firms lack and need not accept the price that would emerge in a competitive market. This means that privileged firms gain more from exchange than they would were they competitive. It also means that while consumers still gain from exchange, they gain less than they would were the market competitive.

Would-be producers—those not blessed with privilege—also lose out on the opportunity to gain from exchange. Total sales in non-competitive industries tend to be less than total sales under competition because the higher price drives some customers out of the market. What's more, the gains of privileged firms are less than the losses of consumers and would-be producers. Hence, society as a whole is worse off.

Economists refer to these social costs as "deadweight loss." They represent the fact that there are mutually beneficial trades that *could* occur but do not. It is estimated that each year, monopolies cost Americans between $60 billion and $240 billion in deadweight losses.[7]

The "*X*-Inefficiencies" of Privilege. Deadweight losses are not the only costs associated with a government-granted privilege. Shielded from the discipline of a competitive market, managers and workers at privileged firms may exert less effort and may be less efficient than they would be under competitive circumstances. This insight was first developed by economist Harvey Leibenstein. To distinguish this type of inefficiency from other types, such as traditional deadweight loss, he called it "*X*-inefficiency."[8]

Leibenstein noted that in most circumstances, individuals and firms are not as efficient as economists' models assume. There is always room for "slack," and when firms are protected from competition, there will tend to be more slack. "For a variety of reasons," he argued, "people and organizations normally work neither as hard nor as effectively as they could. In situations where competitive pressure is light, many people will trade the disutility of greater effort, or search for the utility of feeling less pressure and of better interpersonal relations."[9]

Thus, due to workers' diminished efforts, marginal production costs in an *X*-inefficient firm will be greater than those of a competitive firm. The firm will also sell less, consumers will gain less from exchange, and the deadweight loss of monopoly will be larger.

The U.S. Postal Service (USPS) is a classic example of *X*-inefficiency. While most goods tend to get cheaper in inflation-adjusted terms over time, the price of a first-class stamp rose by twice the rate of inflation from 1970 to 2010.[10]

The Lower-Quality Products of Privileged Firms. Protected firms are not only unlikely to minimize costs; they are also apt to be less attentive to consumer desires and tend to produce lower-quality products. Thus, *X*-inefficiency may result in both increased marginal costs *and* decreased consumer benefits.[11] Because consumers will derive less value from each unit they buy, they will not demand as much of the product, and the firm will sell less than it otherwise would.

Here, again, the USPS is illustrative. Not only does the firm have trouble containing costs; it also has trouble maintaining quality. Packages shipped via USPS are more likely to break than those shipped via the United Parcel Service (UPS).[12] And when Hurricane Katrina struck, the private shippers UPS, FedEx, and DHL all restored service to New Orleans within weeks, while the USPS took seven months to reopen its processing and distribution center.[13]

The Rent-Seeking Costs of Privilege. As we have seen, privilege is costly for society at large, but (at least for a time) it can be quite lucrative for those fortunate enough to obtain government favors. Economists refer to the above-normal profits of a privileged firm as "rent,"[14] and because rents can be substantial, firms are willing to go to some effort to obtain and maintain them. Firms will donate to political campaigns and political action committees, sponsor advertisements designed to sway public policy, maintain expensive lobbying operations in state and national capitols, and go to great lengths to curry favor with politicians. Even those firms that do not seek their own privileges may invest heavily in political activities in order to fend off attempts by competitors to obtain their own privileges.

Economists refer to these activities as "rent-seeking."[15] Because rent-seeking requires resources—time, money, and effort—and because it creates no value for consumers, it is another social cost of government-granted privilege. The amount of money wasted in rent-seeking depends on the value of the rent. The more valuable the privilege, the more resources will be wasted in rent-seeking.

The amount lost also depends on the returns to political activity. For example, it may be the case that the more a firm plays politics, the better it gets at the game. In this case, economists have shown that the total cost of all efforts to obtain rent, maintain rent, or fend off a competitor's attempts to rent-seek can exceed the total value of the rent itself.[16] Though no one firm would rationally spend more to obtain a privilege than the privilege is worth, the sum of all firms' efforts may be greater than the value of the privilege.

There have been a number of attempts to measure the aggregate social cost of rent-seeking. These studies suggest that the annual cost is somewhere between 7 percent and 22.6 percent of gross national output.[17] This means that rent seeking may cost the U.S. economy between $1 trillion and $3.5 trillion every year.

The Distributional Effects of Privilege. Before discussing some of the other implications of privilege, it is important to emphasize the characteristics of winners and losers. The owners and operators of privileged firms, of course, win. They capture large shares of the market and charge it a high price. Those who help monopolists obtain rent also win: Lobbyists and political consultants can command lucrative salaries because their connections are worth it.

Consumers and would-be competitors lose out. Consumers pay higher prices for low-quality goods, and would-be competitors fail to reap any gains from exchange. Economists often emphasize that the losers lose more than the winners win, which is why they consider monopoly to be inefficient. But for many people, it may be just as important to note that the winners are more likely to be wealthy and well-connected than the losers are. This disparity may explain why both the Tea Party and the Occupy Wall Street movements opposed the Wall Street bailouts.[18]

Unproductive Entrepreneurship. Joseph Schumpeter is credited with highlighting the key role of entrepreneurship in economics. The entrepreneur's function, he wrote, is to "reform or revolutionize the pattern of production."[19] The entrepreneur does this by developing new goods and new production methods, by opening new markets and exploiting previously unused resources, and by developing new ways to organize firms.[20]

More recently, however, economists have come to realize that entrepreneurs may innovate in socially unproductive ways as well. New York University economist William Baumol is credited with this insight. According to Baumol, there is such a thing as unproductive entrepreneurship. "Schumpeter's list of entrepreneurial activities," Baumol writes, "can usefully be expanded to include such items as innovations in rent-seeking procedures, for example, discovery of a previously unused legal gambit that is effective in diverting rents to those who are first in exploiting it."[21] Baumol hypothesizes that when governments hand out rents, talented people will be less likely to engage in productive entrepreneurism and more likely to engage in unproductive or even destructive entrepreneurism that results in the destruction of wealth.

Similarly, economists Kevin Murphy, Andrei Shleifer, and Robert Vishny note that a country's "most talented people" can organize production in two different ways.[22] On the one hand, they may "start [or improve] firms," in which case they will "innovate and foster growth." On the other hand, they may "become rent seekers," in which case "they only redistribute wealth and reduce growth."[23]

Think of the thousands of talented lawyers, lobbyists, and strategic thinkers who occupy the expensive office buildings lining K Street in Washington, D.C. All of this talent might be employed in the discovery of new ways to bring value to consumers and to expand the gains from exchange. Instead, many of these smart and hardworking people spend their time convincing politicians to hand out privileges to their own firms or fending off attempts to hand out privileges to their competitors.

Empirical tests support the theory of unproductive entrepreneurship. Economists Russell Sobel and Thomas Garrett have developed a number of measures of unproductive entrepreneurial activity based on the concentration of political and lobbying organizations in state capitals.[24] Using these measures, Sobel has found that those states in which privileges are more likely to be dispensed (as indicated by a low level of economic freedom) tend to have higher levels of unproductive entrepreneurship and lower levels of productive entrepreneurship.[25]

Other research suggests that unproductive entrepreneurship is associated with slower economic growth. Murphy, Shleifer, and Vishny, for example, studied this question using data from 55 countries. As a proxy for productive entrepreneurism, they used the proportion of college students majoring in engineering, and as a proxy for unproductive entrepreneurism, they used the proportion of students concentrating in law. Up to a certain point, lawyers are theoretically good for growth; they help delineate and define property rights, and they help maintain the rule of law. But beyond some minimum point, more lawyers may lead to more rent-seeking. Even if lawyers themselves are not the cause of rent-seeking, they may be an indication of it. In the same way that a large number of police per capita may be an indication of a city's inherent violence, a large number of lawyers per capita may be an indication of a nation's tendency to rent-seek.

In their analysis of the data, the authors found that a 10 percentage point increase in the share of students concentrating in law was associated with 0.78 percentage point slower annual growth in output per worker as measured by per capita GDP.[26] This can add up over time. In 2011, U.S. per capita GDP was about $43,000. But if, since 1980, per capita GDP had grown 0.78 percentage point faster than it actually did, then 2011 per capita production would have been over $54,000 rather than $43,000.[27]

Loss of Innovation. Privilege can also have a profoundly negative effect on innovation, and a lack of innovation, in turn, can disadvantage an entire society. For example, economist Chun-Lei Yang has shown that as rent-seeking activities grow more prevalent, firms have less of an incentive to invest in productivity-enhancing research and development. Thus, privileged firms are less likely to innovate.[28]

Empirical research supports this claim. For example, economists Stefanie Lenway, Randall Morck, and Bernard Yeung studied a decade's worth of data from 130 steel firms to look for differences between firms that lobby heavily and those that do not. They found that the most active lobbyers "tend to be larger, older, less diversified, and less profitable than non-lobbyers" and concluded that protection "appears to reward less innovative firms."[29]

International evidence supports the claim that firms that are more likely to ask for privilege tend to be less profitable. In a survey of 450 politically connected firms from 35 countries, Mara Faccio, Ronald Masulis, and John McConnell concluded that "among bailed-out firms, those that are politically connected exhibit significantly worse financial performance than their nonconnected peers at the time of and following the bailout."[30]

Slower Growth. As protected firms become less innovative, a country's overall economic growth may suffer. This is because, as Schumpeter emphasized nearly a century ago, economic growth thrives on "creative destruction." In a healthy economy, new firms constantly arise to challenge older, less-innovative behemoths.[31]

One of the leading experts on entrepreneurship, Amar Bhidé of the Columbia Business School, has argued that big firms, encumbered by larger internal bureaucracies, are virtually incapable of capitalizing on radical ideas.[32] Indeed, research finds that new firms are more likely than existing firms to license novel technology.[33] And compared with larger firms, smaller firms are about twice as likely to file "high-impact" patents.[34]

For these reasons, turnover among a nation's largest firms is a sign of vitality. The list of U.S. *Fortune* 500 companies is illustrative: Only 13.4 percent of those companies on the *Fortune* 500 list in 1955 were still there in 2010.[35] But not all nations experience the same sort of "churn" among their top firms.

To test Schumpeter's theory, Kathy Fogel, Randall Morck, and Bernard Yeung recently examined the link between turnover among nations' top firms and economic growth.[36] They looked at the lists of top firms in 44 countries in 1975 and again in 1996. After controlling for other factors, they found that those nations with more turnover among their top firms tended to experience faster per capita economic growth, greater productivity growth, and faster capital growth. Looking at the factors that correlate with faster firm turnover, they found that "big business turnover also correlates with smaller government, common law, less bank-dependence, stronger shareholder rights, and greater openness [to trade]."[37] Thus, turnover is more likely when there is economic freedom.

The Decline of Nations. In a classic, sweeping study, economist Mancur Olson went so far as to claim that special-interest privilege can account for the "rise and decline of nations."[38] As societies grow wealthy and stable, he argued, the seeds of their own destruction are sown. Stable societies are fertile ground for special interests. These interest groups grow in power and influence over time and, once entrenched, rarely disappear. "On balance," they "reduce efficiency and aggregate income in the societies in which they operate and make political life more divisive." Eventually, "The accumulation of distributional coalitions [those that seek rents] increases the complexity of regulation, the role of government, and the complexity of understandings, and changes the direction of social evolution."[39]

Olson used his theory to explain the relative decline of the United Kingdom throughout the 20th century. As a remarkably stable society, by 1982, the U.K. had accumulated large numbers of powerful, entrenched interest groups. These groups obtained various government privileges, which, in turn, slowed the U.K.'s economic growth compared to that of other large industrialized nations. In contrast, World War II and postwar reconstruction swept away the entrenched interests in Germany and Japan, allowing these countries to grow much faster than the U.K. (In the 30 years since Olson's study, one might argue that powerful interest groups have again begun to ensnare Germany and Japan.)

Similarly, Olson found that the economies of those U.S. states that had been settled the longest tended to grow more slowly, presumably because they had accumulated a greater number of powerful special-interest groups.[40]

MACROECONOMIC INSTABILITY

In the previous section, I discussed the ways in which government-granted privilege can undermine long-run economic growth. For a number of reasons, privilege may also undermine short-run macroeconomic stability. For one thing, government privilege often encourages undue risk-taking. The problem is especially acute when gains are privatized while losses are socialized (for example, through a bailout or the promise of a bailout). The economic term for this behavior is "moral hazard." It refers to the tendency for individuals to take on undue risk when they know they will not bear the full costs of failure.

A group of economists at the International Monetary Fund (IMF) recently studied this problem and its contribution to the 2008 financial crisis.[41] They looked at data from nearly 9,000 lenders in 378 U.S. metropolitan areas spanning the years 1999 to 2007. They found that those lenders that lobbied more intensively tended to take on more risk as characterized by higher loan-to-income ratios, more securitization, and faster credit expansion. When the crisis hit, delinquency rates were higher in those areas where lobbying lenders aggressively expanded their lending practices, causing these lenders to suffer abnormally large losses during the crisis.

The implication is clear: Those lenders that lobbied more intensely (other things being equal) were more likely to be bailed out than their counterparts. As a result, the heavy lobbyers took on more undue risk. Thus, the true cost of a bailout encompasses more than the opportunity cost of taxpayer money paid to the failing company. It also includes the cost of the moral hazard it induces.

Even when privilege does not lead to excessive, undue risk-taking, it can still lead to instability by misallocating resources. When governments dispense privileges, the basic building blocks of growth—labor and capital—tend to be allocated on the basis of political considerations rather than on the basis of fundamental costs and benefits. This misallocation can lead to large and painful adjustments when the political considerations fail to coincide with market fundamentals.

A number of economists have argued that political cronyism caused or at least exacerbated the financial crisis that rippled through many Asian economies in 1997. Indeed, the term "crony capitalism" was first popularized during this crisis.[42] In a study measuring the value of political connections in Indonesia, for example, Raymond Fisman of Columbia University stated a well-known hypothesis for the 1997 crisis: "The claim was that in Southeast Asia, political connectedness, rather than fundamentals such as productivity, was the primary determinant of profitability and that this had led to distorted investment decisions."[43] Fisman's analysis confirms that politically connected firms were particularly sensitive to changes in the health of their benefactor, President Suharto, and when the crisis hit, these firms suffered more than their unconnected counterparts.

William Baumol, Robert Litan, and Carl Schramm of the Kauffman Foundation describe a similar dynamic in South Korea:

> Long accustomed to directing its banks to provide loans to the larger South Korean conglomerates ("chaebols"), South Korea's government induced too many banks to invest excessively in the expansion of the semiconductor, steel, and chemicals industries. When the financial crisis that began in Southeast Asia during the summer of 1997 spread to South Korea, the country's banks and, more important, the companies that had borrowed to expand were so overextended that the South Korean economy came close to collapse.[44]

As often happens with privilege, the "solution" to this problem involved more privilege: South Korea was rescued by a U.S.-led effort to prop up South Korean financial institutions.[45] Baumol, Litan, and Schramm document similar problems in China and Japan.[46]

CRONYISM

Privilege entails cultural as well as economic costs. When governments dispense privileges, concerns of fairness and impartiality almost always arise. These concerns can undermine the legitimacy of both government and business.

Objective criteria for dispensing privilege are hard to come by. Without objective standards, politicians may end up picking winners and losers on the basis of personal connections and political expediency. When they do, their reputations and those of the firms they favor suffer.

Indeed, research suggests that connections matter. Economists Jordi Blanes i Vidal, Mirko Draca, and Christian Fons-Rosen examined the political connections of over 7,000 firms. To isolate the influence of political connections on earnings, they looked at the change in lobbyists' revenue after the departure of Senators with whom they were connected. They found, "Lobbyists with experience in the office of a US Senator suffer a 24% drop in generated revenue when that Senator leaves office."[47]

Similarly, a study by economists at MIT, Yale, and Brigham Young University looked at the value of political connections to Treasury Secretary Timothy Geithner. After controlling for other factors, they found, "The announcement of Timothy Geithner as President Barack Obama's nominee for Treasury Secretary in November 2008 produced a cumulative abnormal return for Geithner-connected financial firms of around 15 percent from day 0 (when the announcement was first leaked) to day 10."[48]

University of Chicago economist Luigi Zingales argues that privileges sully the reputations of businesses and business leaders.[49] "The larger the share of capitalists who acquire their wealth thanks to their political connections," he avers, "the greater the perception that capitalism is unfair and corrupt."[50]

CONCLUSION

Government-granted privileges are pathological. Privileges limit the prospects for mutually beneficial exchange—the very essence of economic activity. They raise prices, lower quality, and discourage innovation. They pad the pockets of the wealthy and well-connected at the expense of the poor and unknown.

When governments dispense privileges, smart, hardworking, and creative people are encouraged to spend their time devising new ways to obtain favors instead of new ways to create value for customers. Over the long run, privileges depress economic growth, and in the short run, they threaten macroeconomic stability. Privileges even undermine cultural mores, fostering cronyism, blurring the distinction between productive and unproductive entrepreneurship, and eroding people's trust in both business and government.

For all the social problems they create, government-granted privileges can be extraordinarily valuable to the individual firms that receive them. That, unfortunately, can make these firms powerful opponents of economic liberalization.

This chapter has been adapted from Matthew Mitchell, The Pathology of Privilege: The Economic Consequences of Government Favoritism *(Arlington, Va.: Mercatus Center at George Mason University, 2012).*

Endnotes

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Chapter 5

Property Rights Can Solve the "Resource Curse"

James M. Roberts and John A. Robinson

There is a long, paradoxical, and tragic tradition of resource-rich developing countries suffering from prolonged economic stagnation. This "resource curse," so costly in terms of both economic and human development, has its roots in the failed statist economic policies of the past.

Victims of this curse can be found all over the world, from oil- and gas-rich Russia to soybean- and beef-laden Argentina, not to mention most of the Middle East and many countries in Africa. Nigeria, for instance, has received about $600 billion in oil revenue since gaining independence in 1960, yet its economy has shrunk (in terms of purchasing power parity), and its poverty rate has increased from 36 percent to nearly 70 percent. Since Hugo Chávez took power in Venezuela in 1999, close to $100 billion in oil export revenues has flowed into the government's coffers *every* year,[1] yet inflation in Venezuela has never been higher, there are shortages of basic staples, and the murder rate in Caracas is one of the highest in the world.

Other resource-rich nations, such as Canada, Chile, and Norway, have avoided this fate. How? They did it by adopting a strong system of private-property protections within a market-based democracy, protected by government institutions dedicated to transparent rule of law. The key is to create a government large enough to guarantee property rights but small enough not to threaten them.

The "resource curse" results when massive streams of revenues from resources are forced through the economic choke point of a statist government with its multiple opportunities for corruption by government officials, heavy and job-killing taxation, and overall excessive interference in the economy by those who consistently favor big-government solutions to every problem. Recent efforts by development assistance experts to promote "conditional cash transfers"[2] as a solution are merely attempts to push another statist approach in disguise.

The cure for this economic and political disease is the adoption of the core principles of economic freedom: limited government, decentralization of power, privatization of ownership of mineral resources, and protection of all privately held property. The 17th-century English philosopher and Father of the Enlightenment John Locke famously observed that the most basic form of property, after one's own body, is the fruit of one's labor.[3] Locke's breakthrough revelation in 1690 in his *Second Treatise* was that those fruits themselves are the property of each person. The exchange of goods and services throughout communities benefits all parties to a transaction if all of the participants in the market are, in Milton Friedman's words, "free to choose."

PRIVATE PROPERTY: ENGINE OF GROWTH IN THREE STEPS

Economists from Adam Smith to Milton Friedman have noted the crucial role played by property rights as the engine of economic growth, upon which the equally important development of a middle class depends.[4] Establishing those property rights is step one.

Step two is creating and maintaining rule of law. Transparent judicial systems are vital for the protection of property rights—not just for the wealthy and powerful, but also for average citizens. Their incentive to work hard and save for the future depends on whether they have confidence in the political and economic system and believe that it will protect their earnings and possessions. The rights to acquire, keep, and dispose of property must be protected so that it is available to provide a better life for their families.

However, defenders of private property rights within a system of "ordered liberty," from Edmund Burke[5] to the American Founders[6] and many others, knew that humans and the markets they create, though inherently imperfect, are vital for the efficient functioning of an economy. Step three, therefore, is the ongoing requirement that all citizens and market participants be informed by a moral code, exercise self-restraint, and be governed by laws that are derived from that moral code. In other words, they must avoid corruption.

The American Founders generally believed that a strong system based on values that enshrined and protected the right to acquire, hold, and dispose of private property would create diffuse sources of wealth and political/economic checks and balances. This system was, and remains, the best antidote not only to the tyranny that lies at the heart of statist and totalitarian worldviews, but also to the vicissitudes, moral hazard, and even good intentions of politicians and bureaucrats in regulated market-based systems. It is also the best system by which to counter the negative effects of the resource curse.

THE RESOURCE CURSE: ITS HISTORY AND RELEVANCE TODAY

Although early literature on the resource curse led to the counterintuitive conclusion that an abundance of natural resources leads to economic stagnation, later work has shown that, like other inputs for growth, institutional strength plays a large (almost completely dominant) role in how natural resource abundance affects growth.

Early work by economists on the resource curse noted that countries like Nigeria, Zambia, Sierra Leone, Angola, Saudi Arabia, and Venezuela all possessed vast quantities of natural resources yet suffered from severe stagnation. On the other hand, the "Asian tigers" possessed few natural resources and experienced powerful growth. Since, intuitively, the opposite should have been true, the resource curse became a popular topic of research and discussion among growth economists. A number of explanations were offered as to how and why resource abundance seemed to be such a curse.

Development economists Jeffrey Sachs and Andrew Warner provided the most comprehensive look at the resource curse in 1997 and came to the gloomy conclusion that natural resource abundance inevitably led to stagnation.[7] Their study of 97 countries over a 19-year period suggested that resource-rich countries grew slower on average than resource-poor countries even after controlling for a wide variety of other factors commonly thought to influence development.

Sachs and Warner leaned toward the "Dutch Disease" explanation of the economic stagnation. Dutch Disease refers to two effects that the discovery of natural resources is thought to have: an appreciation of the nation's exchange rate, which results from increased exports, and the tendency for labor and other resources to be drawn away from other sectors of the economy and toward the industry surrounding the new resource.[8]

However, later research challenged the notion that the causal chain was so simple. Norwegian economists Halvor Mehlum, Karl Moene, and Ragnor Torvik, for instance, argued that institutional strength plays the true defining role in how countries grow.[9] Their resistance to the simple resource curse thesis results from a number of striking exceptions: countries that, with great amounts of natural resources, also experience stronger than average growth. Analysis of data and studies about Botswana, Norway, Chile, and Canada indicate that other factors beyond mere possession of resources determine the prospects for countries that find themselves blessed (or cursed) with oil or mineral riches.

Mehlum and his colleagues approach the resource curse as a problem of rent-seeking. According to their research, the institutions dictate how resources within a country are spent. Their model breaks down the entrepreneurs in an economy into two groups: "grabbers," who spend their resources trying to skim off as much monopoly rent from the natural resources as possible, and "producers," who spend their time and effort using the resources to create and produce additional wealth. It is a country's institutions that determine whether an economy will be "grabber" heavy or "producer" heavy, and the fate of an economy therefore depends upon the types of incentives those institutions create.

INSTITUTIONS MATTER

Natural-resource abundance, its discovery and profitable exploitation, is neither an automatic blessing nor an inescapable death sentence for a nation's economy. Institutions matter. Yet developing countries need more than a simple reminder to improve property rights, reduce corruption, and minimize political rent-seeking. They must recognize the unique potential for nations to shape their future when abundant natural resources become available. Natural-resource abundance has the effect of reinforcing both good and bad institutions and can truly change the economic fortunes of a nation for better or worse.

In a country with weak institutions, potential payoffs for rent-seeking behavior are increased, allowing rulers to pay off rivals, increase income inequality, and discourage productive entrepreneurship. For countries with strong institutions, incentives are put into place that increase global competitiveness, encourage foreign investment, and raise the standard of living, all of which contribute to more economic and political freedom. Good governance and a healthy, well-functioning market-based economy can be mutually reinforcing.

The impact of free markets and the institutions (both public and private) that accompany them have an unambiguously positive impact on growth, as well as on other measures of well-being that are of concern to the international community.[10] Institutions, then, play the determinant role in the causation of wealth or poverty. Recent research has shown that once institutional measurements are included and countries are separated roughly into those with weak and strong institutions, the correlation between large endowments of natural resources and growth rates becomes markedly different.

Countries with large endowments of natural resources and bad institutions almost universally have poor growth rates. Good institutions, on the other hand, make the negative impact of natural resources almost nonexistent. Some countries, like those discussed below, clearly demonstrate that, when paired with the right institutions, natural-resource abundance can change a country's fortunes for the better. The lesson to be learned is that in many cases, institutions that promote private property and that favor producers over grabbers can trump other factors that might otherwise hinder growth.

THE RESOURCE CURSE: CASE STUDIES IN FAILURE

The following four countries score poorly both in the protection of property rights and in freedom from corruption.

Nigeria. According to a 2010 study by Nigerian political scientist Segun Oshewolo, the

The Connection Between Commodity Exports, Property Rights, and Corruption

The table at right lists 51 developing countries. Generally speaking, nations with high levels of resource exports tend to have worse scores in property rights and corruption.

Country	Combined Resource Exports as Percentage of Merchandise Exports	*2013 Index of Economic Freedom* Property Rights Score	Transparency International Corruption Perceptions Index 2011
Algeria	97.79	30	2.9
Angola	99.69	15	2.0
Australia	47.17	90	8.8
Azerbaijan	78.16	25	2.4
Bahrain	92.76	55	5.1
Barbados	32.0	80	7.8
Belarus	35.16	20	2.4
Bhutan	45.05	60	5.7
Bolivia	66.07	10	2.8
Cameroon	55.18	30	2.5
Cape Verde	48.61	70	5.5
Chile	58.03	90	7.2
Colombia	41.82	50	3.4
Cuba	40.59	10	4.2
Dem. Rep Congo	53.11	10	2.0
Ecuador	58.84	20	2.7
Egypt	46.8	35	2.9
Gabon	81.69	40	3.0
Guinea	71.7	20	2.1
Indonesia	36.0	30	3.0
Iran	83.77	10	2.7
Iraq	35.27	n/a	1.8
Kazakhstan	79.39	35	2.7
Kuwait	92.58	50	4.6
Laos	75.96	15	2.2
Liberia	64.88	30	3.2
Libya	92.63	10	2.0
Mauritania	45.96	25	2.4
Mongolia	63.36	30	2.7
Mozambique	73.16	30	2.7
Niger	56.53	30	2.5
Nigeria	97.93	30	2.4
Norway	73.87	90	9.0
Oman	86.63	50	4.8
Papua New Guinea	71.1	20	2.2
Peru	60.08	40	3.4
Qatar	83.82	70	7.2
Rep. Congo	87.97	10	2.2
Russia	55.8	25	2.4
Rwanda	30.06	30	5.0
Saudi Arabia	89.57	40	4.4
Seychelles	36.42	50	4.8
South Africa	32.79	50	4.1
Sudan	87.72	n/a	1.6
Syria	68.69	20	2.6
Tajikistan	69.67	20	2.3
Trinidad and Tobago	70.62	50	3.2
United Arab Emirates	71.88	55	6.8
Venezuela	90.79	5	1.9
Yemen	91.67	30	2.1
Zambia	72.62	30	3.2

Sources: Resource exports: NationMaster.com, http://www.nationmaster.com/index.php (accessed July 12, 2012); Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index; Transparency International, *Corruption Perceptions Index*, 2011, http://www.transparency.org/cpi2011/results (accessed November 16, 2012).

Table 1 heritage.org

poverty rate in Nigeria has risen from about 15 percent of the population at the time of its independence in 1960 to more than 30 percent (as measured by the United Nations Human Development Index) in 2010.[11] Yet Michael Watts of the University of California, Berkeley, estimates that in roughly the same time period, Nigeria earned more than $600 billion in oil revenue.[12] Much of the increase in poverty occurred after the first of the oil booms in the 1970s and provided one of the most striking indicators that natural-resource abundance does not, on its own, lead to growth.

Zimbabwe. Zimbabwe is probably the most compelling recent example of the impact of instability on growth potential. Under the long misrule of Robert Mugabe, corrupt government institutions have allowed Zimbabwe's considerable natural and human resources to be squandered. Property rights that protect economic investment are nearly nonexistent, and corruption runs rampant. The result has been high unemployment and years of hyperinflation. Despite having one of Africa's best-educated populations and large shares of natural resources, Zimbabwe remains one of the world's poorest countries. The ability of the government to arbitrarily seize foreign and private assets has caused investment in Zimbabwe's potentially lucrative natural resources to diminish significantly.

Bolivia. Bolivia is a classic example of the resource curse. Throughout its history, its economy has been characterized by dependence on exports of just a few commodities. Bolivia currently is a large producer of hydrocarbons (especially natural gas). Political instability and changes in national policy regarding property rights and privatization have harmed Bolivian growth over the past 20 years. Most recently, under President Evo Morales, state ownership of economic resources has increased significantly, and foreign investment has been explicitly rejected.

It is estimated that Bolivia possesses 5.4 million tons of lithium—the largest amount of any country in the world. Yet it continues to have poorly protected property rights and high levels of corruption, and economic growth remains slow. It has been observed that the lack of diversification in Bolivia has long been an impediment to growth.

That lack of diversification is a direct function of a lack of property rights. Entrepreneurs have no guarantee that they will benefit from innovation, so incentives for creating new products or even industries are low. Property rights thus play a central role in motivating growth and promoting the realization of new business opportunities. With poor protection of property rights, significant impediments to entrepreneurship, restrictions on investment, and extensive and increasing corruption, Bolivia's economy remains at the mercy of fluctuations in the demand for a few goods.

Venezuela. The case of Venezuela since 1999, when Hugo Chávez was elected president, offers one more poignant example of the damage that results from institutions and regimes that are hostile to private property and the rule of law. Despite large increases in oil prices since Chávez took power, the Venezuelan economy has experienced a decline in sustainable development. The economy is especially susceptible to movements in world oil prices, and as prices have recently dropped, Venezuela's economy has likewise shrunk.

Oil is the primary good of the Venezuelan economy, making up about 30 percent of GDP, over half of government revenues, and about 95 percent of exports. Venezuelan crude is highly sulphuric and costs more to refine, which translates into lower prices per barrel than for "lighter, cleaner" crudes. Nevertheless, between the early 2000s and 2008, the world price for crude oil roughly tripled, and Venezuela experienced strong economic growth. The economy has been hit especially hard over the years since then, and the price per barrel of oil has dropped. While other countries have begun to recover, Venezuela's economy remains sluggish.

Lack of incentives to innovate, based on low rankings for private property, the influence of redistribution, and rampant corruption, have prevented Venezuela from diversifying its output even as oil revenues have performed poorly.

AVOIDING THE RESOURCE CURSE

The following three countries have scores on property rights and freedom from corruption that are significantly above average.

Chile. Chile is a powerful example of a country that has entirely avoided the resource curse; it is blessed with substantial natural resources and has the highest GDP per capita in the region. Copper has long been an important source of income and Chile's primary export, and although its share of GDP has declined steadily since the 1980s, it still accounts for a large proportion of exports and government income. Reliance on mining and other natural resources, however, has not proven to be an impediment to growth.

In fact, Chile stands out among South American countries not for any substantial differences in resource availability, but rather because of its commitment to private property rights and economic freedoms. Businesses have incentives to grow and diversify because entrepreneurs and investors know that they will reap the benefits of their risks.

Coupled with a strong commitment to trade liberalization, Chile's pro–free market policies have spurred the rapid expansion of international trade, especially in agriculture. Wine, salmon, and fruit are particularly strong exports, despite the fact that a relatively small percentage of the population is devoted to these industries. The result of pro-investment and pro-business policy in Chile has been a robust economy that grew roughly 5 percent in 2010 despite suffering a debilitating earthquake in February of that year.

Botswana. Botswana is possibly the most striking counter-example to the resource curse thesis. With almost 40 percent of GDP coming from gem mining (mainly diamonds), a proportion which actually increased during a period of strong economic growth, Botswana would seem to be especially vulnerable to the curse of abundant natural resources. The phenomenon of increased reliance on a single natural resource during periods of growth, as witnessed in Venezuela, can easily lead a country to dependence on that product. Without proper political restraint and the rule of law, a single-good economy can lose its flexibility and become tied to the fate of that one good. Botswana, however, has not gone the way of Venezuela and has grown steadily at an average rate of around 10 percent for decades since its independence in 1966.

Botswana maintains constitutional protections against the nationalization of property. This, combined with policies friendly to entrepreneurship and light regulation of the labor market, has allowed the business sector to flourish. Botswana has one of the lowest unemployment rates in the region and ranks second in the region for business freedom.

As more private citizens become participants in the formal market, Botswana's economic growth has a positive impact for the entire country. With revenues from diamonds expected to level off in coming decades and the country in need of growth beyond commodity-based growth, business freedoms have led to a growing tourism sector (now roughly 12 percent of GDP).

Norway. For many decades, oil, gas, and other natural resources have played a key role in Norway's economy. Yet rather than seeing their resource wealth squandered by a corrupt ruling elite, Norwegians live in one of the wealthiest countries in the world, with an economy protected by a strong rule of law. Norway also displays a high protection of property rights, similar to other countries in the developed world, and is a good example of how natural-resource abundance can be a blessing when accompanied by strong public and private institutions.

Despite being widely considered a welfare state, with low rankings in the *Index of Economic Freedom* for both government spending and labor freedom, Norway ranks high on protection of private property rights. It has sound and stable institutions and scores well above the global average in the *Index* as a whole. As a result, Norway has the fourth-highest GDP per capita in the world—far from a curse!

CONCLUSION

Natural resources are not the ultimate determinant of growth, but they do play an important role in moving a country more quickly in the direction in which their institutions are guiding them. Bad institutions can lead a country into turmoil, and when abundant resources are made available to a corrupt regime, the situation can become worse. Likewise, good institutions can help a nation make the most of its natural endowments.

The institutions put in place by the leaders of any country shape the incentives for their citizens and determine whether they end up looking like Chile and Botswana or Bolivia and Nigeria. Private property rights encourage investment, entrepreneurship, and innovation; protection against corruption discourages rent-seeking and helps to guide resources to productive use. The resource curse is the unfortunate result of bad institutions making the worst of great potential, and the only way to cure it is to focus on improving policy at the top of the institutional structure.

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Chapter 6

Good Business Demands Good Governance

Myron Brilliant

Imagine a large conference room, coffee cups and half-eaten sandwiches atop a long rectangular table, a CEO seated at the head surrounded by regional senior managers flashing year-end revenues and projected sales on flat screens, making plans for global market expansion. This familiar scene plays out time and again at typical annual business planning sessions.

In a global market, these executives must consider where to invest, operate, and expand their product and service offerings while competing for market share with the brightest and the best the world has to offer. The information they gather, the tools they use, and the decisions they make will figure prominently not only in their business growth, but in the economic growth, job creation, and development success of the countries vying for their company's investment dollars.

Market size, trade openness, workforce skills, wage costs, tax structure, and numerous other criteria play a role in any company's investment decisions, but what ultimately determines the viability of their investments—and their staying power—can be summed up as the presence or absence of the rule of law.

BUSINESS CARES ABOUT RULE OF LAW

Yet there seems to be a misperception among some non-governmental organizations, academics, and intellectuals that business actually benefits from the absence of the rule of law, that companies prefer an environment where they can bribe their way into the market or exploit a lax regulatory environment and turn it to their advantage. And it is true that there are some unscrupulous actors who would like nothing better than to find and capitalize on such inappropriate advantages.

But it is also true that the vast majority of companies perform best in an open, transparent, and meritocratic environment—where good governance leads to good business. The companies that are most sought after by countries worldwide, with brand loyalty and an image to protect, have too much to lose to play fast and loose with the rules.

These are the companies that understand brand integrity is critical to their business success. Accordingly, they have institutionalized internal processes, procedures, and policies and have instituted training programs to ensure their corporate compliance with local laws, bilateral and multilateral trade and investment treaties, and, for U.S. companies, the U.S. Foreign Corrupt Practices Act (FCPA).

These are the companies that have a sustainable business plan, pay their taxes, bring sophisticated labor and environmental standards, create jobs, and establish roots in the communities where they do business. They are companies that rely on the existence of a strong rule-of-law regime in their decision to invest in any given market.

RULE OF LAW IS CRITICAL TO BUSINESS DECISIONS

Few factors rival the rule of law when it comes to critical factors in a company's ability to do business profitably and maintain a sustainable business model over time. Companies making decisions on where to establish business operations are investing in several senses of the word: in terms of capital, to be sure, which once committed cannot easily be shifted to another locale, but also in terms of investing in the stability of the local business climate. Rule of law is a strong proxy for political, social, and legal stability. Companies look to invest in markets where they have confidence in the integrity of public and private institutions and where there is fairness, enforcement, and proper adjudication of the law.

Doing business globally is a fact of life for any company that wishes to thrive in today's world market, including many members of the U.S. Chamber of Commerce, but even for the biggest and the best of them, global business can present serious challenges. Too often, and in too many countries, the rules of the game are subject to unpredictable change.

Most significantly, shortcomings in a country's rule-of-law regime present a wide range of challenges, including widespread and petty institutional corruption; lack of legal certainty, predictability, transparency, and due process; inconsistent laws or inadequate enforcement; and often outright political interventions in judicial, regulatory, or administrative processes. Both business and the public consumer bear the cost where rule of law is weak, complex, contradictory, or nonexistent. For example, a company will naturally shy away from a market where corruption and bribery are rampant, fearful of putting sizeable investment at risk where corrupt lawmakers and judicial officers have the unfettered ability to ignore due process and legal precedent in court proceedings or raise costly barriers to trade without notice or right of appeal.

When no one is sure where the law draws the line or which law applies, companies can be subject to seizure of their assets, as well as the arrest of their employees for alleged breach of vague laws, and can encounter privacy and confidentiality violations. A company will take into serious consideration the risk of severe sanctions for conducting business within an unpredictable or illegal environment—including hefty fines and imprisonment under the FCPA and local laws.

> Let us remind ourselves why our fight against corruption is so important. Weak rule of law and corruption create a vicious cycle. A lack of rule of law breeds corruption. That, in turn, corrodes the ability of rule of law institutions to promote human rights, maintain law and order, ensure the integrity of public institutions, support economic growth and deliver services. …
>
> Corruption costs the average developing country more than a quarter of a billion dollars per year.
>
> —Ban Ki-moon[1]

Recently, a number of countries have become more pronounced in their corruption, lack of transparency, protectionism, and failure to provide due process. Some have engaged in abusive litigation against international companies with awards in favor of the local plaintiffs in the billions of dollars, creating a dangerous precedent. This global uptick not only presents a systemic risk to the multilateral trading system that cannot be ignored, but also puts each one of these countries in jeopardy of losing international

Case Study: Ecuador

Over a period of many years, investors in Ecuador have been embroiled in a series of investment disputes. In 2011, according to the U.N. Conference on Trade and Development's *World Investment Report 2012*, Ecuador was tied for second in terms of number of investment treaty arbitration claims lodged against it, including four new claims in 2011 alone.[2]

Ecuador's response to these disputes has been to withdraw from the ICSID2 Convention and move to terminate bilateral investment treaties (BITs) with 13 countries, including the United States. In fact, Ecuador has asked a U.S. court to deny one investor the right to arbitration under the existing BIT—a request the judge has now dismissed—and more recently began filing lawsuits against investors in third countries to circumvent the ICSID settlements.

A U.S. Department of Commerce report, *Doing Business in Ecuador: 2012*, spells out the dangers facing foreign investors:

> [T]he legal complexity resulting from the inconsistent application and interpretation of its existing investment laws complicates enforcement of contracts and increases the risks and costs of doing business in Ecuador. *Government officials and private Ecuadorian businesses have used regulatory schemes and questionable legal maneuvers to affect foreign company operations in the country.* Companies have sometimes been confronted with requirements of additional payments not negotiated in original agreements. Receiving full and timely payments due can be another recurring problem. Business disputes with U.S. companies can become politicized, especially in sensitive areas such as the energy sector [emphasis added].[3]

An earlier report by the Commerce Department, *Doing Business in Ecuador: 2010*, provides some insight into the ideology behind Ecuador's heavy-handed approach to investors:

> [T]he Government of Ecuador has modified the country's investment regime in response to key provisions included in Ecuador's October 2008 Constitution. For instance, Article 339 of the Constitution provides that "the State will promote national and foreign investment … prioritizing national investment." Also, "foreign direct investment will be complementary to national investment … and be targeted in accordance to the needs and priorities defined in the National Development Plan." Article 422 of the Constitution states that "Ecuador will not enter into international agreements or instruments under which the Ecuadorian State would have to cede sovereign jurisdiction to international arbitral tribunals in contractual or commercial matters between the State and individuals or corporations."[4]

In other words, investment is welcome in Ecuador but only on the government's terms and without the protections that investors have previously received under international agreements. Consequently, legal certainty is far and away the biggest question mark for any company considering capital investment in Ecuador.

investments and related socioeconomic growth and jobs.

Yet for a country to apply the rule of law in a balanced, cohesive, consistent, and transparent manner, it must first understand what is meant when the private sector refers to the rule of law.

DEFINING RULE OF LAW FOR BUSINESS

As we seek to arrive at a consensus definition of rule of law, let us start with what it is not: The business community certainly does not mean "rule by law" where the lack of checks and balances on the will of the political elite allows them to manipulate nominally democratic mechanisms to achieve a precooked authoritarian result. And it is not lip service to regulatory or judicial processes whose administrators are not held accountable for the integrity of those processes.

What, then, is the definition of rule of law? It is tempting to follow in the footsteps of Potter Stewart, a former United States Supreme Court Justice, who once offered this definition of obscenity: "I know it when I see it." We all know unfairness when we see it, and victims—whether citizens, employees, consumers or businesses—feel the repercussions when fairness and healthy competition in the marketplace are nonexistent.

Perhaps Britain's Dr. Eamonn Butler, co-founder of the Adam Smith Institute, a global think tank, put it most directly relative to doing business:

> Too many countries have, not the rule of law, but the rule of men. When you have to get specific permission to do something, like start a business, then you depend on the officials who wield that authority. It is a formula for delay, bureaucracy—and corruption. Under the rule of law, by contrast, the rules of property are known, established, accepted and respected. Even the poorest people are protected by the same rules. And the government too has to work within the rules—there can be no arbitrary arrest, confiscation of property, or retrospective changes in laws and contracts.[5]

Members of the U.S. Chamber of Commerce recognize that a strong rule-of-law setting does not mean a gratuitous extension of "our" law to other markets. Rather, we collaborate with like-minded businesses and organizations around the world to share experiences, compare practices, and work toward predictable and compatible principles for a legal environment that allows U.S. firms to comply with the laws of the host governments without running afoul of U.S. norms and, conversely, welcomes international companies in U.S. markets.

In fact, the Chamber opposes, as a matter of principle, extraterritorial application of some U.S. laws that ignore the reality of legitimate business operations in the global marketplace and that trap companies in the impossible situation of compliance with both the laws of home and those of the host jurisdictions. Such artificial conflicts do nothing to enhance the respect for the rule of law in either market.

Another way to define rule of law is by the advantages that accrue when it is present. For a business whose continued operations are dependent on a return on investment over time, there are several factors related to the rule of law that will determine its ability to make rational investment and operating decisions and thereby have a reasonable expectation of returning a profit.

The U.S. Chamber has identified five business rule-of-law factors whose presence helps to attract sustainable, long-term investment to any given country:

- **Transparency.** Laws and regulations applied to business must be readily accessible and easily understood.
- **Predictability.** Laws and regulations must be applied in a logical and consistent manner regardless of time, place, or parties concerned.
- **Stability.** The state's rationale for the regulation of business—for example, promotion of negotiation and implementation of trade agreements and other vehicles that strengthen rule of law, sanctity of contracts, and compliance with international law—must be consistent and coherent over time, establishing an institutional consistency across administra-

tions, and free from arbitrary or retrospective amendment.
- **Accountability.** Investors must be confident that the laws will be upheld and applied equally to government as well as the private sector and civil society: for example, anti-bribery and corruption issues.
- **Due Process.** When disputes inevitably arise, they must be resolved not by ad hoc arrangements or special interventions, but in a fair, transparent, and predetermined process.

Where these factors are present, investment thrives, economies grow, jobs are created, and prosperity follows. Where they are absent, corruption thrives, ambiguity reigns, investment dollars flee, and tax revenues plummet.

BUSINESS LEADING BY EXAMPLE

For responsible businesses, the goal is more rule of law, not less. The absence of a strong rule-of-law environment has a chilling effect on corporate investment. Responsible companies believe in setting a good example on this issue. In addition to promulgating internal legal compliance procedures and policies, these companies use creative and innovative methods to assist the markets in which they do business, such as setting clear standards for local contractors and guidelines for employees, engaging as a responsible stakeholder in public policy debates, and conducting progress assessments that highlight the positive impact of strong rule of law.

Given the importance of rule-of-law considerations to companies' global investment and operation decisions, it should be no surprise that a solid rule-of-law regime is quickly becoming a central plank in businesses' international policy agenda. That agenda includes measures intended to:

- **Foster a global business environment** in which countries respect the rule of law and provide due process under law to investors, producers, and service providers of every nationality;
- **Highlight violations** of the rule of law and advocate for their prompt and just resolution;
- **Vigorously defend** the rule of law, sanctity of contracts, respect for property rights—including intellectual property—and advocate for the promulgation of fair, transparent, and consistent laws and a quick resolution of conflicts;
- **Foster an understanding** that there is a spectrum of regional realities related to rule of law, ranging from those that impede business and investment, to those undermining national competitiveness, to those posing an outright threat to democratic institutions;
- **Promote the negotiation and implementation** of vehicles such as trade agreements for the strengthening of government institutions related to rule of law and highlight, where applicable, provisions in existing and pending trade agreements that improve governmental transparency, combat corruption, and protect due process; and
- **Help to ensure** that the benefits of rule of law and constitutional processes are more broadly shared and understood throughout our societies.

THE NEED FOR BUSINESS-SPECIFIC INDICATORS

So let us go back to that global business planning session in the conference room. As the senior managers review the company's business development plans, they discuss the various factors that will determine their strategy moving forward. A key factor in this process is rule of law.

Companies rely on publications such as the *Index of Economic Freedom*, as well as indices published by the World Bank, Transparency International, the World Justice Project, the American Bar Association, and others, which include rule-of-law rankings of countries around the world. These provide independent assessment tools regarding access to justice, transparency, and strengthening the rule of law.

Greater work is needed, however, in developing metrics and indicators specific to the global business environment. Such indicators would provide an empirical basis for private-sector engagement of multilateral institutions and non-governmental organizations (NGOs). The private sector is a key stakeholder in a strong rule-of-law environment. For companies to be able to make the most educated decisions, it is necessary that their informational needs are considered in identifying rule-of-law indicators that are critical to their business analysis.

After assessment comes implementation. Once operating, companies too often must cope with rule-of-law challenges completely on their own. The circumstances are usually sensitive and company-specific, with significant political and economic risk involved. Especially where substantial fixed investments are involved, companies may be prevented from blowing the whistle for fear of host government retaliation. New metrics would give these companies an evidence-based tool to defend their business position with informed arguments to address denial of the rule of law.

Rule-of-law indicators that are critical to corporate management's business development decision-making process include:

1. Corruption and bribery, specifically as they apply to government procurement and other business activities;
2. Regulatory and policy trade barriers, such as the adoption of protectionist measures;
3. Existence and enforcement of real property and intellectual property protection laws;
4. Adherence to trade, investment, and tax treaties or agreements;
5. Resolution of business disputes and outcomes;
6. Transparent government policymaking; and
7. Adherence to litigation and international arbitration rulings regarding sanctity of contracts and agreements and the expropriation of land, facilities, or businesses.

CONCLUSION

Societies that have stable, predictable, and transparent institutions enjoy investor confidence and economic growth. Conversely, those with weak institutions and processes tend to experience delayed socioeconomic development and political instability; pay a high risk premium for investments; and suffer through volatility in prices, supply, and employment.

One of the basic tenets of the U.S. Chamber of Commerce is that business should enjoy a statutory and regulatory environment that provides transparency, predictability, stability, accountability, and due process in global markets. Our goal is to identify spaces where the rule of law as it relates to the business community is weak, contradictory, or nonexistent and provide a forum to address and advocate on these lapses.

Undertakings such as identifying business-specific rule-of-law indicators would provide critical information to companies that are seeking to better understand the risks involved in investing and operating in any given foreign market, as well as an empirical basis for private-sector engagement with multilateral institutions and NGOs whose performance measurements and rankings shape perception of a country's adherence to the rule of law.

Ultimately, it is incumbent upon the private sector to create a voice for itself that focuses on rule of law as it is applied to the business environment. The U.S. Chamber's Coalition for the Rule of Law in Global Markets aims at being such a voice—in partnership, consultation, and collaboration with willing stakeholders around the world—to provide specific business-related rule-of-law indictors and analysis as critical assessment tools for business planning.

Endnotes

1 U.N. Secretary General Ban Ki-moon, remarks at U.N. High Level Rule of Law Meeting Panel Discussion on "Strengthening the Rule of Law: The Fight Against Corruption and Its Impact on Sustainable Economic Growth," September 24, 2012.

2 United Nations Conference on Trade and Development, *World Investment Report 2012*, May 2012, p. 120, http://www.unctad-docs.org/files/UNCTAD-WIR2012-Full-en.pdf (accessed October 31, 2012).

3 U.S. Department of Commerce, U.S. Commercial Service, *Doing Business in Ecuador: 2012*, July 2012, pp. 35–36, http://www.buyusainfo.net/docs/x_8284643.pdf (accessed October 31, 2012).

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Chapter 7

Defining Economic Freedom

Ambassador Terry Miller and Anthony B. Kim

> The economic freedom which is the prerequisite of any other freedom cannot be the freedom from economic care which the socialists promise us and which can be obtained only by relieving the individual at the same time of the necessity and of the power of choice: it must be the freedom of economic activity which, with the right of choice, inevitably also carries the risk and the responsibility of that right.
>
> —Friedrich A. Hayek[1]

Economic freedom is the condition in which individuals can act with autonomy while in the pursuit of their economic livelihood and greater prosperity. Any discussion of economic freedom has at its heart reflection on the critical relationship between individuals and the government.

Economic freedom is an essential aspect of human liberty, without which a person's rights to life, liberty, and the pursuit of happiness may be fundamentally compromised. As Friedrich Hayek once observed, "To be controlled in our economic pursuits means to be controlled in everything."[2] Hayek's keen insights on economic freedom are based on the moral truth that each person is, as a matter of natural right, a free and responsible being with inalienable dignity and fundamental liberties that righteous and effective political systems should regard as unassailable.

GUIDING PRINCIPLES OF ECONOMIC FREEDOM

In an economically free society, each person controls the fruits of his or her own labor and initiative. Individuals are empowered—indeed, entitled—to pursue their dreams by means of their own free choice.

In an economically free society, individuals succeed or fail based on their individual effort and ability. The institutions of a free and open society do not discriminate either against or in favor of individuals based on their race, ethnic background, gender, class, family connections, or any other factor unrelated to individual merit. Government decision-making is characterized by openness, and the bright light of transparency, illuminating the shadows where discrimination might flourish, guarantees equal opportunity for all.

In an economically free society, the power of economic decision-making is widely dispersed, and the allocation of resources for production and consumption is on the basis of free and open competition so that every individual or firm gets a fair chance to succeed.

These three fundamental principles of economic freedom—empowerment of the individual, non-discrimination, and open competition—underpin every measurement and policy idea presented in the *Index of Economic Freedom*.

ECONOMIC FREEDOM: AUTONOMY, NOT ANARCHY

In general, state action or government control that interferes with individual autonomy limits economic freedom. The *Index of Economic Freedom* is not, however, a call for anarchy. The goal of economic freedom is not simply an absence of government coercion or constraint, but the creation and maintenance of a mutual sense of liberty for all. As individuals enjoy the blessings of economic freedom, they in turn have a responsibility to respect the economic rights and freedoms of others within the rule of law. Governments are instituted to ensure basic protections against the ravages of nature or the predations of one citizen over another so that positive economic rights such as property and contracts are given societal as well as individual defense against the destructive tendencies of others.

A comprehensive view of economic freedom encompasses all liberties and rights of production, distribution, or consumption of goods and services. The highest forms of economic freedom should provide an absolute right of property ownership; full freedom of movement for labor, capital, and goods; and an absolute absence of coercion or constraint of economic liberty beyond that which is necessary for the protection and maintenance of liberty itself. An economically free society encourages handling of economic decisions in a decentralized fashion. Individuals are free to work, produce, consume, and invest in any way they choose under the even-handed application of laws, with their economic freedoms at once both protected and respected by the state.

Some government action is necessary for the citizens of a nation to defend themselves, promote the peaceful evolution of civil society, and enjoy the fruits of their labor. For example, citizens are taxed to provide revenue for public safety, the protection of property, and for the common defense. There can also be other goods—what economists call "public goods"—that may be supplied more efficiently by government than through private means. Some public goods, such as the maintenance of a police force to protect property rights, a monetary authority to maintain a sound currency, and an impartial judiciary to enforce contracts among parties, are themselves vital ingredients of an economically free society. When government action rises beyond the minimal necessary level, however, it leads inevitably and quickly to the loss of freedom—and the first freedom affected is often economic freedom.[3]

Throughout history, governments have imposed a wide array of constraints on economic activity. Though sometimes imposed in the name of equality or some other noble societal purpose, such constraints are in reality most often imposed for the benefit of societal elites or special interests, and they come with a high cost to society as a whole. By substituting political judgments for those of the marketplace, government diverts entrepreneurial resources and energy from productive activities to rent-seeking, the quest for economically unearned benefits. The result is lower productivity, economic stagnation, and declining prosperity.

Government provision of goods and services beyond those that are clearly considered public goods imposes a separate constraint on economic activity as well, crowding out private-sector activity and usurping resources that might otherwise have been available for private investment or consumption. Constraining economic choice distorts and diminishes the production, distribution, and consumption of goods and services (including, of course, labor services). The wealth of a nation declines as a result.

MEASURING ECONOMIC FREEDOM

Assessing economic freedom in countries as diverse as Hong Kong and North Korea, Zimbabwe and Singapore, or Australia and Cuba is not an easy task. As the number and variety of countries included in the *Index* have increased, it has become ever more difficult to find consistent and reliable data covering them all. Our research is indebted to various governmental and non-governmental international organizations that have undertaken the arduous task of data collection in their various areas of focus and have shared their data with us.

The *Index of Economic Freedom* takes a broad and comprehensive view of country performance, measuring 10 separate areas of economic freedom. Some of the aspects of economic freedom that are evaluated are concerned with a country's interactions with the rest of the world—for example, the extent of an economy's openness to global investment or trade. Most, however, focus on policies within a country, assessing the liberty of individuals to use their labor or finances without undue restraint and government interference.

Each of the economic freedoms plays a vital role in developing and sustaining personal and national prosperity. All are complementary in their impact, however, and progress in one area is often likely to reinforce or even inspire progress in another. Similarly, repressed economic freedom in one area—respect for property rights, for example—may make it much more difficult to achieve high levels of freedom in other categories.

Each economic freedom is individually scored on a scale of 0 to 100. A country's overall economic freedom score is a simple average of its scores on the 10 individual freedoms. Detailed information about the methodology used to score each component is contained in the appendix.

For analytical ease and presentational clarity, the 10 economic freedoms are grouped into four broad categories or pillars of economic freedom:

- **Rule of Law** (property rights, freedom from corruption);
- **Limited government** (fiscal freedom, government spending);
- **Regulatory efficiency** (business freedom, labor freedom, monetary freedom); and
- **Open markets** (trade freedom, investment freedom, financial freedom).

RULE OF LAW

Property Rights. The ability to accumulate private property and wealth is understood to be a central motivating force for workers and investors in a market economy. The recognition of private property rights and an effective rule of law to protect them are vital features of a fully functioning market economy. Secure property rights give citizens the confidence to undertake entrepreneurial activity, save their income, and make long-term plans because they know that their income, savings, and property (both real and intellectual) are safe from unfair expropriation or theft.

The protection of private property requires an autonomous and accountable judicial system that is available to all, equally and without discrimination. The independence, transparency, and effectiveness of the judicial system have proven to be key determinants of a country's prospects for long-term economic growth. Such a system is also vital to the maintenance of peace and security and the protection of human rights.

A key aspect of property rights protection is the enforcement of contracts. The voluntary undertaking of contractual obligations is the foundation of the market system and the basis for economic specialization, gains from commercial exchange, and trade among nations. Even-handed government enforcement of private contracts is essential to ensuring equity and integrity in the marketplace.

Freedom from Corruption. In the context of economic freedom, corruption can best be understood as the failure of integrity in the economic system, a distortion by which individuals or special-interest groups are able to gain at the expense of the whole. Often a direct result of the government's concentration of economic or political power, corruption manifests itself in many forms such as bribery, extortion, nepotism, cronyism, patronage, embezzlement, and graft.

Corruption can infect all parts of an economy in systematic ways. There is a direct relationship between the extent of government intervention in economic activity and the amount of corruption. In particular, excessive and redundant government regulations provide opportunities for bribery or graft. In addition, government regulations or restrictions in one area may create informal markets in another. For example, a country with high barriers to trade may have laws that protect its domestic manufacturers and prevent the import of foreign goods, but these barriers create incentives for smuggling and a black market for the restricted products, thereby increasing corruption.

The best weapon against corruption is transparency. Openness in regulatory procedures and processes can promote equitable treatment and greater regulatory efficiency and speed.

LIMITED GOVERNMENT

Fiscal Freedom. Fiscal freedom is a direct measure of the extent to which government permits individuals and businesses to keep and manage their income and wealth for their own benefit and use. A government can impose fiscal burdens on economic activity through taxation, but it also does so when it incurs debt that ultimately must be paid off through taxation.

The marginal tax rate confronting an individual is, in effect, the government's cut of the profit from his or her next unit of work or engagement in a new entrepreneurial venture; whatever remains after the tax is subtracted is the individual's actual reward for the effort. The higher the government's cut, the lower the individual's reward—and the lower the incentive to undertake the work at all. Higher tax rates interfere with the ability of individuals and firms to pursue their goals in the marketplace and thereby reduce overall private-sector activity.

While individual and corporate income tax rates are important to economic freedom, they are not a comprehensive measure of the tax burden. Governments impose many other indirect taxes, including payroll, sales, and excise taxes; tariffs; and the value-added tax (VAT). In the *Index of Economic Freedom,* the burden of these taxes is captured by measuring the overall tax burden from all forms of taxation as a percentage of total GDP.

Government Spending. The cost of excessive government is a central issue in economic freedom, both in terms of generating revenue (see fiscal freedom) and in terms of spending. Some government spending, such as providing infrastructure or funding research or even improvements in human capital, may be thought of as investments. There are public goods, the benefits of which accrue broadly to society in ways that markets cannot price appropriately. All government spending that must eventually be financed by higher taxation, however, entails an opportunity cost equal to the value of the private consumption or investment that would have occurred had the resources involved been left in the private sector.

Excessive government spending runs a great risk of crowding out private economic activity. Even if an economy achieves faster growth through more government spending, such economic expansion tends to be only temporary, distorting the allocation of resources and private investment incentives. Even worse, a government's insulation from market discipline often leads to bureaucracy, lower productivity, inefficiency, and mounting debt that imposes an even greater burden on future generations.

As many economies have experienced in recent years, high levels of public debt accumulated through irresponsible government spending undermine economic freedom and prevent dynamic entrepreneurial growth.

REGULATORY EFFICIENCY

Business Freedom. Business freedom is about an individual's right to establish and run an enterprise without undue interference from the state. Burdensome and redundant regulations are the most common barriers to the free conduct of entrepreneurial activity.

By increasing the costs of production, regulations can make it difficult for entrepreneurs to succeed in the marketplace. Although many regulations hinder business productivity and profitability, the most inhibiting to entrepreneurship are those that are associated with licensing new businesses.

In some countries, as well as many states in the United States, the procedure for obtaining a business license can be as simple as mailing in a registration form with a minimal fee. In Hong

Kong, for example, obtaining a business license requires filling out a single form, and the process can be completed in a few hours. In other economies, such as India and parts of South America, the process of obtaining a business license can take much longer, involving endless trips to government offices and repeated encounters with officious and sometimes corrupt bureaucrats.

Once a business is open, government regulation may interfere with the normal decision-making or price-setting process. Interestingly, two countries with the same set of regulations can impose different regulatory burdens. If one country applies its regulations evenly and transparently, this can lower the regulatory burden by facilitating long-term business planning. If the other applies regulations inconsistently, it raises the regulatory burden by creating an unpredictable business environment. Rigid and onerous bankruptcy procedures are also distortionary, providing a disincentive for entrepreneurs to start businesses in the first place.

Labor Freedom. The ability of individuals to work as much as they want and wherever they want is a key component of economic freedom. By the same token, the ability of businesses to contract freely for labor and dismiss redundant workers when they are no longer needed is a vital mechanism for enhancing productivity and sustaining overall economic growth. The core principle of any market is free, voluntary exchange. That is as true in the labor market as it is in the market for goods.

State intervention generates the same problems in the labor market that it produces in any other market. Government regulations take a variety of forms, including wage controls, restrictions on hiring and firing, and other constraints. In many countries, unions play an important role in regulating labor freedom and, depending on the nature of their activity, may be either a force for greater freedom or an impediment to the efficient functioning of labor markets.

Onerous labor laws penalize businesses and workers alike. Rigid labor regulations prevent employers and employees from freely negotiating changes in terms and conditions of work, resulting often in a chronic mismatch of labor supply and demand. In general, the greater the degree of labor freedom, the lower the rate of unemployment in an economy.

Monetary Freedom. Monetary freedom requires a stable currency and market-determined prices. Whether acting as entrepreneurs or as consumers, free people need a steady and reliable currency as a medium of exchange, unit of account, and store of value. Without monetary freedom, it is difficult to create long-term value or amass capital.

The value of a country's currency can be influenced significantly by the monetary policy of its government. With a monetary policy that endeavors to fight inflation, maintain price stability, and preserve the nation's wealth, people can rely on market prices for the foreseeable future. Investments, savings, and other longer-term plans can be made more confidently. An inflationary policy, by contrast, confiscates wealth like an invisible tax and also distorts prices, misallocates resources, and raises the cost of doing business.

There is no single accepted theory of the right monetary policy for a free society. At one time, the gold standard enjoyed widespread support. What characterizes almost all monetary theories today, however, is support for low inflation and an independent central bank. There is also widespread recognition that price controls corrupt market efficiency and lead to shortages or surpluses.

OPEN MARKETS

Trade Freedom. Trade freedom reflects an economy's openness to the flow of goods and services from around the world and the citizen's ability to interact freely as buyer or seller in the international marketplace. Trade restrictions can manifest themselves in the form of tariffs, export taxes, trade quotas, or outright trade bans. However, trade restrictions also appear in more subtle ways, particularly in the form of regulatory barriers. The degree to which government hinders the free flow of foreign commerce has a direct bearing on the ability of individuals to pursue their economic goals and maximize their productivity and well-being.

Tariffs, for example, directly increase the prices that local consumers pay for foreign imports, but they also distort production incentives for local producers, causing them to produce either a good in which they lack a comparative advantage or more of a protected good than is economically efficient. This impedes overall economic efficiency and growth. In many cases, trade limitations also put advanced-technology products and services beyond the reach of local entrepreneurs, limiting their own productive development.

Investment Freedom. A free and open investment environment provides maximum entrepreneurial opportunities and incentives for expanded economic activity, greater productivity, and job creation. The benefits of such an environment flow not only to the individual companies that take the entrepreneurial risk in expectation of greater return, but also to society as a whole. An effective investment framework will be characterized by transparency and equity, supporting all types of firms rather than just large or strategically important companies, and will encourage rather than discourage innovation and competition.

Restrictions on the movement of capital, both domestic and international, undermine the efficient allocation of resources and reduce productivity, distorting economic decision-making. Restrictions on cross-border investment can limit both inflows and outflows of capital, thereby shrinking markets and reducing opportunities for growth.

In an environment in which individuals and companies are free to choose where and how to invest, capital will flow to its best use: to the sectors and activities where it is most needed and the returns are greatest. State action to redirect the flow of capital and limit choice is an imposition on the freedom of both the investor and the person seeking capital. The more restrictions a country imposes on investment, the lower its level of entrepreneurial activity.

Financial Freedom. An accessible and well-functioning formal financial system ensures the availability of diversified savings, credit, payment, and investment services to individuals. By expanding financing opportunities and promoting entrepreneurship, an open banking environment encourages competition in order to provide the most efficient financial intermediation between households and firms as well as between investors and entrepreneurs.

Through a process driven by supply and demand, markets provide real-time information on prices and immediate discipline for those who have made bad decisions. This process depends on transparency in the market and the integrity of the information being made available. A prudent and effective regulatory system, through disclosure requirements and independent auditing, ensures both.

Increasingly, the central role played by banks is being complemented by other financial services that offer alternative means for raising capital or diversifying risk. As with the banking system, the useful role for government in regulating these institutions lies in ensuring transparency; promoting disclosure of assets, liabilities, and risks; and ensuring integrity.

Banking and financial regulation by the state that goes beyond the assurance of transparency and honesty in financial markets can impede efficiency, increase the costs of financing entrepreneurial activity, and limit competition. If the government intervenes in the stock market, for instance, it contravenes the choices of millions of individuals by interfering with the pricing of capital—the most critical function of a market economy. Equity markets measure, on a continual basis, the expected profits and losses in publicly held companies. This measurement is essential in allocating capital resources to their highest-valued uses and thereby satisfying consumers' most urgent requirements.

ECONOMIC FREEDOM: AN END IN ITSELF, A MEANS FOR PROGRESS

Economic freedom, enhanced and secured by the rule of law, limited government, regulatory efficiency, and open markets, is a vital element of human dignity, providing individuals the ability to plan and direct their lives in ways that maximize their happiness as they see fit. In addition, economic freedom is the key to achieving the broad-based economic dynamism that ensures lasting growth and increased prosperity for society as a whole.

In other words, economic freedom is valuable as an end itself. But equally important is that, with its 10 freedoms interacting with and complementing each other, economic freedom is also about a multidimensional process of achieving economic progress.

Nineteen years of data in the *Index of Economic Freedom* have documented the clear association between higher levels of economic freedom and greater levels of overall prosperity. Equally important, improvements in economic freedom, from whatever level, have been shown to enhance economic dynamism and social progress. Governments that choose policies that increase economic freedom are placing their societies on the pathway to more meaningful and productive work, higher incomes, and better standards of living for all.

Endnotes

1 Friedrich A. Hayek, *The Road to Serfdom* (Chicago, Ill.: University of Chicago Press, 1944).

2 Ibid.

3 "The property which every man has in his own labor, as it is the original foundation of all other property, so it is the most sacred and inviolable." Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (New York: The Modern Library, 1937), pp. 121–122; first published in 1776.

Chapter 8

The Countries

This chapter reports data on economic freedom for each of the countries included in the *Index of Economic Freedom*. This year, Kosovo is covered by the *Index* for the first time, although assignment of an overall economic freedom score has not been possible due to data constraints. Numerical grading of overall economic freedom scores for Libya and Syria had to be suspended due to the state of severe political instability in those countries. Of the 185 countries included in the 2013 *Index,* 177 are fully scored and ranked. Because of insufficient data, Afghanistan, Iraq, Kosovo, Libya, Somalia, Sudan, Syria, and Liechtenstein are covered without numerical grading.

For analytical understanding and presentational clarity, the 10 economic freedoms are grouped into four broad categories or pillars of economic freedom:

- **Rule of Law** (property rights, freedom from corruption);
- **Limited government** (fiscal freedom, government spending);
- **Regulatory efficiency** (business freedom, labor freedom, monetary freedom); and
- **Open markets** (trade freedom, investment freedom, financial freedom).

Ranked countries are given a score ranging from 0 to 100 on each of the 10 components of economic freedom, and these scores are then averaged (using equal weights) to get the country's final *Index of Economic Freedom* score. In addition to the scores, the country pages include in each case a brief introduction describing the economic strengths and weaknesses and the political and economic background influencing a country's performance, as well as a statistical profile reporting the country's main economic indicators.

To assure fairness and reliability within each of the 10 components on which the countries are graded, every effort has been made to use the same data source consistently for all countries; when data are unavailable from the primary source, secondary sources are used. (See Appendix, "Methodology for the 10 Economic Freedoms.")

DEFINING THE "QUICK FACTS"

Each country page includes "Quick Facts" with nine different categories of information. Unless otherwise indicated, the data in each country's profile are for 2011 (the year for which the most recent data are widely available) and in current 2011 U.S. dollars (also the most recent available). The few cases in which no reliable statistical data were available are indicated by "n/a." Definitions and sources for each category of information are as follows.

Population: 2011 data from World Bank, *World Development Indicators Online*. For some countries, another source is the country's statistical agency and/or central bank.

GDP: Gross domestic product—total production of goods and services—adjusted to reflect purchasing power parity (PPP). The primary source for GDP data is World Bank, *World Development Indicators Online 2012*. The major secondary source is International Monetary Fund, *World Economic Outlook Database, 2012*. Other sources include a country's statistical agency and/or central bank.

GDP growth rate: The annual percentage growth rate of real GDP derived from constant national currency units. Annual percent changes are year-on-year. The primary source is International Monetary Fund, *World Economic Outlook Database, 2012*. Secondary sources include World Bank, *World Development Indicators Online 2012*; Economist Intelligence Unit, *Data Tool*; Asian Development Bank, *Asian Development Outlook 2012*; and a country's statistical agency and/or central bank.

GDP five-year compound annual growth: The compound average growth rate measured over a specified period of time. The compound annual growth rate is measured using data from 2006 to 2011, based on real GDP expressed in constant national currency units. It is calculated by taking the *n*th root of the total percentage growth rate, where *n* is the number of years in the period being considered. The primary source is International Monetary Fund, *World Economic Outlook Database, 2012*. Secondary sources are World Bank, *World Development Indicators Online 2012*, and Asian Development Bank, *Asian Development Outlook 2012*.

GDP per capita: Gross domestic product (adjusted for PPP) divided by total population. The sources for these data are World Bank, *World Development Indicators Online 2012*; International Monetary Fund, *World Economic Outlook Database, 2012*; U.S. Central Intelligence Agency, *The World Factbook 2012*; and a country's statistical agency and/or central bank.

Unemployment rate: A measure of the portion of the workforce that is not employed but is actively seeking work. The primary sources are U.S. Central Intelligence Agency, *The World Factbook 2012*; Economist Intelligence Unit, *Data Tool*; Organisation for Economic Co-operation and Development, *OECD.Stat Extracts*; International Monetary Fund, *Article IV Staff Reports,* 2009–2012; and a country's statistical agency.

Inflation: The annual percent change in consumer prices as measured for 2011 (or the most recent available year). The primary source for 2011 data is International Monetary Fund, *World Economic Outlook Database, 2012*. Secondary sources are Economist Intelligence Unit, *Data Tool*; Asian Development Bank, *Asian Development Outlook 2012*; and a country's statistical agency and/or central bank.

Foreign direct investment (FDI) inward flow: This indicates the total annual inward flow of FDI. Data are in current 2011 U.S. dollars, reported in millions. FDI flows are defined as investments that acquire a lasting management interest (10 percent or more of voting stock) in a local enterprise by an investor operating in another country. Such investment is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments and both short-term and long-term international loans. Data are from United Nations Conference on Trade and Development, *World Investment Report 2012*.

Public Debt: Gross government debt as a percentage of GDP, which indicates the cumulative total of all government borrowings less repayments that are denominated in a country's currency. Public debt is different from external debt, which reflects the foreign currency liabilities of both the private and public sectors and must be financed out of foreign exchange earnings. The primary sources for 2011 data are International Monetary Fund, *World Economic Outlook Database, 2012*; International Monetary Fund, *Article IV Staff Reports*, 2009–2012; and a country's statistical agency. The data source for U.S. public debt is United States Office of Management and Budget. Concerning the U.S. data, gross debt includes both publicly held debt (bonds and Treasury bills held by foreigners, corporations, individual citizens, investment vehicles, etc.) and intra-governmental debt such as Social Security trust funds.

COMMONLY USED ACRONYMS

CARICOM: Caribbean Community and Common Market, composed of Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Lucia, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

CEMAC: Central African Economic and Monetary Community, which includes Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon.

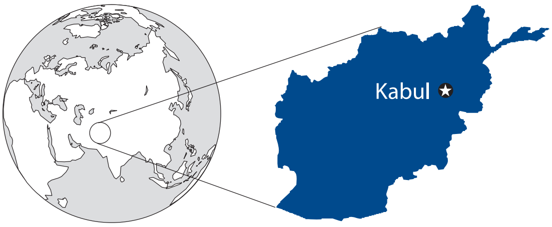
EU: European Union, consisting of Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.

IMF: International Monetary Fund, established in 1945 to help stabilize countries during crises; now includes 188 member countries.

OECD: Organisation for Economic Co-operation and Development, an international organization of developed countries, founded in 1948; now includes 34 member countries.

SACU: Southern African Customs Union, consisting of Botswana, Lesotho, Namibia, South Africa, and Swaziland.

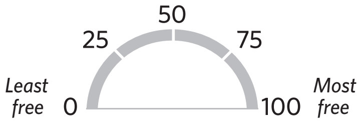
WTO: World Trade Organization, founded in 1995 as the central organization dealing with the rules of trade between nations and based on signed agreements among member countries. As of August 2012, there were 157 member economies.



AFGHANISTAN

World Rank: Not Ranked Regional Rank: Not Ranked

Economic Freedom Score



This economy is not graded

Afghanistan's economic freedom cannot be graded because of a lack of reliable, comparable data. The government's compilations of official economic data are inadequate, and many of the international sources relied upon for *Index* grading contain incomplete data on Afghanistan. This assessment is based on the limited data available from government and international sources. Afghanistan's economic freedom will be ranked in future editions when more reliable information becomes available.

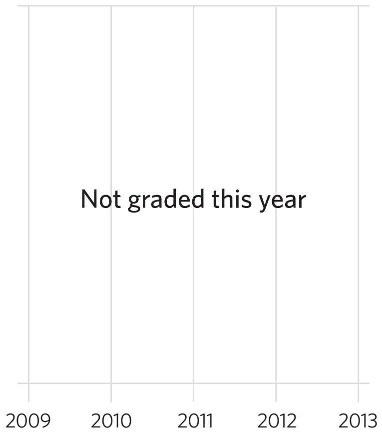
The rule of law remains fragile and uneven across the country. The protection of property rights is undermined by political and security challenges, and the inability to deliver basic services on a reliable basis has severely eroded confidence in the government. Pervasive corruption and embezzlement continue to exacerbate the loss of trust.

The Afghan economy has recorded strong but very volatile growth, driven by agriculture, construction, and services. Although official policies aim to foster vibrant economic development, the private sector is hampered by regulatory ineffectiveness. Despite years of eradication efforts, Afghanistan remains the world's top opium producer, accounting for around 90 percent of the global supply.

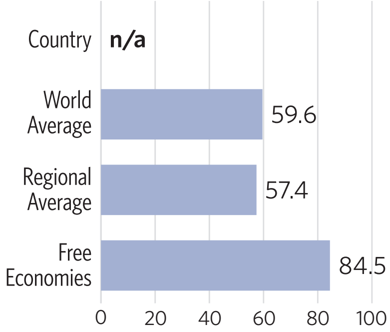
BACKGROUND: President Hamid Karzai was re-elected in 2009 after his chief rival declined to participate in a runoff, citing alleged vote-rigging in the first round of elections. The U.S. and NATO have committed to withdrawing all combat forces by the end of 2014 but will continue to fund and train the Afghan National Army and provide development aid. Afghanistan is one of the world's poorest countries. GDP is growing, but the economy remains hobbled by poor infrastructure, a Taliban-led insurgency, and endemic corruption. The agricultural sector still depends heavily on cultivation of the opium poppy, and illegal drug trafficking fuels violence and instability. India and China are increasingly investing in Afghanistan's mineral industry, especially iron ore and copper.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



Quick Facts

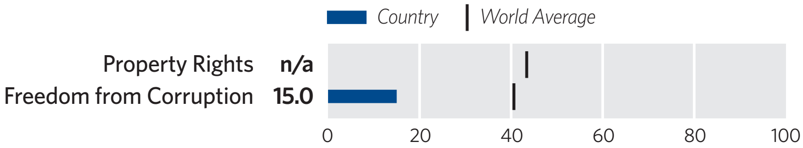
Population: 31.1 million
GDP (PPP): $29.7 billion
5.7% growth in 2011
5-year compound annual growth 10.3%
$956 per capita
Unemployment: n/a
Inflation (CPI): 11.2%
FDI Inflow: $83.4 million
Public Debt: 12.1% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

AFGHANISTAN (continued)

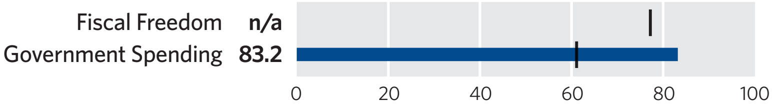
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



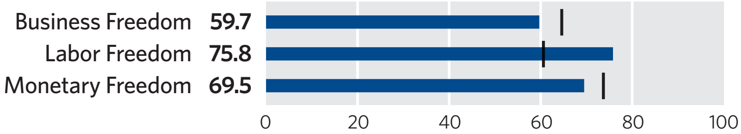
Afghanistan's judicial system is severely underdeveloped. Protection of property rights is weak due to a lack of property registries or a land titling database, disputed land titles, and the poor capacity of commercial courts. Corruption permeates all sectors and levels of government and seriously impedes the rebuilding of state institutions. The very large opium economy is the most significant source of corruption.

LIMITED GOVERNMENT



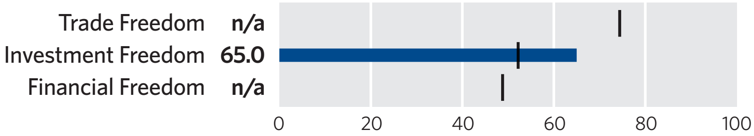
The top income and corporate tax rates are about 20 percent. Other taxes include sales taxes. Budget deficits have remained below 2 percent of GDP on average, and the government has produced a surplus in the past two years. Government spending has moderated, but the government still relies heavily on foreign assistance.

REGULATORY EFFICIENCY



Reform measures in recent years have streamlined the procedures for establishing a business, but the overall regulatory environment is still hampered by bureaucratic impediments to private-sector production and investment. The labor market remains severely underdeveloped, with the 2009 labor law poorly implemented. Inflation has been increasing steadily since 2009.

OPEN MARKETS

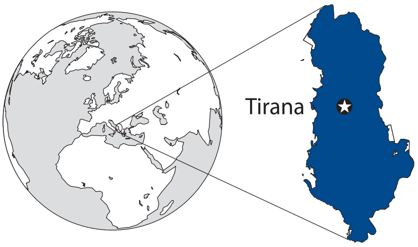


Inefficient customs administration, inadequate infrastructure, and corruption raise the cost of trade. The constitution prohibits discrimination against foreign investors, but security concerns and the financial system's weak capacity have slowed investment growth. The financial sector remains underdeveloped, and trust in the banking system has been undermined by the bailout of Kabul Bank, reportedly tied to the Karzai administration.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	n/a	Fiscal Freedom	n/a	Business Freedom	n/a	Trade Freedom	n/a
Freedom from Corruption	n/a	Government Spending	n/a	Labor Freedom	n/a	Investment Freedom	n/a
				Monetary Freedom	n/a	Financial Freedom	n/a

ALBANIA



World Rank: **58** Regional Rank: **27**

Albania's economic freedom score is 65.2, making its economy the 58th freest in the 2013 *Index*. Its overall score has increased by 0.1 point, with declines in property rights and labor freedom offset by improvements in business freedom and the management of public finance. Albania is ranked 27th among the 43 countries in the Europe region, and its overall score is above the world average.

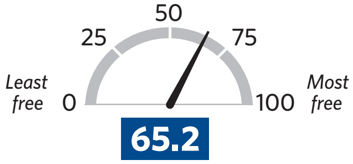
Albania's economy has benefitted substantially from a decade of increased openness and flexibility and weathered the immediate impact of the global economic crisis relatively well. Over the past two years, however, economic dynamism has slowed. Expansionary public spending that the government hoped would mitigate some of the pain of necessary adjustments has resulted in budget deficits and rising public debt, now near 60 percent of GDP.

Although the state continues to control key enterprises, particularly in the energy sector, the economy is mostly in private hands. Beneficial structural reforms have included bank privatization, implementation of competitive flat tax rates, and modernization of the regulatory environment. Deeper institutional reforms to reduce labor market regulations and increase the efficiency of the judiciary, which remains subject to political interference, are critical to further success. Corruption continues to undermine the prospects for long-term economic development.

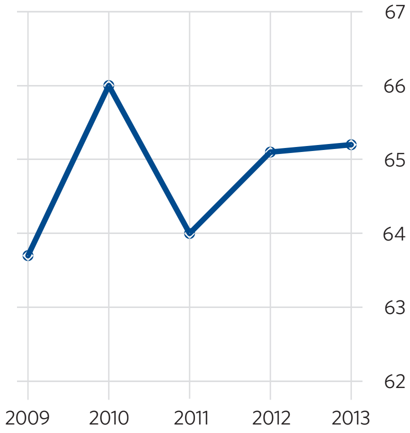
BACKGROUND: Albania remains one of Europe's poorest countries despite economic and political reforms since the end of Communist rule in 1992. Sali Berisha has been prime minister since 2005. His government, a coalition of the center-right Democratic Party and the Socialist Movement for Integration, is known for its strong focus on Euro-Atlantic integration. Albania signed a Stabilization and Association Agreement with the European Union in June 2006 and submitted a full application for membership in April 2009. It achieved full membership in NATO in April 2009 and continues to contribute troops to the NATO-led mission in Afghanistan. Transportation and energy infrastructure are poor by European standards, and the economy is dominated by agriculture and services, including tourism.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

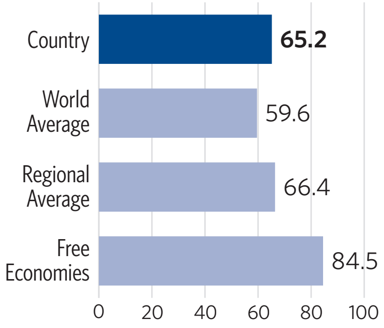
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

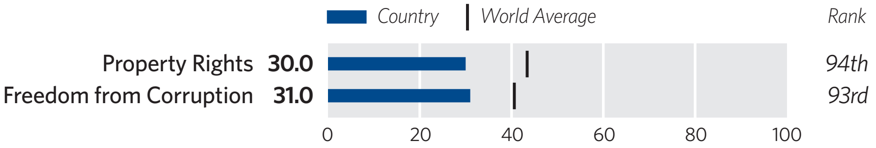
Population: 3.2 million
GDP (PPP): $24.9 billion
2.0% growth in 2011
5-year compound annual growth 4.4%
$7,741 per capita
Unemployment: 13.5%
Inflation (CPI): 3.4%
FDI Inflow: $1.0 billion
Public Debt: 58.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

ALBANIA (continued)

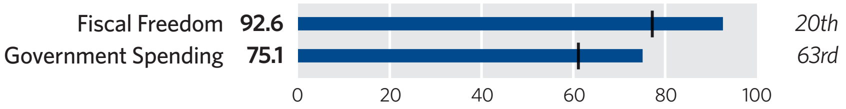
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



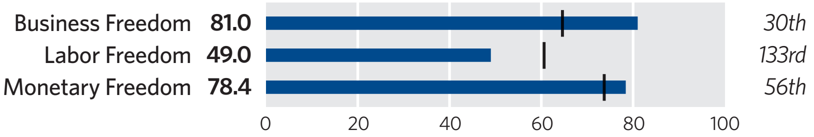
Albania still lacks a clear property rights system, particularly for land tenure. Security of land rights remains a problem in coastal areas where there is potential for tourism development. Significant reform of the legal system is ongoing, but the courts are subject to political pressure and corruption. Protection of intellectual property rights is weak. Albania is a major transit country for human trafficking and illegal arms and narcotics.

LIMITED GOVERNMENT



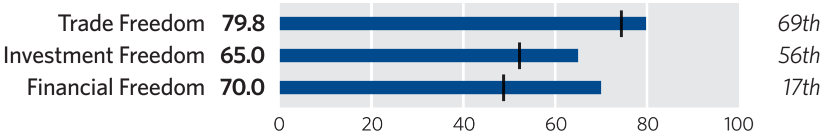
Personal and corporate tax rates are a flat 10 percent. Other taxes include a value-added tax (VAT) and an inheritance tax. The overall tax burden equals 23.3 percent of total domestic income. Government expenditures stand at 28.8 percent of GDP, and public debt, which has increased since 2007, is around 60 percent of GDP. The 2012 budget included increases in government wages and pensions, causing some concern over rising debt levels.

REGULATORY EFFICIENCY



The entrepreneurial regulatory framework has become fairly streamlined, and starting a business takes less than the world averages of seven procedures and 30 days. Minimum capital requirements are modest. Despite some reform, labor market rules remain relatively rigid. With international commodity prices stable, inflationary pressures have eased and allowed the central bank to lower interest rates to stimulate domestic demand.

OPEN MARKETS

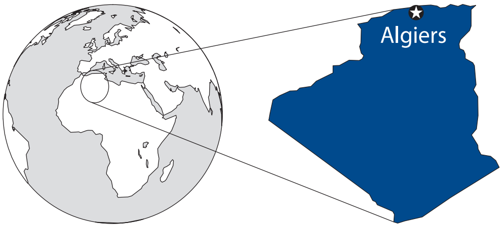


The trade-weighted average tariff rate is 5.1 percent. There are few formal non-tariff barriers, but inadequate infrastructure and administrative bureaucracy add to the cost of trade. Foreign and domestic firms are generally treated equally under the law, but there are restrictions on foreign ownership of land. Excessive bureaucracy discourages dynamic investment. Banking consists mainly of subsidiaries of foreign banks and remains relatively stable.

Score Changes

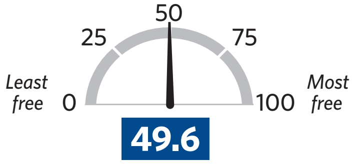
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**-5.0**	Fiscal Freedom	**+1.2**	Business Freedom	**+2.8**	Trade Freedom	**0**
Freedom from Corruption	**-2.0**	Government Spending	**+5.6**	Labor Freedom	**-2.0**	Investment Freedom	**0**
				Monetary Freedom	**-0.2**	Financial Freedom	**0**

ALGERIA



World Rank: **145** Regional Rank: **14**

Economic Freedom Score



Algeria's economic freedom score is 49.6, making its economy the 145th freest in the 2013 *Index*. Its overall score is 1.4 points lower than last year, due in part to worsened government spending and business freedom scores and a reduction in trade freedom. Algeria is ranked 14th among the 15 countries in the Middle East and North Africa region, and its score remains lower than the regional and world averages.

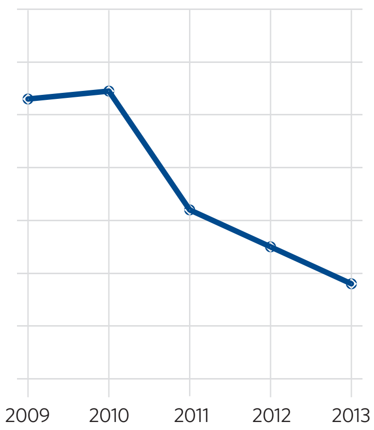
Institutional weaknesses continue to undermine prospects for sustained long-term economic development in Algeria. The foundations of economic freedom remain fragile due to corruption and an inefficient judicial system that is vulnerable to political interference. Lingering political uncertainty and a negative attitude toward foreign investment hamper fuller integration into the world economy, and policies to promote or sustain reform measures have been neglected or even reversed.

The government has made little progress in improving fiscal governance. In light of social unrest in early 2011, several emergency fiscal measures, including temporary suspension of some taxes, were introduced. Policies to enhance regulatory efficiency and maintain open markets for the development of a more dynamic private sector have not advanced.

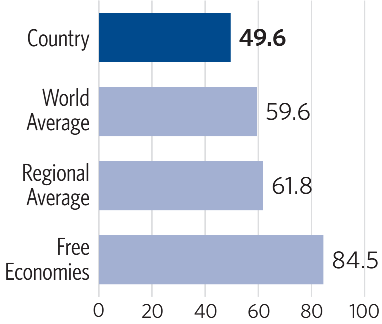
BACKGROUND: President Abdelaziz Bouteflika, who came to power in 1999 with military backing, was elected to a third term in 2009 in an election criticized for irregularities and boycotted by some parties. After the "Arab Spring" protests swept neighboring Tunisia and Libya, the government introduced some political reforms, among them an end to the state-of-emergency restrictions that had lasted almost two decades. Nevertheless, much necessary political reform remains undone. The socialist model adopted after Algeria gained its independence from France in 1962 has hampered development. Algeria is the world's fourth-largest exporter of natural gas and has the world's eighth-largest natural gas reserves and 16th-largest oil reserves. In 2010, the government began a five-year, $286 billion program to modernize infrastructure. It has tried to attract foreign and domestic private investment in non-energy sectors. Unemployment is persistently high.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



Quick Facts

Population: 36.0 million

GDP (PPP): $263.7 billion

2.5% growth in 2011

5-year compound annual growth 2.7%

$7,333 per capita

Unemployment: 10.0%

Inflation (CPI): 4.5%

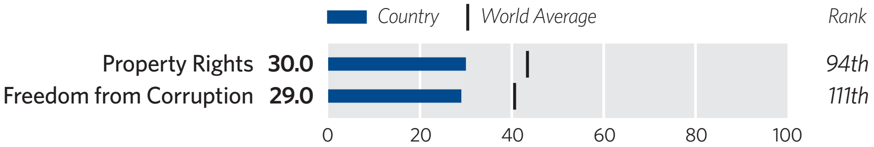
FDI Inflow: $2.6 billion

Public Debt: 9.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

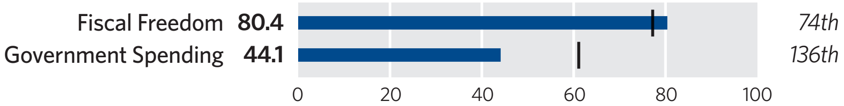
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



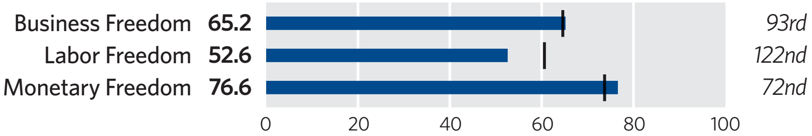
The judiciary is constitutionally independent in theory but not in practice. The courts are slow, and procedures are largely opaque. Implementation and enforcement of legislation protecting copyright and related rights, trademarks, patents, and integrated circuits are inconsistent. Many citizens view corruption within the upper reaches of government as a problem. Efforts are underway to root out corruption in the customs services.

LIMITED GOVERNMENT



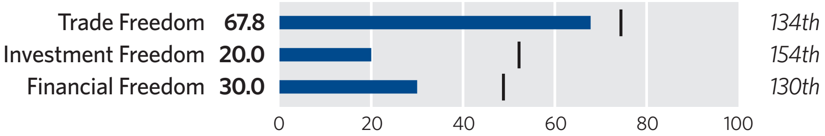
The top income tax rate is 35 percent. The top corporate tax rate is 25 percent for the services sector, and production and tourism are taxed at 19 percent. Other major taxes include a value-added tax (VAT). The overall tax burden is equal to 10.4 percent of total domestic income. Public debt is equivalent to about 10 percent of the size of the economy, and government spending amounts to 43.1 percent of GDP.

REGULATORY EFFICIENCY



Despite some progress in enhancing the business environment, significant bureaucratic impediments to entrepreneurial activity and economic development persist. The labor market remains rigid, contributing to high youth unemployment. The government uses price ceilings, tariffs, and redistribution schemes to control prices, but inflationary pressures have increased due to the rising cost of grain and other agricultural commodities.

OPEN MARKETS

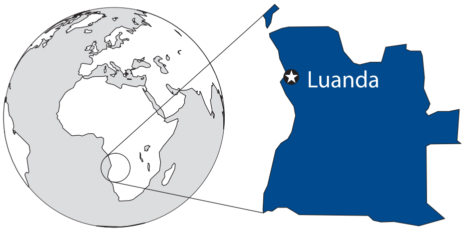


The trade-weighted average tariff rate is 8.6 percent, and sectoral barriers impede imports of meat, earth-moving equipment, and other products. Algeria screens proposals for new foreign investments and requires that a majority share of those that are approved be domestically owned. Capital markets are underdeveloped; private banks have grown, but the financial sector remains dominated by public banks.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-2.5	Business Freedom	-1.1	Trade Freedom	-5.0
Freedom from Corruption	0	Government Spending	-3.8	Labor Freedom	-1.8	Investment Freedom	0
				Monetary Freedom	+0.3	Financial Freedom	0

ANGOLA



World Rank: 158 **Regional Rank: 40**

Angola's economic freedom score is 47.3, making its economy the 158th freest in the 2013 *Index*. Its overall score has improved by 0.6 point, primarily because of better performance in government spending, trade freedom, and freedom from corruption. Angola is ranked 40th out of 46 countries in the Sub-Saharan Africa region, and its score remains far below world and regional averages.

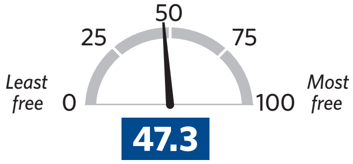
Angola's economic performance has improved since the end of the country's civil conflict about a decade ago. Robust economic growth, facilitated by the booming oil industry, has encouraged economic rebuilding and helped to sustain macroeconomic stability. Structural reforms have progressed in areas such as modernization of the regulatory environment.

However, pervasive corruption and the lack of capable public institutions continue to undermine the successful implementation of other important reform policies. Tariff and non-tariff barriers, coupled with burdensome investment regulations, hamper development of a more dynamic private sector and interfere with diversification of the country's economic base.

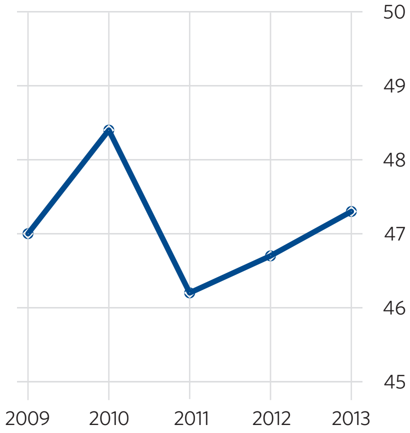
BACKGROUND: José Eduardo dos Santos has been president of Angola for over three decades. His party, the Popular Movement for the Liberation of Angola (MPLA), was scheduled to face parliamentary elections in August 2012, only the second such elections since the end of the 27-year civil war in 2002. A new constitution adopted in February 2010 eliminated executive elections and made the prime minister a vice president under presidential authority; the president will be selected by the party that wins the parliamentary elections. Angola is Africa's second-largest oil producer. It also has many other natural resources, including gas, diamonds, good hydroelectric potential, and rich agricultural land. Nonetheless, Angolans remain largely poor and dependent on subsistence agriculture. Corruption and public-sector mismanagement are endemic, particularly in the oil sector, which accounts for approximately 85 percent of GDP and 80 percent of government revenue.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

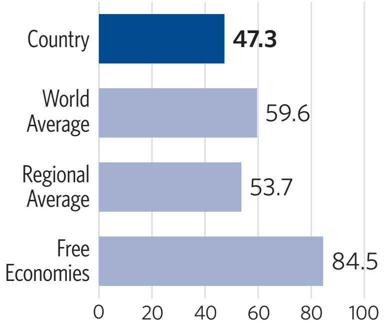
Economic Freedom Score



Freedom Trend



Country Comparisons



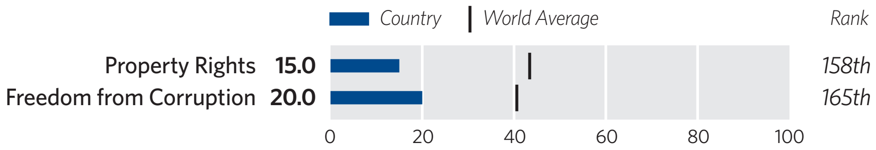
Quick Facts

Population: 19.6 million
GDP (PPP): $115.7 billion
3.4% growth in 2011
5-year compound annual growth 8.8%
$5,895 per capita
Unemployment: n/a
Inflation (CPI): 13.5%
FDI Inflow: –$5.7 billion
Public Debt: 30.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

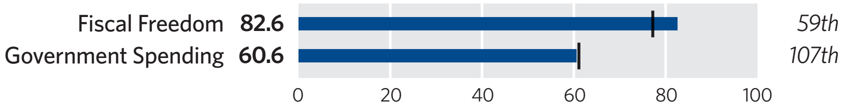
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



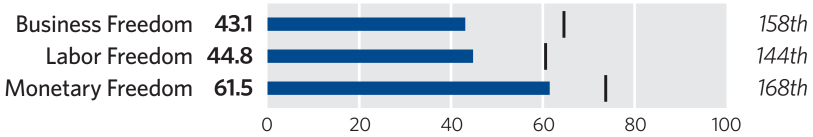
Use of the judicial system is discouraged by time-consuming procedures and the appearance of extensive executive influence on outcomes. Legal fees and property registration can be prohibitively expensive, and the overall protection of property rights is weak. Corruption is widespread among government officials at all levels. Investigations and prosecutions of misconduct by government officials are rare.

LIMITED GOVERNMENT



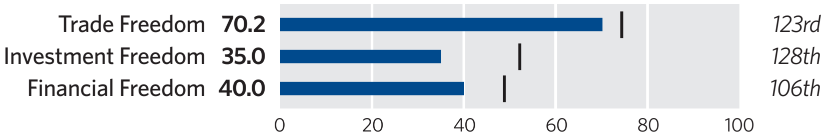
The top income tax rate is 17 percent. The top corporate tax rate is 35 percent, though the mining and oil industries are subject to rates as high as 50 percent. Other taxes include a fuel tax and a consumption tax. The overall tax burden equals 14.9 percent of total domestic income. Government spending is 36.3 percent of GDP. The budget surplus is large due to oil revenue, but accounting shortfalls have created fiscal uncertainty. Public debt is moderate.

REGULATORY EFFICIENCY



A more streamlined licensing process has made it easier to start a business, but the overall regulatory environment is still not conducive to entrepreneurial activity. The formal labor market is not fully developed. Key sectors remain government-owned, and price controls are pervasive in many sectors, including fuel and electricity. Lower global commodity prices have eased inflationary pressures somewhat.

OPEN MARKETS

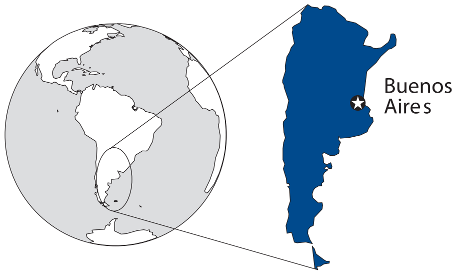


Customs procedures have been modernized, but tariff and non-tariff barriers to trade persist. Foreign investment is hindered by requirements for government approval in many industries. The banking sector has more than 20 banks in operation and continues to grow. Public utilization of banking services, however, remains low; only about 10 percent of the population maintains bank accounts. The capital market is underdeveloped.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**-5.0**	Fiscal Freedom	**-1.5**	Business Freedom	**-2.4**	Trade Freedom	**+5.0**
Freedom from Corruption	**+1.0**	Government Spending	**+7.4**	Labor Freedom	**+0.9**	Investment Freedom	**0**
				Monetary Freedom	**+0.3**	Financial Freedom	**0**

ARGENTINA



World Rank: **160** Regional Rank: **27**

Argentina's economic freedom score is 46.7, making its economy the 160th freest in the 2013 *Index*. Its overall score has decreased by 1.3 points. With lower scores on six of the 10 economic freedoms including property rights and government spending, Argentina now ranks 27th out of 29 countries in the South and Central America/Caribbean region, and its overall score is far below the regional and world averages.

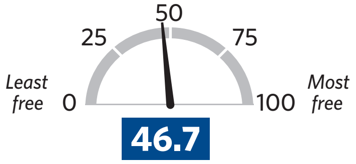
The foundations of economic freedom in Argentina are increasingly fragile, severely hampered by structural and institutional problems caused by growing government intrusion into the marketplace. The judicial system has become more vulnerable to political interference, and corruption is prevalent.

The policy mix of harsh capital controls, restrictions on imports, and a series of nationalizations has severely undercut economic freedom. Regulatory pressure on the private sector has continued to rise, with populist spending measures and price controls further distorting markets. The central bank's independence was essentially destroyed in 2012 when its charter was changed to allow the government unlimited use of the bank's reserves to pay its debts. Efforts to reform the rigid labor market have long been stalled.

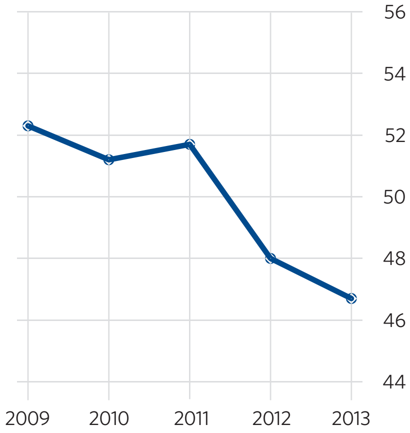
BACKGROUND: Under President Cristina Fernández de Kirchner, respect for markets and the rule of law has deteriorated and corruption has boomed. Mrs. Kirchner has strengthened ties to regional strongmen such as Venezuela's Hugo Chávez and the Castro brothers in Cuba and threatened the right of self-determination on the U.K.'s Falkland Islands. The government's seizure of nearly $30 billion in private pension funds in 2008, failure to settle with creditors since the 2002 default, and expropriation of Spanish oil company Repsol's YPF subsidiary in 2012 have severely damaged the country's investment profile. The end of central bank independence has also disturbed investors. Although the economy has benefited from booming commodity prices, Mrs. Kirchner's pursuit of expansionary fiscal and monetary policies has fueled already high inflation.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

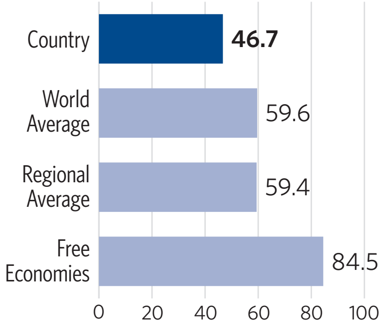
Economic Freedom Score



Freedom Trend



Country Comparisons



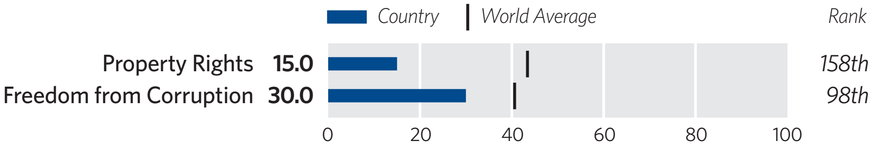
Quick Facts

Population: 40.9 million
GDP (PPP): $716.4 billion
8.9% growth in 2011
5-year compound annual growth 6.8%
$17,516 per capita
Unemployment: 7.2%
Inflation (CPI): 9.8%
FDI Inflow: $7.2 billion
Public Debt: 44.2% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

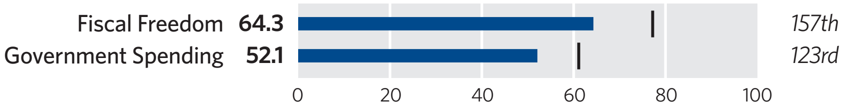
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



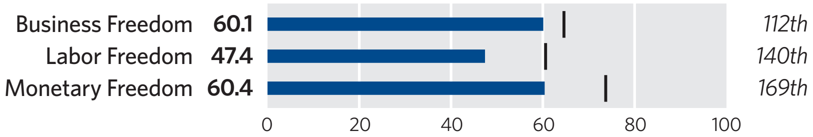
The courts are slow, inefficient, and vulnerable to corruption and executive branch influence. Patent protection is lax, and pirated copies of copyrighted products are widely available. The government manipulates official statistics. In 2011, harsh restrictions were imposed on foreign-currency transactions to protect dwindling dollar reserves. In 2012, the state expropriated the country's largest privately owned oil company.

LIMITED GOVERNMENT



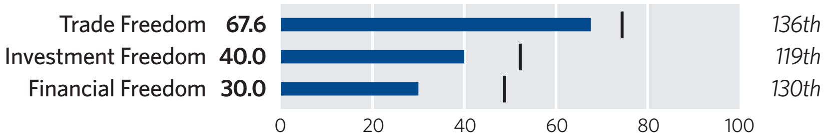
The top individual and corporate tax rates remain at 35 percent. Other taxes include a value-added tax (VAT), a wealth tax, and a tax on financial transactions. The overall tax burden now equals 33.5 percent of total domestic income. Government spending has risen to 40 percent of GDP. Public debt remains at around 44 percent of domestic income. The budget deficit has doubled over the past year due to pension nationalization and increased subsidies.

REGULATORY EFFICIENCY



The business environment has deteriorated as bureaucratic interference has increasingly undermined efficiency and productivity growth. The labor market remains rigidly controlled. The government regulates prices of electricity, water, and retail-level gas distribution, pressuring companies to fix prices and wages. Official government statistics on inflation are not trustworthy.

OPEN MARKETS

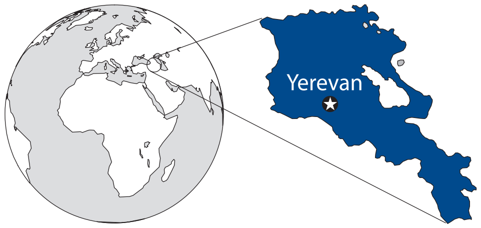


A variety of restrictive non-tariff barriers reduce trade freedom. Hostility to foreign investment persists, and through an emergency decree to bypass Congress the state has increased its voting rights in partially government-owned companies. The financial system remains hobbled by state interference and uncertainty about the direction of economic policies. State-owned banks play a dominant role, reducing competition in the sector.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**-5.0**	Fiscal Freedom	**-1.2**	Business Freedom	**-0.9**	Trade Freedom	**0**
Freedom from Corruption	**+1.0**	Government Spending	**-4.8**	Labor Freedom	**-1.5**	Investment Freedom	**0**
				Monetary Freedom	**-0.3**	Financial Freedom	**0**

ARMENIA



World Rank: **38** Regional Rank: **17**

Armenia's economic freedom score is 69.4, making its economy the 38th freest in the 2013 *Index*. Its overall score has increased by 0.6 point from last year, mainly reflecting the better management of public spending. Armenia is ranked 17th among the 43 countries in the Europe region, and its score puts it above the world and regional averages.

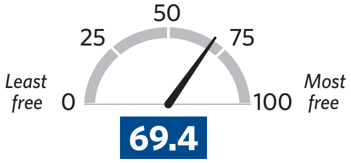
Considerable diversification of the economic base has increased economic dynamism in Armenia, and a decade of strong economic growth has reduced poverty and unemployment rates. Regulatory efficiency has been facilitated by a broad simplification of business procedures. Following expansionary fiscal policies in recent years, steps have been taken to limit the cost of government through more prudent public finance management.

Although Armenia performs relatively well in many categories of economic freedom, stronger foundations are needed in areas like judicial independence and government transparency. Despite progress in tackling corruption, particularly within the tax and customs administrations, the close relationships within political and business circles raise concerns about cronyism and undue influence by vested interests.

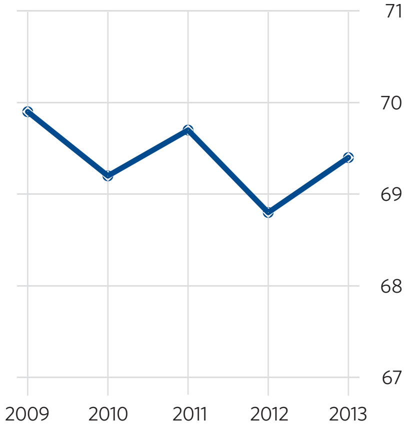
BACKGROUND: Armenia achieved independence from the Soviet Union in 1991. A cease-fire in its 24-year dispute with Azerbaijan over the Nagorno–Karabakh region has been in effect since 1994, but minor hostilities continue, and Armenia's borders with Azerbaijan and Turkey remain closed. Serzh Sargsyan of the center-right Republican Party has been president since 2008. The Republican Party won 44.8 percent of the vote in the March 2012 parliamentary election. Armenia's economy relies on manufacturing, services, remittances, and agriculture. After a brief downturn in 2009, growth returned in 2010. The eurozone financial crisis remains a drag on the economy. The government, which relies heavily on loans from the World Bank, the International Monetary Fund, the Asian Development Bank, and Russia, is running a moderate budget deficit.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

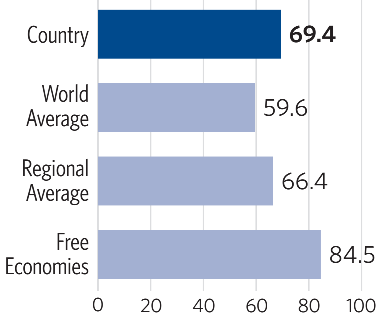
Economic Freedom Score



Freedom Trend



Country Comparisons



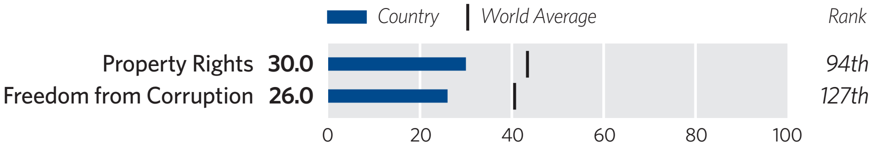
Quick Facts

Population: 3.3 million
GDP (PPP): $17.9 billion
4.4% growth in 2011
5-year compound annual growth 2.2%
$5,384 per capita
Unemployment: 5.9%
Inflation (CPI): 7.7%
FDI Inflow: $524.6 million
Public Debt: 35.1% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

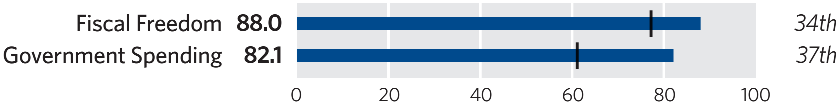
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



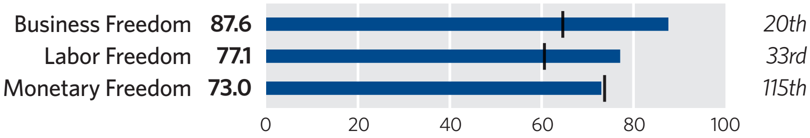
Armenia lacks dependable enforcement of the rule of law. Its scores for property rights and freedom from corruption are well below world averages. The judicial system is still recovering from underdevelopment and corruption, legacies of the Soviet era that substantially impede the enforcement of contracts. Anti-corruption measures have not been enforced effectively. Protection of intellectual property rights is poor.

LIMITED GOVERNMENT



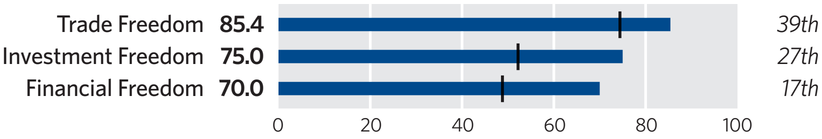
The top income and corporate tax rates are 20 percent. Other taxes include a value-added tax (VAT) and excise taxes. The overall tax burden amounts to 20 percent of total domestic income. Government spending has moderated at 24.4 percent of total domestic output. The budget deficit has fallen to 2.7 percent of GDP, and public debt has been reduced to around 35 percent of GDP.

REGULATORY EFFICIENCY



The regulatory framework is relatively efficient. The minimum capital requirement for starting a business has been eliminated, and bankruptcy procedures have been modernized. The non-salary cost of labor is moderate, but the informal labor market is sizable. State subsidies distort prices in sectors like public transportation, electricity, and gas. Inflationary pressures have increased due to the rising cost of grain from principal supplier Russia.

OPEN MARKETS

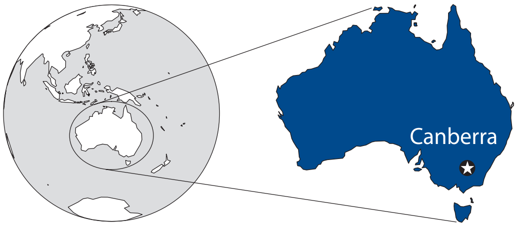


The trade-weighted tariff rate is 2.3 percent. There are few formal non-tariff barriers, but inefficient customs administration raises the cost of trade. Foreign and domestic investors are treated equally and have the same right to establish businesses in nearly all sectors. The state no longer has a stake in any bank, but the banking sector, which accounts for over 90 percent of total financial-sector assets, still struggles to provide adequate long-term credit.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-1.3	Business Freedom	-0.2	Trade Freedom	0
Freedom from Corruption	0	Government Spending	+7.2	Labor Freedom	+0.5	Investment Freedom	0
				Monetary Freedom	-0.1	Financial Freedom	0

AUSTRALIA



World Rank: **3** Regional Rank: **3**

Australia's economic freedom score is 82.6, making its economy the 3rd freest in the 2013 *Index*. Its overall score is 0.5 point lower than last year, with score gains in freedom from corruption and business freedom offset by declines in labor freedom and the management of government spending. Australia is ranked 3rd out of 41 countries in the Asia–Pacific region, and its score is well above the regional and world averages.

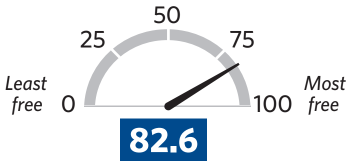
Australia's strong commitment to economic freedom has resulted in a policy framework that encourages impressive economic resilience. A well-functioning independent judiciary ensures strong protection of property rights, and corruption is minimal. Openness to global trade and investment is firmly institutionalized, and the economy has rebounded relatively quickly from the global recession.

The financial system has remained stable, and prudent regulations have allowed banks to withstand the global financial turmoil with little disruption. Public finances are soundly managed, and sovereign debt levels are under control. A transparent and stable business climate makes Australia one of the world's most reliable and attractive environments for entrepreneurs.

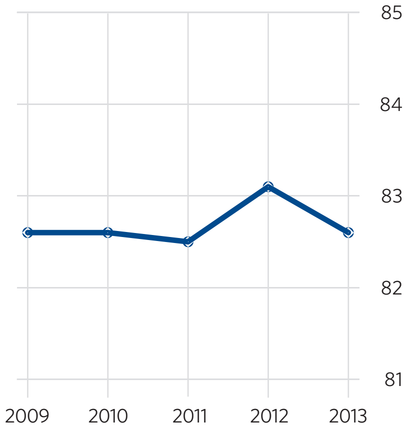
BACKGROUND: Australia is one of the world's least densely populated countries and one of the most urbanized, with most of the population concentrated in coastal cities. Since the early 1980s, successive Labor and Liberal governments have deregulated financial and labor markets and reduced trade barriers. Prime Minister Julia Gillard, leader of the Labor Party, heads a minority government in a closely divided parliament. Australia is one of the Asia–Pacific's richest countries and has enjoyed economic expansion for over two decades. It came through the global recession relatively unscathed, but stimulus spending by the Labor government has led the country into deficit. Passage of a carbon tax raises doubts about future growth prospects. Australia is internationally competitive in services, technologies, and high-value-added manufactured goods. Exports remain heavily focused on mining and agriculture.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

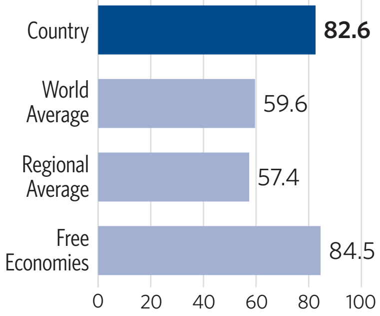
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

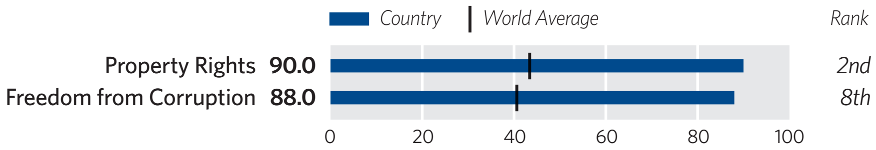
Population: 22.7 million
GDP (PPP): $914.5 billion
2.0% growth in 2011
5-year compound annual growth 2.6%
$40,234 per capita
Unemployment: 5.1%
Inflation (CPI): 3.4%
FDI Inflow: $41.3 billion
Public Debt: 22.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

AUSTRALIA (continued)

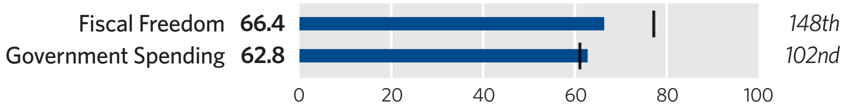
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



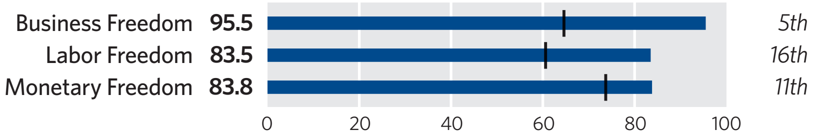
Australia's judicial system operates independently and impartially. Property rights are secure, and enforcement of contracts is reliable. Expropriation is highly unusual. Protection of intellectual property rights is consistent with world standards. Effective anti-corruption measures discourage bribery of public officials and reinforce a tradition of clean government.

LIMITED GOVERNMENT



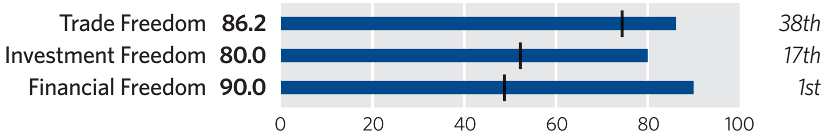
Fiscal policy has been relatively stable. The top income tax rate is 45 percent, and the flat corporate tax rate is 30 percent. Other taxes include a value added tax (VAT) and a capital gains tax. The overall tax burden is equivalent to about 26 percent of GDP. A new carbon tax ensures escalating prices over three years. Government spending amounts to 35.2 percent of total domestic output. Public debt remains low but has risen to 24 percent of GDP.

REGULATORY EFFICIENCY



Australia's regulatory environment, one of the world's most transparent and efficient, is highly conducive to entrepreneurship. It takes only two days to launch a business. The labor market remains flexible, and unemployment is a relatively low 5 percent. Modest inflation allows the Reserve Bank of Australia flexibility to adjust interest rates. Reforms are reducing the range of goods that are subject to price controls.

OPEN MARKETS

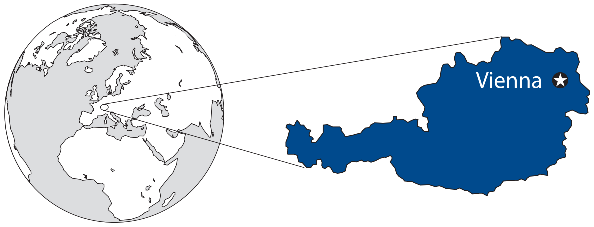


Tariffs are low as a result of negotiated trade agreements and unilateral tariff cuts. Foreign and domestic investors receive equal treatment, but foreign investments above a certain threshold may be screened. The well-developed financial sector is highly competitive and sound; all banks are privately owned. Since late 2010, banking reforms have fostered transparency and competition in the sector.

Score Changes

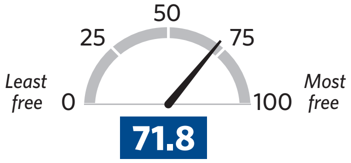
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+3.0	Business Freedom	+3.6	Trade Freedom	0
Freedom from Corruption	+1.0	Government Spending	-4.3	Labor Freedom	-7.1	Investment Freedom	0
				Monetary Freedom	-0.7	Financial Freedom	0

AUSTRIA



World Rank: **25** Regional Rank: **14**

Economic Freedom Score



Austria's economic freedom score is 71.8, making its economy the 25th freest in the 2013 *Index*. Its score is 1.5 points better than last year due to improved scores for government spending, business freedom, and investment freedom. Austria is ranked 14th out of 43 countries in the Europe region, and its overall score is well above the regional and world averages.

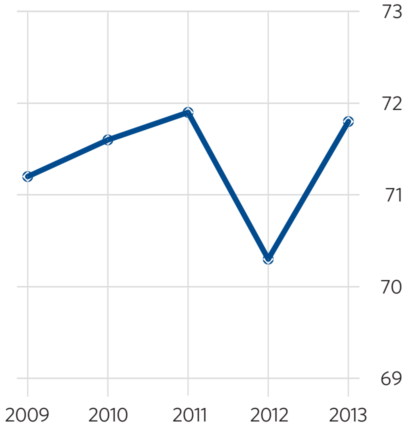
Though comparatively small, the Austrian economy is highly globalized and resilient. It recovered quickly from the recent global financial crisis and continues to support high levels of prosperity. Openness to global trade and investment is firmly institutionalized and supported by a relatively efficient entrepreneurial framework. Austria has a strong tradition of reliable property rights protection, and the legal system is transparent and evenly applied. Effective anti-corruption measures are in force.

The greatest hindrance to Austria's entrepreneurial vitality continues to be the disregard, even dismissal, of the concept of limited government. Though the corporate tax rate is comparatively low, individuals face a burdensome income tax rate of 50 percent and various other indirect taxes. Austria's fiscal condition compares favorably to its eurozone neighbors, but public spending has become excessive and unsustainable.

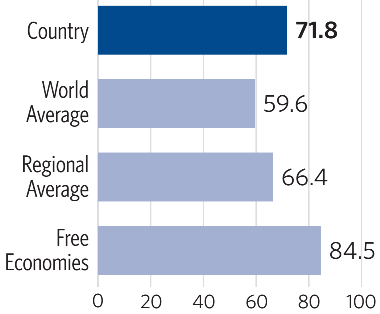
BACKGROUND: After the 2008 parliamentary elections, the center-left Social Democrats formed a governing coalition with the center-right Austrian People's Party, and Social Democrat Werner Faymann became chancellor. The Austrian government has gradually relinquished control of formerly nationalized oil, gas, steel, and engineering companies and has deregulated telecommunications and electricity. The economy has large service and industrial sectors and a small but highly developed agricultural industry. Austria joined the European Union in 1995, and the EU is the destination for 80 percent of Austria's exports. With such a large percentage of exports dependent on the EU, the eurozone crisis has affected the Austrian economy, which continues to grow but at a slow pace.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



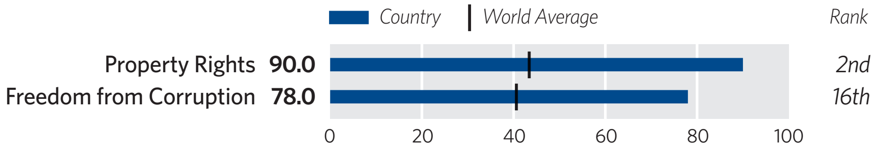
Quick Facts

Population: 8.4 million
GDP (PPP): $352 billion
3.1% growth in 2011
5-year compound annual growth 1.3%
$41,822 per capita
Unemployment: 4.5%
Inflation (CPI): 3.6%
FDI Inflow: $14.1 billion
Public Debt: 72.2% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

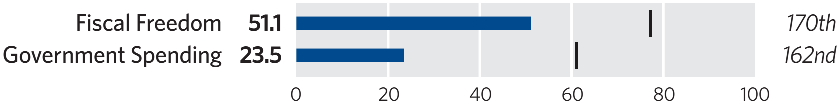
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



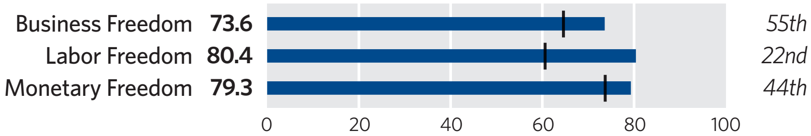
The rule of law is respected, and the judiciary is independent. Contractual agreements are enforced effectively, and the protection of intellectual property is strong. Instances of corruption have been prosecuted effectively. A high degree of transparency is a key institutional strength, and revamped criminal regulations against corruption have permitted continued effective enforcement of rules against bribery.

LIMITED GOVERNMENT



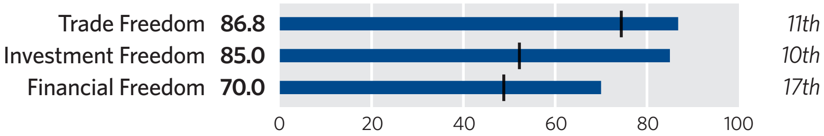
The top income tax rate is 50 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a tax on real estate transfers. The overall tax burden is 42 percent of total domestic income. Government spending amounts to 50.5 percent of total domestic output, leading to a higher budget deficit at 4.6 percent of GDP and public debt equivalent to 72.2 percent of GDP.

REGULATORY EFFICIENCY



An efficient regulatory framework facilitates business innovation and productivity growth. Nonetheless, the absence of major regulatory reforms in recent years has undermined Austria's international competitiveness. There is no nationally mandated minimum wage, but the cost of fringe benefits is among the highest in the world. Average inflation has risen slightly but remains below the averages for the eurozone and the EU.

OPEN MARKETS



Austria's trade policy is the same as that of other members of the European Union, with the common EU weighted average tariff rate standing at 1.6 percent. However, myriad non-tariff barriers increase the cost of trade. The investment regime is efficient, and there are no controls on currency transfers, access to foreign exchange, or repatriation of profits. The financial sector remains competitive and stable, offering a wide range of financial services.

Score Changes

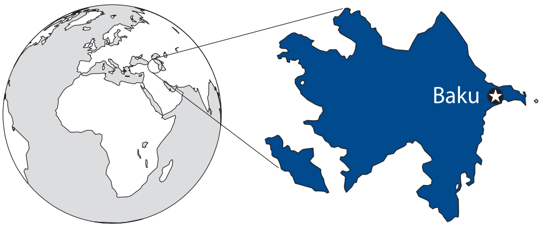
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-1.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.6
Government Spending	+8.1

REGULATORY EFFICIENCY	
Business Freedom	+3.3
Labor Freedom	+2.3
Monetary Freedom	-2.9

OPEN MARKETS	
Trade Freedom	-0.4
Investment Freedom	+5.0
Financial Freedom	0

AZERBAIJAN



World Rank: **88** Regional Rank: **14**

Azerbaijan's economic freedom score is 59.7, making its economy the 88th freest in the 2013 *Index*. Its overall score is 0.8 point higher than last year, reflecting improved scores in the management of public finance and property rights. Azerbaijan is ranked 14th out of 41 countries in the Asia–Pacific region, and its overall score is above the regional and global averages.

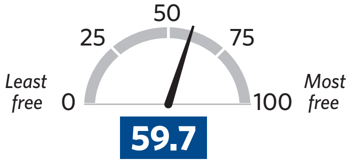
Azerbaijan's strong economic growth has been driven mainly by development of the energy sector. Substantial challenges to diversification and sustainable growth remain, and deeper systemic reforms are critically needed to strengthen the foundations of economic freedom. Despite some improvement, property rights are weak, and the level of corruption continues to be substantial. Government regulations add to the costs of foreign investment, and monetary instability adds to uncertainty.

Openness to global trade, recent tax reforms, and some improvements in regulatory efficiency have aided Azerbaijan's transition to a more market-based system. Continued transformation and restructuring are needed, both to capitalize on the well-educated labor force and to broaden the production base.

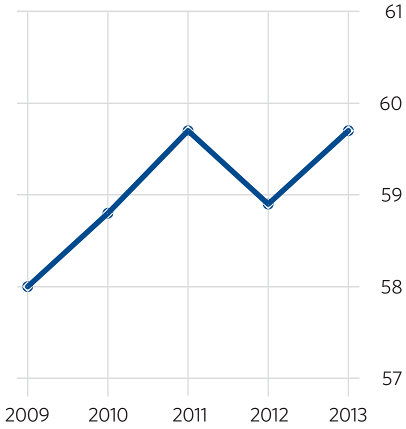
BACKGROUND: Azerbaijan's continuing dispute with Armenia over Nagorno–Karabakh has cost tens of thousands of lives and the loss of a fifth of Azerbaijan's territory. A constitutional amendment abolishing presidential term limits, passed by referendum in 2009, allows President Ilham Aliyev to seek a third term in 2013. In 2011, the government cracked down on protests and jailed leading opposition figures. Economic growth almost halted in 2011, but expanded oil and gas production and increased private investment and consumption reflect growing investor confidence. Azerbaijan has increased its gas exports to Russia to 3 billion cubic meters per year. In June 2012, Turkey and Azerbaijan agreed to build the Trans-Anatolian Natural Gas Pipeline, which would ease Europe's dependence on Russian gas. World Trade Organization accession negotiations are ongoing.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

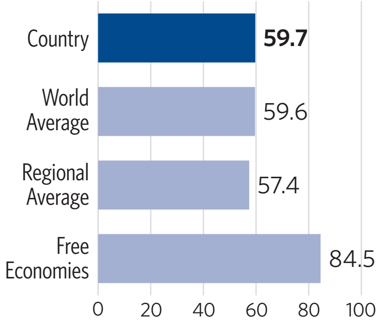
Economic Freedom Score



Freedom Trend



Country Comparisons



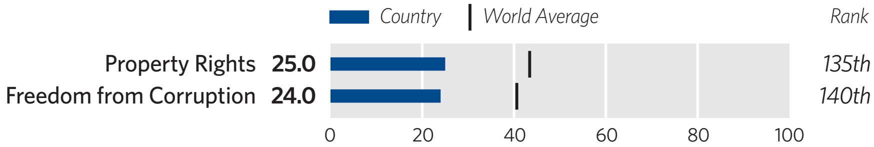
Quick Facts

Population: 9.1 million
GDP (PPP): $93.1 billion
0.1% growth in 2011
5-year compound annual growth 9.7%
$10,202 per capita
Unemployment: 1.0%
Inflation (CPI): 7.9%
FDI Inflow: $1.5 billion
Public Debt: 10.2 % of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

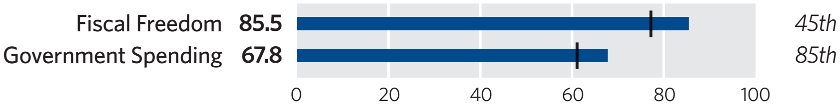
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



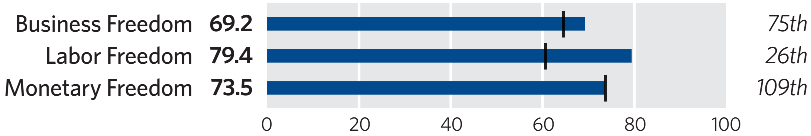
The judiciary is burdened by extensive non-transparent regulations and interference from the executive. Contract enforcement can be lax. Despite some progress, corruption continues to cause concern. The judiciary and police are susceptible to bribery, and businesses abuse their relations with government to gain monopoly control of major industries. The property registration system is awash with bureaucratic requirements.

LIMITED GOVERNMENT



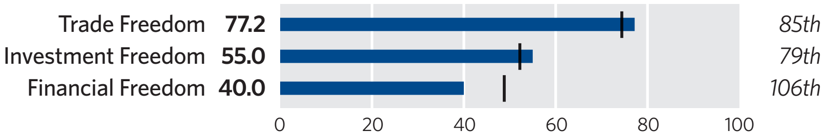
The top individual income tax rate is 30 percent, and the top corporate tax rate is 20 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals 12.4 percent of total domestic income. Government spending has fallen to 32.8 percent of GDP. Large revenues from the energy sector enable budget surpluses, but strong growth in the non-energy sector has also encouraged fiscal health. Public debt remains low.

REGULATORY EFFICIENCY



Despite progress in streamlining the process for launching a business, other time-consuming requirements reduce regulatory efficiency. Completing licensing requirements takes more than 150 days. Labor regulations have become relatively more flexible, but enforcement of the labor code remains uneven. Inflation has risen, partly as a result of customs restrictions that limit import competition.

OPEN MARKETS

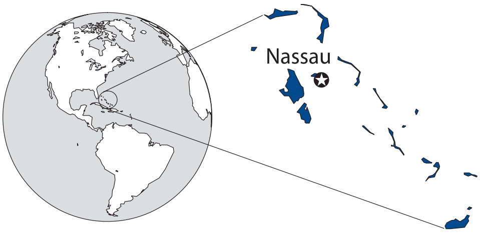


The trade-weighted average tariff rate is 3.9 percent, and non-tariff barriers such as arbitrary customs administration raise the cost of trade. Foreign investment is allowed in most sectors, but bureaucratic controls and lack of transparency hinder dynamic investment growth. The financial sector weathered the recent crisis relatively well, but the banking sector is dominated by a large state bank, and small private banks remain fragmented and inefficient.

Score Changes

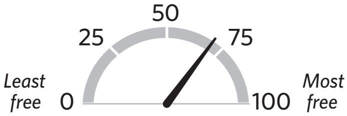
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	+5.0	Fiscal Freedom	+0.6	Business Freedom	+0.6	Trade Freedom	0
Freedom from Corruption	0	Government Spending	+4.1	Labor Freedom	-2.2	Investment Freedom	0
				Monetary Freedom	-1.0	Financial Freedom	0

THE BAHAMAS



World Rank: **35** Regional Rank: **3**

Economic Freedom Score



70.1

The Bahamas' economic freedom score is 70.1, making its economy the 35th freest in the 2013 *Index*. Its overall score has increased by 2.1 points, with notable gains in freedom from corruption and trade freedom. The Bahamas' overall score has become competitively higher than the regional and world averages, and the island economy is the third freest out of 29 countries in the South and Central America/Caribbean region.

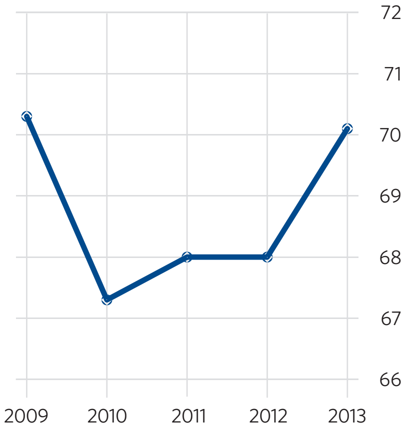
The Bahamas registered one of the largest increases in economic freedom this year. The foundations of economic freedom have been enhanced, and the perceived level of corruption declined significantly. A modest reduction of high tariff rates has opened the economy more fully to global trade, advancing competitiveness.

The Bahamas' overall regulatory system is conducive to entrepreneurial activity, and there are no individual or corporate income taxes. However, the emergence of a more dynamic private sector is still held back by crime, lingering protectionism, and bureaucracy that undermines the investment environment.

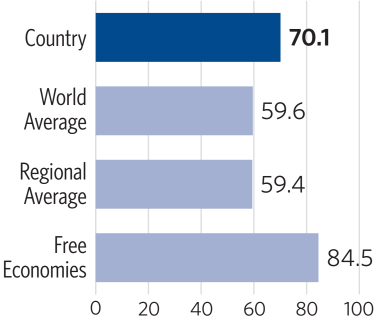
BACKGROUND: The Bahamas is a British-style parliamentary democracy with two principal political parties. In May 2012, former Prime Minister Perry Christie led the Progressive Liberal Party back to power by defeating Prime Minister Hubert Ingraham's Free National Movement. The Bahamas is one of the Caribbean's most prosperous nations. Tourism generates about half of all jobs, accounts for more than 60 percent of GDP, and, after dropping sharply during the 2008–2009 global economic recession, has recovered modestly. However, financial and business-services profits, which account for more than one-third of GDP, remain anemic. Stricter financial regulations have caused some international businesses to leave the country. The Bahamas is a haven for drug smugglers and illegal aliens seeking to enter the United States.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



Quick Facts

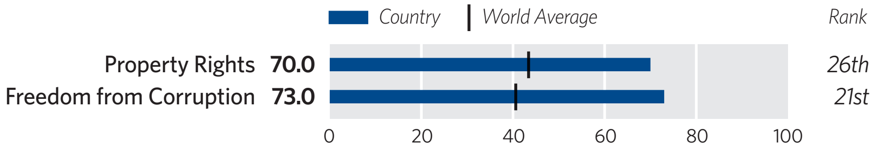
Population: 0.3 million
GDP (PPP): $10.8 billion
2.0% growth in 2011
5-year compound annual growth -0.5%
$30,959 per capita
Unemployment: 13.7%
Inflation (CPI): 2.5%
FDI Inflow: $1.5 billion
Public Debt: 48.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

THE BAHAMAS (continued)

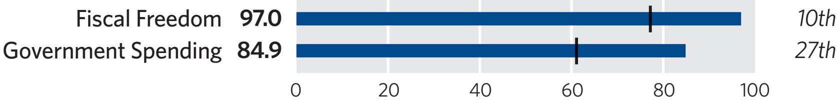
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



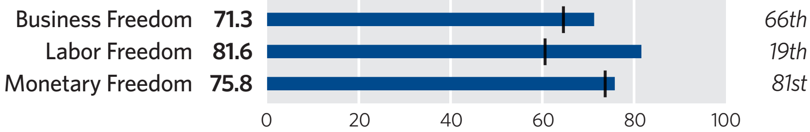
The judicial system, regarded as functioning well for the most part, is independent and based on British common law. Enforcement of laws prohibiting bribery and corruption among government officials is effective. However, the judicial process tends to be very slow. Enforcement of intellectual property rights is weak. Violent crime, often drug-related, has escalated sharply, and Internet gambling, although illegal, is pervasive.

LIMITED GOVERNMENT



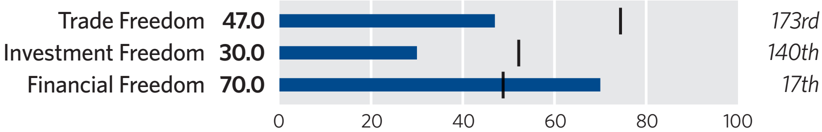
The Bahamas has one of the world's lowest tax burdens. The government imposes national insurance, property, and stamp taxes but no income tax, corporate income tax, capital gains tax, value-added tax (VAT), or wealth tax. Government spending amounts to about 22 percent of total domestic output, with deficits hovering around 4 percent of GDP. Public debt has increased to about half the size of the economy.

REGULATORY EFFICIENCY



Starting a business costs about 10 percent of the level of average annual income, and no minimum capital is required. No major reforms have been implemented in recent years. The labor market is relatively flexible, and enforcement of the labor codes is somewhat lax. Inflation has moderated, but state influence on domestic prices for such items as medicines, gasoline, and petroleum gas interferes with market adjustments.

OPEN MARKETS

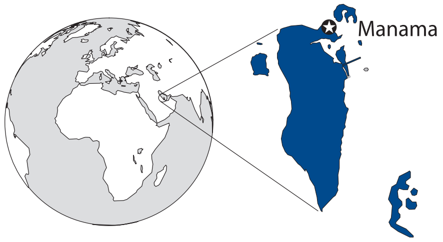


Reliance on tariffs for revenues results in an average tariff rate of 21.5 percent that is one of the world's highest. An abundance of tariff and non-tariff barriers distorts the market and is a significant burden for consumers. Intrusively bureaucratic approval processes hinder investment and undermine development of a more vibrant private sector. The well-diversified banking sector remains stable, although the number of non-performing loans has increased.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.7	Business Freedom	+0.4	Trade Freedom	+4.8
Freedom from Corruption	+18.0	Government Spending	-0.3	Labor Freedom	-1.1	Investment Freedom	0
				Monetary Freedom	-0.2	Financial Freedom	0

BAHRAIN



World Rank: 12 **Regional Rank: 1**

Bahrain's economic freedom score is 75.5, making its economy the 12th freest in the 2013 *Index*. Its overall score has increased by 0.3 point due to score improvements in freedom from corruption and monetary freedom. Bahrain is ranked 1st out of 15 countries in the Middle East/North Africa region, and its economic freedom score is well above the world average.

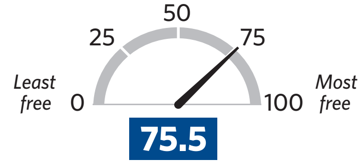
As a regional leader in economic freedom, Bahrain sets a critical example for other countries in the Middle East and North Africa. Its transition to greater openness, diversification, and modernization is based on strong foundations of economic freedom. Firmly institutionalizing the rule of law by enhancing judicial independence and transparency will be critical to stamping out lingering corruption and ensuring success in this ongoing evolution.

Despite the challenging external and internal environments, Bahrain has maintained above-average levels of economic freedom in almost every measure. It remains a financial hub for dynamic economic activity, with high levels of trade and investment bolstered by a competitive and efficient regulatory environment.

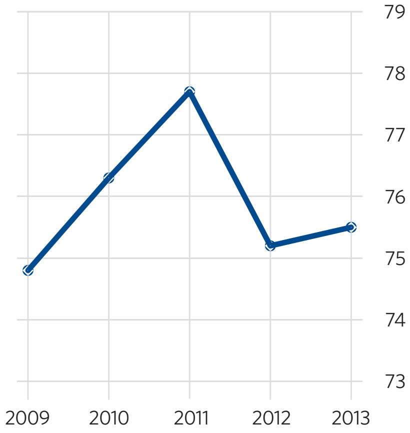
BACKGROUND: Bahrain gained its independence from Great Britain in 1971 and became a constitutional monarchy in 2002. In 2011, Shia activists demanded a new constitution and greater political power. After modest concessions and efforts at dialogue failed to stem the demonstrations, King Hamad declared an emergency and authorized a crackdown supported by security forces deployed by Gulf Cooperation Council allies. The government has sought to ease tensions through a national dialogue led by the crown prince. Efforts have been made to reduce dependence on declining oil reserves and encourage foreign investment by diversifying the economy. Home to many multinational firms that do business in the region, Bahrain has a modern communications and transportation infrastructure and a cosmopolitan outlook, as well as a free trade agreement with the U.S.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

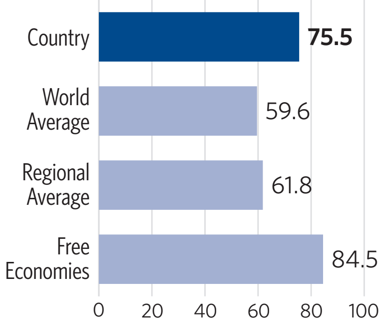
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 1.1 million

GDP (PPP): $31.1 billion

1.8% growth in 2011

5-year compound annual growth 4.8%

$27,556 per capita

Unemployment: 4.0%

Inflation (CPI): 1.0%

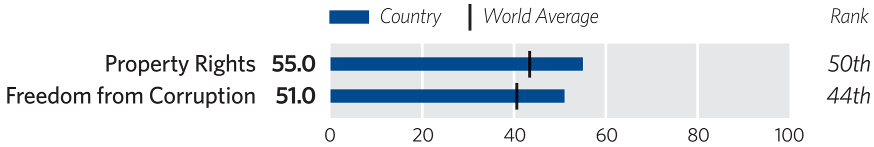
FDI Inflow: $780.9 million

Public Debt: 36.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

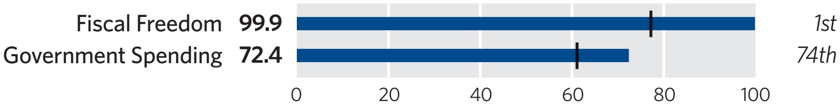
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



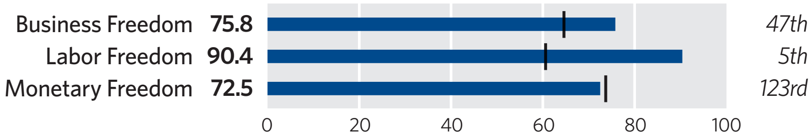
The king holds some decision-making authority within the legal system, but the judiciary is generally well regarded and unbiased. Expropriation, especially without compensation, is infrequent, and private property is secure. Martial law was lifted after social unrest in 2011, but the departure in 2012 of several reformists from key posts at the planning agency and sovereign wealth fund signals the abandonment of some economic reform plans.

LIMITED GOVERNMENT



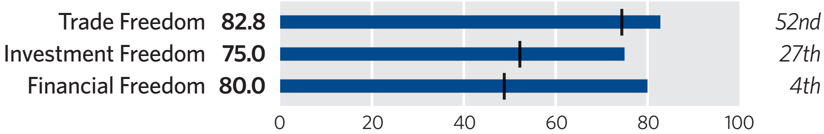
Bahrain imposes no taxes on personal income. Most companies are not subject to a corporate tax, but a 46 percent tax is levied on oil companies. Other taxes include a small stamp duty and a new tax on property purchases. Overall tax revenue is equal to 3.9 percent of GDP. Expansionary government spending, in part to help quell social unrest, has reached 30.3 percent of total domestic output. Public debt remains below 40 percent of GDP.

REGULATORY EFFICIENCY



The regulatory framework is relatively streamlined. An updated Corporate Governance Code came into force in 2011. There is no nationally mandated minimum wage, but wage increases have exceeded overall productivity growth. It is unlikely that water and electricity subsidies will be maintained in the long term, but broader reforms and privatizations are likely to be delayed until after investor confidence is restored. Inflation is low.

OPEN MARKETS

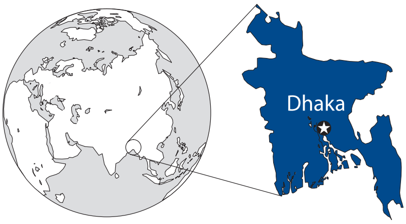


Bahrain has a low average tariff rate and relatively few non-tariff barriers. There are no restrictions on repatriation of profits or capital, no exchange controls, and no restrictions on converting or transferring funds, whether associated with an investment or not. Bahrain's diverse and competitive financial institutions account for over 25 percent of GDP. Foreign and domestic investors have access to modern financial services.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	0	Business Freedom	-0.7	Trade Freedom	0
Freedom from Corruption	+2.0	Government Spending	+0.2	Labor Freedom	-0.7	Investment Freedom	0
				Monetary Freedom	+2.1	Financial Freedom	0

BANGLADESH



World Rank: **132** Regional Rank: **28**

Bangladesh's economic freedom score is 52.6, making its economy the 132nd freest in the 2013 *Index*. Its overall score has decreased by 0.6 point since last year, reflecting declines in labor freedom and monetary freedom that counterbalance a notable improvement in freedom from corruption. Bangladesh is ranked 28th out of 41 countries in the Asia–Pacific region.

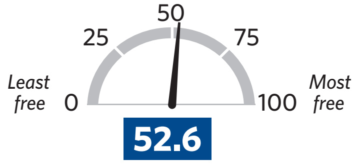
Although Bangladesh has recorded significant increases in economic freedom over the past five years, economic development remains hampered by the fragile rule of law. Corruption and marginal enforcement of property rights have driven people and enterprises out of the formal sector. Poor economic management, worsened by repeated political crises, has severely constrained economic dynamism and exacerbated persistent poverty.

Despite some progress in streamlining business regulations, entrepreneurial activity is hampered by an uncertain regulatory environment and the absence of effective long-term institutional support for private-sector development. The government's inability to provide basic public goods further limits economic opportunities for business development and job growth.

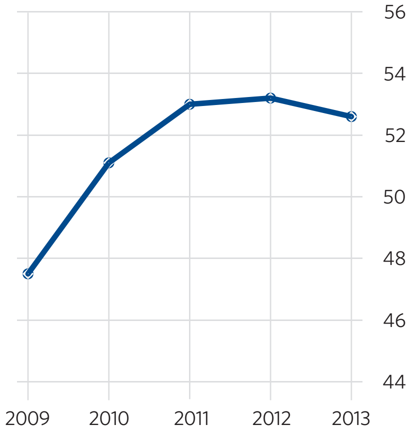
BACKGROUND: Islamist extremist groups threaten Bangladesh's democracy and pluralist traditions, but the current government, led by Prime Minister Sheikh Hasina Wajed, has taken steps to curb their activities. The opposition Bangladesh National Party fueled political and economic uncertainty in 2010 with street protests against a constitutional amendment to reverse the 15-year practice of holding national elections under a neutral caretaker administration. Bangladesh is one of the world's poorest nations, and the majority of its people work in agriculture, though service industries now account for over half of GDP. Weak institutions, poverty, and too much government intervention, which leads to corruption, undermine economic development and fuel social and political unrest. Bangladesh receives relatively large inflows of remittances and around $100 million a year in aid from the United States.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

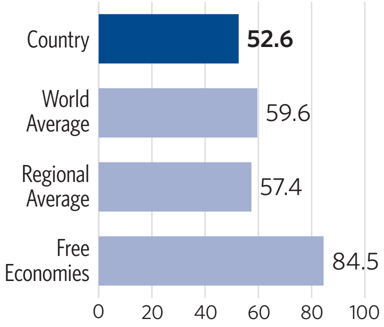
Economic Freedom Score



Freedom Trend



Country Comparisons



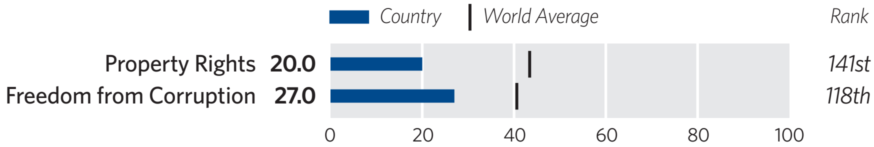
Quick Facts

Population: 166.7 million
GDP (PPP): $282.2 billion
6.1% growth in 2011
5-year compound annual growth 6.1%
$1,693 per capita
Unemployment: 5.0%
Inflation (CPI): 10.7%
FDI Inflow: $1.1 billion
Public Debt: 42.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

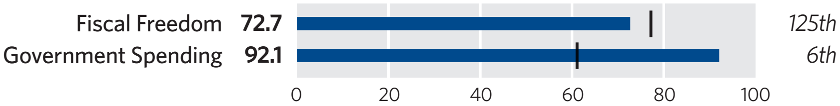
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



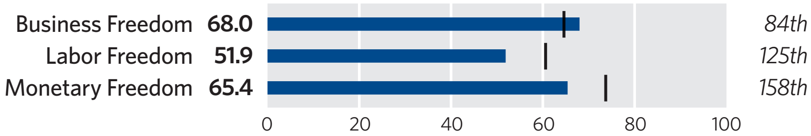
The civil court system is based on the British model, and the constitution provides for an independent judiciary, but contract enforcement and dispute settlement are inefficient. Corruption remains a serious problem. The government says it is committed to fighting corruption, but its efforts to ease public procurement rules and proposals to curb the Anti-Corruption Commission's independence may undermine institutional safeguards.

LIMITED GOVERNMENT



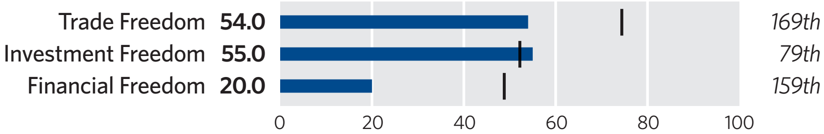
The top income tax rate is 25 percent, and the top corporate tax rate is 45 percent. Other taxes include a value-added tax (VAT) that is currently being reformed. The overall tax burden is equal to 9 percent of GDP. Government spending equals 16.2 percent of total domestic output, and public debt has declined to below 50 percent of GDP. A large bureaucracy hinders government effectiveness.

REGULATORY EFFICIENCY



Business start-up has become simpler, with required procedures reduced to seven and no minimum capital required. Obtaining necessary permits takes more than 150 days. Although a well-functioning labor market has not fully developed, labor productivity growth has been slightly higher than wage hikes. Inflationary pressure has moderated somewhat, but price-control measures remain in place.

OPEN MARKETS

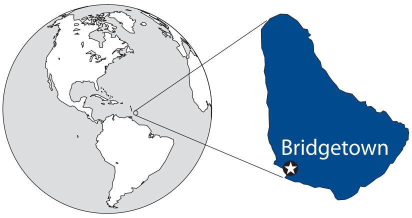


Myriad non-tariff barriers and the government's reliance on tariffs as a revenue source increase the cost of trade. Although foreign investment is welcome, potential investors face a host of challenges, including regulations that may favor domestic firms. Reform of the financial sector has been ongoing, but government ownership and interference remain considerable, undermining much-needed increases in efficiency.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.1	Business Freedom	-0.5	Trade Freedom	0
Freedom from Corruption	+3.0	Government Spending	-1.8	Labor Freedom	-4.0	Investment Freedom	0
				Monetary Freedom	-2.1	Financial Freedom	0

BARBADOS



World Rank: **39** Regional Rank: **6**

Barbados's economic freedom score is 69.3, making its economy the 39th freest in the 2013 *Index*. Its score is 0.3 point better than last year, with a significant drop in business and monetary freedoms largely offset by improvements in fiscal freedom, the management of government spending, and labor freedom. Barbados has dropped to 6th out of 29 countries in the South and Central America/Caribbean region, but its overall score remains well above the global and regional averages.

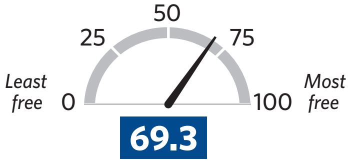
With strong foundations of economic freedom supported by relatively low levels of corruption and an efficient judiciary, the Barbados government's economic policies have attracted international companies. A high degree of regulatory efficiency facilitates private-sector growth, and offshore finance and tourism continue to be important sources of economic growth.

However, public spending has increased significantly in recent years, expanding the government's reach and influence within the economy. Chronic fiscal deficits have expanded government debt to a level that now exceeds the island's annual gross domestic product. Expansionary government stimulus spending has had little impact on high unemployment, but inflation has increased. Foreign direct investment is up, but without some indication of respect for the concept of limited government, future broad-based private-sector growth is likely to be constrained.

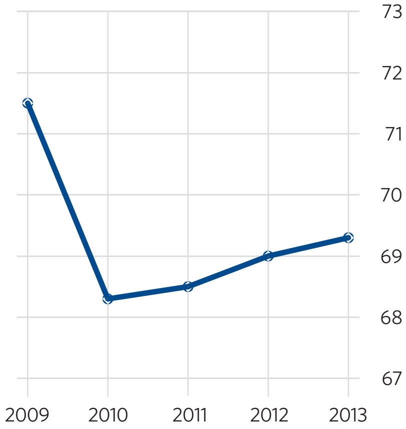
BACKGROUND: Barbados is a parliamentary democracy and member of the British Commonwealth. Political stability is expected to continue under Prime Minister Freundel Stuart, whose Democratic Labour Party enjoys a comfortable parliamentary majority. The main challenge to the government is the difficult economic climate. Barbados has been transformed in recent decades from a low-income, agricultural economy producing sugar and rum into a middle-income economy built on tourism and offshore banking. Tourism accounts for more than 15 percent of GDP. The economy has recovered modestly from the effects of the global recession, and new investments have created construction and trade jobs.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

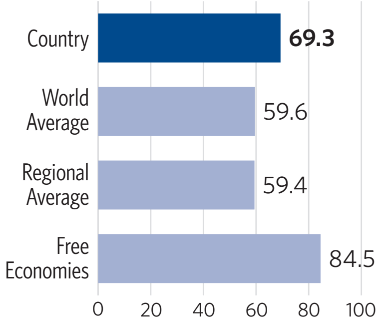
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

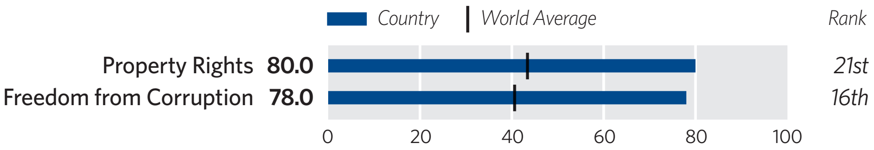
Population: 0.3 million
GDP (PPP): $6.5 billion
0.5% growth in 2011
5-year compound annual growth 0.0%
$23,417 per capita
Unemployment: 11.2%
Inflation (CPI): 9.4%
FDI Inflow: $333.6 million
Public Debt: 117.3% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

BARBADOS (continued)

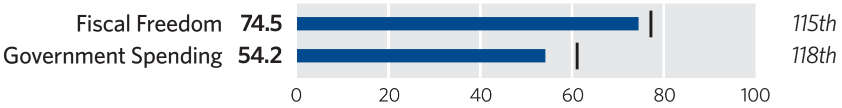
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



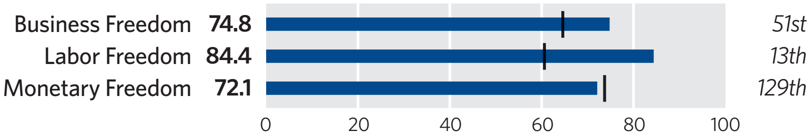
The protection of property rights is strong, and the rule of law is respected. The court system is based on British common law and is generally unbiased and efficient. Barbados is a member of CARICOM, whose Caribbean Court of Justice is the court of final appeal. There are criminal penalties for official corruption, and the government's enforcement of anti-corruption measures is generally effective.

LIMITED GOVERNMENT



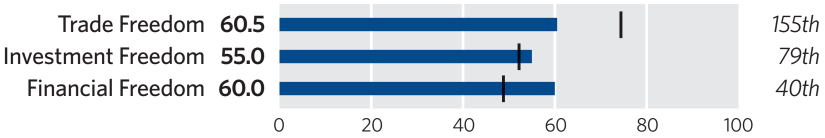
The top income tax rate is 35 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden amounts to 26.5 percent of total domestic income. Expansionary government spending has climbed to over 40 percent of total domestic output. With chronically high budget deficits averaging over 6 percent of GDP, public debt has risen to around 120 percent of GDP.

REGULATORY EFFICIENCY



The regulatory framework generally facilitates entrepreneurial activity. With no minimum capital required, launching a business takes eight procedures, but obtaining necessary permits remains time-consuming. Hiring and dismissal regulations are not burdensome, and the influence of unions is limited. Although prices are generally set by the market, the state imposes price controls on eight categories of basic food items, transportation, and fuel.

OPEN MARKETS

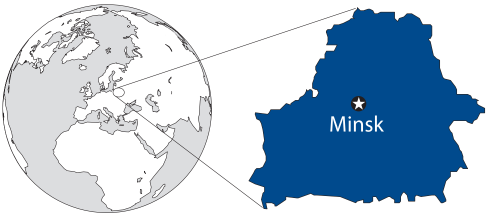


There are relatively few non-tariff barriers, but reliance on tariffs as a significant revenue source has led to the imposition of an average applied tariff of 14.8 percent, one of the highest rates in the world. With some exceptions, the government treats foreign and domestic investors equally. The banking sector provides a wide range of services for domestic and foreign investors, although securities markets are relatively illiquid.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+3.4	Business Freedom	-15.2	Trade Freedom	0
Freedom from Corruption	0	Government Spending	+14.1	Labor Freedom	+4.4	Investment Freedom	0
				Monetary Freedom	-3.7	Financial Freedom	0

BELARUS



World Rank: **154** Regional Rank: **42**

Belarus's economic freedom score is 48, making its economy the 154th freest in the 2013 *Index*. Its overall score is 1 point worse than last year due to a significant decline in monetary freedom that outweighs gains from improved business freedom and reduced government spending. Belarus is ranked 42nd among the 43 countries in the Europe region.

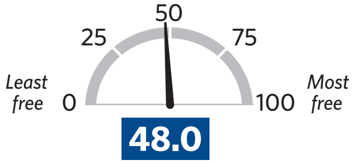
Belarus is one of only two European economies to earn the designation "repressed." Pervasive state controls persist in many economic areas, and widespread state investment and redistribution activities have stifled progress in the development of a modern diversified economy. Overall progress in business reform has been uneven, and the small private sector remains marginalized. Policy reform is urgently needed to open markets and improve productivity. The state has reintroduced price-control measures and installed export controls.

With poor protection of property rights and high levels of corruption, Belarus lacks the foundations on which to build functioning markets. Dictatorial governance, an ineffective judiciary, and time-consuming bureaucracy leave prospective entrepreneurs with little hope of success.

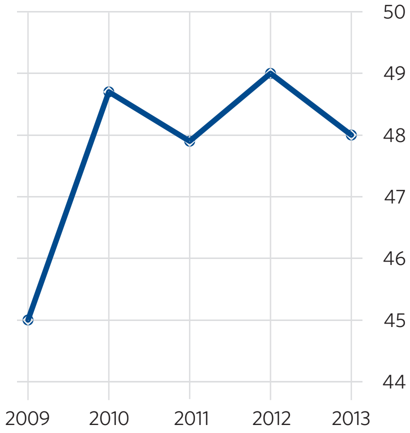
BACKGROUND: Belarus is commonly referred to as Europe's last dictatorship. President Alexander Lukashenko, elected in 1994, continues to dominate all branches of government. The U.N. Human Rights Council has decided to appoint a human rights investigator for Belarus, and the European Union threatened sanctions following abuses of opposition figures after presidential elections in December 2010. Belarus's industry and state-controlled agriculture sectors are not competitive. Russia maintains huge political influence in many aspects of the government and economy, and a significant percentage of Russian oil and gas exports passes through the country. Efforts continue to promote greater economic union with Russia and Kazakhstan through a customs union and a "common economic space." Growing ties with Iran, Venezuela, and China have not improved the prospects for economic freedom.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

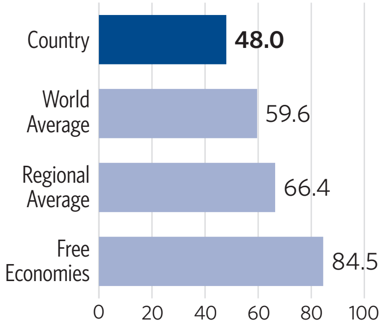
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

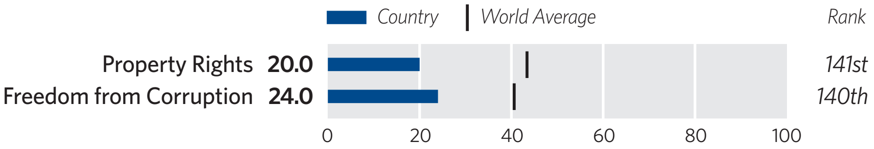
Population: 9.4 million
GDP (PPP): $141.8 billion
5.3% growth in 2011
5-year compound annual growth 6.4%
$15,028 per capita
Unemployment: n/a
Inflation (CPI): 53.2%
FDI Inflow: $3.9 billion
Public Debt: 50.2% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

BELARUS (continued)

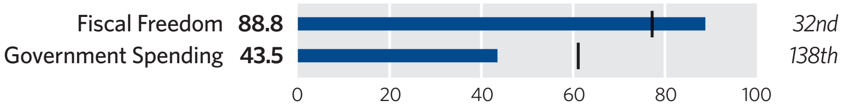
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



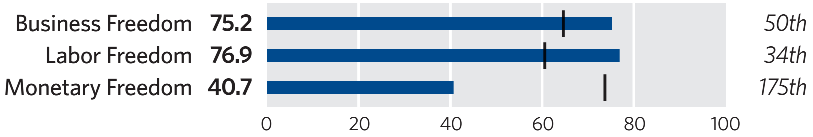
Since his election in 1994, President Lukashenko has consolidated power steadily through authoritarian means, destroying checks and balances and dominating all branches of government. Soviet-era state ownership of land and government-controlled collective farms continues. The state is involved in many commercial transactions. Corruption is pervasive in both the private and public sectors, from the executive and judiciary to the police.

LIMITED GOVERNMENT



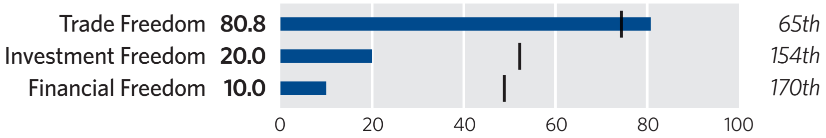
The income tax rate is a flat 12 percent. The top corporate tax rate remains 18 percent. Other taxes include excise taxes and a value-added tax (VAT). The overall tax burden amounts to 25.6 percent of total domestic income. Government spending has fallen slightly to 43.4 percent of total domestic output, with public debt hovering around 50 percent of GDP. The state remains highly dependent on external financing and subsidized energy.

REGULATORY EFFICIENCY



Simplifying registration formalities and abolishing the minimum capital requirement have facilitated business formation, but the overall entrepreneurial environment remains hampered by state interference and public-sector domination of the labor market. The government subsidizes many basic goods and controls wages. The increased cost of Russian energy inputs and an overvalued Belarusian ruble have caused high inflation.

OPEN MARKETS

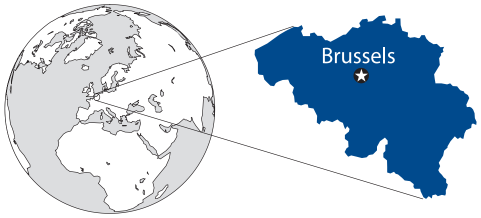


The country's average tariff is low, but quotas, licensing requirements, and non-transparent and arbitrary regulations add to the cost of trade. Investment and financial activity are severely limited by extensive government controls. Limited reform of the state-owned financial sector has begun. In mid 2011, the central bank ended its direct lending operations to banks.

Score Changes

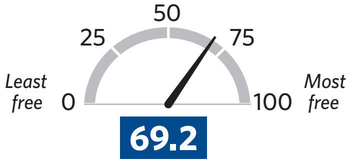
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+2.2	Business Freedom	+3.9	Trade Freedom	+0.4
Freedom from Corruption	-1.0	Government Spending	+8.6	Labor Freedom	-0.1	Investment Freedom	0
				Monetary Freedom	-24.6	Financial Freedom	0

BELGIUM



World Rank: **40** Regional Rank: **18**

Economic Freedom Score



Belgium's economic freedom score is 69.2, making its economy the 40th freest in the 2013 *Index*. Its overall score has increased by 0.2 point from last year, primarily reflecting notable improvements in freedom from corruption and the management of public spending that counterbalance declines in labor freedom and monetary freedom. Belgium is ranked 18th among the 43 countries in the Europe region, and its overall score is above the regional and global averages.

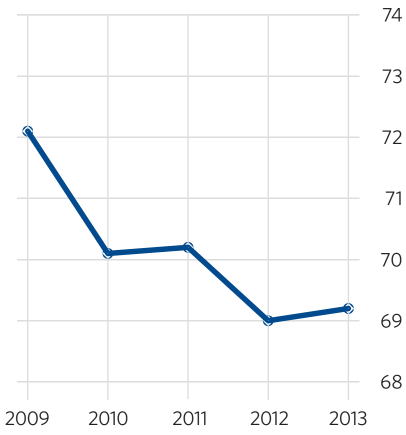
Continued strong protection of the rule of law and the foundations of economic freedom is reflected in Belgium's high scores in property rights and freedom from corruption. These institutional strengths, however, are not matched by commitment to the principle of limited government. Expansionary public spending has generated significant budgetary pressure. With government debt nearing 100 percent of GDP, reducing the chronic deficit needs to be a high priority.

The global financial crisis has caused a sharp economic slowdown in Belgium. In response to turmoil in the banking sector and the subsequent contraction in overall economic activity, the government has stepped in to support the financial system and implement a fiscal stimulus package. However, the economic recovery that began in mid-2009 has been uneven, and structural weaknesses that include a rigid labor market and high taxation continue to hinder international competitiveness.

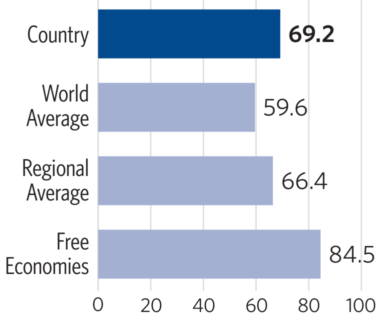
BACKGROUND: Belgium is a federal state consisting of three culturally different regions: Flanders, Wallonia, and the capital city of Brussels, which is home to NATO and the European Union. In April 2010, an electoral dispute between the Francophone and Flemish parties led to the collapse of the coalition government. New elections in June 2010 produced a fragmented political situation that stalled the formation of a government. After 541 days without a government (by some accounts a world record), negotiations to form a new government were finally completed in December 2011, and Socialist Party member Elio Di Rupo was sworn in as prime minister. Services account for 75 percent of economic activity. Leading exports are electrical equipment, vehicles, diamonds, and chemicals.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



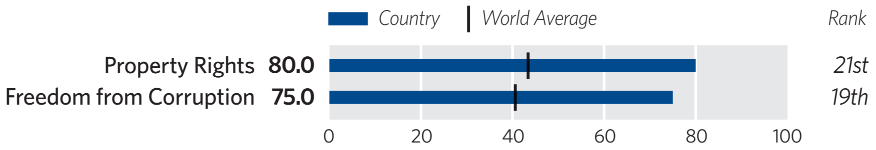
Quick Facts

Population: 11.0 million
GDP (PPP): $413.3 billion
1.9% growth in 2011
5-year compound annual growth 1.0%
$37,737 per capita
Unemployment: 7.4%
Inflation (CPI): 3.5%
FDI Inflow: $89.1 billion
Public Debt: 98.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

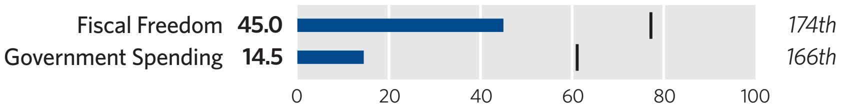
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



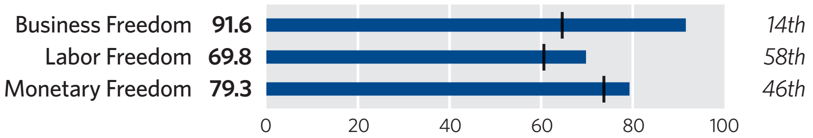
Laws are well codified, and the judicial system is generally respected, but the courts can be slow in practice. Similarly, intellectual property rights and contracts are generally secure, although enforcement actions can be protracted. Corruption is minimal, and the government prohibits and punishes all forms of bribery.

LIMITED GOVERNMENT



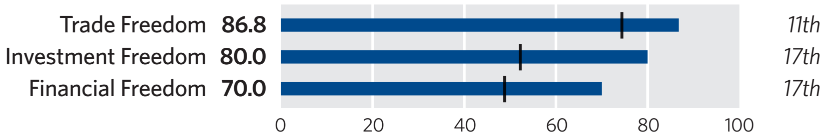
The top income tax rate is 50 percent, and the top corporate tax rate is effectively 34 percent. Other taxes include a value-added tax (VAT) and an estate tax. The overall tax burden amounts to 43.8 percent of total domestic income. Government spending has leveled off at 53.4 percent of total domestic output, but budget deficits over 4 percent have caused public debt to reach levels equivalent to about 100 percent of GDP.

REGULATORY EFFICIENCY



The cost of establishing a company has been reduced to below 20 percent of the level of average annual income, and starting a business takes only three days and four procedures. Although employment regulations have gradually become less burdensome, the non-salary cost of hiring a worker remains high. Inflation has been modest, but price-control policies continue to affect a range of products and services.

OPEN MARKETS

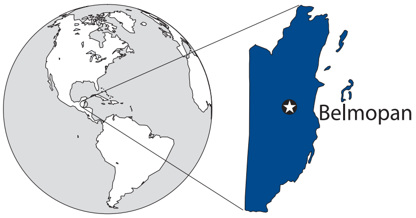


Belgium has low tariffs along with other members of the European Union, and non-tariff barriers are relatively low. With a few exceptions, the investment regime is largely open. The Financial Crisis Law passed in June 2010 grants the government stronger powers to step in during crises. Following the 2011 nationalization of the Belgian unit, uncertainty remains high with regard to Dexia, a Brussels-based Franco–Belgian bank.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.2	Business Freedom	-0.7	Trade Freedom	-0.3
Freedom from Corruption	+4.0	Government Spending	+2.4	Labor Freedom	-1.5	Investment Freedom	0
				Monetary Freedom	-1.9	Financial Freedom	0

BELIZE



World Rank: **102** Regional Rank: **20**

Belize's economic freedom score is 57.3, making its economy the 102nd freest in the 2013 *Index*. Its overall score is 4.6 points worse than last year due to score reductions in nearly all of the 10 economic freedoms that make the country's decline the most broad-based in the 2013 *Index*. Belize is ranked 20th out of 29 countries in the South and Central America/Caribbean region.

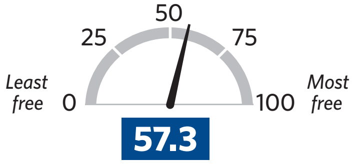
Belize's efforts at economic reform have been patchy, and economic freedom has not advanced over the past two decades. Economic dynamism is constrained by institutional weaknesses that undermine prospects for long-term broad-based economic development. In particular, the judicial system remains inefficient and vulnerable to political interference. Corruption, perceived as widespread, severely undermines entrepreneurial dynamism.

The overall regulatory framework has been evolving gradually to ease burdens on the private sector and encourage employment growth, and Belize has benefited from a comparatively high degree of trade freedom. However, dynamic economic gains from trade are undercut by the lack of progress in reforming financial services and investment, both of which are critical to sustaining open markets.

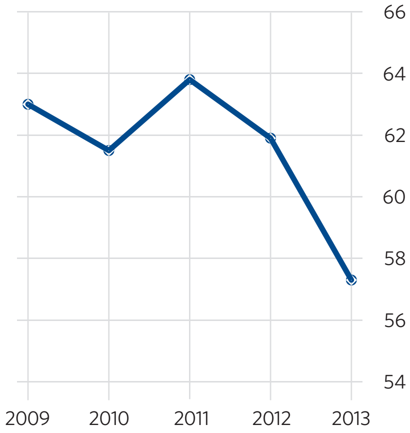
BACKGROUND: Belize is a parliamentary democracy and member of the British Commonwealth. Prime Minister Dean Barrow of the ruling United Democratic Party won re-election for a five-year term in legislative and municipal elections held in March 2012, more than a year earlier than constitutionally mandated. Since taking office in 2008, Barrow's government has undermined foreign direct investment by expropriating Belize's commercial "crown jewels" (the leading private telecommunications and electricity companies, owned by U.K. and Canadian investors, as well as the water company) and establishing close relations with Venezuelan President Hugo Chávez. High public-sector debt leaves little fiscal room for the government to maneuver. Tourism and agriculture are the leading economic sectors. Belize is plagued by crime, including money laundering.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

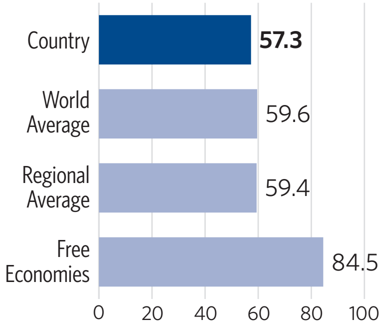
Economic Freedom Score



Freedom Trend



Country Comparisons



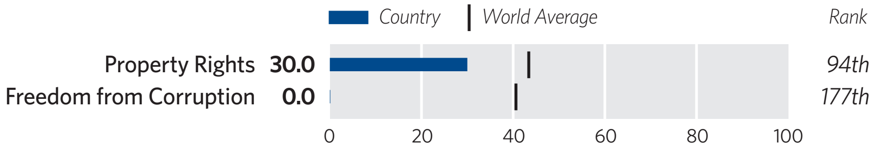
Quick Facts

Population: 0.3 million
GDP (PPP): $2.8 billion
2.5% growth in 2011
5-year compound annual growth 2.0%
$8,264 per capita
Unemployment: 13.1% (2009)
Inflation (CPI): 1.9%
FDI Inflow: $93.8 million
Public Debt: 80.3% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

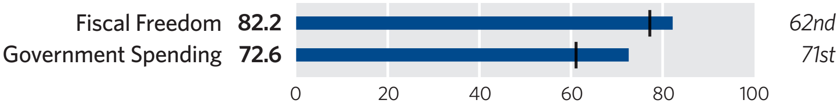
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



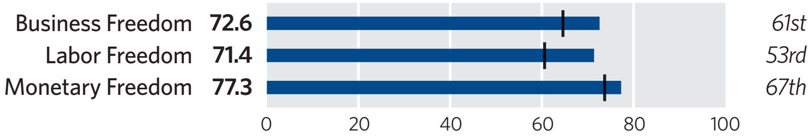
The court system, although constitutionally independent, is often influenced by the executive. Expropriation of personal property is relatively rare, but the current government has expropriated major private foreign-owned electricity and telecommunications companies since taking office in 2008 and as of January 2012 had not compensated investors affected by the nationalizations. Corruption is seen as widespread.

LIMITED GOVERNMENT



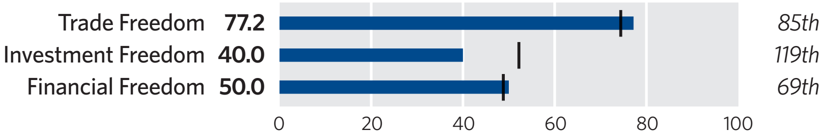
The top income and corporate tax rates are 25 percent; petroleum profits are taxed at 40 percent. Other taxes include a goods and services tax and a stamp duty. The overall tax burden amounts to 23.1 percent of total domestic income. Government spending amounts to 30.2 percent of GDP. Public debt has fallen below 80 percent of GDP due to reductions in budget deficits, but falling oil revenues threaten the fiscal outlook.

REGULATORY EFFICIENCY



Launching a business still costs about half the level of average annual income, but there is no minimum capital requirement. Getting all the necessary permits takes more than 70 days. Despite flexible employment regulations, a formal labor market has not fully developed. Inflation has been relatively low and stable. Below-production-cost price controls have been imposed on the electric company since its expropriation by the state.

OPEN MARKETS



The trade-weighted average tariff is 6.4 percent, and non-tariff barriers raise the overall cost of trade. The government has moved to expropriate businesses, including Belize Telemedia and Belize Electricity Limited, decreasing the country's attractiveness to foreign investors. The state influences credit allocation through quasi-government banks. The small financial sector has been largely immune to the global financial turmoil.

Score Changes

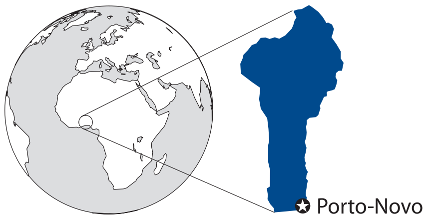
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-20.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.6
Government Spending	-2.0

REGULATORY EFFICIENCY	
Business Freedom	-1.0
Labor Freedom	-10.8
Monetary Freedom	-0.3

OPEN MARKETS	
Trade Freedom	-0.9
Investment Freedom	-10.0
Financial Freedom	0

BENIN



World Rank: **101** Regional Rank: **15**

Benin's economic freedom score is 57.6, making its economy the 101st freest in the 2013 *Index*. Its overall score is 1.9 points better than last year due to notable improvements in half of the 10 economic freedoms, including investment freedom, government spending, and business freedom. Benin is ranked 15th out of 46 countries in the Sub-Saharan Africa region, and its overall score is higher than the regional average.

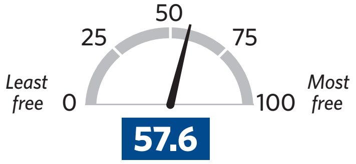
Consistent macroeconomic management and relative political stability have created an environment enabling Benin to achieve average annual economic growth of over 3 percent during the past five years. However, such economic expansion remains fragile in the absence of a dynamic private sector. Though some previously government-owned enterprises have been privatized, direct government involvement in economic activity continues to crowd out private-sector development, and corruption remains a serious problem. Enforcement of contracts can be difficult.

Benin lags in competitiveness and still lacks the broad-based economic activity that is critical to the reduction of poverty. The poor quality of physical and legal infrastructure, exacerbated by the government's inefficiency in delivering public goods, is a serious impediment to long-term economic development. Imports of electricity from Ghana have a significant impact on the balance of payments.

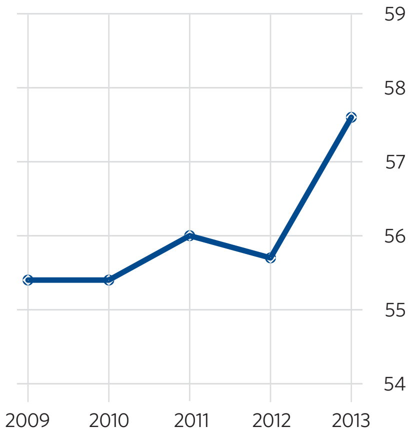
BACKGROUND: President Mathieu Kérékou, who ruled Benin for almost 20 years following a military coup, stepped down following a democratic transition in the early 1990s and later served two five-year elected terms. Current President Boni Yayi, former head of the West African Development Bank, was elected in a runoff election in 2006 and re-elected for another five-year term in 2011. In January 2012, Yayi was elected chairman of the African Union. Piracy is increasing off the coast, with reports of 20 incidents of oil tanker hijacking in 2011. Benin remains underdeveloped and dependent on subsistence agriculture. Cotton, the main commercial crop, accounts for over 40 percent of foreign exchange earnings, 17 percent of exports, and about 7 percent of GDP.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

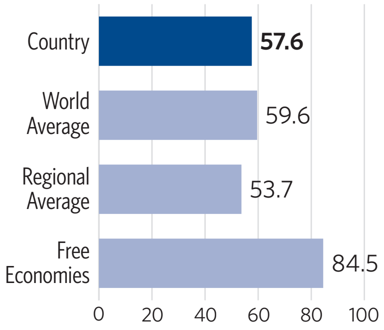
Economic Freedom Score



Freedom Trend



Country Comparisons



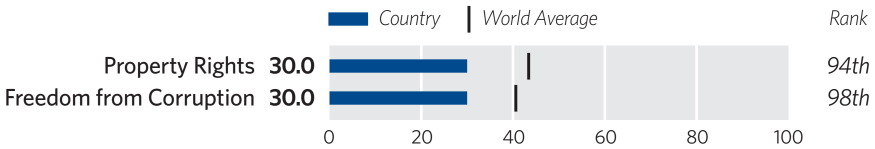
Quick Facts

Population: 9.9 million
GDP (PPP): $14.7 billion
3.1% growth in 2011
5-year compound annual growth 3.6%
$1,481 per capita
Unemployment: n/a
Inflation (CPI): 2.7%
FDI Inflow: $118.5 million
Public Debt: 31.3% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

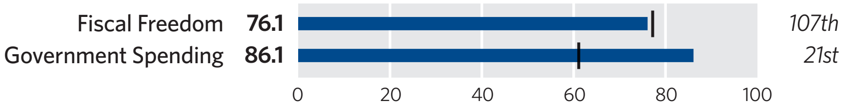
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



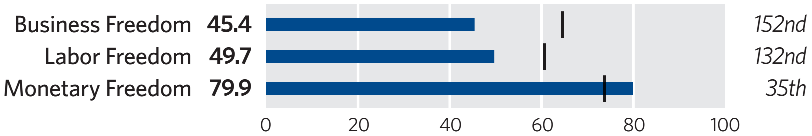
Benin's legal system is weak and subject to corruption. Businesses and other litigants routinely complain that corruption is particularly widespread at the trial court level and in administrative hearings. There are no separate commercial courts, and backlogs of civil cases cause long delays. Despite several high-profile prosecutions, government corruption continues to impede development and deter investment.

LIMITED GOVERNMENT



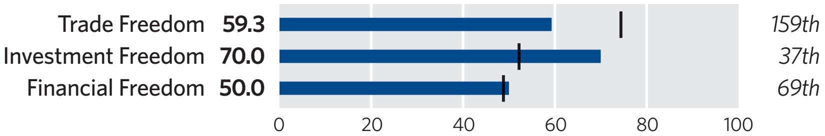
The top income tax rate is 35 percent, and the top corporate tax rate is 30 percent, with oil companies subject to a 45 percent rate. Other taxes include a value-added tax (VAT). The overall tax burden amounts to 16.2 percent of GDP. Government expenditures have fallen to 21.6 percent of GDP, but deficits have risen. Public debt is equivalent to around 30 percent of GDP. Fiscal health remains vulnerable due to heavy dependence on commodity exports.

REGULATORY EFFICIENCY



The cost of starting a business is now slightly above the level of average annual income, but obtaining necessary business licenses is still time-consuming. The labor market remains underdeveloped. Inflation has increased, largely because of chaos in the fuel market. Much of the fuel sold in Benin is smuggled illegally from Nigeria, and Nigeria's decision to end domestic subsidies on oil products has caused a sharp rise in fuel prices in Benin as well.

OPEN MARKETS

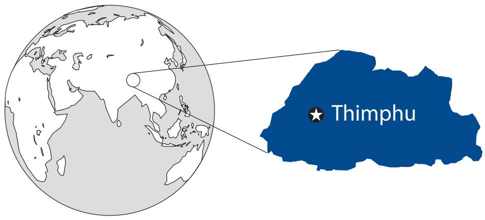


Benin is a member of the West African Economic and Monetary Union, which maintains high tariffs. Modernization of customs procedures has generated some improvement in the ability to trade. Foreign investment is officially encouraged, and bilateral investment agreements with several countries protect investors' rights. Banking is largely private, but access to credit remains low, despite the expansion of microfinance institutions.

Score Changes

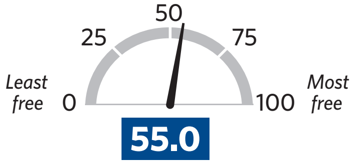
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.1	Business Freedom	+2.5	Trade Freedom	0
Freedom from Corruption	+2.0	Government Spending	+6.2	Labor Freedom	-1.8	Investment Freedom	+10.0
				Monetary Freedom	+0.2	Financial Freedom	0

BHUTAN



World Rank: **122** Regional Rank: **25**

Economic Freedom Score



Bhutan's economic freedom score is 55, making its economy the 122nd freest in the 2013 *Index*. Its score has decreased 1.6 points from last year, primarily because of worsening government spending, monetary freedom, and fiscal freedom. Bhutan is ranked 25th out of 41 countries in the Asia–Pacific region, and its overall score is below the global and regional averages.

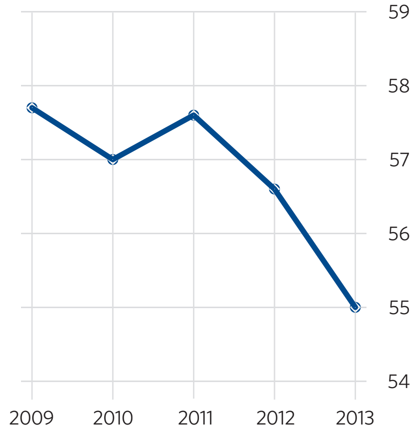
Over the past decade, Bhutan has taken steps to modernize its economic structure and reduce poverty. The foundations of economic freedom are relatively strong, with corruption present but under control, and institutional efforts have been made to ensure greater security for property rights. Recently, a higher priority has been placed on measures to diversify the economy. The public sector, especially hydropower, has long been the main source of economic growth, but the government now recognizes that broad-based private-sector development is crucial.

Nonetheless, Bhutan has made little progress in expanding economic freedom. Lingering constraints on private-sector development include an inefficient regulatory framework, high tariffs and pervasive non-tariff barriers, and a rudimentary investment code. The financial sector remains small and without adequate regulation or supervision. The lack of access to financing is a serious constraint for potential entrepreneurs.

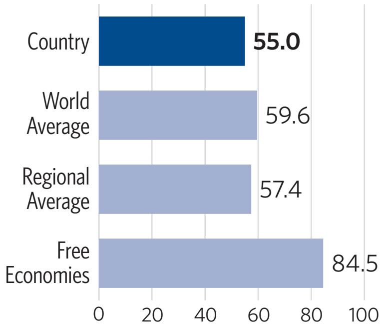
BACKGROUND: Bhutan, a small Himalayan constitutional monarchy that made the transition from absolute monarchy to parliamentary democracy in March 2008, has one of the world's smallest and least-developed economies. Until a few decades ago, the country was still largely agrarian, with few roads, little electricity, and no modern hospitals. Rugged terrain makes the development of infrastructure difficult. Recent interregional economic cooperation, particularly involving trade with Bangladesh and India, is helping to encourage economic growth. Connections to global markets are limited and dominated significantly by India.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



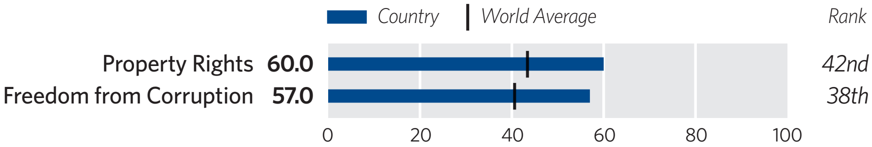
Quick Facts

Population: 0.7 million
GDP (PPP): $4.3 billion
5.9% growth in 2011
5-year compound annual growth 9.1%
$6,112 per capita
Unemployment: 4.0% (2009)
Inflation (CPI): 8.6%
FDI Inflow: $13.9 million
Public Debt: 82.0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

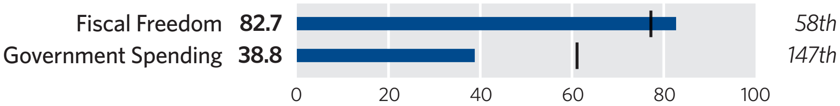
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



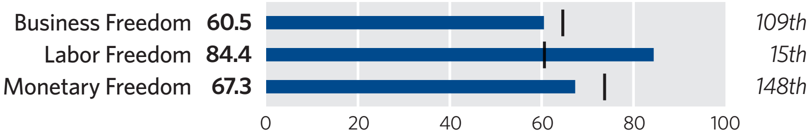
Although Bhutan has set a laudable course in transitioning from absolute to constitutional monarchy, the initial laws passed in 2012 by its first-ever parliament have tended to expand government interference in the marketplace. Still, property rights are generally better protected than in most other South Asian countries. The Anti-Corruption Commission has identified misuse of resources, bribery, collusion, and nepotism as major problems.

LIMITED GOVERNMENT



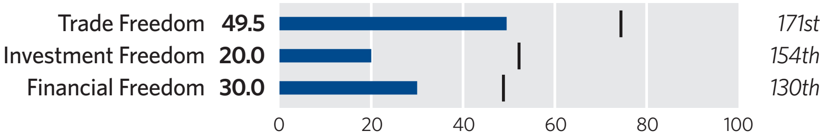
The top income tax rate is 25 percent, and the corporate tax rate is 30 percent. Other taxes include a property tax and an excise tax. The overall tax burden is equal to 14.4 percent of total domestic income. A value-added tax (VAT) is set to be introduced in an effort to broaden the tax base. Government spending has increased to 45.2 percent of total domestic output, with public debt accelerating to 82 percent of GDP.

REGULATORY EFFICIENCY



Recent reforms have reduced the cost of starting a business by eliminating the minimum capital requirement. Despite some improvement, the supply-and-demand imbalance in the labor market persists. Inflation has accelerated slightly above its five-year average of 8 percent. In May 2012, Bhutanese monetary and economic authorities introduced additional financial and trade controls in an attempt to curb foreign-exchange outflows.

OPEN MARKETS

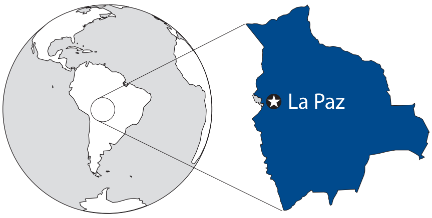


A high 17.8 percent average tariff and numerous non-tariff barriers increase the cost of trade. Foreign investment has been a sensitive issue, largely because of concerns about its effect on culture and traditions, but also because of domestic producers' unwillingness to lose the benefits that restrictions provide. The Bank of Bhutan enjoyed a monopoly for many years, but competition has improved with the opening of the sector to more foreign partnerships.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**0**	Fiscal Freedom	**-1.1**	Business Freedom	**+0.8**	Trade Freedom	**0**
Freedom from Corruption	**0**	Government Spending	**-16.5**	Labor Freedom	**+5.8**	Investment Freedom	**0**
				Monetary Freedom	**-5.3**	Financial Freedom	**0**

BOLIVIA



World Rank: **156** Regional Rank: **25**

Bolivia's economic freedom score is 47.9, making its economy the 156th freest in the 2013 *Index*. Its overall score is 2.3 points worse than last year, reflecting a significant erosion of investment freedom, labor freedom, and monetary freedom. Bolivia is ranked 25th out of 29 countries in the South and Central America/Caribbean region, and its overall score is far below the world and regional averages.

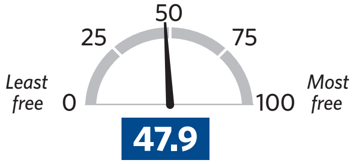
Bolivians continue to suffer in a climate of economic repression. High commodity prices have contributed to recent strong economic growth, but long-term economic development remains constrained by institutional shortcomings. Severely hampered by state interference, the formal economy is increasingly stagnant, and informal economic activity is expanding. Stringent rules on foreign ownership and profit repatriation continue to suppress engagement with the global economy.

With rampant corruption and deficiencies in the legal framework, the rule of law remains fragile and uneven across the Bolivian economy. Contracts and property rights are not well respected, and the threat of government expropriation remains high, constraining private-sector growth.

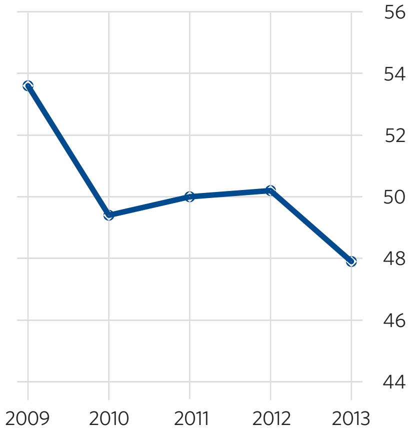
BACKGROUND: In 2005, populist Evo Morales, campaigning against what he termed "savage capitalism," won the presidency with nearly 54 percent of the vote. Both as a candidate and as president, Morales has employed violence and intimidation to impose his will. Since taking office, he has justified property confiscation and nationalization as a means to increase "fairness." A new constitution has expanded executive power and given the state greater control of key natural resources and industries, including gas and electricity. Re-elected in December 2009 with 64 percent of the vote, Morales promised to move Bolivia toward "communitarian socialism." Under Morales, Bolivia associates closely with Cuba and Venezuela. Low levels of foreign investment are but one example of the negative long-term effects of the government's economic policies. Approximately one-third of Bolivia's people live in poverty. Agriculture, mining, and services provide most employment.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

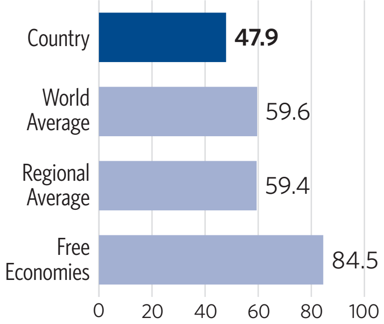
Economic Freedom Score



Freedom Trend



Country Comparisons



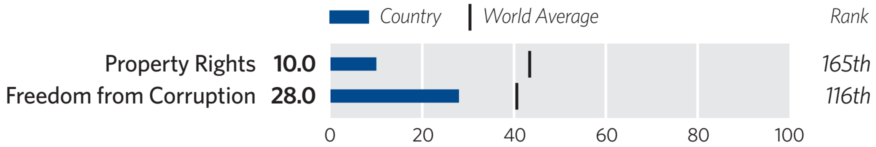
Quick Facts

Population: 10.6 million
GDP (PPP): $50.9 billion
5.1% growth in 2011
5-year compound annual growth 4.8%
$4,789 per capita
Unemployment: 5.8%
Inflation (CPI): 9.9%
FDI Inflow: $858.9 million
Public Debt: 32.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

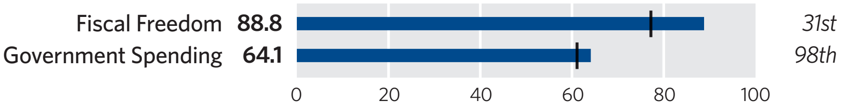
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



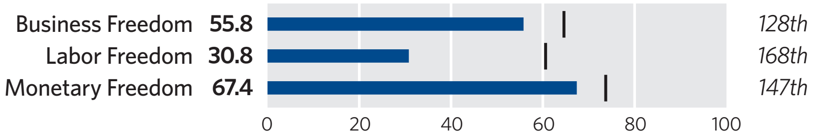
The judicial process is subject to political influence and corruption. Competing claims to land titles and the absence of reliable dispute resolution make acquisition of real property risky. Expropriation is a problem, as is illegal squatting on rural private property. Anti-corruption measures are poorly enforced, and corruption is growing. Interventionist policies and a weak judicial system impair the business environment and limit private investment.

LIMITED GOVERNMENT



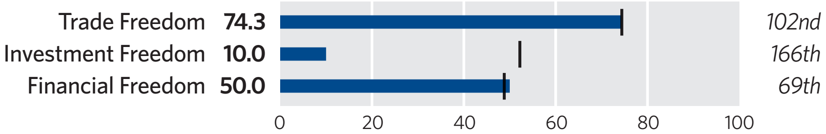
The top income tax rate is 13 percent, and the corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a transactions tax. The overall tax burden is equivalent to 18 percent of GDP. Government spending amounts to 34.6 percent of GDP, and budget surpluses continue to narrow. Public debt has dropped below 35 percent of GDP. State-owned enterprises remain dominant in major sectors of the economy.

REGULATORY EFFICIENCY



With 15 procedures required, on average it takes 50 days to incorporate a company. The process for obtaining necessary permits to operate costs more than half the level of average annual income and takes almost 250 days. The labor market remains inefficient, with employment regulations not conducive to productivity and job growth. Inflation stabilized in 2012, but subsidies for gas and oil continue.

OPEN MARKETS



The trade-weighted average tariff rate is 5.4 percent, with myriad non-tariff barriers raising the cost of trade. Bolivia's attitude toward foreign investment is hostile. Its constitution allows only investment that "fulfills a social function" and "is not detrimental to the collective interest" and specifically gives domestic investment priority over foreign investment. The financial sector remains vulnerable to state interference but is growing.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.8	Business Freedom	-0.7	Trade Freedom	0
Freedom from Corruption	0	Government Spending	+1.9	Labor Freedom	-10.0	Investment Freedom	-10.0
				Monetary Freedom	-5.4	Financial Freedom	0

BOSNIA AND HERZEGOVINA

World Rank: **103** Regional Rank: **38**

Bosnia and Herzegovina's economic freedom score is 57.3, making its economy the 103rd freest in the 2013 *Index*. Its overall score is the same as last year, with improvements in the management of public spending and labor freedom offset by declines in monetary freedom and fiscal freedom. Bosnia and Herzegovina is ranked 38th out of 43 countries in the Europe region, and its overall score remains below the global and regional averages.

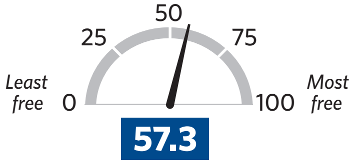
After several years of modest economic growth, Bosnia and Herzegovina's economic performance has deteriorated, partly because of the global economic slowdown but mainly due to the lack of progress in improving regulatory efficiency and open-market policies. A large number of companies remain under state control, and privatization has virtually stalled.

Protection of property rights is poor, and corruption is widespread. The rule of law is weak, and local courts are subject to political interference and lack the resources to prosecute complex organized crimes effectively. Bureaucracy and costly registration procedures reflect a history of central planning. High public spending is a large burden on the economy.

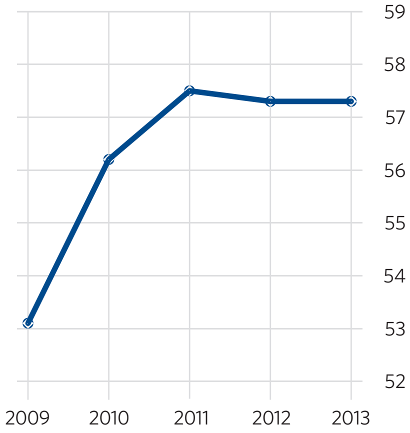
BACKGROUND: The 1995 Dayton Agreement ended three years of war in the former Yugoslavia and finalized Bosnia and Herzegovina's independence. The presidency rotates among three elected members every eight months inside a four-year term. The incumbents are Željko Komšić (Social Democrat) for the Croats; Nebojša Radmanović (Alliance of Independent Social Democrats) for the Serbs; and Bakir Izetbegović (Party of Democratic Action) for the Bosniaks. Under a loose central government, two separate entities exist: the Republika Srpska (Serbian) and the Federation of Bosnia and Herzegovina (Muslim/Croat). The European Union signed a Stabilization and Association Agreement with Bosnia and Herzegovina in 2008. Bosnia also received a NATO Membership Action Plan in 2010. Bosnia is one of Europe's poorest countries. Agriculture remains inefficient, and even with limited privatization, large sections of industry remain overstaffed.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

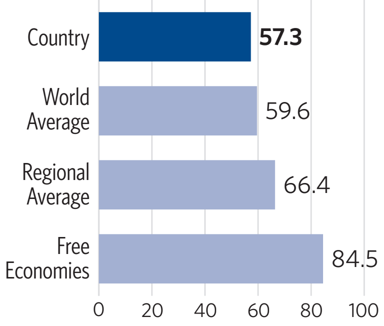
Economic Freedom Score



Freedom Trend



Country Comparisons



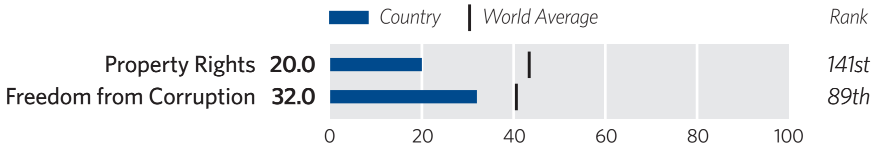
Quick Facts

Population: 3.9 million
GDP (PPP): $31.6 billion
1.7% growth in 2011
5-year compound annual growth 2.2%
$8,133 per capita
Unemployment: 43.3%
Inflation (CPI): 3.7%
FDI Inflow: $435.1 million
Public Debt: 40.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

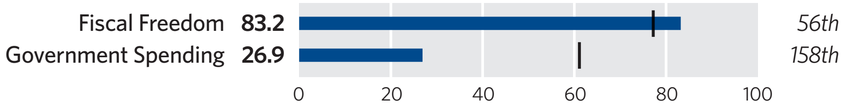
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



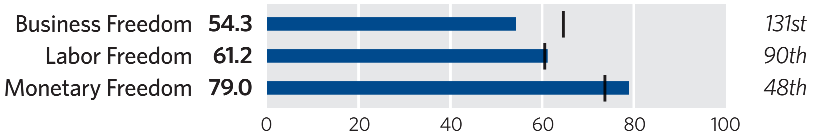
The complex system of government lends itself to deadlock and prevents reform. Property registries are largely unreliable, leaving transfers open to dispute. Efforts to update real estate property laws and develop new registries are stalled. The judicial system does not cover commercial activities adequately. Contracts are almost unenforceable, and implementation of laws protecting intellectual property rights is inadequate. Corruption remains prevalent.

LIMITED GOVERNMENT



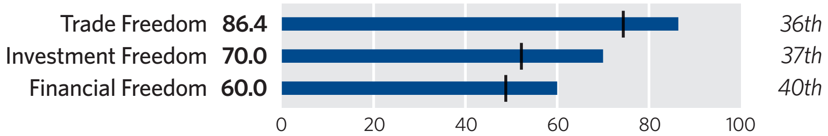
Bosnia and Herzegovina's various governing entities have different tax policies. The top income and corporate tax rates are 10 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden is equivalent to 38.5 percent of GDP. Government expenditures amount to about half of total domestic output, resulting in chronic budget deficits and growing public debt.

REGULATORY EFFICIENCY



Despite some steps to reform the cumbersome regulatory framework, lingering bureaucracy and lack of transparency often make the formation and operation of private enterprises costly and burdensome. The labor market is not efficient, and the unemployment rate, particularly among youth, is one of the highest in the region. Due to Bosnia and Herzegovina's strict currency board regime, inflation has remained relatively low.

OPEN MARKETS

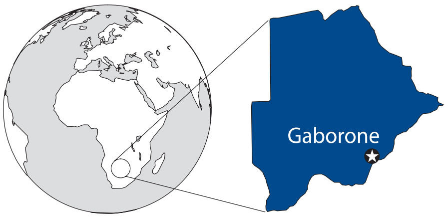


The trade-weighted average tariff is 1.8 percent, and the country has free trade agreements with many other countries in the region. Myriad state and municipal administrations make up a non-transparent bureaucratic system that makes investment less appealing. The financial sector is underdeveloped. About 80 percent of banking capital is privately owned, but a lack of contract enforcement and an insecure regulatory environment limit credit availability.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	–1.1	Business Freedom	–0.9	Trade Freedom	+0.4
Freedom from Corruption	0	Government Spending	+2.5	Labor Freedom	+0.8	Investment Freedom	0
				Monetary Freedom	–1.7	Financial Freedom	0

BOTSWANA



World Rank: **30** Regional Rank: **2**

Botswana's economic freedom score is 70.6, making its economy the 30th freest in the 2013 *Index*. Its overall score is 1.0 point better than last year, due primarily to continuing improvements in freedom from corruption and the management of government spending. Botswana is ranked 2nd out of 46 countries in the Sub-Saharan Africa region, and its overall score is well above the regional and world averages.

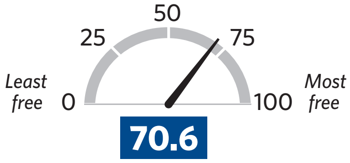
Botswana's levels of economic freedom are consistently among the region's highest. Its economy is diversifying, in large part because of foreign investment attracted by low taxes, political stability, and an educated work force. Botswana continues to set an example in the management of large endowments of natural resources. The level of corruption is the lowest in Africa. An independent judiciary enforces contracts effectively and protects property rights.

Competitiveness has been underpinned by a relatively efficient regulatory environment and open trade policies, while diamond exports have ensured adequate flows of foreign exchange. The financial sector is fairly well developed, with an independent central bank and little government intervention. Although public debt remains low, the government has undertaken fiscal consolidation to reduce high deficits following the global slowdown.

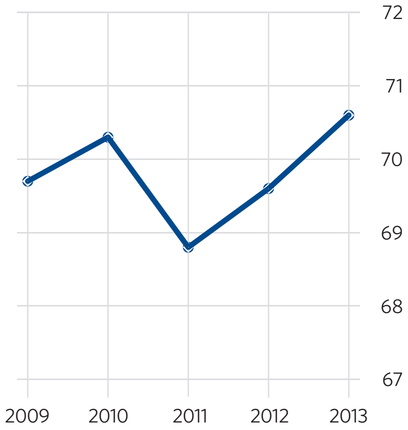
BACKGROUND: The Botswana Democratic Party has governed this multi-party democracy since independence in 1966. Ian Khama became president in 2008 upon his predecessor's resignation and won a full term in 2009. With significant natural resources and a market-oriented economy, Botswana has Africa's highest sovereign credit rating. Minerals (principally diamonds) account for three-fourths of exports and over 40 percent of GDP. Reduced demand for diamonds during the global economic crisis has contributed to slower GDP growth. Botswana has worked with other countries in the Southern African Development Community to mitigate the impact of the turmoil in neighboring Zimbabwe. Botswana has one of the world's highest HIV/AIDS infection rates but is also one of the most advanced in combating the disease.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

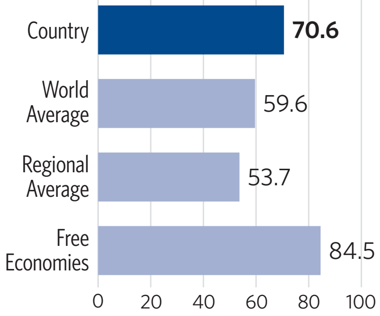
Economic Freedom Score



Freedom Trend



Country Comparisons



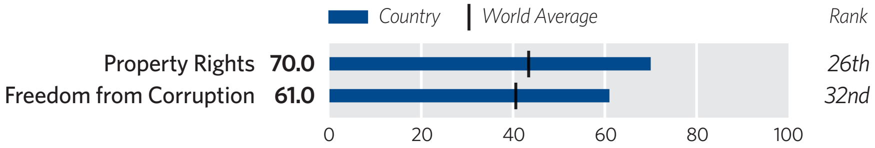
Quick Facts

Population: 1.9 million
GDP (PPP): $29.7 billion
4.6% growth in 2011
5-year compound annual growth 2.8%
$16,030 per capita
Unemployment: 7.5% (2007)
Inflation (CPI): 8.5%
FDI Inflow: $587.1 million
Public Debt: 17.3% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

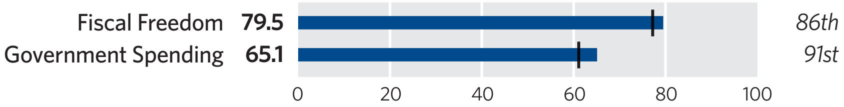
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



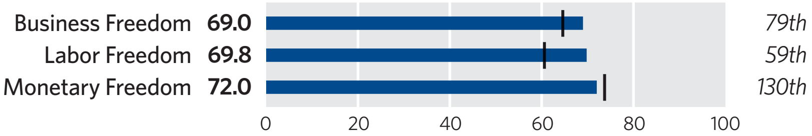
The legal system is sufficient to ensure secure commercial dealings, although a growing backlog of cases prevents timely trials. Protection of intellectual property rights has improved significantly. Botswana remains the least corrupt country on the African continent. The major corruption investigation body, the Directorate on Corruption and Economic Crimes (DCEC), is well regarded.

LIMITED GOVERNMENT



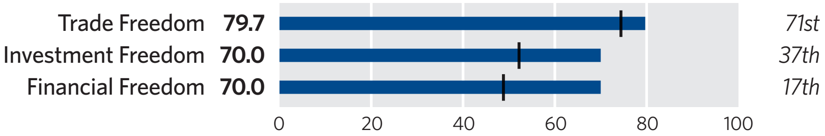
The top personal income tax rate is 25 percent, and the top corporate tax rate is 22 percent. Other taxes include a property tax, an inheritance tax, and a value-added tax (VAT). The overall tax burden is equivalent to 30.7 percent of total domestic income. Government spending amounts to 34.1 percent of total domestic output, with budget deficits narrowing. Public debt remains under 20 percent of GDP.

REGULATORY EFFICIENCY



The overall regulatory environment encourages entrepreneurial activity. Launching a business costs less than 2 percent of the level of average annual income and requires no minimum capital. Labor regulations are relatively flexible and support the development of a modern labor market. Most prices are set by the market, but the state maintains pricing policies and can influence prices through state-owned enterprises and service providers.

OPEN MARKETS

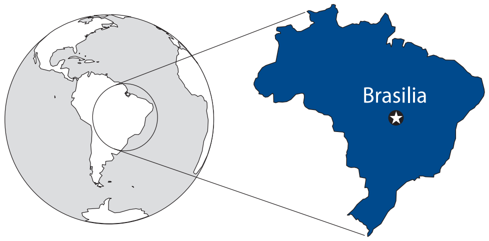


The trade-weighted tariff rate is 5.2 percent. Import licensing and other non-tariff barriers add to the cost of trade. Foreign investment has played a significant role in the privatization of state-owned enterprises. Most land is not available for purchase by foreign investors. The financial sector is one of Africa's most advanced, and the Botswana Stock Exchange has been growing. There have been no bank failures, and the banking sector continues to expand.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.2	Business Freedom	-0.1	Trade Freedom	0
Freedom from Corruption	+3.0	Government Spending	+11.4	Labor Freedom	-0.4	Investment Freedom	-5.0
				Monetary Freedom	-0.4	Financial Freedom	0

BRAZIL



World Rank: **100** Regional Rank: **19**

Brazil's economic freedom score is 57.7, making its economy the 100th freest in the 2013 *Index*. Its score is 0.2 point worse than last year, with gains in freedom from corruption and fiscal freedom offset by declines in labor and monetary freedoms. Brazil is ranked 19th out of 29 countries in the South and Central America/Caribbean region, and its overall score is below the world average.

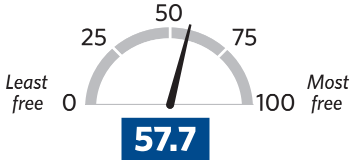
The foundations for long-term economic development remain fragile in Brazil due to the absence of an efficiently functioning legal and regulatory framework. The state maintains an extensive presence in many sectors, and the legacy of decades of central planning is a substantial tolerance for state meddling in economic activity, even where it has demonstrably failed. Despite some progress, corruption continues to be pervasive.

Progress with market-oriented reforms has been uneven. The burdensome regulatory environment discourages private-sector growth and hampers realization of the economy's full potential. Increasing inflationary pressure poses a risk to overall macroeconomic stability. Business confidence has floundered, with foreign investments declining about 40 percent in the first half of 2012.

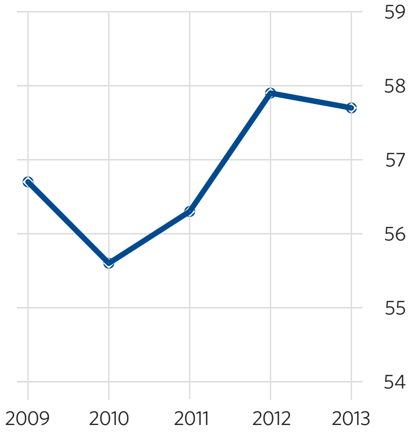
BACKGROUND: Brazil is the world's fifth-largest country in terms of land mass and population, and its almost 200 million people are heavily concentrated on the Atlantic coast. Its democratic constitution, adopted in 1988, ushered in an era of economic reform and more responsible monetary policy that broke the back of chronic hyperinflation. President Dilma Rousseff, two-term Workers' Party President Luiz Inacio "Lula" da Silva's hand-picked successor, became Brazil's first female president in 2011 and enjoys a high popularity rating. Brazil has benefited from surging prices for its commodity exports, and it weathered the 2009 global economic downturn better than many developed countries. The middle class is growing, and the *real* is stable. Ensuring adequate infrastructure for the 2014 World Cup and 2016 Rio Olympic games will challenge the government's administrative and development capacity.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

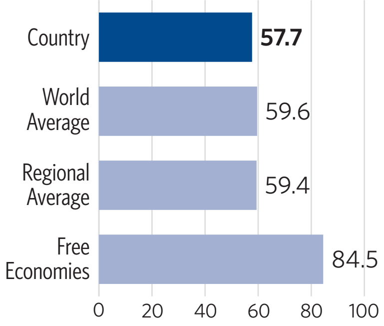
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 194.9 million

GDP (PPP): $2.3 trillion

2.7% growth in 2011

5-year compound annual growth 4.2%

$11,769 per capita

Unemployment: 6.0%

Inflation (CPI): 6.6%

FDI Inflow: $66.66 billion

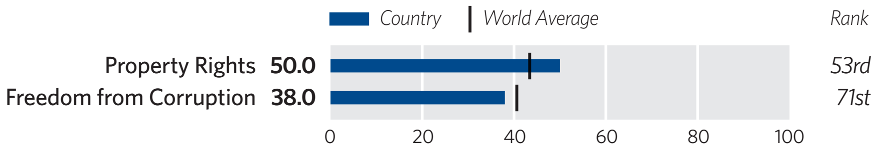
Public Debt: 66.2% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

BRAZIL (continued)

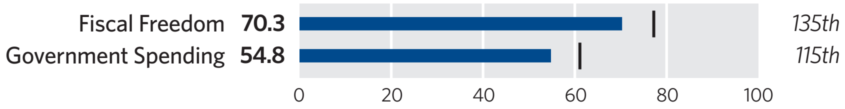
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



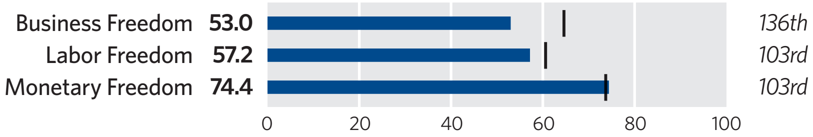
Contracts are generally considered secure, but Brazil's judiciary is inefficient and subject to political and economic influence. Though protection of intellectual property rights has improved, piracy of copyrighted material persists. Corruption continues to undermine economic freedom, although President Rousseff has ousted six cabinet ministers in response to a public backlash and mobilization against lax governance standards.

LIMITED GOVERNMENT



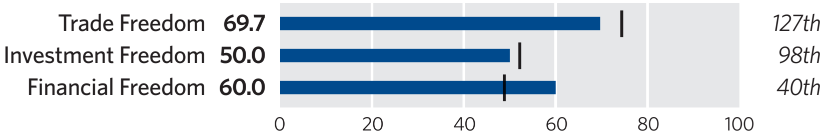
The income tax rate is 27.5 percent. The standard corporate tax rate is only 15 percent, but a financial transactions tax, 10 percent surtax, and 9 percent social contribution on net profits bring the effective rate to 34 percent. The overall tax burden amounts to 32.5 percent of GDP. Public spending is over one-third of GDP, and attempts at fiscal stimulus have added to a history of chronic public deficits. Public debt, however, has been relatively stable.

REGULATORY EFFICIENCY



Progress in improving the regulatory framework has been uneven. Bureaucratic hurdles remain common, including lengthy processes for launching a business and obtaining permits. The non-salary cost of employing a worker adds to the cost of doing business, and labor regulations remain stringent. Inflation has increased as the Banco Central do Brasil has cut interest rates in the face of sluggish demand and an overvalued currency.

OPEN MARKETS

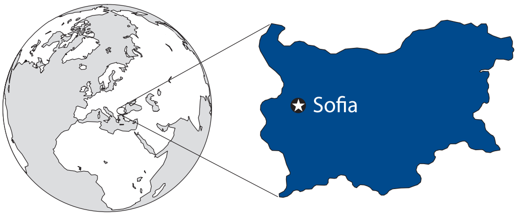


The trade-weighted tariff rate is 7.6 percent. Non-tariff barriers and the use of antidumping measures are a cause for concern. Foreign investors are generally granted national treatment, but their activity is restricted in some sectors. A complex tax and regulatory environment challenges investors. The banking sector emerged relatively unscathed from the global downturn, with credits to the private sector increasing.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.2	Business Freedom	-0.7	Trade Freedom	0
Freedom from Corruption	+1.0	Government Spending	0	Labor Freedom	-1.9	Investment Freedom	0
				Monetary Freedom	-1.4	Financial Freedom	0

BULGARIA



World Rank: **60** Regional Rank: **29**

Bulgaria's economic freedom score is 65, making its economy the 60th freest in the 2013 *Index*. Its overall score is up by 0.3 point, reflecting improvements in the management of public spending that counterbalance declines in freedom from corruption and labor freedom. Bulgaria is ranked 29th out of 43 countries in the Europe region, and its overall score is above the world average but below the regional average.

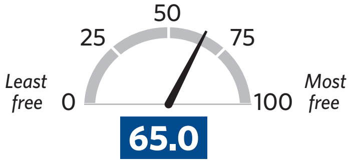
Despite a challenging global economic environment that has slowed economic growth in recent years, Bulgaria has maintained strong momentum in liberalizing economic activity while taking steps to restore fiscal discipline. Public debt and budget deficits remain among the lowest in the region, and the flat personal and corporate tax rates are highly competitive. Open-market policies encourage flows of trade and investment. Efforts are underway to revitalize the stalled privatization process.

Continued reform efforts are needed to solidify the foundations of economic freedom and ensure vibrant economic development in the future. The judicial system remains inefficient and vulnerable to political interference, and corruption, perceived as widespread, remains a cause for concern.

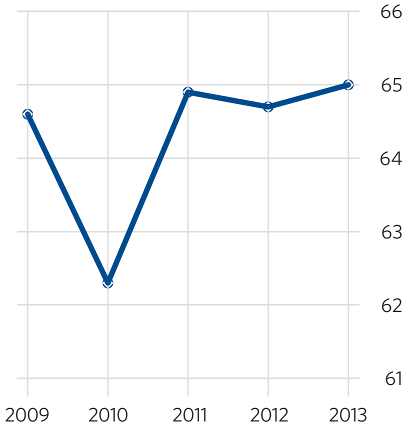
BACKGROUND: Bulgaria joined the European Union in January 2007 but is not a part of the visa-free Schengen zone of 26 European countries. Former Sofia mayor Boyko Borisov became prime minister after his center-right Citizens for European Development of Bulgaria party won the July 2009 parliamentary elections. He also relies on the parliamentary support of a right-wing nationalist group, Ataka, to govern. Tourism, agriculture, and the mining of coal, copper, and zinc are the leading industries. Bulgaria is involved in two rival gas-pipeline projects: Russia's South Stream pipeline and the European Union–backed Nabucco pipeline. Bulgaria's economy has stagnated in recent years, largely as a result of the EU economic crisis. The prospects for adoption of the euro in the near future have declined. Corruption remains pervasive.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

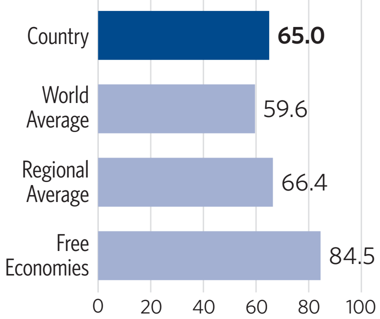
Economic Freedom Score



Freedom Trend



Country Comparisons



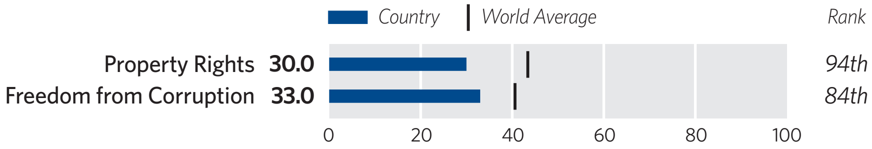
Quick Facts

Population: 7.4 million
GDP (PPP): $101.0 billion
1.7% growth in 2011
5-year compound annual growth 1.7%
$13,597 per capita
Unemployment: 9.6%
Inflation (CPI): 3.4%
FDI Inflow: $1.9 billion
Public Debt: 17.0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

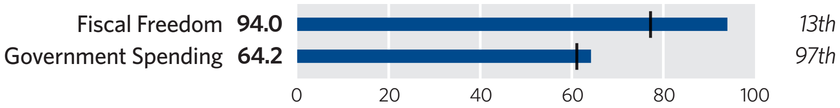
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



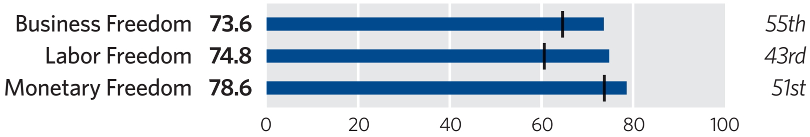
Respect for constitutional provisions securing property rights and providing for an independent judiciary is somewhat lax. The judicial system does not enforce property rights effectively, and inconsistent application of laws discourages private investment. A government anti-corruption agency (BORCOR) set up in 2011 is not operational. Government corruption and organized crime are threats to border security.

LIMITED GOVERNMENT



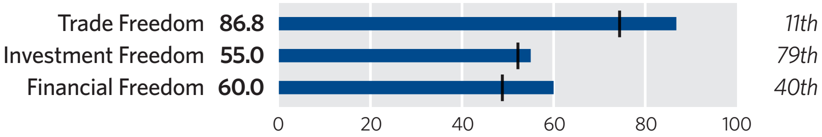
The income and corporate tax rates are a flat 10 percent. Other taxes include a value-added tax (VAT) and an estate tax. The overall tax burden is equivalent to about 20 percent of total domestic income. Government spending amounts to 34.6 percent of total domestic output, but deficits have narrowed to 2.1 percent of GDP. Public debt remains quite low at 17 percent of GDP.

REGULATORY EFFICIENCY



The overall regulatory framework supports entrepreneurial activity. Launching a business has become less time-consuming, and licensing requirements have been eased. The minimum capital requirement has been eliminated. Labor regulations are relatively flexible, although the non-salary cost of employees can be burdensome. Most prices are determined by market forces, and inflation has diminished as economic growth has slowed.

OPEN MARKETS



The trade-weighted average tariff is 1.6 percent, as in other members of the European Union, and few non-tariff barriers interfere with trade. Foreign and domestic investors are treated equally, but arbitrary bureaucracy is an impediment to more dynamic investment flows. The financial sector remains stable and well capitalized. Privatization of state-owned banks has been completed, and credit is generally allocated on market terms.

Score Changes

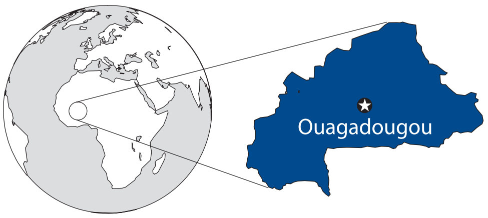
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-3.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.4
Government Spending	+13.9

REGULATORY EFFICIENCY	
Business Freedom	+0.9
Labor Freedom	-9.4
Monetary Freedom	+0.8

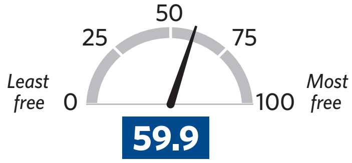
OPEN MARKETS	
Trade Freedom	-0.3
Investment Freedom	0
Financial Freedom	0

BURKINA FASO



World Rank: **86** Regional Rank: **10**

Economic Freedom Score



Burkina Faso's economic freedom score is 59.9, making its economy the 86th freest in the 2013 *Index*. Its overall score has decreased by 0.7 point since last year due to declines in half of the 10 economic freedoms including freedom from corruption, labor freedom, and the management of government spending. Burkina Faso is ranked 10th out of 46 countries in the Sub-Saharan Africa region, and its overall score is above the world average.

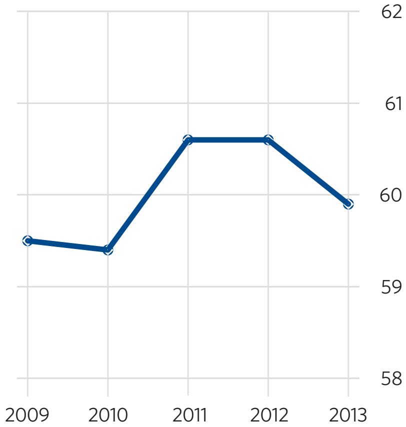
Burkina Faso had been on an upward trend in the *Index* in recent years. Notable progress in advancing economic freedom was accompanied by annual growth rates averaging over 5 percent. Regulatory reforms that include simplification of the business start-up process led to increased efficiency and have facilitated modest private- sector growth.

However, deeper structural and institutional reforms are critically needed to maintain stability, diversify the production base, and ensure long-term economic development. Systemic weaknesses in the protection of property rights, exacerbated by an inefficient judicial system that remains vulnerable to political influence, hinder the development of a more dynamic entrepreneurial environment. Little progress has been achieved in the fight against corruption.

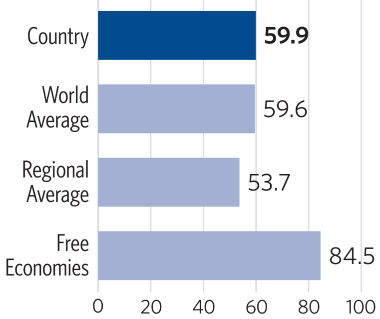
BACKGROUND: Burkina Faso achieved independence in 1960 and was subject to military coups throughout the 1970s and 1980s. Blaise Compaoré seized power in 1987 and has remained head of state since then. A constitutional amendment that would limit any president to two terms has been ruled not to apply to him. Army revolts and mass protests contributed to a highly unstable political climate in 2011, but order has been restored. In March 2012, the ruling party granted amnesty to Compaoré and previous heads of state who came to power through coups. Burkina Faso is one of the world's poorest countries, and approximately 90 percent of the population relies on subsistence agriculture. Drought, poor soil, lack of adequate infrastructure, a low literacy rate, and an economy that is vulnerable to external shocks are longstanding problems.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



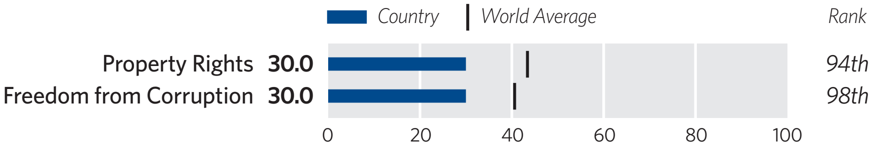
Quick Facts

Population: 15.0 million
GDP (PPP): $22.0 billion
5.6% growth in 2011
5-year compound annual growth 5.1%
$1,466 per capita
Unemployment: n/a
Inflation (CPI): 2.8%
FDI Inflow: $7.4 million
Public Debt: 29.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

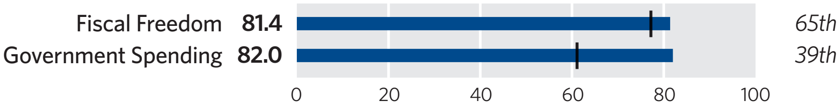
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



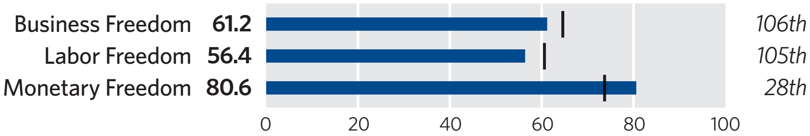
The judicial system is weak. The executive has extensive appointment and other judicial powers. Systemic problems include arbitrary removal of judges, outdated legal codes, a lack of financial and human resources, and excessive legal costs. Two reports in early 2012 by a special parliamentary commission cited many cases of overspending, misused funds, irregular bidding, and tardy work, some of which raised "serious suspicions of corruption."

LIMITED GOVERNMENT



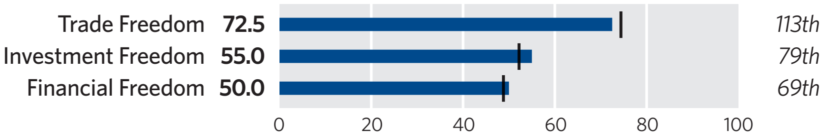
The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT). The overall tax burden amounts to 7.8 percent of total domestic income. Government spending has risen to 24.5 percent of GDP. Public debt remains below 30 percent of GDP but has been increasing in recent years. Excessive dependence on gold exports to finance oil imports threatens fiscal health.

REGULATORY EFFICIENCY



Establishing a business has become less time-consuming and requires fewer than five procedures. The overall regulatory framework has improved somewhat, but the formal labor market remains underdeveloped. The private sector consists primarily of a large informal economy that remains the main source of employment. Inflation has been rising. The state maintains price supports for cotton and influences other prices through the public sector.

OPEN MARKETS

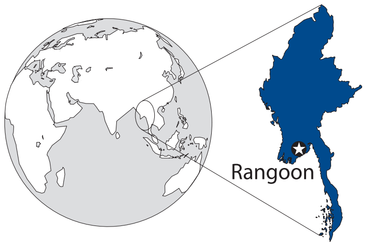


The trade-weighted tariff rate is 8.8 percent, and significant non-tariff barriers raise the cost of trade. Investment laws guarantee equal treatment of foreign and domestic investors in theory but are enforced unevenly. The government has pursued banking liberalization and restructuring, encouraging competition in the financial sector. However, the banking sector remains underdeveloped, providing a low level of access to banking services.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.0	Business Freedom	-1.6	Trade Freedom	0
Freedom from Corruption	-1.0	Government Spending	-2.0	Labor Freedom	-2.5	Investment Freedom	0
				Monetary Freedom	-0.8	Financial Freedom	0

BURMA



World Rank: **172** Regional Rank: **40**

Burma's economic freedom score is 39.2, making its economy the 172nd freest in the 2013 *Index*. Its score is 0.5 point better than last year due to improvements in freedom from corruption and monetary freedom. Burma is ranked 40th out of 41 countries in the Asia–Pacific region, and its overall score is much lower than the regional average.

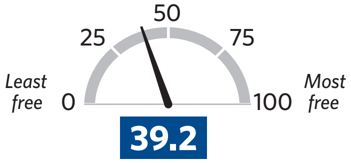
A number of notable changes in Burma's economic environment have occurred since the second half of 2011. Economic sanctions have been eased or lifted. A new foreign investment law, which would permit foreign firms' full ownership and ease restrictions on land leases, was passed, although its implementation has been delayed.

Despite these reforms, Burma still performs very poorly in many areas. Long-standing problems include poor public finance management and underdeveloped legal and regulatory frameworks. Weak enforcement of property rights and fragile rule of law have driven many people into the informal sector. The inefficient public sector remains the largest source of employment.

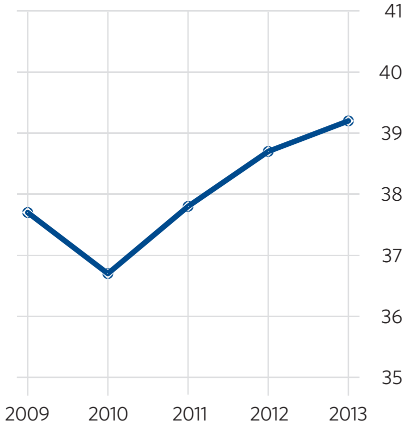
BACKGROUND: The military has dominated Burmese politics since 1962. After the opposition National League for Democracy won a large majority in the 1990 legislative elections, the junta redoubled its efforts to crack down on dissent. The United Nations estimates that the violent government response to pro-democracy demonstrations in September 2007 resulted in over 30 fatalities. Elections were held on November 7, 2010, but the NLD refused to participate, and the election drew sharp criticism from the United Nations. General Thein Sein, who had resigned from the military to run as a civilian, became president and has implemented some reforms. NLD leader and Nobel Peace Prize winner Aung San Suu Kyi was released from jail on November 13, 2010, and in what appear to be the first truly credible elections in decades, she won a seat in parliament in 2012. Burma is richly endowed with natural resources, but government intervention in the economy has made it one of the world's poorest countries.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

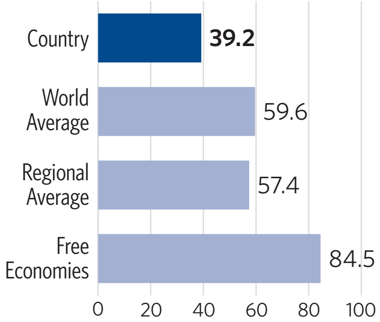
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 62.4 million

GDP (PPP): $82.7 billion

5.5% growth in 2011

5-year compound annual growth 6.3%

$1,325 per capita

Unemployment: 5.5%

Inflation (CPI): 4.2%

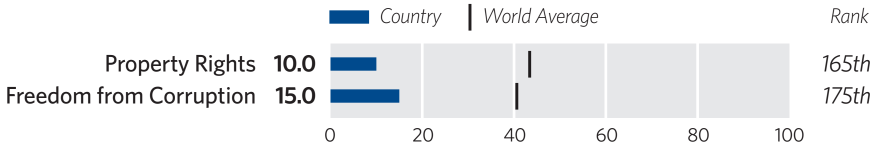
FDI Inflow: $850.0 million

Public Debt: 44.3% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

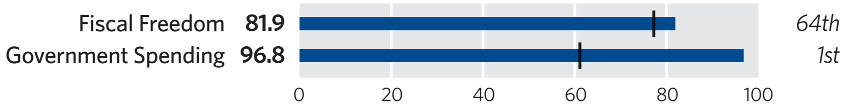
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



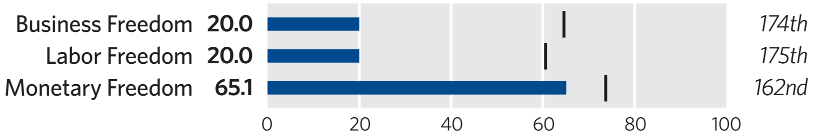
Private property is not protected. Private and foreign companies are at a disadvantage in disputes with governmental and quasi-governmental organizations. Corruption is pervasive and continues to be a serious barrier to sustained economic development. In 2012, the government took its first, tentative steps toward institutional reforms, but the positive impact on potential investors remains to be seen.

LIMITED GOVERNMENT



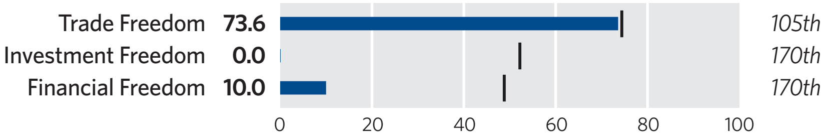
The top income and corporate tax rates are 30 percent. Official fiscal statistics are not regularly available. Overall tax revenue is estimated to equal less than 5 percent of GDP, although income tax revenue has been rising rapidly in recent years. Government spending amounts to 10.4 percent of total domestic output, but deficits have stabilized. Public debt corresponds to 44.3 percent of GDP.

REGULATORY EFFICIENCY



The regulatory environment is hampered by a lack of legal transparency, and much business activity is concentrated in state-owned enterprises. Inefficiencies in the labor market contribute to chronic unemployment and underemployment. The state sets public-sector wages and influences wage-setting in the private sector. Other state price controls distort domestic prices.

OPEN MARKETS



Trade freedom is constrained by myriad non-tariff barriers that increase the cost of trade. The government has discussed liberalization of foreign investment laws, which remain biased against foreign investors. Banking is dominated by state-owned banks, although several private banks have been in operation. Most loans are directed to state-led projects, and access to credit remains poor.

Score Changes

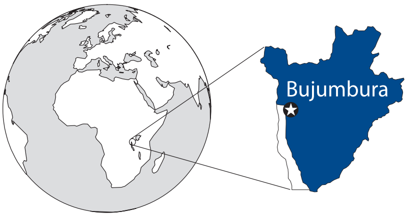
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+1.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.1
Government Spending	+0.8

REGULATORY EFFICIENCY	
Business Freedom	0
Labor Freedom	0
Monetary Freedom	+3.9

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

BURUNDI



World Rank: **148** Regional Rank: **34**

Burundi's economic freedom score is 49, making its economy the 148th freest in the 2013 *Index*. Its overall score is 0.9 point better than last year, mainly because of a notable improvement in business freedom and a small gain in freedom from corruption. Burundi is ranked 34th out of 46 countries in the Sub-Saharan Africa region, and its score is worse than the world average.

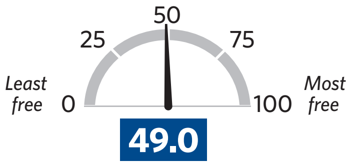
Despite a significant attempt to improve the regulatory environment for business, Burundi's overall lack of economic freedom continues to repress entrepreneurial activity. The foundations of economic freedom are fragile and uneven across the country. The Burundian economy, hampered by extensive state controls and structural problems, lags in productivity growth and lacks dynamism.

Long-standing structural problems include inefficient public finance management and a poor legal framework. The lack of enforcement of property rights and the weak rule of law have driven many people and enterprises into the informal sector. Trade and investment flows are undercut by government interference in the economy and failure to sustain open markets.

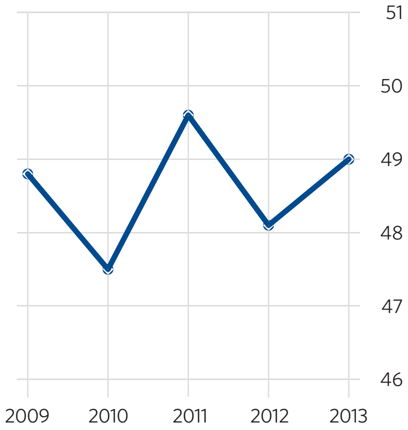
BACKGROUND: The 1993 assassination of Burundi's first Hutu president, Melchior Ndadaye, sparked a civil war, and the violence following the death of his successor, Cyprien Ntayamira, and Rwandan President Juvenal Habyarimana in a 1994 plane crash set off the Rwandan genocide. Negotiations mediated by South Africa resulted in a power-sharing government in 2001, and the last active rebel group signed a cease-fire in 2008. A new constitution was adopted by referendum in 2005, and the National Assembly elected Pierre Nkurunziza president. Nkurunziza ran unopposed in 2010. Together with Uganda, Burundi is active in the African Union's AMISOM peacekeeping mission in Somalia. Burundi is one of the world's poorest nations. Agriculture accounts for over 30 percent of GDP and about 90 percent of employment. Coffee is the largest cash crop, but most of the population is engaged in subsistence farming. Burundi's participation in the East African Community, which it joined in 2007, is expected to improve its trade prospects.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

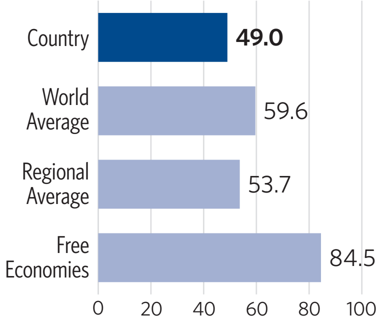
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

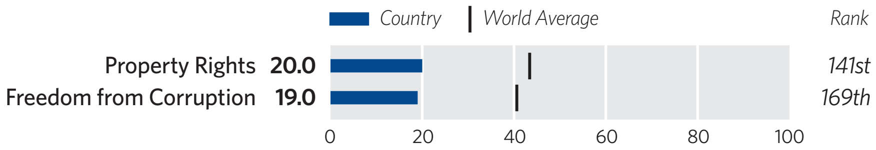
Population: 8.4 million
GDP (PPP): $5.2 billion
4.2% growth in 2011
5-year compound annual growth 4.3%
$615 per capita
Unemployment: n/a
Inflation (CPI): 14.9%
FDI Inflow: $1.7 million
Public Debt: 35.3% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

BURUNDI (continued)

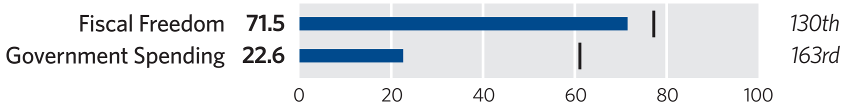
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



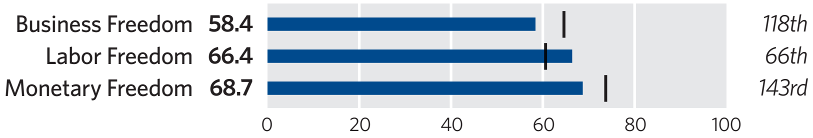
Private property is subject to government expropriation and armed banditry. The constitution guarantees the independence of the judiciary, but judges are appointed by the executive branch and subject to political pressure. Transparency International calls Burundi the most corrupt country in the region. Corruption is pervasive, and sales of government property frequently lead to allegations of bribery and cronyism.

LIMITED GOVERNMENT



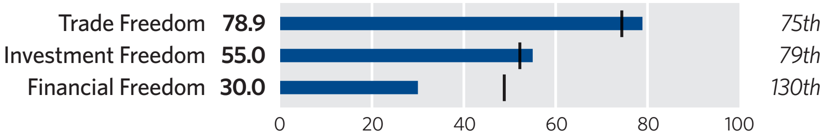
The top income and corporate tax rates are 35 percent. Other taxes include a value-added tax (VAT) that recently replaced the general sales tax. The overall tax burden amounts to 20.1 percent of total domestic income. Government spending has risen to 50.8 percent of total domestic output, resulting in a deficit equal to 4 percent of GDP. Foreign aid makes up about 50 percent of the government budget, and public debt is equivalent to 35 percent of GDP.

REGULATORY EFFICIENCY



Reform measures in recent years have streamlined the procedures for establishing a business, but start-ups are discouraged by other institutional deficiencies such as pervasive corruption and very limited access to credit. The labor market remains underdeveloped. The government influences prices through state-owned enterprises, subsidies, and agriculture-support programs. Electricity is routinely rationed by the state-owned power utility.

OPEN MARKETS



The average tariff is 5.5 percent, and the trade regime is relatively open, but inefficient bureaucracy adds to the cost of trade. Foreign and domestic investments receive equal treatment, and foreign investment generally is not subject to state screening. The small financial sector is dominated by banks, two of which are majority-owned by the state. With only 2 percent of the population holding bank accounts, many rely on informal lending.

Score Changes

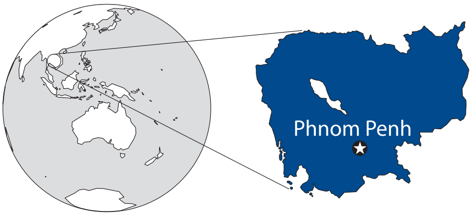
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+1.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.7
Government Spending	-0.3

REGULATORY EFFICIENCY	
Business Freedom	+12.3
Labor Freedom	-0.8
Monetary Freedom	-2.2

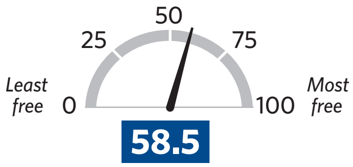
OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

CAMBODIA



World Rank: **95** Regional Rank: **16**

Economic Freedom Score



Cambodia's economic freedom score is 58.5, making its economy the 95th freest in the 2013 *Index*. Its overall score is 0.9 point better than last year due to improvements in trade freedom and labor freedom. Cambodia is ranked 16th out of 41 countries in the Asia–Pacific region, and its overall score is slightly higher than the regional average.

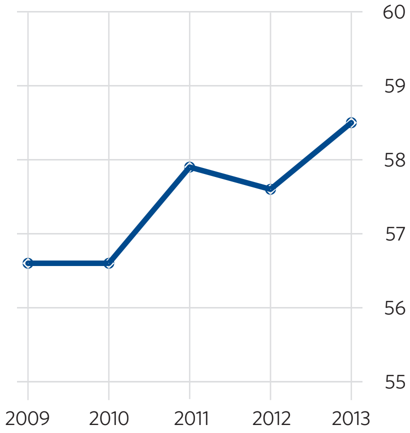
Reductions in Cambodia's trade-weighted average tariff rate and modernization of its commercial codes have contributed to improvements in the overall entrepreneurial environment and advances in economic freedom. Openness to global trade and a competitive corporate tax rate have aided the ongoing transition to a more market-based system, improving productivity and adding jobs. The maintenance of relatively sound public finance management has contributed to economic stability.

Nonetheless, substantial challenges remain, particularly in implementing deeper institutional and systemic reforms that are critical to strengthening the foundations of economic freedom. Property rights and freedom from corruption remain weak, and lingering government interference and controls hurt dynamic flows of investment and overall economic efficiency.

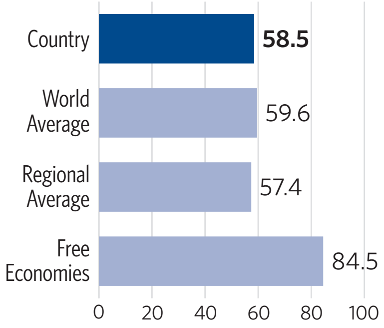
BACKGROUND: Between 1975 and 1979, the brutal Khmer Rouge regime of Pol Pot killed an estimated 3 million Cambodians. Now nominally a democracy, Cambodia has been ruled since 1993 by Prime Minister Hun Sen, and elections have often fallen short of international standards of fairness. In mid-2008, the former Khmer Rouge leader's Cambodian People's Party claimed a large majority in the National Assembly, and Hun Sen remained prime minister. A tribunal established under an agreement with the United Nations to prosecute senior officials involved in the atrocities gained its first conviction in July 2010. In 2012, Cambodia assumed the rotating chairmanship of the Association of Southeast Asian Nations, drawing increased international attention to and criticism of its undemocratic policies. Cambodia's economy depends heavily on tourism and apparel assembly.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



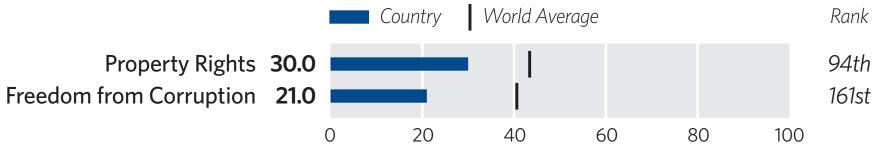
Quick Facts

Population: 15.1 million
GDP (PPP): $33.5 billion
6.1% growth in 2010
5-year compound annual growth 5.8%
$2,116 per capita
Unemployment: 3.5% (2007)
Inflation (CPI): 5.5%
FDI Inflow: $891.7 million
Public Debt: 28.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

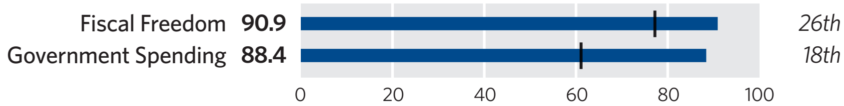
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



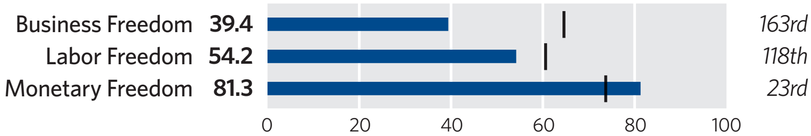
The legal system does not protect private property effectively. The executive branch usually dominates the judiciary. Inconsistent judicial rulings and corruption are common. The land titling system is not fully functional, and most property owners cannot prove their ownership. A new foreign ownership law passed in 2010 expanded the rights of foreigners to own property. Infringement of intellectual property rights is pervasive.

LIMITED GOVERNMENT



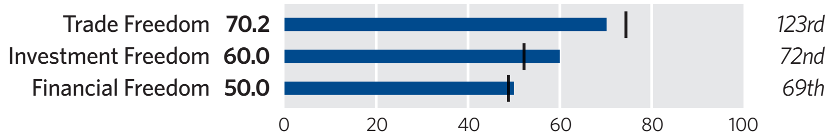
The top income and corporate tax rates are 20 percent. Other taxes include an excise tax and a value-added tax (VAT). The overall tax burden amounts to 10.7 percent of total domestic income. Government spending amounts to 19.7 percent of total domestic output, but the budget balance remains under control. Public debt continues to remain below 30 percent of GDP.

REGULATORY EFFICIENCY



Measures to modernize commercial codes, including updated bankruptcy legislation, have been adopted in recent years. Completing licensing requirements still takes more than 600 days. The non-salary cost of employing a worker is low, but enforcement of many aspects of the labor codes is not effective. The market determines most prices, but the government attempts to maintain stable retail prices for fuel through subsidies.

OPEN MARKETS

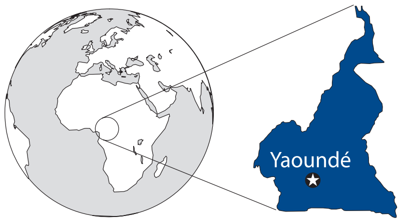


The trade-weighted average tariff is 5.5 percent, and the country is improving its trade policies. Foreign capital and domestic capital are generally treated equally under the law, and up to 100 percent foreign ownership is allowed in most sectors. In a few sectors, foreign investment is subject to local equity participation or prior authorization. The financial sector remains subject to state influence, despite banking privatizations.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.2	Business Freedom	-1.3	Trade Freedom	+5.0
Freedom from Corruption	0	Government Spending	-1.6	Labor Freedom	+7.0	Investment Freedom	0
				Monetary Freedom	+0.6	Financial Freedom	0

CAMEROON



World Rank: **133** Regional Rank: **27**

Cameroon's economic freedom score is 52.3, making its economy the 133rd freest in the 2013 *Index*. Its overall score is 0.5 point better than last year, reflecting notable gains in freedom from corruption and labor freedom. Cameroon is ranked 27th out of 46 countries in the Sub-Saharan Africa region, and its overall score is lower than the regional average.

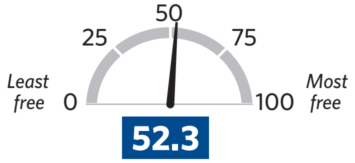
The foundations of economic freedom are neither well established nor strongly protected in Cameroon. The judiciary is vulnerable to political interference and corruption, and the protection of property rights remains weak, undermining prospects for more significant and dynamic long-term economic development.

Economic performance is far below potential. Productive activity has become relatively diversified, with the services sector contributing about half of total domestic production, but the overall economic environment is dominated by the inefficient public sector. The risk of state interference in the private sector remains high in the country's volatile political environment. Production and export of oil have declined, putting pressure on the government's fiscal balance.

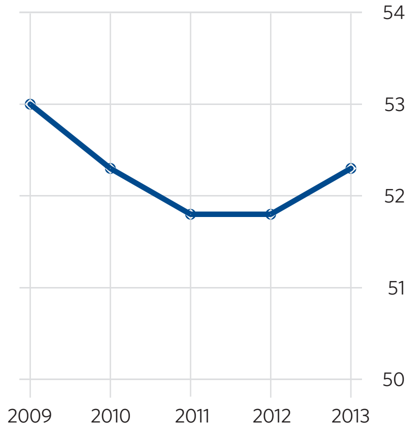
BACKGROUND: President Paul Biya has held office since 1982. In 2008, Biya's supporters in parliament passed constitutional amendments granting the president immunity for acts committed while in office. In October 2011, Biya was re-elected with 78 percent of the vote in an election marred by numerous irregularities. Public frustration with poor governance has threatened to spark political unrest. Although the government claims to maintain strong civil-rights laws, charges of discrimination and abuse of human rights are abundant. In 2012, Cameroon tightened its border security with Nigeria as attacks by Boko Haram terrorists left 15 people dead along the border region. Cameroon's economy, highly dependent on commodity exports and afflicted by serious mismanagement and an overvalued currency, has been seriously affected by the global economic slowdown.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

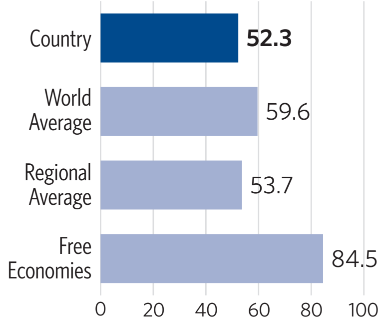
Economic Freedom Score



Freedom Trend



Country Comparisons



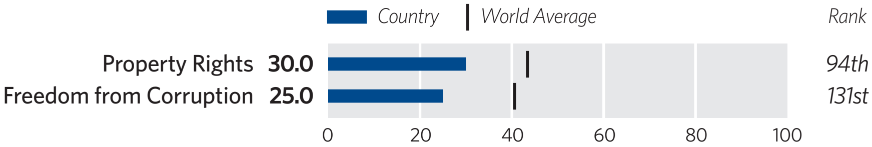
Quick Facts

Population: 20.9 million
GDP (PPP): $47.3 billion
4.1% growth in 2011
5-year compound annual growth 3.0%
$2,257 per capita
Unemployment: n/a
Inflation (CPI): 2.9%
FDI Inflow: $360.0 million
Public Debt: 12.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

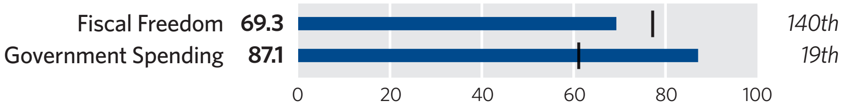
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



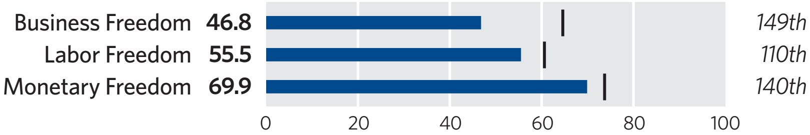
Protection of property rights is weak due to pervasive corruption and an inefficient judicial system. The court system is vulnerable to political interference and long delays. Trademarks and copyrights are routinely violated, and software piracy is widespread. A former cabinet minister was charged in 2012 with embezzling millions in public funds and faces trial. His is the highest-profile indictment in an anti-corruption campaign launched in 2006.

LIMITED GOVERNMENT



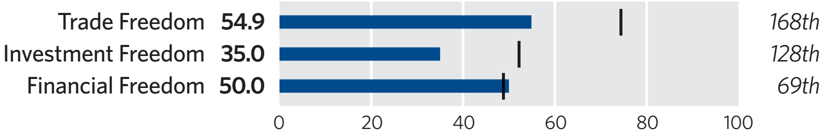
The top income and corporate tax rates are 38.5 percent (35 percent plus a 10 percent surcharge). Other taxes include a value-added tax (VAT) and an inheritance tax. The overall tax burden equals 10.3 percent of GDP. Government spending is equivalent to 20.7 percent of total domestic output, and a budget deficit of 2.6 percent of GDP has pushed public debt to 12.9 percent of GDP.

REGULATORY EFFICIENCY



The process for establishing a company has become more streamlined, but paid-in minimum capital required to launch a business equals almost twice the level of average annual income. The formal labor market is not fully developed. Inflation has been modest. The prime minister has proposed removing the fuel subsidy that has put the country's fiscal balance under severe strain.

OPEN MARKETS

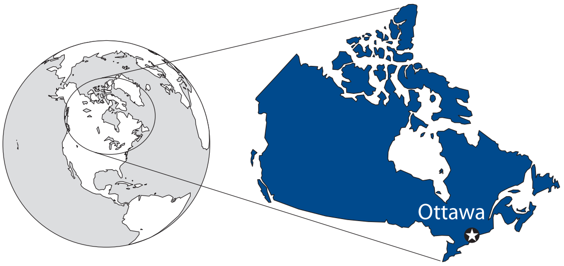


The trade-weighted average tariff rate is quite high at 15 percent, and non-tariff barriers further increase the cost of trade. The investment regime is constrained by heavy bureaucracy and a lack of transparency. New investments may be subject to government approval. The cost of financing is high, and short-term loans dominate lending. The non-banking financial sector remains small, with modest capitalization of the stock market.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**0**	Fiscal Freedom	**0**	Business Freedom	**–0.3**	Trade Freedom	**0**
Freedom from Corruption	**+3.0**	Government Spending	**–3.7**	Labor Freedom	**+7.4**	Investment Freedom	**0**
				Monetary Freedom	**–1.0**	Financial Freedom	**0**

CANADA



World Rank: **6** Regional Rank: **1**

Canada's economic freedom score is 79.4, making its economy the 6th freest in the 2013 *Index*. Its overall score is 0.5 point lower than last year, reflecting declines in freedom from corruption and business freedom that are only partially offset by a notable improvement in the management of public spending. Canada continues to be the freest economy in the North America region.

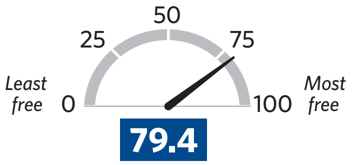
The foundations of economic freedom in Canada remain strong and well-supported by solid protection of property rights and an independent judiciary that enforces anti-corruption measures effectively. While many large advanced economies have been struggling with the heavy burden of government and fiscal constraints that result from years of unrestrained public spending, Canada's public finance management has been comparatively prudent, with efforts to downsize government made on a continuing basis.

Canada's economy has been resilient, benefiting from a strong commitment to open-market policies that facilitate global trade and investment flows. Efficient regulations are applied evenly in most cases, encouraging dynamic entrepreneurial activity in the private sector. Steady reduction of the standard corporate tax rate has also contributed to global competitiveness.

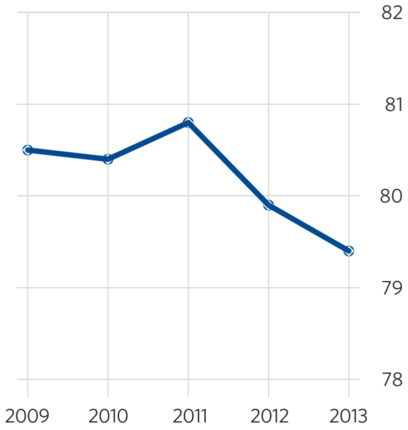
BACKGROUND: Prime Minister Stephen Harper won a second term in the 2011 parliamentary elections, and his Conservative Party secured a solid majority. The opposition New Democratic Party also picked up seats, particularly in the province of Quebec. Canada's federal democratic system provides substantial autonomy to its 13 provinces and territories. Tensions between Anglo and French Canadians have softened in recent years, but cultural protectionism in international and domestic trade is an ongoing threat. Canada is a party to the North American Free Trade Agreement and a major exporter of oil, minerals, automobiles, manufactured goods, and forest products. The proposed expansion of the TransCanada Keystone pipeline system to increase oil exports from Alberta to the United States has been delayed by the Obama Administration.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

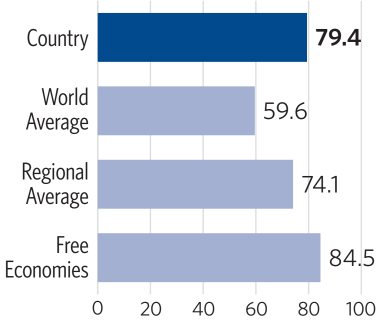
Economic Freedom Score



Freedom Trend



Country Comparisons



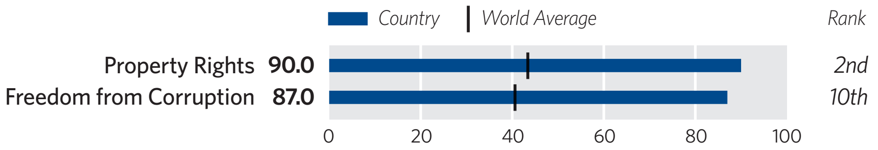
Quick Facts

Population: 34.4 million
GDP (PPP): $1.4 trillion
2.5% growth in 2011
5-year compound annual growth 1.1%
$40,541 per capita
Unemployment: 7.4%
Inflation (CPI): 2.9%
FDI Inflow: $40.9 billion
Public Debt: 85.0% GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

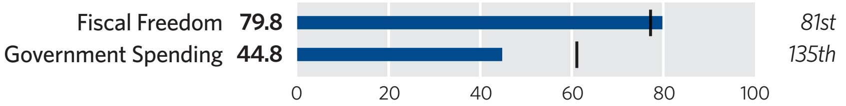
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



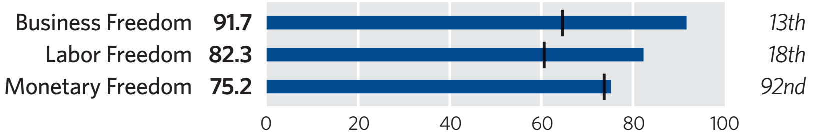
Canada's foundations of economic freedom are solid. Private property is well protected, with an independent and transparent judicial system firmly in place. Enforcement of contracts is very secure, and expropriation is highly unusual. Protection of intellectual property rights is consistent with world standards. Effective anti-corruption measures discourage bribery of public officials and uphold the government's reputation for integrity.

LIMITED GOVERNMENT



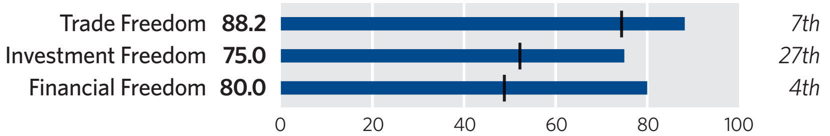
The top federal income tax rate remains 29 percent, and the top corporate tax rate has been cut to 15 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden amounts to 31 percent of total domestic income. Government spending is equivalent to 42.9 percent of total domestic output, with deficits recorded in recent years. Public debt has risen gradually to almost 90 percent of GDP.

REGULATORY EFFICIENCY



Canada's highly competitive regulatory framework promotes business formation and operation. With no minimum capital standards, starting a company requires only one procedure. Flexible labor regulations enhance employment and productivity growth. Inflation has been modest, but the government controls virtually all prices for health care services through its mandatory "single-payer" nationalized program.

OPEN MARKETS



The trade regime is very competitive, with a low 0.9 percent average tariff and few non-tariff barriers. The country's openness and flexibility strongly sustain the efficient and dynamic investment environment. The prudent banking sector remains stable, weathering the ongoing global financial turmoil with no need for bailouts or large injections of state funds. The "big six" domestic banks dominate the sector.

Score Changes

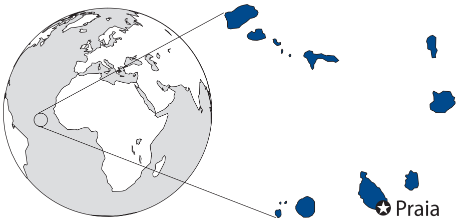
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-2.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.6
Government Spending	+3.1

REGULATORY EFFICIENCY	
Business Freedom	-4.9
Labor Freedom	+0.5
Monetary Freedom	-2.1

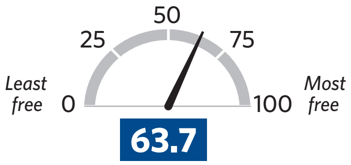
OPEN MARKETS	
Trade Freedom	+0.3
Investment Freedom	0
Financial Freedom	0

CAPE VERDE

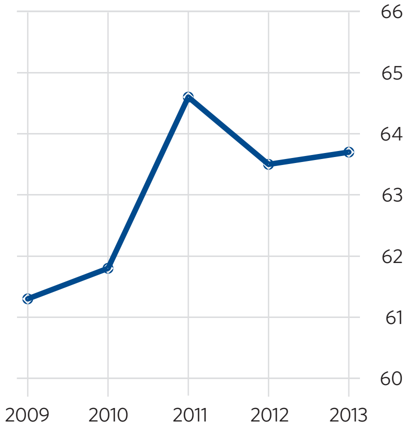


World Rank: **65** Regional Rank: **4**

Economic Freedom Score



Freedom Trend



Cape Verde's economic freedom score is 63.7, making its economy the 65th freest in the 2013 *Index*. Its overall score is 0.2 point better than last year, with declines in labor and monetary freedoms counterbalanced by substantial gains in property rights, freedom from corruption, and management of public spending. Cape Verde is ranked 4th out of 46 countries in the Sub-Saharan Africa region, and its overall score is higher than the global and regional averages.

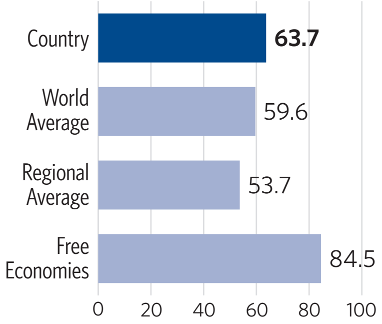
Cape Verde's transition to a more open and flexible economic system has been facilitated by substantial restructuring and the relatively effective rule of law. With property rights strongly protected in comparison to other economies in the region, the small island economy's substantive reforms have reduced corruption and enhanced the quality of the regulatory environment.

While maintaining macroeconomic stability, Cape Verde has made considerable progress in income growth and poverty reduction. The government continues to support policies that promote free trade and open markets, but public spending and debt are approaching levels that cause concern.

BACKGROUND: Cape Verde, a West African archipelago, is a stable, multi-party parliamentary democracy. The African Party for the Independence of Cape Verde maintained its majority in the February 2011 legislative elections, installing Jose Maria Neves as prime minister; opposition leader Jorge Carlos Fonseca won the more ceremonial presidency later that year. Cape Verde has few natural resources and is subject to frequent droughts and serious water shortages. Services dominate the economy, but light industry, agriculture, and fishing employ a majority of the work force. Cape Verde has close economic and political ties to the European Union, and its currency is pegged to the euro. The EU has granted Cape Verde special partnership status, under which Cape Verde and the EU cooperate on governance improvements, security and stability, regional integration, and anti-poverty efforts. Cape Verde joined the World Trade Organization in 2008. The economy is helped by tourism and remittances.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Country Comparisons



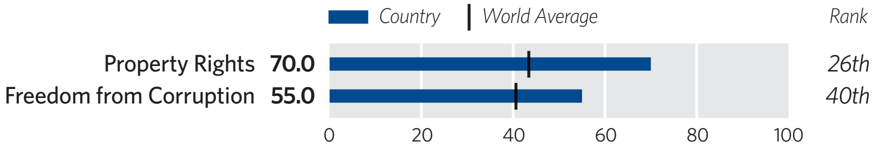
Quick Facts

Population: 0.5 million
GDP (PPP): $2.1 billion
5.0% growth in 2011
5-year compound annual growth 5.8%
$3,947 per capita
Unemployment: 10.7%
Inflation (CPI): 4.5%
FDI Inflow: $93.1 million
Public Debt: 77.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

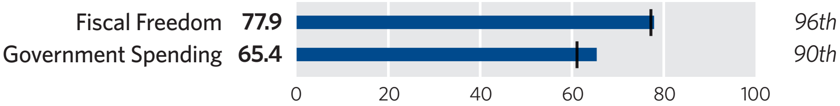
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



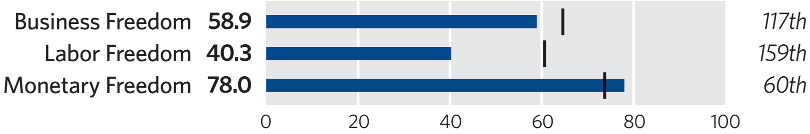
Private property is reasonably well protected. The constitutional provision for an independent judiciary is generally respected, but the judicial system is inefficient, and the case backlog causes significant delays. Several recently signed treaties provide stronger protection for intellectual property. Political and economic governance is generally regarded as among the region's best.

LIMITED GOVERNMENT



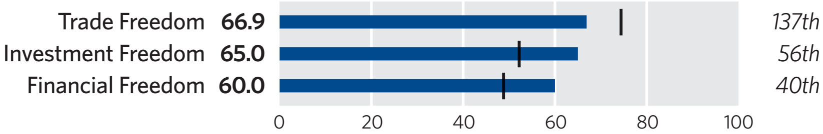
The top income tax rate is 35 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT). The overall tax burden amounts to 19.1 percent of total domestic income. Government spending amounts to 33.9 percent of total domestic output, leading to a budget deficit of 8.9 percent of GDP. A 2010–2011 public investment stimulus program contributed to a rising public debt that is over 70 percent of GDP.

REGULATORY EFFICIENCY



The business start-up process has been simplified, but bankruptcy procedures remain underdeveloped. The cost of launching a business has been reduced to about 20 percent of the level of average annual income. Despite efforts to increase flexibility in the labor market, a high unemployment rate persists, particularly among the young. The market determines most prices, and inflation has declined as global food prices have fallen.

OPEN MARKETS

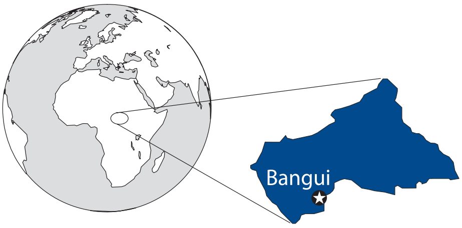


The trade-weighted average tariff is 11.6 percent. Non-tariff barriers include restrictions on access to services markets. Foreign investment is officially encouraged and receives the same treatment as domestic investment. The banking sector continues to expand, and the number of non-performing loans has decreased. With credit generally allocated on market terms, small and medium-size enterprises have increasingly adequate access to financing.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**+5.0**	Fiscal Freedom	**+0.6**	Business Freedom	**-0.1**	Trade Freedom	**0**
Freedom from Corruption	**+4.0**	Government Spending	**+3.6**	Labor Freedom	**-8.2**	Investment Freedom	**0**
				Monetary Freedom	**-2.5**	Financial Freedom	**0**

CENTRAL AFRICAN REPUBLIC



World Rank: **142** Regional Rank: **31**

The Central African Republic's economic freedom score is 50.4, making its economy the 142nd freest in the 2013 *Index*. Its overall score is 0.1 point higher than last year, primarily due to an improvement in monetary freedom that offsets declines in four other economic freedoms including business and labor freedoms. The CAR is ranked 31st out of 46 countries in the Sub-Saharan Africa region, and its overall score is lower than the regional average.

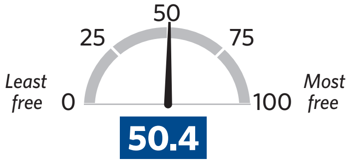
Economic freedom has been growing in the Central African Republic over the past five years but from a very low base. Stronger momentum for reform is critical to build on the progress and maintain moderate GDP growth rates. Even with improvements, the CAR performs poorly in many areas of economic freedom, and the economy lags behind many other developing countries in terms of economic and human development. The rule of law is particularly weak. There is little protection of property rights, and corruption is pervasive.

The effectiveness of government remains low, and the management of public finance has deteriorated. Monetary stability remains fragile, and government interference with market prices is extensive. Much-needed private-sector development is held back by an inefficient and unstructured regulatory system and further undermined by limited access to financing.

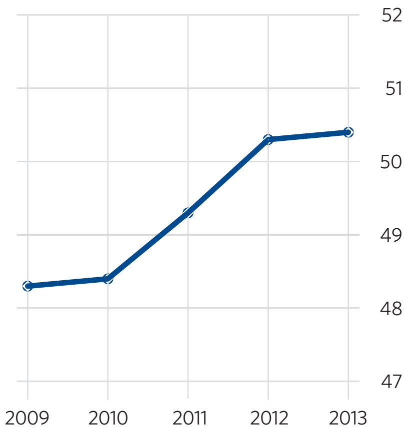
BACKGROUND: A December 2008 agreement between General François Bozizé and opposition leaders and some rebel groups established a consensus government. Elections scheduled for April 2010 were postponed, and Bozizé and parliament remained in office beyond their term limits. In March 2011, Bozizé was re-elected, and his party won 61 percent of available legislative seats. Rebel groups, including the Lord's Resistance Army, remain active, and unrest in Sudan, South Sudan, and the Democratic Republic of Congo continues to affect security. The CAR lacks infrastructure and transport resources. More than half of its people live in rural areas and depend on subsistence farming and forestry. Despite timber, diamonds (about 50 percent of exports), gold, uranium, and prospects for oil exploration, the CAR is one of the world's least-developed countries.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

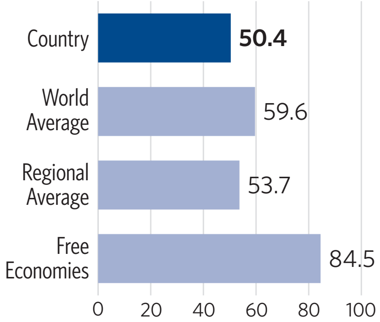
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

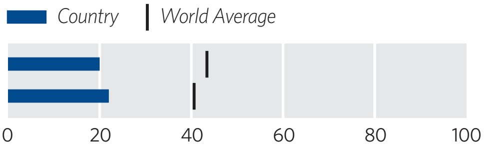
Population: 4.7 million
GDP (PPP): $3.6 billion
3.1% growth in 2011
5-year compound annual growth 2.8%
$768 per capita
Unemployment: n/a
Inflation (CPI): 0.7%
FDI Inflow: $109.2 million
Public Debt: 40.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

CENTRAL AFRICAN REPUBLIC (continued)

THE TEN ECONOMIC FREEDOMS

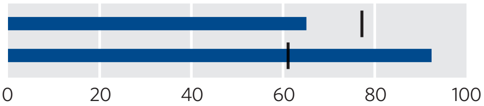
RULE OF LAW



		Rank
Property Rights	**20.0**	141st
Freedom from Corruption	**22.0**	151st

Protection of property rights is weak. Most of the country's territory is not under central government control, and there is a high risk of renewed violence in rebel-controlled areas. The judiciary is subject to executive interference, and courts barely function. In mid-2012, President Bozizé fired his justice minister and the director-general of the police force in a purge of former allies. Misappropriation of public funds and corruption are common.

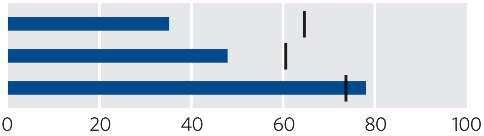
LIMITED GOVERNMENT



Fiscal Freedom	**65.1**	153rd
Government Spending	**92.4**	5th

The top income tax rate is 50 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT). The overall tax burden amounts to 9.3 percent of total domestic income. Government spending is equivalent to 15.9 percent of total domestic output. The government budget has been in deficit in recent years, and public debt stands at 40.9 percent of GDP.

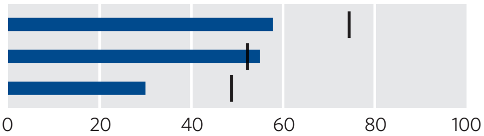
REGULATORY EFFICIENCY



Business Freedom	**35.2**	166th
Labor Freedom	**47.9**	137th
Monetary Freedom	**78.1**	59th

Despite progress in simplifying the business start-up process, private enterprises still face costly regulatory hurdles. Minimum capital requirements to launch a company exceed four times the average level of annual income. The formal labor market is not fully developed. The government influences most prices through the public sector and subsidies. Arbitrary price controls cause food shortages and foster black-market exchanges.

OPEN MARKETS



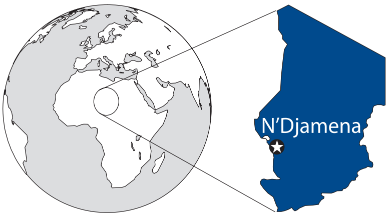
Trade Freedom	**57.8**	164th
Investment Freedom	**55.0**	79th
Financial Freedom	**30.0**	130th

The trade-weighted average tariff rate is 13.6 percent, and non-tariff barriers add to the cost of trade. Foreign and domestic investors are treated equally, and all sectors of the economy, including real estate, are open to foreign investment, typically without screening. The financial system is underdeveloped, and access to financing for businesses remains very limited. Loans to the private sector are equivalent only to about 10 percent of GDP.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**0**	Fiscal Freedom	**-0.1**	Business Freedom	**-2.1**	Trade Freedom	**0**
Freedom from Corruption	**+1.0**	Government Spending	**-0.5**	Labor Freedom	**-1.2**	Investment Freedom	**0**
				Monetary Freedom	**+3.5**	Financial Freedom	**0**

CHAD



World Rank: **164** Regional Rank: **41**

Chad's economic freedom score is 45.2, making its economy the 164th freest in the 2013 *Index*. Its overall score is 0.4 point higher than last year, with improvements in half of the 10 economic freedoms including freedom from corruption and monetary freedom. Chad is ranked 41st out of 46 countries in the Sub-Saharan Africa region, and its overall score is lower than the regional average.

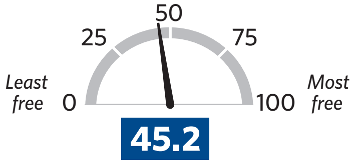
Chad lags far behind many other developing countries in terms of economic and human development. Despite recent efforts to diversify, it remains dependent on oil revenue and is subject to the volatility that this entails. Institutional support for economic freedom continues to be weak. The rule of law is poorly maintained, perpetuating systematic corruption and lax enforcement of property rights and undermining prospects for long-term economic development.

The government is largely ineffective, and oil-backed budget surpluses have allowed fiscal mismanagement to continue. Monetary stability has been helped by low inflation in recent years, but the state continues to interfere in the market for key goods through price controls.

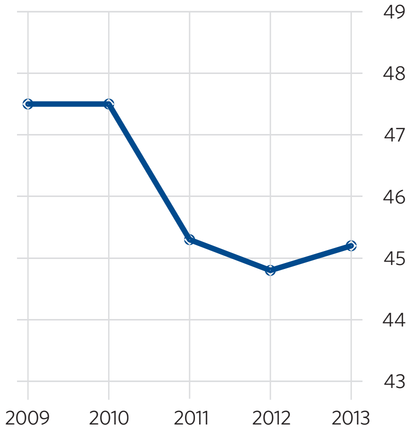
BACKGROUND: President Idriss Deby, who seized power in 1990, was re-elected to a fourth term in March 2011 amid allegations of electoral fraud and vote tampering. Repeated reshufflings of the cabinet by Deby and Prime Minister Emmanuel Nadingar reflect the instability of the administration. Chad ranks 166th out of 167 countries on the Economist Intelligence Unit's Democracy Index as one of the world's least democratic countries. Due to recent terrorist activity in the Sahel, Deby has called on neighboring countries to set up a military task force to defend their borders. Conflict in eastern Chad and unrest in Sudan's Darfur region have created hundreds of thousands of Chadian and Sudanese refugees. Over 80 percent of Chad's people depend on subsistence agriculture, herding, and fishing. Oil revenues and investments in oil by American and Chinese companies have fueled economic growth, and oil now accounts for about half of GDP. Chad's most important bilateral economic partnerships are with China and India.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

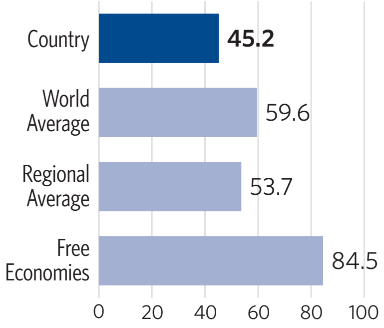
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 10.5 million

GDP (PPP): $19.5 billion

1.6% growth in 2011

5-year compound annual growth 2.9%

$1,865 per capita

Unemployment: n/a

Inflation (CPI): 1.9%

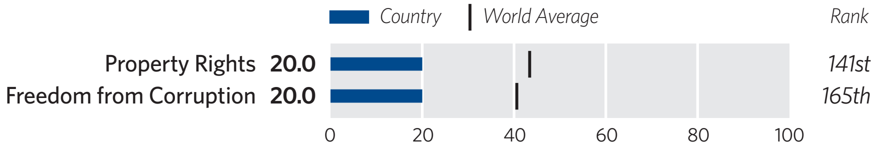
FDI Inflow: $1.9 billion

Public Debt: 32.2% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

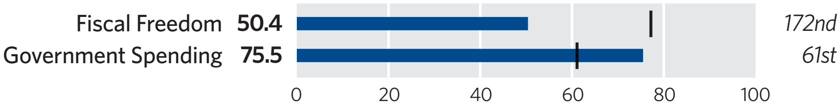
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



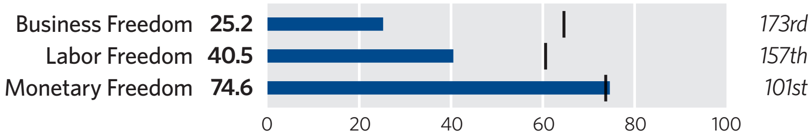
Protection of private property is weak, and the rule of law remains uneven across the country. The constitution guarantees judicial independence, but most key judicial officials are named by the president and assumed to be subject to political influence. Despite a "Ministry of Morality" that conducts anti-corruption seminars for government employees, rampant corruption exists at all levels of government.

LIMITED GOVERNMENT



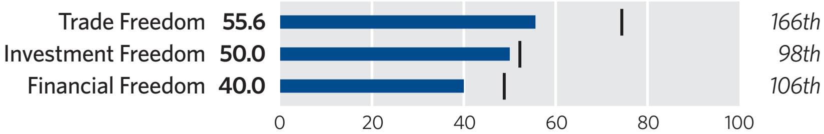
The top income tax rate is 60 percent, and the top corporate tax rate is 40 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden is equal to 5.2 percent of total domestic income. Government spending amounts to 28.6 percent of total domestic output, and public debt has reached over 30 percent of GDP. Improved oil revenue is expected to shore up recently shaky government finances.

REGULATORY EFFICIENCY



It takes longer than the world average of 30 days to start a company, and minimum capital requirements exceed three times the average level of annual income. Informal labor activity is widespread, and outmoded employment regulations hinder the development of a modern labor market. Most prices are determined in the market, but the state influences prices through state-owned enterprises and the regulation of key goods.

OPEN MARKETS



Tariffs are a significant source of government revenue. The trade-weighted average tariff rate is high at 14.7 percent, and myriad non-tariff barriers further weaken trade freedom. Although Chad allows foreign ownership and provides equal treatment to foreign investors, bureaucratic regulations remain serious impediments to new investment. The financial sector is underdeveloped, with domestic credit balances equivalent to less than 1 percent of GDP.

Score Changes

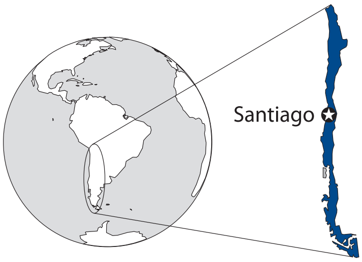
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+3.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.2
Government Spending	+1.3

REGULATORY EFFICIENCY	
Business Freedom	+0.3
Labor Freedom	-3.2
Monetary Freedom	+2.1

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

CHILE



World Rank: **7** Regional Rank: **1**

Chile's economic freedom score is 79, making its economy the 7th freest in the 2013 *Index*. Its overall score is 0.7 point better than last year, mainly due to improved scores in investment and business freedoms. Continuing to be one of the 10 freest economies in the *Index*, Chile enjoys the highest degree of economic freedom in the South and Central America/Caribbean region.

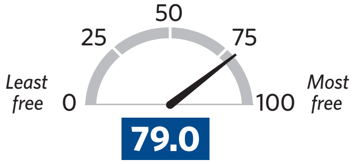
Chile continues to be a global leader in economic freedom. With the rule of law strongly maintained by an independent and efficient judicial system, prudent public finance management has kept public debt and recent budget deficits under control.

Flexibility and openness have equipped Chile's small economy with an impressive capacity to adjust to external shocks, and its active participation in the Trans-Pacific Partnership negotiations reflects its strong commitment to trade liberalization. Facilitating entrepreneurial activity, sound policy choices grounded in a strong commitment to economic freedom have ensured economic dynamism. The investment code is conducive to long-term growth, and the financial sector remains competitive.

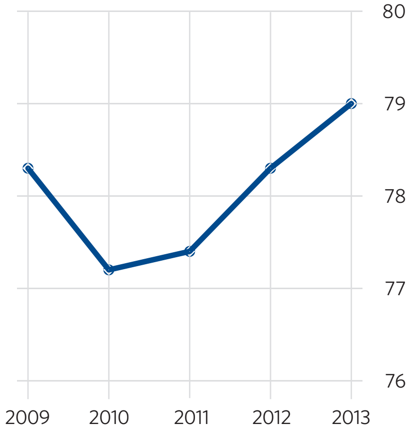
BACKGROUND: From 1990 to 2009, left-of-center governments did little to deepen reforms but largely maintained the market-based institutions and economic policies established under the 17-year rule of General Augusto Pinochet. Now, to the disappointment of many market liberals, President Sebastian Piñera and his center-right Alianza coalition, in power since 2010, have raised taxes and intervened to stop the construction of a coal-fired electric plant that had already cleared all regulatory hurdles. Chile has the strongest sovereign bond rating in South America and is the first country from that continent to join the Organisation for Economic Co-operation and Development. It is the world's leading producer of copper. An innovative, countercyclical fiscal policy accumulates surpluses when copper prices are high and operates in deficit only when prices and economic activity are low. This has helped to maintain fiscal balance. The economy is very open to imports but is also an export powerhouse in minerals, wood, fruit, seafood, and wine.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

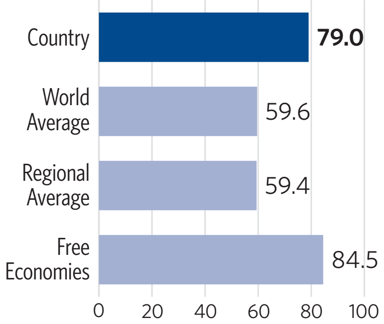
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

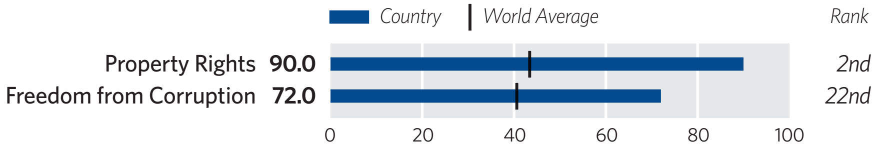
Population: 17.4 million
GDP (PPP): $299.6 billion
5.9% growth in 2011
5-year compound annual growth 3.9%
$17,222 per capita
Unemployment: 6.1%
Inflation (CPI): 3.3%
FDI Inflow: $17.3 billion
Public Debt: 9.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

CHILE (continued)

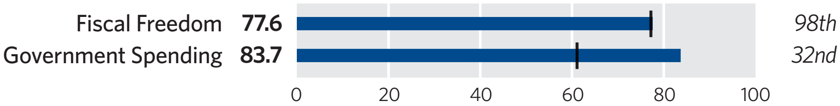
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



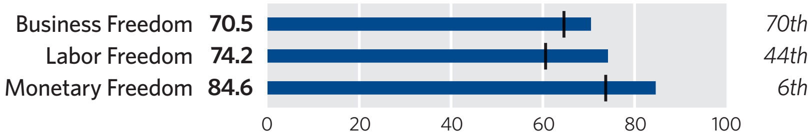
Contractual agreements in Chile are the most secure in Latin America. Courts are transparent and efficient. Property rights are strongly respected, and expropriation is rare. Lingering intellectual property rights concerns involve protection of patents and copyrights, although the government has amended its copyright law, ratified the Trademark Law Treaty, and approved the International Convention for the Protection of New Varieties of Plants.

LIMITED GOVERNMENT



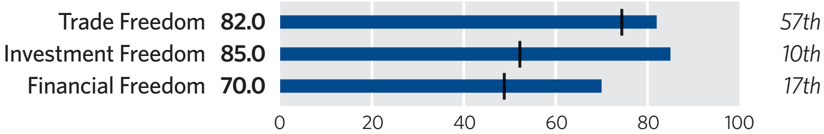
The top income tax rate is 40 percent. The corporate tax rate increase instituted in 2010 was temporarily lifted during the first half of 2012. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals 17.3 percent of GDP. Government spending is 23.3 percent of total domestic output. Public debt is about 10 percent of GDP.

REGULATORY EFFICIENCY



Chile has made progress in eliminating regulatory bottlenecks. It takes eight days and seven procedures to start a business, with no minimum capital required. Bankruptcy procedures remain cumbersome. Minimum wage increases have exceeded overall productivity growth in recent years, but labor laws generally facilitate efficient hiring and dismissal procedures. Inflation has risen slightly in the wake of continuing strong domestic demand.

OPEN MARKETS

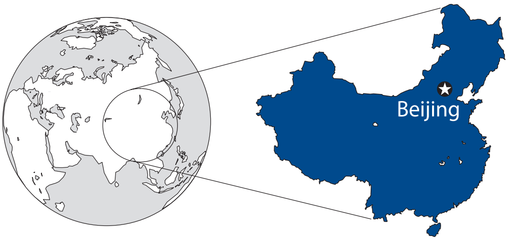


The trade-weighted average tariff rate is 4 percent, and non-tariff barriers are relatively low. Chile has actively pursued free trade deals with many countries. Guided by a transparent and efficient investment regime, foreign and domestic investors generally receive equal treatment. With the well-capitalized and stable banking sector offering a wider range of services, the financial system remains one of the region's most stable and developed.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.2	Business Freedom	+1.9	Trade Freedom	0
Freedom from Corruption	0	Government Spending	+1.6	Labor Freedom	−0.9	Investment Freedom	+5.0
				Monetary Freedom	−1.0	Financial Freedom	0

CHINA



World Rank: **136** Regional Rank: **29**

China's economic freedom score is 51.9, making its economy the 136th freest in the 2013 *Index*. Its overall score is 0.7 point higher than last year, reflecting modest improvements in four of the 10 economic freedoms. China is ranked 29th out of 41 countries in the Asia–Pacific region, and its overall score continues to be lower than the global and regional averages.

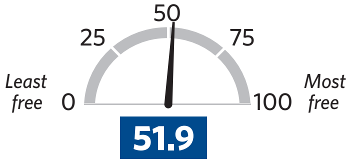
China's economy remains "mostly unfree." The legal and regulatory system is vulnerable to political influence and Communist Party directives. The party's ultimate authority throughout the economic system undermines the rule of law and respect for contracts. Corruption is widespread, and cronyism is institutionalized and pervasive. Although leaders occasionally embrace market principles that could enhance efficiency and ensure long-term competitiveness, genuinely liberalizing economic reform has largely stalled.

The absence of political will to undertake more fundamental restructuring of the economy has led to continued overreliance on public investment. Productivity growth is undermined by state regulation and ownership of many enterprises, and the financial sector is primarily an instrument of state control through subsidies and credit manipulation. In the face of the economic slowdown, the government has tried expansionary fiscal and monetary interventions to little effect.

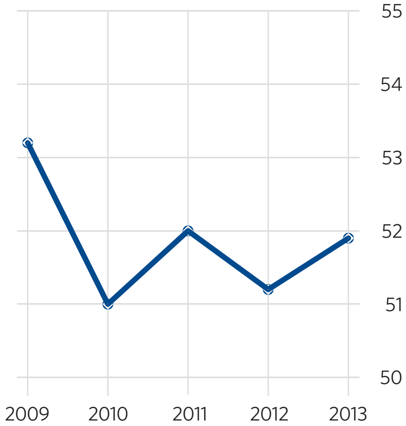
BACKGROUND: China's Communist Party maintains tight control of political expression, speech, religion, and assembly. There is hope for economic reform from the incoming government of Communist Party General Secretary Xi Jinping, but political reform is unlikely. Environmental degradation and fiscal pressure driven by low birth rates that are the legacy of China's "one-child policy" fuel social unrest. China liberalized parts of its economy in the late 1970s and early 1980s and has achieved impressive GDP growth through greater integration into the world trading and financial systems. It formally joined the World Trade Organization in 2001, and the size of its industrial and manufacturing sector now rivals that of the United States.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

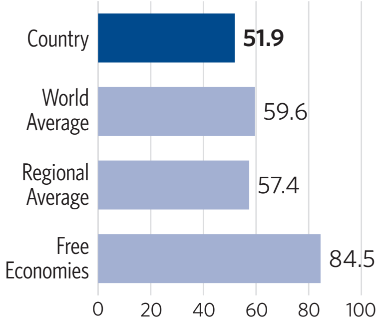
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

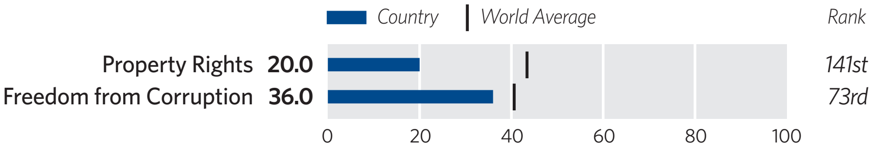
Population: 1.35 billion
GDP (PPP): $11.3 trillion
9.2% growth in 2011
5-year compound annual growth 10.5%
$8,382 per capita
Unemployment: 6.5% (registered urban)
Inflation (CPI): 5.4%
FDI Inflow: $124.0 billion
Public Debt: 25.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

CHINA (continued)

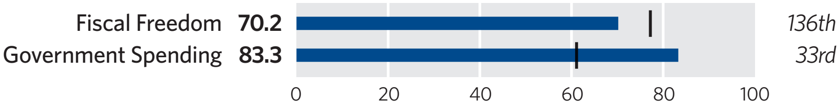
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



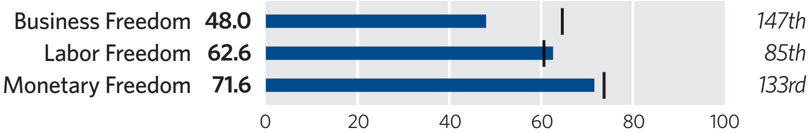
China's weak judicial system is highly vulnerable to political influence and corruption. All land is state-owned. Individuals and firms may own and transfer long-term leases that are subject to many restrictions. Intellectual property rights are not protected effectively, and infringement of copyrights, patents, and trademarks is common. Various forms of corruption severely affect banking, finance, government procurement, and construction.

LIMITED GOVERNMENT



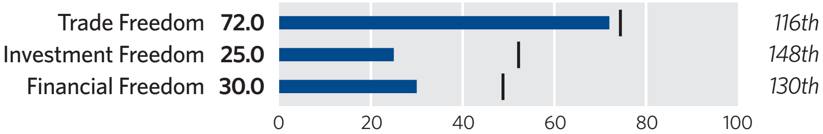
The top income tax rate is 45 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a real estate tax. The overall tax burden is equal to 18.2 percent of total domestic income. Government spending amounts to 23.6 percent of GDP. Public debt has decreased, but large amounts of debt are held in off-budget obligations. Slower growth may undermine fiscal policy.

REGULATORY EFFICIENCY



The overall regulatory framework remains complex, arbitrary, and uneven. Completing licensing requirements costs over three times the level of average annual income. The labor regime remains repressive. The state imposes price controls on a wide range of energy, raw materials, and other basic goods. Along with several interest rate cuts, deceleration in consumer price inflation in 2012 gave the state room for additional stimulus measures.

OPEN MARKETS



The trade-weighted average tariff rate is 4 percent, and layers of non-tariff barriers add to the cost of trade. The investment regime is non-transparent and inefficient. The state continues its tight control of the financial system as its primary means for managing the rest of the economy. The government owns all large financial institutions, which lend according to state priorities and directives and favor large state enterprises.

Score Changes

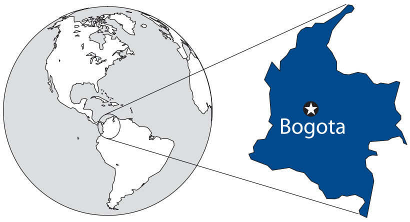
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+1.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.2
Government Spending	-0.8

REGULATORY EFFICIENCY	
Business Freedom	+1.6
Labor Freedom	+7.2
Monetary Freedom	-2.6

OPEN MARKETS	
Trade Freedom	+0.4
Investment Freedom	0
Financial Freedom	0

COLOMBIA



World Rank: **37** Regional Rank: **5**

Colombia's economic freedom score is 69.6, making its economy the 37th freest in the 2013 *Index*. Its overall score is 1.6 points higher than last year, with improvements in half of the 10 economic freedoms including investment freedom, financial freedom, and the management of public spending. Colombia is ranked 5th out of 29 countries in the South and Central America/Caribbean region.

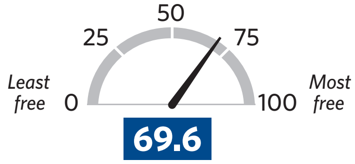
Colombia's government has undertaken wide-ranging reforms to address structural weaknesses and improve competitiveness, notably in the context of various free trade agreements. Resilient economic growth has averaged over 4 percent during the past five years. Recent reforms have put greater emphasis on improving regulatory efficiency and enhancing financial-sector competitiveness. Management of public finance has been relatively prudent, and debt has been kept under control.

Despite progress, lingering institutional shortcomings undermine prospects for broad-based long-term economic development. Anti-corruption laws have had little impact, and the judicial system remains vulnerable to political interference. Other weaknesses include security issues that undercut the protection of property rights, infrastructure deficiencies, and complex tax and labor systems.

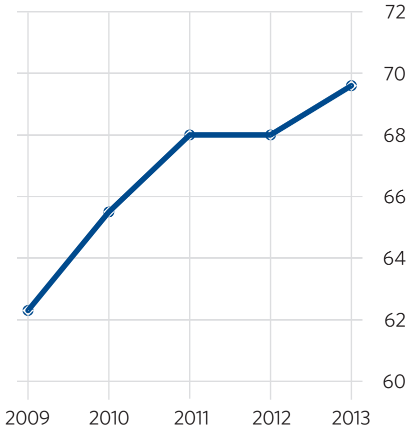
BACKGROUND: The policy of "democratic security" pursued by President Alvaro Uribe (2002–2010) significantly reduced crime and violence and increased government control of national territory. Uribe also helped to re-establish business confidence. Former Defense Minister Juan Manuel Santos, elected president in June 2010, has strongly emphasized integration into the global economy. The U.S.–Colombia free trade agreement, approved by the U.S. Congress in October 2011, entered into force in May 2012. Colombia has also pursued free trade agreements with dozens of other nations and is working with other countries to develop a Pacific trade alliance. Colombia's economy depends heavily on exports of petroleum, coffee, and cut flowers. Colombia has experienced an upsurge in foreign investment in recent years and is positioned to become South America's second-largest economy.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

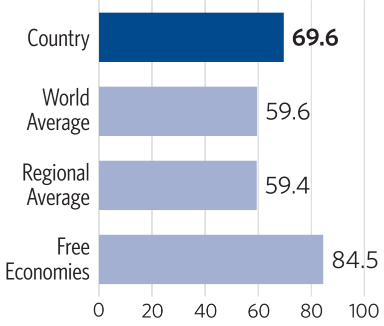
Economic Freedom Score



Freedom Trend



Country Comparisons



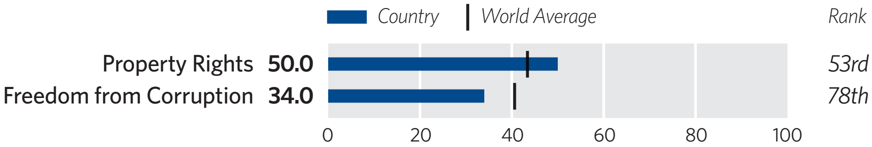
Quick Facts

Population: 46.1 million
GDP (PPP): $472.0 billion
5.9% growth in 2011
5-year compound annual growth 4.4%
$10,249 per capita
Unemployment: 10.9%
Inflation (CPI): 3.4%
FDI Inflow: $13.2 billion
Public Debt: 34.7% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

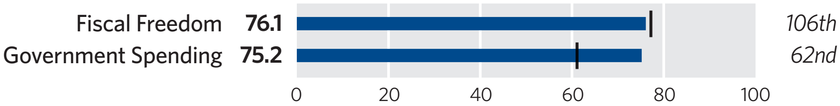
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



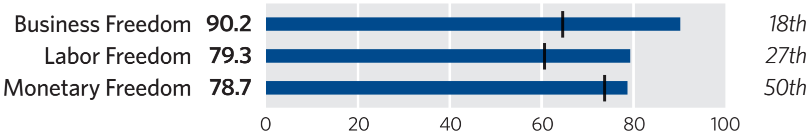
Property rights are generally respected, but infringement of intellectual property rights is common. Despite improvements in fighting corruption and narcotics trafficking, concerns remain over criminal influence on the police, the military, and lower levels of the judiciary and civil service. The public was outraged in June 2012 when the legislature voted down a constitutional provision to reform the judiciary.

LIMITED GOVERNMENT



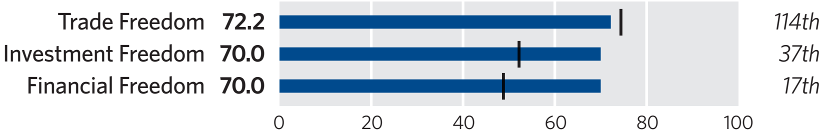
The top income and corporate tax rates are 33 percent. Other taxes include a value-added tax (VAT) and a financial transactions tax. The overall tax burden is equal to 14.4 percent of total domestic income. Government spending has stabilized at about 29 percent of total domestic output, with the budget deficit falling to 2.1 percent of GDP. Public debt remains below 35 percent of GDP. A strong fiscal climate was reaffirmed by a boost in bond ratings.

REGULATORY EFFICIENCY



The overall regulatory framework has become more efficient, and business procedures have been streamlined. With no minimum capital required, launching a business costs about 7 percent of the level of average annual income. Reforms are needed to improve labor flexibility and lower non-wage costs. Inflation fell in early 2012 as a result of lower food and housing costs, but the government regulates prices of certain products.

OPEN MARKETS

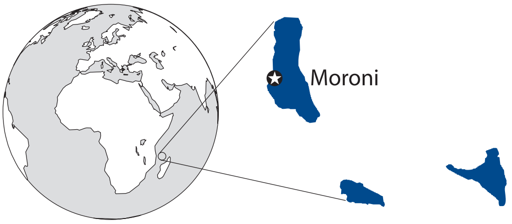


The trade-weighted average tariff rate is 8.9 percent, but non-tariff barriers are relatively low. The investment regime can be cumbersome but is generally transparent. Foreign investment receives national treatment, and 100 percent foreign ownership is allowed in most sectors. Private institutions dominate the growing and well-capitalized financial sector. Non-performing loans have declined, and the financial transaction tax is scheduled to be reduced.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.1	Business Freedom	+0.8	Trade Freedom	0
Freedom from Corruption	-1.0	Government Spending	+1.1	Labor Freedom	-0.4	Investment Freedom	+5.0
				Monetary Freedom	0	Financial Freedom	+10.0

COMOROS



World Rank: 157 **Regional Rank: 39**

Comoros's economic freedom score is 47.5, making its economy the 157th freest in the 2013 *Index*. Its overall score is 1.8 points higher than last year, reflecting noteworthy increases in labor freedom, business freedom, and freedom from corruption. Comoros is ranked 39th out of 46 countries in the Sub-Saharan Africa region, and its overall score is lower than the regional average.

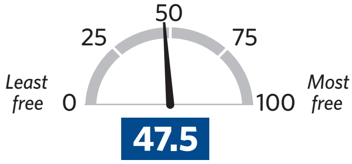
Comoros contrasts sharply with other African island nations that have found in greater economic freedom a path to modernization and sustainable development. Low scores on property rights and corruption in particular contribute to its standing as one of the world's least economically free countries. The public sector remains inefficient and lacks transparency. Political crises have undermined confidence in the government and contributed to macroeconomic mismanagement, resulting in dismal economic performance over the past five years.

The overall entrepreneurial environment remains severely constrained. An overbearing regulatory framework, exacerbated by poor access to credit and high financing costs, stifles economic activity and hurts business expansion, hiring, and the development of a vibrant private sector.

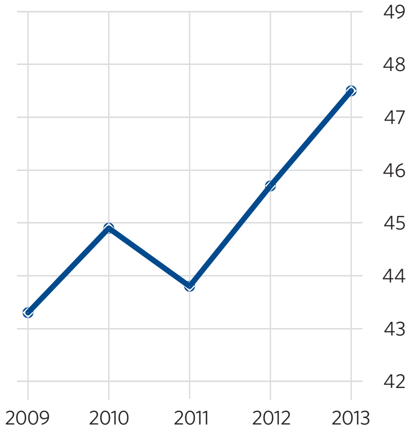
BACKGROUND: The Union of the Comoros is an archipelago of three islands: Grande Comore, Anjouan, and Moheli. Political turmoil has hampered economic and social development, but a 2001 constitution granting each island increased autonomy has provided some stability. The presidency rotates among the three islands every four years. The peaceful transfer of power to Ikililou Dhoinine in 2010 is a sign of growing political stability, and macroeconomic and structural policies have improved. Comoros is highly dependent on foreign aid to support its economy, and remittances from Comorans living abroad are an important source of income. Fishing, agriculture, and forestry employ approximately 80 percent of the population and provide over 40 percent of GDP. Comoros is among the world's leading producers of ylang-ylang (a perfume ingredient), cloves, and vanilla. In March 2012, Comoros awarded a license for the exploration of oil and gas to a privately owned Kenyan company.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

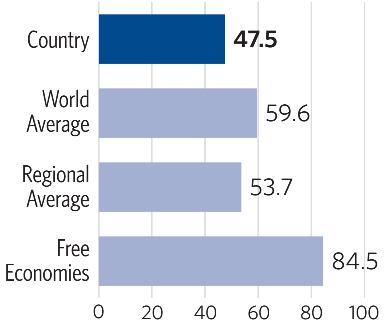
Economic Freedom Score



Freedom Trend



Country Comparisons



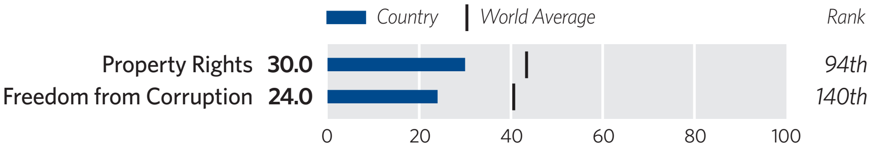
Quick Facts

Population: 0.7 million
GDP (PPP): $0.8 billion
2.2% growth in 2011
5-year compound annual growth 1.5%
$1,232 per capita
Unemployment: n/a
Inflation (CPI): 6.8%
FDI Inflow: $6.8 million
Public Debt: 51.2%

2011 data unless otherwise noted.
Data compiled as of September 2012.

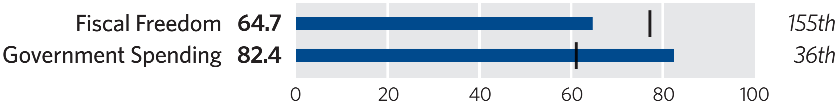
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



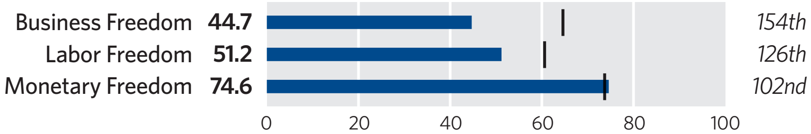
Political stability has improved since the smooth transfer of power to President Dhoinine in June 2011, but the judicial system is ineffective, contracts are weakly enforced, and courts are relatively inexperienced in commercial litigation. The government lacks the capacity to enforce intellectual property rights laws. Officials often engage in corrupt practices with impunity.

LIMITED GOVERNMENT



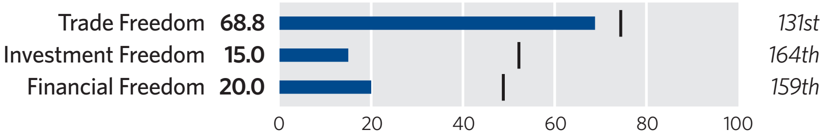
The top income tax rate is 30 percent, and the top corporate tax rate is 50 percent. Other taxes include a value-added tax (VAT) and an insurance tax. The overall tax burden equals 11.4 percent of total domestic income. Government spending is equivalent to 24.3 percent of total domestic output. With continuing budget surpluses, Comoros is on track to complete the Heavily Indebted Poor Countries Initiative, paving the way for multilateral debt reduction.

REGULATORY EFFICIENCY



The overall regulatory framework remains poor. Establishing a business costs more than the level of average annual income. Retail services are the largest source of employment, and formal-sector employment is negligible. Inflation began to increase in 2012, exacerbated by the rising cost of imports caused primarily by high global fuel prices and depreciation of the euro-pegged Comorian franc against the dollar.

OPEN MARKETS

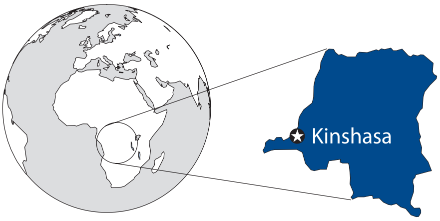


The trade-weighted average tariff rate is 8.1 percent, and myriad non-tariff barriers undermine trade freedom. Non-transparent investment regulations and underdeveloped markets inhibit investment. The small financial sector, dominated by banks, has recorded modest growth in recent years. With two new banks coming into operation, the small banking sector has expanded, but many people and businesses still rely on informal lending.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.2	Business Freedom	+3.2	Trade Freedom	-0.6
Freedom from Corruption	+3.0	Government Spending	-2.9	Labor Freedom	+20.0	Investment Freedom	0
				Monetary Freedom	-3.7	Financial Freedom	0

DEMOCRATIC REPUBLIC OF CONGO



World Rank: **171** Regional Rank: **44**

The Democratic Republic of Congo (DRC) has an economic freedom score of 39.6, making it the 171st freest economy in the 2013 *Index*. Its overall score is 1.5 points lower than last year, reflecting significant deterioration in control of government spending that is only partially mitigated by an increase in monetary freedom. The DRC is ranked 44th out of 46 countries in the Sub-Saharan Africa region, and its score is far below the regional average.

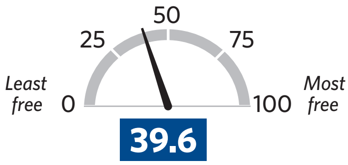
The Congo's extractive industries and exports have generated high nominal rates of economic growth but little sustainable or broad-based development. Political risk remains high, severely undermining prospects for diversified growth and trapping a majority of the population in poverty. Informal economic activity is rampant, and businesses have little recourse in law and little protection for their property.

Government economic activity lacks impact, and the basic supply of public goods, particularly infrastructure, is far below levels necessary to facilitate economic growth and entrepreneurial opportunity. The slow pace of reform, coupled with ongoing political instability, has left the capacity of public institutions inadequate to support private-sector development and long-term economic expansion.

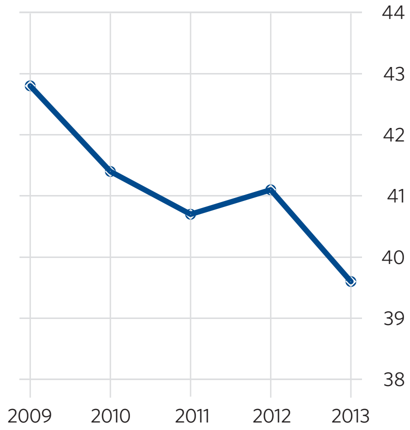
BACKGROUND: Laurent Kabila, who seized power in 1997, was assassinated in 2001. His son Joseph assumed power and in 2006 won the first multi-party election in 40 years. He was re-elected in December 2011 in a largely flawed and violent election. Rebel groups that include the Lord's Resistance Army, M23, and the Democratic Forces for the Liberation of Rwanda (FDLR) remain active in the northeastern region. The DRC's immense natural resources, including copper, cobalt, and diamonds, have fueled conflict rather than development. Political unrest has led foreign businesses to limit their operations, and corruption and mismanagement are disincentives to activity in the formal sector. Infrastructure is practically nonexistent in many areas.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

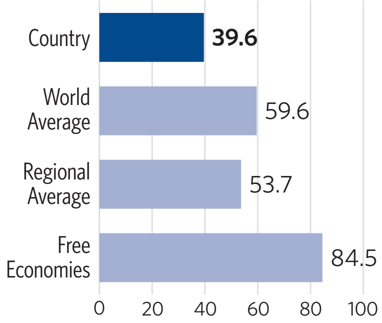
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

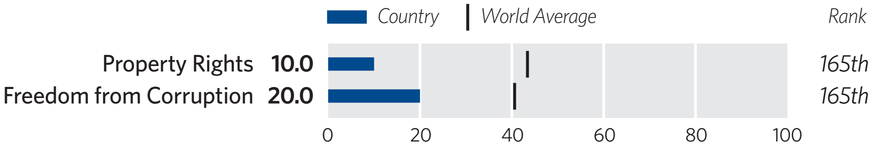
Population: 72.6 million
GDP (PPP): $25.3 billion
6.9% growth in 2011
5-year compound annual growth 5.8%
$348 per capita
Unemployment: n/a
Inflation (CPI): 15.5%
FDI Inflow: $1.7 billion
Public Debt: 32.0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

DEMOCRATIC REPUBLIC OF CONGO (continued)

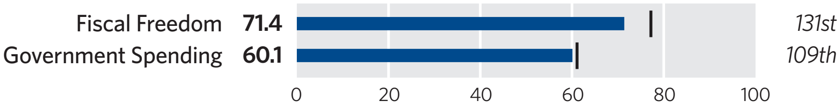
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



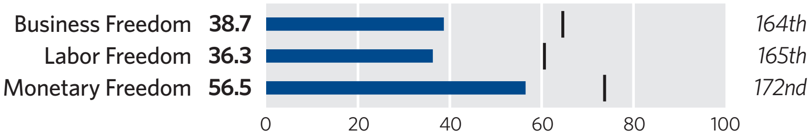
Despite a recently adopted constitution, protection of property rights is hampered by dysfunctional public administration. Enforcement of the complex legal code is selective. Human rights abuses and banditry deter economic activity. A culture of corruption institutionalized during the 30-year tenure of former President Mobutu Sese Seko limits the state's ability to fulfill essential obligations of government.

LIMITED GOVERNMENT



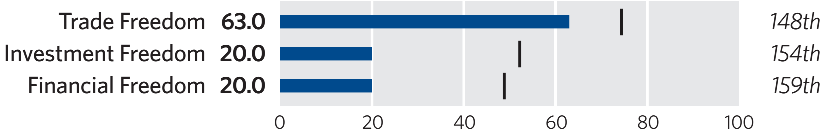
The top income tax rate is 30 percent, and the top corporate tax rate is 40 percent. Other taxes include a rental tax and a tax on vehicles. The overall tax burden equals 18.9 percent of total domestic income. Tax enforcement is arbitrary. Government spending equals 36.5 percent of domestic output, and the budget deficit is over 6 percent of GDP. Much of the public debt was cancelled in 2010 under the Heavily Indebted Poor Countries Initiative.

REGULATORY EFFICIENCY



Despite recent efforts to modernize the regulatory framework, launching a business still takes more than the world averages of seven procedures and 30 days. Much of the workforce is employed in the agricultural sector, and informal labor activity is widespread. Many prices are controlled by the state. Inflation is likely to rise due to the central bank's injection of millions in new banknotes into the economy to fight dollarization.

OPEN MARKETS



The trade-weighted average tariff rate is relatively high at 11 percent, and inefficient customs procedures constrain dynamic growth in trade. The investment regime, hampered by government controls, lacks transparency. The private sector suffers from inadequate access to credit, particularly long-term loans, and overall use of financial services is highly constrained. Credit to the private sector amounts to less than 10 percent of GDP.

Score Changes

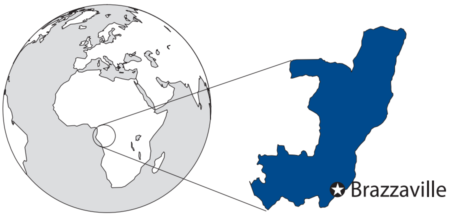
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	-1.1
Government Spending	-16.0

REGULATORY EFFICIENCY	
Business Freedom	0
Labor Freedom	-2.7
Monetary Freedom	+5.3

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

REPUBLIC OF CONGO



World Rank: **167** Regional Rank: **42**

The Republic of Congo's economic freedom score is 43.5, making its economy the 167th freest in the 2013 *Index*. Its overall score is 0.3 point worse than than last year, with improved scores in monetary freedom and the control of public spending counterbalanced by a substantial loss in business freedom. Congo is ranked 42nd out of 46 countries in the Sub-Saharan Africa region, and its overall score is much lower than the global and regional averages.

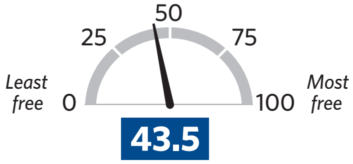
The foundations of economic freedom are fragile and unevenly established across the country. Widespread corruption and poor protection of property rights discourage entrepreneurial activity, undermining prospects for long-term economic expansion. The rule of law is weak, and the judicial system remains susceptible to substantial political interference.

In other key policy areas, heavy state involvement in the leading economic sectors has dampened private-sector dynamism and led to uneven economic development. The government restricts foreign investment to a few handpicked partners, and the underdeveloped financial system continues to limit potential entrepreneurs' access to credit. Burdensome and opaque regulatory systems further hinder the development of a vibrant private sector.

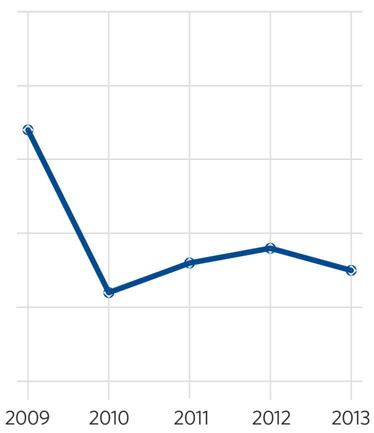
BACKGROUND: Congo has endured recurring coups since becoming independent in 1960. After seizing power in 1979, President Denis Sassou-Nguesso governed the country as a Marxist–Leninist state before moderating economic policy and allowing multi-party elections in 1992. Sassou-Nguesso lost the 1992 election to Pascal Lissouba. Then, backed by Angolan troops, he again seized power following a 1997 civil war, won a flawed 2002 election, and was re-elected in July 2009 in a slightly more open political environment. The 2003 and 2007 peace agreements with rebel groups have curtailed unrest in the Pool region, but many of the rebels have turned to banditry and criminality.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

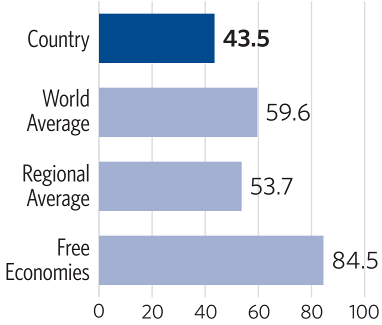
Economic Freedom Score



Freedom Trend



Country Comparisons



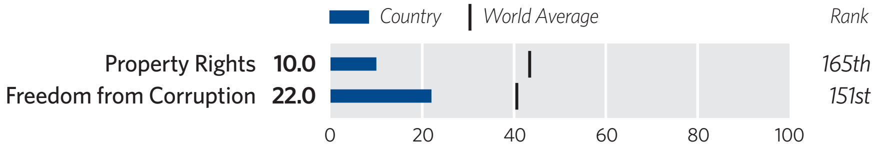
Quick Facts

Population: 4.0 million
GDP (PPP): $18.3 billion
4.5% growth in 2011
5-year compound annual growth 4.9%
$4,589 per capita
Unemployment: n/a
Inflation (CPI): 1.9%
FDI Inflow: $2.9 billion
Public Debt: 22.2%

2011 data unless otherwise noted.
Data compiled as of September 2012.

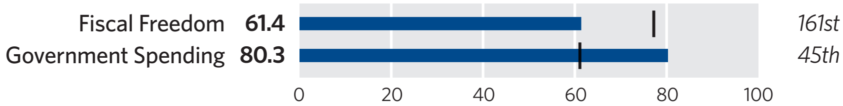
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



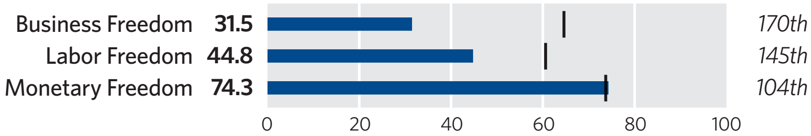
The civil war that ended in 2003 left the judiciary almost without records and subject to bribery. In the absence of a modern and independent judicial system, traditional courts often handle local disputes. Contracts are not enforced reliably. Endemic corruption plagues the oil, mining, and timber sectors. Opponents accused ruling-party candidates of abusing state media and financial resources in the 2012 elections.

LIMITED GOVERNMENT



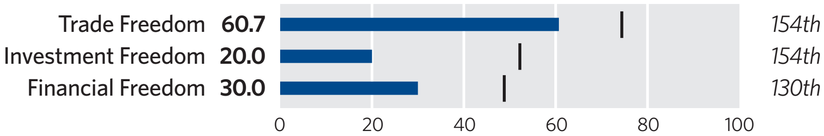
The top income tax rate is 50 percent, and the top corporate tax rate is 36 percent. Other taxes include a value-added tax (VAT), a tax on rental values, and an apprenticeship tax. The overall tax burden equals 7.9 percent of GDP. Government spending has fallen to 25.6 percent of total domestic output. Public debt continues to fall, and the budget surplus has nearly quadrupled to 16 percent of GDP due to large oil revenues.

REGULATORY EFFICIENCY



Despite some progress, the regulatory environment still imposes significant burdens on entrepreneurs. Launching a company takes more than 100 days. With development of a modern labor market lagging, the informal sector is the source of most employment. The prices of goods and services are affected by state ownership and subsidization of the public sector.

OPEN MARKETS



The trade-weighted average tariff rate is quite high at 14.7 percent, and non-tariff barriers increase the cost of trade. The investment regime remains hampered by heavy bureaucracy and a lack of transparency. The banking sector has recorded modest expansion, and more than 10 banks are now in operation. However, overall use of financial services is low. Only about 5 percent of the population have bank accounts.

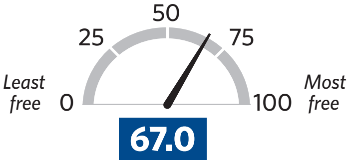
Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.1	Business Freedom	–9.1	Trade Freedom	0
Freedom from Corruption	+1.0	Government Spending	+2.3	Labor Freedom	–0.9	Investment Freedom	0
				Monetary Freedom	+3.3	Financial Freedom	0

COSTA RICA

World Rank: **49** Regional Rank: **8**

Economic Freedom Score



Costa Rica's economic freedom score is 67, making its economy the 49th freest in the 2013 *Index*. Its overall score is 1.0 point lower than last year, reflecting a substantial erosion of property rights, freedom from corruption, and labor freedom. Costa Rica is ranked 8th out of 29 countries in the South and Central America/Caribbean region, and its overall score is higher than the global and regional averages.

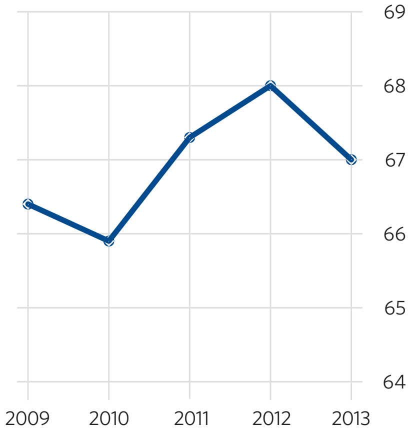
The Costa Rican economy has shown a moderate degree of resilience in the face of external challenges, and reform efforts have continued in many areas that are key to improving economic freedom. The overall regulatory framework has become more efficient, and business procedures have been streamlined. Policies that support open markets and a strong private sector are being implemented, enhancing flows of investment and the vitality of entrepreneurship. Relatively prudent public finance management has kept public debt under control.

Costa Rica has lagged, however, in promoting the effective rule of law. The judicial system, while transparent, remains vulnerable to political interference, and property rights are not strongly protected. Lingering corruption further undermines freedom and hampers the emergence of more vibrant economic activity.

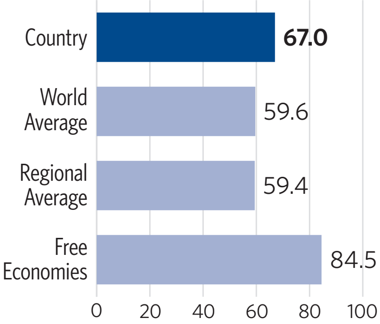
BACKGROUND: Costa Rica has a strong democratic tradition, but public spending consumes about 20 percent of GDP, and the deficit (hovering at 5 percent of GDP) has not improved economic performance. President Laura Chinchilla tried to raise taxes in 2011 but was thwarted by a grassroots rebellion. Costa Rica is experiencing rising crime, a border dispute with Nicaragua, and an influx of Nicaraguan immigrants. Tourism is vital to the economy. A traditional producer of bananas, pineapples, and coffee, Costa Rica has benefited from foreign investments in electronics and health care, and the Central America–Dominican Republic–United States Free Trade Agreement has opened insurance and telecommunications to private investors.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



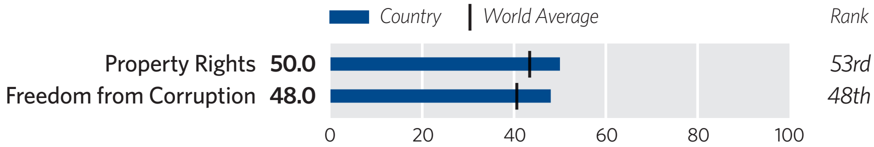
Quick Facts

Population: 4.6 million
GDP (PPP): $55.0 billion
4.2% growth in 2011
5-year compound annual growth 3.7%
$11,927 per capita
Unemployment: 7.7%
Inflation (CPI): 4.9%
FDI Inflow: $2.1 billion
Public Debt: 30.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

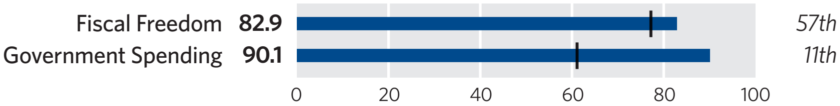
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



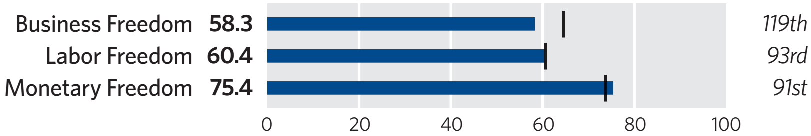
Property rights are secure, and contracts are generally upheld. However, the judicial system is slow and complicated. Foreign real estate investors have found it difficult to obtain clear titles. Enforcement of intellectual property rights is often ineffective. The state's capacity to enforce anti-corruption laws is limited. In 2012, several top officials were accused of influence-peddling and misappropriation of road construction funds.

LIMITED GOVERNMENT



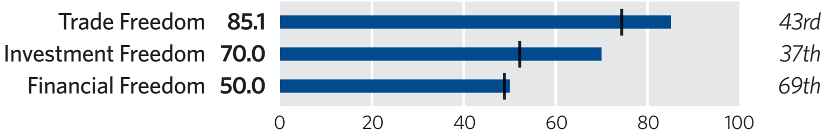
The top income tax rate is 25 percent, and the top corporate tax rate is 30 percent. Other taxes include a general sales tax and a real property tax. The overall tax burden, however, equals only 13.5 percent of total domestic income. Government spending is equivalent to 18.2 percent of total domestic output. Public debt remains low at 30 percent of GDP, but continuing deficits have prompted structural reforms, particularly in tax administration.

REGULATORY EFFICIENCY



The entrepreneurial environment is relatively streamlined, but regulatory compliance can be costly. Obtaining all the necessary permits to operate a business takes 160 days and costs more than the level of average annual income. Labor codes are stringent. Despite some flexibility in work hours, the non-salary cost of labor remains burdensome. Inflationary pressures have eased, but the government maintains price controls.

OPEN MARKETS

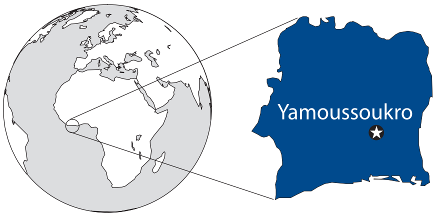


The trade-weighted average tariff rate is quite low at 2.4 percent, and there are relatively few non-tariff barriers. The investment regime is transparent, with foreign and domestic investors generally treated equally. No restrictions are imposed on the holding of foreign exchange accounts. The growing financial sector has become more open to competition, although three state-owned banks continue to dominate the sector.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**-5.0**	Fiscal Freedom	**+0.1**	Business Freedom	**+0.7**	Trade Freedom	**0**
Freedom from Corruption	**-5.0**	Government Spending	**-0.7**	Labor Freedom	**-2.3**	Investment Freedom	**0**
				Monetary Freedom	**+2.0**	Financial Freedom	**0**

CÔTE D'IVOIRE



World Rank: **126** Regional Rank: **24**

Côte d'Ivoire's economic freedom score is 54.1, making its economy the 126th freest in the 2013 *Index*. Its score is 0.2 point lower than last year, with significant improvements in property rights and investment freedom largely offset by declines in the management of public finances and monetary freedom. Côte d'Ivoire is ranked 24th out of 46 countries in the Sub-Saharan Africa region, and its overall score is slightly above the regional average.

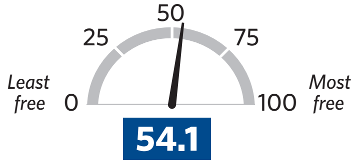
The foundations of economic freedom are fragile and uneven across Côte d'Ivoire. Poor protection of property rights and widespread corruption continue to restrain long-term entrepreneurial activity. The rule of law is weak, and courts are subject to political interference and lack the resources needed for the effective enforcement of laws. Lingering social and political instability has undermined economic development.

The government has pursued policies that are intended to favor private-sector development, but results have been meager. Current efforts to strengthen management of public finances and reform outmoded government economic structures have the potential, if implemented determinedly, to foster a more dynamic private sector. Although overall progress in public-sector reform has been slow, the government has maintained its policy of divesting state-owned enterprises.

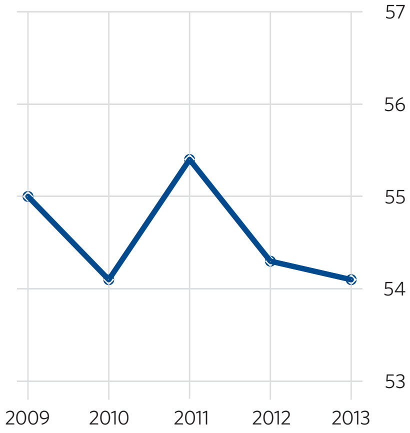
BACKGROUND: In 2002, civil war split Côte d'Ivoire between a rebel-controlled North and a government-controlled South. Despite a 2007 peace accord and the presence of U.N. peacekeepers, the country remains in crisis. President Laurent Gbagbo, ousted in April 2011 by French-backed forces, is currently jailed in The Hague, charged with four counts of crimes against humanity for his part in presidential election violence in 2010. Newly elected President Alassane Ouattara received a parliamentary majority in elections held in December 2011. In June 2012, militias and supporters of ex-President Gbagbo were caught in an attempt to overthrow the government.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

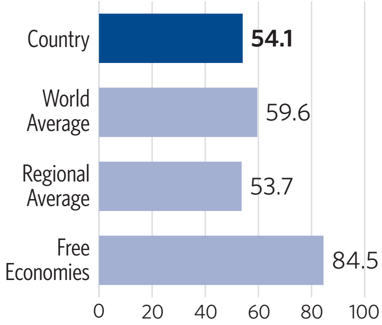
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

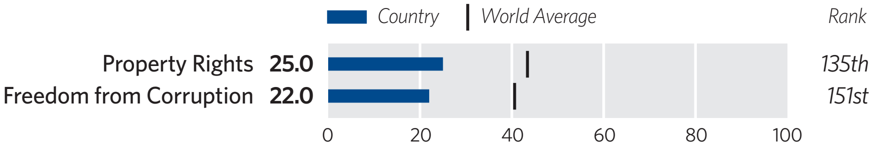
Population: 22.7 million
GDP (PPP): $36.1 billion
–4.7% growth in 2011
5-year compound annual growth 1.0%
$1,590 per capita
Unemployment: n/a
Inflation (CPI): 4.9%
FDI Inflow: $344.2 million
Public Debt: 90.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

CÔTE D'IVOIRE (continued)

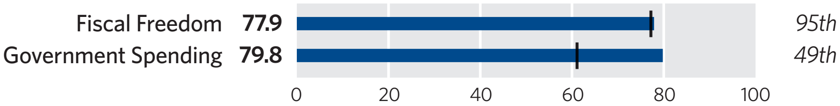
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



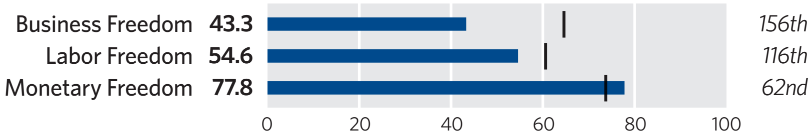
The rule of law has weakened during nine years of political crisis, but the nation seems more stable since successful elections in 2011. Protection of property rights is fragile. The judiciary is constitutionally independent but remains inefficient and vulnerable to political interference. Anti-corruption laws are not enforced effectively. Government corruption affects customs and tax enforcement and erodes accountability within the security forces.

LIMITED GOVERNMENT



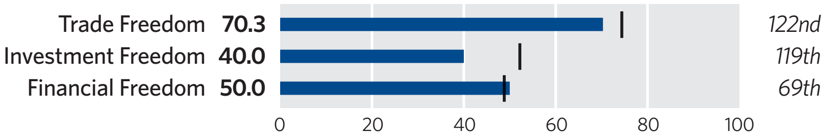
The top income tax rate is 36 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a tax on interest. The overall tax burden equals 17 percent of total domestic income. Government spending equals 25.9 percent of total domestic output. Rising expenditures and lower revenues from oil taxation have widened the deficit to more than 5.7 percent of GDP. Public debt has soared to around 90 percent of GDP.

REGULATORY EFFICIENCY



Some improvements have been made in the entrepreneurial framework. The time and number of procedures required to launch a business have been reduced, but minimum capital requirements still cost twice the average level of annual income. The labor market does not function efficiently. Inflation has been modest, but the government regulates the prices of a range of goods and services.

OPEN MARKETS



The trade-weighted average tariff rate is 7.3 percent, and non-tariff barriers further inhibit trade. The investment regime does not discriminate against foreign investors, but capital controls and foreign exchange restrictions hinder investment. Some modernization and restructuring of the financial sector was undertaken before the 2011 crisis, but state interference reduces the capacity to sustain more vibrant private-sector activity.

Score Changes

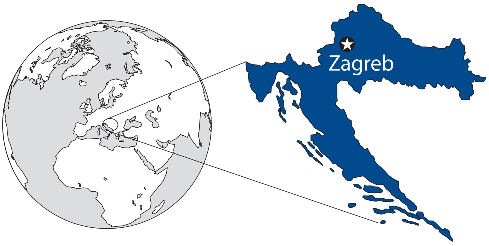
RULE OF LAW	
Property Rights	+5.0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.2
Government Spending	-6.8

REGULATORY EFFICIENCY	
Business Freedom	+0.6
Labor Freedom	-1.5
Monetary Freedom	-3.9

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	+5.0
Financial Freedom	0

CROATIA



World Rank: **78** Regional Rank: **35**

Croatia's economic freedom score is 61.3, making its economy the 78th freest in the 2013 *Index*. Its overall score is 0.4 point higher than last year, with gains in the management of government spending and investment freedom largely offset by declines in labor freedom, fiscal freedom, and freedom from corruption. Croatia continues to fall behind other emerging economies in the region, and its overall score remains below the regional average.

The foundations for long-term economic development in Croatia remain fragile in the absence of an efficiently functioning legal framework. Systemic corruption continues to erode public confidence and trust in the government. The state maintains an extensive presence in many economic sectors through state-owned enterprises.

Previous structural reforms have included privatization in the banking sector, implementation of a competitive corporate tax rate, and modernization of the regulatory environment. However, deeper institutional reforms in such areas as public finance management and the labor market are critically needed. Few steps have been taken to reduce or control government spending, and the inefficient and bloated public sector severely undermines private-sector dynamism, hurting Croatia's overall competitiveness.

BACKGROUND: Croatia declared its independence in 1991, contributing to the breakup of Yugoslavia along ethnic and religious lines. Years of conflict between Croats and Serbs ended formally in 1995 with the Dayton Peace Accords. Croatia became a member of NATO in April 2009. In a January 2012 referendum, 67 percent of the population supported membership in the European Union, and Croatia is expected to become a member by July 2013. Former Prime Minister Jadranka Kosor, credited with making the final push toward EU accession, was defeated by center-left Zoran Milanović in December 2011. The Croatian economy has been heavily affected by the global financial crisis and is only now starting to recover. However, overreliance on tourism and the slow pace of privatization of state-owned businesses are hindering recovery.

How Do We Measure Economic Freedom?
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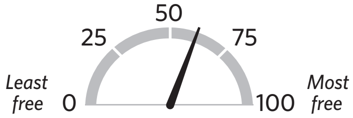
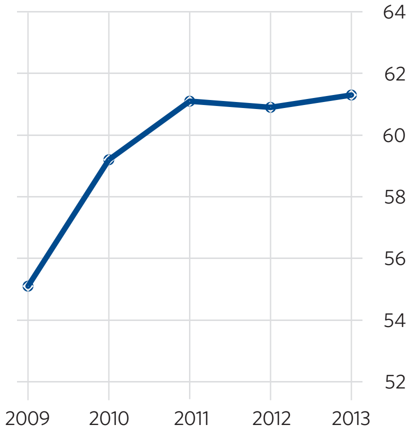
or visit the *Index* Web site at *heritage.org/index*.

Economic Freedom Score

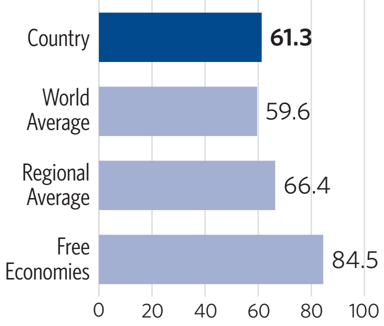


61.3

Freedom Trend



Country Comparisons



Quick Facts

Population: 4.4 million

GDP (PPP): $80.3 billion

0.0% growth in 2011

5-year compound annual growth -0.1%

$18,192 per capita

Unemployment: 17.7%

Inflation (CPI): 2.3%

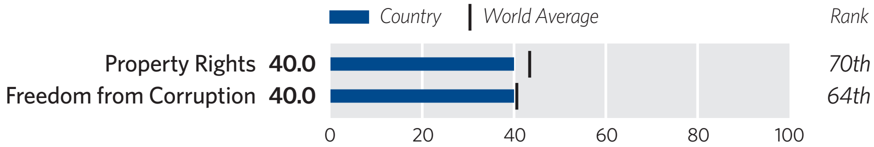
FDI Inflow: $1.5 billion

Public Debt: 45.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

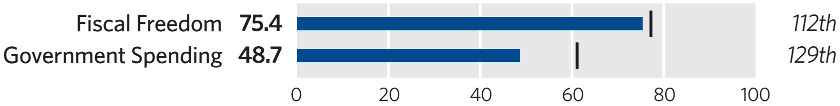
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



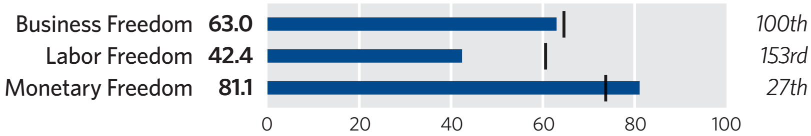
Judicial corruption continues to undermine the rule of law. The court system is cumbersome and inefficient, and backlogs cause business disputes to drag on for years. Despite intellectual property rights legislation, piracy and counterfeiting continue. Corruption is widespread and has been reported in major public companies, universities, public procurement systems, and land registry offices. High-profile prosecutions have increased significantly.

LIMITED GOVERNMENT



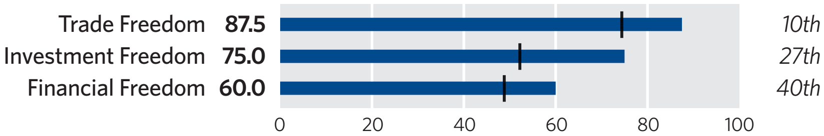
The top income tax rate is 40 percent, and the top corporate tax rate is 20 percent. Other taxes include a value-added tax (VAT) and excise taxes. The overall tax burden equals 21.4 percent of GDP. Government spending amounts to 41.4 percent of total domestic output. Public finance management has deteriorated significantly, and the deficit has widened, averaging around 5 percent during the past three years.

REGULATORY EFFICIENCY



Reform measures have streamlined the procedures for establishing a business, but the overall regulatory environment remains burdensome and inefficient. The cost and time required to obtain necessary licenses exceed world averages. Labor regulations remain rigid. Inflation has slowed, but the state influences price levels through the still-significant presence of state-owned enterprises.

OPEN MARKETS

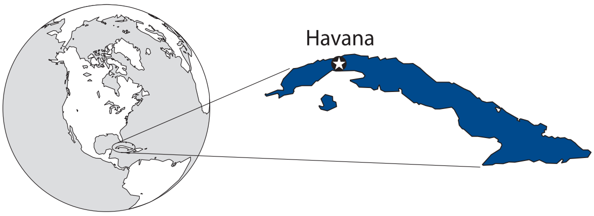


The trade-weighted average tariff rate is quite low at 1.2 percent, but non-tariff barriers increase the cost of trade. Despite structural and administrative reforms, inefficient bureaucracy and the backlogged legal system continue to inhibit investment. The consolidated banking sector is relatively sound and efficient, but non-performing loans have risen significantly in recent years. Securities markets are open to foreign investors.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-1.0	Business Freedom	-0.4	Trade Freedom	0
Freedom from Corruption	-1.0	Government Spending	+3.7	Labor Freedom	-2.0	Investment Freedom	+5.0
				Monetary Freedom	-0.3	Financial Freedom	0

CUBA



World Rank: **176** Regional Rank: **29**

Cuba's economic freedom score is 28.5, making its economy one of the world's least free. Its overall score is 0.2 point higher than last year, with a notable decline in monetary freedom counterbalanced by gains in freedom from corruption and fiscal freedom. Cuba is ranked least free of 29 countries in the South and Central America/Caribbean region, and its overall score is significantly lower than the regional average.

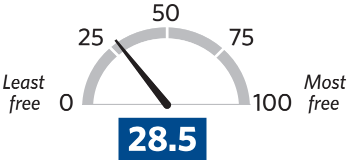
Cuba scores far below world averages in most areas of economic freedom, and its economy remains one of the world's most repressed. The foundations of economic freedom are particularly weak in the absence of an independent and fair judiciary. No courts are free of political interference, and pervasive corruption affects many aspects of economic activity.

As the largest source of employment, the public sector accounts for more than 80 percent of all jobs. A watered-down reform package endorsed by the Cuban Communist Party in April 2011 promised to trim the number of state workers and allow restricted self-employment in the non-public sector, but many details of the reform are obscure and little progress has been observed. The private sector is severely constrained by heavy regulations and tight state controls. Open-market policies are not in place to spur growth in trade and investment, and the lack of competition stifles productivity growth.

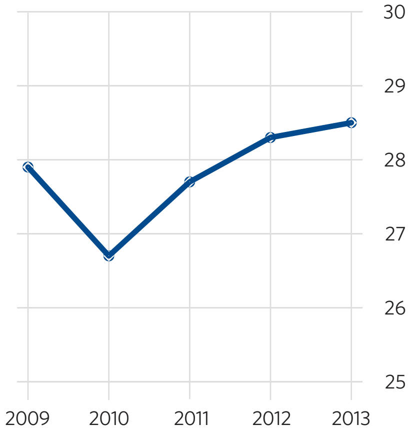
BACKGROUND: A one-party Communist state, Cuba depends on external assistance (chiefly oil provided by Venezuela's Hugo Chávez and remittances from Cuban émigrés) and a captive labor force to survive. Property rights are severely restricted. Fidel Castro's 81-year-old younger brother Raul continues to guide both the government and the Cuban Communist Party. Cuba's socialist command economy is in perennial crisis. The average worker earns less than $25 a month, agriculture is in shambles, mining is depressed, and tourism revenue has proven volatile. But economic policy is resolutely Communist, and the regime rejects any moves toward genuine political or economic freedom.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

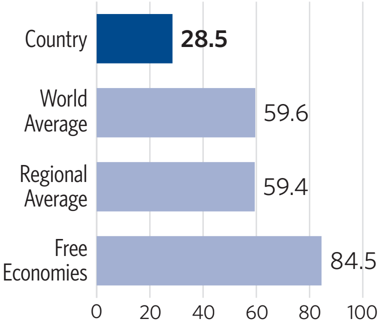
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 11.2 million

GDP (PPP): $120.3 billion

2.7% growth in 2010

5-year compound annual growth n/a

$10,704 per capita

Unemployment: n/a

Inflation (CPI): 4.7%

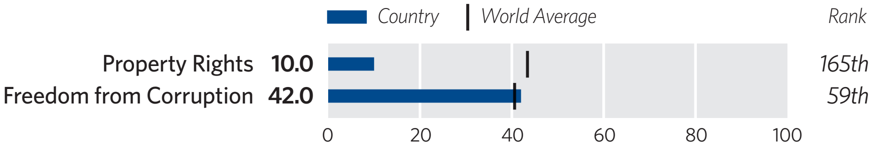
FDI Inflow: $110.0 million

Public Debt: 35.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

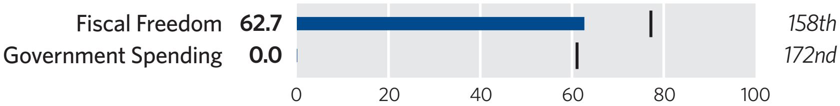
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



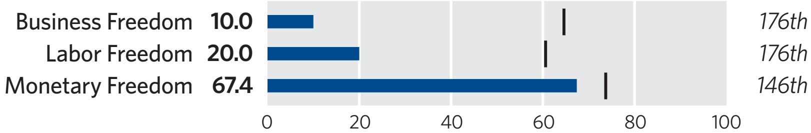
The government adheres to socialist principles in organizing the state-controlled economy, and most means of production are owned by the state. Citizens may own land and productive capital for farming and self-employment. The constitution explicitly subordinates the courts to the National Assembly of People's Power and the Council of State. Corruption remains pervasive, undermining equity and respect for the rule of law.

LIMITED GOVERNMENT



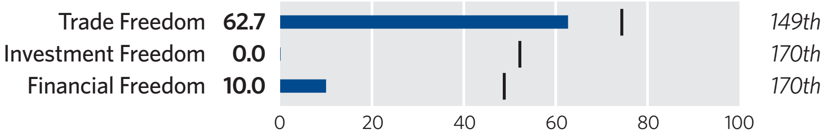
Cuba's top income tax rate is 50 percent. The top corporate tax rate is 30 percent (35 percent for companies with entirely foreign capital). Other taxes include a tax on property transfers and a sales tax. Overall tax revenue is estimated to be equivalent to about 20 percent of GDP. Taxation is erratic and not effectively administered. Inefficient public-sector spending remains high at over 70 percent of total domestic output.

REGULATORY EFFICIENCY



Regulatory efficiency remains poor, and private entrepreneurship is limited. The application of regulations is inconsistent and non-transparent. State control of the labor market has spurred creation of a large informal sector. In an attempt to reduce labor market rigidity, the government has implemented a measure to allow workers to hold more than one job. Monetary stability is vulnerable to state interference, with prices subject to controls.

OPEN MARKETS

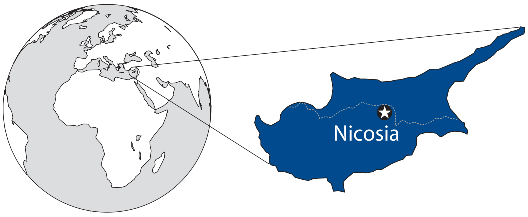


The trade regime remains largely non-transparent, and imports and exports are dominated by the state. Foreign investment must be approved by the government, which exercises extensive control of economic activity. The financial sector remains heavily regulated, and access to credit for entrepreneurial activity is seriously impeded by the shallowness of the financial market. The state maintains strict capital and exchange controls.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.2	Business Freedom	0	Trade Freedom	0
Freedom from Corruption	+5.0	Government Spending	0	Labor Freedom	0	Investment Freedom	0
				Monetary Freedom	-3.9	Financial Freedom	0

CYPRUS



World Rank: **41** Regional Rank: **19**

Cyprus's economic freedom score is 69, making its economy the 41st freest in the 2013 *Index*. Its overall score is down by 2.8 points from last year, with significant declines in seven of the 10 economic freedoms including financial freedom, labor freedom, and control of public spending. Cyprus is ranked 19th out of 43 countries in the Europe region.

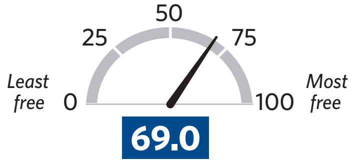
Cyprus registered the fourth largest score drop in the 2013 *Index* and fell from its previous status as one of the 20 freest economies primarily because of its worsening fiscal situation and declines in financial freedom. With government spending exceeding 45 percent of GDP, widening fiscal deficits and rising public debt have prompted recent downgrades of Cyprus's credit standing and placed the country perilously close to its eurozone neighbors in crisis. Shut out of international debt markets, Cyprus needs timely fiscal consolidation and a return to a sustainable level of public spending to restore economic equilibrium and dynamism.

The portion of Cyprus administered by the Republic of Cyprus, however, is a liberalized and open economy with a highly developed legal and trade system. The overall regulatory framework encourages high levels of foreign direct investment and entrepreneurship. Most aspects of the economy are free from state interference, and the judicial system buttresses the protection of property rights.

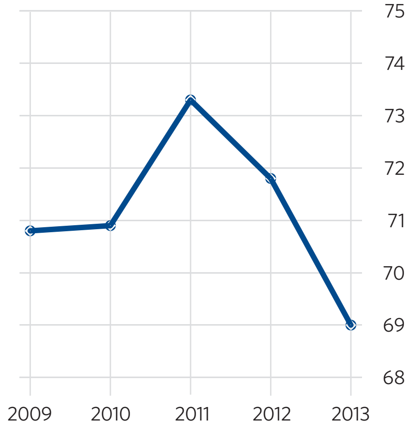
BACKGROUND: A U.N. buffer zone has separated the Greek Cypriot Republic of Cyprus from the Turkish Republic of Northern Cyprus since 1974. The Republic of Cyprus is a member of the European Union and acts as the island's internationally recognized administration. Despite deep hostility, Greek and Turkish leaders continue to negotiate on possible reunification through U.N.-brokered talks. Leftist politician Demetris Christofias became president of the Republic of Cyprus in 2008. Tourism and financial services drive the Greek Cypriot economy, and restrictions on foreign investment have been lifted. Cypriot banking is weak after marking down the value of its holdings of Greek government bonds and loans in light of the Greek financial crisis. Cyprus has received loans from Russia and has requested an EU bailout.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

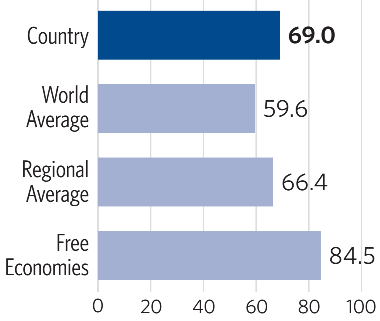
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

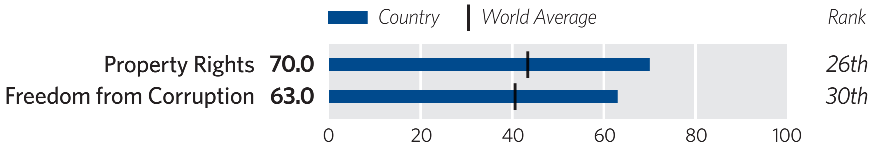
Population: 0.8 million
GDP (PPP): $23.7 billion
0.5% growth in 2011
5-year compound annual growth 1.7%
$29,074 per capita
Unemployment: 5.6%
Inflation (CPI): 3.5%
FDI Inflow: $276.3 million
Public Debt: 71.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

CYPRUS (continued)

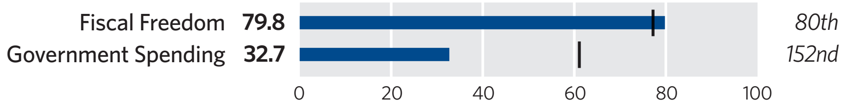
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



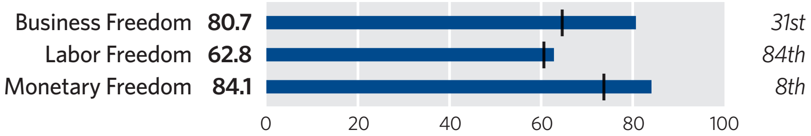
Contracts and property rights are generally enforced. The civil judiciary is independent constitutionally but not always in practice. Cypriot law imposes significant restrictions on the foreign ownership of real estate by non-EU residents. Corruption, patronage, and lack of transparency appear to continue in the area administered by Turkish Cypriots. The absence of a political settlement poses inherent risks for foreign investors.

LIMITED GOVERNMENT



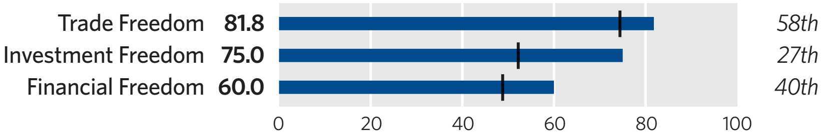
The top income tax rate is 35 percent, and the top corporate tax rate is 10 percent. Other taxes include a value-added tax (VAT) and a real estate tax. The overall tax burden amounts to 26.3 percent of total domestic income. Government spending amounts to 47.4 percent of total domestic output. With the deficit growing to 6.5 percent of GDP and public debt at over 70 percent of GDP, the government has sought bailouts from the EU and Russia.

REGULATORY EFFICIENCY



The overall freedom to start, operate, or close a business is relatively well maintained within the regulatory framework. It takes six procedures to launch a company, and no minimum capital is required. Relatively flexible labor regulations facilitate employment and productivity growth, although union power is quite strong. The government mandates a minimum wage and controls prices of some agricultural products. Inflation is under control.

OPEN MARKETS

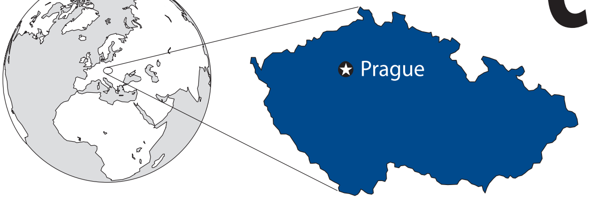


Cyprus's trade policy is similar to that of other members of the European Union, with the common EU weighted average tariff rate standing at 1.6 percent. Additional non-tariff barriers affect some service and biotech industries. The financial system has experienced growing strains and uncertainty. Banks are heavily exposed to Greek debt and the sharp downturn in the housing market, and the number of non-performing loans has risen.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-3.5	Business Freedom	-0.9	Trade Freedom	-0.3
Freedom from Corruption	0	Government Spending	-4.4	Labor Freedom	-7.1	Investment Freedom	0
				Monetary Freedom	-1.6	Financial Freedom	-10.0

CZECH REPUBLIC



World Rank: **29** Regional Rank: **15**

The Czech Republic's economic freedom score is 70.9, making its economy the 29th freest in the 2013 *Index*. Its overall score is 1.0 point better than last year, with substantial increases in labor freedom and the management of government spending offsetting a decline in freedom from corruption. The Czech Republic is ranked 15th out of 43 countries in the Europe region, and its overall score is higher than the regional and global averages.

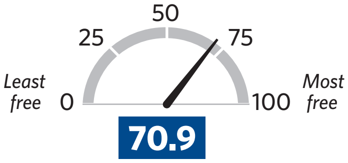
The Czech economy's ongoing transition to greater openness and flexibility has been facilitated by a decade of substantial restructuring. Open-market policies have sustained global trade and investment flows and enabled the economy to capitalize on regulatory efficiencies achieved through earlier reforms. Competitive tax rates have encouraged the development of a growing entrepreneurial sector. The government is placing a high priority on fiscal discipline and striving for budgetary balance after years of fiscal deficits.

The Czech Republic has weathered the impact of the global economic downturn and the European sovereign debt turmoil relatively well, with the economy demonstrating a high degree of resilience. However, lingering corruption increases the overall cost of doing business, and continued reform to strengthen the foundations of economic freedom will be indispensable in ensuring vibrant economic development in coming years.

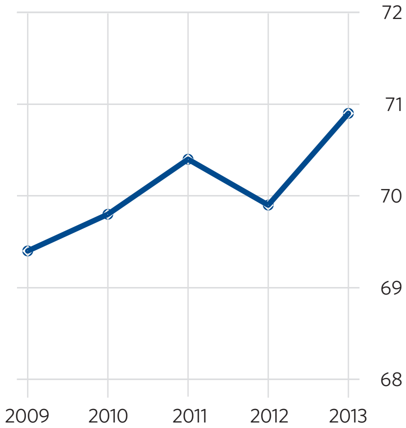
BACKGROUND: The Velvet Revolution of 1989 peacefully overthrew a Communist dictatorship and led to the election of dissident playwright Vaclav Havel as president of a democratic Czechoslovakia. The Czech Republic separated from Slovakia in the "velvet divorce," becoming an independent nation in 1993 and joining the European Union in 2004. Prospects for adoption of the euro are uncertain because of the EU economic crisis. The Czech Social Democratic Party was defeated in the May 2010 elections, and a center-right coalition under Prime Minister Petr Necas is in power. The government is trying to pursue pension reform and other government austerity measures. Slowing exports and flat domestic demand are holding back economic growth.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

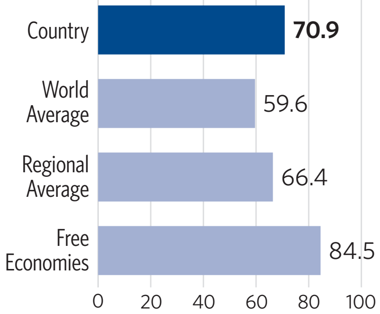
Economic Freedom Score



Freedom Trend



Country Comparisons



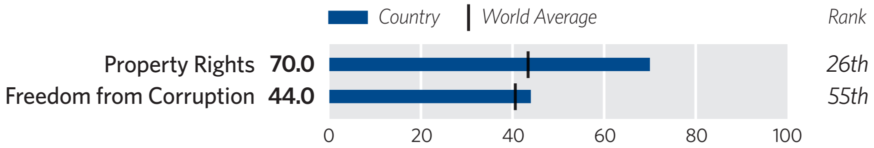
Quick Facts

Population: 10.5 million
GDP (PPP): $285.0 billion
1.7% growth in 2011
5-year compound annual growth 1.6%
$27,062 per capita
Unemployment: 6.7%
Inflation (CPI): 1.9%
FDI Inflow: $5.4 billion
Public Debt: 41.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

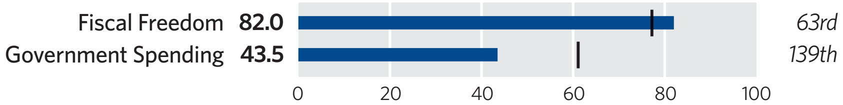
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



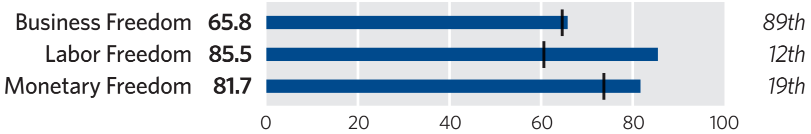
Property rights are relatively well protected by law through an independent judicial system. Contracts are generally secure, but commercial disputes can take years to resolve. Although corruption remains a cause for concern, the parliament increased prison sentences for bribery in 2011 to up to 10 years for officials, and police have been given expanded tools such as wiretap authority to investigate such crimes.

LIMITED GOVERNMENT



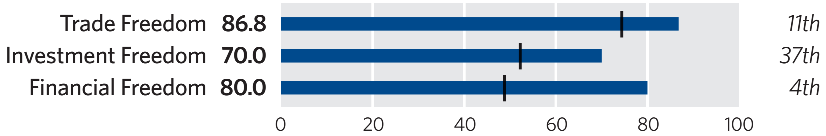
The income tax rate is a flat 15 percent, and the standard corporate tax rate is 19 percent. Other taxes include a value-added tax (VAT) and an inheritance tax. The overall tax burden equals 34.9 percent of total domestic income. Government spending has stabilized at about 43.4 percent of total domestic output. The budget has been in deficit, driving public debt to over 40 percent of GDP. The euro crisis forced deficit-cutting measures on the government in 2012.

REGULATORY EFFICIENCY



The streamlined regulatory process has become more supportive of entrepreneurial activity. Recent reforms have reduced both the cost and the number of procedures required to launch a company, although the pace of reform has slowed in comparison to other comparable economies. The labor market is relatively flexible. Inflation decelerated as the economy contracted in 2012, but some goods and services remain subject to price controls.

OPEN MARKETS



As with other European Union countries, the trade-weighted average tariff rate is a low 1.6 percent. The investment regime is relatively competitive, and foreign and domestic firms are treated equally. Most major state-owned companies have been privatized with foreign participation. The financial sector, diversified and competitive, has shown its resilience in maintaining capital levels and liquidity.

Score Changes

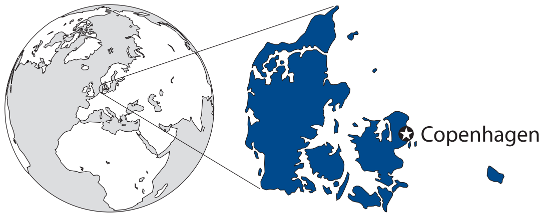
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-2.0

LIMITED GOVERNMENT	
Fiscal Freedom	0
Government Spending	+6.7

REGULATORY EFFICIENCY	
Business Freedom	-1.9
Labor Freedom	+7.6
Monetary Freedom	+0.2

OPEN MARKETS	
Trade Freedom	-0.3
Investment Freedom	0
Financial Freedom	0

DENMARK



World Rank: **9** Regional Rank: **2**

Denmark's economic freedom score is 76.1, making its economy the 9th freest in the 2013 *Index*. Its overall score is essentially the same as last year, with modest improvements in the management of public spending and freedom from corruption counterbalanced by declines in labor and investment freedoms. Trailing Switzerland, Denmark is ranked 2nd out of 43 countries in the Europe region.

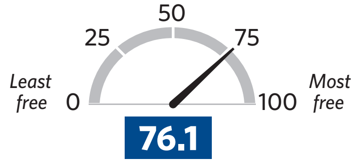
The Danish economy performs remarkably well in regulatory efficiency, and open-market policies sustain flexibility, competitiveness, and large flows of trade and investment. The transparent and efficient regulatory and legal environment encourages robust entrepreneurial activity. Banking regulations are sensible, and lending practices have been relatively prudent. Inflationary pressures are under control. The judicial system provides strong protection for property rights, and anti-corruption measures are firmly institutionalized.

The European sovereign debt turmoil entails elevated risks for Denmark, particularly with regard to the soundness of the financial sector and long-term fiscal sustainability. Banking has been under increasing strain, and public spending continues to be over half the size of the economy. The overall tax regime needed to finance the large scope of government remains burdensome and complex, although institutional assets such as high degrees of business efficiency and regulatory flexibility have counterbalanced some of the shortcomings of heavy social spending.

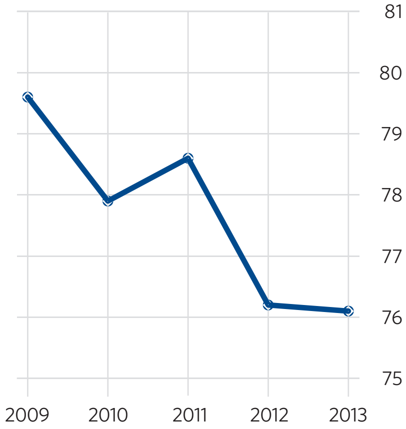
BACKGROUND: Helle Thorning-Schmidt became prime minister after a center-left coalition led by Social Democrats defeated Prime Minister Lars Løkke Rasmussen in the September 2011 parliamentary elections. Denmark is not party to the euro, but it has been a member of the European Union since 1973. It held the presidency of the Council of the European Union from January–July 2012, a period dominated by the eurozone crisis. Denmark's economy depends heavily on foreign trade, and the private sector is characterized by many small and medium-size companies. Increased immigration spurred by the 2011 uprisings in North Africa has caused the government to consider more restrictive immigration laws.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

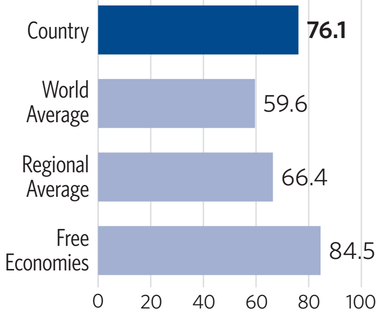
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

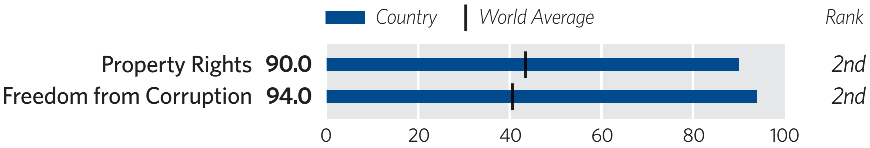
Population: 5.6 million
GDP (PPP): $206.6 billion
1.1% growth in 2011
5-year compound annual growth −0.6%
$37,152 per capita
Unemployment: 8.0%
Inflation (CPI): 2.8%
FDI Inflow: $14.8 billion
Public Debt: 46.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

DENMARK (continued)

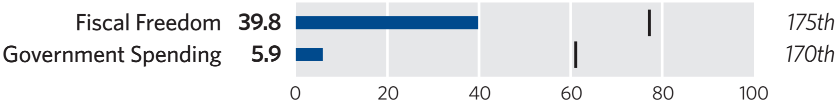
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



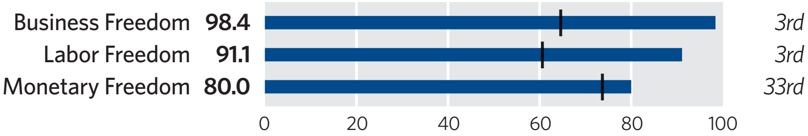
Protections for property rights are strongly enforced, with an independent and fair judicial system institutionalized throughout the economy. Commercial and bankruptcy laws are applied consistently. Intellectual property rights are respected, and enforcement is consistent with world standards. Effective anti-corruption measures discourage bribery of public officials and uphold the integrity of government.

LIMITED GOVERNMENT



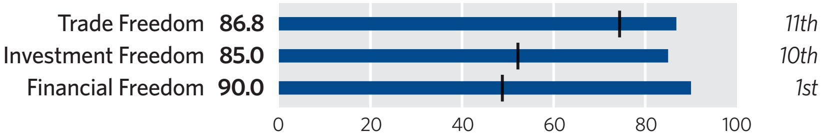
The top income tax rate is 56 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and intrusive measures such as the world's first tax on fatty foods. The overall tax burden equals almost 50 percent of total domestic income. Government spending continues to be over 55 percent of GDP. The government has attempted fiscal stimulus, running a small deficit, and public debt is just under 50 percent of GDP.

REGULATORY EFFICIENCY



The regulatory environment remains one of the world's most efficient. Minimum capital requirements for limited-liability companies have been reduced, and starting a business takes fewer procedures than the world averages. Relatively flexible hiring and dismissal regulations sustain an efficient labor market. Monetary stability remains well established. The government took small steps in 2012 to cut back on welfare state benefits and costs.

OPEN MARKETS

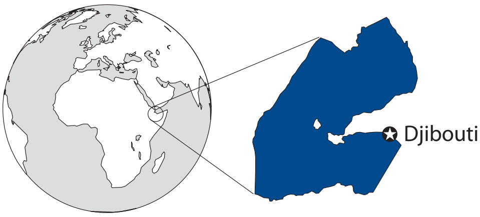


Denmark's trade regime, similar to that of other EU members, is fairly competitive and promotes the dynamic growth of trade in most sectors. Applied tariffs average a low 1.6 percent. The economy is one of the world's most open with respect to foreign investment, and the investment code is transparent and efficiently administered. The diversified financial sector has experienced a period of instability, with a number of banks performing poorly.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	0	Business Freedom	-0.7	Trade Freedom	-0.3
Freedom from Corruption	+1.0	Government Spending	+5.9	Labor Freedom	-1.0	Investment Freedom	-5.0
				Monetary Freedom	-0.7	Financial Freedom	0

DJIBOUTI



World Rank: **127** Regional Rank: **25**

Djibouti's economic freedom score is 53.9, making its economy the 127th freest in the 2013 *Index*. Its overall score is the same as last year, with a notable improvement in the management of government spending offset by declines in five other economic freedoms including freedom from corruption. Djibouti is ranked 25th out of 46 countries in the Sub-Saharan Africa region.

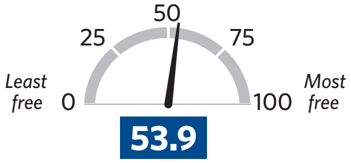
Djibouti's economy has demonstrated a high degree of resilience against external shocks that include a severe drought and high commodity prices. The continuing pursuit of structural reforms has attracted additional foreign direct investment, and increased business activity, particularly in port operations and construction, has contributed to relatively high economic growth. Policies that aim to sustain open markets and enhance regulatory efficiency have evolved in a constructive way, and the financial sector has grown, with new banks operating.

Effective implementation of deeper institutional reforms will be critical to strengthening Djibouti's foundations of economic freedom and sustaining dynamic economic growth. Systemic weaknesses linger in the protection of property rights and the effective enforcement of anti-corruption measures. The judiciary remains vulnerable to political influence.

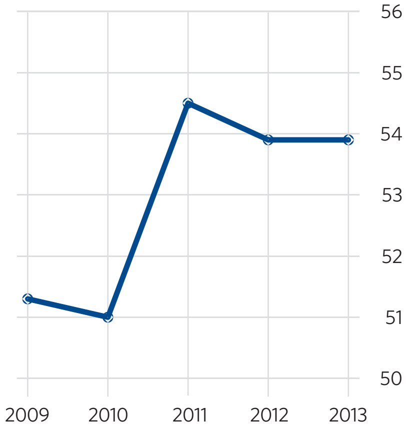
BACKGROUND: President Ismael Omar Guelleh, whose multi-party, multi-ethnic coalition controls all levels of government, was re-elected by a wide margin in April 2011. Djibouti is strategically located at the mouth of the Red Sea, and its economy is centered on port facilities, the railway, and French, Japanese, and American military facilities. Djibouti is an international partner in combating piracy in the Gulf of Aden. Services accounted for nearly 80 percent of GDP in 2007. The population is concentrated in the capital city, although a minority remain nomadic desert dwellers. Food prices stabilized somewhat in 2012 but remain very high, consuming about 75 percent of the budgets of poorer households. Djibouti depends heavily on food imports (the staple food, wheat, is almost entirely imported), and price trends largely reflect international commodity prices.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

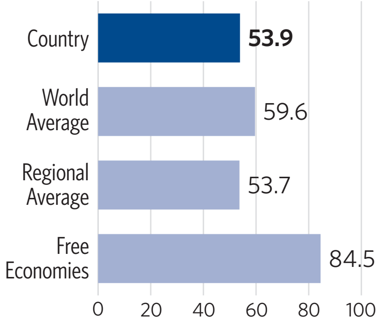
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 0.8 million

GDP (PPP): $2.2 billion

4.5% growth in 2011

5-year compound annual growth 4.8%

$2,642 per capita

Unemployment: n/a

Inflation (CPI): 5.1%

FDI Inflow: $78.0 million

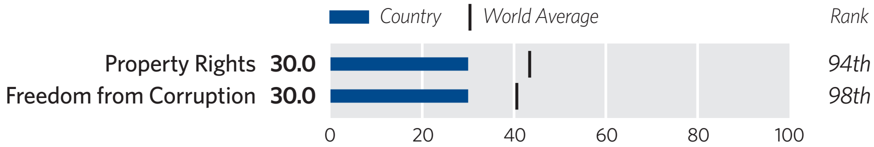
Public Debt: 55.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

DJIBOUTI (continued)

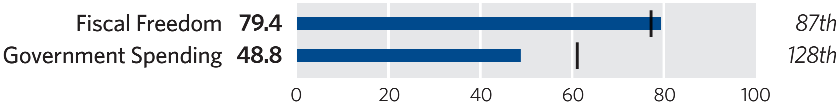
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



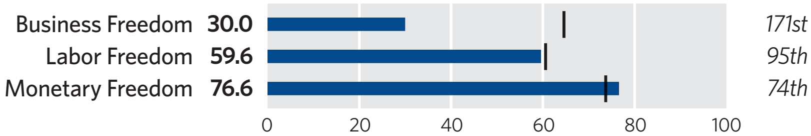
Protection of private property is weak. Courts are frequently overburdened, and the enforcement of contracts can be time-consuming. Trials and judicial proceedings are subject to corruption. Political manipulation undermines the judicial system's credibility. Power is heavily concentrated in the hands of the president and first lady, and key positions in government have been given to their relatives and close associates.

LIMITED GOVERNMENT



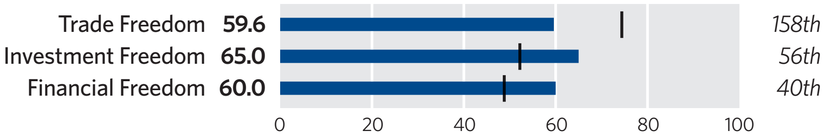
The top income tax rate is 30 percent, and the top corporate tax rate is 25 percent. Other taxes include a property tax and an excise tax. The overall tax burden is equal to 23.2 percent of total domestic income. Government spending has fallen to 41.3 percent of total domestic output. Public debt has been reduced to below 60 percent of GDP, but the latest budget was slightly in deficit.

REGULATORY EFFICIENCY



The commercial code has been revised, including finalization of new bankruptcy laws. Administrative procedures have been streamlined, and the cost of launching a business has been reduced. The minimum capital requirement to start a company remains high. Recent labor-market reform measures have not been fully enforced in practice. Inflationary pressures continue, with a range of goods and services subject to government price controls.

OPEN MARKETS

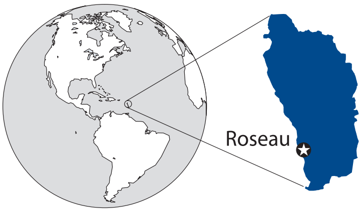


Djibouti's trade-weighted average tariff rate is quite high at 15.2 percent, and non-tariff barriers further constrain trade flows. Although no major laws discriminate against foreign investment, the investment regime lacks transparency and still hinders dynamic growth. The financial sector is generating an increasing share of GDP. Despite establishment of new banks, the sector remains dominated by the two main banks.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.9	Business Freedom	-0.5	Trade Freedom	0
Freedom from Corruption	-2.0	Government Spending	+6.4	Labor Freedom	-2.0	Investment Freedom	0
				Monetary Freedom	-0.6	Financial Freedom	0

DOMINICA



World Rank: **64** Regional Rank: **12**

Dominica's economic freedom score is 63.9, making its economy the 64th freest in the 2013 *Index*. Its overall score is 2.3 points higher than last year, with improvements in half of the 10 economic freedoms, including investment freedom, labor freedom, and the control of government spending. Dominica is ranked 12th out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world average.

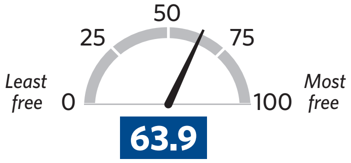
Dominica registered the third largest score increase in the 2013 *Index*. Reform, however, has progressed unevenly. The foundations of economic freedom remain fragile due to a weak judiciary and persistent corruption. Despite some progress, inefficient and high public spending is a considerable fiscal burden for the population and increases the political system's vulnerability to outside pressure.

Reforms in recent years, including simplification of the business start-up process and reduction of the corporate tax rate, have contributed to improving the overall investment framework. However, policies to open markets further have not been advanced, and the lack of access to long-term financing prevents more dynamic economic expansion.

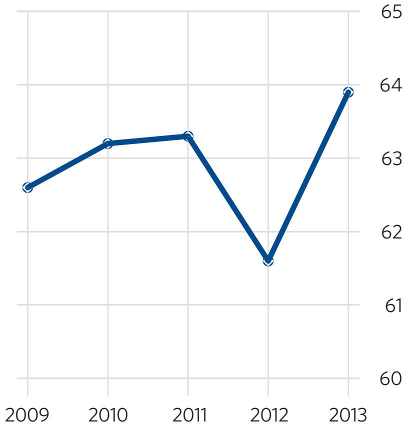
BACKGROUND: Dominica has a unicameral parliamentary government with a president and prime minister. Labour Party Prime Minister Roosevelt Skerrit took office in 2004. In 2008, the government joined Hugo Chávez's Bolivarian Alternative for the Americas (ALBA), a trade organization consisting of socialist Latin American governments. Its "ECOALBA" agreement threatens to undo progress in deepening free-market democratic institutions and regional integration made by the Caribbean Community (CARICOM). In 2010, Dominica entered into an economic union with other members of the Organization of Eastern Caribbean States. Bananas, citrus, coconuts, coconut soap, and cocoa dominate the economy, and nearly one-third of the labor force works in agriculture. The government has tried to diversify agriculture by encouraging investments in coffee, patchouli, aloe vera, exotic fruits, and cut flowers. The rugged mountains and rain forests attract some ecotourists.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

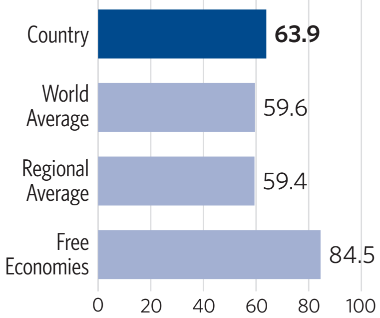
Economic Freedom Score



Freedom Trend



Country Comparisons



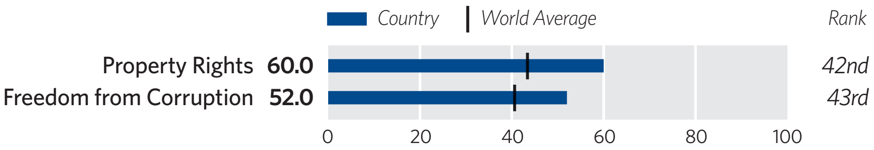
Quick Facts

Population: 0.1 million
GDP (PPP): $1.0 billion
0.5% growth in 2011
5-year compound annual growth 2.3%
$13,816 per capita
Unemployment: 23.0%
Inflation (CPI): 2.3%
FDI Inflow: $24.9 million
Public Debt: 69.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

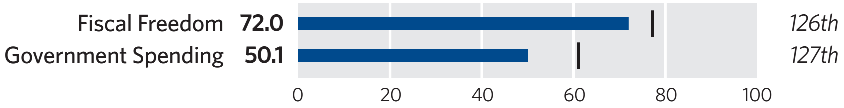
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



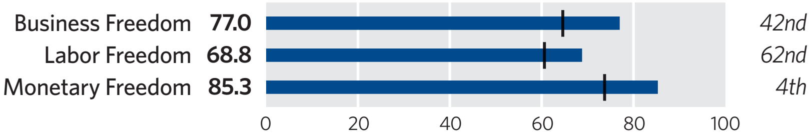
Dominica has an efficient legal system based on British common law, and private property rights are generally respected. The judiciary is independent, and public trials are considered fair. There are criminal penalties for official corruption, but the law is not implemented effectively. Pirated copyrighted material is sold openly. Monitoring of non-bank financial institutions needs to be strengthened to deter money laundering.

LIMITED GOVERNMENT



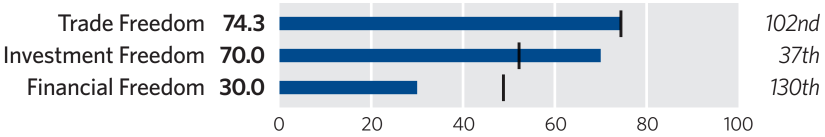
The top income tax rate is 35 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and an environmental tax. The overall tax burden equals 26 percent of GDP. Government spending amounts to 40.8 percent of total domestic output. The budget balance has been in deficit, and public debt is equivalent to 70 percent of GDP. Debt and stimulus spending continue to undermine fiscal discipline.

REGULATORY EFFICIENCY



Launching a business takes only five procedures, and no minimum capital is required. The cost of obtaining necessary permits has been reduced to less than 10 percent of the level of average annual income. The non-salary cost of employing a worker is moderate, but the labor market lacks flexibility in other areas. Inflation is low, and efforts to eliminate price controls are ongoing.

OPEN MARKETS



Dominica's relatively high average applied tariff of 7.9 percent and myriad non-tariff barriers discourage dynamic growth in trade. Foreign investors generally receive national treatment and may hold up to 100 percent ownership of firms. Administration of the investment regime remains bureaucratic. The financial sector remains underdeveloped. Shallow markets and a lack of available financial instruments restrict overall access to credit.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+3.2	Business Freedom	−3.5	Trade Freedom	0
Freedom from Corruption	0	Government Spending	+6.3	Labor Freedom	+6.9	Investment Freedom	+10.0
				Monetary Freedom	+0.3	Financial Freedom	0

DOMINICAN REPUBLIC

World Rank: **87** Regional Rank: **17**

The Dominican Republic's economic freedom score is 59.7, making its economy the 87th freest in the 2013 *Index*. Its overall score is 0.5 point lower than last year due to declines in six of the 10 economic freedoms, including freedom from corruption, labor freedom, and trade freedom. The Dominican Republic is ranked 17th out of 29 countries in the South and Central America/Caribbean region, and its score is about average for the region.

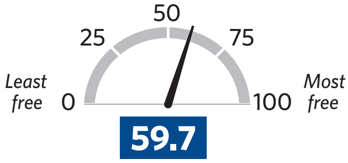
Continuing its efforts to promote economic diversification and modernization, the government has introduced structural reforms to revitalize the economy. A relatively high degree of openness to global trade and investment has aided the transition to a modern and competitive economic system, and modest tax rates have boosted competitiveness.

Nonetheless, the lack of political momentum for deeper institutional reforms remains a serious obstacle to advancing economic freedom. The most visible constraints on private-sector development involve administrative bureaucracy and the lack of respect for contracts. Government inefficiency and widespread corruption affect much of the economy. Court enforcement of property rights remains vulnerable to political interference, and rigid labor regulations are an impediment to reducing the high level of unemployment.

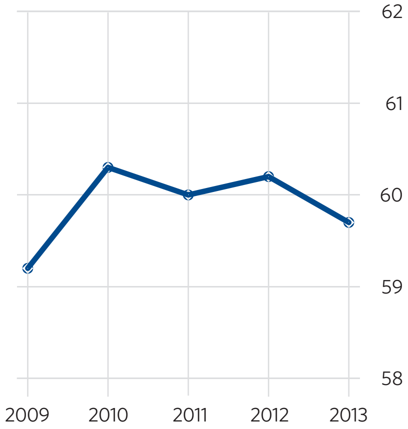
BACKGROUND: In May 2012, Danilo Medina, backed by three-term President Leonel Fernández's center-left Dominican Liberation Party, was elected to succeed Fernández as president. Before the 2008–2009 global financial crisis, the Dominican Republic was enjoying a surge in economic growth led by tourism, telecommunications, and maquiladora manufacturing. The economy rebounded somewhat in 2010 and has continued to enjoy moderate growth aided by a $1.7 billion IMF standby agreement. The Central America–Dominican Republic–United States Free Trade Agreement has helped to boost investment and exports and minimize market-share losses to Asian textile manufacturers. Corruption, wasteful government spending, and unreliable electric service reduce investment returns, driving high unemployment.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

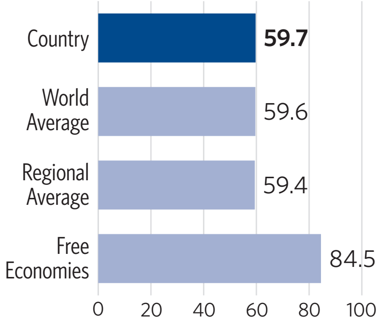
Economic Freedom Score



Freedom Trend



Country Comparisons



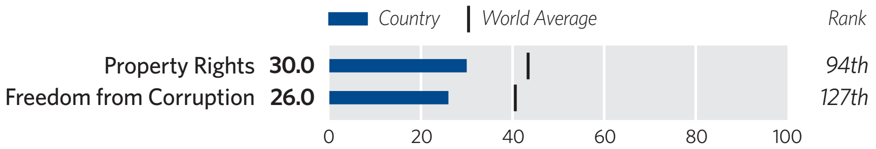
Quick Facts

Population: 10.1 million
GDP (PPP): $93.4 billion
4.5% growth in 2011
5-year compound annual growth 5.9%
$9,287 per capita
Unemployment: 14.6%
Inflation (CPI): 8.5%
FDI Inflow: $2.4 billion
Public Debt: 29.3% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

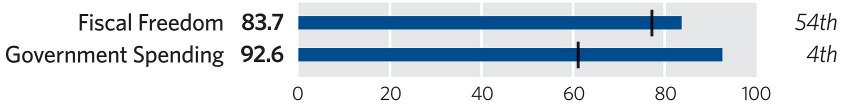
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



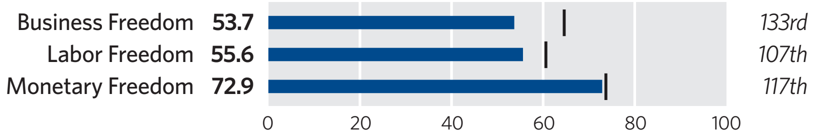
The court system is inefficient, and the state can expropriate property arbitrarily. Most confiscated property has been used for infrastructure or commercial development. Enforcement of intellectual property rights remains poor. Corruption in government ministries, the police force, and the military is believed to have worsened during former President Fernández's last two terms (2004–2012), weakening government effectiveness.

LIMITED GOVERNMENT



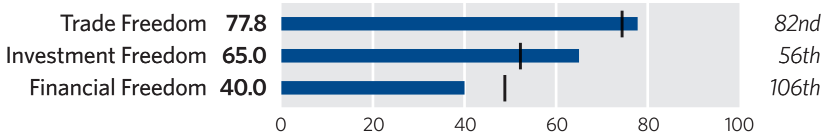
The top income tax rate is 25 percent, and the flat corporate tax rate is 29 percent. Other taxes include a value-added tax (VAT), an estate tax, and a net wealth tax. The overall tax burden amounts to 12.8 percent of total domestic income. Government spending is 15.7 percent of total domestic output. The deficit has been reduced to around 2.5 percent of GDP, and public debt remains below 30 percent of GDP.

REGULATORY EFFICIENCY



The cost of completing license requirements has been reduced, and launching a business takes only seven procedures. However, starting a company takes at least half the level of average annual income. The non-salary cost of employing a worker is moderate, but restrictions on work hours are rigid. Inflation in mid-2012 was at the lowest level since 2009, but government price controls affect some products and services.

OPEN MARKETS

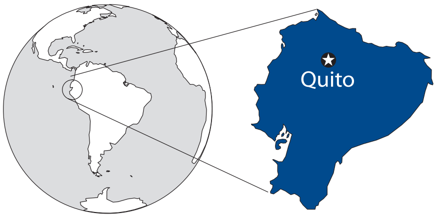


The trade-weighted average tariff rate is 6.1 percent, and non-tariff barriers add to the cost of trade. Foreign investment is permitted in most sectors, but the investment regime lacks transparency and clarity, increasing vulnerability to corruption. The small financial sector has been modernized and consolidated, but confidence in banking has been shaky. Capital markets are underdeveloped, and long-term financing is hard to obtain.

Score Changes

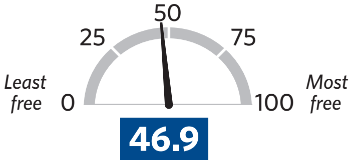
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-2.1	Business Freedom	-1.8	Trade Freedom	-2.3
Freedom from Corruption	-4.0	Government Spending	+1.2	Labor Freedom	-3.1	Investment Freedom	+10.0
				Monetary Freedom	-2.2	Financial Freedom	0

ECUADOR



World Rank: **159** Regional Rank: **26**

Economic Freedom Score



Ecuador's economic freedom score is 46.9, making its economy the 159th freest in the 2013 *Index*. Its overall score is 1.4 points lower than last year, with substantial declines in the control of government spending and investment freedom offsetting improvements in labor freedom and freedom from corruption. Ecuador is ranked 26th out of 29 countries in the South and Central America/Caribbean region, and its overall score is far below world and regional averages.

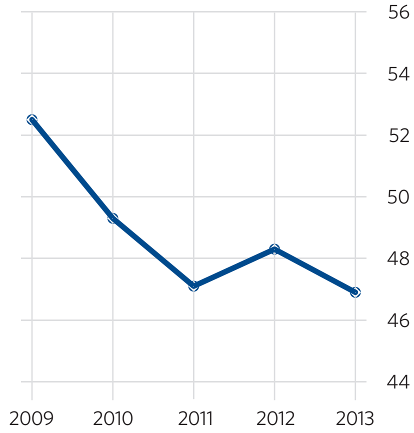
Once considered moderately free, Ecuador has slid significantly in the rankings and continues for a fourth year as a "repressed" economy. The reach of government continues to expand to economic sectors beyond the petroleum industry, and pervasive corruption continues to weaken property rights. The private sector has been marginalized by a restrictive entrepreneurial environment. Ecuador's underdeveloped financial sector, often subjected to state-directed allocation of credit, limits access to financing and adds costs for entrepreneurs.

The overall investment climate has become increasingly risky because of the repressive political environment. The restrictive trade regime is reducing competition and eroding productivity. By controlling flows of trade and investment, the government has been forcing closer economic and commercial ties with Venezuela and China.

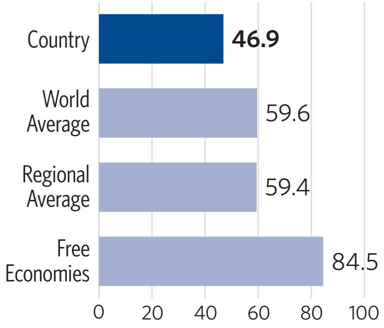
BACKGROUND: Re-elected in 2009, President Rafael Correa has ended free trade negotiations with the U.S and has threatened to force a renegotiation of Ecuador's foreign debt. Constitutional amendments passed in 2011 increased Correa's control of the media and the judicial system. Correa has also worked to undercut the Inter-American Human Rights Commission, is aligned with Venezuela's Hugo Chávez, and has broadened Ecuador's links with Iran. Oil revenues and borrowing from China have counterbalanced declining foreign investment and continued capital flight. Economic growth has been moderate. Ecuador is the world's largest banana exporter and has significant petroleum reserves, and Correa has stiffened contract terms with foreign producers and advanced resource nationalism. Over 50 percent of the population lives below the poverty line.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



Quick Facts

Population: 15.0 million

GDP (PPP): $127.4 billion
7.8% growth in 2011
5-year compound annual growth 4.2%
$8,492 per capita

Unemployment: 4.9%

Inflation (CPI): 4.5%

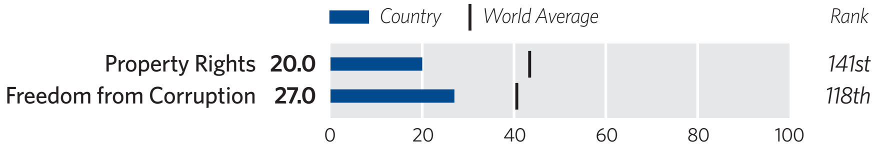
FDI Inflow: $567.8 million

Public Debt: 18.0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

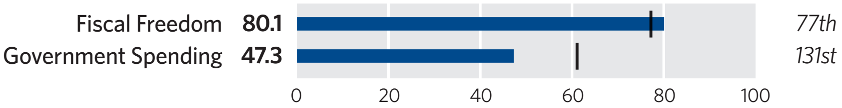
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



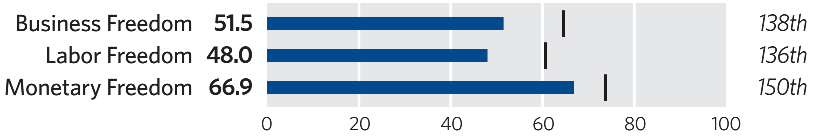
The judicial system remains inefficient and vulnerable to political interference. Court judgments are slow and inconsistent. Expropriation is a problem, and the government is constitutionally empowered to control strategic sectors such as natural resources. A new anti-monopoly watchdog agency has increased government intrusiveness in private-sector activity. Corruption is pervasive, and illicit payments for official favors are common.

LIMITED GOVERNMENT



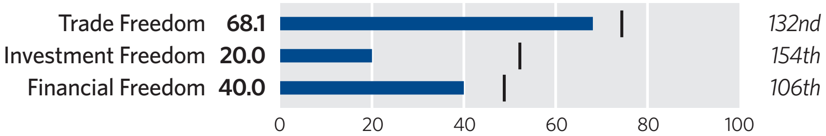
The top income tax rate is 35 percent, and the corporate tax rate is 23 percent. Profits reinvested in capital purchases are subject to a special 15 percent rate. Other taxes include a value-added tax (VAT) and an inheritance tax. The overall tax burden equals 15.2 percent of GDP. Government spending amounts to 41.9 percent of total domestic output. High oil prices have narrowed deficits, and public debt is below 20 percent of GDP.

REGULATORY EFFICIENCY



Regulatory efficiency remains poor, and the application of regulations is inconsistent and non-transparent. On average, it takes 56 days to start a company, and obtaining necessary permits costs twice the level of average annual income. The labor market lacks flexibility and hinders job growth. The use of the U.S. dollar as the official currency has injected a degree of monetary stability. Price controls are often used by the state.

OPEN MARKETS

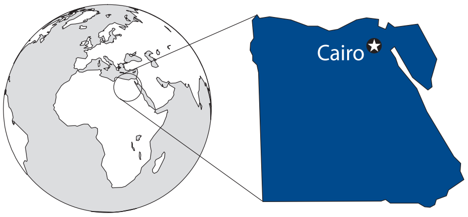


Ecuador's 2011 program of import substitution and voluntary import restraints has been ineffective in controlling the growth of imports. The trade-weighted average tariff rate remains at 6 percent. The investment regime is complex and non-transparent, and decision-making can be highly politicized. Non-performing loans have been increasing, and state interference in banking has expanded.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.8	Business Freedom	-2.6	Trade Freedom	0
Freedom from Corruption	+2.0	Government Spending	-17.0	Labor Freedom	+7.0	Investment Freedom	-5.0
				Monetary Freedom	+0.1	Financial Freedom	0

EGYPT



World Rank: **125** Regional Rank: **13**

Egypt's economic freedom score is 54.8, making its economy the 125th freest in the 2013 *Index*. Its overall score is 3.1 points lower than last year, reflecting declines in seven of the 10 economic freedoms, especially investment freedom and labor freedom. Egypt is ranked 13th out of 15 countries in the Middle East/North Africa region, and its overall score is below the world and regional averages.

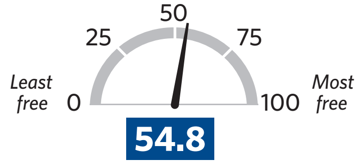
Given its challenging political and economic transition, the Egyptian economy has been experiencing an extended period of instability and uncertainty. Much-needed improvements in economic policy have been delayed, and the effectiveness of reforms that might have helped to open markets and improve productivity has been undercut by the fragile rule of law and the legacy of Egypt's socialist past. A new, higher top tax rate of 25 percent applies to both individuals and corporations.

Deeper institutional reforms are critically needed to spur lasting economic growth and development. Those reforms include strengthening of the judicial system, better protection of property rights, and more effective action against growing corruption.

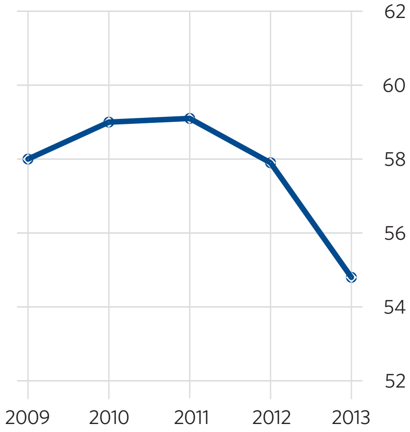
BACKGROUND: The Egyptian army ousted President Hosni Mubarak in February 2011 after massive protests and violent police responses destabilized his government. Mubarak had been in power since 1981. Following his ouster, the Supreme Council of the Armed Forces assumed power and promised to prepare for free parliamentary and presidential elections. Parliamentary elections were held in January 2012, but the parliament was dissolved in June 2012 after the Supreme Constitutional Court ruled that one-third of its members had won their seats illegitimately. Mohamed Morsi of the Muslim Brotherhood's Freedom and Justice Party won the June 2012 presidential election, but his authority has been limited by SCAF edicts. Domestic instability and continued political uncertainty depress tourism revenues and foreign investment, both of which are important sources of foreign exchange. Despite efforts to make the economy more market-oriented, socialist policies continue, and the government heavily subsidizes food, energy, and other key commodities.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

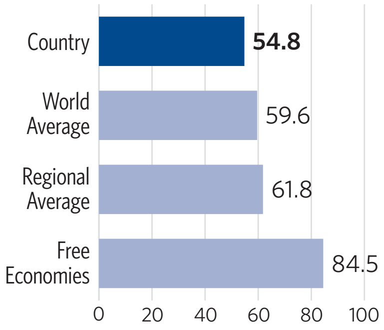
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

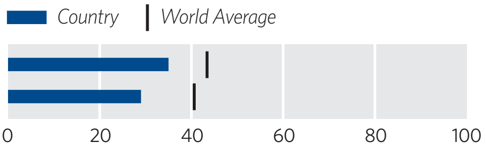
Population: 79.4 million
GDP (PPP): $519.0 billion
1.8% growth in 2011
5-year compound annual growth 5.1%
$6,540 per capita
Unemployment: 12.2%
Inflation (CPI): 11.1%
FDI Inflow: –$482.7 million
Public Debt: 76.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

THE TEN ECONOMIC FREEDOMS

RULE OF LAW

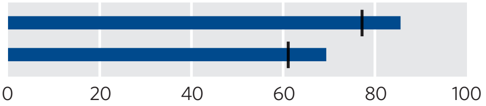
		Rank
Property Rights	**35.0**	*91st*
Freedom from Corruption	**29.0**	*111th*



The rule of law has been unstable across the country, and the judicial system's independence is poorly institutionalized. Judicial procedures tend to be protracted, costly, and subject to political pressure. Property rights are not protected effectively, and prices for private political-risk insurance have skyrocketed. Corruption continues to erode trust in the economic system.

LIMITED GOVERNMENT

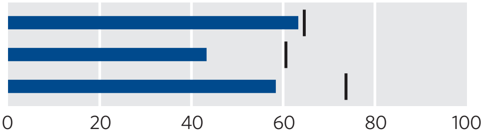
Fiscal Freedom	**85.6**	*44th*
Government Spending	**69.4**	*77th*



The top income and corporate tax rates are 25 percent. Other taxes include a property tax and a general sales tax (GST). The overall tax burden is estimated to be around 13.9 percent of GDP. Government spending has fallen to one-third of total domestic output, despite deficits of nearly 10 percent of GDP and rising public debt of over 70 percent of GDP. Slow growth as a result of political unrest has hampered revenue collection.

REGULATORY EFFICIENCY

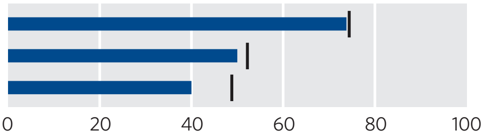
Business Freedom	**63.3**	*99th*
Labor Freedom	**43.3**	*150th*
Monetary Freedom	**58.4**	*170th*



Previous regulatory reforms, including establishment of a "one-stop shop" for investment, made starting a business less time-consuming and costly, but without needed reforms in other areas, they have proven to be largely cosmetic, failing to create real momentum for dynamic entrepreneurial growth. In the absence of a well-functioning labor market, informal labor activity persists in many sectors. Monetary stability is weak.

OPEN MARKETS

Trade Freedom	**73.8**	*104th*
Investment Freedom	**50.0**	*98th*
Financial Freedom	**40.0**	*106th*



Egypt has opened its markets to global trade and investment, but non-tariff barriers continue to constrain trade freedom. The investment regime has been stable, but flows have slowed significantly due to the challenging economic and political situation, and the central bank has imposed controls on capital transfers. The state-dominated financial system has been stressed, with negative impacts from the global crisis exacerbated by domestic turbulence.

Score Changes

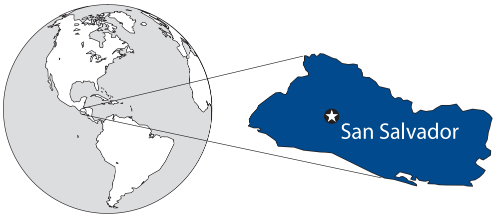
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-2.0

LIMITED GOVERNMENT	
Fiscal Freedom	-4.1
Government Spending	+5.3

REGULATORY EFFICIENCY	
Business Freedom	-0.5
Labor Freedom	-10.4
Monetary Freedom	-3.9

OPEN MARKETS	
Trade Freedom	-0.2
Investment Freedom	-15.0
Financial Freedom	0

EL SALVADOR



World Rank: **53** Regional Rank: **10**

El Salvador's economic freedom score is 66.7, making its economy the 53rd freest in the 2013 *Index*. Its overall score is 2 points lower than last year, with declines in six of the 10 economic freedoms including investment freedom, the management of public spending, labor freedom, and freedom from corruption. El Salvador is ranked 10th out of 29 countries in the South and Central America/Caribbean region, and its overall score remains above the world average.

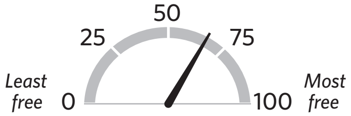
The Salvadoran economy, once considered to be among the region's most promising, has suffered a gradual decline in economic freedom. Institutional weaknesses continue to slow development, and judicial independence and the rule of law have eroded in recent years. Overall competitiveness has been increasingly constrained by chronic fiscal deficits and regulatory inefficiency.

On the positive side, the level of sovereign debt has stabilized, and open-market policies that support trade and investment are still in place. An increased perception of corruption, however, has undermined confidence.

BACKGROUND: Following the end of the civil war in 1992, three successive presidents from the National Republican Alliance (ARENA) delivered economic growth and poverty reduction with aggressive free-market policies. A fourth consecutive ARENA president, Antonio Saca, was less successful and opened the door to left-leaning Mauricio Funes of the Farabundo Marti Liberation Front (FMLN) in 2009. Funes has failed to reduce growing public indebtedness, reverse the upward trend in food prices, or attract foreign investment. High levels of crime and violence continue to threaten social development and economic growth. In early 2012, the government accepted the concept of a peace accord with criminal gangs. In March 2012, ARENA narrowly defeated the FMLN in legislative and mayoral elections. In July, the FMLN provoked a constitutional crisis when it refused to recognize rulings by the Supreme Court. The unconstitutional solution could threaten El Salvador's access to international assistance.

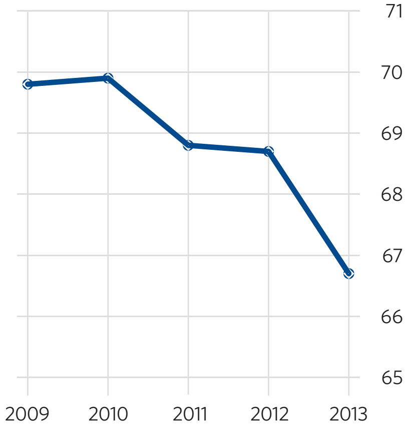
How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Economic Freedom Score

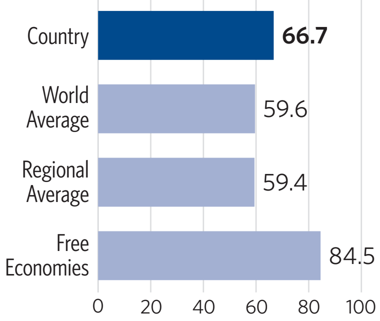


66.7

Freedom Trend



Country Comparisons



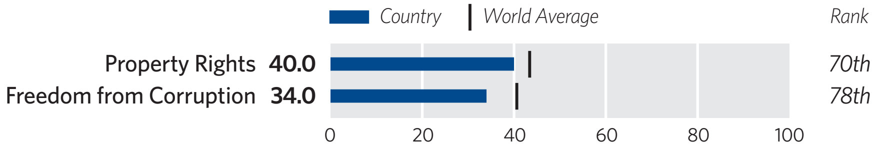
Quick Facts

Population: 5.9 million
GDP (PPP): $44.6 billion
1.4% growth in 2011
5-year compound annual growth 0.9%
$7,550 per capita
Unemployment: 7.0%
Inflation (CPI): 3.6%
FDI Inflow: $385.5 million
Public Debt: 50.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

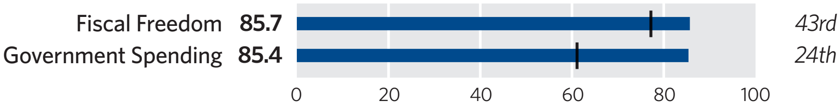
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



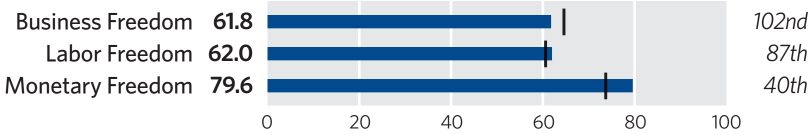
Property rights are not strongly respected, and law enforcement is inefficient and uneven. El Salvador's murder rate remains one of the world's highest. The judicial system is not fully independent and remains vulnerable to political influence and corruption. In the absence of effective measures to protect intellectual property rights, the market for pirated goods has been expanding. Perceptions of corruption have spiked dramatically in the past year.

LIMITED GOVERNMENT



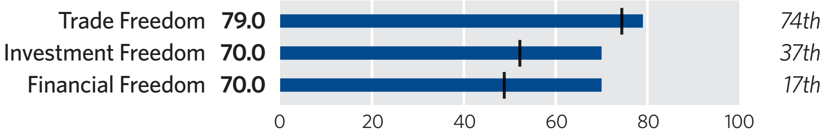
The top income and corporate tax rates are 25 percent. Other taxes include a value-added tax (VAT) and excise taxes. The overall tax burden corresponds to 13.6 percent of total domestic income. Government spending amounts to 22.1 percent of total domestic output. The government budget is chronically in deficit, but public debt has stabilized at about 50 percent of GDP.

REGULATORY EFFICIENCY



A significant reduction in the minimum capital requirement has made the business start-up process less burdensome, but obtaining the necessary permits still takes more than 150 days and costs more than the level of average annual income. The inefficient labor market lacks flexibility, and imbalances persist in the demand and supply of skilled workers. Inflation has risen, and price controls are imposed on a range of goods and services.

OPEN MARKETS



The trade-weighted average tariff rate is 5.5 percent, but there are relatively few non-tariff barriers. The investment regime is open and transparent, with equal treatment for foreign and domestic investors. Newly aggressive enforcement of environmental regulations has been characterized as "creeping expropriation" of mining enterprises. Banking is highly concentrated, with four private banks accounting for over 70 percent of total assets.

Score Changes

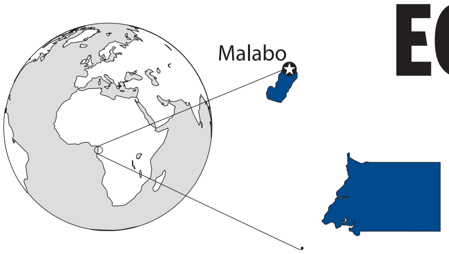
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-2.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.2
Government Spending	-5.7

REGULATORY EFFICIENCY	
Business Freedom	-1.4
Labor Freedom	-3.3
Monetary Freedom	-2.5

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	-5.0
Financial Freedom	0

EQUATORIAL GUINEA



World Rank: **170** Regional Rank: **43**

Equatorial Guinea's economic freedom score is 42.3, making its economy the 170th freest in the 2013 *Index*. Its overall score has fallen 0.5 point, driven by a notable deterioration in property rights and financial freedom. Equatorial Guinea is ranked 43rd out of 46 countries in the Sub-Saharan Africa region, and its score is below the regional and world averages.

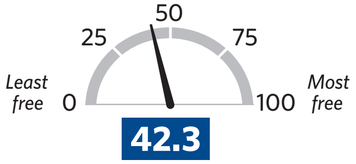
Although the oil sector has driven high GDP growth rates and is responsible for high average income levels, overall economic development has been uneven, and poverty remains a serious problem. Political instability has undermined prospects for economic reform, and extreme reliance on natural resource–driven investment has left the economy vulnerable to external price shocks. More than half of the workforce is estimated to work in the informal economy.

Private property is vulnerable to political interference and even expropriation, and corruption is pervasive. Worsening institutional weaknesses in finance and law impede emergence of a more vibrant private sector and stifle prospects for broad-based economic development.

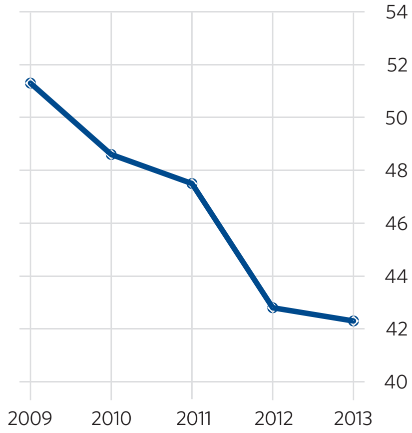
BACKGROUND: One-party rule ended in 1991, but opposition parties have won few victories. President Teodoro Obiang Nguema Mbasogo seized power in a 1979 coup, won deeply flawed elections in 2002 and 2009, and still tightly controls the military and the government. Tentative political reforms appear to be more show than substance. Equatorial Guinea is a significant oil producer and one of Africa's fastest-growing economies. In 2007, oil accounted for 91 percent of GDP, 91 percent of government revenue, and 99 percent of exports. Foreign investment in the oil industry is extensive, but government management of oil wealth is not transparent and encourages corruption. Average living standards are low. Most people still rely on subsistence farming, hunting, and fishing. The president's son, Minister of Agriculture and Forestry Nguema Obiang Mangue, has been accused of embezzling public funds to buy property in France.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

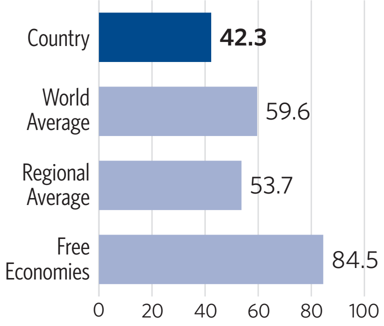
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 1.4 million

GDP (PPP): $26.1 billion

7.1% growth in 2011

5-year compound annual growth 8.6%

$19,356 per capita

Unemployment: 22.3%

Inflation (CPI): 7.3%

FDI Inflow: $737.1 million

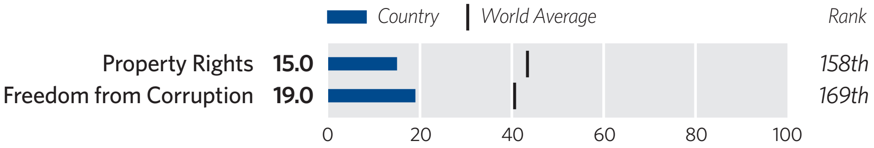
Public Debt: 8.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

EQUATORIAL GUINEA (continued)

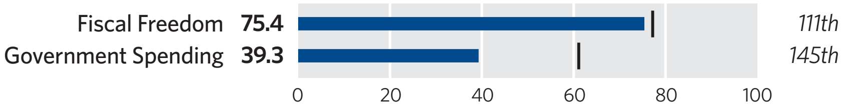
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



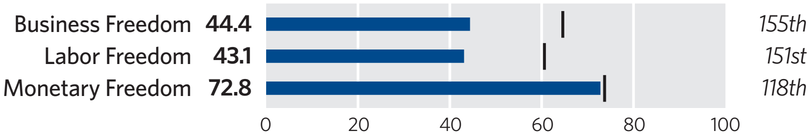
Protection of property rights is poor, and the rule of law is uneven. The inefficient judicial system is subject to political influence. Enforcement of intellectual property rights is weak. Corruption seriously undermines economic security, and cronyism is pervasive, particularly in connection with the oil sector. In 2012, France issued an arrest warrant against the president's son for laundering money and siphoning off public funds.

LIMITED GOVERNMENT



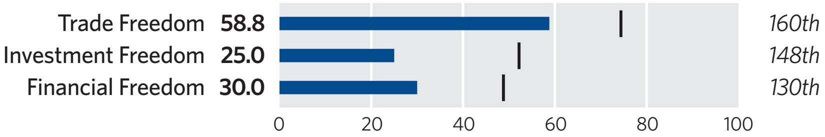
The top income and corporate tax rates are 35 percent. Other taxes include a value-added tax (VAT) and a tax on inheritance. The overall tax burden equals 2.4 percent of GDP. Government spending amounts to 45 percent of total domestic output, but substantial oil revenue has allowed the government to maintain low deficit and debt levels. Public debt is equivalent to less than 10 percent of GDP.

REGULATORY EFFICIENCY



Regulations are administered inefficiently. Cumbersome procedures and high compliance costs slow licensing and increase the overall difficulty of starting a business. In the absence of private-sector employment opportunities, an organized labor market has not emerged. Existing labor regulations are outmoded and create challenging barriers to hiring. Inflation has been rising.

OPEN MARKETS

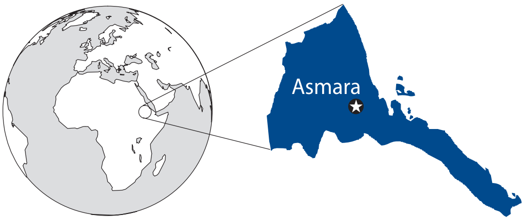


Burdensome tariff and non-tariff barriers continue to restrict trade freedom, in part because of the state's reliance on tariffs as a revenue source. Foreign investment is officially welcome, but complex bureaucracy and arbitrary enforcement of regulations seriously impede investment growth. Credit costs are high, and access to financing is limited. The government controls long-term lending through the state-owned development bank.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**-5.0**	Fiscal Freedom	**-0.1**	Business Freedom	**-0.3**	Trade Freedom	**0**
Freedom from Corruption	**0**	Government Spending	**+11.3**	Labor Freedom	**-0.7**	Investment Freedom	**0**
				Monetary Freedom	**-0.3**	Financial Freedom	**-10.0**

ERITREA



World Rank: **173** Regional Rank: **45**

Eritrea's economic freedom score is 36.3, making its economy one of the least free in the 2013 *Index*. Its overall score is essentially the same as last year, with improvements in the control of government spending and monetary freedom offset by declines in freedom from corruption and labor freedom. Eritrea is ranked 45th out of the 46 countries in the Sub-Saharan Africa region.

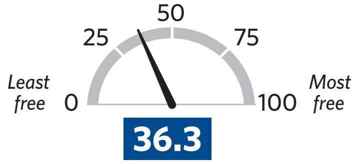
Eritrea scores very poorly in most components of the *Index*. Entrepreneurs have been pushed out of the formal market by an underdeveloped regulatory framework and weak property rights enforcement. Informal activity dominates outside the minerals sector and the government.

Strong GDP growth has been led by increased foreign investment in the mining industry, but substantial mineral revenues benefit only a narrow segment of the population. The public sector remains the largest source of employment. Chronic deficits due to large military spending plague public finance, worsening fragile monetary stability. A repressive central government continues to marginalize the domestic private sector, perpetuating an uncertain investment climate, and U.N. economic sanctions have greatly increased risks for potential investors.

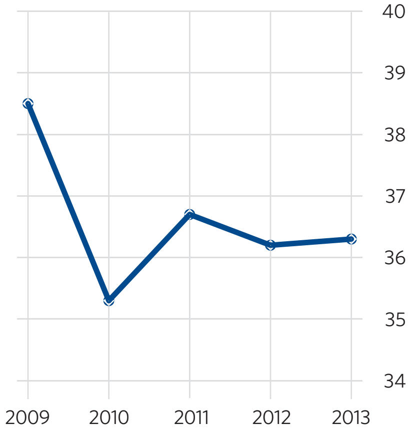
BACKGROUND: Eritrea won its independence from Ethiopia in 1993, but relations between the two countries remain hostile. President Isaias Afwerki has ruled without elections since 1993, and the ongoing conflict with Ethiopia makes elections unlikely. In March 2012, Ethiopia launched an incursion into Eritrea, citing Afwerki's support for terrorist activity as justification. Judicial independence is limited, and journalists and others have been held without trial for speaking against the government. In recent years, Eritrea has moved aggressively to reduce its reliance on external assistance. Aid relationships with some U.N. agencies and bilateral donors have been suspended or reduced, and information on conditions within the country has become scarce. Roughly three-quarters of Eritreans depend on small-scale agriculture and fishing, and it is believed that up to two-thirds of the population relies on government assistance for food.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

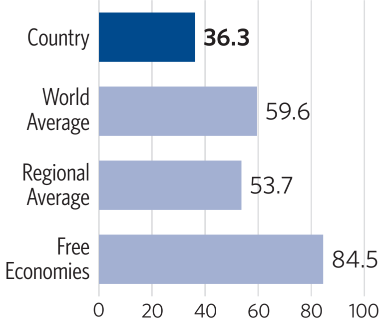
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

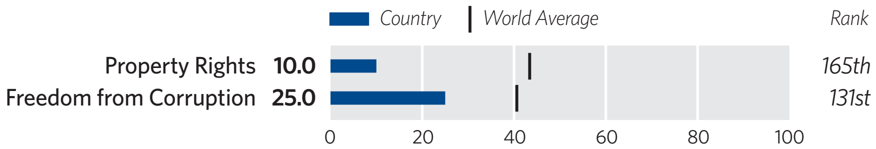
Population: 5.5 million
GDP (PPP): $4.0 billion
8.7% growth in 2011
5-year compound annual growth 1.1%
$735 per capita
Unemployment: n/a
Inflation (CPI): 13.3%
FDI Inflow: $18.5 million
Public Debt: 133.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

ERITREA (continued)

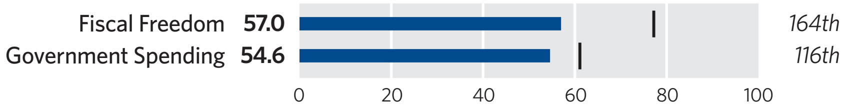
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



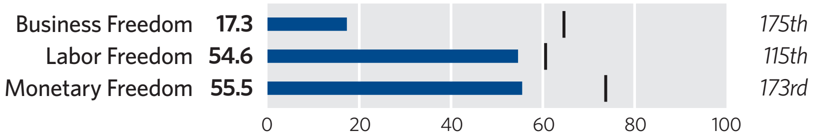
The rule of law remains fragile and uneven, severely undermined by a weak and inefficient judicial system. Protection of property rights is poor. The government has a history of expropriating houses, businesses, and other private property without notice, explanation, or compensation. Pervasive corruption and cronyism continue to undermine efforts to improve the foundations of economic freedom.

LIMITED GOVERNMENT



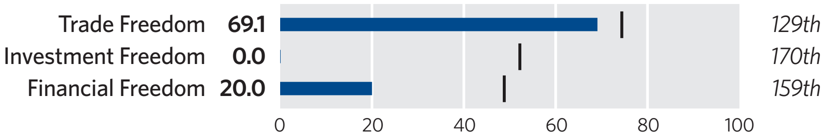
The top income and corporate tax rates are 30 percent. The overall tax burden is estimated to be quite high, although taxation is erratic and poorly administered. Government spending is equivalent to 38.9 percent of total domestic output. The deficit has been chronically high at over 16.2 percent of GDP, and public debt amounts to more than 130 percent of total domestic income.

REGULATORY EFFICIENCY



Procedures for establishing and running a business are opaque but costly. Published regulations are severely outdated, and the required minimum capital for launching a business equals over twice the annual average income. Labor regulations are not enforced effectively, and the underdeveloped labor market does a poor job of matching skills with needs. Monetary stability has been weak, and inflationary pressures continue.

OPEN MARKETS



Eritrea's trade freedom remains severely restricted by prohibitive tariff and non-tariff barriers. The government-controlled economy is not attractive to foreign investment. Large-scale projects must be approved by the appropriate Office of the President. The financial system remains severely underdeveloped. All banks are majority-owned by the government, and private-sector participation in the system remains constrained.

Score Changes

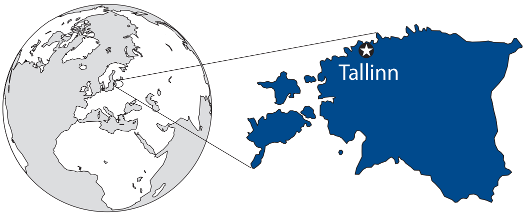
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-1.0

LIMITED GOVERNMENT	
Fiscal Freedom	0
Government Spending	+7.8

REGULATORY EFFICIENCY	
Business Freedom	+0.2
Labor Freedom	-8.6
Monetary Freedom	+2.6

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

ESTONIA



World Rank: **13** Regional Rank: **4**

Estonia's economic freedom score is 75.3, making its economy the 13th freest in the 2013 *Index*. Its overall score is 2.1 points higher than last year, driven by notable improvements in the management of government spending, property rights, and business freedom. Estonia is ranked 4th out of 43 countries in the Europe region, and its overall score is well above the regional and world averages.

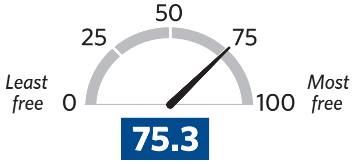
Recording the sixth largest score increase in the 2013 *Index*, Estonia continues to be a global leader in economic freedom. The economy rests on solid foundations, with the rule of law strongly buttressed and enforced by an independent and efficient judicial system. A simplified tax system with flat rates and low indirect taxation, a competitive banking sector, openness to foreign investment, and a historically liberal trade regime all support the resilient and well-functioning economy.

Though the economy contracted sharply during the recent recession, Estonia's determination to defend economic freedom has contributed to its swift, strong rebound over the past two years. In particular, revitalized efforts to move even further toward limited government and ensure long-term fiscal sustainability have played a notable role in restoring economic vitality. Fiscal adjustments have brought down budget deficits and kept public debt levels among the lowest in the world.

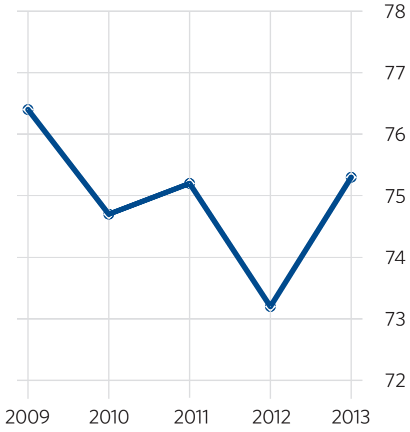
BACKGROUND: Estonia regained its independence from the Soviet Union in 1991 and has become a stable multi-party democracy. It became a member of NATO and the European Union in 2004, joined the Organisation for Economic Co-operation and Development in 2010, and adopted the euro in 2011. After the March 2011 election, a center-right coalition of the Reform Party and the Pro Patria–Res Publica Union (IRL) was formed. Andrus Ansip of the Reform Party has been prime minister since 2005. Estonia has become one of the world's most dynamic and modern economies and is the first ex-Soviet state to adopt the euro. The economic outlook is stable, but growth has slowed due to the EU economic crisis. Estonia's economy is dominated by industry and services.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

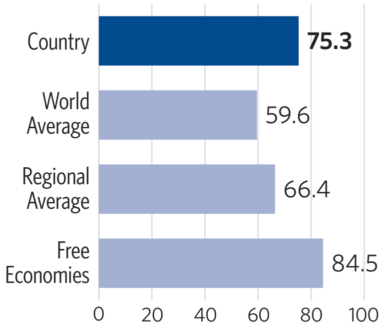
Economic Freedom Score



Freedom Trend



Country Comparisons



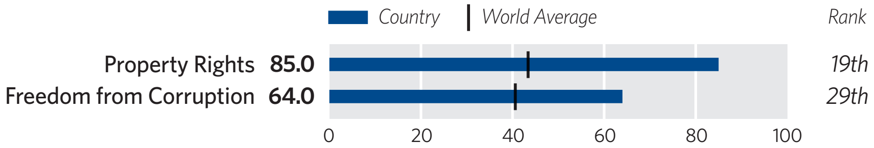
Quick Facts

Population: 1.3 million
GDP (PPP): $27.3 billion
7.6% growth in 2011
5-year compound annual growth −0.5%
$20,380 per capita
Unemployment: 10.1%
Inflation (CPI): 5.1%
FDI Inflow: $257.1 million
Public Debt: 6.0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

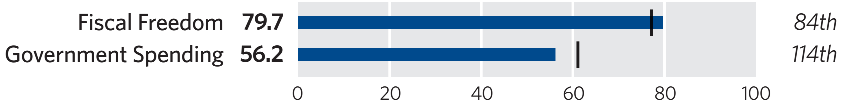
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



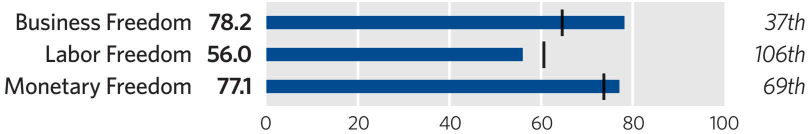
Estonia's judiciary is effectively insulated from government influence. Property rights and contracts are well enforced and secure. Commercial codes are applied consistently. The long, complex post-USSR property restitution process (begun in 1991) is almost complete, even in the area of non-residential property. Protection of intellectual property rights is consistent with global standards. Anti-corruption measures are relatively strong.

LIMITED GOVERNMENT



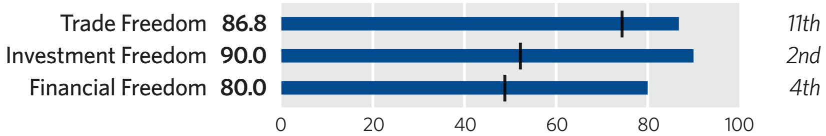
The top income and corporate tax rates are 21 percent. Undistributed profits are not taxed. Other taxes include a value-added tax (VAT) and excise taxes. The overall tax burden is equal to 34 percent of total domestic income. Government spending amounts to 38.2 percent of total domestic output. Previously widening budget deficits are under control, and public debt continues to be less than 10 percent of GDP.

REGULATORY EFFICIENCY



The business start-up process is straightforward, taking only five procedures and seven days. The cost of completing licensing requirements has been substantially reduced. Enhancing labor productivity has been a key goal, and the recently enacted labor law aims to reduce costs of dismissal. Adoption of the euro did not produce the feared rise in consumer prices.

OPEN MARKETS



Estonia maintains a common low external tariff with other members of the European Union. The overall trade regime is fairly competitive and promotes the dynamic growth of trade. The investment environment is attractive and conducive to the free flow of capital. Foreign and domestic investors have the same legal rights. The competitive banking sector provides a wide range of financial services with little state intervention.

Score Changes

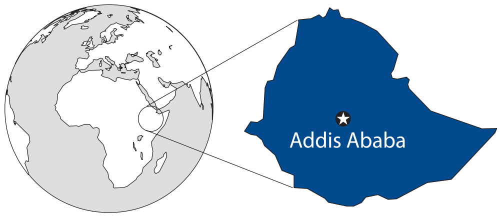
RULE OF LAW	
Property Rights	+5.0
Freedom from Corruption	-1.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.6
Government Spending	+17.4

REGULATORY EFFICIENCY	
Business Freedom	+2.5
Labor Freedom	-0.9
Monetary Freedom	-2.2

OPEN MARKETS	
Trade Freedom	-0.3
Investment Freedom	0
Financial Freedom	0

ETHIOPIA



World Rank: **146** Regional Rank: **32**

Ethiopia's economic freedom score is 49.4, making its economy the 146th freest in the 2013 *Index*. Its overall score is 2.6 points lower than last year, reflecting declines in six of the 10 economic freedoms including business freedom, labor freedom, monetary freedom, and trade freedom. Ethiopia is ranked 32nd out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the regional average.

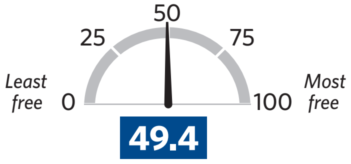
Registering the sixth largest reduction in economic freedom in the 2013 *Index*, Ethiopia has fallen into the category of economically "repressed." The foundations of economic freedom are quite fragile, particularly because of pervasive corruption and a deficient judicial system.

Regulatory efficiency remains poor, creating an unfavorable climate for entrepreneurial activity. The informal economy provides most jobs for the relatively unskilled labor force. Existing policies aimed at promoting and sustaining open markets have been undercut by a lack of effective implementation. Much more determined efforts at reform, particularly in the investment and financial sectors, are needed to lay the groundwork for sustained and broad-based development.

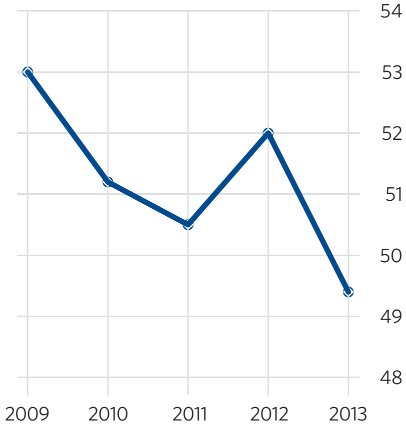
BACKGROUND: Long-term incumbent Prime Minister Meles Zenawi died on August 20, 2012, after a long illness and has been succeeded by Haile Mariam Desalegn. His Ethiopian People's Revolutionary Democratic Front and allied parties hold all but two seats in parliament as a result of elections in 2010 that outside observers claimed fell short of international standards. Following war with Eritrea in the 1990s, a U.N. peacekeeping mission was established on the border. The mission was terminated in 2008, but relations between the two countries remain strained. In 2012, Ethiopia sent forces into Eritrea after European tourists were killed by terrorists that Ethiopia charges were trained in Eritrea. Ethiopia invaded Somalia in support of Somalia's Transitional Federal Government in 2006 and withdrew in 2009 following a peace deal. Some Ethiopian troops still operate in Somalia combating the terrorist group al-Shabaab. Agriculture contributes over 40 percent of GDP, accounts for over 70 percent of exports, and employs about 80 percent of the population.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

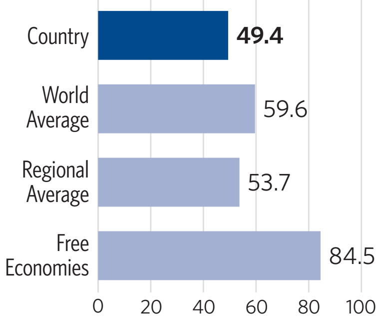
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 86.8 million

GDP (PPP): $94.9 billion
7.5% growth in 2011
5-year compound annual growth 9.7%
$1,093 per capita

Unemployment: n/a

Inflation (CPI): 18.1%

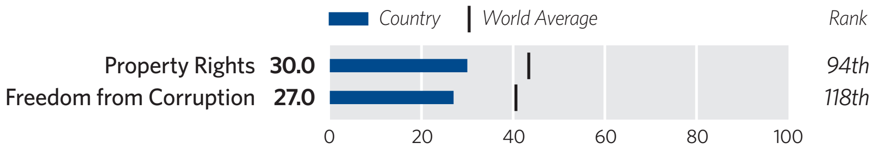
FDI Inflow: $206.1 million

Public Debt: 37.3% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

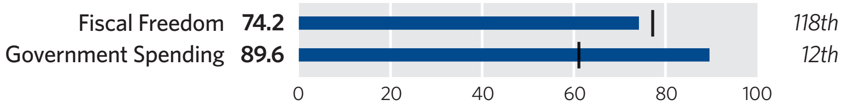
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



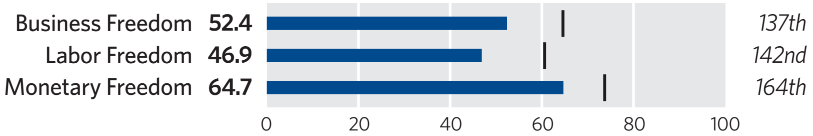
Property and contractual rights are recognized, but enforcement is weak. The judicial system is underdeveloped and vulnerable to political interference. A highly restrictive land-tenure policy makes it difficult to register property. State- and party-owned businesses receive preferential access to land leases and credit. Corruption further undermines the foundations of economic freedom.

LIMITED GOVERNMENT



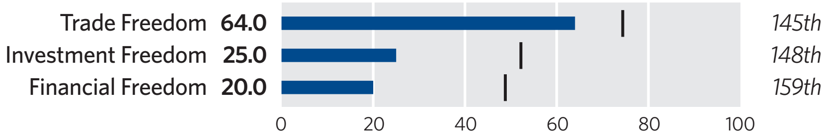
The top income and corporate tax rates are 35 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The overall tax burden is equal to 11.2 percent of GDP. Government spending is 18.6 percent of total domestic output, and the deficit has increased. Public debt has increased to 37.3 percent of GDP. Fiscal policies to increase domestic revenue and reduce borrowing have helped to shore up accounts.

REGULATORY EFFICIENCY



Establishing a business has become less time-consuming, but other regulatory requirements remain burdensome and opaque, increasing the overall cost of conducting business. The minimum capital required to start a business is over three times the average annual income. The underdeveloped labor market continues to hinder employment growth, trapping much of the labor force in informal economic activity. Monetary stability has been weak.

OPEN MARKETS

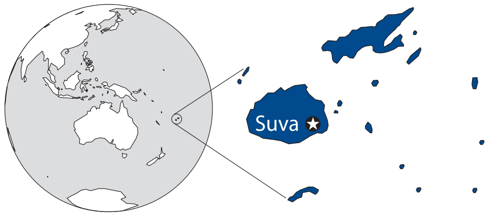


The trade-weighted average tariff rate is relatively high at 10.5 percent, and myriad non-tariff barriers further raise the cost of trade. The investment regime, lacking transparency and efficiency, remains unfavorable to dynamic investment growth. The government strongly influences lending and funds state-led development projects by forcing private banks to purchase treasury bills. Foreign ownership in the banking sector remains prohibited.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.6	Business Freedom	-12.0	Trade Freedom	-1.6
Freedom from Corruption	0	Government Spending	-1.5	Labor Freedom	-8.6	Investment Freedom	0
				Monetary Freedom	-2.4	Financial Freedom	0

FIJI



World Rank: **105** Regional Rank: **18**

Fiji's economic freedom score is 57.2, making its economy the 105th freest in the 2013 *Index*. Its overall score is 0.1 point lower than last year, with declines in six categories of economic freedom outweighing improvements in business freedom and investment freedom. Fiji is ranked 18th out of 41 countries in the Asia–Pacific region, and its overall score is below the world and regional averages.

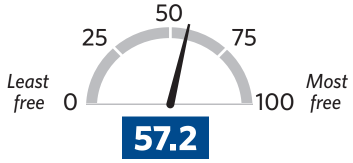
The lack of business and investment opportunities, exacerbated by regulatory inefficiency and uncertainty, has contributed to extended economic stagnation in Fiji. The state's presence in the economy is pervasive, and government-controlled sugar, electricity, and transportation enterprises are significant sources of corruption and impediments to fiscal stability. Public debt exceeds 50 percent of GDP and is higher than in neighboring countries. No efforts have been made to overhaul the civil service and public enterprises.

Respect for the rule of law has declined notably, and Fiji still has not developed an independent and effective legal system. The judiciary has become more vulnerable to political interference, and corruption has become a serious concern, undermining prospects for long-term economic development.

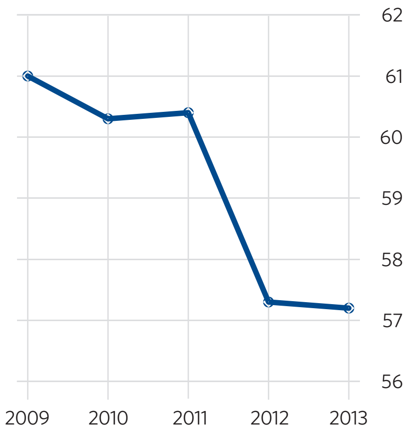
BACKGROUND: The Pacific island nation of Fiji is ruled by an interim government headed by military strongman Commodore Frank Bainimarama, who has dominated island politics for a decade. Fiji has long suffered from ethnic tension between the indigenous, mostly Christian population and a large minority of Hindu or Muslim Indo–Fijians. Sanctions imposed by Fiji's main trading partners, including the European Union and Australia, have hurt the vital agriculture, clothing, and fishing industries. In September 2009, Fiji was suspended from the Commonwealth of Nations. The government began to implement industry reform in 2010, but it has done little to improve Fiji's slowing economy.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

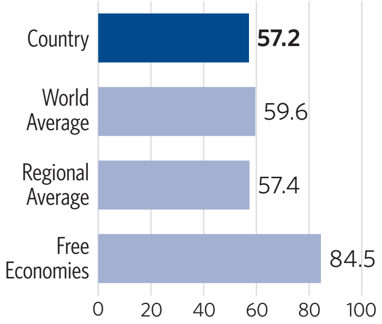
Economic Freedom Score



Freedom Trend



Country Comparisons



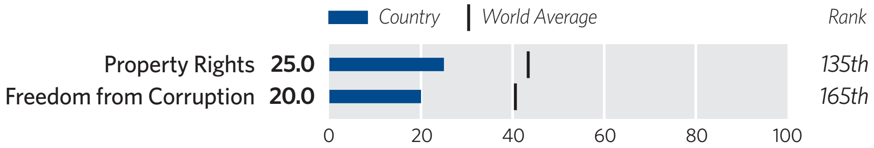
Quick Facts

Population: 0.9 million
GDP (PPP): $3.9 billion
0.1% growth in 2010
5-year compound annual growth 0.1%
$4,347 per capita
Unemployment: n/a
Inflation (CPI): 5.4%
FDI Inflow: $128.9 million
Public Debt: 55.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

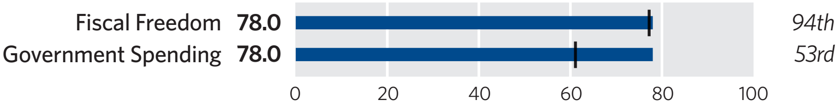
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



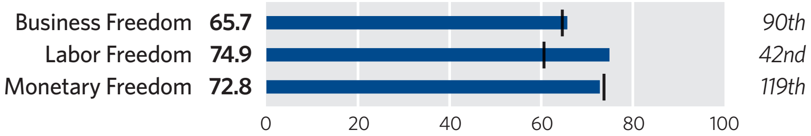
Protection of property is highly uncertain. Government actions undermine the judiciary's independence, the backlog of cases is significant, and there is a shortage of prosecutors. Obtaining land titles is difficult, and the enforcement of intellectual property rights is inadequate. Limited accountability for corruption and lack of effective law enforcement pose challenges for entrepreneurs.

LIMITED GOVERNMENT



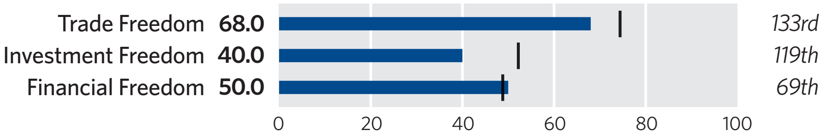
The top income tax rate is 31 percent, and the top corporate tax rate has been cut to 28 percent. Other taxes include a value-added tax (VAT) and a land sales tax. The overall tax burden is equal to 21.4 percent of total domestic income, and government spending is 27.1 percent of total domestic output. Deficits have narrowed to 3.1 percent of GDP, with public debt amounting to about 55 percent of GDP.

REGULATORY EFFICIENCY



Despite some progress, procedures for establishing and running a private enterprise remain time-consuming and costly. Completing licensing requirements takes about 150 days. The recent labor reform consolidated and updated the labor codes, but labor regulations remain rigid, and an efficient labor market has not developed. Inflation has been rising, and price controls are imposed on various goods.

OPEN MARKETS

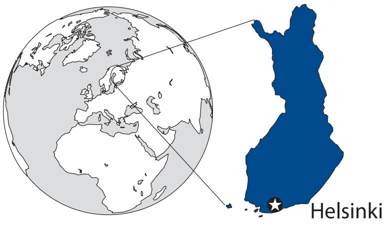


The trade-weighted average tariff rate is quite high at 10.1 percent, and non-tariff barriers further raise the cost of trade. All foreign investment must be approved by the state, and the overall investment environment is poor. The government has withdrawn from commercial banking, and foreign participation is significant. Foreign exchange controls have been eased but still limit repatriation of capital and profits.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.1	Business Freedom	+6.4	Trade Freedom	-1.7
Freedom from Corruption	0	Government Spending	-0.9	Labor Freedom	-0.9	Investment Freedom	+10.0
				Monetary Freedom	-2.9	Financial Freedom	-10.0

FINLAND



World Rank: **16** Regional Rank: **7**

Finland's economic freedom score is 74, making its economy the 16th freest in the 2013 *Index*. Its score is 1.7 points better than last year, with improvements in half of the 10 economic freedoms including the management of public finance, investment freedom, and labor freedom. Finland is ranked 7th out of 43 countries in the Europe region, and its overall score is well above the world average.

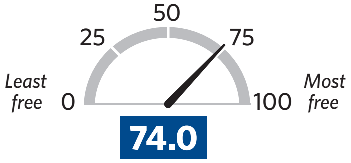
The Finnish economy continues to be one of the 20 freest in the *Index*. Well-secured property rights, including for intellectual property, promote entrepreneurship, productivity growth, and economic resilience. Minimum tolerance for corruption is institutionalized in an efficient legal framework that strongly sustains the rule of law. The judicial system, independent of political influence, ensures effective and transparent enforcement of commercial contracts.

Finland's openness to foreign trade and investment provides real stimulus for a dynamic and resilient economy. A sound regulatory environment and minimal barriers to trade have contributed to competition and innovation. However, with government spending over 50 percent of GDP and public debt growing in recent years, fiscal policy is a serious concern. In a move to restore fiscal sustainability, the 2013 budget aims for greater prudence and balance in government budgeting.

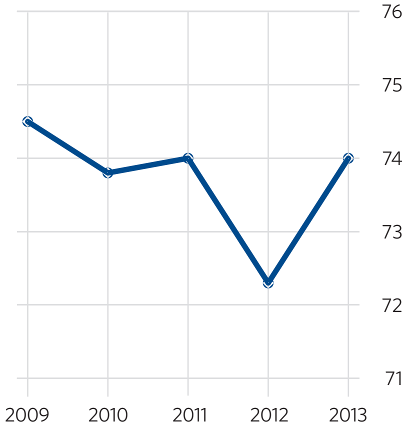
BACKGROUND: In April 2011, the center-right National Coalition Party formed a six-party governing coalition with Jyrki Katainen as prime minister. In the February 2012 presidential elections, the National Coalition Party's Sauli Niinistö won in the second round of voting, ending 30 years of Social Democrat presidencies. Finland became a member of NATO's Partnership for Peace in 1994 and sits on the Euro–Atlantic Council, but it has not pursued full NATO membership because of its neutral military status. It joined the European Union in 1995 and adopted the euro as its currency in 1999. Finland is sparsely populated, with about one-fourth of its land mass above the Arctic Circle. It boasts a modern and competitive economy with vibrant information and communications technology sectors.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

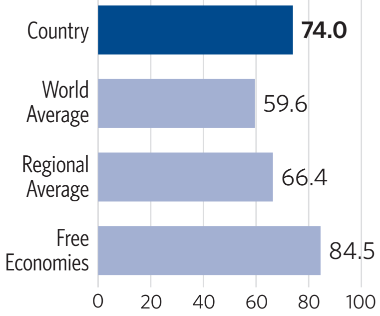
Economic Freedom Score



Freedom Trend



Country Comparisons



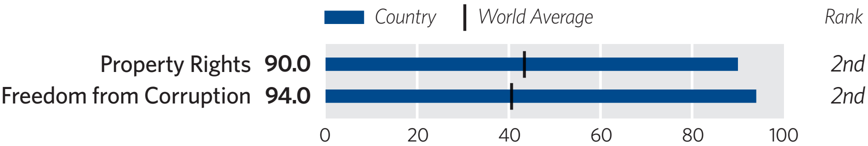
Quick Facts

Population: 5.4 million
GDP (PPP): $195.7 billion
2.9% growth in 2011
5-year compound annual growth 0.7%
$36,236 per capita
Unemployment: 7.9%
Inflation (CPI): 3.3%
FDI Inflow: $53.8 million
Public Debt: 48.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

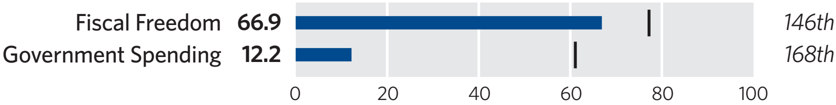
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



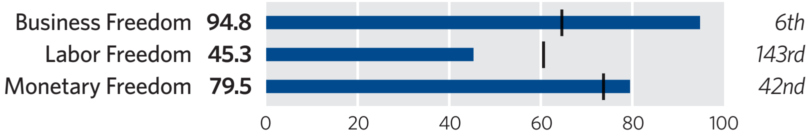
Property rights are well protected, and contractual agreements are strictly honored. The quality of the judiciary is generally high. Finland adheres to numerous international agreements concerning the protection of intellectual property. In 2012, a district court handed down unprecedentedly strong sentences to several businessmen who were accused of bribing politicians in the 2007 general election.

LIMITED GOVERNMENT



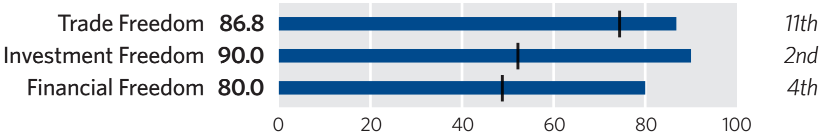
The top income tax rate is 30.5 percent, and the top corporate tax rate is 24.5 percent. Other taxes include a value-added tax (VAT) and a capital income tax. The overall tax burden is 42.1 percent of total domestic income. Government spending remains high at 54.1 percent of GDP, but the budget deficit has shrunk. Public debt remains under control, with implementation of fiscal reforms scheduled for the next few years.

REGULATORY EFFICIENCY



The efficient and transparent regulatory framework encourages entrepreneurship. Launching a business costs about 1 percent of the level of average annual income and takes only three procedures. The non-salary cost of employing a worker is moderate, and severance payments are not overly burdensome. Monetary stability has been well maintained, although rising food prices have edged inflation higher.

OPEN MARKETS

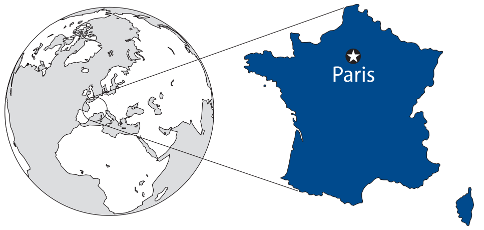


Finland's trade policy is the same as that of other members of the European Union, with the common EU weighted average tariff rate standing at 1.6 percent. Finland is open to international trade and investment, and investment regulations are transparent and efficient. The well-developed financial system is competitive and provides a wide range of services. Banking remains generally sound despite strains in global financial markets.

Score Changes

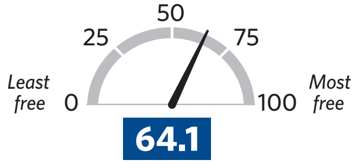
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.5	Business Freedom	-0.1	Trade Freedom	-0.3
Freedom from Corruption	+2.0	Government Spending	+7.0	Labor Freedom	+2.9	Investment Freedom	+5.0
				Monetary Freedom	-1.8	Financial Freedom	0

FRANCE

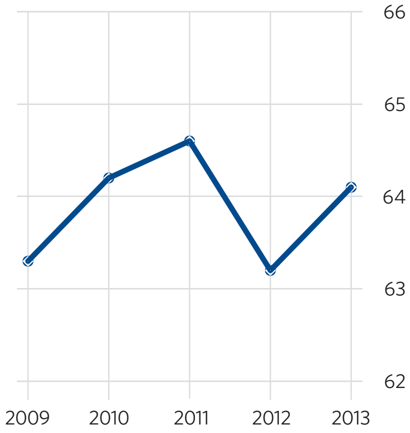


World Rank: **62** Regional Rank: **30**

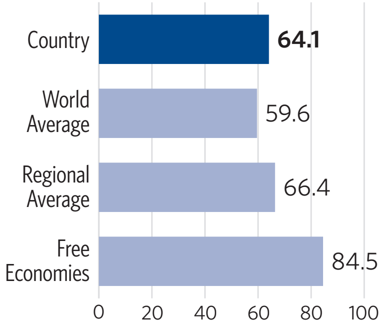
Economic Freedom Score



Freedom Trend



Country Comparisons



France's economic freedom score is 64.1, making its economy the 62nd freest in the 2013 *Index*. Its overall score has increased 0.9 point, primarily because of a large improvement in investment freedom. France is ranked 30th out of 43 countries in the Europe region, and its overall score is higher than the world average.

With chronic deficit spending and accelerating deterioration of public finances, the French economy earns only a "moderately free" ranking with scores below average for the Europe region. Reform measures have been attempted to boost the economy's lagging competitiveness and flexibility, but progress has been marginal and even derailed in some cases.

Institutional strengths related to the protection of private property rights and an efficient regulatory framework are beginning to be eroded by populist policy choices that favor income redistribution and maintenance of costly welfare programs. A new 75 percent top income tax rate is expected to be in effect in 2013. Undermining productivity and efficiency, the state continues to dominate major sectors of the economy and remains a large shareholder in many semi-public enterprises.

BACKGROUND: Socialist François Hollande defeated center-right President Nicolas Sarkozy after a second round of voting in the May 2012 presidential elections. The Socialist Party also won control of the National Assembly in June 2012. Hollande campaigned on a platform of higher taxation, increased government spending, and a pledge to reverse Sarkozy's austerity measures. Formally reintegrated into NATO's military command structures, France remains apart from NATO's Nuclear Planning Group but was a leading participant in NATO's March 2011 military engagement in Libya. France was a founding member of the European Union and has struggled to maintain its traditional influence over EU policy as membership has grown. It has a diversified economy but also is the top recipient of market-distorting agricultural subsidies under the EU's Common Agricultural Policy.

Quick Facts

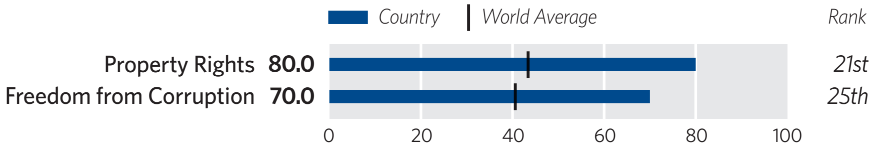
Population: 63.1 million
GDP (PPP): $2.2 trillion
1.7% growth in 2010
5-year compound annual growth 0.5%
$35,156 per capita
Unemployment: 10.6%
Inflation (CPI): 2.3%
FDI Inflow: $40.9 billion
Public Debt: 86.3% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

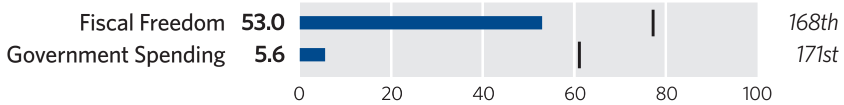
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



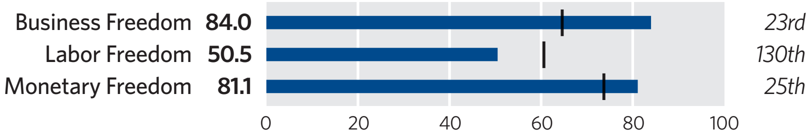
Property rights and contract enforcement are secure, and the rule of law is strongly maintained. The judiciary functions well, is independent, and sustains the country's basic foundations of economic freedom. Intellectual property rights are respected in accordance with international standards. Anti-corruption measures are in place to ensure transparency and government integrity.

LIMITED GOVERNMENT



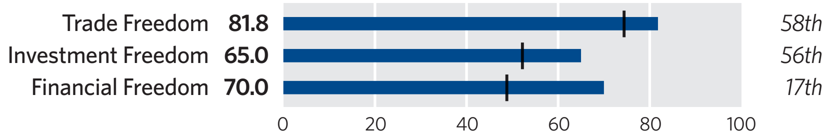
The top income tax rate is 41 percent as of June 2012, and the top corporate tax rate is 34.4 percent. Other taxes include a value-added tax (VAT). The overall tax burden corresponds to 42.9 percent of GDP. Recent tax hikes have focused on high earners and large corporations. Government spending amounts to a very high 56.1 percent of total domestic output. With deficits hovering around 5 percent of GDP, public debt continues to rise.

REGULATORY EFFICIENCY



With no minimum capital requirement for launching a firm, the business start-up process is relatively straightforward. The labor market continues to be stagnant. Ostensibly protecting workers, the labor code's rigid regulations appear instead to have hurt competitiveness and increased unemployment. Price controls affect a number of products and services.

OPEN MARKETS



France's trade policy is similar to that of other members of the European Union, with the common EU weighted average tariff rate standing at 1.6 percent. There are some barriers to trade in services. Investment regulations are generally transparent, but bureaucratic impediments persist. The financial sector remains under relatively strong state influence, with a small number of foreign banks operating.

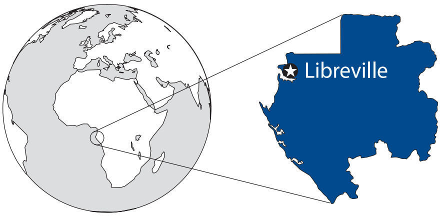
Score Changes

RULE OF LAW	
Property Rights	0
Freedom from Corruption	+2.0

LIMITED GOVERNMENT	
Fiscal Freedom	–0.8
Government Spending	+0.3

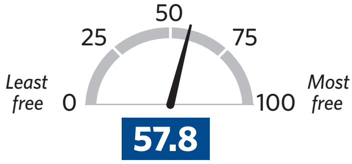
REGULATORY EFFICIENCY	
Business Freedom	+0.3
Labor Freedom	–1.1
Monetary Freedom	–1.2

OPEN MARKETS	
Trade Freedom	–0.3
Investment Freedom	+10.0
Financial Freedom	0



GABON

Economic Freedom Score



World Rank: **99** Regional Rank: **14**

Gabon's economic freedom score is 57.8, making its economy the 99th freest in the 2013 *Index*. Its overall score is 1.4 points higher than last year, reflecting notable improvements in investment freedom, labor freedom, and freedom from corruption. Gabon is ranked 14th out of 46 countries in the Sub-Saharan Africa region, and its overall score is lower than the world average.

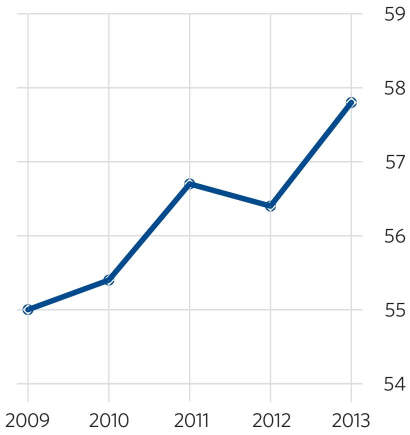
The Gabonese economy has moved toward greater economic freedom over the past five years, but progress has been sluggish and uneven. Underperforming in many critical areas, the economy continues to suffer from the legacy of the previous state-led development approach. Open-market policies have not been advanced strongly. Tariff and non-tariff barriers constrain the flow of goods and services and undermine integration into the global market. The lack of access to financing, coupled with the bureaucratic investment regime, precludes entrepreneurial growth and perpetuates overreliance on oil.

The absence of an independent and fair judiciary weakens the rule of law and further undercuts prospects for long-term sustainable economic development. Corruption is pervasive, and the efficiency of government services is poor.

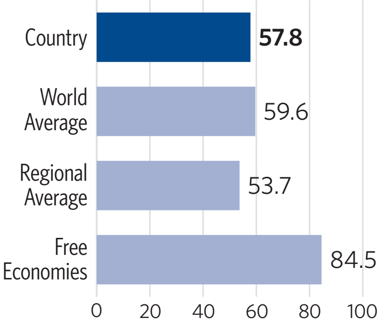
BACKGROUND: In 1968, President Omar Bongo declared Gabon a one-party state. He ruled until his death in 2009 when his son, Ali Ben Bongo, replaced him. The 1991 constitution ushered in reforms, including multi-party democracy with freedom of assembly and the press, but the democratic process remains deeply flawed. In December 2011, Bongo's Gabonese Democratic Party won elections that were boycotted by opposition parties. In February 2012, Raymond Ndong Sima became prime minister. Gabon is Africa's third-largest oil producer. In 2006, oil accounted for over 50 percent of GDP, over 60 percent of government revenues, and over 80 percent of exports, but oil revenue is controlled by the state, and most of the population remains poor. Oil production is declining, and investment is low. Forestry and mineral production are also economically important.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



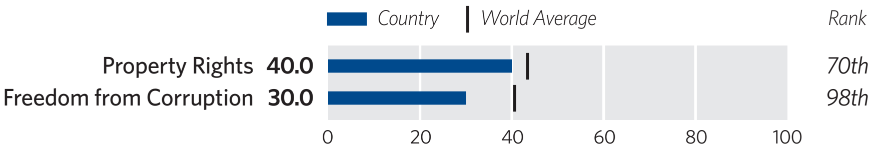
Quick Facts

Population: 1.5 million
GDP (PPP): $24.6 billion
5.8% growth in 2011
5-year compound annual growth 3.7%
$16,183 per capita
Unemployment: n/a
Inflation (CPI): 1.3%
FDI Inflow: $728.0 million
Public Debt: 20.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

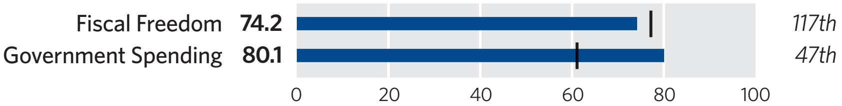
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



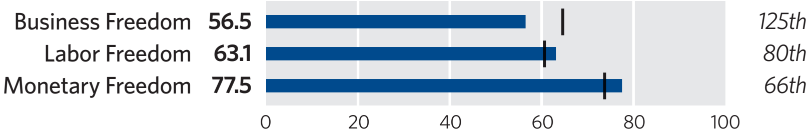
The rule of law is uneven across the country. The judicial system is inefficient, and protections for property rights are not strongly enforced. The judiciary lacks transparency and is subject to political interference from the executive. Enforcement of contracts can be lax. Pervasive corruption remains a serious concern, severely undermining the foundations for growth.

LIMITED GOVERNMENT



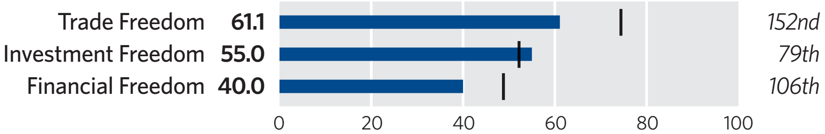
The top income and corporate tax rates are 35 percent. Other taxes include a value-added tax (VAT). The overall tax burden is equal to 11.2 percent of total domestic income, and government spending is equivalent to 25.8 percent of total domestic output. The budget surplus has been diminished significantly to 2.1 percent of GDP, but public debt has fallen to 20.5 percent of GDP.

REGULATORY EFFICIENCY



The regulatory framework still confronts potential entrepreneurs with significant bureaucratic and procedural hurdles. Licensing requirements take over 200 days to complete. Labor regulations are outdated and not applied consistently. Although inflation is low, the state influences prices through subsidies to state-owned enterprises and directly controls the prices of other products.

OPEN MARKETS

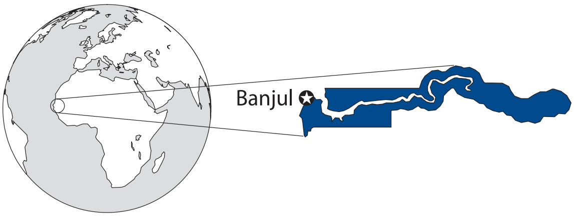


Gabon's trade-weighted average tariff is quite high at 14.5 percent, and some agricultural imports are restricted. The poor legal system, political influence, and inadequate infrastructure still impede investment growth. The underdeveloped financial sector remains state-controlled. Credit costs are high, and access to financing is scarce. The government controls long-term lending through the state-owned development bank.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.7	Business Freedom	–1.2	Trade Freedom	0
Freedom from Corruption	+2.0	Government Spending	–1.4	Labor Freedom	+3.3	Investment Freedom	+10.0
				Monetary Freedom	–0.2	Financial Freedom	0

THE GAMBIA



World Rank: **92** Regional Rank: **11**

The Gambia's economic freedom score is 58.8, making its economy the 92nd freest in the 2013 *Index*. Its overall score is the same as last year, reflecting gains in investment freedom, business freedom, and freedom from corruption offset by declines in labor freedom and the control of government spending. The Gambia ranks 11th out of out of 46 countries in the Sub-Saharan Africa region, and its overall score is just below the world average.

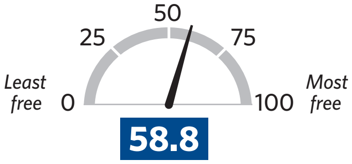
The Gambia continues to experiment with economic reforms aimed at improving growth, competitiveness, and fiscal and trade policies. Positive results from measures to improve fiscal transparency and the budget process have not been sustained. Some progress has been made in streamlining bankruptcy procedures, but the overall regulatory regime remains burdensome.

A poor judicial system has diminished the government's ability to protect property rights, limiting dynamic development of the private sector. Corruption and continued protectionism are major impediments to economic freedom. Despite some reforms in customs automation, tariffs and investment restrictions continue to hurt productivity growth.

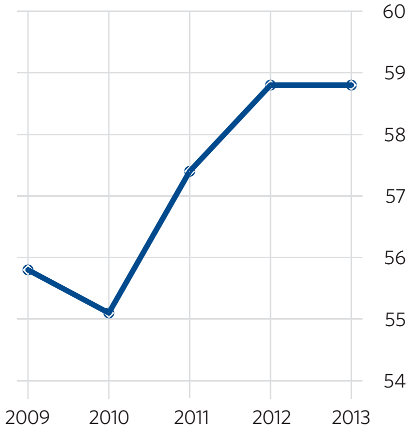
BACKGROUND: Lieutenant Yahya Jammeh ousted President Sir Dawda Kairaba Jawara in a military coup in 1994 and won flawed multi-party presidential elections in 1996, 2001, 2006, and 2011. Legislative elections in 2012 resulted in a major win for Jammeh's Alliance for Patriotic Reorientation and Construction, but the election was boycotted by opposition parties and outside monitoring agencies, which judged it to be neither free nor fair nor transparent. Government restraints on civil liberties and political opponents have included imprisonment of journalists without charges. The Gambia has few natural resources. Agriculture employs 70 percent of the labor force and accounts for 24 percent of GDP. Industry and services account for approximately 12 percent and 59 percent of GDP, respectively. Groundnuts account for over half of exports. Tourism is an important source of foreign exchange. Infrastructure is improving but remains inadequate, with frequent power shortages and poor roads.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

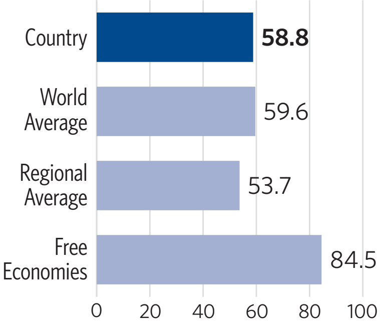
Economic Freedom Score



Freedom Trend



Country Comparisons



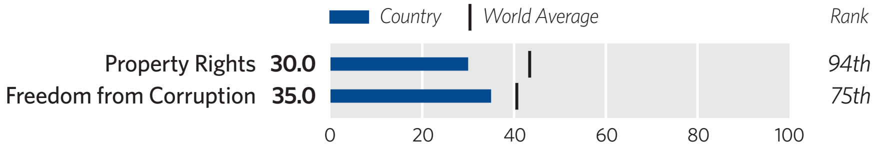
Quick Facts

Population: 1.8 million
GDP (PPP): $3.5 billion
3.3% growth in 2011
5-year compound annual growth 5.2%
$1,943 per capita
Unemployment: n/a
Inflation (CPI): 4.8%
FDI Inflow: $36.0 million
Public Debt: 68.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

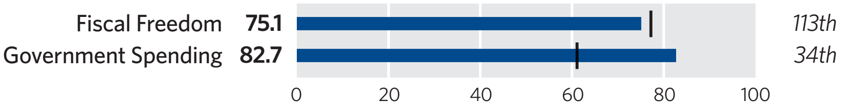
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



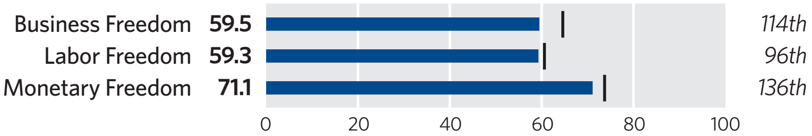
Inefficiency and pressure from the executive branch continue to undermine equity within the judicial system. Intimidation of lawyers, lack of independence, and lack of technical support severely undermine the administration of justice. The law provides inadequate protection for intellectual property rights. The president retains a firm grip on power through a combination of patronage and repression.

LIMITED GOVERNMENT



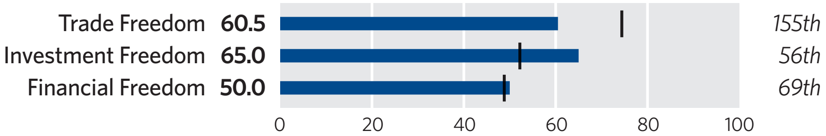
The top income tax rate is 35 percent, and the top corporate tax rate is 33 percent. Other taxes include a capital gains tax and a sales tax. The overall tax burden is equal to 13.2 percent of GDP, and government spending is equivalent to 24 percent of total domestic output. The deficit has moderated, but public debt has surged to 68.8 percent of GDP. Reforms of tax administration and spending are underway to shore up government financial stability.

REGULATORY EFFICIENCY



The business environment remains hampered by continuing regulatory inefficiency. Although there is no minimum capital requirement, business start-up costs exceed the level of average annual income. Obtaining necessary permits takes over 100 days. Chronically high unemployment and underemployment persist in the inefficient labor market. Inflation has moderated.

OPEN MARKETS

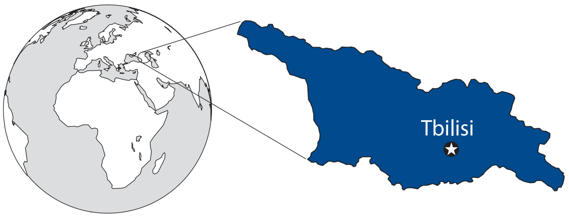


The trade-weighted average tariff rate is high at 14.8 percent, adding significantly to the cost of trade. Foreign and domestic investments generally receive equal treatment, but the overall investment environment remains poor. The financial sector has gradually expanded and benefited from increased competition. Almost all commercial banks are majority-owned by foreign banks, and credit to the private sector has been rising.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.1	Business Freedom	+3.2	Trade Freedom	0
Freedom from Corruption	+3.0	Government Spending	-2.8	Labor Freedom	-7.9	Investment Freedom	+5.0
				Monetary Freedom	+0.1	Financial Freedom	0

GEORGIA



World Rank: **21** Regional Rank: **11**

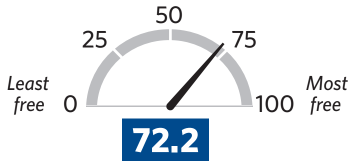
Georgia's economic freedom score is 72.2, making its economy the 21st freest in the 2013 *Index*. Its overall score is 2.8 points higher than last year, with improvements in six of the 10 economic freedoms including management of public finance, investment freedom, and property rights. Georgia is ranked 11th out of 43 countries in the Europe region, and its score is the most improved in the 2013 *Index*.

In a challenging global and regional environment, the Georgian economy has demonstrated a high level of resilience. After some backsliding last year, Georgia regained the status of "mostly free" in the 2013 *Index*. Persistent efforts to eliminate corruption and restore fiscal stability have borne fruit. Access to legal documents has been facilitated, and fiscal consolidation has generated narrowing budget deficits and lower public debt.

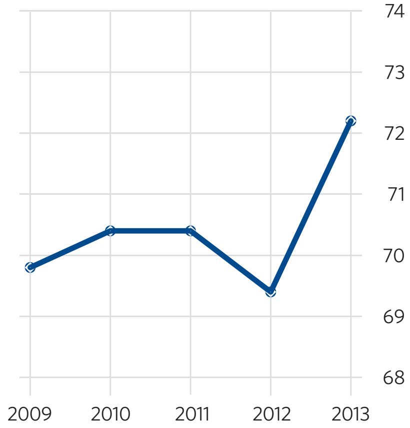
Despite this progress, however, momentum for comprehensive reforms to limit government spending and restrict the growth of economic regulations has flagged. Deeper institutional reforms to enhance judicial independence and effectiveness also remain critical.

BACKGROUND: President Mikheil Saakashvili and his center-right United National Movement won presidential and parliamentary elections in 2004 and 2008. However, billionaire Bidzina Ivanishvili and his Georgian Dream coalition decisively won parliamentary elections in late 2012, paving the way for Ivanishvili to become prime minister. Georgia is a leading economic reformer among the post-Soviet countries and has been particularly effective in fighting corruption. Russia's continued military occupation of the Georgian provinces of Abkhazia and South Ossetia and recognition of their secession violates Georgia's territorial integrity. Georgia left the Commonwealth of Independent States in August 2009. Relations with Russia remain difficult, but Georgia's government has taken unilateral steps to improve ties. The economic recovery that began in 2010 continues, with an emphasis on tourism and construction.

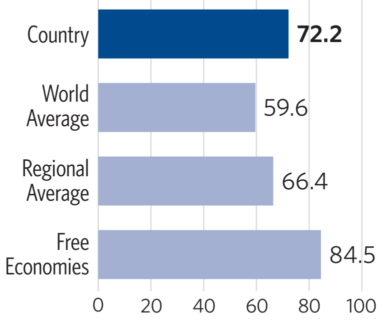
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 4.5 million

GDP (PPP): $24.5 billion

7.0% growth in 2011

5-year compound annual growth 4.7%

$5,491 per capita

Unemployment: 16.3%

Inflation (CPI): 8.5%

FDI Inflow: $974.6 million

Public Debt: 33.9% of GDP

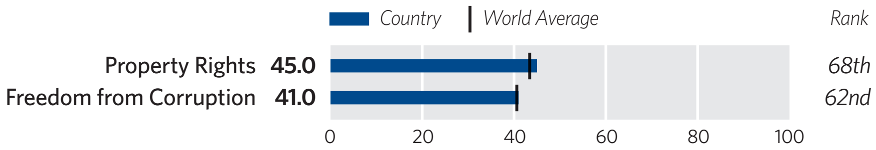
2011 data unless otherwise noted.
Data compiled as of September 2012.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

GEORGIA (continued)

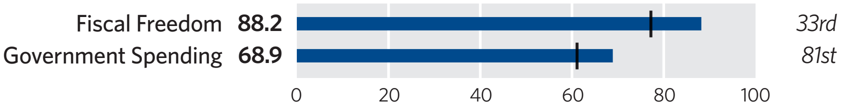
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



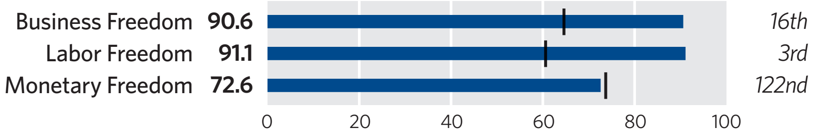
Fighting the effects of Soviet-era corruption, the government has arrested former officials and policemen, radically downsized bureaucracies, and cracked down on smuggling. Several new "Public Service Halls" quickly deliver inexpensive legal documents such as birth certificates, passports, and property titles. Other efforts are underway to improve the security of property rights, though protection of intellectual property rights is largely ineffective.

LIMITED GOVERNMENT



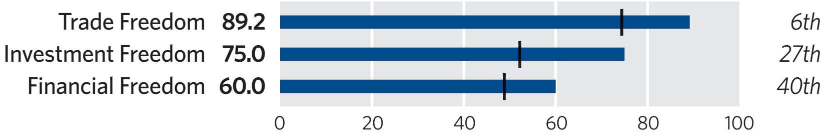
The flat income tax rate is 20 percent, and the flat corporate tax rate is 15 percent. Other taxes include a value-added tax (VAT) and a tax on dividends. The overall tax burden equals 23.5 percent of total domestic income. Government spending has fallen to 32.2 percent of total domestic output. The budget balance has been in deficit, but public debt remains below 35 percent of GDP. Budget management has helped to stabilize the fiscal situation since the 2008 war.

REGULATORY EFFICIENCY



The competitive regulatory framework is conducive to entrepreneurial activity. It takes only two procedures and two days to launch a business, and no minimum capital is required. Reform of bankruptcy and licensing requirements has slowed. The non-salary cost of hiring a worker is moderate, and regulations on work hours are flexible. Inflation has decelerated. Prices are generally set in the market, but the state maintains price controls.

OPEN MARKETS



After achieving independence, Georgia unilaterally slashed import barriers. The trade-weighted average tariff rate is one of the world's lowest at 0.4 percent, and non-tariff barriers are relatively modest. Foreign and domestic investments receive equal treatment. The growing banking sector offers improved access to financing, although the stock exchange remains small and underdeveloped.

Score Changes

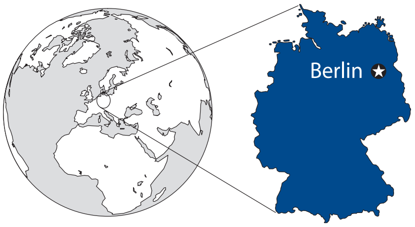
RULE OF LAW	
Property Rights	+5.0
Freedom from Corruption	+3.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.4
Government Spending	+13.1

REGULATORY EFFICIENCY	
Business Freedom	+3.7
Labor Freedom	-1.0
Monetary Freedom	-1.8

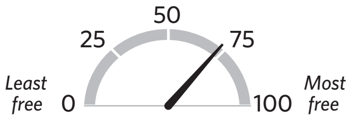
OPEN MARKETS	
Trade Freedom	0
Investment Freedom	+5.0
Financial Freedom	0

GERMANY



World Rank: **19** Regional Rank: **10**

Economic Freedom Score



72.8

Germany's economic freedom score is 72.8, making its economy the 19th freest in the 2013 *Index*. Its overall score is 1.8 points better than last year, with improvements in six of the 10 economic freedoms including financial freedom, the management of government spending, and labor freedom. Germany is ranked 10th out of 43 countries in the Europe region and has become one of the 20 freest in the 2013 *Index*.

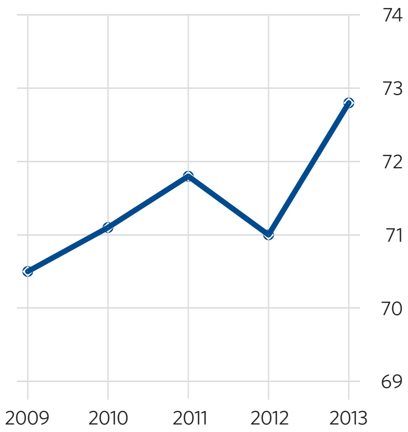
Demonstrating impressive resilience, the German economy has withstood the global economic uncertainty and the European sovereign debt crisis. The government has held firm to policies emphasizing sound public finance, keeping public spending under control through deficit-cutting efforts. Earlier labor market reforms that raised working-hour flexibility and reduced structural unemployment have contributed significantly to sustaining the relatively robust job market during the economic slowdown, and there appears to be strong momentum for recovery.

Germany's dependable commitment to regulatory efficiency and open-market polices continues to be bolstered by a legal framework that provides effective protection of property rights. The rule of law is well maintained, and a strong tradition of minimal tolerance for corruption is firmly in place.

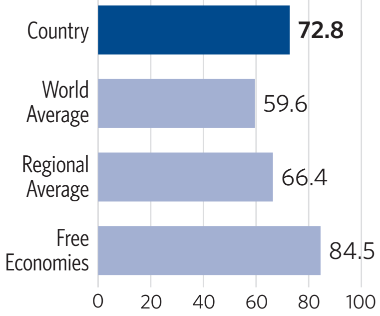
BACKGROUND: Despite the formation of a new governing coalition between Chancellor Angela Merkel's Christian Democratic Union and the economically liberal Free Democratic Party in 2010, economic reforms remain stalled because of an almost exclusive focus on rescuing the euro. Germany has funded the lion's share of large rescue packages for fellow eurozone member Greece. Germany and France have been the key proponents of the European Union's Fiscal Compact Treaty. Although relations with France have cooled since the election of Socialist François Hollande as French president in 2012, it is still expected that the treaty will be ratified. Germany's industrialized economy, the largest in Europe, is well integrated into the global marketplace and generates average per capita incomes that are among the highest in the world.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



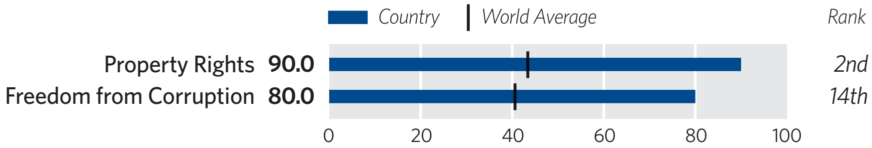
Quick Facts

Population: 81.8 million
GDP (PPP): $3.1 trillion
3.1% growth in 2011
5-year compound annual growth 1.1%
$37,897 per capita
Unemployment: 5.5%
Inflation (CPI): 2.5%
FDI Inflow: $40.4 billion
Public Debt: 81.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

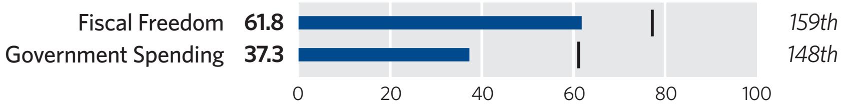
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



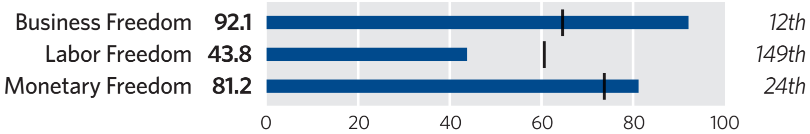
The legal framework is strong and functions well. Contractual arrangements are secure, and commercial law is fully respected. All property rights are well protected, and the judiciary is highly professional. Protection of intellectual property rights is consistent with world standards. Government transparency is high, and anti-corruption measures are enforced effectively.

LIMITED GOVERNMENT



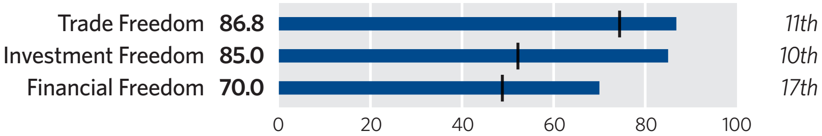
The top income tax rate is 45 percent. The federal corporate tax rate is 15.8 percent (15 percent plus a 5.5 percent solidarity tax), but trade taxes raise the effective top rate to 36.3 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The overall tax burden equals 36.3 percent of GDP. Government spending is equivalent to 45.7 percent of GDP, and budget deficits are narrowing. Public debt is still over 80 percent of GDP.

REGULATORY EFFICIENCY



The competitive regulatory regime aids dynamic business formation and innovation. With no minimum capital required, the process for launching a company and completing licensing requirements is straightforward. Labor relations are sound but heavily regulated, and employers and workers have worked cooperatively to adjust wages and work hours in response to the changing economic environment. Monetary stability is well maintained.

OPEN MARKETS



The trade-weighted average tariff rate is low at 1.6 percent, as with other members of the European Union. There are relatively few non-tariff barriers. The investment regime supports dynamic growth, with foreign and domestic investors treated equally. The competitive financial sector remains largely stable, offering a full range of services. The traditional three-tiered system of private, public, and cooperative banks remains intact.

Score Changes

RULE OF LAW	
Property Rights	0
Freedom from Corruption	+1.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.5
Government Spending	+5.1

REGULATORY EFFICIENCY	
Business Freedom	+1.6
Labor Freedom	+2.4
Monetary Freedom	−2.3

OPEN MARKETS	
Trade Freedom	−0.3
Investment Freedom	0
Financial Freedom	+10.0

GHANA

World Rank: **77** Regional Rank: **7**

Ghana's economic freedom score is 61.3, making its economy the 77th freest in the 2013 *Index*. Its overall score is 0.6 point better than last year due to improvements in investment freedom, the control of government spending, and fiscal freedom. Ghana is ranked 7th out of 46 countries in the Sub-Saharan Africa region, and its overall score has risen above the world average.

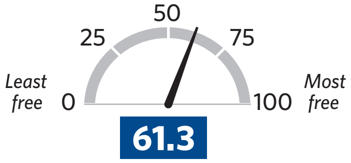
A notable economic growth rate of 8 percent over the past five years has been supported by strong improvements in economic freedom, with reforms focused on spurring private sector–led development. Institutions that enhance economic growth are becoming more efficient and effective, supported by stable macroeconomic policies and ongoing reforms. The new president's commitment to continued reform will be crucial in improving Ghana's economic health and freedom.

Despite significant progress, obstacles do remain, and particular institutions need development and reform. Property rights are poorly protected, and high levels of corruption persist due to overall weakness in the rule of law. Tackling these issues will be necessary if rapid growth is to be maintained.

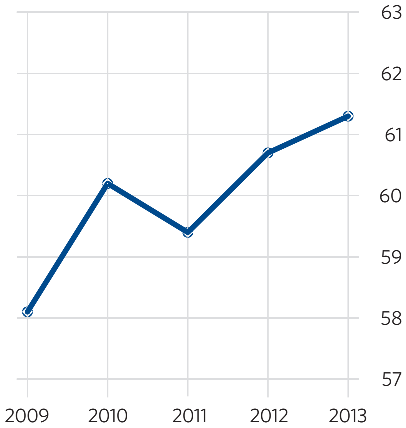
BACKGROUND: The first country in colonial Africa to gain its independence, Ghana has been a stable democracy since 1992. Long-time opposition candidate John Atta Mills was elected president in December 2008 but passed away in 2012, and former Vice President John Dramani Mahama has succeeded to the presidency. Considered a regional model for political and economic reform, Ghana has achieved strong growth through sound macroeconomic management. The country is rich in natural resources, including gold, diamonds, manganese ore, and bauxite, and oil production began in 2010. High prices for gold and cocoa helped to sustain economic growth from 2008–2011. The industrial sector (about 30 percent of GDP in 2007) is more developed than in many other African countries, yet agriculture is the economic pillar and in 2007 accounted for 50 percent of employment and 39 percent of exports.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

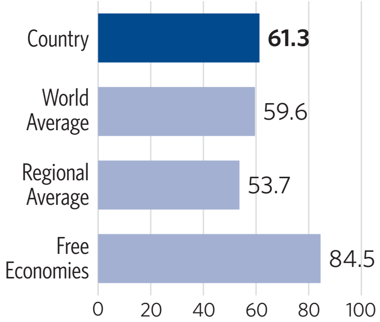
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

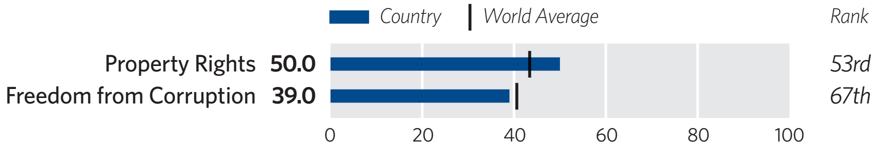
Population: 24.3 million
GDP (PPP): $74.9 billion
13.6% growth in 2011
5-year compound annual growth 8.0%
$3,083 per capita
Unemployment: n/a
Inflation (CPI): 8.7%
FDI Inflow: $3.2 billion
Public Debt: 43.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

GHANA (continued)

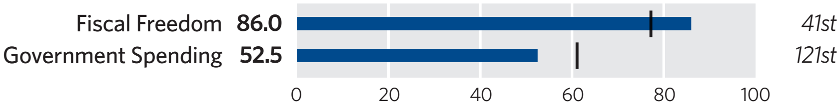
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



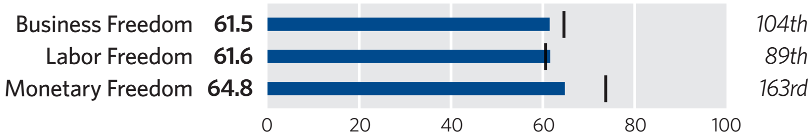
The judicial system is subject to political influence and suffers from corruption, albeit to a somewhat lesser extent than elsewhere in the region. The courts are slow to dispose of cases and face challenges in enforcing decisions, largely because of resource constraints and institutional inefficiencies. New President Mahama has called for "decency and dignity" in politics.

LIMITED GOVERNMENT



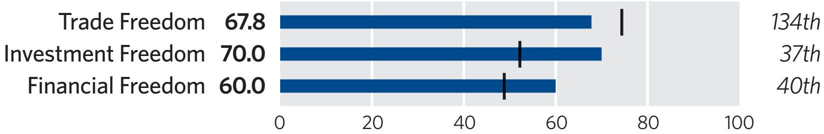
The top income and corporate tax rates are 25 percent. Other taxes include a value-added tax (VAT), a national health insurance levy, and a capital gains tax. The overall tax burden amounts to 12.1 percent of total domestic income, and government spending has fallen to the equivalent of 39.8 percent of GDP. The budget is in deficit, and public debt remains slightly over 40 percent of total domestic output.

REGULATORY EFFICIENCY



The business start-up process has become less burdensome, taking only seven procedures, but obtaining necessary permits takes 218 days and costs over four times the level of average annual income. Despite ongoing efforts to modernize the labor code, much of the labor force remains in the informal economy. The government influences prices through state-owned utilities. Persistently high inflation has created pressure for dollarization.

OPEN MARKETS

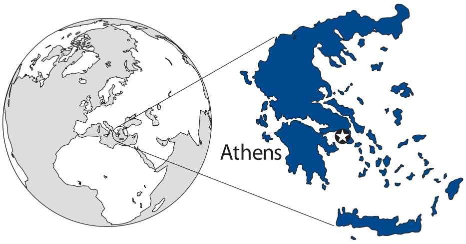


The trade-weighted average tariff rate remains quite high at 8.6 percent, and non-tariff barriers further impede trade. The state generally does not discriminate against foreign investors except in key sectors, but the overall investment regime lacks efficiency and transparency. The financial sector has undergone privatizations, but the banking sector is undercapitalized, and access to financing remains limited.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+4.1	Business Freedom	-1.4	Trade Freedom	0
Freedom from Corruption	-2.0	Government Spending	+4.2	Labor Freedom	-1.3	Investment Freedom	+5.0
				Monetary Freedom	-2.1	Financial Freedom	0

GREECE



World Rank: **117** Regional Rank: **40**

Greece's economic freedom score is 55.4, making its economy the 117th freest in the 2013 *Index*. Its score is the same as last year, reflecting substantial declines in property rights and financial freedom that largely offset improvements in six of the 10 economic freedoms. Greece is ranked 40th out of 43 countries in the Europe region, and its overall score is below the world and regional averages.

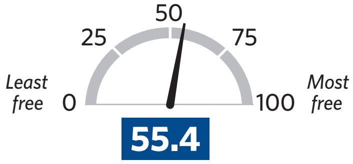
Compounding an environment of worsening competitiveness and political volatility in Greece is the continuing lack of economic freedom. Major fiscal weaknesses exposed and aggravated by the debt and employment crisis have not been sufficiently addressed as the country enters its fifth straight year of recession. Double-digit deficits and large increases in borrowing have continued even while multinational financing packages have been approved to keep the government solvent. Unemployment, particularly among young people, continues to rise, and adjustments in market conditions have been stifled or delayed by public unions and other special interests.

As the Greek economy continues to undergo an extended period of economic and political turmoil, bold and committed policy actions are critically needed to restore fiscal sustainability, enhance labor market flexibility, and tackle systemic corruption.

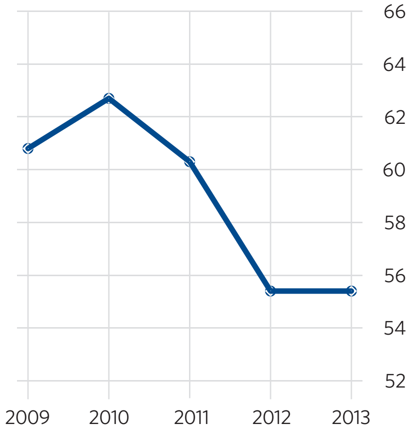
BACKGROUND: Greece has been a member of NATO since 1952, joined the European Union in 1981, and adopted the euro in 2002. An enormous Greek sovereign debt crisis has threatened the overall stability of the eurozone. Large rescue packages have provided emergency loans from the EU, the European Central Bank, and the International Monetary Fund in exchange for severe austerity measures. A caretaker government was formed in November 2011. When elections held in May 2012 failed to produce a government, new elections in June led to formation of a "pro-Euro" coalition led by the center-right New Democracy party along with the center-left Pan-Hellenic Socialist Movement and the Democratic Left Party. Greece's economy depends heavily on tourism and services.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

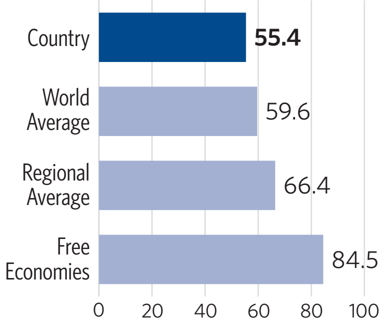
Economic Freedom Score



Freedom Trend



Country Comparisons



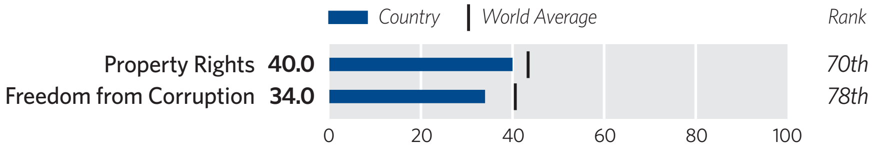
Quick Facts

Population: 11.2 million
GDP (PPP): $294.3 billion
–6.9% growth in 2010
5-year compound annual growth –2.2%
$26,294 per capita
Unemployment: 24.4%
Inflation (CPI): 3.1%
FDI Inflow: $1.8 billion
Public Debt: 160.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

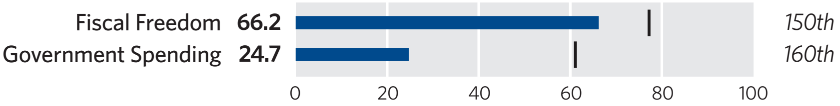
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



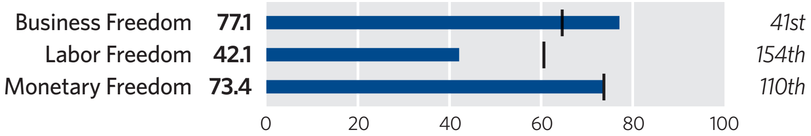
The judicial framework is weak, and the rule of law has deteriorated. Protection of property rights is not strongly enforced. The law provides severe penalties for bribery, but enforcement remains lax. A high level of perceived corruption in the public sector and rampant tax evasion in the private sector contribute significantly to Greece's current economic and financial predicament.

LIMITED GOVERNMENT



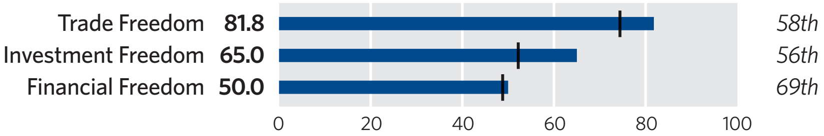
The top income tax rate has increased to 45 percent. The top corporate tax rate is 20 percent. The overall tax burden amounts to about 31 percent of GDP. Government spending remains at over 50 percent of GDP, chronic budget deficits continue, and public debt far exceeds the size of the economy. Fiscal stability has been highly dependent on eurozone creditors, and structural adjustments have been marginal.

REGULATORY EFFICIENCY



Efforts to enhance the business environment have been sporadic at best. The process for launching a company is fairly streamlined, but licensing requirements remain burdensome and time-consuming. With rigid restrictions on work hours and high non-salary costs to employ a worker, the labor market remains stagnant. An economic depression and catastrophic monetary policy challenges brought on by the sovereign debt crisis continue.

OPEN MARKETS



The trade-weighted average tariff rate is low at 1.6 percent as with other members of the European Union, but some additional barriers affecting service industries raise the cost of trade. The investment climate is constrained by the country's uncertain economic situation. The overall stability of the financial system has been severely undermined, and the banking sector has been under increasing strain.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	-10.0	Fiscal Freedom	+0.9	Business Freedom	+0.8	Trade Freedom	-0.3
Freedom from Corruption	-1.0	Government Spending	+8.5	Labor Freedom	+5.5	Investment Freedom	+5.0
				Monetary Freedom	+0.8	Financial Freedom	-10.0

GUATEMALA

World Rank: **85** Regional Rank: **16**

Guatemala's economic freedom score is 60.0, making its economy the 85th freest in the 2013 *Index*. Its score has decreased by 0.9 point, mainly because of declines in freedom from corruption and labor freedom. Guatemala is ranked 16th out of 29 countries in the South and Central America/Caribbean region, and its overall score is just above the world average.

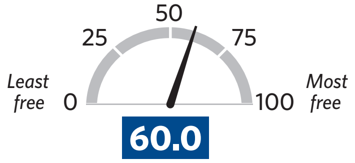
Reflecting the lack of consistent commitment to structural reform, Guatemala has registered marginal and uneven progress in advancing economic freedom. The economy enjoys a relatively high degree of openness to global trade, as tariff rates are quite low, but the dynamic gains from trade are largely undercut by the lack of progress in improving the investment regime and regulatory efficiency. However, implementation of several recent free trade agreements is having a positive impact, and foreign direct investment has recovered from recessionary levels.

Guatemala has lagged notably in promoting the effective rule of law. The judicial system remains vulnerable to political interference, and property rights are not strongly protected. Lingering corruption further undermines overall economic freedom and hampers the emergence of more vibrant economic activity in the private sector.

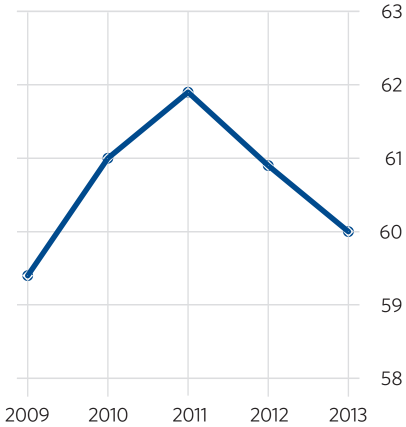
BACKGROUND: Former General Otto Perez Molina won the presidency in 2011, replacing social democrat Alvaro Colom, whose four-year term was marked by internal political feuding and mounting insecurity. Tax increases passed in March 2012 were part of a modest tax reform designed to raise government revenues. Guatemala is the administrative hub for the Central American Integration System, which aims to improve economic cooperation in the region, and works closely with the U.S. on security issues. The most advanced sector, telecommunications, is fully deregulated. The Central America–Dominican Republic–United States Free Trade Agreement has encouraged trade flows and opportunities to develop niche markets in the U.S.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

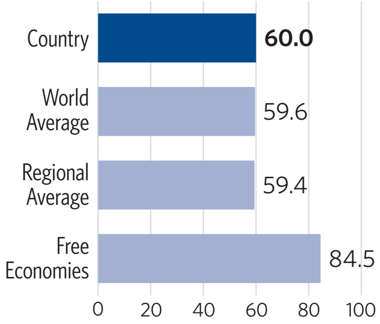
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

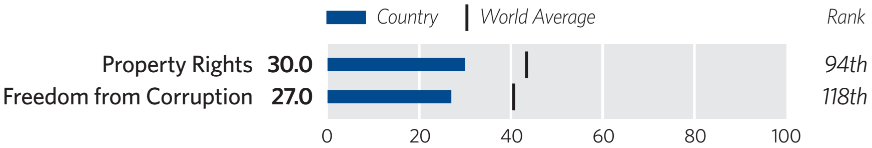
Population: 14.7 million
GDP (PPP): $74.7 billion
3.8% growth in 2010
5-year compound annual growth 3.3%
$5,070 per capita
Unemployment: 4.1%
Inflation (CPI): 6.2%
FDI Inflow: $984.6 million
Public Debt: 24.1% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

GUATEMALA (continued)

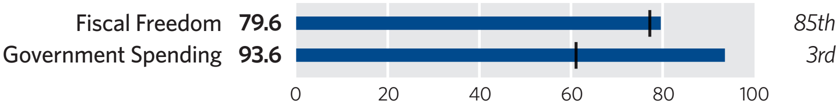
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



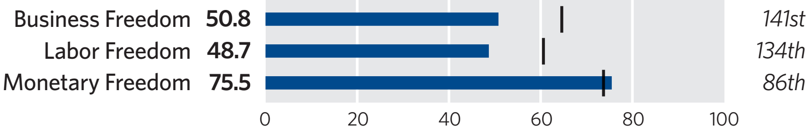
Judicial resolution of disputes is time-consuming and often unreliable. Inadequate documentation can lead to conflicting claims of land ownership, undercutting protection of property rights. Pervasive corruption, a lack of transparency, and a weak civil service hinder the effective implementation of policy. Government action is also hampered by legal and illegal special-interest groups entrenched in the state.

LIMITED GOVERNMENT



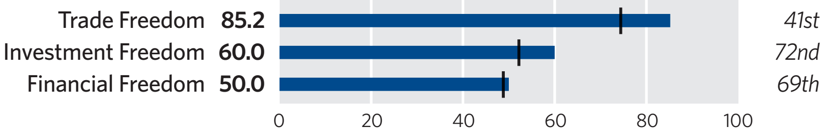
The top income and corporate tax rates are 31 percent. Other taxes include a value-added tax (VAT) and a tax on real estate. The overall tax burden amounts to 10.8 percent of total domestic income. Government spending corresponds to 14.7 percent of total domestic output. The budget balance remains in deficit, although public debt continues to be less than 25 percent of GDP.

REGULATORY EFFICIENCY



The regulatory environment lacks efficiency. Starting a business takes 40 days and over 10 procedures, and the cost of obtaining necessary licenses remains about five times the level of average annual income. The labor market is inefficient, and a large part of the labor force is employed in the informal sector. Inflation has abated slightly. The state maintains few price controls but subsidizes numerous economic activities and products.

OPEN MARKETS

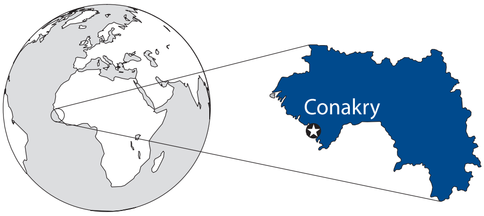


The trade-weighted average tariff rate is quite low at 2.4 percent, but non-tariff barriers add slightly to the cost of trade. Foreign investors technically receive national treatment, but regulatory hurdles can impede investment. The highly concentrated banking sector remains relatively stable and well capitalized, and the number of non-performing loans is declining. The recently enacted insurance law opened the insurance market to foreign firms.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	0	Business Freedom	+2.3	Trade Freedom	+0.6
Freedom from Corruption	-5.0	Government Spending	-0.3	Labor Freedom	-4.8	Investment Freedom	0
				Monetary Freedom	-1.8	Financial Freedom	0

GUINEA



World Rank: **137** Regional Rank: **29**

Guinea's economic freedom score is 51.2, making its economy the 137th freest in the 2013 *Index*. Its overall score is 0.4 point higher than last year, reflecting improvements in business freedom and freedom from corruption that offset declines in monetary and labor freedoms. Guinea is ranked 29th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world and regional averages.

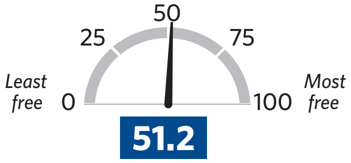
The Guinean government's limited attempts at structural reform have had uneven success, and economic growth remains constrained by institutionalized weaknesses that erode the foundations for long-term economic development. In particular, the judicial system remains inefficient and vulnerable to political interference. Corruption, perceived as widespread, is a serious problem.

The overall regulatory framework is not conducive to the emergence of a dynamic private sector and discourages broad-based employment growth. Potentially dynamic economic gains from trade continue to be undercut by the absence of progress in reforming the financial and investment areas that are critical to sustaining efficient open markets.

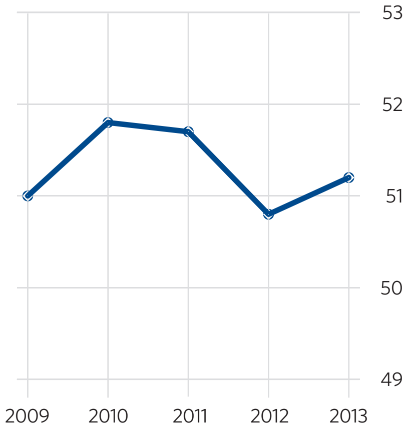
BACKGROUND: In 2008, a military junta led by Captain Moussa Dadis Camara seized power and suspended the constitution. The first free democratic presidential election since independence took place in November 2010. Alpha Conde won the presidency, but Prime Minister Jean Marie Dore also declared himself the winner. Conde's victory was upheld, and he was inaugurated in December. Because of fighting and instability in Côte d'Ivoire, Sierra Leone, and Liberia, Guinea is host to hundreds of thousands of refugees. Electricity and water shortages are common, and much of the population is engaged in subsistence agriculture. Guinea has two-thirds of the world's bauxite reserves and large deposits of iron ore, gold, and diamonds. However, the population remains impoverished due to the absence of property rights, rampant corruption, government mismanagement, poor infrastructure, and political instability.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

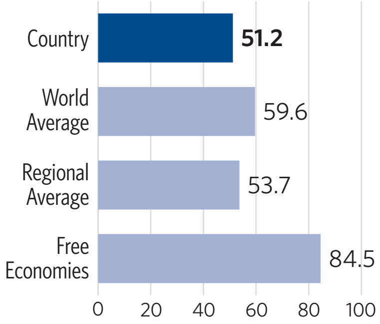
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

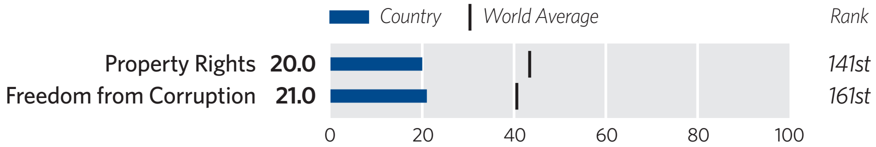
Population: 10.6 million
GDP (PPP): $11.5 billion
3.6% growth in 2011
5-year compound annual growth 2.4%
$1,083 per capita
Unemployment: n/a
Inflation (CPI): 21.5%
FDI Inflow: $1.2 billion
Public Debt: 72.2% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

GUINEA (continued)

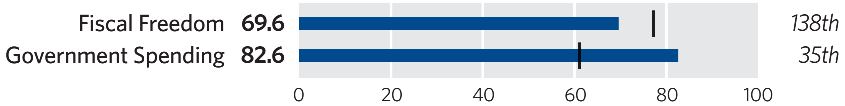
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



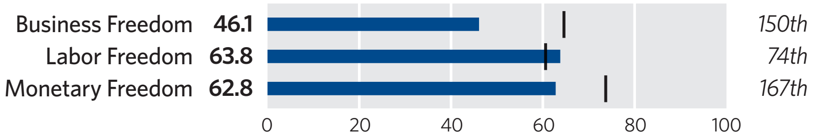
The rule of law is uneven, and protection of property rights is very weak. The court system remains subject to political interference and lacks transparency. After 50 years of misrule and authoritarianism, the political culture and political participation remain weak despite the emergence of democratic changes in the past two years. Civil liberties are not well respected, and a culture of impunity and corruption pervades public institutions.

LIMITED GOVERNMENT



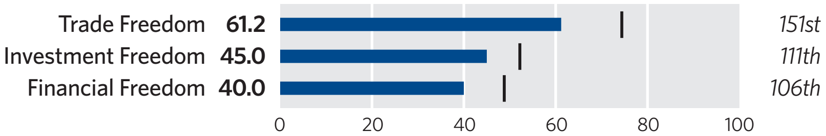
The top income tax rate is 40 percent, and the top corporate tax rate is 35 percent. Other taxes include a value-added tax (VAT) and an inheritance tax. The overall tax burden is equal to 14.7 percent of total domestic income. Government spending amounts to 24.1 percent of total domestic output. Public debt has fallen to 72.2 percent of GDP. The deficit has dropped due to improved agriculture, mining, and construction output.

REGULATORY EFFICIENCY



Establishing a business is time-consuming, and other regulatory requirements remain burdensome. The business start-up process takes 35 days on average, and minimum capital requirements exceed three times the average level of annual income. The formal labor market is underdeveloped. Very high inflation has weakened monetary stability. The government maintains administrative price controls for key products and services.

OPEN MARKETS

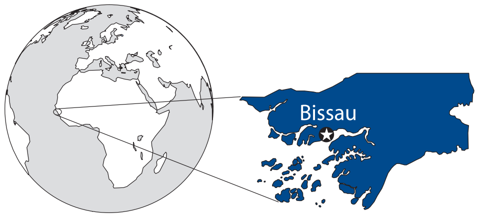


The trade-weighted average tariff rate is quite high at more than 11.9 percent, and non-tariff barriers further constrain freedom to trade. Corruption and an unreliable judicial system discourage foreign investment. The underdeveloped financial sector is a serious impediment to private-sector growth. Most economic activity remains outside of the formal banking sector, and medium and long-term financing are not easily accessible.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.3	Business Freedom	+7.6	Trade Freedom	0
Freedom from Corruption	+1.0	Government Spending	0	Labor Freedom	-0.9	Investment Freedom	0
				Monetary Freedom	-4.3	Financial Freedom	0

GUINEA-BISSAU



World Rank: **138** Regional Rank: **30**

Guinea–Bissau's economic freedom score is 51.1, making its economy the 138th freest in the 2013 *Index*. Its score has increased by 1.0 point due to gains in the control of government spending and freedom from corruption that offset declines in labor and monetary freedoms. Guinea–Bissau is ranked 30th out of 46 countries in the Sub-Saharan Africa region, and its overall score remains well below the world and regional averages.

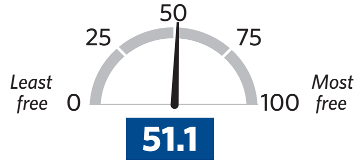
Guinea–Bissau has joined a number of other African countries in embracing the merits of regulatory and budgetary reforms. Moderate improvements over the past few years include simplifying the business start-up process and keeping public spending under better control.

However, the institutional setting for economic development remains somewhat oppressive. Corruption and weak enforcement of property rights drain economic resources, and the judicial system lacks transparency and independence. The lack of progress in enhancing the trade and investment regimes continues to undermine the emergence of a dynamic private sector, holding back productivity gains and job growth.

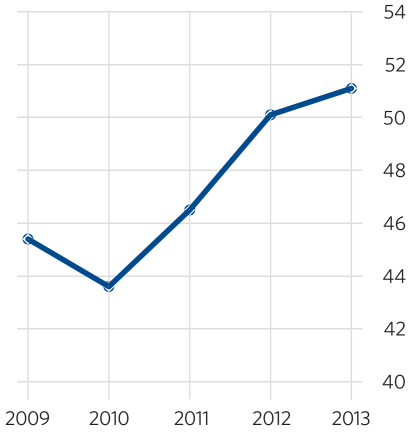
BACKGROUND: President Joao Vieira, ousted in 1998, won the presidency in 2005 but was assassinated in March 2009. A presidential candidate and a prominent member of parliament were murdered in June 2009. Malam Bacai Sanha, who won an emergency election in June 2009, died in January 2012, and a military coup in April 2012 prevented an election to determine his successor. Manuel Serifo Nhamadjo became acting president in May 2012 as part of a transitional arrangement. Guinea–Bissau remains highly dependent on subsistence agriculture, the export of cashew nuts (the most important commercial crop), and foreign aid, including assistance from the International Monetary Fund. Agriculture employs over 80 percent of the labor force and accounts for over 60 percent of GDP and about 90 percent of exports. Guinea–Bissau is a major transit point for the trafficking of drugs and light arms by international criminal gangs.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

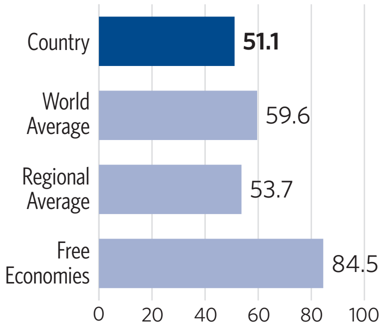
Economic Freedom Score



Freedom Trend



Country Comparisons



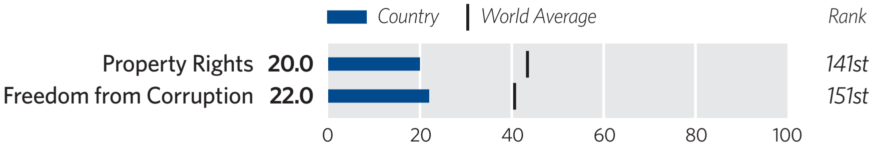
Quick Facts

Population: 1.7 million
GDP (PPP): $1.9 billion
5.3% growth in 2011
5-year compound annual growth 3.6%
$1,144 per capita
Unemployment: n/a
Inflation (CPI): 5.0%
FDI Inflow: $19.4 million
Public Debt: 45.2% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

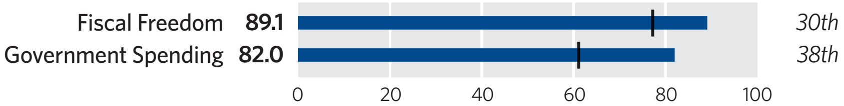
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



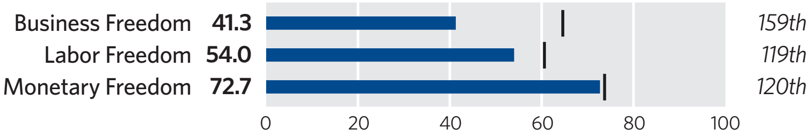
Protection of property rights is extremely weak, and the rule of law remains uneven across the country. The judiciary is influenced by widespread corruption among the political elite. Judges are poorly trained and poorly paid. Traditional practices prevail in most rural areas, and persons who live in urban areas often bring judicial disputes to traditional counselors to avoid the official system's costs and bureaucratic impediments.

LIMITED GOVERNMENT



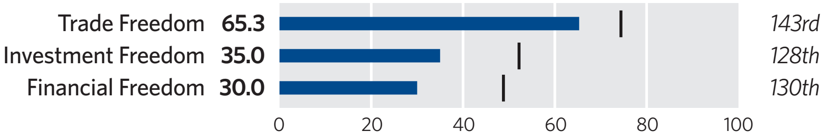
The top income tax rate is 20 percent, and the top corporate tax rate is 25 percent. The sales tax has been reduced to 10 percent on certain commodities. The overall tax burden is 7.9 percent of total domestic income. Government spending has decreased to 24.5 percent of total domestic output. Public debt is about 45 percent of GDP.

REGULATORY EFFICIENCY



The business start-up process has been simplified and made less time-consuming but still takes nine procedures. Completing licensing requirements takes more than 150 days and costs over seven times the level of average annual income. With the labor market relatively underdeveloped, most formal employment remains confined to the public sector. The government maintains price controls on key products.

OPEN MARKETS

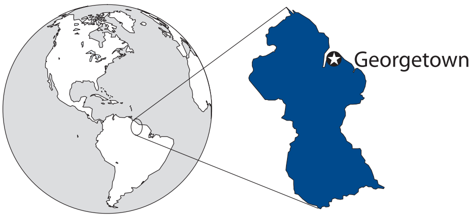


The trade-weighted average tariff rate is 9.9 percent, and bureaucratic customs procedures add to the cost of trade. Political instability, foreign exchange restrictions, and inadequate regulatory capacity discourage investment. The financial sector remains underdeveloped, providing a very limited range of services. Many people still rely on informal lending and have no bank accounts.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.4	Business Freedom	+0.8	Trade Freedom	0
Freedom from Corruption	+1.0	Government Spending	+18.7	Labor Freedom	-7.0	Investment Freedom	0
				Monetary Freedom	-3.2	Financial Freedom	0

GUYANA



World Rank: **129** Regional Rank: **22**

Guyana's economic freedom score is 53.8, making its economy the 129th freest in the 2013 *Index*. Its overall score is 2.5 points higher than last year due to notable score increases in labor freedom, control of government spending, and investment freedom. Guyana is ranked 22nd out of 29 countries in the South and Central America/Caribbean region, and its overall score is well below the world and regional averages.

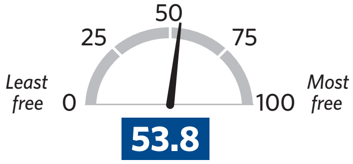
Guyana has registered the second-largest score improvement in the 2013 *Index*. However, broad-based economic growth is limited by structural and policy inadequacies. Efforts to improve the management of public finances have had little impact, and the large and inefficient public sector continues to be a drag on private-sector development. Mining revenue has sustained average annual growth rates of over 6 percent for the past five years, but questionable practices, particularly in gold mining, have raised environmental concerns.

Other long-standing constraints on Guyana's economic freedom include widespread government corruption and fragile protection of property rights under the weak rule of law. Restrictions on new investment and the lack of access to long-term financing are significant impediments to business development and job growth.

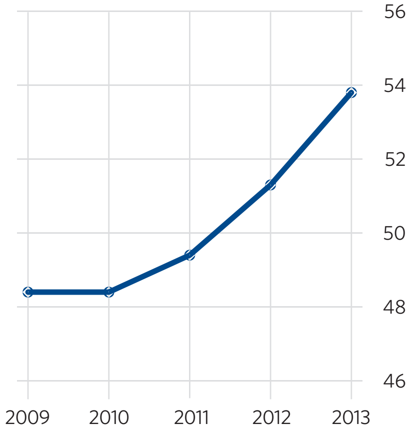
BACKGROUND: Support for Guyana's two major parties is ethnically and racially polarized. Reform has been attempted only under framework agreements with international organizations. In 2006, the People's Progressive Party–Civic (PPC/C) won the first nonviolent elections in more than 20 years. Although the risk of political violence is the lowest since the early 1990s, relations between the PPC/C and the People's National Congress–Reform remain hostile. In late 2011, President Donald Ramotar of the PPC/C assumed office with a minority government. Guyana is one of the Western Hemisphere's poorest countries, and its state-dominated economy, dependent mainly on agriculture and mining, has been stagnant for many years. Violent crime and drug trafficking are endemic.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

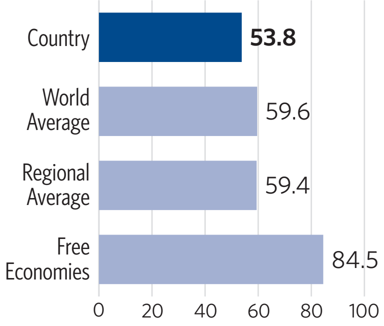
Economic Freedom Score



Freedom Trend



Country Comparisons



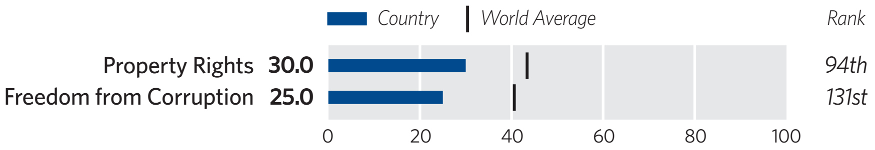
Quick Facts

Population: 0.8 million
GDP (PPP): $5.8 billion
4.2% growth in 2011
5-year compound annual growth 4.2%
$7,466 per capita
Unemployment: 11.0%
Inflation (CPI): 5.7%
FDI Inflow: $165.3 million
Public Debt: 61.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

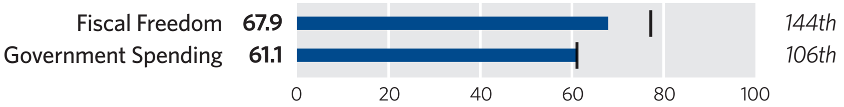
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



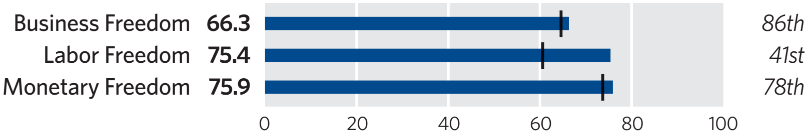
Guyana's judicial system is inefficient, and the rule of law is uneven. The judiciary remains highly vulnerable to political interference, and the protection of property rights is insufficient. Widespread corruption undermines entrepreneurship and diverts resources from productive activity. A top ruling party executive was forced to resign in 2012 after speaking openly to the media about corruption in the government.

LIMITED GOVERNMENT



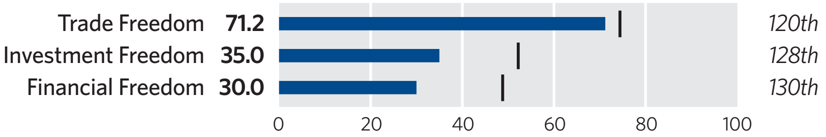
The top income tax rate is 33.3 percent, and the top corporate tax rate is 40 percent. Other taxes include a property tax and a value-added tax (VAT). The overall tax burden is equal to 22.3 percent of total domestic income. Government spending is equivalent to 36 percent of total domestic output. The budget balance is in deficit, and public debt has climbed to over 60 percent of total domestic output.

REGULATORY EFFICIENCY



With no minimum capital required, launching a business takes eight procedures and 20 days. However, the overall pace of regulatory reform has lagged behind other countries. Licensing requirements still consume about 200 days. The labor market remains underdeveloped, and many rely on the informal sector for employment. The government influences prices through the regulation of state-owned utilities and enterprises.

OPEN MARKETS

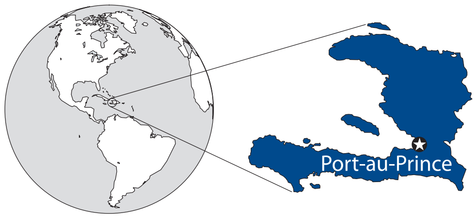


The trade-weighted average tariff rate is 6.9 percent, and overall trade freedom is hampered by corruption. The government generally does not discriminate between foreign and domestic investments, but most new foreign investments are screened, and the approval process can be burdensome and non-transparent. Banking remains plagued by inefficiency and a poor financial regulatory framework.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+3.9	Business Freedom	+0.8	Trade Freedom	-0.3
Freedom from Corruption	-2.0	Government Spending	+9.1	Labor Freedom	+10.1	Investment Freedom	+5.0
				Monetary Freedom	-1.5	Financial Freedom	0

HAITI



World Rank: 151 **Regional Rank: 24**

Haiti's economic freedom score is 48.1, making its economy the 151st freest in the 2013 *Index*. Declines in the management of government spending, freedom from corruption, and labor freedom make its overall score 2.6 points lower than last year. Haiti is ranked 24th out of 29 countries in the South and Central America/Caribbean region, and its overall score is far below the regional average.

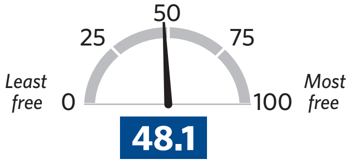
Haiti's post-earthquake reconstruction efforts continue, assisted by substantial aid from the international community. Governing institutions remain weak and inefficient, and overall progress has not been substantial. The parliament has not renewed the mandate of the Interim Haiti Recovery Commission, which had been tasked with overseeing reconstruction efforts but was unpopular.

The effectiveness of public spending has been severely undermined by ongoing political volatility that undercuts the already weak foundations of the rule of law. Reforms to improve the business and investment climates have had little effect because of pervasive corruption and the inefficient judicial framework. Limited efforts to liberalize trade have been undermined by bureaucracy and red tape that continue to deter much-needed new investment.

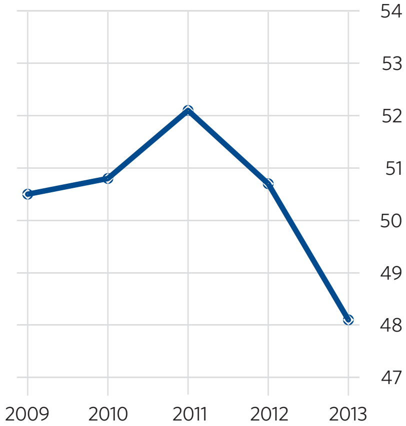
BACKGROUND: President Michel Martelly, elected in 2011, lacks majority support in the legislature. Prime Minister Laurent Lamothe took office in May 2012; his predecessor had resigned after just four months. Despite a U.N. Stability Mission and a better-trained and equipped national police force, civil unrest remains a constant threat. As many as 3,500 former members of the disbanded Forces Armées d'Haiti (FADH) have formed rogue paramilitary units against a backdrop of international concern over Martelly's push to reestablish the armed forces. Most economic activity is informal. Emigrants' remittances have yet to recover fully from the 2009 global economic downturn. Corruption, gang violence, drug trafficking, and other organized crime are pervasive, and Haiti remains the Western Hemisphere's poorest nation.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

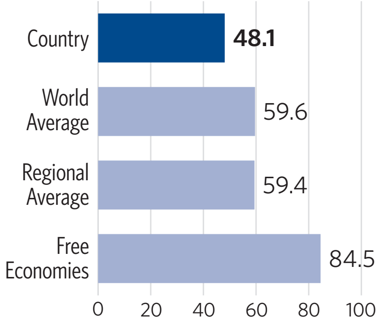
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 10.0 million

GDP (PPP): $12.4 billion
5.6% growth in 2011
5-year compound annual growth 1.4%
$1,235 per capita

Unemployment: 40.6%

Inflation (CPI): 7.4%

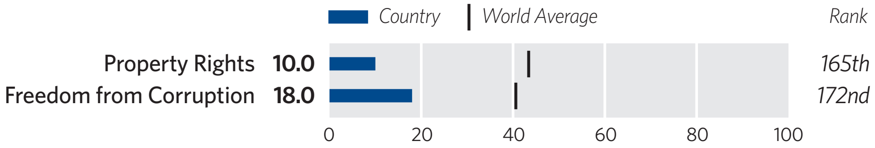
FDI Inflow: $181.0 million

Public Debt: 10.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

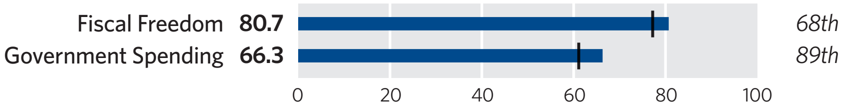
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



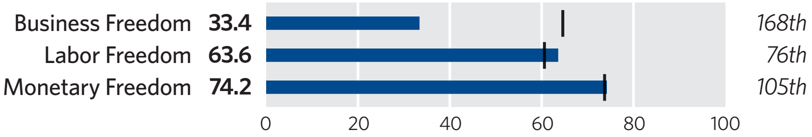
Protection of property rights is severely compromised by weak enforcement, a paucity of updated laws to handle modern commercial practices, and a dysfunctional legal system. Most commercial disputes are settled out of court if at all. Widespread corruption allows disputing parties to purchase favorable outcomes. Smuggling is a major problem, and contraband accounts for a large percentage of the manufactured consumables market.

LIMITED GOVERNMENT



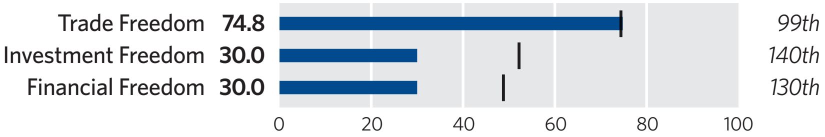
The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The overall tax burden is estimated to be around 12 percent of GDP. Government spending is now over 30 percent of total domestic output. The budget balance has fluctuated between deficit and surplus, and public debt is around 10 percent of GDP. The government relies extensively on foreign aid.

REGULATORY EFFICIENCY



The overall business environment remains burdensome, and completing licensing requirements takes over 1,000 days. Haiti's already poor regulatory efficiency is further undercut by economic and political uncertainty. Since the devastating earthquake in early 2010, a large portion of the workforce has been unemployed or dependent on informal activity. Inflation has risen in the non-dollarized segment of the economy.

OPEN MARKETS

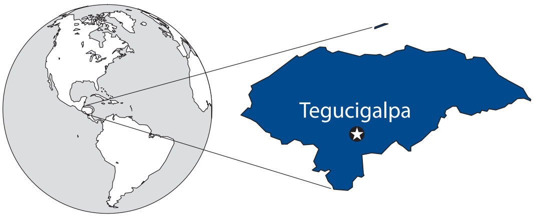


The trade-weighted average tariff rate is 5.1 percent, and non-tariff barriers further hamper trade freedom. Foreign investors are granted national treatment, but the investment regime is inefficient. The small financial sector remains underdeveloped and does not provide adequate support for the private sector. Most financial transactions are handled informally, and credit for new business ventures remains severely constrained.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.1	Business Freedom	+0.1	Trade Freedom	0
Freedom from Corruption	-4.0	Government Spending	-19.0	Labor Freedom	-1.8	Investment Freedom	0
				Monetary Freedom	-1.8	Financial Freedom	0

HONDURAS



World Rank: **96** Regional Rank: **18**

Honduras's economic freedom score is 58.4, making its economy the 96th freest in the 2013 *Index*. Its overall score is 0.4 point worse than last year, reflecting declines in the control of government spending and labor freedom that offset gains in freedom from corruption and fiscal freedom. Honduras is ranked 18th out of 29 countries in the South and Central America/Caribbean region, and its overall score is lower than the world and regional averages.

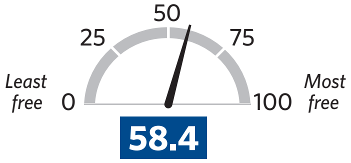
The Central America–Dominican Republic–United States Free Trade Agreement and other free trade agreements have led to modernization and liberalization of the Honduran trade and investment regimes. Business regulations are relatively benign, except in the area of labor relations. Private-sector activity benefits from moderate taxation, though government services are correspondingly poor.

The government has been developing the idea of "charter cities" (special free trade and investment zones) to stimulate the economy, but broader implementation of deeper institutional reforms is critical to spurring more dynamic economic growth across the country. Systemic corruption persists, eroding the rule of law. The judicial system is weak and vulnerable to political influence.

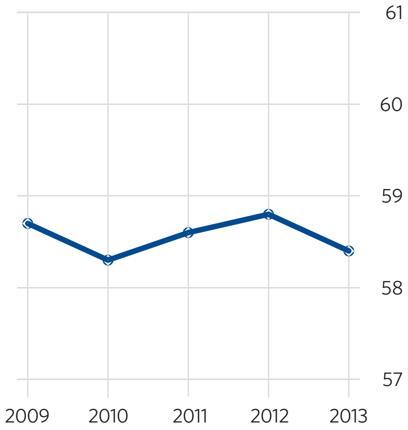
BACKGROUND: In June 2009, Honduras's legislature ordered the military to arrest Liberal Party President Manuel Zelaya after he tried to amend the constitution illegally to allow himself to remain in office. The military deported him to Costa Rica, and Honduras was expelled from the Organization of American States (OAS). Zelaya returned later that year and was not prosecuted. National Party candidate Porfirio Lobo won the presidency in November 2009. In June 2011, Honduras returned to the OAS. Political polarization, drug trafficking, violent crime, and youth gangs are ongoing concerns. Honduras is one of Latin America's poorest countries. The economy, based traditionally on exports of coffee and bananas, has expanded to include shrimp, melons, tourism, and textiles. Much of the workforce is employed in agriculture. The government is attempting to shed official debt under World Bank and International Monetary Fund supervision.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

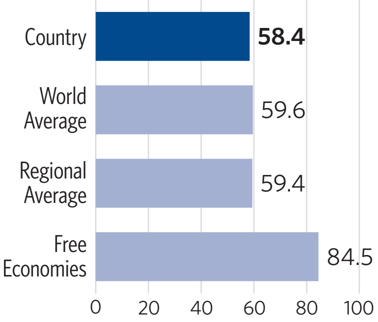
Economic Freedom Score



Freedom Trend



Country Comparisons



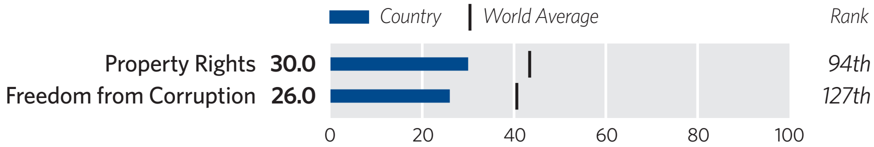
Quick Facts

Population: 8.2 million
GDP (PPP): $35.7 billion
3.6% growth in 2011
5-year compound annual growth 2.9%
$4,345 per capita
Unemployment: 5.1%
Inflation (CPI): 6.8%
FDI Inflow: $1.0 billion
Public Debt: 28.1% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

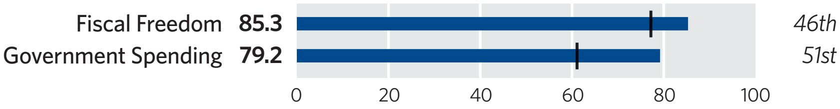
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



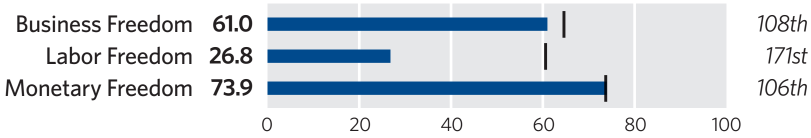
The legal framework remains underdeveloped, and protection of property rights is weak. Laws and practices regarding real estate differ substantially from those in more developed countries, and fraudulent deeds and titles are common. The court system is weak and inefficient, and resolution of disputed cases can take years. Corruption, perceived as pervasive, continues to undermine potential progress in other areas.

LIMITED GOVERNMENT



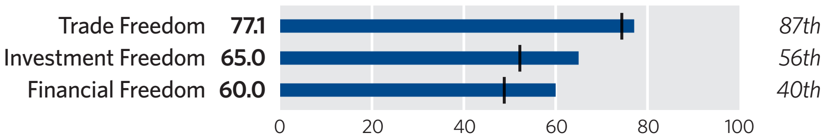
The top income and corporate tax rates are 25 percent, though the corporate rate is equivalent to 27.5 percent when a social contribution tax is included. Other taxes include a capital gains tax and a general sales tax. The overall tax burden equals 14.8 percent of total domestic income, and government spending is equivalent to 26.3 percent of GDP. The deficit is declining, with public debt now below 30 percent of GDP.

REGULATORY EFFICIENCY



Recent reforms have reduced the number of days and procedures required to launch a new business, but overall progress in easing regulatory constraints lags behind other countries. Getting necessary licenses costs over twice the level of average annual income. A large portion of the workforce is employed in the informal sector. Inflation has moderated, but the state continues to regulate the prices of key products and services.

OPEN MARKETS

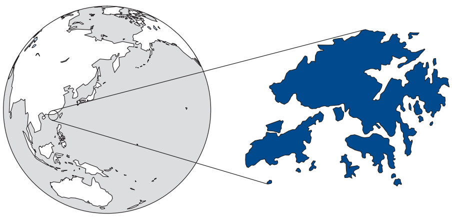


The trade-weighted average tariff rate is 6.5 percent, and non-tariff barriers interfere with trade. Foreign and domestic investors are treated equally under the law, and new "charter cities" are being created in an attempt to attract more foreign investment. The financial sector remains relatively stable and continues to expand. There are two state-owned banks, but private banks are the dominant force in the banking sector.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.6	Business Freedom	+0.4	Trade Freedom	0
Freedom from Corruption	+2.0	Government Spending	-4.2	Labor Freedom	-3.2	Investment Freedom	0
				Monetary Freedom	-0.2	Financial Freedom	0

HONG KONG



World Rank: **1** Regional Rank: **1**

Hong Kong's economic freedom score of 89.3 keeps it atop the *Index* rankings for the 19th consecutive year. Its overall score is 0.6 point lower than last year, mainly due to increased government spending relative to GDP and an increase in inflation. Hong Kong is ranked 1st out of 41 countries in the Asia–Pacific region and 1st in the world.

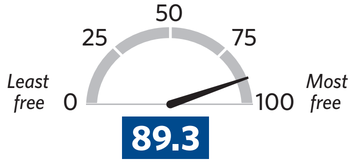
Hong Kong's highly competitive regulatory regime, coupled with an efficient and transparent legal framework, sustains vibrant engagement in global trade and investment. The highly motivated and skilled workforce is a cornerstone of strength for the dynamic economy. There is little tolerance for corruption. Economic interactions with China have become more intense and sophisticated, and trade and financial linkages with the mainland have grown significantly.

Hong Kong continues to demonstrate a high degree of economic resilience and remains one of the world's most competitive financial and business centers. Although Hong Kong remains number one in the *Index* rankings, the uniqueness of its commitment to economic freedom has eroded in recent years, and any further implementation of populist policies that empower the bureaucracy or undermine the principle of limited government could threaten its standing in the future.

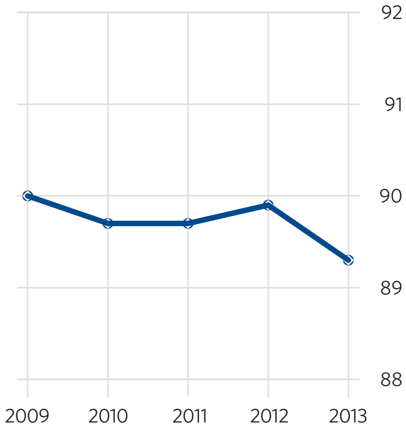
BACKGROUND: The Special Administrative Region of Hong Kong has been part of the People's Republic of China since 1997 but is self-governing on a day-to-day basis and enjoys a wide range of freedoms under a mini-constitution known as the Basic Law. The local government has promised democratic reforms, but implementation has been delayed. Chief Executive Leung Chun-ying, who took office July 1, 2012, was chosen by a 1,200-member Election Committee and then appointed by the government of China. Hong Kong has one of the world's most prosperous economies, thanks to a commitment to small government, low taxes, and light regulation. Major industries include financial services and shipping; manufacturing has largely migrated to the mainland. Concerns include cronyism in policymaking, state control of land, and restrictions on the free flow of information.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

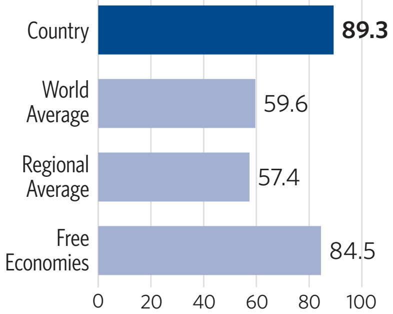
Economic Freedom Score



Freedom Trend



Country Comparisons



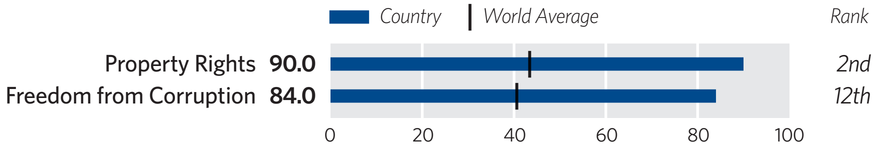
Quick Facts

Population: 7.1 million
GDP (PPP): $351.1 billion
5.0% growth in 2011
5-year compound annual growth 3.6%
$49,137 per capita
Unemployment: 3.4%
Inflation (CPI): 5.3%
FDI Inflow: $83.2 billion
Public Debt: 33.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

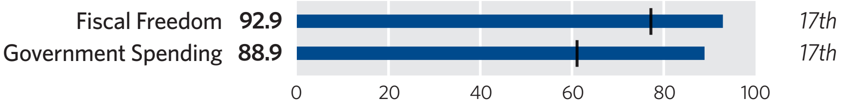
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



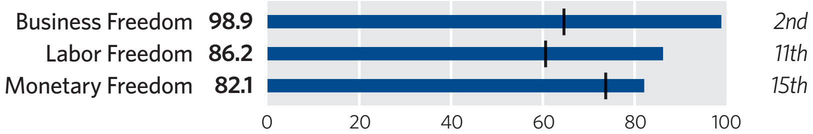
The legal system's efficiency encourages respect for the rule of law. The constitutional framework, provided by the Basic Law, protects private property rights and freedom of exchange. The judiciary is independent of influence from the executive and legislative branches. A strong tradition of minimum tolerance for corruption, further institutionalized by effective anti-corruption measures, promotes government integrity.

LIMITED GOVERNMENT



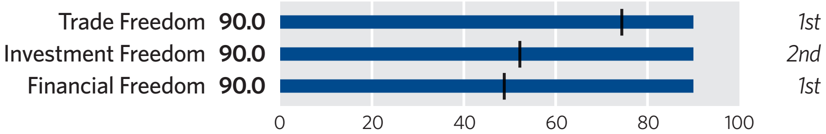
The standard income tax rate is 15 percent, and the top corporate tax rate is 16.5 percent. The tax system is simple and efficient, and the overall tax burden is low at 14.5 percent of GDP. Government spending is equivalent to 19.2 percent of GDP. Public debt is low, and a budget surplus has been maintained even in light of increased government spending and tax rebates.

REGULATORY EFFICIENCY



The overall entrepreneurial environment remains one of the world's most transparent and efficient. The business start-up process is straightforward, with no minimum capital required. A statutory minimum wage has been in place since 2011, although its impact on the labor market has been relatively muted. Overall monetary stability is well maintained, but inflationary pressures continue. The government controls all land.

OPEN MARKETS

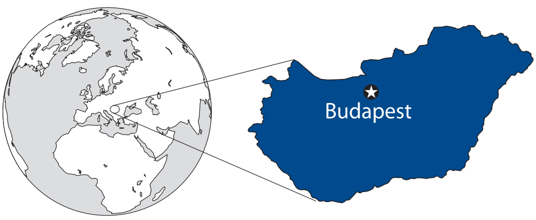


The trade regime remains one of the world's most competitive and efficient, with a zero tariff rate and minimal non-tariff barriers. A robust and transparent investment framework, in place for many years, continues to attract foreign investment. Hong Kong's first competition law, enacted in June 2012, is expected to be implemented in phases. The financial sector remains highly competitive and well capitalized, serving as a leading global hub.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.2	Business Freedom	0	Trade Freedom	0
Freedom from Corruption	0	Government Spending	-2.1	Labor Freedom	-0.3	Investment Freedom	0
				Monetary Freedom	-3.7	Financial Freedom	0

HUNGARY



World Rank: 48 **Regional Rank: 24**

Hungary's economic freedom score is 67.3, making its economy the 48th freest in the 2013 *Index*. Its score has increased by 0.2 point, with declines in property rights, labor freedom, and freedom from corruption counterbalanced by improvements in the control of public spending and investment freedom. Hungary is ranked 24th out of 43 countries in the Europe region, and its overall score is well above the world average.

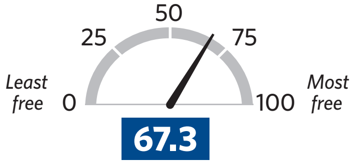
Hungary's economy, an open market with high-quality institutional infrastructure, benefits from a thriving private sector. Commercial law is well developed, with improvement needed only in judicial and administrative enforcement. Overall, the legal and regulatory frameworks sustain the rule of law and provide effective protection for property rights, although laws adopted under a new constitution in 2012 have led to a dispute with the European Union over judicial independence.

Despite cuts in flat income and corporate tax rates in 2011 to improve competitiveness, recent unpredictable and discriminatory "crisis taxes" have undermined confidence in the overall tax regime. Short-term reforms aimed at reducing deficits were not structurally sound and prompted downgrades of sovereign debt to junk status. Responsible long-term budget reform is needed to address the deficit effectively and ensure sustainability.

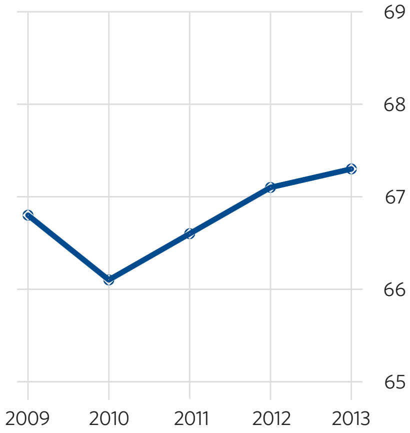
BACKGROUND: The center-right FIDESZ party won a parliamentary majority in April 2010, and Prime Minister Viktor Orbán inherited an economy burdened by heavy public and private-sector debt. The economy slowed in 2011 and contracted 0.7 percent in the first quarter of 2012. Three major credit rating agencies have downgraded Hungarian debt to junk bond status amid doubts about the independence of Hungary's central bank. The government has been seeking International Monetary Fund, European Union, and European Central Bank loans to mitigate market turmoil connected with the eurozone financial crisis. Hungary joined the EU in 2004 but has not adopted the euro. Services account for almost two-thirds of the economy, but there is increased emphasis on improving tourism.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

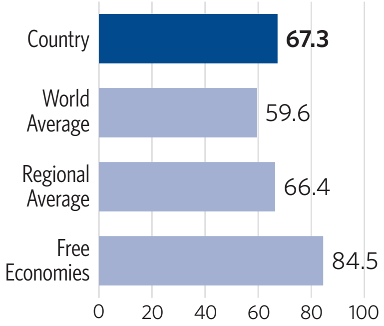
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 10.0 million

GDP (PPP): $195.6 billion

1.7% growth in 2011

5-year compound annual growth −0.6%

$19,591 per capita

Unemployment: 10.7%

Inflation (CPI): 3.9%

FDI Inflow: $4.7 billion

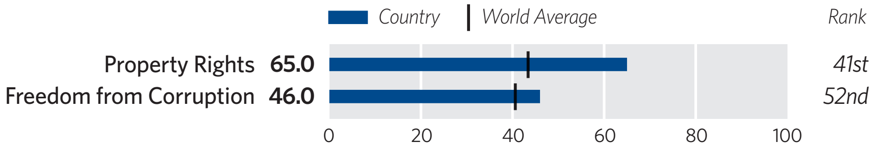
Public Debt: 80.4% OF GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

HUNGARY (continued)

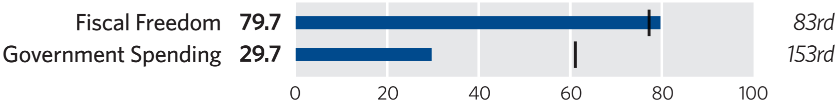
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



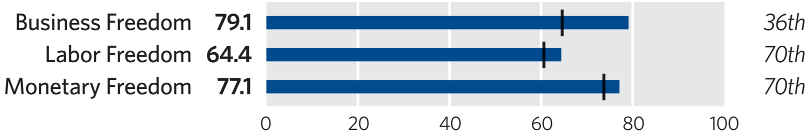
Property rights are relatively well respected, and the threat of expropriation has been low. The legal framework continues to evolve, and a new constitution that took effect in January 2012 may have eroded the independence of the judiciary. Despite efforts to eradicate corruption more effectively, concerns remain, particularly in the area of government procurement.

LIMITED GOVERNMENT



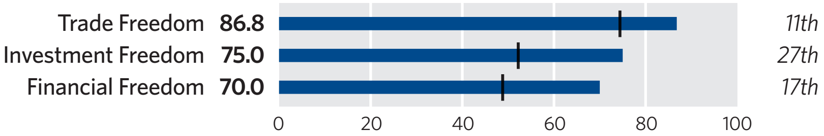
The income tax rate is a flat 16 percent, and the top corporate tax rate is 19 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals 37.6 percent of total domestic income. Government spending has risen to a level equivalent to 48.4 percent of total domestic output. Public debt remains at about 80 percent of GDP. Borrowing costs have risen precipitously in light of perceived political and institutional risk.

REGULATORY EFFICIENCY



The regulatory regime generally allows dynamic and innovative business formation and operation. Launching a business takes four procedures and five days, and the minimum capital requirement has been reduced to less than 10 percent of the average level of annual income. Restrictions on work hours remain rigid, and the overall labor code lacks flexibility. Inflation has edged higher even as the economy has grown slowly.

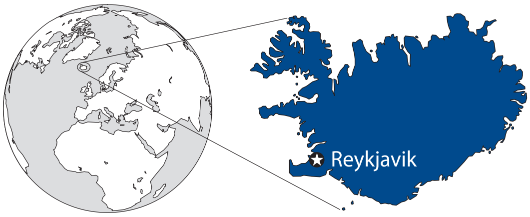
OPEN MARKETS



Hungary maintains a common 1.6 percent average tariff with other members of the European Union, and the trade regime is competitive. The investment regime is relatively efficient, but bureaucratic red tape and deficient transparency impede the dynamic growth of investment. The growing financial sector is open to competition. The state has largely withdrawn from banking, and foreign investors participate freely in capital markets.

Score Changes

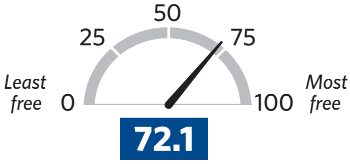
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**-5.0**	Fiscal Freedom	**+1.1**	Business Freedom	**-0.7**	Trade Freedom	**-0.3**
Freedom from Corruption	**-1.0**	Government Spending	**+5.3**	Labor Freedom	**-3.2**	Investment Freedom	**+5.0**
				Monetary Freedom	**+1.0**	Financial Freedom	**0**



World Rank: **23** Regional Rank: **13**

ICELAND

Economic Freedom Score



Iceland's economic freedom score is 72.1, making its economy the 23rd freest in the 2013 *Index*. Its overall score is 1.2 points better than last year, due primarily to substantial efforts to rein in government spending. Iceland is ranked 13th out of 43 countries in the Europe region, and its overall score remains well above the world and regional averages.

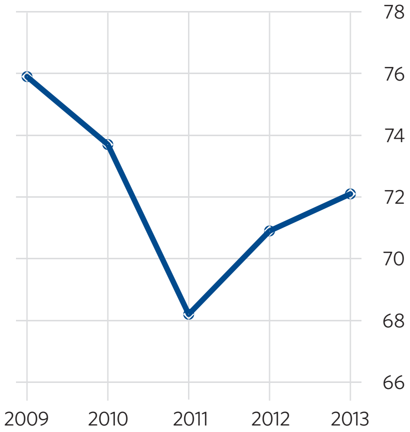
Though hit sharply during the financial crisis, Iceland is well into the process of recovery. The quality of the legal framework remains among the world's highest, providing effective protection for property rights. The rule of law is well maintained, and a strong tradition of minimum tolerance for corruption is firmly in place.

Iceland has demonstrated a strong commitment to restoring the soundness of public finance and the credibility of its policies. However, the emergency economic measures, including capital controls, implemented by the government during the financial crisis are being unwound only slowly and constitute a serious barrier to economic freedom that threatens future growth. A dependable commitment to regulatory efficiency and open-market policies underpins efforts to restore positive momentum.

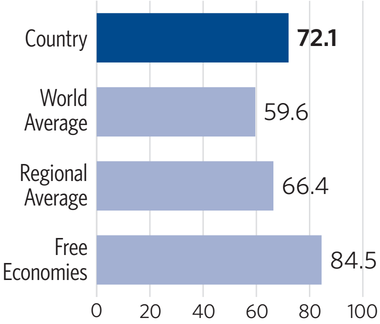
BACKGROUND: The collapse of Iceland's banking sector in 2008 sparked a currency crisis and a substantial contraction of the economy. Social Democrat Prime Minister Johanna Sigurðardóttir's government won a parliamentary vote in favor of applying for membership in the European Union, reversing a long-held policy. Accession talks began in June 2010, but the government must win a mandatory public referendum, and the British and Dutch governments have threatened to veto Iceland's accession because of a debt dispute resulting from the collapse of Iceland's Landsbanki in 2008. Iceland already enjoys EU-related benefits that include free trade and movement of capital, labor, goods, and services within the EU, as well as membership in the Schengen zone, which allows visa-free travel in 26 European countries.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



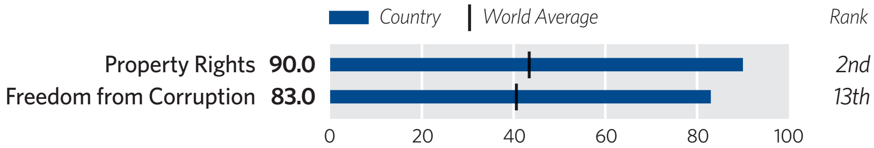
Quick Facts

Population: 0.3 million
GDP (PPP): $12.4 billion
3.1% growth in 2011
5-year compound annual growth -0.2%
$38,061 per capita
Unemployment: 6.7%
Inflation (CPI): 4.0%
FDI Inflow: $1.0 billion
Public Debt: 99.2% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

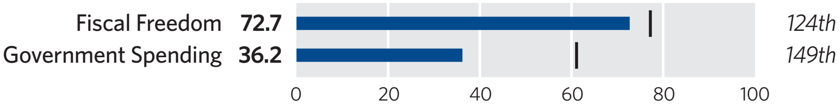
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



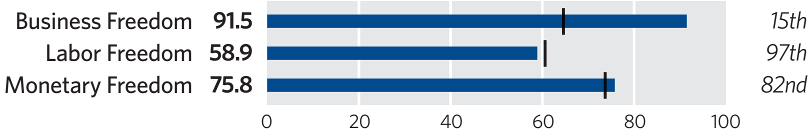
Private property is well protected. The constitution provides for an independent judiciary, and trials are generally public and fair. Iceland is one of the few countries with efficient, property rights–based fisheries management. Isolated cases of corruption are not an obstacle to foreign investment. A 1,000-year history of parliamentary government has encouraged the institutionalization of accountability and transparency.

LIMITED GOVERNMENT



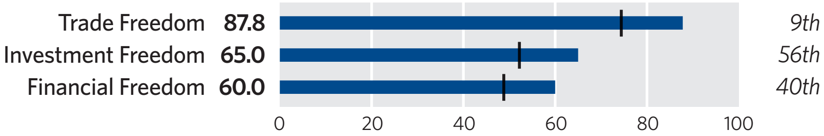
The top income tax rate is 31.8 percent, and the flat corporate tax rate is 20 percent. Other taxes include a value-added tax (VAT) and an estate tax. The overall tax burden is 36.3 percent of total domestic income. Government spending has fallen to 46.1 percent of total domestic output. The deficit has declined to below 5 percent of GDP as Iceland recovers from its financial crisis, but public debt is equivalent to a full year's GDP.

REGULATORY EFFICIENCY



The overall regulatory environment continues to be efficient and competitive. Starting a business takes five procedures and five days on average and costs about 3 percent of the level of average annual income. Bankruptcy proceedings are relatively easy. Labor regulations are rigid, with broad wage settlements and high unionization. Inflation has diminished, in part as a result of falling nominal wages.

OPEN MARKETS



The trade-weighted average tariff rate is a very low 1.1 percent, but modest non-tariff barriers add to the cost of trade. The investment regime is open and supports vibrant investment growth. The central bank has eased only some of the restrictions on the movement of capital that were instituted following the financial turmoil in 2008, but Iceland has recapitalized its banking system and returned to the global bond market.

Score Changes

RULE OF LAW	
Property Rights	0
Freedom from Corruption	-2.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.8
Government Spending	+14.4

REGULATORY EFFICIENCY	
Business Freedom	-0.5
Labor Freedom	-2.0
Monetary Freedom	+3.3

OPEN MARKETS	
Trade Freedom	-0.4
Investment Freedom	0
Financial Freedom	0

INDIA

World Rank: **119** Regional Rank: **23**

India's economic freedom score is 55.2, making its economy the 119th freest in the 2013 *Index*. Its score is 0.6 point higher than last year, with improvements in the management of public finance and monetary freedom offsetting a continuing decline in freedom from corruption. India is ranked 23rd out of 41 countries in the Asia–Pacific region, and its overall score is below the world average.

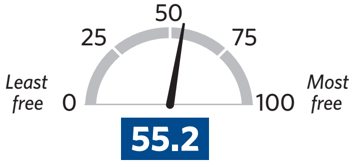
India's institutional shortcomings continue to undermine the foundations for long-term economic development. In the absence of a well-functioning legal and regulatory framework, corruption throughout the economy is becoming a more serious drag on the emergence of a more dynamic private sector. The state's presence in the economy remains extensive through state-owned enterprises and wasteful subsidy programs that result in chronically high budget deficits.

Progress in structural reform has been uneven and often stalled. Plans to open up key service sectors have been reversed, and no significant reforms have been implemented effectively in recent years. Efforts continue, however. Reform measures aiming at reducing government subsidies and encouraging foreign direct investment were announced in 2012.

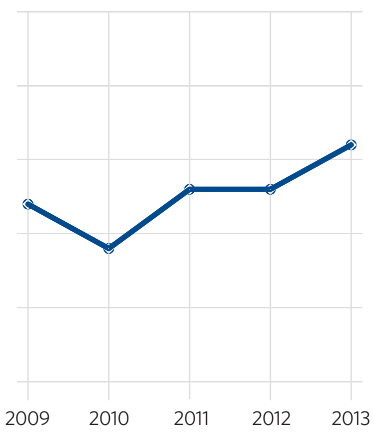
BACKGROUND: Although more than 80 percent of India's population is Hindu, its Muslim population is one of the world's largest. In 2010, India resumed bilateral talks with Pakistan that had been suspended after attacks in Mumbai in 2008 by a Pakistan-based terrorist group. Improved relations between the U.S. and India are evidenced by a Strategic Dialogue aimed at fostering cooperation in defense, energy, trade, education, and counterterrorism. Prime Minister Manmohan Singh's government has been roiled by a series of corruption scandals, a faltering economy, and skyrocketing inflation. The ruling Congress Party fared poorly in state-level elections in March 2012 and is increasingly beholden to regional parties, whose populist agendas prevent the central government from enacting much-needed economic reforms. Though its size makes India a significant force in world trade, the economy continues to operate far below its potential.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

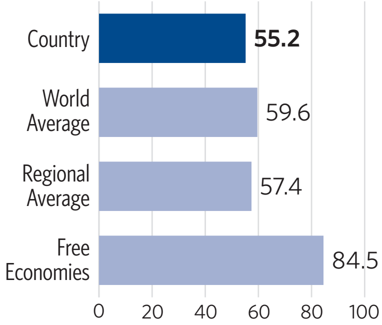
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

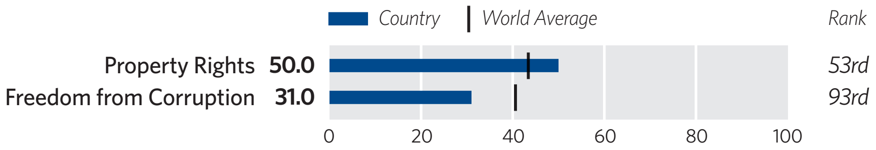
Population: 1.2 billion
GDP (PPP): $4.5 trillion
7.2% growth in 2011
5-year compound annual growth 8.1%
$3,694 per capita
Unemployment: 9.8%
Inflation (CPI): 8.6%
FDI Inflow: $31.6 billion
Public Debt: 68.1% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

INDIA (continued)

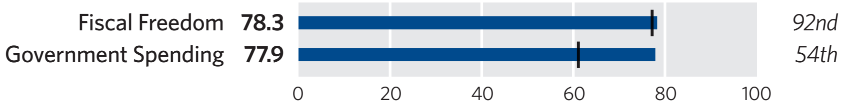
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



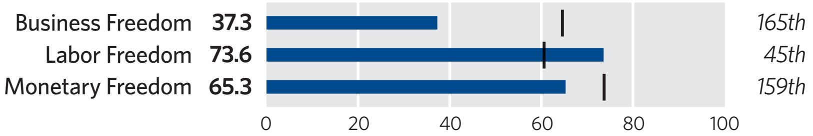
The rule of law is uneven across the country, and the independence of the judicial system is poorly institutionalized. Judicial procedures tend to be protracted, costly, and subject to political pressure. Property rights are not protected effectively, and the enforcement of intellectual property rights is seriously deficient. Legislation to set up an independent ombudsman to investigate corruption is stalled in the parliament.

LIMITED GOVERNMENT



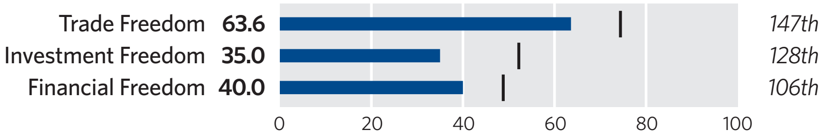
The top income tax rate is 30.9 percent (30 percent plus an education tax of 3 percent), and the top corporate tax rate is 33.99 percent with a 7.5 percent surcharge and a 3 percent education tax. The overall tax burden equals 7.4 percent of GDP. Government spending amounts to 27.1 percent of total domestic output, and the budget remains in deficit. Public debt has grown to 68.1 percent of GDP.

REGULATORY EFFICIENCY



Organizing new investment and production remains a burdensome process. Launching a business takes more than 25 days on average, and licensing requirements cost over 15 times the level of average annual income. The underdeveloped labor market lacks efficiency, and the informal sector remains an important source of employment. The state maintains price controls on a range of products, and monetary stability has weakened notably.

OPEN MARKETS



The trade-weighted average tariff rate remains a burdensome 8.2 percent, and complex non-tariff barriers further impede trade. India's bureaucratic investment regime creates an unfavorable environment for new investment, and the country has been slow to give its citizens the freedom to shop at low-cost multinational retail stores. State-owned institutions dominate the financial sector where foreign participation is limited.

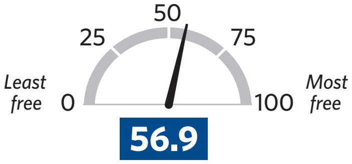
Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+2.2	Business Freedom	+1.8	Trade Freedom	-0.5
Freedom from Corruption	-2.0	Government Spending	+3.1	Labor Freedom	-0.6	Investment Freedom	0
				Monetary Freedom	+2.4	Financial Freedom	0

INDONESIA

World Rank: **108** Regional Rank: **20**

Economic Freedom Score



Indonesia's economic freedom score is 56.9, making its economy the 108th freest in the 2013 *Index*. Its score is 0.5 point better than last year, with significant improvements in financial freedom and freedom from corruption that more than offset declines in business freedom and the management of public finance. Indonesia is ranked 20th out of 41 countries in the Asia–Pacific region, and its overall score is below the world average.

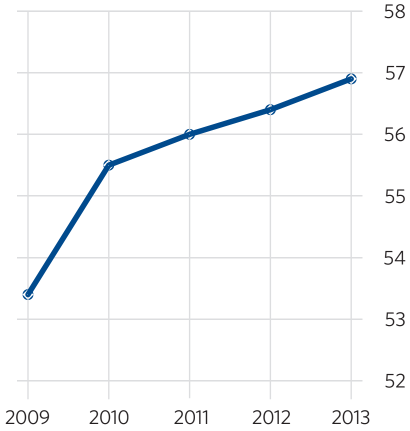
Indonesia, Southeast Asia's biggest economy, has undertaken wide-ranging reforms to address various structural weaknesses and improve competitiveness. Recent reform measures have put greater emphasis on improving regulatory efficiency, enhancing regional competitiveness, and creating a more vibrant private sector through modernization of the financial sector.

Despite some progress, Indonesia's growth potential remains fragile and hampered by inefficient legal and investment regimes. Political interference in the private economy discourages dynamic economic expansion, and pervasive corruption, exacerbated by a weak judicial system, adds business risk. During the first half of 2012, the government reintroduced trade and investment barriers that include limits on ownership of banks and mines and export taxes.

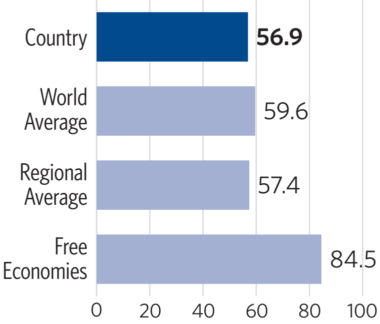
BACKGROUND: Indonesia is the world's most populous Muslim-majority democracy. In the years since 1998, when longstanding authoritarian ruler General Suharto stepped down, Indonesia's nearly 250 million people have enjoyed the blossoming of a wide range of political freedoms, and participation in the political process is high. President Susilo Bambang Yudhoyono has attacked corruption and tried to encourage much-needed foreign investment, but the weak rule of law remains a major impediment to attracting capital. As a member of the G-20 and a driving force within the Association of Southeast Asian Nations, Indonesia plays a growing role in international economic policy discussions. The increasingly modern and diversified economy has recovered strongly from the global recession.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



Quick Facts

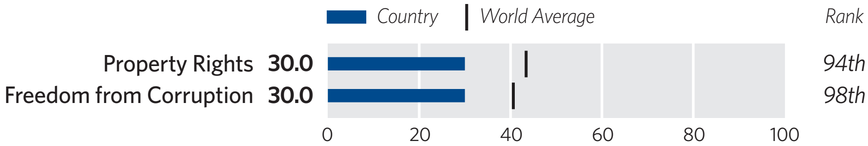
Population: 241.0 million
GDP (PPP): $1.1 trillion
6.5% growth in 2011
5-year compound annual growth 5.9%
$4,666 per capita
Unemployment: 6.6%
Inflation (CPI): 5.4%
FDI Inflow: $18.9 billion
Public Debt: 25.0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

INDONESIA (continued)

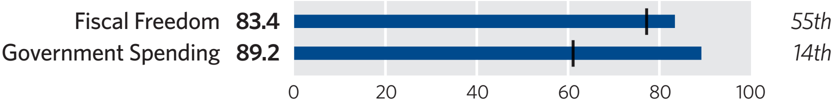
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



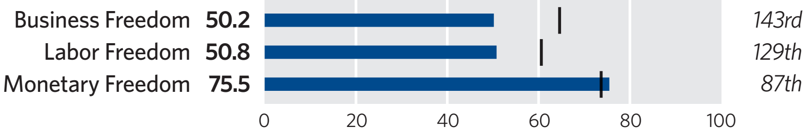
Property rights are generally respected, but enforcement is inefficient and uneven. The judicial system is not fully independent and remains vulnerable to political influence. In the absence of an efficient legal framework, court rulings can be arbitrary and inconsistent. Corruption remains pervasive, although the Anti-Corruption Commission (KPK) launched a number of high-profile cases in 2012.

LIMITED GOVERNMENT



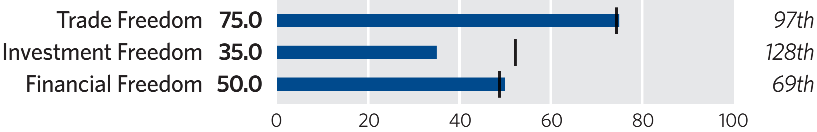
The top income tax rate is 30 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals 11.6 percent of total domestic income. Government spending has increased to 19 percent of GDP, and the budget deficit is 1.6 percent of GDP. Public debt is low at 25 percent of total domestic output.

REGULATORY EFFICIENCY



Launching a business takes more than a month on average, and licensing requirements cost slightly less than the level of average annual income. Overall regulatory efficiency is weak. Regulations concerning the creation and termination of employment relationships are relatively costly. State interference in the market distorts prices.

OPEN MARKETS

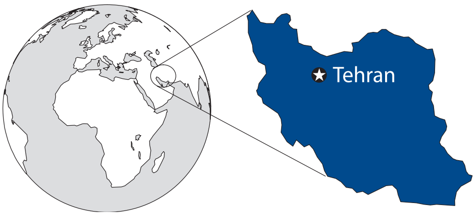


The trade-weighted average tariff rate is 2.5 percent, but trade is constrained by costly non-tariff barriers. Although the country publicly welcomes foreign investment, many investors, both foreign and domestic, face inconsistencies in the investment codes and erratic enforcement. The financial sector remains stable, and the Financial Services Authority has been formed to improve the sector's regulatory efficiency.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.1	Business Freedom	-4.4	Trade Freedom	+1.1
Freedom from Corruption	+2.0	Government Spending	-2.4	Labor Freedom	-1.3	Investment Freedom	0
				Monetary Freedom	+0.3	Financial Freedom	+10.0

IRAN



World Rank: **168** Regional Rank: **15**

Iran's economic freedom score is 43.2, making its economy the 168th freest in the 2013 *Index*. Its score has increased by 0.9 point from last year, with a notable decline in monetary freedom offset by small gains in five of the 10 economic freedoms including control of government spending. Iran is ranked last out of 15 countries in the Middle East/North Africa region, and its overall score is well below the world and regional averages.

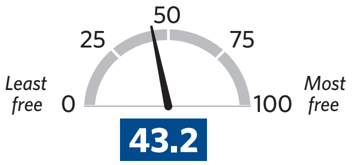
Iran continues to be mired in a climate of economic repression. Severely hampered by state interference, the formal economy is increasingly stagnant, and informal economic activity is expanding. As a result of rampant corruption and deficiencies in the legal framework, the rule of law remains fragile and uneven. The government dictates most production and investment activity and derives most of its revenue from the oil sector.

The private sector, largely marginalized by the restrictive regulatory environment, is further undermined by government inefficiency and mismanagement. State interference in the financial sector distorts price levels and constrains private-sector growth by allocating credit on non-market terms. Efforts to enhance the business climate have been modest, undone on occasion in the interest of maintaining the status quo. The threat of government expropriation remains high.

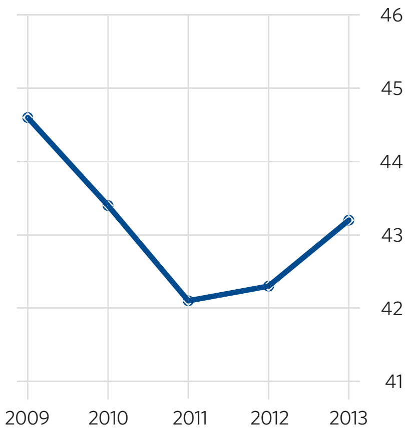
BACKGROUND: President Mahmoud Ahmadinejad's regime has been undermined by popular cynicism regarding the legitimacy of his 2009 re-election, sniping from rival hard-liners, and tougher international sanctions due to Iran's illicit nuclear weapons program and support for terrorism. Petroleum exports provide about 85 percent of government revenues but declined in early 2012 due to a European Union embargo, sanctions on the central bank, and lower production caused by poor maintenance of facilities, lack of technology, and falling foreign investment. Iran's economy, once one of the Middle East's most advanced, remains burdened by high inflation, state ownership, corruption, costly subsidies, and an increasingly bloated public sector.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

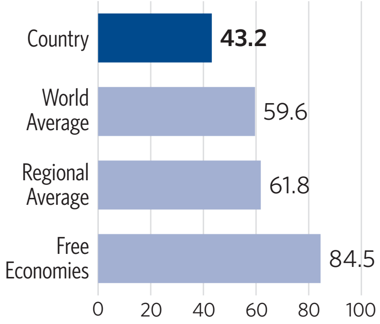
Economic Freedom Score



Freedom Trend



Country Comparisons



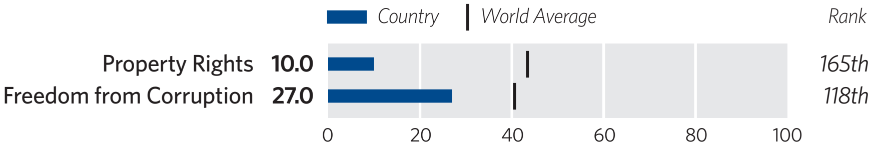
Quick Facts

Population: 75.9 million
GDP (PPP): $990.2 billion
2.0% growth in 2011
5-year compound annual growth 3.7%
$13,053 per capita
Unemployment: 15.3%
Inflation (CPI): 21.3%
FDI Inflow: $4.1 billion
Public Debt: 12.7% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

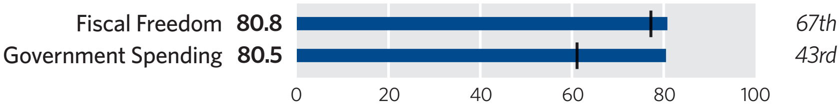
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



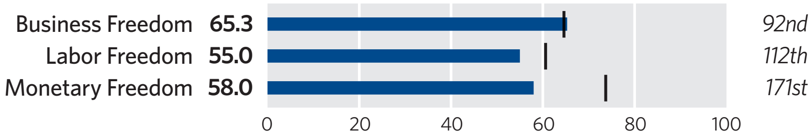
Corruption pervades all branches of government. Resort to a court system infected by bribery and cronyism is often counterproductive; finding a local business partner with substantial political patronage is a more effective way to protect contracts. The constitution allows the government to confiscate property acquired either illicitly or in a manner not in conformance with Islamic law. Few laws protect intellectual property rights.

LIMITED GOVERNMENT



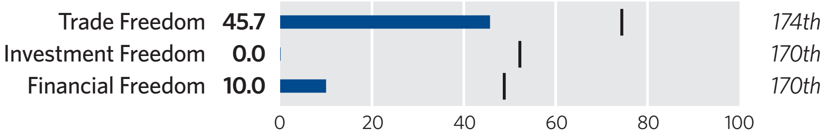
The top income tax rate is 35 percent, and the top corporate tax rate is 25 percent. All property transfers are subject to a standard tax. A value-added tax (VAT) has been collected intermittently. The overall tax burden is estimated to equal 8.4 percent of total domestic income, and government spending is equivalent to 25.5 percent of GDP. The government budget is in surplus because of oil revenue, and public debt is below 15 percent of GDP.

REGULATORY EFFICIENCY



The restrictive regulatory environment severely constrains private economic activity. Obtaining operating permits takes more than 300 days and costs over twice the level of annual average income. Labor market rigidity, exacerbated by state interference, continues to discourage dynamic job growth. Tight government controls distort price levels. In response to international sanctions, a three-tiered exchange-rate system was introduced in 2012.

OPEN MARKETS

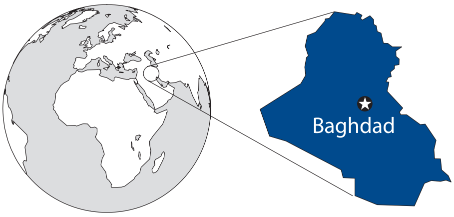


The trade-weighted average tariff rate is prohibitively high at 19.6 percent, and layers of nontariff barriers further restrict trade. Investment is heavily regulated by the state, and foreign investment is banned in many sectors. Strict government controls limit access to financing for businesses. State-owned commercial banks account for a majority of total banking-sector assets, with credit allocation directed by the government.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.2	Business Freedom	+0.5	Trade Freedom	0
Freedom from Corruption	+5.0	Government Spending	+3.6	Labor Freedom	+3.5	Investment Freedom	0
				Monetary Freedom	–4.0	Financial Freedom	0

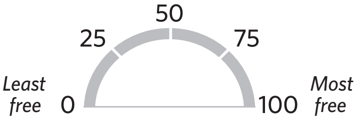
IRAQ



World Rank: Not Ranked

Regional Rank: Not Ranked

Economic Freedom Score



This economy is not graded

Iraq remains unranked in the 2013 *Index* because of the lack of sufficiently reliable data on economic freedom within the country. The Iraqi economy has slowly recovered from the hostilities that began in 2003, but progress has been uneven, and the country faces continuing tension among different ethnic and religious factions. Iraq was last graded in the 2002 *Index*, when it received an overall score of 15.6.

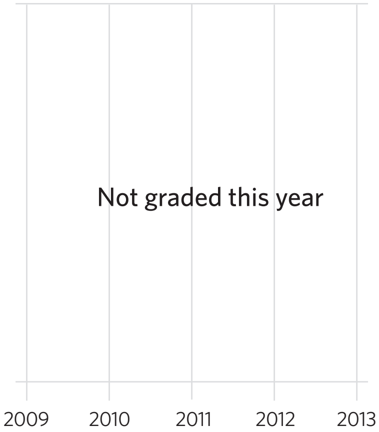
Iraq's ongoing economic reconstruction, although facilitated by recent reform measures, high oil prices, and foreign economic aid, continues to be fragile. The central government's weakness, powerful vested interests, and high levels of corruption have hindered politically difficult policy reforms, undermining the limited but measureable progress made in past years.

Operating well below potential, the Iraqi economy is burdened by numerous systemic problems. A lack of transparency exacerbates the negative impact of inefficient business regulations on entrepreneurial activity, forestalling the emergence of a dynamic private sector. The economy lacks effective monetary and fiscal policies. The weak state of the financial system, coupled with its limited role within the economy, hampers both investment and the everyday operation of businesses.

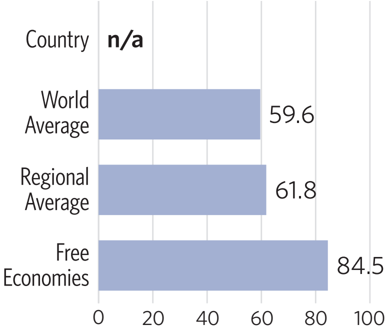
BACKGROUND: Prime Minister Nuri al-Maliki consolidated his power after the December 2011 withdrawal of U.S. troops. His Shia-dominated government coalition has gradually lost support among Sunnis, who increasingly charge that he has adopted a sectarian agenda. Iraq's state-dominated economy surged ahead with an impressive growth rate of over 9 percent in 2011, propelled by improved security, high oil prices, and recovery of the oil industry, which provides more than 90 percent of government revenue. Oil wealth, still in government hands, holds Iraq's disparate factions together but also will remain a source of tension absent more equitable access to economic opportunities. Inadequate infrastructure, weak property rights, bureaucratic red tape, and widespread corruption continue to undermine efforts to encourage foreign investment.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



Quick Facts

Population: 32.8 million

GDP (PPP): $127.6 billion

9.9% growth in 2011

5-year compound annual growth 5.1%

$3,886 per capita

Unemployment: 15.0% (2010)

Inflation (CPI): 6.0%

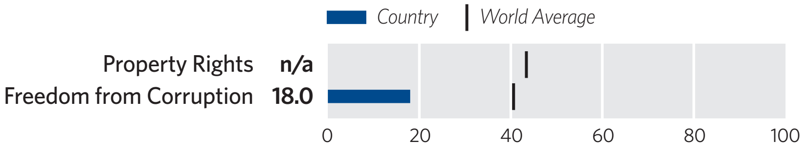
FDI Inflow: $1.6 billion

Public Debt: 86.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

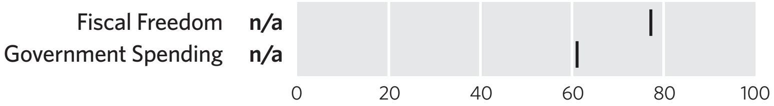
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



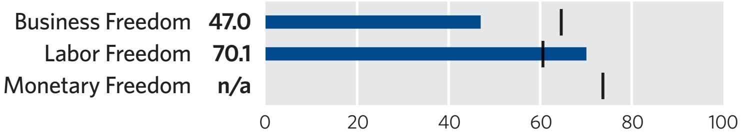
The legal system remains very weak, failing to provide reliable protection for property rights. There are widespread reports of bribery, kickbacks to companies connected to political leaders, and corruption in government payrolls, including fraud, mismanagement of public funds, payments to "ghost" employees, salary skimming, and nepotism.

LIMITED GOVERNMENT



Individual and corporate income tax rates are capped at 15 percent. Tax revenue as a percentage of GDP is negligible due to high levels of evasion and lax enforcement. Public spending is estimated to be over half of total domestic output, and the budget records consistent surpluses because of oil revenue, which funds more than 90 percent of government expenses. Public debt has fallen below 90 percent of GDP.

REGULATORY EFFICIENCY



Despite recent reforms, the inefficient business environment continues to impede broader economic development. Application of existing regulations has been inconsistent and non-transparent. On average, launching a business takes more than 70 days, and obtaining operating licenses can take over 150 days. In the absence of a well-functioning labor market, informal labor activity persists in many sectors. Inflation has risen slightly.

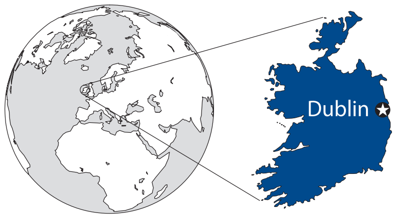
OPEN MARKETS

Trade flows remain far below potential as broad-based commercial activity is still suppressed. Numerous non-tariff barriers add to the cost of trade. Iraq is open to foreign investment in principle, but bureaucratic inertia, policy uncertainty, and security concerns deter investment growth. State banks dominate credit markets, and the largely cash-based economy lacks the infrastructure of a fully functioning modern financial system.

Score Changes

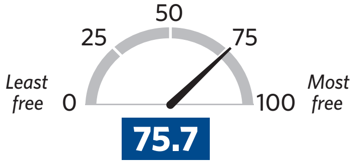
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**n/a**	Fiscal Freedom	**n/a**	Business Freedom	**n/a**	Trade Freedom	**n/a**
Freedom from Corruption	**n/a**	Government Spending	**n/a**	Labor Freedom	**n/a**	Investment Freedom	**n/a**
				Monetary Freedom	**n/a**	Financial Freedom	**n/a**

IRELAND



World Rank: **11** Regional Rank: **3**

Economic Freedom Score



Ireland's economic freedom score is 75.7, making its economy the 11th freest in the 2013 *Index*. Its score has decreased by 1.2 points from last year, with declines in six of the 10 economic freedoms including business freedom and freedom from corruption. The Irish economy has fallen to 3rd place in the Europe region behind Switzerland and Denmark.

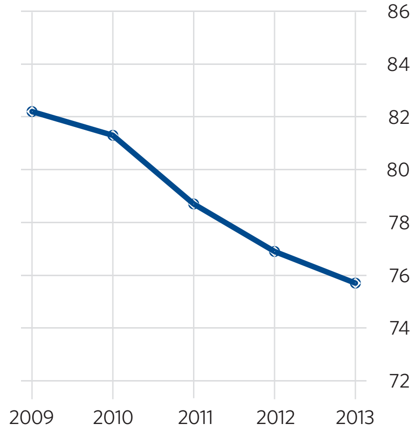
The ballooning cost of bailouts has turned a banking crisis into a sovereign debt crisis. Challenges in government spending and financial freedom are particularly significant, and perceptions of corruption have increased. A rising budget deficit increases the debt burden. In an attempt to reinforce the principle of limited government, Ireland has placed a high priority on fiscal discipline and public-sector restructuring. The financial sector was hit hard by the collapse of a property bubble to which banks were highly exposed, but substantial recapitalization has been ongoing.

Despite its recent difficulties, the Irish economy, because of its high overall level of economic freedom, has some significant institutional strengths compared to other troubled eurozone economies. Property rights are well established, and the judiciary is stable. The streamlined regulatory process facilitates dynamic investment and does not interfere with business decisions necessary to enhance productivity.

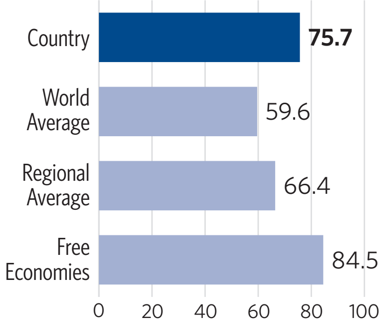
BACKGROUND: Prime Minister Enda Kenny's Fine Gael government was elected in February 2011. Ireland is a member of the eurozone and ratified the European Union's Lisbon Treaty in October 2009 after a second national referendum. The government's highest priority is restoring banking-sector health. Ireland's modern, highly industrialized economy performed extraordinarily well throughout the 1990s, encouraged by free-market policies that attracted investment capital, until the burst of a speculative housing bubble in 2008. A National Recovery Plan published in 2010, after the government nationalized several banks and accepted a $90 billion European Union–International Monetary Fund rescue package, aims to get the economy back on a solid footing by 2015.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



Quick Facts

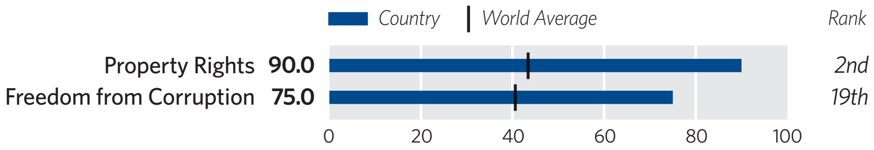
Population: 4.6 million
GDP (PPP): $181.6 billion
0.7% growth in 2011
5-year compound annual growth –1.0%
$39,639 per capita
Unemployment: 15.0%
Inflation (CPI): 1.1%
FDI Inflow: $13.1 billion
Public Debt: 105.0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

IRELAND (continued)

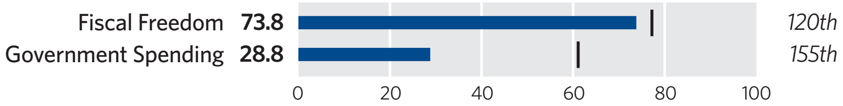
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



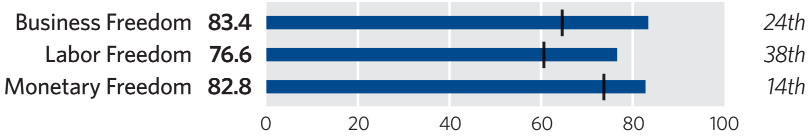
The rule of law is upheld strongly by an independent judiciary within a sound legal framework. An efficient, non-discriminatory legal system protects the acquisition and disposition of all property rights. Contracts are secure, and expropriation is rare. Ireland has one of Europe's most comprehensive legal frameworks for the protection of intellectual property rights. Corruption is an increasing though not yet critical concern.

LIMITED GOVERNMENT



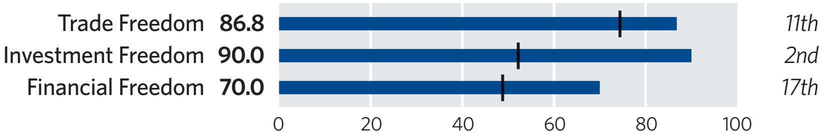
The top income tax rate is 41 percent, and the top corporate tax rate is 12.5 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The total tax burden equals 28 percent of total domestic income. Government spending is equal to 48.7 percent of GDP. Despite ongoing austerity measures and reduced budget deficits, public debt has grown to over 100 percent of total domestic output.

REGULATORY EFFICIENCY



The efficient regulatory framework supports business formation. With no minimum capital requirement, establishing a business takes only four procedures and slightly longer than one week. Completing licensing requirements is not burdensome. The labor market remains relatively flexible, with labor costs moderate. Despite continuing deleveraging from the 2008 housing bubble crash, inflation has been relatively well contained.

OPEN MARKETS

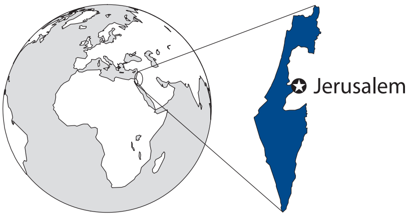


The trade-weighted average tariff rate is a low 1.6 percent as with other members of the European Union, and there are few significant non-tariff barriers. Domestic and foreign firms generally receive equal treatment under a competitive and efficient investment regime. The banking sector remains in turmoil. The government increased its stake in Allied Irish Bank to over 99 percent, but the Bank of Ireland has avoided majority state ownership.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.1	Business Freedom	-9.4	Trade Freedom	-0.3
Freedom from Corruption	-5.0	Government Spending	-1.6	Labor Freedom	-1.8	Investment Freedom	0
				Monetary Freedom	+6.1	Financial Freedom	0

ISRAEL



World Rank: **51** Regional Rank: **6**

Israel's economic freedom score is 66.9, making its economy the 51st freest in the 2013 *Index*. Its overall score has decreased by 0.9 point, with declines in six of the 10 economic freedoms including fiscal freedom and freedom from corruption. Israel is ranked 6th out of 15 countries in the Middle East/North Africa region.

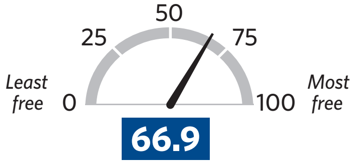
The relatively sound judicial framework that sustains the rule of law and provides consistent protection for property rights has contributed to Israel's stability and long-term competitiveness. Openness to global commerce supports productivity growth. With an increasingly diversified productive base and ongoing structural reforms, Israel's growth has been about 5 percent annually over the past five years.

Respect for the principle of limited government, however, has weakened, entailing new risks for Israel's economy. Fiscal consolidation and better management of public finance are needed to curb a growing debt burden caused by growing government spending. In late 2011, the government adopted tax rate changes that ended its previous multi-year tax cut plan. The changes have raised the corporate tax rate to 25 percent and the top individual income tax rate to 48 percent.

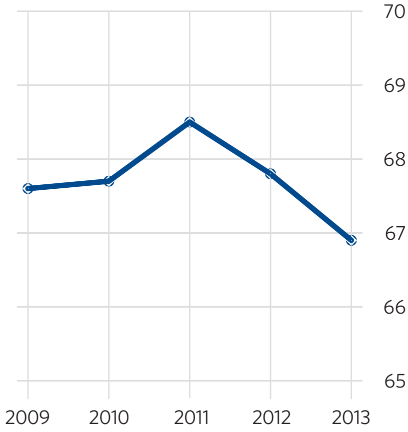
BACKGROUND: Israel gained independence in 1948, and its vibrant democracy remains unique in the region. Prime Minister Benjamin Netanyahu leads a right-of-center coalition government formed after the February 2009 elections and strengthened by the addition of the centrist Kadima Party in May 2012. Although endowed with few natural resources, Israel has developed agriculture, industry, and a dynamic high-tech sector that attracts considerable foreign investment because of reliable property rights. The discovery of large offshore natural gas deposits has improved Israel's energy security and balance of payments prospects. Exports of goods and services generate about 40 percent of GDP. Despite the 2006 war against Hezbollah in Lebanon, the December 2008 war against Hamas in Gaza, the constant threat of terrorism, and a state-dominated economy, growth remains on track.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

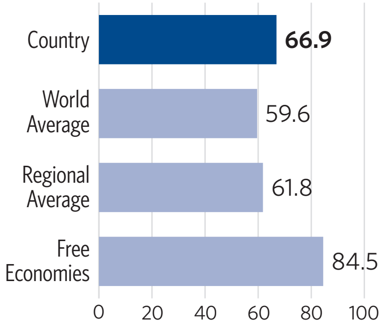
Economic Freedom Score



Freedom Trend



Country Comparisons



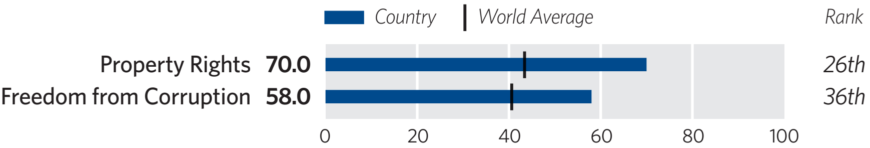
Quick Facts

Population: 7.6 million
GDP (PPP): $235.2 billion
4.7% growth in 2011
5-year compound annual growth 4.0%
$30,975 per capita
Unemployment: 6.9%
Inflation (CPI): 3.5%
FDI Inflow: $11.4 billion
Public Debt: 74.3% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

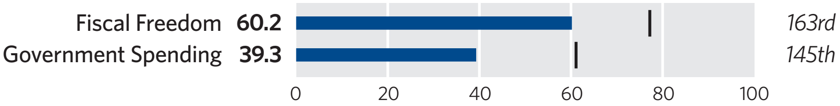
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



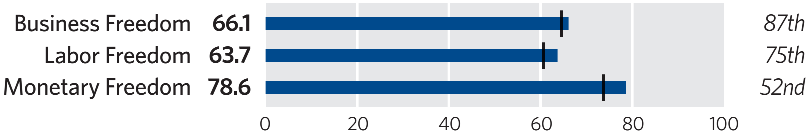
The rule of law is sustained by a modern legal framework based on British common law. Protections for property rights and contracts are enforced effectively. The court system is independent, and commercial laws are applied consistently. Bribery and other forms of corruption are illegal. Relatively effective anti-corruption measures help to strengthen the foundations of economic freedom.

LIMITED GOVERNMENT



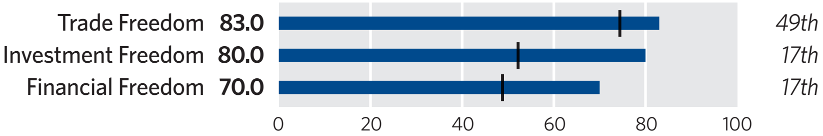
The top income tax rate has been raised to 48 percent, and the corporate tax rate has been increased to 25 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The overall tax burden equals 32.4 percent of total domestic income. Government spending is equal to 45 percent of GDP. The government has been running a budget deficit, with public debt corresponding to over 70 percent of GDP.

REGULATORY EFFICIENCY



The relatively efficient regulatory framework supports business formation and innovation. With no minimum capital required, launching a business takes only five procedures on average. However, obtaining necessary permits involves about 20 procedures and over 200 days. The labor market needs more flexibility to accommodate rapid economic transformation. Inflation is moderate, but inflationary pressures are building.

OPEN MARKETS



The trade-weighted average tariff rate is 3.5 percent, and non-tariff barriers add to the cost of trade. The investment regime is modern and efficient, supporting vibrant levels of foreign investment. Financial institutions offer a wide range of services, and credit is readily available on market terms. Capital markets have been evolving as part of Israel's effort to reinvent itself as a regional financial hub.

Score Changes

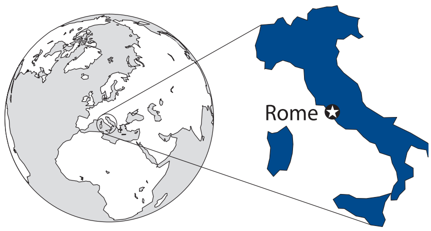
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-3.0

LIMITED GOVERNMENT	
Fiscal Freedom	-3.9
Government Spending	-1.7

REGULATORY EFFICIENCY	
Business Freedom	+1.7
Labor Freedom	-1.4
Monetary Freedom	-0.4

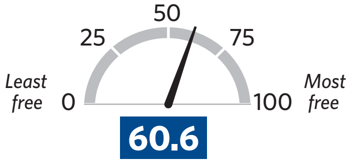
OPEN MARKETS	
Trade Freedom	-0.6
Investment Freedom	0
Financial Freedom	0

ITALY



World Rank: **83** Regional Rank: **36**

Economic Freedom Score



Italy's economic freedom score is 60.6, making its economy the 83rd freest in the 2013 *Index*. Its overall score is 1.8 points higher than last year due to gains in labor freedom, control of public spending, and investment freedom that outweigh worsened monetary and business freedoms. Italy is ranked 36th out of 43 countries in the Europe region, and its score is above the world average.

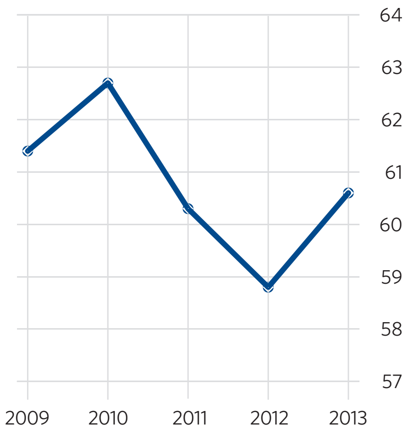
The European sovereign debt crisis has seriously affected Italy's macroeconomic stability. Sharp increases in the debt burden, aggravated by structural and institutional weaknesses, continue to erode long-term competitiveness. With public debt around 120 percent of GDP and growing, policy options are increasingly constrained. Due to the complexity of the regulatory environment and the high cost of conducting business, considerable economic activity remains in the informal sector.

Despite some reform progress that has enabled Italy's economy to regain the status of "moderately free," institutionalization of greater economic freedom has been uneven and largely ineffectual. The foundations of economic freedom remain weak in the absence of an efficient judicial framework to provide effective and timely resolution of cases. Corruption, often involving government officials, is a growing concern, severely undercutting confidence and trust in the government.

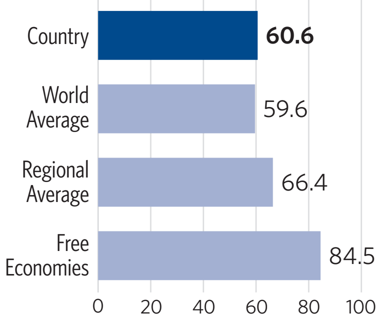
BACKGROUND: Center-right Prime Minister Silvio Berlusconi, elected for a third time in 2008, announced his resignation in November 2011 after challenges to his economic leadership and recurring personal scandals distracted attention from urgently needed reforms. Under a government of technocrats led by economist and former European Union Commissioner Mario Monti, the country emerged from economic crisis by mid-2009, but growth rates have since declined. Italy's deficit as a percentage of gross domestic product has grown above eurozone standards. Other persistent problems include organized crime, illegal immigration, and the long-standing imbalance between the prosperous, industrialized North and the less-developed, agricultural South.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



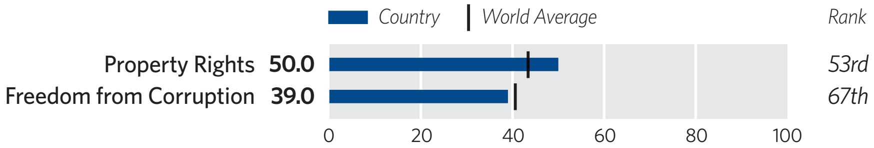
Quick Facts

Population: 60.6 million
GDP (PPP): $1.8 trillion
0.4% growth in 2011
5-year compound annual growth −0.6%
$30,464 per capita
Unemployment: 10.7%
Inflation (CPI): 2.9%
FDI Inflow: $29.1 billion
Public Debt: 120.1% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

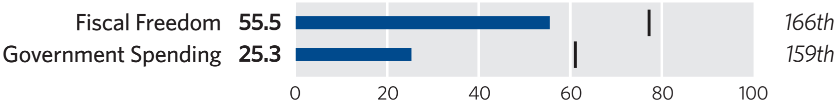
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



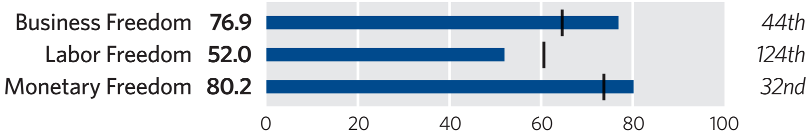
Property rights and contracts are secure, but court procedures are extremely slow. Many companies choose to settle out of court. The legal system is vulnerable to political interference. Widespread corruption has bred a culture of lawlessness and tax evasion and has weakened respect for the judiciary. Enforcement of intellectual property rights is below developed-country standards.

LIMITED GOVERNMENT



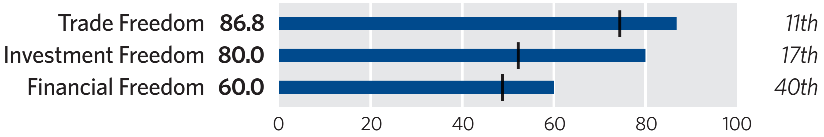
The top income tax rate is 43 percent, and the top corporate tax rate is 27.5 percent. Individuals also pay small regional and municipal income taxes. Other taxes include a value-added tax (VAT) and an inheritance tax. The overall tax burden equals 43 percent of GDP. Government spending equals about 50 percent of GDP. The deficit remains high but has been reduced by recent spending cuts. Public debt is about 120 percent of GDP.

REGULATORY EFFICIENCY



Regulatory complexity causes delays and increases the cost of entrepreneurial activity. Completing licensing requirements takes over 200 days and costs more than the level of average annual income. Serious labor market rigidities constrain job growth, and the informal labor market accounts for a large proportion of employment. Stagflation engendered by the eurozone crisis presents monumental monetary policy challenges.

OPEN MARKETS

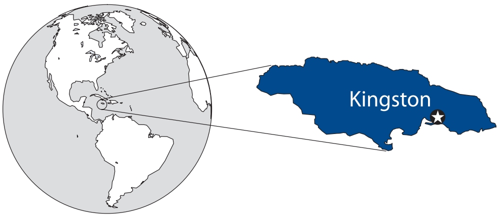


The trade-weighted average tariff rate is 1.6 percent, and Italy, like most other EU members, is relatively open to trade and investment. Foreign investment is officially welcome, but complex bureaucracy and arbitrary enforcement of regulations continue to impede dynamic investment growth. The financial system is subject to political interference, and banks have been highly strained by the European sovereign debt crisis.

Score Changes

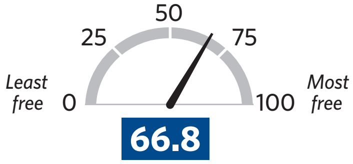
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.5	Business Freedom	–0.5	Trade Freedom	–0.3
Freedom from Corruption	0	Government Spending	+5.9	Labor Freedom	+9.0	Investment Freedom	+5.0
				Monetary Freedom	–1.8	Financial Freedom	0

JAMAICA



World Rank: **52** Regional Rank: **9**

Economic Freedom Score



Jamaica's economic freedom score is 66.8, making its economy the 52nd freest in the 2013 *Index*. Its score is 1.7 points higher than last year, reflecting much-needed improvement in the control of government spending as well as gains in monetary and trade freedom. Jamaica ranks 9th out of 29 countries in the South and Central America/Caribbean region.

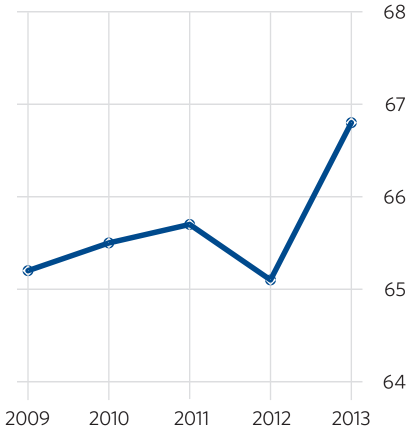
Significantly burdensome government regulation and political favoritism are a drag on the Jamaican economy, and a cumbersome bureaucracy dissuades potential entrepreneurs. Pervasive corruption continues unchecked by anti-corruption measures that lack enforcement capacity. Continuing fiscal deficits have pushed public debt to about 140 percent of GDP, trapping Jamaica in a vicious cycle of debt service and borrowing, and the new government has not yet demonstrated the political will to tackle the tough reforms needed to eliminate the deficit.

Although a number of issues still plague the Jamaican economy, improvements have been made in some areas. Procedures for starting a business are more streamlined, and foreign investment is more welcome in many sectors. Property rights are recognized and protected, but their economic impact is limited by a slow-moving judiciary.

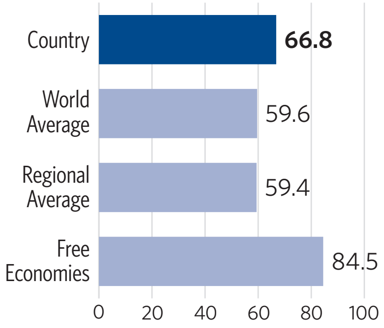
BACKGROUND: Prime Minister Portia Simpson Miller's People's National Party took office in January 2012 with a large parliamentary majority and is expected to maintain market-friendly policies. High interest rates and excessive government debt burden the economy. A USD$1.27 billion Standby Agreement with the International Monetary Fund for balance of payment support, signed in 2010, required major fiscal reforms that have been slow to materialize. Services account for more than 60 percent of GDP. Most foreign exchange comes from remittances, tourism, and bauxite, all of which declined sharply in the 2009 recession. Tourism receipts have recovered slightly. Unemployment and underemployment in the formal sector are high. Violent crime, fueled by the drug trade, is a serious problem.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



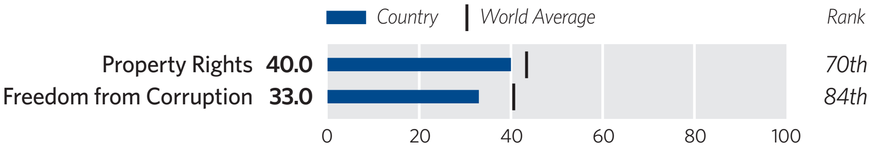
Quick Facts

Population: 2.7 million
GDP (PPP): $24.8 billion
1.5% growth in 2010
5-year compound annual growth −0.5%
$9,029 per capita
Unemployment: 12.6%
Inflation (CPI): 7.5%
FDI Inflow: $242.2 million
Public Debt: 139.0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

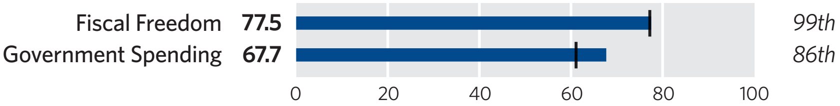
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



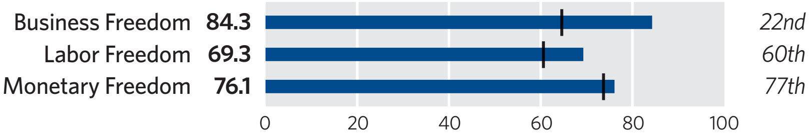
Jamaica's judiciary lacks adequate resources, and trials can be delayed for years. Bureaucracy can cause significant delays in securing land titles. Inadequate law enforcement and an inefficient legal framework weaken the security of property rights and the rule of law. Pervasive public corruption undermines efforts against drug trafficking, and widespread petty corruption and crime undermine economic development.

LIMITED GOVERNMENT



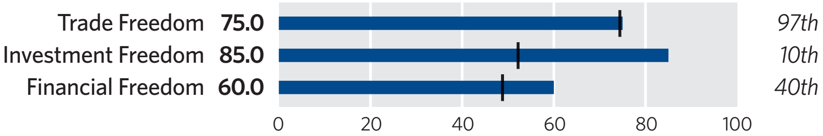
The top income tax rate is 25 percent, and the top corporate tax rate is 33.3 percent. Other taxes include a property transfer tax and a general consumption tax. The overall tax burden is equal to 22.7 percent of total domestic income. Government spending is equivalent to 32.8 percent of total domestic output. The deficit has moderated at 6.5 percent of GDP, and public debt greatly exceeds the size of the economy.

REGULATORY EFFICIENCY



The business start-up process is straightforward, with no minimum capital required. However, obtaining necessary licenses still costs over 200 percent of the level of average annual income. Rigid employment regulations are not conducive to job growth. Although inflationary pressures have eased somewhat, the state continues to regulate the prices of a number of goods and services.

OPEN MARKETS

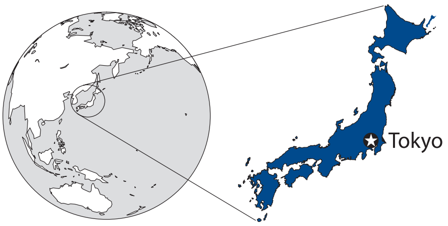


The trade-weighted average tariff rate is a relatively high 7.5 percent, and non-tariff barriers further constrain trade freedom. Jamaica officially encourages foreign investment, but the investment regime lacks transparency and efficiency. The financial system continues to grow, and the private sector has access to a wide range of credit instruments. Three large commercial banks dominate the banking sector, which remains relatively sound.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+2.0	Business Freedom	–0.4	Trade Freedom	+2.9
Freedom from Corruption	0	Government Spending	+9.0	Labor Freedom	–0.3	Investment Freedom	0
				Monetary Freedom	+3.7	Financial Freedom	0

JAPAN



World Rank: **24** Regional Rank: **6**

Japan's economic freedom score is 71.8, making its economy the 24th freest in the 2013 *Index*. Its score is 0.2 point higher than last year, with improvements in fiscal freedom, freedom from corruption, and monetary freedom largely offset by declines in management of government spending and labor freedom. Japan is ranked 6th out of 41 countries in the Asia–Pacific region.

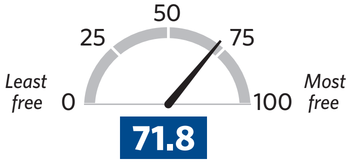
The Japanese economy benefits from relatively sound levels of economic freedom in all areas. The foundations of economic freedom have been relatively well institutionalized, supported by an effective judicial framework and a relatively low level of perceived corruption.

However, Japan's overall record in advancing economic freedom is patchy, and its score is lower today than it was in 1995. The financial sector, though modern and well developed, remains subject to growing political interference. Seniority-based traditional labor practices persist, constraining mobility. A monetary policy aimed at preserving low interest rates has reduced any acute concern over Japan's large debt burden, but it has also limited the political motivation to implement urgently needed fiscal reform. Japan continues to fall behind other neighboring economies in pursuing free trade agreements.

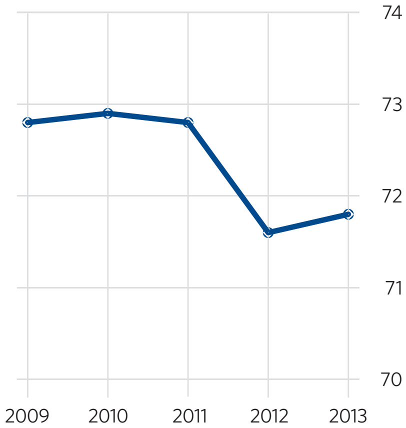
BACKGROUND: After 55 years of Liberal Democratic Party rule, the Democratic Party of Japan captured both houses of parliament in 2009 and installed Yukio Hatoyama as prime minister. Hatoyama resigned abruptly in June 2010 and was succeeded by Finance Minister Naoto Kan, who was replaced in September 2011 by Yoshihiko Noda. The March 2011 earthquake and tsunami further strained an economy already struggling for two decades with slow growth and stagnation. Prime Minister Noda has strived to include Japan in the Trans-Pacific Partnership to stimulate the economy but faces strong resistance at home. Successive prime ministers have been unable or unwilling to implement necessary fiscal reforms. The economy is about the same size as it was in 1992.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

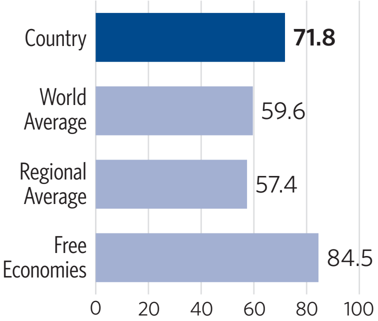
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

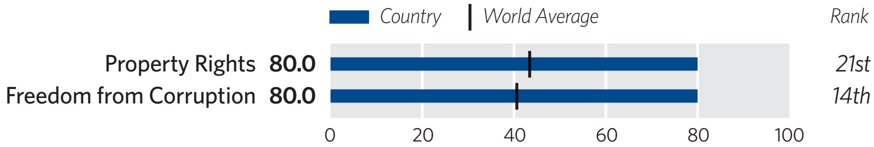
Population: 127.8 million
GDP (PPP): $4.4 trillion
–0.7% growth in 2011
5-year compound annual growth -0.2%
$34,740 per capita
Unemployment: 4.2%
Inflation (CPI): –0.3%
FDI Inflow: –$1.8 billion
Public Debt: 229.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

JAPAN (continued)

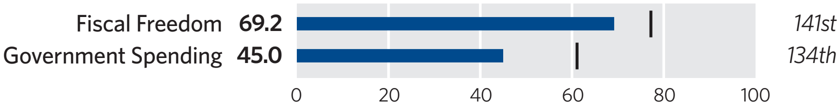
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



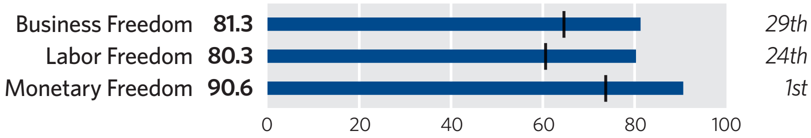
The solid judicial framework provides secure protection of real and intellectual property. The court system is independent of political interference but lacks efficiency. Obtaining and protecting patents and trademarks can be time-consuming and costly. The courts do not discriminate against foreign investors, and contracts are respected. A relatively modest level of corruption has been one of Japan’s key institutional assets.

LIMITED GOVERNMENT



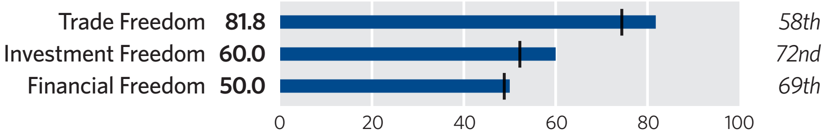
The top income tax rate is 40 percent. The government lowered the corporate rate to 25.5 percent, but local taxes and an enterprise tax can increase that significantly. Other taxes include a value-added tax and an estate tax. The overall tax burden equals 28.8 percent of total domestic income. Government spending is 42.8 percent of GDP, with budget deficits hovering around 10 percent of GDP. Public debt is over twice the size of the economy.

REGULATORY EFFICIENCY



With no minimum capital required, business formation takes less than 10 procedures. However, dynamic entrepreneurial growth is discouraged by lingering regulatory rigidities, including burdensome licensing requirements. A propensity for lifetime employment guarantees and seniority-based wages hurts productivity and impedes the development of a more flexible labor market. Inflation has been minimal.

OPEN MARKETS

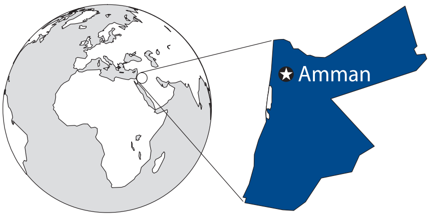


The trade-weighted average tariff rate is 1.6 percent, but there are layers of non-tariff barriers. Foreign investment is formally welcome, and inward investment is subject to few restrictions. However, overregulation and a slow court system inhibit foreign acquisition of domestic firms. The financial sector is subject to political influence and lacks dynamic growth. Reform of the state-owned postal savings system has been derailed since late 2009.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+2.1	Business Freedom	-0.5	Trade Freedom	0
Freedom from Corruption	+2.0	Government Spending	-2.0	Labor Freedom	-1.1	Investment Freedom	0
				Monetary Freedom	+1.7	Financial Freedom	0

JORDAN



World Rank: **33** Regional Rank: **4**

Jordan's economic freedom score is 70.4, making its economy the 33rd freest in the 2013 *Index*. Its score is 0.5 point better than last year, with gains in property rights and the control of government spending but an increase in the level of perceived corruption. Jordan is ranked 4th out of 15 countries in the Middle East/North Africa region.

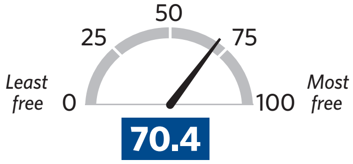
Despite a challenging policy environment that reflects the region's economic and political uncertainty, Jordan registered its sixth consecutive year of progress toward greater economic freedom, achieving "mostly free" status for the first time. Regulatory processes are relatively efficient and competitive. Improvements in public finance and the privatization of government enterprises have been staples of the reform agenda. Recent reforms have made business formation and operation easier, and the minimum capital requirement has been eliminated.

Nonetheless, substantial challenges to long-term economic development remain, particularly in implementing deeper institutional and systemic reforms that are critical to strengthening the foundations of economic freedom in Jordan. Political influence can be a problem within the judicial system, undermining respect for the rule of law, and corruption is a widespread aspect of life.

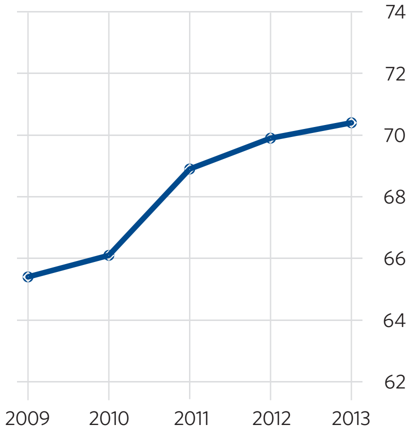
BACKGROUND: In 2011, King Abdullah responded to "Arab Spring" demonstrations by dismissing his cabinet and ceding more authority to the judiciary and parliament. The government also implemented two economic relief packages and a supplementary budget to subsidize the living conditions of the middle class and poorer citizens. The economy depends heavily on international aid and remittances from expatriates. In 2000, Jordan joined the World Trade Organization and signed a free trade agreement with the United States; in 2001, it signed an association agreement with the European Union. Qualifying Industrial Zones export goods made with some content from Israel to the United States duty-free. Public debt is a growing problem.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

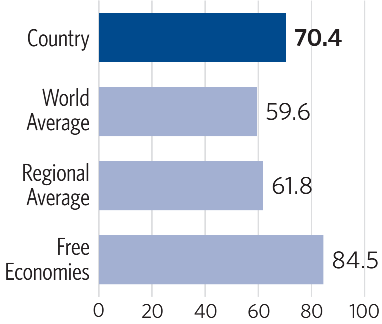
Economic Freedom Score



Freedom Trend



Country Comparisons



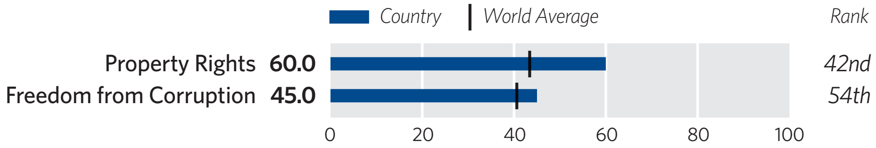
Quick Facts

Population: 6.3 million
GDP (PPP): $36.9 billion
2.5% growth in 2011
5-year compound annual growth 5.1%
$5,900 per capita
Unemployment: 12.3%
Inflation (CPI): 4.4%
FDI Inflow: $1.5 billion
Public Debt: 69.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

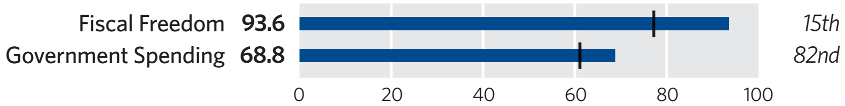
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



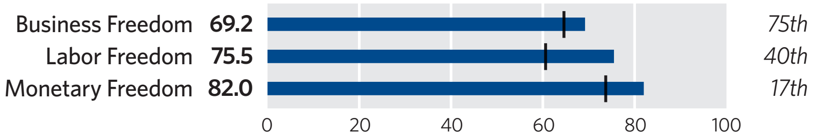
Property rights are respected for the most part. The judiciary is generally independent, but the king is the ultimate authority. Influence peddling and lack of transparency undermine the fairness of government procurement and dispute settlement. The use of family, business, and other personal connections to advance business interests is regarded as a traditional aspect of the culture and a normal part of doing business.

LIMITED GOVERNMENT



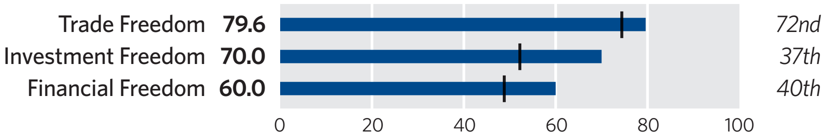
The top income and corporate tax rates are 14 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals 15.9 percent of total domestic income. Government spending is equivalent to 32.3 percent of total domestic output. The deficit has risen slightly to 6.2 percent of GDP, and public debt stands at about 70 percent of GDP. Hikes in the gas tax and energy prices were implemented to narrow the deficit.

REGULATORY EFFICIENCY



The business start-up process takes seven procedures, but licensing requirements cost more than five times the level of average annual income. Progress toward reforming bloated public-sector employment has been dismal, and the labor market remains rigid. Inflation has subsided, and many controls have been eliminated, but government efforts to continue liberalizing prices have been stymied by the Muslim Brotherhood.

OPEN MARKETS

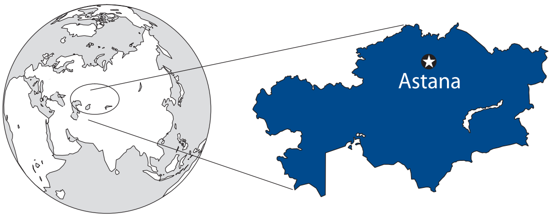


The trade-weighted average tariff rate is 5.2 percent, with non-tariff barriers, including some import licensing, adding to the cost of trade. Foreign investors receive national treatment, but bureaucracy, red tape, and inconsistent enforcement of regulations inhibit new investment. The evolving financial sector remains relatively stable. The state owns no commercial banks but does own five specialized credit institutions.

Score Changes

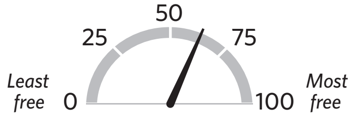
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	+5.0	Fiscal Freedom	+0.1	Business Freedom	-0.3	Trade Freedom	0
Freedom from Corruption	-2.0	Government Spending	+1.8	Labor Freedom	-0.2	Investment Freedom	0
				Monetary Freedom	+0.8	Financial Freedom	0

KAZAKHSTAN



World Rank: **68** Regional Rank: **11**

Economic Freedom Score



63.0

Kazakhstan's economic freedom score is 63.0, making its economy the 68th freest in the 2013 *Index*. Its score is 0.6 point lower than last year due to declines in half of the 10 economic freedoms including property rights, freedom from corruption, and trade freedom. Kazakhstan ranks 11th out of 41 countries in the Asia–Pacific region, and its overall score is above the world and regional averages.

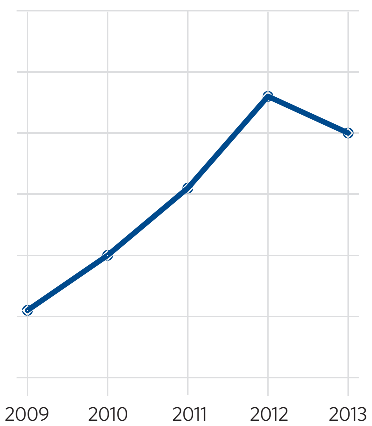
Kazakhstan's economy has been recovering steadily since 2009, largely because of increased oil and gas production. Implementation of deeper institutional reforms is critical to strengthen the foundations of economic freedom and secure long-term broad-based economic expansion. Systemic weaknesses persist in the protection of property rights and enforcement of anti-corruption measures. The judicial system is vulnerable to political influence.

State ownership of enterprises has increased, with assets under the control of the National Welfare Fund rising to around 50 percent of the size of the economy. Although large-scale privatization has been planned in two stages for coming years, much remains to be seen. In an attempt to promote diversified economic growth outside the energy sector, regulatory reforms have aimed at streamlining the business start-up process.

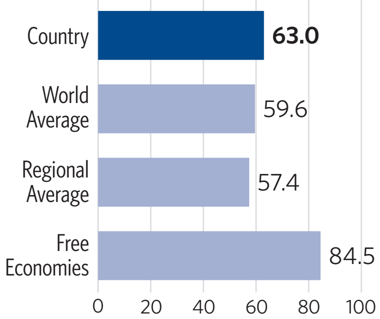
BACKGROUND: Kazakhstan has been ruled since independence in 1991 by President Nursultan Nazarbayev, who was re-elected with over 95 percent of the vote in April 2011. In January 2012, the ruling Nur Otan party controlled over 80 percent of the seats in parliament. Kazakhstan is the founding member of a customs union with Russia and Belarus that came into effect in July 2010. Oil output is projected to reach 2.1 million barrels a day by 2020. Kazakhstan has an estimated 15 percent of world uranium reserves and remains the world's largest producer of uranium. Dependence on commodity exports is excessive, but energy and manufacturing have recently shown solid growth. Trade with China is increasingly important. Kazakhstan has an ambitious economic development program, but resource nationalism and corruption deter progress.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



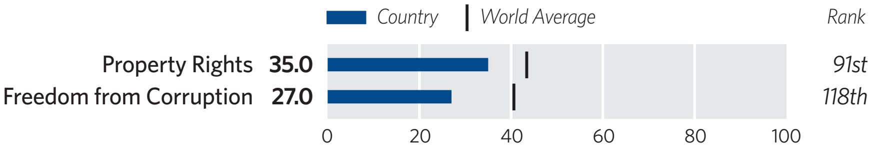
Quick Facts

Population: 16.7 million
GDP (PPP): $216.8 billion
7.5% growth in 2011
5-year compound annual growth 5.6%
$13,001 per capita
Unemployment: 5.4%
Inflation (CPI): 8.3%
FDI Inflow: $12.9 billion
Public Debt: 10.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

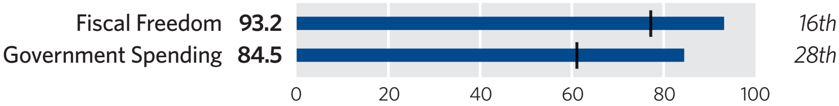
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



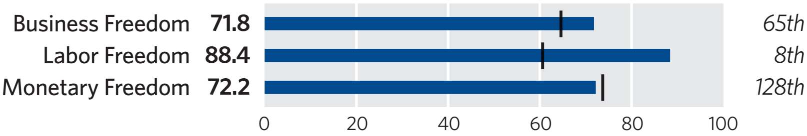
The legal framework remains inefficient and subject to political interference. Courts lack the capacity to protect property rights effectively. Infringements on intellectual property rights are rife. Widespread corruption continues to undermine Kazakhstan's investment reputation. Despite an anti-corruption campaign that has led to high-profile imprisonments, bribery and graft remain commonplace.

LIMITED GOVERNMENT



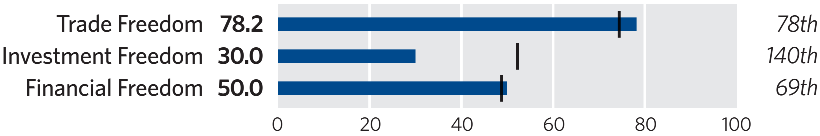
The flat income tax rate is 10 percent, and the standard corporate tax rate is 20 percent. Other taxes include a value-added tax (VAT) and excise taxes. The overall tax burden amounts to 13.4 percent of total domestic income. Government spending has increased to 22.8 percent of total domestic output. Large oil revenues have kept the budget balance positive, and public debt is only about 11 percent of GDP.

REGULATORY EFFICIENCY



Launching a business takes six procedures, with no minimum capital required. However, completing licensing requirements takes more than 30 procedures and over 180 days. Labor regulations are relatively flexible, but enforcement of the labor code is erratic. Monetary stability is relatively well maintained, but the government continues to exercise price-control measures. Inflationary pressures continue.

OPEN MARKETS

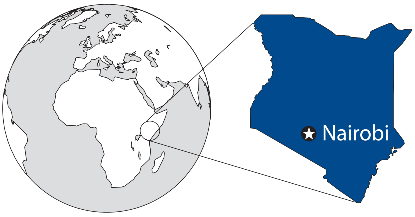


The trade-weighted average tariff rate is 3.4 percent, but import licensing requirements, nontransparent standards, and customs inefficiency add to the cost of trade. Foreign investment is officially welcome, but unclear legal codes, favoritism toward Kazakh companies, and inconsistent application of regulations are deterrents. Troubled banks have been recapitalized, and the financial sector has become largely stabilized.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	-5.0	Fiscal Freedom	+2.8	Business Freedom	-1.1	Trade Freedom	-1.4
Freedom from Corruption	-2.0	Government Spending	+1.1	Labor Freedom	-0.3	Investment Freedom	0
				Monetary Freedom	+0.4	Financial Freedom	0

KENYA



World Rank: **114** Regional Rank: **18**

Kenya's economic freedom score is 55.9, making its economy the 114th freest in the 2013 *Index*. Its score has decreased by 1.6 points since last year due to declines in half of the 10 economic freedoms including labor freedom, monetary freedom, and business freedom. Kenya is ranked 18th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

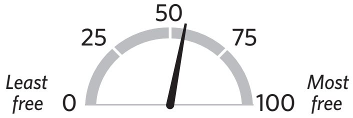
Poor government policies and weak public administration continue to suppress economic freedom and entrepreneurial activity. In particular, the rule of law remains weak, corruption is widespread, and the judiciary is subject to political influence. Efforts to improve regulatory efficiency and open markets continue but at a slow pace and with little discernible impact.

Measures have been implemented to improve public financial management, and the government continues to offer reforms related to business development and easing the customs process. An overhaul of contract enforcement and remediation is a good step, but much more is needed to foster the institutions necessary for sustained economic growth.

BACKGROUND: Widespread violence followed the 2007 election when both Mwai Kibaki, who had won the presidency in 2002, and rival candidate Raila Odinga claimed victory. Months of negotiations resulted in a power-sharing arrangement. A new constitution was adopted in August 2010. In November 2011, Kenya launched a military incursion into southern Somalia in response to alleged terrorist activity and kidnappings. Kenya is the transportation, communication, and financial hub of East Africa. Economic growth, hindered for decades by government mismanagement, weak property rights, and corruption, was improving before the post-election instability in 2007 and has picked up again since 2009. The government employs about one-third of the formal labor force, and civil service reform has been slow. Nearly 80 percent of employment is informal. Agriculture accounts for about a quarter of GDP and employs a majority of the population.

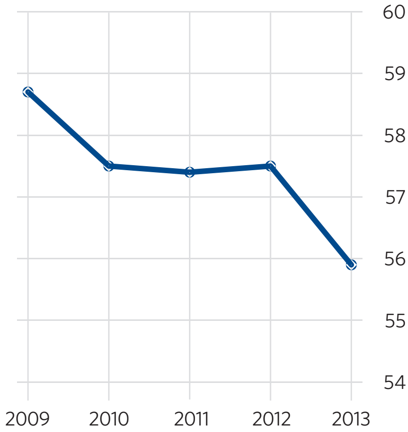
How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Economic Freedom Score

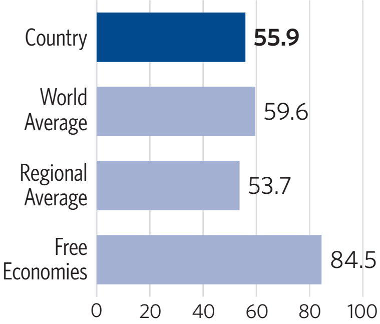


55.9

Freedom Trend



Country Comparisons



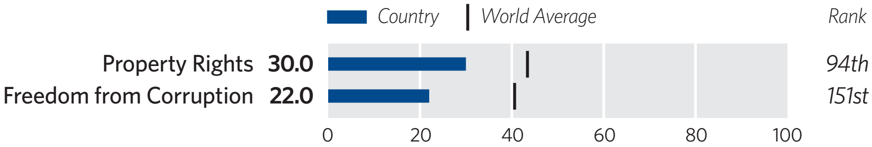
Quick Facts

Population: 40.9 million
GDP (PPP): $71.4 billion
5.0% growth in 2011
5-year compound annual growth 4.3%
$1,746 per capita
Unemployment: 40.0% (2008)
Inflation (CPI): 14.0%
FDI Inflow: $335.2 million
Public Debt: 48.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

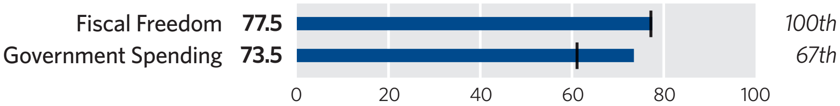
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



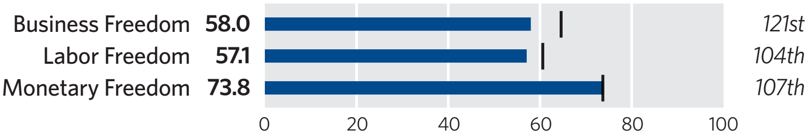
The independence of Kenya's courts is severely compromised, and the judicial system is mired in incompetence, executive interference, and corruption. The process for acquiring land titles is often non-transparent and cumbersome. To root out corruption, the new constitution promulgated in 2010 provides for the devolution of some governing powers to 47 new counties over a three-year period beginning in 2013.

LIMITED GOVERNMENT



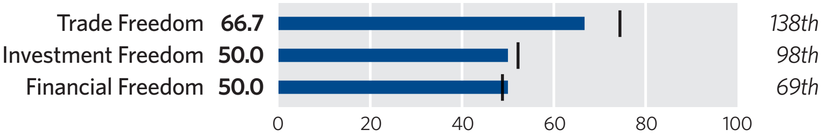
The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and a tax on interest. The overall tax burden amounts to 21.3 percent of GDP. Government spending is equivalent to 29.7 percent of total domestic output. The fiscal climate remains steady. The deficit has fallen slightly to 4.1 percent of GDP, and public debt has fallen to 48.9 percent of GDP.

REGULATORY EFFICIENCY



With no minimum capital required, the business start-up process takes 10 procedures, but completing licensing requirements takes more than 100 days and costs over twice the level of average annual income. Much of the labor force is employed in the public sector. Wide swings in the inflation rate have hurt monetary stability. The state continues to regulate prices through agricultural marketing boards and state-owned enterprises.

OPEN MARKETS



The trade-weighted average tariff rate is quite high at 9.2 percent, and non-tariff barriers including bureaucratic customs procedures further constrain freedom to trade. The investment regime lacks efficiency and transparency. The financial sector remains vulnerable to government influence. The state owns or holds shares in several domestic financial institutions and continues to influence the allocation of credit.

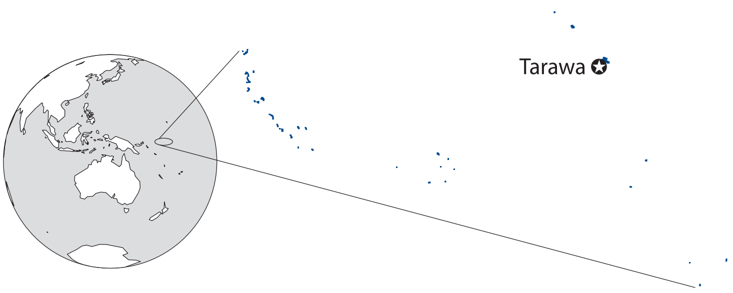
Score Changes

RULE OF LAW	
Property Rights	0
Freedom from Corruption	+1.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.2
Government Spending	-1.8

REGULATORY EFFICIENCY	
Business Freedom	-3.7
Labor Freedom	-6.2
Monetary Freedom	-5.3

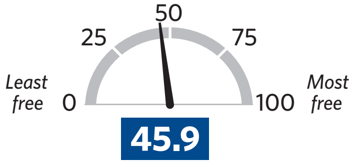
OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0



KIRIBATI

World Rank: 163 **Regional Rank: 36**

Economic Freedom Score



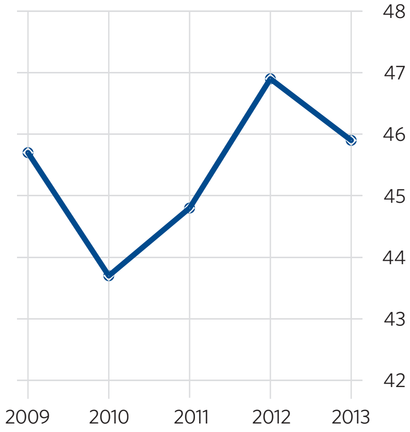
Kiribati's economic freedom score is 45.9, making its economy the 163rd freest in the 2013 *Index*. Its score is 1.0 point lower this year due to declines in labor freedom, business freedom, fiscal freedom, and freedom from corruption. Kiribati is ranked 36th out of 41 countries in the Asia–Pacific region, and its overall score is below the world and regional averages.

Poor institutional practices have undermined economic freedom in Kiribati. The public sector continues to dominate economic activity, accounting for two-thirds of employment and over 80 percent of GDP. Budgetary pressure has undermined economic growth, and the economy is dependent on foreign assistance, remittances, and an increasingly important tourism sector. Though public debt remains low, the combination of large budget deficits and the international financial crisis has reduced the value of the country's sovereign wealth fund.

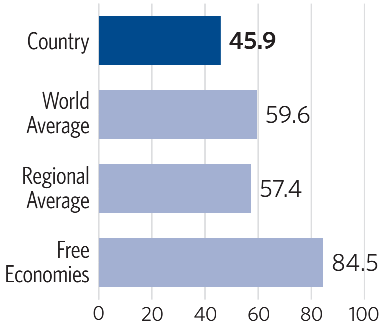
Economic dynamism is also hindered by poor public administration. The failure to develop public goods like infrastructure properly has limited economic growth. An inefficient regulatory framework has pushed much of the workforce into the informal economy. Trade and investment flows continue to be limited by high tariffs, reducing benefits from integration into the global economy.

BACKGROUND: The Pacific archipelago of Kiribati gained its independence from Britain in 1979 and enjoys democratic government under a national constitution. President Anote Tong was elected to a third and final term in January 2012. Kiribati was once rich in phosphates and highly dependent on mining, but deposits were exhausted in 1979. Today, it depends on a $500 million Revenue Equalization Reserve Fund created with the profits from phosphates earnings, as well as foreign assistance, remittances from overseas, sale of fishing licenses, exports of fish and coconuts, and tourism. Crippling algae in the corals surrounding Kiribati seriously threaten the fishing industry, and preservation of the coral ecosystem, the South Pacific's largest marine reserve, continues to be a priority.

Freedom Trend



Country Comparisons



Quick Facts

Population: 0.1 million

GDP (PPP): $0.6 billion

1.8% growth in 2011

5-year compound annual growth -0.3%

$5,722 per capita

Unemployment: n/a

Inflation (CPI): 2.8%

FDI Inflow: $3.9 million

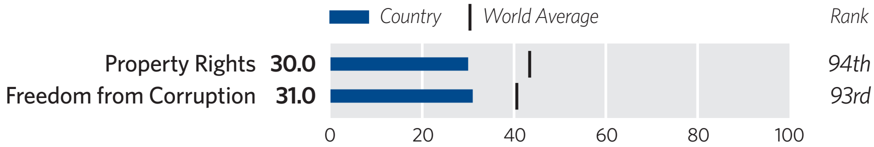
Public Debt: 10 % of GDP (2010)

2011 data unless otherwise noted.
Data compiled as of September 2012.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

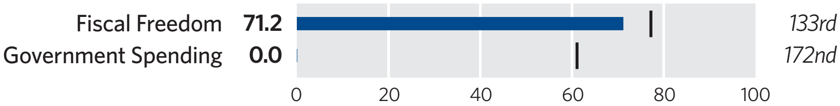
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



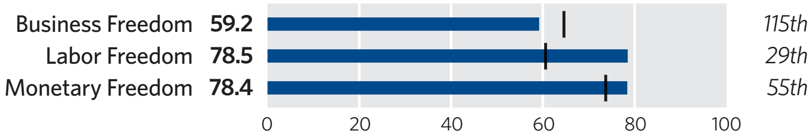
The judicial system is ineffective, and the rule of law remains uneven across the country. In the absence of a well-functioning legal framework, contracts are weakly enforced, and courts are relatively inexperienced in commercial litigation. The government lacks the capacity to enforce intellectual property rights laws. Corruption remains widespread, further undermining the foundations of economic freedom.

LIMITED GOVERNMENT



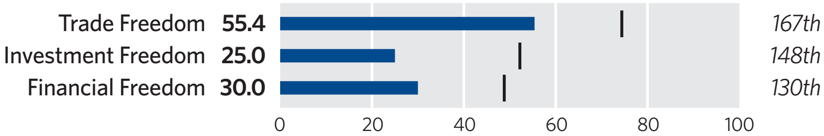
The top income and corporate tax rates are 35 percent. Taxation remains erratic and poorly administered. The total tax burden is estimated to be 20.7 percent of total domestic income, while government spending equals 85.9 percent of GDP. The chronic budget deficit has increased substantially to 22 percent of GDP. Large reserves held under Kiribati's sovereign wealth fund have helped to cushion the effects of the global downturn.

REGULATORY EFFICIENCY



The rudimentary regulatory framework lacks the capacity to spur dynamic entrepreneurial growth. The costs of launching a business and completing licensing requirements remain high, further discouraging new investment. A small share of the labor force participates in the formal economy, and the public sector is the major source of employment. Monetary instability is mitigated by use of the Australian dollar as the official currency.

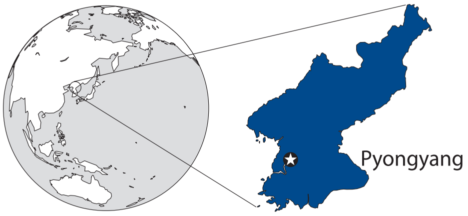
OPEN MARKETS



The trade-weighted average tariff rate is prohibitively high at 17.3 percent, and import and export licensing and limited infrastructure further add to the cost of trade. A modern investment framework is not in place. With a large part of the population remaining outside the formal banking system, constrained access to financing severely impedes entrepreneurial activity and development of the private sector.

Score Changes

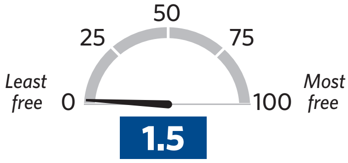
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-1.2	Business Freedom	-2.0	Trade Freedom	0
Freedom from Corruption	-1.0	Government Spending	0	Labor Freedom	-7.0	Investment Freedom	0
				Monetary Freedom	+1.1	Financial Freedom	0



NORTH KOREA

World Rank: **177** Regional Rank: **41**

Economic Freedom Score



North Korea is largely isolated and disengaged from the world's economy. Data collection is extremely challenging, and reported statistics on the economy remain largely speculative, requiring careful evaluation. North Korea's economic freedom score is 1.5, making its economy the least free in the 2013 *Index*.

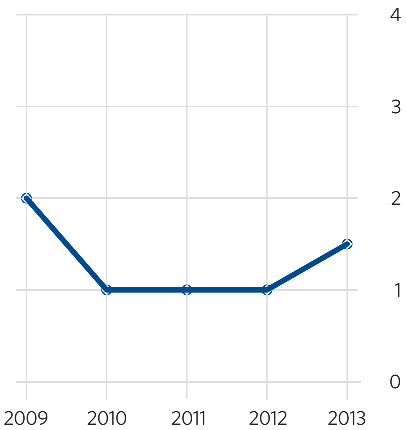
North Korea remains an unreformed and essentially closed dictatorial state. Despite experimenting with a few market reforms over the past decade, the world's most repressed economy adheres firmly to a system of state command and control that upholds the regime's long-standing *songun* ("military first") policy. The Workers' Party tightly controls every aspect of economic activity. The impoverished population is heavily dependent on government subsidies in housing and food rations, and the state-run rationing system has deteriorated significantly in recent years.

North Korea may be attempting to open its economy slightly by encouraging limited foreign direct investment. However, the dominant military establishment and ongoing leadership transition make any substantial near-term economic policy changes unlikely. Normal foreign trade is minimal, with China and South Korea being the most important trading partners.

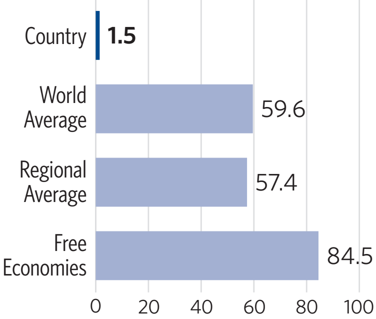
BACKGROUND: The December 2011 death of long-time North Korean dictator Kim Jong-il rocked the Democratic People's Republic of Korea. There were widespread predictions that Kim's anointed successor, his 28-year-old son Kim Jong-un, would not be able to consolidate power, but the transition appears to be on track. Despite Jong-un's exposure to Western political and economic systems during his teenage years of study in Switzerland, there is no evidence that he is any more likely than his predecessors to implement political or economic reform. Belligerent foreign policies have led to international sanctions and restrictions on humanitarian assistance, and the DPRK still relies heavily on Chinese economic support. The regime has reimposed strict controls against black markets, which had provided a relief valve for the failed state distribution system.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



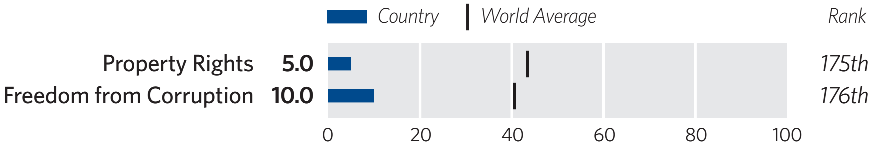
Quick Facts

Population: 24.5 million
GDP (nominal): $12.3 billion (2010)
0.7 growth in 2010
5-year compound annual growth n/a
$502 per capita
Unemployment: n/a
Inflation (CPI): n/a
FDI Inflow: 55 million
Public Debt: n/a

2011 data unless otherwise noted.
Data compiled as of September 2012.

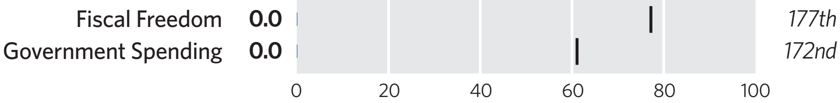
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



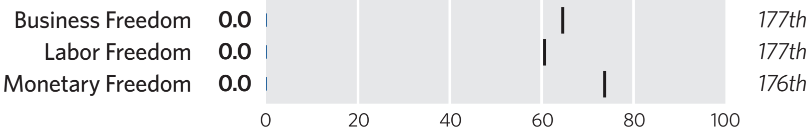
Property rights are not guaranteed. Almost all property belongs to the state, and government control extends even to chattel property (domestically produced goods and all imports and exports). A functioning modern judicial system does not exist. Corruption in the government and security forces is rampant. The ruling Workers' Party, the Korean People's Army, and members of the cabinet run companies that compete to earn foreign exchange.

LIMITED GOVERNMENT



No effective tax system is in place. The government commands and dictates almost every part of the economy. The government sets production levels for most products, and state-owned industries account for nearly all GDP. The state directs all significant economic activity. Large military spending further drains scarce resources. Despite the state's attempts to crack down on them, black markets have grown.

REGULATORY EFFICIENCY



The state continues to regulate the economy heavily through central planning and control. Entrepreneurial activity remains virtually impossible. As the main source of employment, the state determines wages. It also tightly controls the labor market and the movement of people. The botched currency reform in late 2009 resulted in increased inflation and confiscation of operational capital and savings earned by private traders.

OPEN MARKETS

Formal trade is minimal. Most legitimate trade is de facto aid, mainly from North Korea's two main trading partners, China and South Korea. Inter-Korean trade remains constrained by North Korea's unwillingness to implement needed reforms. Limited foreign participation is allowed in the economy through special economic zones where investment is approved on a case-by-case basis. The financial sector is firmly controlled by the state.

Score Changes

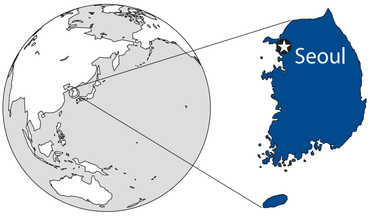
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+5.0

LIMITED GOVERNMENT	
Fiscal Freedom	0
Government Spending	0

REGULATORY EFFICIENCY	
Business Freedom	0
Labor Freedom	0
Monetary Freedom	0

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

SOUTH KOREA



World Rank: **34** Regional Rank: **8**

South Korea's economic freedom score is 70.3, making its economy the 34th freest in the 2013 *Index*. Its score is 0.4 point higher than last year, with declines in labor freedom and monetary freedom offset by gains in the management of public spending and fiscal freedom. South Korea is ranked 8th out of 41 countries in the Asia–Pacific region.

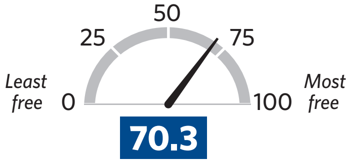
Regaining the "mostly free" status that it last enjoyed in the 1998 *Index*, South Korea has improved its competitiveness by strengthening fiscal fundamentals. A vibrant private sector, bolstered by a well-educated labor force and high capacity for innovation, has capitalized on the country's openness to global trade and investment. South Korea has proactively entered into free trade pacts with leading economies including the United States and the European Union.

A sound legal framework is in place to uphold the rule of law. However, corruption continues to undermine the foundations of economic freedom, eroding equity and trust in government. South Korea's long-term economic dynamism will be shaped by the outcome of ongoing debates about the proper scope of government in the free market and welfare policies.

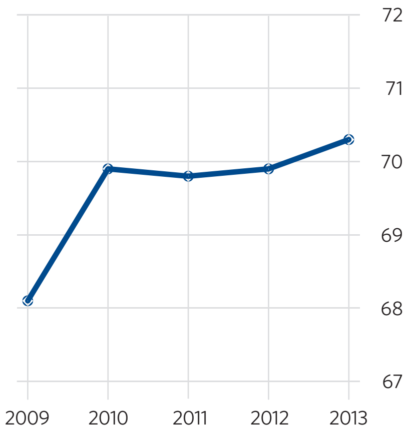
BACKGROUND: Opposition to South Korean President Lee Myung-bak, blamed for failing to deliver on campaign pledges of exuberant economic growth, has intensified in the past year. Fueled by legislative and presidential election campaigns ahead of the December 2012 vote, political discourse has revolved around the country's widening income gap and a growing consensus in favor of "social welfarism." Both the ruling conservative and opposition progressive parties have promised ever-growing government programs to gain voters' favor, drowning out warnings of rising government debt. South Korea, the world's 15th largest economy, has enjoyed decades of impressive economic growth and is a world leader in electronics, telecommunications, automobile production, and shipbuilding. After years of political debate and stalled legislation, the United States and South Korea have finally approved and implemented a free trade agreement.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

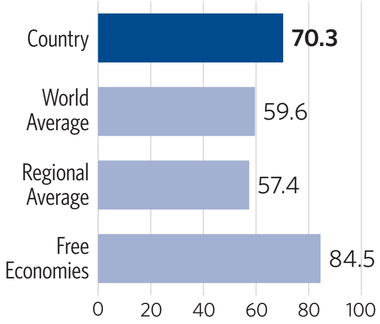
Economic Freedom Score



Freedom Trend



Country Comparisons



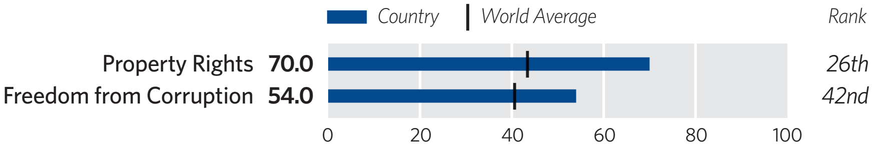
Quick Facts

Population: 49.0 million
GDP (PPP): $1.6 trillion
3.6% growth in 2011
5-year compound annual growth 3.5%
$31,714 per capita
Unemployment: 3.4%
Inflation (CPI): 4.0%
FDI Inflow: $4.7 billion
Public Debt: 34.1% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

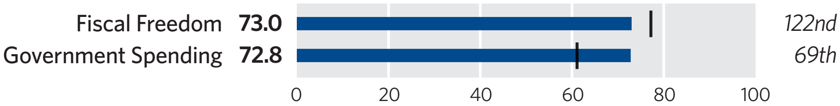
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



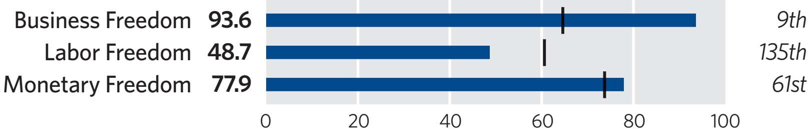
A well-functioning modern legal framework ensures strong protection of private property rights. The rule of law is effective, and the judicial system is efficient. Protection of intellectual property rights needs to be improved. Corruption remains a substantial concern. Since 1990, seven chairmen of the 10 largest chaebol (large business groups) have received jail sentences averaging 22 years, but all of the sentences were later suspended.

LIMITED GOVERNMENT



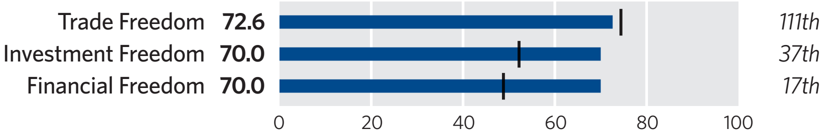
The top income tax rate is 35 percent, and the top corporate tax rate is 22 percent. A 10 percent surtax on individual and corporate rates and a value-added tax (VAT) bring the overall tax burden to 25.1 percent of GDP. Government spending is equivalent to 30.1 percent of total domestic output. The budget balance has been in small surplus, and public debt remains below 35 percent of GDP.

REGULATORY EFFICIENCY



The competitive regulatory framework facilitates entrepreneurial activity and innovation. With no minimum capital required, starting a business takes five procedures and seven days. The labor market continues to be dynamic, but there are lingering regulatory rigidities, with powerful trade unions adding to the cost of conducting business. Monetary stability has been maintained, and inflationary pressures have eased.

OPEN MARKETS

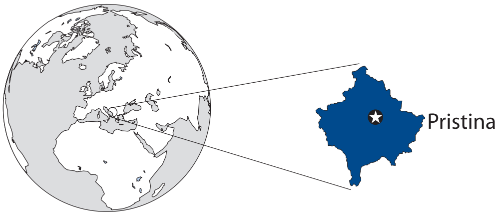


The trade-weighted average tariff rate is 8.7 percent but likely will decline in the future as new free trade agreements are implemented. The economy is increasingly open to foreign investors, and the investment regime has become more transparent. The financial sector has become more competitive, although business start-ups still struggle to obtain financing. The banking sector remains largely stable.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.2	Business Freedom	0	Trade Freedom	0
Freedom from Corruption	0	Government Spending	+5.6	Labor Freedom	-1.0	Investment Freedom	0
				Monetary Freedom	-1.0	Financial Freedom	0

KOSOVO



World Rank: Not Ranked   Regional Rank: Not Ranked

Kosovo's economy is not graded in the 2013 *Index* due to insufficient data. Those facets of economic freedom for which data are available have been individually scored. The country will receive an overall economic freedom score and ranking in future editions as more information becomes available.

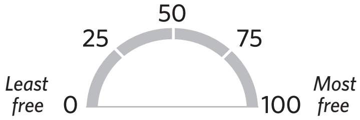
Since the breakup of Communist Yugoslavia in the early 1990s, Kosovo has slowly transitioned from a centrally planned economy to a market-based economy. It has privatized many of its state-owned assets and opened its borders to trade and investment. In 2006, under U.N. administration, Kosovo joined the Central European Free Trade Area, an association that has lost many of its Central European members and now consists mainly of Balkan states. The economy remains diversified, with services and manufacturing accounting for a large majority of economic activity.

Despite this progress, the foundations of economic freedom are weakly supported. Corruption and organized crime are pervasive, with graft extending throughout the government. Political instability continues, and border clashes with Serbia have hampered regional cooperation. The business environment remains burdensome, and regulations on starting a business and registering property are onerous. Institutional capacity is weak, and greater political commitment is needed to implement the significant reforms needed to jump-start the economy.

BACKGROUND: In the late 1990s, a NATO intervention stopped an ethnic cleansing campaign against Kosovo Albanians initiated by Serbian authorities. After Serbian forces left, Kosovo was administered by the United Nations. It declared full independence in 2008, but only about half of the U.N.'s members recognize its independence. Hashim Thaçi of the center-left Democratic Party of Kosovo became prime minister in 2008. More than 5,500 soldiers are based in Kosovo as part of a NATO-led peacekeeping mission. Progress in developing a market-based economy has been slow. The formal-sector unemployment rate is around 45 percent, and almost one-third of Kosovars live below the poverty line.

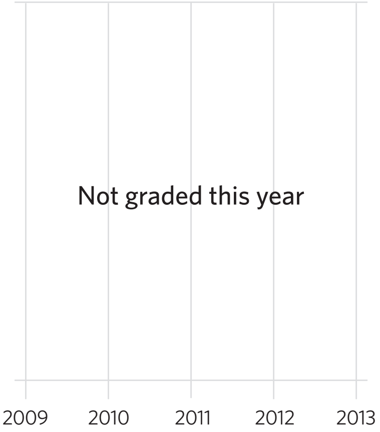
How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Economic Freedom Score

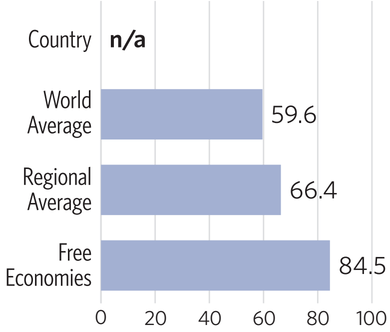


This economy is not graded

Freedom Trend



Country Comparisons



Quick Facts

Population: 1.7 million (2010)

GDP (PPP): $11.99 billion (2010)
5.2% growth in 2010
5-year compound annual growth 5.4%
$7,052 per capita (2010)

Unemployment: 45.1% (2010)

Inflation (CPI): 7.3% (2011)

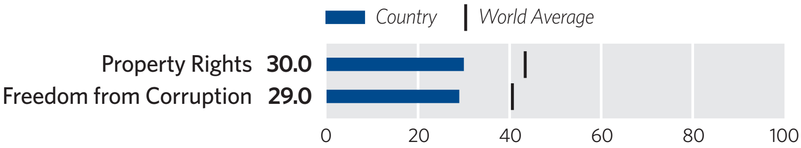
FDI Inflow: $473 million (2010)

Public Debt: 5.6% of GDP in 2011

2011 data unless otherwise noted.
Data compiled as of September 2012.

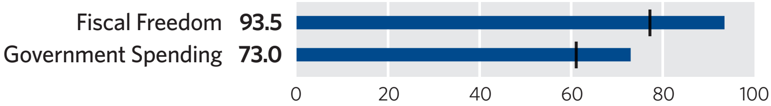
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



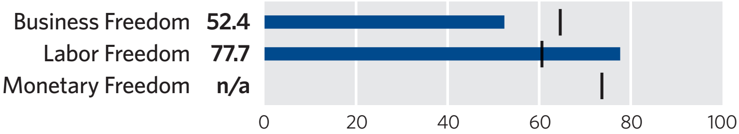
Kosovo was ranked 110th out of 178 countries in Transparency International's 2011 Corruption Perceptions Index. The complicated legal system includes laws of the former Yugoslavia, UNMIK Regulations, and the Kosovo Assembly. There often are multiple ownership claims on properties. Perceptions of official and informal corruption as well as a steadily expanding state bureaucracy have been obstacles to foreign direct investment.

LIMITED GOVERNMENT



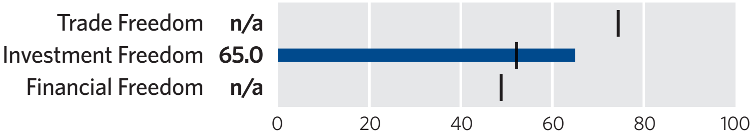
The top income tax and corporate tax rates are 10 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden in the most recent year was equivalent to 21.3 percent of GDP. Government spending equals 30 percent of GDP. Government finances are bolstered by international assistance and remittances. Divestitures from government-owned enterprises continue, aiding the economy's ongoing transition.

REGULATORY EFFICIENCY



The overall regulatory framework remains burdensome and time-consuming. Starting a business does not require minimum capital but takes more than 50 days. Completing licensing requirements costs almost 30 times the level of average annual income. Inflation is the second highest in Western Europe (after Serbia) and has been rising. The state influences prices through extensive subsidies and numerous state-owned enterprises.

OPEN MARKETS



There are few significant non-tariff barriers. The country is relatively open to foreign investment, but the legal system could be strengthened. There are few restrictions on capital transactions, and property may not be expropriated without compensation at market value. The financial system continues to evolve, with the level of financial intermediation increasing. The banking sector remains relatively stable and well-capitalized.

Score Changes

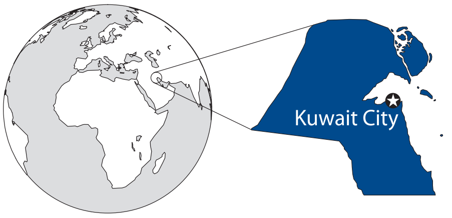
RULE OF LAW	
Property Rights	n/a
Freedom from Corruption	n/a

LIMITED GOVERNMENT	
Fiscal Freedom	n/a
Government Spending	n/a

REGULATORY EFFICIENCY	
Business Freedom	n/a
Labor Freedom	n/a
Monetary Freedom	n/a

OPEN MARKETS	
Trade Freedom	n/a
Investment Freedom	n/a
Financial Freedom	n/a

KUWAIT



World Rank: **66** Regional Rank: **7**

Kuwait's economic freedom score is 63.1, making its economy the 66th freest in the 2013 *Index*. Its score is 0.6 point higher than last year, reflecting a notable improvement in control of government spending that offsets declines in business freedom and trade freedom. Kuwait is ranked 7th out of 15 countries in the Middle East/North Africa region.

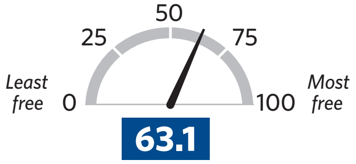
Kuwait's progress toward greater economic freedom has been uneven, and the transition to greater openness and diversification has been challenging. Despite efforts to modernize and diversify the economy, oil production remains dominant. The private sector is largely dependent on government spending and expatriate labor, with the labor market highly segmented. About 80 percent of the labor force is employed in the public sector, while expatriates are employed mostly in the small private sector. Little progress has been made in implementing the privatization law that was passed in 2010.

Although Kuwait performs relatively well in many aspects of economic freedom, institutional deficiencies stemming from state bureaucracy and lingering corruption continue to constrain overall freedom. The judicial system, which remains vulnerable to political influence, lacks transparency and is unable to defend property rights effectively.

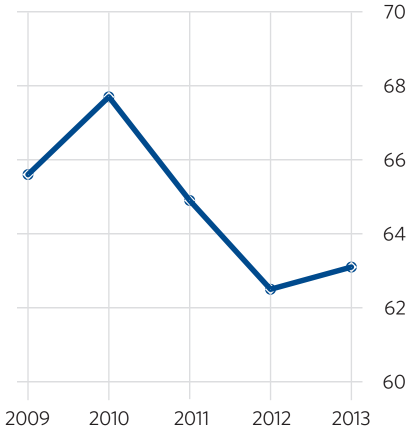
BACKGROUND: Amir Sabah al-Ahmad al-Jabr Al Sabah remains committed to cautious economic reform but is opposed by Islamist and populist members of parliament. During the "Arab Spring" of 2011, young activists called for anti-corruption and political reforms, and stateless Arabs resident in the kingdom demanded citizenship and jobs. A new parliament that includes more Islamists was elected in February 2012. Kuwait controls roughly 9 percent of the world's oil supply, and 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 designed to diversify the economy so as to reduce dependence on oil revenues, strengthen the private sector, and attract foreign investment. Rising oil prices in 2011 boosted the economy and increased government revenue by 20 percent.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

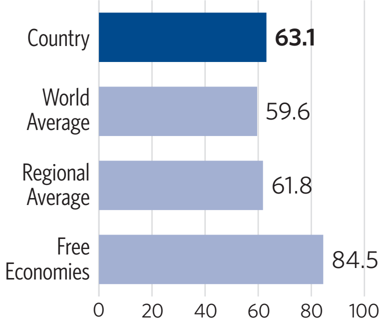
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

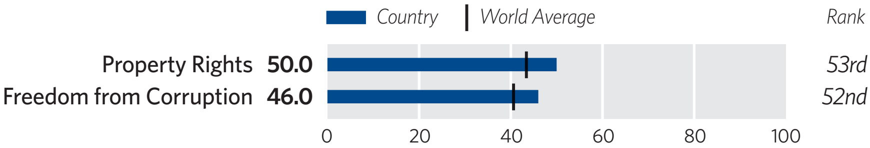
Population: 3.7 million
GDP (PPP): $153.5 billion
8.2% growth in 2011
5-year compound annual growth 3.1%
$41,691 per capita
Unemployment: n/a
Inflation (CPI): 4.7%
FDI Inflow: $398.6 million
Public Debt: 7.3% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

KUWAIT (continued)

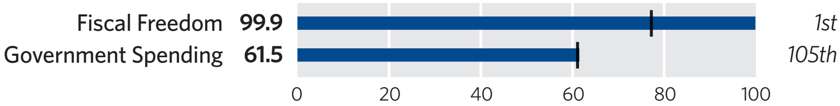
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



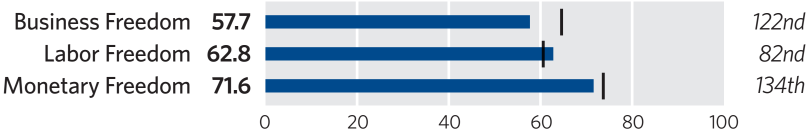
The legal framework is not well developed, and the rule of law remains weak. The constitution provides for an independent judiciary, but the amir appoints all judges. The inefficient court system is susceptible to political pressures. Corruption continues to erode the foundations of economic freedom. In June 2012, the Constitutional Court nullified elections held after 13 members of the previous parliament were accused of corruption.

LIMITED GOVERNMENT



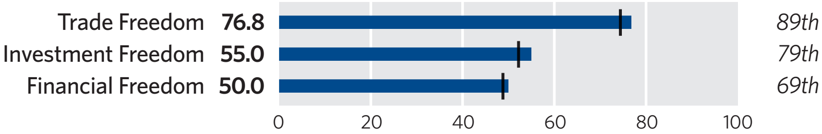
Kuwait does not tax individual income. In practice, foreign-owned firms and joint ventures are the only businesses subject to the flat 15 percent corporate income tax. Duties on international trade and transactions account for most other tax revenue. Government spending equals 35.8 percent of GDP, and public debt is less than 10 percent of GDP. Strong revenues from oil allow tax rates to be kept low while maintaining government revenue.

REGULATORY EFFICIENCY



Progress in regulatory reform has been gradual and uneven. Starting a business takes more than the world average of 30 days. Bureaucratic hurdles still add to the cost of completing licensing requirements. Labor regulations lack flexibility, and the labor market remains highly segmented. Inflation has been noticeable, and the government provides numerous subsidies and controls prices through state-owned utilities and enterprises.

OPEN MARKETS



The trade-weighted average tariff rate is 4.1 percent, and burdensome non-tariff barriers increase the cost of trade. Foreign investment is welcome, but bureaucracy hinders the dynamic growth of new investment. The financial sector continues to evolve. With non-performing loans declining, the banking sector remains well capitalized. The newly established Capital Markets Authority took on a supervisory role in September 2011.

Score Changes

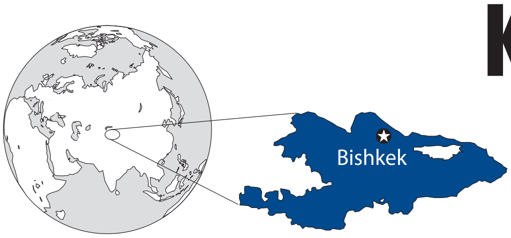
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+1.0

LIMITED GOVERNMENT	
Fiscal Freedom	0
Government Spending	+14.3

REGULATORY EFFICIENCY	
Business Freedom	-4.1
Labor Freedom	-0.7
Monetary Freedom	+0.3

OPEN MARKETS	
Trade Freedom	-4.8
Investment Freedom	0
Financial Freedom	0

KYRGYZ REPUBLIC



World Rank: **89** Regional Rank: **15**

The Kyrgyz Republic's economic freedom score is 59.6, making its economy the 89th freest in the 2013 *Index*. Its score is 0.6 point worse than last year, with significant declines in the control of public spending and investment freedom outweighing a big gain in trade freedom. The Kyrgyz Republic is ranked 15th out of 41 countries in the Asia–Pacific region.

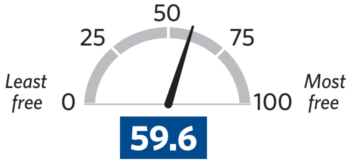
Political unrest and violence have undermined the transition to a more market-driven economy. Subsequent instability and uncertainty have hurt the prospects for long-term economic expansion. The Kyrgyz Republic still lacks the institutional foundations necessary for economic freedom, and remnants of the former Communist system are evident in many areas. Corruption and weak rule of law continue to undermine competitiveness and raise transaction costs for entrepreneurs.

Despite the implementation of reform measures, including earlier adoption of a flat tax rate and simplification of the business start-up process, overall improvement in the entrepreneurial environment has been slow and uneven. Policies needed to support open markets remain deficient, with the banking sector subject to state-directed lending practices.

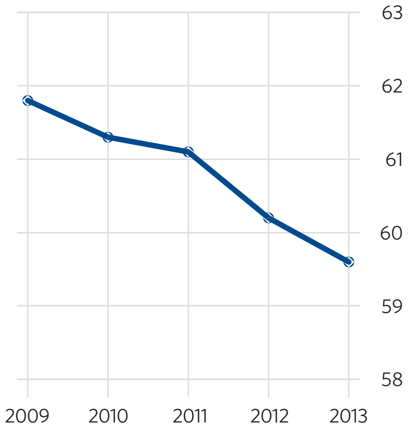
BACKGROUND: One of Central Asia's poorer and less stable countries, the Kyrgyz Republic is a parliamentary republic. President Kurmanbek Bakiyev was ousted in April 2010 following violent unrest caused by a Russian-orchestrated rise in fuel prices. An interim government was established under Roza Otunbayeva. Moscow-backed former Prime Minister Almazbek Atambayev won the October 2011 presidential election with over 60 percent of the votes. Challenges include high levels of external debt, heavy dependence on foreign aid, a thriving black market, crime, endemic corruption, poor inter-ethnic relations, Islamist radicalism, and drug smuggling. Solid economic growth has been supported by domestic demand, strong exports, remittances from Russia and Kazakhstan, and favorable prices for gold exports. The Manas air base remains operational for U.S. forces despite Russian pressure to close it.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

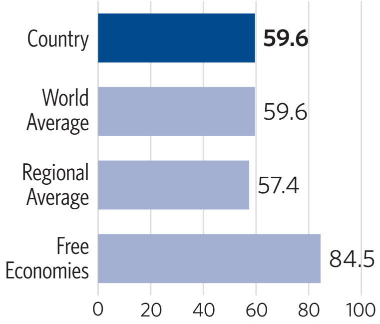
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

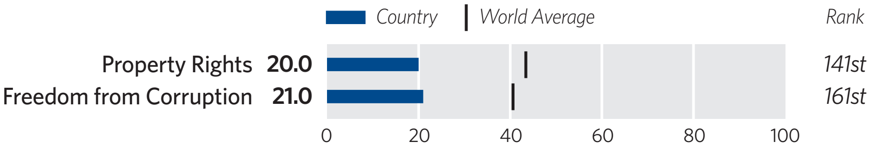
Population: 5.5 million
GDP (PPP): $13.1 billion
5.7% growth in 2011
5-year compound annual growth 4.8%
$2,372 per capita
Unemployment: 8.6%
Inflation (CPI): 16.6%
FDI Inflow: $693.5 million
Public Debt: 52.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

KYRGYZ REPUBLIC (continued)

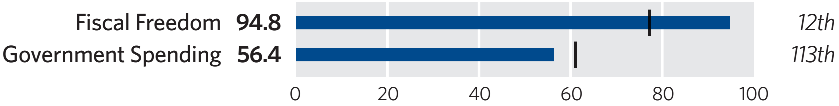
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



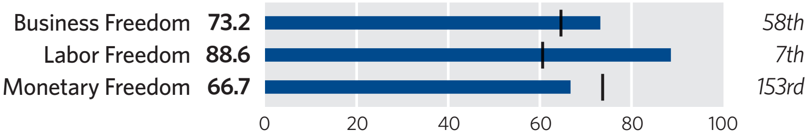
The legal framework is weak, and the rule of law is fragile. Property rights protections are emerging slowly, but the judicial system remains underdeveloped and lacks independence. Court actions can force the sale of property to enforce payments and other contractual obligations. Licensing, registration, and enforcement of contracts are prone to dispute. Corruption is endemic at all levels of society.

LIMITED GOVERNMENT



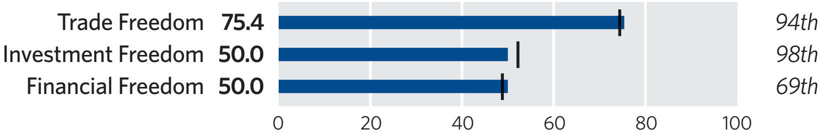
The income and corporate tax rates are a flat 10 percent. Taxation remains erratic and poorly administered. In the most recent year, the overall tax burden was estimated to be 17.9 percent of total domestic income. Government spending has increased to 38.1 percent of total domestic output. The budget has been chronically in deficit, but public debt has fallen below 60 percent of GDP.

REGULATORY EFFICIENCY



The business start-up process has been streamlined, and no minimum capital is required. However, bureaucratic impediments continue to limit private-sector production and investment. The cost of necessary licenses is higher than the level of average annual income. The labor market remains inefficient. Monetary stability remains weak, though the extremely high level of inflation has dropped slightly.

OPEN MARKETS

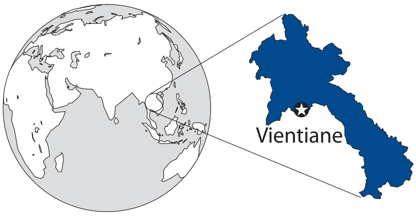


The trade-weighted average tariff rate is a relatively low 2.3 percent, but non-tariff barriers disrupt the flow of trade. Although most of the economy is open to foreign investment, rules and regulations are non-transparent and applied arbitrarily. The financial sector remains vulnerable to state interference, but the level of financial intermediation continues to increase. Some progress has been made in strengthening microfinance.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.7	Business Freedom	-0.9	Trade Freedom	+12.2
Freedom from Corruption	+1.0	Government Spending	-10.1	Labor Freedom	-0.3	Investment Freedom	-5.0
				Monetary Freedom	-4.3	Financial Freedom	0

LAOS



World Rank: **144** Regional Rank: **33**

Laos's economic freedom score is 50.1, making its economy the 144th freest in the 2013 *Index*. Its overall score is essentially the same as last year, with improvements in investment freedom and freedom from corruption offset by declines in monetary and labor freedom. Laos is ranked 33rd out of 41 countries in the Asia–Pacific region, and its overall score is below the world and regional averages.

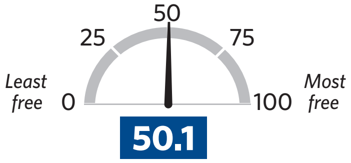
Experimenting with limited introduction of free-market forces into the economy, Laos has attempted to reform its trade and investment regimes, particularly in order to join the World Trade Organization. However, tariffs remain high, and non-tariff barriers substantially affect trade flows. In a notable move toward opening up the economy, the government sold stakes of about 30 percent in two state-owned companies through initial public share offerings and listed the shares on the Lao Securities Exchange, which came into operation in 2011.

Nonetheless, many aspects of the Laotian economy are in critical need of deeper institutional reforms to spur broad-based long-term economic development. As reflected in low scores for property rights and freedom from corruption, the economy's overall legal framework is inefficient and lacks transparency. The rule of law is undermined by political interference, and systemic corruption corrodes the foundations of economic freedom.

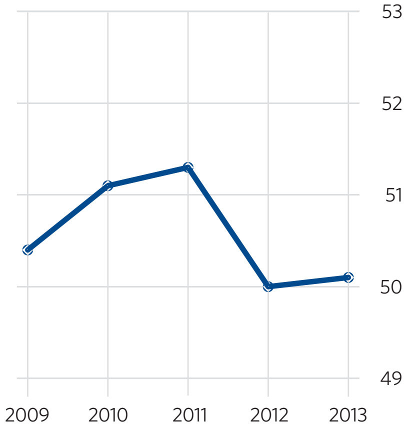
BACKGROUND: The Communist government, in power since 1975, imposes a rigid socialist system that has devastated the economy. The government began to liberalize slowly in 1986 but with only limited success. Corruption is endemic, the rule of law is erratic, and the country remains highly dependent on international aid. Basic human rights are heavily restricted. Subsistence farming dominates the economy, employing some 75 percent of the workforce. Laos began formal negotiations with the World Trade Organization in 1998 with an eye to joining the WTO by 2013.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

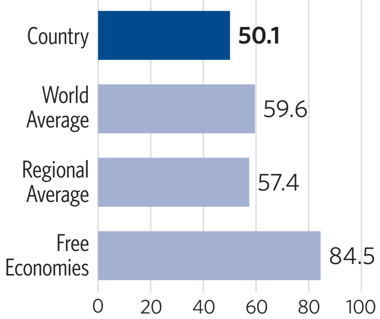
Economic Freedom Score



Freedom Trend



Country Comparisons



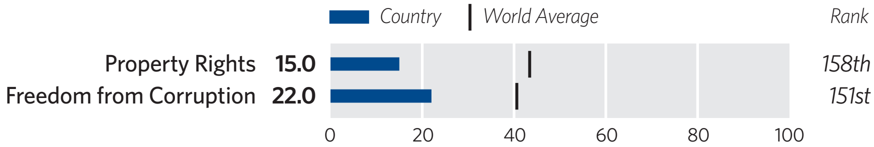
Quick Facts

Population: 6.6 million
GDP (PPP): $17.4 billion
8.3% growth in 2011
5-year compound annual growth 7.9%
$2,659 per capita
Unemployment: 2.5% (2009)
Inflation (CPI): 8.7%
FDI Inflow: $450.0 million
Public Debt: 57.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

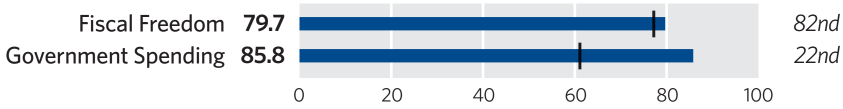
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



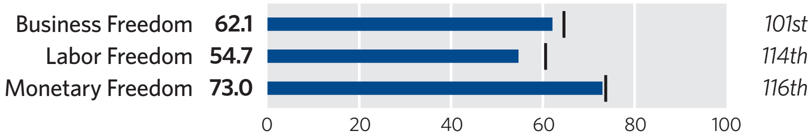
The rule of law remains weak and uneven across the country. The judicial system is inefficient, and protections for property rights are not enforced effectively. The judiciary lacks transparency and is burdened by political interference from the executive. Enforcement of contracts can be lax. Pervasive corruption continues to cause concern, severely undermining the foundations for growth.

LIMITED GOVERNMENT



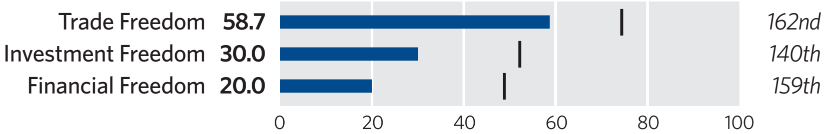
The top income tax rate is 25 percent, and the top corporate tax rate is 35 percent. Other taxes include a vehicle tax and excise taxes. The overall tax burden for the most recent year equals 13.3 percent of GDP. Government spending has increased to 21.8 percent of total domestic output. The government budget is chronically in deficit, and public debt is about 57 percent of GDP.

REGULATORY EFFICIENCY



Regulatory efficiency has improved. Launching a business no longer requires minimum capital, and licensing requirements, which still take over 100 days on average, have become less costly. An underdeveloped labor market does not provide dynamic employment opportunities for the growing labor supply. Inflation has been rising. The government influences many prices through state-owned enterprises and utilities.

OPEN MARKETS

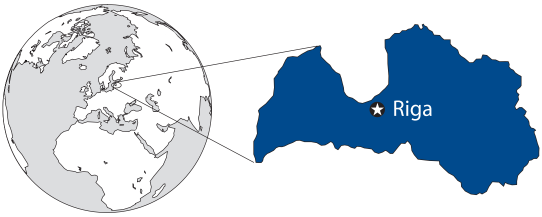


The trade-weighted average tariff rate is burdensome at 13.2 percent, and import licensing and customs delays further constrain trade freedom. Laos has tried to attract more foreign investment, but the overall investment regime lacks transparency. Reforms are ongoing in the underdeveloped financial sector, and the first stock market opened in early 2011. Government attempts to reform the banking sector have been sluggish.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.1	Business Freedom	+0.5	Trade Freedom	0
Freedom from Corruption	+1.0	Government Spending	-0.8	Labor Freedom	-1.0	Investment Freedom	+5.0
				Monetary Freedom	-3.9	Financial Freedom	0

LATVIA



World Rank: 55 **Regional Rank: 25**

Latvia's economic freedom score is 66.5, making its economy the 55th freest in the 2013 *Index*. Its score is 1.3 points better than last year due to significantly improved scores in the management of government spending and labor freedom. Latvia is ranked 25th out of 43 countries in the Europe region, and its overall score is above the world average.

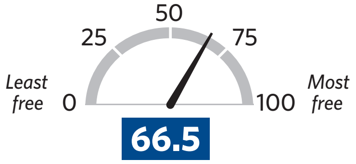
The global financial and economic turmoil took a heavy toll on Latvia, but the economy has gradually been recovering from the severe shock of the crisis, particularly since mid-2010, with determined budget-cutting measures. The political leadership appears to be committed to reform, and Latvia is now better positioned than some other countries in the region to achieve economic stabilization and regain robust levels of economic growth.

Latvia's ongoing transition to a more dynamic and market-oriented economy has been facilitated by openness to foreign trade and the efficiency of business regulations designed to promote entrepreneurial activity. However, lingering corruption, exacerbated by a relatively inefficient judicial system, will undermine long-term competitiveness if left unaddressed.

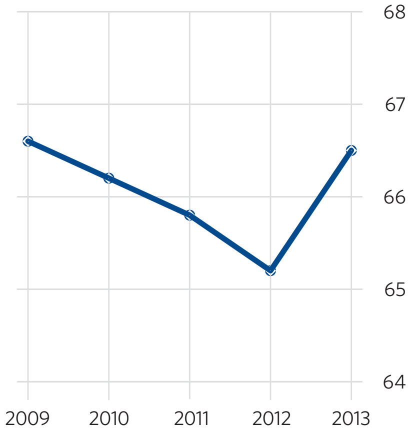
BACKGROUND: Latvia regained its independence from the Soviet Union in 1991 and joined the European Union and NATO in 2004. A pro-Russia party won the September 2011 parliamentary elections, but Prime Minister Valdis Dombrovskis formed a center-right coalition without it. A referendum on making Russian an official language failed in February 2012, demonstrating Latvia's deep ethnic divisions. The economy is developing its financial and transportation services, banking, electronics manufacturing, and dairy but was hit hard by the global financial crisis. Latvia is seeking membership in the Organisation for Economic Co-operation and Development. After losing a fifth of its output in the 2008–2009 crisis, the economy has resumed reasonable growth following an IMF-backed fiscal adjustment program. Formal-sector unemployment remains slightly below 16 percent.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

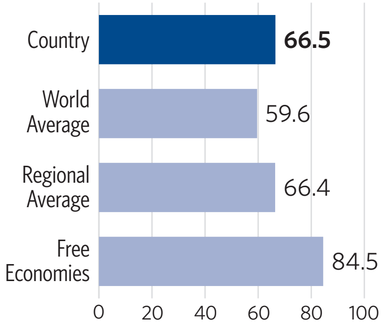
Economic Freedom Score



Freedom Trend



Country Comparisons



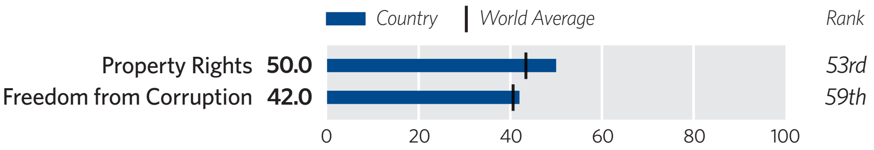
Quick Facts

Population: 2.2 million
GDP (PPP): $34.9 billion
5.5% growth in 2011
5-year compound annual growth -1.7%
$15,662 per capita
Unemployment: 15.4%
Inflation (CPI): 4.2%
FDI Inflow: $1.6 billion
Public Debt: 37.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

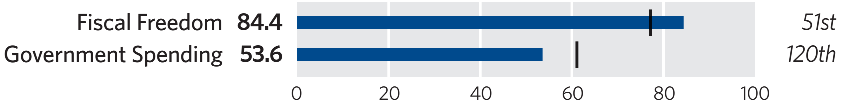
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



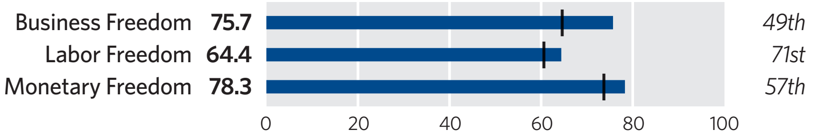
The constitution guarantees the right to private ownership. The judiciary is constitutionally independent, but the court system remains inefficient and subject to long delays. A legal framework for the protection of intellectual property is in place, but enforcement is weak. Money laundering has been linked to tax evasion and the proceeds from Russian organized crime. Deep-rooted high-level corruption continues to cause concern.

LIMITED GOVERNMENT



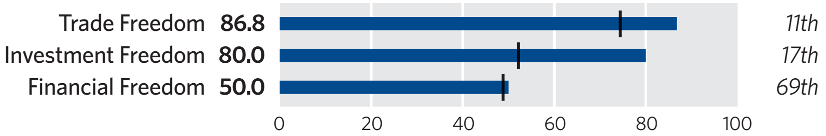
The income tax rate is a flat 25 percent, and the corporate tax rate is a flat 15 percent. Other taxes include a value-added tax (VAT) and excise taxes. The overall tax burden amounts to 26.7 percent of total domestic income. Government spending is equivalent to 39.3 percent of GDP. The budget deficit, although declining, has been chronically high in recent years, and public debt is around 40 percent of GDP.

REGULATORY EFFICIENCY



The overall regulatory framework is relatively efficient, and business start-up has been streamlined. Completing licensing requirements is less costly but still takes more than 200 days. The labor market lacks flexibility; non-salary costs of employing workers are high, and restrictions on work hours are rigid. Inflation has been declining. The government continues to influence prices through state-owned enterprises.

OPEN MARKETS

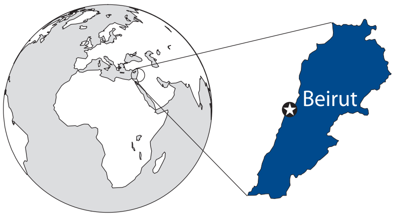


The trade-weighted average tariff rate is a low 1.6 percent as with other members of the European Union, and there are relatively few non-tariff barriers. Investment regulations are relatively transparent but slow in application. The financial sector has undergone regulatory adjustments since early 2009, with the government providing capital injections. The banking sector remains stable, and non-performing loans are declining.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.1	Business Freedom	−0.2	Trade Freedom	−0.3
Freedom from Corruption	−1.0	Government Spending	+9.8	Labor Freedom	+5.3	Investment Freedom	0
				Monetary Freedom	−0.8	Financial Freedom	0

LEBANON



World Rank: **91** Regional Rank: **10**

Lebanon's economic freedom score is 59.5, making its economy the 91st freest in the 2013 *Index*. Its score has decreased by 0.6 point since last year, primarily due to declines in property rights, business freedom, and labor freedom. Lebanon is ranked 10th out of 15 countries in the Middle East/North Africa region, and its overall score is just below the world average.

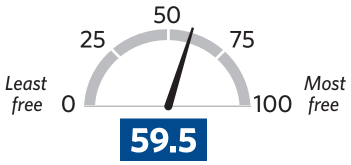
The Lebanese economy has registered fragile progress toward greater economic freedom over the past five years. Regulatory inefficiency, exacerbated by political volatility, curbs private-sector development. Despite some improvement in streamlining business formation, government bureaucracy and the lack of transparency create a poor entrepreneurial climate.

Implementation of deeper institutional reforms to improve the foundations of economic freedom is critical to Lebanon's prospects for long-term economic development and greater poverty reduction. Systemic weaknesses persist in the protection of property rights and effective enforcement of anti-corruption measures. The judiciary remains vulnerable to political influence.

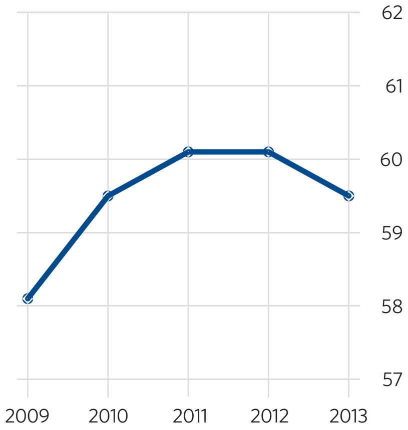
BACKGROUND: Lebanon's economy has been severely disrupted since 1975 by civil war and Syrian occupation. Syria was forced to withdraw its army in 2005 after its government was implicated in the assassination of former Lebanese Prime Minister Rafiq Hariri. In 2006, Lebanon-based Hezbollah forces instigated a conflict with Israel. Other factions supported by Syria and Iran also tried to destabilize the government. Hariri's son, Saad Hariri, was elected prime minister in June 2009 and in November was forced by Syria to form a national unity government that included Hezbollah. That government collapsed in January 2011 when Hezbollah withdrew and engineered the elevation of Najib Mikati as prime minister. Lebanon's economy was virtually destroyed by 15 years of war and occupation. Political uncertainty at home and popular unrest in neighboring Syria have slowed recovery significantly.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

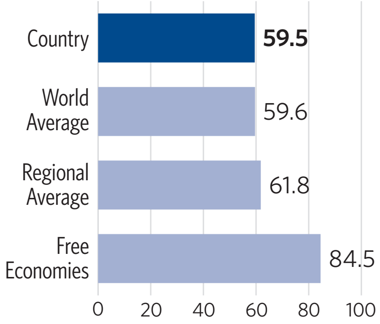
Economic Freedom Score



Freedom Trend



Country Comparisons



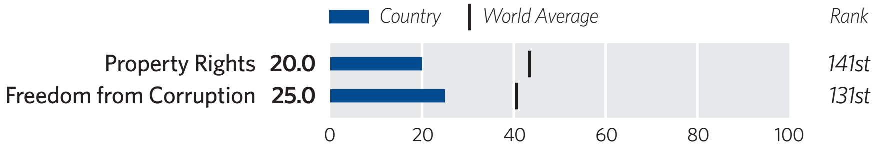
Quick Facts

Population: 4.0 million
GDP (PPP): $61.4 billion
1.5% growth in 2011
5-year compound annual growth 6.7%
$15,523 per capita
Unemployment: n/a
Inflation (CPI): 5.0%
FDI Inflow: $3.2 billion
Public Debt: 136.2% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

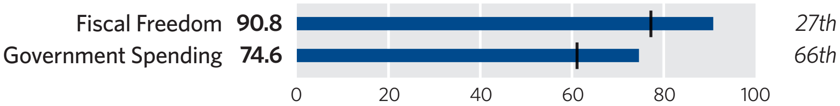
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



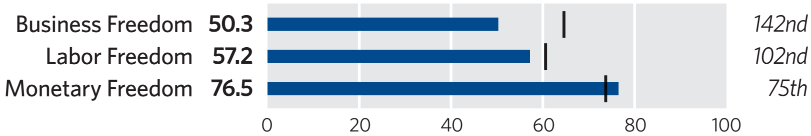
The judiciary is weak and vulnerable to political interference. The government-appointed prosecuting magistrate exerts considerable influence on judges. Trials, particularly of commercial cases, drag on for years. Lebanese law provides for some protection of intellectual property rights, but piracy remains a significant problem. Rampant corruption is aggravated by sectarian ruptures that are exacerbated by conflict in neighboring Syria.

LIMITED GOVERNMENT



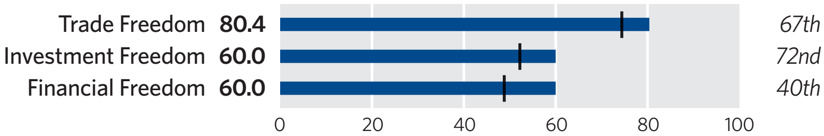
The top income tax rate is 20 percent, and the top corporate tax rate is 15 percent. Other taxes include a value-added tax (VAT) and an inheritance tax. The overall tax burden is equivalent to 17.2 percent of total domestic income. Government spending accounts for 29.1 percent of total domestic output. The deficit equals 5.6 percent of GDP, and public debt exceeds the size of the economy.

REGULATORY EFFICIENCY



The entrepreneurial framework lacks transparency and efficiency. Completing licensing requirements takes more than 200 days and costs over three times the level of average annual income. Bankruptcy procedures remain burdensome and costly. The rigid labor market is stagnant. The government influences prices through state-owned enterprises and directly controls the prices of key products. Monetary stability is weak.

OPEN MARKETS

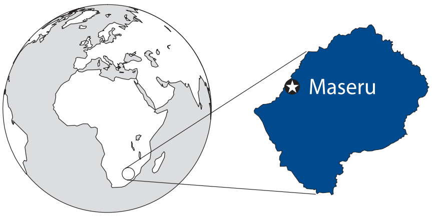


The trade-weighted average tariff rate is 4.8 percent. The trade system is relatively open, and efforts to join the World Trade Organization are progressing. Political instability and the arbitrary and non-transparent interpretation of laws continue to impede foreign investment. The financial sector is relatively well developed for the region. The state retains no ownership in any commercial banks.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**-5.0**	Fiscal Freedom	**0**	Business Freedom	**-3.6**	Trade Freedom	**0**
Freedom from Corruption	**0**	Government Spending	**+6.4**	Labor Freedom	**-3.4**	Investment Freedom	**0**
				Monetary Freedom	**-0.4**	Financial Freedom	**0**

LESOTHO



World Rank: **155** Regional Rank: **38**

Lesotho's economic freedom score is 47.9, making its economy the 155th freest in the 2013 *Index*. Its score is 1.3 points better than last year, reflecting notable gains in business freedom and investment freedom that offset a decline in labor freedom. Lesotho is ranked 38th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

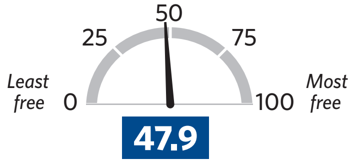
Economic freedom in Lesotho continues to be held back by poor institutional development and the lack of much-needed economic reform. The protection of property rights and enforcement of the rule of law remain weak. In addition, significant corruption burdens individuals and entrepreneurs.

The government remains heavily involved in private-sector activity, leading to extremely high government spending and a low score on the related economic pillar. Marginal reforms have been initiated, including the strengthening of contract enforcement through a new commercial court, but regulatory barriers and poor trade freedom still cause much of the population to remain in subsistence agriculture, preventing broad-based private-sector development.

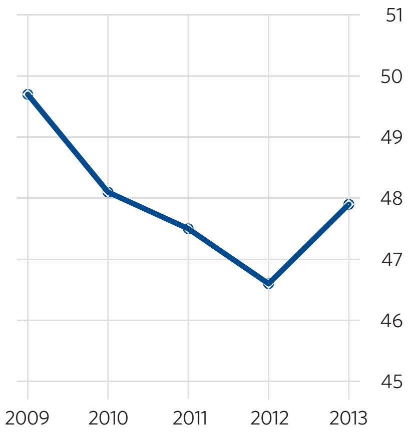
BACKGROUND: Lesotho became independent in 1966, but instability in the 1990s led to military intervention by South Africa and Botswana. An interim authority overhauled the government and oversaw elections in 2002. King Letsie III is ceremonial head of state, and Prime Minister Bethuel Pakalitha Mosisili is head of government and holds executive authority. Mosisili's party won a parliamentary majority in February 2007. In 2012, Mosisili left his Congress for Democracy party to form the Democratic Congress party, but he remains in power. Lesotho is geographically surrounded by and economically integrated with South Africa, and it relies on customs duties from the Southern Africa Customs Union for revenue and on exports and remittances from laborers employed in South Africa for much of its national income. Trade with the United States is important, and apparel exports have grown significantly with the help of the U.S. African Growth and Opportunity Act.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

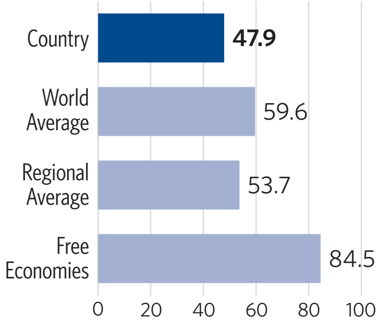
Economic Freedom Score



Freedom Trend



Country Comparisons



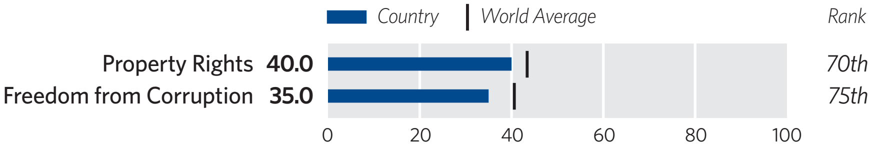
Quick Facts

Population: 1.9 million
GDP (PPP): $3.8 billion
4.2% growth in 2011
5-year compound annual growth 4.6%
$1,960 per capita
Unemployment: n/a
Inflation (CPI): 5.6%
FDI Inflow: $52.0 million
Public Debt: 39.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

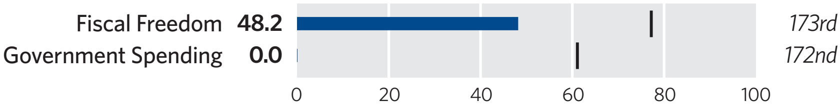
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



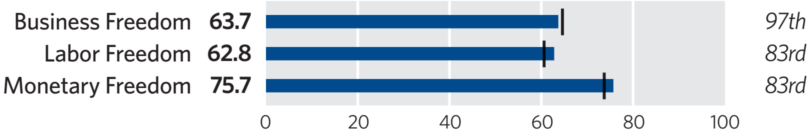
Protection of private property rights is ineffective, but expropriation is unlikely. The judiciary has been relatively independent, but there are insufficient mechanisms to hold authorities accountable. A new government formed by a coalition of opposition parties took power in June 2012 and may be tempted to enact populist policies favored by its urban base. Corruption remains a major problem.

LIMITED GOVERNMENT



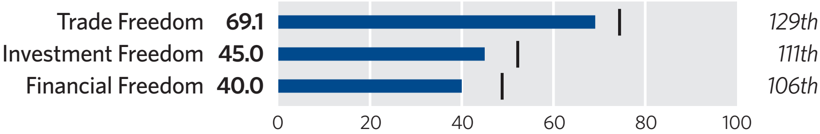
The top income tax rate is 35 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a tax on dividends. Overall tax revenue is equal to 57.7 percent of national income. Government spending amounts to 62.1 percent of GDP. The deficit has also risen, and public debt amounts to about 40 percent of total domestic output.

REGULATORY EFFICIENCY



The requirements for starting a business have been simplified, but the entrepreneurial environment remains hampered by regulatory inefficiency and a lack of transparency. Licensing requirements still cost almost 10 times the level of average annual income. The labor market remains inefficient, and informal labor activity is quite high. Inflation has risen slightly. The government influences prices through state-owned enterprises.

OPEN MARKETS

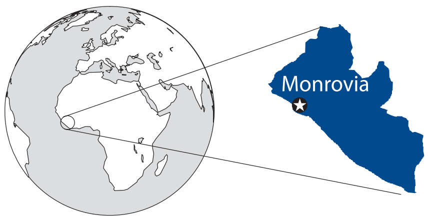


The trade-weighted average tariff rate is relatively high at 10.5 percent, and import licensing and other non-tariff barriers raise the cost of trade. Restrictions on foreign land ownership have been relaxed but not eliminated. Much of the population lacks adequate access to banking services. The high cost of credit hinders entrepreneurial activity and the development of a vibrant private sector.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.9	Business Freedom	+6.2	Trade Freedom	0
Freedom from Corruption	0	Government Spending	0	Labor Freedom	-2.2	Investment Freedom	+10.0
				Monetary Freedom	+0.2	Financial Freedom	0

LIBERIA



World Rank: **147** Regional Rank: **33**

Liberia's economic freedom score is 49.3, making its economy the 147th freest in the 2013 *Index*. Its score has increased 0.7 point from last year, with substantial improvements in trade freedom and the control of government spending. Liberia is ranked 33rd out of 46 countries in the Sub-Saharan Africa region, and its overall rating remains significantly below the world and regional averages.

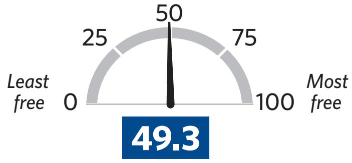
Liberia's reform-minded government has managed to place the country on a path of strong growth despite the challenging global economic environment. Reforms have dismantled some barriers to trade, simplified business licensing, and eased credit restrictions. These ongoing measures, coupled with a determination to improve economic livelihood through committed reforms, have contributed to an average growth rate of over 8 percent over the past five years.

Nonetheless, the economy still suffers from the scars of war and violence has adversely affected institutional structures, causing problems like corruption and poor protection of property rights to persist. Further reforms, particularly to allow for more vibrant flows of trade and investment, are needed to secure better prospects for long-term economic development.

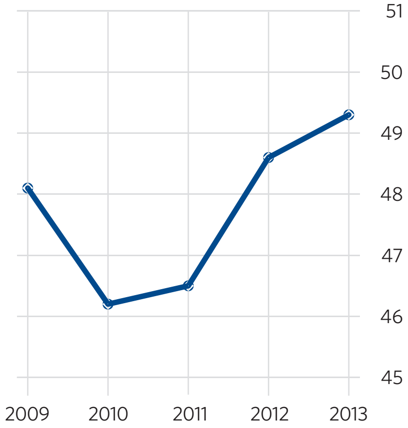
BACKGROUND: Founded in 1820 by freed American and Caribbean slaves, Liberia is Africa's oldest republic. In 1997, after an eight-year civil war, rebel leader Charles Taylor was elected president. He was a ruthless head of state and was forced to resign in 2003. Ellen Johnson Sirleaf became Africa's first democratically elected female president in 2005 and was re-elected in November 2011. In April 2012, the Special Court for Sierra Leone convicted Taylor for war crimes; he is the first former head of state to be convicted by an international tribunal since the Nuremberg trials. Unemployment and illiteracy are high, and political instability, conflict, and international sanctions have destroyed most large businesses and driven out many foreign investors and enterprises. Rubber exports and the world's second-largest maritime registry generate major income. Private and public creditors have forgiven billions of dollars of loans to reduce Liberia's substantial public debt.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

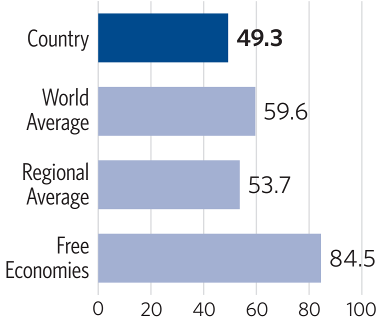
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 3.9 million

GDP (PPP): $1.8 billion

6.4% growth in 2011

5-year compound annual growth 5.7%

$456 per capita

Unemployment: n/a

Inflation (CPI): 8.5%

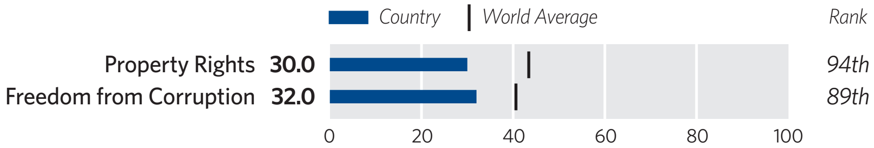
FDI Inflow: $508.0 million

Public Debt: 13.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

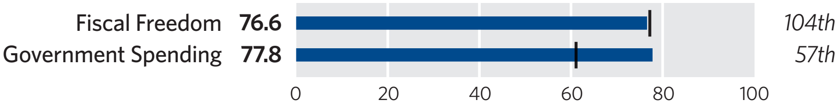
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



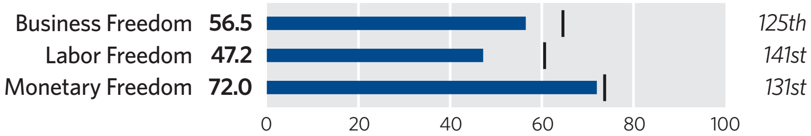
Property rights are not strongly protected, and the rule of law remains uneven across the country. The judiciary lacks adequate facilities. Corruption remains endemic, but in 2012, the government imposed an asset-declaration requirement as part of a code of conduct for officials that reflects ongoing efforts to reduce bribery, control violence, and establish political stability.

LIMITED GOVERNMENT



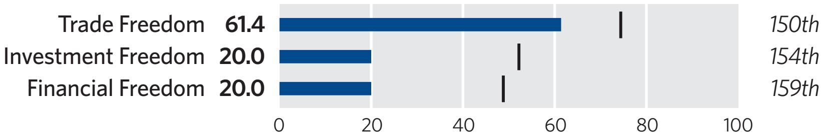
The top income tax rate is 35 percent, and the top corporate tax rate is 25 percent. Other taxes include a property tax and a goods and services tax (GST). The overall tax burden equals 22.2 percent of total domestic income. Government spending is equivalent to 27.2 percent of GDP. The budget balance has been in deficit. Debt relief in 2010 has reduced the debt to below 15 percent of GDP.

REGULATORY EFFICIENCY



Considerable efforts have been made to modernize the regulatory framework. The business start-up process is more straightforward, with no minimum capital required. Fees related to completing licensing requirements, though still high, have been reduced considerably. The labor market is underdeveloped, and about 80 percent of the workforce is engaged in informal activity. Inflation has moderated, but monetary stability remains weak.

OPEN MARKETS

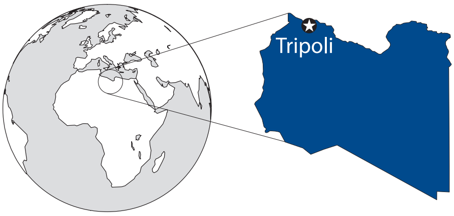


The trade-weighted average tariff rate is quite high at 11.8 percent, and slow customs procedures further restrict trade freedom. Foreign investment is permitted, but inadequate administrative infrastructure and a lack of transparency inhibit investment. The high cost of credit and scarce access to financing hold back development of the private sector. A large part of the population remains outside of the formal banking sector.

Score Changes

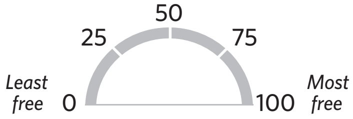
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	0	Business Freedom	+0.6	Trade Freedom	+7.6
Freedom from Corruption	-1.0	Government Spending	+3.0	Labor Freedom	-3.4	Investment Freedom	0
				Monetary Freedom	+0.2	Financial Freedom	0

LIBYA



World Rank: Not Ranked   Regional Rank: Not Ranked

Economic Freedom Score



This economy is not graded

Numerical grading of Libya's overall economic freedom has been suspended in the 2013 *Index* because of the ongoing political turmoil that has resulted in a state of civil unrest and the significantly deteriorating quality of publicly available economic statistics. Those facets of economic freedom for which data are still available have been individually scored. As a "repressed" economy with a score of 35.9, Libya was ranked last in the Middle East/North Africa region when it was last graded in the 2012 *Index*.

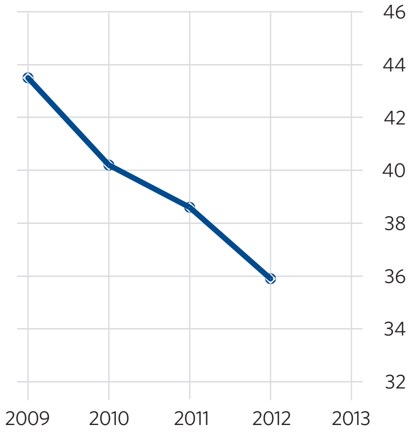
The Libyan economy is at a critical juncture as the government confronts the daunting challenges of stabilizing the economic environment and implementing much-needed reforms following the revolution. The short-term need is to ensure a peaceful political transition while maintaining macroeconomic stability. The economic infrastructure has been significantly degraded during the civil war, and economic uncertainty remains very high as the weak interim government struggles to restore the rule of law and establish a new system of effective governance.

Before the downfall of the Qadhafi regime in 2011, the Libyan government, overly dependent on the oil sector, had undertaken limited reforms to diversify its economy. The banking sector, though still largely state-owned, saw some marginal liberalization and even the introduction of foreign banks. The weak rule of law and systemic corruption have largely marginalized private-sector activity in the formal economy.

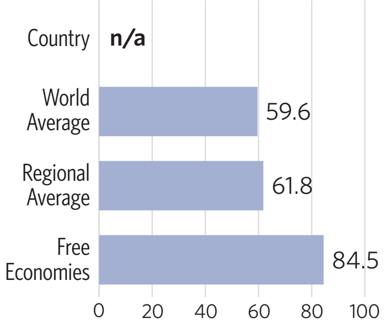
BACKGROUND: Rebels backed by the U.N. Security Council and a NATO bombing campaign overthrew the Libyan regime, capturing and killing Muammar Qadhafi, in October 2011. A National Transitional Council led the difficult transition. Former interim Prime Minister Mahmoud Jibril of the National Forces Alliance won the July 2012 elections to head the 200-member assembly that will form a new government. Oil and natural gas provide about 95 percent of export revenues and 80 percent of government revenues. Libya once had one of Africa's highest per capita incomes, but decades of erratic leadership and socialist economic policies have ruined the economy.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



Quick Facts

Population: 6.5 million

GDP (PPP): $37.5 billion

–61.0% growth in 2011

5-year compound annual growth –14.7%

$5,787 per capita

Unemployment: n/a

Inflation (CPI): 14.1%

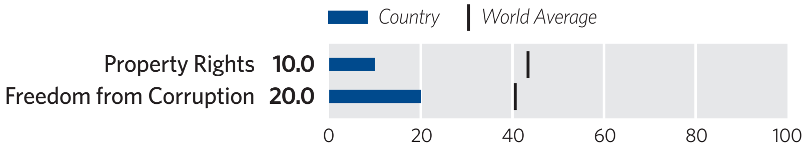
FDI Inflow: n/a

Public Debt: n/a

2011 data unless otherwise noted.
Data compiled as of September 2012.

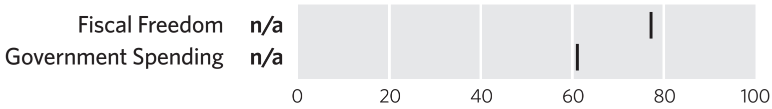
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



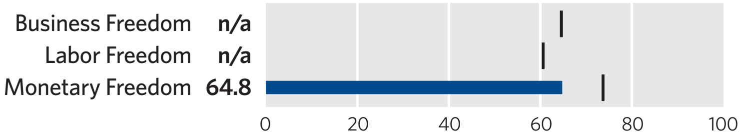
Since 2011, the country has split into regions controlled by rival factions, and the central government has weakened. The rule of law has not been well established, and the foundations of economic freedom are weak or lacking in every area. Corruption is rampant.

LIMITED GOVERNMENT



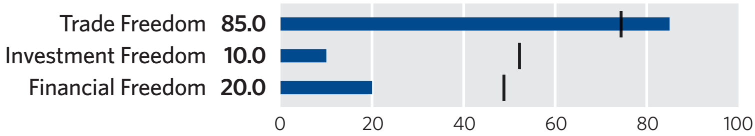
The top income tax rate is 15 percent, but other taxes have made the top rate much higher in practice. The top effective corporate tax rate is 20 percent. Taxation has not been enforced effectively since early 2011. Large oil revenues have allowed excessive government spending in the past. Instability and a weak central government continue to hamper the effective management of public finances.

REGULATORY EFFICIENCY



Regulatory efficiency has been very poor, and only limited private entrepreneurial activity has been successful. Application of regulations has been inconsistent and non-transparent. The labor market remains destabilized, and the large informal sector is an important source of employment. The intense political upheavals of 2011–2012 were accompanied by very high inflation and general monetary instability.

OPEN MARKETS

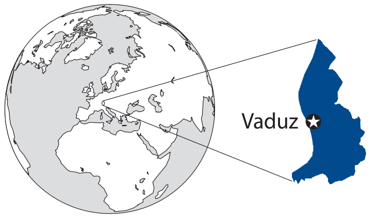


The Libyan Customs Administration imposes a flat 4 percent "service fee" on most imported products, and myriad non-tariff barriers add to the cost of trade. The financial system continues to function relatively normally, but limited access to financing has severely impeded any meaningful private business development. Commercial banking has been dominated by four main banks.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	n/a	Fiscal Freedom	n/a	Business Freedom	n/a	Trade Freedom	n/a
Freedom from Corruption	n/a	Government Spending	n/a	Labor Freedom	n/a	Investment Freedom	n/a
				Monetary Freedom	n/a	Financial Freedom	n/a

LIECHTENSTEIN



World Rank: Not Ranked | Regional Rank: Not Ranked

Liechtenstein's overall economic freedom cannot be assessed in the 2013 *Index* because of a lack of sufficient comparable data. Those facets of economic freedom for which data are available have been individually scored. The country will receive an overall economic freedom score and ranking in future editions as more information becomes available.

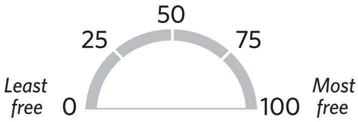
Openness to global trade and investment has been the cornerstone of Liechtenstein's efficient and dynamic economy. A high degree of macroeconomic stability minimizes uncertainty, and a transparent regulatory framework supports the operation of numerous small and medium-sized enterprises, making the economy an attractive place in which to conduct global business. Financial services represent an important economic sector, contributing roughly one-third of GDP. In a move aimed at improving the competitiveness of the financial sector and the economy as a whole, a flat corporate tax rate of 12.5 percent has been in effect since 2011.

Liechtenstein's vigorous defense of property rights, buttressed by a strong tradition of minimal tolerance for corruption, strongly sustains the foundations of economic freedom and contributes to a high level of prosperity.

BACKGROUND: Prime Minister Klaus Tschütscher of the center-right Patriotic Union is Liechtenstein's head of government, but Hans-Adam II, Prince of Liechtenstein and head of state, also wields considerable power. Liechtenstein has a vibrant free-enterprise economy. Low taxes and traditions of strict bank secrecy (now relaxed) have contributed significantly to the ability of financial institutions to attract funds. However, the worldwide financial crisis led to a sharp contraction in the banking sector. In 2009, the Organisation for Economic Co-operation and Development removed Liechtenstein from its list of uncooperative tax havens. The principality's economy is closely linked to Switzerland, whose currency it shares, and the European Union. Liechtenstein is a member of the European Free Trade Association and the European Economic Area but is not a member of the EU.

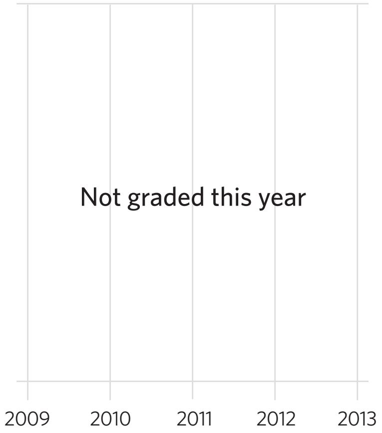
How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Economic Freedom Score

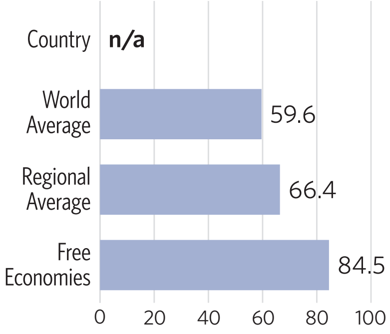


This economy is not graded

Freedom Trend



Country Comparisons



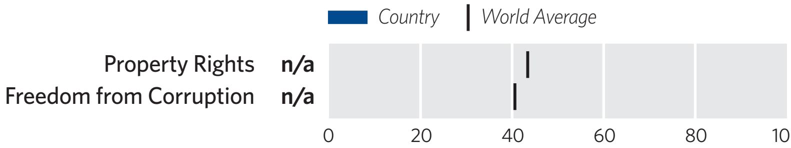
Quick Facts

Population: 36,149
GDP (nominal): $4.5 billion (2009)
–0.5 growth in 2009
5-year compound annual growth n/a
$124,485 per capita (2009 estimate)
Unemployment: 2.2%
Inflation (CPI): 0.7%
FDI Inflow: n/a
Public Debt: n/a

2011 data unless otherwise noted.
Data compiled as of September 2012.

THE TEN ECONOMIC FREEDOMS

RULE OF LAW

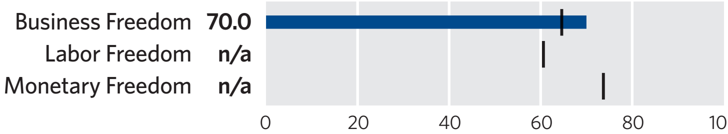


The legal framework is well institutionalized and modern, and the judiciary is independent. Property rights and contracts are secure. Intellectual property laws are based on Switzerland's IPR protection regimes, which are among the world's best for both foreign and domestic rights holders. Most foreigners have the same rights as Liechtenstein nationals when purchasing real property. Corruption is perceived as minimal.

LIMITED GOVERNMENT

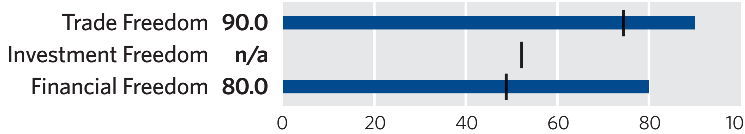
Liechtenstein imposes relatively low taxes on nationals and non-nationals. Under the tax reform act that became effective in January 2011, the tax system has become more modern and attractive. The corporate tax rate is now a flat 12.5 percent, and capital gains, inheritance, and gift taxes have been abolished. Although the fiscal system lacks some transparency, government fiscal management has been relatively sound.

REGULATORY EFFICIENCY



The overall freedom to conduct a business is well protected under the efficient and transparent regulatory environment. Establishing a business is fairly easy. Administrative procedures are straightforward and applied consistently. The labor market is dynamic, and unemployment traditionally has been very low. Labor market policies are focused on reducing youth unemployment. Monetary stability is well maintained.

OPEN MARKETS

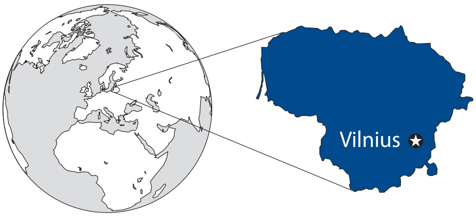


The trade regime is competitive and efficient, with no significant tariff barriers and minimal non-tariff barriers. Foreign investment is welcome, and the overall investment environment encourages dynamic private-sector growth. There are no restrictions on repatriation of profits or currency transfers. Liechtenstein is a major financial center, particularly in private banking. The banking sector remains stable under a sensible regulatory regime.

Score Changes

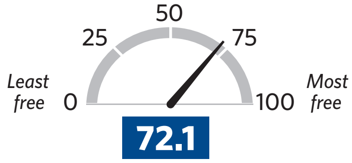
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	n/a	Fiscal Freedom	n/a	Business Freedom	n/a	Trade Freedom	n/a
Freedom from Corruption	n/a	Government Spending	n/a	Labor Freedom	n/a	Investment Freedom	n/a
				Monetary Freedom	n/a	Financial Freedom	n/a

LITHUANIA



World Rank: **22** Regional Rank: **12**

Economic Freedom Score



Lithuania's economic freedom score is 72.1, making its economy the 22nd freest in the 2013 *Index*. Its overall score rose 0.6 point due to a concerted effort to rein in government spending, but economic freedom declined in six other areas, including freedom from corruption and business freedom. Lithuania is ranked 12th out of 43 countries in the Europe region, and its overall score is well above the world and regional averages.

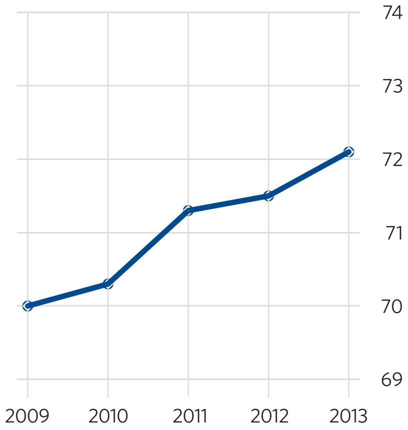
The Lithuanian economy has implemented critical reforms in many areas, helping to create and sustain a vibrant private sector that has been growing rapidly. Business start-up procedures have been streamlined, and the low corporate tax rate facilitates entrepreneurial growth. Overall regulatory efficiency is further enhanced by open-market policies that support increased trade and investment flows.

Lithuania's relatively sound judicial framework sustains the rule of law and provides consistent protection for property rights, contributing to overall stability and competitiveness. Although deficit-cutting measures have been implemented, continuing fiscal consolidation and better management of public finance will be critical to ensuring future prosperity.

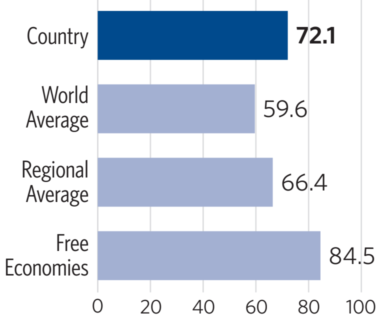
BACKGROUND: Lithuania, largest of the Baltic States, regained its independence from the Soviet Union in 1991. It joined the European Union and NATO in 2004. Former Finance Minister Dalia Grybauskaite won presidential elections by a landslide in July 2009, but the electorate remains closely divided between conservatives and former Communists. Lithuania and Poland are exploring the possibility of gas interconnectors between the two countries to mitigate dependence on Russian gas. Also, since 2008, Lithuania, Estonia, Latvia, and Poland have been negotiating plans for a new regional power plant at the site of Lithuania's Ignalina Power Plant, which closed in 2004. Lithuania's economy has resumed growth, with the construction, financial services, and retail sectors performing well, but unemployment remains high.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



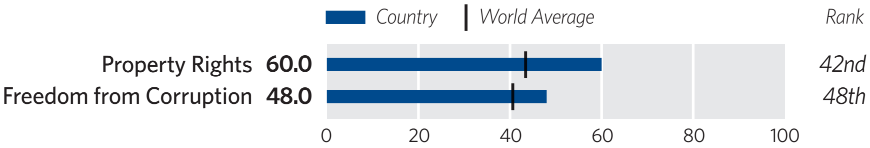
Quick Facts

Population: 3.3 million
GDP (PPP): $61.6 billion
5.9% growth in 2011
5-year compound annual growth 0.7%
$18,856 per capita
Unemployment: 15.4%
Inflation (CPI): 4.1%
FDI Inflow: $1.2 billion
Public Debt: 39.0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

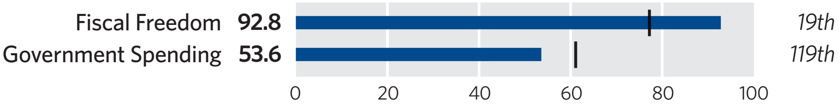
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



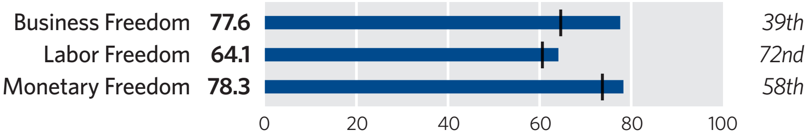
Private property is protected against nationalization or requisition. Accession to the EU has encouraged judicial reform, including strengthened independence and streamlined proceedings. The relatively inefficient legal framework, however, does not provide for effective enforcement of contracts. Corruption is still widespread in the civil service, and the public has a low opinion of government efficiency and political parties.

LIMITED GOVERNMENT



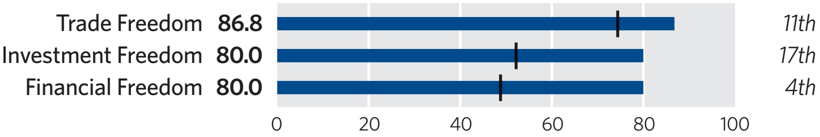
The income tax rate is 15 percent (with a 20 percent tax on redistributed profits), and the corporate tax rate is 15 percent. Other taxes include an inheritance tax and a value-added tax (VAT). The overall tax burden is 16.5 percent of total domestic income. Government spending is equivalent to 39.3 percent of total domestic output. The budget is chronically in deficit, and public debt is about 40 percent of GDP.

REGULATORY EFFICIENCY



Business formation and operation take place without bureaucratic interference. Starting a business takes slightly less than the world averages of seven procedures and 30 days, although there is still a minimum capital requirement. Despite some reform, the labor market remains relatively rigid. Inflation has risen slightly, but the monetary system is stable, and adoption of the euro is being delayed.

OPEN MARKETS

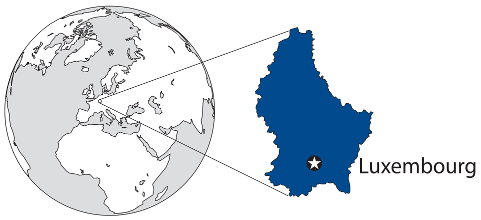


Lithuania's trade policy is the same as that of other members of the European Union, with a common external tariff of 1.6 percent. There are relatively few non-tariff barriers. Foreign investment is welcome, and the investment regime has become conducive to dynamic growth in new investment. Offering a wide range of financial services, the financial sector remains competitive and stable. Capital markets are small but function well.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.8	Business Freedom	-1.6	Trade Freedom	-0.3
Freedom from Corruption	-2.0	Government Spending	+11.9	Labor Freedom	-0.5	Investment Freedom	0
				Monetary Freedom	-1.0	Financial Freedom	0

LUXEMBOURG



World Rank: 15 **Regional Rank: 6**

Luxembourg's economic freedom score is 74.2, making its economy the 15th freest in the 2013 *Index*. Its overall score is 0.3 point worse than last year, with modest declines in overall regulatory efficiency outweighing small improvements in fiscal policy and government spending. Luxembourg is ranked 6th out of 43 countries in the Europe region.

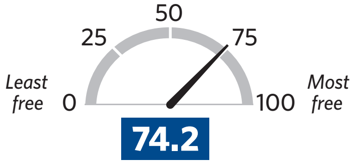
Maintaining a high degree of competitiveness, Luxembourg continues to be economically resilient with well-functioning institutions. The quality of the legal framework remains among the world's highest, providing effective protection of property rights. The rule of law is well maintained, and a strong tradition of minimum tolerance for corruption is firmly in place.

Despite the challenging economic situation, Luxembourg has demonstrated a commitment to restoring the soundness of public finance and the credibility of its policies. Bringing down government spending through deficit-cutting efforts, it has sustained momentum for economic recovery. In an attempt to contain shortsighted government spending increases, the cap on public investment has been extended. The efficiency of the regulatory structure, though still high, has declined relative to other competitive economies.

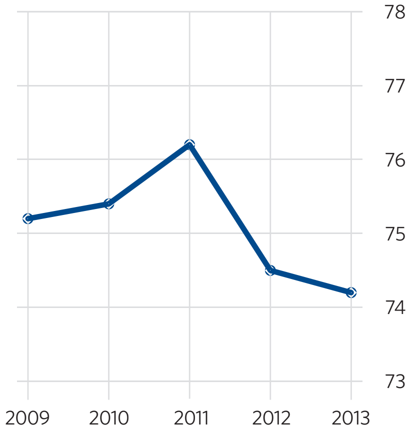
BACKGROUND: A founding member of the European Union in 1957, the Grand Duchy of Luxembourg was also one of the founding members of the single European currency in 1999 and continues to promote European integration. Jean-Claude Juncker of the center-right Christian Social People's Party has been prime minister since 1995. Luxembourgers have one of the world's highest income levels, although the global economic crisis provoked the first recession in 60 years in 2009. During the 20th century, Luxembourg evolved from an industrial economy into a mixed manufacturing and services economy with a very strong financial services industry. The government has been trying to diversify the economy and promote Luxembourg as an information technology and e-commerce hub. The economy benefits from a skilled workforce and well-developed infrastructure.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

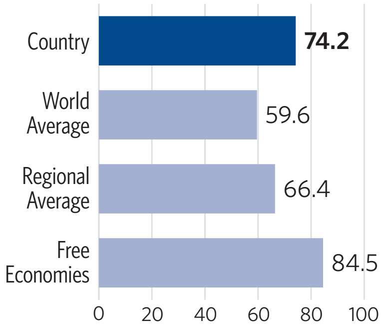
Economic Freedom Score



Freedom Trend



Country Comparisons



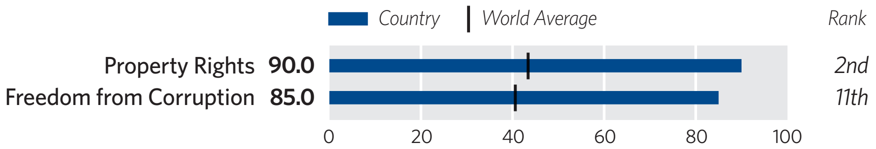
Quick Facts

Population: 0.5 million
GDP (PPP): $41.2 billion
1.0% growth in 2011
5-year compound annual growth 1.1%
$80,119 per capita
Unemployment: 5.2%
Inflation (CPI): 3.4%
FDI Inflow: $17.5 billion
Public Debt: 20.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

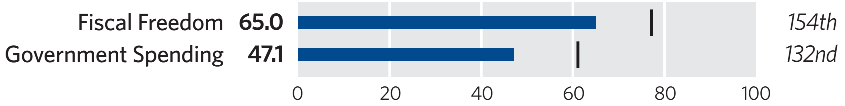
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



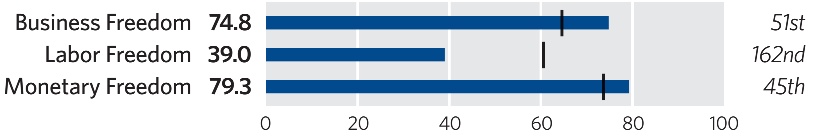
A well-functioning legal framework strongly supports the rule of law. Private property rights are well protected, and contracts are secure. Luxembourg adheres to key international agreements on intellectual property rights and protects patents, copyrights, trademarks, and trade secrets. Anti-corruption laws are enforced effectively, and the society's minimum tolerance for corruption encourages transparency and honest government.

LIMITED GOVERNMENT



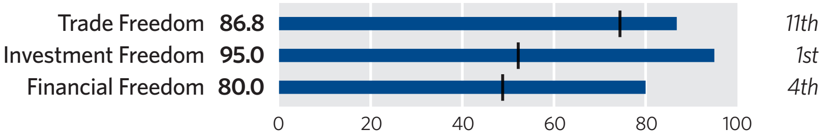
The top income tax rate is 41 percent, and the top corporate tax rate is 21.84 percent, including a 5 percent unemployment fund surcharge. Other taxes include a value-added tax (VAT) and an inheritance tax. The overall tax burden equals 36.7 percent of total domestic income. Government spending is equivalent to 42 percent of total domestic output. The budget balance is slightly negative. Public debt is below 25 percent of GDP.

REGULATORY EFFICIENCY



The efficient regulatory framework supports entrepreneurial activity. Business formation and operation take place without bureaucratic interference. The labor market continues to lack flexibility. Unemployment benefits are almost twice as high as those in neighboring countries, and the minimum wage is one of the region's highest. Monetary stability has been well maintained, and inflation has been low.

OPEN MARKETS

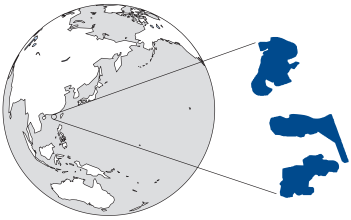


The trade-weighted average tariff rate is a relatively low 1.6 percent as in other members of the European Union, and non-tariff barriers do not significantly increase the cost of trade. Under the efficient investment regime, foreign investment is welcomed without heavy bureaucratic interference. The financial sector remains relatively stable and well-capitalized, despite the ongoing European sovereign debt crisis.

Score Changes

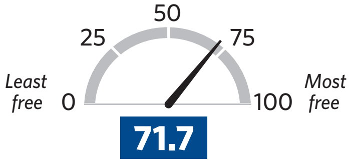
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.4	Business Freedom	-1.1	Trade Freedom	-0.3
Freedom from Corruption	0	Government Spending	+0.5	Labor Freedom	-1.9	Investment Freedom	0
				Monetary Freedom	-2.0	Financial Freedom	0

MACAU



World Rank: 26 **Regional Rank: 7**

Economic Freedom Score



Macau's economic freedom score is 71.7, making its economy the 26th freest in the 2013 *Index*. Its overall score is essentially the same as last year, with gains in the control of public spending and corruption offset by declines in fiscal and monetary freedom. Macau is ranked 7th out of 41 countries in the Asia–Pacific region, and its overall score is well above the world and regional averages.

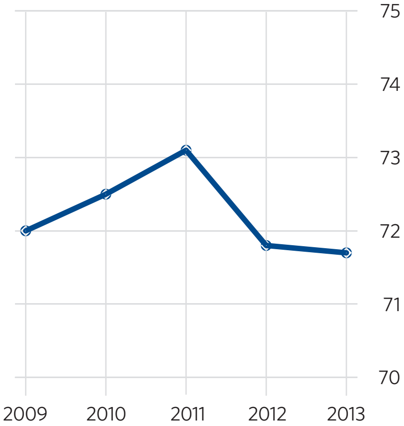
Flexibility and openness to global trade and investment have been the cornerstones of Macau's dynamic economic expansion. As a Special Administrative Region of China, Macau largely maintains its own transparent, free-market economic structure. The overall entrepreneurial environment is generally adequate. Tax rates are competitively low, tariff and non-tariff barriers are nonexistent, and foreign investors can conduct business on the same terms as nationals. The rule of law is relatively well respected, though more effective anti-corruption measures are needed.

Macau has attracted significant investment since opening up its gaming industry in 2002. Ever-growing investment in resort and entertainment projects and related infrastructure has made Macau one of the world's leading tourism destinations, with the services sector accounting for almost 90 percent of GDP and over 70 percent of total employment. The vibrant free port economy, however, needs more committed structural reforms to improve business and labor regulations and enhance prospects for more broad-based long-term economic development.

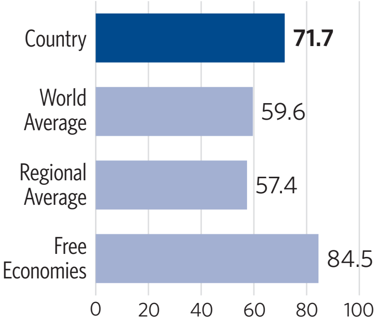
BACKGROUND: Macau became a Special Administrative Region of China in 1999. Like Hong Kong, it retains much of its historic political governance structure and economic system. Its chief executive is appointed by Beijing. Gambling revenues reportedly amounted to $23.5 billion in 2010, and direct taxes on gambling account for well over half of all government revenue. Manufacturing of textiles and garments, once the mainstay of the economy, has largely migrated to the mainland. Macau's currency enjoys full convertibility with the Hong Kong dollar, which is pegged to the U.S. dollar.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



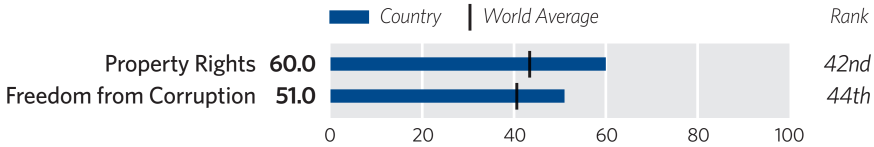
Quick Facts

Population: 573,004
GDP (nominal): $28.7 billion
26.4% growth in 2010
5-year compound annual growth n/a
$48,923 per capita (nominal)
Unemployment: 2.9%
Inflation (CPI): 5.81%
FDI Inflow: $4.4 billion
Public Debt: 0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

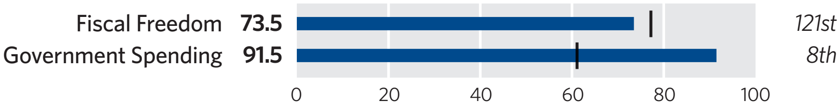
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



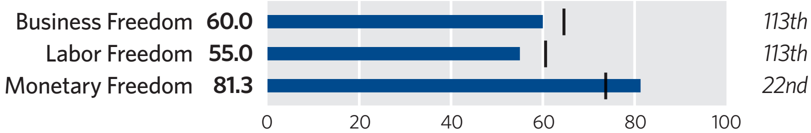
Macau has its own judicial system with a high court; the legal framework is based largely on Portuguese law. Property rights and commercial contracts are secure, but enforcement of intellectual property rights remains weak and inefficient. The government's image has been damaged by corruption scandals and rising popular discontent linked to the perception that the growth of gambling has not benefited society more widely.

LIMITED GOVERNMENT



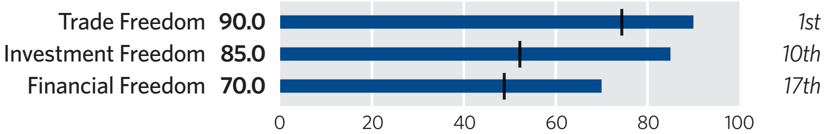
The top income tax rate is 12 percent, and the top corporate tax rate is 39 percent. Gambling tax revenues are quite high, and overall tax revenue is equal to 31.4 percent of GDP. Government spending is equivalent to 16.8 percent of total domestic output. Gambling revenue has outpaced the growth of public spending, generating considerable surpluses.

REGULATORY EFFICIENCY



The overall regulatory environment lags behind similar economies in efficiency. License requirements vary by type of economic activity, but general business activities such as retail, wholesale, and business consultancies do not require a license. The continuing lack of a dynamic and broad-based labor market is due in part to the absence of serious reform efforts. Monetary stability has been relatively well maintained.

OPEN MARKETS

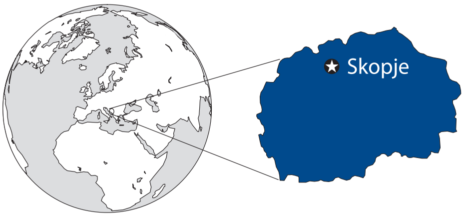


The trade regime is open, with no tariffs imposed on imports and relatively low interference resulting from non-tariff barriers. The government does not officially discriminate between foreign and domestic investors, but there are a few restrictions in services markets. A relatively small financial sector, dominated by banking, provides easy access to financing. Capital markets remain underdeveloped.

Score Changes

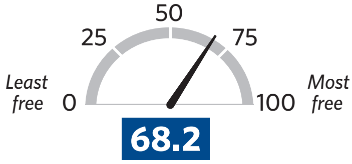
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-2.3	Business Freedom	0	Trade Freedom	0
Freedom from Corruption	+1.0	Government Spending	+3.4	Labor Freedom	0	Investment Freedom	0
				Monetary Freedom	-2.9	Financial Freedom	0

MACEDONIA



World Rank: 43 **Regional Rank: 21**

Economic Freedom Score



Macedonia's economic freedom score is 68.2, making its economy the 43rd freest in the 2013 *Index*. Its overall score has decreased by 0.3 point from last year, with modest declines in monetary freedom, freedom from corruption, and labor freedom outweighing small improvements in the control of government spending and trade freedom. Macedonia is ranked 21st out of 43 countries in the Europe region, and its overall score is above the world and regional averages.

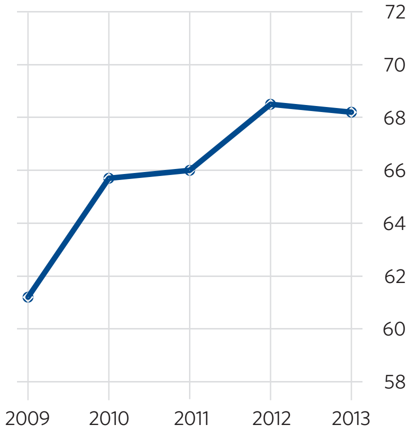
Macedonia's transition to a more open and flexible economic system has been facilitated by substantial restructuring measures over the past decade. While maintaining macroeconomic stability, it has made considerable progress in income growth and poverty reduction. Competitive flat tax rates and a permissive trade regime, supported by a relatively efficient regulatory framework, have encouraged the development of a growing entrepreneurial sector.

Implementation of deeper institutional reforms is critical to strengthening the foundations of economic freedom and inducing more dynamic long-term economic expansion. Systemic weaknesses persist in the protection of property rights and enforcement of anti-corruption measures. The judicial system is weak, undercut by lingering corruption, and vulnerable to political influence.

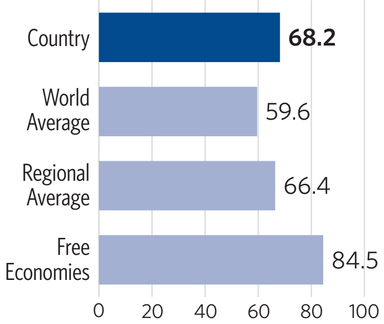
BACKGROUND: The Republic of Macedonia gained its independence from the former Yugoslavia in 1991 and has achieved a considerable degree of political and economic stability in recent years. The Social Democrats called for early parliamentary elections in June 2011, and Prime Minister Nikola Gruevski maintained control of his seat in a coalition with the Democratic Union for Integration. Macedonia has fulfilled NATO's Membership Action Plan, but Greece has unilaterally blocked its accession to the alliance because of a dispute between the two countries over Macedonia's constitutional name. This dispute is expected to delay Macedonia's accession to the European Union as well.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



Quick Facts

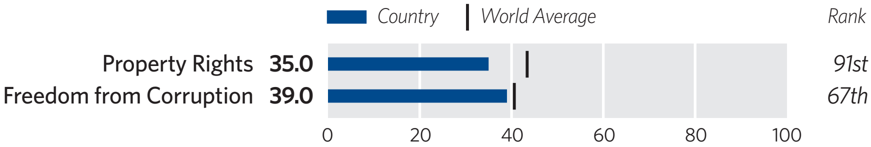
Population: 2.1 million
GDP (PPP): $21.3 billion
3.0% growth in 2011
5-year compound annual growth 3.0%
$10,367 per capita
Unemployment: 31.4%
Inflation (CPI): 3.9%
FDI Inflow: $421.9 million
Public Debt: 28.1% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

MACEDONIA (continued)

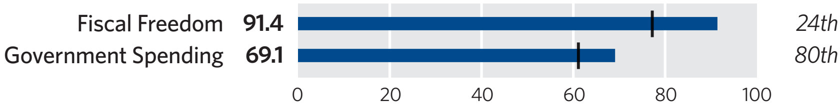
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



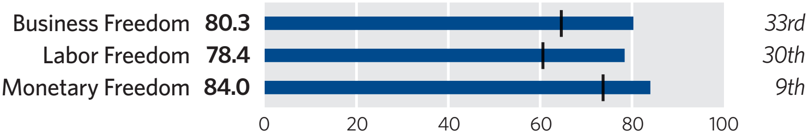
Protection of property rights is weak, and the judiciary is opaque and subject to executive influence. In 2011, the government legalized many properties that had been built without construction permits. Relatively weak respect for the rule of law and uncertainties in registering real property and obtaining land titles continue to undermine economic freedom. Corruption remains a cause for concern.

LIMITED GOVERNMENT



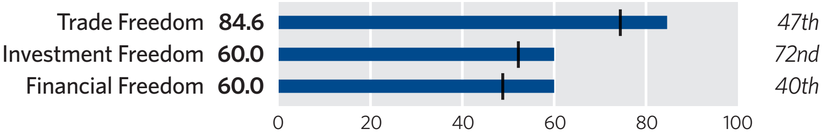
The individual income and corporate tax rates are a flat 10 percent. Other taxes include a value-added tax (VAT) and a property transfer tax. Overall tax revenue is equivalent to 25.7 percent of total domestic income. Government spending equals 32.1 percent of total domestic output. The government has run a relatively small budget deficit. Public debt remains under 30 percent of GDP.

REGULATORY EFFICIENCY



Launching a business takes only two days and two procedures, and no minimum capital is required. However, licensing can take more than 100 days and cost over five times the level of average annual income. After years of high unemployment and underemployment, recent labor market reforms have focused on easing restrictions on work hours. Monetary stability has been relatively well maintained.

OPEN MARKETS

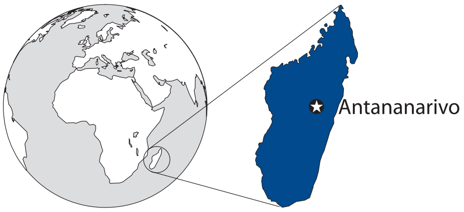


The trade-weighted average tariff rate is 2.7 percent. Some tariff rates were reduced in 2011, but non-tariff barriers include non-transparent import standards and customs corruption. Despite reforms in the investment regime, bureaucratic implementation of regulations deters dynamic growth in new investment. The financial sector has strengthened in recent years, with the government's role limited primarily to regulatory enforcement.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**0**	Fiscal Freedom	**+0.2**	Business Freedom	**-0.6**	Trade Freedom	**+1.0**
Freedom from Corruption	**-2.0**	Government Spending	**+2.4**	Labor Freedom	**-1.9**	Investment Freedom	**0**
				Monetary Freedom	**-2.1**	Financial Freedom	**0**

MADAGASCAR



World Rank: 73 **Regional Rank: 5**

Madagascar's economic freedom score is 62.0, making its economy the 73rd freest in the 2013 *Index*. Its score has decreased by 0.4 point from last year, reflecting declines in business freedom and labor freedom that outweigh gains in freedom from corruption and fiscal freedom. Madagascar is ranked 5th out of 46 countries in the Sub-Saharan Africa region, and its overall score is above the world and regional averages.

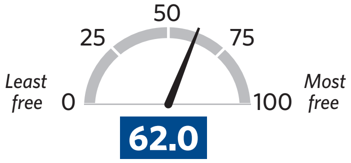
Institutional development and economic liberalization have been the centerpiece of a series of reforms in recent years that have sought to improve the entrepreneurial environment by lowering taxes, reducing the number of procedures to launch a business, and lowering minimum capital requirements for business start-ups. The country has done well in limiting its trade barriers, spurring an agriculture industry that accounts for 80 percent of the economy.

However, poverty remains a huge challenge, and efforts to promote private-sector job growth and business development are undermined by a weak judicial system and corruption. Political instability continues to affect investor confidence in the long-term health of Madagascar's economy.

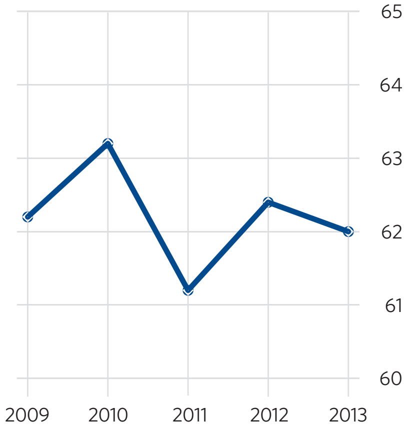
BACKGROUND: Both former President Didier Ratsiraka and opposition candidate Marc Ravalomanana claimed victory in the 2001 elections, and the resulting violence and economic disruption ended only when Ratsiraka fled in 2002. Ravalomanana won a second term in 2006 but stepped down in March 2009 after a power struggle with the opposition. Opposition leader Andry Rajoelina seized power with military backing and declared himself president of the High Transitional Authority. An election road map brokered by the Southern African Development Community called for a presidential election in 2012, but the date was subsequently moved back to May 2013. Some donors have suspended aid, and the African Union and SADC have suspended Madagascar's membership.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

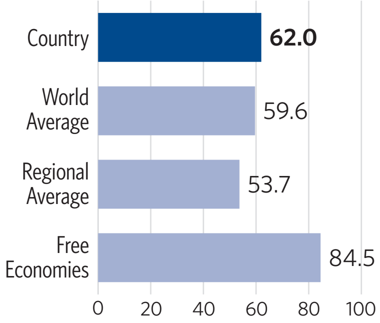
Economic Freedom Score



Freedom Trend



Country Comparisons



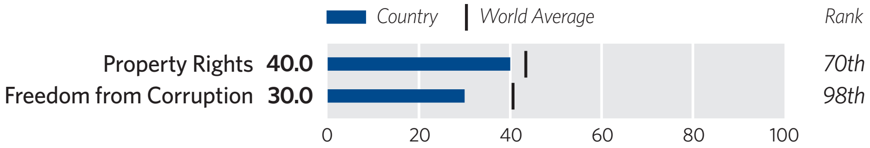
Quick Facts

Population: 21.9 million
GDP (PPP): $20.4 billion
0.5% growth in 2011
5-year compound annual growth 2.0%
$934 per capita
Unemployment: n/a
Inflation (CPI): 10.6%
FDI Inflow: $907.4 million
Public Debt: 5.7% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

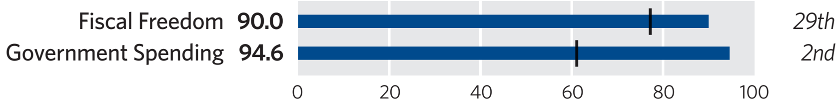
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



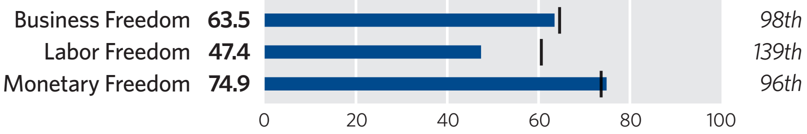
The weak judiciary is influenced by the executive and subject to corruption, and investors face a legal and judicial environment in which the enforcement of contracts cannot be guaranteed. Non-transparent decision-making and complicated administrative procedures introduce delays and uncertainties and multiply the opportunities for corruption, which is pervasive.

LIMITED GOVERNMENT



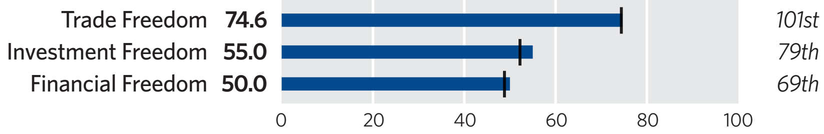
The top income and corporate tax rates are 21 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The overall tax burden amounts to 10.8 percent of GDP. Government spending is equivalent to 13.5 percent of total domestic output. The budget balance has been in deficit, and public debt is low at 5.7 percent of GDP. Despite the political crisis, the government has adopted very prudent fiscal policies.

REGULATORY EFFICIENCY



Procedures for starting a business have been simplified, and no minimum capital is required. However, the cost of completing licensing requirements remains 10 times the level of average annual income. Outmoded labor laws undermine the development of a dynamic labor market. Inflation has averaged 10 percent over the most recent three years. The government influences prices through state-owned enterprises.

OPEN MARKETS



The trade-weighted average tariff rate is 7.7 percent, and non-tariff barriers further restrict trade freedom. The investment regime's inefficiency and lack of transparency deter dynamic growth in new investment. Despite some progress, the relatively high cost of financing hinders entrepreneurial growth, particularly for small and medium-size firms. Capital markets remain underdeveloped.

Score Changes

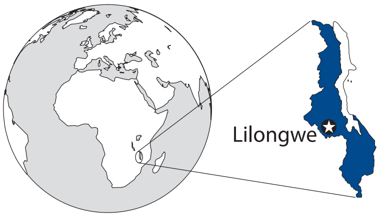
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+4.0

LIMITED GOVERNMENT	
Fiscal Freedom	+1.7
Government Spending	+1.0

REGULATORY EFFICIENCY	
Business Freedom	-7.6
Labor Freedom	-3.4
Monetary Freedom	-1.1

OPEN MARKETS	
Trade Freedom	+1.1
Investment Freedom	0
Financial Freedom	0

MALAWI



World Rank: **118** Regional Rank: **20**

Malawi's economic freedom score is 55.3, making its economy the 118th freest in the 2013 *Index*. Its score has decreased 1.1 points from last year, reflecting declines in six of the 10 economic freedoms including property rights and freedom from corruption. Malawi is ranked 20th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

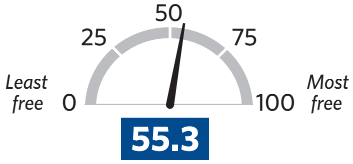
The Malawi economy has demonstrated resilience in weathering the global slowdown, achieving an average annual growth rate of about 8 percent over the past five years. Recent reform measures have put greater emphasis on simplifying the business start-up process and creating a more vibrant private sector through decentralization.

Nonetheless, Malawi's growth potential remains fragile and hampered by inefficient legal and investment regimes that undermine entrepreneurship and job growth. With the control of government spending worsening, lingering state interference in the private economy discourages dynamic long-term economic development. Pervasive corruption and a weak judicial system add uncertainty and risk.

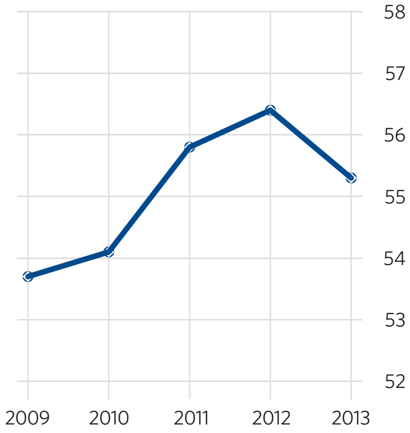
BACKGROUND: After achieving independence in 1964, Malawi was ruled as a one-party state by Dr. Hastings Kamuzu Banda for 30 years. Multi-party elections elevated Bakili Muluzi to the presidency in 1994. President Bingu wa Mutharika, elected in 2004, resigned from the ruling United Democratic Front a year later and formed a new political party. Mutharika was re-elected in May 2009 but died suddenly in April 2012 and was replaced by Vice President Joyce Banda. Malawi is one of Africa's most densely populated countries. Over 85 percent of the population depends on subsistence agriculture, and the agricultural sector accounts for over 35 percent of GDP and over 80 percent of exports. Tobacco, tea, and sugar are the most important exports. The United Kingdom has suspended budgetary aid, which totals almost $27 million, because of alleged human rights abuses and poor economic management. Banda has reversed several of her predecessor's anti-market economic policies in a bid to have donor funding restored.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

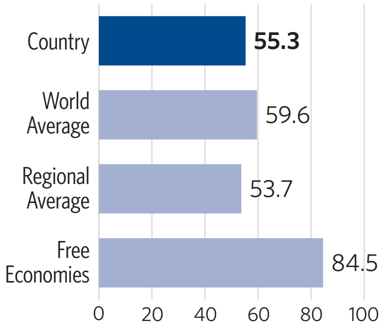
Economic Freedom Score



Freedom Trend



Country Comparisons



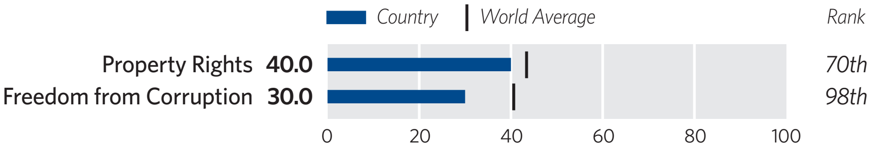
Quick Facts

Population: 16.2 million
GDP (PPP): $13.9 billion
5.5% growth in 2011
5-year compound annual growth 7.8%
$860 per capita
Unemployment: n/a
Inflation (CPI): 7.6%
FDI Inflow: $56.3 million
Public Debt: 42.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

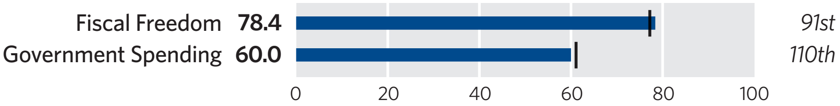
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



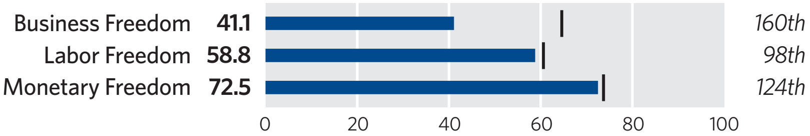
Property rights are not protected effectively, and the rule of law is weak. Court proceedings can be very slow. There are reports of government intervention in some judicial cases and frequent allegations of bribery in civil and criminal cases. Corruption remains widespread, and there allegedly are serious problems in agencies handling customs, taxes, and procurement.

LIMITED GOVERNMENT



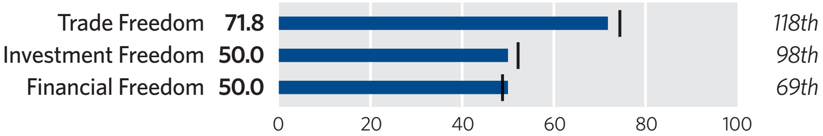
The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and an inheritance tax. The overall tax burden equals 19.1 percent of total domestic income. Government spending has risen to 36.5 percent of total domestic output. The budget balance has spiked at 7.9 percent of GDP, but public debt remains below 50 percent of GDP. Malawi has been unable to meet the terms of its IMF credit facility.

REGULATORY EFFICIENCY



Launching a business has become more straightforward, but licensing can still take 200 days and cost over 10 times the level of average annual income. The labor market remains poorly developed. Most of the population is employed outside of the formal sector, primarily in agriculture. Inflation has been increasing, and the government continues to influence prices on a range of goods and services through state-owned enterprises.

OPEN MARKETS



The trade-weighted average tariff rate is 6.6 percent, and non-tariff barriers further hamper dynamic growth in trade. Both foreign and domestic investors are subject to government restrictions and heavy bureaucracy. The financial sector, dominated by banking, remains underdeveloped, and a full range of modern financing tools is not readily available. Capital transactions and foreign exchange accounts are also limited.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	-5.0	Fiscal Freedom	-0.9	Business Freedom	-0.9	Trade Freedom	+0.9
Freedom from Corruption	-4.0	Government Spending	-2.2	Labor Freedom	+0.6	Investment Freedom	0
				Monetary Freedom	-0.1	Financial Freedom	0

MALAYSIA

World Rank: **56** Regional Rank: **9**

Malaysia's economic freedom score is 66.1, making its economy the 56th freest in the 2013 *Index*. Its score is 0.3 point lower than last year, with an improvement in property rights outweighed by a significant decline in labor freedom. Malaysia is ranked 9th out of 41 countries in the Asia–Pacific region, and its overall score is above the world and regional averages.

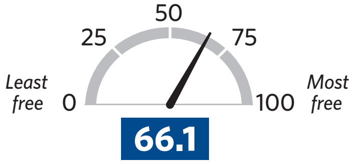
Despite the challenging global economic environment, the Malaysian economy has recorded growth rates averaging about 4.5 percent per year over the past five years. Pressing ahead with its Economic Transformation Program, the government has undertaken structural reforms to enhance the entrepreneurial environment and legal transparency. Management of public finance has been relatively prudent, with gradual reductions in various government subsidies in recent years.

Despite ongoing reform efforts, Malaysia's overall economic freedom continues to be constrained by institutional shortcomings that damage prospects for more vibrant long-term economic expansion. The country's perceived level of corruption has increased, and there is no sign of effective anti-corruption measures, The judicial system remains vulnerable to political interference.

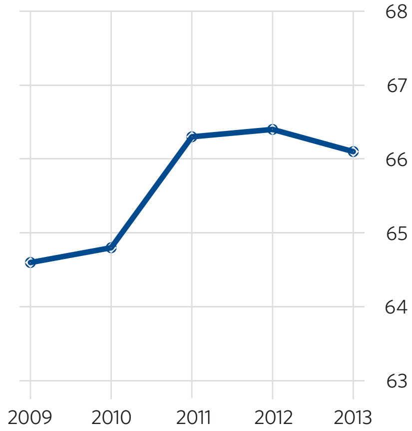
BACKGROUND: Malaysia, an ethnically and religiously diverse constitutional monarchy, became independent in 1957 and has been ruled continuously by the United Malays National Organization. Huge electoral inroads made in March 2008 by the opposition coalition, led by the People's Justice Party, were largely the result of popular dissatisfaction with pro-Malay affirmative action programs and corruption. In 2011 and 2012, the government cracked down heavily on peaceful protests by civil society groups calling for electoral reform. Malaysia has slowly liberalized its economy, but government ownership remains prevalent in such key sectors as banking, media, automobiles, and airlines. Malaysia is a leading exporter of electronics and information technology products, and its industries range from agricultural goods to automobiles.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

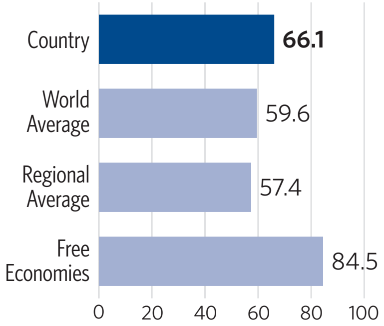
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 28.7 million

GDP (PPP): $447.3 billion

5.1% growth in 2011

5-year compound annual growth 4.3%

$15,568 per capita

Unemployment: 3.1%

Inflation (CPI): 3.2%

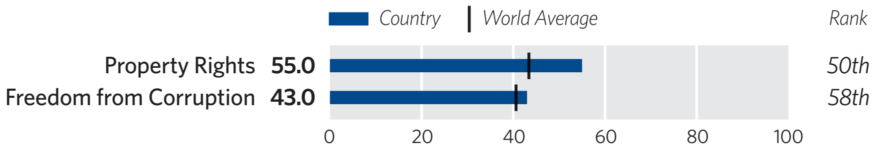
FDI Inflow: $12.0 billion

Public Debt: 52.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

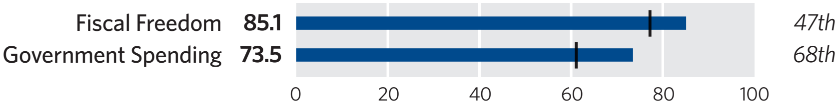
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



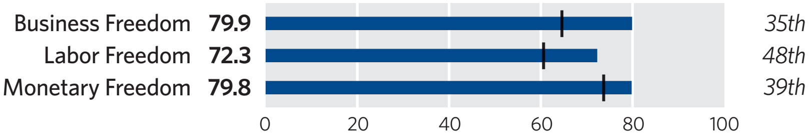
Private property is protected, but the judiciary is subject to political influence. Corporate lawsuits face lengthy delays. In late 2011, the parliament amended the Copyright Act to strengthen intellectual property protection. Malaysia intends to accede to the World Intellectual Property Organization Copyright Treaty and Performances and Phonograms Treaty. Corruption is a continuing concern.

LIMITED GOVERNMENT



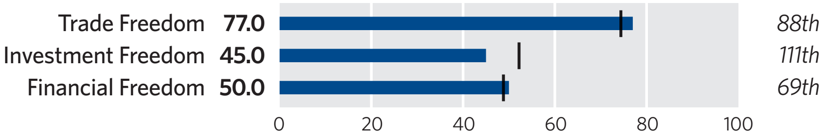
The top individual income tax rate is 26 percent, and the top corporate tax rate is 25 percent. Other taxes include a capital gains tax. The overall tax burden is equal to 13.8 percent of total domestic income. Government spending is equivalent to 29.7 percent of GDP. Large government spending projects have contributed to a budget deficit, and public debt amounts to about 53 percent of GDP.

REGULATORY EFFICIENCY



Steps to introduce greater regulatory efficiency have been implemented in recent years, and licensing requirements have become considerably less time-consuming and bureaucratic. With no minimum capital required, it takes only three procedures and six days on average to start a business. Labor market rigidity persists, hampering dynamic job growth. Monetary stability has been relatively well maintained.

OPEN MARKETS



The trade-weighted average tariff rate is 4 percent, and non-tariff barriers add to the cost of trade. Despite efforts to attract foreign investment, government interference and a lack of transparency deter dynamic growth in investment flows. The financial sector remains stable. Measures to open the banking sector to greater competition have been made, but progress has been slow.

Score Changes

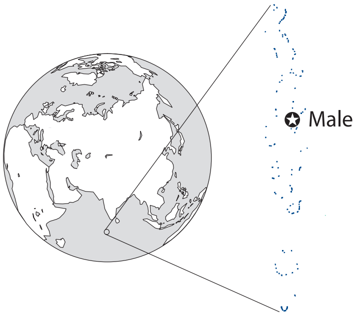
RULE OF LAW	
Property Rights	+5.0
Freedom from Corruption	-1.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.6
Government Spending	+1.0

REGULATORY EFFICIENCY	
Business Freedom	+1.8
Labor Freedom	-7.0
Monetary Freedom	-1.8

OPEN MARKETS	
Trade Freedom	-1.8
Investment Freedom	0
Financial Freedom	0

MALDIVES



World Rank: **149** Regional Rank: **34**

The Maldives' economic freedom score is 49, making its economy the 149th freest in the 2013 *Index*. Its score has decreased by 0.2 point from last year, with a significant improvement in the control of government spending more than offset by declines in labor freedom, investment freedom, and monetary freedom. The Maldives is ranked 34th out of 41 countries in the Asia–Pacific region, and its overall score is below the world and regional averages.

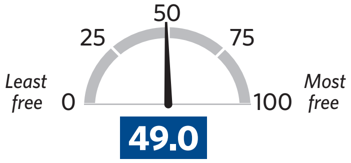
The Maldives' efforts to advance economic freedom have been uneven and fragile. Impediments to sustained private-sector growth and diversification persist, in large part due to institutional deficiencies such as corruption and the weak protection of property rights.

Other weaknesses include chronically high government spending that perpetuates the inefficiency of the outsized public sector. The government still plays a large role in the economy through state-owned enterprises, severely undermining entrepreneurship. Public ownership is widespread in every sector except tourism, and the public sector remains the largest source of jobs, employing over one-third of the labor force. Severe government impediments to economic interactions with the global economy continue to degrade productivity and raise costs.

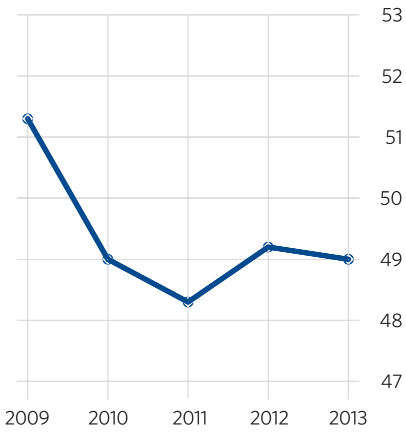
BACKGROUND: The military forced President Mohammed Nasheed to step down in February 2012 after several weeks of anti-government street protests instigated by former Maldivian dictator Maumoon Abdul Gayoom. Nasheed had been elected president in the Maldives' first-ever democratic election in 2008, replacing Gayoom, who had ruled the country for 30 years. Waheed Hassan Manik has been named interim president until new elections are held, most likely in 2013. The Maldives has largely recovered from the devastation caused by the 2004 Asian tsunami. Tourism is the centerpiece of the economy, contributing 28 percent of GDP in 2012 and over 90 percent of government tax revenue. Fishing employs about 11 percent of the labor force, and manufacturing provides less than 7 percent of GDP.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

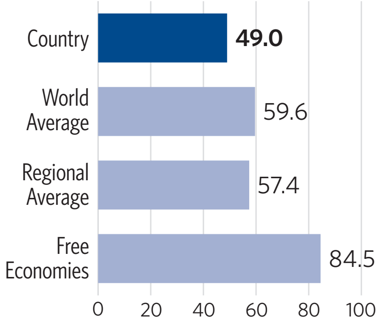
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

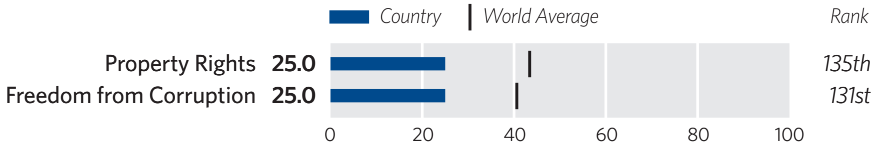
Population: 0.3 million
GDP (PPP): $2.8 billion
7.4% growth in 2011
5-year compound annual growth 6.1%
$8,731 per capita
Unemployment: 14.5% (2010)
Inflation (CPI): 12.1%
FDI Inflow: $281.6 million
Public Debt: 69.1% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

MALDIVES (continued)

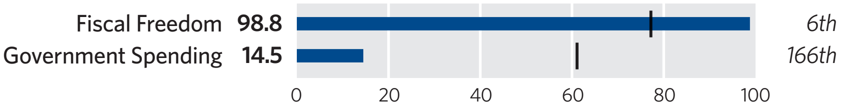
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



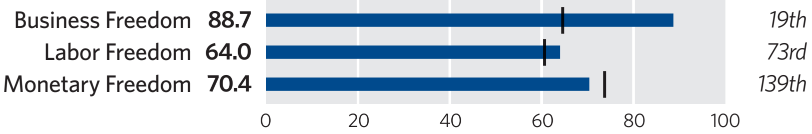
There is little private ownership of land, but land reform is being considered. The rule of law remains uneven across the country. The inefficient judicial system is subject to political influence, and application of laws is inconsistent. In February 2012, the president was removed from office at gunpoint and replaced by his vice president. Corruption remains prevalent throughout the economy.

LIMITED GOVERNMENT



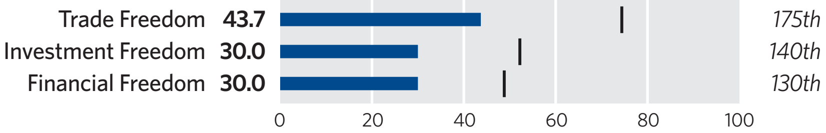
There is no income or corporate tax. Bank profits are subject to a profits tax. Overall tax revenue is 11 percent of total domestic income. Government spending remains quite high at a level equivalent to 53.4 percent of GDP. The budget deficit has been chronically high at over 10 percent of total domestic output, and public debt has reached nearly 70 percent of GDP. Recent policy slippages have undermined joint IMF and World Bank debt programs.

REGULATORY EFFICIENCY



The overall regulatory environment is not conducive to new business formation and operation. Although it takes only five procedures to launch a business on average, licensing requirements are time-consuming. The labor market is underdeveloped. Much of the labor force is employed in the large public sector. Lack of competition in the market has inflated price levels, hurting the standard of living.

OPEN MARKETS

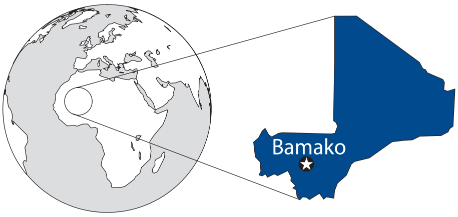


The government relies heavily on tariff revenues to fund its activities. The trade-weighted average tariff rate is prohibitively high at 20.6 percent, and non-tariff barriers add further to the cost of trade. Heavy bureaucracy in the investment approval process and political unrest hamper the already weak investment regime. Banking has expanded, but high costs and limited access to financial services contribute to the shallowness of the sector.

Score Changes

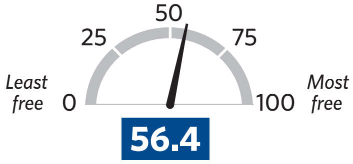
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.8	Business Freedom	-1.0	Trade Freedom	0
Freedom from Corruption	+2.0	Government Spending	+14.5	Labor Freedom	-7.9	Investment Freedom	-5.0
				Monetary Freedom	-4.9	Financial Freedom	0

MALI

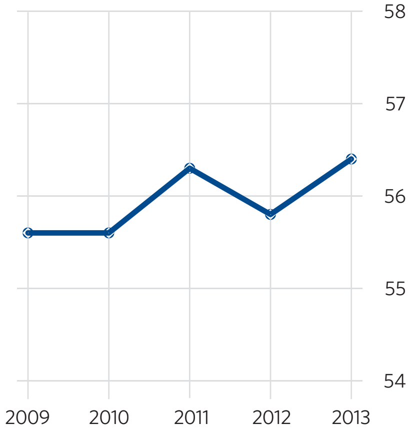


World Rank: **111** Regional Rank: **17**

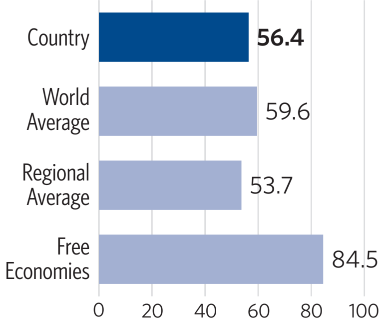
Economic Freedom Score



Freedom Trend



Country Comparisons



Mali's economic freedom score is 56.4, making its economy the 111th freest in the 2013 *Index*. Its score has increased by 0.6 point from last year, mainly reflecting gains in fiscal freedom and the control of government spending that outweigh declines in investment freedom and labor freedom. Mali is ranked 17th out of 46 countries in the Sub-Saharan Africa region, and its score is below the world average.

Mali has instituted some regulatory reforms over the past year to enhance the entrepreneurial environment. In particular, it has moved to install a "one-stop" business registration system and ease the requirements for securing capital. However, these reforms have been undercut by ongoing political instability.

Overall institutional weaknesses continue to limit the economy's dynamism and perpetuate the stagnation of economic freedom. Corruption continues to undermine the rule of law, and this is exacerbated by an inefficient judicial system that remains vulnerable to political influence. Free trade and investment have not been fully institutionalized, and tariffs and other restrictions inhibit individuals and businesses from participating efficiently in the global economy.

BACKGROUND: Mali was a one-party socialist state until 1992. Retired General Amadou Toumani Touré, head of state during the transition to democracy, was elected president in 2002 and re-elected in 2007. In March 2012, he was overthrown in a coup. Tensions continue between the government and Tuareg tribes in northern Mali over land, cultural, and linguistic rights, and the junta lacks a coherent strategy for national governance. Ansar Dine, an Islamist group affiliated with al-Qaeda in the Islamic Maghreb, holds sway in the North. Located in the heart of the Sahel, Mali is arid. Agriculture (mostly subsistence farming), livestock, and fishing in the Niger River employ 70 percent of the population and account for about a third of GDP. Cotton is a key export. Mining is growing, but mineral resources are generally underexploited, and infrastructure remains inadequate.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Quick Facts

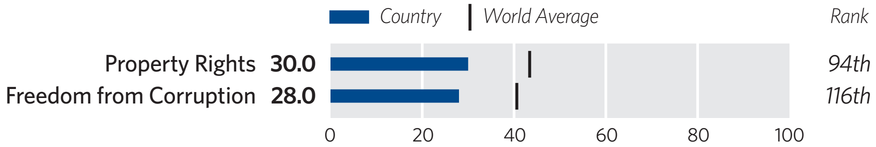
Population: 15.9 million
GDP (PPP): $17.9 billion
2.7% growth in 2011
5-year compound annual growth 4.4%
$1,128 per capita
Unemployment: n/a
Inflation (CPI): 3.1%
FDI Inflow: $177.8 million
Public Debt: 30.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

MALI (continued)

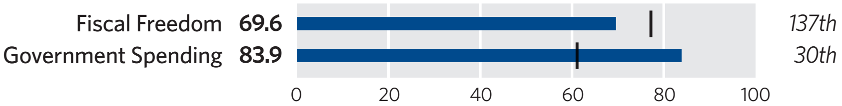
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



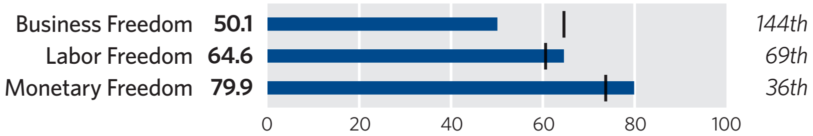
Mali's already-fragile rule of law has suffered from the instability generated by the return of thousands of well-armed Tuareg fighters who had served in the security forces of former Libyan leader Muammar Qadhafi. In theory, property rights are protected and the judiciary is constitutionally independent, but Mali's judicial system is considered notoriously inefficient and corrupted by bribery and influence-peddling.

LIMITED GOVERNMENT



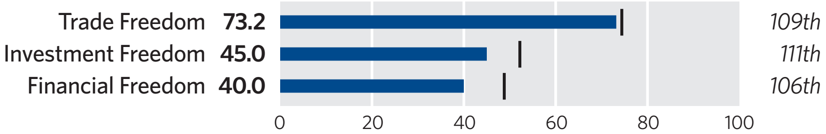
The top income tax rate is 40 percent, and the top corporate tax rate is 35 percent. Other taxes include a value-added tax (VAT). Overall tax revenue amounts to 14.6 percent of total domestic income, and government spending has decreased to 23.2 percent of GDP. The budget has been chronically in deficit, and public debt has reached a level equal to about 30 percent of GDP.

REGULATORY EFFICIENCY



Despite past efforts to dismantle bureaucratic hurdles to starting a business, commercial regulations have been neither implemented nor enforced effectively. Economic diversification has lagged, and much private-sector activity takes place outside of the formal economy. Labor regulations, although not fully enforced, are relatively rigid. Inflation is under control.

OPEN MARKETS

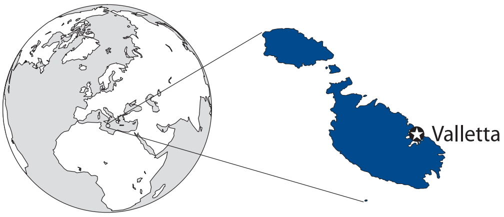


The trade-weighted average tariff rate is a fairly high 8.4 percent, and non-tariff barriers further increase the cost of trade. The investment regime remains severely hampered by instability and government interference. The financial sector remains underdeveloped. With financial intermediation minimal, banks lack the capacity to provide adequate access to financing. Much of the population relies on informal lending.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+9.5	Business Freedom	–0.7	Trade Freedom	0
Freedom from Corruption	+1.0	Government Spending	+4.0	Labor Freedom	–1.9	Investment Freedom	–5.0
				Monetary Freedom	–0.8	Financial Freedom	0

MALTA



World Rank: **47** Regional Rank: **23**

Malta's economic freedom score is 67.5, making its economy the 47th freest in the 2013 *Index*. Its overall score is 0.5 point higher than last year, with significant improvements in investment freedom, labor freedom, and property rights outweighing declines in business freedom and fiscal freedom. Malta ranks 23rd out of 43 countries in the Europe region, and its overall score is above the regional average.

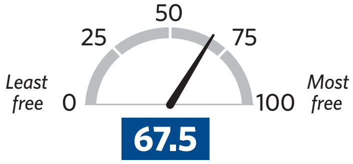
Malta has continued to perform well since 2010, despite considerable economic and financial turbulence in the region. Openness to global trade and investment has contributed strongly to restoring economic growth. Malta has taken steps to enhance the competitiveness and soundness of a financial sector that is now about eight times the size of the economy. The banking sector has weathered the European sovereign debt turmoil relatively well with no need for capital injections.

Despite progress made in recent years, the foundations of economic freedom are only average by European standards, undermining prospects for more dynamic long-term economic expansion. The court system, while transparent and relatively free of corruption, remains inefficient. The government continues to intrude excessively into economic activity, imposing heavy tax burdens and maintaining high levels of spending.

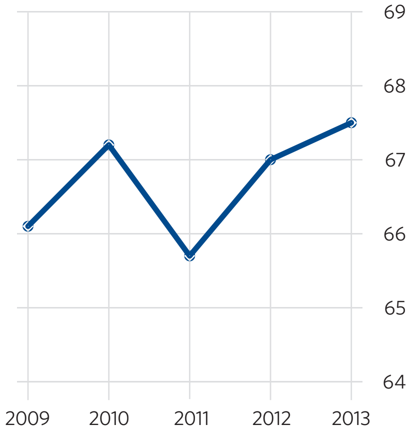
BACKGROUND: The Nationalist Party government of Prime Minister Lawrence Gonzi, with a one-vote majority in parliament, has been challenged by soaring numbers of immigrants fleeing the 2011–2012 political uprisings in North Africa. Malta remained neutral during the 2011 NATO intervention in Libya. It joined the European Union in 2004 and the eurozone in 2008. Malta has very few natural resources and imports most of its food and fresh water and 100 percent of its energy supply. The economy depends on tourism, trade, and manufacturing. Well-trained workers, low labor costs, and membership in the EU attract foreign investment, but the government maintains a sprawling socialist bureaucracy, with the majority of government spending allocated to housing, education, and health care.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

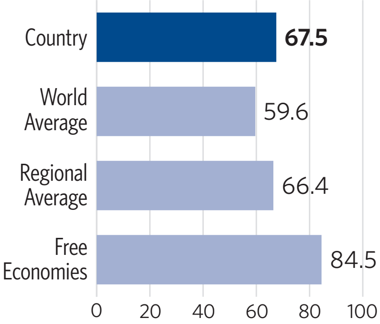
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 0.4 million

GDP (PPP): $10.8 billion

2.1% growth in 2011

5-year compound annual growth 2.0%

$25,428 per capita

Unemployment: 6.4%

Inflation (CPI): 2.4%

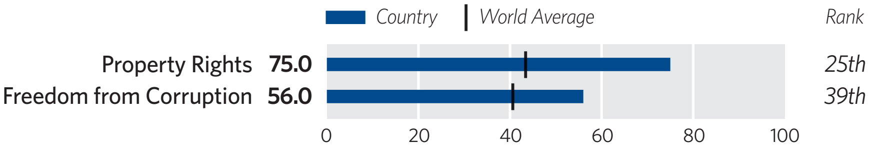
FDI Inflow: $538.5 million

Public Debt: 70.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

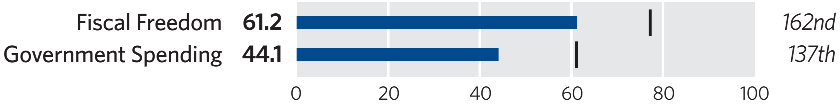
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



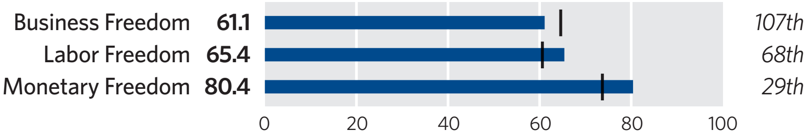
Malta's judiciary is independent both constitutionally and in practice. Property rights are protected, and expropriation is unlikely. Foreigners do not have full rights to buy property in Malta unless they obtain Maltese nationality. The country still lacks a comprehensive strategy for rooting out corruption as well as appropriate institutions to implement and monitor anti-corruption activities.

LIMITED GOVERNMENT



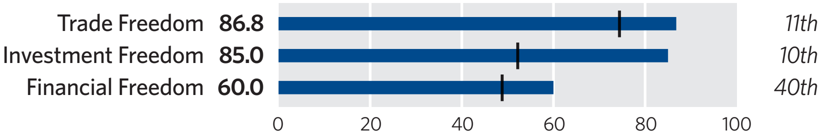
The top income and corporate tax rates are 35 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The overall tax burden equals 37.8 percent of total domestic income. Despite some reduction in spending, government expenditures remain high at a level equivalent to 43.2 percent of total domestic output. Public debt, at about 70 percent of GDP, has crept into potentially dangerous territory.

REGULATORY EFFICIENCY



The overall regulatory framework remains burdensome despite reform efforts. Starting a business takes 40 days on average, and completing licensing requirements costs over twice the level of average annual income. The labor market remains relatively rigid. The government mandates a minimum wage, and labor relations can be confrontational. With inflation under control, monetary stability has been maintained.

OPEN MARKETS



Malta's trade regime is the same as that of other members of the European Union, with the common EU trade-weighted average tariff rate standing at 1.6 percent, but non-tariff barriers raise the cost of trade. Foreign investment is welcome, and investment regulations are generally transparent. The financial sector has undergone gradual restructuring and expansion, and the banking sector has become more open to foreign banks.

Score Changes

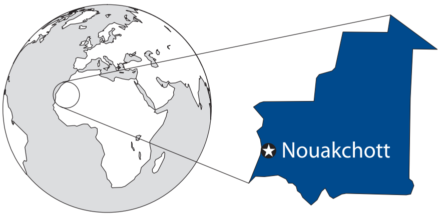
RULE OF LAW	
Property Rights	+5.0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	-6.6
Government Spending	+0.3

REGULATORY EFFICIENCY	
Business Freedom	-8.9
Labor Freedom	+5.4
Monetary Freedom	-0.1

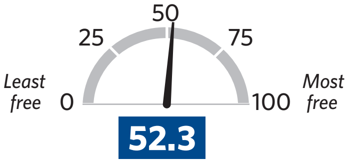
OPEN MARKETS	
Trade Freedom	-0.3
Investment Freedom	+10.0
Financial Freedom	0

MAURITANIA



World Rank: **134** Regional Rank: **28**

Economic Freedom Score



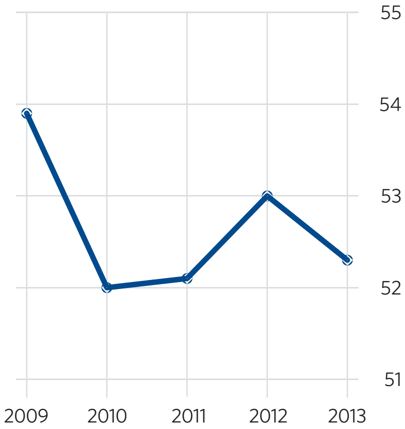
Mauritania's economic freedom score is 52.3, making its economy the 134th freest in the 2013 *Index*. Its score has decreased by 0.7 point since last year, with declines in business freedom and trade freedom outweighing improvements in investment freedom and the control of government spending. Mauritania is ranked 28th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world and regional averages.

The Mauritanian economy has grown significantly since 2010, mainly due to investments in mining. The booming mining sector, associated with political stability, has ensured a sustained average growth rate of around 2.5 percent over the past five years.

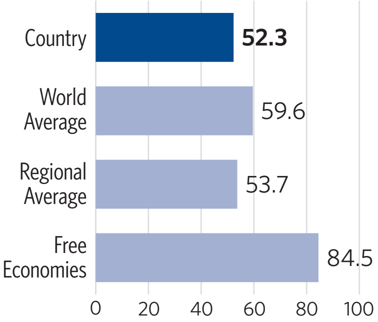
Despite the economic expansion, overall progress in reforming and modernizing Mauritania's resource-oriented economy has been uneven and deficient. The foundations of economic freedom remain fragile, with corruption and an inefficient judicial system continuing to undermine the rule of law. Weak governance and structural problems constrain the emergence of a more dynamic private sector. Policies needed to liberalize or sustain open markets have been undercut by considerable government interference in the economy. Youth employment continues to be a major problem, with urban unemployment exceeding 30 percent.

BACKGROUND: A military junta ruled Mauritania from 1978 until 1992, when the first multi-party elections were held. In 2008, General Mohamed Ould Abdel Aziz overthrew President Sidi Ould Cheikh Abdallahi and declared himself president. Abdel Aziz won July 2009 elections. Popular discontent threatened his parliamentary alliance in the run-up to elections scheduled for October 2011, and the elections were repeatedly postponed. There are recurring ethnic tensions within the mixed population of Moors and black Africans. Mauritania is predominantly desert and beset by drought, poor harvests, and unemployment. Mining and fishing dominate the economy. Offshore oil production began in 2006.

Freedom Trend



Country Comparisons



Quick Facts

Population: 3.3 million

GDP (PPP): $7.1 billion

3.6% growth in 2011

5-year compound annual growth 2.4%

$2,179 per capita

Unemployment: 35%

Inflation (CPI): 5.7%

FDI Inflow: $45.2 million

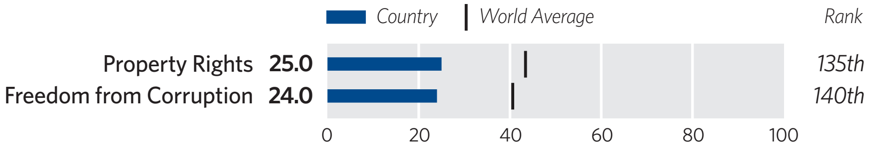
Public Debt: 92.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

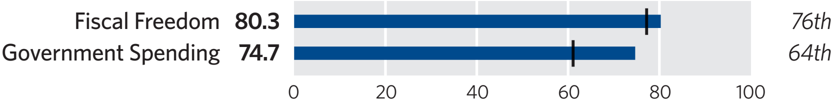
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



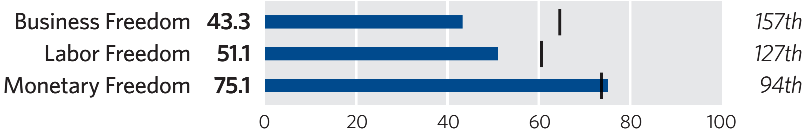
Mauritania's judicial system is chaotic and corrupt. The judiciary is influenced by the executive. Poorly trained judges are intimidated by social, financial, tribal, and personal pressures. Corruption is most pervasive in government procurement, bank loans, fishing licenses, land distribution, and tax payments. Bribes to obtain telephone, electricity, and water connections and construction permits more quickly are common.

LIMITED GOVERNMENT



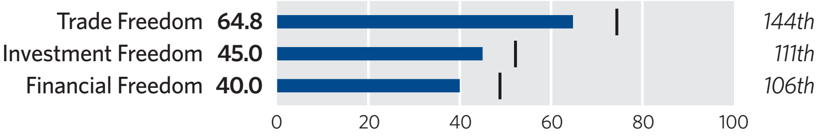
The top income tax rate is 33 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT). The overall tax burden equals 16 percent of total domestic income. Government spending is equivalent to 29.1 percent of GDP. The budget remains in deficit, and public debt is about 92 percent of GDP. An important tax holiday for mining expires this year, but fiscal health should improve with a commitment to tackle subsidies.

REGULATORY EFFICIENCY



The overall regulatory environment is significantly burdensome. The minimum capital requirement for launching a business is over three times the level of average annual income, and obtaining necessary licenses is time-consuming and costly. The labor law dating from 2004 is quite strict about hiring, and dismissal is difficult due to the required notification process. Inflation has been relatively contained.

OPEN MARKETS



The trade-weighted average tariff rate is high at 10.1 percent, and non-tariff barriers including customs delays further constrain trade freedom. Despite some progress, investors continue to be subject to complicated bureaucratic procedures and uncertainty caused by political instability. The prevalence of state-owned enterprises deters opportunities for private investment. Progress in modernizing the financial sector has been sluggish and limited.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.2	Business Freedom	-8.0	Trade Freedom	-5.1
Freedom from Corruption	+1.0	Government Spending	+2.8	Labor Freedom	-2.1	Investment Freedom	+5.0
				Monetary Freedom	-0.4	Financial Freedom	0

MAURITIUS

World Rank: **8** Regional Rank: **1**

Mauritius's economic freedom score is 76.9, making its economy the 8th freest in the 2013 *Index*. Its overall score is essentially the same as last year, with improvements in property rights and labor freedom counterbalanced by declines in freedom from corruption and monetary freedom. Mauritius is ranked 1st out of 46 countries in the Sub-Saharan African region.

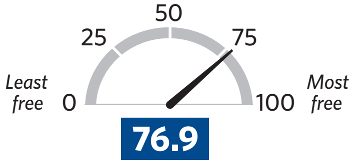
Maintaining its status as one of the world's 10 freest economies, Mauritius continues to be a global leader in economic freedom. All the pillars of economic freedom are solidly maintained. The small island economy benefits greatly from a sound and transparent legal framework that strongly upholds the rule of law. Budgetary reforms remain largely on course, keeping public debt and budget deficits under control despite expansionary fiscal policy since 2008.

With a stable business climate, Mauritius sustains a dynamic entrepreneurial environment. Barriers to free trade are low, and commercial operations are aided by efficient regulations that support open-market policies. Inflationary pressures are under control, and foreign investment is welcome.

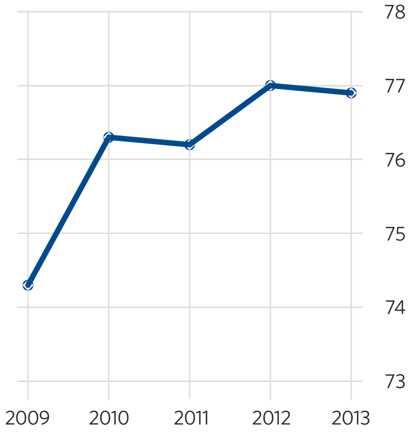
BACKGROUND: Independent since 1968, Mauritius is a successful democracy and one of Sub-Saharan Africa's strongest economies. Navin Ramgoolam of the Mauritius Labour Party has been prime minister since 2005. Mauritius has a well-developed legal and commercial infrastructure and a tradition of entrepreneurship and representative government. It also has one of the region's highest per capita incomes. The government is trying to modernize the sugar and textile industries while promoting diversification into such areas as information and communications technology, financial and business services, seafood processing and exports, and free trade zones. Agriculture and industry are less important than they were, and services, especially tourism, are now the economic mainstay. The government still owns utilities and controls imports of rice, flour, petroleum products, and cement. Mauritius has made maritime security a priority and in 2012 signed a deal with Britain's Royal Navy for the transfer of suspected pirates captured by Britain to Mauritius for prosecution.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

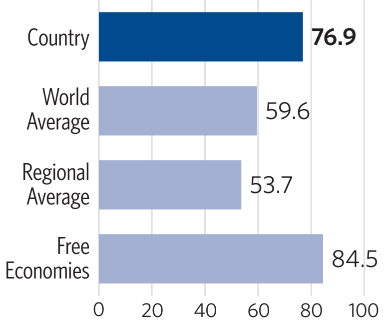
Economic Freedom Score



Freedom Trend



Country Comparisons



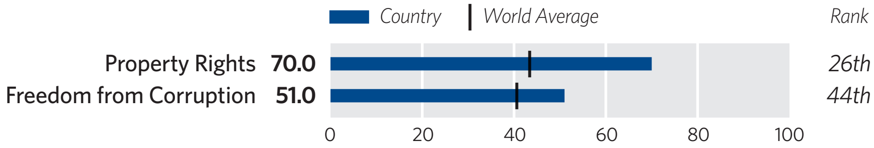
Quick Facts

Population: 1.3 million
GDP (PPP): $19.3 billion
4.1% growth in 2011
5-year compound annual growth 4.5%
$14,954 per capita
Unemployment: 7.8%
Inflation (CPI): 6.5%
FDI Inflow: $273.4 million
Public Debt: 50.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

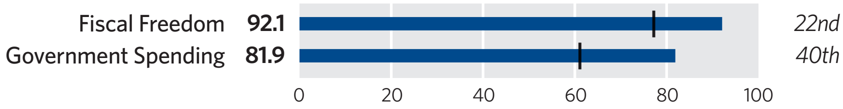
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



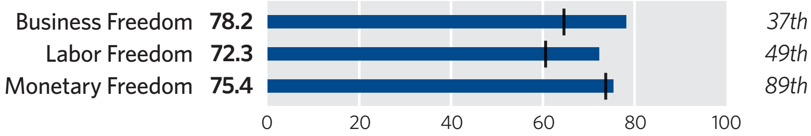
The judiciary is independent, and trials are fair. The legal system is generally non-discriminatory and transparent. Expropriation is unlikely. Enforcement of laws regarding intellectual property rights is relatively effective. The Independent Commission Against Corruption investigates offenses and can confiscate the proceeds of corruption and money laundering. Mauritius is one of Africa's least corrupt countries.

LIMITED GOVERNMENT



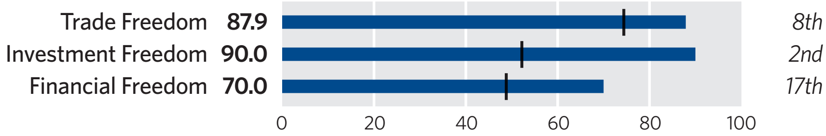
The income and corporate tax rates are a flat 15 percent. Other taxes include a value-added tax (VAT), and the overall tax burden is equal to 18.5 percent of total domestic income. Government spending has increased to 24.6 percent of total domestic output. The budget deficit has been under control, and public debt hovers around 50 percent of GDP.

REGULATORY EFFICIENCY



With no minimum capital requirements, the overall start-up process has been simplified. Launching a business takes five procedures and six days on average. Licensing requirements remain time-consuming, taking over 100 days to complete. Labor regulations are not rigid, and the costs of terminating employment are relatively low. Inflationary pressures have increased, but overall monetary stability has been well maintained.

OPEN MARKETS



The trade-weighted average tariff rate is very low at 1.1 percent, and there are relatively few non-tariff barriers. The investment framework is open and efficient, facilitating the flow of new investment. The growing financial sector, dominated by private commercial banks, is competitive. The number of non-performing loans is declining, and banking continues to be well-capitalized and resilient despite ongoing global financial turbulence.

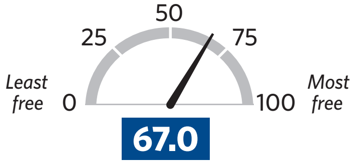
Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**+5.0**	Fiscal Freedom	**+0.2**	Business Freedom	**–0.5**	Trade Freedom	**0**
Freedom from Corruption	**-3.0**	Government Spending	**-1.5**	Labor Freedom	**+1.9**	Investment Freedom	**0**
				Monetary Freedom	**-2.9**	Financial Freedom	**0**

MEXICO

World Rank: 50 **Regional Rank: 3**

Economic Freedom Score



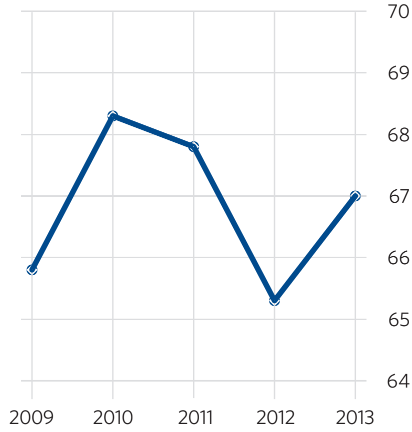
Mexico's economic freedom score is 67.0, making its economy the 50th freest in the 2013 *Index*. Its score is 1.7 points better than last year, reflecting notable improvements in investment freedom, trade freedom, and monetary freedom. Mexico is ranked 3rd out of three countries in the North America region, but its score is well above the world average.

The Mexican economy has shown a moderate degree of resilience in the face of a challenging global economic environment. Reform efforts have continued in many areas related to economic freedom. Implementation of policies intended to support open markets and encourage a vibrant private sector has enhanced investment flows and the vitality of entrepreneurship, although growth remains sluggish. The 2012 labor reform bill, which aimed to increase labor market flexibility, was weakened by amendments to protect the country's powerful unions.

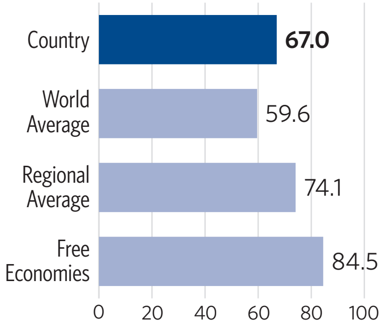
Mexico has lagged notably in promoting the rule of law and strengthening the legal framework. The judicial system remains vulnerable to political interference, and property rights are not strongly protected. Corruption further undermines long-term institutional competitiveness. Recent years' expansionary public spending threatens fiscal sustainability. The reform agenda addressing these shortcomings has been extensive, but progress has been marginal.

BACKGROUND: In the years following the end of the 71-year rule of the Institutional Revolutionary Party (PRI), center-right National Action Party Presidents Vicente Fox (2000–2006) and Felipe Calderon (2006–2012) hoped to make Mexico more globally competitive, but neither was able to end monopoly power in key sectors of the economy. PEMEX, the state-owned oil company, is but one example. Consumers are also at the mercy of dominant players in telecommunications, chemicals, electricity, beer, and cement, to name a few. The PRI will try again, under President Enrique Peña Nieto, who took office on December 1, 2012, and has pledged to modernize the Mexican state.

Freedom Trend



Country Comparisons



Quick Facts

Population: 113.7 million
GDP (PPP): $1.7 trillion
4.0% growth in 2011
5-year compound annual growth 1.4%
$14,610 per capita
Unemployment: 5.3%
Inflation (CPI): 3.4%
FDI Inflow: $19.6 billion
Public Debt: 43.8% of GDP

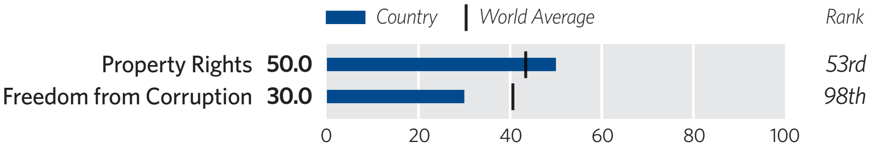
2011 data unless otherwise noted.
Data compiled as of September 2012.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

MEXICO (continued)

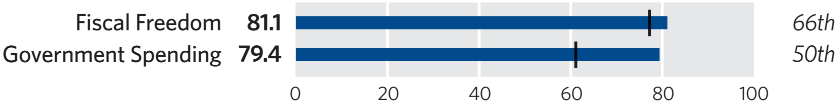
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



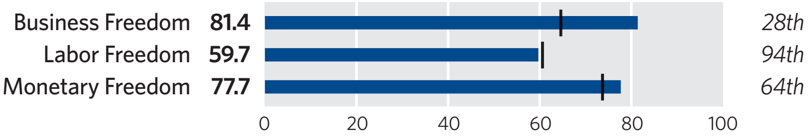
Respect for the rule of law has deteriorated as drug trafficking and related violence continue to rage out of control, especially in northern Mexico. Contracts are generally upheld, but courts are inefficient and vulnerable to political interference. Despite a legal framework covering intellectual property rights, prosecution of infringement is ineffective. Corruption remains pervasive at all levels of society.

LIMITED GOVERNMENT



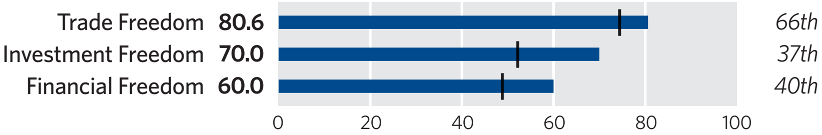
The top income and corporate tax rates, temporarily raised from 28 percent to 30 percent starting in 2010, will be lowered to 29 percent in 2013 and 28 percent in 2014. Other taxes include a value-added tax (VAT). The overall tax burden equals about 9.6 percent of GDP. Government spending is now equivalent to 26.2 percent of total domestic output, and budget deficits are widening. Public debt remains below 50 percent of GDP.

REGULATORY EFFICIENCY



The regulatory framework has been reformed to facilitate entrepreneurial activity. With no minimum capital required, launching a business involves six procedures. However, completing licensing requirements still costs over three times the level of annual average income. The recent labor reform bill was watered down to protect unions. Inflation has moderated, averaging below 4 percent over the most recent three years.

OPEN MARKETS

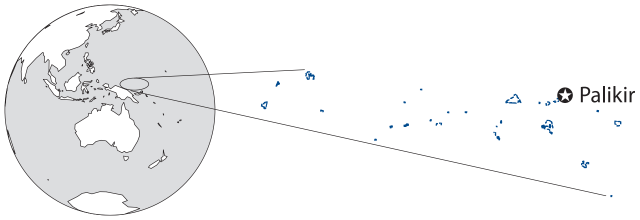


The trade-weighted average tariff rate is 6.1 percent, and extensive non-tariff barriers increase the cost of trade. Despite a strong desire to attract more foreign investment, the investment regime is inefficient and hampered by violence and instability. The financial sector has become more competitive and open in spite of the challenging global environment. Banking remains relatively stable, and foreign participation has grown rapidly.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.4	Business Freedom	–0.6	Trade Freedom	+7.7
Freedom from Corruption	–1.0	Government Spending	+1.1	Labor Freedom	–1.6	Investment Freedom	+10.0
				Monetary Freedom	+1.2	Financial Freedom	0

MICRONESIA



World Rank: **143** Regional Rank: **32**

Micronesia's economic freedom score is 50.1, making its economy the 143rd freest in the 2013 *Index*. Its score has decreased by 0.6 point since last year due to deteriorating control of government spending and a loss of business freedom. Micronesia is ranked 32nd out of 41 countries in the Asia–Pacific region, and its overall score is lower than the world and regional averages.

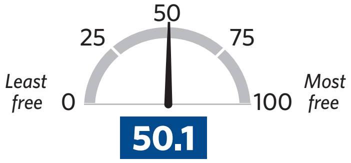
Micronesia performs very poorly in many components of the *Index* and remains highly dependent on foreign aid. Longstanding problems include poor public finance management and underdeveloped legal and regulatory frameworks. The weak enforcement of property rights and the fragile rule of law have driven many people into the informal sector. The public sector remains the largest source of employment, and spending is excessively high and inefficient.

Micronesia's lack of commitment to structural reform has long hampered much-needed economic development. Faced with a non-transparent and onerous regulatory framework, the private sector has been largely marginalized in an economically stagnant environment. Open-market policies are not in place to spur dynamic growth of trade and attract new investment.

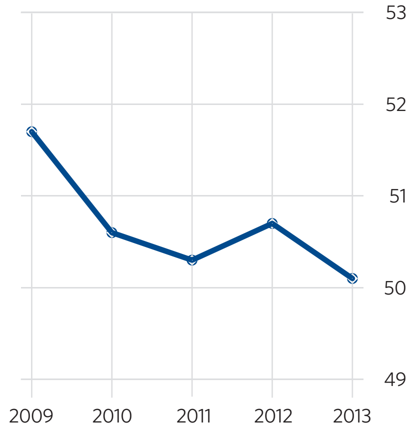
BACKGROUND: Politically organized as a confederation of four states—the island groups of Pohnpei, Chuuk, and Yap and the island of Kosrae—the 607-island South Pacific archipelago of Micronesia has a central government with limited powers. The president is elected by the small unicameral legislature from among its at-large members. Formerly administered by the United States as a U.N. Trust Territory, Micronesia became independent in 1986 and signed a Compact of Free Association with the United States. Under an amended compact, it receives about $100 million annually in direct assistance from the U.S. and close to an additional $100 million each year in other U.S. government grants and services. The government sector employs more than half of the workforce. The economy suffers from a lack of infrastructure, electricity, running water, and employment opportunities.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

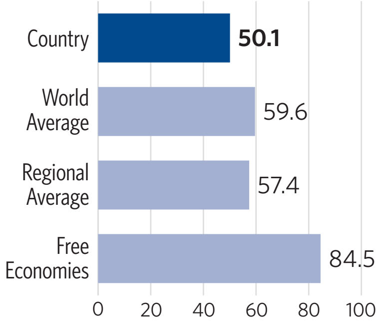
Economic Freedom Score



Freedom Trend



Country Comparisons



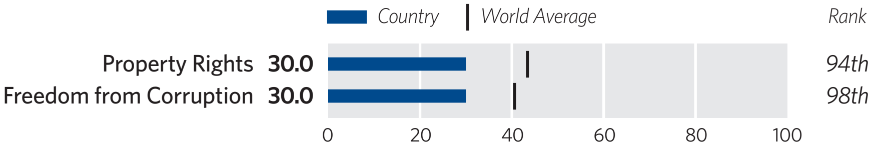
Quick Facts

Population: 107,352
GDP (PPP): $240.1 million
1.4% growth in 2011
5-year compound annual growth n/a
$2,237 per capita
Unemployment: n/a
Inflation (CPI): 7.9%
FDI Inflow: $7.8 million
Public Debt: n/a

2011 data unless otherwise noted.
Data compiled as of September 2012.

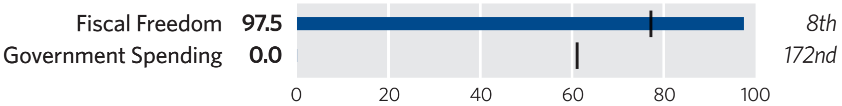
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



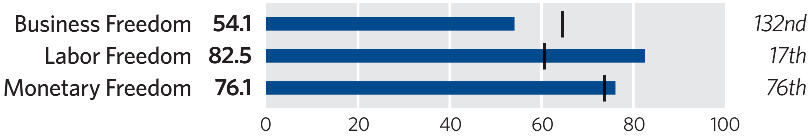
The rule of law remains uneven across the islands, and a well-functioning, consistent legal framework is not yet in place. Squatters, long-standing disputes over land ownership, and the absence of property records make the exercise or enforcement of property rights difficult. Commercial laws are ineffective and inconsistently applied, and contracts are not secure. Despite laws prohibiting and punishing corrupt acts, corruption is widespread.

LIMITED GOVERNMENT



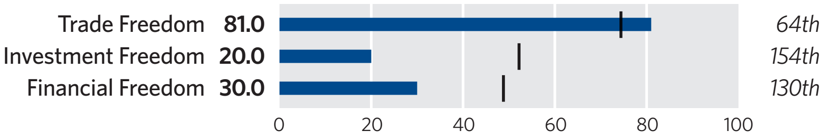
Tax laws are administered and enforced erratically. National taxes include a wages and salary tax (10 percent at the highest level); a 3 percent gross revenue tax on businesses with turnover that exceeds $10,000 a year; and an excise tax. In the most recent year, overall tax revenue was estimated to be 11.9 percent of GDP. Public spending has been chronically high at levels equivalent to nearly 66.9 percent of total domestic output.

REGULATORY EFFICIENCY



Regulations are not applied consistently, and the non-transparent and costly regulatory framework continues to discourage emergence of entrepreneurial dynamism. The cost of starting a business is higher than the level of average annual income. Labor regulations are not enforced effectively, and there is no efficient country-wide labor market. A large share of the workforce is employed in the informal sector. Monetary stability has been weak.

OPEN MARKETS

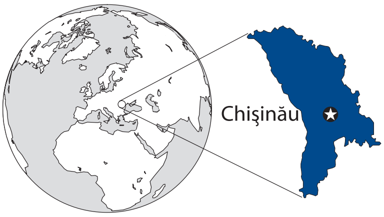


The trade-weighted average tariff rate is 4.5 percent, and non-tariff barriers further constrain trade freedom. The investment framework remains too underdeveloped to facilitate flows of capital and foreign investment. The financial sector remains rudimentary, forcing much of the population to operate outside of the formal banking sector. High credit costs and scarce access to financing continue to constrain the small private sector.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**0**	Fiscal Freedom	**-0.1**	Business Freedom	**-2.9**	Trade Freedom	**0**
Freedom from Corruption	**0**	Government Spending	**-3.9**	Labor Freedom	**-1.2**	Investment Freedom	**0**
				Monetary Freedom	**+2.7**	Financial Freedom	**0**

MOLDOVA



World Rank: **115** Regional Rank: **39**

Moldova's economic freedom score is 55.5, making its economy the 115th freest in the 2013 *Index*. Its score has increased by 1.1 points since last year, reflecting a notable improvement in the management of government spending and a modest gain in trade freedom. Moldova ranks 39th among 43 countries in the Europe region, and its overall score is below the regional and world averages.

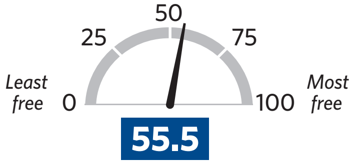
Moldova has gradually recovered from a sharp economic slowdown over the past three years. Driven largely by remittance-based consumption and credit expansion, renewed growth has injected some momentum for improving the business environment and liberalizing the trade regime.

However, the ongoing transition to a more stable market-oriented economy remains fragile. The government's overall commitment to enhancing the entrepreneurial climate and advancing economic freedom has been uneven. Despite a number of privatizations, the public sector continues to play a dominant role in the economy. The foundations of economic freedom are not firmly institutionalized, with the judiciary remaining vulnerable to political interference and corruption.

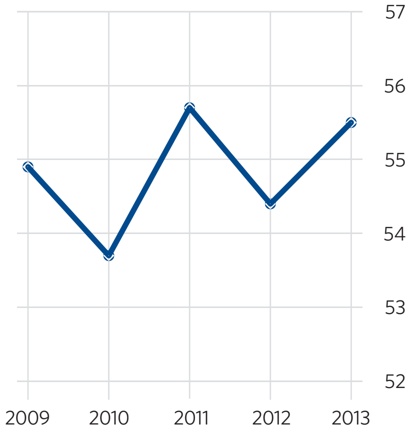
BACKGROUND: Moldova became independent after the collapse of the Soviet Union in 1991 and continues to face a secessionist pro-Russian movement in Transnistria. The reformed Communist Party, which dominated Moldovan politics for most of 2000–2009, supported European integration and did not reverse market reforms instituted in the early 1990s. Since 2009, the center-right Liberal Democrat Party under Prime Minister Vlad Filat has led the Alliance for European Integration coalition government. In March 2012, the parliament elected pro–European integrationist and former judge Nicolae Timofti as president. Moldova has a largely agricultural economy. Foodstuffs, wine, and animal and vegetable products are the main exports. Moldova is one of Europe's poorest countries, and remittances from other European countries, including Russia, constitute one-third of GDP.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

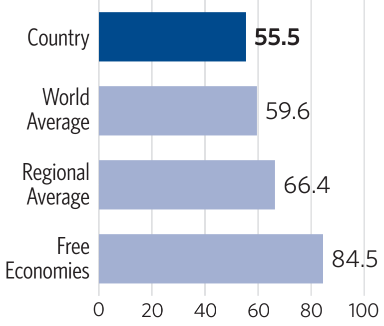
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 3.6 million

GDP (PPP): $12.0 billion

6.4% growth in 2011

5-year compound annual growth 3.5%

$3,373 per capita

Unemployment: 6.7%

Inflation (CPI): 7.7%

FDI Inflow: $274.0 million

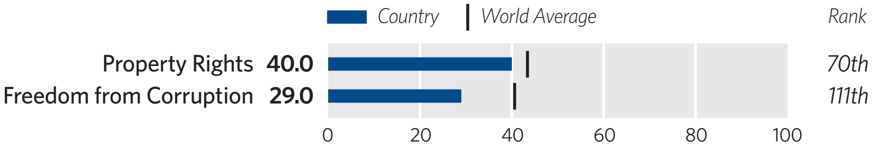
Public Debt: 23.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

MOLDOVA (continued)

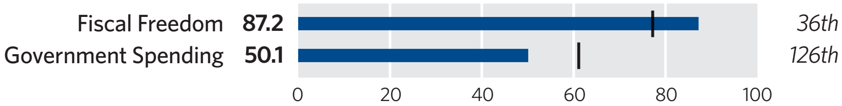
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



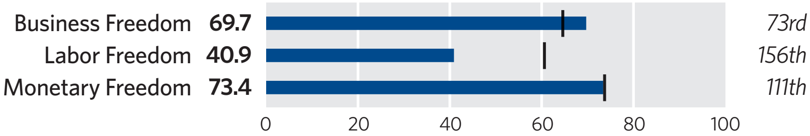
The rule of law is not strongly sustained by an effective legal framework. The judiciary, though improved, is vulnerable to executive influence. Enforcement of intellectual property rights is sporadic. Moldova has one of the world's highest software piracy rates. Corruption is perceived as widespread, especially in law enforcement, the judicial system, public service, political parties, the educational system, and the legislature.

LIMITED GOVERNMENT



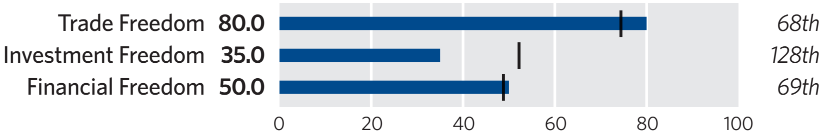
The top income tax rate is 18 percent. The corporate tax was eliminated as of January 2008, and talks on its reinstatement have not come to fruition. Other taxes include a value-added tax (VAT). The overall tax burden equals 31 percent of GDP. Government spending is equivalent to 40.8 percent of total domestic output. The budget balance shows a small deficit, but public debt is below 25 percent of GDP.

REGULATORY EFFICIENCY



Bureaucracy and a lack of transparency often make the formation and operation of private enterprises costly and burdensome. The business start-up process is now more streamlined, but obtaining necessary licenses continues to be time-consuming. Labor regulations are rigid. The non-salary cost of employing a worker is high, and restrictions on work hours are stringent. Inflationary pressures continue to weaken monetary stability.

OPEN MARKETS



The trade-weighted average tariff rate is low at 2.5 percent, but informal non-tariff barriers and a lack of transparency increase the cost of trade. Although foreign and domestic investors are treated equally, the overall investment regime is not conducive to dynamic investment growth. The financial sector is relatively stable, but the level of overall financial intermediation remains shallow, and government interference persists.

Score Changes

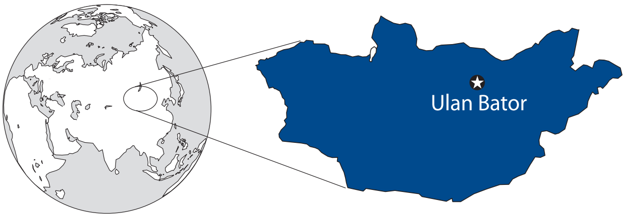
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.7
Government Spending	+11.4

REGULATORY EFFICIENCY	
Business Freedom	–0.3
Labor Freedom	–0.8
Monetary Freedom	–1.0

OPEN MARKETS	
Trade Freedom	+1.0
Investment Freedom	0
Financial Freedom	0

MONGOLIA



World Rank: **75** Regional Rank: **12**

Mongolia's economic freedom score is 61.7, making its economy the 75th freest in the 2013 *Index*. Its overall score is 0.2 point higher than last year, with a large improvement in regulatory efficiency outweighing a decline in the management of public finance. Mongolia is ranked 12th out of 41 countries in the Asia–Pacific region, and its overall score is above the regional average.

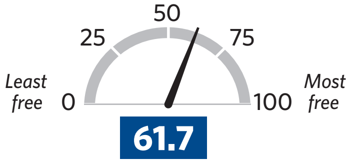
Mongolia has gradually moved toward a more modern and vibrant economy, with double-digit economic growth driven by the booming mining sector. The trade regime is increasingly open, and the regulatory framework has become more efficient, supporting the development of a growing private sector. The Fiscal Sustainability Law, which places ceilings on spending growth, structural budget deficits, and public debt in an effort to ensure fiscal discipline and long-term economic growth, is expected to take effect in phases beginning in 2013.

Despite notable strides made over the past decade, the momentum for swift structural reform has largely stalled. Prospects for enhancing economic freedom remain curtailed by a lack of institutional commitment to the strong protection of property rights and ineffectiveness in fighting systemic corruption. The judicial framework remains vulnerable to political interference, undermining respect for the rule of law.

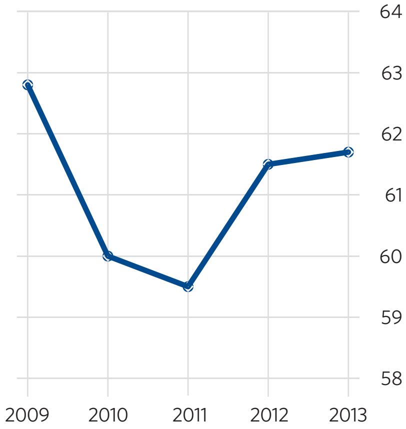
BACKGROUND: Mongolia's gradual emergence from the shadow of the former USSR has been facilitated by political and free-market reforms since 1990. The Democratic Party of President Tsakhiagiin Elbegdorj, which won the most seats in the June 2012 parliamentary election, now heads a coalition government in parliament. The mineral resource–rich economy has a strong trading relationship with neighboring China that supports high rates of economic growth. The services and industry sectors account for about 80 percent of domestic output, although a large number of workers remain employed in livestock herding. Contributing to strong economic expansion, the mining sector continues to attract the largest portion of foreign investment.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

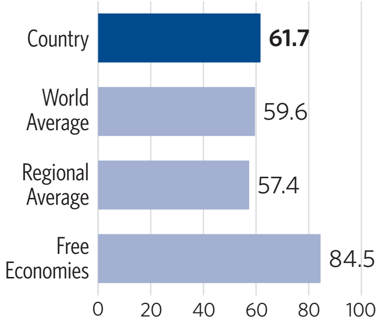
Economic Freedom Score



Freedom Trend



Country Comparisons



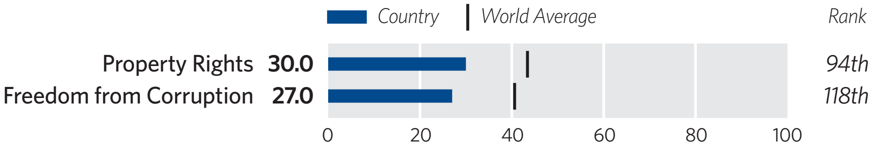
Quick Facts

Population: 2.8 million
GDP (PPP): $13.3 billion
17.3% growth in 2011
5-year compound annual growth 8.1%
$4,744 per capita
Unemployment: 9.9% (2010)
Inflation (CPI): 9.5%
FDI Inflow: $4.7 billion
Public Debt: 41.3% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

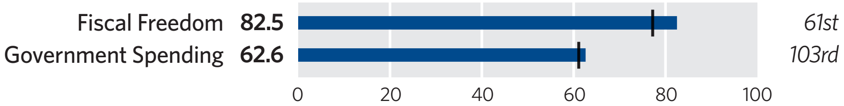
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



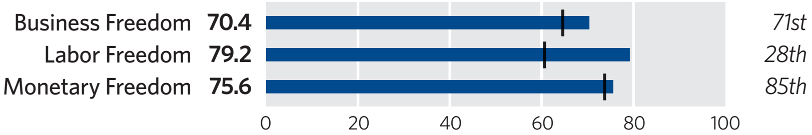
Property and contractual rights are recognized, but enforcement is weak. The judicial system remains inefficient and vulnerable to political interference. The government lacks the capacity to enforce intellectual property rights laws. Graft is endemic, and pervasive corruption continues to undermine the foundations of economic freedom and add to the cost of conducting business. Anti-corruption measures are not enforced effectively.

LIMITED GOVERNMENT



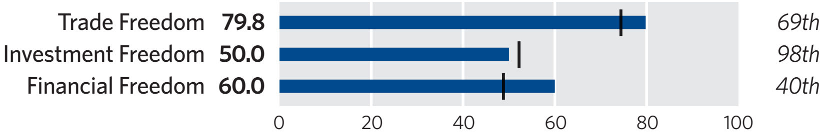
The individual income tax rate is a flat 10 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and an excise tax. The overall tax burden equals 31.9 percent of GDP. Government spending is equal to 35.3 percent of total domestic output. The budget balance has turned to a slight deficit, and public debt is about 40 percent of GDP. Strong mining growth has helped to boost the fiscal account.

REGULATORY EFFICIENCY



A modern and efficient regulatory framework continues to evolve. With no minimum capital required, launching a business takes less than 10 procedures on average. Employment regulations are relatively flexible, but the labor market lacks dynamism. Inflation threatens not only to hamper economic growth, but also to cause political instability, but the government seems unable or unwilling to deal with it.

OPEN MARKETS

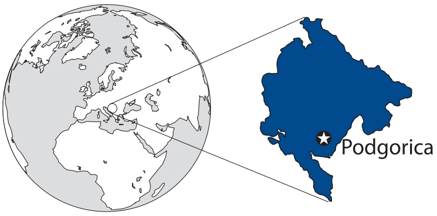


The trade-weighted average tariff rate is 5.1 percent, and costly non-tariff barriers further constrain trade freedom. Foreign investment is officially welcome, but the legislative framework regarding investment is still developing. The financial system has undergone rigorous modernization. Weathering the strain caused by the global financial turmoil, the banking sector has become stabilized.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-6.0	Business Freedom	+2.7	Trade Freedom	0
Freedom from Corruption	0	Government Spending	-0.2	Labor Freedom	+4.7	Investment Freedom	0
				Monetary Freedom	+1.3	Financial Freedom	0

MONTENEGRO



World Rank: **70** Regional Rank: **33**

Montenegro's economic freedom score is 62.6, making its economy the 70th freest in the 2013 *Index*. Its score is essentially the same as last year, with notable gains in the control of public spending, business freedom, and freedom from corruption balanced by declines in labor freedom, monetary freedom, and trade freedom. Montenegro ranks 33rd out of 43 countries in the Europe region, and its overall score is above the world average.

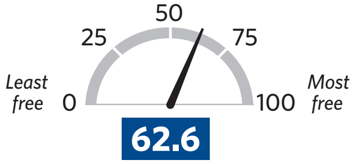
Montenegro's ongoing transition to a free-market economy has been facilitated by structural reforms and an increasingly vibrant private sector. Along with policies that open the country to global commerce and trade, competitively low flat tax rates and an evolving regulatory system have contributed to a more dynamic and broadly based economic expansion.

Although the regulatory environment is generally consistent with a market economy, bureaucracy curtails entrepreneurial dynamism. The government has pursued reform measures to curb chronically high levels of government spending and improve public-sector efficiency, but overall progress has been sluggish. Despite the relatively well-maintained rule of law, the pace of legislative and judicial reform has been slow, and corruption is still perceived as significant.

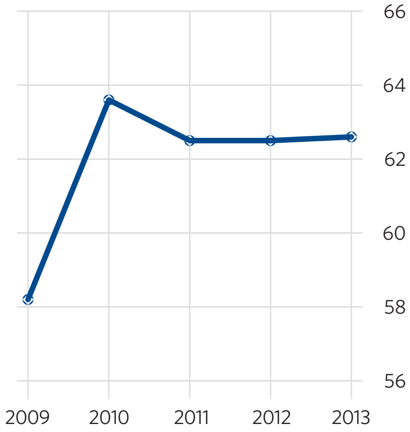
BACKGROUND: The Republic of Montenegro officially declared its independence from Serbia in 2006. It introduced significant privatization and began to use the German mark and then (despite not being a member of the eurozone) the euro as its legal tender. Former Finance Minister Igor Lukšić has been prime minister since 2010, and his center-left Democratic Party of Socialists of Montenegro has dominated politics since 2009. Montenegro was invited to undertake a NATO Membership Action Plan in 2009, became a candidate for membership in the European Union in 2010, and became the World Trade Organization's 154th member in December 2011. Its economy relies heavily on tourism and the export of refined metals. Unprofitable state companies burden public finances, and unemployment is high.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

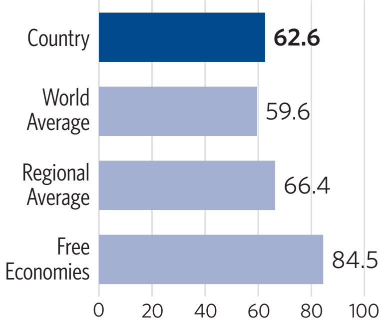
Economic Freedom Score



Freedom Trend



Country Comparisons



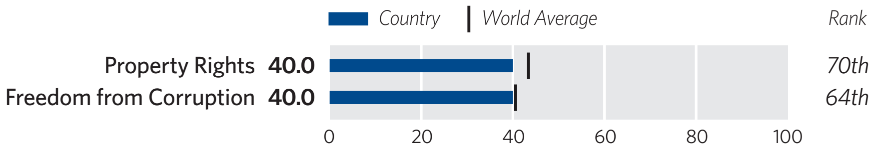
Quick Facts

Population: 661,807
GDP (PPP): $7.2 billion
2.5% growth in 2011
5-year compound annual growth 3.2%
$11,545 per capita
Unemployment: 11.5%
Inflation (CPI): 3.1%
FDI Inflow: $558.1 million
Public Debt: 45.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

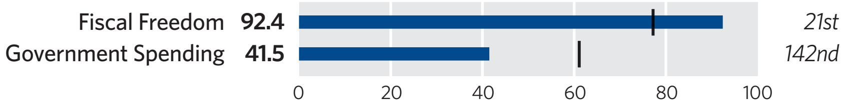
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



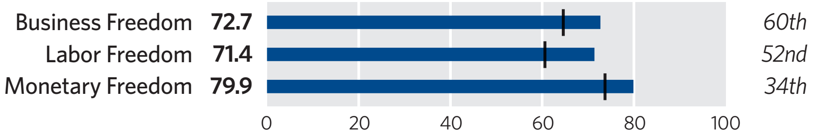
The constitution provides for an independent judiciary, but the system is inefficient and subject to political interference. Infringements of intellectual property rights are fairly widespread. Mistrust of government continues, particularly due to pervasive corruption in the executive and judicial branches. Parliament is investigating allegations of bribery in connection with the 2005 telecommunications privatization.

LIMITED GOVERNMENT



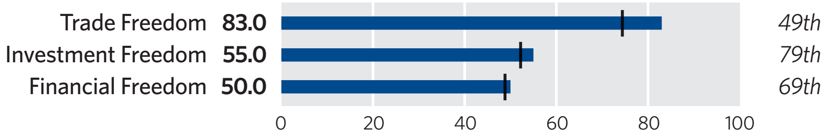
The income and corporate tax rates are a flat 9 percent. Other taxes include a value-added tax (VAT) and an inheritance tax. The overall tax burden equals 24.4 percent of total domestic income. Government spending is equivalent to 44.2 percent of total domestic output. The budget balance has been negative, and public debt has risen to almost 46 percent of GDP. Failing state-owned enterprises have put pressure on fiscal accounts.

REGULATORY EFFICIENCY



Procedures for setting up a business have been streamlined, and the number of licensing requirements has been reduced. However, licensing costs remain burdensome, averaging more than 10 times the level of average annual income. Labor regulations lack flexibility, discouraging more dynamic job creation. Inflationary pressures have been increasing, but the overall monetary situation remains stable.

OPEN MARKETS



The trade-weighted average tariff rate is 3.5 percent, but cumbersome non-tariff barriers interfere with trade. Although foreign investment is officially welcome, the investment regime remains too bureaucratic to allow dynamic investment growth. The evolving financial sector has gradually become more competitive and diversified, but non-performing loans have been on the rise.

Score Changes

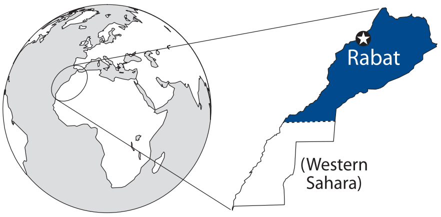
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+3.0

LIMITED GOVERNMENT	
Fiscal Freedom	+1.1
Government Spending	+9.8

REGULATORY EFFICIENCY	
Business Freedom	+3.5
Labor Freedom	-14.7
Monetary Freedom	-1.3

OPEN MARKETS	
Trade Freedom	-0.6
Investment Freedom	0
Financial Freedom	0

MOROCCO



World Rank: **90** Regional Rank: **9**

Morocco's economic freedom score is 59.6, making its economy the 90th freest in the 2013 *Index*. Its score is 0.6 point worse than last year, with large declines in the control of public spending and trade freedom that outweigh gains in investment freedom and labor freedom. Morocco scores about the world average and is ranked 9th out of 15 countries in the Middle East/North Africa region.

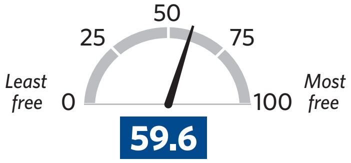
Morocco's steady improvement in economic freedom has come to a halt. Critical development challenges include lingering widespread corruption and relatively high government spending. Budget deficits continue, and public debt has surpassed 50 percent of GDP. Undermining ongoing anti-corruption efforts, the judicial system remains inefficient and vulnerable to political influence.

By and large, Morocco has taken steps to integrate its economy into the global marketplace. The economy performs relatively well in investment freedom and business freedom. Procedures for conducting a business have become streamlined, and foreign investment is generally welcome in many sectors, although the investment regime needs more transparency to spur dynamic growth.

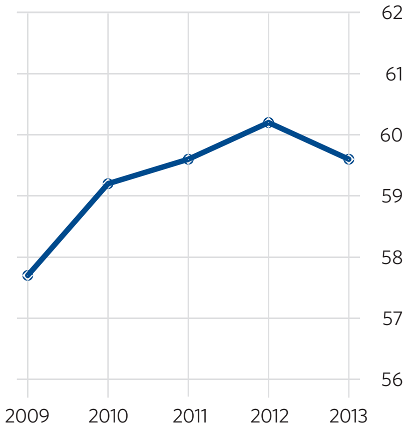
BACKGROUND: Morocco, a constitutional monarchy with an elected parliament, has been a key Western ally in the struggle against Islamist extremism. King Mohammed VI responded to popular calls for democracy and protests against corruption and high food prices by authorizing a commission to propose amendments to the constitution. Those amendments, designed to increase the power and independence of the prime minister, as well as protections for human rights, were approved in a July 2011 referendum. The Justice and Development Party won a plurality in the November 2011 parliamentary elections and became the first Islamist party to lead a Moroccan government, although the king, who is the chief executive, retains significant power. Morocco has a large tourism industry and a growing manufacturing sector, but agriculture accounts for about 20 percent of GDP and employs roughly 40 percent of the labor force.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

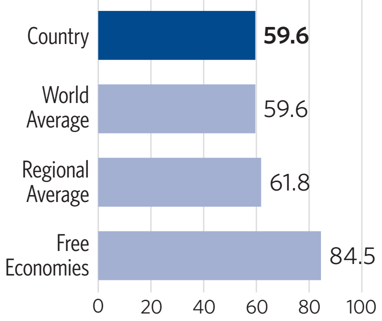
Economic Freedom Score



Freedom Trend



Country Comparisons



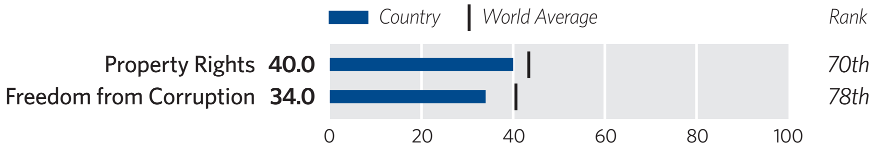
Quick Facts

Population: 32.2 million
GDP (PPP): $162.6 billion
4.3% growth in 2011
5-year compound annual growth 4.2%
$5,052 per capita
Unemployment: 8.9%
Inflation (CPI): 0.9%
FDI Inflow: $2.5 billion
Public Debt: 54.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

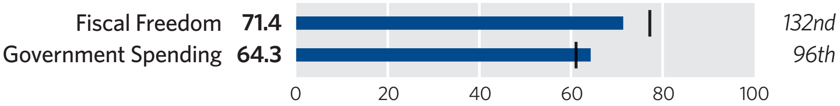
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



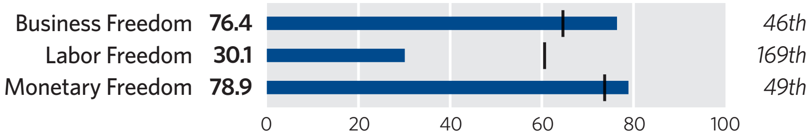
Private ownership is permitted in all sectors except for a few, like phosphate mining, that are reserved for the state. With few exceptions, private entities may freely establish, acquire, and dispose of interests in business enterprises. The judiciary is influenced by the king, and adjudication of cases can be slow. A new government that took office in 2012 pledged to make the fight against corruption one of its key priorities.

LIMITED GOVERNMENT



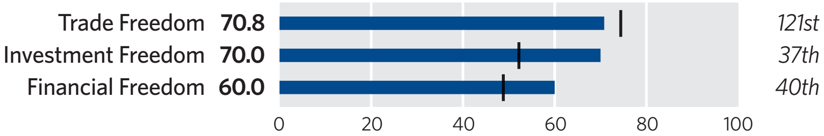
The top income tax rate is 38 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a gift tax. The overall tax burden equals 22.8 percent of GDP. Government spending has increased to 34.5 percent of total domestic output. The budget has been in deficit, and public debt has climbed to over 50 percent of GDP. High youth unemployment has prompted increased government spending to create jobs.

REGULATORY EFFICIENCY



Procedures for setting up private enterprises have been further streamlined. Launching a business takes six procedures and 12 days, and no minimum capital is required. However, the cost of completing licensing requirements is still over twice the level of average annual income. Labor market rigidity continues to discourage dynamic job growth. Monetary stability has been maintained with relatively modest inflation.

OPEN MARKETS



The trade-weighted average tariff rate is 7.1 percent, and inefficient customs procedures further increase the cost of trade. Foreign investment is welcome, but sector restrictions continue, particularly in areas where the state maintains a monopoly. The financial sector is fairly well developed in comparison to other economies in the region, with banking intermediation increasing gradually. Credit costs remain relatively high.

Score Changes

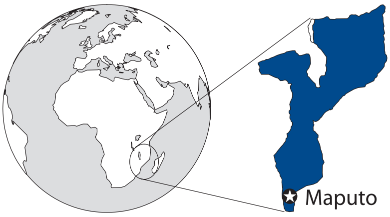
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	+1.7
Government Spending	-10.5

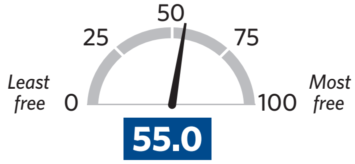
REGULATORY EFFICIENCY	
Business Freedom	-0.8
Labor Freedom	+2.5
Monetary Freedom	+1.0

OPEN MARKETS	
Trade Freedom	-4.9
Investment Freedom	+5.0
Financial Freedom	0

MOZAMBIQUE



Economic Freedom Score



World Rank: **123** Regional Rank: **22**

Mozambique's economic freedom score is 55, making its economy the 123rd freest in the 2013 *Index*. Its score is 2.1 points worse than last year, with deteriorations in seven of the 10 economic freedoms including trade freedom, investment freedom, and the control of government spending. Mozambique is ranked 22nd out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

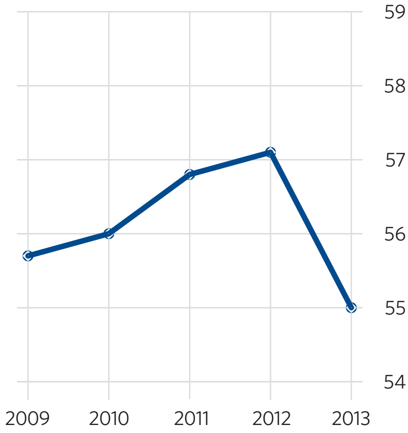
Mozambique registered the 10th largest decline in economic freedom in the 2013 *Index*. Despite some progress in previous years, extensive state controls and institutional shortcomings severely undermine development of the private sector, and the country lags in productivity growth and dynamic economic expansion. The foundations of economic freedom are fragile and uneven.

During the second half of 2011, Mozambique resumed exporting its coal for the first time in 20 years. However, structural problems including poor public finance management and underdeveloped legal frameworks undermine private-sector growth. Trade and investment policies are undercut by government interference in the economy. Arbitrary tax policies, marginal enforcement of property rights, and weak rule of law have driven many people and enterprises into the informal sector.

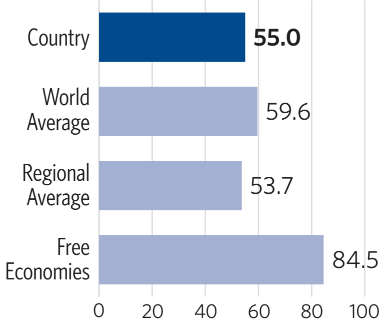
BACKGROUND: Mozambique held its first democratic elections in 1994 and since then has been promoted as a model for development and post-war recovery. However, when President Armando Guebuza was re-elected in 2009, the elections were widely regarded as corrupt and unfair. In 2012, in an effort to curb corruption, the government passed a law restricting the personal business activities of politicians and public servants. Economic growth has been generally strong since the mid-1990s, but the country remains poor, and the economy is burdened by state-sanctioned monopolies and inefficient public services. Small-scale agriculture, fishing, and forestry employ about 80 percent of the population. The informal sector accounts for most employment. Major exports include aluminum, shrimp, and cash crops. HIV/AIDS is a serious problem.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



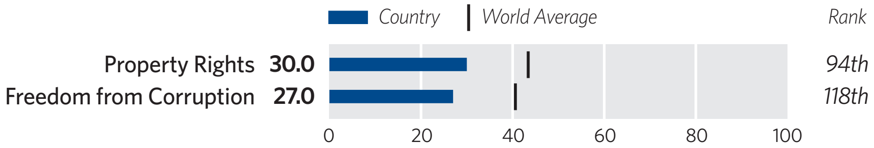
Quick Facts

Population: 22.0 million
GDP (PPP): $23.9 billion
7.1% growth in 2011
5-year compound annual growth 6.9%
$1,085 per capita
Unemployment: n/a
Inflation (CPI): 10.4%
FDI Inflow: $2.1 billion
Public Debt: 33.2% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

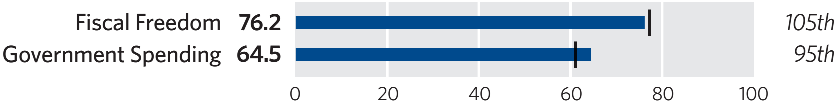
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



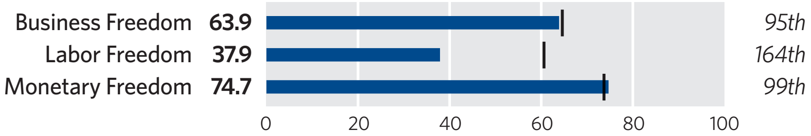
Property rights are not strongly respected, and law enforcement is inefficient and uneven. The judicial system is not fully independent and remains vulnerable to political influence and corruption. In the absence of an efficient legal framework, court rulings can be arbitrary and inconsistent. Mozambique is one of the world's most aid-dependent countries, with roughly half of state expenditures funded externally.

LIMITED GOVERNMENT



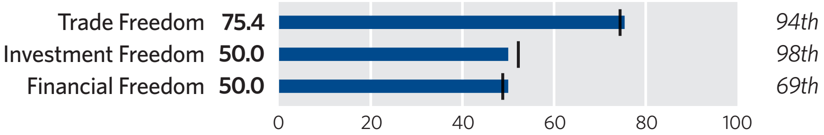
The top income and corporate tax rates are 32 percent. Other taxes include a value-added tax (VAT) and an inheritance tax. The overall tax burden is equal to 18.1 percent of total domestic income. Government spending has increased to 34.4 percent of total domestic output, with budget deficits continuing. Expansion of the revenue base remains crucial as external budget support is beginning to diminish.

REGULATORY EFFICIENCY



The regulatory framework has undergone a series of reforms. Launching a business takes less than the world averages of seven procedures and 30 days. Completing licensing requirements, however, takes more than 300 days. A recently passed labor law was intended to make the labor market more flexible, but it also increased overtime restrictions. Inflation has been high, undermining monetary stability.

OPEN MARKETS

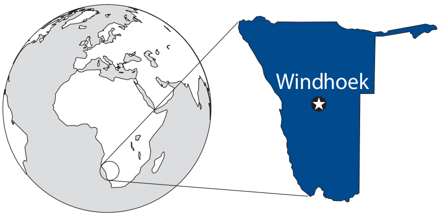


The trade-weighted average tariff rate is 4.8 percent, and slow customs procedures interfere with the free flow of trade. Despite some progress in enhancing the investment framework, challenges remain. For example, a new "Mega-Projects Law" requires large foreign investment projects to include domestic partners. The financial sector remains hindered by state controls. Most citizens still lack adequate access to financial services.

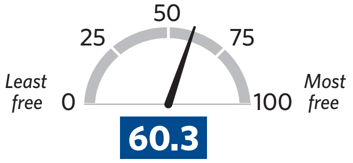
Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.9	Business Freedom	-2.9	Trade Freedom	-5.7
Freedom from Corruption	0	Government Spending	-4.8	Labor Freedom	-1.8	Investment Freedom	-5.0
				Monetary Freedom	-0.1	Financial Freedom	0

NAMIBIA



Economic Freedom Score



World Rank: **84** Regional Rank: **9**

Namibia's economic freedom score is 60.3, making its economy the 84th freest in the 2013 *Index*. Its score is 1.6 points worse than last year, with declines in labor freedom, trade freedom, and business freedom. Namibia is ranked 9th out of 46 countries in the Sub-Saharan Africa region, and its overall score is above the world and regional averages.

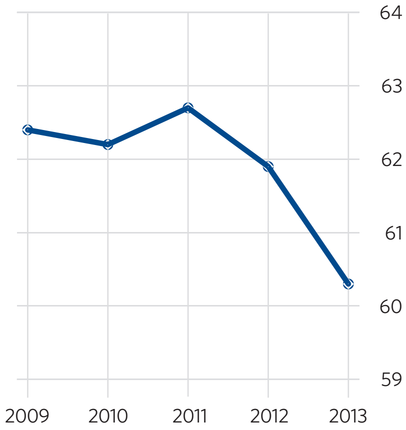
Namibia's progress toward greater economic freedom has been patchy, and its economy underperforms in many critical areas. The absence of an independent and fair judiciary weakens the rule of law and undermines prospects for long-term sustainable economic development. Corruption is pervasive, and the efficiency of government services is poor. There is little evidence of political will for reform, and Namibia's decline in economic freedom ranks among the worst recorded in this year's *Index*.

Open-market policies have been advanced only marginally, with layers of non-tariff barriers and lingering investment restrictions undercutting the growth of productivity. A lack of deeper commitment to enhanced regulatory efficiency further impedes the emergence of a more vibrant private sector and diversification of the economy.

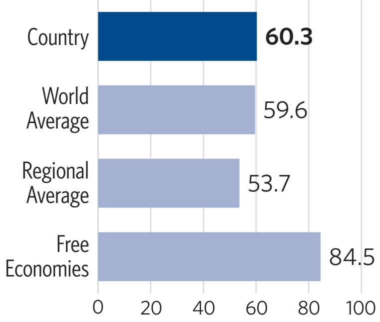
BACKGROUND: South West Africa People's Organization candidate Hifikepunye Pohamba succeeded President Sam Nujoma in 2005 and won a second five-year term in 2009. Namibia is rich in minerals, including uranium, diamonds, copper, gold, lead, and zinc, but weak property rights and poor infrastructure impede growth, and unemployment is reportedly a problem. About a third of Namibians depend on subsistence agriculture and herding for their livelihood. Official pressure on white and foreign landowners to sell their property to the government so that "historically disadvantaged" and landless Namibians can be resettled has included expropriations. State-owned enterprises operate in many key sectors. Namibia's economy is closely linked with that of South Africa, its major trading partner and former administering power.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



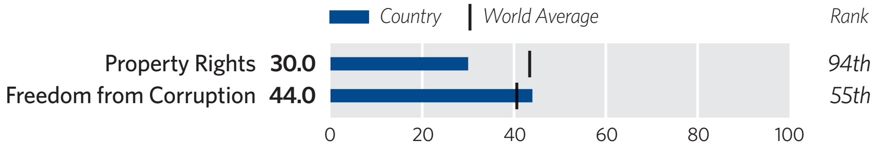
Quick Facts

Population: 2.1 million
GDP (PPP): $15.7 billion
3.6% growth in 2011
5-year compound annual growth 3.7%
$7,363 per capita
Unemployment: 51.2% (2008)
Inflation (CPI): 5.8%
FDI Inflow: $899.7 million
Public Debt: 21.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

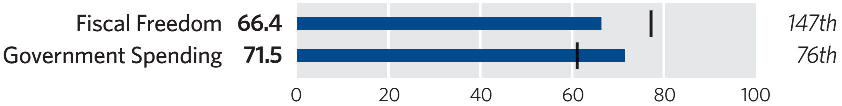
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



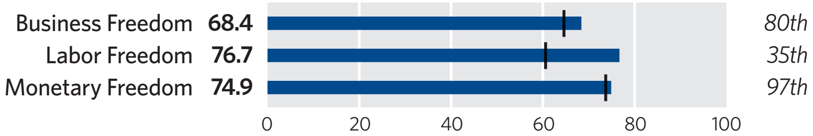
The rule of law remains weak and uneven across the country. Property rights are not protected effectively, and the legal framework remains inefficient and susceptible to political interference. Parliament exercises little control over the government. Public office is often given as a reward for political service, tribal affiliation is a factor in official appointments, and endemic corruption is a significant issue.

LIMITED GOVERNMENT



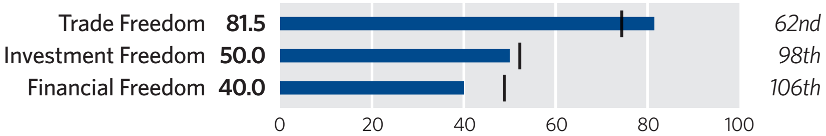
The top individual income tax rate is 37 percent, and the top corporate tax rate is 34 percent. Other taxes include a value-added tax (VAT). The overall tax burden equals 28.9 percent of total domestic income. Government spending has increased to 30.8 percent of GDP. The budget deficit has widened substantially due to the implementation of a large stimulus package aimed at creating jobs. Public debt is close to 22 percent of GDP.

REGULATORY EFFICIENCY



Despite some progress in the past few years, the overall regulatory framework remains cumbersome. There is no minimum capital requirement, but launching a business still takes more than 60 days. The cost of completing licensing requirements remains higher than the level of average annual income. The labor market lacks dynamism. Inflation has moderated over the past few years.

OPEN MARKETS



The trade-weighted average tariff rate is a low 1.8 percent, but customs delays and some restrictions on agricultural imports raise the cost of trade considerably. Although foreign investment is formally encouraged, the necessary regulatory infrastructure for spurring dynamic growth in new investment is not in place. The financial sector remains underdeveloped, and access to credit and other financial services is limited.

Score Changes

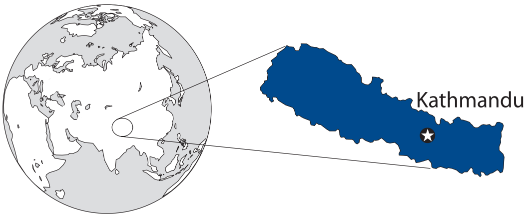
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.7
Government Spending	-1.5

REGULATORY EFFICIENCY	
Business Freedom	-2.4
Labor Freedom	-8.3
Monetary Freedom	+0.5

OPEN MARKETS	
Trade Freedom	-5.0
Investment Freedom	0
Financial Freedom	0

NEPAL



World Rank: **141** Regional Rank: **31**

Nepal's economic freedom score is 50.4, making its economy the 141st freest in the 2013 *Index*. Its score has increased by 0.2 point since last year, with improvements in business freedom and the control of government spending offsetting deteriorations in labor freedom and trade freedom. Nepal is ranked 31st out of 41 countries in the Asia–Pacific region, and its score remains far below world and regional averages.

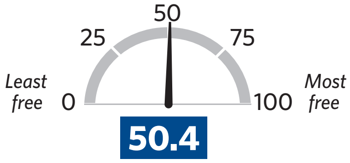
The Nepalese economy continues to lack the entrepreneurial dynamism needed for broad-based economic growth and sustainable long-term development. With the statist approach to the economy holding development progress far below the country's potential, state interference continues to hurt regulatory efficiency, and there has been little effort to open the economy or engage in world markets. Nepal's scores for investment and financial freedom are among the lowest in the world.

Lingering political instability undercuts the government's ability and willingness to implement necessary institutional reforms, further undermining the already fragile foundations of economic freedom. Property rights are poorly protected by the inefficient judicial system, which is subject to substantial political influence. Systemic corruption in the non-transparent legal framework also continues to obstruct much-needed expansion of private investment and production.

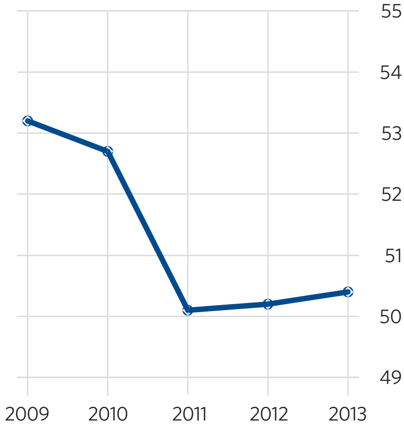
BACKGROUND: Six years after the end of a Maoist insurgency and the abolition of the monarchy, political instability continues to plague Nepal. In May 2012, the Constituent Assembly was dissolved after the political parties failed to meet a deadline to form a new constitution. Interim Prime Minister Baburam Bhattarai was aiming for a resolution of the crisis by November. The reintegration of former Maoist fighters into the national army continues to be a controversial issue. Nepal is among the world's poorest and least developed countries and benefits from very little foreign direct investment. The main industry is agriculture, which accounts for one-third of GDP.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

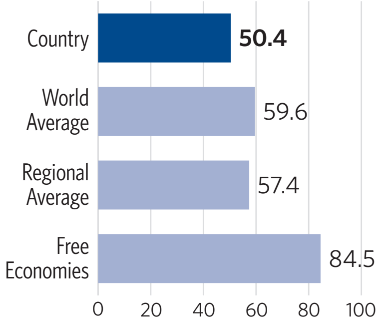
Economic Freedom Score



Freedom Trend



Country Comparisons



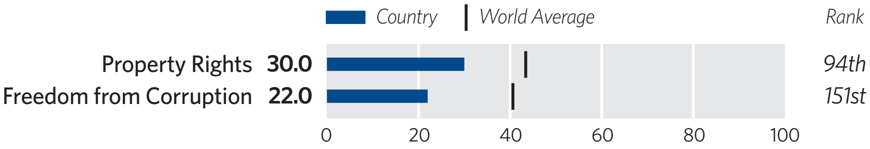
Quick Facts

Population: 28.5 million
GDP (PPP): $37.8 billion
3.5% growth in 2011
5-year compound annual growth 4.4%
$1,328 per capita
Unemployment: 46.0% (2008)
Inflation (CPI): 9.6%
FDI Inflow: $95.5 million
Public Debt: 34.1% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

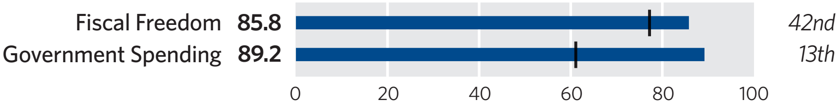
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



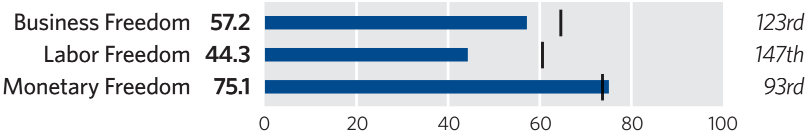
The rule of law is weak and is being further damaged by deepening polarization and factionalism. Protections for property rights are not enforced effectively. The judicial system is inefficient, with lower-level courts particularly vulnerable to political pressure. Public-sector corruption continues to be a serious concern. Effective anti-corruption measures are not in place, and government officials exploit their positions for personal gain.

LIMITED GOVERNMENT



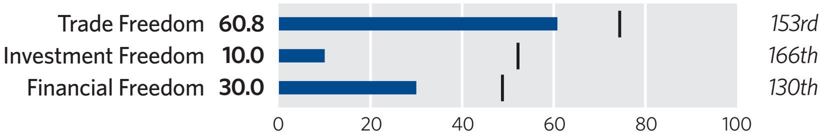
The top income and corporate tax rates are 25 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals 13.2 percent of total domestic income. Government spending is 18.9 percent of GDP. The budget balance has been in deficit, with public debt hovering around 34 percent of GDP. Subsidies, particularly to state-owned enterprises like the Nepal Oil Company, continue to stretch public coffers.

REGULATORY EFFICIENCY



Despite some progress in modernizing the regulatory framework, time-consuming and costly requirements continue to reduce overall regulatory efficiency. Completing licensing requirements takes more than 100 days and costs over six times the level of annual average income. The labor market remains inefficient, and chronic unemployment and underemployment continue. Inflation has moderated but remains high.

OPEN MARKETS



Although some tariffs have been reduced, the trade-weighted average tariff rate remains high at 12.1 percent, and pervasive non-tariff barriers further restrict trade freedom. Private investment is hamstrung by political instability, and the inefficient investment regime further impedes foreign investment. The financial sector remains fragmented, and government ownership and influence in the allocation of credit remain substantial.

Score Changes

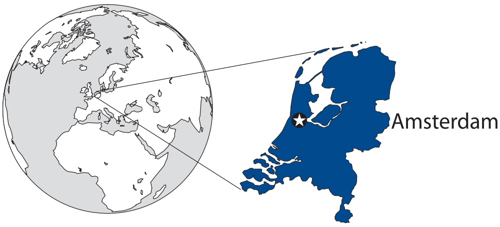
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.2
Government Spending	+1.1

REGULATORY EFFICIENCY	
Business Freedom	+3.6
Labor Freedom	-1.1
Monetary Freedom	+0.2

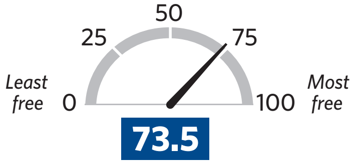
OPEN MARKETS	
Trade Freedom	-0.7
Investment Freedom	0
Financial Freedom	0

NETHERLANDS



World Rank: **17** Regional Rank: **8**

Economic Freedom Score



The Netherlands' economic freedom score is 73.5, making its economy the 17th freest in the 2013 *Index*. Its score is 0.2 point better than last year, reflecting improvements in the management of public spending and business freedom that offset declines in monetary and labor freedom. The Netherlands is ranked 8th out of 43 countries in the Europe region.

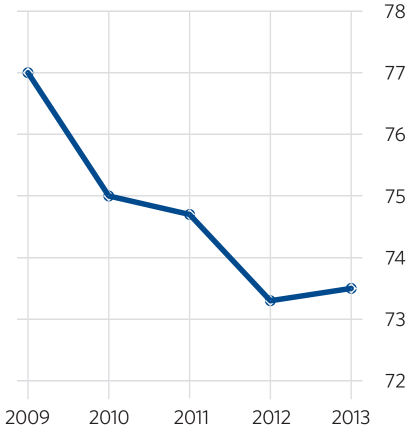
The foundations of economic freedom in the Netherlands are solid. The judicial system, independent and free of corruption, provides strong protection for property rights. Low scores in fiscal freedom and government spending, however, highlight a need to strengthen respect for the principle of limited government. Although the corporate tax rate is competitive, the overall tax burden remains heavy. Government spending still accounts for about half of GDP.

With its openness to global trade and investment, the Dutch economy benefits from high degrees of business freedom, investment freedom, and financial freedom. The overall regulatory environment, transparent and efficient, encourages entrepreneurial activity. Sensible banking regulations facilitate robust entrepreneurial activity, although the combination of the ongoing European sovereign debt turmoil and stricter financial supervision has considerably reduced the size of the banking sector. Monetary stability is well maintained, although inflationary pressures are rising.

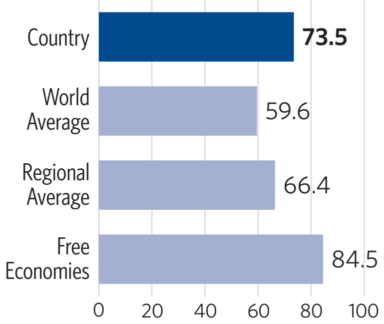
BACKGROUND: In elections held in June 2010, Mark Rutte of the Peoples Party for Freedom and Democracy became prime minister as head of a center-right coalition. In April 2012, the pro-austerity coalition collapsed when the Freedom Party's Geert Wilders refused to back Rutte's austerity package, sparking early elections in which both Rutte's party and its principal coalition partner won increased support. The Netherlands is heavily involved in international commerce. Rotterdam is one of the world's largest ports and Europe's largest in terms of cargo tonnage handled. The economy is sensitive to changes in the global market and has been hard hit by the eurozone crisis. In 2012, the Netherlands was one of only five members of the eurozone to be in recession, and its consumer confidence index was the lowest since 2003.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



Quick Facts

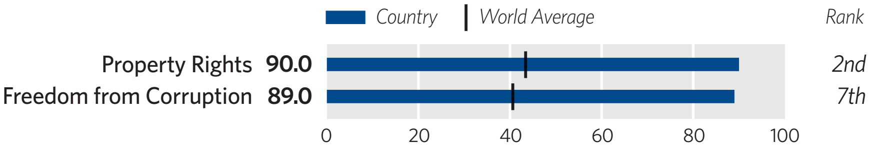
Population: 16.7 million
GDP (PPP): $704.0 billion
1.3% growth in 2011
5-year compound annual growth 1.0%
$42,183 per capita
Unemployment: 5.3%
Inflation (CPI): 2.5%
FDI Inflow: $17.1 billion
Public Debt: 66.2% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

THE NETHERLANDS (continued)

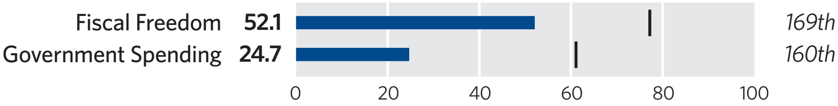
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



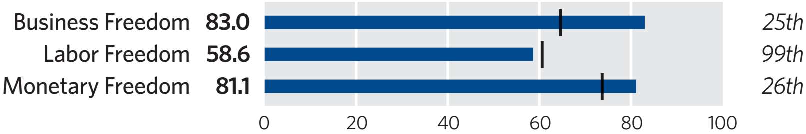
The legal framework ensures strong protection of private property rights and enforcement of contracts. Citizens and foreigners purchasing real property receive equal treatment. Independent of political interference, the judiciary is respected and provides fair adjudication of disputes. Intellectual property rights are relatively well protected. Effective anti-corruption measures and minimal tolerance for corruption ensure government integrity.

LIMITED GOVERNMENT



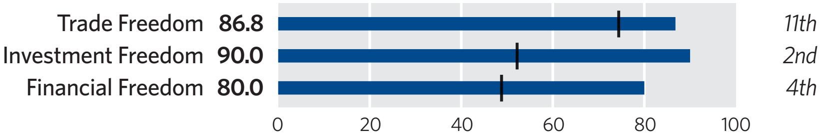
The top income tax rate is 52 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and environmental taxes. The overall tax burden equals 38.2 percent of total domestic income. Government spending is equivalent to 50.1 percent of GDP. The budget has been in deficit, with public debt exceeding 65 percent of GDP. Divisions in the governing coalition make austerity measures uncertain.

REGULATORY EFFICIENCY



The overall regulatory framework is transparent and competitive. Launching a business is subject to minimum capital requirements, but establishing a company takes only five days in comparison to the world average of 30 days. Bankruptcy procedures are modern and efficient. Labor regulations are relatively rigid, and the non-salary cost of employing a worker is high. Monetary stability has been well maintained.

OPEN MARKETS



The trade-weighted average tariff rate, standard throughout the European Union, is a low 1.6 percent, but non-tariff barriers add to the cost of trade. With few restrictions in place, the investment environment is favorable to dynamic growth in new investment and production. The well-developed financial sector has been competitive, although the banking sector, under increasing strain, has become more oriented toward the domestic market.

Score Changes

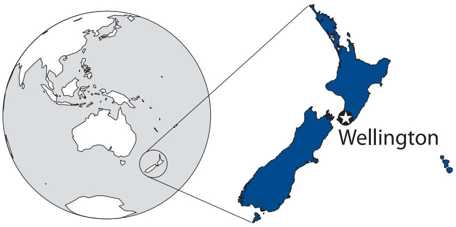
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+1.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.9
Government Spending	+3.8

REGULATORY EFFICIENCY	
Business Freedom	+1.1
Labor Freedom	-1.4
Monetary Freedom	-2.5

OPEN MARKETS	
Trade Freedom	-0.3
Investment Freedom	0
Financial Freedom	0

NEW ZEALAND



World Rank: **4** Regional Rank: **4**

New Zealand's economic freedom score is 81.4, making its economy the 4th freest in the 2013 *Index*. Its score is 0.7 point worse than last year, reflecting declines in the control of government spending and monetary freedom that outweigh improvements in investment freedom and freedom from corruption. New Zealand is ranked 4th out of 41 countries in the Asia–Pacific region.

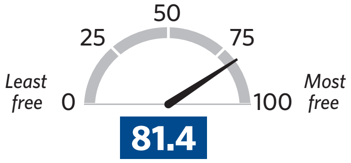
The strong foundations of economic freedom in New Zealand are well supported by robust protection of property rights and an independent judiciary that enforces anti-corruption measures. While many large advanced economies have been struggling with growing debt burdens that result from years of heavy government spending, New Zealand has kept its gross public debt under control.

The fiscal deficit has widened, primarily due to emergency spending increases that reflect the recovery costs associated with recent earthquakes. With institutional effectiveness and a stable macroeconomic environment continuing to underpin a vibrant economy, however, efforts to return the public finance to surplus are gaining traction. New Zealand's modern and competitive economy benefits from a strong commitment to open-market policies that facilitate trade and investment. Transparent and efficient regulations are applied evenly in most cases, encouraging dynamic entrepreneurial activity in the private sector.

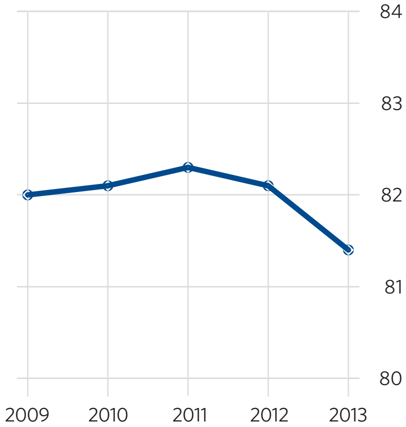
BACKGROUND: New Zealand is a parliamentary democracy and one of the Asia–Pacific region's most prosperous countries. After 10 years of Labor Party–dominated governments, the center-right National Party, led by Prime Minister John Key, returned to power in November 2008 and was re-elected in November 2011. Far-reaching economic liberalization in the 1980s and 1990s largely deregulated the economy, which is powered mainly by agriculture but also benefits from a flourishing manufacturing sector, thriving tourism, and a strong renewable geothermal energy resource base. The global economic recession caused a sizable financial contraction during which the unemployment rate increased and the New Zealand dollar weakened against foreign currencies.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

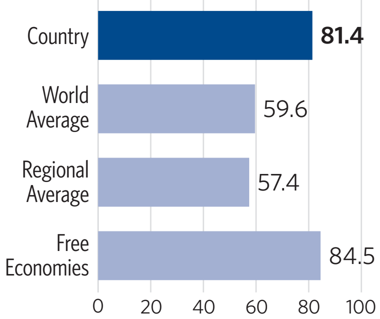
Economic Freedom Score



Freedom Trend



Country Comparisons



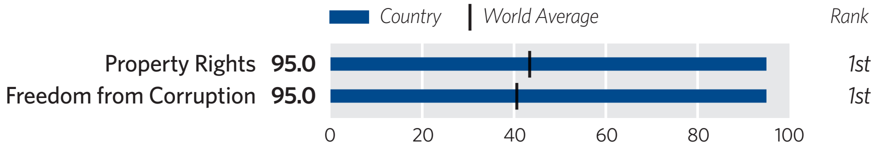
Quick Facts

Population: 4.4 million
GDP (PPP): $122.2 billion
1.4% growth in 2011
5-year compound annual growth 0.7%
$27,668 per capita
Unemployment: 6.6%
Inflation (CPI): 4.0%
FDI Inflow: $3.4 billion
Public Debt: 37.0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

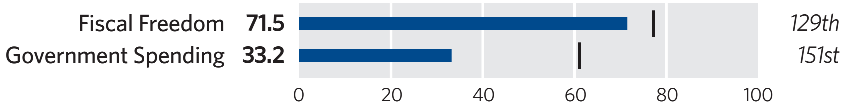
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



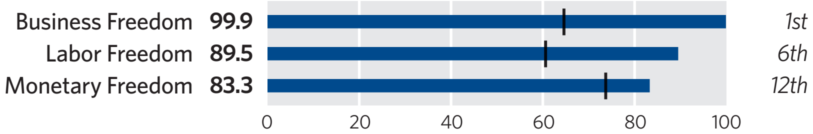
The judicial system is independent and functions well. Private property rights are strongly protected, and contracts are notably secure. Enforcement of intellectual property rights is solid. Amendments to existing copyright laws came into force in 2011. Effective anti-corruption measures and a sound legal framework continue to ensure government integrity and transparency.

LIMITED GOVERNMENT



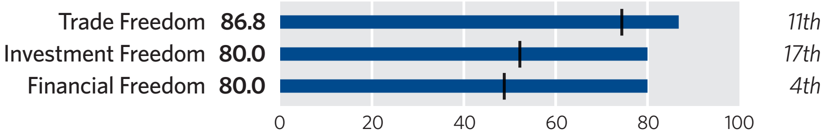
The top income tax rate is 33 percent, and the top corporate tax rate is 28 percent. Other taxes include a goods and services tax (GST) and environmental taxes. The overall tax burden equals 31.3 percent of total domestic income. Government spending has risen to a level equivalent to 47.2 percent of total domestic output. The budget deficit has increased to 6.2 percent of GDP. Spending has included support for efforts to rebuild earthquake-ravaged Christchurch.

REGULATORY EFFICIENCY



The entrepreneurial environment remains the most efficient and competitive among the economies graded in the *Index*. Start-up companies enjoy great flexibility under licensing and other regulatory frameworks. With no minimum capital required, it takes only one day to start a business. Flexible labor regulations facilitate a dynamic labor market, increasing overall productivity. Monetary stability is well maintained.

OPEN MARKETS



The trade-weighted average tariff rate is competitively low at 1.6 percent, and non-tariff barriers are nominal. There are few limitations on investment activities, and foreign investment is welcomed. The well-developed financial sector offers a wide range of financing instruments. The financial system has remained stable, and prudent regulations allowed banks to withstand the global financial turmoil with little disruption.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.1	Business Freedom	0	Trade Freedom	0
Freedom from Corruption	+2.0	Government Spending	-11.8	Labor Freedom	-0.4	Investment Freedom	+5.0
				Monetary Freedom	-1.9	Financial Freedom	0

NICARAGUA

World Rank: **110** Regional Rank: **21**

Nicaragua's economic freedom score is 56.6, making its economy the 110th freest in the 2013 *Index*. Its score is 1.3 points worse than last year, with declines in the control of government spending and labor freedom outweighing improvements in investment freedom and fiscal freedom. Nicaragua is ranked 21st out of 29 countries in the South and Central America/Caribbean region, and its overall score is below the world average.

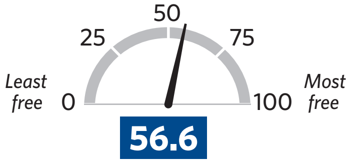
The foundations of economic freedom are fragile and uneven across Nicaragua. Poor protection of property rights and widespread corruption discourage the emergence of a more vibrant private sector. The rule of law is weak, and local courts are subject to substantial political interference.

Anti-free market policies continue, bolstered by economic and political populism that drives income redistribution and class warfare that are used to justify the large presence of the state in the economy. The inefficient regulatory framework impedes expansion and diversification of the productive base. The lack of access to long-term financing precludes dynamic entrepreneurial growth, and the investment regime lacks transparency.

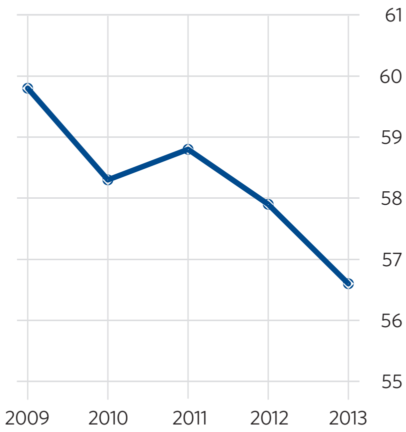
BACKGROUND: Despite a constitutional prohibition, Sandinista President Daniel Ortega ran for and was re-elected president in November 2011. He is aligned with Venezuela's Hugo Chávez and supports the Bolivarian Alliance for the Americas (ALBA), a Latin American socialist trade organization. Electoral fraud in 2008 and a government crackdown on civil society led the U.S. to cancel part of its Millennium Challenge Corporation grant to Nicaragua. Half of the workforce is unemployed or underemployed. The Central America–Dominican Republic–United States Free Trade Agreement has helped to diversify the economy to include mineral and textile production, but Nicaragua remains among the least developed and poorest countries in the Americas. Remittances constitute roughly 15 percent of GDP. Support from international financial institutions, economic assistance from Venezuela, and a divided opposition have enabled Ortega to weather domestic political challenges.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

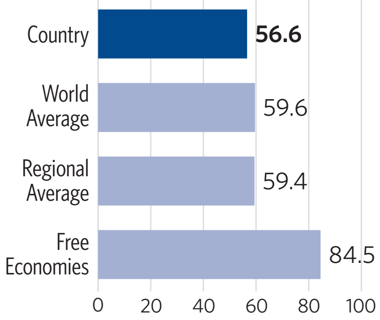
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 5.9 million

GDP (PPP): $18.9 billion

4.7% growth in 2011

5-year compound annual growth 2.8%

$3,206 per capita

Unemployment: 8.0%

Inflation (CPI): 8.1%

FDI Inflow: $967.9 million

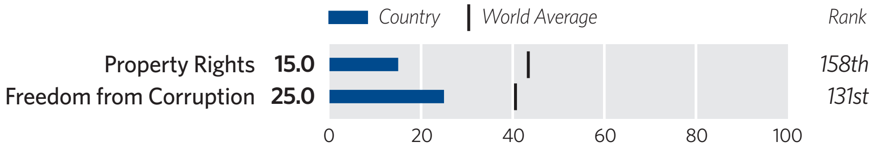
Public Debt: 72.0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

NICARAGUA (continued)

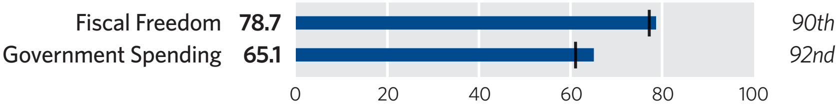
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



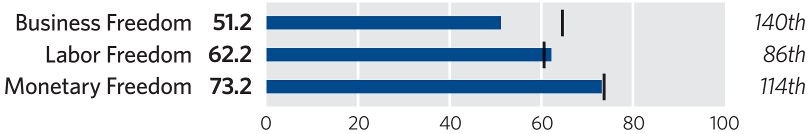
The rule of law is gradually collapsing as authoritarian power is concentrated in the executive. Weak institutions, rampant corruption, and nepotism act as a brake on development. The judicial system is not independent from political interference. Protection of private property rights is not enforced effectively, and contracts are not always secure. Many expropriation cases from earlier years remain unresolved.

LIMITED GOVERNMENT



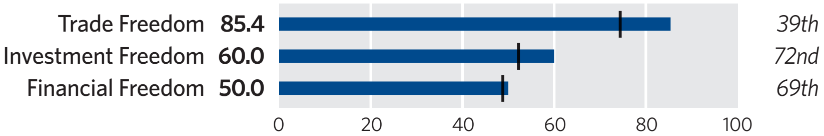
The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The overall tax burden equals 18.3 percent of GDP. Government spending is equivalent to 34.1 percent of GDP. Public debt hovers at around 70 percent of GDP. Tax reform implemented in 2009 has helped to generate a more positive fiscal outlook.

REGULATORY EFFICIENCY



Red tape and inconsistent enforcement of commercial regulations burden the regulatory environment. The cost of launching a business is about the level of average annual income. Obtaining necessary permits still takes more than 200 days and costs over three times the average income level. Because of an inefficient and inflexible labor market, high unemployment persists. Inflation has been rising as monetary stability continues to erode.

OPEN MARKETS



The trade-weighted average tariff rate is moderate at 2.3 percent, but complex regulations increase the cost of trade. The investment regime is not transparent and efficient. Despite anti-market comments from some government leaders, the country has attracted growing levels of foreign investment. The high cost of long-term financing continues to hinder more dynamic private-sector growth.

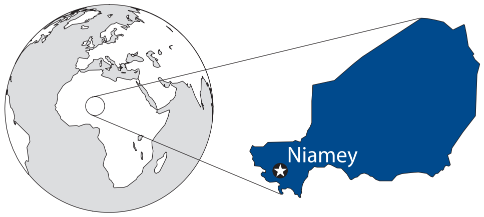
Score Changes

RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	+1.6
Government Spending	-17.9

REGULATORY EFFICIENCY	
Business Freedom	0
Labor Freedom	-1.2
Monetary Freedom	-0.8

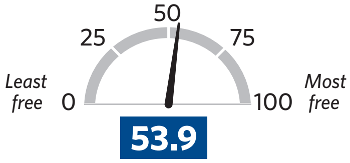
OPEN MARKETS	
Trade Freedom	+0.5
Investment Freedom	+5.0
Financial Freedom	0



NIGER

World Rank: 128 **Regional Rank: 26**

Economic Freedom Score



Niger's economic freedom score is 53.9, making its economy the 128th freest in the 2013 *Index*. Its score has decreased by 0.4 point since last year, with declines in half of the 10 economic freedoms including labor freedom and freedom from corruption. Niger is ranked 26th out of 46 countries in the Sub-Saharan Africa region, and its overall score is slightly above the regional average.

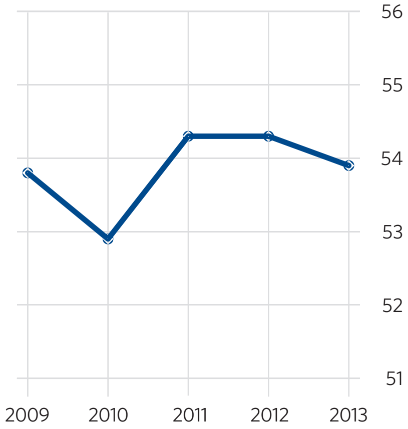
Niger is endowed with a number of natural resources, including uranium and oil, which have allowed moderate growth in recent years. However, like many other resource-endowed countries in the region, it still lacks the economic diversity and dynamism that are critical to stable long-term development. The country's institutional settings do not provide an adequate base on which to build a broad-based private sector that will foster vibrant economic expansion. The rule of law is poorly enforced, and legal uncertainty is further exacerbated by systemic corruption.

The economy remains highly vulnerable to external shocks, and the inefficient regulatory environment continues to constrain commercial operations and investment growth. The underdeveloped financial system remains fragmented, reflecting the small size of the formal economy.

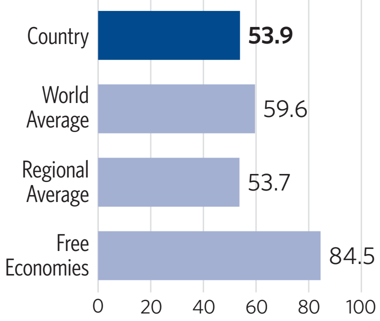
BACKGROUND: President Mamadou Tandja introduced a new constitution in 2009 to extend his term in office but was overthrown in 2010. Opposition leader Mahamadou Issoufou won elections in March 2011 and was inaugurated as president in April 2011. His political coalition also won a majority in the National Assembly. A Tuareg rebellion in northern Niger remains a threat to national security. Another concern is the recent increase in Islamic activity, which Niger believes is associated with al-Qaeda in the Islamic Maghreb. Niger is one of the world's poorest countries. With the exception of uranium, its substantial mineral resources, including petroleum and gold, have yet to be exploited. About 80 percent of the population depends on subsistence farming and herding. Most economic activity is informal, infrastructure is poor, and arid conditions and extended droughts hinder food production.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



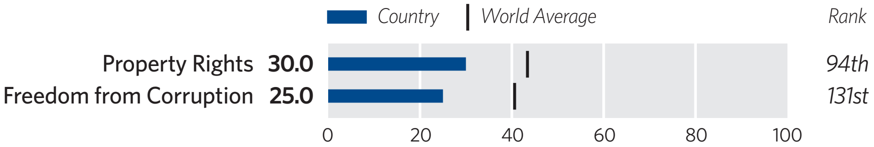
Quick Facts

Population: 15.1 million
GDP (PPP): $11.6 billion
2.3% growth in 2011
5-year compound annual growth 4.3%
$771 per capita
Unemployment: n/a
Inflation (CPI): 2.9%
FDI Inflow: $1.0 billion
Public Debt: 18.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

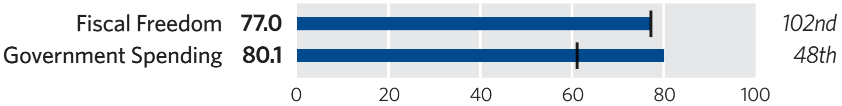
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



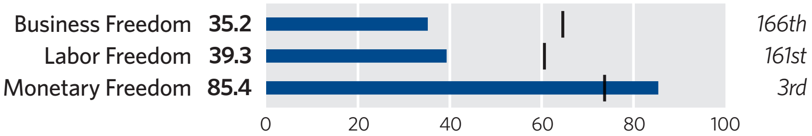
The rule of law is hampered by an ineffective judicial framework, and a weak court system remains vulnerable to political interference. Although the transition back to civilian rule in 2011 was a hopeful sign, rampant corruption in the executive and legislative branches worsened at the same time because of poorly trained law enforcement, weak administrative controls, and politicization of the public service.

LIMITED GOVERNMENT



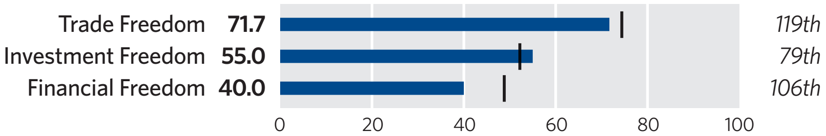
The top income tax rate is 35 percent, and the top corporate tax rate is 30 percent. Other taxes include a tax on interest and a capital gains tax. The overall tax burden equals 13.3 percent of total domestic income. Government spending is equivalent to 25.8 percent of GDP. The budget balance remains negative, although public debt remains below 20 percent of GDP. Government spending continues to grow due to oil revenue and increased aid flows.

REGULATORY EFFICIENCY



The inadequate regulatory framework hampers private-sector development. Onerous and inconsistent regulations impose substantial costs on business operations. The cost of completing licensing requirements is still over 15 times the level of annual average income. With the labor market poorly developed, much of the labor force works in the informal sector. The state influences prices through state-owned utilities.

OPEN MARKETS

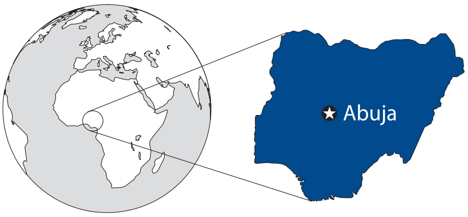


The trade-weighted average tariff rate is high at 9.1 percent, and extensive non-tariff barriers further increase the cost of trade. The bureaucratic investment framework remains outmoded and non-transparent, deterring vibrant growth in private investment. Despite some progress toward modernizing the financial sector, financing options for starting and expanding private businesses are limited. Overall bank credit to the private sector remains low.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.1	Business Freedom	-0.7	Trade Freedom	0
Freedom from Corruption	-1.0	Government Spending	-0.4	Labor Freedom	-1.5	Investment Freedom	0
				Monetary Freedom	-1.0	Financial Freedom	0

NIGERIA



World Rank: **120** Regional Rank: **21**

Nigeria's economic freedom score is 55.1, making its economy the 120th freest in the 2013 *Index*. Its score is 1.2 points lower than last year due to a substantial decline in labor freedom that outweighs gains in the control of government spending and monetary freedom. Nigeria is ranked 21st out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

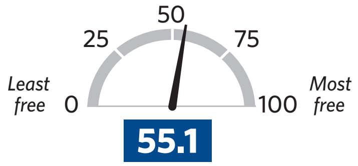
Nigeria has pursued economic reforms centered on enhancing management of public finance and improving the efficiency of business regulations. With a strong surge in oil production, the economy has expanded quickly, achieving an average annual growth rate of 7 percent over the past five years.

An increase in the minimum wage has undercut labor productivity, and the structural changes that are critical to broad-based development have not emerged. The oil sector continues to dominate the economy. Prolonging regulatory uncertainty, legislation designed to introduce sweeping changes to the oil and gas industry has not moved forward over the past four years. With the judicial system susceptible to political interference, the rule of law is weak throughout the country. Growing social unrest further threatens wider stability.

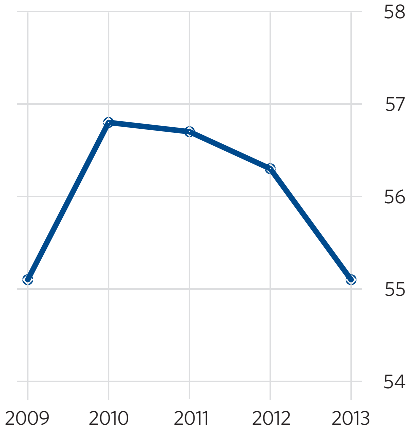
BACKGROUND: Vice President Goodluck Jonathan, inaugurated as president in May 2010 after President Umaru Yar'Adua died, was re-elected in a controversial election in April 2011. Ethnic, regional, and religious violence has taken a heavy toll, aggravated by the imposition of Islamic law in the northern states, and Islamic terrorism by Boko Haram in the predominately Muslim North has caused regional instability. Nigeria is Africa's most populous nation, with an estimated population of over 150 million. It is also Africa's leading oil producer, although sabotage of oil facilities and pipelines and violent attacks on foreign oil workers in the Niger Delta impede output. Oil and gas account for about 90 percent of export earnings and 80 percent of government revenue. The informal economy is extensive, and a majority of the population is engaged in agriculture.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

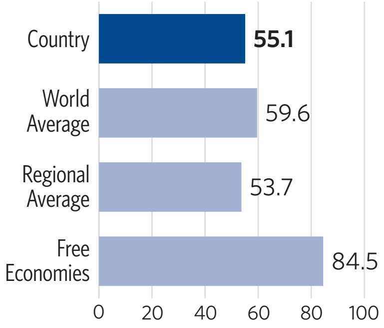
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

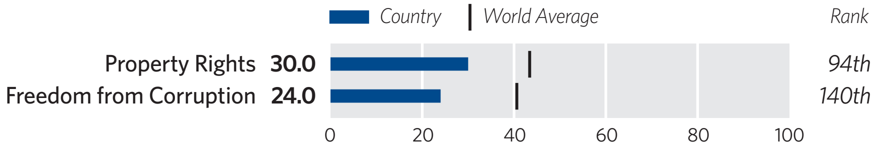
Population: 160.3 million
GDP (PPP): $413.4 billion
7.2% growth in 2011
5-year compound annual growth 7.0%
$2,578 per capita
Unemployment: 21.0%
Inflation (CPI): 10.8%
FDI Inflow: $8.9 billion
Public Debt: 17.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

NIGERIA (continued)

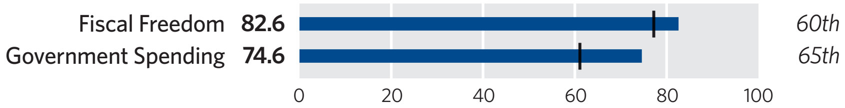
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



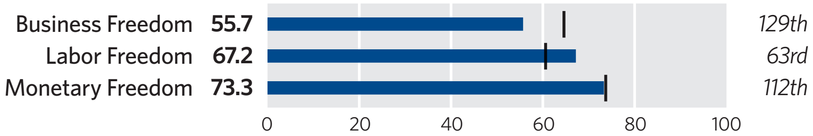
The legal system suffers from political interference, bureaucratic delays, insufficient funding, and the lack of a document-processing system. One of the world's least efficient property registration systems makes acquiring and maintaining rights to real property difficult. Enforcement of copyrights, patents, and trademarks is deficient. Rampant corruption, high crime, and insecurity continue to weaken the rule of law.

LIMITED GOVERNMENT



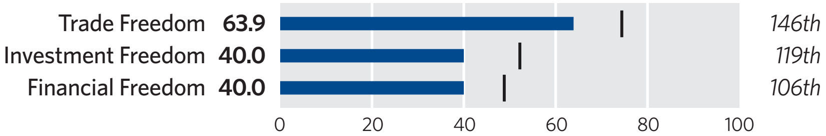
The top income tax rate is 24 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The overall tax burden equals 16.3 percent of total domestic income. Government spending is equivalent to 29.1 percent of total domestic output. The budget is in a slight surplus, and public debt remains below 20 percent of GDP.

REGULATORY EFFICIENCY



The entrepreneurial environment remains burdened by time-consuming and costly regulatory procedures. The minimum capital requirement for starting a business has been eliminated, but licensing costs still average over four times the level of average annual income. The public and energy sectors employ much of the formal labor force, and an increase in the minimum wage has reduced hiring flexibility. Inflation has eased somewhat but is still high.

OPEN MARKETS



The trade-weighted average tariff rate is quite high at 10.6 percent, and slow customs procedures further deter dynamic growth in trade. Most sectors are open to private investment, and regulations formally treat foreign and domestic investment equally, but the investment regime lacks efficiency. Reform in the financial sector has been ongoing since 2009, but the state continues to influence the allocation of credit.

Score Changes

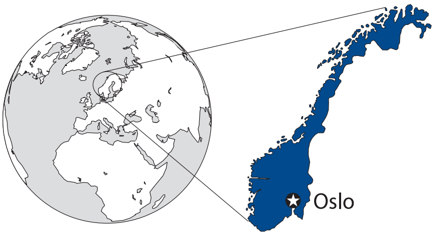
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	-1.7
Government Spending	+2.3

REGULATORY EFFICIENCY	
Business Freedom	+0.1
Labor Freedom	-13.4
Monetary Freedom	+1.3

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

NORWAY



World Rank: **31** Regional Rank: **16**

Norway's economic freedom score is 70.5, making its economy the 31st freest in the 2013 *Index*. Its score has increased by 1.7 points since last year due to notable improvements in half of the 10 economic freedoms including the management of public spending, investment freedom, and freedom from corruption. Norway is ranked 16th out of 43 countries in the Europe region, and its overall score is well above the world and regional averages.

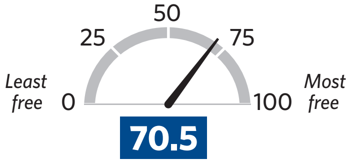
Norway's impressive gains in economic freedom have moved it once again into the "mostly free" category. The government has focused on containing expensive welfare programs, with the accumulation of assets from hydrocarbon production in the National Wealth Fund providing a cushion for fiscal stimulus. With the budget deficit narrowing, public debt remains under control. However, state ownership in key industries continues to be substantial.

The strong competitiveness of the Norwegian economy is built on openness and transparency, with policies that support dynamic trade and investment. The quality of the legal framework is among the world's highest, providing effective protection of property rights. The rule of law is well maintained, and a strong tradition of minimum tolerance for corruption continues.

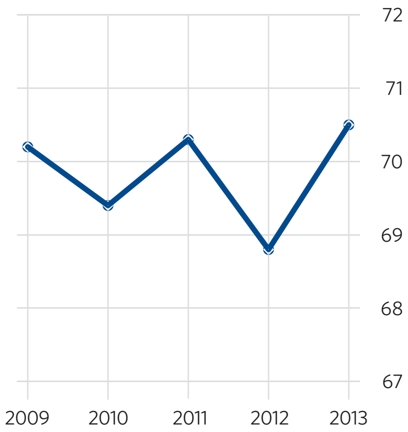
BACKGROUND: Prime Minister Jens Stoltenberg heads a labor–socialist coalition government. Norway has been a member of NATO since 1949, but voters have twice rejected membership in the European Union. Instead, it maintains close economic interaction with EU members under the European Economic Area agreement. Norway is one of the world's most prosperous countries. Fisheries, metal, and oil are the most important commodities. It weathered the economic crisis well but is exposed to Europe's economic problems since 80 percent of its trade is with EU member states. The government continues to save a large portion of its petroleum-sector revenues, such as dividends from the partially state-owned Statoil and taxes from oil and gas companies operating in Norway, as part of its Government Pension Fund-Global, currently worth approximately US$590 billion.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

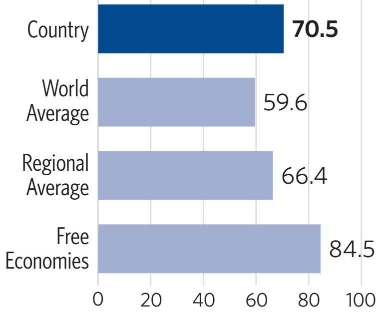
Economic Freedom Score



Freedom Trend



Country Comparisons



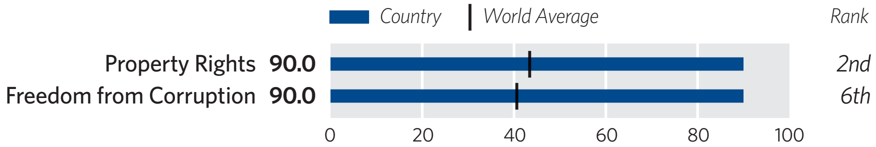
Quick Facts

Population: 5.0 million
GDP (PPP): $265.9 billion
1.7% growth in 2011
5-year compound annual growth 0.7%
$53,471 per capita
Unemployment: 3.0%
Inflation (CPI): 1.3%
FDI Inflow: $3.6 billion
Public Debt: 49.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

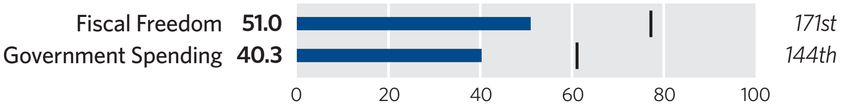
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



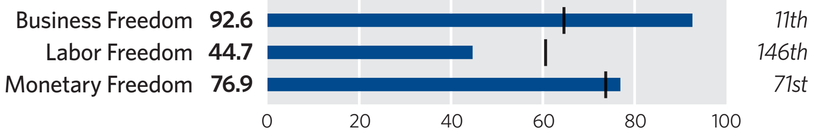
The judicial system is sound and efficient, providing secure protection of private property rights and reliable enforcement of commercial contracts. Protection of intellectual property rights is consistent with world standards, and the laws are evenly applied. Well-established anti-corruption measures reinforce a cultural emphasis on government integrity. Transparency has been an emphasis and is a key institutional asset.

LIMITED GOVERNMENT



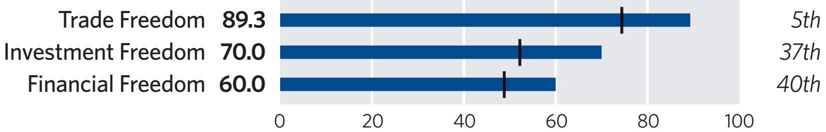
The top income tax rate is 47.8 percent, and the corporate tax rate is a flat 28 percent. Other taxes include a value-added tax (VAT), a tax on net wealth, and environmental taxes. The overall tax burden equals 42.8 percent of GDP. Government spending is equivalent to 44.6 percent of total domestic output. Public debt is below 50 percent of GDP. Large oil revenues have preserved the fiscal balance despite attempted stimulus spending.

REGULATORY EFFICIENCY



The entrepreneurial framework is transparent and efficient. Starting a business takes five procedures and seven days on average, but licensing can be time-consuming. Bankruptcy proceedings are relatively simple. The labor market lacks flexibility, but the non-salary cost of employment is not high in comparison to other countries in the region. Monetary stability is well maintained.

OPEN MARKETS



The trade-weighted average tariff rate is one of the world's lowest at 0.4 percent. Although there are some trade-distorting agricultural subsidies, non-tariff barriers are largely nominal and not burdensome. The investment code is efficiently administered, but domestic or European Economic Area investors are favored in some sectors. The financial sector is market-driven, although the state retains ownership of the largest financial institution.

Score Changes

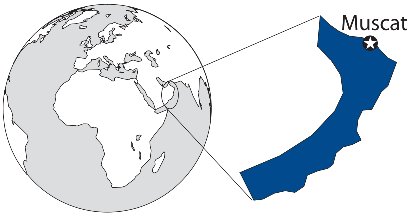
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+4.0

LIMITED GOVERNMENT	
Fiscal Freedom	-1.5
Government Spending	+5.0

REGULATORY EFFICIENCY	
Business Freedom	+4.2
Labor Freedom	-1.6
Monetary Freedom	+1.8

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	+5.0
Financial Freedom	0

OMAN



World Rank: **45** Regional Rank: **5**

Oman's economic freedom score is 68.1, making its economy the 45th freest in the 2013 *Index*. Its score is 0.2 point higher than last year, with significant declines in trade freedom, freedom from corruption, and labor freedom mitigated by a major improvement in the control of government spending. Oman is ranked 5th out of 15 countries in the Middle East/North Africa region, and its overall score is above the world and regional averages.

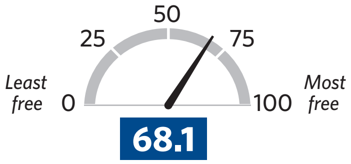
Oman is a small, open economy in which the energy sector has been the most important engine of growth. With competitively low tax rates in place, foreign investment is generally welcome in many sectors. Recognizing the importance of developing a more dynamic entrepreneurial environment, Oman has pursued regulatory reforms and modernization of the economy.

Despite some progress, Oman's transition to greater openness and flexibility has been sluggish and largely uneven. Overall economic freedom remains constrained by state involvement in the private sector and public enterprises. The lack of market competition has inflated price levels, and reliance on the state-owned oil sector has left the economy vulnerable to external shocks. The rule of law has been relatively well maintained, but the judiciary remains vulnerable to political interference.

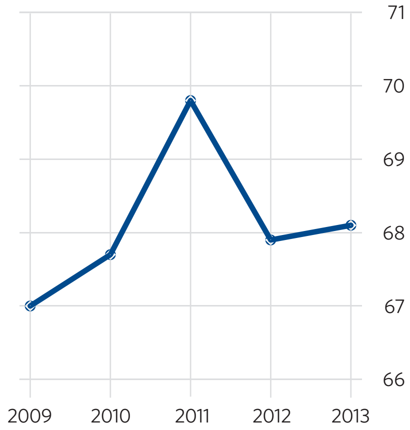
BACKGROUND: In early 2011, activists inspired by the "Arab Spring" demanded greater political rights, economic benefits, and action against corruption. Sultan Qabus bin Said responded by changing cabinet ministers and promising political and economic reforms and more government jobs. A Consultative Council was elected in October 2011, and the sultan granted it expanded regulatory and legislative powers. Oman is a relatively small oil exporter. The government is trying to expand exports of natural gas, develop gas-based industries, and encourage foreign investment in petrochemicals, electric power, and telecommunications. It also stresses "Omanization" (replacing foreign workers with local staff to reduce chronically high unemployment). Oman joined the World Trade Organization in 2000 and signed a free trade agreement with the United States in 2006.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

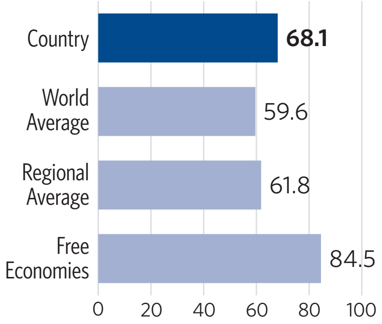
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

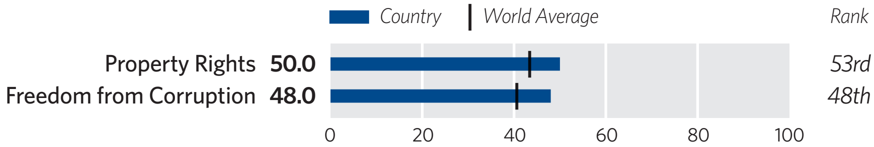
Population: 3.1 million
GDP (PPP): $81.8 billion
5.5% growth in 2011
5-year compound annual growth 5.7%
$26,519 per capita
Unemployment: n/a
Inflation (CPI): 4.0%
FDI Inflow: $788 million
Public Debt: 5.1% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

OMAN (continued)

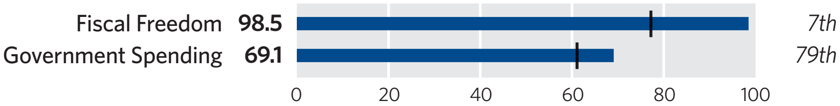
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



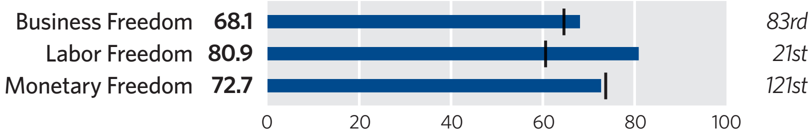
The rule of law has been relatively well maintained, but the judiciary remains vulnerable to political interference. The legal system facilitates transfers of property rights, which are well protected. The threat of expropriation is low. Only Gulf Cooperation Council nationals may own commercial real estate. Enforcement of intellectual property laws for pharmaceuticals and software improved in 2011. Corruption is moderate.

LIMITED GOVERNMENT



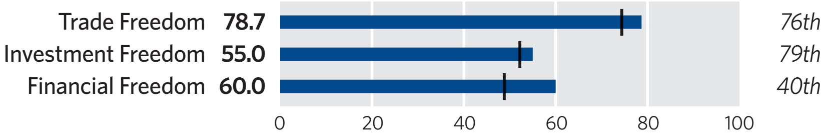
There is no income tax, and the top corporate tax rate is 12 percent. There is no consumption tax or value-added tax (VAT). The overall tax burden equals only 3.1 percent of GDP. Government spending has fallen to 32.1 percent of total domestic output. Oil revenue has facilitated large budget surpluses. However, a fast-growing population is putting pressure on public spending. Public debt remains below 10 percent of GDP.

REGULATORY EFFICIENCY



Oman's regulatory environment is still evolving. Starting a business takes an average of eight days, compared to the world average of 30 days, but the required minimum capital is over twice the average level of annual income. Labor laws enforce the "Omanization" policy that requires private-sector firms to meet quotas for hiring native Omani workers. The state influences prices through an extensive subsidy system.

OPEN MARKETS



The trade-weighted average tariff rate is modest at 3.2 percent, but the government may block imports that it considers morally or politically objectionable. Although foreign investment is welcome, sectoral restrictions can be non-transparent and inconsistent. The banking sector continues to evolve, with commercial banks performing well. Most credit is offered at market rates, but the government uses subsidized loans to promote investment.

Score Changes

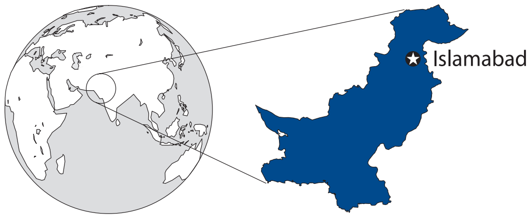
RULE OF LAW	
Property Rights	**0**
Freedom from Corruption	**-5.0**

LIMITED GOVERNMENT	
Fiscal Freedom	**+0.1**
Government Spending	**+15.5**

REGULATORY EFFICIENCY	
Business Freedom	**-0.1**
Labor Freedom	**-4.2**
Monetary Freedom	**+0.6**

OPEN MARKETS	
Trade Freedom	**-5.0**
Investment Freedom	**0**
Financial Freedom	**0**

PAKISTAN



World Rank: **121** Regional Rank: **24**

Pakistan's economic freedom score is 55.1, making its economy the 121st freest in the 2013 *Index*. Its score is 0.4 point higher this year, with modest gains in half of the economic freedoms, including the control of government spending and business freedom. Pakistan is ranked 24th out of 41 countries in the Asia–Pacific region, and its overall score is below the world and regional averages.

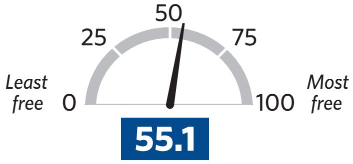
Pakistan continues to lag significantly behind other countries in the region in advancing reform. Lingering social and political instabilities undercut meaningful progress in installing a stable macroeconomic environment, and the institutional capacity to uphold the foundations of economic freedom has deteriorated. Property rights are severely undermined by a weak and ineffective judiciary susceptible to political interference. Corruption, endemic throughout the economy, remains a serious drag on long-term economic development.

The overall regulatory environment continues to be affected by convoluted administrative bureaucracy, and there is little commitment to opening markets. Tariff and non-tariff barriers, coupled with burdensome and non-transparent investment regulations, hamper development of a dynamic private sector and modernization of the economic base.

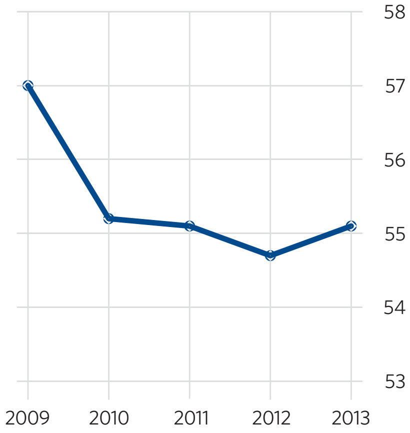
BACKGROUND: Pakistan, the world's second-largest Muslim-majority country, is plagued by political instability and violence. Civilian and military leaders continuously jockey for power, and the nation is beset by terrorism and a well-organized insurgency along the border with Afghanistan. Devastating floods in July 2010 dislocated millions of people and caused billions of dollars in damages. The May 2011 U.S. raid that killed Osama bin Laden and a November NATO air strike that accidentally killed 24 Pakistani soldiers along the Afghan border sparked a crisis in U.S.–Pakistan relations. Pakistan has privatized some state-run industries, but the economy is still heavily regulated, and the highly volatile security situation discourages foreign investment. Other problems include rising energy shortages and food prices.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

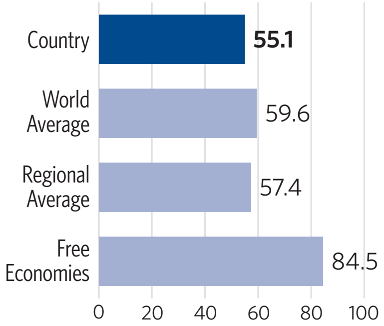
Economic Freedom Score



Freedom Trend



Country Comparisons



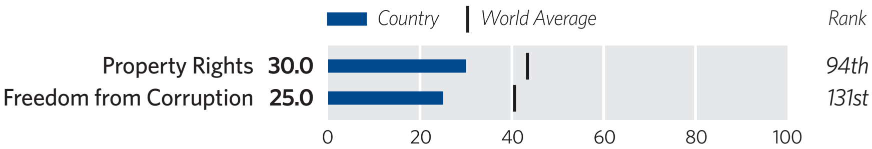
Quick Facts

Population: 175.3 million
GDP (PPP): $488.6 billion
2.4% growth in 2011
5-year compound annual growth 3.7%
$2,787 per capita
Unemployment: 5.6%
Inflation (CPI): 13.7%
FDI Inflow: $1.3 billion
Public Debt: 60.1% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

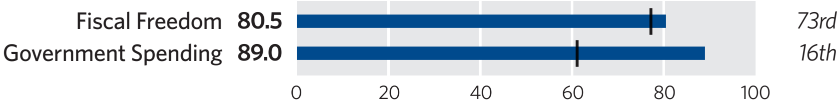
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



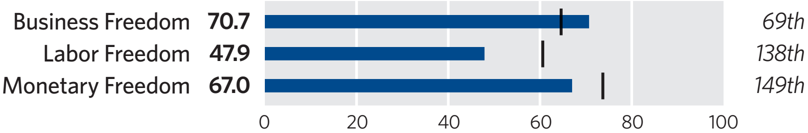
The rule of law is unstable across the country. The independence of the legal system is poorly institutionalized, and judicial procedures tend to be protracted, costly, and subject to political pressure. Property rights are not protected effectively. Pervasive corruption persists. Swiss authorities are investigating allegations that the current president accepted kickbacks from Swiss firms in the 1990s.

LIMITED GOVERNMENT



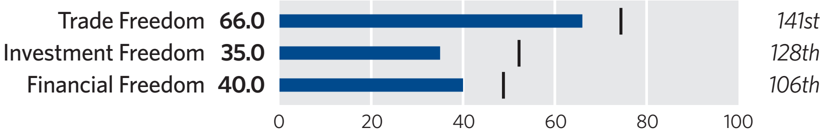
The top income tax rate is 25 percent, and the top corporate tax rate is 35 percent. Other taxes include a general sales tax (GST) and an interest tax. The overall tax burden equals 10.1 percent of total domestic income. Government spending is equivalent to 19.1 percent of GDP. The deficit remains over 5 percent of GDP, and public debt is about 60 percent of GDP. The fiscal account is unsteady, and Pakistan's relationship with the IMF has been strained.

REGULATORY EFFICIENCY



Progress in improving the entrepreneurial environment has been modest. Starting a business takes an average of 21 days, although no minimum capital is required. Completing licensing requirements still costs over twice the level of average annual income. The labor market remains stagnant. A large portion of the workforce is underemployed in the informal sector. Inflation is still high but has moderated somewhat. Monetary stability is weak.

OPEN MARKETS

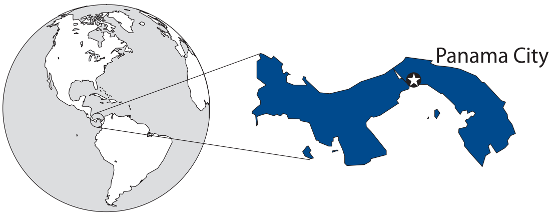


The trade-weighted average tariff rate is very high at 9.5 percent, and complex non-tariff barriers further constrain trade freedom. The investment regime remains inefficient. Foreign direct investment has been declining, discouraged by political instability, sectarian conflict, and heavy bureaucracy. A majority of commercial banks are private, but the banking sector remains vulnerable to state interference. Capital markets are underdeveloped.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**0**	Fiscal Freedom	**-0.1**	Business Freedom	**+0.7**	Trade Freedom	**0**
Freedom from Corruption	**+2.0**	Government Spending	**+0.9**	Labor Freedom	**+0.1**	Investment Freedom	**0**
				Monetary Freedom	**+0.7**	Financial Freedom	**0**

PANAMA



World Rank: **71** Regional Rank: **13**

Panama's economic freedom score is 62.5, making its economy the 71st freest in the 2013 *Index*. Its score is 2.7 points worse than last year due to substantial deteriorations in six of the 10 economic freedoms including property rights and control of government spending. Panama is ranked 13th out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world and regional averages.

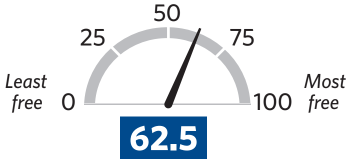
Registering the fifth largest score decline in the 2013 *Index*, Panama's overall economic freedom has been undercut by institutional shortcomings that weaken the rule of law and undermine prospects for dynamic long-term economic expansion. Anti-corruption laws seem to have little impact, and the judicial system remains vulnerable to political interference.

In other areas, however, the competitiveness of the economy is sustained by a continued high degree of openness to global commerce. Previous pro-growth reforms, including a simplified business start-up process and the reduced corporate tax rate, have enhanced the commercial environment and contributed to solid economic expansion over the past five years. The service-oriented economy continues to be a vibrant international business and banking hub.

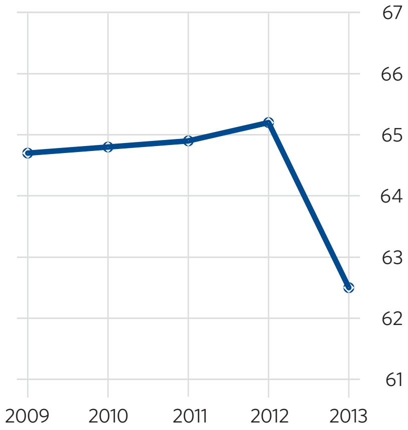
BACKGROUND: Since the opening of the Panama Canal in 1914, Panama has been a strategic hub for commerce and security in the Americas. President Ricardo Martinelli of the center-right Democratic Change party has used pro-business, pro-growth rhetoric but is fond of big government projects. He has drawn intense criticism for his caudillo style, his disregard for the rule of law, and his attempt in 2012 to pack the high court. Banking and services account for 80 percent of jobs in the formal economy. Panama now has sole responsibility for operating the canal and has developed former U.S. bases for commercial and tourism usage. The U.S.–Panama Trade Promotion Agreement, approved by the U.S. Congress in 2011, is expected to encourage further economic growth and development. Panama works closely with the U.S. in counternarcotics.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

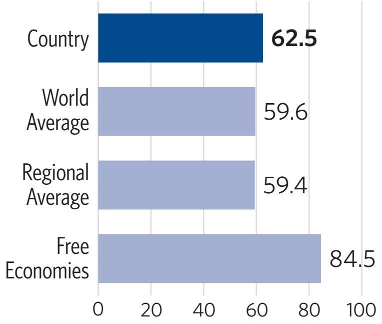
Economic Freedom Score



Freedom Trend



Country Comparisons



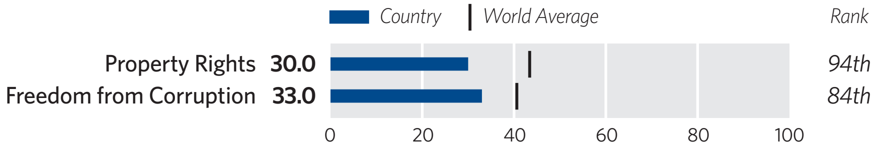
Quick Facts

Population: 3.6 million
GDP (PPP): $50.6 billion
10.6% growth in 2011
5-year compound annual growth 8.8%
$14,097 per capita
Unemployment: 4.5%
Inflation (CPI): 5.9%
FDI Inflow: $2.8 billion
Public Debt: 37.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

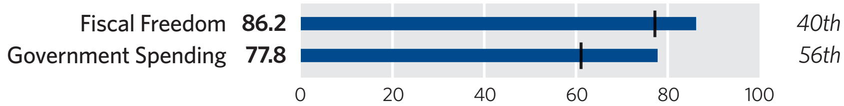
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



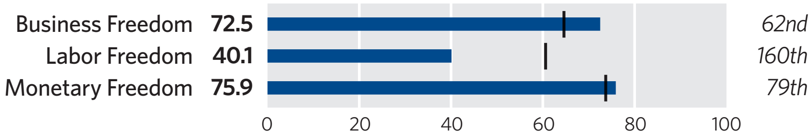
The rule of law has been weakened by increasing politicization of the judiciary. The court system remains inefficient, with severe backlogs and weak capacity to resolve contractual disputes. Public perception of public-sector corruption has been growing. The president's closest adviser was forced to resign in 2012 after being implicated in a corrupt land titling deal involving the expropriation of beachfront property without compensation.

LIMITED GOVERNMENT



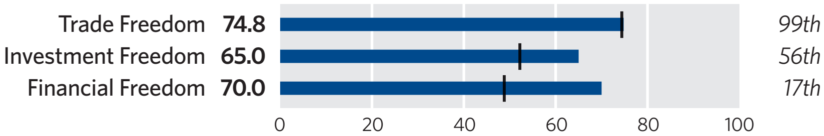
The top income and corporate tax rates are 25 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The overall tax burden equals 11.4 percent of total domestic income. Government spending is equivalent to 27.2 percent of GDP. The budget deficit has widened, although public debt has been below 40 percent of GDP. Despite poor tax collection in certain areas, fiscal health remains bolstered by a growing financial sector.

REGULATORY EFFICIENCY



Earlier reforms have enhanced the regulatory framework, but the pace of reform has slowed in comparison to other emerging economies. With no minimum capital requirements, starting a business takes six procedures. However, licensing requirements continue to be time-consuming and costly. The labor market lacks flexibility, and the non-salary cost of hiring a worker is relatively high. Monetary stability has been fairly well maintained.

OPEN MARKETS

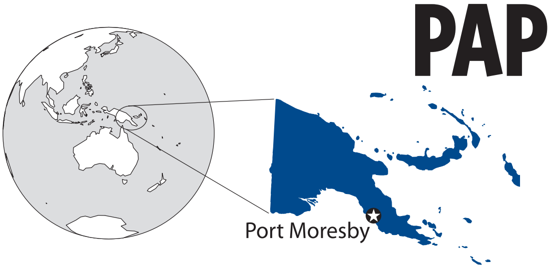


The trade-weighted average tariff rate is 7.6 percent, and there are few non-tariff barriers to add to the cost of trade. Foreign investment is officially welcome and subject to national treatment, but there are sector-wide restrictions. The investment regime is not particularly conducive to spurring growth in new investment. The financial sector, vibrant and generally well regulated, provides a wide range of services. Banking continues to expand.

Score Changes

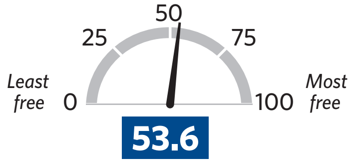
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	-10.0	Fiscal Freedom	+1.6	Business Freedom	-1.9	Trade Freedom	0
Freedom from Corruption	-3.0	Government Spending	-10.4	Labor Freedom	-1.4	Investment Freedom	0
				Monetary Freedom	-1.9	Financial Freedom	0

PAPUA NEW GUINEA



World Rank: **130** Regional Rank: **26**

Economic Freedom Score



Papua New Guinea's economic freedom score is 53.6, making its economy the 130th freest in the 2013 *Index*. Its score is 0.2 point lower than last year, with small improvements in freedom from corruption and trade freedom outweighed by declines in half of the 10 economic freedoms including business freedom and monetary freedom. Papua New Guinea is ranked 26th out of 41 countries in the Asia–Pacific region, and its overall score is lower than the world and regional averages.

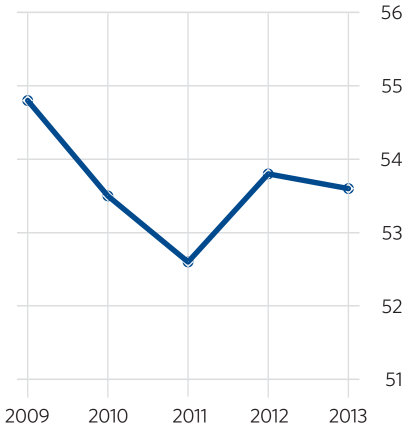
Papua New Guinea's economy continues to be "mostly unfree." Although it has been expanding due to high commodity prices and a construction boom, the prospects for long-term broad-based economic development are constrained by an inefficient legal system and lingering corruption that undercut the rule of law. Much-needed private-sector development is also held back by regulatory deficiencies and the lack of institutionalized open-market policies.

The economy remains divided between a formal sector based on exports of natural resources and a large informal sector that relies on subsistence farming and other small-scale economic activity. In order to manage all mineral revenue and put into practice stable public finance management, the government has focused since 2011 on establishing a new sovereign wealth fund.

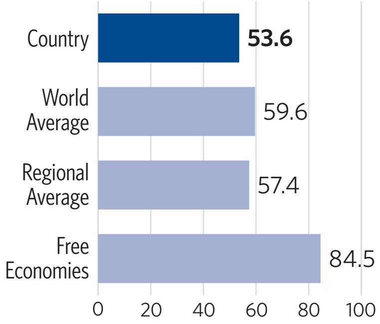
BACKGROUND: Papua New Guinea is a parliamentary democracy with nearly 7 million people speaking over 860 different languages. A year-long constitutional crisis seemingly came to an end in August 2012 with the re-election of Prime Minister Peter O'Neill, whose People's National Congress Party won the most seats in new elections. O'Neill's minority government now has the backing of chief rival and former leader Sir Michael Somare. The mining of rich deposits of gold, copper, oil, and natural gas dominates the formal economy, but the vast majority of Papua New Guineans depend on subsistence hunting or agriculture and the informal economy. Australia provides around US$480 million a year in assistance, making it the country's largest donor. Ongoing problems include corruption, weak governance, crime, and the inability to respond effectively to natural disasters.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



Quick Facts

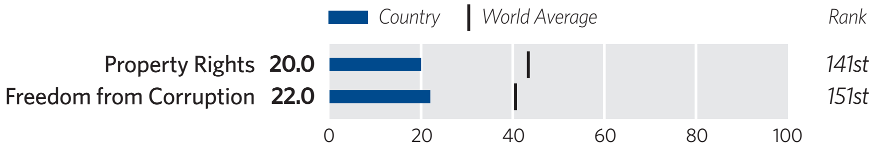
Population: 6.7 million
GDP (PPP): $16.9 billion
8.9% growth in 2011
5-year compound annual growth 7.3%
$2,532 per capita
Unemployment: 1.9% (2008)
Inflation (CPI): 8.4%
FDI Inflow: –$309.2 million
Public Debt: 25.2% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

PAPUA NEW GUINEA (continued)

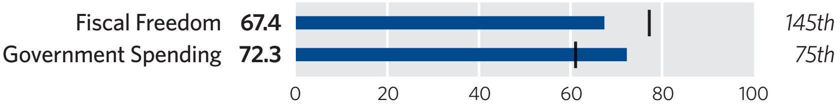
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



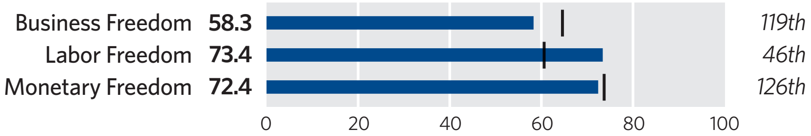
A modern and well-functioning judicial framework is not firmly in place, and land is often held communally. Corruption is a serious problem due to weak public institutions, lack of transparency, and politicization of the bureaucracy. Political stability improved in 2012 when the two leading parties agreed to form a coalition government after a bitter year-long dispute.

LIMITED GOVERNMENT



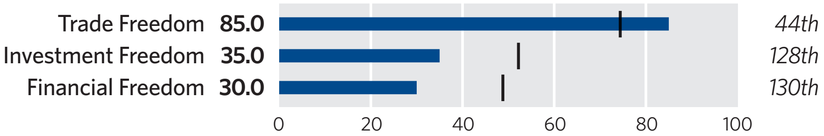
The top income tax rate is 42 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and an excise tax. The overall tax burden equals 24.4 percent of total domestic income. Government spending has reached a level equivalent to 30.4 percent of GDP. High commodity prices and fiscal discipline helped the government produce a small surplus this year.

REGULATORY EFFICIENCY



The overall regulatory framework remains poor. Despite some reform efforts, progress toward the structural changes needed to promote entrepreneurial activity has been limited. Private enterprises face numerous and time-consuming bureaucratic hurdles. The formal labor market is not fully developed, and informal labor activity is substantial. Inflation has been high, with prices rising due to the lack of competition.

OPEN MARKETS



The trade-weighted average tariff rate is 2.5 percent, and some lingering non-tariff barriers add to the cost of trade. Investment-related regulations are non-transparent and inefficient, stifling much-needed growth in new investment. The availability of financial services is inconsistent throughout the economy, and much of the population remains underserved by the formal banking sector.

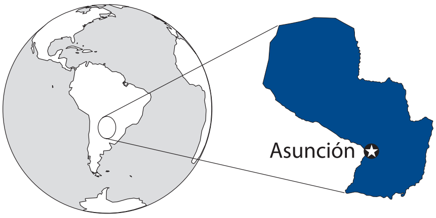
Score Changes

RULE OF LAW	
Property Rights	0
Freedom from Corruption	+1.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.9
Government Spending	-0.3

REGULATORY EFFICIENCY	
Business Freedom	-0.7
Labor Freedom	-0.6
Monetary Freedom	-0.8

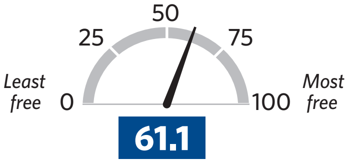
OPEN MARKETS	
Trade Freedom	+0.2
Investment Freedom	0
Financial Freedom	0



PARAGUAY

World Rank: **80** Regional Rank: **15**

Economic Freedom Score



Paraguay's economic freedom score is 61.1, making its economy the 80th freest in the 2013 *Index*. Its score is 0.7 point worse than last year, reflecting declines in half of the 10 economic freedoms, including control of government spending, monetary freedom, and labor freedom. Paraguay is ranked 15th out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world average.

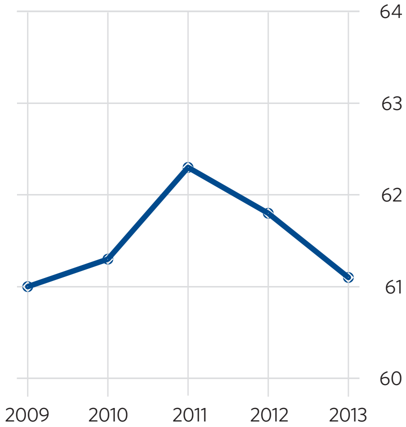
The Paraguayan government's commitment to economic reform has been uneven, and economic growth remains constrained by political instability and institutional weaknesses that erode the foundations for long-term development. In particular, the judicial system remains inefficient and vulnerable to political interference. Corruption, perceived as widespread, continues to be a problem.

The overall regulatory framework is not conducive to spurring the emergence of a dynamic private sector and promoting broad-based employment growth. Although Paraguay maintains relatively high trade freedom, driven mainly by relatively low tariff barriers, dynamic economic gains from trade are undercut by the absence of reform progress in other policy areas, particularly finance and investment, that are critical to sustaining open markets.

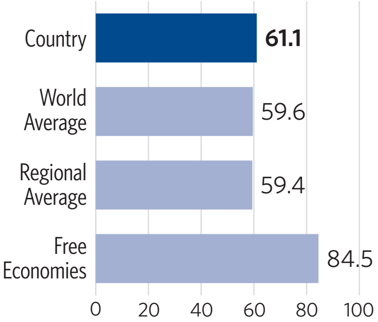
BACKGROUND: In 2008, former Catholic bishop Fernando Lugo engineered a victory for a center-left coalition, promising to support the indigenous population, redistribute land to the poor, and secure more revenue from the Itaipu Dam. In June 2012, following a violent clash between police and squatters, the legislature used its constitutional powers to indict Lugo for a variety of transgressions and remove him from office. Vice President Federico Franco assumed the presidency and will serve until elections in August 2013. Paraguay is a major exporter of soy. The extensive informal economy is geared to the re-export of consumer goods to neighboring countries. Institutional impediments to the market economy are considerable. The government has attempted to reduce smuggling and more closely scrutinize suspected terrorist groups in the tri-border area with Brazil and Argentina.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



Quick Facts

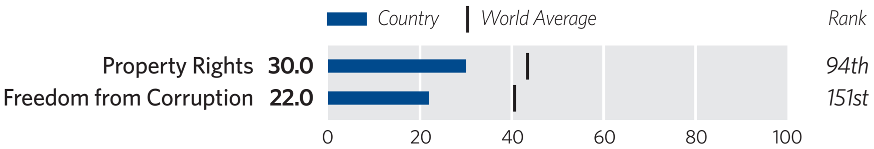
Population: 6.5 million
GDP (PPP): $35.3 billion
3.8% growth in 2011
5-year compound annual growth 5.3%
$5,413 per capita
Unemployment: 6.6%
Inflation (CPI): 6.6%
FDI Inflow: $303.0 million
Public Debt: 13.7% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

PARAGUAY (continued)

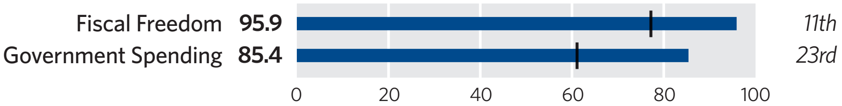
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



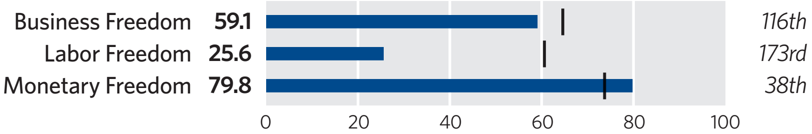
The judicial framework remains largely incapable of protecting property rights and maintaining the rule of law. The fragility of Paraguay's democracy and political institutions was underscored by the abrupt (but constitutional) impeachment and removal from office of the president in 2012. Contraband trade on the borders facilitates money laundering. Pervasive corruption flourishes with impunity, and the slow pace of judicial reform undermines economic freedom.

LIMITED GOVERNMENT



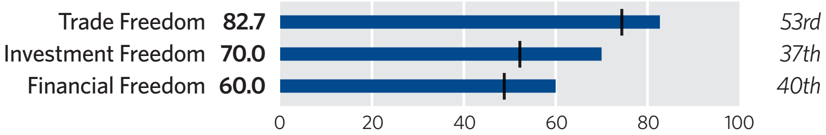
There is a 10 percent income tax, and the top corporate tax rate is 10 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden is equal to 14.5 percent of total domestic income. Government spending has increased to 22.1 percent of total domestic output. Budget surpluses have kept public debt quite low, below 15 percent of GDP.

REGULATORY EFFICIENCY



The overall regulatory framework remains cumbersome. There is no minimum capital requirement for starting a business, but the process still takes more than the world average of 30 days. The cost of completing licensing requirements remains over twice the level of average annual income. The labor market lacks flexibility, hurting much-needed job growth in the formal sector. Inflation has moderated.

OPEN MARKETS

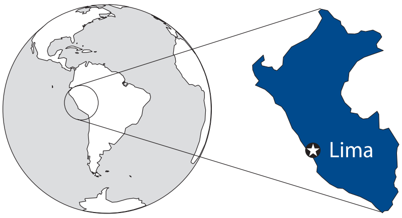


The trade-weighted average tariff rate is modest at 3.7 percent, but some non-tariff barriers impede the free flow of goods and services. Most sectors are open to private investment, and equal treatment of foreign investment is formally guaranteed. However, the investment regime lacks efficiency, mainly because of government bureaucracy. The level of financial intermediation has been improving gradually.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-1.0	Business Freedom	-0.7	Trade Freedom	0
Freedom from Corruption	0	Government Spending	-3.1	Labor Freedom	-1.6	Investment Freedom	0
				Monetary Freedom	-1.6	Financial Freedom	0

PERU



World Rank: **44** Regional Rank: **7**

Peru's economic freedom score is 68.2, making its economy the 44th freest in the 2013 *Index*. Its score is 0.5 point lower than last year, with declines in the control of government spending, labor freedom, monetary freedom, and freedom from corruption. Peru is ranked 7th out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world average.

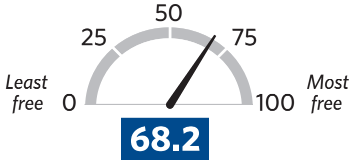
The Peruvian economy continues to be "moderately free." Overall competitiveness has been promoted and sustained by ongoing regulatory reforms and open-market policies that support trade and investment. Social conflict surrounding large-scale mining projects undercuts economic stability, entailing elevated risks for long-term economic development. The country's strong economic performance in recent years has left the government with large budget surpluses, but administering these resources effectively remains a challenge.

Lingering institutional weaknesses continue to slow Peru's transition toward greater economic freedom. Property rights are only moderately well protected, and the judicial system is relatively inefficient. Peru's score on freedom from corruption remains significantly below the world average.

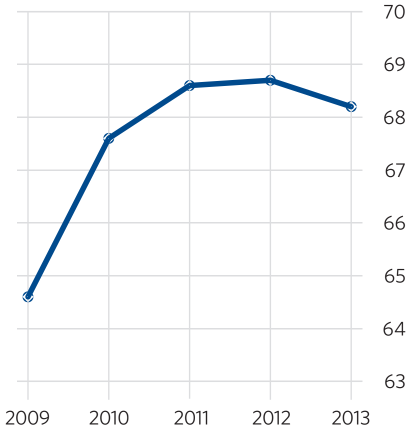
BACKGROUND: President Ollanta Humala of the leftist Peruvian Nationalist Party has tended to pursue moderate, pro-market policies while adding new government programs like the Ministry of Social Development and Inclusion to deliver additional social programs for the poor. Under Alan Garcia (2006–2011), Peru experienced a notable reduction in poverty and high levels of economic growth driven by private investment, a trend that continues under Humala. This has provoked significant unrest in some parts of the country among leftist supporters who oppose continuity in mining policy. Significant natural resources include gold, copper, and silver. Roughly 35 percent of Peruvians live below the poverty line, but that number has been coming down as economic growth is well above the Latin American average. The U.S.–Peru Free Trade Agreement has expanded trade flows and employment. Peru has entered into numerous other free trade agreements and is participating in the Pacific Alliance.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

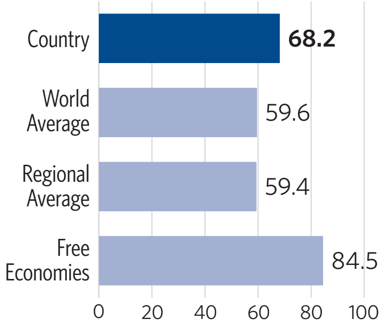
Economic Freedom Score



Freedom Trend



Country Comparisons



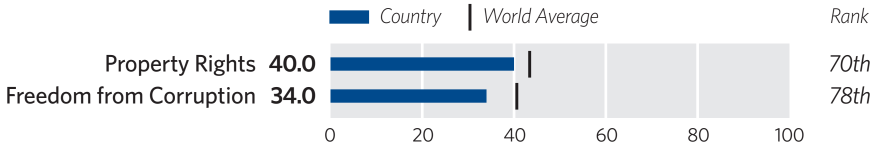
Quick Facts

Population: 30.0 million
GDP (PPP): $302.0 billion
6.9% growth in 2011
5-year compound annual growth 7.0%
$10,062 per capita
Unemployment: 7.9%
Inflation (CPI): 3.4%
FDI Inflow: $8.2 billion
Public Debt: 21.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

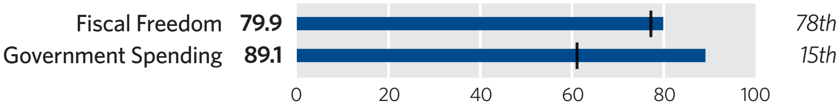
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



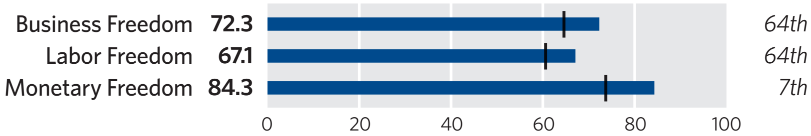
A decade of strong economic growth and orderly government transitions under two democratically elected presidents has increased stability, although a strong presidency tends to weaken the system's checks and balances. The judicial system continues to lack independence and efficiency. An inefficient civil service and a lack of transparency reduce accountability. Corruption has been endemic throughout Peru's history.

LIMITED GOVERNMENT



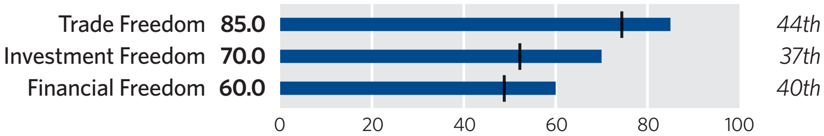
The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and a financial transactions tax. The overall tax burden equals 14.5 percent of total domestic income. Government spending has risen to 19.1 percent of GDP. The budget balance has registered a strong surplus, and public debt has fallen to about 20 percent of total domestic output. Strong mining receipts (60 percent of export revenue) have helped the fiscal balance.

REGULATORY EFFICIENCY



Recent reforms dismantled barriers to launching and running private enterprises. With no minimum capital required, it now takes less than the world average of seven procedures and 30 days to start a business. Licensing requirements are now much simpler. Employment regulations continue to evolve, with more flexibility gradually being introduced into the labor market. Inflation remains low.

OPEN MARKETS

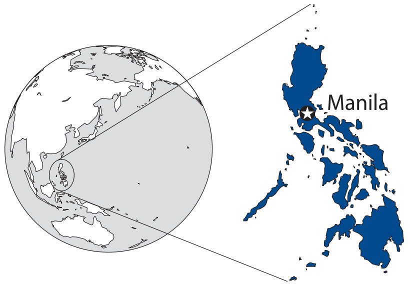


The trade-weighted average tariff rate is low at 2.5 percent, but some non-tariff barriers raise the cost of trade. Although most sectors are open to foreign investment, bureaucratic deficiencies continue to hamper investment growth. The financial sector has undergone gradual transformation. Credit to the private sector has increased steadily, and foreign ownership in the financial sector is also growing.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.2	Business Freedom	+0.3	Trade Freedom	0
Freedom from Corruption	-1.0	Government Spending	-1.8	Labor Freedom	-1.4	Investment Freedom	0
				Monetary Freedom	-1.2	Financial Freedom	0

PHILIPPINES



World Rank: **97** Regional Rank: **17**

The Philippines' economic freedom score is 58.2, making its economy the 97th freest in the 2013 *Index*. Its score is 1.1 points higher than last year, with notable improvements in investment freedom and freedom from corruption outweighing a decline in business freedom. The Philippines ranks 17th out of 41 countries in the Asia–Pacific region, and its overall score is slightly below the world average.

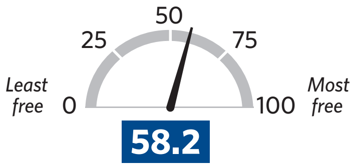
Weathering the ongoing global economic slowdown with a high degree of resilience, the Philippine economy has been on a steady path of economic expansion, growing at an average annual rate above 4.5 percent over the past five years. The government has pursued a series of legislative reforms to enhance the entrepreneurial environment and develop a stronger private sector to generate broader-based job growth.

Nevertheless, institutional challenges require deeper commitment to reform. Although the perceived level of corruption has declined in recent years, more effective anti-corruption measures need to be institutionalized. The inefficient judiciary remains susceptible to political interference and does not provide strong and transparent enforcement of the law, undermining prospects for long-term economic development.

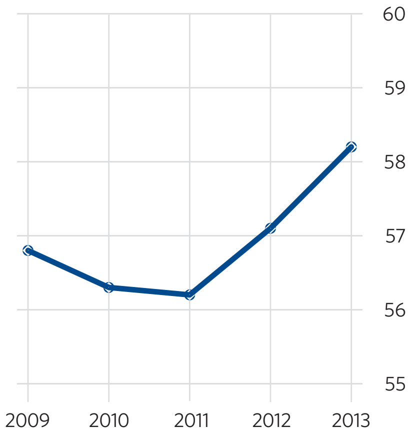
BACKGROUND: The Philippines' diverse population, which speaks more than 80 languages and dialects, is spread over 7,000 islands in the Western Pacific. The country returned to democracy in 1986 after two decades of autocratic rule. President Benigno Aquino III took office in 2010 with a mandate to address pervasive corruption and has launched investigations into abuses of power by prior administrations. The previous government's failure to do anything substantial to liberalize the economy set back efforts to attract much-needed foreign investment in basic industries and infrastructure, and the Philippines continued its long slide from one of Asia's richest economies to one of its poorest. Emigrants' remittances are equivalent to more than 10 percent of GDP.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

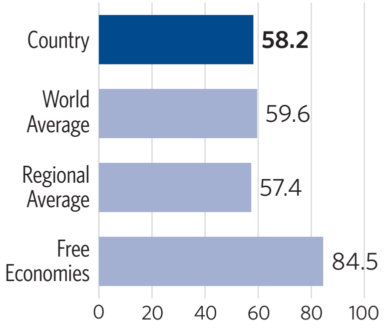
Economic Freedom Score



Freedom Trend



Country Comparisons



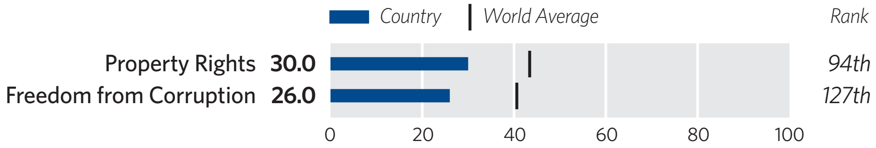
Quick Facts

Population: 95.9 million
GDP (PPP): $390.4 billion
3.7% growth in 2011
5-year compound annual growth 4.6%
$4,073 per capita
Unemployment: 7.0%
Inflation (CPI): 4.8%
FDI Inflow: $1.3 billion
Public Debt: 40.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

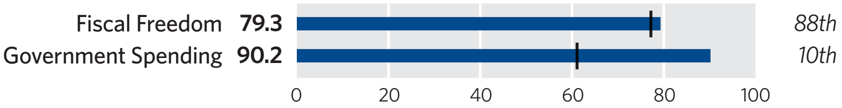
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



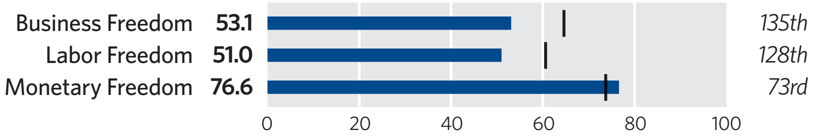
The rule of law remains uneven, and the legal framework is deficient in independence and efficiency. The cumbersome court system and loose regard for contracts continue to cause concern. The judiciary is susceptible to political interference. The Chief Justice was removed from office in 2012 after being convicted of corruption. Corruption is a pervasive and long-standing problem in the Philippines.

LIMITED GOVERNMENT



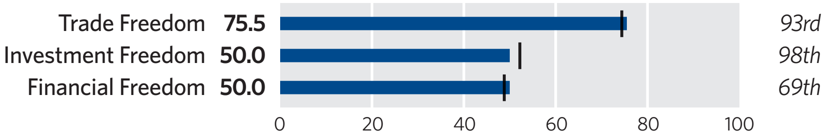
The top income tax rate is 32 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and an environmental tax. The overall tax burden equals 12.1 percent of total domestic income. Government spending is equivalent to 18.1 percent of GDP. Public debt has hovered around 40 percent of GDP. Efforts to narrow the budget gap have brought credit upgrades from some agencies.

REGULATORY EFFICIENCY



The business start-up process remains time-consuming. Launching a business takes 16 procedures and 36 days. The time involved in completing licensing requirements has been notably reduced, and the cost of completing them is slightly more than the level of average annual income. The labor market remains structurally rigid, although existing regulations are not particularly burdensome. Inflationary pressures have been building.

OPEN MARKETS

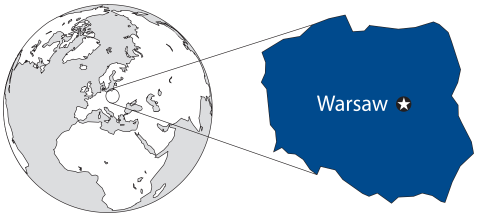


The trade-weighted average tariff rate is 4.8 percent, and layers of non-tariff barriers further interfere with trade. Despite a strong desire to attract longer-term foreign investment, systemic inefficiency exacerbated by heavy bureaucracy discourages dynamic growth in investment. The financial sector, which is gradually modernizing, remains relatively stable and sound.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.2	Business Freedom	-1.2	Trade Freedom	0
Freedom from Corruption	+2.0	Government Spending	+0.5	Labor Freedom	-0.7	Investment Freedom	+10.0
				Monetary Freedom	-0.5	Financial Freedom	0

POLAND



World Rank: **57** Regional Rank: **26**

Poland's economic freedom score is 66.0, making its economy the 57th freest in the 2013 *Index*. Its score is 1.8 points better than last year, with significant improvements in six of the 10 economic freedoms including financial freedom, management of government spending, business freedom, and freedom from corruption. Poland is ranked 26th out of 43 countries in the Europe region, and its overall score is above the world average.

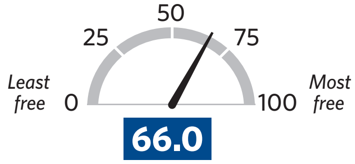
Advancing economic freedom for the fifth consecutive year, the Polish economy recorded the 10th largest score improvement in the 2013 *Index*. The economy performs relatively well in many areas of economic freedom. Barriers to free trade are quite low, and commercial operations are aided by regulations that support open-market policies. With a transparent and favorable business climate further supported by political stability, Poland has created a dynamic environment for entrepreneurs. Its economy is the only one in Europe that has expanded every year over the past two decades.

Fiscal consolidation and prudent management of public finance are ongoing concerns, as Poland needs to further reduce the budget deficit and curb public debt growth. The perceived level of corruption has declined, but the rule of law remains challenged by a relatively inefficient judicial system.

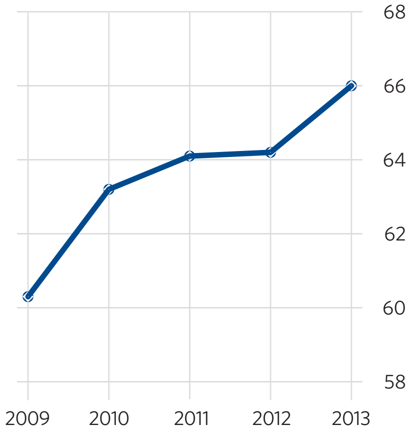
BACKGROUND: Soviet control of Poland ended with the anti-Communist Solidarity trade union movement's victory in the 1989 parliamentary election and 1990 presidential election. In the 1990s, Poland was a reform leader and achieved rapid growth. It joined NATO in 1999 and the European Union in 2004. In April 2010, the majority of Poland's top political leadership died when the presidential plane crashed in Russia. Center-right leader Bronislaw Komorowski won the ensuing presidential election. Prime Minister Donald Tusk of the center-right Civic Platform party was re-elected in October 2011. Agriculture remains one of Poland's least productive sectors. Thanks to recent reforms, private industry now accounts for two-thirds of GDP. This has made Poland one of the EU's strongest economic performers.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

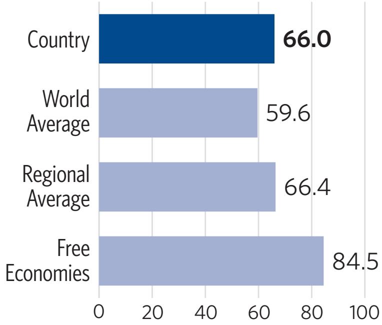
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

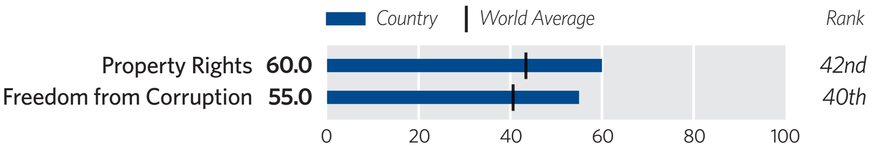
Population: 37.9 million
GDP (PPP): $771.7 billion
4.4% growth in 2011
5-year compound annual growth 4.3%
$20,334 per capita
Unemployment: 10.1%
Inflation (CPI): 4.3%
FDI Inflow: $15.1 billion
Public Debt: 55.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

POLAND (continued)

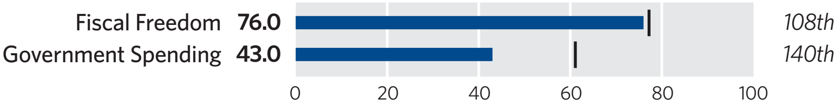
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



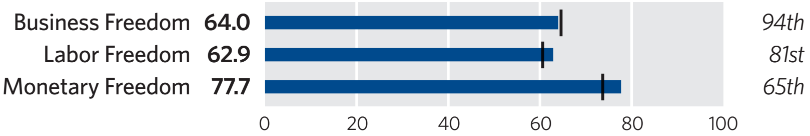
The legal system protects rights to acquire and dispose of property, but the judiciary is slow to resolve cases and occasionally susceptible to political interference. There can be unexpected changes in laws and regulations. Bribery and abuse of public office are punishable under the criminal code. Due to an overall decrease in corruption, the Polish chapter of Transparency International closed in 2011.

LIMITED GOVERNMENT



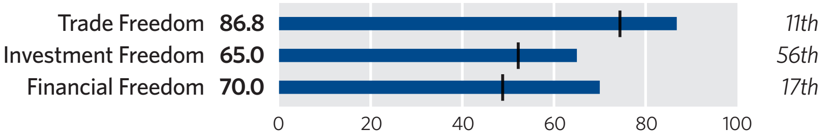
The top income tax rate is 32 percent, and the top corporate tax rate is a flat 19 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals 31.8 percent of total domestic income. Thanks to a commitment to austerity and strong growth, government spending has fallen slightly to 43.6 percent of GDP despite fiscal deficits and the ongoing eurozone crisis. Public debt has hovered at 55 percent of GDP.

REGULATORY EFFICIENCY



The entrepreneurial framework has been notably enhanced by regulatory reforms in recent years. Launching a business takes six procedures, and the cost of completing licensing requirements has been cut almost in half. The bankruptcy process has become more straightforward and efficient as well. Labor regulations are more stringent than those of other countries in the region. Inflation has been under control.

OPEN MARKETS

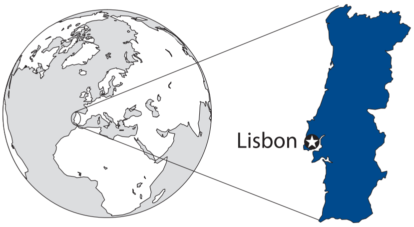


The trade-weighted average tariff rate is low at 1.6 percent as in other members of the European Union, and there are relatively few non-tariff barriers. Certain areas of investment require government approval, and the regulatory system is not particularly efficient. Foreign and domestic investors are generally treated equally. The growing banking sector has become more competitive, and capital markets are expanding.

Score Changes

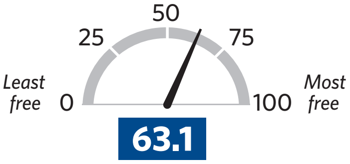
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.6	Business Freedom	+2.6	Trade Freedom	-0.3
Freedom from Corruption	+2.0	Government Spending	+2.7	Labor Freedom	+1.6	Investment Freedom	0
				Monetary Freedom	-1.4	Financial Freedom	+10.0

PORTUGAL



World Rank: **67** Regional Rank: **31**

Economic Freedom Score



Portugal's economic freedom score is 63.1, making its economy the 67th freest in the 2013 *Index*. Its score is essentially the same as last year, with gains in the control of government spending and freedom from corruption largely offset by declines in monetary freedom and labor freedom. Portugal is ranked 31st out of 43 countries in the Europe region, and its overall score is above the world average.

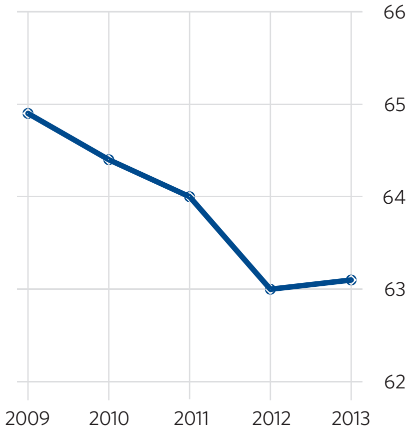
In a challenging economic and political environment, Portugal has been undergoing necessary structural adjustments. Ongoing efforts have focused on reducing the inefficient and oversized government sector, better managing public finance, and reforming loss-making state-owned enterprises. Significant labor market reforms have also been adopted, including comprehensive revisions to improve working time flexibility and reduce severance pay.

With the economy mired in recession for the third consecutive year, the Portuguese government faces significant obstacles in following through on key reform measures. Weak growth prospects have led to a loss of market confidence that, exacerbated by lingering uncertainty in the eurozone, has eroded monetary freedom.

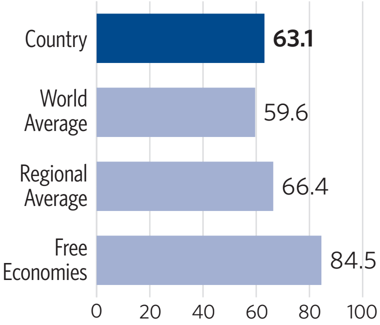
BACKGROUND: Portugal joined the European Union in 1986 and the eurozone in 2002. By 2011, however, a sovereign debt crisis threatened to sink the economy. The center-right Social Democrats led by Pedro Passos Coelho defeated Prime Minister Jose Socrates' Socialist Party in the 2011 general elections. In May 2011, Portugal accepted a €78 billion joint European Union–International Monetary Fund bailout plan. Despite strict austerity measures, cuts in state spending, progress with privatization, and increased taxes, Portugal is still in a deep recession. The economy is based primarily on services and industry. Some state enterprises have been privatized, but Portugal continues to suffer from a lack of private-sector liberty. Because of Portugal's increasingly high unemployment rate and contracting economy, a second bailout has not been ruled out.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



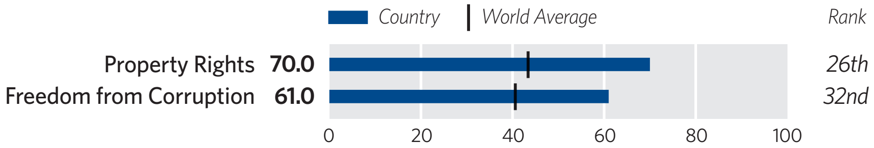
Quick Facts

Population: 10.7 million
GDP (PPP): $249.0 billion
-1.5% growth in 2011
5-year compound annual growth -0.1%
$23,361 per capita
Unemployment: 15.9%
Inflation (CPI): 3.6%
FDI Inflow: $1.3 billion
Public Debt: 106.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

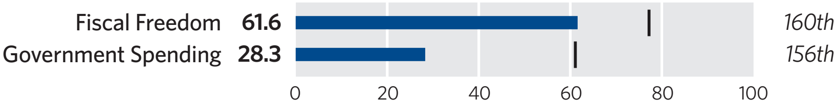
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



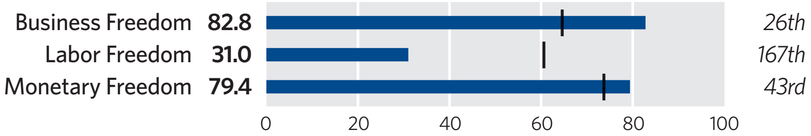
The judicial system is relatively independent but lacks efficiency. The court system is slow, and the number of years that it takes to resolve cases is well above the EU average. Corruption remains a cause for concern, although laws against bribery and abuse of official position have been strengthened. The government has committed to creating a specialized intellectual property court.

LIMITED GOVERNMENT



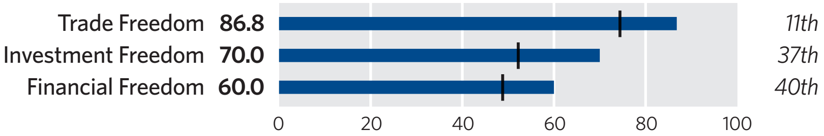
The top income tax rate is 46.5 percent, and the top corporate tax rate is 26.5 percent (a flat 25 percent plus a maximum 1.5 percent surtax). Other taxes include a value-added tax (VAT). The overall tax burden equals 31.3 percent of total domestic income. Government spending is equivalent to 48.9 percent of GDP, and public debt exceeds 100 percent of GDP. The sovereign credit rating has been cut to junk status.

REGULATORY EFFICIENCY



Starting a company now takes only five days, with no minimum capital required. However, completing licensing requirements continues to be burdensome, costing three times the level of average annual income. A number of revisions in Portugal's labor regulations, which had been among the most inflexible in the European Union, have been implemented recently. Monetary stability has generally been well maintained.

OPEN MARKETS



Trade policy is the same as that of other members of the European Union, with the common EU weighted average tariff rate at 1.6 percent, and there are some non-tariff barriers. Foreign and domestic investors are allowed equal access to investment opportunities, but the uncertain economic climate is a deterrent to investment. Despite some progress, the financial sector remains under considerable strain.

Score Changes

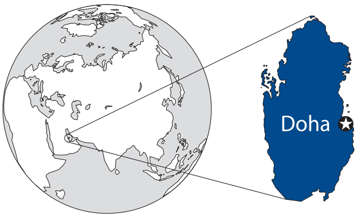
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+1.0

LIMITED GOVERNMENT	
Fiscal Freedom	+2.6
Government Spending	+2.8

REGULATORY EFFICIENCY	
Business Freedom	−0.2
Labor Freedom	−1.5
Monetary Freedom	−3.2

OPEN MARKETS	
Trade Freedom	−0.3
Investment Freedom	0
Financial Freedom	0

QATAR



World Rank: **27** Regional Rank: **2**

Qatar's economic freedom score is 71.3, making its economy the 27th freest in the 2013 *Index*. Its score is unchanged from last year, with improvements in the control of government spending and monetary freedom offset by declines in freedom from corruption and labor freedom. Qatar is ranked 2nd out of 15 countries in the Middle East/North Africa region, and its overall score is above the world and regional averages.

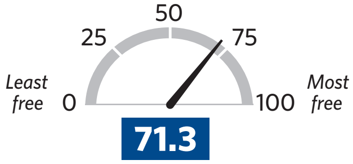
Qatar's economy continues to be "mostly free," with foundations of economic freedom solidly in place. With a well-functioning legal framework, the country's rule of law has facilitated vibrant economic expansion including double-digit growth on average over the past five years. Although the perceived level of corruption in Qatar has increased over the past year, the country's record on tackling corruption remains much better than the world average.

As reflected in the country's steady improvement in economic freedom since 2008, the Qatari government has pursued reforms to improve the entrepreneurial environment and broaden the economic base beyond oil and gas. The country's open trade regime and growing status as a regional financial hub have also contributed to private-sector growth outside of the energy sector.

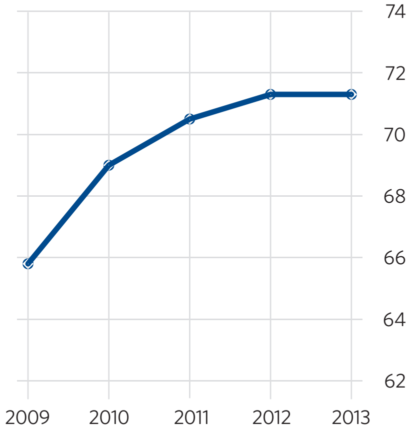
BACKGROUND: Qatar has been ruled by the Al-Thani family since independence from Great Britain in 1971. Political reforms promised by current Sheikh Hamad bin Khalifa al-Thani have largely stalled. Qatar is endowed with 25 billion barrels of proven oil reserves and the world's third-largest natural gas reserves. Oil and gas account for about 85 percent of export revenues and more than 50 percent of GDP. Qatar has permitted extensive foreign investment in its natural gas industry and in 2007 became the world's largest exporter of liquefied natural gas. With one of the world's highest per capita incomes and almost no poverty, the country has largely avoided the political instability that other Middle Eastern countries suffered as a result of the "Arab Spring."

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

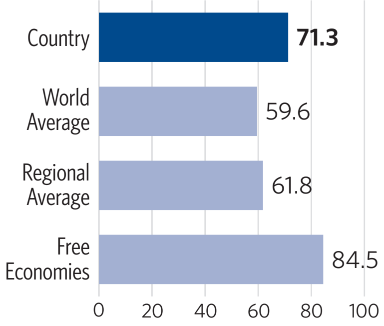
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

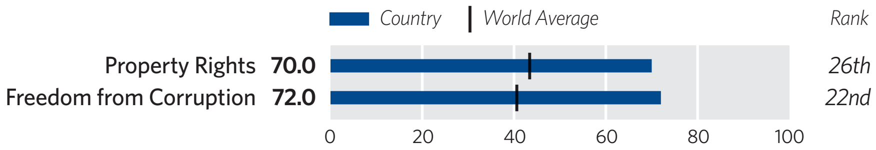
Population: 1.8 million
GDP (PPP): $182.0 billion
18.8% growth in 2011
5-year compound annual growth 16.6%
$102,943 per capita
Unemployment: 0.4%
Inflation (CPI): 2.0%
FDI Inflow: –$86.8 billion
Public Debt: 31.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

QATAR (continued)

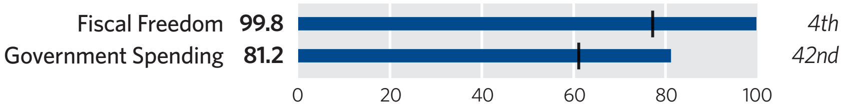
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



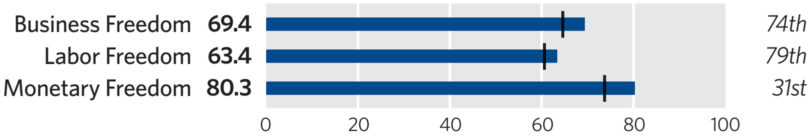
The rule of law has been solidly respected. A well-functioning legal framework is in place, but the judiciary is susceptible to political influence and can be bureaucratic. Protection of intellectual property rights has been strengthened. The law imposes penalties for bribery on public officials and those who attempt to influence them illegally. Qatar continues to maintain the Middle East's highest degree of transparency.

LIMITED GOVERNMENT



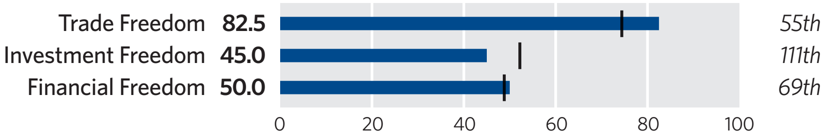
There is no income or domestic corporate tax. Foreign corporations operating in Qatar are subject to a flat 10 percent corporate tax rate. Aside from customs duties, there are no other major taxes. The tax burden equals 4.9 percent of total domestic income. Government spending is equivalent to 25.1 percent of total domestic output. Public debt hovers around 30 percent of GDP. High oil prices have resulted in very strong budget surpluses.

REGULATORY EFFICIENCY



The business environment is conducive to the formation and operation of new companies, but the pace of regulatory reform has slowed in recent years. Efficient bankruptcy procedures have not been fully developed. The labor force consists primarily of expatriate workers, and immigration and employment rules are relatively flexible. The government does not mandate a minimum wage. Inflation has moderated.

OPEN MARKETS

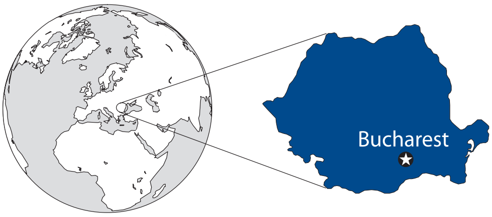


The trade-weighted average tariff rate is modest at 3.8 percent, and there are some non-tariff barriers. Foreign investment is limited to no more than 49 percent of capital for most activities, although up to 100 percent ownership by foreign investors may be allowed with government approval. The financial sector, in which the state continues to retain ownership, has undergone modernization. The stable banking sector remains competitive.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.1	Business Freedom	-0.3	Trade Freedom	0
Freedom from Corruption	-5.0	Government Spending	+7.6	Labor Freedom	-4.5	Investment Freedom	0
				Monetary Freedom	+3.2	Financial Freedom	0

ROMANIA



World Rank: **59** Regional Rank: **28**

Romania’s economic freedom score is 65.1, making its economy the 59th freest in the 2013 *Index*. Its score is 0.7 point better this year, with improvements in the management of government spending and labor freedom outweighing a modest decline in freedom from corruption. Romania is ranked 28th out of 43 countries in the Europe region, and its overall score is higher than the world average.

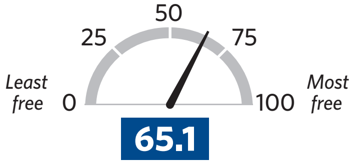
The global financial and economic turmoil forced the Romanian economy to endure sharp structural adjustments. Despite the challenging political environment, Romania has undertaken needed reform measures that include spending constraints and labor market reforms. Recovering from the severe shock of the crisis, it continues to place a high priority on restoring fiscal sustainability and strives to enhance overall economic competitiveness.

Romania’s ongoing transition to a more resilient market-oriented economy has also been facilitated by its adherence to maintaining openness to global commerce and the efficiency of business regulations that promote entrepreneurial dynamism. Nonetheless, perceived corruption, exacerbated by a relatively inefficient judicial system, undermines the foundations of economic freedom and undercuts the prospects for dynamic long-term economic expansion.

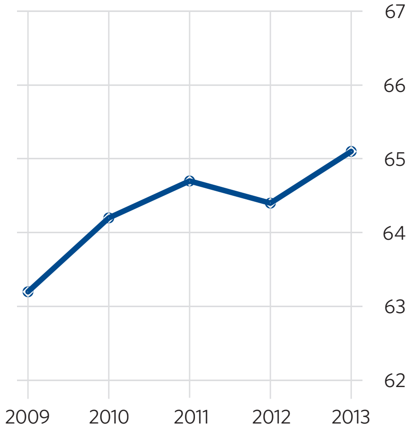
BACKGROUND: Romania is a member of the European Union and NATO. Center-right Traian Băsescu won the presidency in December 2009 for a second time. Băsescu has survived a series of impeachment attempts. The most recent attempts to remove him from power have been led by center-left Prime Minister Victor Ponta. The results of a recent public impeachment referendum were struck down by the Constitutional Court due to low voter turnout. Romania experienced a deep economic recession as a result of the 2008 global financial crisis but has returned to modest growth. Geostrategically positioned on the Black Sea, Romania has diverse energy resources and a productive agriculture sector. Macroeconomic improvements since the mid-1990s have spurred the growth of the middle-class and helped to reduce poverty.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

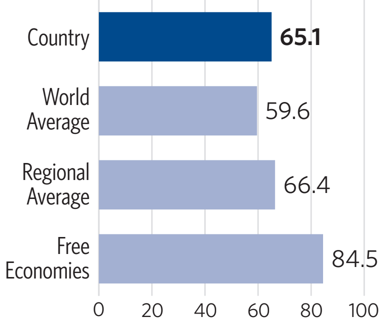
Economic Freedom Score



Freedom Trend



Country Comparisons



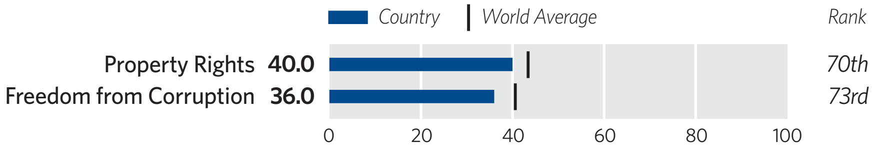
Quick Facts

Population: 21.4 million
GDP (PPP): $267.2 billion
2.5% growth in 2011
5-year compound annual growth 1.4%
$12,476 per capita
Unemployment: 5.1%
Inflation (CPI): 5.8%
FDI Inflow: $2.7 billion
Public Debt: 33.0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

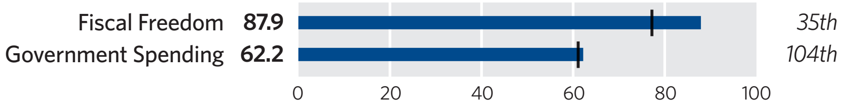
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



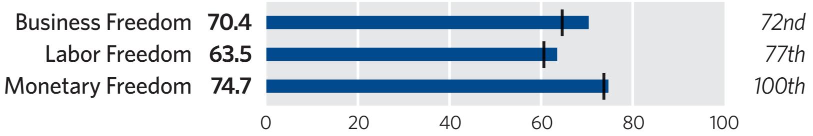
The rule of law is uneven, and contracts are not always strongly upheld. The judicial system suffers from political interference, inefficiency, and excessive workloads. Enforcement of legislation protecting patents, trademarks, and copyrights is very weak. Long-time public mistrust of government due to widespread public-sector corruption has been exacerbated by an erosion of democratic accountability since the beginning of the financial crisis in 2008.

LIMITED GOVERNMENT



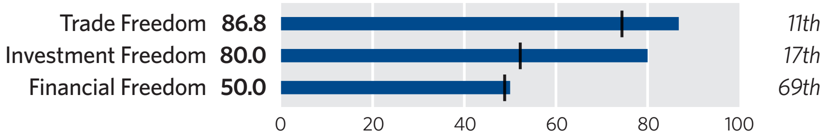
Both the income and corporate tax rates are a flat 16 percent. Other taxes include a value-added tax (VAT) and an environmental tax. The overall tax burden equals 26.5 percent of total domestic income. Government spending is equivalent to 35.5 percent of total domestic output. The deficit has been narrowing, and public debt is about 30 percent of GDP. Recently implemented austerity measures have caused a political backlash.

REGULATORY EFFICIENCY



The processes for business formation and operation have been streamlined. Launching a business takes six procedures and 10 days, although completing licensing requirements continues to be time-consuming. Efficient bankruptcy procedures and rules have not been fully implemented. Labor regulations remain rigid, although several amendments to improve the flexibility of the labor code have been made. Inflation is relatively high.

OPEN MARKETS



The trade-weighted average tariff rate is a low 1.6 percent as in other members of the European Union, although there are some non-tariff barriers that increase the cost of trade. Foreign investment is encouraged officially but discouraged in practice by regulatory inconsistency, unpredictability, and a lack of transparency. The evolving financial sector is open to competition, with foreign-owned banks dominating the banking sector.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.5	Business Freedom	-0.1	Trade Freedom	-0.3
Freedom from Corruption	-1.0	Government Spending	+7.1	Labor Freedom	+0.9	Investment Freedom	0
				Monetary Freedom	+0.4	Financial Freedom	0

RUSSIA

World Rank: **139** Regional Rank: **41**

Russia's economic freedom score is 51.1, making its economy the 139th freest in the 2013 *Index*. Its score is 0.6 point higher this year, with sometimes significant improvements in six of the 10 economic freedoms largely offset by notable declines in labor freedom and financial freedom. Russia is ranked 41st out of 43 countries in the Europe region, and its overall score is below the world and regional averages.

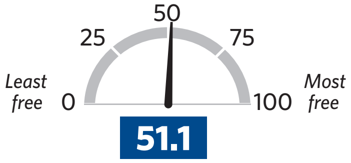
Russia's economic environment remains "mostly unfree." Despite relatively high economic growth, achieved mostly through sales of oil and gas, the foundations for long-term economic development remain fragile without an efficiently functioning legal framework. Corruption, endemic throughout the economy, is becoming ever more debilitating. The state maintains an extensive presence in many sectors through state-owned enterprises. Large state-owned institutions have increased their domination of the financial sector, outweighing domestic private and foreign banks.

Progress with market-oriented reforms has been uneven and often reversed at the urging of those with an interest in maintaining the status quo. Russia's restrictive and burdensome regulatory environment discourages private-sector growth and severely hampers meaningful economic development. Increasing inflationary pressure poses a major risk to overall macroeconomic stability.

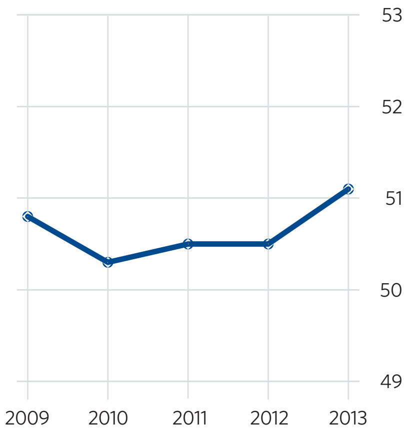
BACKGROUND: After serving as president from 1999–2008 and prime minister from 2008 to 2012, Vladimir Putin was again elected president in May 2012 on the heels of hotly contested December 2011 Duma elections. Opposition protests continued in 2012. The state has reasserted its dominant role in the mining and oil and gas industries and depends heavily on exports of natural resources, especially hydrocarbons. Russia's reputation for cronyism, corruption, and a hyper-regulatory environment has damaged its investment profile. The economy began to grow again in 2011, but at modest levels. In April 2012, China surpassed Germany as Russia's largest trading partner. Russia became a member of the World Trade Organization in December 2012.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

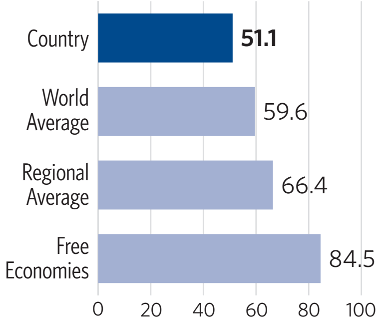
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

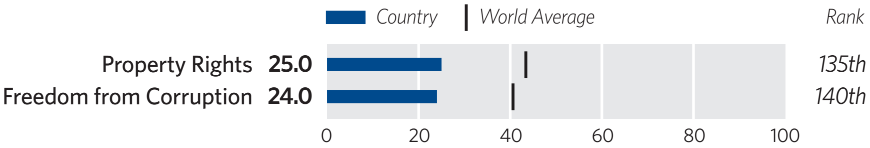
Population: 142.4 million
GDP (PPP): $2.4 trillion
4.3% growth in 2011
5-year compound annual growth 2.8%
$16,736 per capita
Unemployment: 6.6%
Inflation (CPI): 8.4%
FDI Inflow: $52.9 billion
Public Debt: 9.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

RUSSIA (continued)

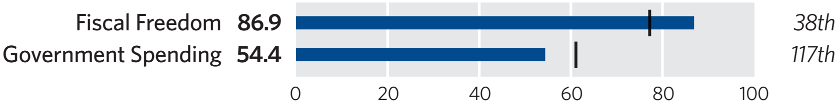
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



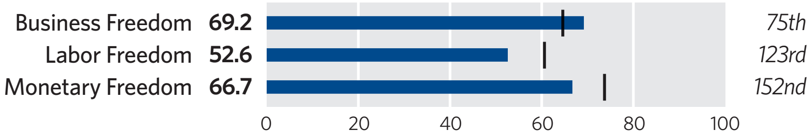
Russia's legal framework has not been fully modernized. The rule of law is not maintained uniformly across the country, and the judiciary is vulnerable to political pressure and inconsistent in applying the law. Protection of private property rights is weak, and contracts are not always secure. Infringements of intellectual property rights continue. Corruption remains a major problem for businesses and investors.

LIMITED GOVERNMENT



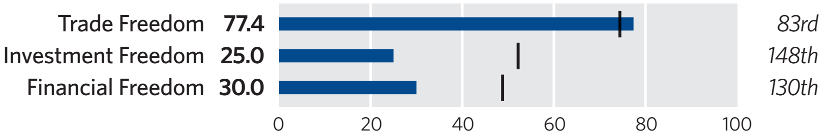
The income tax rate is a flat 13 percent, and the top corporate tax rate is 20 percent. Other taxes include a value-added tax (VAT) and an environmental tax. The overall tax burden equals 27.2 percent of total domestic income. Government spending has decreased to a level equivalent to 39 percent of GDP, turning the budget balance to surplus thanks in part to oil revenues. Public debt has been reduced to under 10 percent of total domestic output.

REGULATORY EFFICIENCY



The business environment has improved only marginally, and regulations remain burdensome. Bureaucratic obstacles and inconsistent enforcement of regulations make entrepreneurial decision-making very uncertain. The outmoded labor code continues to limit employment and productivity growth. The state influences prices through extensive subsidies and numerous state-owned enterprises.

OPEN MARKETS



The trade-weighted average tariff rate is 3.8 percent. Despite concessions made to join the World Trade Organization in 2012, remaining non-tariff barriers distort the flow of goods and services. Except in the oil and gas sector, growth in foreign direct investment has been elusive due to the deficient investment framework. State-owned financial institutions have further solidified their position by taking market share from domestic private banks.

Score Changes

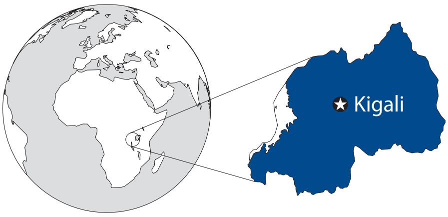
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+3.0

LIMITED GOVERNMENT	
Fiscal Freedom	+4.4
Government Spending	+5.8

REGULATORY EFFICIENCY	
Business Freedom	+4.1
Labor Freedom	-10.9
Monetary Freedom	+0.4

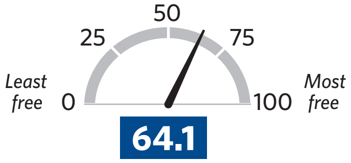
OPEN MARKETS	
Trade Freedom	+9.2
Investment Freedom	0
Financial Freedom	-10.0

RWANDA



World Rank: **63** Regional Rank: **3**

Economic Freedom Score



Rwanda's economic freedom score is 64.1, making its economy the 63rd freest in the 2013 *Index*. Its score is 0.8 point worse than last year, with substantial gains in freedom from corruption and investment freedom outweighed by declines in labor freedom, business freedom, and property rights. Rwanda is ranked 3rd out of 46 countries in the Sub-Saharan Africa region.

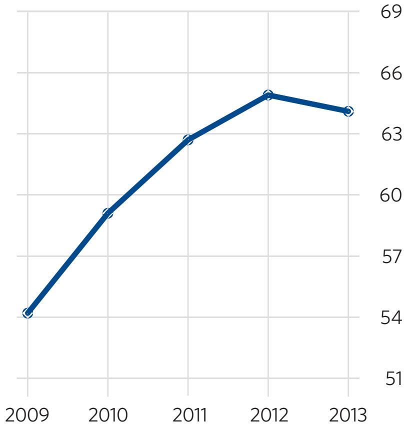
Despite the difficult global economic environment, Rwanda's economy has expanded at an average rate of over 10 percent during the past five years. Foreign direct investment has picked up over the same period. Much-needed regulatory reforms have been undertaken in various sectors of the economy, enhancing the efficiency of the business environment.

However, Rwanda continues to face significant institutional challenges in furthering its transition to a modern, open, market-based system. The foundations of economic freedom are fragile, and while the security situation has become more stable, the absence of a well-functioning legal system undermines protection of property rights and holds back efforts to eradicate lingering corruption.

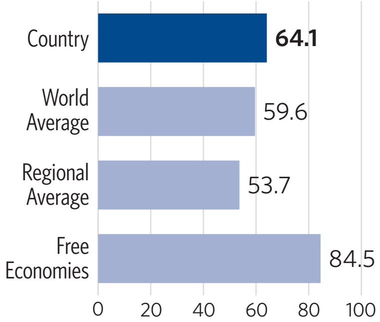
BACKGROUND: Decades of ethnic tension culminated in 1994 in the genocidal slaughter of an estimated one million Tutsis and moderate Hutus. After President Paul Kagame's Tutsi-led Rwandan Patriotic Front seized power, millions of Hutus fled to the Democratic Republic of Congo. Rwandan forces have entered the DRC repeatedly to confront Hutu militia. The U.N. criticized Kagame in July 2012 for supporting the M23 rebel group in the eastern DRC. Kagame, who has focused on political reconciliation and rebuilding Rwanda's shattered economy, was re-elected in August 2010 amid allegations of fraud, voter intimidation, and violence. Economic reforms have encouraged recovery, but the government has constrained political and media freedoms. Despite strong growth based on tourism and exports of coffee and tea, poverty remains widespread, and over 80 percent of Rwandans depend on subsistence agriculture.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



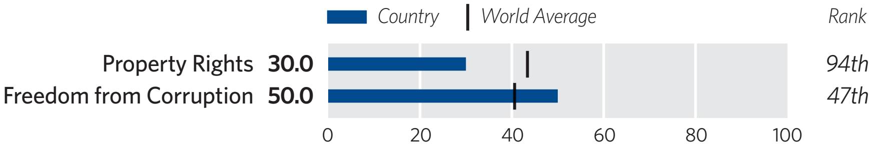
Quick Facts

Population: 10.2 million
GDP (PPP): $13.7 billion
8.8% growth in 2011
5-year compound annual growth 7.4%
$1,341 per capita
Unemployment: n/a
Inflation (CPI): 5.7%
FDI Inflow: $106.0 million
Public Debt: 23.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

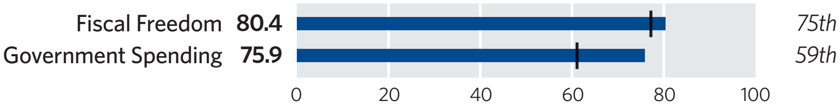
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



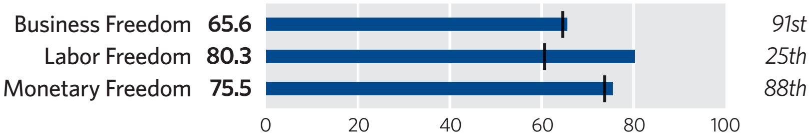
The legal framework under Rwanda's authoritarian government is not adequate to maintain respect for the rule of law or provide strong protection for property rights. The judiciary remains vulnerable to political interference. Administrative inefficiency causes delays in the courts. Enforcement of intellectual property rights is not effective, and trading of counterfeit goods continues. Despite some progress, corruption is still considered significant.

LIMITED GOVERNMENT



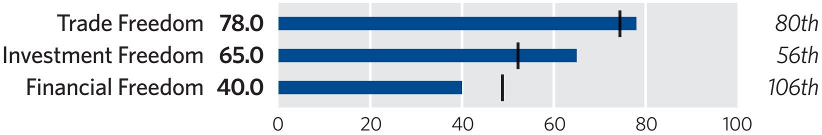
The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and a property transfer tax. The overall tax burden equals 12.6 percent of total domestic income. Government spending has risen to 28.3 percent of GDP, with the budget balance recording small surpluses in recent years. Public debt has hovered at around 20 percent of total domestic output. Infrastructure spending has increased expenditures this year.

REGULATORY EFFICIENCY



Impressive regulatory reforms since 2008 have enhanced the business environment, although the pace of reform has slowed. With no minimum capital required, launching a company takes only two procedures. Licensing requirements still cost almost three times the level of average annual income. An increase in the minimum wage has exceeded labor productivity growth, undercutting hiring flexibility. Inflationary pressure is increasing.

OPEN MARKETS

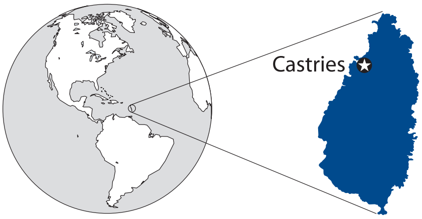


The trade-weighted average tariff rate is 6 percent, and non-tariff barriers add to the cost of trade. Domestic and foreign investors officially receive equal treatment, and most sectors of the economy are open to foreign investment. However, the investment regime is still evolving and is not conducive to dynamic expansion of investment in new production. The cost of financing remains high, and access to banking services continues to be limited.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**-5.0**	Fiscal Freedom	**+3.2**	Business Freedom	**-8.0**	Trade Freedom	**0**
Freedom from Corruption	**+10.0**	Government Spending	**-2.6**	Labor Freedom	**-11.1**	Investment Freedom	**+5.0**
				Monetary Freedom	**+0.3**	Financial Freedom	**0**

SAINT LUCIA



World Rank: **32** Regional Rank: **2**

Saint Lucia's economic freedom score is 70.4, making its economy the 32nd freest in the 2013 *Index*. Its score is 0.9 point worse than last year due to declines in labor freedom, the control of government spending, and monetary freedom. Saint Lucia is ranked 2nd out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world average.

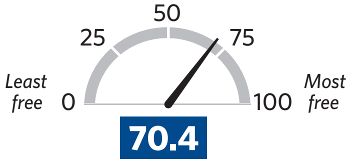
The Saint Lucian economy performs quite competitively in most aspects of economic freedom. The economic system is characterized by flexible regulations, an efficient legal system that secures private property, and macroeconomic stability. The tourism industry is the primary driver of the economy and the main draw for foreign investment.

The business environment is generally efficient and transparent, and the regulatory framework has become more streamlined. The small financial sector has not suffered any serious impact from the global financial turmoil, but the recession has hurt tourism. Improving access to financing remains critical to generating more broad-based private-sector development. In recent years, expansionary government spending has increased public debt to over 70 percent of GDP.

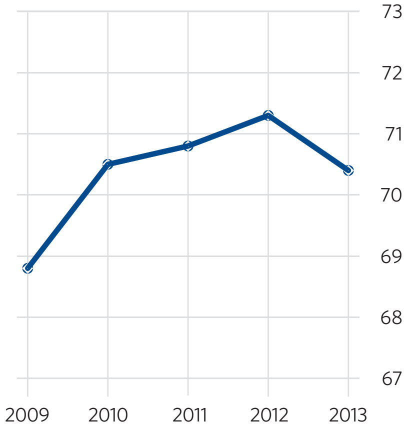
BACKGROUND: In late 2011 elections, former Prime Minister Kenny D. Anthony and his Saint Lucia Labour Party defeated Prime Minister Stephenson King's more business-friendly United Workers Party. Saint Lucia is a member of the Caribbean Community and Common Market and home to the Organization of Eastern Caribbean States. Its economy depends primarily on tourism, banana production, and light manufacturing. An educated workforce and good infrastructure, including roads, communications, water supply, sewerage, and port facilities, attract foreign investment in tourism and petroleum storage and transshipment. Violent crime is often connected to narcotics trafficking. A decline in tourism during the 2009 recession, fluctuations in banana prices, and reduced European Union banana trade preferences have led the government to encourage production in cocoa, mangos, and avocados.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

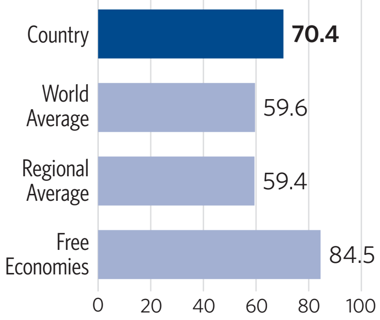
Economic Freedom Score



Freedom Trend



Country Comparisons



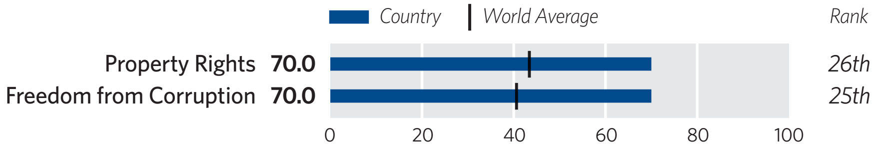
Quick Facts

Population: 0.2 million
GDP (PPP): $2.1 billion
0.2% growth in 2011
5-year compound annual growth 1.9%
$12,607 per capita
Unemployment: n/a
Inflation (CPI): 2.8%
FDI Inflow: $75.8 million
Public Debt: 71.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

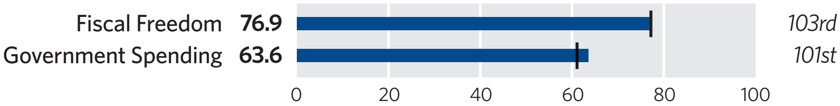
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



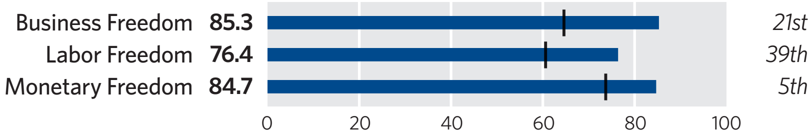
Saint Lucia's efficient legal system is based on British common law. The judiciary is independent and conducts generally fair public trials. Enforcement of intellectual property rights has been very weak in the absence of an effective legal framework to protect them, and pirated copyrighted material is sold openly with no fear of arrest or prosecution. The government generally maintains effective anti-corruption measures.

LIMITED GOVERNMENT



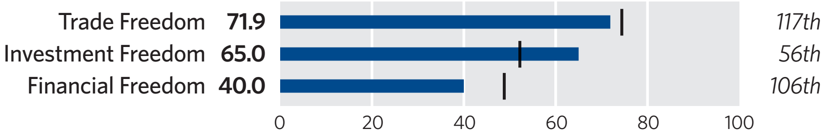
The top income and corporate tax rates are 30 percent. Other taxes include a consumption tax and a property transfer tax. The overall tax burden equals 22.5 percent of total domestic income. Government spending has increased to 34.8 percent of GDP, and the deficit has widened to over 7.5 percent of GDP. Public debt has climbed to around 70 percent of total domestic output. Fiscal health fluctuates with changes in commodity prices.

REGULATORY EFFICIENCY



The formation and operation of businesses are not burdened by excessive government interference, and enforcement of commercial regulations is relatively effective and consistent. Business start-up procedures are now more streamlined, although the pace of reform has slowed. A well-functioning labor market has not been fully developed, and much of the labor force is employed in agriculture and tourism. Inflation has been low.

OPEN MARKETS



The trade-weighted average tariff rate is high at 9 percent, and non-tariff barriers add to the cost of trade. The investment regime is not fully developed, and long-term foreign direct investment is scarce. Bureaucracy and administrative inefficiency deter investment. A considerable portion of the population does not use the formal banking sector, and access to financing is limited.

Score Changes

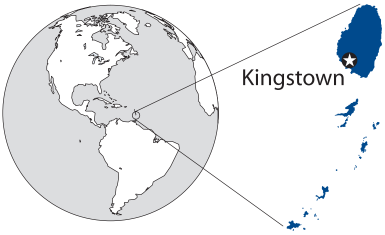
RULE OF LAW	
Property Rights	**0**
Freedom from Corruption	**0**

LIMITED GOVERNMENT	
Fiscal Freedom	**+2.8**
Government Spending	**-4.1**

REGULATORY EFFICIENCY	
Business Freedom	**+0.6**
Labor Freedom	**-7.1**
Monetary Freedom	**-1.1**

OPEN MARKETS	
Trade Freedom	**0**
Investment Freedom	**0**
Financial Freedom	**0**

SAINT VINCENT AND THE GRENADINES



World Rank: 54 **Regional Rank: 11**

Saint Vincent and the Grenadines' economic freedom score is 66.7, making its economy the 54th freest in the 2013 *Index*. Its score is 0.2 point higher than last year, with improvements in the control of government spending and fiscal freedom outweighing a substantial deterioration in freedom from corruption. Saint Vincent and the Grenadines ranks 11th out of 29 countries in the South and Central America/Caribbean region, and its score is well above the regional average.

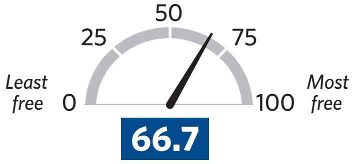
The economy of Saint Vincent and the Grenadines continues to be "moderately free." It performs above the world averages in rule of law and regulatory efficiency. Long benefitting from a relatively well-developed legal and commercial infrastructure, the tourism sector has attracted considerable foreign investment over the past decade.

By and large, open-market policies are not firmly institutionalized. Tariff and non-tariff barriers undercut trade freedom, and the investment regime lacks efficiency. More broad-based economic development beyond tourism and agriculture continues to be undermined by the undeveloped financial sector and the lack of long-term financing mechanisms. Despite some progress, the management of public finance remains poor, and the public debt burden has reached over 70 percent of GDP.

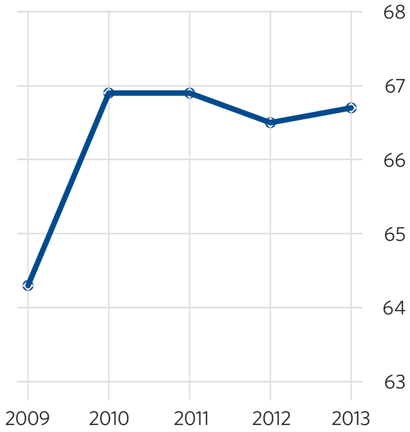
BACKGROUND: Prime Minister Ralph Gonsalves' Unity Labour Party, which has governed since 2001, retained a slim majority in December 2010 parliamentary elections. Saint Vincent and the Grenadines is part of the British Commonwealth and is a member of CARICOM and the Organization of Eastern Caribbean States. Many of its goods enter the United States duty-free under the U.S. Caribbean Basin Initiative. Banana production and tourism employ most of the workforce, but very high formal-sector unemployment has caused many to emigrate. The economy is vulnerable to global price fluctuations, natural disasters, and reduced European Union trade preferences for bananas. Tourism has not recovered from the recession of 2009. Nearly one-third of all revenue is directed toward servicing the government debt.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

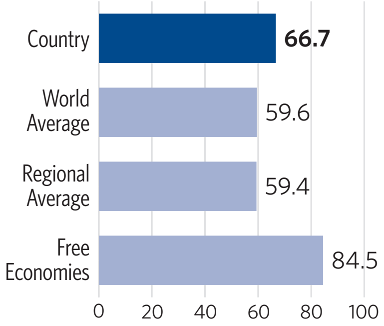
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

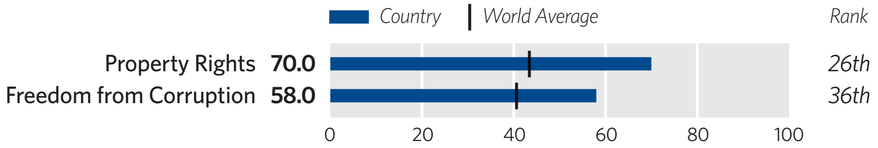
Population: 0.1 million
GDP (PPP): $1.3 billion
–0.4% growth in 2011
5-year compound annual growth -0.4%
$11,491 per capita
Unemployment: n/a
Inflation (CPI): 3.2%
FDI Inflow: $135.1 million
Public Debt: 71.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

SAINT VINCENT AND THE GRENADINES (continued)

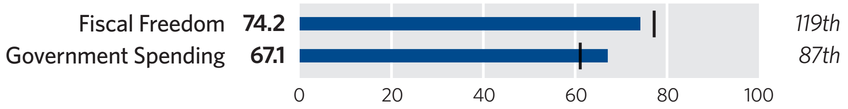
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



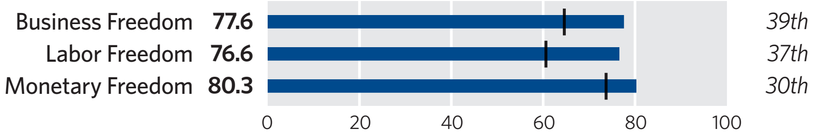
Saint Vincent and the Grenadines' judicial system is based on British common law. The judiciary is relatively independent and efficient, providing generally fair public trials. In comparison with other countries in the region, the rule of law remains strong, and corruption is not pervasive in the economy. The law provides criminal penalties for official corruption, but enforcement is not always effective.

LIMITED GOVERNMENT



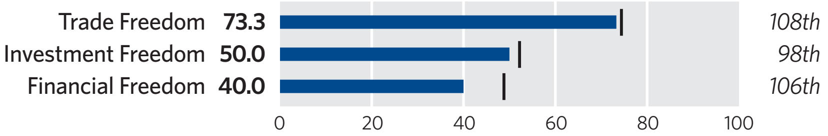
The top income and corporate tax rates are 32.5 percent. Other taxes include a property tax and a value-added tax (VAT). The overall tax burden equals 21.6 percent of total domestic income. Government spending is equivalent to 33.1 percent of GDP. With the budget balance in deficit, the public debt has climbed to over 70 percent of GDP. State finances have been constrained this year by lower-than-expected tax revenues.

REGULATORY EFFICIENCY



Establishing a business is neither time-consuming nor costly, although licensing requirements remain burdensome. There is no minimum capital requirement, and it takes only 10 days and seven procedures to start a business. Modern bankruptcy procedures are not in place. Labor regulations are relatively flexible, but their application is uneven. Inflation has been low.

OPEN MARKETS



The trade-weighted average tariff rate is high at 8.4 percent, and non-tariff barriers further constrain trade freedom. Investment-related regulations and laws are complex and non-transparent, deterring prospects for attracting new investment. The developing financial system is dominated by banks. Credit to the private sector has been expanding slowly, but a rise in the number of non-performing loans deters new lending.

Score Changes

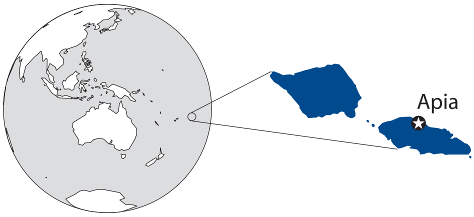
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-6.0

LIMITED GOVERNMENT	
Fiscal Freedom	+2.7
Government Spending	+6.4

REGULATORY EFFICIENCY	
Business Freedom	+0.2
Labor Freedom	-0.1
Monetary Freedom	-0.8

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

SAMOA



World Rank: 106 **Regional Rank: 19**

Samoa's economic freedom score is 57.1, making its economy the 106th freest in the 2013 *Index*. Its score is 3.4 points worse than last year due to a major loss in control of government spending and more modest declines in trade freedom and freedom from corruption. Samoa ranks 19th out of 41 countries in the Asia–Pacific region, and its overall score is now below the world and regional averages.

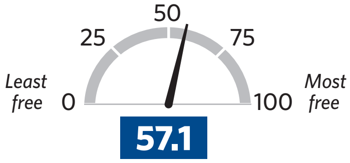
Samoa has been losing ground on economic freedom, and the economy underperforms in many critical policy areas. The absence of an independent and fair judiciary weakens the rule of law and undermines prospects for long-term sustainable economic development. Corruption is pervasive, and the efficiency of government services is poor. Public debt has increased due to reconstruction projects following a devastating tsunami in 2009 and attempts at stimulus spending.

Open-market policies have not advanced, with layers of non-tariff barriers and lingering investment restrictions undercutting the growth of productivity. High tariffs further undermine overall trade freedom. The lack of political commitment to regulatory efficiency hinders the emergence of a more vibrant private sector and diversification of the economy, which has become more dependent on foreign aid and remittances in recent years.

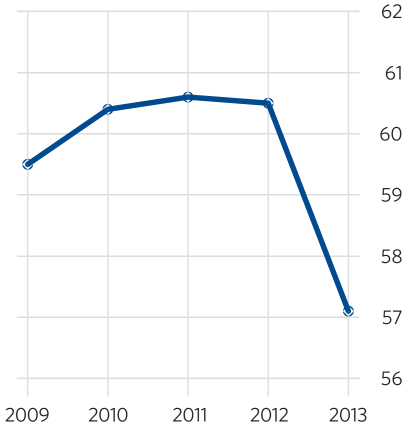
BACKGROUND: Samoa is a small South Pacific archipelago with a population of less than 200,000. Independent from administration by New Zealand since 1962, it is now a multiparty democracy, although its government is dominated politically by the Human Rights Protection Party. After the 2011 parliamentary elections, a few politicians were found guilty of bribery, but the HRPP remained in power. The economy is based mostly on fishing, agriculture, and tourism. Remittances from Samoans working abroad account for about 24 percent of national income. A sizable tsunami in 2009 killed over 200 people and significantly damaged infrastructure and property. To facilitate better trade with Australia and New Zealand, Samoa officially moved west of the International Date Line in 2011.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

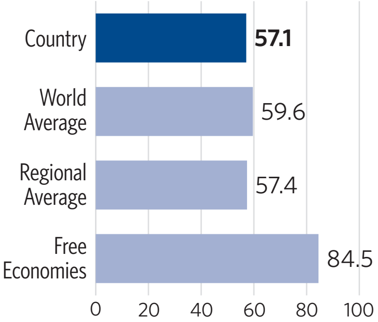
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

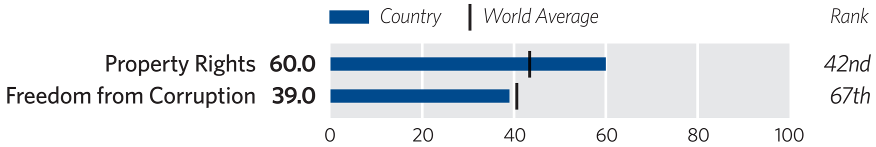
Population: 0.2 million
GDP (PPP): $1.1 billion
2.1% growth in 2011
5-year compound annual growth 0.6%
$5,965 per capita
Unemployment: n/a
Inflation (CPI): 2.9%
FDI Inflow: $12.0 million
Public Debt: 53.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

SAMOA (continued)

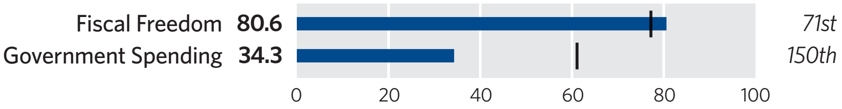
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



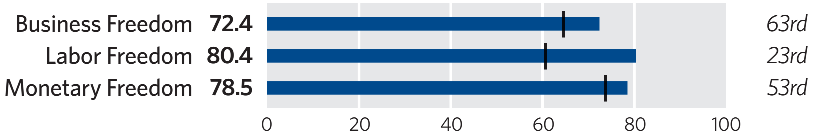
Samoa's legal system is based on British common law. The judiciary is independent and conducts generally fair public trials. However, a modern and well-functioning legal framework for land ownership and enforcement of property rights is not firmly in place. More than 80 percent of the land is owned by extended families represented by their chiefs. Government bans on media reporting of corruption have caused concern.

LIMITED GOVERNMENT



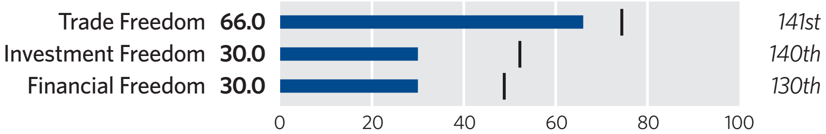
The top income and corporate tax rates are 27 percent. Other taxes include a value-added tax (VAT) and excise taxes. The overall tax burden equals 21.9 percent of total domestic income. Government spending has risen precipitously to 46.8 percent of GDP. The budget deficit has fallen to 6.5 percent of GDP from 10 percent of GDP, but public debt continues to be over 50 percent of total domestic output.

REGULATORY EFFICIENCY



The regulatory framework, improved by reforms in recent years, supports entrepreneurial activity, but application of the commercial codes is not always straightforward. A well-functioning modern labor market is not fully developed, and informal labor activity remains substantial. Monetary stability has been difficult to maintain, with inflation levels varying erratically from year to year.

OPEN MARKETS



The trade-weighted average tariff rate is quite high at 12 percent, and non-tariff barriers add to the cost of trade. Non-transparent regulations and a deficient investment regime continue to deter dynamic growth in private investment and long-term capital flows. Scarce access to banking and financial services continues to keep much of the population outside of the formal banking sector.

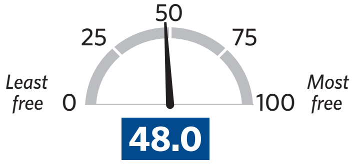
Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**0**	Fiscal Freedom	**+0.3**	Business Freedom	**-0.5**	Trade Freedom	**-4.0**
Freedom from Corruption	**-2.0**	Government Spending	**-27.0**	Labor Freedom	**-1.9**	Investment Freedom	**0**
				Monetary Freedom	**+1.5**	Financial Freedom	**0**

SÃO TOMÉ AND PRÍNCIPE

World Rank: **153** Regional Rank: **37**

Economic Freedom Score



São Tomé and Príncipe's economic freedom score is 48, making its economy the 153rd freest in the 2013 *Index*. Its score has decreased by 2.2 points from last year, reflecting substantial declines in half of the 10 economic freedoms including property rights, labor freedom, and trade freedom. São Tomé and Príncipe is ranked 37th out of 46 countries in the Sub-Saharan Africa region, and its score is below the world and regional averages.

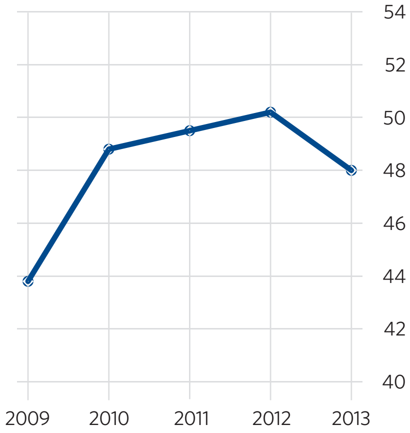
São Tomé and Príncipe's previous moves toward greater economic freedom have been sharply reversed in the 2013 *Index*. Recording the 10th largest score decline, the island economy has fallen back to the economic freedom status of "repressed."

Undermining past years' notable gains from enhancing regulatory efficiency, the weakened judicial system and lax protection for property rights are damaging prospects for long-term economic development. In addition, corruption remains rampant, and high government spending increases the fiscal burden. A lack of commitment to open-market policies holds back growth in trade and investment and thwarts the emergence of a more dynamic private sector.

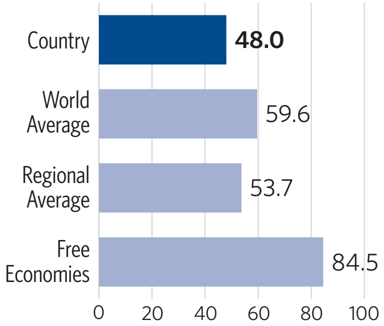
BACKGROUND: São Tomé and Príncipe is a two-island republic in the Gulf of Guinea. President Fradique de Menezes, first elected in 2001, was re-elected in 2006. His election in December 2009 to lead the MDFM party as well was challenged within the party and by constitutional experts as unconstitutional. Legislative elections on August 1, 2010, were deemed free and fair by international observers. Plantation agriculture, particularly cocoa and coffee, dominates the economy. Cocoa accounts for about 95 percent of exports. Other export crops include copra (a coconut product) and palm kernels. Offshore oil fields shared with Nigeria are thought to hold billions of barrels of oil but have not been exploited. In April 2011, the country completed a Millennium Challenge Corporation Threshold Country Program designed to help increase tax compliance, reform customs, and improve the business environment.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



Quick Facts

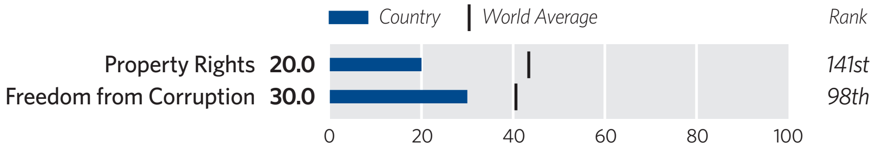
Population: 0.2 million
GDP (PPP): $0.4 billion
4.9% growth in 2011
5-year compound annual growth 4.9%
$2,252 per capita
Unemployment: n/a
Inflation (CPI): 14.3%
FDI Inflow: $18.0 million
Public Debt: 74.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

SÃO TOMÉ AND PRÍNCIPE (continued)

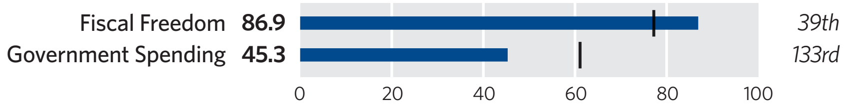
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



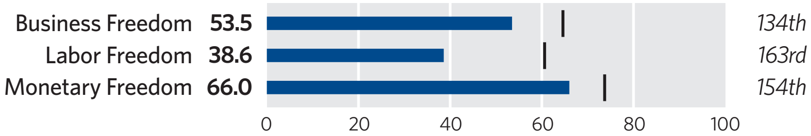
The legal system is weak, inefficient, and subject to persistent political influence. Property rights are not protected effectively. In 2012, the government expropriated land and later awarded it to an international agro-industrial firm. There is no separate commercial court, and backlogs of civil cases cause long delays. Corruption continues to be a concern. Bribery, embezzlement, and mismanagement of public funds are regarded as endemic.

LIMITED GOVERNMENT



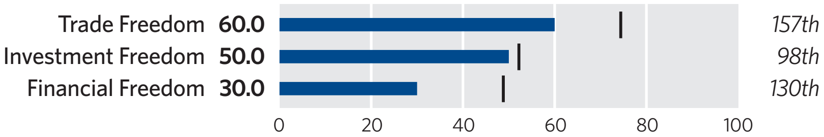
The top income tax rate is 20 percent, and the corporate tax rate is a flat 25 percent. Other taxes include a sales tax and a dividend tax. The overall tax burden equals 17 percent of total domestic income. Government spending has increased to the equivalent of 42.7 percent of total domestic output. Deficits are chronically over 10 percent of GDP, and growing public debt exceeds 70 percent of GDP.

REGULATORY EFFICIENCY



The time needed to start a company has been reduced to only seven days, and licensing requirements have been simplified. However, licensing continues to require over three times the level of average annual income. In the absence of a well-functioning labor market, informal labor activity remains significant. Monetary stability is not well maintained, and government subsidies for food have increased.

OPEN MARKETS



The trade-weighted tariff rate is high at 15 percent, but there are relatively few non-tariff barriers to add to the cost of trade. The investment regime remains inefficient and lacks transparency. The underdeveloped financial sector does not provide adequate access to banking services for a large portion of the population.

Score Changes

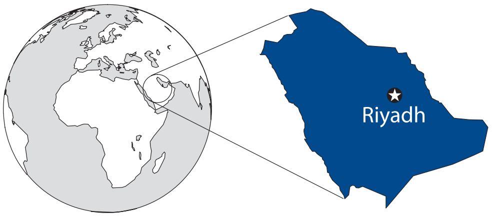
RULE OF LAW	
Property Rights	-10.0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.1
Government Spending	-3.8

REGULATORY EFFICIENCY	
Business Freedom	+0.3
Labor Freedom	-7.5
Monetary Freedom	+1.4

OPEN MARKETS	
Trade Freedom	-6.6
Investment Freedom	+5.0
Financial Freedom	0

SAUDI ARABIA



World Rank: **82** Regional Rank: **8**

Saudi Arabia's economic freedom score is 60.6, making its economy the 82nd freest in the 2013 *Index*. Its score is 1.9 points worse than last year due to substantial declines in business freedom, property rights, trade freedom, and freedom from corruption. Saudi Arabia is ranked 8th out of 15 countries in the Middle East/North Africa region, and its overall score remains above the world average.

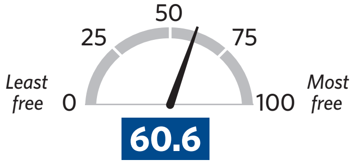
Driven largely by high oil prices and expansionary public spending, Saudi Arabia's economy has expanded at an average growth rate of 3.5 percent over the past five years. However, there has been little progress in structural and institutional reform. The kingdom has lost economic freedom two years in a row, recording one of the 15 largest score declines in the 2013 *Index*. The perceived level of corruption has increased, and the legal system remains susceptible to political influence. Saudi Arabia's property rights score is now lower than the world average.

Despite some progress in previous years, the competitiveness of regulatory efficiency and open-market policies is also lagging behind other emerging economies. Dynamic gains from free flows of trade and investment continue to be undermined by bureaucracy and a lack of transparency.

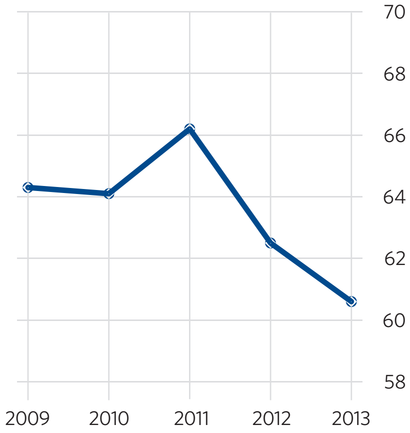
BACKGROUND: Saudi Arabia is an absolute monarchy ruled by King Abdallah bin Abdul Aziz Al Saud. Early in 2011, pro-reform demonstrations were mounted by Shia activists in eastern Saudi Arabia, but they did not seem to have much impact. Most of the dominant Sunni population appeared to be satisfied by increased economic benefits and the monarch's promise of greater political participation. As the world's leading oil producer and exporter, Saudi Arabia dominates the Organization of the Petroleum Exporting Countries. Oil revenues account for about 90 percent of export earnings and about 80 percent of government revenues. Saudi Arabia joined the World Trade Organization in 2005 and has sought to attract foreign investment and promote economic diversification. Islamist terrorists have targeted oil facilities, foreign workers, and the government, but a crackdown has forced al-Qaeda to move many of its Saudi operatives to Yemen.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

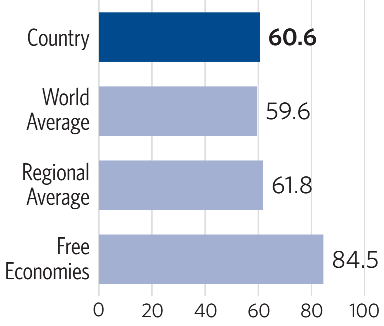
Economic Freedom Score



Freedom Trend



Country Comparisons



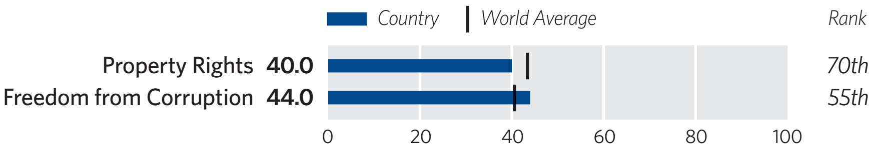
Quick Facts

Population: 28.2 million
GDP (PPP): $682.8 billion
6.8% growth in 2011
5-year compound annual growth 3.5%
$24,237 per capita
Unemployment: 10.9%
Inflation (CPI): 5.0%
FDI Inflow: $16.4 billion
Public Debt: 7.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

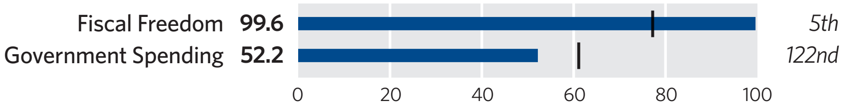
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



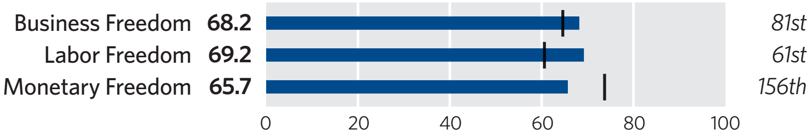
Saudi courts do not always enforce contracts efficiently. The judicial system is slow, non-transparent, and vulnerable to interference from the ruling elite. Laws protecting and facilitating the acquisition and disposition of private property are subject to Islamic practices. Enforcement of laws protecting intellectual property rights has been weak. Government decision-making lacks transparency, and corruption remains a concern.

LIMITED GOVERNMENT



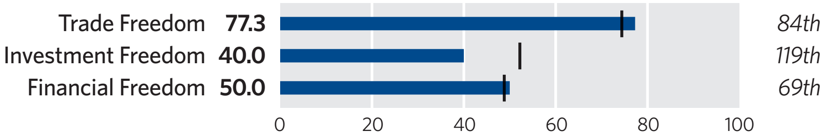
Saudi nationals or citizens of the Gulf Cooperation Council and corporations pay a 2.5 percent religious tax mandated by Islamic law rather than traditional income or corporate taxes. Overall tax revenue equals less than 6 percent of total domestic income. Government spending is equivalent to nearly 40 percent of total domestic output. Large oil revenues have kept the budget in surplus and public debt at less than 10 percent of GDP.

REGULATORY EFFICIENCY



Overall progress in easing constraints on business formation and operation lags behind improvements in other emerging countries. Starting a business takes 21 days in comparison to the world average of 30 days. A new employment quota system that enforces Saudiization has come into effect. There is no mandated minimum wage. The government influences prices extensively through subsidies and state-owned enterprises.

OPEN MARKETS



The trade-weighted average tariff rate is modest at 3.9 percent, but non-tariff barriers add to the cost of trade. The investment regime remains restrictive, and limits on foreign investment are maintained in some sectors. There are minimum capital requirements for foreign investors. The financial sector has undergone gradual transformation, with some restrictions on foreign investment in financial services eased.

Score Changes

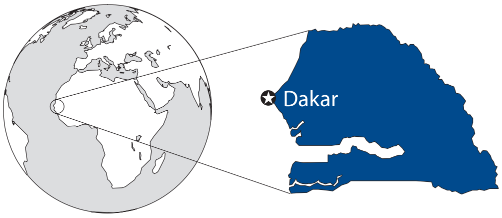
RULE OF LAW	
Property Rights	-5.0
Freedom from Corruption	-3.0

LIMITED GOVERNMENT	
Fiscal Freedom	0
Government Spending	+14.9

REGULATORY EFFICIENCY	
Business Freedom	-19.3
Labor Freedom	-1.9
Monetary Freedom	+0.8

OPEN MARKETS	
Trade Freedom	-5.0
Investment Freedom	0
Financial Freedom	0

SENEGAL



World Rank: 116 **Regional Rank: 19**

Senegal's economic freedom score is 55.5, making its economy the 116th freest in the 2013 *Index*. Its score is essentially the same as last year, with a notable improvement in investment freedom largely offset by declines in half of the 10 economic freedoms including the management of government spending and labor freedom. Senegal is ranked 19th out of 46 countries in the Sub-Saharan Africa region, and its score is below the world average.

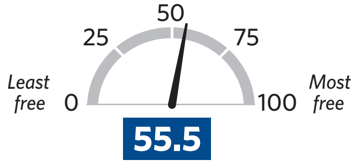
Potential entrepreneurs continue to face a number of institutional challenges to economic freedom in Senegal. The overall regulatory and legal framework remains weak, undermining the emergence of a more vibrant private sector. The presence of the state in the economy is still considerable, despite public-sector reforms initiated over a decade ago.

Hindering dynamic engagement in global commerce, the absence of strong commitment to open-market policies continues to undermine the prospects for long-term economic development. The financial sector remains underdeveloped, and the role of microfinance in providing access to credit is growing. The inefficient judicial system lacks independence and is vulnerable to corruption.

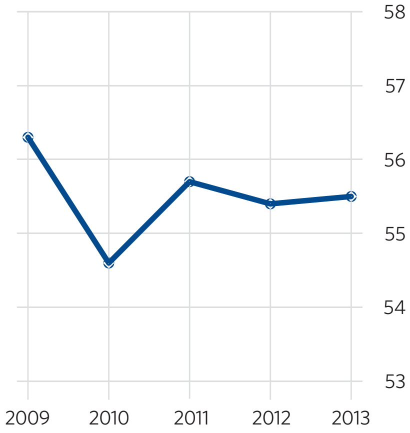
BACKGROUND: President Abdoulaye Wade, re-elected in 2007, amended Senegal's constitution over a dozen times to increase executive power and weaken the opposition. His attempt to change the constitution again in June 2011 led to protests, and his decision to run for a third term ended in his defeat by Macky Sall in a March 2012 runoff. Sporadic fighting between the government and rebels continues in the southern Casamance region. Economic reforms that began in 1994 have proceeded slowly. Agriculture and fishing occupy about three-quarters of the population. Informal employment is common in both urban and rural areas. Foreign assistance comprised over 20 percent of government spending in 2007 (the most recent year for which data are available). In 2010, the Senegalese people protested frequent power cuts, and plans were announced in 2012 for construction of a new 250-megawatt power plant by a Korean firm.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

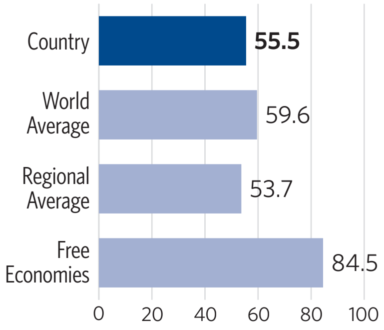
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

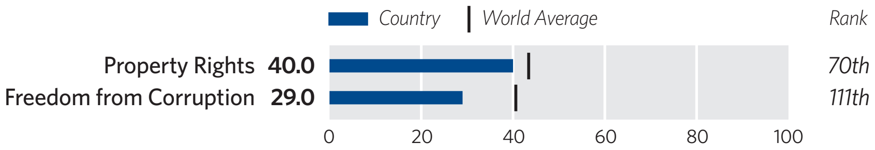
Population: 13.4 million
GDP (PPP): $25.2 billion
2.6% growth in 2011
5-year compound annual growth 3.5%
$1,871 per capita
Unemployment: 48.0% (2007)
Inflation (CPI): 3.4%
FDI Inflow: $286.1 million
Public Debt: 40.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

SENEGAL (continued)

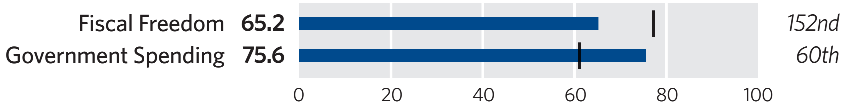
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



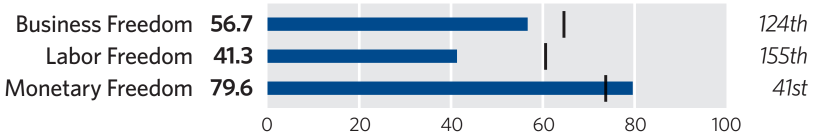
The legal system does not provide secure protection for property rights, and the rule of law remains weak. The government has streamlined procedures for registering property and has reduced associated costs, but the administration of property titles and land registration procedures is uneven outside of urban areas. Commercial courts are inefficient, and rulings can be arbitrary and inconsistent. Corruption remains a cause for concern.

LIMITED GOVERNMENT



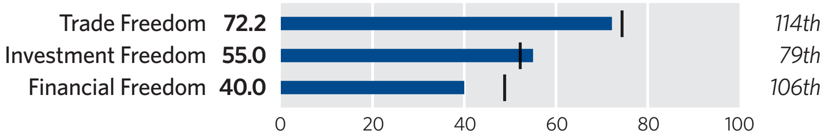
The top income tax rate is 50 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and an insurance tax. The overall tax burden equals 18.8 percent of total domestic income. Government spending has increased to 28.5 percent of total domestic output. The budget is in deficit, and public debt has risen to about 40 percent of GDP. Borrowing has increased due to investments in road and electrical infrastructure projects.

REGULATORY EFFICIENCY



The process for establishing a business is now more streamlined, but starting a business takes over twice the level of average annual income. Completing licensing requirements is time-consuming and costs over four times the level of average annual income. The large agricultural sector employs about 70 percent of the working population, and a formal urban labor market has been slow to emerge. Inflation is low.

OPEN MARKETS

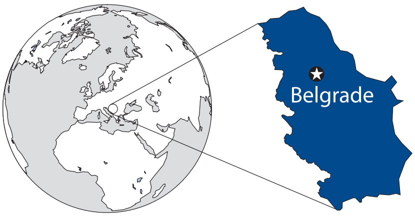


The trade-weighted average tariff rate is high at 8.9 percent, and non-tariff barriers add to the cost of trade. Despite a desire to attract dynamic foreign investment, the bureaucratic approval process and poor investment infrastructure remain considerable impediments. Outmoded regulation, high credit costs, and scarce access to financing continue to constrain the small private sector.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	–0.2	Business Freedom	–1.7	Trade Freedom	0
Freedom from Corruption	0	Government Spending	–2.9	Labor Freedom	–2.2	Investment Freedom	+10.0
				Monetary Freedom	–2.0	Financial Freedom	0

SERBIA



World Rank: **94** Regional Rank: **37**

Serbia's economic freedom score is 58.6, making its economy the 94th freest in the 2013 *Index*. Its score is 0.6 point better this year, with improvements in half of the 10 economic freedoms, including investment freedom and business freedom, outweighing deteriorations in freedom from corruption and monetary freedom. Serbia is ranked 37th out of 43 countries in the Europe region, and its overall score is below the world and regional averages.

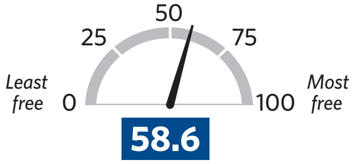
Over the past decade, Serbia has implemented significant structural reforms in some parts of its economy. The economy's competitiveness is supported by low flat tax rates, relative openness to global trade, and ongoing regulatory reforms. At 10 percent, the corporate tax rate is among Europe's lowest. A wider range of credit instruments has become available to the private sector, but the level of financial intermediation remains relatively low.

Despite some progress, Serbia lacks the political will needed for bold institutional reforms. Inefficient government spending remains high. Deeper institutional reforms are needed to tackle bureaucracy, reduce corruption, and strengthen a judicial system that is vulnerable to political interference.

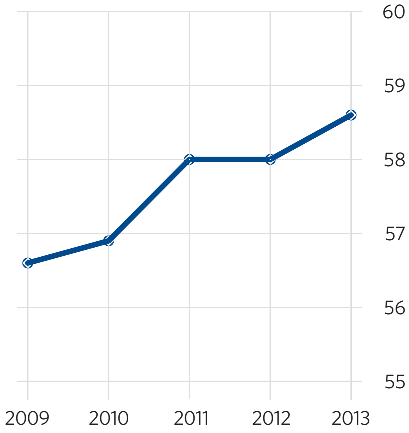
BACKGROUND: Serbia signed a Stability and Association Agreement with the European Union in May 2008 and submitted its formal application for membership in December 2009. Accession talks were contingent on the arrest of wartime leader Ratko Mladic, who was apprehended in May 2011. In March 2012, the EU Council formally invited Serbia to begin the accession process after Serbia agreed to allow Kosovo to attend West Balkan regional meetings. Nationalist President Tomislav Nikolic, elected in May 2012, has pledged to continue down the path of Euro–Atlantic integration and membership in the World Trade Organization. Serbia's economy has attracted significant foreign investment in manufacturing and services and has become far more integrated into the international economic system, but unemployment remains close to 25 percent.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

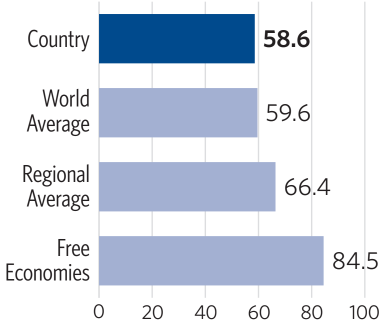
Economic Freedom Score



Freedom Trend



Country Comparisons



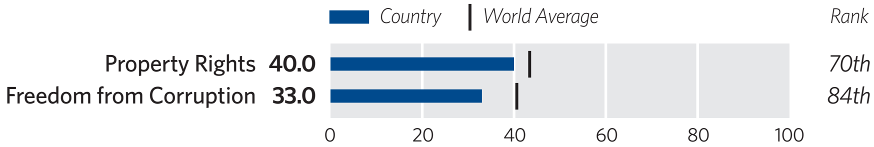
Quick Facts

Population: 7.4 million
GDP (PPP): $78.9 billion
1.8% growth in 2011
5-year compound annual growth 1.7%
$10,642 per capita
Unemployment: 23.4%
Inflation (CPI): 11.2%
FDI Inflow: $2.7 billion
Public Debt: 47.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

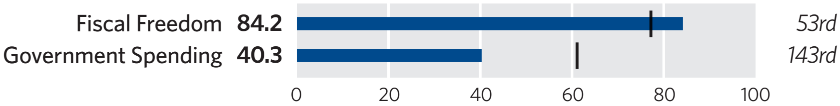
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



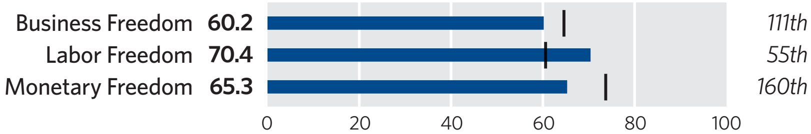
Serbia's constitution supports an independent judiciary, but the system is inefficient and vulnerable to political interference. Laws protecting real and intellectual property rights are not enforced effectively. Organized criminal groups engage in money laundering, and corruption remains widespread in the economy. It is estimated that nearly 25 percent of spending on public procurement (or about 15 percent of GDP) is diverted by corruption.

LIMITED GOVERNMENT



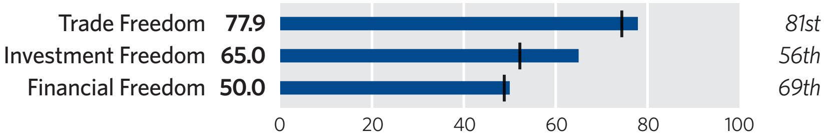
The top income tax rate is 15 percent, and the corporate tax rate is a flat 10 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals 35.4 percent of total domestic income. Government spending is equivalent to 44.6 percent of GDP. The budget deficit sits at 3 percent of GDP, and public debt is over 45 percent of total domestic output. The chronic budget gap poses a continuing challenge.

REGULATORY EFFICIENCY



The business start-up process does not require minimum capital and takes only six procedures. Despite progress in streamlining the process for launching a business, other requirements remain time-consuming. Obtaining licenses costs over 14 times the average level of annual income. A fully functioning modern labor market has not developed, and the informal sector remains significant. Inflation has risen sharply.

OPEN MARKETS

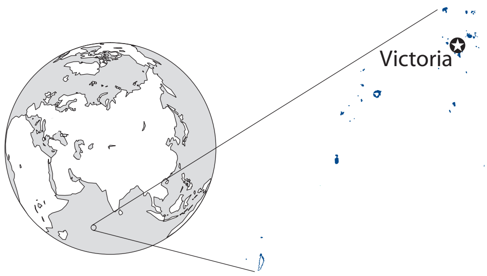


The trade-weighted average tariff rate is 6 percent, and non-tariff barriers add to the cost of trade. Some trade barriers have been reduced as part of Serbia's efforts to join the WTO. Most sectors are open to foreign investment, and recent reforms have improved the investment environment, but lack of transparency deters investment growth. Privatization and consolidation reforms have revived the once-defunct banking sector.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.1	Business Freedom	+3.7	Trade Freedom	0
Freedom from Corruption	-2.0	Government Spending	+1.0	Labor Freedom	+1.7	Investment Freedom	+5.0
				Monetary Freedom	-2.7	Financial Freedom	0

SEYCHELLES



World Rank: 124 **Regional Rank: 23**

Seychelles' economic freedom score is 54.9, making its economy the 124th freest in the 2013 *Index*. Its score is 1.9 points higher than last year, reflecting notable improvements in regulatory efficiency, which includes business freedom, monetary freedom, and labor freedom. Seychelles is ranked 23rd among 46 countries in the Sub-Saharan Africa region.

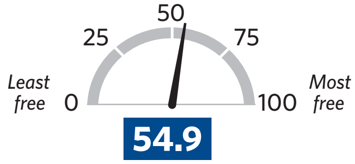
For the second year in a row, the Seychelles economy registered one of the 15 highest score improvements in the *Index*. In addition to improving overall regulatory efficiency, the government has cut and simplified personal and corporate tax rates. Although privatization has been slow, efforts to enhance transparency and improve the governance of state-owned enterprises are ongoing. Continuing reform will be critical to improving competitiveness and ensuring more broadly based economic development.

Undermining the gains from an improved regulatory environment, a lack of commitment to open-market policies continues to hold back dynamic growth in trade and investment. Institutional weaknesses stemming from an inefficient legal framework and pervasive corruption severely undercut prospects for stable long-term economic development, hampering the emergence of a dynamic private sector beyond the tourism sector.

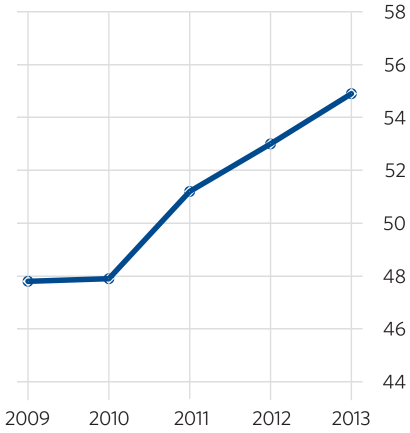
BACKGROUND: The Seychelles People's Progressive Front has been the ruling party since 1977, when France Albert René seized power in a bloodless coup. In 2004, René ceded power to Vice President James Michel. Michel was elected to a third term in May 2011. The economy of this Indian Ocean archipelago relies heavily on tourism and fishing. Services account for close to 70 percent of GDP. Though per capita incomes are among the region's highest, the economy's small size makes it vulnerable to external shocks. When the government defaulted on its external debt in 2008, it appealed to the International Monetary Fund for support. Since mid-2008, Seychelles has largely adhered to an economic reform program focused on reducing its debt-to-GDP ratio.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

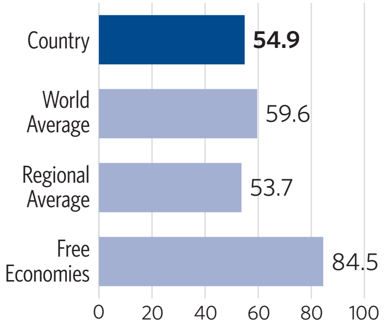
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 0.1 million

GDP (PPP): $2.2 billion
4.9% growth in 2011
5-year compound annual growth 4.1%
$24,726 per capita

Unemployment: 2.0% (2006)

Inflation (CPI): 2.6%

FDI Inflow: $143.9 million

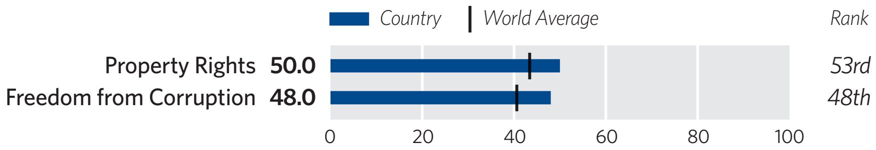
Public Debt: 83.0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

SEYCHELLES (continued)

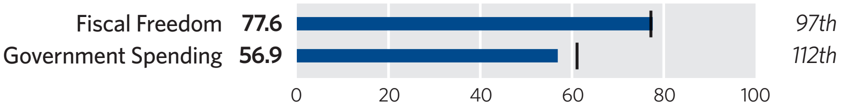
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



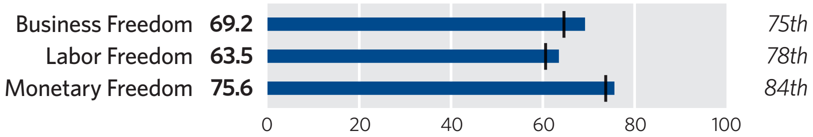
Seychelles' judicial system is inefficient and subject to executive influence. Civil court cases take years to resolve. Recent changes in the law on property ownership offer freehold title and residency rights to foreign owners and their immediate families in a bid to attract more foreign investment. Widespread public-sector corruption undermines the government's capacity to provide basic services.

LIMITED GOVERNMENT



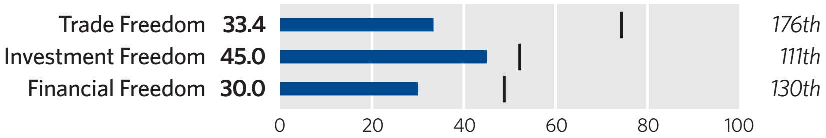
The income tax rate is a flat 15 percent, and the top corporate tax rate is 33 percent. Other taxes include an interest tax, a vehicle tax, and a newly introduced value-added tax (VAT). The overall tax burden equals 30.4 percent of total domestic income. Government spending is equivalent to 37.9 percent of GDP. The budget is in slight surplus, but public debt has risen modestly to 83 percent of GDP.

REGULATORY EFFICIENCY



The regulatory framework has undergone several changes. Launching a business takes 10 procedures, with no minimum capital required. The cost of completing licensing requirements has been reduced to about 25 percent of the level of average annual income. The formal labor market is not fully developed. The inefficient public sector accounts for around 40 percent of total employment. With volatile inflation, monetary stability remains weak.

OPEN MARKETS



The trade-weighted average tariff rate is prohibitively high at 28.3 percent, making the country's trading environment one of the world's most restricted. Investment is hindered by heavy bureaucracy and inadequate infrastructure. The financial sector remains rudimentary. A large part of the population lacks access to formal banking services, and limited capacity for lending to the private sector inhibits growth.

Score Changes

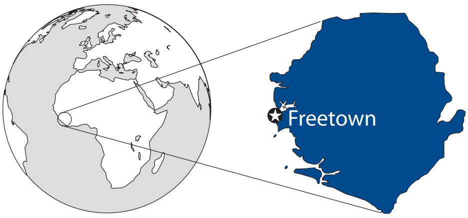
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	+1.6
Government Spending	-2.7

REGULATORY EFFICIENCY	
Business Freedom	+6.9
Labor Freedom	+5.5
Monetary Freedom	+8.2

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

SIERRA LEONE



World Rank: **151** Regional Rank: **36**

Sierra Leone's economic freedom score is 48.3, making its economy the 151st freest in the 2013 *Index*. Its score is 0.8 point lower than last year, with improvements in investment freedom and freedom from corruption overshadowed by declines in half of the 10 economic freedoms including labor freedom and the control of government spending. Sierra Leone is ranked 36th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

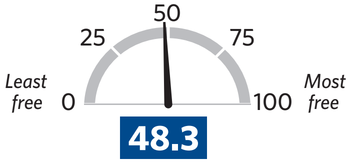
Continuing a downward trend in economic freedom, Sierra Leone recorded another significant score decline in the 2013 *Index*. The country has been plagued by civil war for many years, and the institutions necessary for economic freedom have not developed to generate long-term economic growth. Recent reforms have been targeted at opening the economy to international trade and strengthening the enforcement of contracts.

Mismanagement of public spending remains a serious problem and ultimately hurts implementation of necessary reforms. The protection of property rights is weak, and the judicial system lacks both independence and transparency. Legal proceedings are vulnerable to political interference and commonly subject to pervasive corruption.

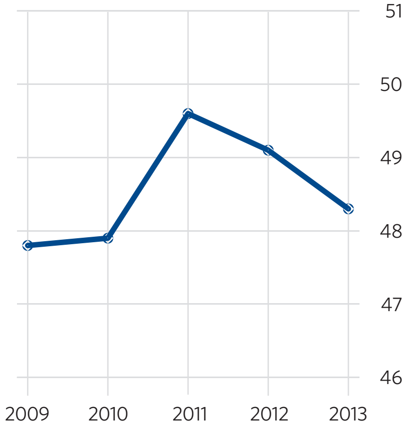
BACKGROUND: Opposition candidate Ernest Bai Koroma was elected president in 2007 in Sierra Leone's first peaceful transition of power since independence in 1961. Recovery since the end of the 10-year civil war in 2002 has been fragile. Infrastructure remains deficient. Industry (primarily mining) accounted for about 23 percent of GDP in 2008. Mineral exports are the principal foreign exchange earner. Sierra Leone is a major producer of gem-quality diamonds, which account for nearly half of exports. Exploitation of iron ore is expected to have expanded the economy significantly in 2012. Several offshore oil discoveries were announced in 2009 and 2010, but while contracts have been awarded for exploration, Sierra Leone has yet to benefit from its oil wealth.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

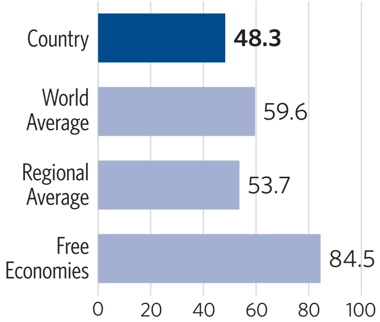
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

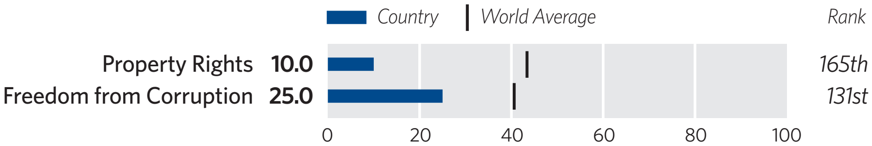
Population: 6.0 million
GDP (PPP): $5.1 billion
5.3% growth in 2011
5-year compound annual growth 5.1%
$849 per capita
Unemployment: n/a
Inflation (CPI): 18.5%
FDI Inflow: $48.7 million
Public Debt: 60.0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

SIERRA LEONE (continued)

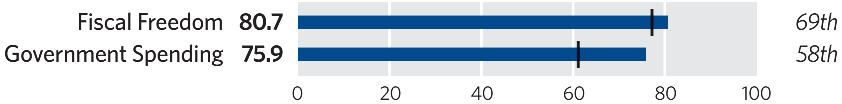
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



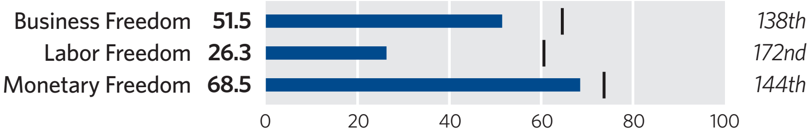
The rule of law is fragile and uneven across the country. In the absence of an effectively functioning legal framework, property rights and contracts are not secure. There is no land titling system, and judicial corruption is significant. Traditional tribal justice systems still serve as a supplement to the central government's judiciary, especially in rural areas. Corruption remains pervasive in all branches of government.

LIMITED GOVERNMENT



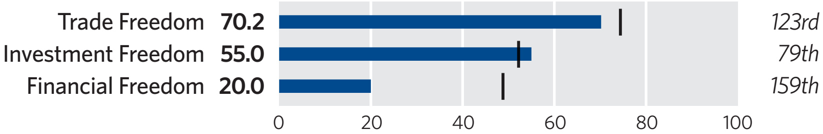
The top income and corporate tax rates are 30 percent. Other taxes include a goods and services tax (GST) and an interest tax. The overall tax burden equals 11.6 percent of total domestic income. Government spending has increased to 28.3 percent of GDP. The budget deficit remains over 5 percent of GDP, and public debt is equivalent to 60 percent of total domestic output.

REGULATORY EFFICIENCY



The procedure for establishing a business has been simplified, but licensing requirements remain burdensome. Launching a company takes less than the world averages of seven procedures and 30 days, but completing licensing requirements is time-consuming and costly. Making additional hiring burdensome, an increase in the minimum wage has exceeded labor productivity growth in the formal sector. Inflation has been chronically high.

OPEN MARKETS

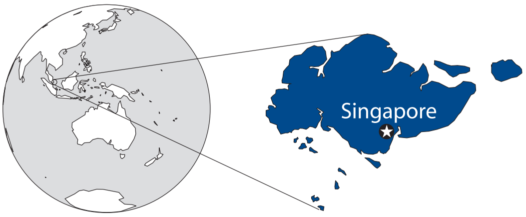


The trade-weighted average tariff rate is prohibitively high at 9.9 percent, and additional non-tariff barriers also severely constrain trade freedom. Private investment activity has been weak, and much-needed long-term investment continues to be discouraged by inadequate rule of law and instability. The state controls the majority of bank assets, and much of the population operates outside of the formal banking sector.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.2	Business Freedom	-0.3	Trade Freedom	+7.4
Freedom from Corruption	+1.0	Government Spending	-8.4	Labor Freedom	-15.7	Investment Freedom	+10.0
				Monetary Freedom	-1.6	Financial Freedom	0

SINGAPORE



World Rank: 2 **Regional Rank: 2**

Singapore's economic freedom score is 88, making its economy the 2nd freest in the 2013 *Index*. Its score is 0.5 point higher than last year, with an advancement in financial freedom outweighing small deteriorations in five other economic freedoms. Singapore is ranked 2nd out of 41 countries in the Asia–Pacific region.

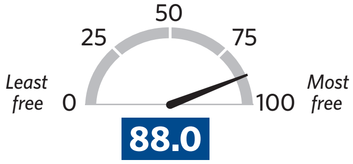
Prudent macroeconomic policy within a stable political and legal environment has been the key to Singapore's continuing success in maintaining one of the world's highest levels of economic freedom. Well-secured property rights promote entrepreneurship and productivity growth. A strong tradition of minimum tolerance for corruption is institutionalized in an efficient judicial framework, strongly sustaining the rule of law.

Singapore's openness to global trade and investment has facilitated the emergence of a more competitive financial sector and continues to provide real stimulus and ensure economic dynamism. Competitive tax rates and a transparent regulatory environment encourage vibrant commercial activity, and the private sector is a continuing source of economic resilience and competitiveness. However, state ownership and involvement in key sectors remain substantial. A government statutory entity, the Central Provident Fund, administers public housing, health care, and various other programs, and public debt is equal to a year's production for the entire economy.

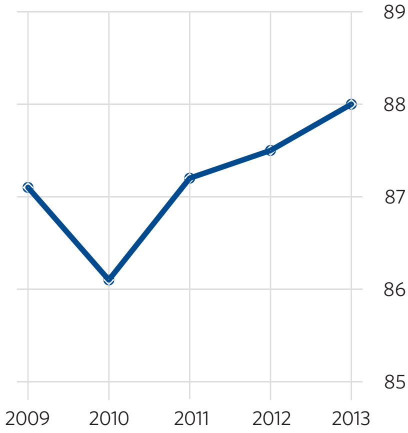
BACKGROUND: Singapore is a nominally democratic state that has been ruled by the People's Action Party (PAP) since independence in 1965. The PAP won the May 2010 elections with the lowest percentage of the popular vote in its history. Six opposition members also won seats. Certain civil liberties, such as freedom of assembly and freedom of speech, remain restricted, but the PAP has embraced economic liberalization and international trade. Singapore is one of the world's most prosperous nations. Its economy is dominated by services, but the country is also a major manufacturer of electronics and chemicals.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

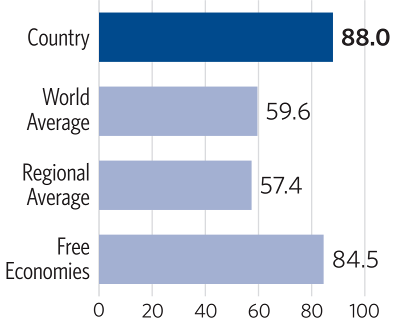
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

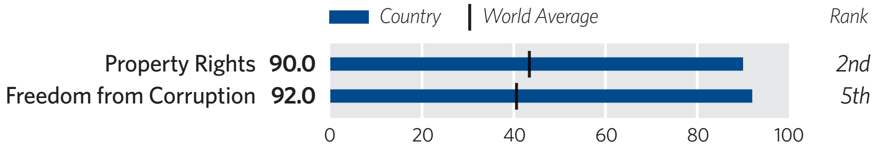
Population: 5.3 million
GDP (PPP): $314.9 billion
4.9% growth in 2011
5-year compound annual growth 5.7%
$59,711 per capita
Unemployment: 2.0%
Inflation (CPI): 5.2%
FDI Inflow: $64.0 billion
Public Debt: 100.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

SINGAPORE (continued)

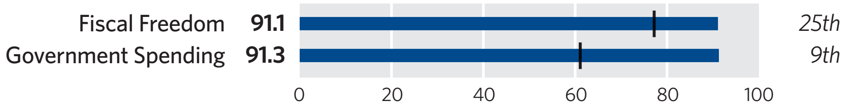
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



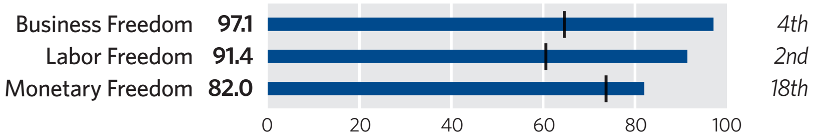
Contracts are secure, there is no expropriation, and the commercial court functions efficiently. Singapore has one of Asia's strongest intellectual property rights regimes, although enforcement could be improved. The government enforces strong anti-corruption measures, and acts of bribery, whether committed inside Singapore's territory or overseas, are prosecuted by the government.

LIMITED GOVERNMENT



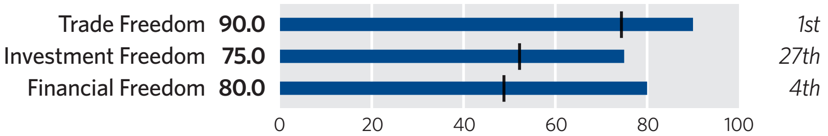
The top income tax rate is 20 percent, and the top corporate tax rate is 17 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals about 14.1 percent of total domestic income. Government spending is equivalent to 17 percent of GDP. Structural budget surpluses have sustained high debt levels near 100 percent of GDP. The state remains heavily involved in the economy through government-linked companies.

REGULATORY EFFICIENCY



The overall regulatory environment remains one of the world's most transparent and efficient. With no minimum capital required, launching a business takes only three days. There is no statutory minimum wage, but wage adjustments are guided by the National Wage Council. Inflation is under control despite the challenging external environment. The state influences prices through state-linked enterprises and can impose controls as it deems necessary.

OPEN MARKETS



The trade regime is very open and competitive, and no tariffs are imposed on imports. Foreign and domestic businesses are treated equally under the law, but foreign investment in some service industries remains limited. As a leading global financial hub, the efficient financial sector is highly competitive. The government has been opening the domestic market to foreign banks. Over 100 of 120 commercial banks are now foreign.

Score Changes

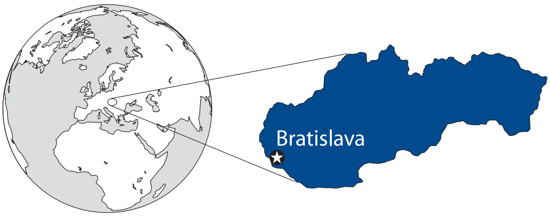
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-1.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.2
Government Spending	0

REGULATORY EFFICIENCY	
Business Freedom	-0.1
Labor Freedom	-0.7
Monetary Freedom	-2.8

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	+10.0

SLOVAKIA



World Rank: **42** Regional Rank: **20**

Slovakia's economic freedom score is 68.7, making its economy the 42nd freest in the 2013 *Index*. Its score has increased by 1.7 points from last year, primarily due to improved management of public spending and labor freedom. Slovakia is ranked 20th out of 43 countries in the Europe region, and its overall score is higher than the world average.

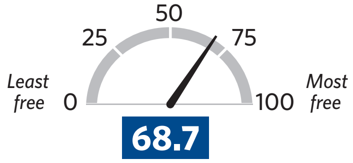
Reversing a declining trend since 2010, Slovakia recorded one of the 20 largest score improvements in the 2013 *Index*. Nevertheless, it continues to face the economic and political challenges of significant economic adjustments. Fiscal consolidation over the past two years has had only a modest impact, and the government, which must narrow the fiscal deficit to less than 3 percent of GDP in 2013, faces fierce popular resistance to the necessary changes.

Starting in January 2013, taxes are scheduled to rise significantly. Institutional weaknesses continue to constrain Slovakia's overall economic freedom. The judicial system is slow and vulnerable to political influence, and the perceived level of corruption continues to rise.

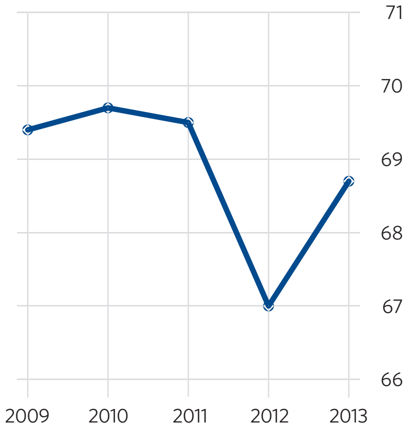
BACKGROUND: After Slovakia became independent in 1993, economic reforms helped to make its economy one of the most attractive in Europe throughout the 1990s. However, the pace of reform has since slowed significantly. Slovakia joined the European Union and NATO in 2004 and adopted the euro as its currency in 2009. After a political corruption scandal in late 2011, the center-left Direction-Social Democrat party won 45 percent of the vote in the March 2012 parliamentary elections, and former Direction-Social Democrat Prime Minister Robert Fico returned to office in April 2012. The economy, a mix of agriculture and industry, has registered moderate and relatively stable growth despite the slowdown across the EU, and Slovakia has become one of the world's largest producers of automobiles per capita.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

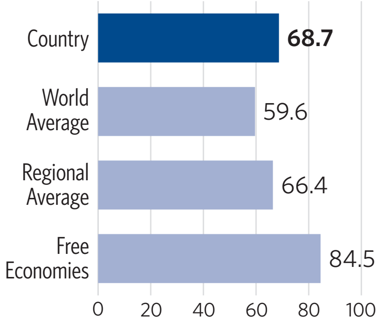
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

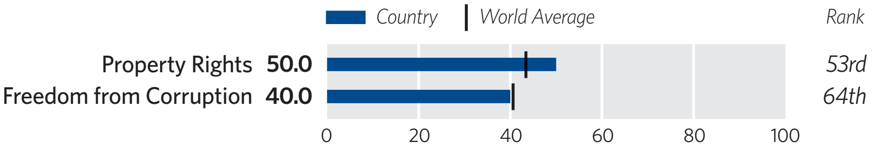
Population: 5.4 million
GDP (PPP): $126.9 billion
3.3% growth in 2011
5-year compound annual growth 3.6%
$23,304 per capita
Unemployment: 14.4%
Inflation (CPI): 4.1%
FDI Inflow: $2,142.9 million
Public Debt: 44.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

SLOVAKIA (continued)

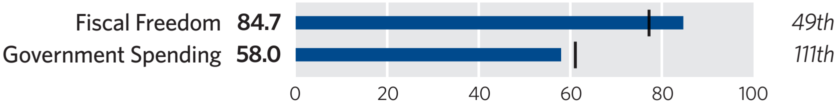
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



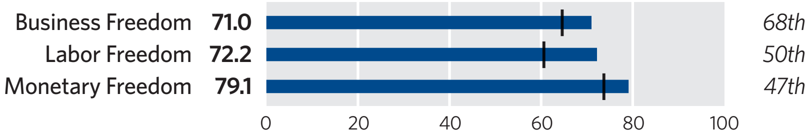
The judiciary is independent and comparatively effective. Secured interests in property and contractual rights are recognized and enforced. However, court decisions can take years, and the business community views corruption as a significant factor in judicial outcomes. Growing public concern about systemic corruption has given rise to anti-establishment parties.

LIMITED GOVERNMENT



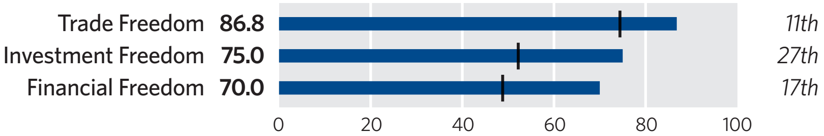
The income and corporate tax rates were a flat 19 percent as of June 2012, but increases have been enacted. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals 28.4 percent of total domestic income. Government spending has risen to a level equivalent to 37.4 percent of GDP, and the budget deficit has widened to 5.5 percent of GDP. Public debt has risen to about 45 percent of total domestic output.

REGULATORY EFFICIENCY



The overall regulatory framework has undergone a series of reforms aimed at facilitating entrepreneurial activity, but the pace of reform has slowed in recent years in comparison to other emerging economies in the region. The labor market lacks flexibility, resulting in a high unemployment rate of over 10 percent. Despite the challenging economic environment, monetary stability has been relatively well maintained.

OPEN MARKETS

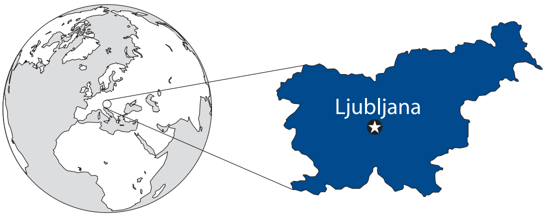


Trade policy is the same as that of other members of the European Union, with the common EU weighted average tariff rate standing at 1.6 percent and relatively few non-tariff barriers adding to the cost of trade. Foreign and domestic investment receive equal treatment, and full foreign ownership is permitted in most sectors. The financial system has undergone significant liberalization, and the banking sector remains relatively sound.

Score Changes

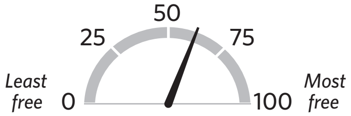
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**0**	Fiscal Freedom	**+0.5**	Business Freedom	**0**	Trade Freedom	**-0.3**
Freedom from Corruption	**-3.0**	Government Spending	**+9.8**	Labor Freedom	**+14.1**	Investment Freedom	**0**
				Monetary Freedom	**-4.4**	Financial Freedom	**0**

SLOVENIA



World Rank: **76** Regional Rank: **34**

Economic Freedom Score



61.7

Slovenia's economic freedom score is 61.7, making its economy the 76th freest in the 2013 *Index*. Its score has decreased by 1.2 points since last year, with declines in half of the 10 economic freedoms, including substantial drops in scores for government spending and freedom from corruption. Slovenia is ranked 34th out of 43 countries in the Europe region, and its overall score is still above the world average.

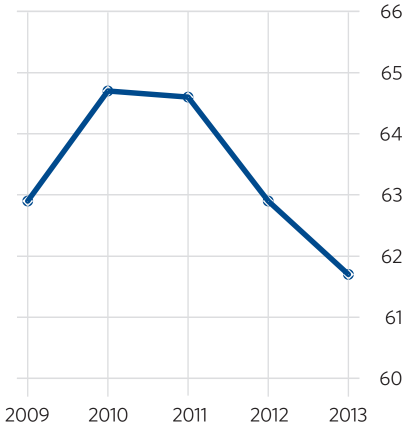
Slovenia has been on a downward trend in economic freedom since 2010, with scores declining over one point for two years in a row. Structural reform has been uneven, and institutional weaknesses continue to undermine prospects for long-term economic development. The judicial system remains inefficient and vulnerable to political interference, and corruption is perceived as widespread.

Despite the challenging European economic environment, Slovenia appears to be accelerating the pace of structural reform. The proposed changes in the pension system are intended to ease the strain on the budget caused by a rapidly aging population. One of the main elements involves raising the retirement age to 65 in stages over the next seven years. The government has also proposed employment reforms to increase labor market flexibility by reducing non-wage costs.

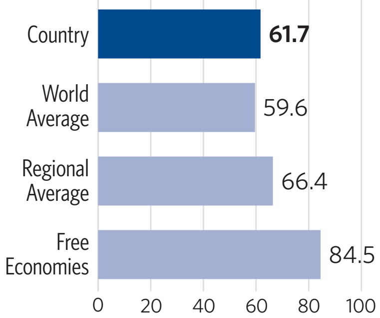
BACKGROUND: Janez Janša, elected prime minister by the National Assembly in February 2012, heads a center-right coalition government. Slovenia largely managed to avoid the bloody conflict that followed Croatia's secession from the former Yugoslavia. Its economic infrastructure remained intact, and its economy experienced solid growth until the 2008 global recession. Slovenia is a member of the International Monetary Fund, World Bank Group, European Bank for Reconstruction and Development, and 40 other international organizations. It joined the European Union and NATO in 2004, adopted the euro as its currency in 2007, and became a member of the Organisation for Economic Co-operation and Development in 2010. Slovenia fell into its second recession in three years during the last quarter of 2011, but the economy has rebounded.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



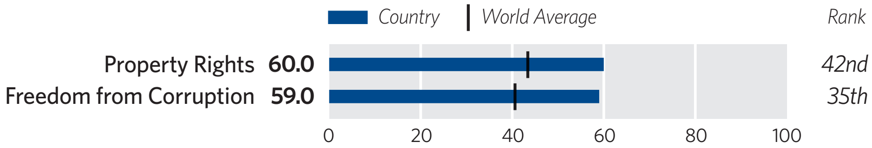
Quick Facts

Population: 2.0 million
GDP (PPP): $57.9 billion
–0.2% growth in 2011
5-year compound annual growth 0.6%
$28,642 per capita
Unemployment: 8.4%
Inflation (CPI): 1.8%
FDI Inflow: $999.2 million
Public Debt: 47.3% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

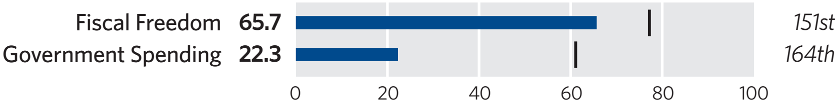
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



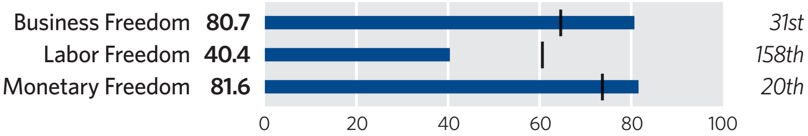
Private property rights are constitutionally guaranteed, but the courts are inadequately staffed and slow. The judicial framework, despite gradual progress, remains vulnerable to political interference. Enforcement of legal measures to safeguard intellectual property rights is ineffective. The small size of Slovenia's political and economic elite contributes to a lack of transparency in government procurement and widespread cronyism in the business sector.

LIMITED GOVERNMENT



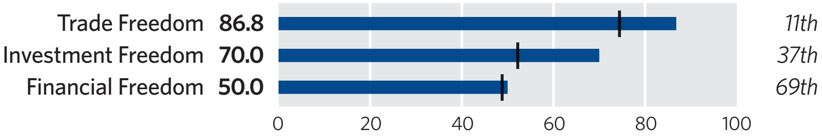
The top income tax rate is 41 percent, but the corporate tax rate has fallen to 18 percent. Other taxes include a value-added tax (VAT) and a property transfer tax. The overall tax burden equals 37.9 percent of total domestic income. Government spending has risen to 50.9 percent of GDP. The budget deficit remains over 5 percent of GDP, and public debt is now over 45 percent of GDP. Concerns about Slovenia's debt load are rising.

REGULATORY EFFICIENCY



Despite progress in streamlining the process for launching a business, other time-consuming requirements reduce the regulatory system's efficiency. With no minimum capital required, launching a business takes only six days, but it still takes almost 200 days to complete all of the necessary licensing requirements. Rigid labor regulations continue to hamper dynamic employment growth. Inflation has been low.

OPEN MARKETS



The trade-weighted average tariff rate is a low 1.6 percent as in other members of the European Union, with some non-tariff barriers further increasing the cost of trade. Most sectors of the economy are open to foreign investment, but the overall investment regime lacks efficiency. Despite some progress, privatization of state-owned financial institutions has been uneven, and the banking sector has been under strain.

Score Changes

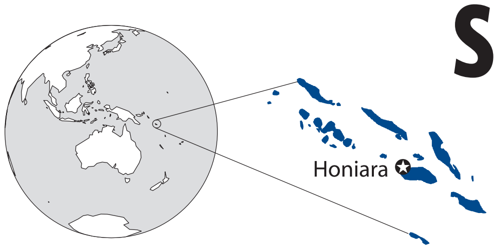
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-5.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.9
Government Spending	-5.6

REGULATORY EFFICIENCY	
Business Freedom	-0.7
Labor Freedom	-1.8
Monetary Freedom	+0.4

OPEN MARKETS	
Trade Freedom	-0.3
Investment Freedom	0
Financial Freedom	0

SOLOMON ISLANDS



World Rank: **165** Regional Rank: **37**

The Solomon Islands' economic freedom score is 45, making its economy the 165th freest in the 2013 *Index*. Its score is 1.2 points lower than last year due to declines in half of the 10 economic freedoms, including the control of government spending, labor freedom, and freedom from corruption, that outweigh gains in trade and business freedom. The Solomon Islands is ranked 37th out of 41 countries in the Asia–Pacific region, and its overall score is far below the world average.

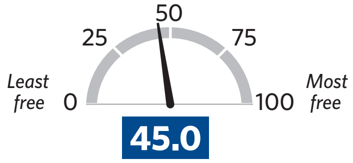
The foundations of economic freedom in the Solomon Islands remain severely weakened by structural and institutional problems. The rule of law is not effectively enforced across the country, and weak property rights and a lack of transparency in the legal system are a weighty drag on private-sector development.

The economy of the Solomon Islands is heavily dependent on forestry and suffers from a lack of economic dynamism. Poor infrastructure and an onerous regulatory environment impede expansion and diversification of the productive base. The financial system remains rudimentary, lacking the capacity to provide sufficient credit for entrepreneurial activity. Despite reform efforts, systemic corruption increases the cost of business and deters much-needed long-term investment.

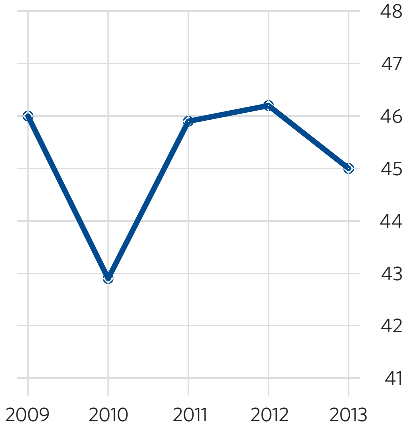
BACKGROUND: The Solomon Islands is a parliamentary democracy and one of Asia's poorest nations. Danny Philip's election as prime minister in 2010 appeared to have stabilized a chaotic political environment. However, following allegations of corruption, Philip resigned in 2011 rather than face a motion of no confidence, and Gordon Darcy Lilo was elected shortly thereafter. Australia has had to intervene several times to defuse ethnic conflict that has held back economic development. Australia, the European Union, Japan, New Zealand, and the Republic of China provide significant financial aid. Most of the population lives in rural communities, and three-fourths of the workforce is engaged in subsistence farming and fishing. Economic growth depends largely on logging and timber exports.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

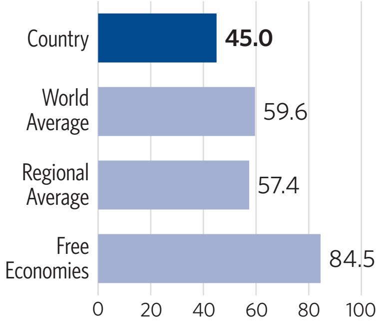
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

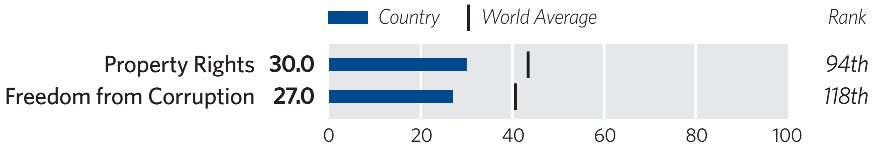
Population: 0.5 million
GDP (PPP): $1.7 billion
9.3% growth in 2011
5-year compound annual growth 4.9%
$3,192 per capita
Unemployment: n/a
Inflation (CPI): 6.7%
FDI Inflow: $146.4 million
Public Debt: 22.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

SOLOMON ISLANDS (continued)

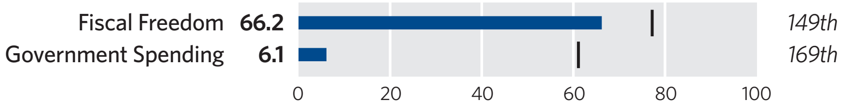
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



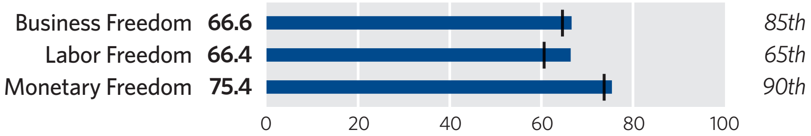
An effectively functioning modern legal framework has not been established. Land ownership is reserved for Solomon Islanders. Generally, land is held on a family or village basis and may be handed down from the mother or father according to local custom. Islanders are reluctant to provide land for nontraditional economic undertakings, and ownership is often disputed. Widespread corruption continues to erode the rule of law.

LIMITED GOVERNMENT



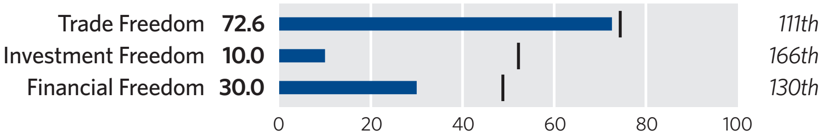
The top income tax rate is 40 percent, and the top corporate tax rate is 30 percent. Other taxes include a property tax and a sales tax. The overall tax burden equals 29.6 percent of total domestic income. Government spending has risen to 55.9 percent of GDP. A small budget surplus has allowed the public debt to fall to below 25 percent of total domestic output. Demand for the islands' timber in Asia has helped finances and growth.

REGULATORY EFFICIENCY



Implementation of a simplified registration process has marginally improved the business environment. The regulatory process continues to be undermined by uneven enforcement of existing laws. Completing licensing requirements still costs over twice the level of average annual income. The labor market is underdeveloped, and informal labor activity remains substantial. Monetary stability is weak, and inflation has been volatile.

OPEN MARKETS

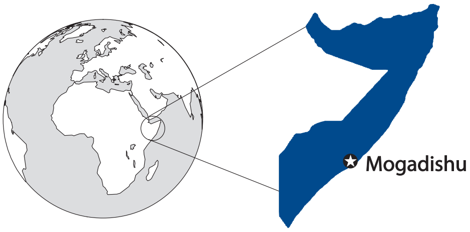


The trade-weighted average tariff rate has fallen significantly to 8.7 percent, with some remaining non-tariff barriers further constraining trade freedom. Investment laws are outmoded, and bureaucracy is slow and inefficient. Inadequate infrastructure and political uncertainty also discourage investment. Banking dominates the underdeveloped financial sector, and access to credit, particularly long-term credit, remains very limited.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-3.1	Business Freedom	+2.9	Trade Freedom	+17.2
Freedom from Corruption	-1.0	Government Spending	-24.2	Labor Freedom	-1.7	Investment Freedom	0
				Monetary Freedom	-2.0	Financial Freedom	0

SOMALIA



World Rank: Not Ranked | Regional Rank: Not Ranked

The 2013 *Index* includes Somalia for the first time since 2001. However, Somalia's economic freedom is not graded because of a severe lack of reliable data caused by the country's ongoing political instability. The last time Somalia was fully graded was in the 2000 *Index* when it received a score of only 27.8.

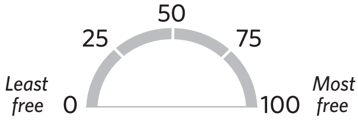
Mired in extreme violence, political instability, and famine, Somalia remains a failed state. The institutions necessary for meaningful economic progress are nonexistent because decades of lawlessness have destroyed the foundations of economic freedom. Complete economic collapse has resulted in massive human migrations, and much of the population remains abandoned to severe poverty. A humanitarian catastrophe has been unfolding in the devastated economy due to the most severe drought in recent years.

Continued civil conflict and the lack of a credible, lasting political settlement have prolonged and exacerbated the tragic famine triggered by the severe drought. It is estimated that about one-quarter of the population still needs emergency food aid.

BACKGROUND: Somalia has been in chaos ever since the collapse of the Siad Barre regime in 1991. Conditions worsened when a U.N. humanitarian mission's mandate ended in 1995, and Somalia still lacks effective national governance. The Transitional Federal Government (TFG) failed to establish stability and was forced to rely on the African Union's peacekeeping mission to Somalia (AMISOM) to protect civilians. Processes designed to replace the TFG with a permanent government have encountered numerous delays. An autonomous Republic of Somaliland, not recognized by any government, maintains a relatively stable *de facto* independence in the northwestern part of the country. The Bari, Nugaal, and northern Mudug regions comprise the semi-autonomous state of Puntland. Somalia's informal economy is based largely on agriculture and livestock herding. With the economy in shambles, the population is heavily dependent on overseas remittances and foreign aid.

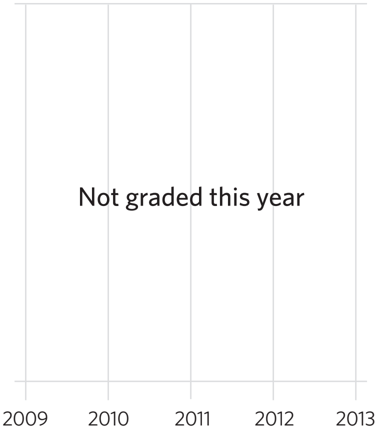
How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Economic Freedom Score

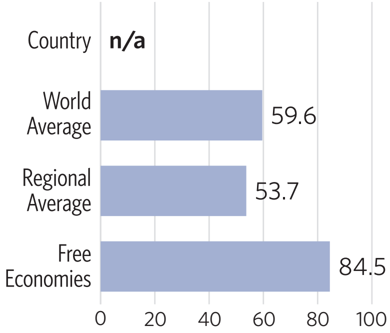


This economy is not graded

Freedom Trend



Country Comparisons



Quick Facts

Population: 9.1 million

GDP (PPP): $6.1 billion

2.6% growth in 2010

5-year compound annual growth n/a

$600 per capita (PPP)

Unemployment: n/a

Inflation (CPI): n/a

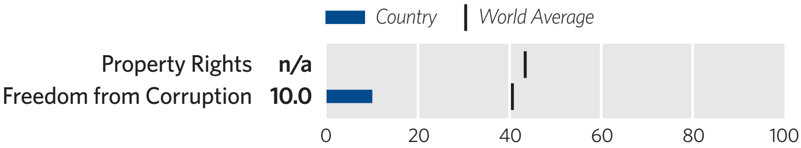
FDI Inflow: n/a

Public Debt: n/a

2011 data unless otherwise noted.
Data compiled as of September 2012.

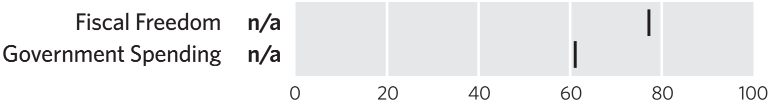
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



The rule of law as practiced in the West does not exist in Somalia, which is rated as one of the world's most corrupt nations. In the absence of a functioning central government, numerous armed groups and militias control different parts of the country. Although local authorities or elders sometimes enforce laws based on traditional customs, Islamic Sharia law has become more entrenched in the country since 2009.

LIMITED GOVERNMENT



There is no fully effective national government that can provide basic services. Other than the collection of very limited duties and taxes, little formal fiscal policy is in place. In southern Somalia, taxes are often levied by local warlords or clan leaders and used to pay militiamen. In Somaliland, duties levied at the port are estimated to provide around 80 percent of government revenue.

REGULATORY EFFICIENCY

Political instability, an outmoded regulatory environment, and inadequate infrastructure significantly deter the formation and operation of businesses. The labor market is dominated by the agricultural sector and informal hiring practices. Agriculture is the most important sector, with livestock normally accounting for about 40 percent of total domestic output and more than half of Somalia's limited export earnings.

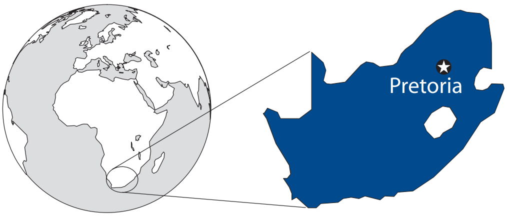
OPEN MARKETS

Much of the population remains outside of the formal trade and banking sectors, and private investment remains extremely limited. Swiss Financial Bank announced in 2011 that it intends to open a bank in Somaliland. Swiss Financial is one of three international commercial banks that have applied for licenses to operate in Somaliland in anticipation of the passage of a new banking act.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	n/a	Fiscal Freedom	n/a	Business Freedom	n/a	Trade Freedom	n/a
Freedom from Corruption	n/a	Government Spending	n/a	Labor Freedom	n/a	Investment Freedom	n/a
				Monetary Freedom	n/a	Financial Freedom	n/a

SOUTH AFRICA



World Rank: **74** Regional Rank: **6**

South Africa's economic freedom score is 61.8, making its economy the 74th freest in the 2013 *Index*. Its score is 0.9 point lower than last year due to losses in half of the 10 economic freedoms including those measuring the control of government spending and freedom from corruption. South Africa is ranked 6th out of 46 countries in the Sub-Saharan Africa region, and its overall score is higher than the world and regional averages.

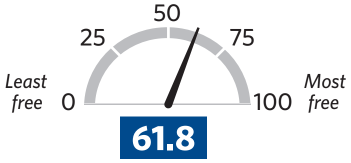
South Africa has been losing ground on economic freedom for five years. The economy continues to be "moderately free," but the level of economic freedom this year is the second lowest in the country's 19-year *Index* history. The foundations of economic freedom are neither well established nor strongly protected. The judicial system remains weak and vulnerable to corruption, undermining the rule of law and prospects for stable long-term economic development.

South Africa's transition to a more open economic system has been facilitated by a relatively competitive trade regime, but structural reforms to diversify the economic base have achieved only marginal progress. With overall regulatory efficiency constrained by the lack of transparency, policies to sustain dynamic flows of investment are not firmly institutionalized. The government faces challenges in improving the effectiveness of budget management.

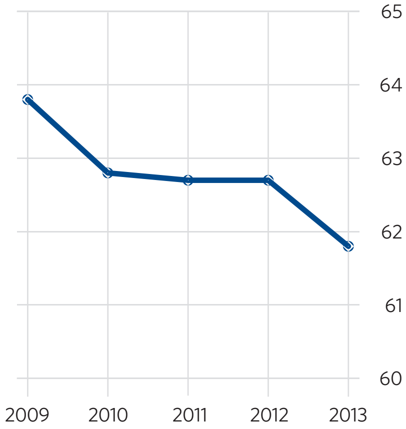
BACKGROUND: Jacob Zuma was elected president in May 2009 by the National Assembly. Zuma's African National Congress has dominated politics in South Africa since the end of apartheid in 1994. South Africa is Sub-Saharan Africa's largest economy and one of the world's largest producers and exporters of gold and platinum. Mining, services, manufacturing, and agriculture rival similar sectors in the developed world. However, unemployment and crime are high, poverty is widespread, and public education is poor. Much of the population lacks access to infrastructure and basic services. The government aims to increase farmland ownership by black South Africans to 30 percent by 2014, but its affirmative-action mandates threaten private property rights.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

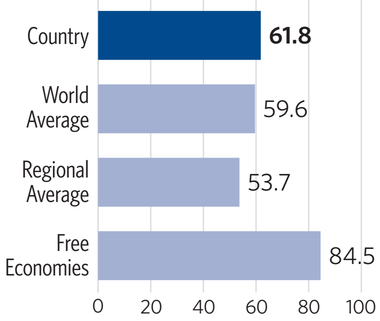
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

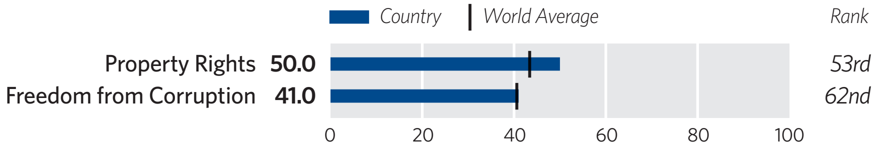
Population: 50.6 million
GDP (PPP): $555.1 billion
3.1% growth in 2011
5-year compound annual growth 2.7%
$10,973 per capita
Unemployment: 24.9%
Inflation (CPI): 5.0%
FDI Inflow: $5.8 billion
Public Debt: 38.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

SOUTH AFRICA (continued)

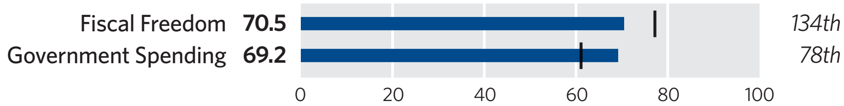
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



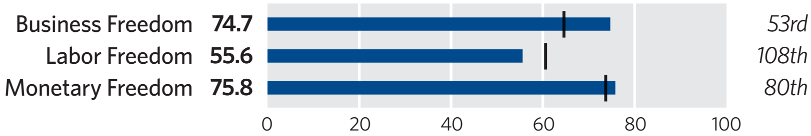
The rule of law remains weak and uneven, but the legal system has gained more independence and provides relatively effective protection of property rights. Contracts are generally secure. However, the court system is slow, understaffed, underfunded, and overburdened. The courts impose undue burdens and costs on rights holders pursuing infringement cases. Corruption continues to undermine the foundations of economic freedom.

LIMITED GOVERNMENT



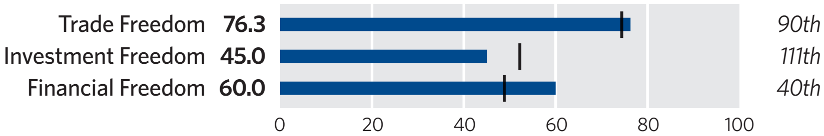
The top income tax rate is 40 percent, and the top corporate tax rate is 28 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The overall tax burden equals 23.8 percent of total domestic income. Government spending has increased to a level equivalent to 32 percent of GDP, and the budget balance has fallen into deficit, prompting a rate downgrade by some agencies. Public debt is about 40 percent of GDP.

REGULATORY EFFICIENCY



Establishing a business takes five procedures and 19 days, with no minimum capital required. The cost of completing licensing requirements has been reduced to about 30 percent of the level of average annual income, but obtaining necessary licenses still takes over 100 days. Labor regulations are not applied effectively, and the labor market lacks flexibility. Prices are generally set by the market, but the government controls the prices of certain products.

OPEN MARKETS



The trade-weighted average tariff rate is modest at 4.4 percent, but non-tariff barriers that include the use of anti-dumping laws undercut gains from the free flow of goods and services. Private investment continues to be hindered by non-transparent laws, and foreign investment faces additional restrictions that impede efficiency. The financial system has been gradually evolving, and the resilient banking sector continues to be sound.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.2	Business Freedom	-1.1	Trade Freedom	0
Freedom from Corruption	-4.0	Government Spending	-2.7	Labor Freedom	-1.7	Investment Freedom	0
				Monetary Freedom	+0.8	Financial Freedom	0

SPAIN

World Rank: **46** Regional Rank: **22**

Spain's economic freedom score is 68, making its economy the 46th freest in the 2013 *Index*. Its score is 1.1 points lower than last year, with declines in financial freedom, fiscal freedom, and monetary freedom outweighing improvements in the control of government spending and labor freedom. Spain is ranked 22nd out of 43 countries in the Europe region.

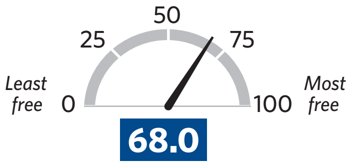
Registering substantial score declines for the second consecutive year, the Spanish economy has fallen behind several other European economies and solidified its status as only "moderately free." Economic dynamism has slowed as the economy has endured sharp adjustments. Challenges are particularly significant in fiscal freedom, government spending, and financial freedom. Large fiscal deficits and rising public debt signal the need for financial management reforms and a return to a sustainable level of public spending.

Spain's economic crisis turned into a full-scale political crisis in 2012, and the momentum for deeper economic and structural reforms appears to be largely stalled. Plans to rescue failing savings banks (*cajas*), long insulated from market pressures and considered too politically powerful to be allowed to fail, have gone badly awry. Still burdened with bad loans from the housing-boom years, the *cajas* now threaten the stability of larger banks.

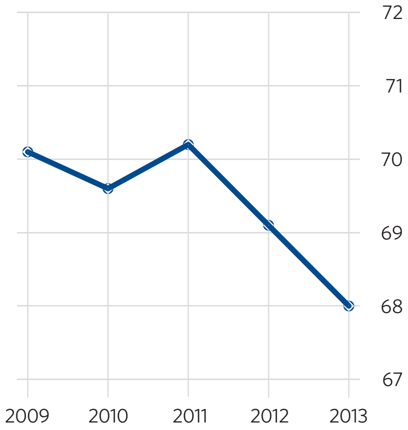
BACKGROUND: The burst of the housing-market bubble in 2008 meant that the global economic crisis hit Spain hard in 2009. Prime Minister José Luis Rodríguez Zapatero of the Spanish Socialist Workers Party attempted to use spending on public works and increased unemployment benefits to address the slowdown. This, combined with the collapse of the housing market and the subsequent banking crisis, caused the budget deficit to grow rapidly. The conservative Popular Party, led by Mariano Rajoy, won the November 2011 election and has introduced the largest budget deficit–reduction plan in Spain's history. The European Union announced a bailout of €100 billion for the Spanish economy in June 2012. Spain's unemployment rate is 25 percent.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

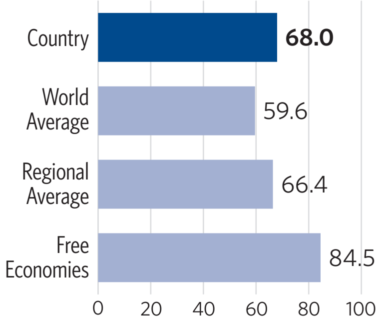
Economic Freedom Score



Freedom Trend



Country Comparisons



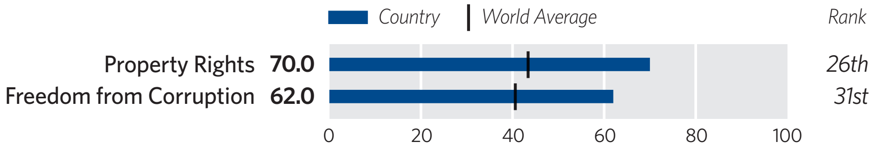
Quick Facts

Population: 46.2 million
GDP (PPP): $1.4 trillion
0.7% growth in 2011
5-year compound annual growth 0.2%
$30,626 per capita
Unemployment: 25.1%
Inflation (CPI): 3.1%
FDI Inflow: $29.5 billion
Public Debt: 68.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

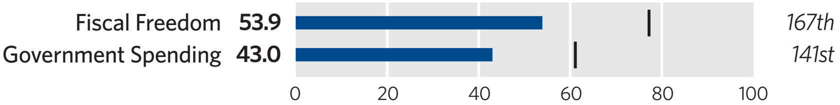
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



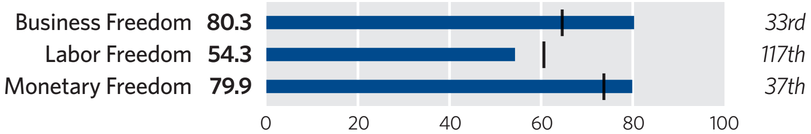
The judiciary is independent in practice, but bureaucratic obstacles are significant. Contracts are secure, although enforcement is very slow. Patent, copyright, and trademark laws approximate or exceed EU levels of intellectual property protection. Enforcement actions using Spain's new legal framework concerning intellectual property rights have significantly increased criminal and civil actions against infringements.

LIMITED GOVERNMENT



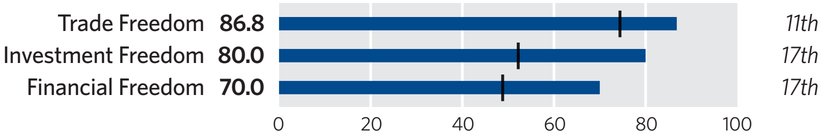
The top income tax rate is 56 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The overall tax burden equals 31.7 percent of total domestic income. Government spending has increased to a level equivalent to 43.6 percent of GDP. The budget balance has averaged deficits near 10 percent since 2009, and growing public debt has forced Spain to seek an EU bailout.

REGULATORY EFFICIENCY



Procedures for setting up a business have been streamlined, with the number of licensing requirements reduced. Bankruptcy proceedings are fairly straightforward. Steps taken in 2010 to reform the labor market were designed to make it less costly to dismiss a permanent worker. Despite some progress, labor regulations remain largely inflexible. Inflation has edged up as the government faces unprecedented challenges to monetary stability.

OPEN MARKETS



Spain's trade policy is the same as that of other members of the European Union, with the common EU weighted average tariff rate standing at 1.6 percent, and some additional non-tariff barriers interfere with trade. Nearly all sectors are open to foreign investment, but the uncertain economic climate has a significant effect on investment flows. With the banking sector under growing strain, the stability of the financial system has deteriorated.

Score Changes

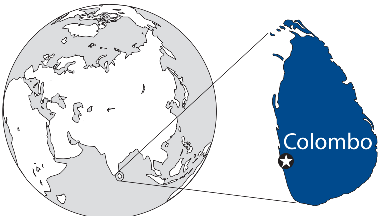
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+1.0

LIMITED GOVERNMENT	
Fiscal Freedom	-7.4
Government Spending	+5.9

REGULATORY EFFICIENCY	
Business Freedom	-1.0
Labor Freedom	+2.5
Monetary Freedom	-1.6

OPEN MARKETS	
Trade Freedom	-0.3
Investment Freedom	0
Financial Freedom	-10.0

SRI LANKA



World Rank: **81** Regional Rank: **13**

Sri Lanka's economic freedom score is 60.7, making its economy the 81st freest in the 2013 *Index*. Its score is 2.4 points higher than last year, reflecting improvements in half of the 10 economic freedoms including fiscal freedom, investment freedom, and the control of government spending. Sri Lanka is ranked 13th out of 41 countries in the Asia–Pacific region, and its score is above the world and regional averages.

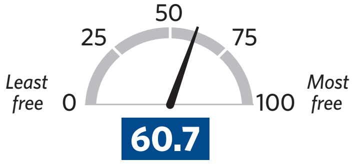
Recording significant score gains for the third consecutive year, and with the third largest score improvement in the 2013 *Index*, Sri Lanka has regained the rank of "moderately free" that it last held in 2005. Notable reforms have eased foreign exchange controls and reduced both individual and corporate marginal income tax rates to below 30 percent.

Substantial challenges remain in the struggle to promote stable long-term economic development, and lingering institutional weaknesses call for much greater commitment to reform, particularly in two areas. Sri Lanka continues to score below the world average in freedom from corruption and the protection of property rights, and marginal reforms in these critical areas have failed to generate much improvement.

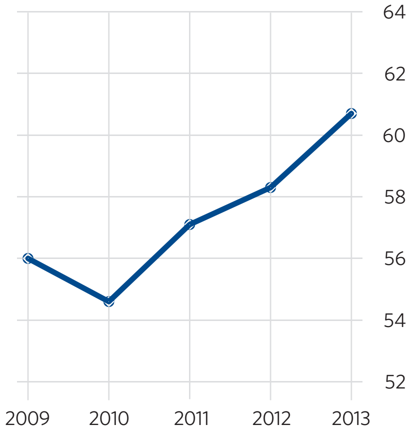
BACKGROUND: President Mahinda Rajapakse's April 2010 re-election is attributed to his success in defeating the terrorist Liberation Tigers of Tamil Eelam and eliminating its top leadership. In November 2011, the government released the findings and recommendations of the Lessons Learnt and Reconciliation Commission (LLRC), but the United Nations Human Rights Council still passed a resolution in March 2012 calling on Sri Lanka to address alleged violations of international humanitarian law and explain how it would implement the LLRC recommendations. The level of state intervention in the economy is high. Sri Lanka depends heavily on foreign assistance, and China has become a significant lender for infrastructure projects.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

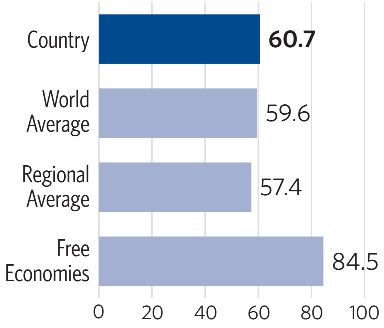
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

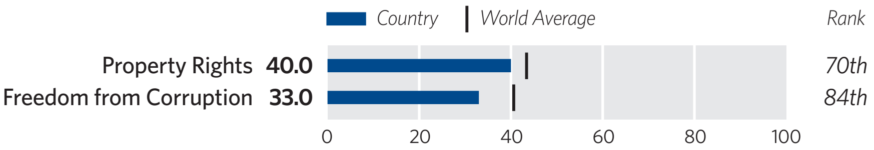
Population: 20.5 million
GDP (PPP): $116.5 billion
8.2% growth in 2011
5-year compound annual growth 6.5%
$5,674 per capita
Unemployment: 4.2%
Inflation (CPI): 6.7%
FDI Inflow: $300.0 million
Public Debt: 78.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

SRI LANKA (continued)

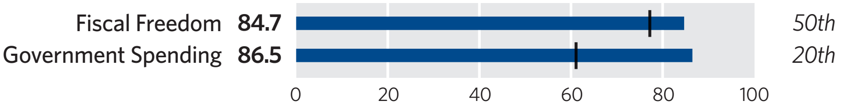
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



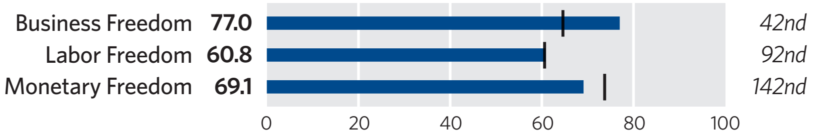
The judicial system is weak and vulnerable to political interference. Extensive delays in the commercial court system often prompt out-of-court settlements. A fairly reliable registration system exists for private property, but fraud and forged documents are problems. Property disputes plague the recently freed northern and eastern regions of the country. Mistrust of government is considerable due to widespread public-sector corruption.

LIMITED GOVERNMENT



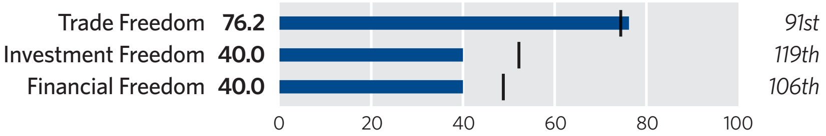
The top income tax rate is 24 percent, and the top corporate tax rate is 28 percent. Other taxes include a value-added tax (VAT). The overall tax burden equals 12.9 percent of total domestic income. Government spending is equivalent to 21.2 percent of GDP. The budget deficit continues to be over 5 percent of GDP, but public debt has declined to below 80 percent of GDP.

REGULATORY EFFICIENCY



The business start-up process has been streamlined, and the number of licensing requirements has been reduced. With no minimum capital required, launching a business takes five procedures. The cost of completing licensing requirements is now significantly lower, but obtaining necessary licenses still takes more than 200 days. Inefficiency in the labor market causes an imbalance between labor supply and demand. Inflation has been high.

OPEN MARKETS

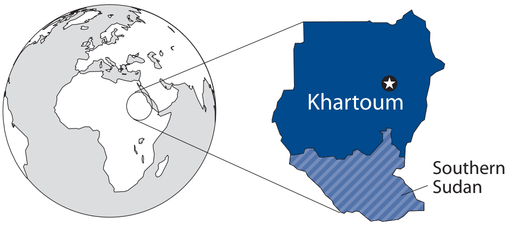


The trade-weighted average tariff rate is 6.9 percent, and non-tariff barriers further constrain trade freedom. Inadequate infrastructure and burdensome bureaucracy hinder much-needed dynamic growth in private investment, but controls on foreign exchange transactions have been relaxed in recent years. Non-performing loans in the banking system remain a problem, and the state continues to influence the allocation of credit.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+11.2	Business Freedom	-1.0	Trade Freedom	-0.9
Freedom from Corruption	+1.0	Government Spending	+5.1	Labor Freedom	-1.3	Investment Freedom	+10.0
				Monetary Freedom	+0.6	Financial Freedom	0

SUDAN



World Rank: Not Ranked | Regional Rank: Not Ranked

Sudan's economic freedom is not graded because of the lack of reliable data. Those facets of economic freedom for which data are available have been individually scored. The last time Sudan was fully graded was in 2000, when it received a score of 47.2.

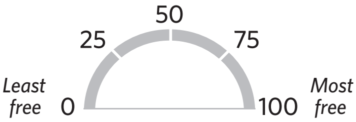
Political instability and prolonged lawlessness have wracked Sudan and ruined the country's prospects for long-term investment and economic development. Although the small services sector has been marginally expanding, the large informal economy continues to be an important source of production and employment in the fragile economy.

Despite the political settlement that established a new breakaway Republic of Sudan in July 2011, security and political uncertainty remain formidable challenges. The rule of law continues to be fragile and uneven. The inability to deliver even basic services on a reliable basis, often exacerbated by systemic corruption, has severely eroded confidence in the government.

BACKGROUND: In April 2010, President Omar Hassan al-Bashir, who came to power in a 1989 military coup, won Sudan's first multi-party elections in 24 years. International observers criticized the elections for polling and vote-counting irregularities. The International Criminal Court indicted Bashir in 2009 for war crimes and crimes against humanity in Darfur, where more than 2 million people have been displaced and more than 200,000 have been killed. In July 2011, southern Sudan became the independent Republic of Sudan. Cross-border violence related to citizenship status, borders, and oil rights threatens a return to war. The border areas of Abyei and South Kordofan also pose challenges. Political instability, poor infrastructure, weak property rights, and corruption hinder development, and exports other than oil are largely stagnant. Sudan has lost two-thirds of its oil revenue to the South.

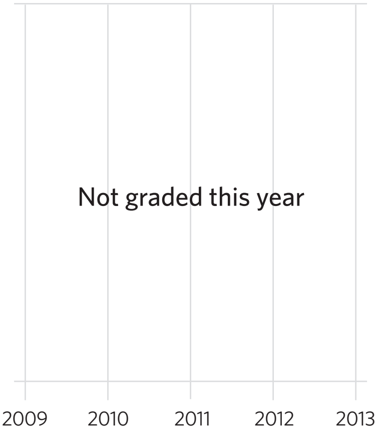
How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Economic Freedom Score

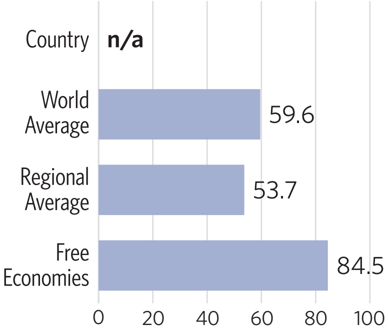


This economy is not graded

Freedom Trend



Country Comparisons



Quick Facts

Population: 32.7 million

GDP (PPP): $89.0 billion

−3.9% growth in 2011

5-year compound annual growth 3.5%

$2,726 per capita

Unemployment: n/a

Inflation (CPI): 18.1%

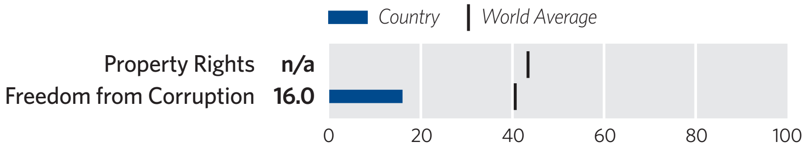
FDI Inflow: $1.9 billion

Public Debt: 73.1% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

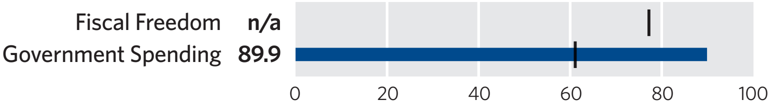
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



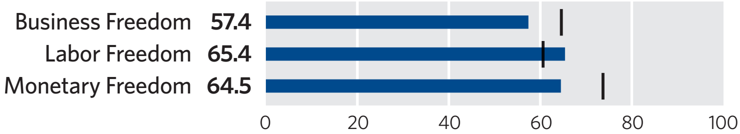
The rule of law remains fragile and uneven across the country, especially after the secession of South Sudan. There is little respect for private property, and the legal framework is severely hampered by years of political conflict. The government influences the judiciary, and the military and civil authorities do not follow due process to protect private property. Corruption is widespread.

LIMITED GOVERNMENT



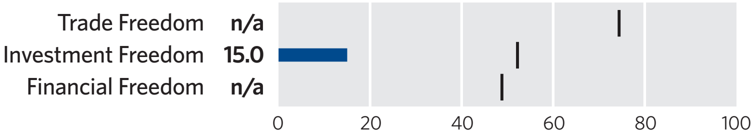
The top income tax rate is 10 percent, and the top corporate tax rate is 35 percent. The government remains highly dependent on the oil sector, and overall tax revenue equals 6.5 percent of total domestic income. Government spending is below 20 percent of total domestic output, but public debt exceeds 70 percent of GDP. Violence in the border regions with South Sudan and the failure to negotiate an oil revenue–sharing agreement affect the fiscal climate.

REGULATORY EFFICIENCY



Inconsistent enforcement of regulations and other institutional shortcomings often impede business activity and undermine economic development. Launching a business takes more than 30 days, and completing licensing requirements costs over twice the level of average annual income. The labor market remains underdeveloped, and much of the labor force is employed in the informal sector. Monetary stability has been severely undermined.

OPEN MARKETS



The trade-weighted average tariff rate is relatively high at 14.8 percent, and non-tariff barriers further constrain trade freedom. Political instability, coupled with an outmoded regulatory environment and inadequate infrastructure, significantly deters private investment. A large portion of the population remains outside of the formal banking sector, and access to credit remains limited.

Score Changes

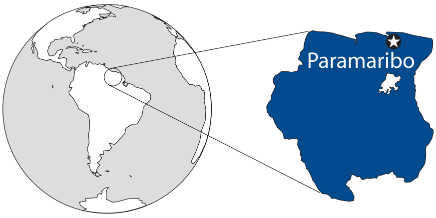
RULE OF LAW	
Property Rights	**n/a**
Freedom from Corruption	**n/a**

LIMITED GOVERNMENT	
Fiscal Freedom	**n/a**
Government Spending	**n/a**

REGULATORY EFFICIENCY	
Business Freedom	**n/a**
Labor Freedom	**n/a**
Monetary Freedom	**n/a**

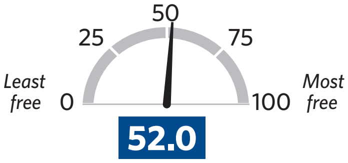
OPEN MARKETS	
Trade Freedom	**n/a**
Investment Freedom	**n/a**
Financial Freedom	**n/a**

SURINAME



World Rank: **135** Regional Rank: **23**

Economic Freedom Score



Suriname's economic freedom score is 52.0, making its economy the 135th freest in the 2013 *Index*. Its score is 0.6 point lower than last year, reflecting substantial declines in monetary freedom, freedom from corruption, and labor freedom. Suriname is ranked 23rd out of 29 countries in the South and Central America/Caribbean region, and its overall score is lower than the world and regional averages.

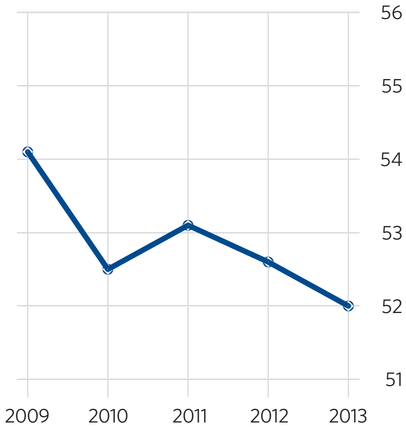
Serious institutional deficiencies that include poor governance and an inefficient public sector still stifle economic dynamism and development in Suriname. Underdeveloped legal and physical infrastructure and political instability continue to undermine much-needed long-term investment and the emergence of a vibrant private sector. The government's outsized role in the economy further reduces opportunities for meaningful economic development, and a lack of political will for reform leaves businesses struggling within a poor regulatory framework.

Ineffective protection of property rights further discourages entrepreneurial activity. Pervasive corruption continues to undermine the judicial system and the rule of law, making it harder to lay a solid foundation for economic freedom, and policies necessary to sustain open markets have not been firmly institutionalized.

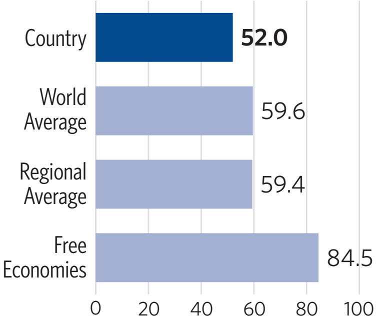
BACKGROUND: Democracy was re-established in 1991 after more than a decade of military rule. In 2010, former dictator Desi Bouterse of the National Democratic Party, who ran in a coalition with the incumbent and economic reform–oriented New Front, was returned to power as president. In 1999, he was convicted in absentia of narcotics trafficking by a Dutch court. In May 2012, Suriname's unicameral legislature amended an amnesty law to absolve all atrocities committed during the 1980–1992 period. Suriname remains one of South America's poorest and least-developed countries. The economy is dominated by exports of natural resources, especially alumina, oil, and gold, and is highly vulnerable to commodity price fluctuations. The country has rich oil reserves and bauxite deposits.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



Quick Facts

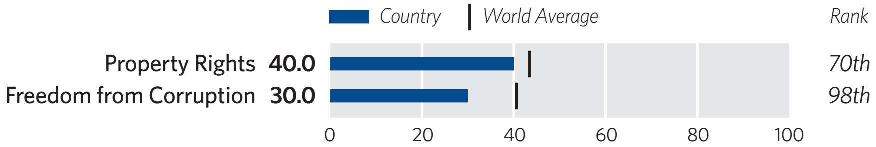
Population: 0.5 million
GDP (PPP): $5.1 billion
4.5% growth in 2011
5-year compound annual growth 3.1%
$9,475 per capita
Unemployment: 9.0% (2008)
Inflation (CPI): 17.7%
FDI Inflow: –$585.2 million
Public Debt: 20.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

SURINAME (continued)

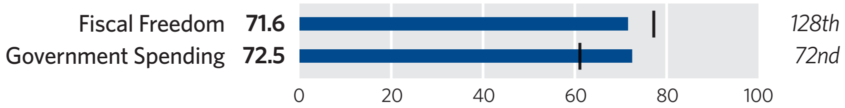
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



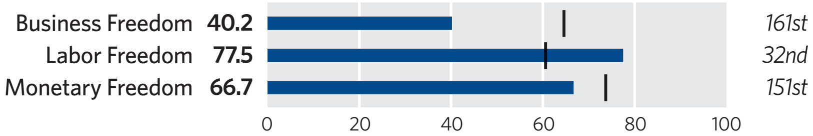
Property rights are not well protected. There is a severe shortage of judges, and dispute settlement can be very time-consuming. Protection of intellectual property rights is weak. Widespread corruption undermines the government's capacity to provide basic public services. Corruption is most pervasive in government procurement, license issuance, land policy, and taxation.

LIMITED GOVERNMENT



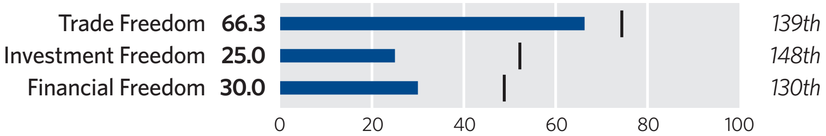
The top income tax rate is 38 percent, and the top corporate tax rate is 36 percent. Other taxes include a property tax, a tax on dividends, and an excise tax. The overall tax burden equals 10 percent of total domestic income. Government spending is equivalent to 30.3 percent of GDP. Narrowing deficits have led to a shrinking public debt, which sits at about 20 percent of total domestic output.

REGULATORY EFFICIENCY



The regulatory framework is not conducive to private-sector development. Licensing requirements are burdensome, and launching a business takes more than 600 days. The formal labor market is not fully developed, and the public sector remains a major source of employment. Inflation has been extremely volatile. The state influences prices through regulations and state-owned enterprises.

OPEN MARKETS



The trade-weighted average tariff rate is quite high at 11.9 percent, and additional non-tariff barriers further limit trade freedom. Private investment remains weak, partly because of heavy government interference in the economy. The onerous and non-transparent investment regime deters much-needed long-term foreign investment. The financial sector is underdeveloped, and credit decisions are subject to state influence.

Score Changes

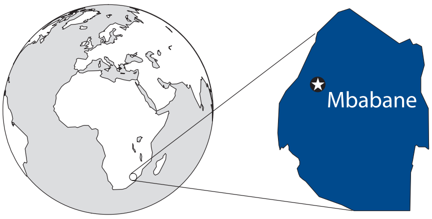
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-7.0

LIMITED GOVERNMENT	
Fiscal Freedom	+8.4
Government Spending	+5.0

REGULATORY EFFICIENCY	
Business Freedom	-0.5
Labor Freedom	-3.7
Monetary Freedom	-7.8

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

SWAZILAND



World Rank: **104** Regional Rank: **16**

Swaziland's economic freedom score is 57.2, making its economy the 104th freest in the 2013 *Index*. Its score is unchanged from last year, with gains in fiscal and monetary freedom balanced by declines in four other components of economic freedom including the control of government spending and freedom from corruption. Swaziland is ranked 16th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

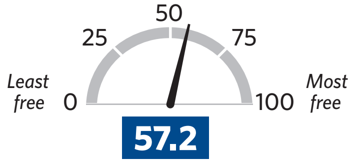
The Swazi economy has recorded erratic changes in economic freedom over the past five years. Undermining macroeconomic stability and development progress, poor management of public finance has aggravated the country's fiscal crisis since 2011. The inefficient regulatory framework continues to curb the emergence of a dynamic private sector.

Implementation of deeper institutional reforms is critical to Swaziland's prospects for long-term economic development and greater poverty reduction. Systemic weaknesses continue to undermine the protection of property rights and enforcement of anti-corruption measures. The judiciary remains vulnerable to political influence.

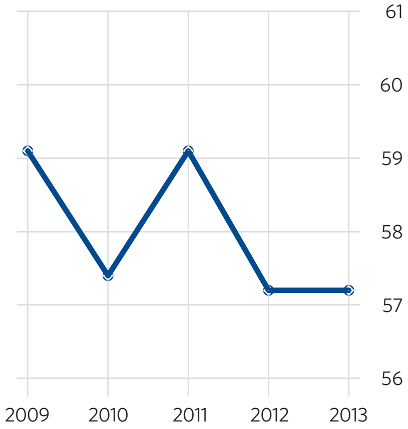
BACKGROUND: Swaziland is Africa's last monarchy. King Mswati III rules subject to a constitution adopted in 2005 that includes some democratic elements and protections for human rights. The economy is closely linked to South Africa, the source of most imports and destination for most exports. Swaziland is part of the Southern African Customs Union (with Botswana, Lesotho, Namibia, and South Africa) and the Common Monetary Area (with Lesotho, Namibia, and South Africa). Much of the population depends on subsistence agriculture. The soft-drink concentrate, textile, and cane sugar industries are the leading export earners and private-sector employers. Coal and diamonds are mined for export. Swaziland has one of the world's highest HIV/AIDS rates. Swaziland qualified for the African Growth and Opportunity Act's apparel provision in 2001, and 30,000 new jobs in its apparel industry have since been created.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

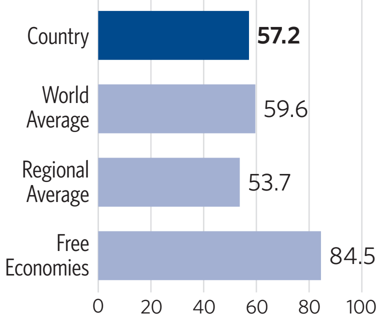
Economic Freedom Score



Freedom Trend



Country Comparisons



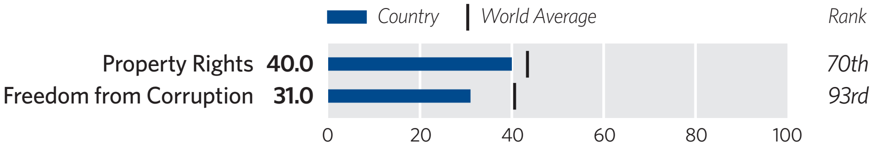
Quick Facts

Population: 1.2 million
GDP (PPP): $6.2 billion
0.3% growth in 2011
5-year compound annual growth 1.9%
$5,302 per capita
Unemployment: 40.0% (2006)
Inflation (CPI): 6.1%
FDI Inflow: $94.8 million
Public Debt: 17.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

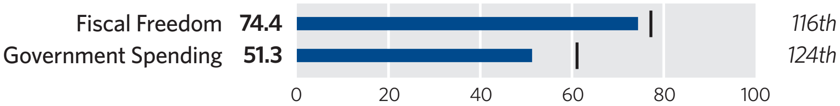
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



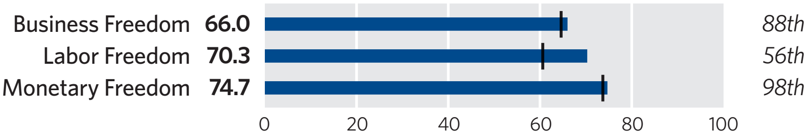
The judicial system is weak and vulnerable to corruption in an authoritarian environment. The commercial court system is inefficient, and investors often pursue out-of-court settlements. Delays are common, and the executive branch significantly influences decisions. Protection of patents, trademarks, and copyrights is inadequate. Mistrust of government is considerable due to widespread public sector corruption.

LIMITED GOVERNMENT



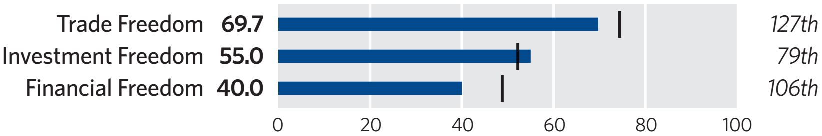
The top income tax rate is 33 percent, and the top corporate tax rate is 30 percent. Other taxes include a fuel tax and a sales tax. The total tax burden equals 23.8 percent of GDP. Government spending has risen to 40.3 percent of GDP. The budget is in deficit, and public debt is equivalent to 17.5 percent of total domestic output. Failure to raise cash through loans and aid transfers has led to sudden expenditure cuts, reducing fiscal confidence.

REGULATORY EFFICIENCY



The regulatory framework remains burdensome, with many requirements that increase the overall cost of entrepreneurial activity. It takes more than 10 procedures and 50 days to launch a business. A formal labor market has not been fully developed, and informal labor activity remains substantial. The state influences prices through numerous state-owned enterprises and utilities. Inflation has been significant.

OPEN MARKETS

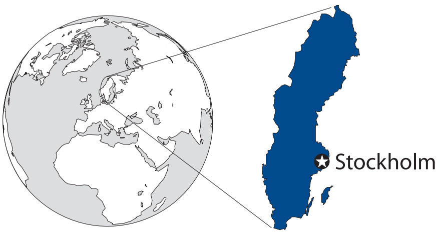


The trade-weighted average tariff rate is very high at 10.2 percent, and non-tariff barriers further constrain trade freedom. Although foreign investment is officially welcome, deficiencies in the investment regime such as heavy bureaucracy and inconsistency inhibit growth in much-needed long-term investment. The financial sector remains underdeveloped, and most of the population remains without access to formal credit.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+7.2	Business Freedom	–0.4	Trade Freedom	0
Freedom from Corruption	–1.0	Government Spending	–5.2	Labor Freedom	–0.5	Investment Freedom	0
				Monetary Freedom	+0.2	Financial Freedom	0

SWEDEN



World Rank: **18** Regional Rank: **9**

Sweden's economic freedom score is 72.9, making its economy the 18th freest in the 2013 *Index*. Its score has increased by 1.2 points since last year due to improvements in the management of government spending, monetary freedom, and freedom from corruption. Sweden is ranked 9th out of 43 countries in the Europe region, and its overall score is above the world and regional averages.

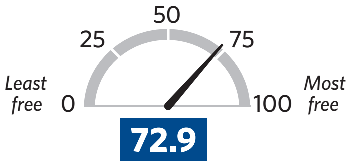
Recording a notable score improvement, the Swedish economy has become one of the world's 20 freest economies for the first time in the history of the *Index*. Despite the high level of public spending on social programs, Sweden's economic policies over the past decade have centered on transforming the public sector through downsizing and improved efficiency. Decisive tax reforms, which have made the corporate tax rate competitively low, have enhanced private-sector productivity.

Sweden's economic resilience has long been sustained by solid foundations of economic freedom. The judicial system, independent and free of corruption, strongly protects property rights and upholds the rule of law. The economy is open to global trade and investment, and high levels of regulatory transparency and efficiency encourage vibrant entrepreneurial activity. Monetary stability is well maintained, and inflationary pressures are under control.

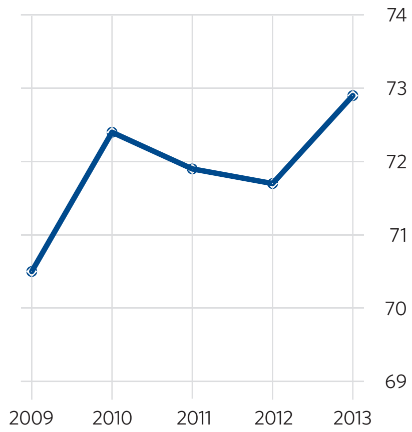
BACKGROUND: The center-right Alliance for Sweden coalition headed by the Moderate Party, led by Fredrik Reinfeldt, lost its absolute majority in September 2010 and currently leads a minority government. Sweden joined the European Union in 1995 but rejected adoption of the euro in 2003, and its public remains hostile to eurozone membership. Sweden's economy was healthy before the international financial crisis but, being heavily dependent on European trade, experienced a downturn in 2009 that led to a slight increase in unemployment. Banks remained well capitalized, and Sweden has weathered the financial crisis better than other countries in Europe. Principal exports include automobiles, telecommunications products, construction equipment, and other investment goods.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

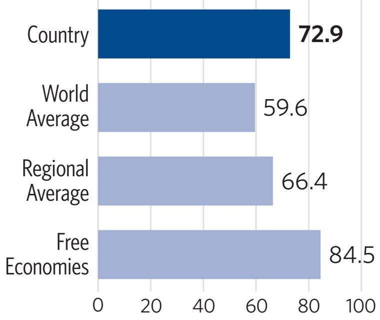
Economic Freedom Score



Freedom Trend



Country Comparisons



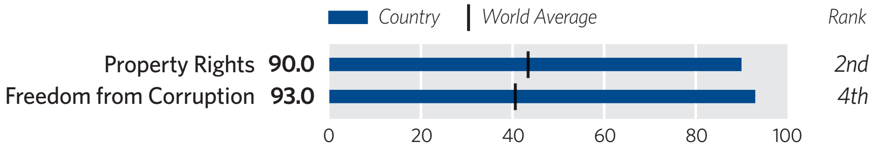
Quick Facts

Population: 9.5 million
GDP (PPP): $381.7 billion
4.0% growth in 2011
5-year compound annual growth 1.5%
$40,394 per capita
Unemployment: 7.8%
Inflation (CPI): 1.4%
FDI Inflow: $12.1 billion
Public Debt: 37.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

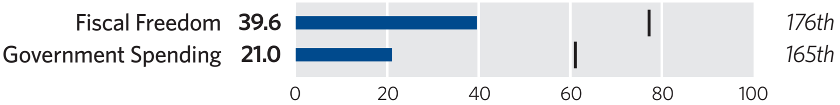
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



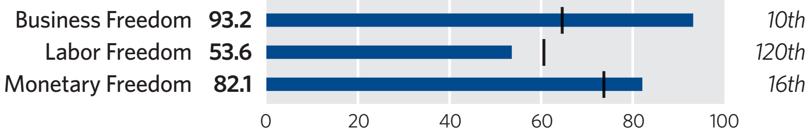
The rule of law is well maintained. Sweden's judicial system operates independently and impartially, with consistent application of laws. Property rights and contract enforcement are very secure, and expropriation is highly unusual. Protection of intellectual property rights is consistent with world standards. Effective anti-corruption measures discourage bribery of public officials and uphold government integrity.

LIMITED GOVERNMENT



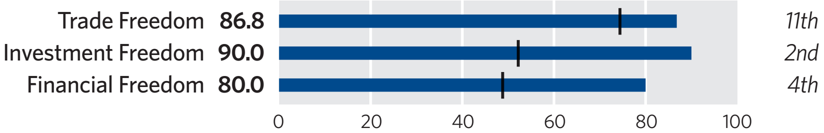
The top income tax rate is 57 percent, and the top corporate tax rate is 26.3 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The overall tax burden equals 45.8 percent of total domestic income. Government spending is equivalent to 51.3 percent of GDP. The budget balance has recorded a small surplus this year, and public debt is equal to a bit more than one-third of total domestic output.

REGULATORY EFFICIENCY



Sweden's regulatory environment is highly efficient. In recent years, the minimum capital requirement for limited-liability companies was cut in half, making it even easier to establish a company. It takes only three procedures to start a business, compared to the world average of seven. Bankruptcy procedures are straightforward. Labor regulations continue to be among the most rigid in Europe. Monetary stability has been well maintained.

OPEN MARKETS

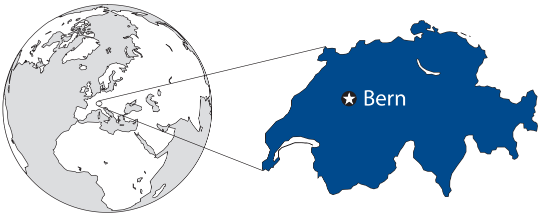


Trade policy is the same as that of other members of the European Union, with a common EU weighted average tariff rate of 1.6 percent. Additional non-tariff barriers increase the cost of trade. The modern investment regime is open and generally transparent, and regulations are applied consistently. The financial sector has regained much of its stability. Banking regulations are sensible, and lending practices have been prudent.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.5	Business Freedom	-1.4	Trade Freedom	-0.3
Freedom from Corruption	+1.0	Government Spending	+12.2	Labor Freedom	-1.0	Investment Freedom	0
				Monetary Freedom	+1.2	Financial Freedom	0

SWITZERLAND



World Rank: **5** Regional Rank: **1**

Switzerland's economic freedom score is 81, making its economy the 5th freest in the 2013 *Index*. Its score is essentially the same as last year, with modest declines in business freedom and the management of government spending counterbalanced by improvements in monetary freedom and freedom from corruption. Switzerland is ranked 1st out of 43 countries in the Europe region.

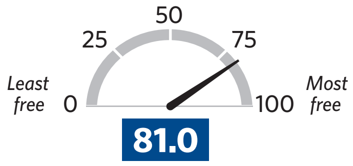
The Swiss economy is diversified and modern, with high levels of prosperity and institutional strengths that include strong protection of property rights and minimum tolerance for corruption. The judicial system, independent and free of corruption, enforces contracts reliably. Openness to global trade and investment has enabled Switzerland to become one of the world's most competitive and flexible economies. Despite some stress in the financial system, the country has emerged from the global economic turmoil relatively unscathed.

The public sector remains efficient and fiscally sound. Switzerland's government spending cap, known as the "debt brake," has been in force since 2003. With a transparent and stable business climate, Switzerland has created a vibrant entrepreneurial environment. Commercial operations are aided by monetary stability and an efficient labor market. Foreign investment is welcome, and investors benefit from access to adequate sources of credit in the competitive financial sector.

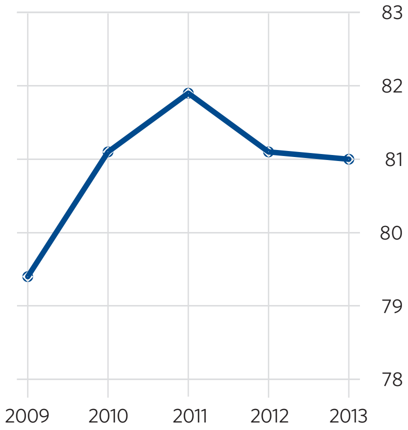
BACKGROUND: Switzerland's federal system of government disperses power widely, and executive authority is exercised collectively by the seven-member Federal Council. Switzerland has a long tradition of openness to the world but jealously guards its independence and neutrality. It did not join the United Nations until 2002, and two referenda on membership in the European Union have failed by wide margins. Membership in the European Economic Area was rejected by referendum in 1992. Switzerland is one of the world's richest and most investment-friendly countries, with a well-developed financial services industry. In addition to banking, the economy relies heavily on precision manufacturing, metals, pharmaceuticals, chemicals, and electronics.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

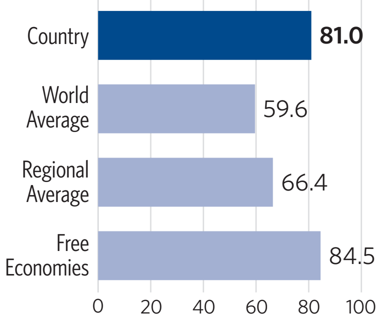
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

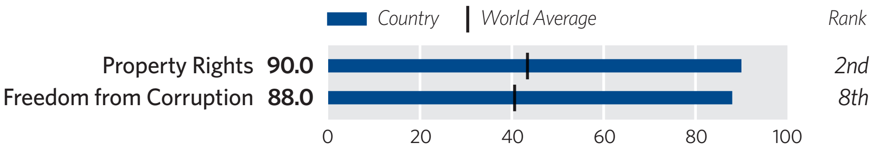
Population: 7.8 million
GDP (PPP): $339.9 billion
1.9% growth in 2011
5-year compound annual growth 1.7%
$43,370 per capita
Unemployment: 4.2%
Inflation (CPI): 0.2%
FDI Inflow: –$196.5 million
Public Debt: 48.6% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

SWITZERLAND (continued)

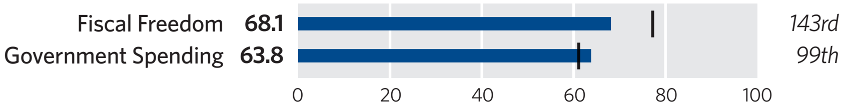
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



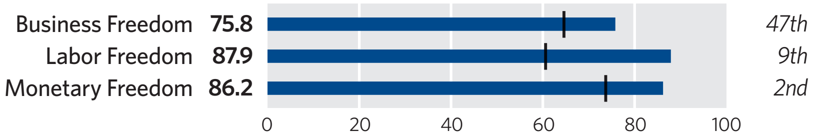
Protection of property rights is strongly enforced, and an independent and fair judicial system is institutionalized throughout the economy. Commercial and bankruptcy laws are applied consistently and efficiently. Intellectual property rights are respected, and enforcement is consistent with world standards. Effective anti-corruption measures discourage bribery of public officials and uphold the integrity of government.

LIMITED GOVERNMENT



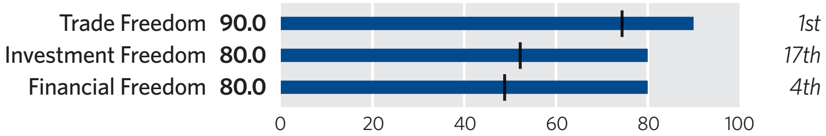
Taxation is more burdensome at the cantonal levels than at the federal level. The top federal income tax rate is 11.5 percent, with the combined tax rate as high as 41.5 percent. The federal corporate tax rate is 8.5 percent, but the joint rate can be as high as 24 percent. The overall tax burden equals 29.8 percent of total domestic income. Government spending equals 34.7 percent of GDP, and the "debt brake" has shored up fiscal health despite slow regional growth.

REGULATORY EFFICIENCY



The competitive regulatory framework strongly supports commercial activity, allowing business formation and operation to be efficient and dynamic. The pace of improvements in regulatory efficiency has slowed in comparison to other economies. Labor regulations are relatively flexible, and provisions concerning work hours have been eased. Monetary stability has been maintained in the face of pressure from the eurozone crisis.

OPEN MARKETS

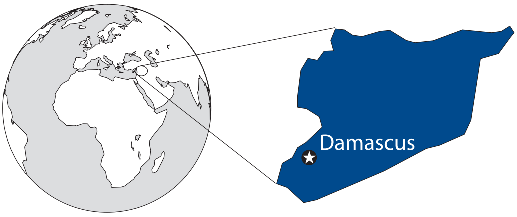


The trade-weighted average tariff rate is zero, and there are relatively few non-tariff barriers. Switzerland continues to be open to foreign investment, and the investment code is transparent and efficiently administered. The modern and highly developed financial sector provides a wide range of financing instruments. Despite the challenging external environment, banks remain well capitalized and sound.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.2	Business Freedom	-2.1	Trade Freedom	0
Freedom from Corruption	+1.0	Government Spending	-2.0	Labor Freedom	0	Investment Freedom	0
				Monetary Freedom	+1.8	Financial Freedom	0

SYRIA



World Rank: Not Ranked — Regional Rank: Not Ranked

Numerical grading of Syria's overall economic freedom has been suspended in the 2013 *Index* because of the ongoing political turmoil that has led to civil unrest and a significant deterioration in the quality of publicly available economic statistics. Those facets of economic freedom for which data are still available have been individually scored. As a "mostly unfree" economy with a score of 51.2, Syria was ranked fourth lowest in the Middle East/North Africa region when it was last graded in the 2012 *Index*.

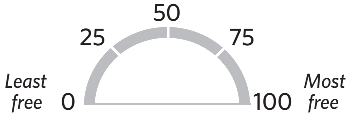
The Bashar al-Assad regime's brutal actions to maintain its hold on power have destroyed the rule of law and destabilized the region. The fragility of Syria's foundations of economic freedom had already been reflected in very low scores for property rights and corruption in previous years.

Many aspects of the entrepreneurial framework have been severely undermined by intrusive and heavy-handed state action. The state has long dominated many areas of economic activity, and the repressive environment has marginalized the private sector and prevented any sustainable development of new enterprises. Monetary freedom has been gravely marred by state interference.

BACKGROUND: The Assad family's iron grip on Syria, which it has ruled since Hafez al-Assad's coup in 1970, faced a serious challenge in 2012. Bashar al-Assad, who succeeded his father in 2000, had failed to deliver on promises to reform Syria's socialist economy and ease political repression. Anti-government protests in the "Arab Spring" of 2011 were met with brutal crackdowns and unconvincing promises of future reforms. The populist uprising against the Assad regime grew into a sectarian civil war. Political instability poses a significant threat to future economic development. Foreign investment is constrained by violence, government restrictions, economic sanctions, and international isolation. Syria's economy also remains hobbled by state bureaucracy, falling oil production, rising budget deficits, and inflation.

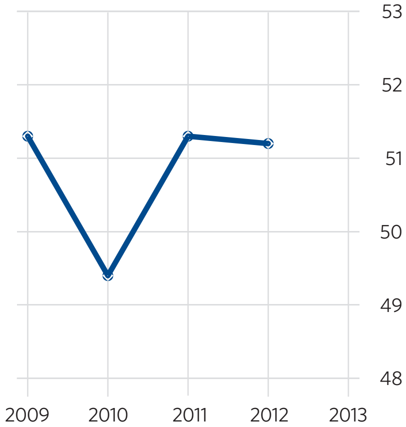
How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Economic Freedom Score

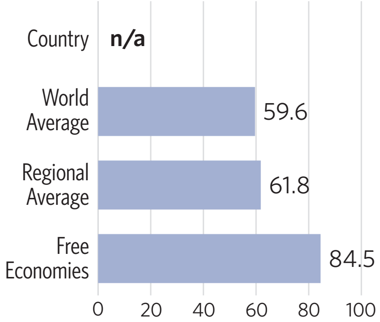


This economy is not graded

Freedom Trend



Country Comparisons



Quick Facts

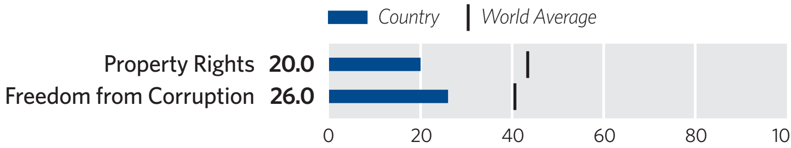
Population: 20.5 million
GDP (PPP): $106 billion (est.)
–3.4 % growth in 2011 (est.)
5-year compound annual growth n/a
$4,630 per capita (est.)
Unemployment: n/a
Inflation (CPI): 4.8%
FDI Inflow: $1.1 billion
Public Debt: 29.7% of GDP (2010)

2011 data unless otherwise noted.
Data compiled as of September 2012.

SYRIA (continued)

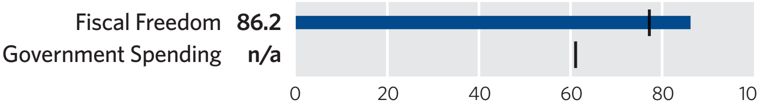
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



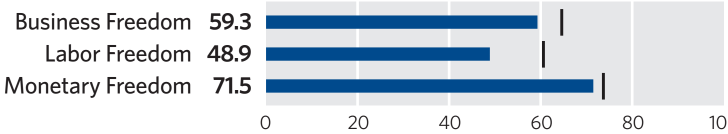
The rule of law is collapsing as the country faces violent disintegration and possible partition. The legal framework to date has been inefficient, and protections for private property rights have not been strongly enforced. The judiciary lacks transparency and is not independent of political interference. Pervasive corruption has exacerbated the weak rule of law and severely undermined the foundations of economic freedom.

LIMITED GOVERNMENT



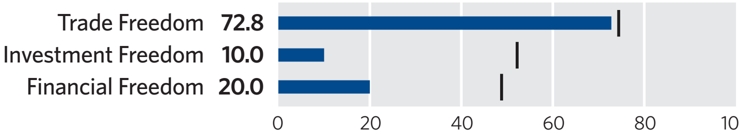
The top income tax rate is 22 percent, and the top corporate tax rate is 28 percent. Other taxes include an inheritance tax and a property transfer tax. The overall tax burden is equivalent to 10.4 percent of total domestic income. Increasing political violence has made public administration difficult. Public debt equals about 30 percent of total domestic output.

REGULATORY EFFICIENCY



Before the ongoing civil unrest, the business environment, lacking transparency and efficiency, had improved only marginally. The repressive business environment, burdened by heavy state intervention, continues to retard entrepreneurial activity and prolong economic stagnation. The labor market suffers from state interference and control. Dramatically increasing political instability has similarly increased the risk of hyperinflation.

OPEN MARKETS



The trade-weighted average tariff rate is 6.1 percent, and systemic non-tariff barriers further constrain trade freedom. Private investment is deterred by heavy bureaucracy, direct state interference, and ongoing political instability. Political uncertainty and repression have severely weakened the financial system. The central bank has imposed restrictions on the sale of foreign currency by banks to individuals.

Score Changes

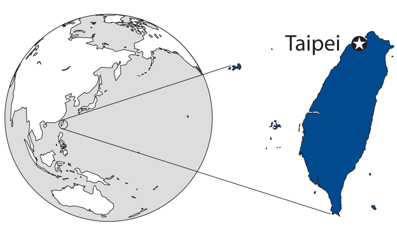
RULE OF LAW	
Property Rights	n/a
Freedom from Corruption	n/a

LIMITED GOVERNMENT	
Fiscal Freedom	n/a
Government Spending	n/a

REGULATORY EFFICIENCY	
Business Freedom	n/a
Labor Freedom	n/a
Monetary Freedom	n/a

OPEN MARKETS	
Trade Freedom	n/a
Investment Freedom	n/a
Financial Freedom	n/a

TAIWAN



World Rank: **20** Regional Rank: **5**

Taiwan's economic freedom score is 72.7, making its economy the 20th freest in the 2013 *Index*. Its score is 0.8 point higher than last year, reflecting gains in labor freedom, business freedom, and freedom from corruption. Taiwan is ranked 5th out of 41 economies in the Asia–Pacific region, and its overall score is higher than the world average.

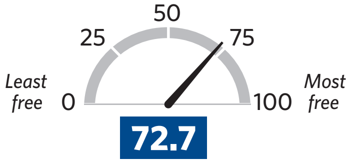
Taiwan has recorded uninterrupted advancements in economic freedom since 2009 and continues to be one of the world's 20 freest economies in the 2013 *Index*. The private sector benefits from a well-developed commercial code, and open-market policies facilitate the free flow of goods and capital. Small and medium-size enterprises have been the backbone of Taiwan's dynamic economic expansion. Despite the ongoing global economic uncertainty, the country's average annual growth rate has equaled almost 4 percent over the past five years.

A sound legal framework is in place to provide strong protection of property rights and uphold the rule of law. The level of state involvement in the economy remains considerable, but government spending is under control. Corruption and a rigid labor market continue to hold back Taiwan's overall economic freedom, although there have been improvements in these two areas.

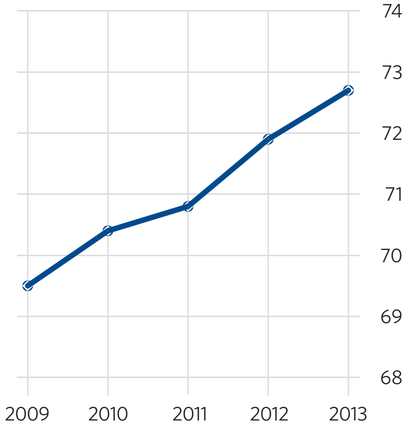
BACKGROUND: Taiwan is a dynamic multi-party democracy. President Ma Ying-jeou, elected in 2008 on a platform that promised a more open economic relationship with China, has moved to relax cross-Strait barriers and has negotiated a formal economic agreement with the mainland. Taiwan remains excluded from membership in the United Nations and other international organizations as a result of efforts by Beijing to pressure it into unification. Although internal opposition to engaging with China is considerable because of fears that sovereignty will be lost, the newly negotiated economic agreement seems to have been helpful in accelerating recovery from the financial crisis. With emphasis on services, technology, and elements of manufacturing, Taiwan's economy is one of the richest in Asia.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

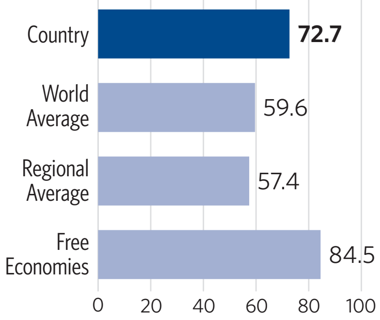
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 23.2 million

GDP (PPP): $876.0 billion

4.0% growth in 2011

5-year compound annual growth 3.8%

$37,720 per capita

Unemployment: 4.4%

Inflation (CPI): 1.4%

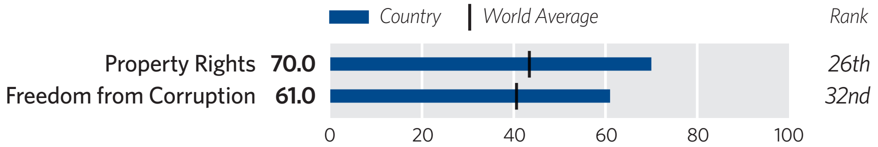
FDI Inflow: –$2.0 billion

Public Debt: 40.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

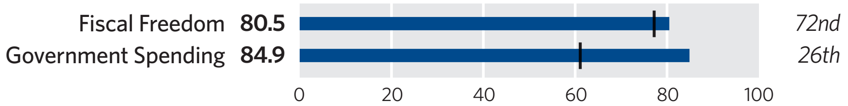
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



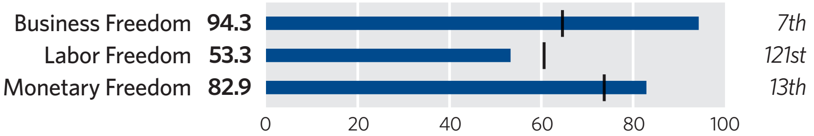
The rule of law is well maintained, and the court system is independent of political interference. Property rights are generally protected, and the judiciary enforces contracts effectively. The legal regime for intellectual property rights has advanced, but there are continuing concerns about counterfeit pharmaceuticals and infringement of copyrighted material. Despite some progress, corruption continues to be a cause for concern.

LIMITED GOVERNMENT



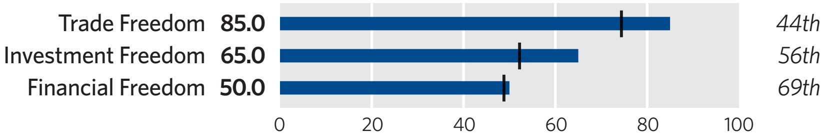
The top income tax rate is 40 percent, and the top corporate tax rate has been reduced to 17 percent. Other taxes include a value-added tax (VAT) and an interest tax. The overall tax burden equals 7.9 percent of total domestic income. Government spending is equivalent to 22.4 percent of GDP. The budget balance has fallen into deficit, and public debt is about 40 percent of GDP. The government has proposed tax reform to close the budget deficit.

REGULATORY EFFICIENCY



The overall freedom to conduct business is well protected under the efficient regulatory environment. Simplification of registration procedures has continued in recent years. Bankruptcy proceedings are fairly easy and straightforward. With no minimum capital required, it takes only three procedures to start a company. The labor market lacks flexibility. Monetary stability has been well maintained.

OPEN MARKETS

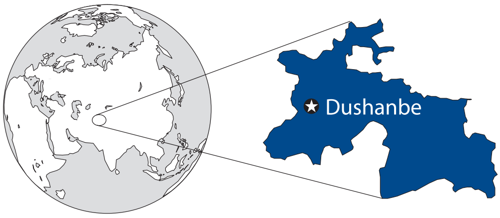


The trade-weighted average tariff rate is competitively low at 2.5 percent, but non-tariff barriers affecting agricultural imports and some service industries add to the cost of trade. Foreign investment is generally welcome, and the overall investment regime has become more transparent and efficient. The evolving financial sector offers a wide range of financial instruments and services, although it remains subject to government interference.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.1	Business Freedom	+5.8	Trade Freedom	0
Freedom from Corruption	+3.0	Government Spending	–7.4	Labor Freedom	+6.7	Investment Freedom	0
				Monetary Freedom	–0.2	Financial Freedom	0

TAJIKISTAN



World Rank: **131** Regional Rank: **27**

Tajikistan's economic freedom score is 53.4, making its economy the 131st freest in the 2013 *Index*. Its score is unchanged from last year, with improvements in fiscal freedom, control of government spending, and freedom from corruption offset by declines in three other economic freedoms including trade freedom. Tajikistan is ranked 27th out of 41 countries in the Asia–Pacific region, and its overall score is lower than the world average.

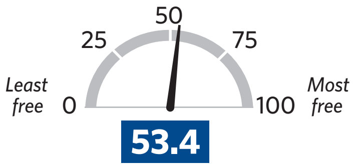
Lagging far behind many other developing countries in terms of economic and human development, Tajikistan's economy remains "mostly unfree." Poor policy choices and the uncertainty generated by a lack of meaningful reform progress have severely weakened the prospects for much-needed long-term economic development. Pervasive corruption continues to undermine the judicial system and the rule of law, making it harder to establish a solid foundation for economic freedom.

Tajikistan's entrepreneurial environment remains constrained by a burdensome and inefficient regulatory framework. Private-sector growth has been largely hampered by the state's heavy presence in the economy, which is overly dependent on commodity export earnings.

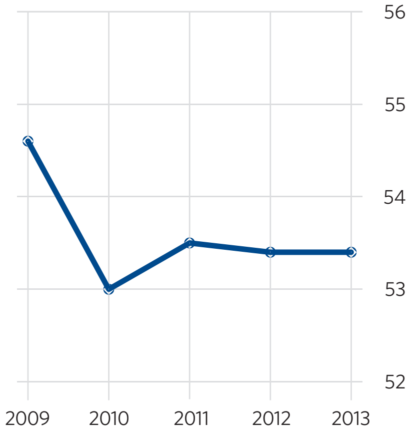
BACKGROUND: Tajikistan's transition to democracy has been uncertain since the 1992–1997 civil war between an Islamist/democratic coalition and the ruling post-Soviet Communists. Communist President Imomali Rahmon, in power for 20 years, controls all three branches of government. Challenges to stability include corruption, Islamist terrorism, tensions with Uzbekistan, and turmoil in Afghanistan. Abuses of human rights are widespread. Tajikistan is Central Asia's poorest country. The economy depends heavily on revenues from aluminum and cotton exports, and remittances from around 1 million migrant workers, especially in Russia, account for 45 percent of GDP. Illegal drug production and trafficking are also important sources of income. In June 2012, the government announced that the China National Petroleum Corporation would begin exploring for oil and gas in Tajikistan.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

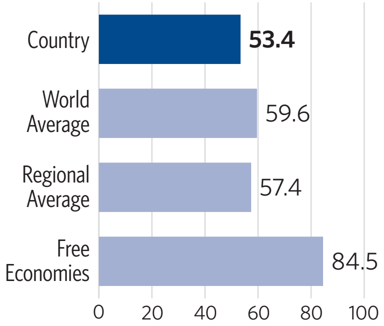
Economic Freedom Score



Freedom Trend



Country Comparisons



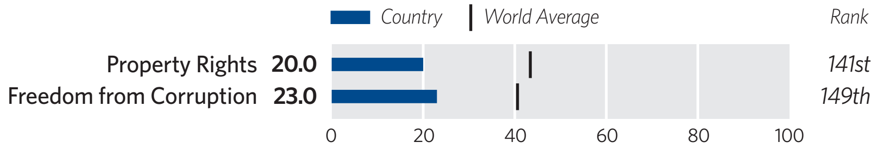
Quick Facts

Population: 7.8 million
GDP (PPP): $16.2 billion
7.4% growth in 2011
5-year compound annual growth 6.6%
$2,067 per capita
Unemployment: 2.2% (2009)
Inflation (CPI): 12.4%
FDI Inflow: $11.1 million
Public Debt: 35.3% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

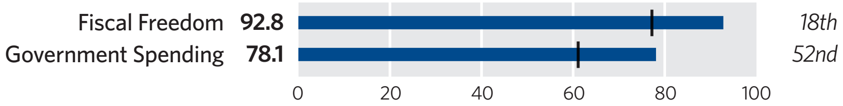
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



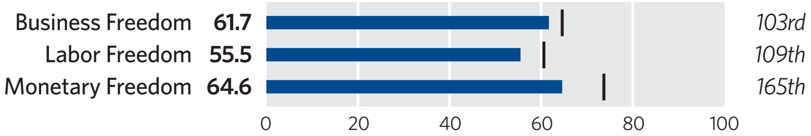
Protection of private property rights is weak. Judicial corruption is widespread, and the courts are sensitive to government pressure. Legal proceedings are not transparent, and a lack of respect for due process undermines the freedom of civil society. Under Tajik law, all land belongs to the state; individuals or entities may be granted first- or second-tier land use rights. Widespread cronyism and nepotism are symptomatic of pervasive corruption.

LIMITED GOVERNMENT



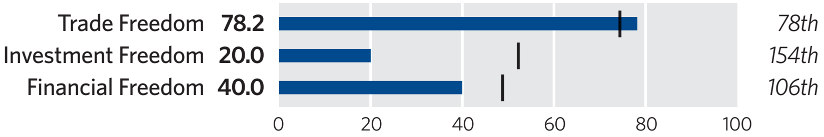
The top income tax rate is 13 percent. The statutory corporate tax rate is 15 percent with transport and banking services taxed at 25 percent. Other taxes include a value-added tax (VAT). The overall tax burden equals 18 percent of total domestic income. Government spending is equivalent to 27 percent of total domestic output. Deficits have been falling, and public debt stands at about 35 percent of GDP.

REGULATORY EFFICIENCY



Entrepreneurial activity is seriously hampered by state interference that increases regulatory costs. With no minimum capital required, launching a business takes five days. However, completing licensing requirements takes more than 200 days and costs over six times the level of average annual income. The labor market remains underdeveloped. The state influences prices through regulation, subsidies, and numerous state-owned enterprises.

OPEN MARKETS

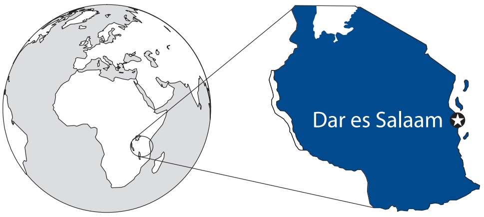


The trade-weighted average tariff rate is 5.9 percent, but non-tariff barriers that include health and safety standards with difficult compliance requirements limit trade freedom. All private investment is screened and requires government approval. Investment laws are implemented inconsistently. Financial-sector assets have grown, but continued state interference seriously handicaps capital acquisition for private-sector development.

Score Changes

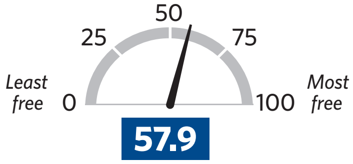
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+3.8	Business Freedom	+0.1	Trade Freedom	–4.3
Freedom from Corruption	+2.0	Government Spending	+2.6	Labor Freedom	–1.3	Investment Freedom	0
				Monetary Freedom	–2.8	Financial Freedom	0

TANZANIA



World Rank: **98** Regional Rank: **13**

Economic Freedom Score



Tanzania's economic freedom score is 57.9, making its economy the 98th freest in the 2013 *Index*. Its score is 0.9 point higher than last year, with improvements in half of the 10 economic freedoms, including business freedom and freedom from corruption, outweighing a decline in the control of government spending. Tanzania is ranked 13th out of 46 countries in the Sub-Saharan Africa region, and its overall score is slightly lower than the world average.

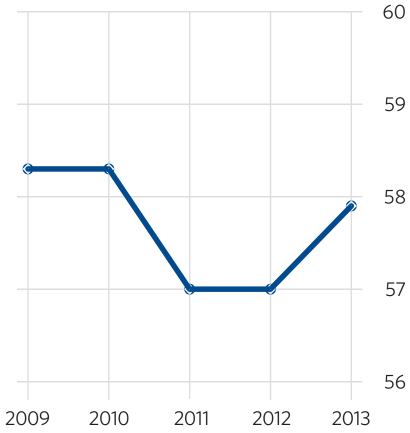
The Tanzanian economy has weathered the impact of the global economic turmoil relatively well, achieving an average growth rate above 6 percent over the past five years. Continued economic expansion has been facilitated by open-market policies related to global commerce. The financial sector and the investment framework are relatively well developed for the region.

However, institutional shortcomings continue to undermine prospects for dynamic long-term economic expansion. Tanzania has attempted to update its commercial laws to reduce administrative delays and the cost of conducting business, but the overall regulatory framework remains poor. An inefficient judicial system and pervasive corruption erode the effectiveness of government and undermine the rule of law. Price controls continue to hamper growth in the agricultural sector.

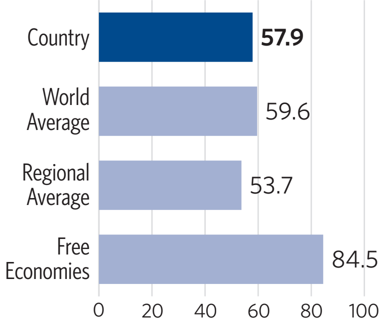
BACKGROUND: Former Foreign Minister Jakaya Kikwete has served as president since winning election in December 2005. Elections for president and all parliamentary seats were last held in October 2010. The next presidential and parliamentary elections are scheduled for 2015. Tanzania's historically state-led economy is becoming more market-based but remains hindered by weak property rights, poor infrastructure, and the country's high HIV/AIDS rate. Thirty percent of the budget is dependent on donor assistance. In 2008, Tanzania received the world's largest Millennium Challenge Corporation grant from the United States, worth $698 million. Agriculture is the most important sector of the economy, providing about 27 percent of GDP and 80 percent of employment.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



Quick Facts

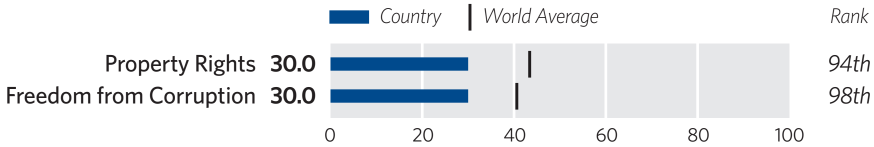
Population: 42.2 million
GDP (PPP): $63.9 billion
6.7% growth in 2011
5-year compound annual growth 6.8%
$1,515 per capita
Unemployment: n/a
Inflation (CPI): 7.0%
FDI Inflow: $1.1 billion
Public Debt: 44.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

TANZANIA (continued)

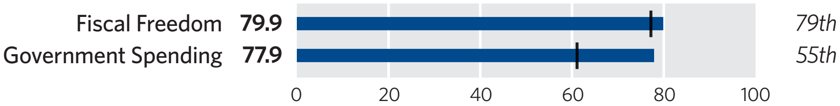
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



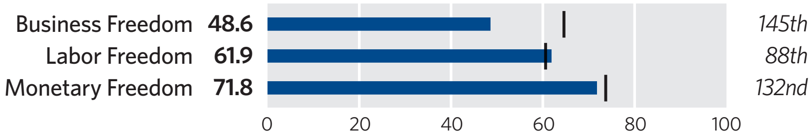
The judicial system is subject to political interference and severely inefficient. Recent reforms have been aimed at establishing a reliable system of transferable property rights, but there is no single comprehensive law covering transactions. Complex land laws have been accompanied by a high incidence of land disputes. Corruption is extensive, and penalties are ineffective.

LIMITED GOVERNMENT



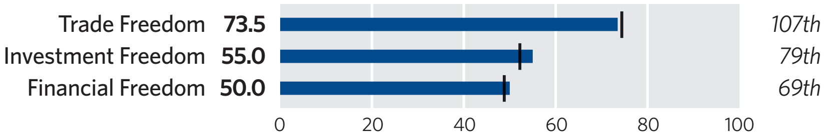
The top income tax and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and an interest tax. The overall tax burden equals 14.6 percent of total domestic income. Government spending has risen to 27.1 percent of GDP. The budget deficit has been over 5 percent of GDP in recent years, and public debt has reached 44 percent of total domestic output. High gold prices and strong gold exports have boosted fiscal health.

REGULATORY EFFICIENCY



Despite some progress, business formation and operation remain cumbersome. Although requirements for launching a business are not time-consuming, the licensing process costs over five times the level of average annual income and takes more than 200 days to complete. Labor regulations are not efficient enough to support a vibrant labor market. The lack of competition in the market has inflated price levels, hurting monetary stability.

OPEN MARKETS



The trade-weighted average tariff rate is high at 8.2 percent, with costly non-tariff barriers, including customs delays, further limiting trade freedom. Investment regulations are outmoded, and burdensome bureaucracy and inadequate infrastructure deter investment growth. The small financial sector has been evolving. Credit is allocated largely at market rates, and a range of commercial credit instruments are available to the private sector.

Score Changes

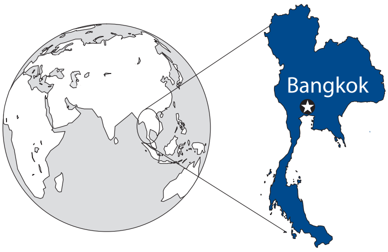
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+3.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.2
Government Spending	–2.3

REGULATORY EFFICIENCY	
Business Freedom	+3.4
Labor Freedom	+1.8
Monetary Freedom	+2.4

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

THAILAND



World Rank: 61 **Regional Rank: 10**

Thailand's economic freedom score is 64.1, making its economy the 61st freest in the 2013 *Index*. Its score is 0.8 point worse than last year due to declines in four of the 10 economic freedoms, including labor freedom, the control of government spending, and freedom from corruption. Thailand is ranked 10th out of 41 countries in the Asia–Pacific region, and its overall score is higher than the world and regional averages.

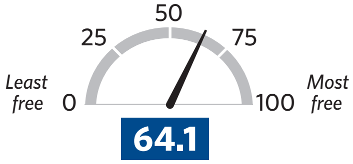
Thailand's movement toward greater economic freedom has stalled after four years of steady improvement. Although economic fundamentals remain relatively solid, serious challenges require deeper institutional reforms. Political instability continues to undermine the investment climate and hold economic activity far below potential levels. The judicial system remains vulnerable to political interference, and property rights are not strongly protected. Systemic corruption further undercuts the rule of law and hampers stable long-term economic development.

The government has taken steps to enhance regulatory efficiency and better integrate the economy into the global marketplace. The overall regulatory framework has gradually become more efficient and transparent, with procedures for business formation streamlined and the financial sector opened to competition. Thailand enjoys a relatively high level of trade freedom, although gains from trade continue to be undercut by non-tariff barriers.

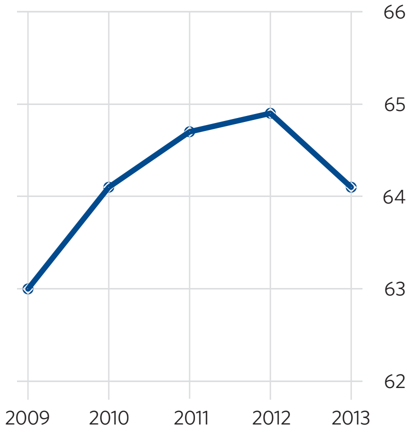
BACKGROUND: Thailand has experienced 18 military coups since becoming a constitutional monarchy in 1932. The government returned to democratic civilian control in December 2007, but political turmoil has continued. In July 2011 parliamentary elections, Peua Thai, the opposition party and vehicle for exiled leader Thaksin Shinawatra, won an outright majority, and Shinawatra's sister, Yingluck Shinawatra, became prime minister. About 40 percent of the population is engaged in agriculture, but a thriving manufacturing sector, including the manufacture of such high-technology products as integrated circuits, contributes significantly to export-led growth.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

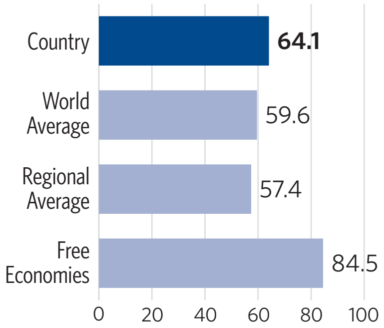
Economic Freedom Score



Freedom Trend



Country Comparisons



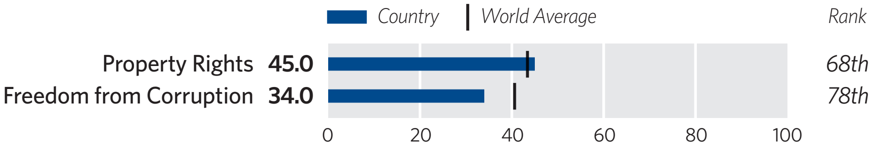
Quick Facts

Population: 64.1 million
GDP (PPP): $602.1 billion
0.1% growth in 2011
5-year compound annual growth 2.6%
$9,396 per capita
Unemployment: 0.7%
Inflation (CPI): 3.8%
FDI Inflow: $9.6 billion
Public Debt: 41.7% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

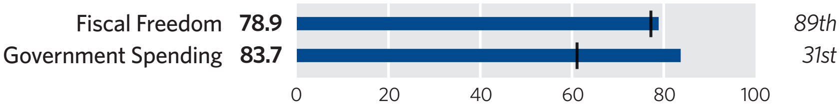
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



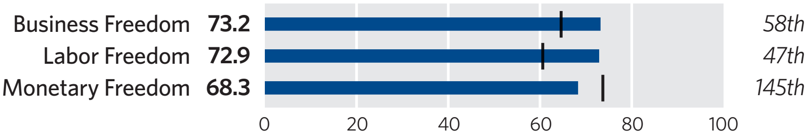
A well-functioning legal framework is not firmly in place, and the judiciary continues to be vulnerable to political interference. Private property is generally protected, but the legal process is slow, and judgments can be affected through extralegal means. Infringements of intellectual property rights are substantial. In the absence of effective enforcement measures, corruption has become deeply rooted in society.

LIMITED GOVERNMENT



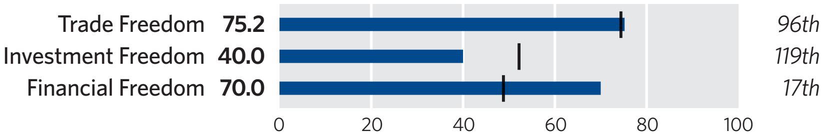
The top income tax rate is 37 percent, and the top corporate tax rate is 23 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals 14.5 percent of total domestic income. Government spending equals 23.3 percent of gross domestic output. The budget balance remains in deficit, and public debt is over 40 percent of GDP. Historic floods have led the government to implement a fiscal stimulus package.

REGULATORY EFFICIENCY



Recent reforms have improved regulatory efficiency. With no minimum capital requirement, starting a business requires only four procedures. However, licensing requirements continue to be time-consuming. Labor regulations are relatively flexible, but informal labor activity remains substantial. Monetary stability has been maintained despite inflationary pressure. The government influences prices through subsidies and state-owned utilities.

OPEN MARKETS

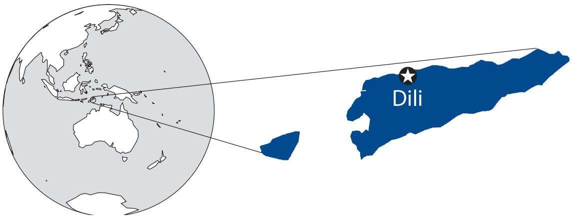


The trade-weighted average tariff rate is moderate at 4.9 percent, but numerous non-tariff barriers add to the cost of trade. Although foreign direct investment is officially welcome, the government prohibits majority foreign ownership in many sectors. The overall investment regime lacks efficiency and transparency. The financial system has undergone restructuring in recent years. Capital markets are relatively well developed and dynamic.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+3.8	Business Freedom	+0.7	Trade Freedom	0
Freedom from Corruption	-1.0	Government Spending	-3.8	Labor Freedom	-6.1	Investment Freedom	0
				Monetary Freedom	-1.0	Financial Freedom	0

TIMOR-LESTE



World Rank: **166** Regional Rank: **38**

Timor-Leste's economic freedom score is 43.7, making its economy the 166th freest in the 2013 *Index*. Its score has increased by 0.4 point from last year, reflecting improvements in investment freedom, labor freedom, and business freedom. Timor-Leste is ranked 38th out of 41 countries in the Asia–Pacific region, and its overall score is well below the world and regional averages.

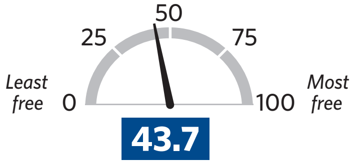
Timor-Leste's economic freedom appears to have bottomed out in 2011 with small improvements over the past two years. Although progress has been uneven, economic reconstruction has proceeded, and income growth has been supported by a modest level of trade freedom.

Daunting institutional and policy shortcomings continue to undermine overall economic freedom. The economic base is narrow, and political instability still hampers stable long-term economic development. The state plays an outsized role in the economy. Private-sector development is also limited by Timor-Leste's burdensome regulatory environment and underdeveloped financial sector. Widespread corruption, unchecked by a weak judicial system, is a considerable drag on economic activity.

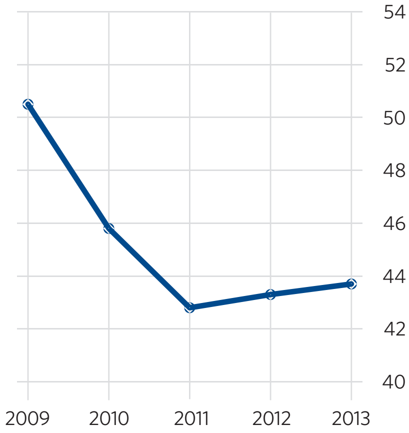
BACKGROUND: The Democratic Republic of Timor-Leste became independent in 2002 after 25 years of Indonesian occupation and two and a half years of administration by the United Nations. Successive governments have struggled to pacify the country. Revolutionary leader Xanana Gusmao, who served as the country's first president, has headed the government as prime minister since 2007. Economic liberalization has mostly stalled, and the economy still depends heavily on foreign aid. Infrastructure is very poor, and corruption is pervasive. Timor-Leste remains primarily an agricultural economy. Oil and gas profits account for more than 95 percent of government proceeds. The government deposits all oil income in a Petroleum Fund that is not counted as part of GDP but is reflected in government revenue figures. In 2011, with Indonesia's support, Timor-Leste applied for membership in the Association of Southeast Asian Nations.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

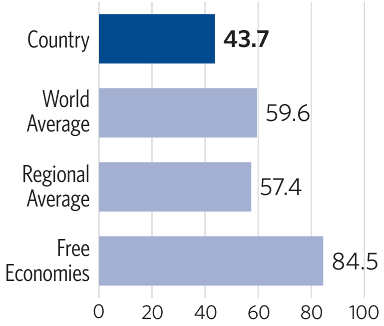
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

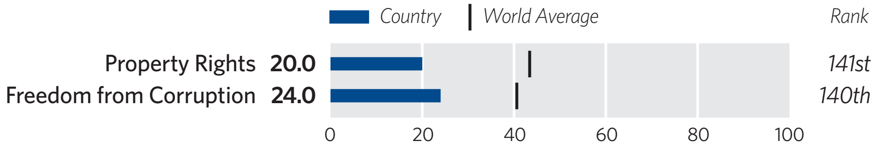
Population: 1.1 million
GDP (PPP): $9.5 billion
10.6% growth in 2011
5-year compound annual growth 11.8%
$8,701 per capita
Unemployment: 18.4% (2010)
Inflation (CPI): 13.5%
FDI Inflow: $20.0 million
Public Debt: 0.0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

TIMOR-LESTE (continued)

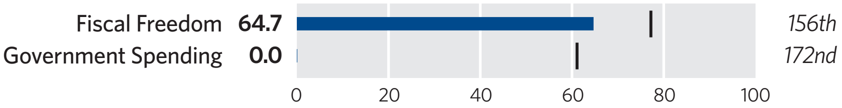
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



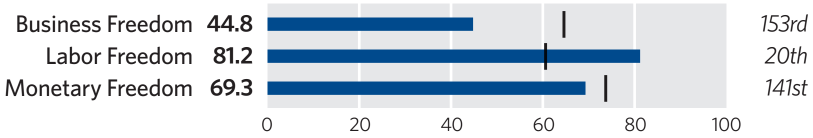
A rudimentary legal system has been established, but the justice system remains among the weakest sectors of government, relying heavily on foreign assistance. Land titles from the Portuguese colonial period may conflict with competing claims from the Indonesian occupation and also with claims from squatters who may occupy the land. Overall progress in fighting corruption has been marginal.

LIMITED GOVERNMENT



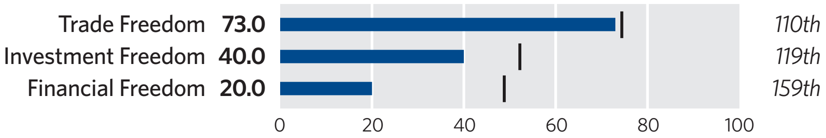
The top income and corporate tax rates are 10 percent. Most government revenue comes from offshore petroleum projects in the Timor Sea. New spending under the strategic development plan, which aims to bring the economy to upper-middle-income status by 2030, has increased expenditures to 156.4 percent of total domestic output. The budget balance has a huge surplus due to offshore oil drilling.

REGULATORY EFFICIENCY



The overall freedom to launch and operate a business remains constrained by the burdensome regulatory environment. Despite considerable reductions, the minimum capital requirement for establishing a business remains more than the level of average annual income. The public sector accounts for around half of employment outside of agriculture, and the formal labor market remains underdeveloped. Inflation has risen.

OPEN MARKETS

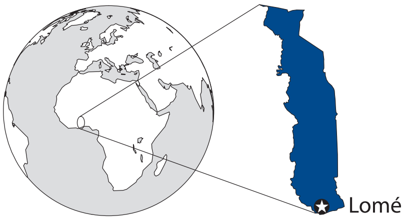


The trade-weighted average tariff rate is 6 percent, with non-tariff barriers continuing to distort trade activity. A 2011 law provides for equal treatment of domestic and foreign investors, but the investment environment is significantly limited by inadequate institutional capacity, complex licensing requirements, and poor infrastructure. The small financial sector is underdeveloped, and less than 2 percent of the population has access to services.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	0	Business Freedom	+1.7	Trade Freedom	0
Freedom from Corruption	-1.0	Government Spending	0	Labor Freedom	+6.1	Investment Freedom	+5.0
				Monetary Freedom	-8.1	Financial Freedom	0

TOGO



World Rank: **150** Regional Rank: **35**

Togo's economic freedom score is 48.8, making its economy the 150th freest in the 2013 *Index*. Its score is 0.5 point higher than last year, reflecting notable improvements in investment freedom and business freedom. Togo is ranked 35th out of 46 countries in the Sub-Saharan Africa region, and its overall score is well below the world and regional averages.

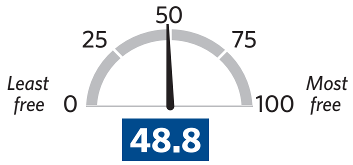
Economic freedom continues to be repressed in Togo, and only patchy progress has been achieved in economic reform. Institutional weaknesses and poor policy choices undermine macroeconomic stability and poverty reduction. In particular, the rule of law remains fragile due to corruption and an inept judicial system that is subject to political interference.

Economic expansion, driven mainly by agricultural exports, has averaged about 3 percent per year for the past five years. However, sustaining steady growth will be challenging because of the lack of economic dynamism. Togo's economy remains highly vulnerable to external shocks, and the inefficient regulatory environment continues to constrain commercial operations and investment. The underdeveloped financial sector remains fragmented, reflecting the small size of the formal economy.

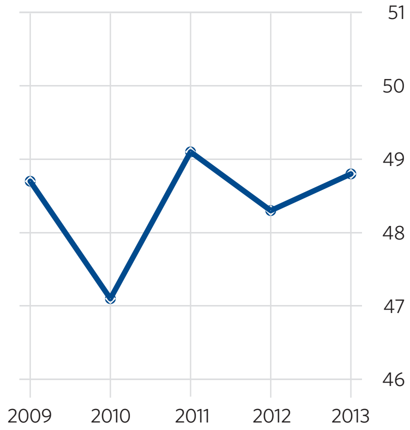
BACKGROUND: In 2005, the military appointed Faure Gnassingbé to the presidency following the death of his father, who had ruled for 38 years. Faced with condemnation and sanctions by the Economic Community of West African States and the African Union, he stepped down and called for an election, which he won. The whole process was widely viewed as flawed. Legislative elections, judged relatively free and fair, were held in 2007, and Gnassingbé was re-elected in March 2010 in elections regarded as legitimate. Togo has assumed a nonpermanent seat on the U.N. Security Council for the 2012–2013 term. Togo is the world's fourth-largest producer of phosphate. Cocoa, coffee, and cotton generate about 40 percent of export earnings, and cotton is the most important cash crop. Services, especially re-exports from the Lomé port facility, are also important.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

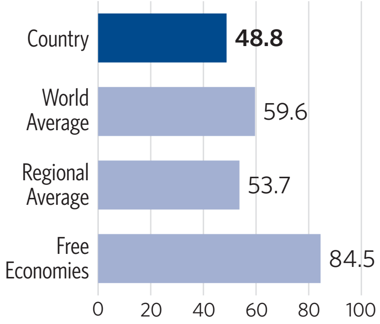
Economic Freedom Score



Freedom Trend



Country Comparisons



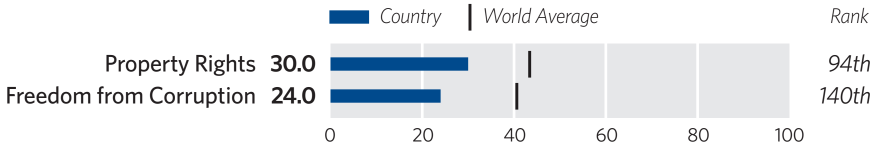
Quick Facts

Population: 7.1 million
GDP (PPP): $6.4 billion
4.1% growth in 2011
5-year compound annual growth 3.2%
$899 per capita
Unemployment: n/a
Inflation (CPI): 3.6%
FDI Inflow: $53.8 million
Public Debt: 30.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

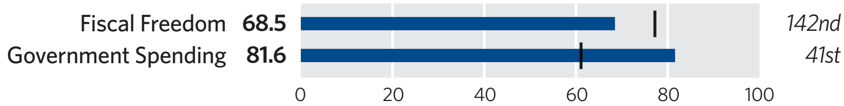
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



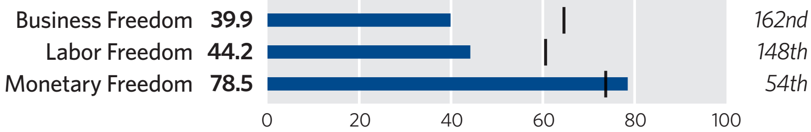
The judicial system is vulnerable to strong influence from the executive and does not provide independent protection of private property. Contracts are difficult to enforce. Because inheritance laws are poorly defined, ownership of physical property is frequently disputed. Togo has a large informal market in pirated optical media, computer software, and counterfeit products. Corruption is pervasive at all levels of government.

LIMITED GOVERNMENT



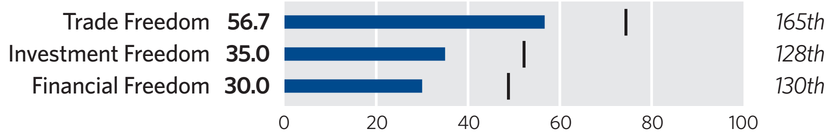
The top income tax rate is 45 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals 15.1 percent of total domestic income. Government spending is equivalent to 24.8 percent of total domestic output. The budget deficit continues to increase, but public debt has fallen precipitously to 30.8 percent of GDP due to cancellations of official external debt.

REGULATORY EFFICIENCY



Recent reforms to enhance the entrepreneurial environment have reduced the time and cost involved in launching a business, but the overall business framework remains quite burdensome. It takes 38 days to start a company, and the minimum capital requirement costs over three times the level of average annual income. The labor market is underdeveloped, and informal labor activity remains substantial. Inflation is moderate.

OPEN MARKETS

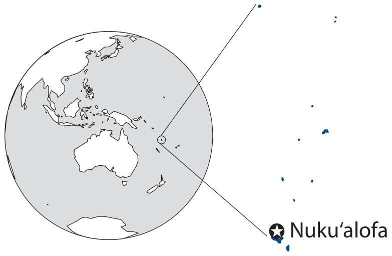


The trade-weighted average tariff rate is prohibitively high at 14.2 percent, and onerous nontariff barriers further increase the cost of trade. A new investment code adopted in 2012 provides for equal treatment of domestic and foreign investors, but investment is allowed only in certain sectors and is screened case by case. Capital transactions are subject to some controls or government approval. The underdeveloped banking system lacks liquidity.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.1	Business Freedom	+5.1	Trade Freedom	-5.0
Freedom from Corruption	0	Government Spending	-4.0	Labor Freedom	-1.0	Investment Freedom	+10.0
				Monetary Freedom	+0.2	Financial Freedom	0

TONGA



World Rank: **112** Regional Rank: **22**

Tonga's economic freedom score is 56, making its economy the 112th freest in the 2013 *Index*. Its score has decreased by 1.0 point from last year, reflecting substantial declines in labor freedom and property rights that outweigh modest gains in the control of government spending, fiscal freedom, and freedom from corruption. Tonga is ranked 22nd out of 41 countries in the Asia–Pacific region.

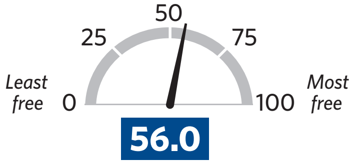
All four pillars of economic freedom in Tonga lack the institutional foundations needed for sustained economic growth. Potential entrepreneurial investment is stifled by a largely opaque regulatory environment, and most economic activity is informal. Property rights are weakly enforced. High levels of corruption unduly burden positive economic activity and hinder private-sector growth. The judicial system deserves much of the blame for these shortfalls because it is often influenced by politics, increasing investment risk and slowing economic growth.

The Tongan economy continues to depend heavily on foreign aid and overseas remittances. The dominance of the public sector has contributed to a low level of economic dynamism despite a workforce that is considered the best educated among the Pacific Island nations. Although trade-weighted average tariffs have dropped, the lack of commitment to dismantling non-tariff barriers and enhancing the investment regime thwarts the emergence of a more dynamic private sector.

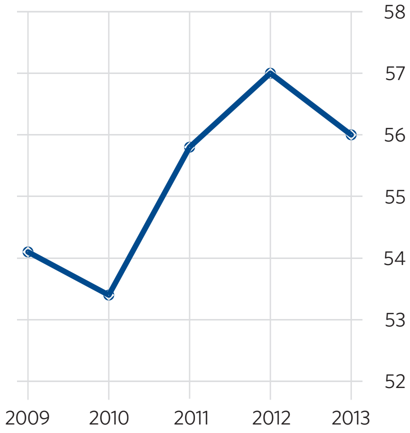
BACKGROUND: The Kingdom of Tonga is the South Pacific's last Polynesian monarchy. Some 100,000 people are spread across about 50 of its 171 islands. Tonga has been independent since 1970, and its political life is dominated by the royal family, hereditary nobles, and a few other landholders. Tonga held its first elections in November 2010 in its drive to become a constitutional monarchy. The Friendly Islands Democratic Party was not able to win a majority in parliament, but it did win a plurality, and Lord Siale'ataonga Tu'ivakano became Tonga's first elected prime minister. Tonga boasts a 99 percent literacy rate, although more than half of the population lives abroad, mostly in New Zealand. Agriculture is the principal productive sector of the economy.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

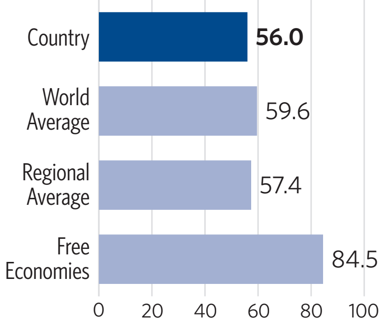
Economic Freedom Score



Freedom Trend



Country Comparisons



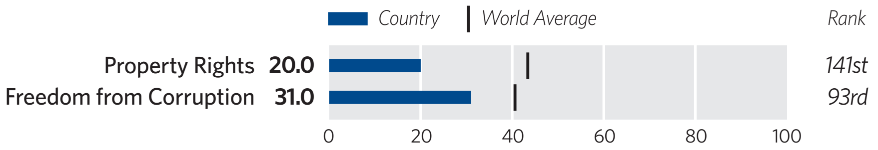
Quick Facts

Population: 0.1 million
GDP (PPP): $0.8 billion
1.5% growth in 2011
5-year compound annual growth 0.4%
$7,344 per capita
Unemployment: n/a
Inflation (CPI): 5.3%
FDI Inflow: $10.4 million
Public Debt: 42.8% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

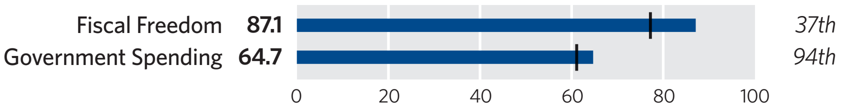
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



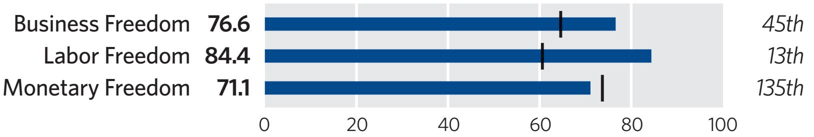
Tonga has a fairly efficient legal system based on British common law. The judiciary conducts generally fair public trials, although all judges are appointed by the monarch (newly acceded to the throne in March 2012) and can be subject to political pressure. Property rights are uncertain. Pervasive corruption continues to undermine government integrity. There are concerns about the new king's commitment to his late brother's reforms.

LIMITED GOVERNMENT



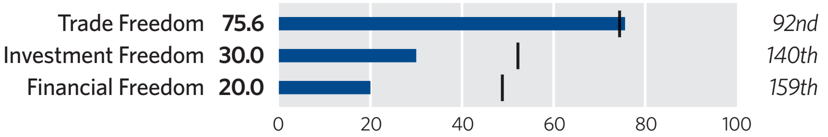
The top income tax rate is 20 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and an interest tax. The overall tax burden equals 16.3 percent of total domestic income. Government spending is equivalent to 34.3 percent of GDP, keeping the budget balance in deficit. Public debt amounts to around 43 percent of total domestic output. An expansionary fiscal policy has contributed to widening deficits.

REGULATORY EFFICIENCY



Regulatory codes are relatively sound, but implementation of regulations remains ineffective. There is no minimum capital requirement for establishing a business, although the process can be time-consuming, requiring 16 days on average. An efficient labor market has not been developed, and informal labor activity continues to be substantial. Monetary stability is weak as inflationary pressure lingers.

OPEN MARKETS

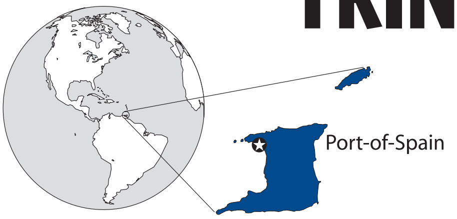


The trade-weighted average tariff rate is 7.2 percent, and non-tariff barriers further raise the cost of trade. Many investment activities are stringently regulated. The poorly developed legal system and infrastructure continue to impede the development of a modern financial sector. There are no capital markets. Much of the population operates financially outside of the formal banking sector.

Score Changes

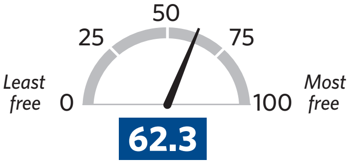
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**-5.0**	Fiscal Freedom	**+1.2**	Business Freedom	**-0.9**	Trade Freedom	**+0.3**
Freedom from Corruption	**+1.0**	Government Spending	**+2.5**	Labor Freedom	**-7.7**	Investment Freedom	**0**
				Monetary Freedom	**-1.0**	Financial Freedom	**0**

TRINIDAD AND TOBAGO



World Rank: **72** Regional Rank: **14**

Economic Freedom Score



Trinidad and Tobago's economic freedom score is 62.3, making its economy the 72nd freest in the 2013 *Index*. Its score is 2.1 points lower than last year, with declines in six of the 10 economic freedoms including financial freedom, business freedom, the control of government spending, and freedom from corruption. Trinidad and Tobago is ranked 14th out of 29 countries in the South and Central America/Caribbean region.

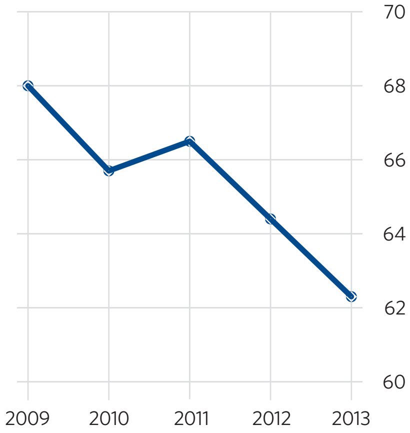
Trinidad and Tobago's overall score declines have exceeded 2 points for two consecutive years. Dependence on the energy sector for economic growth has hamstrung the country's competitiveness and held back the emergence of a diversified private sector. A fiscal stimulus package includes additional subsidies, transfers, and investments in state-owned enterprises. The financial sector has undergone a period of uncertainty, and one of the largest financial groups has been bailed out.

Trade and investment freedom have been under threat despite efforts to streamline procedures. Rule of law, especially property rights, has been more strongly maintained. The Caribbean Court of Justice presides in Trinidad and complements a relatively independent judiciary.

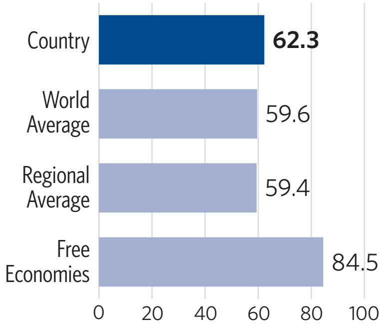
BACKGROUND: In late 2011, police thwarted a plot to assassinate Prime Minister Kamla Persad-Bissessar and members of her cabinet. The plot was linked to the state of emergency declared in August 2011 to counter a surge in drug-related violent crime. Robust foreign investment has made Trinidad and Tobago the Western Hemisphere's largest supplier of liquefied natural gas and one of CARICOM's largest and most industrialized economies. The size of the economy doubled between 2002 and 2008, and hydrocarbons accounted for more than 40 percent of GDP and 80 percent of exports. However, real GDP growth contracted from 2009–2011 according to the central bank. Despite record low interest rates, investor confidence is weak, and domestic businesses have adopted a cautious approach to investing. Consumer confidence has also suffered.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



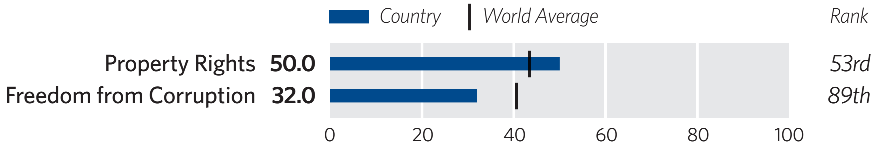
Quick Facts

Population: 1.3 million
GDP (PPP): $26.5 billion
–1.3% growth in 2011
5-year compound annual growth 0.5%
$20,053 per capita
Unemployment: 6.4%
Inflation (CPI): 5.1%
FDI Inflow: $574.0 million
Public Debt: 32.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

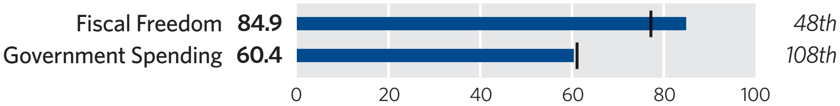
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



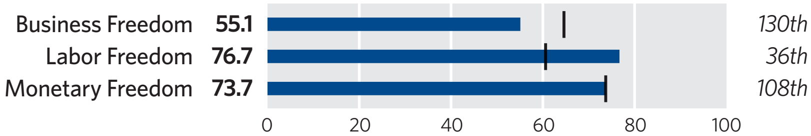
Property rights are protected under the constitution and common-law practice. Secured interests in property are recognized and enforced. The judiciary is independent and fair, but the case backlog is several years long. Legislation protecting intellectual property is among the hemisphere's most advanced, but enforcement is lax in some areas. The quality of the bureaucracy remains relatively poor, and corruption is widespread.

LIMITED GOVERNMENT



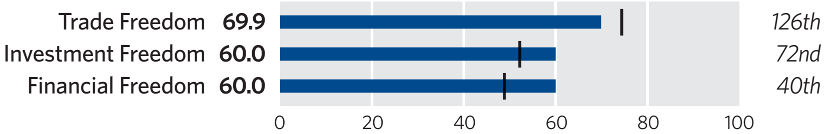
Both the top income tax rate and the standard corporate tax rate are 25 percent. Other taxes include a value-added tax (VAT) and a property tax. The total tax burden equals 16 percent of total domestic income. Government spending has risen to 36.3 percent of GDP. The budget produced a small surplus this past year, and public debt hovers around 30 percent of total domestic output.

REGULATORY EFFICIENCY



Despite some progress, the regulatory system lacks transparency and clarity, and regulations are enforced inconsistently. There is no minimum capital requirement, but it takes 41 days to start a company in comparison to the world average of 30 days. The labor market is relatively flexible, facilitating the matching of supply and demand for the country's highly educated labor force. Inflation has been moderately high.

OPEN MARKETS

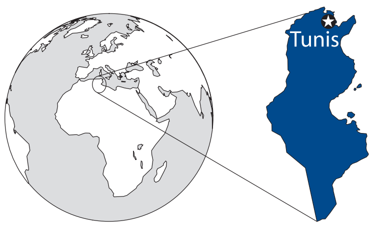


The trade-weighted average tariff rate is a restrictive 10 percent, and cumbersome non-tariff barriers further increase the cost of trade. Foreign investment in private business is not subject to limitations, but the overall investment regime is not stable enough to drive dynamic growth in long-term investment. The financial sector has been under strain in the aftermath of the collapse of a large financial group and the subsequent bailout.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.6	Business Freedom	-5.0	Trade Freedom	0
Freedom from Corruption	-4.0	Government Spending	-4.7	Labor Freedom	-0.6	Investment Freedom	0
				Monetary Freedom	+3.6	Financial Freedom	-10.0

TUNISIA



World Rank: **107** Regional Rank: **11**

Tunisia's economic freedom score is 57, making its economy the 107th freest in the 2013 *Index*. Its score is 1.6 points lower than last year due to declines in five of the 10 economic freedoms including control of government spending, labor freedom, and freedom from corruption. Tunisia is ranked 11th out of 15 countries in the Middle East/North Africa region, and its overall score is just below the world average.

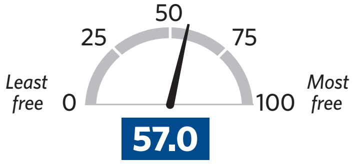
Tunisia has registered one of the 20 largest score declines in the 2013 *Index*, and its first post-revolutionary government faces daunting tasks. The fiscal situation remains precarious. Deficits and debt continue to expand due to poor public finance management and slow growth. Reforms that started before the uprising targeted investment and business freedom, but progress has slowed, and the regulatory framework remains inefficient.

Despite the challenging environment, efforts have been made to improve fiscal and trade freedom. A new tax collection system has been introduced, and procedures governing international trade have been modernized. However, pending agreement on a new constitution, rule of law continues to suffer. The precarious economic situation is exacerbated by widespread corruption.

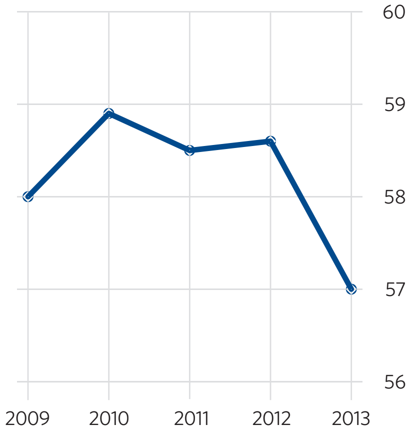
BACKGROUND: Tunisia, birthplace of the "Arab Spring" uprisings against autocratic Middle Eastern governments, ousted President Zine al-Abidine Ben Ali in January 2011. After a series of interim leaders, Moncef Marzouki was elected president on December 12, 2011. Elections in October 2011 gave the formerly banned Islamist Ennhada Party the largest number of seats in parliament and a significant say in drafting a new constitution. The economy depends heavily on agriculture, mining, energy, tourism, and manufacturing. An association agreement with the European Union has helped to create jobs and modernize the economy, but the EU economic slowdown has depressed demand for Tunisian-made goods. The violent efforts of Salafi Islamists to destabilize the government, ban alcohol, and impose other Islamist goals have undermined foreign investment and tourism.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

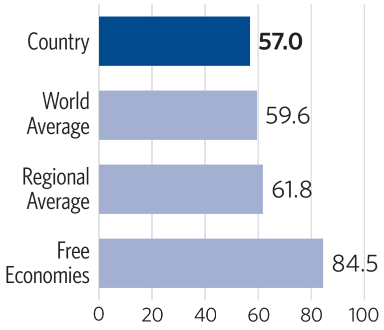
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

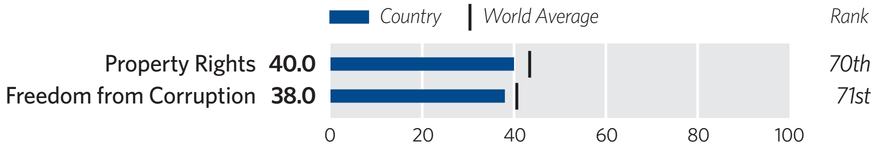
Population: 10.7 million
GDP (PPP): $101.0 billion
–0.8% growth in 2011
5-year compound annual growth 3.2%
$9,478 per capita
Unemployment: 18.0%
Inflation (CPI): 3.5%
FDI Inflow: $1.1 billion
Public Debt: 42.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

TUNISIA (continued)

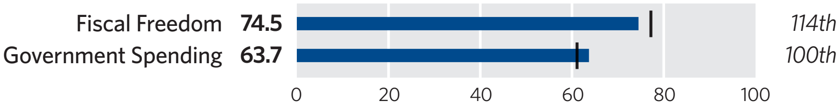
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



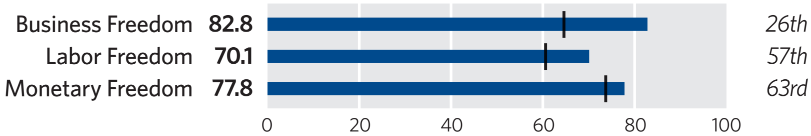
The future character of the rule of law is uncertain in Tunisia because of political instability and ongoing negotiations on a new constitution. Law enforcement is uneven across the country, and property rights are not protected effectively. Independence and fairness are poorly institutionalized within the judicial system, and widespread corruption continues to erode the foundations of economic freedom.

LIMITED GOVERNMENT



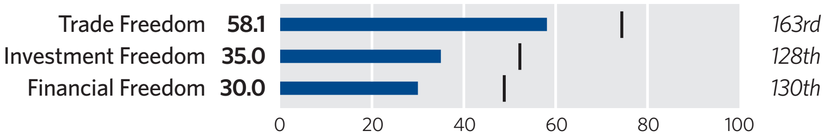
The top income tax rate is 35 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a property transfer tax. The overall tax burden equals 20.5 percent of total domestic income. Government spending has increased to 34.8 percent of GDP. The budget has run small deficits in recent years, and public debt is around 42 percent of GDP. Social unrest and slow tourism have weakened the fiscal outlook.

REGULATORY EFFICIENCY



The regulatory framework still lacks transparency or efficiency despite marginal improvements. The business start-up process has been streamlined on paper, but completing licensing requirements still costs more than twice the level of average annual income. The rigid labor market has fostered stagnation and failed to facilitate much-needed job creation. The government influences prices through state-owned enterprises.

OPEN MARKETS

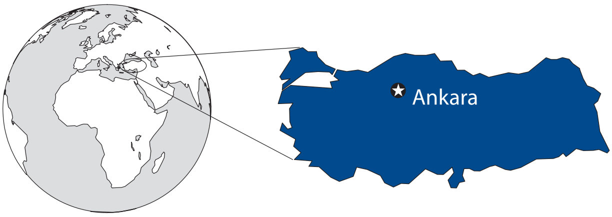


The trade-weighted average tariff rate is prohibitively high at 16 percent, and non-tariff barriers further raise the cost of trade. Despite efforts to attract more foreign investment, growth in long-term investment has been inhibited by heavy bureaucracy and recent political uncertainty. The weak financial sector is fragmented and dominated by the state. Access to credit is limited, and capital markets are underdeveloped.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.3	Business Freedom	-0.1	Trade Freedom	0
Freedom from Corruption	-5.0	Government Spending	-7.8	Labor Freedom	-4.0	Investment Freedom	0
				Monetary Freedom	+0.9	Financial Freedom	0

TURKEY



World Rank: **69** Regional Rank: **32**

Turkey's economic freedom score is 62.9, making its economy the 69th freest in the 2013 *Index*. Its score is 0.4 point better than last year, reflecting gains in the management of public spending, business freedom, and labor freedom that outweigh declines in investment freedom and freedom from corruption. Turkey is ranked 32nd out of 43 countries in the Europe region, and its overall score is higher than the world average.

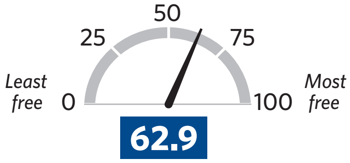
Turkey emerged from the global economic downturn largely unscathed and continues its transition to a more flexible and open economy. Performance is relatively good in many areas of economic freedom, and GDP has tripled since 2002. Trade has been a strong driver of economic growth, and the financial sector has gained competitiveness. Privatizations continue, albeit slowly, and the government has pursued reforms to encourage entrepreneurial activity and eliminate regulatory inefficiencies.

Despite overall progress, institutional weaknesses continue to hold back economic freedom and prevent more dynamic growth. In particular, the foundations of economic freedom are vulnerable to corruption and an inefficient judicial system that is subject to political interference.

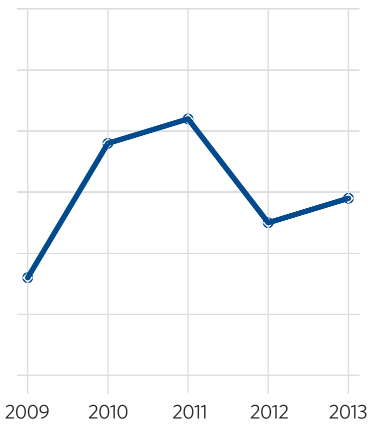
BACKGROUND: Turkey, a constitutionally secular state often viewed as a bridge between East and West, has developed into a successful multi-party democracy, although there are worries that Prime Minister Recep Tayyip Erdogan's Justice and Development Party (AKP) is pushing an Islamist agenda and eroding Turkey's Euro–Atlantic connections. Economic modernization is progressing despite clashes with the media and the slow pace of judicial reform. The European Union formally granted Turkey candidate status in 1999, but strong opposition from France, Germany, and Austria makes final accession any time soon unlikely. Turkey's dispute with Cyprus, which held the presidency of the EU Council during the second half of 2012, has also strained relations with the EU and delayed negotiations. Principal exports include foodstuffs, textiles, clothing, iron, and steel.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

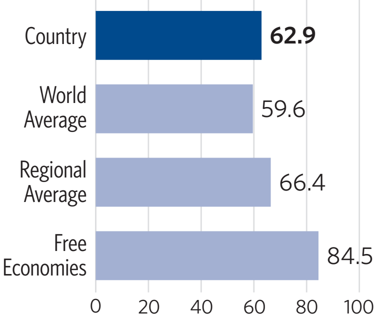
Economic Freedom Score



Freedom Trend



Country Comparisons



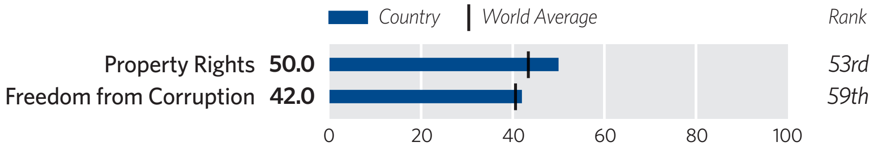
Quick Facts

Population: 74.0 million
GDP (PPP): $1.1 trillion
8.5% growth in 2011
5-year compound annual growth 3.5%
$14,517 per capita
Unemployment: 11.7%
Inflation (CPI): 6.5%
FDI Inflow: $15.9 billion
Public Debt: 39.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

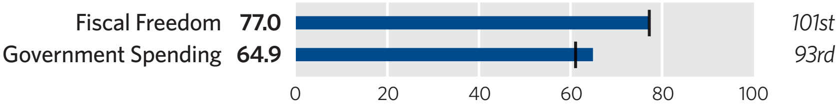
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



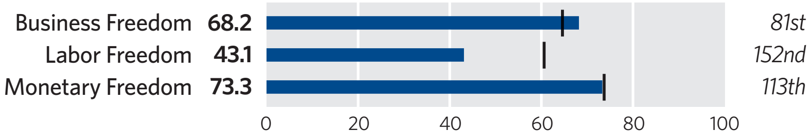
Property rights are generally enforced, but the courts are overburdened and slow, and judges are not well trained for commercial cases. The judiciary is subject to government influence. The intellectual property rights regime has improved, but infringement remains high with sophisticated counterfeiting of trademarked items. Bribery is outlawed, but corruption continues to undermine perceptions of government integrity.

LIMITED GOVERNMENT



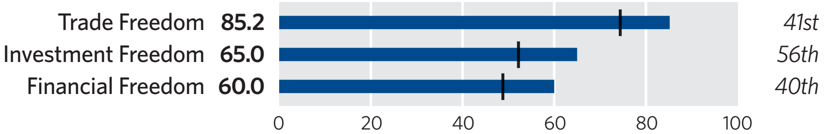
The top income tax rate is 35 percent, and the top corporate tax rate is 20 percent. Other taxes include a value-added tax (VAT) and an environment tax. The overall tax burden equals 26 percent of total domestic income, and government spending has moderated to a level equivalent to 34.2 percent of GDP. The budget deficit has been declining, and public debt has dropped to 39.4 percent of GDP, prompting an upgrade by some investment agencies.

REGULATORY EFFICIENCY



The process for registering and setting up private enterprises has become less time-consuming, but bureaucratic red tape and ineffective enforcement of regulations continue to hinder entrepreneurship. Completing licensing requirements still costs about twice the level of average annual income. Despite reform efforts, the labor market lacks dynamism due to lingering rigidities. A large informal sector persists. Monetary stability remains weak.

OPEN MARKETS

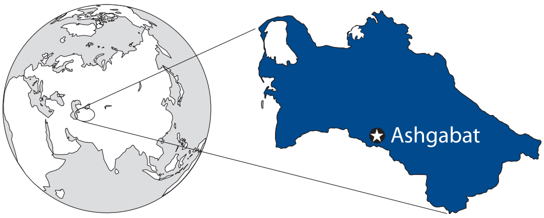


The trade-weighted average tariff rate is relatively low at 2.4 percent, but non-tariff barriers constrain trade freedom. Foreign investment is officially welcome, although restrictions remain in a number of sectors. All investors face excessive bureaucracy and frequent changes in the legal and regulatory environment. The financial system has undergone a rapid transformation, with greater transparency and competitiveness.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.7	Business Freedom	+1.1	Trade Freedom	-0.2
Freedom from Corruption	-2.0	Government Spending	+6.4	Labor Freedom	+3.1	Investment Freedom	-5.0
				Monetary Freedom	+1.4	Financial Freedom	0

TURKMENISTAN



World Rank: **169** Regional Rank: **39**

Turkmenistan's economic freedom score is 42.6, making its economy the 169th freest in the 2013 *Index*. Its score is 1.2 points lower than last year, with substantial declines in property rights and fiscal freedom. Turkmenistan is ranked 39th out of 41 countries in the Asia–Pacific region, and its overall score is significantly lower than the world and regional averages.

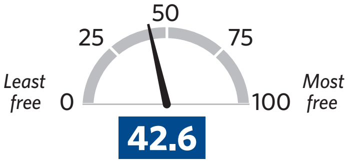
Turkmenistan remains a one-party state that intrudes deeply into many institutions and economic activities. Corruption has continued to erode the business environment, severely undermining the rule of law and encouraging cronyism. An inefficient regulatory framework further burdens potential entrepreneurs, discouraging private-sector growth and long-term development. The economy remains heavily reliant on the energy sector, which is dominated by state-owned enterprises and firms specifically chosen by the government for investment.

Marginal improvements have occurred as efforts have been made over the past few years to reduce subsidies and promote special development zones. However, these reforms have not had broad impact. Comprehensive measures to increase economic freedom for the whole of society, such as increasing business freedom and investment freedom, have not been implemented.

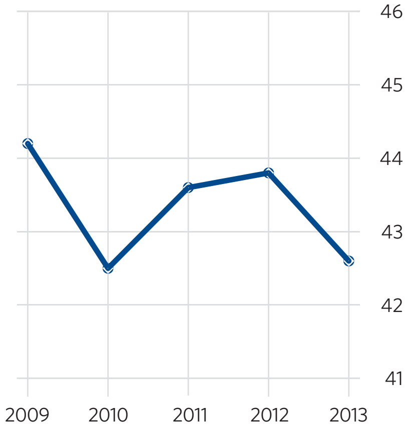
BACKGROUND: President Gurbanguly Berdymukhammedov was re-elected in February 2012 in elections regarded as flawed by international observers. The presidency controls all three branches of government, the economy, and the media. Berdymukhammedov's policies are somewhat more open than those of his predecessor, Saparmurad Niyazov (Turkmenbashi). He has encouraged some foreign investment in Turkmenistan, which exports gas, oil, and petrochemicals, primarily to Russia, China, and Iran, and claims to have the world's fifth-largest natural gas reserves. In 2010, new pipelines to China and northern Iran effectively ended Russia's control of Turkmenistan gas exports. Relations with Russia have deteriorated. The double-digit economic growth of recent years appeared to be slowing somewhat in 2012.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

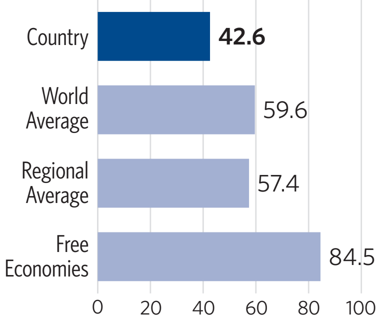
Economic Freedom Score



Freedom Trend



Country Comparisons



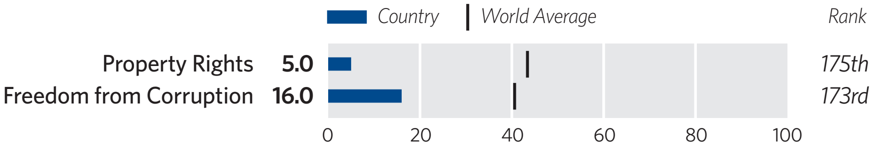
Quick Facts

Population: 5.5 million
GDP (PPP): $43.4 billion
14.7% growth in 2011
5-year compound annual growth 11.1%
$7,846 per capita
Unemployment: n/a
Inflation (CPI): 5.8%
FDI Inflow: $3.2 billion
Public Debt: 15.4% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

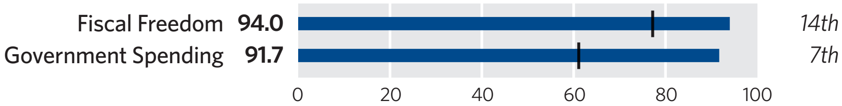
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



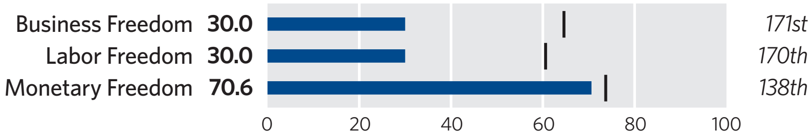
The legal system does not enforce contracts and property rights effectively. Laws are poorly developed, and judicial employees and judges are poorly trained and open to bribery. All land is owned by the government, and other ownership rights are limited. Laws to protect intellectual property rights are implemented arbitrarily if at all. Pirated copies of copyrighted and trademarked materials are widely available. Corruption remains rampant.

LIMITED GOVERNMENT



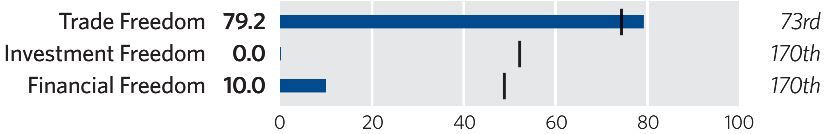
The income tax rate is a flat 10 percent, and the corporate tax rate is 8 percent. Other taxes include a value-added tax (VAT) and a property tax. The total tax burden equals nearly 21 percent of total domestic income. Government spending has risen to 16.7 percent of total domestic output. Budget surpluses have been recorded, and public debt remains below 20 percent of GDP. Gas exports to China have sustained government spending and revenues.

REGULATORY EFFICIENCY



The overall freedom to form and operate a business is very limited under the inefficient and non-transparent regulatory framework. The regulatory system is highly arbitrary, and enforcement is inconsistent. Personal relations with government officials are often required to cut through red tape. The public sector provides most jobs, and the informal sector remains an important source of employment. Monetary stability has been weak.

OPEN MARKETS



The trade-weighted average tariff rate is 2.9 percent, but customs procedures interfere with imports. The government controls most of the economy and restricts foreign participation to a few sectors. Foreign exchange accounts require government approval, as do all payments and transfers. The underdeveloped financial system remains heavily government-controlled, with 90 percent of all loans directed to state-owned enterprises.

Score Changes

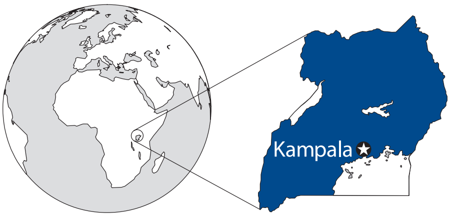
RULE OF LAW	
Property Rights	-5.0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	-4.4
Government Spending	-1.8

REGULATORY EFFICIENCY	
Business Freedom	0
Labor Freedom	0
Monetary Freedom	-0.4

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

UGANDA



World Rank: **79** Regional Rank: **8**

Uganda's economic freedom score is 61.1, making it the 79th freest economy in the 2013 *Index*. Its score is 0.8 point lower than last year due to declines in financial freedom, management of government spending, and freedom from corruption that offset improvements in investment freedom and monetary freedom. Uganda is ranked 8th out of 46 countries in the Sub-Saharan Africa region, and its overall score is above the world average.

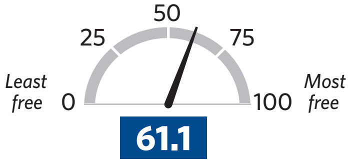
Uganda's overall competitiveness continues to be held back by an inefficient business environment and weak public administration. State-controlled enterprises dominate key sectors, perpetuating poor productivity throughout the economy. An opaque regulatory environment and a lack of policies to facilitate trade and investment hinder the emergence of a vibrant private sector.

The judiciary remains inefficient, with private property rights and contract remediation suffering from weak institutional support. Corruption is prevalent, particularly in the energy sector, which dominates much of the economy. Despite export-led growth based on relatively large petroleum reserves, the burdens of engagement with the global economy are difficult.

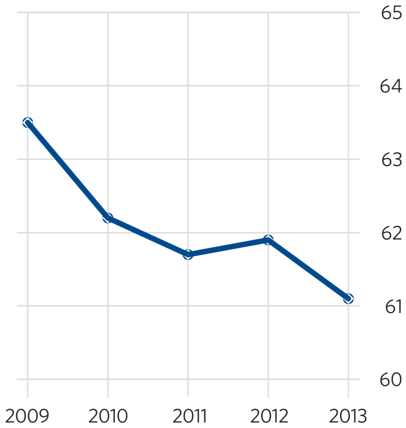
BACKGROUND: Milton Obote led Uganda to independence in 1962, suspended the constitution in 1966, and was ousted in 1971 by Idi Amin Dada. When Tanzanian forces ousted Amin in 1979, Obote returned to power until he was deposed by a military coup in 1986. Insurgent leader Yoweri Museveni took power. A multi-party government was established in 2005. After parliament abolished presidential term limits, Museveni won a third term in 2006 and a fourth in 2011. U.S. Special Forces are assisting the Uganda People's Defense Force in the hunt for Lord's Resistance Army leader Joseph Kony. Despite limited market reforms, more than a decade of relatively strong economic growth, and substantial natural resources, Uganda still has not overcome the poverty caused by years of bad economic policy. Agriculture and fishing employ about 80 percent of the workforce. Oil experts estimate that Uganda has 2 billion to 6 billion barrels of recoverable oil.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

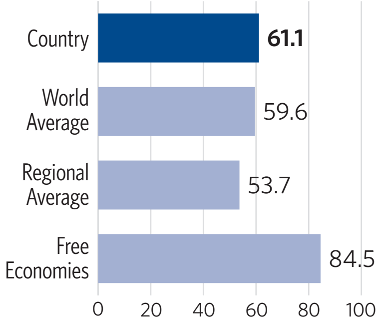
Economic Freedom Score



Freedom Trend



Country Comparisons



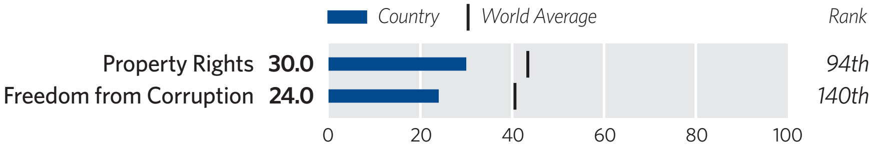
Quick Facts

Population: 35.2 million
GDP (PPP): $46.4 billion
6.7% growth in 2011
5-year compound annual growth 7.4%
$1,317 per capita
Unemployment: n/a
Inflation (CPI): 6.5%
FDI Inflow: $792.3 million
Public Debt: 29.2% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

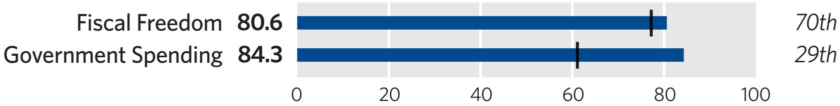
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



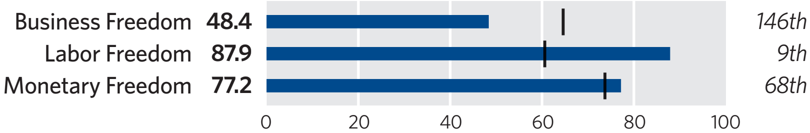
The rule of law remains weak, and the legal system is too inefficient to provide strong protection of property rights. The issue of land rights and titles is complicated by the existence of four different land tenure systems. The judicial system continues to be subject to delays and political interference. Uganda has the highest bribery levels in East Africa, and corruption is widespread.

LIMITED GOVERNMENT



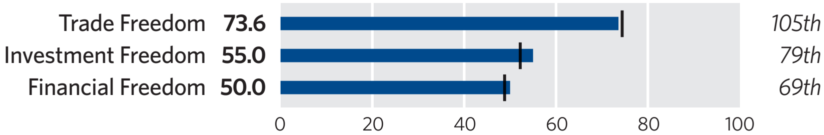
The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals 11.7 percent of total domestic income. Government spending has increased to a level equivalent to 22.9 percent of GDP. Budget deficits have been expanding because of expansionary fiscal policy meant to boost infrastructure. Public debt is around 30 percent of total domestic output.

REGULATORY EFFICIENCY



Although there is no minimum capital requirement, establishing a business takes more than the world average of 30 days and seven procedures. Completing licensing requirements costs over eight times the level of average annual income and takes more than 100 days. Labor regulations are relatively flexible, but a well-functioning labor market is not fully developed. Inflation has moderated somewhat.

OPEN MARKETS

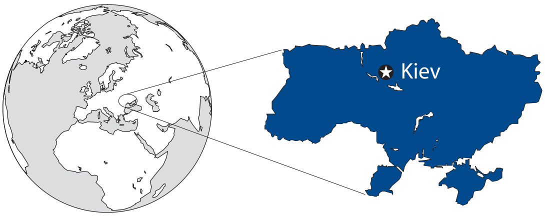


The trade-weighted average tariff rate is relatively high at 8.2 percent, and non-tariff barriers further constrain trade freedom. Although foreign investment is allowed in most sectors of the economy, the investment regime is complex and non-transparent. Access to financial services has expanded gradually across the country, but the development of a modern financial sector has largely stalled in the absence of needed structural reforms.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.2	Business Freedom	-0.7	Trade Freedom	0
Freedom from Corruption	-1.0	Government Spending	-8.7	Labor Freedom	0	Investment Freedom	+10.0
				Monetary Freedom	+2.6	Financial Freedom	-10.0

UKRAINE



World Rank: **161** Regional Rank: **43**

Ukraine's economic freedom score is 46.3, making its economy the 161st freest in the 2013 *Index*. Its score is 0.2 point higher than last year, with modest gains in monetary freedom and business freedom that outweigh declines in labor freedom and freedom from corruption. Ukraine is ranked last out of 43 countries in the Europe region, and its overall score is lower than the world average.

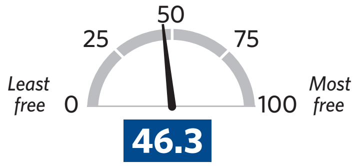
Economic freedom continues to be severely repressed in Ukraine. Previous reforms, including implementation of competitive tax rates and minor regulatory changes, have failed to spur broad-based economic development or the emergence of a more dynamic private sector.

Such reforms are more than offset by poor policies and weak institutional structures throughout the economy. Corruption is pervasive, laws are poorly administered, and contract enforcement and protection of property rights are seriously deficient. Progress in privatization and attracting foreign investment has been meager. The primarily cash-based economy is plagued by a lack of sufficient capitalization in the state-controlled financial sector. The potential benefits of trade freedom are undermined by institutional controls on capital and investment.

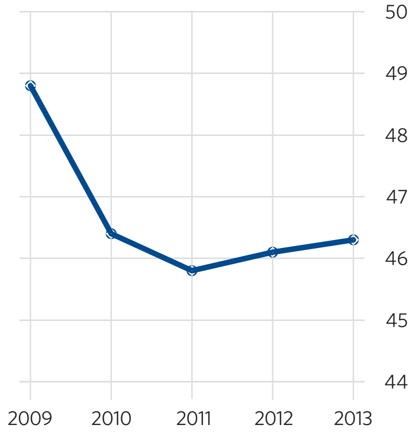
BACKGROUND: Ukraine has been independent since the collapse of the Soviet Union in 1991. Since taking office in 2010, President Victor Yanukovych has fast-tracked rapprochement with Russia, harassed the political opposition, and impeded press freedom. Ukraine joined the World Trade Organization in 2008 and the European Union's Eastern Partnership in 2009; ratification of an Association Agreement regulating cooperation between Kiev and Brussels has been delayed because of concerns regarding Ukraine's rule of law and judicial independence. In addition to $3 billion in debt payments due to the International Monetary Fund in 2012, Ukraine needs to repay $2 billion to Russia's VTO bank and is trying to borrow $4 billion in the international markets. Ukraine has well-developed industry, rich agricultural lands, and significant natural resources and is an important energy transit route from Russia to Western Europe.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

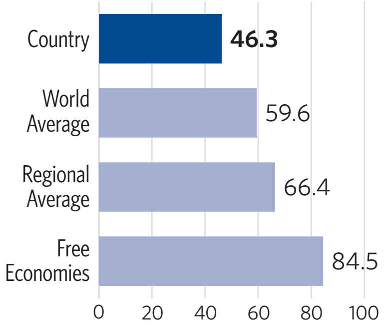
Economic Freedom Score



Freedom Trend



Country Comparisons



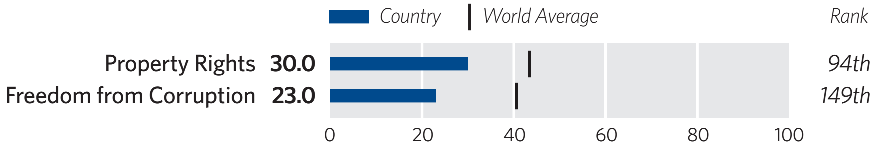
Quick Facts

Population: 45.6 million
GDP (PPP): $329.5 billion
5.2% growth in 2011
5-year compound annual growth 0.6%
$7,233 per capita
Unemployment: 8.4%
Inflation (CPI): 8.0%
FDI Inflow: $7.2 billion
Public Debt: 36.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

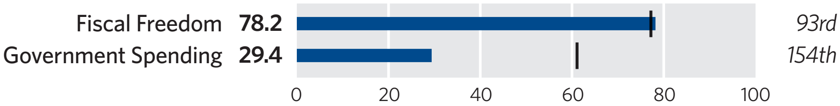
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



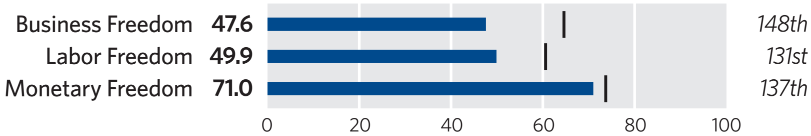
The rule of law is uneven across the country, and protection of real and intellectual property rights is weak. The judiciary is subject to executive branch influence, criminal pressure, and corruption. Contracts are not well enforced, and expropriation is always a possibility. Corruption, which pervades all levels of the executive branch and all spheres of economic activity, is a major obstacle to foreign investment.

LIMITED GOVERNMENT



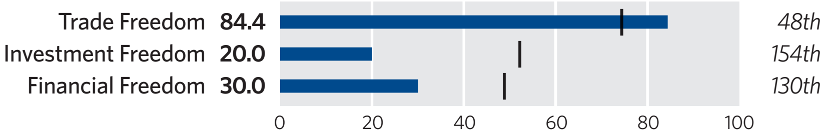
The standard income tax rate is 17 percent, and the standard corporate tax rate is 21 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals 36.9 percent of total domestic income. Government spending has risen to 48.5 percent of GDP. The budget deficit has been high, averaging near 5 percent of GDP in the past three years. Public debt is over 35 percent of GDP.

REGULATORY EFFICIENCY



Despite progress in regulatory reform, administrative complexity often creates uncertainty in commercial transactions. The business start-up process has been streamlined, but completing licensing requirements is still time-consuming and costs more than 10 times the level of average annual income. The labor code is outmoded and lacks flexibility. The government influences prices through state-owned enterprises. Monetary stability remains weak.

OPEN MARKETS

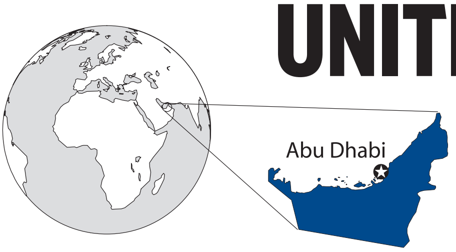


The trade-weighted average tariff rate is low at 2.8 percent, but there are some non-tariff barriers that constrain trade freedom. The investment framework remains underdeveloped with several sectoral restrictions, and bureaucratic requirements deter growth in private investment. The large number of non-performing loans continues to be a drag on the banking system.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	0	Business Freedom	+1.4	Trade Freedom	0
Freedom from Corruption	-1.0	Government Spending	0	Labor Freedom	-1.3	Investment Freedom	0
				Monetary Freedom	+3.3	Financial Freedom	0

UNITED ARAB EMIRATES



World Rank: **28** Regional Rank: **3**

The United Arab Emirates' economic freedom score is 71.1, making its economy the 28th freest in the 2013 *Index*. Its score is 1.8 points higher than last year, reflecting substantial improvements in business freedom, management of government spending, freedom from corruption, and monetary freedom. The UAE is ranked 3rd out of 15 countries in the Middle East/North Africa region, and its overall score is higher than the world and regional averages.

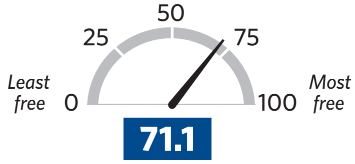
Advancing economic freedom for the fifth consecutive year, the United Arab Emirates has regained the rank of "mostly free" that it last held in 2003. The economy performs competitively in many areas of economic freedom. Barriers to trade are quite low, and commercial operations are aided by regulations that support open-market policies. With a transparent and favorable business climate and a high degree of political stability, the UAE has created a dynamic environment for entrepreneurs.

The perceived level of corruption has declined, but respect for the rule of law is undermined by a relatively inefficient judicial system that is vulnerable to political influence. Despite some progress, the overall investment regime remains restrictive.

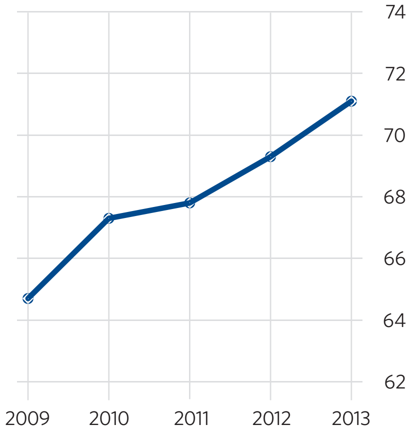
BACKGROUND: The United Arab Emirates is a federation of seven monarchies: Abu Dhabi, Ajman, Dubai, Fujairah, Ras Al-Khaimah, Sharjah, and Umm al-Qaiwain. The government responded to demands for reform during the "Arab Spring" by initiating a $1.6 billion program to improve the infrastructure in the poorer northern emirates and expanding the number of people allowed to vote in the September 2011 elections for the Federal National Council. Abu Dhabi accounts for about 90 percent of oil production; Dubai is the center of finance, commerce, transportation, and tourism. Free trade zones that permit 100 percent foreign ownership with zero taxation help to diversify the economy, but UAE nationals rely heavily on public-sector employment and subsidized services. Hydrocarbons account for roughly 80 percent of total government revenues.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

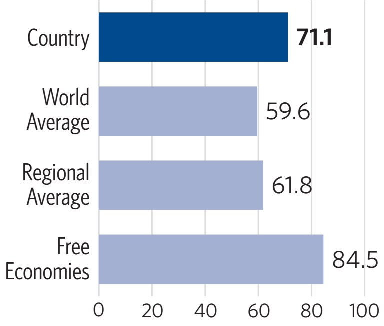
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

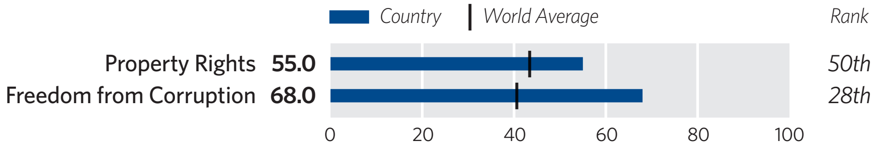
Population: 5.4 million
GDP (PPP): $258.8 billion
4.9% growth in 2011
5-year compound annual growth 2.8%
$48,158 per capita
Unemployment: 12.9%
Inflation (CPI): 0.9%
FDI Inflow: $7.7 billion
Public Debt: 16.9% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

UNITED ARAB EMIRATES (continued)

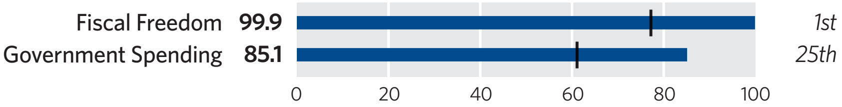
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



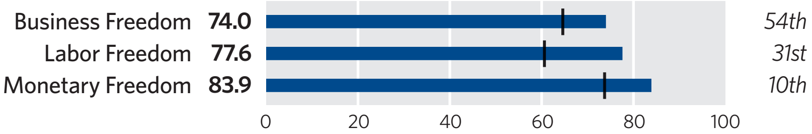
The rule of law is generally well maintained, but the ruling families exercise considerable influence on the judiciary. All land in Abu Dhabi, largest of the seven emirates, is government-owned. Non-citizens are allowed to own, buy, sell, rent, and mortgage property and invest in special areas. The government has improved intellectual property rights training requirements for judges. Corruption is present at modest levels.

LIMITED GOVERNMENT



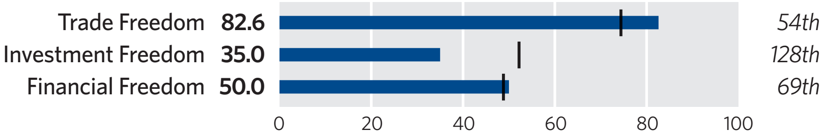
The UAE has no income tax and no federal-level corporate tax. Different corporate tax rates exist for certain activities in some emirates. There is no general sales tax, and the overall tax burden is quite low at 7.1 percent of total domestic income. Government spending is equivalent to 22.3 percent of total domestic output. Large oil revenues have kept the government budget in surplus and public debt below 20 percent of GDP.

REGULATORY EFFICIENCY



Regulatory efficiency has improved. There is no minimum capital requirement for establishing a business, which takes much less than the world average of 30 days. Licensing requirements have been streamlined and are less costly. Employment regulations are relatively flexible, and the non-salary cost of employing a worker is moderate. Monetary stability has been maintained, with inflationary pressure under control.

OPEN MARKETS

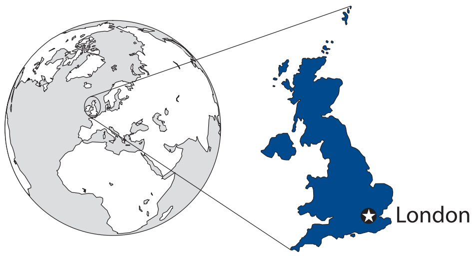


The trade-weighted average tariff rate is modest at 3.7 percent, but some non-tariff barriers add to the cost of trade. Foreign investors do not receive national treatment, and their ability to invest in land is limited. In many cases, at least 51 percent of a business must be owned by a UAE national. The modern and competitive financial sector provides a full range of services, but the state presence is considerable. Capital markets are open and vibrant.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	0	Business Freedom	+6.0	Trade Freedom	0
Freedom from Corruption	+5.0	Government Spending	+5.0	Labor Freedom	-1.2	Investment Freedom	0
				Monetary Freedom	+3.0	Financial Freedom	0

UNITED KINGDOM



World Rank: **14** Regional Rank: **5**

The United Kingdom's economic freedom score is 74.8, making its economy the 14th freest in the 2013 *Index*. Its score is 0.7 point higher than last year, reflecting efforts to improve control of government spending. The U.K. is ranked 5th out of 43 countries in the Europe region.

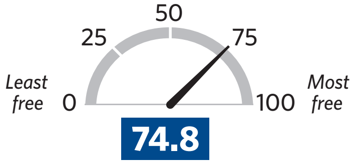
With a legal system that enforces contracts and property rights effectively, the U.K. has long benefited from openness to global trade and investment. Reforms undertaken in recent years include measures to curb the growth of government spending and a series of corporate tax rate cuts that will continue until 2014. Ending the steady erosion of economic freedom during the past five years, Britain's overall score took an upturn in the 2013 *Index*.

However, the British economy continues to struggle to emerge from the economic slowdown, with the prospects for swift growth complicated by the ongoing European sovereign debt crisis, and significant structural reforms are still needed. Restoring the soundness of public finances remains especially critical and will require a sustained commitment to real downsizing of government spending.

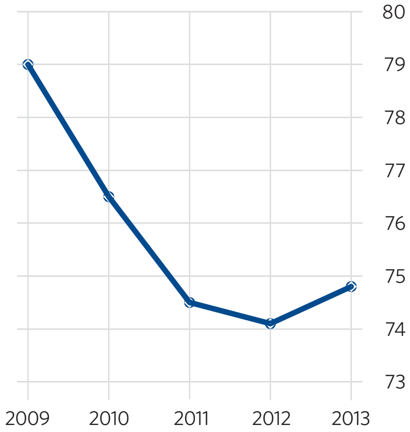
BACKGROUND: Following the market reforms instituted by Prime Minister Margaret Thatcher in the 1980s, Britain experienced steady economic growth, outpacing other large European Union economies throughout the 1990s. However, the government's size and spending grew significantly under successive Labour governments. The budget deficit was exacerbated by Labour's bailout of several British banks in 2008 and by excessive government borrowing. Prime Minister David Cameron's Conservative–Liberal Democrat coalition government, formed after the 2010 general election, has implemented austerity measures that have cut public services but maintained government spending on the National Health Service and international development. The economy returned to recession in early 2012. Cameron vetoed Britain's participation in the EU's Fiscal Compact and has been at the forefront of attempts to cap the EU's annual and long-term budgets.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

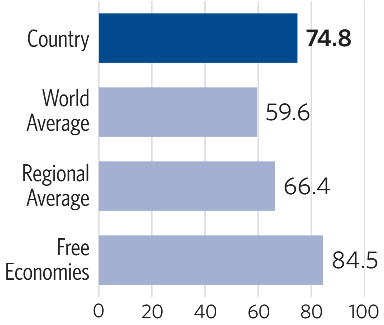
Economic Freedom Score



Freedom Trend



Country Comparisons



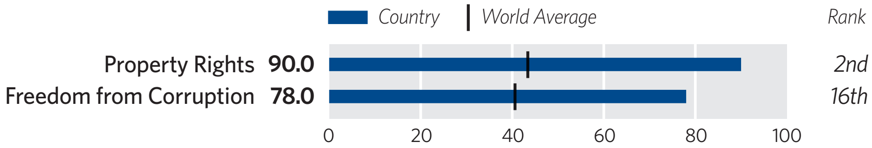
Quick Facts

Population: 62.6 million
GDP (PPP): $2.3 trillion
0.7% growth in 2011
5-year compound annual growth 0.1%
$36,090 per capita
Unemployment: 8.0%
Inflation (CPI): 4.5%
FDI Inflow: $53.9 billion
Public Debt: 82.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

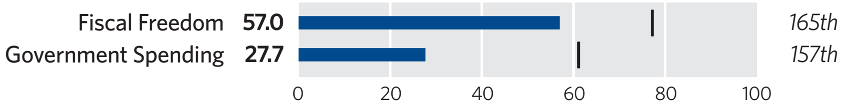
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



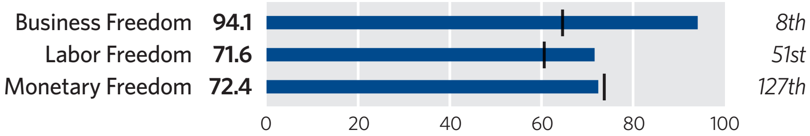
The rule of law is well established within an independent legal framework. Private property rights and contracts are very secure, and the court system is efficient. Protection of intellectual property rights is effective. Strong anti-corruption measures discourage bribery of public officials and support integrity within the government. The Bribery Act, which came into force in 2011, provides a modern legal framework to combat bribery.

LIMITED GOVERNMENT



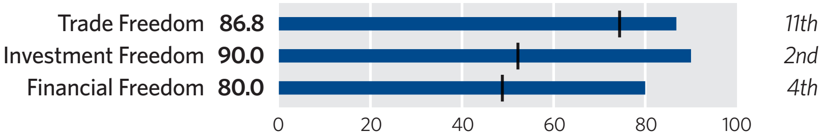
The top income tax rate is 50 percent, and the top corporate tax rate has been reduced to 24 percent. Other taxes include a value-added tax (VAT) and an environment tax. The overall tax burden equals 34.3 percent of total domestic income. As a result of austerity measures imposed in 2010, government spending has fallen to 49.1 percent of GDP, and the deficit has begun to narrow. Public debt has climbed to over 80 percent of total domestic output.

REGULATORY EFFICIENCY



The efficient and transparent regulatory framework encourages entrepreneurship. With no minimum capital required, it takes 13 days to establish a business. The labor market is relatively flexible. The non-salary cost of employing a worker is moderate, and severance payments are not overly burdensome. The government controls virtually all prices for health care services. Monetary stability has been well maintained.

OPEN MARKETS

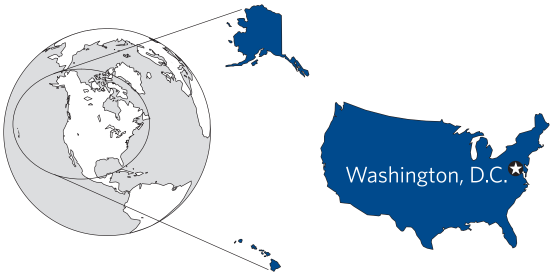


The trade-weighted average tariff rate is a low 1.6 percent as in other members of the European Union, with relatively few non-tariff barriers that increase the cost of trade. Under the efficient investment regime, foreign investment is welcomed without heavy bureaucratic interference. The overall stability of the financial system has been restored. The banking sector, although under strain, remains competitive.

Score Changes

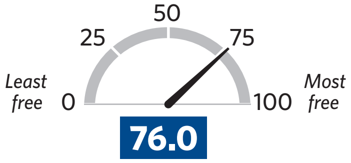
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.6	Business Freedom	−0.6	Trade Freedom	−0.3
Freedom from Corruption	+2.0	Government Spending	+6.2	Labor Freedom	+0.1	Investment Freedom	0
				Monetary Freedom	−1.5	Financial Freedom	0

UNITED STATES



World Rank: **10** Regional Rank: **2**

Economic Freedom Score



The United States, with an economic freedom score of 76, has lost ground again in the 2013 *Index*. Its score is 0.3 point lower than last year, with declines in monetary freedom, business freedom, labor freedom, and fiscal freedom. The U.S. is ranked 2nd out of three countries in the North America region, and its score remains well above the world and regional averages.

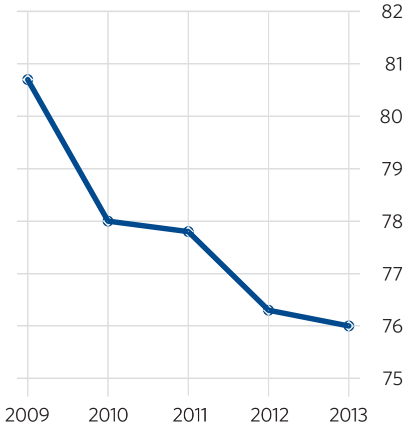
Registering a loss of economic freedom for the fifth consecutive year, the U.S. has recorded its lowest *Index* score since 2000. Dynamic entrepreneurial growth is stifled by ever-more-bloated government and a trend toward cronyism that erodes the rule of law. More than three years after the end of recession in June 2009, the U.S. continues to suffer from policy choices that have led to the slowest recovery in 70 years. Businesses remain in a holding pattern, and unemployment is close to 8 percent. Prospects for greater fiscal freedom are uncertain due to the scheduled expiration of previous cuts in income and payroll taxes and the imposition of new taxes associated with the 2010 health care law.

Restoring the U.S. to a place among the world's "free" economies will require significant policy reforms, particularly in reducing the size of government, overhauling the tax system, transforming costly entitlement programs, and streamlining regulations.

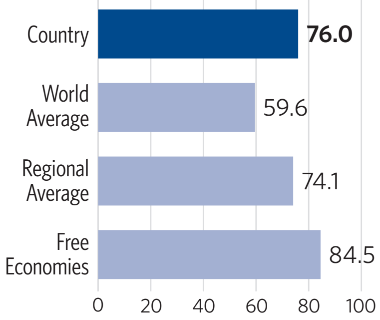
BACKGROUND: The U.S. economy, the world's largest, has not recovered fully from the 2008 financial crisis and ensuing recession. Under Democratic President Barack Obama, the federal system of government, designed to reserve significant powers to the state and local levels, has been strained by the national government's rapid expansion. Spending at the national level rose to over 25 percent of GDP in 2010, and gross public debt surpassed 100 percent of GDP in 2011. A 2010 health care bill greatly expanded the central government's regulatory role, and the Dodd–Frank financial overhaul bill roiled credit markets. The election of a Republican Party majority in the House of Representatives in late 2010 slowed spending growth, but the divided government that has left economic policy in flux seemed likely to continue following the reelection of President Obama in 2012.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



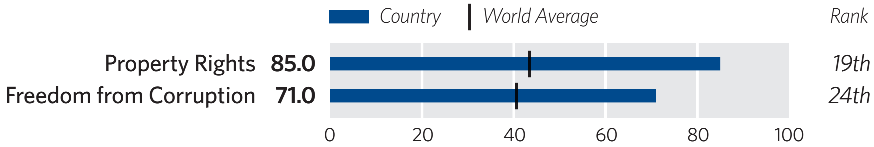
Quick Facts

Population: 311.9 million
GDP (PPP): $15.1 trillion
1.7% growth in 2011
5-year compound annual growth 0.5%
$48,387 per capita
Unemployment: 7.9%
Inflation (CPI): 3.1%
FDI Inflow: $226.9 billion
Public Debt: 104.8% of GDP (2012 est.)

2011 data unless otherwise noted.
Data compiled as of September 2012.

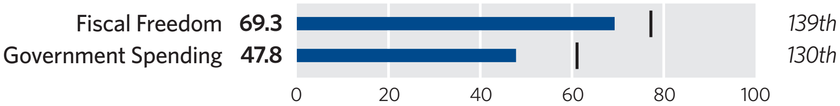
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



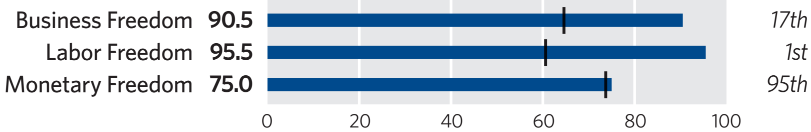
Although property rights are guaranteed and the judiciary functions independently and predictably, the government's treatment of the property rights of certain bondholders during the 2009 bailout of the automotive industry raised long-term questions about the rule of law. Corruption is a concern as the cronyism and economic rent-seeking associated with the growth of government have undermined institutional integrity.

LIMITED GOVERNMENT



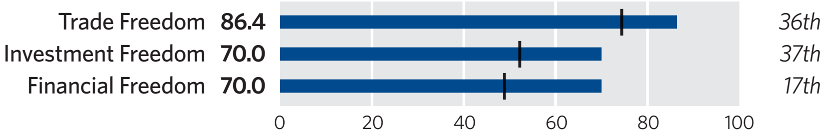
In the absence of comprehensive tax reforms, the top individual and corporate tax rates remained at 35 percent as of mid-2012. Other taxes include a capital gains tax and excise taxes. The overall tax burden equals 24.8 percent of total domestic income. Total government spending continues to be around 42 percent of GDP. Budget deficits have exceeded $1 trillion in each year since 2009.

REGULATORY EFFICIENCY



Business start-up procedures, regulated primarily at the state level, are efficient, and the labor market remains largely flexible. However, over 100 new major federal regulations have been imposed on business operations since early 2009 with annual costs of more than $46 billion. Although core inflation remains muted, the failure to adhere to a rules-based monetary policy has introduced price distortions and long-term inflation risks.

OPEN MARKETS



The trade-weighted average tariff rate is 1.8 percent, and additional barriers such as anti-dumping laws and "Buy American" rules add to the cost of trade. Investment freedom is hampered by some sectoral limits. Although detailed regulations have been emerging only gradually, the financial reforms adopted in 2010 are likely to increase costs and uncertainty, complicating the banking sector's recovery.

Score Changes

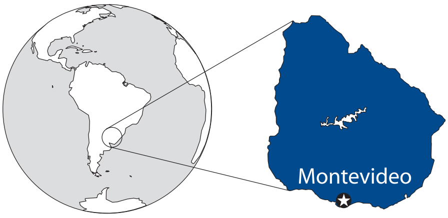
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.5
Government Spending	+1.1

REGULATORY EFFICIENCY	
Business Freedom	-0.6
Labor Freedom	-0.3
Monetary Freedom	-2.2

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

URUGUAY



World Rank: **36** Regional Rank: **4**

Uruguay's economic freedom score is 69.7, making its economy the 36th freest in the 2013 *Index*. Its score is 0.2 point lower than last year, with declines in labor freedom, business freedom, and monetary freedom outweighing improvements in fiscal freedom and freedom from corruption. Uruguay is ranked 4th out of 29 countries in the South and Central America/Caribbean region.

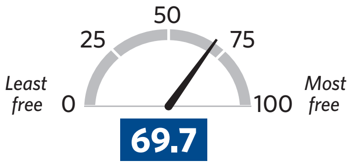
Uruguay continues to perform competitively in many of the four pillars of economic freedom. The foundations of economic freedom are among the strongest in the region and solid in comparison to other countries in the world. The relatively independent and efficient judiciary provides strong protection of property rights and sustains the rule of law. The perceived level of corruption has declined, enhancing the prospects for long-term economic development.

A sensible regulatory environment and policies that support global trade and investment strengthen overall competitiveness, although capital markets remain underdeveloped. Despite the challenging global economic environment over the past five years, Uruguay has restored foreign investment to pre-crisis levels and achieved annual growth rates averaging over 6 percent.

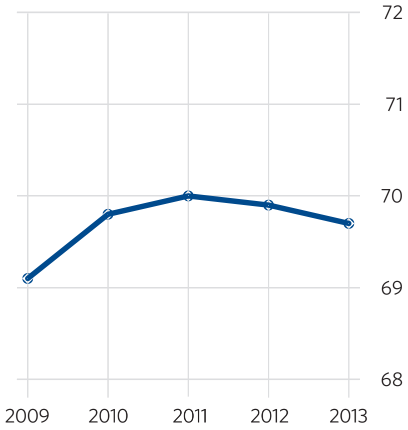
BACKGROUND: Uruguay has a large middle class, high GDP growth rates, and low levels of extreme poverty. The leftist Frente Amplio won a majority in the 2009 parliamentary elections, and former guerrilla Jose Mujica of the Frente was elected president in 2010. Uruguay is a founding member of MERCOSUR, a Southern Cone trade organization, and signed a Trade and Investment Framework Agreement with the United States in 2007. The economy is based largely on exports of commodities like milk, beef, rice, and wool, but wood and software are gaining export market share. Uruguay offers excellent banking services, including branches of some of the world's largest banks, but controversy has erupted over an information-sharing agreement with Argentina. State involvement in the economy is substantial, and further deregulation is needed in telecommunications, energy, and public utilities.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

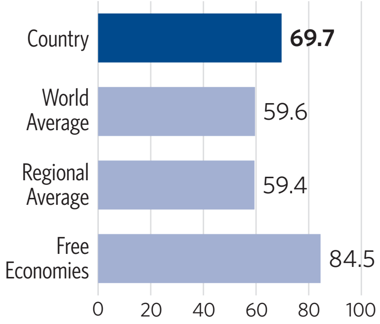
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 3.4 million

GDP (PPP): $50.9 billion

5.7% growth in 2011

5-year compound annual growth 6.1%

$15,113 per capita

Unemployment: 6.0%

Inflation (CPI): 8.1%

FDI Inflow: $2.2 billion

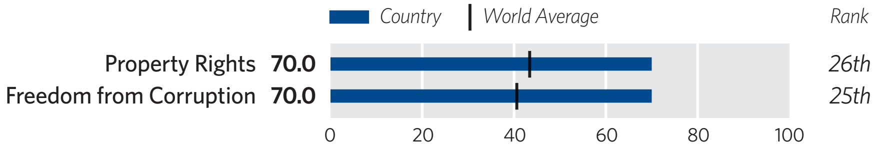
Public Debt: 54.2% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

URUGUAY (continued)

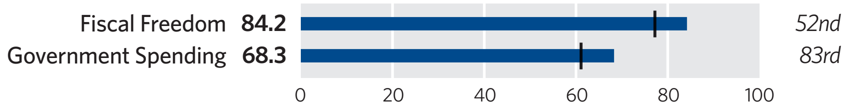
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



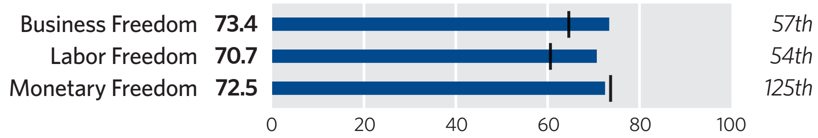
Private property is generally secure, and expropriation is unlikely. Contracts are enforced, although the judiciary tends to be slow. The government has established a Settlement and Arbitration Center to handle investment disputes. Regulations protecting copyrights are in place, and aggressive anti-piracy campaigns have led to several successful prosecutions. Government integrity and transparency have been relatively well maintained.

LIMITED GOVERNMENT



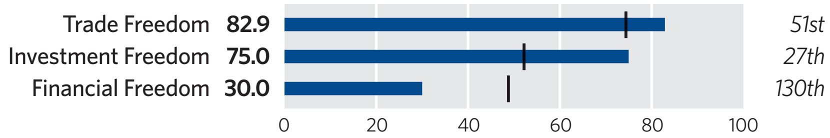
The top income and corporate tax rates are 25 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The overall tax burden equals 18.1 percent of total domestic income. Government spending remains at around 32.5 percent of GDP. Small budget deficits have been declining, and public debt has fallen to below 55 percent of GDP. Minor changes in the 2012 budget are producing extra revenue, helping to improve the deficit.

REGULATORY EFFICIENCY



Recent reforms have considerably enhanced regulatory efficiency. It now takes five procedures and seven days to start a business, in comparison to the world averages of seven procedures and 30 days. The cost of completing licensing requirements has also been reduced. The non-salary cost of employing a worker is low, but restrictions on work hours are not flexible. Inflation has been relatively high, but monetary stability remains under control.

OPEN MARKETS

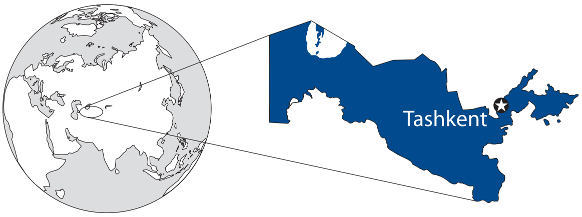


The trade-weighted average tariff rate is 3.6 percent, and some lingering non-tariff barriers add to the cost of trade. Foreign investments do not need prior authorization or registration, and the investment regime is relatively efficient. The financial sector continues to evolve, but capital markets are underdeveloped and concentrated in government debt. The state continues to influence the allocation of credit.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+3.0	Business Freedom	-1.5	Trade Freedom	0
Freedom from Corruption	+1.0	Government Spending	-0.4	Labor Freedom	-3.3	Investment Freedom	0
				Monetary Freedom	-0.9	Financial Freedom	0

UZBEKISTAN



World Rank: **162** Regional Rank: **35**

Uzbekistan's economic freedom score is 46, making its economy the 162nd freest in the 2013 *Index*. Its score is 0.2 point higher than last year, reflecting advancements in business freedom, control of government spending, and labor freedom. Uzbekistan is ranked 35th out of 41 countries in the Asia–Pacific region, and its overall score is much lower than the world average.

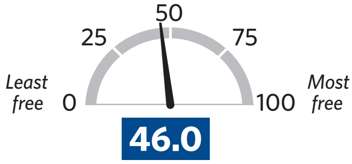
Uzbekistan's record on economic reform has been dismal, and more broadly based development continues to be severely constrained by long-standing institutional weaknesses that undermine the foundations of economic freedom. The inefficient legal framework remains highly vulnerable to political interference, and corruption further undermines the already fragile rule of law.

In other key policy areas, heavy state involvement in the leading economic sectors has dampened private-sector dynamism and led to economic stagnation in non-energy sectors. The government restricts foreign investment to a few handpicked partners, while the state-controlled financial system limits credit access to political favorites. Burdensome and opaque regulatory systems further limit private-sector activity.

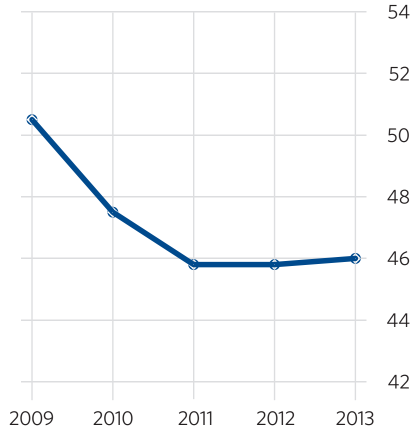
BACKGROUND: Authoritarian President Islam Karimov has been in power since the late 1980s. Relations with the United States and the European Union have improved due to cooperation in fighting Islamist terrorism. Uzbekistan has guaranteed the U.S. and Germany limited access to the Termez air base for operations in Afghanistan. Violations of human rights remain a serious concern. Uzbekistan has suspended its participation in the Russia-dominated Collective Security Treaty Organization. The economy depends heavily on natural gas, oil, gold, uranium, and cotton exports, and exports of gas to China are now in the range of 2 billion–4 billion cubic meters (BCM) annually. Uzbekistan has secured a $2.54 billion loan from a consortium of private banks to build the Ustyurt gas and chemical complex, which plans to produce 4.5 BCM of gas in 2016.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

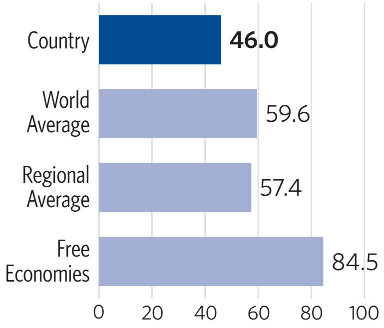
Economic Freedom Score



Freedom Trend



Country Comparisons



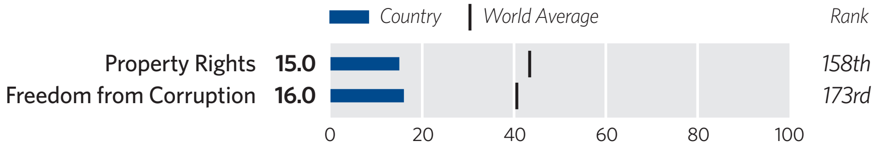
Quick Facts

Population: 28.8 million
GDP (PPP): $95.2 billion
8.3% growth in 2011
5-year compound annual growth 8.7%
$3,302 per capita
Unemployment: 1.0%
Inflation (CPI): 12.8%
FDI Inflow: $1.4 billion
Public Debt: 9.1% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

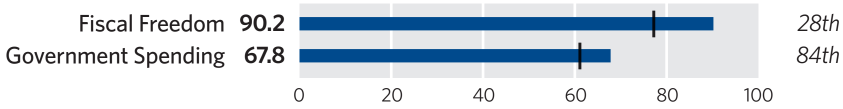
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



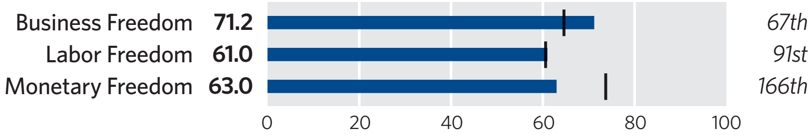
Property ownership is generally respected by local and central authorities, although it can be subverted by the government. The legal framework remains poor, and the executive influences the judiciary. There is no general system for registration of liens on chattel property. Court procedures fall short of international standards, and expropriation by powerful figures able to act with impunity is possible. Corruption is rampant.

LIMITED GOVERNMENT



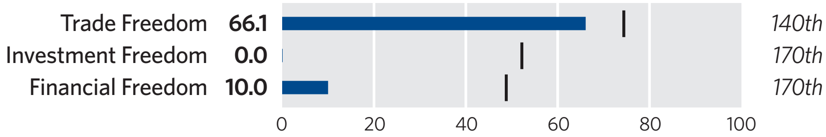
The top income tax rate is 22 percent, and the top corporate tax rate is 9 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals about 20.4 percent of total domestic income. Government spending has reached a level equivalent to 32.8 percent of GDP. The budget is in surplus, and debt is under 10 percent of GDP. Fiscal risks have grown due to fears of a decline in energy revenues from Europe and Russia.

REGULATORY EFFICIENCY



Despite some progress, the regulatory system lacks transparency and clarity, and inconsistent enforcement of regulations injects considerable uncertainty into business decision-making. The business start-up process has been streamlined, but completing licensing requirements remains time-consuming. The labor market lacks flexibility, and employment in the informal sector is substantial. Monetary stability has worsened as inflation has increased.

OPEN MARKETS



The trade-weighted average tariff rate is somewhat high at 6.9 percent, and non-tariff barriers interfere significantly with trade freedom. The investment regime, lacking transparency and efficiency, remains unfavorable to dynamic investment growth. The financial sector is subject to heavy state intervention. Along with the high costs of financing, the banking sector's limited capacity for financial intermediation hurts the private sector.

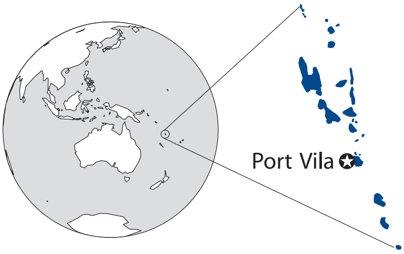
Score Changes

RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	-4.2
Government Spending	+2.9

REGULATORY EFFICIENCY	
Business Freedom	+3.6
Labor Freedom	+0.9
Monetary Freedom	-1.2

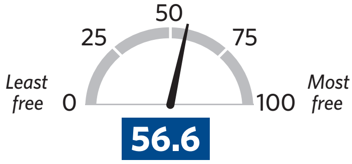
OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0



VANUATU

World Rank: **109** Regional Rank: **21**

Economic Freedom Score



Vanuatu’s economic freedom score is 56.6, making its economy the 109th freest in the 2013 *Index*. Its score is unchanged since last year, with improvements in labor freedom, monetary freedom, and control of government spending offset by declines in trade freedom, business freedom, and freedom from corruption. Vanuatu is ranked 21st out of 41 countries in the Asia–Pacific region, and its overall score is below the world average.

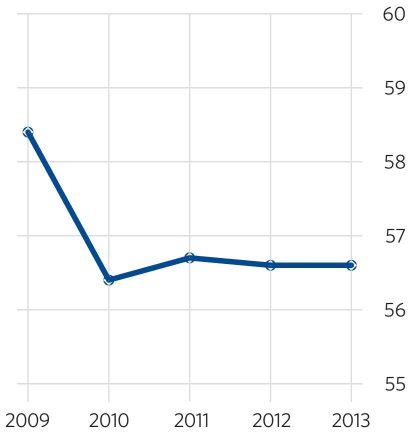
Vanuatu has taken steps to enhance regulatory efficiency and better integrate its economy into global commerce. After 17 years of negotiations, the country officially became a member of the World Trade Organization in 2012.

Despite progress in sustaining economic expansion of around 4 percent on average over the past five years, improvements in the investment and business climate are needed to generate more broadly based economic expansion. The lack of political will to undertake deeper institutional reforms continues to slow the emergence of a dynamic private sector. Property rights are poorly protected, and inadequate physical and legal infrastructure deters growth in long-term investment. Lingering corruption further undermines the rule of law and increases the cost of conducting business.

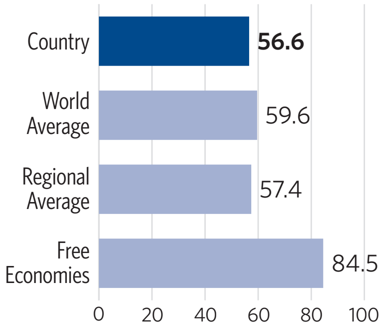
BACKGROUND: The Republic of Vanuatu, 83 islands spread over 4,500 square miles of the South Pacific, achieved independence in 1980. Formerly administered by a British–French condominium, it is today a parliamentary democracy that remains divided between its English-speaking and French-speaking citizens. Vanuatu has largely avoided the political unrest experienced by several of its neighbors. However, controversy rocked the country in 2010 and 2011 when the election of Prime Minister Sato Kilman was declared unconstitutional. The controversy ended with Kilman’s re-election in June 2011. The economy is dominated by tourism and agriculture, and over 80 percent of the population is involved in farming, which accounts for roughly 73 percent of GDP.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



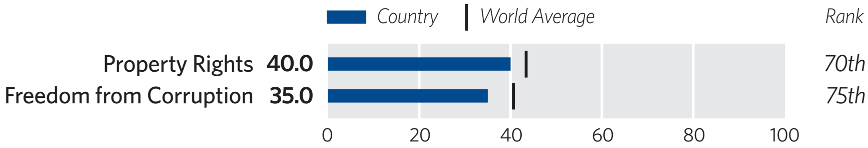
Quick Facts

Population: 0.2 million
GDP (PPP): $1.2 billion
3.3% growth in 2011
5-year compound annual growth 4.3%
$4,916 per capita
Unemployment: n/a
Inflation (CPI): 1.2%
FDI Inflow: $58.2 million
Public Debt: 20.0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

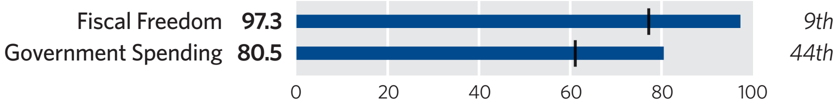
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



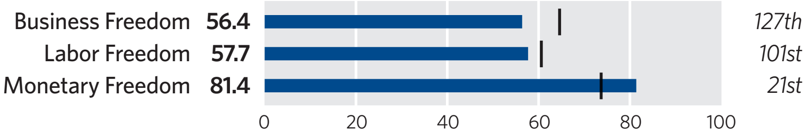
Vanuatu has a fairly effective legal system based on British common law, but the judicial process is extremely slow. The constitution states that village or island courts presided over by chiefs should be established by parliament to deal with questions of customary law. Land disputes are a constant source of tension. The law provides criminal penalties for official corruption, but enforcement has not been aggressive.

LIMITED GOVERNMENT



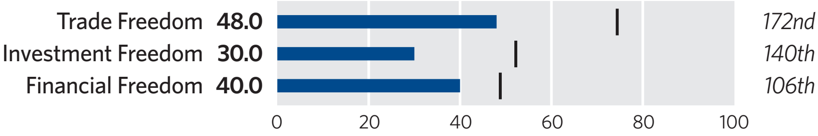
There is no individual or corporate income tax. Taxes include a value-added tax (VAT) and import duties. The overall tax burden equals 16.5 percent of total domestic income. Government spending has reached a level equivalent to 25.5 percent of GDP. The budget balance has been in small deficit for several years. Growth has been strong on high commodity prices and construction, contributing to increased government revenues.

REGULATORY EFFICIENCY



The regulatory framework remains complex and non-transparent. The business start-up process, although it does not require minimum capital, takes more than the world average of seven procedures and 30 days. Completing licensing requirements costs over four times the level of average annual income and takes over 50 days. Labor codes are outmoded, and the formal labor market is not fully developed. Inflation has been modest.

OPEN MARKETS



The trade-weighted average tariff rate is very high at 18.5 percent, and non-tariff barriers further increase the cost of trade and distort the free flow of goods and services. Inadequate infrastructure and heavy state involvement deter long-term investment. Foreign investors may repatriate capital but may not own land. The financial sector remains rudimentary. Access to credit and formal banking services remains low.

Score Changes

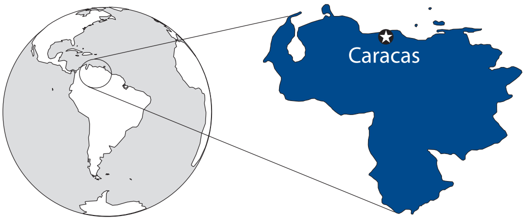
RULE OF LAW	
Property Rights	0
Freedom from Corruption	–1.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.3
Government Spending	+0.6

REGULATORY EFFICIENCY	
Business Freedom	–2.9
Labor Freedom	+7.0
Monetary Freedom	+3.0

OPEN MARKETS	
Trade Freedom	–7.1
Investment Freedom	0
Financial Freedom	0

VENEZUELA



World Rank: **174** Regional Rank: **28**

Venezuela's economic freedom score is 36.1, making its economy the 174th freest in the 2013 *Index*. Its score has decreased by 2.0 points since last year, reflecting deteriorations in business freedom, labor freedom, and freedom from corruption and an explosive increase in government spending in the run-up to 2012 elections. Venezuela is ranked 28th out of 29 countries in the South and Central America/Caribbean region, and its overall score has recorded one of the 10 largest declines in the 2013 *Index*.

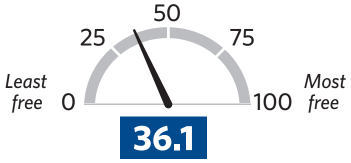
The foundations of economic freedom in Venezuela continue to deteriorate, severely hampered by structural and institutional problems. With the judicial system increasingly vulnerable to political interference, corruption is prevalent, and the rule of law is weak across the country.

The state's presence in economic activity has increased through nationalization of industry. Heavily dependent on the oil sector, which accounts for 95 percent of exports, the economy suffers from a lack of dynamism. Inefficient and non-transparent regulatory and judicial frameworks obstruct prospects for long-term development. The lack of access to financing precludes entrepreneurial growth, and the investment regime lacks transparency and remains under tight state control.

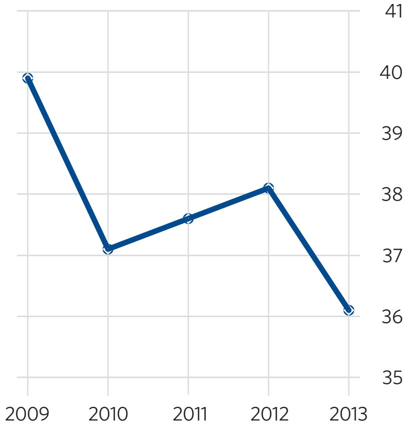
BACKGROUND: In 1999, Hugo Chávez won the presidency, vanquished the traditional party system, and launched his Bolivarian Revolution aimed at "Socialism for the 21st Century." Chávez styles himself the leader of Latin America's anti–free market forces and has made alliances with China, Cuba, Russia, and rogue states like Iran. He has persecuted his political adversaries and critics, restricted media freedom, undermined the rule of law and property rights, militarized the government, and tried to destabilize neighboring Colombia. The national assembly, which he controls, passed a 2009 constitutional amendment allowing him to seek yet another presidential term, and he won re-election in October 2012. Venezuela has Latin America's highest inflation rate (currently nearly 30 percent); chronic electricity, food, and housing shortages; and skyrocketing crime rates.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

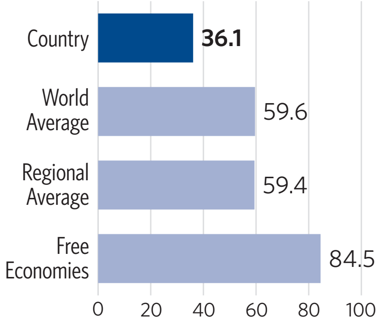
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

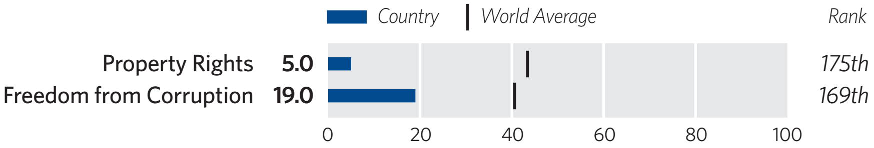
Population: 29.8 million
GDP (PPP): $374.1 billion
4.2% growth in 2011
5-year compound annual growth 2.6%
$12,568 per capita
Unemployment: 8.2%
Inflation (CPI): 26.1%
FDI Inflow: $5.3 billion
Public Debt: 45.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

VENEZUELA (continued)

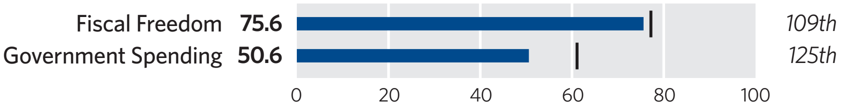
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



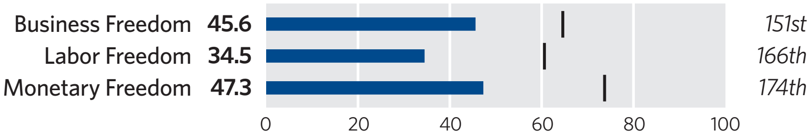
The judiciary is dysfunctional and completely controlled by the executive. Politically inconvenient contracts are abrogated, and the legal system discriminates against or in favor of investors from certain foreign countries. The government expropriates land and other private holdings across the economy arbitrarily and without compensation. Corruption, exacerbated by cronyism and nepotism, is rampant at all level of government.

LIMITED GOVERNMENT



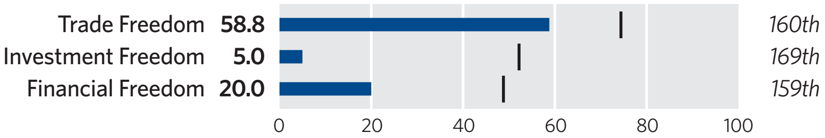
The top income and corporate tax rates are 34 percent. Other taxes include a value-added tax (VAT). The overall tax burden is estimated to equal 11.3 percent of total domestic income. Budget deficits have fluctuated depending on changes in the price of oil. Government spending has risen to 40.6 percent of GDP, spurred in part by oil profits, and public debt has risen to over 45 percent of total domestic output.

REGULATORY EFFICIENCY



Regulatory encroachment on private businesses continues to increase, with heavy government control and intervention discouraging entrepreneurship. There is little transparency in decision-making, and most contracts are awarded without competition. There is no minimum capital requirement for establishing a business, but the process takes over 100 days. The labor market remains controlled by the state. Inflation continues to be extremely high.

OPEN MARKETS

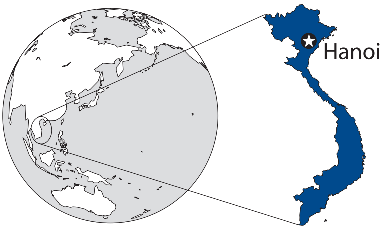


The trade-weighted average tariff rate is relatively high at 10.6 percent, and extensive non-tariff barriers further distort the free flow of goods and services. Private investment remains hampered by state interference in the economy, and hostility to foreign investment, coupled with threats of expropriation, persists. The financial sector is tightly controlled by the state, and credit is often allocated on the basis of political expediency.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.8	Business Freedom	-1.7	Trade Freedom	0
Freedom from Corruption	-1.0	Government Spending	-16.7	Labor Freedom	-1.5	Investment Freedom	0
				Monetary Freedom	+0.9	Financial Freedom	0

VIETNAM



World Rank: **140** Regional Rank: **30**

Vietnam's economic freedom score is 51, making its economy the 140th freest in the 2013 *Index*. Its score is 0.3 point worse than last year, with declines in monetary freedom, labor freedom, and trade freedom overshadowing improvements in control of government spending, business freedom, and freedom from corruption. Vietnam is ranked 30th out of 41 countries in the Asia–Pacific region, and its overall score is lower than the world and regional averages.

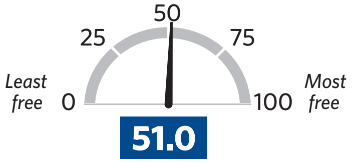
The Vietnamese economy has weathered the global economic downturn relatively well. Capitalizing on its measured integration into the global trade and investment system, the country has slowly been transforming itself into a more market-oriented economy. Reforms include partial privatization of state-owned enterprises, modernization of the trade regime, and increasing recognition of private property rights.

The rule of law remains an issue, a remnant of decades of Communism. The court system is inefficient, and the protection of intellectual property has been a major area of contention in international trade negotiations. A lack of democratic governance and accountability continues to perpetuate systemic corruption.

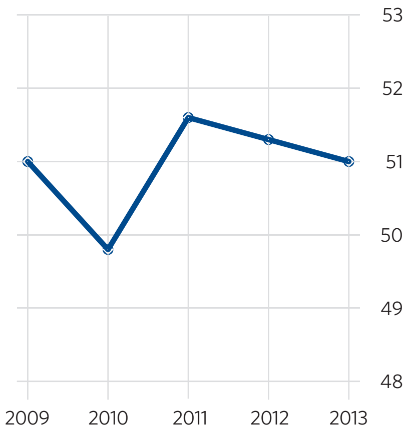
BACKGROUND: The Socialist Republic of Vietnam continues to experience political repression and a lack of respect for basic human rights. Economic liberalization began in 1986 with its *doi moi* reforms, and Vietnam joined the World Trade Organization in 2007. In April 2012, Prime Minister Nguyen Tan Dung affirmed his commitment to reforming the state sector, pushing for partial privatizations after support for state-owned enterprises largely backfired. The government is slowly liberalizing key economic sectors, including financial institutions, and is part of the Trans-Pacific Partnership free trade negotiations. Vietnam's fast-growing economy is driven primarily by tourism and exports, but inflation is a problem, and the country has struggled to attract more investment in the absence of a transparent legal and regulatory system.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

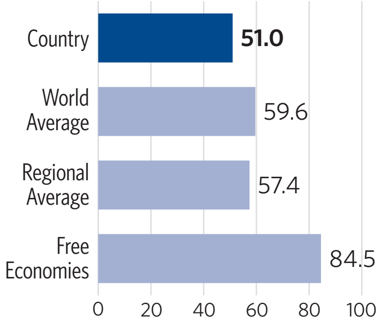
Economic Freedom Score



Freedom Trend



Country Comparisons



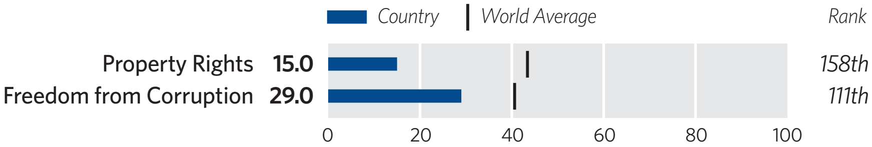
Quick Facts

Population: 89.3 million
GDP (PPP): $300.0 billion
5.9% growth in 2011
5-year compound annual growth 6.5%
$3,359 per capita
Unemployment: 2.3%
Inflation (CPI): 18.7%
FDI Inflow: $7.4 billion
Public Debt: 38.0% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

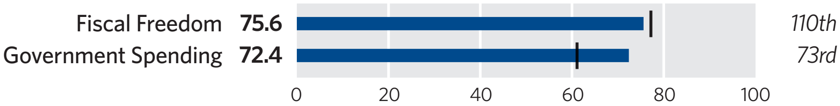
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



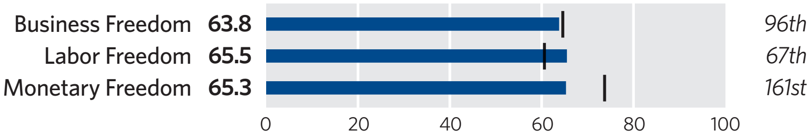
The judicial system is not independent and lacks efficiency. Private property rights are not strongly respected, and resolution of disputes can take years. Infringement of intellectual property rights is common. Corruption is due in large part to a lack of transparency and media freedom, but systems for holding officials accountable for their actions are inadequate as well. Many companies report having to pay bribes for customs clearances.

LIMITED GOVERNMENT



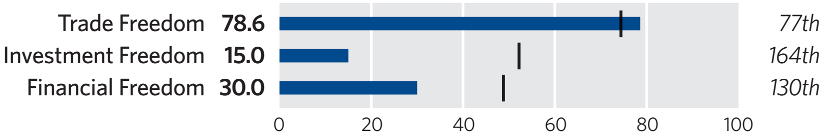
The top income tax rate is 35 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals 24.3 percent of total domestic income. Government spending is equivalent to 30.3 percent of GDP. Deficits have been persistently high, but public debt has remained at around 38 percent of GDP. A huge stimulus package in 2009 has threatened fiscal health.

REGULATORY EFFICIENCY



Despite ongoing reform efforts, the overall regulatory framework lacks efficiency. Although no minimum capital is required, starting a business still takes more than the world average of 30 days and seven procedures. Completing licensing requirements still takes more than 100 days. The labor market remains dominated by the public sector, but there is considerable informal labor activity. Inflation has spiked, damaging monetary stability.

OPEN MARKETS



The trade-weighted average tariff rate is 5.7 percent, with some additional non-tariff barriers limiting more dynamic gains from trade. Despite a desire to attract more foreign investment, the investment regime lacks efficiency, and flows are severely hampered by various restrictions. The financial sector continues to expand, with capital markets evolving. Directed lending by state-owned commercial banks has been scaled back in recent years.

Score Changes

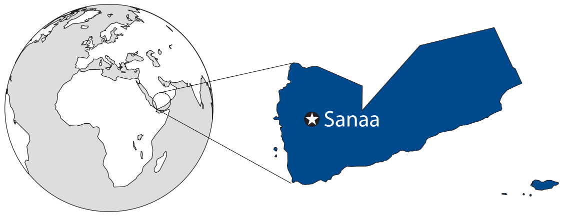
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+2.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.9
Government Spending	+5.9

REGULATORY EFFICIENCY	
Business Freedom	+2.7
Labor Freedom	-1.8
Monetary Freedom	-9.8

OPEN MARKETS	
Trade Freedom	-1.0
Investment Freedom	0
Financial Freedom	0

YEMEN



World Rank: **113** Regional Rank: **12**

Yemen's economic freedom score is 55.9, making its economy the 113th freest in the 2013 *Index*. Its score is 0.6 point higher than last year, reflecting notable improvements in the control of government spending, fiscal freedom, and investment freedom that outweigh declines in four other areas, including a significant drop in business freedom. Yemen is ranked 12th out of 15 countries in the Middle East/North Africa region, and its overall score is lower than the world and regional averages.

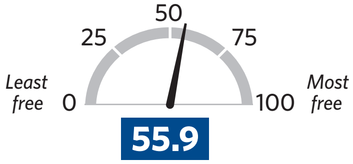
Economic freedom has fluctuated erratically in Yemen, which remains mired in economic stagnation and political instability. Severely hampered by state interference, the formal economy lacks much-needed dynamism, and informal economic activity is expanding. Monetary stability remains fragile, and there are price controls on almost all goods and services. Government interference in the financial sector further distorts price levels and constrains private-sector growth by allocating credit on non-market terms.

Systemic corruption and deficiencies in the judicial regime continue to undermine the rule of law, which remains uneven and fragile across the country. Contracts and property rights are not well respected, and the threat of government expropriation remains high.

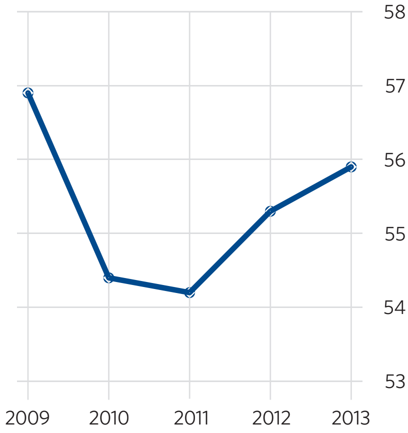
BACKGROUND: Yemen is one of the Arab world's poorest countries. The government faces chronic challenges from secessionists, unruly tribes, and Islamist extremists opposed to its moderate foreign policy and cooperation with the United States against al-Qaeda. In early 2011, important members of President Ali Abdullah Saleh's government defected to a growing coalition of opposition forces. Saleh, forced to resign in a deal brokered by the Gulf Cooperation Council, transferred power to Vice President Abd Rabbuh Mansur al-Hadi after a February 2012 election. The government initiated an economic reform program in 2006, but declining oil production, terrorist attacks, kidnappings, clashes between Sunni and Shia Muslims, tribal rivalries, a strong al-Qaeda presence, and growing water shortages have undermined tourism, foreign investment, and growth.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

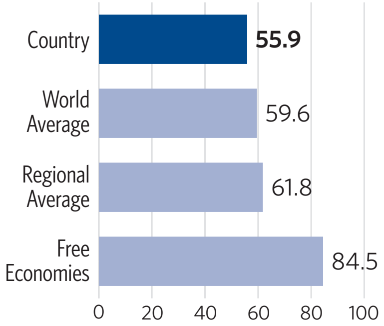
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 25.1 million

GDP (PPP): $58.0 billion
–10.5% growth in 2011
5-year compound annual growth 1.4%
$2,307 per capita

Unemployment: n/a

Inflation (CPI): 17.6%

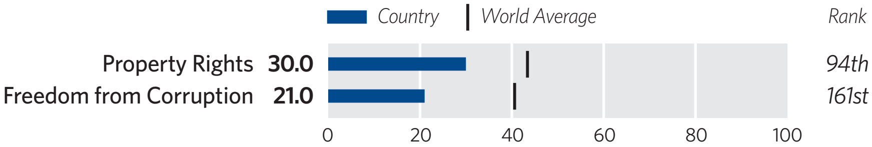
FDI Inflow: –$712.8 million

Public Debt: 42.5% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

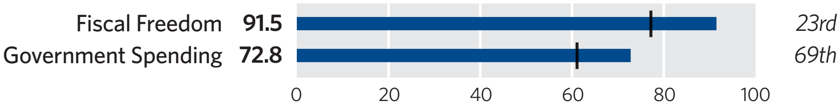
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



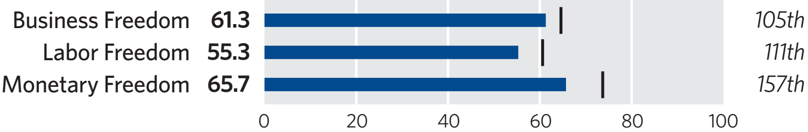
The judicial system is subject to political pressure. Enforcement of contracts is weak, and private property rights are not strongly respected. Foreigners may own property, but foreign firms must operate through Yemeni agents. The civil service is overstaffed, underpaid, and highly vulnerable to corruption. Government officials at every level solicit bribes from foreign companies at every step of a project.

LIMITED GOVERNMENT



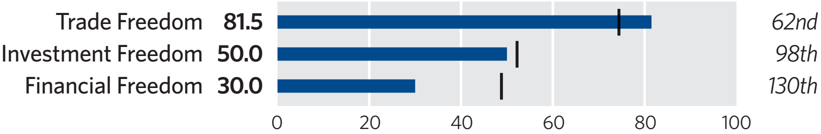
The top income tax rate is 20 percent, and the top corporate tax rate is 20 percent. Other taxes include a general sales tax (GST) and a property tax. The overall tax burden equals 7.1 percent of total domestic income. Government spending has risen to 30.1 percent of GDP. The budget has been chronically in deficit, and public debt equals 42.5 percent of GDP. Two Arab Monetary Fund loans have helped the fiscal situation in the wake of civil unrest.

REGULATORY EFFICIENCY



The regulatory efficiency needed to develop a more dynamic private sector has not been established. Given the level of ongoing political and economic volatility, it is difficult to gauge the lasting effectiveness of earlier regulatory reforms aimed at broad-based economic expansion and dynamic job creation. The weakness of the private sector results in chronically high underemployment as well as unemployment. Inflation has spiked.

OPEN MARKETS

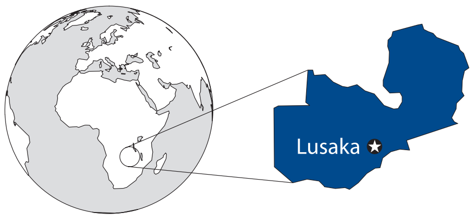


The trade-weighted average tariff rate is 4.2 percent, and some additional non-tariff barriers further limit trade freedom. Officially, the government permits foreign investment in most sectors and grants equal treatment to domestic and foreign investors. In practice, the inefficient investment regime inhibits dynamic growth in new investment. The economy is largely cash based, and the small financial system remains dominated by the state.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+8.4	Business Freedom	-10.2	Trade Freedom	0
Freedom from Corruption	-1.0	Government Spending	+10.0	Labor Freedom	-2.0	Investment Freedom	+5.0
				Monetary Freedom	-3.6	Financial Freedom	0

ZAMBIA



World Rank: **93** Regional Rank: **12**

Zambia's economic freedom score is 58.7, making its economy the 93rd freest in the 2013 *Index*. Its score has increased by 0.4 point due to improvements in labor freedom, monetary freedom, and freedom from corruption that outweigh a considerable decline in the control of government spending. Zambia is ranked 12th out of 46 countries in the Sub-Saharan Africa region, and its overall score is just below the world average.

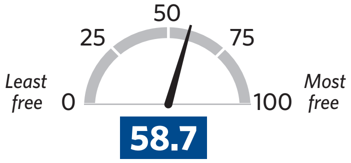
The Zambian economy still ranks poorly in many areas of economic freedom. There is a serious need for greater structural reforms to increase the legal framework's efficiency and transparency and improve law enforcement. Widespread corruption erodes entrepreneurial incentives, and political influence undermines the independence and integrity of legal and regulatory systems.

High youth unemployment and slow progress in improving the investment environment overshadow the benefits of economic growth that has averaged over 6 percent annually over the past five years. Prospects for sustained long-term economic development depend on effective diversification of the production base beyond the mining sector.

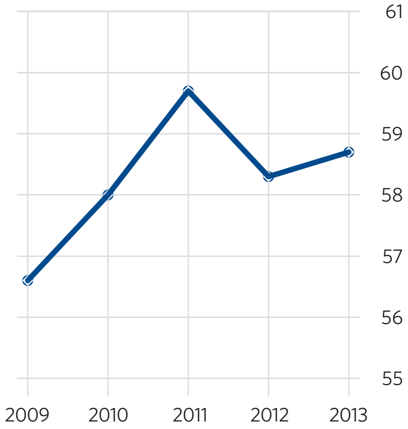
BACKGROUND: In 1991, the government of Kenneth Kaunda, in power since independence in 1964, enacted a new constitution instituting multi-party democracy. Michael Sata of the Patriotic Front won the presidency in 2011, the first time a candidate from a party other than the Movement for Multiparty Democracy had been successful. In April 2012, Zambia released a draft constitution that included press freedoms, decentralized government, a bill of rights, and a 50 percent-plus-1 vote required for a presidential win. Zambia was the world's third-largest copper producer and a middle-income nation in the 1960s, but falling copper prices and mismanagement of state-owned mines led to steadily declining income from 1974 to 1990. Recent increases in copper prices have boosted trade revenues by 30 percent. High rates of HIV/AIDS, high unemployment, and market-distorting agricultural policies contribute to persistently high poverty rates.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

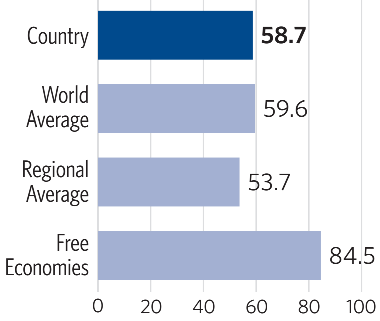
Economic Freedom Score



Freedom Trend



Country Comparisons



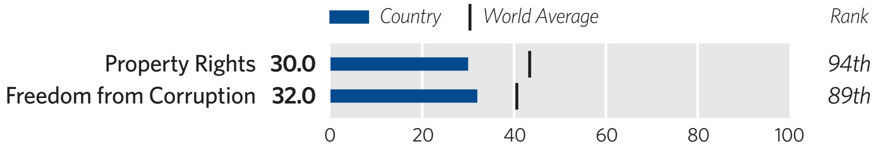
Quick Facts

Population: 13.6 million
GDP (PPP): $21.9 billion
6.6% growth in 2011
5-year compound annual growth 6.5%
$1,611 per capita
Unemployment: 14.0% (2006)
Inflation (CPI): 8.7%
FDI Inflow: $2.0 billion
Public Debt: 26.1% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

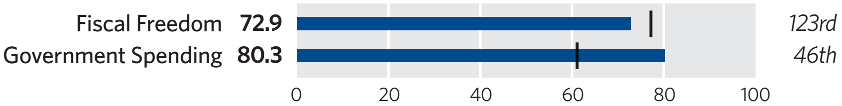
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



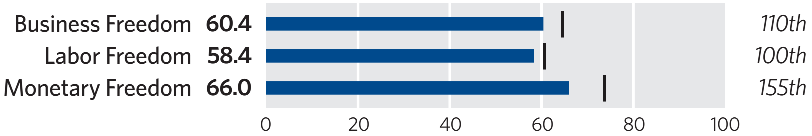
The rule of law remains uneven across the country. The judicial system suffers from inefficiency, government influence, and a lack of resources. Contract enforcement is weak, and courts are relatively inexperienced in commercial litigation. The government lacks the capacity to enforce intellectual property rights laws effectively. Corruption remains widespread, undermining the foundations of economic freedom.

LIMITED GOVERNMENT



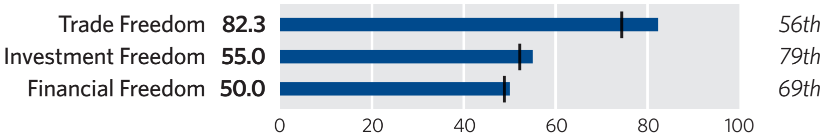
The top income and corporate tax rates are 35 percent. Other taxes include a value-added tax (VAT) and a property transfer tax. The overall tax burden equals 16 percent of total domestic income. Government spending has reached a level equivalent to 25.6 percent of GDP. The budget balance has registered chronic deficits, and public debt amounts to 26.1 percent of GDP. The government has initiated large infrastructure projects.

REGULATORY EFFICIENCY



Despite some reforms, the regulatory environment is not conducive to entrepreneurial activity. There is no minimum capital requirement for establishing a business, but requirements for commercial licenses are time-consuming and costly. The formal labor market remains inefficient and lacks dynamism. Firms tend to hire workers on an informal or short-term basis. Monetary stability has improved somewhat as inflation has moderated.

OPEN MARKETS



The trade-weighted average tariff rate is 3.8 percent, with some non-tariff barriers further distorting the flow of goods and services. Foreign investment is officially welcome, but a modern investment framework is not in place. The financial system is dominated by banking. Zambia has a relatively advanced banking regime, and financial intermediation and credit to the private sector continue to expand.

Score Changes

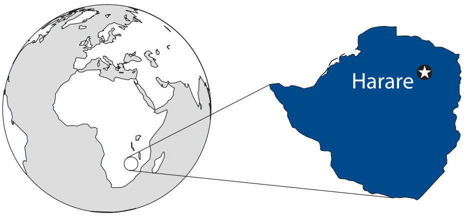
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+2.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.4
Government Spending	-4.6

REGULATORY EFFICIENCY	
Business Freedom	-0.8
Labor Freedom	+7.3
Monetary Freedom	+1.1

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

ZIMBABWE



World Rank: **175** Regional Rank: **46**

Zimbabwe's economic freedom score is 28.6, making its economy the 175th freest in the 2013 *Index*. Its score has increased by 2.3 points from last year, reflecting particularly strong improvement in control of government spending. Zimbabwe is ranked last out of 46 countries in the Sub-Saharan Africa region and is the second-least free country ranked in the 2013 *Index*.

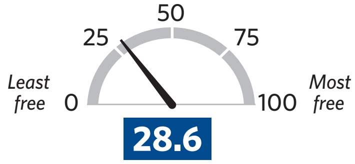
The Zimbabwean economy has begun to stabilize after years of severe monetary and fiscal problems that can be laid directly at the feet of the repressive Mugabe regime. Since the inception of the so-called Inclusive Government of Zimbabwe in 2009, the country has gained some traction in recovering from a catastrophic economic collapse. Renewed economic growth has been driven primarily by the mining industry, supported by the gradual ending of hyperinflation.

Nonetheless, instability and policy volatility remain hallmarks of excessive government interference and mismanagement of the economy. The indigenization law, which requires private businesses to surrender 51 percent of their ownership to Zimbabweans, severely undermines property rights and investor confidence.

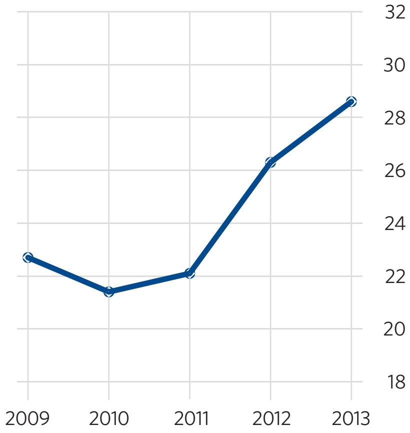
BACKGROUND: When it became independent in 1965, Zimbabwe enjoyed a diversified economy, a well-developed infrastructure, and an advanced financial sector. It is now one of Africa's poorest countries. Robert Mugabe became prime minister in 1980 and president in 1987. In 2008, his ZANU-PF party lost its parliamentary majority in a hotly contested election, but Mugabe won the runoff when opposition leader Morgan Tsvangirai withdrew after widespread intimidation of his supporters. Under a power-sharing agreement, Mugabe remains head of state, the cabinet, and the armed services. As a key component of reform, a new constitution was required, and the Constitution Select Committee produced a first draft in February 2012. However, ZANU-PF and its military continue to impede this effort. Elections are set for 2013, but Mugabe and his party have pushed for an early election before promulgation of the new constitution in order to prolong his rule.

How Do We Measure Economic Freedom?
See page 477 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

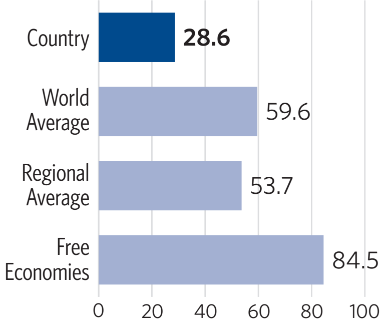
Economic Freedom Score



Freedom Trend



Country Comparisons



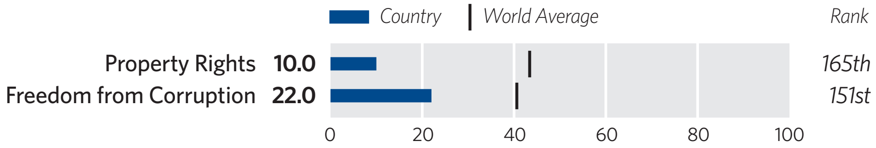
Quick Facts

Population: 12.6 million
GDP (PPP): $6.1 billion
9.3% growth in 2011
5-year compound annual growth –0.1%
$487 per capita
Unemployment: 95.0% (2009)
Inflation (CPI): 3.5%
FDI Inflow: $387.0 million
Public Debt: 70.3% of GDP

2011 data unless otherwise noted.
Data compiled as of September 2012.

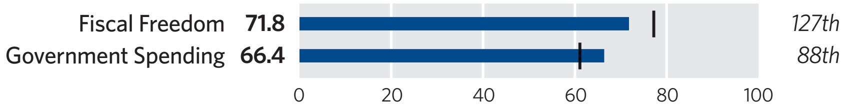
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



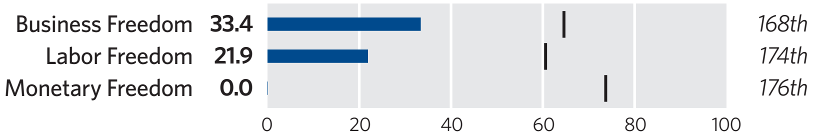
The authoritarian executive branch strongly influences the judiciary and openly challenges court outcomes. Expropriation is common. The government's land reform program, characterized by chaos and violence, has badly damaged the commercial farming sector, turning Zimbabwe into a net importer of food products. Corruption, encouraged by government officials at all levels, remains pervasive.

LIMITED GOVERNMENT



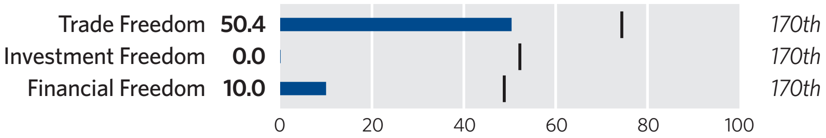
The top income tax rate is 45 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The overall tax burden equals 12.9 percent of total domestic income. Government spending has fallen to 33.5 percent of GDP. The budget has been in deficit, and public debt amounts to about 70 percent of total domestic output.

REGULATORY EFFICIENCY



The overall regulatory environment is opaque. Starting a business takes nine procedures and 90 days in comparison to the world averages of seven procedures and 30 days. Completing licensing requirements costs over 40 times the level of average annual income. The formal labor market is not functioning, and the informal sector continues to be the source of employment. Monetary stability has been fragile in light of the previous hyperinflation.

OPEN MARKETS



The trade-weighted average tariff rate is prohibitively high at 17.3 percent, with non-tariff barriers that affect agricultural products and other sectors constraining trade freedom even further. Heavy government interference cripples investment opportunities. Extensive state involvement in financial decisions and ongoing political instability have caused Zimbabwe's financial sector to contract significantly in recent years.

Score Changes

RULE OF LAW	
Property Rights	0
Freedom from Corruption	-2.0

LIMITED GOVERNMENT	
Fiscal Freedom	+6.6
Government Spending	+27.7

REGULATORY EFFICIENCY	
Business Freedom	-1.5
Labor Freedom	-7.7
Monetary Freedom	0

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

Appendix

Index of Economic Freedom Scores, 1995–2013

Country	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Afghanistan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Albania	49.7	53.8	54.8	53.9	53.4	53.6	56.6	56.8	56.8	58.5	57.8	60.3	61.4	62.4	63.7	66.0	64.0	65.1	65.2
Algeria	55.7	54.5	54.9	55.8	57.2	56.8	57.3	61.0	57.7	58.1	53.2	55.7	55.4	56.2	56.6	56.9	52.4	51.0	49.6
Angola	27.4	24.4	24.2	24.9	23.7	24.3	-	-	-	-	-	43.5	44.7	46.9	47.0	48.4	46.2	46.7	47.3
Argentina	68.0	74.7	73.3	70.9	70.6	70.0	68.6	65.7	56.3	53.9	51.7	53.4	54.0	54.2	52.3	51.2	51.7	48.0	46.7
Armenia	-	42.2	46.7	49.6	56.4	63.0	66.4	68.0	67.3	70.3	69.8	70.6	68.6	69.9	69.9	69.2	69.7	68.8	69.4
Australia	74.1	74.0	75.5	75.6	76.4	77.1	77.4	77.3	77.4	77.9	79.0	79.9	81.1	82.2	82.6	82.6	82.5	83.1	82.6
Austria	70.0	68.9	65.2	65.4	64.0	68.4	68.1	67.4	67.6	67.6	68.8	71.1	71.6	71.4	71.2	71.6	71.9	70.3	71.8
Azerbaijan	-	30.0	34.0	43.1	47.4	49.8	50.3	53.3	54.1	53.4	54.4	53.2	54.6	55.3	58.0	58.8	59.6	58.9	59.7
The Bahamas	71.8	74.0	74.5	74.5	74.7	73.9	74.8	74.4	73.5	72.1	72.6	72.3	72.0	71.1	70.3	67.3	68.0	68.0	70.1
Bahrain	76.2	76.4	76.1	75.6	75.2	75.7	75.9	75.6	76.3	75.1	71.2	71.6	71.2	72.2	74.8	76.3	77.7	75.2	75.5
Bangladesh	38.7	51.1	49.9	52.0	50.0	48.9	51.2	51.9	49.3	50.0	47.5	52.9	46.7	44.2	47.5	51.1	53.0	53.2	52.6
Barbados	-	62.3	64.5	67.9	66.7	69.5	71.5	73.6	71.3	69.4	70.1	71.9	70.0	71.3	71.5	68.3	68.5	69.0	69.3
Belarus	40.4	38.7	39.8	38.0	35.4	41.3	38.0	39.0	39.7	43.1	46.7	47.5	47.0	45.3	45.0	48.7	47.9	49.0	48.0
Belgium	-	66.0	64.6	64.7	62.9	63.5	63.8	67.6	68.1	68.7	69.0	71.8	72.5	71.7	72.1	70.1	70.2	69.0	69.2
Belize	62.9	61.6	64.3	59.1	60.7	63.3	65.9	65.6	63.5	62.8	64.5	64.7	63.3	63.0	63.0	61.5	63.8	61.9	57.3
Benin	-	54.5	61.3	61.7	60.6	61.5	60.1	57.3	54.9	54.6	52.3	54.0	55.1	55.2	55.4	55.4	56.0	55.7	57.6
Bhutan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	57.7	57.0	57.6	56.6	55.0
Bolivia	56.8	65.2	65.1	68.8	65.6	65.0	68.0	65.1	64.3	64.5	58.4	57.8	54.2	53.1	53.6	49.4	50.0	50.2	47.9
Bosnia and Herzegovina	-	-	-	29.4	29.4	45.1	36.6	37.4	40.6	44.7	48.8	55.6	54.4	53.9	53.1	56.2	57.5	57.3	57.3
Botswana	56.8	61.6	59.1	62.8	62.9	65.8	66.8	66.2	68.6	69.9	69.3	68.8	68.1	68.2	69.7	70.3	68.8	69.6	70.6
Brazil	51.4	48.1	52.6	52.3	61.3	61.1	61.9	61.5	63.4	62.0	61.7	60.9	56.2	56.2	56.7	55.6	56.3	57.9	57.7
Bulgaria	50.0	48.6	47.6	45.7	46.2	47.3	51.9	57.1	57.0	59.2	62.3	64.1	62.7	63.7	64.6	62.3	64.9	64.7	65.0
Burkina Faso	-	49.4	54.0	54.5	55.0	55.7	56.7	58.8	58.9	58.0	56.6	55.8	55.1	55.7	59.5	59.4	60.6	60.6	59.9
Burma	-	45.1	45.4	45.7	46.4	47.9	46.1	45.5	44.9	43.6	40.5	40.0	41.0	39.5	37.7	36.7	37.8	38.7	39.2
Burundi	-	-	45.4	44.7	41.1	42.6	-	-	-	-	-	48.7	46.9	46.2	48.8	47.5	49.6	48.1	49.0
Cambodia	-	-	52.8	59.8	59.9	59.3	59.6	60.7	63.7	61.1	60.0	56.7	55.9	55.9	56.6	56.6	57.9	57.6	58.5
Cameroon	51.3	45.7	44.6	48.0	50.3	49.9	53.3	52.8	52.7	52.3	53.0	54.6	55.6	54.3	53.0	52.3	51.8	51.8	52.3

Index of Economic Freedom Scores, 1995–2013

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Canada	69.4	70.3	67.9	68.5	69.3	70.5	71.2	74.6	74.8	75.3	75.8	77.4	78.0	80.2	80.5	80.4	80.8	79.9	79.4
Cape Verde	-	49.7	47.7	48.0	50.7	51.9	56.3	57.6	56.1	58.1	57.8	58.6	56.5	57.9	61.3	61.8	64.6	63.5	63.7
Central African Republic	-	-	-	-	-	-	-	59.8	60.0	57.5	56.5	54.2	50.6	48.6	48.3	48.4	49.3	50.3	50.4
Chad	-	-	45.1	46.6	47.2	46.8	46.4	49.2	52.6	53.1	52.1	50.0	50.1	47.8	47.5	47.5	45.3	44.8	45.2
Chile	71.2	72.6	75.9	74.9	74.1	74.7	75.1	77.8	76.0	76.9	77.8	78.0	77.7	78.6	78.3	77.2	77.4	78.3	79.0
China	52.0	51.3	51.7	53.1	54.8	56.4	52.6	52.8	52.6	52.5	53.7	53.6	52.0	53.1	53.2	51.0	52.0	51.2	51.9
Colombia	64.5	64.3	66.4	65.5	65.3	63.3	65.6	64.2	64.2	61.2	59.6	60.4	59.9	62.2	62.3	65.5	68.0	68.0	69.6
Comoros	-	-	-	-	-	-	-	-	-	-	-	-	-	-	43.3	44.9	43.8	45.7	47.5
Congo-Dem. Rep. of	41.4	39.5	39.5	40.6	34.0	34.8	-	-	-	-	-	-	-	-	42.8	41.4	40.7	41.1	39.6
Congo-Rep. of	-	40.3	42.2	33.8	41.6	40.6	44.3	45.3	47.7	45.9	46.2	43.8	44.4	45.3	45.4	43.2	43.6	43.8	43.5
Costa Rica	68.0	66.4	65.6	65.6	67.4	68.4	67.6	67.5	67.0	66.4	66.1	65.9	64.0	64.2	66.4	65.9	67.3	68.0	67.0
Côte d'Ivoire	53.4	49.9	50.5	51.3	51.7	50.2	54.8	57.3	56.7	57.8	56.6	56.2	54.9	53.9	55.0	54.1	55.4	54.3	54.1
Croatia	-	48.0	46.7	51.7	53.1	53.6	50.7	51.1	53.3	53.1	51.9	53.6	53.4	54.1	55.1	59.2	61.1	60.9	61.3
Cuba	27.8	27.8	27.8	28.2	29.7	31.3	31.6	32.4	35.1	34.4	35.5	29.3	28.6	27.5	27.9	26.7	27.7	28.3	28.5
Cyprus	-	67.7	67.9	68.2	67.8	67.2	71.0	73.0	73.3	74.1	71.9	71.8	71.7	71.3	70.8	70.9	73.3	71.8	69.0
Czech Republic	67.8	68.1	68.8	68.4	69.7	68.6	70.2	66.5	67.5	67.0	64.6	66.4	67.4	68.1	69.4	69.8	70.4	69.9	70.9
Denmark	-	67.3	67.5	67.5	68.1	68.3	68.3	71.1	73.2	72.4	75.3	75.4	77.0	79.2	79.6	77.9	78.6	76.2	76.1
Djibouti	-	-	54.5	55.9	57.1	55.1	58.3	57.8	55.7	55.6	55.2	53.2	52.4	51.2	51.3	51.0	54.5	53.9	53.9
Dominica	-	-	-	-	-	-	-	-	-	-	-	-	-	-	62.6	63.2	63.3	61.6	63.9
Dominican Republic	55.8	58.1	53.5	58.1	58.1	59.0	59.1	58.6	57.8	54.6	55.1	56.3	56.8	57.7	59.2	60.3	60.0	60.2	59.7
Ecuador	57.7	60.1	61.0	62.8	62.9	59.8	55.1	53.1	54.1	54.4	52.9	54.6	55.3	55.2	52.5	49.3	47.1	48.3	46.9
Egypt	45.7	52.0	54.5	55.8	58.0	51.7	51.5	54.1	55.3	55.5	55.8	53.2	54.4	58.5	58.0	59.0	59.1	57.9	54.8
El Salvador	69.1	70.1	70.5	70.2	75.1	76.3	73.0	73.0	71.5	71.2	71.5	69.6	68.9	68.5	69.8	69.9	68.8	68.7	66.7
Equatorial Guinea	-	-	-	-	45.1	45.6	47.9	46.4	53.1	53.3	53.3	51.5	53.2	51.6	51.3	48.6	47.5	42.8	42.3
Eritrea	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38.5	35.3	36.7	36.2	36.3
Estonia	65.2	65.4	69.1	72.5	73.8	69.9	76.1	77.6	77.7	77.4	75.2	74.9	78.0	77.9	76.4	74.7	75.2	73.2	75.3
Ethiopia	42.6	45.9	48.1	49.2	46.7	50.2	48.9	49.8	48.8	54.5	51.1	50.9	53.6	52.5	53.0	51.2	50.5	52.0	49.4
Fiji	54.7	57.4	58.0	58.2	58.4	57.8	53.7	53.9	54.7	58.0	58.2	58.4	60.8	61.8	61.0	60.3	60.4	57.3	57.2

Index of Economic Freedom Scores, 1995–2013

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Finland	-	63.7	65.2	63.5	63.9	64.3	69.7	73.6	73.7	73.4	71.0	72.9	74.0	74.6	74.5	73.8	74.0	72.3	74.0
France	64.4	63.7	59.1	58.9	59.1	57.4	58.0	58.0	59.2	60.9	60.5	61.1	62.1	64.7	63.3	64.2	64.6	63.2	64.1
Gabon	57.5	55.7	58.8	59.2	60.5	58.2	55.0	58.0	58.7	57.1	54.8	56.1	54.8	54.2	55.0	55.4	56.7	56.4	57.8
The Gambia	-	-	52.9	53.4	52.1	52.7	56.6	57.7	56.3	55.3	56.5	57.3	57.7	56.9	55.8	55.1	57.4	58.8	58.8
Georgia	-	44.1	46.5	47.9	52.5	54.3	58.3	56.7	58.6	58.9	57.1	64.5	69.3	69.2	69.8	70.4	70.4	69.4	72.2
Germany	69.8	69.1	67.5	64.3	65.6	65.7	69.5	70.4	69.7	69.5	68.1	70.8	70.8	70.6	70.5	71.1	71.8	71.0	72.8
Ghana	55.6	57.7	56.7	57.0	59.4	58.1	58.0	57.2	58.2	59.1	56.5	55.6	57.6	57.0	58.1	60.2	59.4	60.7	61.3
Greece	61.2	60.5	59.6	60.6	61.0	61.0	63.4	59.1	58.8	59.1	59.0	60.1	58.7	60.6	60.8	62.7	60.3	55.4	55.4
Guatemala	62.0	63.7	65.7	65.8	66.2	64.3	65.1	62.3	62.3	59.6	59.5	59.1	60.5	59.8	59.4	61.0	61.9	60.9	60.0
Guinea	59.4	58.5	52.9	61.0	59.4	58.2	58.4	52.9	54.6	56.1	57.4	52.8	54.5	52.8	51.0	51.8	51.7	50.8	51.2
Guinea-Bissau	-	-	-	-	33.5	34.7	42.5	42.3	43.1	42.6	46.0	46.5	46.1	44.4	45.4	43.6	46.5	50.1	51.1
Guyana	45.7	50.1	53.2	52.7	53.3	52.4	53.3	54.3	50.3	53.0	56.5	56.6	53.7	48.8	48.4	48.4	49.4	51.3	53.8
Haiti	43.0	41.0	45.8	45.7	45.9	45.7	47.1	47.9	50.6	51.2	48.4	49.2	51.4	49.0	50.5	50.8	52.1	50.7	48.1
Honduras	57.0	56.6	56.0	56.2	56.7	57.6	57.0	58.7	60.4	55.3	55.3	57.4	59.1	58.9	58.7	58.3	58.6	58.8	58.4
Hong Kong	88.6	90.5	88.6	88.0	88.5	89.5	89.9	89.4	89.8	90.0	89.5	88.6	89.9	89.7	90.0	89.7	89.7	89.9	89.3
Hungary	55.2	56.8	55.3	56.9	59.6	64.4	65.6	64.5	63.0	62.7	63.5	65.0	64.8	67.6	66.8	66.1	66.6	67.1	67.3
Iceland	-	-	70.5	71.2	71.4	74.0	73.4	73.1	73.5	72.1	76.6	75.8	76.0	75.8	75.9	73.7	68.2	70.9	72.1
India	45.1	47.4	49.7	49.7	50.2	47.4	49.0	51.2	51.2	51.5	54.2	52.2	53.9	54.1	54.4	53.8	54.6	54.6	55.2
Indonesia	54.9	61.0	62.0	63.4	61.5	55.2	52.5	54.8	55.8	52.1	52.9	51.9	53.2	53.2	53.4	55.5	56.0	56.4	56.9
Iran	-	36.1	34.5	36.0	36.8	36.1	35.9	36.4	43.2	42.8	50.5	45.0	45.0	45.0	44.6	43.4	42.1	42.3	43.2
Iraq	-	17.2	17.2	17.2	17.2	17.2	17.2	15.6	-	-	-	-	-	-	-	-	-	-	-
Ireland	68.5	68.5	72.6	73.7	74.6	76.1	81.2	80.5	80.9	80.3	80.8	82.2	82.6	82.5	82.2	81.3	78.7	76.9	75.7
Israel	61.5	62.0	62.7	68.0	68.3	65.5	66.1	66.9	62.7	61.4	62.6	64.4	64.8	66.3	67.6	67.7	68.5	67.8	66.9
Italy	61.2	60.8	58.1	59.1	61.6	61.9	63.0	63.6	64.3	64.2	64.9	62.0	62.8	62.6	61.4	62.7	60.3	58.8	60.6
Jamaica	64.4	66.7	67.7	67.1	64.7	65.5	63.7	61.7	67.0	66.7	67.0	66.4	65.5	65.7	65.2	65.5	65.7	65.1	66.8
Japan	75.0	72.6	70.3	70.2	69.1	70.7	70.9	66.7	67.6	64.3	67.3	73.3	72.7	73.0	72.8	72.9	72.8	71.6	71.8
Jordan	62.7	60.8	63.6	66.8	67.4	67.5	68.3	66.2	65.3	66.1	66.7	63.7	64.5	64.1	65.4	66.1	68.9	69.9	70.4
Kazakhstan	-	-	-	41.7	47.3	50.4	51.8	52.4	52.3	49.7	53.9	60.2	59.6	61.1	60.1	61.0	62.1	63.6	63.0

Index of Economic Freedom Scores, 1995–2013

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Kenya	54.5	56.4	60.1	58.4	58.2	59.7	57.6	58.2	58.6	57.7	57.9	59.7	59.6	59.3	58.7	57.5	57.4	57.5	55.9
Kiribati	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45.7	43.7	44.8	46.9	45.9
Kosovo	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Kuwait	-	66.1	64.8	66.3	69.5	69.7	68.2	65.4	66.7	63.6	64.6	66.5	66.4	68.1	65.6	67.7	64.9	62.5	63.1
Kyrgyz Republic	-	-	-	51.8	54.8	55.7	53.7	51.7	56.8	58.0	56.6	61.0	60.2	61.1	61.8	61.3	61.1	60.2	59.6
Laos	-	38.5	35.1	35.2	35.2	36.8	33.5	36.8	41.0	42.0	44.4	47.5	50.3	50.3	50.4	51.1	51.3	50.0	50.1
Latvia	-	55.0	62.4	63.4	64.2	63.4	66.4	65.0	66.0	67.4	66.3	66.9	67.9	68.3	66.6	66.2	65.8	65.2	66.5
Lebanon	-	63.2	63.9	59.0	59.1	56.1	61.0	57.1	56.7	56.9	57.2	57.5	60.4	60.0	58.1	59.5	60.1	60.1	59.5
Lesotho	-	47.0	47.2	48.4	48.2	48.4	50.6	48.9	52.0	50.3	53.9	54.7	53.2	52.1	49.7	48.1	47.5	46.6	47.9
Liberia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	48.1	46.2	46.5	48.6	49.3
Libya	-	31.7	28.9	32.0	32.3	34.7	34.0	35.4	34.6	31.5	32.8	33.2	37.0	38.7	43.5	40.2	38.6	35.9	-
Liechtenstein	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Lithuania	-	49.7	57.3	59.4	61.5	61.9	65.5	66.1	69.7	72.4	70.5	71.8	71.5	70.9	70.0	70.3	71.3	71.5	72.1
Luxembourg	-	72.5	72.8	72.7	72.4	76.4	80.1	79.4	79.9	78.9	76.3	75.3	74.6	74.7	75.2	75.4	76.2	74.5	74.2
Macau	-	-	-	-	-	-	-	-	-	-	-	-	-	-	72.0	72.5	73.1	71.8	71.7
Macedonia	-	-	-	-	-	-	-	58.0	60.1	56.8	56.1	59.2	60.6	61.1	61.2	65.7	66.0	68.5	68.2
Madagascar	51.6	52.2	53.8	51.8	52.8	54.4	53.9	56.8	62.8	60.9	63.1	61.0	61.1	62.4	62.2	63.2	61.2	62.4	62.0
Malawi	54.7	56.2	53.4	54.1	54.0	57.4	56.2	56.9	53.2	53.6	53.6	55.4	52.9	52.7	53.7	54.1	55.8	56.4	55.3
Malaysia	71.9	69.9	66.8	68.2	68.9	66.0	60.2	60.1	61.1	59.9	61.9	61.6	63.8	63.9	64.6	64.8	66.3	66.4	66.1
Maldives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	51.3	49.0	48.3	49.2	49.0
Mali	52.4	57.0	56.4	57.3	58.4	60.3	60.1	61.1	58.6	56.6	57.3	54.1	54.7	55.6	55.6	55.6	56.3	55.8	56.4
Malta	56.3	55.8	57.9	61.2	59.3	58.3	62.9	62.2	61.1	63.3	68.9	67.3	66.1	66.0	66.1	67.2	65.7	67.0	67.5
Mauritania	-	45.5	47.0	43.7	42.8	46.0	48.5	52.5	59.0	61.8	59.4	55.7	53.6	55.2	53.9	52.0	52.1	53.0	52.3
Mauritius	-	-	-	-	68.5	67.2	66.4	67.7	64.4	64.3	67.2	67.4	69.4	72.6	74.3	76.3	76.2	77.0	76.9
Mexico	63.1	61.2	57.1	57.9	58.5	59.3	60.6	63.0	65.3	66.0	65.2	64.7	66.0	66.2	65.8	68.3	67.8	65.3	67.0
Micronesia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	51.7	50.6	50.3	50.7	50.1
Moldova	33.0	52.5	48.9	53.5	56.1	59.6	54.9	57.4	60.0	57.1	57.4	58.0	58.7	57.9	54.9	53.7	55.7	54.4	55.5
Mongolia	47.8	47.4	52.9	57.3	58.6	58.5	56.0	56.7	57.7	56.5	59.7	62.4	60.3	63.6	62.8	60.0	59.5	61.5	61.7

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Country	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Montenegro	-	-	-	-	-	-	-	46.6	43.5	-	-	-	-	-	58.2	63.6	62.5	62.5	62.6
Morocco	62.8	64.3	64.7	61.1	63.8	63.2	63.9	59.0	57.8	56.7	52.2	51.5	56.4	55.6	57.7	59.2	59.6	60.2	59.6
Mozambique	45.5	48.4	44.0	43.0	48.9	52.2	59.2	57.7	58.6	57.2	54.6	51.9	54.7	55.4	55.7	56.0	56.8	57.1	55.0
Namibia	-	-	61.6	66.1	66.1	66.7	64.8	65.1	67.3	62.4	61.4	60.7	63.5	61.4	62.4	62.2	62.7	61.9	60.3
Nepal	-	50.3	53.6	53.5	53.1	51.3	51.6	52.3	51.5	51.2	51.4	53.7	54.4	54.1	53.2	52.7	50.1	50.2	50.4
Netherlands	-	69.7	70.4	69.2	63.6	70.4	73.0	75.1	74.6	74.5	72.9	75.4	75.5	77.4	77.0	75.0	74.7	73.3	73.5
New Zealand	-	78.1	79.0	79.2	81.7	80.9	81.1	80.7	81.1	81.5	82.3	82.0	81.4	80.7	82.0	82.1	82.3	82.1	81.4
Nicaragua	42.5	54.1	53.3	53.8	54.0	56.9	58.0	61.1	62.6	61.4	62.5	63.8	62.7	60.8	59.8	58.3	58.8	57.9	56.6
Niger	-	45.8	46.6	47.5	48.6	45.9	48.9	48.2	54.2	54.6	54.1	52.5	53.2	52.9	53.8	52.9	54.3	54.3	53.9
Nigeria	47.3	47.4	52.8	52.3	55.7	53.1	49.6	50.9	49.5	49.2	48.4	48.7	55.6	55.1	55.1	56.8	56.7	56.3	55.1
North Korea	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.0	4.0	3.0	3.0	2.0	1.0	1.0	1.0	1.5
Norway	-	65.4	65.1	68.0	68.6	70.1	67.1	67.4	67.2	66.2	64.5	67.9	67.9	68.6	70.2	69.4	70.3	68.8	70.5
Oman	70.2	65.4	64.5	64.9	64.9	64.1	67.7	64.0	64.6	66.9	66.5	63.7	65.8	67.3	67.0	67.7	69.8	67.9	68.1
Pakistan	57.6	58.4	56.0	53.2	53.0	56.4	56.0	55.8	55.0	54.9	53.3	57.9	57.2	55.6	57.0	55.2	55.1	54.7	55.1
Panama	71.6	71.8	72.4	72.6	72.6	71.6	70.6	68.5	68.4	65.3	64.3	65.6	64.6	64.7	64.7	64.8	64.9	65.2	62.5
Papua New Guinea	-	58.6	56.7	55.2	56.3	55.8	57.2	-	-	-	-	-	-	-	54.8	53.5	52.6	53.8	53.6
Paraguay	65.9	67.1	67.3	65.2	63.7	64.0	60.3	59.6	58.2	56.7	53.4	55.6	58.3	60.0	61.0	61.3	62.3	61.8	61.1
Peru	56.9	62.5	63.8	65.0	69.2	68.7	69.6	64.8	64.6	64.7	61.3	60.5	62.7	63.8	64.6	67.6	68.6	68.7	68.2
The Philippines	55.0	60.2	62.2	62.8	61.9	62.5	60.9	60.7	61.3	59.1	54.7	56.3	56.0	56.0	56.8	56.3	56.2	57.1	58.2
Poland	50.7	57.8	56.8	59.2	59.6	60.0	61.8	65.0	61.8	58.7	59.6	59.3	58.1	60.3	60.3	63.2	64.1	64.2	66.0
Portugal	62.4	64.5	63.6	65.0	65.6	65.5	66.0	65.4	64.9	64.9	62.4	62.9	64.0	63.9	64.9	64.4	64.0	63.0	63.1
Qatar	-	-	-	-	62.0	62.0	60.0	61.9	65.9	66.5	63.5	62.4	62.9	62.2	65.8	69.0	70.5	71.3	71.3
Romania	42.9	46.2	50.8	54.4	50.1	52.1	50.0	48.7	50.6	50.0	52.1	58.2	61.2	61.7	63.2	64.2	64.7	64.4	65.1
Russia	51.1	51.6	48.6	52.8	54.5	51.8	49.8	48.7	50.8	52.8	51.3	52.4	52.2	49.8	50.8	50.3	50.5	50.5	51.1
Rwanda	-	-	38.3	39.1	39.8	42.3	45.4	50.4	47.8	53.3	51.7	52.8	52.4	54.2	54.2	59.1	62.7	64.9	64.1
Saint Lucia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	68.8	70.5	70.8	71.3	70.4
Saint Vincent and The Grenadines	-	-	-	-	-	-	-	-	-	-	-	-	-	-	64.3	66.9	66.9	66.5	66.7

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Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Samoa	-	47.6	51.5	49.9	58.7	60.8	63.1	-	-	-	-	-	-	-	59.5	60.4	60.6	60.5	57.1
São Tomé and Príncipe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	43.8	48.8	49.5	50.2	48.0
Saudi Arabia	-	68.3	68.7	69.3	65.5	66.5	62.2	65.3	63.2	60.4	63.0	63.0	60.9	62.5	64.3	64.1	66.2	62.5	60.6
Senegal	-	58.2	58.1	59.7	60.6	58.9	58.7	58.6	58.1	58.9	57.9	56.2	58.1	58.3	56.3	54.6	55.7	55.4	55.5
Serbia	-	-	-	-	-	-	-	46.6	43.5	-	-	-	-	-	56.6	56.9	58.0	58.0	58.6
Seychelles	-	-	-	-	-	-	-	-	-	-	-	-	-	-	47.8	47.9	51.2	53.0	54.9
Sierra Leone	49.8	52.3	45.0	47.7	47.2	44.2	-	-	42.2	43.6	44.8	45.2	47.0	48.3	47.8	47.9	49.6	49.1	48.3
Singapore	86.3	86.5	87.3	87.0	86.9	87.7	87.8	87.4	88.2	88.9	88.6	88.0	87.1	87.3	87.1	86.1	87.2	87.5	88.0
Slovakia	60.4	57.6	55.5	57.5	54.2	53.8	58.5	59.8	59.0	64.6	66.8	69.8	69.6	70.0	69.4	69.7	69.5	67.0	68.7
Slovenia	-	50.4	55.6	60.7	61.3	58.3	61.8	57.8	57.7	59.2	59.6	61.9	59.6	60.2	62.9	64.7	64.6	62.9	61.7
Solomon Islands	-	-	-	-	-	-	-	-	-	-	-	-	-	-	46.0	42.9	45.9	46.2	45.0
South Africa	60.7	62.5	63.2	64.3	63.3	63.7	63.8	64.0	67.1	66.3	62.9	63.7	63.5	63.4	63.8	62.8	62.7	62.7	61.8
South Korea	72.0	73.0	69.8	73.3	69.7	69.7	69.1	69.5	68.3	67.8	66.4	67.5	67.8	68.6	68.1	69.9	69.8	69.9	70.3
Spain	62.8	59.6	59.6	62.6	65.1	65.9	68.1	68.8	68.8	68.9	67.0	68.2	69.2	69.1	70.1	69.6	70.2	69.1	68.0
Sri Lanka	60.6	62.5	65.5	64.6	64.0	63.2	66.0	64.0	62.5	61.6	61.0	58.7	59.4	58.4	56.0	54.6	57.1	58.3	60.7
Sudan	39.4	39.2	39.9	38.3	39.6	47.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Suriname	-	36.7	35.9	39.9	40.1	45.8	44.3	48.0	46.9	47.9	51.9	55.1	54.8	54.3	54.1	52.5	53.1	52.6	52.0
Swaziland	63.3	58.6	59.4	62.0	62.1	62.6	63.6	60.9	59.6	58.6	59.4	61.4	60.1	58.4	59.1	57.4	59.1	57.2	57.2
Sweden	61.4	61.8	63.3	64.0	64.2	65.1	66.6	70.8	70.0	70.1	69.8	70.9	69.3	70.8	70.5	72.4	71.9	71.7	72.9
Switzerland	-	76.8	78.6	79.0	79.1	76.8	76.0	79.3	79.0	79.5	79.3	78.9	78.0	79.5	79.4	81.1	81.9	81.1	81.0
Syria	-	42.3	43.0	42.2	39.0	37.2	36.6	36.3	41.3	40.6	46.3	51.2	48.3	47.2	51.3	49.4	51.3	51.2	-
Taiwan	74.2	74.1	70.0	70.4	71.5	72.5	72.8	71.3	71.7	69.6	71.3	69.7	69.4	70.3	69.5	70.4	70.8	71.9	72.7
Tajikistan	-	-	-	41.1	41.2	44.8	46.8	47.3	46.5	48.7	50.4	52.6	53.6	54.4	54.6	53.0	53.5	53.4	53.4
Tanzania	57.3	57.5	59.3	59.6	60.0	56.0	54.9	58.3	56.9	60.1	56.3	58.5	56.8	56.5	58.3	58.3	57.0	57.0	57.9
Thailand	71.3	71.0	66.1	67.3	66.9	66.6	68.9	69.1	65.8	63.7	62.5	63.3	63.5	62.3	63.0	64.1	64.7	64.9	64.1
Timor-Leste	-	-	-	-	-	-	-	-	-	-	-	-	-	-	50.5	45.8	42.8	43.3	43.7
Togo	-	-	-	-	48.2	46.4	45.3	45.2	46.8	47.0	48.2	47.3	49.7	48.9	48.7	47.1	49.1	48.3	48.8
Tonga	-	-	-	-	-	-	-	-	-	-	-	-	-	-	54.1	53.4	55.8	57.0	56.0
Trinidad and Tobago	-	69.2	71.3	72.0	72.4	74.5	71.8	70.1	68.8	71.3	71.5	70.4	70.6	69.5	68.0	65.7	66.5	64.4	62.3

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Tunisia	63.4	63.9	63.8	63.9	61.1	61.3	60.8	60.2	58.1	58.4	55.4	57.5	60.3	60.1	58.0	58.9	58.5	58.6	57.0
Turkey	58.4	56.7	60.8	60.9	59.2	63.4	60.6	54.2	51.9	52.8	50.6	57.0	57.4	59.9	61.6	63.8	64.2	62.5	62.9
Turkmenistan	-	-	-	35.0	36.1	37.6	41.8	43.2	51.3	50.7	47.6	43.8	43.0	43.4	44.2	42.5	43.6	43.8	42.6
Uganda	62.9	66.2	66.6	64.7	64.8	58.2	60.4	61.0	60.1	64.1	62.9	63.9	63.1	63.8	63.5	62.2	61.7	61.9	61.1
Ukraine	39.9	40.6	43.5	40.4	43.7	47.8	48.5	48.2	51.1	53.7	55.8	54.4	51.5	51.0	48.8	46.4	45.8	46.1	46.3
United Arab Emirates	-	71.6	71.9	72.2	71.5	74.2	74.9	73.6	73.4	67.2	65.2	62.2	62.6	62.6	64.7	67.3	67.8	69.3	71.1
United Kingdom	77.9	76.4	76.4	76.5	76.2	77.3	77.6	78.5	77.5	77.7	79.2	80.4	79.9	79.4	79.0	76.5	74.5	74.1	74.8
United States	76.7	76.7	75.6	75.4	75.5	76.4	79.1	78.4	78.2	78.7	79.9	81.2	81.2	81.0	80.7	78.0	77.8	76.3	76.0
Uruguay	62.5	63.7	67.5	68.6	68.5	69.3	70.7	68.7	69.8	66.7	66.9	65.3	68.4	67.9	69.1	69.8	70.0	69.9	69.7
Uzbekistan	-	-	-	31.5	33.8	38.1	38.2	38.5	38.3	39.1	45.8	48.7	51.5	51.9	50.5	47.5	45.8	45.8	46.0
Vanuatu	-	-	-	-	-	-	-	-	-	-	-	-	-	-	58.4	56.4	56.6	56.6	56.6
Venezuela	59.8	54.5	52.8	54.0	56.1	57.4	54.6	54.7	54.8	46.7	45.2	44.6	47.9	44.7	39.9	37.1	37.6	38.1	36.1
Vietnam	41.7	40.2	38.6	40.4	42.7	43.7	44.3	45.6	46.2	46.1	48.1	50.5	49.8	50.4	51.0	49.8	51.6	51.3	51.0
Yemen	49.8	49.6	48.4	46.1	43.3	44.5	44.3	48.6	50.3	50.5	53.8	52.6	54.1	53.8	56.9	54.4	54.2	55.3	55.9
Zambia	55.1	59.6	62.1	62.7	64.2	62.8	59.5	59.6	55.3	54.9	55.0	56.8	56.2	56.2	56.6	58.0	59.8	58.3	58.7
Zimbabwe	48.5	46.7	48.0	44.6	47.2	48.7	38.8	36.7	36.7	34.4	35.2	33.5	32.0	29.5	22.7	21.4	22.1	26.3	28.6

Methodology

The *Index of Economic Freedom* is constructed through analysis of 10 specific components of economic freedom, which are grouped for ease of reference into four key categories or pillars:

- **Rule of law** (property rights, freedom from corruption);
- **Limited government** (fiscal freedom, government spending);
- **Regulatory efficiency** (business freedom, labor freedom, monetary freedom); and
- **Open markets** (trade freedom, investment freedom, financial freedom).

Some of the 10 components are themselves composites of additional quantifiable measures. Each of the 10 economic freedoms is graded on a scale from 0 to 100. The 10 component scores are equally weighted and averaged to get an overall economic freedom score for each economy.

The following sections provide detailed descriptions of the methodology used to determine the scores for each of the 10 components of economic freedom.

RULE OF LAW

Property Rights

The property rights component is an assessment of the ability of individuals to accumulate private property, secured by clear laws that are fully enforced by the state. It measures the degree to which a country's laws protect private property rights and the degree to which its government enforces those laws. It also assesses the likelihood that private property will be expropriated and analyzes the independence of the judiciary, the existence of corruption within the judiciary, and the ability of individuals and businesses to enforce contracts.

The more certain the legal protection of property, the higher a country's score; similarly, the greater the chances of government expropriation of property, the lower a country's score. Countries that fall between two categories may receive an intermediate score.

Each country is graded according to the following criteria:

- **100**—Private property is guaranteed by the government. The court system enforces contracts efficiently and quickly. The justice system punishes those who unlawfully confiscate private property. There is no corruption or expropriation.

- **90**—Private property is guaranteed by the government. The court system enforces contracts efficiently. The justice system punishes those who unlawfully confiscate private property. Corruption is nearly nonexistent, and expropriation is highly unlikely.
- **80**—Private property is guaranteed by the government. The court system enforces contracts efficiently but with some delays. Corruption is minimal, and expropriation is highly unlikely.
- **70**—Private property is guaranteed by the government. The court system is subject to delays and is lax in enforcing contracts. Corruption is possible but rare, and expropriation is unlikely.
- **60**—Enforcement of property rights is lax and subject to delays. Corruption is possible but rare, and the judiciary may be influenced by other branches of government. Expropriation is unlikely.
- **50**—The court system is inefficient and subject to delays. Corruption may be present, and the judiciary may be influenced by other branches of government. Expropriation is possible but rare.
- **40**—The court system is highly inefficient, and delays are so long that they deter the use of the court system. Corruption is present, and the judiciary is influenced by other branches of government. Expropriation is possible.
- **30**—Property ownership is weakly protected. The court system is highly inefficient. Corruption is extensive, and the judiciary is strongly influenced by other branches of government. Expropriation is possible.
- **20**—Private property is weakly protected. The court system is so inefficient and corrupt that outside settlement and arbitration is the norm. Property rights are difficult to enforce. Judicial corruption is extensive. Expropriation is common.
- **10**—Private property is rarely protected, and almost all property belongs to the state. The country is in such chaos (for example, because of ongoing war) that protection of property is almost impossible to enforce. The judiciary is so corrupt that property is not protected effectively. Expropriation is common.
- **0**—Private property is outlawed, and all property belongs to the state. People do not have the right to sue others and do not have access to the courts. Corruption is endemic.

Sources. Unless otherwise noted, the *Index* relies on the following sources for information on property rights, in order of priority: Economist Intelligence Unit, *Country Commerce,* 2009–2012; U.S. Department of Commerce, *Country Commercial Guide,* 2009–2012; U.S. Department of State, *Country Reports on Human Rights Practices,* 2009–2012; and various news and magazine articles.

Freedom from Corruption

Corruption erodes economic freedom by introducing insecurity and uncertainty into economic relationships. The score for this component is derived primarily from Transparency International's Corruption Perceptions Index (CPI) for 2011, which measures the level of corruption in 183 countries.

The CPI is based on a 10-point scale in which a score of 10 indicates very little corruption and a score of 0 indicates a very corrupt government. In scoring freedom from corruption, the *Index* converts the raw CPI data to a scale of 0 to 100 by multiplying the CPI score by 10. For example, if a country's raw CPI data score is 5.5, its overall freedom from corruption score is 55.

For countries that are not covered in the CPI, the freedom from corruption score is determined by using the qualitative information from internationally recognized and reliable sources.[1] This procedure considers the extent to which corruption prevails in a country. The higher the level of corruption, the lower the level of overall economic freedom and the lower a country's score.

Sources. Unless otherwise noted, the *Index* relies on the following sources for information on informal market activities, in order of priority: Transparency International, *Corruption Perceptions Index*, 2011; U.S. Department of Commerce, *Country Commercial Guide,* 2009–2012; Economist

Intelligence Unit, *Country Commerce*, 2009–2012; Office of the U.S. Trade Representative, *2012 National Trade Estimate Report on Foreign Trade Barriers*; and official government publications of each country.

LIMITED GOVERNMENT

Fiscal Freedom

Fiscal freedom is a measure of the tax burden imposed by government. It includes direct taxes, in terms of the top marginal tax rates on individual and corporate incomes, and overall taxes, including all forms of direct and indirect taxation at all levels of government, as a percentage of GDP. Thus, the fiscal freedom component is composed of three quantitative factors:

- The top marginal tax rate on individual income,
- The top marginal tax rate on corporate income, and
- The total tax burden as a percentage of GDP.

In scoring fiscal freedom, each of these numerical variables is weighted equally as one-third of the component. This equal weighting allows a country to achieve a score as high as 67 based on two of the factors even if it receives a score of 0 on the third.

Fiscal freedom scores are calculated with a quadratic cost function to reflect the diminishing revenue returns from very high rates of taxation. The data for each factor are converted to a 100-point scale using the following equation:

$$\text{Fiscal Freedom}_{ij} = 100 - \alpha\,(\text{Factor}_{ij})^2$$

where Fiscal Freedom_{ij} represents the fiscal freedom in country i for factor j; Factor_{ij} represents the value (based on a scale of 0 to 100) in country i for factor j; and α is a coefficient set equal to 0.03. The minimum score for each factor is zero, which is not represented in the printed equation but was utilized because it means that no single high tax burden will make the other two factors irrelevant.

As an example, in the 2013 *Index*, Mauritius has a flat rate of 15 percent for both individual and corporate tax rates, which yields a score of 93.3 for each of the two factors. Mauritius's overall tax burden as a portion of GDP is 18.5 percent, yielding a tax burden factor score of 89.7. When the three factors are averaged together, Mauritius's overall fiscal freedom score becomes 92.1.

Sources. Unless otherwise noted, the *Index* relies on the following sources for information on taxation, in order of priority: Deloitte, *International Tax and Business Guide Highlights*; International Monetary Fund, *Staff Country Report*, "Selected Issues and Statistical Appendix," and *Staff Country Report*, "Article IV Consultation," 2009–2012; PricewaterhouseCoopers, *Worldwide Tax Summaries*, 2009–2012; countries' investment agencies; other government authorities (embassy confirmations and/or the country's treasury or tax authority); and Economist Intelligence Unit, *Country Commerce* and *Country Finance*, 2009–2012.

For information on tax burden as a percentage of GDP, the primary sources (in order of priority) were Organisation for Economic Co-operation and Development data; Eurostat, Government Finance Statistics data; African Development Bank and Organisation for Economic Co-operation and Development, *African Economic Outlook 2012*; International Monetary Fund, *Staff Country Report*, "Selected Issues," and *Staff Country Report*, "Article IV Consultation," 2009–2012; Asian Development Bank, *Key Indicators for Asia and the Pacific*, 2009–2012; and individual contacts from government agencies and multinational organizations such as the IMF and World Bank.

Government Spending

This component considers the level of government expenditures as a percentage of GDP. Government expenditures, including consumption and transfers, account for the entire score.

No attempt has been made to identify an optimal level of government expenditures. The ideal level will vary from country to country, depending on factors ranging from culture to geography to level of development. However, volumes of research have shown that excessive government spending that causes chronic budget deficits and the accumulation of sovereign debt is one of the most serious drags on economic dynamism.

The methodology treats zero government spending as the benchmark, and underdeveloped countries with little government capacity may receive artificially high scores as a result. However, such governments, which can provide few if any public goods, are likely to receive lower scores on some of the other components of economic freedom (such as property rights, financial freedom, and investment freedom) that reflect government effectiveness.

The scale for scoring government spending is non-linear, which means that government spending that is close to zero is lightly penalized, while levels of government spending that exceed 30 percent of GDP lead to much worse scores in a quadratic fashion (for example, doubling spending yields four times less freedom). Only extraordinarily large levels of government spending—for example, over 58 percent of GDP—receive a score of zero.

The expenditure equation used is:

$$GE_i = 100 - \alpha\,(\text{Expenditures}_i)^2$$

where GE_i represents the government expenditure score in country *i*; Expenditures_i represents the total amount of government spending at all levels as a portion of GDP (between 0 and 100); and α is a coefficient to control for variation among scores (set at 0.03). The minimum component score is zero.

In most cases, general government expenditure data include all levels of government such as federal, state, and local. In cases where general government spending data are not available, data on central government expenditures are used instead.

Sources. Unless otherwise noted, the *Index* relies on the following sources for information on government intervention in the economy, in order of priority: Organisation for Economic Co-operation and Development data; Eurostat data; African Development Bank and Organisation for Economic Co-operation and Development, *African Economic Outlook 2012*; International Monetary Fund, *Staff Country Report*, "Selected Issues and Statistical Appendix," *Staff Country Report*, "Article IV Consultation," 2009–2012, and *World Economic Outlook Database 2012*; Asian Development Bank, *Key Indicators for Asia and the Pacific*, 2009–2012; African Development Bank, *The ADB Statistics Pocketbook 2012*; official government publications of each country; and Economic Commission for Latin America, *Economic Survey of Latin America and the Caribbean 2010–2011* and *Macroeconomic Report on Latin America and the Caribbean—June 2012*.

REGULATORY EFFICIENCY

Business Freedom

Business freedom is an overall indicator of the efficiency of government regulation of business. The quantitative score is derived from an array of measurements of the difficulty of starting, operating, and closing a business. The business freedom score for each country is a number between 0 and 100, with 100 equaling the freest business environment. The score is based on 10 factors, all weighted equally, using data from the World Bank's *Doing Business* study:

- Starting a business—procedures (number);
- Starting a business—time (days);
- Starting a business—cost (% of income per capita);
- Starting a business—minimum capital (% of income per capita);
- Obtaining a license—procedures (number);[2]
- Obtaining a license—time (days);
- Obtaining a license—cost (% of income per capita);
- Closing a business—time (years);
- Closing a business—cost (% of estate); and
- Closing a business—recovery rate (cents on the dollar).[3]

Each of these raw factors is converted to a scale of 0 to 100, after which the average of the converted values is computed. The result represents the country's business freedom score. For example, even if a country requires the highest number of procedures for starting a business, which yields a score of zero in that factor, it could still receive a score as high as 90 based on scores in the other nine factors. Canada, for instance, receives scores of 100 in nine of these 10 factors, but the 14 licensing procedures required by the government equate to a score of 64.5 for that factor.

Each factor is converted to a scale of 0 to 100 using the following equation:

$$\text{Factor Score}_i = 50 \text{ factor}_{\text{average}} / \text{factor}_i$$

which is based on the ratio of the country data for each factor relative to the world average, multiplied by 50. For example, on average worldwide, it takes 18 procedures to get necessary licenses. Canada's 14 licensing procedures are a factor value better than the average, resulting in a ratio of 1.29. That ratio multiplied by 50 equals the final factor score of 64.5.

For the six countries that are not covered by the World Bank's *Doing Business* report, business freedom is scored by analyzing business regulations based on qualitative information from reliable and internationally recognized sources.[4]

Sources. Unless otherwise noted, the *Index* relies on the following sources in determining business freedom scores, in order of priority: World Bank, *Doing Business 2013*; Economist Intelligence Unit, *Country Commerce,* 2009–2012; U.S. Department of Commerce, *Country Commercial Guide,* 2009–2012; and official government publications of each country.

Labor Freedom

The labor freedom component is a quantitative measure that considers various aspects of the legal and regulatory framework of a country's labor market, including regulations concerning minimum wages, laws inhibiting layoffs, severance requirements, and measurable regulatory restraints on hiring and hours worked.

Six quantitative factors are equally weighted, with each counted as one-sixth of the labor freedom component:[5]

- Ratio of minimum wage to the average value added per worker,
- Hindrance to hiring additional workers,
- Rigidity of hours,
- Difficulty of firing redundant employees,
- Legally mandated notice period, and
- Mandatory severance pay.

Based on data collected in connection with the World Bank's *Doing Business* study, these factors specifically examine labor regulations that affect "the hiring and redundancy of workers and the rigidity of working hours."[6]

In constructing the labor freedom score, each of the six factors is converted to a scale of 0 to 100 based on the following equation:

$$\text{Factor Score}_i = 50 \times \text{factor}_{\text{average}}/\text{factor}_i$$

where country *i* data are calculated relative to the world average and then multiplied by 50. The six factor scores are then averaged for each country, yielding a labor freedom score.

The simple average of the converted values for the six factors is computed for the country's overall labor freedom score. For example, even if a country had the worst rigidity of hours in the world with a zero score for that factor, it could still get a score as high as 83.3 based on the other five factors.

For the six countries that are not covered by the World Bank's *Doing Business* study, the labor freedom component is scored by looking into labor market flexibility based on qualitative information from other reliable and internationally recognized sources.[7]

Sources. Unless otherwise noted, the *Index* relies on the following sources for data on labor freedom, in order of priority: World Bank, *Doing Business 2013*; Economist Intelligence Unit, *Country Commerce*, 2009–2012; U.S. Department of Commerce, *Country Commercial Guide*, 2009–2012; and official government publications of each country.

Monetary Freedom

Monetary freedom combines a measure of price stability with an assessment of price controls. Both inflation and price controls distort market activity. Price stability without microeconomic intervention is the ideal state for the free market.

The score for the monetary freedom component is based on two factors:

- The weighted average inflation rate for the most recent three years and
- Price controls.

The weighted average inflation rate for the most recent three years serves as the primary input into an equation that generates the base score for monetary freedom. The extent of price controls is then assessed as a penalty of up to 20 points subtracted from the base score. The two equations used to convert inflation rates into the monetary freedom score are:

$$\text{Weighted Avg. Inflation}_i = \theta_1 \text{ Inflation}_{it} + \theta_2 \text{Inflation}_{it-1} + \theta_3 \text{ Inflation}_{it-2}$$

$$\text{Monetary Freedom}_i = 100 - \alpha \sqrt{\text{Weighted Avg. Inflation}_i} - \text{PC penalty}_i$$

where θ_1 through θ_3 (thetas 1–3) represent three numbers that sum to 1 and are exponentially smaller in sequence (in this case, values of 0.665, 0.245, and 0.090, respectively); Inflation_{it} is the absolute value of the annual inflation rate in country *i* during year *t* as measured by the consumer price index; α represents a coefficient that stabilizes the variance of scores; and the price control (PC) penalty is an assigned value of 0–20 points based on the extent of price controls.

The convex (square root) functional form was chosen to create separation among countries with low inflation rates. A concave functional form would essentially treat all hyperinflations as equally bad, whether they were 100 percent price increases annually or 100,000 percent, whereas the square root provides much more gradation. The α coefficient is set to equal 6.333, which converts a 10 percent inflation rate into a freedom score of 80.0 and a 2 percent inflation rate into a score of 91.0.

Sources. Unless otherwise noted, the *Index* relies on the following sources for data on monetary policy, in order of priority: International Monetary Fund, *International Financial Statistics Online*; International Monetary Fund, *World Economic Outlook*, 2012; Economist Intelligence Unit, *ViewsWire*; and official government publications of each country.

OPEN MARKETS

Trade Freedom

Trade freedom is a composite measure of the absence of tariff and non-tariff barriers that affect imports and exports of goods and services. The trade freedom score is based on two inputs:

- The trade-weighted average tariff rate and
- Non-tariff barriers (NTBs).

Different imports entering a country can, and often do, face different tariffs. The weighted average tariff uses weights for each tariff based on the share of imports for each good. Weighted average tariffs are a purely quantitative measure and account for the basic calculation of the score using the following equation:

$$\text{Trade Freedom}_i = (((\text{Tariff}_{max} - \text{Tariff}_i)/(\text{Tariff}_{max} - \text{Tariff}_{min})) * 100) - \text{NTB}_i$$

where Trade Freedom_i represents the trade freedom in country *i*; Tariff_{max} and Tariff_{min} represent the upper and lower bounds for tariff rates (%); and Tariff_i represents the weighted average tariff rate (%) in country *i*. The minimum tariff is naturally zero percent, and the upper bound was set as 50 percent. An NTB penalty is then subtracted from the base score. The penalty of 5, 10, 15, or 20 points is assigned according to the following scale:

- **20**—NTBs are used extensively across many goods and services and/or act to effectively impede a significant amount of international trade.
- **15**—NTBs are widespread across many goods and services and/or act to impede a majority of potential international trade.
- **10**—NTBs are used to protect certain goods and services and impede some international trade.
- **5**—NTBs are uncommon, protecting few goods and services, and/or have very limited impact on international trade.
- **0**—NTBs are not used to limit international trade.

We determine the extent of NTBs in a country's trade policy regime using both qualitative and quantitative information. Restrictive rules that hinder trade vary widely, and their overlapping and shifting nature makes their complexity difficult to gauge. The categories of NTBs considered in our penalty include:

- **Quantity restrictions**—import quotas; export limitations; voluntary export restraints; import–export embargoes and bans; countertrade, etc.
- **Price restrictions**—antidumping duties; countervailing duties; border tax adjustments; variable levies/tariff rate quotas.

- **Regulatory restrictions**—licensing; domestic content and mixing requirements; sanitary and phytosanitary standards (SPSs); safety and industrial standards regulations; packaging, labeling, and trademark regulations; advertising and media regulations.
- **Investment restrictions**—exchange and other financial controls.
- **Customs restrictions**—advance deposit requirements; customs valuation procedures; customs classification procedures; customs clearance procedures.
- **Direct government intervention**—subsidies and other aid; government industrial policy and regional development measures; government-financed research and other technology policies; national taxes and social insurance; competition policies; immigration policies; government procurement policies; state trading, government monopolies, and exclusive franchises.

As an example, Botswana received a trade freedom score of 79.7. By itself, Botswana's weighted average tariff of 5.2 percent would have yielded a score of 89.7, but the existence of NTBs in Botswana reduced the score by 10 points.

Gathering tariff statistics to make a consistent cross-country comparison is a challenging task. Unlike data on inflation, for instance, countries do not report their weighted average tariff rate or simple average tariff rate every year; in some cases, the most recent year for which a country reported its tariff data could be as far back as 2002. To preserve consistency in grading the trade policy component, the *Index* uses the most recently reported weighted average tariff rate for a country from our primary source. If another reliable source reports more updated information on the country's tariff rate, this fact is noted, and the grading of this component may be reviewed if there is strong evidence that the most recently reported weighted average tariff rate is outdated.

The World Bank publishes the most comprehensive and consistent information on weighted average applied tariff rates. When the weighted average applied tariff rate is not available, the *Index* uses the country's average applied tariff rate; and when the country's average applied tariff rate is not available, the weighted average or the simple average of most favored nation (MFN) tariff rates is used.[8] In the very few cases where data on duties and customs revenues are not available, data on international trade taxes or an estimated effective tariff rate are used instead. In all cases, an effort is made to clarify the type of data used and the different sources for those data in the corresponding write-up for the trade policy component.

Sources. Unless otherwise noted, the *Index* relies on the following sources to determine scores for trade policy, in order of priority: World Bank, *World Development Indicators 2012*; World Trade Organization, *Trade Policy Review*, 1995–2012; Office of the U.S. Trade Representative, *2012 National Trade Estimate Report on Foreign Trade Barriers*; World Bank, *Doing Business 2011* and *2012*; U.S. Department of Commerce, *Country Commercial Guide*, 2008–2012; Economist Intelligence Unit, *Country Commerce*, 2009–2012; World Bank, *Data on Trade and Import Barriers: Trends in Average Applied Tariff Rates in Developing and Industrial Countries, 1981–2010*; and official government publications of each country.

Investment Freedom

In an economically free country, there would be no constraints on the flow of investment capital. Individuals and firms would be allowed to move their resources into and out of specific activities, both internally and across the country's borders, without restriction. Such an ideal country would receive a score of 100 on the investment freedom component of the *Index of Economic Freedom*.

In practice, most countries have a variety of restrictions on investment. Some have different rules for foreign and domestic investment; some restrict access to foreign exchange; some impose restrictions on payments, transfers, and capital transactions; in some, certain industries are closed to foreign investment. Labor regulations, corruption, red tape, weak infrastructure, and political and security conditions can also affect the freedom that investors have in a market.

The *Index* evaluates a variety of restrictions that are typically imposed on investment. Points, as indicated below, are deducted from the ideal score of 100 for each of the restrictions found in a country's investment regime. It is not necessary for a government to impose all of the listed restrictions at the maximum level to effectively eliminate investment freedom. Those few governments that impose so many restrictions that they total more than 100 points in deductions have had their scores set at zero.

Investment restrictions:

National treatment of foreign investment

• No national treatment, prescreening	25 points deducted
• Some national treatment, some prescreening	15 points deducted
• Some national treatment or prescreening	5 points deducted

Foreign investment code

• No transparency and burdensome bureaucracy	20 points deducted
• Inefficient policy implementation and bureaucracy	10 points deducted
• Some investment laws and practices non-transparent or inefficiently implemented	5 points deducted

Restrictions on land ownership

• All real estate purchases restricted	15 points deducted
• No foreign purchases of real estate	10 points deducted
• Some restrictions on purchases of real estate	5 points deducted

Sectoral investment restrictions

• Multiple sectors restricted	20 points deducted
• Few sectors restricted	10 points deducted
• One or two sectors restricted	5 points deducted

Expropriation of investments without fair compensation

• Common with no legal recourse	25 points deducted
• Common with some legal recourse	15 points deducted
• Uncommon but occurs	5 points deducted

Foreign exchange controls

• No access by foreigners or residents	25 points deducted
• Access available but heavily restricted	15 points deducted
• Access available with few restrictions	5 points deducted

Capital controls

• No repatriation of profits; all transactions require government approval	25 points deducted
• Inward and outward capital movements require approval and face some restrictions	15 points deducted
• Most transfers approved with some restrictions	5 points deducted

Up to an additional 20 points may be deducted for security problems, a lack of basic investment infrastructure, or other government policies that indirectly burden the investment process and limit investment freedom.

Sources. Unless otherwise noted, the *Index* relies on the following sources for data on capital flows and foreign investment, in order of priority: official government publications of each country; Economist Intelligence Unit, *Country Commerce*, 2009–2012; Office of the U.S. Trade Representative, *2012 National Trade Estimate Report on Foreign Trade Barriers*; and U.S. Department of Commerce, *Country Commercial Guide*, 2009–2012.

Financial Freedom

Financial freedom is a measure of banking efficiency as well as a measure of independence from government control and interference in the financial sector. State ownership of banks and other financial institutions such as insurers and capital markets reduces competition and generally lowers the level of available services.

In an ideal banking and financing environment where a minimum level of government interference exists, independent central bank supervision and regulation of financial institutions are limited to enforcing contractual obligations and preventing fraud. Credit is allocated on market terms, and the government does not own financial institutions. Financial institutions provide various types of financial services to individuals and companies. Banks are free to extend credit, accept deposits, and conduct operations in foreign currencies. Foreign financial institutions operate freely and are treated the same as domestic institutions.

The *Index* scores an economy's financial freedom by looking into the following five broad areas:

- The extent of government regulation of financial services,
- The degree of state intervention in banks and other financial firms through direct and indirect ownership,
- The extent of financial and capital market development,
- Government influence on the allocation of credit, and
- Openness to foreign competition.

These five areas are considered to assess an economy's overall level of financial freedom that ensures easy and effective access to financing opportunities for people and businesses in the economy. An overall score on a scale of 0 to 100 is given to an economy's financial freedom through deductions from the ideal score of 100.

- **100—Negligible government interference.**
- **90—Minimal government interference.** Regulation of financial institutions is minimal but may extend beyond enforcing contractual obligations and preventing fraud.
- **80—Nominal government interference.** Government ownership of financial institutions is a small share of overall sector assets. Financial institutions face almost no restrictions on their ability to offer financial services.
- **70—Limited government interference** Credit allocation is influenced by the government, and private allocation of credit faces almost no restrictions. Government ownership of financial institutions is sizeable. Foreign financial institutions are subject to few restrictions.
- **60—Significant government interference.** The central bank is not fully independent, its supervision and regulation of financial institutions are somewhat burdensome, and its ability to enforce contracts and prevent fraud is insufficient. The government exercises active ownership and control of financial institutions with a significant share of overall sector assets.

The ability of financial institutions to offer financial services is subject to some restrictions.

- **50—Considerable government interference.** Credit allocation is significantly influenced by the government, and private allocation of credit faces significant barriers. The ability of financial institutions to offer financial services is subject to significant restrictions. Foreign financial institutions are subject to some restrictions.
- **40—Strong government interference.** The central bank is subject to government influence, its supervision of financial institutions is heavy-handed, and its ability to enforce contracts and prevent fraud is weak. The government exercises active ownership and control of financial institutions with a large minority share of overall sector assets.
- **30—Extensive government interference.** Credit allocation is extensively influenced by the government. The government owns or controls a majority of financial institutions or is in a dominant position. Financial institutions are heavily restricted, and bank formation faces significant barriers. Foreign financial institutions are subject to significant restrictions.
- **20—Heavy government interference.** The central bank is not independent, and its supervision of financial institutions is repressive. Foreign financial institutions are discouraged or highly constrained.
- **10—Near repressive.** Credit allocation is controlled by the government. Bank formation is restricted. Foreign financial institutions are prohibited.
- **0—Repressive.** Supervision and regulation are designed to prevent private financial institutions. Private financial institutions are prohibited.

Sources. Unless otherwise noted, the *Index* relies on the following sources for data on banking and finance, in order of priority: Economist Intelligence Unit, *Country Commerce* and *Country Finance,* 2009–2012; International Monetary Fund, *Staff Country Report,* "Selected Issues," and *Staff Country Report,* "Article IV Consultation," 2009–2012; Organisation for Economic Co-operation and Development, *Economic Survey*; official government publications of each country; U.S. Department of Commerce, *Country Commercial Guide*, 2009–2012; Office of the U.S. Trade Representative, *2011 National Trade Estimate Report on Foreign Trade Barriers*; U.S. Department of State, *Investment Climate Statements,* 2009–2012; World Bank, *World Development Indicators 2012*; and various news and magazine articles on banking and finance.

General Methodological issues

Period of Study. For the current *Index of Economic Freedom,* scores are generally based on data for the period covering the second half of 2011 through the first half of 2012. To the extent possible, the information considered for each factor was current as of June 30, 2012. It is important to understand, however, that some component scores are based on historical information. For example, the monetary freedom component uses a three-year weighted average rate of inflation from January 1, 2009, to December 31, 2011.

Equal Weight. In the *Index of Economic Freedom,* the 10 components of economic freedom are equally weighted so that the overall score will not be biased toward any one component or policy direction. It is clear that the 10 economic freedoms interact, but the exact mechanisms of this interaction are not easily definable: Is a minimum threshold for each one essential? Is it possible for one to maximize if others are minimized? Are they dependent or exclusive, complements or supplements?

These are valid questions, but they are beyond the scope of our fundamental mission. The purpose of the *Index* is to reflect the economic and entrepreneurial environment in every country studied in as balanced a way as possible. The *Index* has never been designed specifically to explain economic growth or any other dependent variable; that is ably done by researchers elsewhere. The raw data for each component are provided so that others can study, weight, and integrate as they see fit.

Using the Most Currently Available Information. Analyzing economic freedom annually enables the *Index* to include the most recent information as it becomes available country by country. A data cutoff date is used so that all countries are treated fairly. As described above, the period of study for the current year's *Index* considers all information as of the last day of June of the previous year (in this case, June 30, 2012). Any new legislative changes or policy actions effective after that date have no positive or negative impact on scores or rankings.[9]

Endnotes

1 The following countries are not covered by the 2011 CPI: Belize, Fiji, and Micronesia.

2 Obtaining a license indicates necessary procedures, time, and cost in getting construction permits.

3 The recovery rate is a function of time and cost. However, the business freedom component uses all three subvariables to emphasize closing a business, starting a business, and dealing with licenses equally.

4 The six countries that are not covered by the World Bank's *Doing Business* study are Burma, Cuba, North Korea, Libya, Macau, and Turkmenistan. The methodology for business freedom dates from the 2006 *Index* because of the limited availability of quantitative data before that date. For the 1995 through 2005 editions, we used a subjective assessment with a score of 1–5. Those earlier scores have been converted by means of a simple formula to make them comparable. Top scores were converted to 100, the next best to 85, and so on. This conversion formula is different from the one used for other subjective factors, but it is unique because those other factors are not bridging to a new, data-driven methodology.

5 The labor freedom assessment in the 2009 *Index* expanded its factors to six from the four used in previous editions. This refinement was applied equally to past editions' labor freedom scores to maintain consistency. The assessment of labor freedom dates from the 2005 *Index* because of the limited availability of quantitative data before that time.

6 For more detailed information on the data, see "Employing Workers" in World Bank, *Doing Business*, at http://www.doingbusiness.org/MethodologySurveys/EmployingWorkers.aspx. Reporting only raw data, the *Doing Business 2011* study discontinued all of the sub-indices of Employing Workers: the difficulty of hiring index, the rigidity of hours index, and the difficulty of redundancy index. For the labor freedom component of the 2013 *Index*, the three indices were reconstructed by *Index* authors according to the methodology used previously by the *Doing Business* study.

7 See note 4.

8 MFN is now referred to as permanent normal trade relations (PNTR).

9 Occasionally, because the *Index* is published several months after the cutoff date for evaluation, more recent economic events cannot be factored into the scores. In the past, such occurrences have been uncommon and isolated to one region of the world. The Asian financial crisis, for example, erupted at the end of 1997 just as the 1998 *Index* was going to print. The policy changes in response to that crisis, therefore, were not considered in that year's scoring, but they were included in the next year's scores. Similarly, this year, the impact of government policies and more recently available macroeconomic statistics since the second half of 2012 have not affected the rankings for the 2013 *Index* but will almost certainly show up in scores for the next edition.

Major Works Cited

The 2013 *Index of Economic Freedom* relies on data from multiple sources to provide a picture of economic freedom in each country that is as comprehensive, impartial, and accurate as possible. The following sources provided the primary information for analyzing and scoring the 10 components of economic freedom. In addition, the authors and analysts used supporting documentation and information from various government agencies and sites on the Internet, news reports and journal articles, and official responses to inquiries. All statistical and other information received from government sources was verified with independent, internationally recognized sources.

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Our International Partners

Institute of Economic Affairs

2 Lord North Street,
Westminster
London, SW1P 3LB
United Kingdom

Phone: +44-20-7799-8900
Fax: +44-20-7799-2137
E-mail: iea@iea.org.uk
Web Site: www.iea.org.uk/

Istituto Bruno Leoni

via Bossi 1
10144 Torino
Italy

Phone: +39-011070-2087
Fax: +39-011437-1384
E-mail: info@brunoleoni.it
Web Site: www.brunoleoni.it/

Institute for Market Economics

Bulgaria
1000 Sofia
22 Patriarh Evtimii Blvd., fl.3

Phone: +359-2-952-62-66
E-mail: mail@ime.bg
Web Site: http://ime.bg/en/

Adriatic Institute for Public Policy

Markovici 15, Srdoci
51000 Rijeka, Croatia

Phone: +385-51-626-582
E-mail: AdriaticIPP@aol.com
Web Site:
www.adriaticinstitute.org

Nadácia F. A. Hayeka Bratislava

Jašíkova 6
Bratislava
Slovakia
821 03

Phone: +421-2-48-291-585
Fax: +421-2-48-291-243
E-mail: hayek@hayek.sk
Web Site: www.hayek.sk

Lithuanian Free Market Institute

3A Šeimyniškių St.
LT-09312 Vilnius
Lithuania

Phone: +370-5-250 0280
E-mail: LFMI@freema.org
Web Site: www.lrinka.lt/

Fundación Libertad

Mitre 170
2000 Rosario Sta Fe Rep. Arg.

Teléfono: ++54 341 4105000
Email:
prensa@libertad.org.ar
Página Web:
http://www.libertad.org.ar

Fundación Libertad y Desarrollo
Pedro de Villagra 2265,
Vitacura

Teléfono: ++ (56-2) 377-4800
Email: lyd@lyd.com
Página Web:
http://www.lyd.com

Instituto de Ciencia Política (ICP)

Calle 70 No. 7A-29
Bogotá

Teléfono: ++54 317 7979
Email: info@icpcolombia.org
Página Web:
http://www.icpcolombia.org

Fundación para el Análisis y los Estudios Sociales (FAES)

C/ María de Molina 40 –
6ª planta
28006 – Madrid

Teléfono +++34 91 576 6857
Email: fundacionfaes
@fundacionfaes.org
Página Web:
http://www.fundacionfaes.org

Centro de Investigaciones Sobre la Libre Empresa, A.C.

Camelia 329 Col. Florida C.P.
01030 México D.F.

Teléfono: +++56.62.42.50
Teléfono: +++ 56.62.45.00
Email: instituto@cisle.org.mx
Página Web:
http://www.cisle.org.mx/

Centro de Investigación y Estudios Legales (CITEL)

Coronel Portillo No 521
San Isidro, Lima 27

Teléfono: ++511-222-3286
Email: info@citel.org
Página Web: www.citel.org

Centro de Divulgación del Conocimiento Económico (CEDICE)

Av. Andrés Eloy Blanco (Este 2)
Edificio Cámara de comercio
de Caracas, Nivel Auditorio
Los Caobos, Caracas

Teléfono: ++58 212 571 3357
Página Web:
www.cedice.org.ve