2012 Index of Economic Freedom

CONTRIBUTORS

Ambassador Terry Miller is Director of the Center for International Trade and Economics and the 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 a Policy Analyst in the Center for International Trade and Economics at The Heritage Foundation.

Bryan Riley is the 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.

J. D. Foster, Ph.D., is the Norman B. Ture Senior Fellow in the Economics of Fiscal Policy at The Heritage Foundation.

Nahid Kalbasi Anaraki, Ph.D., is an Iranian Economist and Visiting Fellow for Special Projects in the Center for Data Analysis at The Heritage Foundation.

The Honorable Obiageli Ezekwesili is Vice President for the Africa Region at the World Bank.

2012 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

The Heritage Foundation
LEADERSHIP FOR AMERICA

THE WALL STREET JOURNAL.

The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400
heritage.org

The Wall Street Journal
Dow Jones & Company, Inc.
200 Liberty Street
New York, NY 10281
(212) 416-2000
www.wsj.com

Cover image by Datacraft
ISBN: 978-0-89195-283-1
ISSN: 1095-7308

Table of Contents

Foreword

When *Wall Street Journal* Editor Bob Bartley wrote the foreword to this Index a decade ago, he pointed to the "happy task of recording success." The cause of global economic freedom had advanced over two decades, and in its wake had come an unprecedented global prosperity. While Bob admitted to some foreboding, especially in the wake of the dot.com crash, I doubt he would have imagined that a mere decade later the cause of economic liberty would have regressed as quickly as it has.

The financial panic and Great Recession have sent the march of freedom in reverse, and the policy responses to both events have done little to arrest the retreat. As the 2012 *Index* records, governments across the world have put themselves back at the commanding heights of economic decision-making. The result is another dip in the overall global freedom *Index*, following a one-year rebound, back down to its second lowest level in a decade. The world economy is recovering, but it faces more government-policy headwinds than it has in decades.

Here and there is some good news. The case of Mauritius shows once again that good policies don't take long to yield good results. A decade ago, Mauritius ranked 72nd. This year, it ranks eighth, two spots ahead of the land of the free, the United States. Mauritius leads what for two years in a row has been a rare bright spot in these rankings, which is the improvement in parts of sub-Saharan Africa. Long trailing Asia and Latin America in economic reforms, a few African nations are bidding to join the ranks of growth economies. This is good news for the continent's long-suffering poor, who missed the freedom boom of the 1980s and 1990s, but their small economies are still hostage to decisions made in the developed world.

And this is where the news has been the worst. Europe has so far not responded to its sovereign debt crisis with the kind of reforms that rescued Britain in the 1980s. Instead, it has imposed austerity in the form of higher taxes when the continent needs faster growth. Instead of letting Greece default and requiring its creditors to take a loss, the euro zone is beating up the European Central Bank to buy up sovereign debt. This may ease the immediate panic, but the lesson of the past year is that it won't solve the fundamental problems of overspending, cradle-to-grave entitlements, and slow growth. For the record, Greece ranks 119th in economic freedom—just below Nigeria, Mali, and Benin but (silver-lining department) above Senegal.

In the U.S., voters in the 2010 elections pulled Barack Obama's credit card, and I noted in last year's foreword that much would depend on whether the President accommodated this public mood or turned left. After a few bows to compromise, Mr. Obama seems to have decided on a re-election strategy built on a populist defense of current entitlements and tax increases on "millionaires and billionaires" who make more than $200,000 a year. The immediate result has been policy gridlock, no significant spending reform, and a historic downgrade in America's formerly AAA credit rating. The U.S. economy is growing but at a subpar rate that is too slow to reduce unemployment or to raise living standards.

The stage is thus set for a 2012 election showdown over the course of U.S. economic policy. Mr. Obama will say he inherited a mess (which he did), that his policies averted disaster and set the base for recovery, and that the U.S. debt burden will start to fall again if Congress raises taxes. The Republican nominee will have to make the case that Mr. Obama's policies have prevented a strong recovery and that reforming entitlements, cutting spending, and unleashing private enterprise are crucial to an economic revival. Whether any of the Republicans likely to win the GOP nomination is capable of making that argument remains to be seen. If he or she doesn't, Mr. Obama may well win a second term and the U.S. will find itself set more durably on a European social welfare path.

The stakes for free markets are as high as they've been at any time since the late 1970s, when Margaret Thatcher and Ronald Reagan rose to the challenges of the day with policies rooted in expanding economic freedom. We need similar leaders to emerge today.

Paul A. Gigot
Editorial Page Editor
The Wall Street Journal
November 2011

Preface

With global economic recovery far from secure, many economies are at a critical juncture, and governments face decisive policy choices. Political and economic developments since the second half of 2010 have inspired a fundamental rethinking of the social contract between citizens and governments in many parts of the world. Debt, recession, and financial instability have slowed progress in countries everywhere, and economic crises have become political crises, particularly in countries where governments play a large role in directing economic activity.

The political and policy choices that emerge from the current debates will have far-reaching consequences. If those who govern acknowledge the limits of government and make necessary policy adjustments, economic freedom can blossom and high growth can once again liberate millions from poverty and joblessness. If leaders instead carry on with ill-guided policies that empower their governments rather than their people, the result is likely, at best, to be economic stagnation and ever-increasing dependence. The alternatives and consequences are clear: openness or protectionism, entrepreneurial dynamism or economic drift, prosperity or impoverishment, freedom or repression.

We know from history that the human spirit thrives on fairness, opportunity, transparency, and liberty. We have been vividly reminded of this truth by the downfall of the Soviet Union two decades ago and by the ongoing "Arab Spring" today. Yet there are those who persist in attacking individual freedom in the name of collectivism, solidarity, and social justice. These false idols of socialist nirvanas may have emotional appeal for some, but the economic and social results when they become the touchstones of government policy are all too predictable: poverty, deprivation, and oppression. If we are going to continue to safeguard societies from errors that have brought nothing but misery throughout history, we must win the battle of ideas that is currently being waged over our basic freedoms.

The link between freedom and human progress has never been clearer. Fortunately, people around the world have more access to information than ever before. Repressive regimes cannot hide behind a veil of secrecy. Informed populations are opting for greater freedom, either at the ballot box or with revolutionary vigor in the streets. Even more encouraging, political authorities have found themselves increasingly held accountable by those they govern.

As Friedrich A. Hayek foresaw decades ago, "The guiding principle in any attempt to create a world of free men must be this: a policy of freedom for the individual is the only truly progressive policy." Thus, the battle of ideas must also be a battle for the meaning of the very words with which we debate. Is it "progressive" to utilize the coercive power of the state to redistribute and level incomes within a society? Is it "liberal" to build a massive state apparatus to regulate conditions of employment, usage of energy, and access to capital? The answers to such questions will determine how we live as individuals in the 21st century.

The *2012 Index of Economic Freedom* documents a global economy that is engaged in this evolving battle between the forces of government and free markets. Today's troubles have been neither accidental nor inevitable. The problems we face are the outcomes of politically driven and economically self-defeating policy decisions that have turned an economic slowdown into an accelerating decline.

The *Index* offers a valuable starting place from which to reflect on the fundamental principles of the free-market system and the lasting value of economic freedom. Over the past 18 years, the *Index* has analyzed and confirmed the strong interplay between economic freedom and prosperity in countries around the world. As previous editions of the *Index* have elaborated, economic freedom is not a dogmatic ideology. It represents instead a philosophy that rejects dogma and embraces diverse and even competing strategies for economic advancement. The *Index* also reveals that it is not the policies we fail to implement that hold back economic growth. Rather, it is the dreadful policies that, all too often, we put in place.

In addition to the rankings and analysis of the results, the 2012 *Index* contains three timely chapters that examine facets of economic freedom that are particularly relevant to today's policy debates.

- In chapter 3, Ambassador Terry Miller and Dr. J. D. Foster of The Heritage Foundation highlight the complex interplay between public debt, economic freedom, and growth. The concepts of economic freedom offer important insights into the multifaceted dynamics between a government's debt and a country's economic growth.
- In chapter 4, the *Index* takes a close look at underlying causes of the rapidly evolving situation in the Middle East. An Iranian economist, Dr. Nahid Anaraki, applies the tools of econometric analysis in a study of causal factors and possible outcomes of the turmoil.
- In chapter 5, The Honorable Obiageli Ezekwesili, Vice President for the Africa Region at the World Bank, presents a strong case for fighting poverty through economic freedom, particularly in the Sub-Saharan Africa region.

The fight for freedom is a never-ending struggle. The 2012 *Index of Economic Freedom*, like its predecessors, provides ample evidence of dynamic gains from greater economic freedom, both for individuals and for societies. With global economic recovery far from certain, the imperative for advancing economic freedom to revitalize vibrant entrepreneurial growth is stronger than ever. Our commitment to preserving and enhancing freedom has seen us through much in the past and will surely guide us successfully in the future.

Edwin J. Feulner, Ph.D., President
The Heritage Foundation
November 2011

Acknowledgments

The *Index of Economic Freedom* could not be produced without the help of countless individuals and organizations around the world. While it is impossible to mention all who contribute to our success, we wish to express our profound gratitude to the myriad individuals serving with various international organizations, accounting firms, businesses, research institutions, U.S. government agencies, foreign embassies, and other organizations who provide data used in the *Index*. Their assistance is vital and appreciated each year.

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 Charlotte Espinoza and interns Jane Abel, Jonathan Beek, Brittany Cobb, Erin Grant, Cyril Handal, Charles Kaupke, Benjamin Stewart, and Aaron Walling 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 Sally McNamara 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, and Doug Sampson 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* publication 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, Haley Parks, and Martha Galante.

A special word of thanks goes to Director of Strategic Operations Heath Hall, who coordinates activities in support of the *Index* under the Leadership for America Initiative.

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, Leadership for America Operations; 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 2011

Executive Highlights

Global economic freedom has declined over the past year according to the 2012 *Index of Economic Freedom*. The tension between government control and the free market has heightened around the world, particularly in developed countries. Eroding hard-earned gains in economic freedom in years past, the mounting burden of reckless government spending in many cases has overwhelmed gains in economic freedom achieved in other policy areas.

The 2012 *Index*, the 18th edition, analyzes economic policy developments in 184 countries since the second half of 2010. Somalia, though not formally graded, returns to the *Index* for the first time since the 2001 *Index*. Countries are graded and ranked on 10 measures of economic freedom that evaluate the rule of law, the intrusiveness of government, regulatory efficiency, and the openness of markets.

HIGHLIGHTS FROM THE 2012 *INDEX*

Rapid expansion of government, more than any market factor, appears to be responsible for flagging economic dynamism. Government spending has not only failed to arrest the economic crisis, but also—in many countries—seems to be prolonging it. The big-government approach has led to bloated public debt, turning an economic slowdown into a fiscal crisis with economic stagnation fueling long-term unemployment. For governments that increasingly are constrained by budget deficits and rising debt, the disconnect between past promises and the capability to fulfill them, and between financial assets and liabilities, has become difficult to ignore. A fundamental rethinking of the social contract, the basic and proper relationship between government and citizen, has become not just an academic exercise, but a political debate that in some countries has spilled into the streets.

The steady progress in global economic freedom documented by the *Index* until 2008 has not resumed. The global average economic freedom score in the 2012 *Index* is 59.5, a 0.2 point decline from last year and matching the second lowest level in the past 10 years. (See Chart 1.) Renewed economic uncertainty and stagnation caused by the sovereign debt turmoil in some key developed economies have battered world economic progress. Unquestionably, the policy choices made at this juncture—which involve the overriding question of whether there will be more freedom or less—will be vital in determining levels of future prosperity.

Chile and Mauritius advanced into the top 10 in the rankings in the 2012 *Index*, reflecting notable advances in their economic freedom scores. Chile is returning to the top

10, where it last appeared in 2010. For Mauritius, it is the first time in the top 10 and the first time ever that a Sub-Saharan African country has been so highly ranked. Ireland and the U.S. lost ground, slipping to the 9th and the 10th spots, respectively. Despite its high regulatory efficiency and strong rule of law, Denmark fell out of the top 10 altogether because of huge government spending equivalent to almost 60 percent of total domestic output and a high corresponding tax burden. Bahrain dropped from the top 10 as a result of worsening scores for corruption, property rights, and government spending.

Every region continues to be represented by at least one of the top 20 freest economies. Nine of these elite economies are in Europe, led by Switzerland, Ireland, and Denmark. Six are in the Asia–Pacific region. Replacing Japan, Taiwan has joined the top 20 as the world's 18th freest economy. 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).

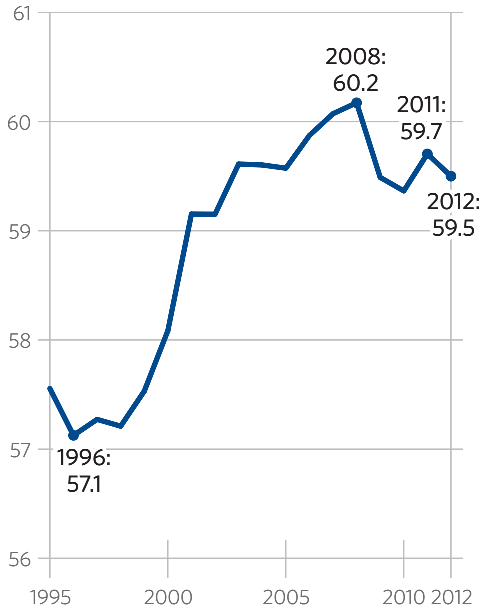
The scores of 75 economies improved, but 90 countries lost economic freedom, and 14 showed no change. Of the 75 economies whose scores improved, 73 are considered developing or emerging countries. Many are in the Asia–Pacific, Sub-Saharan Africa, and South and Central America/Caribbean regions. Australia and Iceland are the only two developed countries that recorded score improvements in the 2012 *Index*, partly due to their efforts to bring government spending under control.

Economic freedom continued to advance in the Sub-Saharan Africa and Asia–Pacific regions. Led by Guinea–Bissau, Rwanda, Liberia, and Zimbabwe, Sub-Saharan African had the largest gains on average in the *Index*. In the Asia–Pacific region, Mongolia, Kazakhstan, and Taiwan led the way in enhancing economic freedom.

Four Asia–Pacific economies and Switzerland earned designation as truly "free" economies for the 2012 *Index*. Each achieved a score above 80 on the grading scale. Hong Kong successfully defended its status as the world's freest economy for a remarkable 18th year in a row. Singapore remains the world's second freest economy and closed the gap with Hong Kong a bit as a result of advances in financial freedom. Australia, New Zealand, and Switzerland maintained their previous standings of 3rd, 4th, and 5th, respectively. These five free economies' relative strength 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.

Global Economic Freedom

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



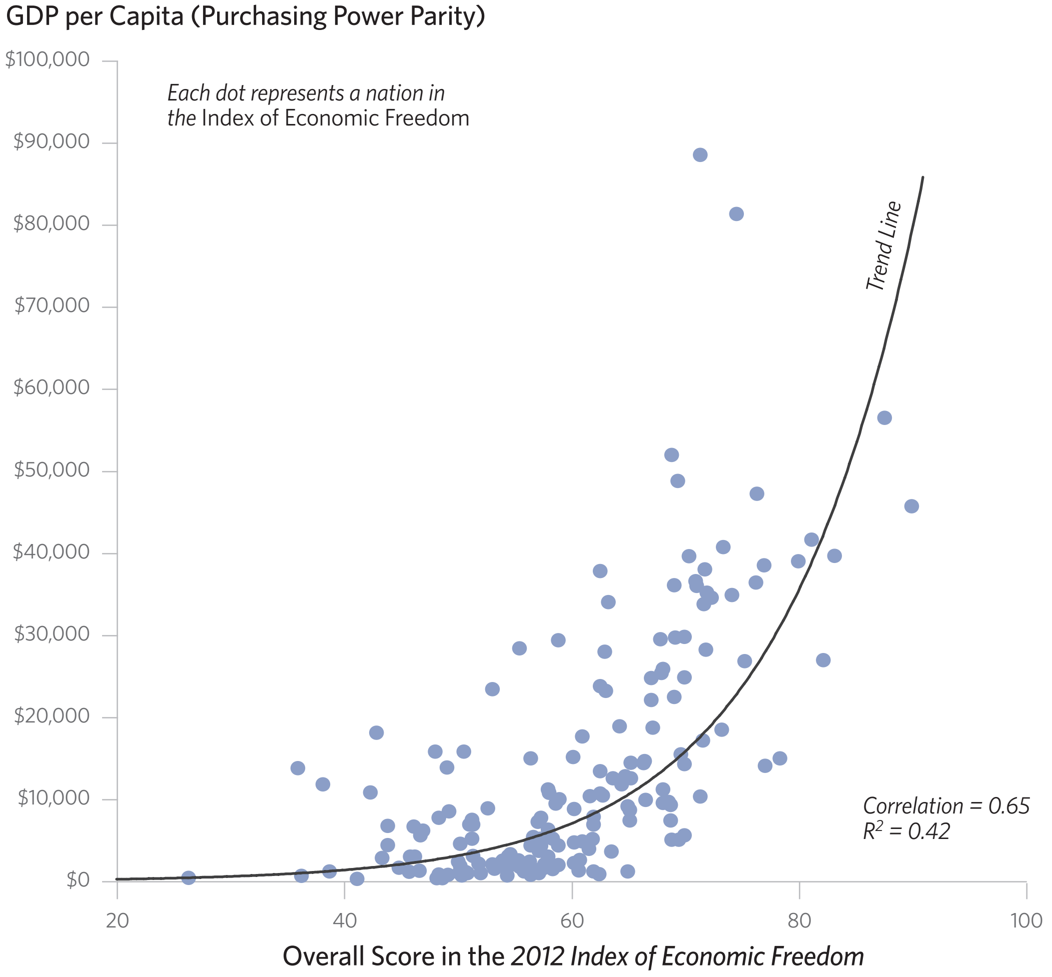
Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*.

Chart 1 heritage.org

GREATER ECONOMIC FREEDOM: THE IMPERATIVE FOR GROWTH AND PROGRESS

The overarching objective of economic policies must be to create an environment that pro-

Economic Freedom Promotes Prosperity



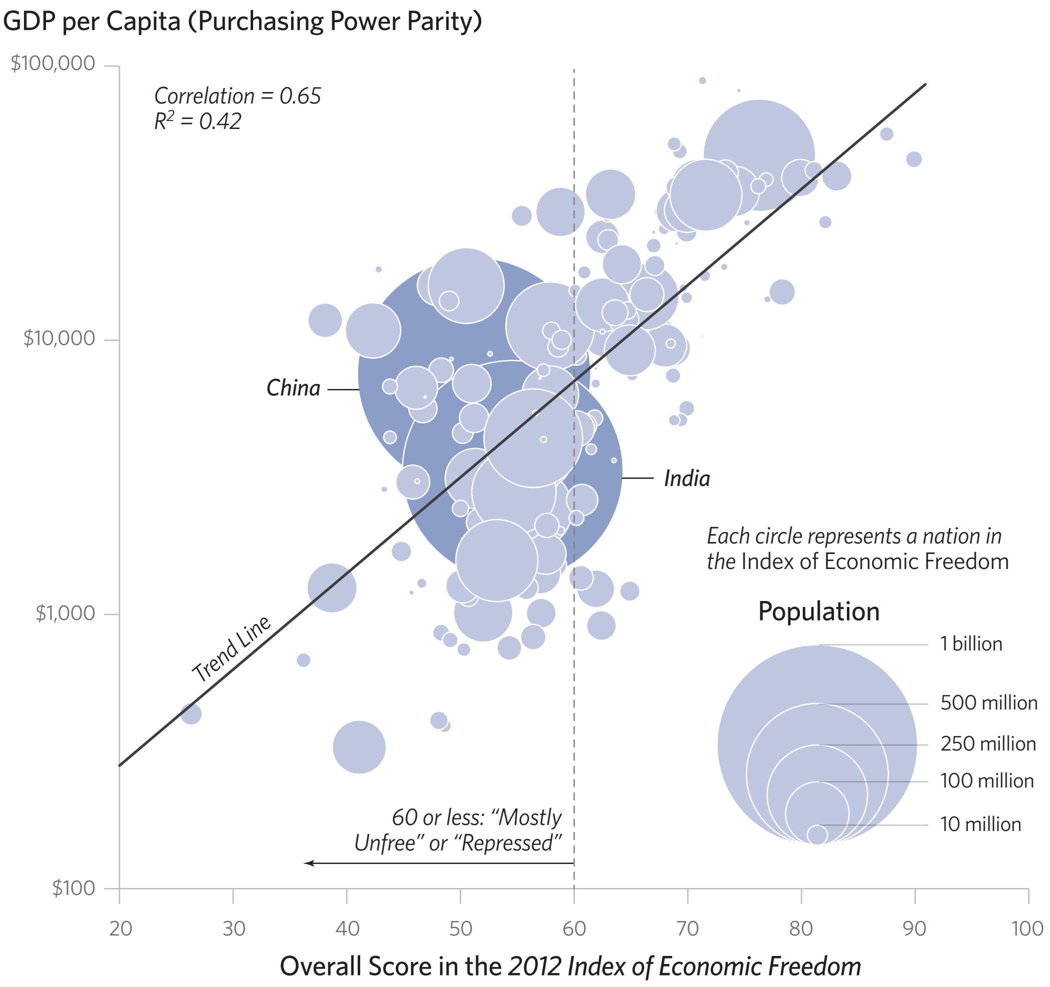
Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*; World Bank Group, World Development Indicators Online, at *http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/0,,menuPK:476823~pagePK:64165236~piPK:64165141~theSitePK:469372,00.html* (November 4, 2011); and International Monetary Fund, World Economic Outlook Databases, at *http://www.imf.org/external/ns/cs.aspx?id=28* (November 4, 2011).

Chart 2 heritage.org

vides the best chance for sustained economic growth, rising incomes, and improvements in overall well-being. The broad consensus, supported by volumes of 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.

The *Index* results, when compared with data about changes in economic and social conditions in societies around the world, provide strong empirical evidence that the free-market system remains not only viable—with the value of its core features such as private property rights, openness, and flexibility almost unquestioned—but uniquely able to promote economic dynamism and long-term prosperity.

Large Numbers of People Are Denied Economic Freedom



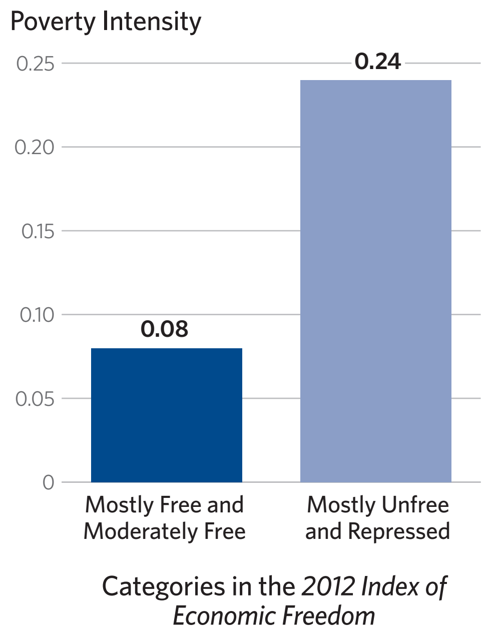
Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*; World Bank Group, World Development Indicators Online, at *http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/0,,menuPK:476823~pagePK:64165236~piPK:64165141~theSitePK:469372,00.html* (November 4, 2011); and International Monetary Fund, World Economic Outlook Databases, at *http://www.imf.org/external/ns/cs.aspx?id=28* (November 4, 2011).

Chart 3 heritage.org

The positive relationship between economic freedom and prosperity has been confirmed yet again in the 2012 *Index*. GDP per capita is much higher in countries with greater economic freedom. Chart 2 shows a strong positive relationship between the level of economic freedom and GDP per capita.

While much of the world has progressed toward greater economic freedom and higher prosperity in recent decades, a significant proportion of the world's population lives in countries where economic freedom and opportunity are restrained. As seen in Chart 3, almost three-quarters of the world's people live in countries that are "mostly unfree" or "repressed" (economic freedom scores of less than 60). Much of that 75 percent comes from just two countries, India and China.

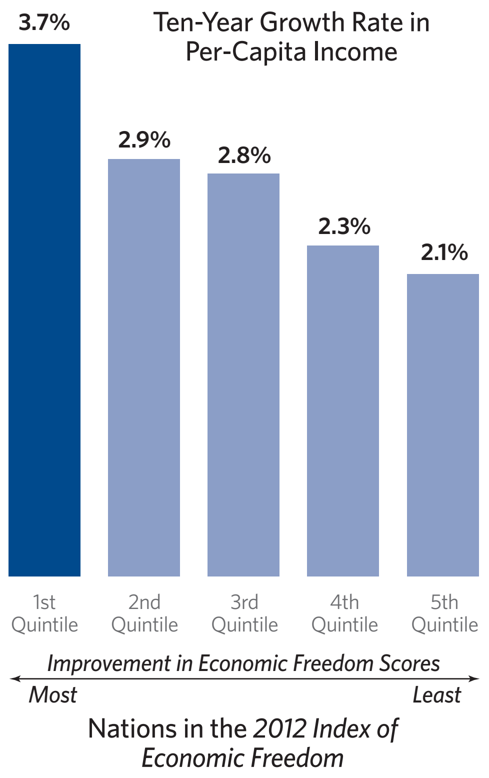
Economic Freedom and Poverty



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*, and United Nations, Human Development Report 2011, Multidimensional Poverty Index, at *http://hdr.undp.org/en/reports/global/hdr2011/* (November 4, 2011).

Chart 4 heritage.org

Economic Freedom and Economic Growth



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*; World Bank Group, World Development Indicators Online, at *http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/0,,menuPK:476823~pagePK:64165236~piPK:64165141~theSitePK:469372,00.html* (November 4, 2011); and International Monetary Fund, World Economic Outlook Databases, at *http://www.imf.org/external/ns/cs.aspx?id=28* (November 4, 2011).

Chart 5 heritage.org

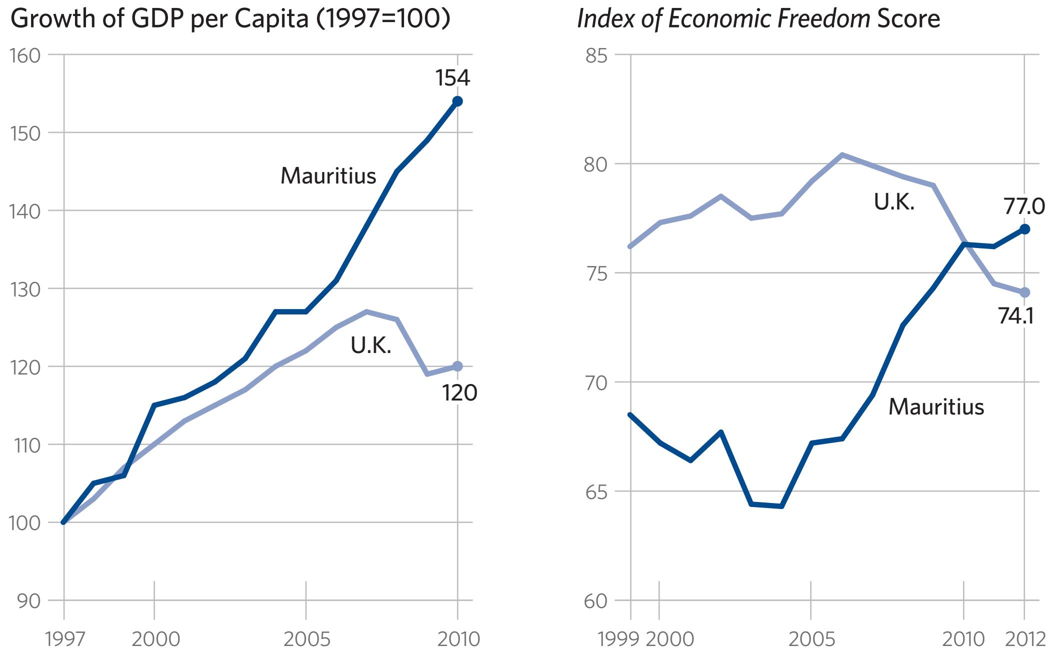
Higher economic freedom is strongly correlated with successful elimination of poverty. Chart 4 shows that poverty intensity, as measured by the United Nations' new Multidimensional Poverty Index that assesses the nature and intensity of poverty at the individual level in education, health outcomes, and standard of living, is much lower on average in countries with greater economic freedom.

Advancing economic freedom is vital to lifting people to greater prosperity. Not only is a higher level of economic freedom clearly associated with a higher level of per capita income, but countries' improvements in economic freedom also increase their income growth rates, speeding economic and social progress. (See Chart 5.)

Chart 6 illustrates the impressive progress of Mauritius, the first Sub-Saharan African country to rank in the *Index*'s top 10. For comparison, its changes in GDP growth and economic freedom are contrasted with those of the United Kingdom, from which Mauritius became independent in 1968.

Economic freedom is highly correlated with entrepreneurial activity that creates new jobs and increases opportunities and choices for individuals in advancing their own well-being. (See Chart 7.)

Comparing Mauritius and the United Kingdom



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*, and World Bank Group, World Development Indicators Online, at *http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/0,,menuPK:476823~pagePK:64165236~piPK:64165141~theSitePK:469372,00.html* (November 4, 2011).

Chart 6 heritage.org

The proven path to revitalizing economic growth is to advance economic freedom by promoting policies that generate a virtuous cycle of innovation, job creation, productivity growth, and higher living standards that in turn helps to create the social and economic resilience that sustains and empowers individuals in a rapidly evolving economic environment. As shown in Chart 8, economic freedom is positively linked to innovation.

The need to improve, or in some cases restore, economic freedom is stronger than ever. The challenge is to preserve past gains in economic freedom and to ensure that reform agendas focus on generating greater economic freedom, not less.

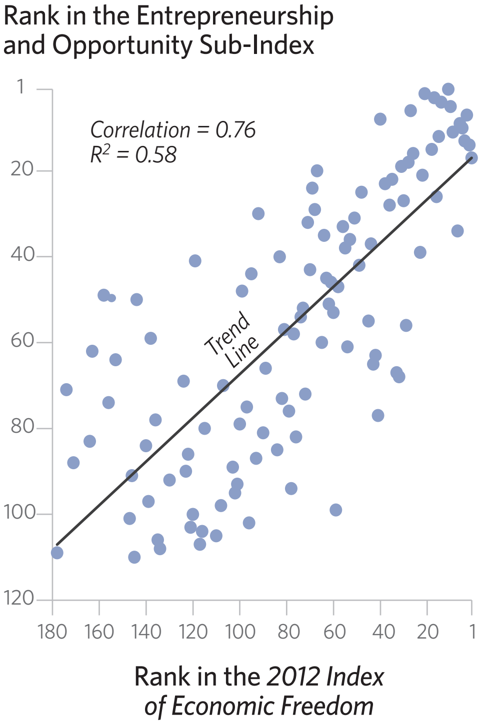
With global economic recovery far from secure, many countries are at a critical juncture, Policy decisions will be difficult, and the pressure for government intervention to favor politically powerful interests can be severe. Trade freedom and financial freedom are particularly threatened around the world, and the push for ever greater regulation in fields such as resource usage or labor relations is unabated.

The fundamental principles emphasized in the *Index of Economic Freedom*—the empowerment of individuals, equitable treatment for all, and the promotion of competition—can provide a good guide. Policies can be judged on whether they reinvigorate entrepreneurial dynamism or perpetuate static patterns of production and employment, whether they promote openness or protectionism.

Ultimately, the choice is a simple one: for or against economic freedom itself. The *Index* provides powerful evidence that the path to greater freedom is also the path to greater prosperity.

Economic Freedom Propels Entrepreneurial Dynamism

Each dot represents a nation in the Index of Economic Freedom

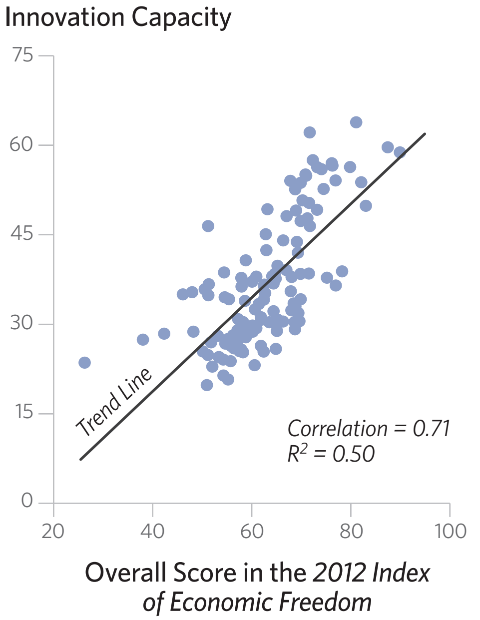


Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*, and 2011 Legatum Prosperity Index, at *http://www.prosperity.com/rankings.aspx* (November 4, 2011).

Chart 7 heritage.org

Economic Freedom and Innovation

Each dot represents a nation in the Index of Economic Freedom



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*, and INSEAD eLab, The Global Innovation Index 2011, at *http://www.globalinnovationindex.org/gii/main/fullreport/index.html* (November 4, 2011)

Chart 8 heritage.org

2012 *Index of Economic Freedom* World Rankings

World Rank	Country	Overall Score	Change from 2011	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
1	Hong Kong	89.9	0.2	90.0	84.0	93.1	91.0	98.9	86.5	85.8	90.0	90.0	90.0
2	Singapore	87.5	0.3	90.0	93.0	91.3	91.3	97.2	92.1	84.8	90.0	75.0	70.0
3	Australia	83.1	0.6	90.0	87.0	63.4	67.1	91.9	90.6	84.5	86.2	80.0	90.0
4	New Zealand	82.1	-0.2	95.0	93.0	71.6	45.0	99.9	89.9	85.2	86.8	75.0	80.0
5	Switzerland	81.1	-0.8	90.0	87.0	67.9	65.8	77.9	87.9	84.4	90.0	80.0	80.0
6	Canada	79.9	-0.9	90.0	89.0	79.2	41.7	96.6	81.8	77.3	87.9	75.0	80.0
7	Chile	78.3	0.9	90.0	72.0	77.4	82.1	68.6	75.1	85.6	82.0	80.0	70.0
8	Mauritius	77.0	0.8	65.0	54.0	91.9	83.4	78.7	70.4	78.3	87.9	90.0	70.0
9	Ireland	76.9	-1.8	90.0	80.0	73.9	30.4	92.8	78.4	76.7	87.1	90.0	70.0
10	United States	76.3	-1.5	85.0	71.0	69.8	46.7	91.1	95.8	77.2	86.4	70.0	70.0
11	Denmark	76.2	-2.4	90.0	93.0	39.8	0.0	99.1	92.1	80.7	87.1	90.0	90.0
12	Bahrain	75.2	-2.5	55.0	49.0	99.9	72.2	76.5	91.1	70.4	82.8	75.0	80.0
13	Luxembourg	74.5	-1.7	90.0	85.0	63.6	46.6	75.9	40.9	81.3	87.1	95.0	80.0
14	United Kingdom	74.1	-0.4	90.0	76.0	56.4	21.5	94.7	71.5	73.9	87.1	90.0	80.0
15	The Netherlands	73.3	-1.4	90.0	88.0	51.2	20.9	81.9	60.0	83.6	87.1	90.0	80.0
16	Estonia	73.2	-2.0	80.0	65.0	79.1	38.8	75.7	56.9	79.3	87.1	90.0	80.0
17	Finland	72.3	-1.7	90.0	92.0	65.4	5.2	94.9	42.4	81.3	87.1	85.0	80.0
18	Taiwan	71.9	1.1	70.0	58.0	80.4	92.3	88.5	46.6	83.1	85.0	65.0	50.0
19	Macau	71.8	-1.3	60.0	50.0	75.8	88.1	60.0	55.0	84.2	90.0	85.0	70.0
20	Cyprus	71.8	-1.5	70.0	63.0	83.3	37.1	81.6	69.9	85.7	82.1	75.0	70.0
21	Sweden	71.7	-0.2	90.0	92.0	39.1	8.8	94.6	54.6	80.9	87.1	90.0	80.0
22	Japan	71.6	-1.2	80.0	78.0	67.1	47.0	81.8	81.4	88.9	81.8	60.0	50.0
23	Lithuania	71.5	0.2	60.0	50.0	93.6	41.7	79.2	64.6	79.3	87.1	80.0	80.0
24	Saint Lucia	71.3	0.5	70.0	70.0	74.1	67.7	84.7	83.5	85.8	71.9	65.0	40.0
25	Qatar	71.3	0.8	70.0	77.0	99.7	73.6	69.7	67.9	77.1	82.5	45.0	50.0
26	Germany	71.0	-0.8	90.0	79.0	61.3	32.2	90.5	41.4	83.5	87.1	85.0	60.0
27	Iceland	70.9	2.7	90.0	85.0	73.5	21.8	92.0	60.9	72.5	88.2	65.0	60.0
28	Austria	70.3	-1.6	90.0	79.0	50.5	15.4	70.3	78.1	82.2	87.2	80.0	70.0
29	Uruguay	69.9	-0.1	70.0	69.0	81.2	68.7	74.9	74.0	73.4	82.9	75.0	30.0
30	Czech Republic	69.9	-0.5	70.0	46.0	82.0	36.8	67.7	77.9	81.5	87.1	70.0	80.0
31	South Korea	69.9	0.1	70.0	54.0	72.8	67.2	93.6	49.7	78.9	72.6	70.0	70.0
32	Jordan	69.9	1.0	55.0	47.0	93.5	67.0	69.5	75.7	81.2	79.6	70.0	60.0
33	Botswana	69.6	0.8	70.0	58.0	78.3	53.7	69.1	70.2	72.4	79.7	75.0	70.0
34	Georgia	69.4	-1.0	40.0	38.0	87.8	55.8	86.9	92.1	74.4	89.2	70.0	60.0
35	United Arab Emirates	69.3	1.5	55.0	63.0	99.9	80.1	68.0	78.8	80.9	82.6	35.0	50.0
36	Spain	69.1	-1.1	70.0	61.0	61.3	37.1	81.3	51.8	81.5	87.1	80.0	80.0
37	Barbados	69.0	0.5	80.0	78.0	71.1	40.1	90.0	80.0	75.8	60.5	55.0	60.0

2012 *Index of Economic Freedom* World Rankings

World Rank	Country	Overall Score	Change from 2011	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
38	Belgium	69.0	-1.2	80.0	71.0	44.8	12.1	92.3	71.3	81.2	87.1	80.0	70.0
39	Armenia	68.8	-0.9	30.0	26.0	89.3	74.9	87.8	76.6	73.1	85.4	75.0	70.0
40	Norway	68.8	-1.5	90.0	86.0	52.5	35.3	88.4	46.3	75.1	89.3	65.0	60.0
41	El Salvador	68.7	-0.1	40.0	36.0	85.5	91.1	63.2	65.3	82.1	79.0	75.0	70.0
42	Peru	68.7	0.1	40.0	35.0	79.7	90.9	72.0	68.5	85.5	85.0	70.0	60.0
43	Macedonia	68.5	2.5	35.0	41.0	91.2	66.7	80.9	80.3	86.1	83.6	60.0	60.0
44	Costa Rica	68.0	0.7	55.0	53.0	82.8	90.8	57.6	62.7	73.4	85.1	70.0	50.0
45	Colombia	68.0	0.0	50.0	35.0	76.0	74.1	89.4	79.7	78.7	72.2	65.0	60.0
46	The Bahamas	68.0	0.0	70.0	55.0	97.7	85.2	70.9	82.7	76.0	42.2	30.0	70.0
47	Oman	67.9	-1.9	50.0	53.0	98.4	53.6	68.2	85.1	72.1	83.7	55.0	60.0
48	Israel	67.8	-0.7	70.0	61.0	64.1	41.0	64.4	65.1	79.0	83.6	80.0	70.0
49	Hungary	67.1	0.5	70.0	47.0	78.6	24.4	79.8	67.6	76.1	87.1	70.0	70.0
50	Malta	67.0	1.3	70.0	56.0	67.8	43.8	70.0	60.0	80.5	87.1	75.0	60.0
51	Slovakia	67.0	-2.5	50.0	43.0	84.2	48.2	71.0	58.1	83.5	87.1	75.0	70.0
52	Saint Vincent and the Grenadines	66.5	-0.4	70.0	64.0	71.5	60.7	77.4	76.7	81.1	73.3	50.0	40.0
53	Malaysia	66.4	0.1	50.0	44.0	84.5	72.5	78.1	79.3	81.6	78.8	45.0	50.0
54	Mexico	65.3	-2.5	50.0	31.0	80.7	78.3	82.0	61.3	76.5	72.9	60.0	60.0
55	Panama	65.2	0.3	40.0	36.0	84.6	88.2	74.4	41.5	77.8	74.8	65.0	70.0
56	Latvia	65.2	-0.6	50.0	43.0	84.3	43.8	75.9	59.1	79.1	87.1	80.0	50.0
57	Albania	65.1	1.1	35.0	33.0	91.4	69.5	78.2	51.0	78.6	79.8	65.0	70.0
58	Jamaica	65.1	-0.6	40.0	33.0	75.5	58.7	84.7	69.6	72.4	72.1	85.0	60.0
59	Rwanda	64.9	2.2	35.0	40.0	77.2	78.5	73.6	91.4	75.2	78.0	60.0	40.0
60	Thailand	64.9	0.2	45.0	35.0	75.1	87.5	72.5	79.0	69.3	75.2	40.0	70.0
61	Bulgaria	64.7	-0.2	30.0	36.0	93.6	50.3	72.7	84.2	77.8	87.1	55.0	60.0
62	Romania	64.4	-0.3	40.0	37.0	87.4	55.1	70.5	62.6	74.3	87.1	80.0	50.0
63	Trinidad and Tobago	64.4	-2.1	50.0	36.0	85.5	65.1	60.1	77.3	70.1	69.9	60.0	70.0
64	Poland	64.2	0.1	60.0	53.0	74.4	40.3	61.4	61.3	79.1	87.1	65.0	60.0
65	Kazakhstan	63.6	1.5	40.0	29.0	90.4	83.4	72.9	88.7	71.8	79.6	30.0	50.0
66	Cape Verde	63.5	-1.1	65.0	51.0	77.3	61.8	59.0	48.5	80.5	66.9	65.0	60.0
67	France	63.2	-1.4	80.0	68.0	53.8	5.3	83.7	51.6	82.3	82.1	55.0	70.0
68	Portugal	63.0	-1.0	70.0	60.0	59.0	25.5	83.0	32.5	82.6	87.1	70.0	60.0
69	Slovenia	62.9	-1.7	60.0	64.0	64.8	27.9	81.4	42.2	81.2	87.1	70.0	50.0
70	South Africa	62.7	0.0	50.0	45.0	70.7	71.9	75.8	57.3	75.0	76.3	45.0	60.0
71	Kuwait	62.5	-2.4	50.0	45.0	99.9	47.2	61.8	63.5	71.3	81.6	55.0	50.0
72	Montenegro	62.5	0.0	40.0	37.0	91.3	31.7	69.2	86.1	81.2	83.6	55.0	50.0
73	Turkey	62.5	-1.7	50.0	44.0	77.7	58.5	67.1	40.0	71.9	85.4	70.0	60.0

2012 *Index of Economic Freedom* World Rankings

World Rank	Country	Overall Score	Change from 2011	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
74	Saudi Arabia	62.5	-3.7	45.0	47.0	99.6	37.3	87.5	71.1	64.9	82.3	40.0	50.0
75	Madagascar	62.4	1.2	40.0	26.0	88.3	93.6	71.1	50.8	76.0	73.5	55.0	50.0
76	Namibia	61.9	-0.8	30.0	44.0	65.7	73.0	70.8	85.0	74.4	86.5	50.0	40.0
77	Belize	61.9	-1.9	30.0	20.0	82.8	74.6	73.6	82.2	77.6	78.1	50.0	50.0
78	Uganda	61.9	0.2	30.0	25.0	80.4	93.0	49.1	87.9	74.6	73.6	45.0	60.0
79	Paraguay	61.8	-0.5	30.0	22.0	96.9	88.5	59.8	27.2	81.4	82.7	70.0	60.0
80	Dominica	61.6	-1.7	60.0	52.0	68.8	43.8	80.5	61.9	85.0	74.3	60.0	30.0
81	Mongolia	61.5	2.0	30.0	27.0	88.5	62.8	67.7	74.5	74.3	79.8	50.0	60.0
82	Guatemala	60.9	-1.0	30.0	32.0	79.6	93.9	48.5	53.5	77.3	84.6	60.0	50.0
83	Croatia	60.9	-0.2	40.0	41.0	76.4	45.0	63.4	44.4	81.4	87.5	70.0	60.0
84	Ghana	60.7	1.3	50.0	41.0	81.9	48.3	62.9	62.9	66.9	67.8	65.0	60.0
85	Burkina Faso	60.6	0.0	30.0	31.0	80.4	84.0	62.8	58.9	81.4	72.5	55.0	50.0
86	Samoa	60.5	-0.1	60.0	41.0	80.3	61.3	72.9	82.3	77.0	70.0	30.0	30.0
87	Morocco	60.2	0.6	40.0	34.0	69.7	74.8	77.2	27.6	77.9	75.7	65.0	60.0
88	Kyrgyz Republic	60.2	-0.9	20.0	20.0	93.1	66.5	74.1	88.9	71.0	63.2	55.0	50.0
89	Dominican Republic	60.2	0.2	30.0	30.0	85.8	91.4	55.5	58.7	75.1	80.1	55.0	40.0
90	Lebanon	60.1	0.0	25.0	25.0	90.8	68.2	53.9	60.6	76.9	80.4	60.0	60.0
91	Azerbaijan	58.9	-0.8	20.0	24.0	84.9	63.7	68.6	81.6	74.5	77.2	55.0	40.0
92	Italy	58.8	-1.5	50.0	39.0	55.0	19.4	77.4	43.0	82.0	87.1	75.0	60.0
93	Honduras	58.8	0.2	30.0	24.0	83.7	83.4	60.6	30.0	74.1	77.1	65.0	60.0
94	The Gambia	58.8	1.4	30.0	32.0	75.0	85.5	56.3	67.2	71.0	60.5	60.0	50.0
95	Tunisia	58.6	0.1	40.0	43.0	74.8	71.5	82.9	74.1	76.9	58.1	35.0	30.0
96	Zambia	58.3	-1.4	30.0	30.0	73.3	84.9	61.2	51.1	64.9	82.3	55.0	50.0
97	Sri Lanka	58.3	1.2	40.0	32.0	73.5	81.4	78.0	62.1	68.5	77.1	30.0	40.0
98	Serbia	58.0	0.0	40.0	35.0	84.1	39.3	56.5	68.7	68.0	77.9	60.0	50.0
99	Brazil	57.9	1.6	50.0	37.0	69.1	54.8	53.7	59.1	75.8	69.7	50.0	60.0
100	Egypt	57.9	-1.2	35.0	31.0	89.7	64.1	63.8	53.7	62.3	74.0	65.0	40.0
101	Nicaragua	57.9	-0.9	15.0	25.0	77.1	83.0	51.2	63.4	74.0	84.9	55.0	50.0
102	Cambodia	57.6	-0.3	30.0	21.0	91.1	90.0	40.7	47.2	80.7	65.2	60.0	50.0
103	Kenya	57.5	0.1	30.0	21.0	77.7	75.3	61.7	63.3	79.1	66.7	50.0	50.0
104	Bosnia and Herzegovina	57.3	-0.2	20.0	32.0	84.3	24.4	55.2	60.4	80.7	86.0	70.0	60.0
105	Fiji	57.3	-3.1	25.0	20.0	78.1	78.9	59.3	75.8	75.7	69.7	30.0	60.0
106	Swaziland	57.2	-1.9	40.0	32.0	67.2	56.5	66.4	70.8	74.5	69.7	55.0	40.0
107	The Philippines	57.1	0.9	30.0	24.0	79.1	89.7	54.3	51.7	77.1	75.5	40.0	50.0
108	Mozambique	57.1	0.3	30.0	27.0	77.1	69.3	66.8	39.7	74.8	81.1	55.0	50.0
109	Tonga	57.0	1.2	25.0	30.0	85.9	62.2	77.5	92.1	72.1	75.3	30.0	20.0
110	Tanzania	57.0	0.0	30.0	27.0	79.7	80.2	45.2	60.1	69.4	73.5	55.0	50.0

2012 *Index of Economic Freedom* World Rankings

World Rank	Country	Overall Score	Change from 2011	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
111	Bhutan	56.6	-1.0	60.0	57.0	83.8	55.3	59.7	78.6	72.6	49.5	20.0	30.0
112	Vanuatu	56.6	-0.1	40.0	36.0	97.0	79.9	59.3	50.7	78.4	55.1	30.0	40.0
113	Gabon	56.4	-0.3	40.0	28.0	73.5	81.5	57.7	59.8	77.7	61.1	45.0	40.0
114	Malawi	56.4	0.6	45.0	34.0	79.3	62.2	42.0	58.2	72.6	70.9	50.0	50.0
115	Indonesia	56.4	0.4	30.0	28.0	83.5	91.6	54.6	52.1	75.2	73.9	35.0	40.0
116	Nigeria	56.3	-0.4	30.0	24.0	84.3	72.3	55.6	80.6	72.0	63.9	40.0	40.0
117	Mali	55.8	-0.5	30.0	27.0	60.1	79.9	50.8	66.5	80.7	73.2	50.0	40.0
118	Benin	55.7	-0.3	30.0	28.0	76.2	79.9	42.9	51.5	79.7	59.3	60.0	50.0
119	Greece	55.4	-4.9	50.0	35.0	65.3	16.2	76.3	36.6	72.6	82.1	60.0	60.0
120	Senegal	55.4	-0.3	40.0	29.0	65.4	78.5	58.4	43.5	81.6	72.2	45.0	40.0
121	Yemen	55.3	1.1	30.0	22.0	83.1	62.8	71.5	57.3	69.3	81.5	45.0	30.0
122	Pakistan	54.7	-0.4	30.0	23.0	80.6	88.1	70.0	47.8	66.3	66.0	35.0	40.0
123	India	54.6	0.0	50.0	33.0	76.1	74.8	35.5	74.2	62.9	64.1	35.0	40.0
124	Moldova	54.4	-1.3	40.0	29.0	86.5	38.7	70.0	41.7	74.4	79.0	35.0	50.0
125	Niger	54.3	0.0	30.0	26.0	76.9	80.5	35.9	40.8	86.4	71.7	55.0	40.0
126	Côte d'Ivoire	54.3	-1.1	20.0	22.0	78.1	86.6	42.7	56.1	81.7	70.3	35.0	50.0
127	Djibouti	53.9	-0.6	30.0	32.0	80.3	42.4	30.5	61.6	77.2	59.6	65.0	60.0
128	Papua New Guinea	53.8	1.2	20.0	21.0	68.3	72.6	59.0	74.0	73.2	84.8	35.0	30.0
129	Tajikistan	53.4	-0.1	20.0	21.0	89.0	75.5	61.6	56.8	67.4	82.5	20.0	40.0
130	Bangladesh	53.2	0.2	20.0	24.0	72.8	93.9	68.5	55.9	67.5	54.0	55.0	20.0
131	Mauritania	53.0	0.9	25.0	23.0	80.5	71.9	51.3	53.2	75.5	69.9	40.0	40.0
132	Seychelles	53.0	1.8	50.0	48.0	76.0	59.6	62.3	58.0	67.4	33.4	45.0	30.0
133	Suriname	52.6	-0.5	40.0	37.0	63.2	67.5	40.7	81.2	74.5	66.3	25.0	30.0
134	Ethiopia	52.0	1.5	30.0	27.0	74.8	91.1	64.4	55.5	67.1	65.6	25.0	20.0
135	Cameroon	51.8	0.0	30.0	22.0	69.3	90.8	47.1	48.1	70.9	54.9	35.0	50.0
136	Vietnam	51.3	-0.3	15.0	27.0	76.5	66.5	61.1	67.3	75.1	79.6	15.0	30.0
137	Guyana	51.3	1.9	30.0	27.0	64.0	52.0	65.5	65.3	77.4	71.5	30.0	30.0
138	China	51.2	-0.8	20.0	35.0	70.4	84.1	46.4	55.4	74.2	71.6	25.0	30.0
139	Syria	51.2	-0.1	30.0	25.0	84.4	78.5	60.1	50.0	70.9	72.8	20.0	20.0
140	Algeria	51.0	-1.4	30.0	29.0	82.9	47.9	66.3	54.4	76.3	72.8	20.0	30.0
141	Guinea	50.8	-0.9	20.0	20.0	69.3	82.6	38.5	64.7	67.1	61.2	45.0	40.0
142	Haiti	50.7	-1.4	10.0	22.0	80.6	85.3	33.3	65.4	76.0	74.8	30.0	30.0
143	Micronesia	50.7	0.4	30.0	30.0	97.6	3.9	57.0	83.7	73.4	81.0	20.0	30.0
144	Russia	50.5	0.0	25.0	21.0	82.5	48.6	65.1	63.5	66.3	68.2	25.0	40.0
145	Central African Republic	50.3	1.0	20.0	21.0	65.2	92.9	37.3	49.1	74.6	57.8	55.0	30.0
146	Bolivia	50.2	0.2	10.0	28.0	87.0	62.2	56.5	40.8	72.8	74.3	20.0	50.0
147	Nepal	50.2	0.1	30.0	22.0	86.0	88.1	53.6	45.4	74.9	61.5	10.0	30.0

2012 *Index of Economic Freedom* World Rankings

World Rank	Country	Overall Score	Change from 2011	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
148	São Tomé and Príncipe	50.2	0.7	30.0	30.0	87.0	49.1	53.2	46.1	64.6	66.6	45.0	30.0
149	Guinea-Bissau	50.1	3.6	20.0	21.0	88.7	63.3	40.5	61.0	75.9	65.3	35.0	30.0
150	Laos	50.0	-1.3	15.0	21.0	79.8	86.6	61.6	55.7	76.9	58.7	25.0	20.0
151	Maldives	49.2	0.9	25.0	23.0	98.0	0.0	89.7	71.9	75.3	43.7	35.0	30.0
152	Sierra Leone	49.1	-0.5	10.0	24.0	80.9	84.3	51.8	42.0	70.1	62.8	45.0	20.0
153	Belarus	49.0	1.1	20.0	25.0	86.6	34.9	71.3	77.0	65.3	80.4	20.0	10.0
154	Liberia	48.6	2.1	30.0	33.0	76.6	74.8	55.9	50.6	71.8	53.8	20.0	20.0
155	Togo	48.3	-0.8	30.0	24.0	68.6	85.6	34.8	45.2	78.3	61.7	25.0	30.0
156	Ecuador	48.3	1.2	20.0	25.0	78.3	64.3	54.1	41.0	66.8	68.1	25.0	40.0
157	Burundi	48.1	-1.5	20.0	18.0	72.2	22.9	46.1	67.2	70.9	78.9	55.0	30.0
158	Argentina	48.0	-3.7	20.0	29.0	65.5	56.9	61.0	48.9	60.7	67.6	40.0	30.0
159	Kiribati	46.9	2.1	30.0	32.0	72.4	0.0	61.2	85.5	77.3	55.4	25.0	30.0
160	Angola	46.7	0.5	20.0	19.0	84.1	53.2	45.5	43.9	61.2	65.2	35.0	40.0
161	Lesotho	46.6	-0.9	40.0	35.0	49.1	0.0	57.5	65.0	75.5	69.1	35.0	40.0
162	Solomon Islands	46.2	0.3	30.0	28.0	69.3	30.3	63.7	68.1	77.4	55.4	10.0	30.0
163	Ukraine	46.1	0.3	30.0	24.0	78.2	29.4	46.2	51.2	67.7	84.4	20.0	30.0
164	Uzbekistan	45.8	0.0	15.0	16.0	94.4	64.9	67.6	60.1	64.2	66.1	0.0	10.0
165	Comoros	45.7	1.9	30.0	21.0	64.9	85.3	41.5	31.2	78.3	69.4	15.0	20.0
166	Chad	44.8	-0.5	20.0	17.0	50.2	74.2	24.9	43.7	72.5	55.6	50.0	40.0
167	Republic of Congo	43.8	0.2	10.0	21.0	61.3	78.0	40.6	45.7	71.0	60.7	20.0	30.0
168	Turkmenistan	43.8	0.2	10.0	16.0	98.4	93.5	30.0	30.0	71.0	79.2	0.0	10.0
169	Timor-Leste	43.3	0.5	20.0	25.0	64.7	0.0	43.1	75.1	77.4	73.0	35.0	20.0
170	Equatorial Guinea	42.8	-4.7	20.0	19.0	75.5	28.0	44.7	43.8	73.1	58.8	25.0	40.0
171	Iran	42.3	0.2	10.0	22.0	80.6	76.9	64.8	51.5	62.0	45.7	0.0	10.0
172	Democratic Republic of Congo	41.1	0.4	10.0	20.0	72.5	76.1	38.7	39.0	51.2	63.0	20.0	20.0
173	Burma	38.7	0.9	10.0	14.0	82.0	96.0	20.0	20.0	61.2	73.6	0.0	10.0
174	Venezuela	38.1	0.5	5.0	20.0	74.8	67.3	47.3	36.0	46.4	58.8	5.0	20.0
175	Eritrea	36.2	-0.5	10.0	26.0	57.0	46.8	17.1	63.2	52.9	69.1	0.0	20.0
176	Libya	35.9	-2.7	10.0	22.0	80.2	17.9	20.0	20.0	73.6	85.0	10.0	20.0
177	Cuba	28.3	0.6	10.0	37.0	61.5	0.0	10.0	20.0	71.3	62.7	0.0	10.0
178	Zimbabwe	26.3	4.2	10.0	24.0	65.2	38.7	34.9	29.6	0.0	50.4	0.0	10.0
179	North Korea	1.0	0.0	5.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
N/A	Afghanistan	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	Iraq	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	Liechtenstein	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	Somalia	N/A	N/A	N/A	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	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Chapter 1

Defining Economic Freedom

Ambassador Terry Miller and Anthony B. Kim

> *To build a better world, we must have the courage to make a new start. We must clear away the obstacles with which human folly has recently encumbered our path and release the creative energy of individuals. We must create conditions favourable to progress rather than "planning progress."... The guiding principle in any attempt to create a world of free men must be this: a policy of freedom for the individual is the only truly progressive policy.*
>
> —Friedrich A. Hayek[1]

Economic freedom is a condition or state of being in which individuals can act with autonomy while in the pursuit of livelihood. Any discussion of economic freedom has at its heart consideration of the relationship between individuals and governments or other organized groups.

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 and timeless observations on economic freedom are based on the 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 will 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

---

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

[2] *Ibid.*

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 transparency, and the bright light of equal opportunity replaces the shadows where discrimination can be most insidious.

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 has 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. 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 definition of economic freedom should *encompass all liberties and rights of production, distribution, or consumption of goods and services. The highest form of economic freedom should provide an absolute right of property ownership; fully realized freedoms of movement for labor, capital, and goods; and an absolute absence of coercion or constraint of economic liberty beyond the extent necessary for citizens to protect and maintain liberty itself.* In other words, individuals in an economically free society would be free and entitled to work, produce, consume, and invest in any way they choose under a rule of law, with their freedom 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 the protection of person and property as well as for the common defense. Most political theorists also accept that certain goods—what economists call "public goods"—can 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 can become corrosive to 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 often imposed in the name of equality or some other noble societal purpose, such constraints are most often imposed for the benefit of societal elites or special interests, and they come with a high cost to society as a whole. Constraining economic choice distorts and diminishes the production, distribution, and

---

[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.

consumption of goods and services (including, of course, labor services).

Government provision of goods and services beyond those clearly considered public goods imposes a separate constraint on economic freedom, crowding out private-sector activity and usurping resources that might otherwise have been available for private investment or consumption. 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.

MEASURING ECONOMIC FREEDOM

Assessing economic freedom in countries as different 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, measuring country performance in 10 separate areas of economic freedom. Some of the measured aspects of economic freedom 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. They are not mutually exclusive, 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.

This year, in an effort to improve analytical understanding and presentational clarity, the 10 economic freedoms have been grouped into four broad categories or pillars of economic freedom:

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

Each of the freedoms within these four broad categories 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.

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, with sufficient rule of law to protect them, is a vital feature 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 effective and honest judicial system that is available to all, equally and without discrimination. The independence, transparency, and effectiveness of the judicial system have proved 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

Corruption is defined as dishonesty or decay. In the context of governance, it can be defined as the failure of integrity in the system, a distortion by which individuals are able to gain personally at the expense of the whole. Political corruption manifests itself in many forms such as bribery, extortion, nepotism, cronyism, patronage, embezzlement, and (most commonly) graft, whereby public officials steal or profit illegitimately from public funds.

Corruption can infect all parts of an economy; there is a direct relationship between the extent of government regulation or other government intervention in economic activity and the amount of corruption. Almost any government regulation can provide an opportunity for bribery or graft. In addition, a government regulation or restriction in one area may create an informal market in another. For example, a country with high barriers to trade may have laws that protect its domestic market and prevent the import of foreign goods, but these barriers create incentives for smuggling and a black market for the restricted products.

Transparency is the best weapon against corruption. 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 individuals and businesses are permitted by government to keep and control 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 reduce, on average, their willingness to work or invest.

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 appropriately price. 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.

In other words, excessive government spending runs a great risk of crowding out private economic activity. Even if an economy achieves fast growth through heavy government expenditure, such economic expansion tends to be only short-lived, distorting 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 have experienced in recent years, high levels of public debt accumulated by irresponsible government spending undermine economic freedom and stifle growth.

REGULATORY EFFICIENCY

Business Freedom

Business freedom is about an individual's right to establish and run an enterprise without 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, for instance, applies its regulations evenly and transparently, it lowers 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, hiring and firing restrictions, and other restrictions. 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. In general, the greater the degree of labor freedom, the lower the rate of unemployment in an economy.

Monetary Freedom

Monetary freedom, reflected in a stable currency and market-determined prices, is to an economy what free speech is to democracy. 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 is controlled largely 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 import 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, 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

A transparent and open financial system ensures fairness in access to financing and promotes entrepreneurship. An open banking environment encourages competition to provide the most efficient financial intermediation between households and firms and 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. An 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.

Chapter 2

Economic Freedom: Global and Regional Patterns

Anthony B. Kim

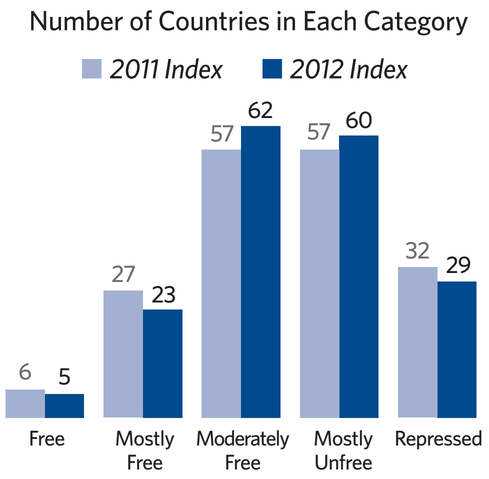
The struggle for greater economic freedom has intensified this year as governments have had to cope simultaneously with a financial crisis and slower world growth, and in some cases political instability and unsustainable levels of debt as well. The temptation for some has been to impose ever greater controls, eroding previous gains in economic freedom. As a result, the global average economic freedom score has declined by 0.2 point in the 2012 *Index*.

Of the 179 economies graded in the 2012 *Index*, only five have sustained very high freedom scores of 80 or more, putting them in the "free" category. Canada has dropped into the "mostly free" category this year, joining 22 other countries at that level. Thus, a total of only 28 countries, or about 16 percent of all countries graded, have economic systems in which individuals enjoy substantial levels of freedom.

At the opposite end of the scale, the number of countries with scores (below 50) that rank them as "repressed" also declined, from 32 to just 29.

The largest portion of the countries graded—112

Global Distribution of Economic Freedom



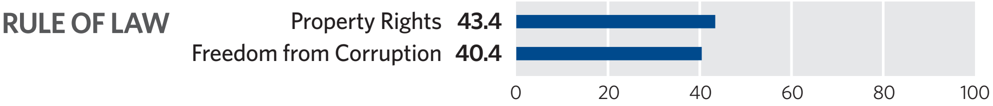
Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*.

Chart 1 heritage.org

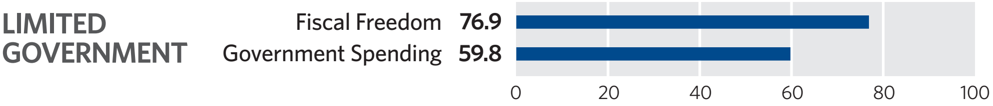
The Ten Economic Freedoms: A Global Look

Score Changes

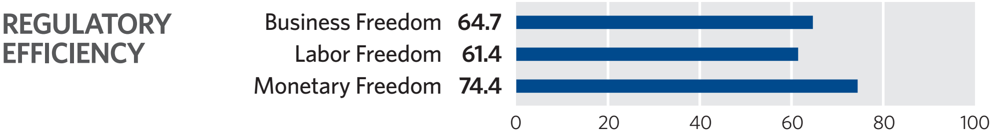
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**-0.2**	Fiscal Freedom	**+0.6**	Business Freedom	**+0.4**	Trade Freedom	**-0.3**
Freedom from Corruption	**-0.1**	Government Spending	**-4.1**	Labor Freedom	**0**	Investment Freedom	**+0.5**
				Monetary Freedom	**+1.0**	Financial Freedom	**+0.1**



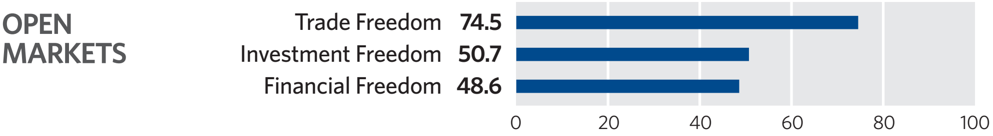
The rule of law has weakened. The global economy has been in tumultuous times, and there have been a number of large scale demonstrations around the world. Some governments continue to justify expropriations and nationalizations on the basis of the ongoing financial and economic turmoil. Thirteen countries' property rights scores declined. Scores for freedom from corruption continue to lag behind those of other components of economic freedom.



The average top individual income tax rate is 28.6 percent, and the average top corporate tax rate is 24.8 percent. The average overall tax burden as a percentage of GDP is 23 percent. The average level of government spending as a percentage of GDP is 35.2 percent. Many governments have run budget deficits in recent years, with rising public debt. The average level of gross public debt as a percentage of GDP in advanced economies is over 90 percent.

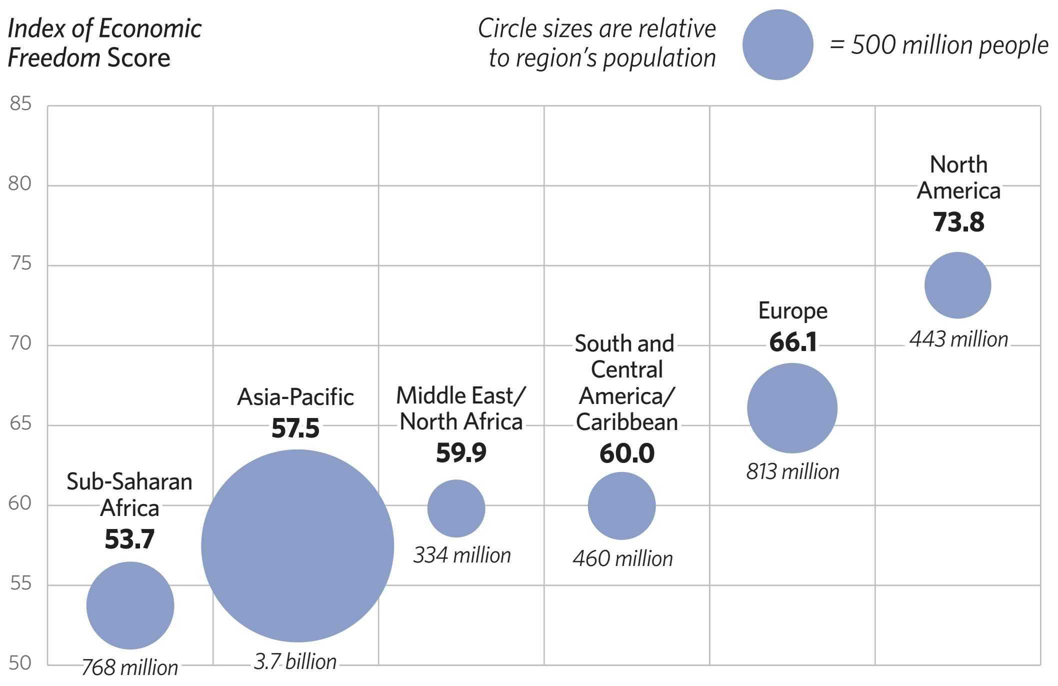


Many economies have continued to streamline and modernize their business frameworks. Globally, starting a business takes seven procedures and 30 days, while completing licensing requirements takes an average of 194 days. For the world as a whole, labor reform progress has considerably slowed. The 2012 *Index* registered a continued improvement in monetary freedom as a result of reduced inflationary pressures.



Global trade freedom is stuck in neutral or, even worse, may actually be rolling backward. Although progress was uneven, investment freedom advanced in the 2012 *Index*. Overall, the average financial freedom score remained essentially unchanged from the past year. Despite some progress toward stability, the global financial system has been under considerable strain, in large part because of the ongoing European sovereign debt turmoil.

Economic Freedom by Region, with Population



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index,* and International Monetary Fund, World Economic Outlook Databases, at *http://www.imf.org/external/ns/cs.aspx?id=28* (November 21, 2011).

Chart 2 heritage.org

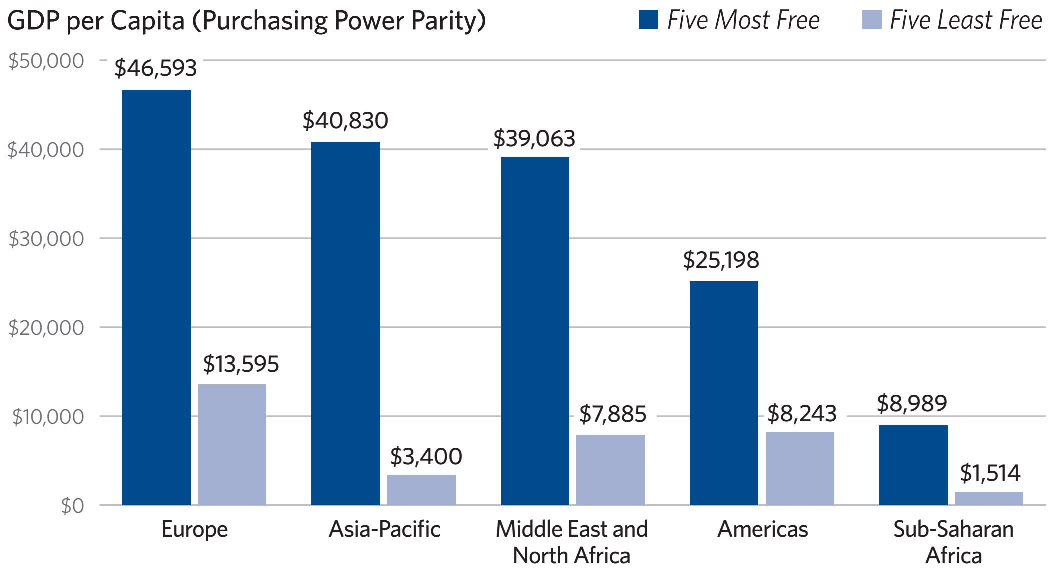
economies—have freedom scores between 50 and 70. Of those, 62 economies are "moderately free" (scores of 60–70), and 60 are "mostly unfree" (scores of 50–60).

As shown in "The Ten Economic Freedoms: A Global Look" on the previous page, the decline of economic freedom was most pronounced in the area of respect for limited government. The soundness of public finance has severely deteriorated, particularly in advanced economies, as a result of years of heavy government spending that has led to rising levels of public debt and economic stagnation. Scores also fell overall in the category of rule of law due to intensified corruption and the erosion of respect for property rights. Overall, scores for most of the economic freedoms related to regulatory efficiency and open markets improved slightly, although labor freedom recorded no score change and trade freedom declined. The largest average gain was in monetary freedom, with many countries enhancing monetary stability by getting inflationary pressure under control.

REGIONAL VARIATIONS

Each of the world's regions has registered at least one country that is ranked among the top 20 freest economies in the 2012 *Index*. Average levels of economic freedom, however, vary widely among the regions, and there are some stark differences in regional economic performance. Indeed, countries often share certain characteristics—cultural, geographical, historical, or others—with their regional neighbors that may help to shed light on the particular challenges to economic freedom that their citizens face. As shown in Chart 2, economic freedom varies noticeably by region, with inhabitants of North America and Europe continuously enjoying greater levels of economic freedom than those who live in other regions of the world.

Per Capita Income by Region



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*; World Bank Group, World Development Indicators Online, at *http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/0,,menuPK:476823~pagePK:64165236~piPK:64165141~theSitePK:469372,00.html* (November 4, 2011); and International Monetary Fund, World Economic Outlook Databases, at *http://www.imf.org/external/ns/cs.aspx?id=28* (November 4, 2011).

Chart 3 heritage.org

In every region, economic freedom is the key to greater opportunity and prosperity. Despite varying degrees of economic freedom across the regions, the relationship between economic freedom and prosperity is consistent within the regions: Per capita incomes are much higher in countries that are economically free. (See Chart 3.)

Not surprisingly, overall human development also thrives in an environment that is economically free. Economic freedom is about more than a business environment in which entrepreneurship and prosperity can flourish. Across all of the regions, as demonstrated in Chart 4, higher economic freedom induces greater overall human development as measured by the United Nations Human Development Index, which assesses the combined progress of life expectancy, literacy, education, and the standard of living.

DIVERGING REGIONAL PATTERNS

While the global average score for the 2012 *Index* has declined over the past year, economic freedom has continued to advance in the Sub-Saharan Africa and Asia–Pacific regions.

The North America region recorded the largest score decline of 1.3 points, with every country in the region losing more than half a point. Europe and the Middle East and North Africa regions tied for the second greatest loss of economic freedom on average, down seven-tenths of a point. The South and Central America/Caribbean region also showed a score decline of 0.2 point. (See Chart 5.)

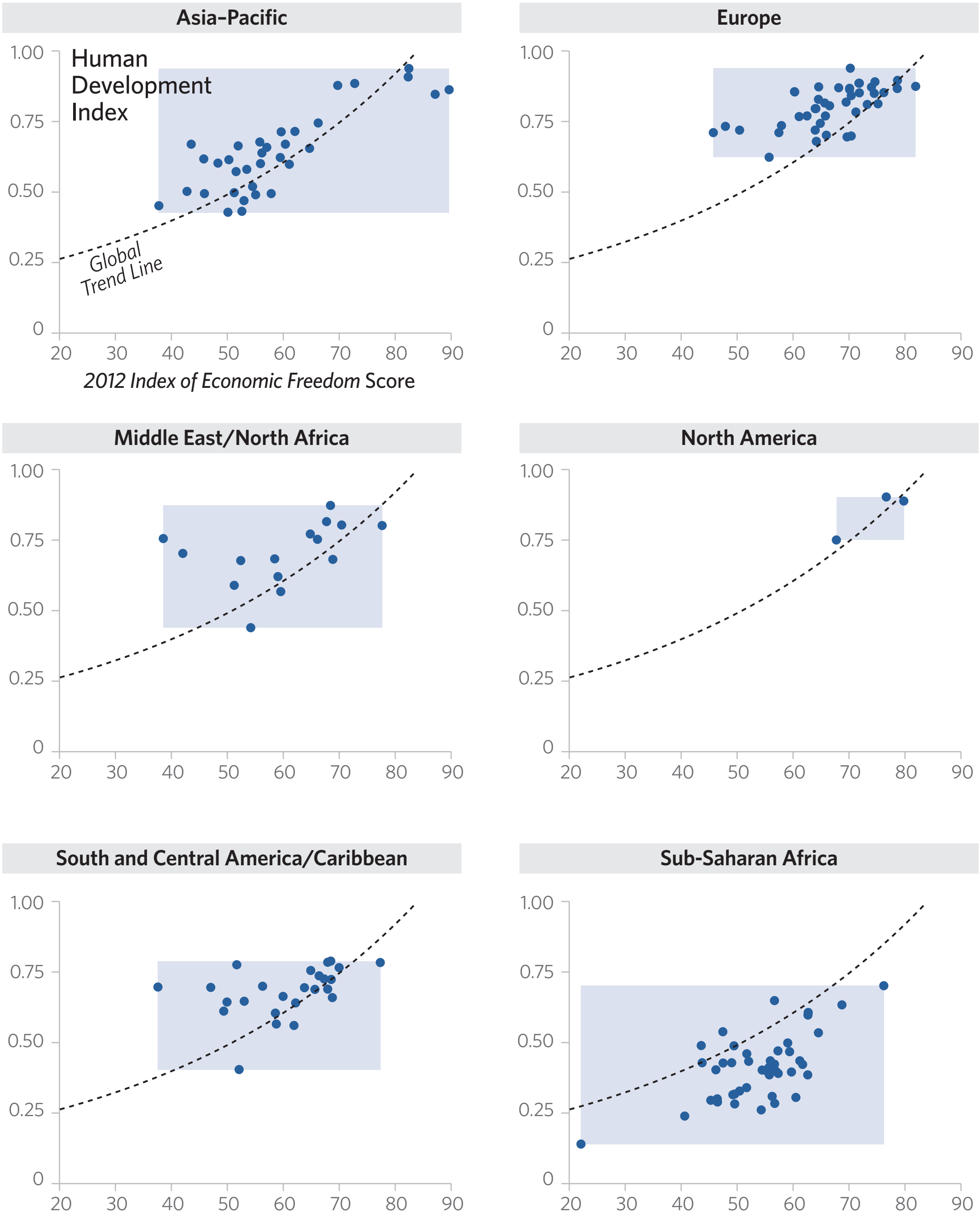
Table 1 shows components of economic freedom in which regions perform better or worse than the world averages.

Every region has two or more components in which the average level of economic freedom falls below the world average. The North America region recorded considerable drops in fiscal freedom and the scores for government spending, both of which trail world averages. European

]

Economic Freedom and Human Development by Region

Each dot represents a nation in the Index of Economic Freedom



Global Correlation = 0.70, R^2 = 0.49

Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*; and Human Development Reports, United Nations Human Development Programme, at *http://hdr.undp.org/en/reports* (November 21, 2011).

Note: Trend lines are for all countries in the *Index of Economic Freedom.*

Chart 4 heritage.org

Comparing Regional Average Scores to the Global Average

Above or Equal to Global Average

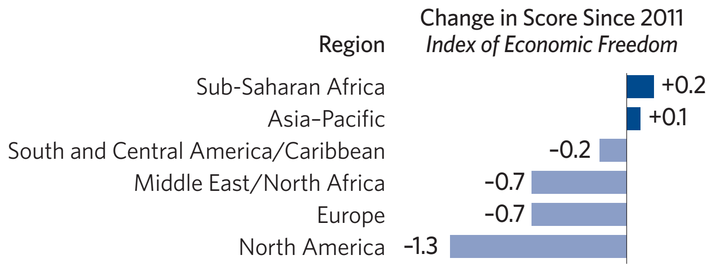
Below Global Average

	North America	Europe	South and Central America/ Caribbean	Middle East/ North Africa	Asia-Pacific	Sub-Saharan Africa	**GLOBAL AVERAGE**
Overall	73.8	66.1	60.0	59.9	57.5	53.7	**59.5**
Rule of Law							
Property Rights	75.0	61.3	40.9	41.2	38.7	31.2	**43.4**
Freedom from Corruption	63.7	55.5	39.3	40.9	36.1	29.3	**40.4**
Limited Government							
Fiscal Freedom	76.6	72.4	78.0	87.7	79.5	74.0	**76.9**
Government Spending	55.6	35.5	70.1	60.9	66.7	69.7	**59.8**
Regulatory Efficiency							
Business Freedom	89.9	77.5	62.7	66.2	64.7	51.6	**64.7**
Labor Freedom	79.6	61.4	61.1	61.6	65.9	56.5	**61.4**
Monetary Freedom	77.0	78.3	75.3	73.1	73.4	71.5	**74.4**
Open Markets							
Trade Freedom	82.4	85.5	73.3	76.7	70.7	67.2	**74.5**
Investment Freedom	68.3	69.9	51.2	45.6	38.0	44.6	**50.7**
Financial Freedom	70.0	63.7	47.9	45.3	41.5	41.1	**48.6**

Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index.*

Table 1 heritage.org

One-Year Freedom Score Change



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index.*

Chart 5 heritage.org

countries fall over four points below the world average in fiscal freedom and more than 20 points below the world average in government spending scores—a reflection of serious problems in public finance management that result from years of financing ever growing welfare states. Rigid labor regulations also continue to hamper the region's freedom, raising unemployment rates and hurting job growth.

South and Central America/Caribbean countries lag behind world averages in six components of economic freedom, particularly freedom from corruption and property rights, both critical to sustaining the rule of law. The Middle East/North Africa region has lower than average scores in four economic freedoms, the Asia–Pacific region is behind in six, and Sub-Saharan Africa lags in nine.

North America

Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*.

Map 1 heritage.org

NORTH AMERICA

North America's three countries have been linked by a regional trade agreement, the North American Free Trade Agreement (NAFTA), since 1994. NAFTA has been a positive force, connecting more than 400 million people in an economic area with about one-third of the world's total GDP.

The North America region has long benefited from its openness to international trade and investment. Although it enjoys the highest degree of economic freedom among the six regions, its overall economic freedom score has been declining in recent years, and there has been a notable reordering within the region. While Canada continues to be the region's freest economy, the U.S. and Mexico have been losing their economic freedom at a faster rate. Both of these economies registered score declines of 1.5 points, among the 30 worst performances over the last year.

North America scores above the world average in eight areas of economic freedom. It has high levels of business freedom, trade freedom, monetary freedom, and labor freedom. Weaknesses remain in property rights and freedom from corruption, as Mexico lags considerably behind its two northern neighbors in these two areas that are critical to long-term economic development. Mexico's rule of law has been severely undercut by ongoing violence and social instability related to drug trafficking. Other

Economic Freedom in North American Countries

World Rank	Region Rank	Country	Overall Score	Change from 2011	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
6	1	Canada	79.9	-0.9	90.0	89.0	79.2	41.7	96.6	81.8	77.3	87.9	75.0	80.0
10	2	United States	76.3	-1.5	85.0	71.0	69.8	46.7	91.1	95.8	77.2	86.4	70.0	70.0
54	3	Mexico	65.3	-2.5	50.0	31.0	80.7	78.3	82.0	61.3	76.5	72.9	60.0	60.0

■ 80–100 Free
■ 70–79.9 Mostly Free
■ 60–69.9 Moderately Free
■ 50–59.9 Mostly Unfree
□ 0–49.9 Repressed

Table 2 heritage.org

grave institutional weaknesses include rampant corruption and weak protection of private property rights. The reform agenda addressing these deficiencies has been extensive, but progress has been sluggish and marginal.

EUROPE

The Europe region consists of 43 countries, and long-established free-market institutions in many countries allow the region to score above the world average in seven of the 10 economic freedoms. It is over 15 points ahead in both property rights and freedom from corruption. The region's business freedom and trade freedom lead world averages by slightly more than 10 points.

Taken as a whole, the region has been undergoing tumultuous and uncertain times epitomized by the ongoing sovereign debt crisis. Europe's overall economic freedom rating is seriously undermined by weak scores in the management of government spending, reflecting the cost of expanding government services and transfer payments that plainly hinder both productivity growth and more dynamic job creation. Stagnant growth has also exacerbated debt levels, leaving many European countries with no choice but to cut spending to reduce unsustainable fiscal deficits.

Still, nine of the world's 20 freest countries, led by Switzerland, are in Europe. Ireland has fallen to 8th place in the rankings, and Denmark is now out of the top 10. Moving up by one spot, the United Kingdom has re-entered the top 15 due to some bold reform efforts including various austerity measures and corporate tax rate cuts. Luxembourg, the Netherlands, Estonia, Finland, and Cyprus all score in the top 20.

Sweden is a particularly interesting case, rising to 21st place in the *Index* despite extraordinarily high levels of per capita government spending. Unlike the troubled welfare states of Greece, Italy, and Portugal, the Swedish economy boasts highly efficient regulatory and legal regimes in addition to a high level of transparency and low corruption. These institutional assets strongly sustain productivity growth and promote resilience. Both Iceland and Macedonia recorded score gains of over two points. Achieving the third largest score improvement in the 2012 *Index*, Iceland regained its previously held status as a "mostly free" economy. This notable comeback was grounded in strong foundations for openness and the rule of law. The Macedonian economy has undertaken significant business-oriented reforms over the past few years, inspiring economic growth and the development of a thriving entrepreneurial sector.

Around 80 percent of the 43 European countries score between 60 and 80, achieving the status of either "moderately free" or "mostly free."

Europe

Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*.

Map 2 heritage.org

Economic Freedom in European Countries

World Rank	Region Rank	Country	Overall Score	Change from 2011	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
5	1	Switzerland	81.1	-0.8	90.0	87.0	67.9	65.8	77.9	87.9	84.4	90.0	80.0	80.0
9	2	Ireland	76.9	-1.8	90.0	80.0	73.9	30.4	92.8	78.4	76.7	87.1	90.0	70.0
11	3	Denmark	76.2	-2.4	90.0	93.0	39.8	0.0	99.1	92.1	80.7	87.1	90.0	90.0
13	4	Luxembourg	74.5	-1.7	90.0	85.0	63.6	46.6	75.9	40.9	81.3	87.1	95.0	80.0
14	5	United Kingdom	74.1	-0.4	90.0	76.0	56.4	21.5	94.7	71.5	73.9	87.1	90.0	80.0
15	6	The Netherlands	73.3	-1.4	90.0	88.0	51.2	20.9	81.9	60.0	83.6	87.1	90.0	80.0
16	7	Estonia	73.2	-2.0	80.0	65.0	79.1	38.8	75.7	56.9	79.3	87.1	90.0	80.0
17	8	Finland	72.3	-1.7	90.0	92.0	65.4	5.2	94.9	42.4	81.3	87.1	85.0	80.0
20	9	Cyprus	71.8	-1.5	70.0	63.0	83.3	37.1	81.6	69.9	85.7	82.1	75.0	70.0
21	10	Sweden	71.7	-0.2	90.0	92.0	39.1	8.8	94.6	54.6	80.9	87.1	90.0	80.0
23	11	Lithuania	71.5	0.2	60.0	50.0	93.6	41.7	79.2	64.6	79.3	87.1	80.0	80.0
26	12	Germany	71.0	-0.8	90.0	79.0	61.3	32.2	90.5	41.4	83.5	87.1	85.0	60.0
27	13	Iceland	70.9	2.7	90.0	85.0	73.5	21.8	92.0	60.9	72.5	88.2	65.0	60.0
28	14	Austria	70.3	-1.6	90.0	79.0	50.5	15.4	70.3	78.1	82.2	87.2	80.0	70.0
30	15	Czech Republic	69.9	-0.5	70.0	46.0	82.0	36.8	67.7	77.9	81.5	87.1	70.0	80.0
34	16	Georgia	69.4	-1.0	40.0	38.0	87.8	55.8	86.9	92.1	74.4	89.2	70.0	60.0
36	17	Spain	69.1	-1.1	70.0	61.0	61.3	37.1	81.3	51.8	81.5	87.1	80.0	80.0
38	18	Belgium	69.0	-1.2	80.0	71.0	44.8	12.1	92.3	71.3	81.2	87.1	80.0	70.0
39	19	Armenia	68.8	-0.9	30.0	26.0	89.3	74.9	87.8	76.6	73.1	85.4	75.0	70.0
40	20	Norway	68.8	-1.5	90.0	86.0	52.5	35.3	88.4	46.3	75.1	89.3	65.0	60.0
43	21	Macedonia	68.5	2.5	35.0	41.0	91.2	66.7	80.9	80.3	86.1	83.6	60.0	60.0
49	22	Hungary	67.1	0.5	70.0	47.0	78.6	24.4	79.8	67.6	76.1	87.1	70.0	70.0
50	23	Malta	67.0	1.3	70.0	56.0	67.8	43.8	70.0	60.0	80.5	87.1	75.0	60.0
51	24	Slovakia	67.0	-2.5	50.0	43.0	84.2	48.2	71.0	58.1	83.5	87.1	75.0	70.0
56	25	Latvia	65.2	-0.6	50.0	43.0	84.3	43.8	75.9	59.1	79.1	87.1	80.0	50.0
57	26	Albania	65.1	1.1	35.0	33.0	91.4	69.5	78.2	51.0	78.6	79.8	65.0	70.0
61	27	Bulgaria	64.7	-0.2	30.0	36.0	93.6	50.3	72.7	84.2	77.8	87.1	55.0	60.0
62	28	Romania	64.4	-0.3	40.0	37.0	87.4	55.1	70.5	62.6	74.3	87.1	80.0	50.0
64	29	Poland	64.2	0.1	60.0	53.0	74.4	40.3	61.4	61.3	79.1	87.1	65.0	60.0
67	30	France	63.2	-1.4	80.0	68.0	53.8	5.3	83.7	51.6	82.3	82.1	55.0	70.0

■ 80–100 Free
■ 70–79.9 Mostly Free
■ 60–69.9 Moderately Free
■ 50–59.9 Mostly Unfree
□ 0–49.9 Repressed

(continued on next page)

Table 3 heritage.org

Economic Freedom in European Countries (continued)

World Rank	Region Rank	Country	Overall Score	Change from 2011	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
68	31	Portugal	63.0	-1.0	70.0	60.0	59.0	25.5	83.0	32.5	82.6	87.1	70.0	60.0
69	32	Slovenia	62.9	-1.7	60.0	64.0	64.8	27.9	81.4	42.2	81.2	87.1	70.0	50.0
72	33	Montenegro	62.5	0.0	40.0	37.0	91.3	31.7	69.2	86.1	81.2	83.6	55.0	50.0
73	34	Turkey	62.5	-1.7	50.0	44.0	77.7	58.5	67.1	40.0	71.9	85.4	70.0	60.0
83	35	Croatia	60.9	-0.2	40.0	41.0	76.4	45.0	63.4	44.4	81.4	87.5	70.0	60.0
92	36	Italy	58.8	-1.5	50.0	39.0	55.0	19.4	77.4	43.0	82.0	87.1	75.0	60.0
98	37	Serbia	58.0	0.0	40.0	35.0	84.1	39.3	56.5	68.7	68.0	77.9	60.0	50.0
104	38	Bosnia and Herzegovina	57.3	-0.2	20.0	32.0	84.3	24.4	55.2	60.4	80.7	86.0	70.0	60.0
119	39	Greece	55.4	-4.9	50.0	35.0	65.3	16.2	76.3	36.6	72.6	82.1	60.0	60.0
124	40	Moldova	54.4	-1.3	40.0	29.0	86.5	38.7	70.0	41.7	74.4	79.0	35.0	50.0
144	41	Russia	50.5	0.0	25.0	21.0	82.5	48.6	65.1	63.5	66.3	68.2	25.0	40.0
153	42	Belarus	49.0	1.1	20.0	25.0	86.6	34.9	71.3	77.0	65.3	80.4	20.0	10.0
163	43	Ukraine	46.1	0.3	30.0	24.0	78.2	29.4	46.2	51.2	67.7	84.4	20.0	30.0
N/A	N/A	Liechtenstein	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

■ 80-100 Free
■ 70-79.9 Mostly Free
■ 60-69.9 Moderately Free
■ 50-59.9 Mostly Unfree
□ 0-49.9 Repressed

Table 3 heritage.org

Only Ukraine and Belarus remain "repressed" with scores below 50.

SOUTH AND CENTRAL AMERICA/ CARIBBEAN

The countries of the South and Central America/Caribbean region range from prosperous Chile and the developing economic colossus of Brazil to the small island economies of the Caribbean Sea. The region, which consists of 29 economies, is one of the world's most diverse, economically as well as politically.

Progress toward greater economic freedom has been made in about half of the countries in the region as the result of policy reforms. Fourteen countries recorded gains in economic freedom, while 13 had declines. The countries in the South and Central America/Caribbean region perform better than the world averages in four of the 10 components of economic freedom including fiscal freedom and investment freedom. Corruption and a lack of protection for property rights are the major problem areas, reflecting long-standing issues of poor governance and a weak rule of law.

The typical country in the region stands out positively in terms of limited taxation and government expenditures. The freedom to trade and invest is also better protected than in other parts of the developing world.

In the 2012 *Index*, the region has maintained an overall level of economic freedom that is half

South and Central America/Caribbean

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

Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*.

Map 3 heritage.org

Economic Freedom in South and Central America/ Caribbean Countries

World Rank	Region Rank	Country	Overall Score	Change from 2011	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
7	1	Chile	78.3	0.9	90.0	72.0	77.4	82.1	68.6	75.1	85.6	82.0	80.0	70.0
24	2	Saint Lucia	71.3	0.5	70.0	70.0	74.1	67.7	84.7	83.5	85.8	71.9	65.0	40.0
29	3	Uruguay	69.9	-0.1	70.0	69.0	81.2	68.7	74.9	74.0	73.4	82.9	75.0	30.0
37	4	Barbados	69.0	0.5	80.0	78.0	71.1	40.1	90.0	80.0	75.8	60.5	55.0	60.0
41	5	El Salvador	68.7	-0.1	40.0	36.0	85.5	91.1	63.2	65.3	82.1	79.0	75.0	70.0
42	6	Peru	68.7	0.1	40.0	35.0	79.7	90.9	72.0	68.5	85.5	85.0	70.0	60.0
44	7	Costa Rica	68.0	0.7	55.0	53.0	82.8	90.8	57.6	62.7	73.4	85.1	70.0	50.0
45	8	Colombia	68.0	0.0	50.0	35.0	76.0	74.1	89.4	79.7	78.7	72.2	65.0	60.0
46	9	The Bahamas	68.0	0.0	70.0	55.0	97.7	85.2	70.9	82.7	76.0	42.2	30.0	70.0
52	10	Saint Vincent and the Grenadines	66.5	-0.4	70.0	64.0	71.5	60.7	77.4	76.7	81.1	73.3	50.0	40.0
55	11	Panama	65.2	0.3	40.0	36.0	84.6	88.2	74.4	41.5	77.8	74.8	65.0	70.0
58	12	Jamaica	65.1	-0.6	40.0	33.0	75.5	58.7	84.7	69.6	72.4	72.1	85.0	60.0
63	13	Trinidad and Tobago	64.4	-2.1	50.0	36.0	85.5	65.1	60.1	77.3	70.1	69.9	60.0	70.0
77	14	Belize	61.9	-1.9	30.0	20.0	82.8	74.6	73.6	82.2	77.6	78.1	50.0	50.0
79	15	Paraguay	61.8	-0.5	30.0	22.0	96.9	88.5	59.8	27.2	81.4	82.7	70.0	60.0
80	16	Dominica	61.6	-1.7	60.0	52.0	68.8	43.8	80.5	61.9	85.0	74.3	60.0	30.0
82	17	Guatemala	60.9	-1.0	30.0	32.0	79.6	93.9	48.5	53.5	77.3	84.6	60.0	50.0
89	18	Dominican Republic	60.2	0.2	30.0	30.0	85.8	91.4	55.5	58.7	75.1	80.1	55.0	40.0
93	19	Honduras	58.8	0.2	30.0	24.0	83.7	83.4	60.6	30.0	74.1	77.1	65.0	60.0
99	20	Brazil	57.9	1.6	50.0	37.0	69.1	54.8	53.7	59.1	75.8	69.7	50.0	60.0
101	21	Nicaragua	57.9	-0.9	15.0	25.0	77.1	83.0	51.2	63.4	74.0	84.9	55.0	50.0
133	22	Suriname	52.6	-0.5	40.0	37.0	63.2	67.5	40.7	81.2	74.5	66.3	25.0	30.0
137	23	Guyana	51.3	1.9	30.0	27.0	64.0	52.0	65.5	65.3	77.4	71.5	30.0	30.0
142	24	Haiti	50.7	-1.4	10.0	22.0	80.6	85.3	33.3	65.4	76.0	74.8	30.0	30.0
146	25	Bolivia	50.2	0.2	10.0	28.0	87.0	62.2	56.5	40.8	72.8	74.3	20.0	50.0
156	26	Ecuador	48.3	1.2	20.0	25.0	78.3	64.3	54.1	41.0	66.8	68.1	25.0	40.0
158	27	Argentina	48.0	-3.7	20.0	29.0	65.5	56.9	61.0	48.9	60.7	67.6	40.0	30.0
174	28	Venezuela	38.1	0.5	5.0	20.0	74.8	67.3	47.3	36.0	46.4	58.8	5.0	20.0
177	29	Cuba	28.3	0.6	10.0	37.0	61.5	0.0	10.0	20.0	71.3	62.7	0.0	10.0

■ 80–100 Free
▩ 70–79.9 Mostly Free
▨ 60–69.9 Moderately Free
░ 50–59.9 Mostly Unfree
□ 0–49.9 Repressed

Table 4 heritage.org

a point higher than the global average of 59.5. Guyana is the most improved country in the region, gaining 1.9 points and pulling itself out of the "repressed" category. Chile has solidified its status as one of the global leaders in economic freedom, becoming the 7th freest economy in the 2012 *Index*.

Cuba remains the least free economy in the region, but a group of countries that have fallen under the influence of Venezuela's charismatic leader Hugo Chávez, including Bolivia, Ecuador, Nicaragua, and even Dominica, are stuck near the bottom of the rankings or are falling fast.

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 six countries receive an economic freedom score between 50 and 70, and 16 countries fall in the middle category of "moderately free."

MIDDLE EAST/NORTH AFRICA

The Middle East/North Africa region, which consists of 17 countries, has experienced widespread turmoil. The region's overall economic freedom has decreased by 0.7 point since the 2011 *Index*, and many of its economies remain only "moderately free" or "mostly unfree."

Many countries in the region have undergone political and economic upheaval since early 2011, and the gradual rise in economic freedom observed in recent years has come to a halt. As the 2012 *Index* goes to press, there is still far too little clarity to predict whether the "Arab Spring" will turn out to be a true blossoming of democracy and opportunity or simply a sunny break in a very long, cold winter.

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. The region's troubles are complex, rooted in decades of authoritarianism that has kept power and resources monopolized in the hands of a few. The problems will not be solved simply by holding elections with more political parties or allowing freedom of expression. Hard institutional reforms that reduce the state's role in the economy and in people's lives are required. Leaders have already fallen, yet regimes and institutions remain and craftily guard their power.

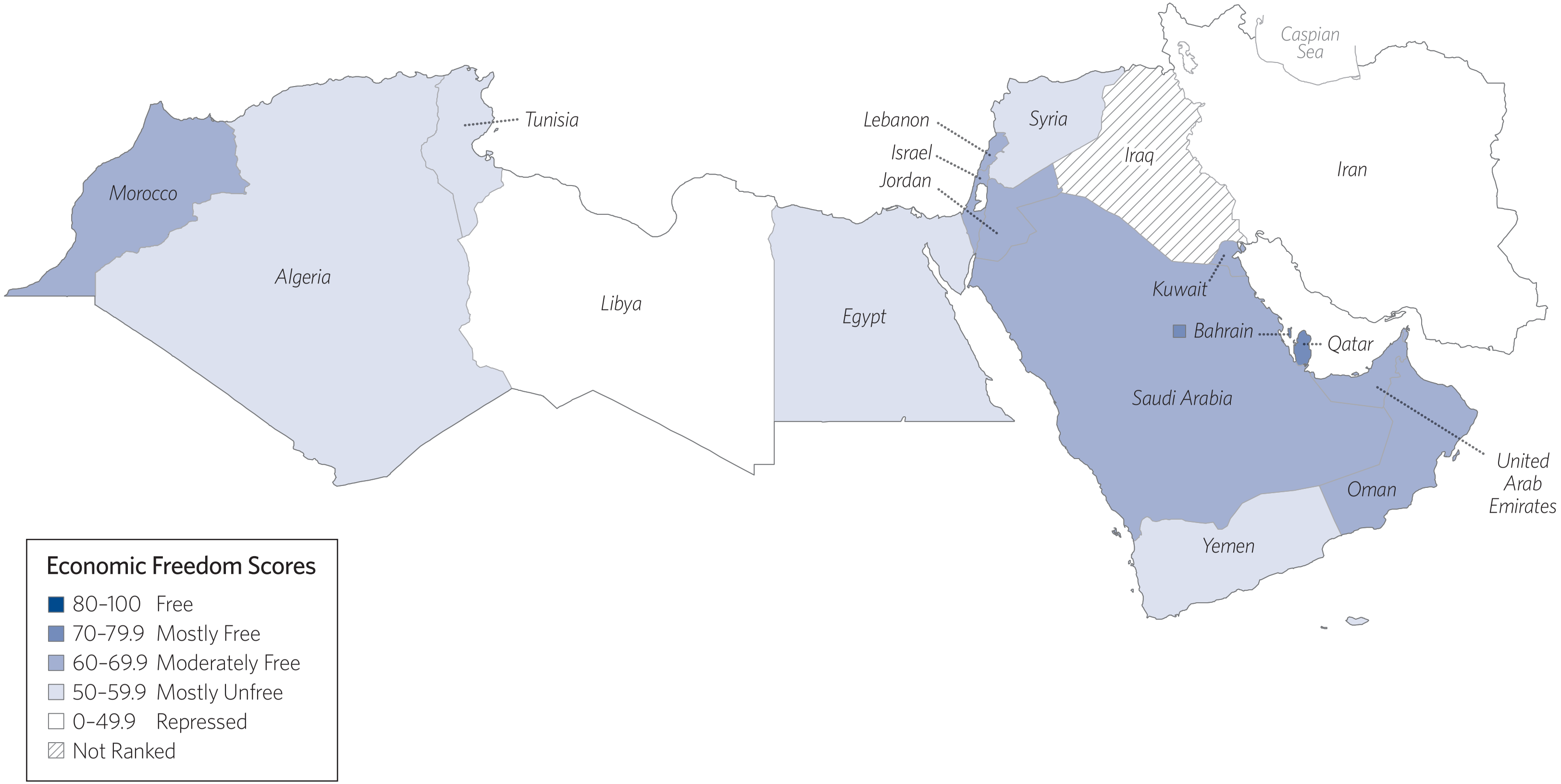
As Chart 10 shows, scores for most of the 17 countries in the region are concentrated between 50 and 70. The United Arab Emirates recorded the largest score gain in the region. Continuing its trend of advancing economic freedom, the UAE registered one of the 20 best score improvements in the 2012 *Index*. The UAE's economic restructuring has been underpinned by efforts to strengthen the business climate, boost investment, and foster the emergence of a more vibrant private sector. The Moroccan economy has advanced its economic freedom for four consecutive years. In the 2012 *Index*, the kingdom has regained the status of a "moderately free economy," with progress due in part to the government's consistent commitment to economic reforms that have encouraged a dynamically evolving private sector.

Bahrain, ranked 12th globally with an economic freedom score of 75.2, is the only Middle Eastern country among the world's 20 freest economies. It has been undertaking a challenging transition to greater openness and transparency, more visibly since early 2011, and enhancing the foundations of economic freedom through improvements in property rights and corruption will be critical in ensuring success.

Qatar, which became a "mostly free" economy for the first time in the 2011 *Index*, continues to advance economic freedom, with notable gains in areas such as freedom from corruption and monetary freedom. Eight "moderately free" economies ranging from Israel to Saudi Arabia, while very different politically, share a common commitment to economic freedom that is significantly greater than that of other countries in the region. Reversing its previous trend of advancing economic freedom, Saudi Arabia recorded the fourth largest score decline in the 2012 *Index*. The decline was largely caused by higher spending intended apparently to quell potential public unrest.

The lowest-ranking countries in the region continue to be Iran and Libya, bonded together

Middle East/North Africa



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*.

Map 4 heritage.org

Economic Freedom in Middle East/North African Countries

World Rank	Region Rank	Country	Overall Score	Change from 2011	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
12	1	Bahrain	75.2	-2.5	55.0	49.0	99.9	72.2	76.5	91.1	70.4	82.8	75.0	80.0
25	2	Qatar	71.3	0.8	70.0	77.0	99.7	73.6	69.7	67.9	77.1	82.5	45.0	50.0
32	3	Jordan	69.9	1.0	55.0	47.0	93.5	67.0	69.5	75.7	81.2	79.6	70.0	60.0
35	4	United Arab Emirates	69.3	1.5	55.0	63.0	99.9	80.1	68.0	78.8	80.9	82.6	35.0	50.0
47	5	Oman	67.9	-1.9	50.0	53.0	98.4	53.6	68.2	85.1	72.1	83.7	55.0	60.0
48	6	Israel	67.8	-0.7	70.0	61.0	64.1	41.0	64.4	65.1	79.0	83.6	80.0	70.0
71	7	Kuwait	62.5	-2.4	50.0	45.0	99.9	47.2	61.8	63.5	71.3	81.6	55.0	50.0
74	8	Saudi Arabia	62.5	-3.7	45.0	47.0	99.6	37.3	87.5	71.1	64.9	82.3	40.0	50.0
87	9	Morocco	60.2	0.6	40.0	34.0	69.7	74.8	77.2	27.6	77.9	75.7	65.0	60.0
90	10	Lebanon	60.1	0.0	25.0	25.0	90.8	68.2	53.9	60.6	76.9	80.4	60.0	60.0
95	11	Tunisia	58.6	0.1	40.0	43.0	74.8	71.5	82.9	74.1	76.9	58.1	35.0	30.0
100	12	Egypt	57.9	-1.2	35.0	31.0	89.7	64.1	63.8	53.7	62.3	74.0	65.0	40.0
121	13	Yemen	55.3	1.1	30.0	22.0	83.1	62.8	71.5	57.3	69.3	81.5	45.0	30.0
139	14	Syria	51.2	-0.1	30.0	25.0	84.4	78.5	60.1	50.0	70.9	72.8	20.0	20.0
140	15	Algeria	51.0	-1.4	30.0	29.0	82.9	47.9	66.3	54.4	76.3	72.8	20.0	30.0
171	16	Iran	42.3	0.2	10.0	22.0	80.6	76.9	64.8	51.5	62.0	45.7	0.0	10.0
176	17	Libya	35.9	-2.7	10.0	22.0	80.2	17.9	20.0	20.0	73.6	85.0	10.0	20.0
N/A	N/A	Iraq	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

█ 80–100 Free
▓ 70–79.9 Mostly Free
▒ 60–69.9 Moderately Free
░ 50–59.9 Mostly Unfree
□ 0–49.9 Repressed

Table 5 heritage.org

by economic freedom scores that are among the worst in the world.

ASIA–PACIFIC

The Asia–Pacific region contains over half of the world's population: one-third in China and nearly another third in India. Despite the challenging global economic environment, the region has achieved an average annual economic growth rate of around 8 percent over the past five years, largely driven by China, India, and other export-oriented economies.

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, 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. The region's overall economic freedom

Asia and the Pacific

Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*.

Map 5 heritage.org

Economic Freedom in Asia-Pacific Countries

World Rank	Region Rank	Country	Overall Score	Change from 2011	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	89.9	0.2	90.0	84.0	93.1	91.0	98.9	86.5	85.8	90.0	90.0	90.0
2	2	Singapore	87.5	0.3	90.0	93.0	91.3	91.3	97.2	92.1	84.8	90.0	75.0	70.0
3	3	Australia	83.1	0.6	90.0	87.0	63.4	67.1	91.9	90.6	84.5	86.2	80.0	90.0
4	4	New Zealand	82.1	-0.2	95.0	93.0	71.6	45.0	99.9	89.9	85.2	86.8	75.0	80.0
18	5	Taiwan	71.9	1.1	70.0	58.0	80.4	92.3	88.5	46.6	83.1	85.0	65.0	50.0
19	6	Macau	71.8	-1.3	60.0	50.0	75.8	88.1	60.0	55.0	84.2	90.0	85.0	70.0
22	7	Japan	71.6	-1.2	80.0	78.0	67.1	47.0	81.8	81.4	88.9	81.8	60.0	50.0
31	8	South Korea	69.9	0.1	70.0	54.0	72.8	67.2	93.6	49.7	78.9	72.6	70.0	70.0
53	9	Malaysia	66.4	0.1	50.0	44.0	84.5	72.5	78.1	79.3	81.6	78.8	45.0	50.0
60	10	Thailand	64.9	0.2	45.0	35.0	75.1	87.5	72.5	79.0	69.3	75.2	40.0	70.0
65	11	Kazakhstan	63.6	1.5	40.0	29.0	90.4	83.4	72.9	88.7	71.8	79.6	30.0	50.0
81	12	Mongolia	61.5	2.0	30.0	27.0	88.5	62.8	67.7	74.5	74.3	79.8	50.0	60.0
86	13	Samoa	60.5	-0.1	60.0	41.0	80.3	61.3	72.9	82.3	77.0	70.0	30.0	30.0
88	14	Kyrgyz Republic	60.2	-0.9	20.0	20.0	93.1	66.5	74.1	88.9	71.0	63.2	55.0	50.0
91	15	Azerbaijan	58.9	-0.8	20.0	24.0	84.9	63.7	68.6	81.6	74.5	77.2	55.0	40.0
97	16	Sri Lanka	58.3	1.2	40.0	32.0	73.5	81.4	78.0	62.1	68.5	77.1	30.0	40.0
102	17	Cambodia	57.6	-0.3	30.0	21.0	91.1	90.0	40.7	47.2	80.7	65.2	60.0	50.0
105	18	Fiji	57.3	-3.1	25.0	20.0	78.1	78.9	59.3	75.8	75.7	69.7	30.0	60.0
107	19	The Philippines	57.1	0.9	30.0	24.0	79.1	89.7	54.3	51.7	77.1	75.5	40.0	50.0
109	20	Tonga	57.0	1.2	25.0	30.0	85.9	62.2	77.5	92.1	72.1	75.3	30.0	20.0
111	21	Bhutan	56.6	-1.0	60.0	57.0	83.8	55.3	59.7	78.6	72.6	49.5	20.0	30.0
112	22	Vanuatu	56.6	-0.1	40.0	36.0	97.0	79.9	59.3	50.7	78.4	55.1	30.0	40.0
115	23	Indonesia	56.4	0.4	30.0	28.0	83.5	91.6	54.6	52.1	75.2	73.9	35.0	40.0
122	24	Pakistan	54.7	-0.4	30.0	23.0	80.6	88.1	70.0	47.8	66.3	66.0	35.0	40.0
123	25	India	54.6	0.0	50.0	33.0	76.1	74.8	35.5	74.2	62.9	64.1	35.0	40.0
128	26	Papua New Guinea	53.8	1.2	20.0	21.0	68.3	72.6	59.0	74.0	73.2	84.8	35.0	30.0
129	27	Tajikistan	53.4	-0.1	20.0	21.0	89.0	75.5	61.6	56.8	67.4	82.5	20.0	40.0
130	28	Bangladesh	53.2	0.2	20.0	24.0	72.8	93.9	68.5	55.9	67.5	54.0	55.0	20.0
136	29	Vietnam	51.3	-0.3	15.0	27.0	76.5	66.5	61.1	67.3	75.1	79.6	15.0	30.0
138	30	China	51.2	-0.8	20.0	35.0	70.4	84.1	46.4	55.4	74.2	71.6	25.0	30.0

■ 80–100 Free
▩ 70–79.9 Mostly Free
▨ 60–69.9 Moderately Free
░ 50–59.9 Mostly Unfree
☐ 0–49.9 Repressed

(continued on next page)

Table 6 heritage.org

Economic Freedom in Asia-Pacific Countries (continued)

World Rank	Region Rank	Country	Overall Score	Change from 2011	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
143	31	Micronesia	50.7	0.4	30.0	30.0	97.6	3.9	57.0	83.7	73.4	81.0	20.0	30.0
147	32	Nepal	50.2	0.1	30.0	22.0	86.0	88.1	53.6	45.4	74.9	61.5	10.0	30.0
150	33	Laos	50.0	-1.3	15.0	21.0	79.8	86.6	61.6	55.7	76.9	58.7	25.0	20.0
151	34	Maldives	49.2	0.9	25.0	23.0	98.0	0.0	89.7	71.9	75.3	43.7	35.0	30.0
159	35	Kiribati	46.9	2.1	30.0	32.0	72.4	0.0	61.2	85.5	77.3	55.4	25.0	30.0
162	36	Solomon Islands	46.2	0.3	30.0	28.0	69.3	30.3	63.7	68.1	77.4	55.4	10.0	30.0
164	37	Uzbekistan	45.8	0.0	15.0	16.0	94.4	64.9	67.6	60.1	64.2	66.1	0.0	10.0
168	38	Turkmenistan	43.8	0.2	10.0	16.0	98.4	93.5	30.0	30.0	71.0	79.2	0.0	10.0
169	39	Timor-Leste	43.3	0.5	20.0	25.0	64.7	0.0	43.1	75.1	77.4	73.0	35.0	20.0
173	40	Burma	38.7	0.9	10.0	14.0	82.0	96.0	20.0	20.0	61.2	73.6	0.0	10.0
179	41	North Korea	1.0	0.0	5.0	5.0	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	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

█ 80–100 Free
▓ 70–79.9 Mostly Free
▒ 60–69.9 Moderately Free
░ 50–59.9 Mostly Unfree
☐ 0–49.9 Repressed

Table 6 heritage.org

score is below the world average of 59.5.

The Asia–Pacific scores higher than the world averages in four of the 10 economic freedoms: fiscal freedom, government spending, business freedom, and labor freedom. Lower government expenditures result in a regional government spending score that is over five points better than the world average. The region's labor freedom score is also better than the world average by about four points, although many small Pacific island economies still lack fully developed formal labor markets.

The typical Asian country has notably lower scores in four components: investment freedom, financial freedom, property rights, and freedom from corruption.

Leading the world in four of the 10 economic freedoms, Hong Kong once again is the freest economy overall in the 2012 *Index*. With the emergence of a more dynamic and competitive financial sector, Singapore continues to boost its productivity through its openness to global trade and investment and has maintained its hold on second place in the rankings, narrowing the gap slightly with Hong Kong. Australia and New Zealand continue to set the standard for clean, corruption-free government and benefit significantly from their transparent and efficient business environments and open-market policies.

About 60 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." In the 2012 *Index*, the scores of 23 countries in the region have improved, while those of 15 have declined.

The Mongolian economy registered one of the 10 largest score improvements in the 2012 *Index*, which allowed the country to regain the status of one of the world's "moderately free" economies. The renewed progress in advancing economic freedom has restored momentum for institutional reforms that are critical to ensuring long-term economic vitality for Mongolia. Fiji, by contrast, lost the most economic freedom because of considerable deterioration in freedom from corruption, property rights, and investment freedom.

India and China are ranked 25th and 30th, respectively, in the region, and both remain "mostly unfree." The two countries' high economic 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 at the urging of those with a political interest in maintaining the status quo.

SUB-SAHARAN AFRICA

Africa's overall level of economic freedom is weaker than that of any other region. Sub-Saharan Africa is ranked last in seven of the 10 components of economic freedom and performs especially poorly in terms of property rights and freedom from corruption.

Some of the gaps between Sub-Saharan Africa's scores and world averages are especially striking. The region lags by over 10 points in business freedom and by about 12 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.

However, the 2012 *Index* shows encouraging developments. No other region has made greater strides in economic freedom than Sub-Saharan Africa over the past two years. With an average score gain of 0.2 point that reflects a net gain of economic freedom in 22 countries, the Sub-Saharan Africa region is once again the most improved region in the 2012 *Index*.

It is notable that six of the 10 fastest-growing economies over the past decade are in Sub-Saharan Africa. It is not coincidental that overall poverty in Africa is also declining. Volumes of economic research have shown that the entrepreneurship encouraged by greater economic freedom leads to innovation, economic expansion, and overall human development. According to a 2010 empirical study by two renowned scholars from Columbia University and the Massachusetts Institute of Technology, "African poverty is falling...much faster than you think!"[1] The study notes that if the right policies are adopted, "the lesson we draw is largely optimistic: even the most benighted parts of the poorest continent can set themselves firmly on the trend of limiting and even eradicating poverty within the space of a decade."[2]

In the 2012 *Index*, Mauritius becomes the first Sub-Saharan African country ever to advance into the top 10 in the rankings. The Mauritius government's continued commitment to structural reforms and policies that promote integration into the global marketplace has positioned the island economy as a world leader in economic freedom. With only a modest natural resource base, the country's impressive progress in achieving greater economic prosperity has been achieved through policies that encourage flexibility and empower individuals. Underpinned by a sound and transparent legal framework that strongly upholds the rule of law, a competitive tax regime and an efficient regulatory environment have encouraged broad-based and diversified economic development in Mauritius.

Botswana remains the region's second freest economy, followed by Rwanda and Cape Verde. Securing its status as one of the world's "moderately free" economies, the Rwandan economy has registered impressive score gains of more than two points in each of the past three years. Reforms have supported economic expansion and a gradual reduction in poverty. The

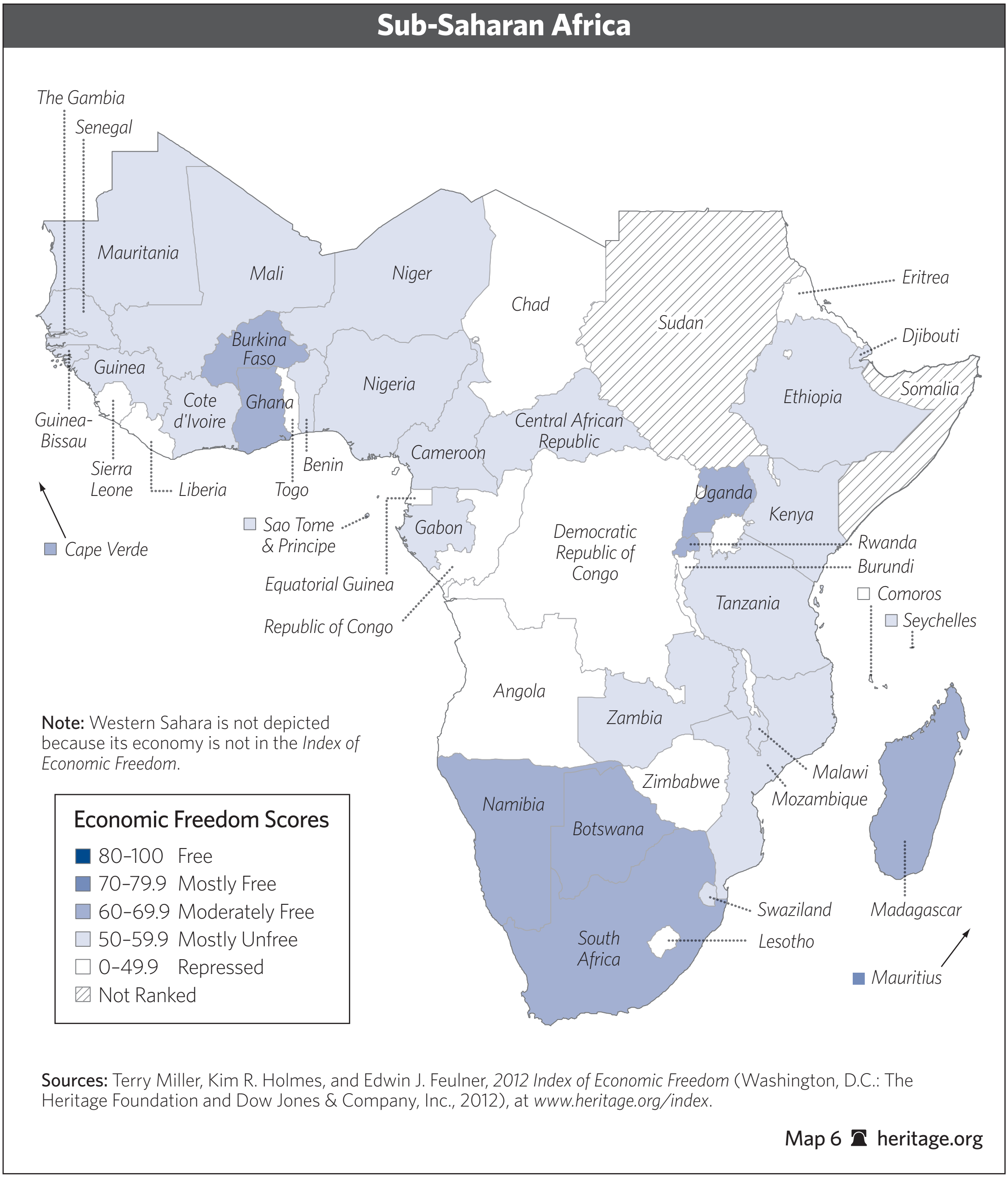
---

[1] Maxim Pinkovskiy and Xavier Sala-i-Martin, "African Poverty Is Falling...Much Faster Than You Think!" January 17, 2010, at *http://www.columbia.edu/~xs23/papers/pdfs/Africa_Paper_VX3.2.pdf*

[2] *Ibid.*

positive economic results achieved through advancing economic freedom have created valuable momentum for additional institutional reforms that are needed to ensure long-term economic development. Despite considerable progress over the past decade, reform in South Africa has been outpaced by other countries in the region.

Eritrea and Zimbabwe continue to be mired near the bottom of the *Index* rankings. Political instability and poor management of macroeconomic policies severely impede overall economic development in these countries. Harsh regulatory environments and pervasive corruption undermine the business and investment climates.


Sub-Saharan Africa

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

Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*.

Map 6 heritage.org

Economic Freedom in Sub-Saharan Africa Countries

World Rank	Region Rank	Country	Overall Score	Change from 2011	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
8	1	Mauritius	77.0	0.8	65.0	54.0	91.9	83.4	78.7	70.4	78.3	87.9	90.0	70.0
33	2	Botswana	69.6	0.8	70.0	58.0	78.3	53.7	69.1	70.2	72.4	79.7	75.0	70.0
59	3	Rwanda	64.9	2.2	35.0	40.0	77.2	78.5	73.6	91.4	75.2	78.0	60.0	40.0
66	4	Cape Verde	63.5	-1.1	65.0	51.0	77.3	61.8	59.0	48.5	80.5	66.9	65.0	60.0
70	5	South Africa	62.7	0.0	50.0	45.0	70.7	71.9	75.8	57.3	75.0	76.3	45.0	60.0
75	6	Madagascar	62.4	1.2	40.0	26.0	88.3	93.6	71.1	50.8	76.0	73.5	55.0	50.0
76	7	Namibia	61.9	-0.8	30.0	44.0	65.7	73.0	70.8	85.0	74.4	86.5	50.0	40.0
78	8	Uganda	61.9	0.2	30.0	25.0	80.4	93.0	49.1	87.9	74.6	73.6	45.0	60.0
84	9	Ghana	60.7	1.3	50.0	41.0	81.9	48.3	62.9	62.9	66.9	67.8	65.0	60.0
85	10	Burkina Faso	60.6	0.0	30.0	31.0	80.4	84.0	62.8	58.9	81.4	72.5	55.0	50.0
94	11	The Gambia	58.8	1.4	30.0	32.0	75.0	85.5	56.3	67.2	71.0	60.5	60.0	50.0
96	12	Zambia	58.3	-1.4	30.0	30.0	73.3	84.9	61.2	51.1	64.9	82.3	55.0	50.0
103	13	Kenya	57.5	0.1	30.0	21.0	77.7	75.3	61.7	63.3	79.1	66.7	50.0	50.0
106	14	Swaziland	57.2	-1.9	40.0	32.0	67.2	56.5	66.4	70.8	74.5	69.7	55.0	40.0
108	15	Mozambique	57.1	0.3	30.0	27.0	77.1	69.3	66.8	39.7	74.8	81.1	55.0	50.0
110	16	Tanzania	57.0	0.0	30.0	27.0	79.7	80.2	45.2	60.1	69.4	73.5	55.0	50.0
113	17	Gabon	56.4	-0.3	40.0	28.0	73.5	81.5	57.7	59.8	77.7	61.1	45.0	40.0
114	18	Malawi	56.4	0.6	45.0	34.0	79.3	62.2	42.0	58.2	72.6	70.9	50.0	50.0
116	19	Nigeria	56.3	-0.4	30.0	24.0	84.3	72.3	55.6	80.6	72.0	63.9	40.0	40.0
117	20	Mali	55.8	-0.5	30.0	27.0	60.1	79.9	50.8	66.5	80.7	73.2	50.0	40.0
118	21	Benin	55.7	-0.3	30.0	28.0	76.2	79.9	42.9	51.5	79.7	59.3	60.0	50.0
120	22	Senegal	55.4	-0.3	40.0	29.0	65.4	78.5	58.4	43.5	81.6	72.2	45.0	40.0
125	23	Niger	54.3	0.0	30.0	26.0	76.9	80.5	35.9	40.8	86.4	71.7	55.0	40.0
126	24	Côte d'Ivoire	54.3	-1.1	20.0	22.0	78.1	86.6	42.7	56.1	81.7	70.3	35.0	50.0
127	25	Djibouti	53.9	-0.6	30.0	32.0	80.3	42.4	30.5	61.6	77.2	59.6	65.0	60.0
131	26	Mauritania	53.0	0.9	25.0	23.0	80.5	71.9	51.3	53.2	75.5	69.9	40.0	40.0
132	27	Seychelles	53.0	1.8	50.0	48.0	76.0	59.6	62.3	58.0	67.4	33.4	45.0	30.0
134	28	Ethiopia	52.0	1.5	30.0	27.0	74.8	91.1	64.4	55.5	67.1	65.6	25.0	20.0
135	29	Cameroon	51.8	0.0	30.0	22.0	69.3	90.8	47.1	48.1	70.9	54.9	35.0	50.0
141	30	Guinea	50.8	-0.9	20.0	20.0	69.3	82.6	38.5	64.7	67.1	61.2	45.0	40.0

(continued on next page)

■ 80–100 Free
■ 70–79.9 Mostly Free
■ 60–69.9 Moderately Free
■ 50–59.9 Mostly Unfree
□ 0–49.9 Repressed

Table 7 heritage.org

Economic Freedom in Sub-Saharan Africa Countries (continued)

World Rank	Region Rank	Country	Overall Score	Change from 2011	Property Rights	Freedom from Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
145	31	Central African Republic	50.3	1.0	20.0	21.0	65.2	92.9	37.3	49.1	74.6	57.8	55.0	30.0
148	32	São Tomé and Príncipe	50.2	0.7	30.0	30.0	87.0	49.1	53.2	46.1	64.6	66.6	45.0	30.0
149	33	Guinea-Bissau	50.1	3.6	20.0	21.0	88.7	63.3	40.5	61.0	75.9	65.3	35.0	30.0
152	34	Sierra Leone	49.1	-0.5	10.0	24.0	80.9	84.3	51.8	42.0	70.1	62.8	45.0	20.0
154	35	Liberia	48.6	2.1	30.0	33.0	76.6	74.8	55.9	50.6	71.8	53.8	20.0	20.0
155	36	Togo	48.3	-0.8	30.0	24.0	68.6	85.6	34.8	45.2	78.3	61.7	25.0	30.0
157	37	Burundi	48.1	-1.5	20.0	18.0	72.2	22.9	46.1	67.2	70.9	78.9	55.0	30.0
160	38	Angola	46.7	0.5	20.0	19.0	84.1	53.2	45.5	43.9	61.2	65.2	35.0	40.0
161	39	Lesotho	46.6	-0.9	40.0	35.0	49.1	0.0	57.5	65.0	75.5	69.1	35.0	40.0
165	40	Comoros	45.7	1.9	30.0	21.0	64.9	85.3	41.5	31.2	78.3	69.4	15.0	20.0
166	41	Chad	44.8	-0.5	20.0	17.0	50.2	74.2	24.9	43.7	72.5	55.6	50.0	40.0
167	42	Republic of Congo	43.8	0.2	10.0	21.0	61.3	78.0	40.6	45.7	71.0	60.7	20.0	30.0
170	43	Equatorial Guinea	42.8	-4.7	20.0	19.0	75.5	28.0	44.7	43.8	73.1	58.8	25.0	40.0
172	44	Democratic Republic of Congo	41.1	0.4	10.0	20.0	72.5	76.1	38.7	39.0	51.2	63.0	20.0	20.0
175	45	Eritrea	36.2	-0.5	10.0	26.0	57.0	46.8	17.1	63.2	52.9	69.1	0.0	20.0
178	46	Zimbabwe	26.3	4.2	10.0	24.0	65.2	38.7	34.9	29.6	0.0	50.4	0.0	10.0
N/A	N/A	Somalia	N/A	N/A	N/A	N/A	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	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

■ 80-100 Free
■ 70-79.9 Mostly Free
■ 60-69.9 Moderately Free
■ 50-59.9 Mostly Unfree
□ 0-49.9 Repressed

Table 7 heritage.org

PRESERVING AND ADVANCING ECONOMIC FREEDOM

The recent financial and economic turmoil vividly illustrates the interdependence of economies in different regions. Bad policy choices that hurt economic freedom and retard economic performance in one country may have profoundly negative effects in others. By the same token, good policies in one country—for example, an openness to trade or investment flows—may have positive effects elsewhere.

Every region has positive examples of countries that have chosen freedom and reaped the rewards for their citizens. As shown in the *Index* over the past 18 years, economic freedom is the indispensable link between economic potential and prosperous outcomes. No other system comes close in terms of providing for broad-based economic growth or reduction in poverty. Those who are looking for solutions rather than excuses will find in this *Index* the economic policies and actions that can promote entrepreneurship and long-term economic growth irrespective of history, resources, or level of development.

A recurring theme of human history has been resilience and revival. 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." The *Index of Economic Freedom* provides such a reminder for economic revival in the years ahead.

Chapter 3

Public Debt, Economic Freedom, and Growth

Ambassador Terry Miller and J. D. Foster, Ph.D.

The *Index of Economic Freedom* includes this year, for the first time, data on public debt in the economies under consideration. While the data on debt do not figure in the numerical economic freedom scores or rankings, they do provide additional information relevant to the mechanisms through which policies that restrict economic freedom limit economic growth. The strong relationship between economic freedom and sustainable growth has been well documented over the 18-year history of the *Index*. Today, as many governments struggle to cope with higher levels of public debt, the concepts of economic freedom offer important insights into the complex relationship between a government's debt and a country's economic growth.

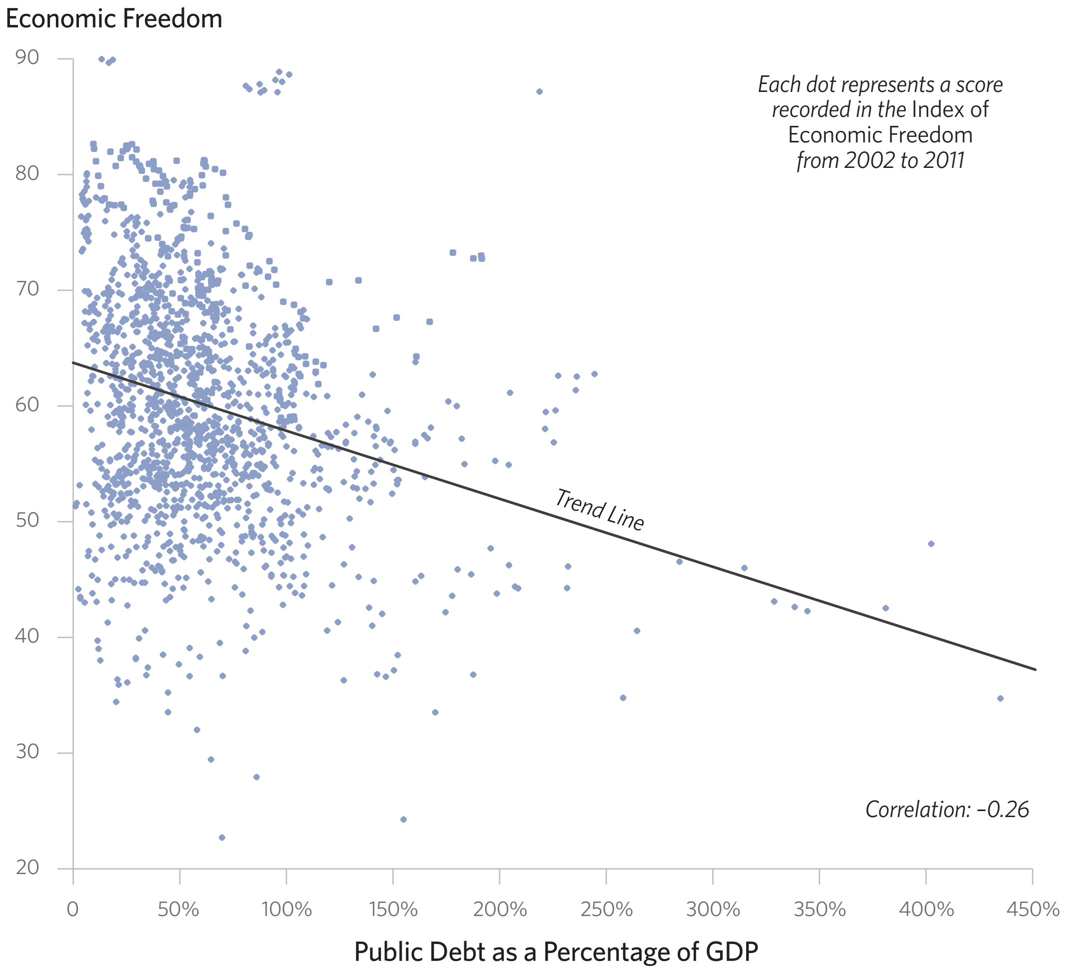
DOES DEBT MATTER?

The sovereign debt crisis in Europe and the explosive growth of public debt in the United States have focused the attention of researchers and the general public on the impact of public debt on economic growth as never before. The issue is complex, and the diversity of situations that must be considered is as wide as the range of countries whose economies are studied in the *Index*.

In theory, debt financing of public spending could make a positive contribution to productive investment and ultimately to economic growth. Debt could also be a mechanism for positive macroeconomic countercyclical interventions or even long-term growth policies such as marginal tax rate reductions. On the other hand, high levels of public debt may have numerous negative impacts such as raising interest rates, crowding out private investment, and limiting the flexibility of government to respond to future economic or national security crises. Mounting public debt, particularly debt that merely boosts government consumption or transfer payments, is likely to undermine overall productivity growth and lead ultimately to economic stagnation rather than growth.

The size of debt relative to GDP is a crucial element in assessing the overall impact of debt on an economy, and a country's level of economic development is an important variable in this

Economic Freedom and Debt



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*; International Monetary Fund, World Economic Outlook Databases, at *http://www.imf.org/external/ns/cs.aspx?id=28* (November 16, 2011); and International Monetary Fund, "A Historical Public Debt Database," at *http://www.imf.org/external/pubs/cat/longres.cfm?sk=24332.0* (November 16, 2011).

Chart 1 heritage.org

context. It is the policy environment, however, that ultimately determines whether a given level of public debt is sustainable and likely to make a positive contribution to economic growth and development. Policies that favor economic freedom are highly likely to increase growth. They are also likely to create an environment that reduces the risks of debt.

DEBT AND ECONOMIC FREEDOM

Throughout the history of the *Index of Economic Freedom,* one question has always been at the center of the analysis: "What makes an economy grow?" In assessing countries' entrepreneurial and macroeconomic environments, the *Index* has focused on government policies and actions that can profoundly affect economic growth for good or ill. In defining economic freedom, the *Index* points out that:

> Any discussion of economic freedom has at its heart consideration of the relationship

> between individuals and governments or other organized groups. ... In general, state action or government control that interferes with individual autonomy limits economic freedom.[1]

While state actions that limit economic freedom can be and sometimes are financed with current revenue, the reality is that new government actions are rationalized most easily when times are hard. These are precisely the times when tax revenues tend to be at their lowest, and the incursion of public debt may seem justified based on a perceived need for quick action.

Lost in the shuffle may be the most important question of all: Will the government action being contemplated truly improve the economic situation? If it does, tax revenues are likely to recover along with gross domestic product (GDP), and debt is less likely to accumulate. On the other hand, if the government action fails to boost recovery (or even makes it worse), tax revenues will be stagnant or will fall, and debt will inevitably rise. The permanent increase in the ratio of public debt to GDP in such circumstance is *prima facie* evidence of policy failure. The high levels of public debt accrued in many countries thus reflect years of bad public financial management and the cumulative impact of poor policy choices. Such poor policy choices are highly likely to have restrained economic freedom as well.

The formulas used to estimate economic freedom in the *Index of Economic Freedom* capture potential debt impacts in a variety of ways.

- **Monetary freedom** provides an explicit measure of inflation,
- Increases in **government spending** financed by debt will lower freedom scores in that category,
- **Fiscal freedom** may be reduced if taxes are increased to finance debt service payments,
- **Financial freedom** can be harmed if public debt crowds out private-sector access to credit and raises interest rates, and
- The potential positive effects of high levels of **investment freedom** can be undercut if government borrowing is siphoning away external financial flows that would otherwise find their way into productive private-sector enterprises.

Historical data from the *Index of Economic Freedom* show a clear negative relationship between the accumulation of debt and economic freedom. In general, countries with lower levels of public debt as a percentage of GDP tend to enjoy high levels of economic freedom. Based on 1,530 data points from the *Index* database reflecting economic freedom scores and debt-to-GDP ratios over the past decade, the coefficient of correlation for debt and economic freedom is a negative 0.26. (See Chart 1.)

There is an even stronger negative relationship between debt-to-GDP ratios and economic freedom for advanced economies than there is for developing economies.[2] (See Chart 2.)

Based on 10-year average *Index* scores and debt data, countries with debt-to-GDP ratios below 70 percent enjoy, on average, economic freedom rankings categorized as moderately free or better. Countries with debt-to-GDP ratios higher than 70 percent are, on average, likely to be considered mostly unfree or repressed. (See Chart 3.)

RISING GOVERNMENT DEBT: SHACKLING FUTURE GENERATIONS

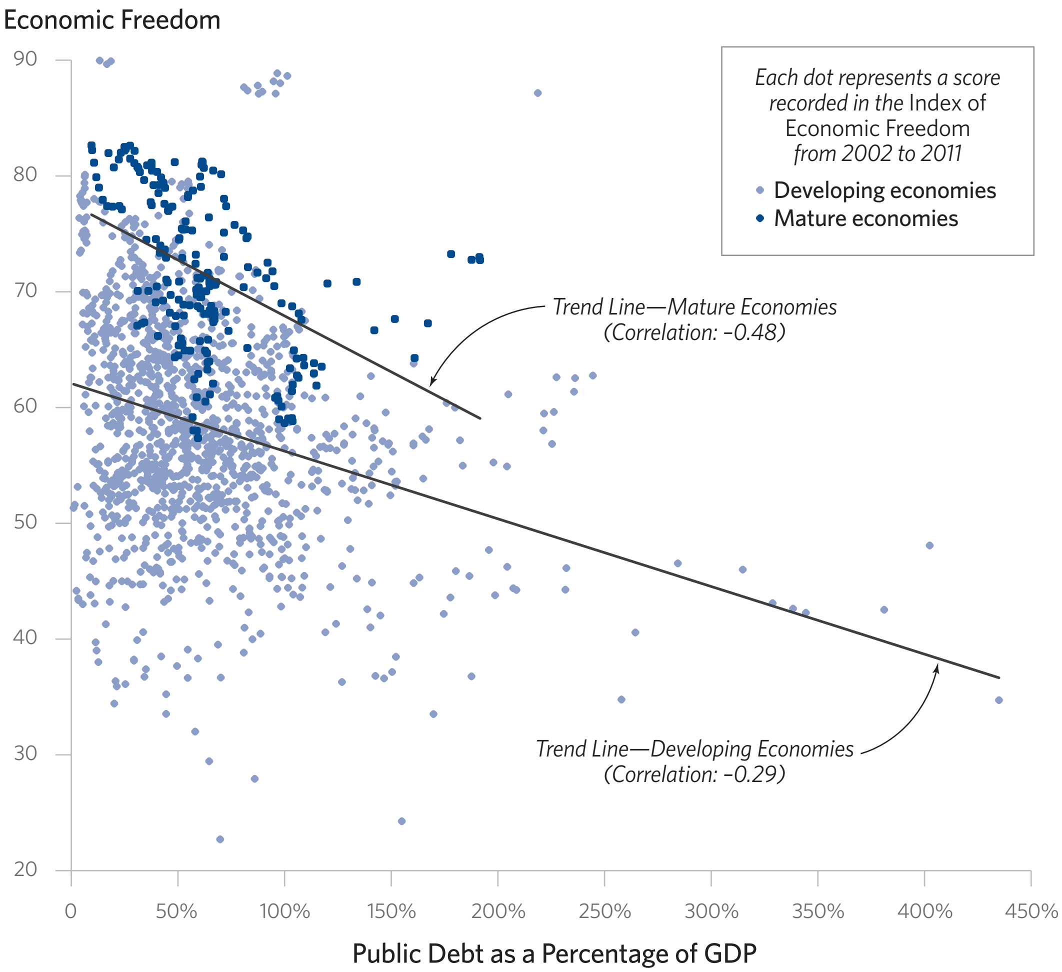
Through the *Index of Economic Freedom* database, it is possible not only to compare countries' economic policy environments at a single point in time, but also to track the evolution of policies

---

[1] Terry Miller and Anthony B. Kim, "Defining Economic Freedom," chap. 1, in Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/Index*.

[2] In this study, 22 countries are categorized as advanced or mature economies: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Switzerland, the United Kingdom, and the United States. Developing economies include all other countries for which data on public debt and economic freedom are available.

Economic Freedom and Debt—Developing and Mature Economies



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*; International Monetary Fund, World Economic Outlook Databases, at *http://www.imf.org/external/ns/cs.aspx?id=28* (November 16, 2011); and International Monetary Fund, "A Historical Public Debt Database," at *http://www.imf.org/external/pubs/cat/longres.cfm?sk=24332.0* (November 16, 2011).

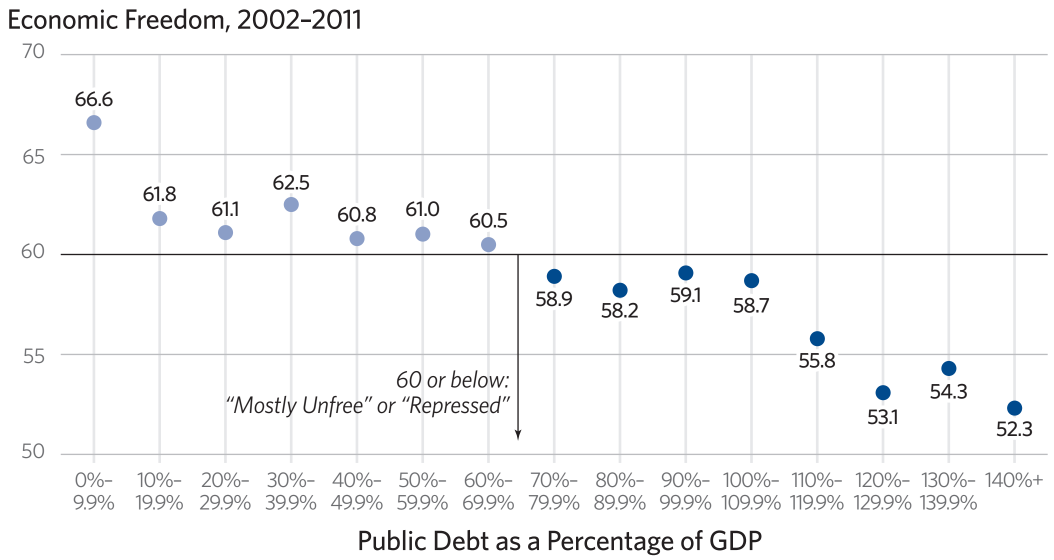
Chart 2 heritage.org

over almost two decades. Such temporal analysis is particularly interesting when looking at the question of public debt.

By incurring public debt, a government can be thought to be shifting its consumption or investment expenditures from the future to the present, or the tax burden necessary to pay for government spending from the present to the future. The absolute level of debt is thus a direct measure of the extent to which generations, both present and past, have exerted a claim on the wealth and income of future generations. When debt levels are rising, the claims on the future are rising. When debt is being reduced, future generations become freer to spend their resources and wealth on goods and services of their own choosing.

The accumulation of debt may also be seen as shifting economic freedom from generation to generation. The direction of the shift depends in part on how the resources gained from the issuance of debt are used and in part on whether and how the debt is retired in the future. If debt is used

Countries With More Debt Are More Likely to Be Unfree or Repressed



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*; International Monetary Fund, World Economic Outlook Databases, at *http://www.imf.org/external/ns/cs.aspx?id=28* (November 16, 2011); and International Monetary Fund, "A Historical Public Debt Database," at *http://www.imf.org/external/pubs/cat/longres.cfm?sk=24332.0* (November 16, 2011).

Chart 3 heritage.org

to increase government spending in the present, the ratio of government spending to GDP will rise and economic freedom, as measured in the *Index*, will fall. If debt were instead used productively to reduce tax rates or the overall tax burden, economic freedom in the present could rise.

From the point of view of future generations, however, the accumulation of past debt is a considerable threat to their economic freedom. The future generation is obligated to pay off past debts, and as that occurs, the ratio of government spending (of which debt service is a part) to GDP rises, thus reducing economic freedom and growth dynamism. If taxes must be raised to get the revenue with which to pay off the debt, that also undermines economic freedom by taking away taxpayers' precious financial resources. Even if all of the proceeds from current debt were invested for future benefit—a circumstance not likely to occur in the real world—there is an opportunity cost imposed on future generations. That opportunity cost is the loss of freedom to use their own resources for goods and services of their own choosing. Instead, they have to pay for the choices of their forebears.

Perhaps more important, the accumulation of debt tends to undermine growth in economic freedom. As shown in Chart 4, changes in debt are negatively associated with changes in economic freedom. As in the previous level-to-level analysis, the correlation between changes in debt levels and changes in economic freedom scores over the past decade is much more negative for advanced economies than for developing economies. Clearly, greater debt accumulation results in a greater erosion of economic freedom.

Faced with such a loss of economic freedom and the negative economic impacts likely to accompany it, the temptation for future generations may be to borrow even more themselves to pay off past debts. While this may seem a cost-free answer to public debt problems, there is still an opportunity cost, as such borrowing could be used for productive investments rather than the recycling of old debts. The unavoidable result is a decline in economic growth.

HIGH PUBLIC DEBT HURTS GROWTH

The strong positive relationship between economic freedom and growth is one of the most enduring conclusions of the *Index of Economic Freedom,* confirmed in the data year after year.[3] Similarly, the impact of public debt on growth has been widely studied over the years. Several recent studies have explored the relationship between public debt and growth from different angles using different data sets. Taken together, these studies provide valuable insights and provide a compelling view of the dangers of excessive public debt.

One pioneering study by Carmen Reinhart and Ken Rogoff looked at 44 advanced and emerging countries with data spanning about 200 years.[4] Reinhart and Rogoff found little relationship between overall government debt and real GDP growth for debt-to-GDP ratios below 90 percent of GDP. Above that debt level, however, they found that median growth rates fell by 1 percent and that average growth fell even more. They also looked at the impact of debt on inflation and found no apparent link between debt levels and inflation for advanced countries as a group but sharp rises in inflation for emerging markets as their debt increases.

A similar study by scholars at the World Bank and North Carolina State University used a large sample of industrialized and developing countries over a shorter time frame (1980–2008) and found negative growth impacts for debt-to-GDP ratios exceeding 77 percent.[5]

Another study, by Manmohan Kumar and Jaejoon Woo of the Fiscal Affairs Department of the International Monetary Fund (IMF), included 38 advanced and emerging countries with populations of over 5 million, using data spanning four decades.[6] Like Reinhart and Rogoff, Kumar and Woo found insignificant and inconsistent impacts for low and moderate levels of debt but a significant and negative impact on growth for debt levels exceeding 90 percent of GDP. They found the negative impact of debt on growth to be less in advanced economies and greater in emerging economies. A 10 percentage point increment in debt-to-GDP ratio was associated with a 0.15 percent–0.20 percent negative impact on annual growth rates in advanced economies and a 0.30 percent–0.40 percent negative impact in emerging economies.

Kumar and Woo also found that countries with higher levels of initial debt suffered more from subsequent increases in debt. For countries with debt ratios above 90 percent, a 10 percent increase in debt was associated with a 0.19 percent decline in growth; for countries with initial debt ratios of 30 percent–60 percent, a 10 percent increase in debt reduced growth by around 0.11 percent.

The two IMF economists extended their models to be able to examine the various channels through which the negative impacts for debt might be transmitted. They concluded that higher levels of debt caused reduced investment and slower growth in capital per worker, resulting in a slowdown in the growth of labor productivity.

DEBT: MORE THAN A LITTLE HURTS THE POOR

For developing countries, the impact of debt is generally worse than it is for developed countries. A recent paper by S. M. Ali Abbas and Jakob E. Christensen found that modest levels of external debt (up to 35 percent of bank deposits) could make a positive contribution to GDP growth by

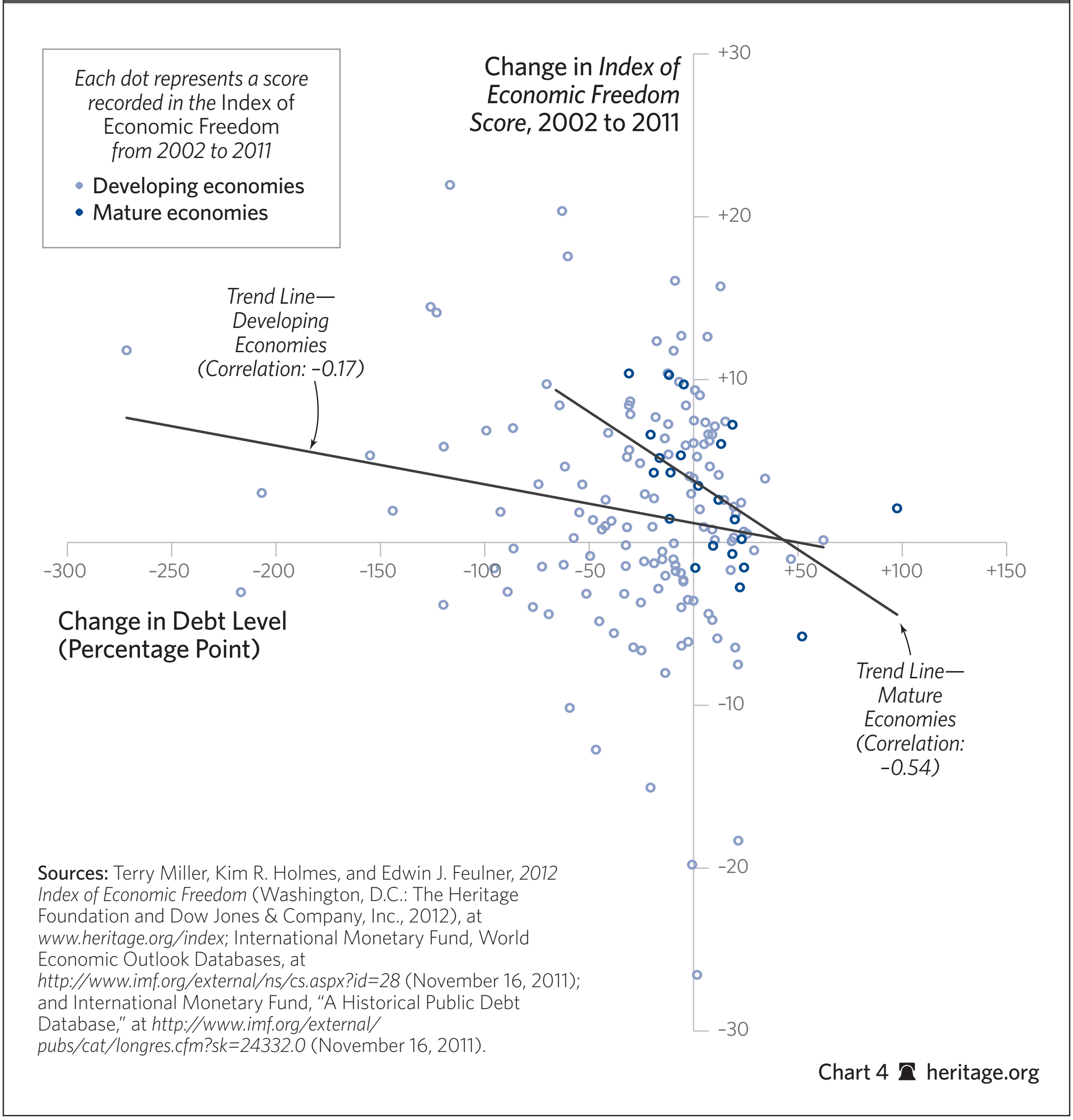
---

[3] Miller, Holmes, and Feulner, *2012 Index of Economic Freedom.*

[4] Carmen M. Reinhart and Kenneth S. Rogoff, "Growth in a Time of Debt," *American Economic Review,* Vol. 100, No. 2 (May 2010), pp. 573–578.

[5] Mehmet Caner, Thomas Grennes, and Fritzi Koehler-Geib, "Finding the Tipping Point—When Sovereign Debt Turns Bad," World Bank, Latin America and the Caribbean Region, Economic Policy Sector, *Policy Research Working Paper* No. 5391, July 2010, at *http://ts-si.org/files/WPS5391.pdf.*

[6] Manmohan S. Kumar and Jaejoon Woo, "Public Debt and Growth," International Monetary Fund, *IMF Working Paper* No. WP/10/174, July 2010, at *http://www.imf.org/external/pubs/ft/wp/2010/wp10174.pdf.*



Improving Economic Freedom Lowers Debt Levels

Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*; International Monetary Fund, World Economic Outlook Databases, at *http://www.imf.org/external/ns/cs.aspx?id=28* (November 16, 2011); and International Monetary Fund, "A Historical Public Debt Database," at *http://www.imf.org/external/pubs/cat/longres.cfm?sk=24332.0* (November 16, 2011).

promoting domestic savings, the development of financial markets, better financial institutions, and improved monetary policy.[7] However, the authors found that higher levels of public debt had a negative effect.

Reinhart and Rogoff found that for emerging markets with external debt denominated in foreign currencies, the threshold at which debt caused problems was significantly lower than it was for their overall sample and that the negative effects were more pronounced. External debt levels of 60 percent or more reduced growth rates by about 2 percent. Higher external debt levels cut growth roughly in half.

A 2010 study, "Total Public Debt and Growth in Developing Countries," by European scholar Andrea Presbitero looked at total public debt in

---

[7] S. M. Ali Abbas and Jakob E. Christensen, "The Role of Domestic Debt Markets in Economic Growth: An Empirical Investigation for Low-income Countries and Emerging Markets," International Monetary Fund, *IMF Working Paper* No. WP/07/127, June 2007, at *http://www.imf.org/external/pubs/ft/wp/2007/wp07127.pdf*.

92 low- and middle-income countries over the period 1990–2007.[8] This study found negative growth effects from all debt levels up to around 90 percent of GDP. Above that level, the substantial negative effects on growth from poor economic management and bad institutions appeared to overwhelm any further significant identifiable impacts from debt.

Putting this all together, one can conclude, as did Presbitero, that:

> [I]ndustrialized countries are better able than developing ones to borrow and use domestic and foreign financing in a productive way without paying the costs in terms of disincentive to investment, capital flight, policy volatility and crowding out, that generally goes hand in hand with large debts. By contrast, in developing countries the negative consequences of debt overhang are likely to offset the possible benefits deriving from the availability of additional resources.[9]

On the positive side, however, another conclusion that emerges from these studies is that *low* and *moderate* levels of debt do not appear to hurt growth in countries with sound macroeconomic and policy environments. By contrast, there is a strongly negative impact on growth from very high levels of debt even in otherwise well-managed advanced economies such as Japan, some European countries, and the United States.

To summarize, the recent studies identified for different groups of countries the specific levels of debt beyond which the impact on growth became negative. Those levels ranged from 60 percent to 90 percent of GDP. Those levels are highly consistent with the economic freedom data contained in the *Index of Economic Freedom.* (See Table 1.)

Two complementary conclusions that can be derived from the *Index of Economic Freedom* analysis are supported by the close correlation with the results of the debt/growth studies.

First, the accumulation of debt appears to have a negative impact on economic freedom. Countries with higher levels of debt tend to have lower levels of economic freedom, and it is very hard for countries with debt levels of 70 percent or higher as a percentage of GDP to be considered even moderately free.

Second, the level of economic freedom appears to play a critical role in determining the economic impact of debt. Where economic freedom is high, debt may be sustainable even at higher levels. Where economic freedom is low, the impact of even moderate levels of debt is likely to be negative.

CASE STUDY: CRISIS IN EUROPE

The sovereign debt crisis that exploded in Europe during 2011 is an important case study, both for the world financial system and for all countries integrated into the globalized system of trade and economic exchange. By 2009, debt levels for the euro currency zone as a whole approached 80 percent of GDP, and with levels in Greece and Italy well over 100 percent of GDP, confidence began to erode in the ability of governments, especially the government of Greece, to continue to be able to roll over their large stock of debts at affordable rates.

The triggering event occurred when, in a sign of stunning mismanagement, Greece announced that its deficits were and had been much larger in recent years than the official statistics had indicated. (See Chart 5.) The possibility of default, once considered unthinkable for a euro-zone government, began to affect credit costs, which in turn increased the doubts about the country's solvency and the euro monetary system's survivability.

As the crisis deepened, European banks and other financial institutions experienced increasing difficulty accessing short-term credit, and depositors' anxieties grew sharply. Banks in other countries that had lent money to European banks became similarly concerned and moved

---

[8] Andrea Filippo Presbitero, "Total Public Debt and Growth in Developing Countries," Money and Finance Research Group *Working Paper* No. 44, November 12, 2010, at *http://www.csae.ox.ac.uk/conferences/2011-EDiA/papers/608-Presbitero.pdf.*

[9] *Ibid.*

Tipping-Point Debt Levels Identified in Leading Empirical Studies

	Reinhart and Rogoff *(advanced and emerging economies)*	**Reinhart and Rogoff** *(emerging economies only)*	**Caner, Geenes, and Koehler-Gelb** *(industrialized and developing countries)*	**Kumar and Wood** *(advanced and emerging economies)*	**Presbitero** *(low- and middle-income countries)*	***Index of Economic Freedom*** *(advanced and developing economies)*
Linkages	Debt and growth	Debt and growth	Debt and growth	Debt and growth	Debt and growth	Debt and economic freedom
Tipping-Point Debt Levels (% of GDP)	**90%**	**60%**	**77%**	**90%**	**90%**	**70%**

Table 1 heritage.org

to reduce their own exposure to dodgy European assets, exacerbating the banks' liquidity problem. Even companies began to withdraw deposits from suspect banks, preferring to hold cash or non-cash assets like gold rather than risk holding financial instruments previously thought to be rock-solid.

As bank deposits fell, banks' need for additional capital ballooned. By the end of September 2011, IMF Managing Director Christine Lagarde quantified the bank solvency problem by reporting that European banks needed a "whopping $273.2 billion" in recapitalization to remain afloat.[10]

The bank solvency problem traced directly to the sovereign debt problem. Governments in countries like Greece had issued debt and run budget deficits to unsustainable levels. Debt levels were unsustainable not only because of their sheer magnitude, but also because the countries were suffering from ongoing growth problems, with economies contracting in the worst cases. This just made the debt problem worse. Even maintaining static levels of debt became increasingly hard as overall economic activity declined. Attempts to address the debt problem through fiscal measures such as tax hikes, for example, made the growth problem worse and the debt even less sustainable. Issuing more debt in an attempt to buy time to deal with the sovereign debt problem made the bank solvency problem worse by driving down the value of the debt.

For many countries in the past, the time-honored reaction when caught in a debt/growth trap of this type has been to erode the value of the debt through some combination of inflation and currency devaluation. The ultimate pain to citizens is no less harsh from this strategy than it is from default, but the immediate impacts can sometimes be disguised or softened and thus made more palatable politically. Because Greece is a member of the euro zone, with the value of its currency set by factors that are mostly external to its own borders, this strategy is unavailable unless and until Greece leaves the euro zone in favor of its own currency.

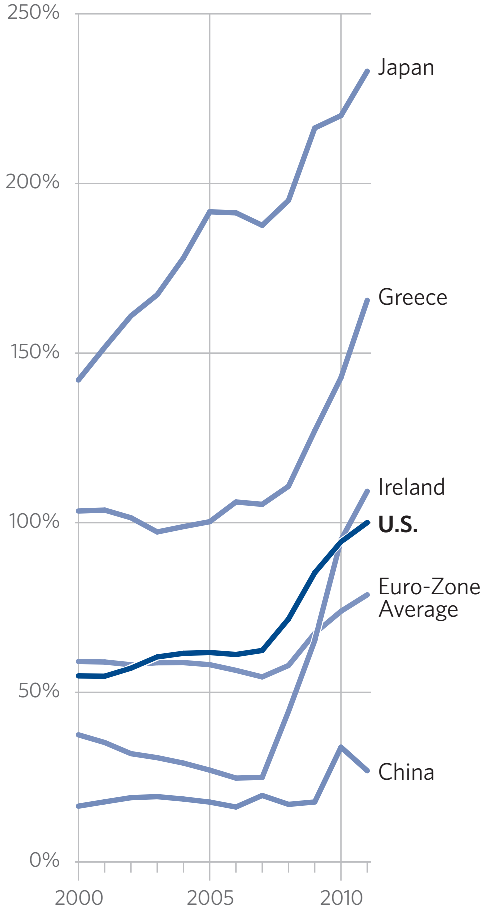
Greece was thus left with two very unpalatable options. One was to let a deep, prolonged depression drive down wages and prices to the point where Greece's workers and companies could generate a trade surplus with which to service the debt. The other was to break with the

---

[10] Andrew Ross Sorkin, "I.M.F. Chief's Change of Tune on Bank Capital," Deal Book, *The New York Times,* September 12, 2011, at *http://dealbook.nytimes.com/2011/09/12/i-m-f-chiefs-change-of-tune-on-bank-capital/.*

Rising Debt Levels

Public Debt as a Percentage of GDP



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*, and International Monetary Fund, World Economic Outlook Databases, at *http://www.imf.org/external/ns/cs.aspx?id=28* (November 16, 2011).

Chart 5 heritage.org

euro zone to achieve the same wage-depressing effect quickly through devaluation, after which the Greek economy would have some hope of recovering.

DEBT: A CONTAGIOUS MALADY

The European crisis shows clearly how the negative impacts of high levels of debt may extend far beyond the borders of the country incurring the debt. In today's globally interconnected financial world, problems in one country spread quickly throughout the system. At one time, a European financial crisis of this sort affecting Greece and even a few other countries might have posed an existential threat to some European institutions and markets, but in overall impact it would surely have been a localized affair. No more. Today, banks in the United States and elsewhere are exposed to the risks of European debt, even in some of their "super-safe" money markets.

Confidence is the lifeblood of any economic system. Lenders need to know that their loans will be repaid, and those who in turn depend on the solvency of the lenders' assets for security in their own investments suffer as well when doubts emerge. Efforts to shore up confidence in one area may expose risk in another. With massive and intricate linkages built into the modern international banking and financial system, risk can move and multiply with the speed of light through the electronic channels that form the arteries of the system.

In reality, no one—including the bankers themselves and their financial regulators—really knows or understands all of the connections or weaknesses in the system. Loans and the risks they entail are packaged and repackaged in myriad swaps and other instruments that disperse risk throughout the system. The flexibility from such complexity, especially in good times, can increase the availability of capital for investment and improve growth.

The problem is that while such complex instruments disperse risk, they do not make it go away. In bad times, someone still has to pay, and with such complexity, it may be difficult to know in advance who that someone is.

For the financial system, the solution is almost certainly some combination of mechanisms, rules, and prudent business practices aimed at increasing the level of reserves, and thus the level of resiliency, in the system. For countries, however, the best answer to excessive sovereign debt is to speed up growth, and that in turn requires committed attention to improving economic freedom.

PRUDENCE, NOT AUSTERITY

In world economic fora and within domestic policy circles, the debt problem has tended in recent years to be argued in terms of measures to promote austerity versus those that might promote growth. It is clear from the data, however, that a country need not be austere in its approach to debt unless its situation is completely out of control. In most cases, simple yet determined prudence will suffice.

The econometric studies highlighted in this chapter show little if any negative impact for countries at any level of development from debt-to-GDP ratios lower than 35 percent. For advanced economies, debt levels as high as 90 percent of GDP may be sustainable, although levels that high would certainly not seem to be desirable. Our own studies show that debt-to-GDP ratios as high as 70 percent are consistent with levels of economic freedom that can still support vibrant economic growth.

For countries where prudence has failed, however, and where debt levels are exploding, the consequences can be severe. High levels of debt are bad for growth, and the austere policies required to bring high levels of debt under control are also bad for growth. Economic stagnation or even collapse can result, as real-world examples indicate. So far, only a few countries appear to have crossed this threshold. For the rest, there is time to readjust, and the key to lasting long-term growth and secure future prosperity remains what it has always been: a continued commitment to economic freedom.

Chapter 4

Corruption and Terrorism: Will They Undermine the Arab Spring?

Nahid Kalbasi Anaraki, Ph.D.

Any kind of political instability has important policy implications for development in general, and for sustainable economic growth in particular. The recent turmoil in the Middle East is no exception. It is important to understand both the motives for the uprisings and the interplay of political, social, and economic factors that underpin them and will affect their likely course. This chapter focuses particularly on the relationship between corruption, terrorism, economic freedom, and growth. Three main questions are explored with a variety of econometric techniques:

1. Is terrorism more likely to appear under more corrupt regimes?
2. Is there a long-run relationship between a country's level of economic freedom and terrorism?
3. What is the impact of terrorism on foreign direct investment (FDI) and gross domestic product (GDP) per capita?

The results point to a high risk that the hopes of the revolutionary movements will founder on the rocks of terrorism and corruption.

IRAN'S GREEN MOVEMENT AND THE ARAB SPRING

For many, the trigger point of the Arab Spring was the self-immolation of a Tunisian street peddler, but the real spark for the unrest may lie further back in the Iranian pro-democracy Green Movement of June 2009. The Iranian government's violent and deadly response to protests following the re-election of President Mahmoud Ahmadenijad sparked outrage and antagonism against the regime and sowed seeds of discontent against dictatorship and repression that spilled throughout the region, inflaming aspirations for economic and political freedom.

Facebook and Twitter feeds during Iran's Green Movement include messages from young Egyptians blaming themselves for not following the Iranian lead. There can be little doubt that

Egyptians, living like Iranians under a regime that denied basic human rights and suppressed political and economic freedom, were motivated by Iranians' resistance and solidarity.

Both the Arab Spring and Iran's Green Movement were organized by groups of youngsters frustrated with their gloomy economic prospects. Importantly, they had no ties to extremist fundamentalism; they were "non-ideological," and their solidarity and integrity were unprecedented. However, a big difference between Iran's Green Movement and the Arab uprising is that Iranian protesters faced a regime with strong fundamentalist ideology, wielding a weapon—"religious authenticity"—that other authoritarian regimes in the region lacked. As Nader Hashemi, a teacher of Islamic politics at the Josef Korbel School of International Studies at the University of Denver, points out:

> Religious authenticity and anti-imperialism are two pillars that shape contemporary Muslim identity. They are powerful weapons that can influence public opinion. Egyptian president Hosni Mubarak and Tunisian president Zine Al Abidine Ben Ali could not utilize these themes to retain power for obvious reasons. Both men were military leaders with weak religious credentials who justified their rule in the name of secular Arab nationalism, not Islam.[1]

The lack of any particular Islamic focus in the Egyptian and Tunisian protests and the non-relevance of imperialism in the National Transition Council's mandate in Libya suggest that political dynamism in the region may have reached a level where foreign bogeymen can no longer be credibly blamed for the inefficiency and corruption of totalitarian regimes. If so, there may be an opportunity for more inward-looking analysis to identify internal factors responsible for the region's well-being or lack thereof.

If the young people who are running the protests are asking for economic freedom, prosperity, and political liberty, as the evidence would seem to indicate, it may be that the future of the region depends on reforms that are economic, not religious, in focus. The results of this study support that view. Of course, this does not rule out the existence or influence of pro-Islamic groups, but they are not—or at least not yet—majorities and cannot rule democratically in any country. If they do gain power, they are unlikely to satisfy the yearning for economic freedom, prosperity, and political liberty.

Currently, 25 percent of the young generation in the Arab region is jobless, and inflation is creeping up. Competition has been replaced with government monopolies, and the existence of large underground economies makes official data unreliable. Legal and constitutional barriers to economic freedom not only have limited the flow of FDI to the region, but also have adversely affected entrepreneurship at the national level due to the emergence of a new social class, the so-called one-night billionaires. This new class has emerged as a result of rent-seeking activities and profiteering by a small group of people who have close ties with top-ranking authorities; such "cronyism" inside the ruling totalitarian regimes has ruined the economic environment for achieving sustainable economic growth.

SOME ECONOMIC INDICATORS IN THE REGION

Selected economic indicators (presented in Table 1) highlight the fragile state of many economies in the region. Amazingly, Libya, one of the region's main oil producers, experienced a drop in real GDP of 2.3 percent in 2009. Iran, the fourth biggest producer of oil in the world, had GDP growth of only 0.1 percent in 2009 and 1 percent in 2010. Consumer price index (CPI) inflation there reached 13.5 percent in 2010, and the official unemployment rate exceeded 12.5 percent.

Egypt, under the Mubarak regime, was in similar straits, with an unemployment rate of 9.4 percent and an inflation rate of 11.7 percent. Noticeably, Egypt has also experienced the highest levels of corruption in the region after Iran, Yemen, and Syria. Tunisia also suffers from an

---

[1] Nader Hashemi and Danny Postel, eds., *The People Reloaded: The Green Movement and the Struggle for Iran's Future* (Brooklyn, N.Y.: Melville House, 2011).

Economic Indicators in Middle East/North Africa Countries

Country	GDP growth	Unemployment	CPI inflation	2011 Economic Freedom Score	2011 Freedom From Corruption Score
Algeria	3.3	11.3	5.7	52.4	28
Bahrain	4.1	n/a	2.8	77.7	51
Egypt	5.1	9.4	11.7	59.1	28
Iran	1.0	12.5	13.5	42.1	18
Jordan	3.1	12.8	-0.6	68.9	50
Lebanon	6.98	n/a	1.1	60.1	25
Libya	4.2	n/a	2.4	38.6	25
Morocco	3.29	10.0	0.9	59.6	33
Qatar	16.3	n/a	–4.8	70.5	70
Saudi Arabia	3.70	5.4	5.0	66.2	43
Syria	3.23	n/a	2.9	51.3	26
Tunisia	3.69	14.2	3.8	58.5	42
Yemen	8.0	15.00	3.7	54.2	21

Sources: International Monetary Fund, "Regional Economic Outlook : Middle East and Central Asia," "Oct. 10," at *http://www.imf.org/external/pubs/ft/reo/2010/mcd/eng/10/mreo1024.pdf* (November 15, 2011), Table 1, p. 56; World Bank, "World Development Indicators (WDI) & Global Development Finance (GDF)," at *http://databank.worldbank.org/ddp/home.do* (November 15, 2011); and Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at *www.heritage.org/index*.

Table 1 heritage.org

unemployment rate of 14.2 percent. Data on Syrian unemployment are unavailable, but it is very likely a two-digit figure as well.

With such an economic landscape, it is understandable that citizens of each of these countries are tired of their gloomy economic prospects and agitating for change. People in the region are frustrated by failed economic reforms and the inability of their corrupt regimes to foster growth and prosperity.

The basic economic data strongly suggest that the recent movements could be economically motivated. Countries with the lowest economic freedom scores like Libya, Iran, Syria, and Yemen, which also have the worst corruption scores, have tended to experience the most severe political unrest in the region, whereas countries like Qatar, Oman, Bahrain, and the United Arab Emirates, with higher levels of economic freedom and better corruption scores, have been able to survive the current upheaval.

Data also suggest that more than 85 percent of the population in Middle East and North Africa (MENA) countries live on less than $2 per day. Gini coefficients, though not available for the whole region, suggest that the distribution of income has deteriorated over time.

Unfortunately, since we do not have access to historical data on income distribution for each country, we are unable to analyze the evolution of income distribution in each country separately. However, as the data in column 3 of Table 2 suggest, almost 30 percent of income is held by the highest 10 percent of the population in most countries in the region. Interestingly enough, the worst distributions of income based on the inequality-adjusted income index are observed in Tunisia and Egypt, which have the highest levels of corruption. The gender inequality index suggests that Yemen and Egypt had the highest gender inequality in the region. Such inequality undoubtedly played a part in motivating the protesters against the dictatorial regimes in the region.

Inequality Adjusted Income Index and Gender Inequality Index in Some Middle East/North Africa Countries

Country	Gini Index 2005	Income Held by Highest 10% 2005	Gender Inequality Index 2008	Inequality Adjusted Income Index 2010
Algeria	–	–	0.57	–
Bahrain	–	–	0.47	–
Egypt	32.1	27.6	0.69	0.46
Iran	38.3	29.6	0.59	–
Jordan	37.7*	30.8*	0.61	0.45
Libya	–	–	0.47	–
Morocco	40.9**	33.2**	0.65	0.40
Syria	35.8***	28.9***	0.63	0.42
Tunisia	–	–	0.48	0.46
Yemen	37.7	30.8	0.83	–

* 2006 data ** 2007 data *** 2004 data

Sources: World Bank, "World Development Indicators (WDI) & Global Development Finance (GDF)," at *http://databank.worldbank.org/ddp/home.do* (November 15, 2011), and United Nations Development Programme, "Human Development Report 2011", at *http://hdr.undp.org* (November 15, 2011).

Table 2 heritage.org

It is too early to predict the outcome of the Arab uprising in the region, as some fundamental questions remain unanswered:

- Will Islamic totalitarianism be replaced by secular totalitarianism?
- Will it lead to a civil war?
- Or will it lead to more democratic regimes?

Though some scholars have argued that the region's autocratic regimes will be replaced by other "newborn autocratic regimes," there are many reasons for this not to happen. The leaderless characteristic of the movements and the contribution of the younger generation to the protests create hope for the establishment of new democratic regimes.

CORRUPTION, POLITICAL VIOLENCE, ECONOMIC FREEDOM, AND GROWTH

Regardless of the political outcome, there are too many economic issues involved in recent events that have not been carefully addressed. This chapter will analyze three of them.

- First, the hypothesis that political unrest appears more frequently under more corrupt regimes will be put to the test.
- Second, the long-run relationship between economic freedom and political unrest will be tested.
- Finally, the effects of political unrest on net FDI and GDP per capita will be explored within the framework of an econometric model.

The use of statistical and econometric techniques for this analysis requires identification of a non-subjective database reflecting the level of political instability and violence in the countries under review. For this study, the RAND Database of Worldwide Terrorism Incidents has been selected both as a proxy for overall political violence and instability in the region and because of the likely importance of terrorism in shaping GDP per capita and FDI flow to the region. The database includes acts that, among other criteria, must include violence or the threat of violence and be motivated, at least in part, by a political objective. It is quite broad

Johansen Cointegration Test Between Corruption and Number of Terrorist Attacks

Country	Number of Cointegration With One Lag at 0.05 Level	Trace Statistics*	Probability	Number of Cointegration With Two Lags at 0.05 Level	Trace Statistics*	Probability
Algeria	0	8.47	0.41	0	9.72	0.30
Bahrain	1	50.95	0.00	2	60.81	0.00
Egypt	2	23.32	0.00	2	32.42	0.00
Iran	1	17.26	0.02	0	10.78	0.22
Jordan	2	17.06	0.02	2	34.84	0.00
Kuwait	0	4.66	0.84	1	29.30	0.00
Lebanon	1	21.31	0.00	2	27.61	0.00
Libya	0	8.77	0.38	0	–	–
Morocco	1	17.23	0.02	1	18.82	0.01
Saudi Arabia	1	19.35	0.01	1	20.45	0.00
Syria	1	26.52	0.00	1	1.73	0.18
Tunisia	0	8.25	0.43	2	28.8	0.00
Yemen	0	10.65	0.23	0	9.78	0.30

* Critical value is 15.49 at P=0.05 level.

Source: Author's calculations based on data retrieved from RAND,"RAND Database of Worldwide Terrorism Incidents," February 27, 2011, at *http://www.rand.org/nsrd/projects/terrorism-incidents.html* (April 18, 2011).

Table 3 heritage.org

in its inclusiveness and covers more than 3,000 incidents in the region since 1970.[2]

Up until now, most analysis has treated terrorism as an Islamic phenomenon against Western values. It may well be, however, that terrorism as it manifests in the Arab region is more typically motivated as "revenge against corruption," with foreigners targeted as convenient symbols of a regime's decadence that from the perspective of national citizens may be linked to cultural and economic pressures fostered by globalization.

Though much attention has been paid to the effects of terrorism on macroeconomic variables in the Western world, less has been said about its occurrences in and effects on countries in the Middle East, though both the magnitude of terrorist attacks and their impacts can be significant. Indeed, countries like Algeria, Syria, and Lebanon have experienced more than 80 terrorist attacks each in one single year. In some cases, the targets may have been Western citizens, but the outcome has been negative not just for the specific targets, but for the countries in which the attacks occurred.

POLITICAL VIOLENCE AND CORRUPTION

In this section, two questions will be addressed:

1. Are countries with more corrupted governments more likely to experience political violence (e.g., terrorism)? The Johansen cointegration technique is used to see whether there is any long-term relationship between terrorism and the level of corruption as measured in the *Index of Economic Freedom* across the countries in the region.

---

[2] See RAND Corporation, National Security Research Division, RAND Database of Worldwide Terrorism Incidents, Web site, at *http://www.rand.org/nsrd/projects/terrorism-incidents.html* (November 14, 2011).

2. Is there a long-run relationship between economic freedom and political violence/terrorism? Again, the Johansen co-integration technique is used. The data are annual and cover the period 1997–2009.[3]

Restating the questions as hypotheses to be tested, the first is that there is a long-run relationship between the freedom from corruption index and the number of terrorism attacks in the region.

H_0 = There is no long-run relationship between terrorism and the freedom from corruption index.

H_a = There is a long-run relationship between terrorism and the freedom from corruption index.

The results presented in Table 3 reject the null hypothesis, indicating that there is a long-run relationship between terrorism and corruption in most Middle East countries (except Algeria, Libya, and Yemen, as outliers). Interestingly enough, in the most corrupted countries in the region, like Egypt and Tunisia, there are at least two co-integration vectors at the $P = 0.05$ level of significance between terrorism and corruption. Put differently, the more corrupted the governments are, the more likely the extremist groups in those countries are to get involved in terrorist activities. Therefore, the proposed motivation for terrorism as "revenge against corruption" fits the data appropriately.

The second hypothesis is that there is a long-run relationship between economic freedom and terrorism measured by the number of casualties inside a country's borders, and also by the number of casualties in the region.

H_0 = There is no long-run relationship between terrorism and economic freedom.

H_a = There is a long-run relationship between terrorism and economic freedom.

Table 4 summarizes the number of co-integration vectors between economic freedom and the number of casualties inside a country's borders (column 2) or the number of casualties in the region (column 5). The results suggest that, for most countries in the region at least, one co-integration exists between the two variables; however, countries like Bahrain, Iran, Libya, Tunisia, and Yemen are outliers, suggesting that further study may be required.

TERRORISM, FDI, AND GDP PER CAPITA IN MENA COUNTRIES

The final section of this chapter examines the effects of terrorism on FDI and GDP per capita. There is a considerable amount of previous academic work on which to build:

- Walter Enders (University of Alabama), Adolfo Sachsida (Catholic University of Brasilia), and Todd Sandler (University of Southern California) investigated the extent to which transnational terrorist attacks altered U.S. foreign direct investment in a group of Organisation for Economic Co-operation and Development (OECD) countries and non-OECD countries. They found that terrorist attacks had a small but significant impact on U.S. FDI stock to OECD countries but no significant impact on the stock of FDI to non-OECD countries. Interestingly, terrorist incidents with no casualties had a smaller effect on FDI than incidents with casualties.[4]
- Alberto Abadie (Harvard University and National Bureau of Economic Research) and Javier Gardeazabal (University of the Basque Country) used a simple econometric model to show that terrorism has a large impact on the allocation of productive capital across countries. The model indicates that in addition to increasing uncertainty, terrorism reduces the expected return on investment. As a result,

---

[3] We could not go back further because data on economic freedom and corruption before 1997 are not available.

[4] Walter Enders, Adolfo Sachsida, and Todd Sandler, "The Impact of Transnational Terrorism on US Foreign Direct Investment," November 2005, at *http://www.cba.ua.edu/~wenders2/wp-content/uploads/2009/12/us_fdi_ms_complete.pdf* (November 13, 2011).

Johansen Cointegration Test Between Economic Freedom Index and Casualties of Terrorist Activities, With One Lag

Country	Number of Cointegration With Number of Casualties Inside the Border at P=0.05 Level	Trace Statistics*	Probability	Number of Cointegration WithTotal Number of Casualties in the Region at P=0.05 Level	Trace Statistics*	Probability
Algeria	1	18.63	0.016	0	8.55	0.408
Bahrain	0	11.19	0.200	0	12.85	0.120
Egypt	0	12.97	0.115	1	21.35	0.005
Iran	0	13.05	0.112	0	13.27	0.105
Jordan	2	21.22	0.006	1	17.30	0.026
Kuwait	2	21.96	0.004	0	11.51	0.181
Lebanon	2	20.43	0.008	2	17.96	0.020
Libya	0	10.43	0.249	0	7.61	0.506
Morocco	0	14.08	0.080	1	15.97	0.042
Saudi Arabia	2	16.17	0.039	0	9.66	0.307
Syria	0	8.76	0.387	1	22.23	0.004
Tunisia	0	9.44	0.325	0	10.94	0.214
Yemen	0	10.24	0.262	0	10.56	0.239

* Critical value is 15.49 at P=0.05 level.

Source: Author's calculations based on data retrieved from RAND,"RAND Database of Worldwide Terrorism Incidents," February 27, 2011, at *http://www.rand.org/nsrd/projects/terrorism-incidents.html* (April 18, 2011).

Table 4 heritage.org

changes in the intensity of terrorism may cause large movements of capital across the countries in an open economy.[5]

- Hamid Shahrestani (Ohio University) and Nahid Anaraki (Islamic Azad University, Iran) captured the effects of terrorism on some macroeconomic variables at the international level. They used the generalized method of moment (GMM) technique to investigate the effects of terrorism on such variables as GDP growth, FDI, and total factor productivity with cross-section data for 2005 for a sample of both developed and developing countries. Their results suggest that terrorism has adversely and significantly affected economic growth and FDI.[6]
- Peter Kurrild-Klitgaard (University of Copenhagen) and Mogens K. Justesen and Robert Klemmensen (University of Southern Denmark) conducted an empirical analysis with data from 1996 to 2002 on measures of economic and political freedom as well as the occurrence of transnational terrorism. They used binary logistic regression models to

---

[5] Alberto Abadie and Javier Gardeazabal, "Terrorism and the World Economy," August 2007, at *http://www.spearheadresearch.org/pages/documents/Terrorism_And_The_World_Economy.pdf* (November 13, 2011).

[6] Hamid Shahrestani and Nahid Kalbasi Anaraki, "Protectivity Versus Productivity and Economic Growth: Empirical Evidence from Selected Countries," *International Business & Economics Research Journal,* Vol. 7, No.10 (October 2008), pp. 43–52, at *http://journals.cluteonline.com/index.php/IBER/article/view/3299/3347* (November 13, 2011).

predict whether or not a country would experience transnational terrorist attacks and whether or not terrorism originated in a particular country. They found that the extent of political rights and civil liberties is negatively correlated with the generation of transnational terrorism from a country.[7]

- Nicole V. Crain (National Defense University) and W. Mark Crain (Lafayette College) estimated the macroeconomic consequences of terrorism. They used panel data for 147 countries for 1968–2002 and found that potential gains to a country from reducing terrorism threats are quite large, although the specific estimates depend on a country's population, base level of output, and investment. They found significant negative impact on GDP per capita and FDI from terrorist incidents.[8]
- Subhayu Bandyopadhyay (Federal Reserve Bank of St. Louis), Todd Sandler (University of Texas at Dallas), and Javed Younas (American University of Sharjah, United Arab Emirates) used panel data to investigate the relationship between terrorism and FDI. Their analysis focused on 78 developing countries for 1984–2008 and found that all types of terrorism depress FDI to different extents.[9]
- M. Alomar and M. I. T. El-Sakka (University of Kuwait) used panel data for a group of 136 countries to investigate the effects of a set of government barriers on FDI compared to terrorism. They found that terrorism has negatively and significantly affected the level of FDI to less-developed countries.[10]

DATA AND METHODOLOGY

This analysis implements panel data for a group of 12 developing countries in the Middle East and North Africa (Algeria, Bahrain, Egypt, Iran, Jordan, Kuwait, Lebanon, Libya, Morocco, Syria, Saudi Arabia, and Tunisia[11]) for the period 1970–2009, which covers more than 3,000 terrorism incidents in the region. The hypothesis tested is that terrorism adversely affects FDI and GDP per capita.

$H_0 =$ Terrorism does not affect FDI and GDP per capita in these countries.

$H_a =$ Terrorism adversely affects FDI and GDP per capita in these countries.

A regression model is implemented where FDI or GDP per capita is used as a dependent variable and terrorism (measured by the number of casualties) is used among independent variables.

EFFECTS OF TERRORISM ON FDI

Extending the Crain and Crain model, the following econometric model is used to capture the effects of terrorism on FDI in the region:

$$FDI_i = \partial_0 + \partial_1 \overset{+}{GDPG} + \partial_2 \overset{+}{Openness} + \partial_3 \overset{+}{pop} + \partial_4 \overset{-}{EXCV} + \partial_5 \overset{-}{Casualties}$$

$$\frac{\partial FDI}{\partial GDPG} > 0 \quad \frac{\partial FDI}{\partial Openness} > 0 \quad \frac{\partial FDI}{\partial pop} > 0 \quad \frac{\partial FDI}{\partial EXCV} < 0$$

$$\frac{\partial FDI}{\partial Casualties} < 0$$

---

[7] Peter Kurrild-Klitgaard, Mogens K. Justesen, and Robert Klemmensen, "The Political Economy of Freedom, Democracy and Transnational Terrorism," *Public Choice,* Vol. 128, Nos. 1/2 (July 2006), pp. 289–315, at *https://woc.uc.pt/feuc/course/MRI/2007-2008/Kurrild-Klitgaard%20et%20al%20-%20The%20political%20economy%20of%20freedom,%20democracy%20and%20transnational%20terrorism.pdf* (November 14, 2011).

[8] Nicole V. Crain and W. Mark Crain, "Terrorized Economies," draft, May 2005, at *http://www.cadep.ufm.edu/Seminarios/SeminarioEconomia4/lecturas/Terrorized-Economies-Crain-and-Crain.pdf* (November 14, 2011).

[9] Subhayu Bandyopadhayay, Todd Sandler, and Javed Younas, "Foreign Direct Investment, Aid, and Terrorism: An Analysis of Developing Countries," Federal Reserve Bank of St. Louis, Research Division, *Working Paper* No. 2011-004A, January 2011, at *http://research.stlouisfed.org/wp/2011/2011-004.pdf (November 14, 2011).*

[10] M. Alomar and M. I. T. El-Sakka, "The Impact of Terrorism on the FDI Inflows to Less Developed Countries: A Panel Study," *European Journal of Economics, Finance, and Administrative Sciences,* Issue 28 (2011), at *http://www.eurojournals.com/EJEFAS_28_09.pdf (November 13, 2011).*

[11] We could not include Yemen because data for most variables are not continuously available, and models therefore could not be estimated.

Effects of Terrorism on Foreign Direct Investment to Middle East Countries

Country	GDPG	POP	Openness	EXCV	CPI	Casualties	R-Squared	DW
Algeria	1.30	11.4***	6.99***	0.75	–	−1.43**	0.58	1.7
	(1.15)	(3.74)	(2.53)	(0.61)		(0.75)		
Bahrain	−0.19	4.25***	−0.33		−0.52**	0.27	0.86	2.2
	(0.49)	(1.47)	(1.98)		(0.26)	(0.26)		
Egypt	2.56	2.47	−3.95**	−0.41**	–	−0.36	0.76	2.3
	(2.55)	(3.76)	(1.75)	(0.19)		(0.39)		
Iran	0.44	1.96**	2.79*	–	−0.01	−0.27*	0.88	2.4
	(0.31)	(1.02)	(0.80)		(0.53)	(0.18)		
Jordan	1.05*	3.87**	1.70	–	−0.11	−0.13	0.83	2.4
	(0.57)	(1.60)	(2.54)		(0.38)	(0.16)		
Kuwait	−0.44	12.61**	5.71	–	−0.99*	−0.88	0.74	2.3
	(0.64)	(4.16)	(7.12)		(0.60)	(0.68)		
Lebanon	−0.27	16.23***	−1.41	–	−1.00***	−0.21	0.83	1.8
	(0.30)	(3.65)	(1.01)		(0.27)	(0.32)		
Libya	5.34***	16.94***	−4.13***	–	1.46***	−1.34***	0.98	2.3
	(0.97)	(1.86)	(0.90)		(0.28)	(0.26)		
Morocco	0.88**	7.99**	3.51	–	−0.09	−0.58**	0.59	1.7
	(0.50)	(3.82)	(2.45)		(0.52)	(0.27)		
Saudi Arabia	0.28	−2.51	2.00	−1.65	–	0.74	0.51	1.7
	(0.37)	(3.05)	(2.79)	(1.25)		(0.58)		
Syria	0.27	11.9***	1.21*	–	0.81***	−0.50**	0.94	1.8
	(0.29)	(0.83)	(0.65)		(0.23)	(0.20)		
Tunisia	1.27*	−3.07	−1.49	–	−1.81***	−0.16*	0.99	2.4
	(0.68)	(2.15)	(1.15)		(0.24)	(0.07)		

( ) Standard errors * Significant at P=0.10 ** Significant at P=0.5 *** Significant at P=0.01

Notes: The model for Yemen could not be estimated since data on these variables for most years do not exist. Models are estimated in log-log form, therefore coefficients are elasticities.

Source: Author's calculations.

Table 5 heritage.org

GDPG is the GDP growth rate, and Openness stands for the degree of openness in a country and is measured by the ratio of imports plus exports over GDP. The size of the economy is measured by population (POP), and exchange rate volatility (EXCV) is deployed as a measure of macroeconomic instability. In some cases where data on the exchange rate are not continuously available, we measure macroeconomic instability with the consumer price index (CPI). Finally, Casualties represents the number killed and injured in a terrorist attack in the region in a specific year.

The results in Table 5 suggest that the number of casualties has a statistically significant negative impact on FDI in Algeria, Iran, Libya, Morocco, Syria, and Tunisia. For instance, one standard deviation in the number of those killed and injured in the region by a terrorist attack reduces FDI to Egypt, Iran, Lebanon, Morocco, and Syria by 0.36 percent, 0.27 percent, 0.21 percent, 0.58 percent, and 0.50 percent, respectively. Indeed, since the casualty number is the total number of killed and injured in the region, one may conclude that a terrorist attack in one coun-

Effects of Terrorism on GDP per Capita in Middle East Countries

Country	K	Sec	M2/GDP	Openness	GE	CPI	INT	Casualties	R-Squared	DW
Algeria	0.20**	0.22***	–0.11**	–0.02	–	–	–0.09***	–0.007**	0.97	2.2
	(0.08)	(0.05)	(0.05)	(0.03)			(0.01)	(0.003)		
Bahrain	0.03**	0.40***	0.24***	–	–0.67***	–	–	–0.017***	0.98	2.0
	(0.017)	(0.031)	(0.06)		(0.03)			(0.005)		
Egypt	–0.017	0.46***	0.27***	0.03	–	–	–0.09***	–0.012**	0.99	1.9
	(0.06)	(0.03)	(0.07)	(0.04)			(0.03)	(0.005)		
Iran	0.01*	–0.04	–0.40**	0.11	0.36**	–0.06*	–	0.04**	0.69	1.4
	(0.09)	(0.06)	(0.08)	(0.10)	(0.14)	(0.04)		(0.01)		
Jordan	–0.17	0.28	–0.15	0.94***	–	–	0.05	–0.02*	0.96	2.2
	(0.12)	(0.18)	(0.27)	(0.22)			(0.04)	(0.01)		
Kuwait	0.06	–0.32**	–0.37***	0.33***	0.49***	–0.03		–0.007*	0.88	1.8
	(0.06)	(0.12)	(0.10)	(0.03)	(0.07)	(0.01)		(0.004)		
Lebanon	0.04	1.64***	–	0.07	–0.38**	0.02*	–	–0.03*	0.91	2.0
	(0.09)	(0.27)		(0.04)	(0.16)	(0.01)		(0.02)		
Libya	0.29*	4.79**	1.07**	1.13	1.63**	0.15	–	–0.09**	0.99	2.6
	(0.16)	(2.06)	(0.47)	(1.39)	(0.76)	(0.11)		(0.04)		
Morocco	0.10	0.26***	0.05	0.13	0.30**	–0.05***		–0.009*	0.98	1.4
	(0.09)	(0.04)	(0.08)	(0.08)	(0.11)	(0.009)[1]		(0.006)		
Saudi Arabia	0.31***	0.46***	–0.68***	0.26	0.54***	0.02	–	–0.008	0.86	1.5
	(0.09)	(0.16)	(0.14)	(0.17)	(0.14)	(0.02)		(0.01)		
Syria	0.33***	0.27***	–0.12	–0.02	–0.07	–0.01		0.02**	0.87	1.40
	(0.05)	(0.06)	(0.10)	(0.04)	(0.08)	(0.01)		(0.01)		
Tunisia	0.27***	0.27***	0.63***	–0.05	–1.00***	0.02		0.01*	0.98	1.10
	(0.07)	(0.04)	(0.11)	(0.07)	(0.12)	(0.03)		(0.006)		

( ) T-standard errors * Significant at P=0.10 ** Significant at P=0.5 *** Significant at P=0.01
1 – For Morocco, exchange-rate volatility is used instead of CPI.

Notes: The model for Yemen could not be estimated since data on these variables for most years do not exist. Models are estimated in log-log form, therefore coefficients are elasticities.

Source: Author's calculations.

Table 6 heritage.org

try not only affects the origin country, but also has a statistically significant impact on the flow of FDI to other countries in the region.

Moreover, the results suggest that the sensitivity of FDI to terrorism is not symmetric among the countries in the region; for instance the elasticity of FDI to terrorism, measured by casualties, is higher in Algeria and Libya than in other countries. In other words, one standard deviation in the number of casualties reduces FDI to these countries by 1.43 percent and 1.34 percent, respectively. Saudi Arabia and Bahrain are outliers since the coefficient on the casualties variable does not have the expected negative sign. The reason may be that they are allies of the U.S. and receive capital flows regardless of the level of the terrorism threat.

EFFECTS OF TERRORISM ON GDP PER CAPITA

To capture the effects of terrorism on GDP per capita, we use the following model as used by Crain and Crain among others.

$$GDPPC_i = \partial_0 + \partial_1 \overset{+}{K} + \partial_2 \overset{+}{Sec} + \partial_3 M2\overset{+}{/}GDP + \partial_4$$

$$\overset{+}{Openness} + \partial_5 \overset{-}{GE} + \partial_6 \overset{-}{CPI} + \partial_7 \overset{-}{Int} + \partial_8 \overset{-}{Casualties}$$

$$\frac{\partial GDPPC}{\partial K} > 0 \quad \frac{\partial GDPPC}{\partial Sec} > 0 \quad \frac{\partial GDPPC}{\partial \frac{M2}{GDP}} > 0$$

$$\frac{\partial GDPPC}{\partial Openness} > 0 \quad \frac{\partial GDPPC}{\partial GE} < 0 \quad \frac{\partial GDPPC}{\partial CPI} < 0$$

$$\frac{\partial GDPPC}{\partial Int} < 0 \quad \frac{\partial GDPPC}{\partial Casualties} < 0$$

GDPPC is real GDP per capita at 2000 constant prices, K represents the level of fixed capital investment, Sec represents secondary school enrollment as a share of population, M2/GDP is a financial deepening index, and GE is government spending as a share of GDP. Macroeconomic instability is measured by CPI or interest rate volatility. Finally, Casualties represents the number killed and injured by a terrorist attack in the region in each year.

The results in Table 6 reject the null hypothesis that there is a lack of relationship between terrorism and GDP per capita in the region. The coefficient on the casualty variable is negative and statistically significant in most cases, except Iran, Syria, and Tunisia as outliers, where the coefficient on casualties is statistically significant at the 99 percent level but of the opposite-to-expected sign. This again suggests that some other explanatory factors may be missing from the equation.

An explanation for the negative impact of terrorism on GDP per capita is that governments respond to terrorism by reallocating resources from productive sectors to security, which reduces investment and overall productivity and retards growth in GDP per capita. Another explanation for the outlier countries is that they may not have responded to terrorism by reallocating resources or may have observed only a few terrorism incidents inside their borders. For instance, Iran is among a few countries in the Middle East that have had very few terrorist incidents inside their borders.

The results suggest that one standard deviation in the number of casualties leads to 0.02 percent, 0.03 percent, and 0.09 percent lower GDP per capita in Jordan, Lebanon, and Libya, respectively. However, the results for countries like Algeria, Bahrain, Egypt, Kuwait, and Morocco suggest that one standard deviation in the number of casualties from terrorist activities in the region has a much lower impact on GDP per capita. Syria and Tunisia have high elasticity to terrorism, though the coefficient on the casualty variable is of the opposite-to-expected sign.

In sum, the elasticity of GDP per capita to terrorism differs substantially among different countries. Our results indicate that countries facing higher levels of terrorism threat are likely to have higher elasticity of GDP per capita to terrorism, whereas countries with lower levels of terrorism threat experience lower elasticity of GDP per capita to terrorism. For instance, the elasticity of GDP per capita to terrorism is much higher in Libya, Lebanon, Jordan, and Syria than it is in such countries as Kuwait, Algeria, Bahrain, and Morocco.

FIGHTING FOR ECONOMIC FREEDOM

This chapter has tested three hypotheses. The first hypothesis was that countries with higher levels of corruption are more likely to be confronted with terrorism. Using the Johansen co-integration technique to test this hypothesis, a long-term relationship between the freedom from corruption index and terrorism was found in most countries in the region. The second hypothesis was that there is a long-run negative relationship between economic freedom and terrorism. Again, the Johansen co-integration test rejected the null hypothesis, finding co-integration between the two variables.

This analysis suggested a new motivation for terrorism, one that is less about Islam against Western values and more about revenge against corrupt regimes in the Middle East. Policymakers interested in fighting terrorism may find it useful to pay more attention to the struggle against corruption, since the two are co-integrated.

Finally, the chapter tested the hypothesis that terrorism adversely affects flows of FDI and the levels of GDP per capita in the Middle East and North Africa. Consistent with previous studies, it was found that terrorism has statistically negative impacts on the flow of FDI and GDP per capita in most countries in the region, except in a few outliers like Iran and Syria.

The results of the analysis in this chapter indicate that gloomy economic prospects, income inequality, and corrupted regimes in the Middle East were important motivators in the Arab uprising. As many scholars have argued, Iran's Green movement played an important role in inspiring Arab youngsters. Unfortunately, though the Green Movement did not have a short-term positive outcome for Iranians, it propelled waves of change over the shores of the Middle East and North Africa. It may well be that the Arab uprising will have a domino effect on Iran's Green Movement as well.

Chapter 5

Fighting Poverty Through Economic Freedom

The Honorable Obiageli Ezekwesili

This essay is adapted from an address at The Heritage Foundation on October 11, 2011.

A recent World Bank research report, *On the Relevance of Freedom and Entitlement in Development* by Jean-Pierre Chauffour, reviewed the economic performance, good and bad, of more than a hundred countries over the past 30 years. The study found new empirical evidence supporting the idea that economic freedom and civil and political liberties are at the root of reasons why some countries achieve and sustain better economic outcomes while others do not.

The study showed, for instance, that a one-unit change in the initial level of economic freedom between two countries on a scale of one to 10 is associated with an almost 1 percentage point differential in their average long-run economic growth rates. In the case of civil and political liberties, the long-term effect is also positive and significant, with a differential of 0.3 percentage points. The expansion over time of the conditions of freedom—whether economic, civil, or political—also positively influences long-run economic growth. This kind of evidence, and what we call the evidence-based policy approach, really is at the heart of what we do in the promotion of development choices.

The World Bank conducts hundreds and hundreds of studies every year. For the Africa region, as an example, we produce an average of 20 studies a year. Those who do not follow the Bank closely may not know that the work we do in knowledge generation is actually much more fundamental to the promotion of development than is the financing that the World Bank is able to provide.

In our studies each year, we dwell on and explore all kinds of theories that are linked to growth and to the freedom to pursue economic growth and achieve development. For outsiders and non-Bank watchers, this study that I refer to was seen as something the Bank had done out of the ordinary. In fact, one of the bloggers from a newsletter, commenting on the conclusions that social prosperity is intrinsically linked to economic freedom and to civil liberties, said of the World Bank that "the institution seems to have undergone an epiphany."

ECONOMIC FREEDOM: A FUNDAMENTAL PILLAR

Well, not quite so. Everything we do in terms of economic development really anchors in a very strong sense that economic freedom is important for fighting poverty. Since our mandate is a world free of poverty, economic freedom is a fundamental pillar for achieving that mandate.

Freedom to produce, to trade, or to consume any good or service that one has acquired without the use of force, fraud, or theft is one of the characteristics we have seen in many of the societies in Africa that have done better than the others. These freedoms are embedded in attention given to the rule of law, to property rights, and to freedom of contract. The sense that the free market is an important aspect of enabling individual choices toward the most efficient allocation of resources is one that would hardly attract too much argument from anyone within the World Bank.

The questions raised by the recent study included:

- Why are certain countries better governed than others?
- Why do certain countries save and invest more?
- Why do some countries have more flexible markets or achieve greater inclusiveness?

A few months after that study was released, we were gathered at the Bank again to launch our annual flagship study, the *World Development Report on Conflict, Security and Development*. One of the reporters covering the launch for Reuters News Agency fired a question. She asked the authors to clarify, "Which comes first in the wake of revolution: bread or freedom? Do the hungry of the world want bread first or freedom first?"

To answer that question, it is important that we should remember that hunger, as we have seen in great proportion in Ethiopia in the 1980s and more recently in Somalia and the greater Horn of Africa, often results from some level of the lack of freedom to own land, to invest, and to be able to make a living out of one's possession. It also comes out of the weakness of the institutional and regulatory context under which individual choices are made.

The *Index of Economic Freedom* underlines the positive role that economic freedom plays in enabling prosperity, raising living standards, curbing poverty, and improving economic growth and social well-being. Nelson Mandela, a wise man, puts it most appropriately when he says, "Money won't create success; the freedom to make it will." The failed policies that caused the famine in the Horn of Africa and the governance challenges that created the precursor to these policies are similar in outcome to those that have engendered bad governance, corruption, and armed conflict.

PRIORITIZING ECONOMIC FREEDOM

One of the conclusions of this study—aimed at developed countries but also important for African countries—is that prioritizing economic freedom over social entitlements could be an effective way to reform the welfare state that many African countries tried to build post-independence, especially if they want to make their economies more sustainable and equitable in the long run. In other words, deregulation, lower taxes, and effective and measured market interference will make African countries much more prosperous, not less, and would ultimately take away the need for the state to engage in huge, untargeted social spending that is not focused in ways that enable optimality.

The freedom from regulation or other dictates from government or the authorities in economic matters makes the capitalist system of economic freedom a means for efficient allocation of resources. Of course, we must be aware that every good thing comes with downside risks, and we need also to understand the limits of excessive freedom.

We believe that through the work of the World Bank's *Doing Business* report, we can foster opportunities for countries to work toward higher rankings on important indices of economic freedom. The fact is that many analyses agree that countries which prioritize economic freedom tend to be richer, tend to grow faster, tend to prosper more, and tend to reduce poverty faster, and their people tend to live longer and to be more educated. Countries which enjoy economic freedom also tend to be less inclined to be caught up in armed conflict or in warfare. They tend to be less corrupt, to respect human rights more, to promote gender equity, and to have more of their people employed. There are countries where people are free to own property; to earn, save, and invest; to pursue their economic dreams with minimum obstruction from government, regulations, taxes, and unfriendly monitoring of fiscal environments.

But lest it be said that we advocate an unfettered freedom, we need to nuance the conversation. We know, of course, that GDP growth is not sufficient to create jobs, reduce poverty, and bring about development, but the other thing that we know for sure is that GDP growth is indispensable for job creation, poverty reduction, and development. Robust average growth across Africa over the past decade has been instrumental in bringing about an average decline in poverty of 1 percentage point annually—a rate that is equal to the poverty reduction levels achieved by India.

In fact, our Africa strategy at the World Bank sets out to help African countries to reduce poverty by at least 12 percentage points over the next decade, as well as to pull at least five low-income countries into middle-income status over the next 10 years. This strategy was the outcome of many months of extensive consultation with thousands of Africans. The over 3,000 Africans that participated in the face-to-face consultative workshops and the thousands more who provided feedback online were very clear about one thing. They said to us that bad governance, the absence of capable institutions, and the dearth of effective professionals, especially within the public sector, to run important institutions are the biggest obstacles standing between the continent and its potential to create growth on an accelerated path, enable jobs, reduce poverty, and achieve development.

PROMOTING ECONOMIC CHOICES

One point that was very apparent in all of the discussions was that Africans were ready to play in the league of economic choices. For many decades following independence, many African countries chose the path of government being at the commanding heights of the economy. That choice did not result in the greatest of economic achievements. It has taken the past decade's embrace of market principles as well as sound macroeconomic policies for us to see Africa's economic growth trajectory turn entirely positive—so positive that at the height of the economic crisis, most of the countries on the continent sustained their economic reforms, and that enabled Africa to be one of the fastest to rebound from the collapse of growth from 5.7 percent to 1.7 percent back to 4.2 percent the following year. Hopefully, with less tragedy coming out of the current crisis, growth will proceed into 2012 and 2013 at rates of about 4.7 percent and 5.2 percent, respectively.

As China rises as a major global economic giant and as a major trading and investment partner with Africa, with over $43 billion in investment, some in Africa have been tempted to hold China up as the development model that the continent should emulate. Some of the leaders have even openly called for the "China model" of development. One thing that we say, and with every sincerity, is that it is not our role at the World Bank to tell sovereign governments what development models they should follow, since there are no perfect models, as we see it. But there are certain key fundamentals that we know determine how best to allocate resources to enable efficient growth.

Parts of the China model—those that help to lift millions of people out of poverty—have clearly worked well, and the embrace of market reforms by China delivered big-time impact. Others may not have worked as well, and China will continue to have to deal with the issues of workers' freedom and with environment and sustainability-related issues.

Parts of the Western model that have expanded prosperity beyond everything that we have known in the history of mankind in the past 50 years have also worked well. Others, like those that make nonsense of regulations needed to protect the poor and the vulnerable, have not worked so well. That which has also not worked so well has been the capture of state regulation by vested interests and powerful elites. That has not worked well in the Western model.

Therefore, it is our role as a development institution to offer options of pragmatic solutions to development, and that is exactly what we do with our African clients. I would dare say that any African leader who would think that conformity is the best way to go would need to be reminded of the statement by President John F. Kennedy who said, "Conformity is the jailor of freedom and the enemy of good."

AFRICA'S EVOLVING DEVELOPMENT MODEL

We firmly believe that Africa's development model will evolve in line with realities on the continent, and we have, through our own strategy at the Bank, in addition to the foundation of good governance and public-sector capacity, committed to working with governments on cross-sectoral approaches that seek to promote economic competitiveness and employment while buttressing social safety nets and building resilience against shocks—be they economic, manmade, natural, health, or climate-related shocks.

Whatever model African countries choose to follow, it is clear, judging from the success stories on the continent, that economic and political freedoms will form an important part of the foundation for prosperity and poverty reduction. Two of Africa's leading countries in The Heritage Foundation's *Index of Economic Freedom,* Mauritius and Botswana, definitely offer models that are steeped in African realities and probably offer the best examples of how African economies can spread economic freedom.

Mauritius has achieved considerable economic progress thanks to the economic liberties that successive governments have provided. Building on traditional systems of governance that called for consultation, transparency, and accountability, Botswana has prospered on its diamond wealth without falling victim of the Dutch disease syndrome that has wrecked the fortunes of other such countries with huge minerals endowments on the continent—my country (Nigeria) being a good example of how not to be a minerals-rich or oil-rich society without the necessary systems and context around which effective management of resources will happen.

With the most populated African countries such as Nigeria, Ethiopia, and the Democratic Republic of Congo ranking very low in the *Index* at 116th, 134th, and 172nd, respectively, we still have a situation where less than the desirable number of Africans live in countries that are free from deep levels of corruption, that uphold the freedom to own property, that uphold investment, fiscal, monetary, and financial freedoms. What this means is that there are opportunities for improvement. There are incredible opportunities in a more open global economic system.

Mauritius, which is Africa's best performer, ranks 8th on the overall global ranking; Botswana ranks 33rd globally; Rwanda is 59th; Cape Verde placed 66th globally; and South Africa, the 5th freest African economy, is ranked 70th in the world. The last five of the top 10 African performers include Madagascar, Namibia, Uganda, Ghana, and Burkina Faso. All of these rank in the top half of the world in terms of economic freedom. It is not surprising that these countries occupy the right neighborhood in the *Index*. Unfortunately, there are quite a number of African countries that are still in the wrong neighborhood, and there is much work that needs to be done.

Our strategy for Africa recognizes, therefore, the importance of advancing freedom. This includes promotion of demand-side governance because, after all, the concept of freedom places the individual at the very epicenter of it.

Thus, as part of our commitment to heralding even a freer environment in which citizens are able to make economic choices to optimize their creativity and freedom to innovate, we have prioritized our work in promoting civil society engagement and true social accountability. We have prioritized our work with individuals through citizens' groups that evaluate development projects and enable public debate of policy choices, and we are committed to consistently bringing civil society and think tanks into the design, implementation, and evaluation of our programs. We also are committed to using our leverage in the dialogue between ourselves and countries to ensure that enough space is provided for citizens' input into policy choices.

CITIZEN INVOLVEMENT AND GOVERNMENT ACCOUNTABILITY

The greatest antidote to lack of freedom is transparency. Our support for demand-side governance is based on the recognition that corruption and misrule or bad governance are fostered by weak institutions and can be improved by more citizens' involvement. But mere citizens' involvement is not sufficient. Analytically grounded and empirically sound citizens' engagement in demanding accountability from governments would be the fastest way to enlarge the space of freedom in Africa. Corruption and bad governance in most African countries have also been shown to flow from rents in the form of oil, gas, and mining revenues for countries that have been stuck in the Dutch disease. Some of the corruption flows from unconditional foreign aid misused by bad governments. Ensuring that aid and development funding produces results calls for the strengthening of institutions of economic, political, and financial accountability, which we at the World Bank are committed to doing.

The recent World Bank study provided potentially important policy lessons for all countries. For developed countries, it suggests that prioritizing economic freedom over social entitlements could be an effective way to reform the welfare state and make it more sustainable and equitable in the long run. For middle-income countries, such as those in the middle of the "Arab Spring" and countries in Asia and Latin America, it indicates that the quest for civil and political rights, but also for economic freedom, implies the reduction of existing privileges and entitlements to create new social contracts. For low-income countries as well as the international community at large—especially those of us in the development community—the findings of this study provide an opportunity for all of us to reflect on the potential role of economic freedom in ensuring the achievement of our development goals.

The empirical findings suggest that fundamental freedoms are paramount in explaining long-term economic growth and, by extension, job creation and poverty reduction. For a given set of exogenous conditions, countries that favor free choice, economic freedom, and civil and political liberties over entitlement rights are likely to grow faster and achieve many of the associated proximate characteristics of success. Economic freedom helps countries to produce the right leadership and good governance. It helps them engage with the global economy to get higher rates of investment and savings. It helps to achieve inclusive growth and guarantee access to basic services by the underserved. It even helps while dealing with issues of gender inclusiveness and an attention to the poor and vulnerable.

Above all, economic freedom helps citizens remain at the center of every economic activity. That, ultimately, may be its greatest value.

Chapter 6

The Countries

This chapter reports data on economic freedom in each of the countries covered in the *Index of Economic Freedom*. Of the 184 countries included, 179 are fully scored and ranked. Because of data constraints, the remaining five—Afghanistan, Iraq, Somalia,[1] Sudan, and Liechtenstein—are covered without numerical grading.

In an effort to improve analytical understanding and presentational clarity, the 10 economic freedoms have been grouped this year 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 a brief introduction describing economic strengths and weaknesses and the political and economic background influencing a country's performance, as well as a statistical profile giving the country's main economic indicators. Information about a country's public debt is included this year for the first time.

To assure consistency and reliability for 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"

---

[1] Somalia, though not formally graded, returns to the *Index* for the first time since the 2001 *Index*.

with eight different categories of information. Unless otherwise indicated, the data in each country's profile are for 2010 (the year for which the most recent data are widely available) and in current 2010 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: 2010 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 2011.* The major secondary source is International Monetary Fund, *World Economic Outlook Database, 2011.* 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, based on country-specific years. Annual percent changes are year-on-year. The primary source is International Monetary Fund, *World Economic Outlook Database, 2011.* Secondary sources include World Bank, *World Development Indicators Online 2011;* Economist Intelligence Unit, *Country Reports,* 2008–2011; Asian Development Bank, *Asian Development Outlook 2011;* 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 2005 to 2010, based on real GDP expressed in constant national currency units, based on country-specific years. It is calculated by taking the nth 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, 2011.* Secondary sources are World Bank, *World Development Indicators Online 2011,* and Asian Development Bank, *Asian Development Outlook 2011.*

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 2011;* International Monetary Fund, *World Economic Outlook Database, 2011;* U.S. Central Intelligence Agency, *The World Factbook 2011;* 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 2011;* Economist Intelligence Unit, *Country Reports,* 2008–2010; International Monetary Fund, *Article IV Staff Reports,* 2008–2011; and a country's statistical agency.

Inflation: The annual percent change in consumer prices as measured for 2010 (or the most recent available year). The primary source for 2010 data is International Monetary Fund, *World Economic Outlook Database, 2011.* Secondary sources are Economist Intelligence Unit, *Country Reports,* 2008–2011; Asian Development Bank, *Asian Development Outlook 2011;* 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 2010 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 2011.*

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 2010 data are International Monetary Fund, *World Economic Outlook Database, 2011;* International Monetary Fund, *Article IV Staff Reports,* 2008–2011; and a country's statistical agency. The data source for U.S. public debt is the 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, St. Kitts and Nevis, St. 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 186 member countries.

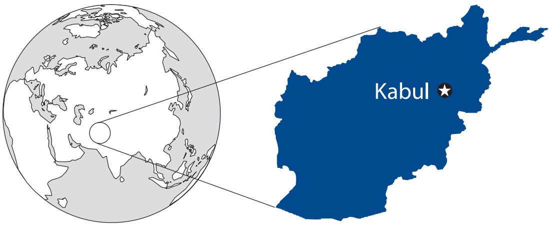
MERCOSUR: Customs union that includes Argentina, Brazil, Paraguay, Uruguay, and Venezuela.

OECD: Organisation for Economic Co-operation and Development, an international organization of developed countries, founded in 1948; now includes 32 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 November 2011, there were 153 member economies.

AFGHANISTAN



World Rank: Not Ranked   Regional Rank: Not Ranked

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.

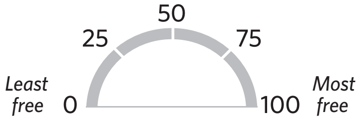
Political uncertainty and security challenges remain formidable. The rule of law continues to be fragile and uneven across the country. The inability to deliver even basic services on a reliable basis has eroded confidence in the government, and pervasive corruption exacerbates the loss of trust.

The Afghan economy's private sector is hampered by regulatory ineffectiveness that contradicts official policies aimed at fostering private-sector development. Construction used to be the main driver of the formal economy, but its contribution to economic growth has been declining in recent years. Opium production surged over 60 percent in 2011, erasing much of the progress in diversification from eradication measures since 2007.

BACKGROUND: After an American-led coalition ousted the Taliban government in 2001, a U.N.-sponsored conference established a framework that led to a new constitution and elections for a president in 2004 and parliament in 2005. President Hamid Karzai was re-elected in 2009 after his chief rival, Dr. Abdullah Abdullah, declined to participate in the runoff elections, citing alleged vote-rigging in the first round of elections. Afghanistan is one of the world's poorest countries. GDP has grown significantly, largely as a result of foreign aid, but the economy remains hobbled by poor infrastructure, a Taliban-led insurgency, and endemic corruption. In 2010, the largest private bank nearly collapsed after providing millions in unsecured loans to the country's elite; IMF and other assistance had to be suspended as a result. The agricultural sector still depends heavily on cultivation of the opium poppy, and illegal drug trafficking fuels violence and instability.

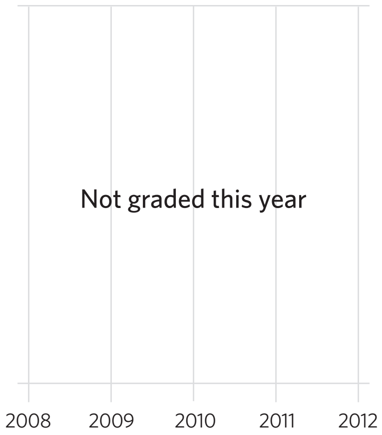
How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Economic Freedom Score

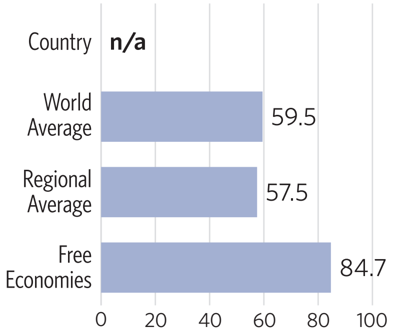


This economy is not graded

Freedom Trend



Country Comparisons



Quick Facts

Population: 30.2 million

GDP (PPP): $27.4 billion

8.2% growth in 2010

5-year compound annual growth 10.2%

$907 per capita

Unemployment: 35.0%

Inflation (CPI): 8.0%

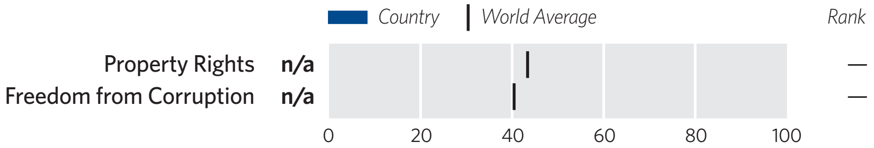
FDI Inflow: $75.7 million

Public Debt: n/a

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

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 20 percent. Driven by sales taxes, overall tax revenue accounts for about half of Afghanistan's total domestic revenue. Budget deficits have fallen to below 2 percent of GDP on average, and there was even a budget surplus in 2010. Government spending, however, has been on the rise, driven by higher security expenditures and other operating expenses.

REGULATORY EFFICIENCY

Processes for establishing businesses and obtaining necessary licenses have been relatively streamlined, but other structural barriers persist. The presence of a large informal economy continues to dampen development of a functioning labor market. A new labor law went into effect in mid-2009, but the government lacks the capacity to enforce labor regulations reliably. Inflation rose sharply in 2010, reversing a previous deflationary trend.

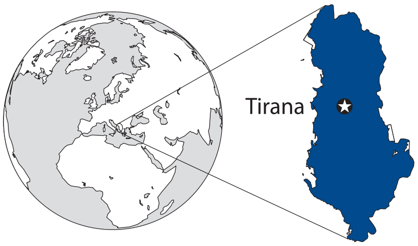
OPEN MARKETS

Trade's contribution to economic growth has been declining. Inefficient customs administration, inadequate infrastructure, and corruption raise the cost of trade. Growth in private investment has been slowed by security concerns and the financial system's weak capacity. Facing sudden withdrawals of deposits triggered by corruption allegations in 2010, the government bailed out Kabul Bank, which has ties 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: **57** Regional Rank: **26**

Albania's economic freedom score is 65.1, making its economy the 57th freest in the 2012 *Index*. Its level of economic freedom increased by 1.1 points during the past year, due primarily to improvements in freedom from corruption and business freedom. Albania is ranked 26th freest among the 43 countries in the Europe region, and its overall score is above the world average.

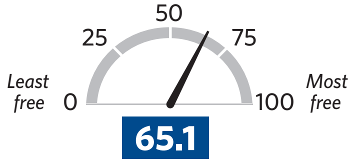
Albania's foundations of economic freedom are undermined by poor protection of property rights and pervasive corruption. The low property rights score is largely a result of political interference in the judiciary. The government has maintained a competitive tax environment with a flat rate of 10 percent. Expansionary government spending has resulted in budget deficits in recent years, but the deficits have been narrowing.

Significant diversification of the economic base has increased economic dynamism, and the country has experienced strong economic growth that has reduced poverty and unemployment rates. The efficiency of the regulatory system has been facilitated by a broad simplification of business procedures. Although foreign direct investment has increased in recent years, levels still remain among the lowest in the region.

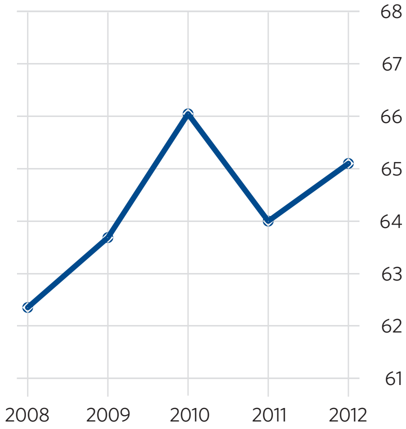
BACKGROUND: Albania remains one of Europe's poorest countries despite some economic and political reform since 1992, when nearly 50 years of Communist rule ended. The government has been pursuing greater integration into the Euro–Atlantic community. Albania signed a Stabilization and Association Agreement with the European Union in June 2006 as the first step toward EU membership and submitted a full application for membership in April 2009. In a step toward membership, it was granted entry into the visa liberalization regime for the Schengen zone in November 2010. In April 2009, Albania achieved full membership in NATO. 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 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

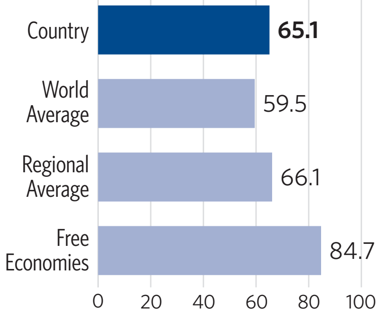
Economic Freedom Score



Freedom Trend



Country Comparisons



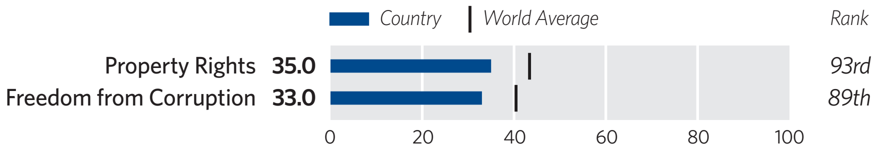
Quick Facts

Population: 3.2 million
GDP (PPP): $23.9 billion
3.5% growth in 2010
5-year compound annual growth 5.1%
$7,453 per capita
Unemployment: 13.5%
Inflation (CPI): 3.6%
FDI Inflow: $1.1 billion
Public Debt: 58.2% of GDP

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

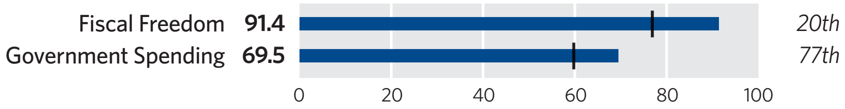
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



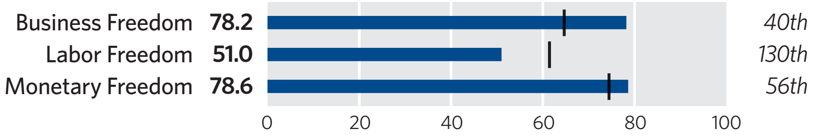
Albania still lacks a clear property rights system, particularly for land tenure. Security of land rights remains a problem in coastal areas where there is potential for tourism development. Although significant reforms of the legal system are underway, the courts are subject to political pressures and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

LIMITED GOVERNMENT



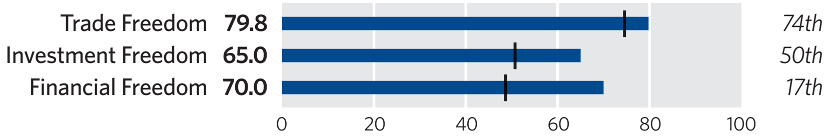
Personal and corporate tax rates are a flat 10 percent. Other taxes include a value-added tax (VAT), a property tax, and an inheritance tax, with the overall tax burden amounting to 25.7 percent of total domestic income. Government expenditures stand at 31.9 percent of GDP, and the budget deficit hovers around 4 percent of GDP. Total public debt, which has increased since 2007, is 58.2 percent of GDP.

REGULATORY EFFICIENCY



Business start-up procedures have been simplified. The minimum capital requirement for setting up a company has been reduced considerably, and new insolvency laws make closing a business straightforward. Labor demand in the formal economy, which has a high level of self-employment, is highly influenced by the public sector. Inflation has risen slightly due to higher commodity prices, higher excise duties, and increased health care costs.

OPEN MARKETS

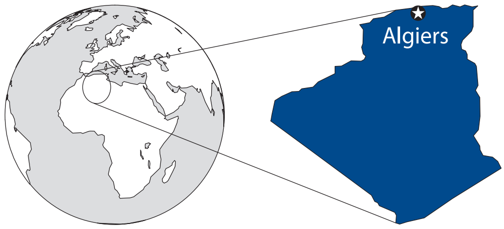


The trade weighted tariff rate is 5.1 percent. Licensing requirements are minimal, and the government does not impose export taxes, but inadequate trade capacity and administrative bureaucracy delay trade and increase costs. Foreign and domestic firms are treated equally under the law, but inefficient bureaucracy discourages dynamic investment. Most banks are foreign-owned, and the banking system has benefited from more competition.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.7	Business Freedom	+11.1	Trade Freedom	0
Freedom from Corruption	+1.0	Government Spending	+0.8	Labor Freedom	+0.6	Investment Freedom	0
				Monetary Freedom	-1.3	Financial Freedom	0

ALGERIA



World Rank: **140** Regional Rank: **15**

Algeria's economic freedom score is 51, making its economy the 140th freest in the 2012 *Index*. Its overall score is 1.4 points lower than last year due to worsened government spending and business freedom scores. Algeria is ranked 15th among the 17 countries in the Middle East and North Africa region, and its score remains lower than both the regional and world averages.

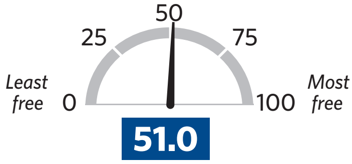
The foundations of economic freedom are neither well established nor strongly protected in Algeria. The judiciary is vulnerable to political interference and corruption, and the protection of property rights remains weak, undermining sustainable economic development. Despite some progress, the government still faces challenges in improving fiscal governance and modernizing budget management.

Structural reforms to diversify the economic base have achieved only marginal success. Overall regulatory efficiency continues to be undermined by years of ineffective reform. Due to ongoing political uncertainty and a negative attitude toward foreign investment, policies to promote or sustain open markets have been neglected or even reversed. In light of social unrest in early 2011, several emergency fiscal measures, including temporary suspension of some taxes, were introduced.

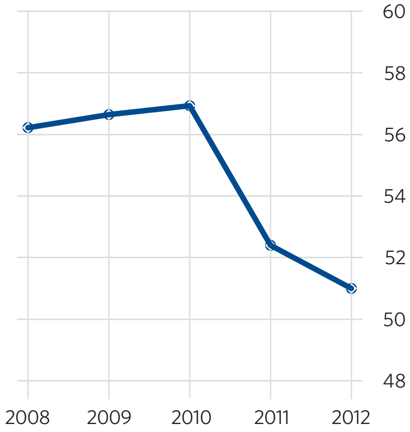
BACKGROUND: A peace accord in 1999 ended years of violent conflict between Islamist militants and the government. President Abdelaziz Bouteflika, who came to power that year with military backing, was elected to a third term in 2009 in an election criticized for irregularities and boycotted by some parties. Despite recent promises of political reform, many problems persist. Economic development has been hampered by the socialist policies adopted after Algeria gained its independence from France in 1962. 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 and generate jobs. Its push to attract foreign and domestic private investment in non-energy sectors has done little to reduce high unemployment.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

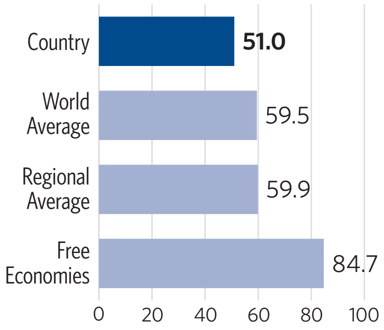
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

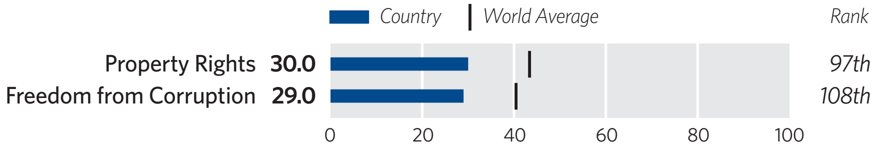
Population: 36.1 million
GDP (PPP): $251.1 billion
3.3% growth in 2010
5-year compound annual growth 2.6%
$6,950 per capita
Unemployment: 9.9%
Inflation (CPI): 4.3%
FDI Inflow: $2.3 billion
Public Debt: 10.4% of GDP

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

ALGERIA (continued)

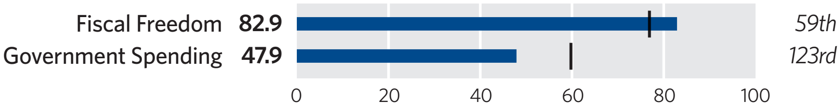
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



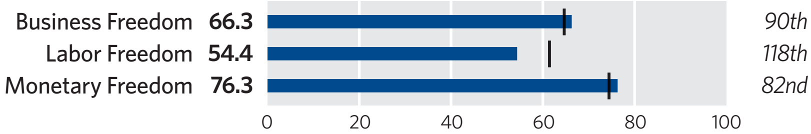
The constitution provides for an independent judiciary, but the legal system is inefficient, and the executive branch influences judicial actions. Implementation of legislation protecting copyright and related rights, trademarks, patents, and integrated circuits is inconsistent, and enforcement remains spotty. Despite some progress, the government's effort to root out corruption in the customs services remains ongoing.

LIMITED GOVERNMENT



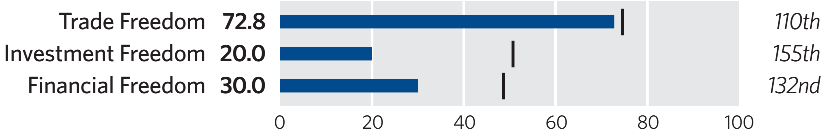
The top income tax rate is 35 percent. The top corporate tax rate is 25 percent for the service sector, though production and tourism are subject to a 19 percent rate. Other major taxes include a value-added tax (VAT), with the overall tax burden amounting to 11.1 percent of total domestic income. Public debt hovers around 10 percent of the economy, but government spending has swelled to 41.7 percent of GDP, with the budget balance turning to deficit.

REGULATORY EFFICIENCY



Recent reforms include new regulations that streamline the process for licenses required in conducting business. However, an inefficient entrepreneurial environment and rigid labor market impede broader economic development and job creation. With over 70 percent of the unemployed younger than 30, youth unemployment remains persistently high. The government uses price ceilings, tariffs, and redistribution schemes to control prices.

OPEN MARKETS

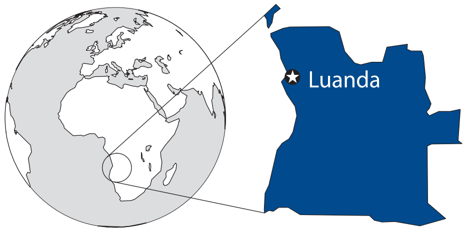


The trade weighted tariff rate is 8.6 percent, with overall trade activity hampered by numerous non-tariff barriers. Algeria places many restrictions on foreign investment. A recently implemented investment law stipulates that a majority share of new foreign investments must be domestically owned. The level of financial intermediation through banks remains low, and about 16 percent of loans are categorized as non-performing.

Score Changes

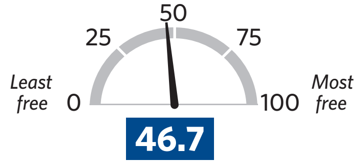
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.6	Business Freedom	-3.1	Trade Freedom	0
Freedom from Corruption	+1.0	Government Spending	-14.5	Labor Freedom	+1.5	Investment Freedom	0
				Monetary Freedom	+0.9	Financial Freedom	0

ANGOLA



World Rank: **160** Regional Rank: **38**

Economic Freedom Score



Angola's economic freedom score is 46.7, making its economy the 160th freest in the 2012 *Index*. Its overall score has improved by 0.5 point, primarily because of slightly better performance in government spending, business freedom, and labor freedom. Angola is ranked 38th out of 46 countries in the Sub-Saharan Africa region, and its score remains far below world and regional averages.

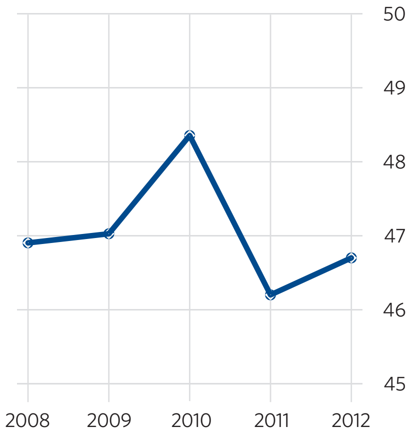
Pervasive corruption and a lack of judicial independence from political interference continue to undermine the foundations of Angola's economic freedom. The government, highly dependent on oil and diamond revenues, plays a dominant role in the economy that undermines efficiency. Monopolies and quasi-monopolies are common in the leading sectors.

Angola gained notably in business freedom this year, achieving one of the largest improvements in that category in the 2012 *Index*. However, the overall regulatory environment remains constrained by a lack of commitment to policies that support open markets. Tariff and non-tariff barriers, coupled with burdensome investment regulations, hamper development of a dynamic private sector and diversification of the country's economic base.

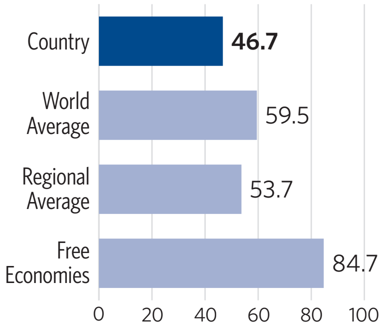
BACKGROUND: Angola is still recovering from a 27-year civil war that ended in 2002. President José Eduardo dos Santos of the Popular Movement for the Liberation of Angola (MPLA) has been in power since 1979. A new constitution adopted in February 2010 eliminated executive elections and made the prime minister a vice president under presidential authority; the president will be selected by the party that wins the parliamentary elections. Angola has extensive oil and gas resources, diamonds, hydroelectric potential, and rich agricultural land, but many Angolans remain poor and dependent on subsistence agriculture. The recent decline in international oil prices has depressed economic growth and strained the budget. Corruption and public-sector mismanagement are pervasive, particularly in the oil sector, which accounts for approximately 85 percent of GDP, 95 percent of exports, and 80 percent of government revenue.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



Quick Facts

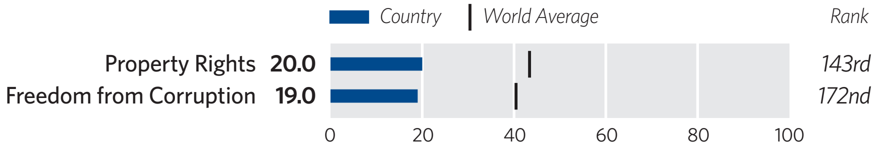
Population: 19.1 million
GDP (PPP): $107.3 billion
1.6% growth in 2010
5-year compound annual growth 11.9%
$5,632 per capita
Unemployment: n/a
Inflation (CPI): 14.5%
FDI Inflow: $9.9 billion
Public Debt: 35% of GDP

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

ANGOLA (continued)

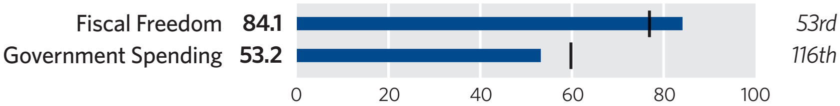
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



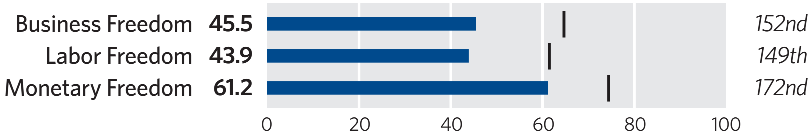
Recourse to the judicial system is discouraged by time-consuming procedures and the appearance of extensive executive influence on outcomes. Legal fees and property registration can be prohibitively expensive, and the overall protection of property rights is weak. Corruption is widespread among government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

LIMITED GOVERNMENT



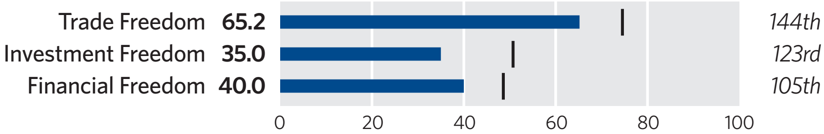
The top income tax rate is 17 percent. The top corporate tax rate is 35 percent, though the mining and oil industries are subject to rates as high as 50 percent. Other taxes include a fuel tax and a consumption tax, with the overall tax burden amounting to 9 percent of total domestic income. Government spending is about 40 percent of GDP. Budget surpluses are the norm because of oil revenue, and public debt is moderate at 35 percent of GDP.

REGULATORY EFFICIENCY



Despite the recent implementation of more streamlined business start-up procedures, burdensome regulations continue to hinder private-sector development. Overall, the regulatory system lacks transparency and clarity, and regulations are enforced inconsistently. The formal labor market is underdeveloped. Key sectors remain government-owned, and price controls are pervasive in many sectors, including fuel and electricity.

OPEN MARKETS

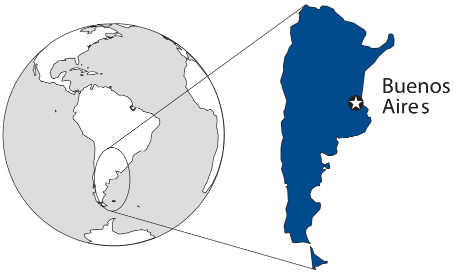


Tariff and non-tariff barriers to trade persist. In 2010, a new government procurement law increased local content requirements. Foreign investment has been hindered by requirements for government approval in many industries. Only about 10 percent of the population has access to banking. Development of capital markets has not progressed. After years of delay, the opening of the Luanda Stock Exchange has been further postponed.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.4	Business Freedom	+4.1	Trade Freedom	-5.0
Freedom from Corruption	0	Government Spending	+5.1	Labor Freedom	+1.6	Investment Freedom	0
				Monetary Freedom	-0.6	Financial Freedom	0

ARGENTINA



World Rank: 158 **Regional Rank: 27**

Argentina's economic freedom score is 48, making its economy the 158th freest in the 2012 *Index*. Its overall score has decreased by 3.7 points, the third worst decline in this year's *Index*. With lower scores on six of the 10 economic freedoms, Argentina now ranks only 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.

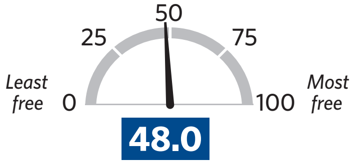
Argentina's foundations of economic freedom have weakened in light of extensive government intrusion into free markets. Aggravated by corruption and political interference, the lack of judicial independence has severely eroded limits on government. Public spending by all levels of government now exceeds one-third of total domestic output.

Regulatory encroachment on private businesses has continued to increase, undermining previous years' structural reforms. Populist spending measures and price controls distort markets and undermine productivity growth, and the financial sector remains hobbled by government interference. Fading confidence in the government's determination to promote or even sustain open markets has discouraged entrepreneurship and dynamic investment within the private sector.

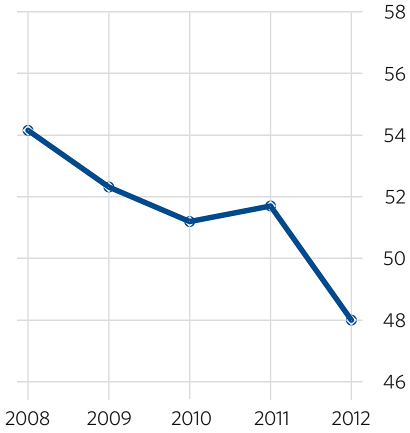
BACKGROUND: During the presidencies of the late Néstor Kirchner (2003–2007) and his widow Cristina Fernández de Kirchner, who succeeded him and was re-elected to a second four-year term in October 2011, rule of law and market principles have been weakened dramatically and corruption has increased. The Kirchners have actively sought closer ties to such regional strongmen as Venezuela's Hugo Chávez and Cuba's Fidel Castro. The government's seizure in 2008 of nearly $30 billion in private pension funds, ongoing sovereign debt default, and other actions to expand its role in the economy have adversely affected private investment. Although Argentina's economy has benefited from booming commodity prices, President Kirchner's pursuit of expansionary fiscal and monetary policies has fueled already high inflation, which appears to have been underreported in official statistics.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

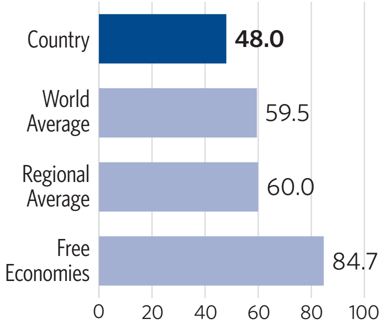
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

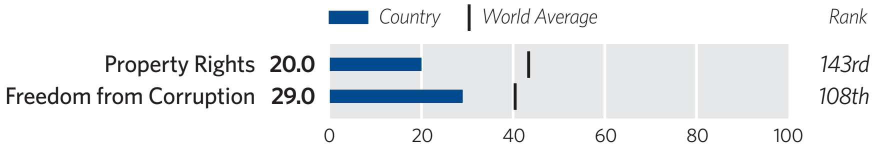
Population: 40.5 million
GDP (PPP): $642.4 billion
9.2% growth in 2010
5-year compound annual growth 6.7%
$15,854 per capita
Unemployment: 7.9%
Inflation (CPI): 10.5%
FDI Inflow: $6.3 billion
Public Debt: 49.1% of GDP

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

ARGENTINA (continued)

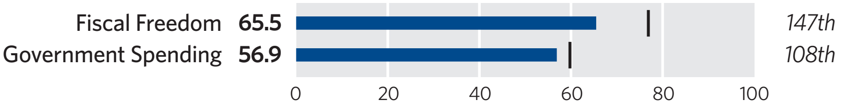
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



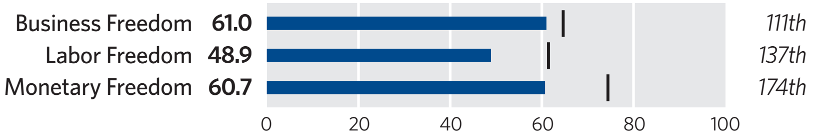
The executive branch influences Argentina's judiciary. The courts are slow, inefficient, and vulnerable to corruption and political interference. Patent protection is problematic, and pirated copies of copyrighted products are widely available. Government manipulation of inflation statistics has caused foreign and domestic bondholders to lose considerable amounts in interest payments.

LIMITED GOVERNMENT



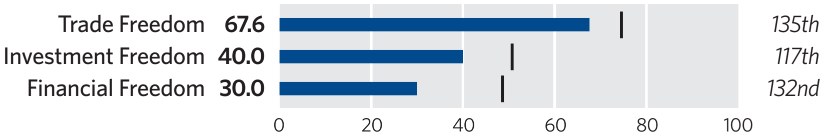
In the absence of major tax reforms, the top individual and corporate tax rates remain at 35 percent. Other taxes include a value-added tax (VAT), a wealth tax, and a tax on financial transactions, with the overall tax burden now at 31.6 percent of total domestic income. Government spending has risen to 37.9 percent of GDP, and the budget deficit hovers around 2 percent of GDP. Public debt amounts to about 50 percent of total domestic output.

REGULATORY EFFICIENCY



The government has increased regulatory interference, undermining efficiency and productivity growth. Establishing a business takes almost twice the world average of seven procedures, and getting necessary permits is costly. Reforms of the rigid labor market have long been stalled. The government regulates prices of electricity, water, and retail-level gas distribution, pressuring companies to fix prices and wages.

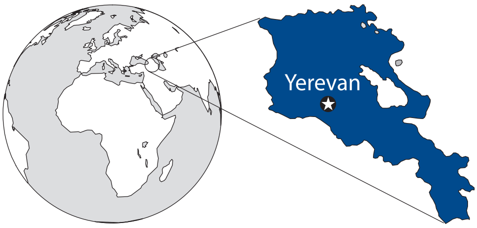
OPEN MARKETS



The trade weighted average tariff rate is 6.2 percent, with more non-tariff barriers imposed in the form of import and export taxes and fees. New import restrictions were imposed on 200 goods in 2011. Hostility toward foreign investment persists, and the government exerts heavy control in the financial sector. Through an emergency decree to bypass Congress, the government increased its voting rights in partially state-owned companies in 2011.

Score Changes

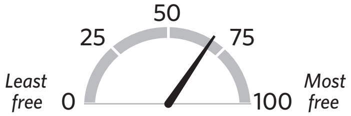
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-3.2	Business Freedom	-1.4	Trade Freedom	-1.9
Freedom from Corruption	0	Government Spending	-24.8	Labor Freedom	+1.0	Investment Freedom	-5.0
				Monetary Freedom	-2.5	Financial Freedom	0



ARMENIA

World Rank: 39 Regional Rank: **19**

Economic Freedom Score



68.8

Armenia's economic freedom score is 68.8, making its economy the 39th freest in the 2012 *Index*. Its overall score has decreased by 0.9 point from last year, reflecting worsened scores in freedom from corruption, government spending, and monetary freedom. Armenia is ranked 19th freest among the 43 countries in the Europe region, and its score puts it above the world and regional averages.

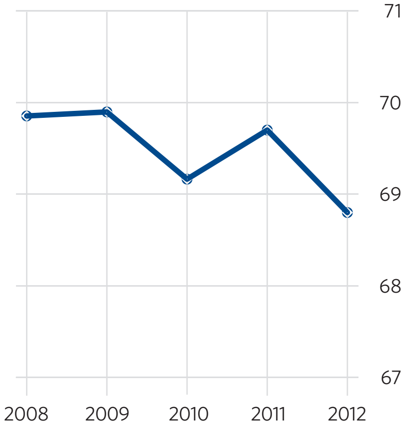
Following considerable liberalization and economic transformation over the past decade, Armenia demonstrated a moderate degree of resilience during the recent global economic slowdown. The overall regulatory framework remains efficient, facilitated by streamlined business procedures and competitive tax rates. Policies that support open markets are firmly in place, making the country's investment and trade regimes competitive.

Although the country performs relatively well in many of the four pillars of economic freedom, the foundations of economic freedom are not strongly sustained by a strong and independent judiciary. Lingering corruption further undermines opportunities for more vibrant and lasting economic development. Government spending has been expansionary in recent years, eroding limits on government.

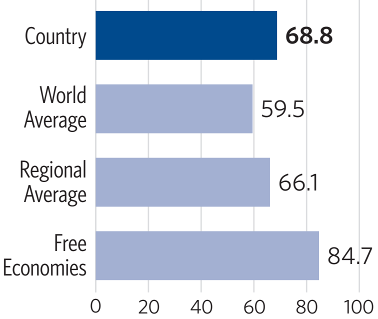
BACKGROUND: Armenia achieved independence from the Soviet Union in 1991. Its 21-year dispute with Azerbaijan over Nagorno–Karabakh remains unresolved. A cease-fire has been in effect since 1994, but more than 550,000 Azeris from the disputed region are still living as refugees in Azerbaijan, and borders with Azerbaijan and Turkey remain closed. Two protocols aimed at reopening borders and re-establishing diplomatic links between Armenia and Turkey were signed in 2009 but have not been ratified. Armenia's economy relies on manufacturing, services, remittances, and agriculture. The economy has begun to recover from the 2009 downturn, and GDP expanded modestly in 2010. The government, which relies heavily on loans from the World Bank, the International Monetary Fund, the Asian Development Bank, and Russia, is running a large budget deficit.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



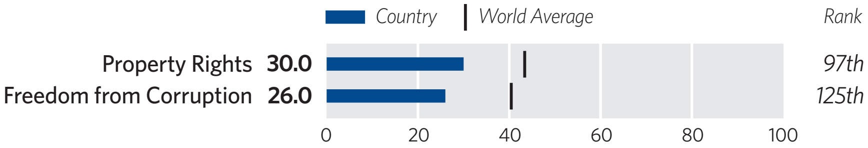
Quick Facts

Population: 3.3 million
GDP (PPP): $16.9 billion
2.6% growth in 2010
5-year compound annual growth 3.9%
$5,110 per capita
Unemployment: 7.1%
Inflation (CPI): 8.2%
FDI Inflow: $577.3 million
Public Debt: 39.2% of GDP

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

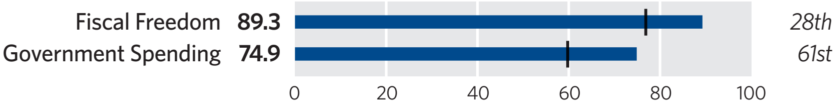
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



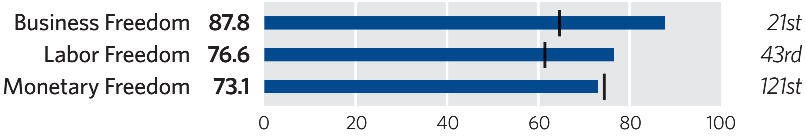
Armenia lacks a dependable rule of law. Its scores for property rights and freedom from corruption are well below world averages. The judicial system is still recovering from underdevelopment and corruption—legacies of the Soviet era that substantially impede the enforcement of contracts. The country's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

LIMITED GOVERNMENT



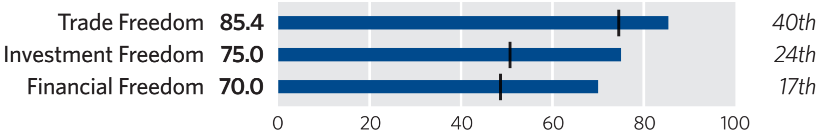
The top income and corporate tax rates are 20 percent. Other taxes include a value-added tax (VAT) and excise taxes, with the overall tax burden amounting to 16.4 percent of total domestic income. Tax evasion has been a growing concern. Government spending has increased to 28.9 percent of total domestic output, resulting in chronic budget deficits of around 5 percent of GDP and higher public debt amounting to 40 percent of GDP.

REGULATORY EFFICIENCY



A number of business reforms have been implemented in recent years. The minimum capital requirement for establishing a business has been eliminated, licensing requirements have been reduced, and the bankruptcy procedure has been modernized. The non-salary cost of labor is moderate, but the informal labor market is sizable. Government subsidies distort prices in some sectors such as public transportation, electricity, and gas.

OPEN MARKETS

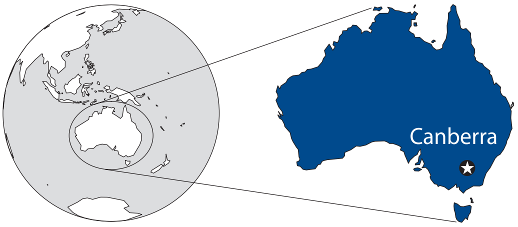


The trade weighted tariff rate is 2.3 percent, with inefficient administration raising the cost of trade. Foreign and domestic investors are treated equally and have the same right to establish businesses in nearly all sectors. The state no longer has a stake in any bank. However, the banking sector,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

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.1	Business Freedom	+5.4	Trade Freedom	-0.1
Freedom from Corruption	-1.0	Government Spending	-10.8	Labor Freedom	+0.7	Investment Freedom	0
				Monetary Freedom	-2.9	Financial Freedom	0

AUSTRALIA



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

Australia's economic freedom score is 83.1, making its economy the 3rd freest in the 2012 *Index*. Its overall score is 0.6 point higher than last year, reflecting better scores in trade freedom, government spending, and fiscal freedom. Australia is ranked 3rd out of 41 countries in the Asia–Pacific region, and its score is well above the regional and world averages.

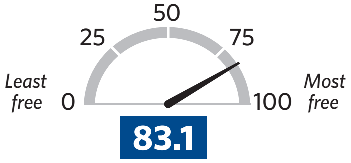
The foundations of economic freedom in Australia are strong and well supported by excellent protection of property rights and an independent judiciary that enforces anti-corruption measures effectively. While many large advanced economies have been struggling with growing debt burdens that result from years of heavy government spending, Australia's gross public debt stands at less than 25 percent of GDP. Budget deficits have been under control owing to prudent public finance management that recognizes limits on government.

Australia's modern and competitive economy benefits from the country's strong commitment to open-market policies that facilitate global trade and investment. Transparent and efficient regulations are applied evenly in most cases, encouraging dynamic entrepreneurial activity in the private sector.

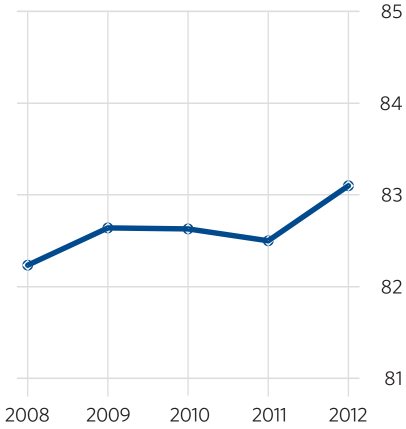
BACKGROUND: Since the early 1980s, successive Labor and Liberal governments have deregulated financial and labor markets and reduced trade barriers. As a result, Australia has enjoyed economic expansion for almost two decades and has come through the global recession relatively unscathed. However, stimulus spending by the Labor government has led the country into deficit, and recent passage of a carbon tax raises doubts about the future direction of economic policy. Australia is one of the Asia–Pacific's richest countries. With a population of about 22 million and a land mass of 3 million square miles, it 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. Australia is an internationally competitive producer of services, technologies, and high-value-added manufactured goods. Exports remain heavily focused on mining and agriculture.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

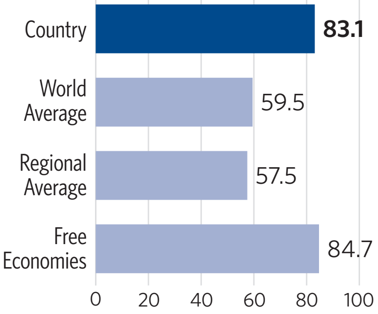
Economic Freedom Score



Freedom Trend



Country Comparisons



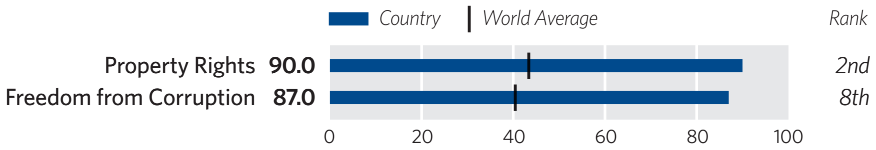
Quick Facts

Population: 22.2 million
GDP (PPP): $882.4 billion
2.7% growth in 2010
5-year compound annual growth 2.8%
$39,699 per capita
Unemployment: 5.2%
Inflation (CPI): 2.8%
FDI Inflow: $32.4 billion
Public Debt: 20.5% of GDP

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

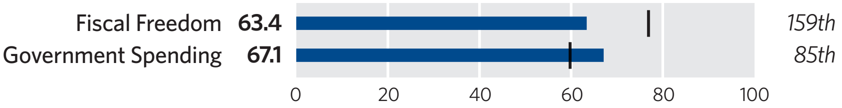
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



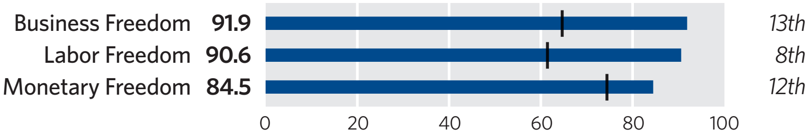
Australia's judicial system operates independently and impartially, with consistent application of laws. Property rights and contract enforcement are very secure, and expropriation is highly unusual. Protection of intellectual property rights is consistent with world standards. Effective anti-corruption measures discourage bribery of public officials and uphold clean government.

LIMITED GOVERNMENT



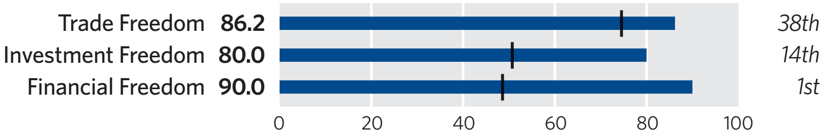
The top income tax rate is 45 percent, and the corporate tax rate is a flat 30 percent. Other taxes include a goods and services tax, with the overall tax burden amounting to about 30 percent of total domestic income. Fiscal adjustments have been relatively swift and effective, and control of spending has been good overall. Compared to other advanced economies, Australia's public debt is quite low at 20.5 percent of GDP.

REGULATORY EFFICIENCY



Australia's regulatory environment is one of the most reliable, transparent, and efficient in the world, offering a high degree of certainty for business planning. The labor market remains flexible, with a relatively low unemployment rate of around 5 percent. The government can impose price controls, but competition reforms are reducing the range of goods that are subject to controls. Inflation has been modest in recent years.

OPEN MARKETS

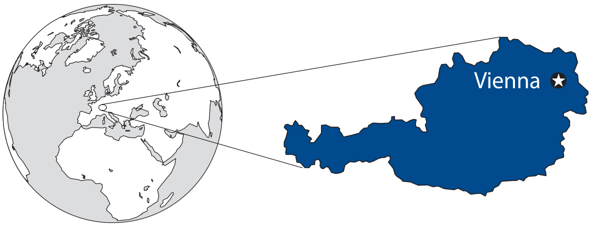


The trade weighted average tariff rate is 1.9 percent. Although a range of non-tariff restrictions are in place, Australia strongly backs the dismantlement of trade restrictions. Foreign and domestic investors receive equal treatment, but foreign investments above a certain threshold may be screened. The well-developed financial sector is highly competitive and sound, with all banks privately owned.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+2.1	Business Freedom	+1.8	Trade Freedom	+1.8
Freedom from Corruption	0	Government Spending	+2.4	Labor Freedom	–1.6	Investment Freedom	0
				Monetary Freedom	–0.5	Financial Freedom	0

AUSTRIA



World Rank: **28** Regional Rank: **14**

Austria's economic freedom score is 70.3, making its economy the 28th freest in the 2012 *Index*. Its score is 1.6 points worse than last year due to worsened scores for government spending and business 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.

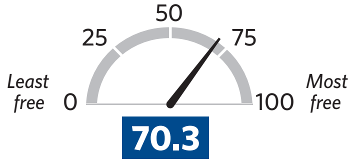
Despite considerable strains during the recent economic crisis, Austria has been able to maintain much of its economic stability and dynamism. Continued strong protection of the rule of law and fundamental foundations of economic freedom is reflected in Austria's high scores in property rights and freedom from corruption. Institutional strength, however, is not matched by a commitment to limited government. Public spending has been expansionary, generating great budgetary pressure.

Counterbalancing excessive government spending and weak fiscal freedom, the transparent and competitive business environment has been effective in promoting a thriving entrepreneurial private sector. The banking system has regained much of its characteristic efficiency and competitiveness after being roiled by the global economic crisis.

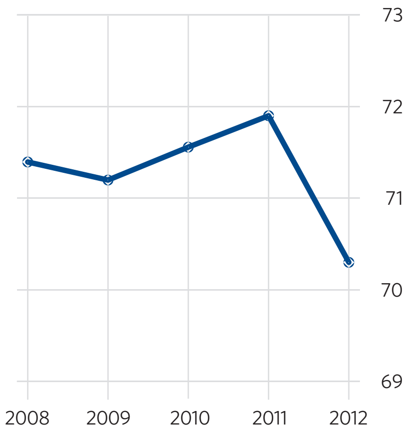
BACKGROUND: Austria joined the European Union in 1995, and from 2000–2007, People's Party Chancellor Wolfgang Schüssel accelerated market reform and significantly limited government intervention in the economy. After the September 2008 parliamentary elections, Social Democrat Werner Faymann was able to form a center-right coalition government with the People's Party, and in April 2010, Heinz Fischer, also a Social Democrat, was re-elected for a second term as president. While EU member states account for more than 80 percent of Austria's trade, the United States is Austria's sixth-largest trading partner. The government has gradually relinquished control of formerly nationalized oil, gas, steel, and engineering companies and has deregulated telecommunications and electricity. Austria's economy has large services and industrial sectors and a small but highly developed agricultural industry.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

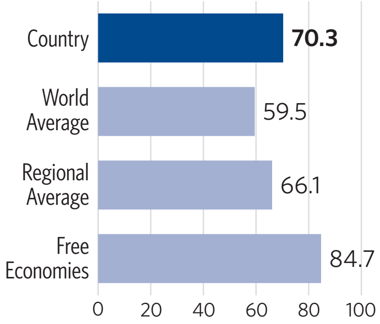
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

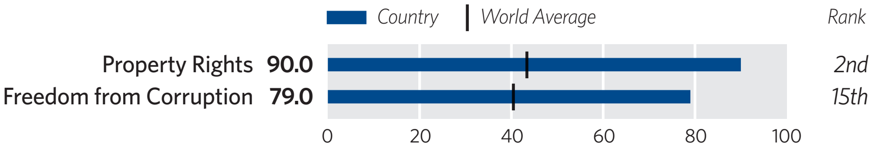
Population: 8.4 million
GDP (PPP): $332 billion
2.0% growth in 2010
5-year compound annual growth 1.5%
$39,634 per capita
Unemployment: 4.4%
Inflation (CPI): 1.7%
FDI Inflow: $6.6 billion
Public Debt: 72.2% of GDP

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

AUSTRIA (continued)

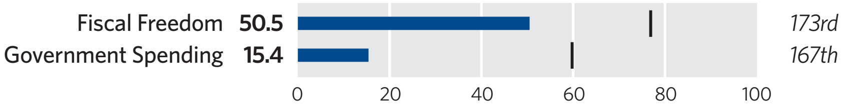
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



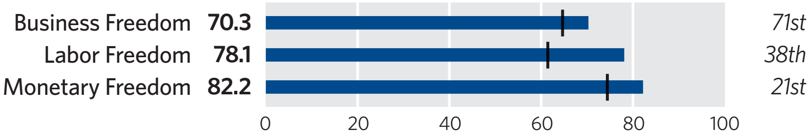
The rule of law is well respected, and the judiciary is independent. Contractual agreements are enforced effectively, and the protection of intellectual property is strong. Corruption has not been a serious cause of concern. Maintaining a high degree of transparency is a key part of Austria's institutional strength, and revamped criminal regulations against corruption have not weakened effective enforcement of rules against bribery.

LIMITED GOVERNMENT



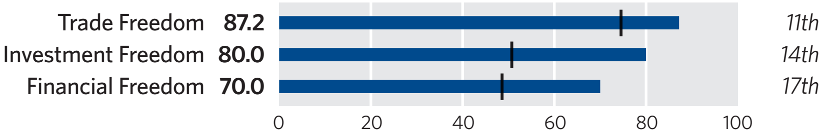
The top income tax rate is 50 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a tax on real estate transfers, with the overall tax burden amounting to 42.8 percent of total domestic income. Government spending has risen to 53.1 percent of total domestic 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



Austria's overall regulatory framework has been marked by transparency and efficiency, encouraging business innovation and productivity growth. Nonetheless, the absence of major regulatory reforms has eroded regulatory competitiveness. There is no nationally mandated minimum wage, but the cost of fringe benefits is among the highest in the world. Average inflation has been a low 1.5 percent in the most recent three years.

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 1.4 percent. However, myriad non-tariff barriers increase the cost of trade. With an efficient investment regime in place, there are no controls on currency transfers, access to foreign exchange, or repatriation of profits. The modern and competitive banking sector provides a wide range of financial services.

Score Changes

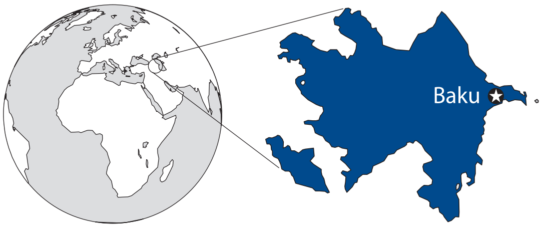
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.2
Government Spending	-12.6

REGULATORY EFFICIENCY	
Business Freedom	-2.5
Labor Freedom	-0.1
Monetary Freedom	-0.7

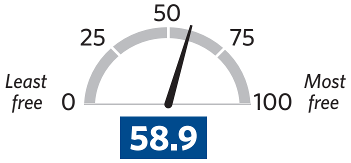
OPEN MARKETS	
Trade Freedom	-0.4
Investment Freedom	0
Financial Freedom	0

AZERBAIJAN



World Rank: **91** Regional Rank: **15**

Economic Freedom Score



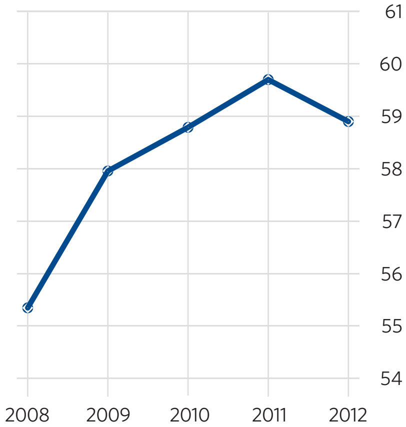
Azerbaijan's economic freedom score is 58.9, making its economy the 91st freest in the 2012 *Index*. Its overall score is 0.8 point lower than last year, reflecting worsened performance in government spending and business freedom. Azerbaijan is ranked 15th out of 41 countries in the Asia–Pacific region, and its overall score is above the regional average.

Wide-ranging reforms have resulted in some progress in regulatory efficiency and economic diversification, improving Azerbaijan's overall macroeconomic and entrepreneurial environments. Openness to global trade and investment, coupled with recent tax reforms, has aided the country's transition to a more market-based system.

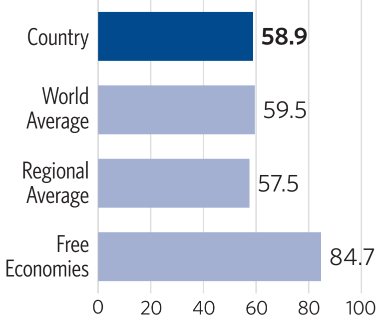
Nonetheless, substantial challenges remain, particularly in implementing deeper institutional and systemic reforms that are critical to strengthening the foundations of economic freedom. Property rights and freedom from corruption remain weak, and government interference and control hurt overall monetary stability and foreign investment. The overall regulatory reform process has slowed, eroding some of the gains from earlier years.

BACKGROUND: President Ilham Aliyev's New Azerbaijan Party won the November 2010 parliamentary elections, but questions of electoral fairness and legitimacy persist. A constitutional amendment to abolish presidential term limits, passed by national referendum in 2009, will allow Aliyev to seek a third term in 2013. Restraints on the media have included suspension of some foreign radio broadcast licenses. In 2010, Azerbaijan resumed its World Trade Organization accession negotiations. Oil-rich Azerbaijan's dispute with Armenia over Nagorno–Karabakh has cost thousands of lives and a fifth of Azerbaijan's territory. Hoping to gain Russia's support, Baku has increased its gas exports to Russia by 2 billion cubic meters per year. Economic growth slowed in 2010, but expanded oil and gas production and increased private investment and consumption reflect growing investor confidence.

Freedom Trend



Country Comparisons



Quick Facts

Population: 9 million
GDP (PPP): $90.8 billion
5.0% growth in 2010
5-year compound annual growth 16.4%
$10,033 per capita
Unemployment: 0.9%
Inflation (CPI): 5.7%
FDI Inflow: $563.1 million
Public Debt: 10.8% of GDP

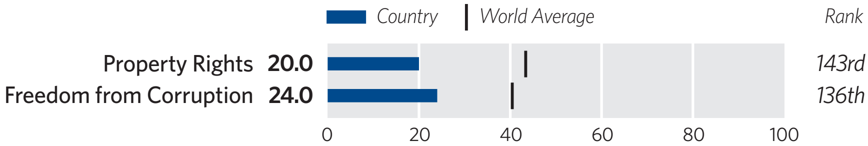
2010 data unless otherwise noted.
Data compiled as of September 2011.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

AZERBAIJAN (continued)

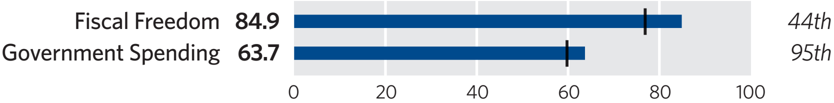
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



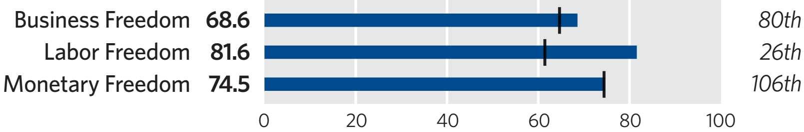
The judiciary is burdened by extensive non-transparent regulations and interference from the executive. Contract enforcement can be lax. Despite some progress, corruption continues to cause concern. The judiciary and police are susceptible to bribery, businesses abuse their relations with government to gain monopoly control of major industries, and arbitrary tax administration raises question of fairness and equitable treatment.

LIMITED GOVERNMENT



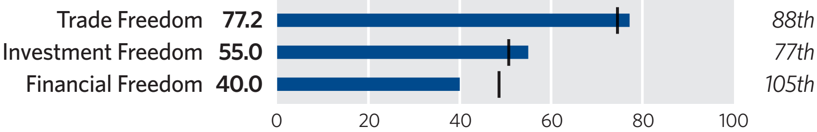
The top individual income tax rate is 30 percent, and the top corporate tax rate is 20 percent. Other taxes include a value-added tax (VAT) and a property tax, with the total tax burden amounting to 14.4 percent of total domestic income. Government spending has grown to about one-third of total domestic output. Large revenues from the energy sector have enabled budget surpluses, and public debt is quite low at 10.8 percent of GDP.

REGULATORY EFFICIENCY



The business start-up process has been streamlined, but licensing requirements remain time-consuming and bureaucratic, taking twice the world average of 15 procedures and over 200 days. Relatively flexible employment regulations have recently been implemented, but enforcement has been uneven in practice. Price controls are in place for most energy products, and inflation has come down to around 6 percent from 20 percent in 2008.

OPEN MARKETS

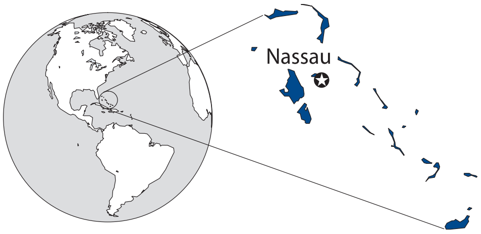


The trade weighted tariff rate is 3.9 percent, with non-tariff barriers such as arbitrary customs administration and import controls raising the cost of trade. Foreign investment is allowed in most sectors, but lack of transparency and bureaucratic controls hinder dynamic investment growth. Private banks have grown faster than state-owned banks, but the availability of long-term financial instruments for small and medium-sized enterprises is still limited.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.0	Business Freedom	–4.3	Trade Freedom	+0.1
Freedom from Corruption	+1.0	Government Spending	–7.3	Labor Freedom	+0.5	Investment Freedom	0
				Monetary Freedom	+1.9	Financial Freedom	0

THE BAHAMAS



World Rank: **46** Regional Rank: **9**

The Bahamas' economic freedom score is 68, making its economy the 46th freest in the 2012 *Index*. Its overall score is unchanged from last year, with gains in labor freedom and monetary freedom offset by worsened conditions for business freedom and government spending. The Bahamas is ranked 9th out of 29 countries in the South and Central America/Caribbean region, and its overall score is higher than the regional and world averages.

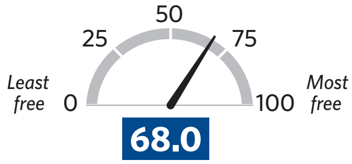
Relatively sound macroeconomic management has contributed to steady economic growth, but the Bahamas' overall economic freedom has been declining modestly. The economy dropped from the "mostly free" category in 2010. There is little momentum for reform, and the country appears to be experiencing a gradual loss of competitiveness vis-à-vis those that are moving more rapidly to expand economic opportunity.

The foundations of economic freedom remain relatively sound, with freedom from corruption and property rights scoring above world averages. However, further improvements in these two areas will be critical to improving institutional efficiency. The country's overall regulatory system is conducive to entrepreneurial activity, and there are no individual or corporate income taxes, but economic dynamism remains constrained by relatively closed markets.

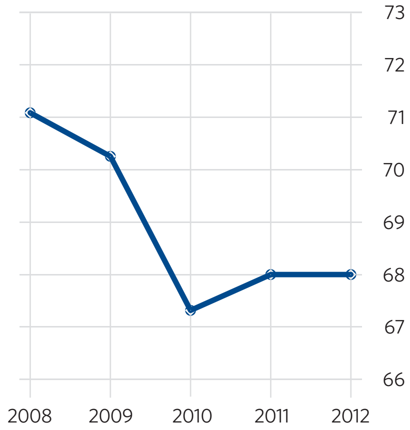
BACKGROUND: The Bahamas is a British-style parliamentary democracy with two main parties: the Free National Movement (led since 2007 by Prime Minister Hubert Ingraham) and the Progressive Liberal Party. It is also one of the Caribbean's most prosperous nations. Tourism, which generates about half of all jobs and accounts for more than 60 percent of GDP, has rebounded slightly after dropping significantly during the 2008–2009 global economic recession, but there have been no substantial increases in sector investments. Financial and business services profits, which account for more than one-third of GDP, have also shrunk. 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

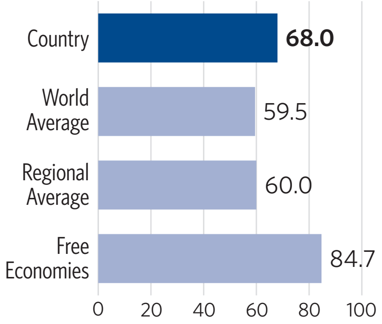
Economic Freedom Score



Freedom Trend



Country Comparisons



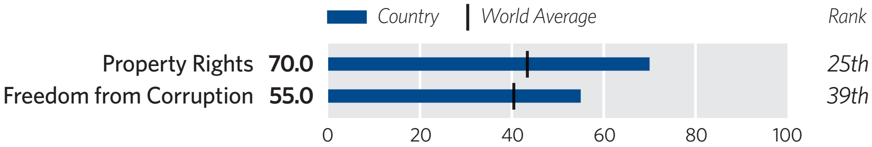
Quick Facts

Population: 0.3 million
GDP (PPP): $8.9 billion
0.5% growth in 2010
5-year compound annual growth −0.1%
$25,895 per capita
Unemployment: 13.7%
Inflation (CPI): 1.7%
FDI Inflow: $976.9 million
Public Debt: 47.1% of GDP

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

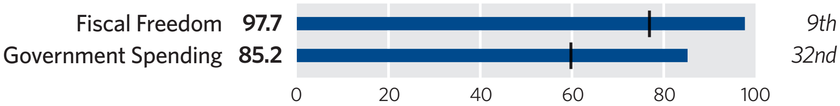
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



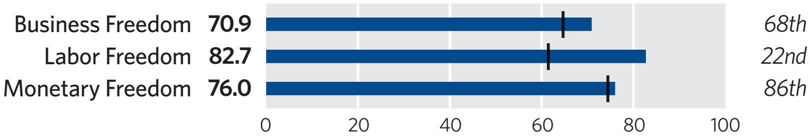
The judicial system, regarded as largely well-functioning, is independent and based on British common law. The government generally enforces laws prohibiting bribery and corruption among government officials. However, the judicial process tends to be very slow. Enforcement of intellectual property rights is weak, failing to rein in piracy and violations of copyright laws. Drug trafficking remains a serious problem.

LIMITED GOVERNMENT



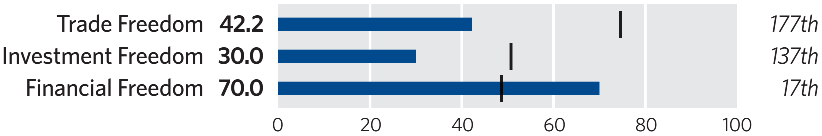
The Bahamas has one of the world's lowest tax burdens. The government imposes national insurance, property, and stamp taxes but no income tax, corporate income tax, capital gains tax, value-added tax (VAT), or wealth tax. Public debt has increased to 47 percent of total domestic output, an increase of about 10 percentage points since the recent global economic slowdown.

REGULATORY EFFICIENCY



The overall regulatory environment is relatively efficient, although no major reforms have been implemented in recent years. The labor market is relatively flexible, but enforcement of the existing labor codes remains ineffective. Inflation has been under control, but price control measures, with the government influencing domestic prices for such "breadbasket" items as medicines, gasoline, and petroleum gas, interfere with market adjustments.

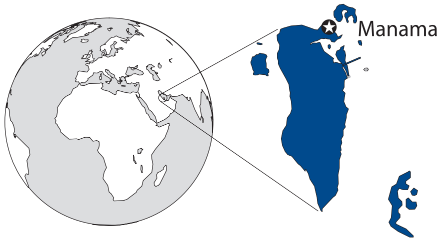
OPEN MARKETS



The poor trade regime remains one of the Bahamas' most cumbersome challenges. An abundance of tariff and non-tariff barriers distorts the market and is a significant burden for consumers. Intrusively bureaucratic approval processes hinder investment freedom and undermine development of a more vibrant private sector. Financial services are competitive, and domestic and offshore activities contribute around 15 percent of GDP.

Score Changes

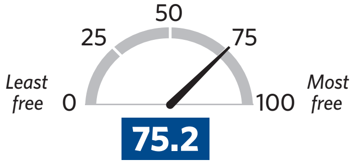
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.5	Business Freedom	-1.6	Trade Freedom	0
Freedom from Corruption	0	Government Spending	-1.7	Labor Freedom	+1.4	Investment Freedom	0
				Monetary Freedom	+1.4	Financial Freedom	0



BAHRAIN

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

Economic Freedom Score



Bahrain's economic freedom score is 75.2, making its economy the 12th freest in the 2012 *Index*. Its overall score is 2.5 points worse than last year due to score declines in six of the 10 economic freedoms, including freedom from corruption, property rights, and government spending. Bahrain is ranked 1st out of 17 countries in the Middle East/North Africa (MENA) region, and its economic freedom score is well above the world average.

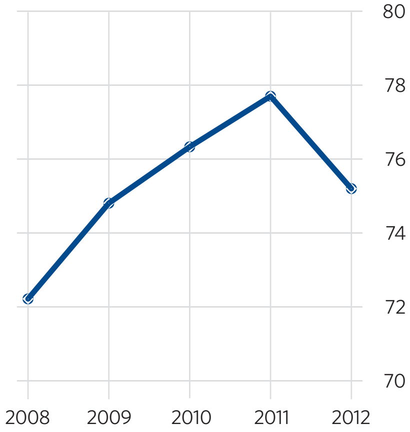
Bahrain has been undergoing a challenging transition to greater openness and transparency, more visibly since early 2011. Compared to many other countries, Bahrain performs quite well in many of the four pillars of economic freedom and represents the MENA region among the world's 20 freest economies. However, enhancing the foundations of economic freedom through improvements in property rights and corruption will be critical to ensuring success in the country's ongoing evolution.

Despite the challenging environment, Bahrain continues to be a financial hub for dynamic economic activity. The kingdom's openness to global commerce is sustained by its competitive and efficient regulatory environment. On the downside, higher public spending, driven mainly by social spending, risks eroding traditional fiscal restraint.

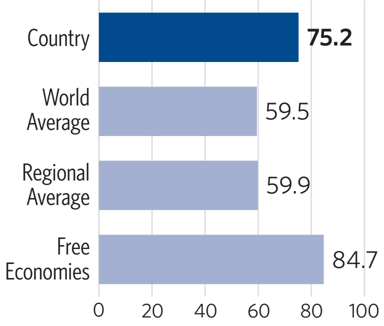
BACKGROUND: Bahrain gained its independence from Great Britain in 1971 and became a constitutional monarchy in 2002. In February 2011, Shia activists demanded a new constitution and greater political power. After modest government concessions and efforts at dialogue failed to stem the demonstrations, King Hamad declared an emergency and authorized a crackdown supported by security forces deployed by allies in the Gulf Cooperation Council. 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, a cosmopolitan outlook, and a free trade agreement with the U.S.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



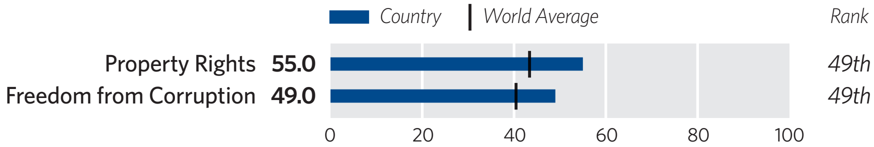
Quick Facts

Population: 1.1 million
GDP (PPP): $29.7 billion
4.1% growth in 2010
5-year compound annual growth 5.7%
$26,852 per capita
Unemployment: 15.0%
Inflation (CPI): 2.0%
FDI Inflow: $155.9 million
Public Debt: 32% of GDP

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

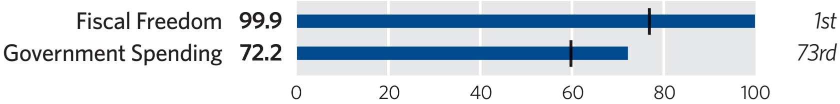
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



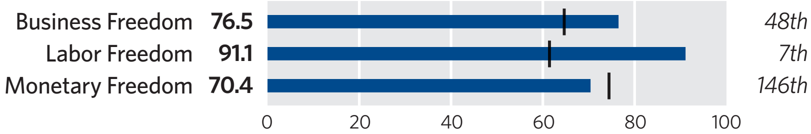
The king holds some decision-making authority within the legal system, but the judiciary is generally well regarded and unbiased. Expropriation, especially without compensation, is infrequent, and private property is secure. The trials of numerous people arrested after a government crackdown on pro-democracy protests have been held behind closed doors in "national safety courts," but martial law has been lifted.

LIMITED GOVERNMENT



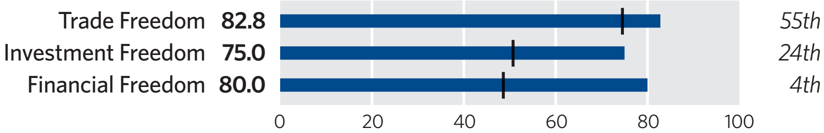
Bahrain imposes no taxes on personal income. Most companies are not subject to a corporate tax, but a 46 percent corporate tax is levied on oil companies. Other taxes include a small stamp duty and a new tax on property purchases, with overall tax revenue amounting to 4 percent of GDP. Government spending has been expansionary, reaching 30.4 percent of total domestic output. Public debt stands at 32 percent of GDP and has been rising.

REGULATORY EFFICIENCY



Bahrain's commercial law system is relatively straightforward, but the regulatory environment lacks coordination and efficient enforcement of regulations. A new Corporate Governance Code came into force in 2011, supplementing existing company laws. There is no nationally mandated minimum wage, but wages have increased, exceeding overall productivity growth. Proposals have been made to change Bahrain's costly subsidy system.

OPEN MARKETS

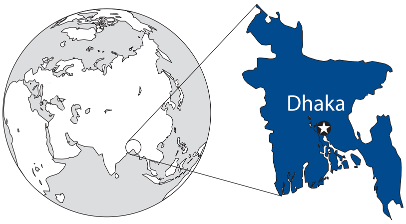


The trade weighted tariff rate is 3.6 percent, and there are relatively few non-tariff barriers. There are no restrictions on repatriation of profits or capital, no exchange controls, and no restrictions on converting or transferring funds, whether associated with an investment or not. Bahrain's more than 400 banks and financial institutions account for over 25 percent of GDP. Foreign and domestic investors have access to a wide range of financial services.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**-5.0**	Fiscal Freedom	**+0.1**	Business Freedom	**-0.9**	Trade Freedom	**0**
Freedom from Corruption	**-2.0**	Government Spending	**-8.0**	Labor Freedom	**-5.9**	Investment Freedom	**0**
				Monetary Freedom	**-3.6**	Financial Freedom	**0**

BANGLADESH



World Rank: **130** Regional Rank: **28**

Bangladesh's economic freedom score is 53.2, making its economy the 130th freest in the 2012 *Index*. Its overall score is 0.2 point better than last year, reflecting improvements in business freedom and labor freedom that counterbalance a significant drop in trade freedom. Bangladesh is ranked 28th out of 41 countries in the Asia–Pacific region.

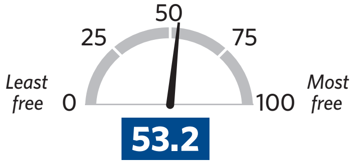
Bangladesh continues the five-year move toward greater economic freedom that has brought it out of the status of "repressed." The advancement in freedom has been accompanied by notable economic growth averaging 6 percent per year over the same period.

Nonetheless, progress in reform overall has been uneven and deficient. The foundations of economic freedom remain fragile. Corruption and an inefficient judicial system undermine the rule of law. Weak governance and structural problems continue to constrain development. The inefficient regulatory regime is often heavily politicized, and policies needed to liberalize or sustain open markets have been undercut by considerable government interference in the economy. The underdeveloped financial sector impedes investment and the growth of a more dynamic private sector.

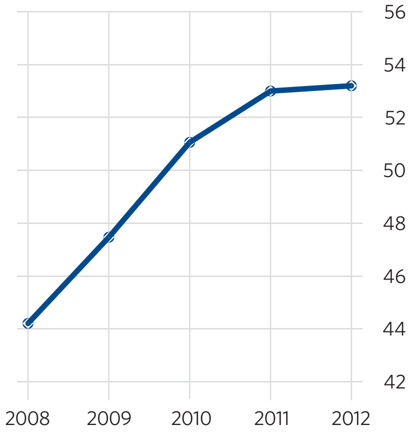
BACKGROUND: Islamist extremist groups threaten Bangladesh's democracy and pluralist traditions, but the current government, led by Prime Minister Sheikh Hasina Wajed, has taken steps to curb their activities. The opposition Bangladesh National Party fueled political and economic uncertainty in 2010 with 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

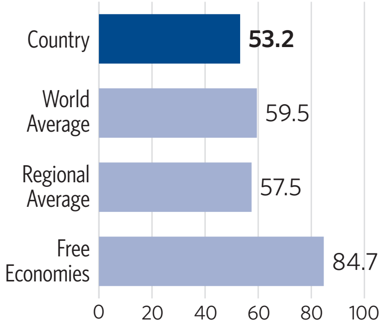
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 164.5 million

GDP (PPP): $258.6 billion

6.0% growth in 2010

5-year compound annual growth 6.1%

$1,572 per capita

Unemployment: 4.8%

Inflation (CPI): 8.2%

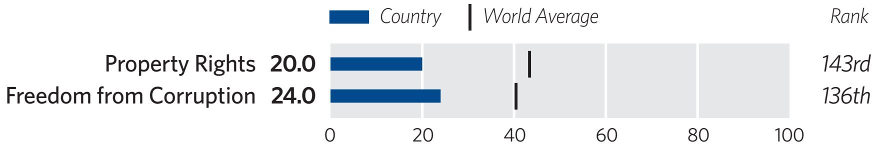
FDI Inflow: $913.3 million

Public Debt: 43.8% of GDP

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

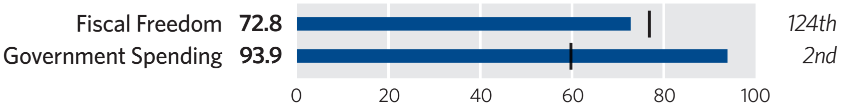
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



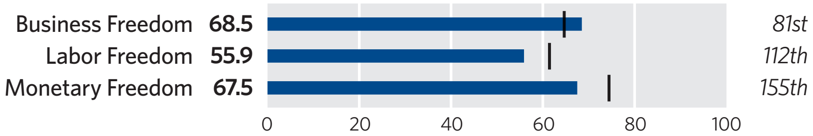
The civil court system is based on the British model, and the constitution provides for an independent judiciary. However, contract enforcement and dispute settlement are inefficient. Corruption remains a serious problem. The effectiveness of Bangladesh's Anti-Corruption Commission is under threat from proposed amendments to the Anti-Corruption Commission Act, which contain a number of procedural changes.

LIMITED GOVERNMENT



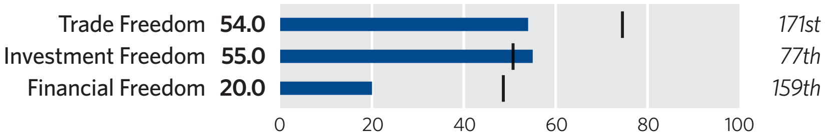
The top income tax rate is 25 percent, and the top corporate tax rate is 45 percent. Other taxes include a value-added tax (VAT) that is currently being reformed. The overall tax burden amounts to 8.6 percent of total domestic income. Government spending equals 14.3 percent of total domestic output, and public debt has declined to below 50 percent of GDP. The overall effectiveness of government is poor due to heavy bureaucracy.

REGULATORY EFFICIENCY



Recent reforms have improved regulatory efficiency. Business start-up is simpler, with start-up time shortened by 19 days, and the costs of getting necessary permits and establishing a company have been reduced considerably. Although a well-functioning labor market has not been fully developed, labor productivity growth has been slightly higher than wage hikes. Inflationary pressure is high, and price control measures have been in place.

OPEN MARKETS

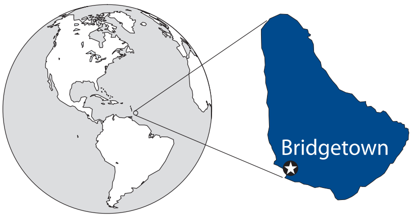


The trade weighted tariff rate is 13 percent, with myriad non-tariff barriers further increasing the cost of trade. Although foreign investment is welcome, potential investors face a host of challenges. In general, government laws and regulations and their implementation create rather than reduce impediments to investment. Government ownership and interference in the financial sector remain considerable, undermining the sector's efficiency.

Score Changes

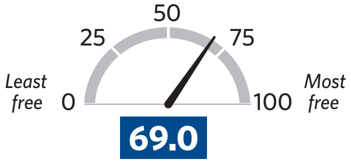
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.1	Business Freedom	+3.5	Trade Freedom	-4.0
Freedom from Corruption	0	Government Spending	+1.5	Labor Freedom	+1.6	Investment Freedom	0
				Monetary Freedom	-1.1	Financial Freedom	0

BARBADOS



World Rank: **37** Regional Rank: **4**

Economic Freedom Score



Barbados's economic freedom score is 69, making its economy the 37th freest in the 2012 *Index*. Its score is 0.5 point better than last year due to improvements in freedom from corruption and investment freedom that offset a considerable worsening of government spending. Barbados is 4th out of 29 countries in the South and Central America/Caribbean region, and its overall score remains well above global and regional averages.

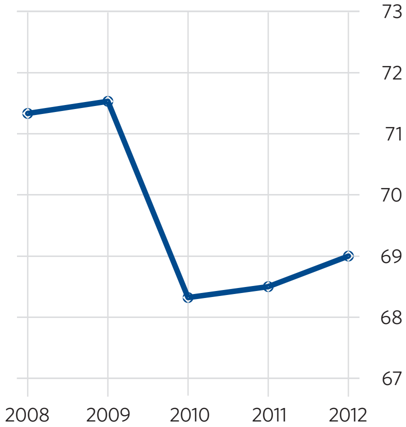
Barbados is one of the Caribbean region's most prosperous economies, and offshore finance and tourism have been important sources of economic growth. However, government spending has increased, expanding government's reach and influence within the economy. Due to a large fiscal deficit, government debt has become larger than the size of the economy.

With strong foundations of economic freedom supported by a high degree of transparency and an efficient judiciary, the Barbados government's economic policies are focused on attracting international companies. A high degree of regulatory efficiency facilitates private-sector growth. However, policies intended in theory to buttress open trade and productivity growth are undercut by bureaucracy and burdensome restrictions that discourage more vibrant investment expansion.

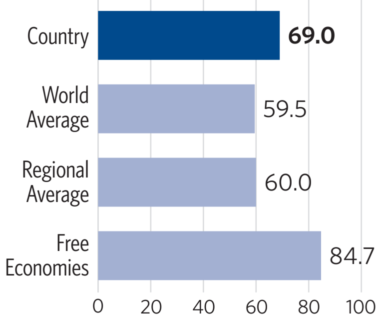
BACKGROUND: Barbados is a parliamentary democracy and member of the British Commonwealth. The Democratic Labor Party won the 2008 elections, ousting the business-friendly Barbados Labor Party after 14 years in power. Freundel Stuart became prime minister in October 2010 following the untimely death of Prime Minister David Thompson. The next elections are scheduled for May 2012. Barbados has transformed itself 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 and was severely affected by the global economic recession. Many construction and trade jobs were lost, and the government has responded by increasing spending, creating concerns about the country's credit rating.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



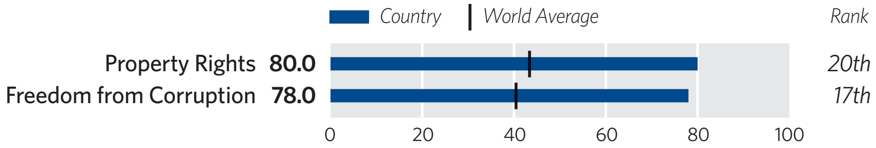
Quick Facts

Population: 0.3 million
GDP (PPP): $6.2 billion
–0.5% growth in 2010
5-year compound annual growth 0.4%
$22,512 per capita
Unemployment: 10.7%
Inflation (CPI): 5.1%
FDI Inflow: $80 million
Public Debt: 117.8% of GDP

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

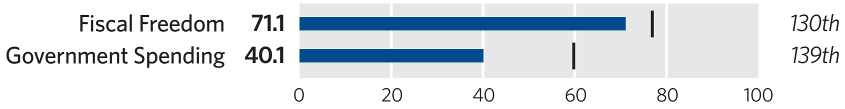
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



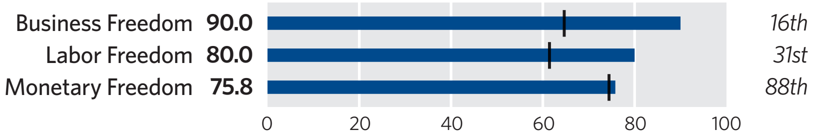
The protection of property rights is strong, and the rule of law is well respected. The court system is based on British common law and is generally unbiased and efficient. Barbados is a member of CARICOM, whose Caribbean Court of Justice is Barbados's court of final appeal. There are criminal penalties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

LIMITED GOVERNMENT



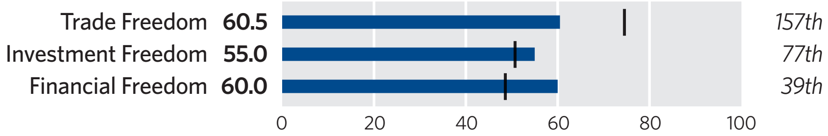
The top income tax rate is 35 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden amounting to 32.3 percent of total domestic income. Government spending has been expansionary, resulting in chronically high budget deficits averaging over 6 percent of GDP and rising public debt that has reached 117.8 percent of GDP.

REGULATORY EFFICIENCY



Transparent policies and straightforward laws generally facilitate regulatory efficiency. The overall process for obtaining licenses and starting a business is not burdensome. The labor market remains relatively flexible, and employers are not legally obligated to recognize unions. Inflation has been inching up. Although prices are generally set by the market, state measures distort domestic prices for basic food items, transportation, and fuel.

OPEN MARKETS

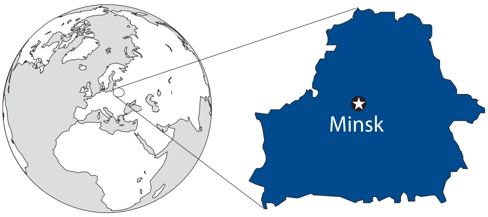


A high tariff rate of 14.8 percent and myriad non-tariff barriers increase trade costs. The state manages *de facto* monopolies for some products. The investment climate has improved, but much investment activity is subject to government approval, and certain activities are prohibited to foreigners. 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	+0.4	Business Freedom	0	Trade Freedom	0
Freedom from Corruption	+4.0	Government Spending	-8.7	Labor Freedom	0	Investment Freedom	+10.0
				Monetary Freedom	-0.5	Financial Freedom	0

BELARUS



World Rank: **153** Regional Rank: **42**

Belarus's economic freedom score is 49, making its economy the 153rd freest in the 2012 *Index*. Its overall score is 1.1 points better than last year due to score improvements in six of the 10 economic freedoms, including government spending and monetary freedom. Belarus is ranked 42nd among the 43 countries in the Europe region.

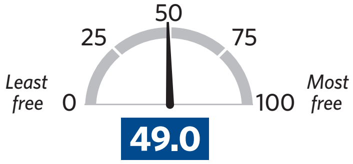
Despite some progress, Belarus's economy remains mired in the "repressed" category—one of only two European economies to share that dubious distinction. Reflecting poor scores in property rights and freedom from corruption, the foundations of economic freedom are weak. Corruption remains widespread, and the enforcement of property rights is subject to an ineffective judiciary and time-consuming bureaucracy.

With pervasive state control and involvement in the economy, Belarus lacks regulatory efficiency and flexibility. Overall progress in business reform has been uneven, and the small private sector remains marginalized. Policies needed to open markets and improve productivity are lacking, undermining competitiveness and the growth of dynamic investment.

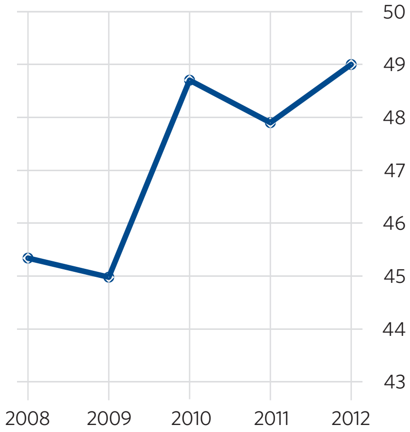
BACKGROUND: In 2005, authoritarian President Alexander Lukashenko vowed to guide Belarus toward "market socialism," and the economy has been deteriorating ever since. Industry and state-controlled agriculture are uncompetitive. A significant percentage of Russian oil and gas exports to Europe passes through Belarus, but relations with Russia remain tense due to Belarus's inability to pay for its own energy imports. The European Union and the West have threatened to step up sanctions in the wake of a brutal crackdown on opposition politicians following the December 2010 presidential elections. In December 2010, Belarus, Russia, and Kazakhstan signed an agreement to form a customs union and a common economic space by 2012. Russia and Belarus also reached an agreement on oil imports. Growing ties with Iran, Venezuela, and China have not improved economic prospects.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

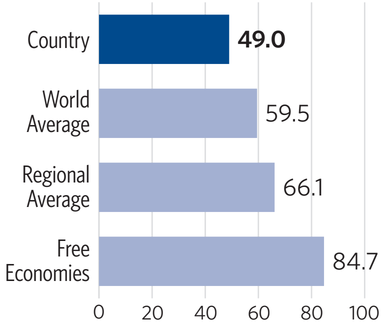
Economic Freedom Score



Freedom Trend



Country Comparisons



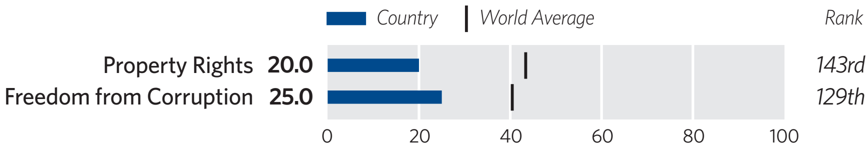
Quick Facts

Population: 9.4 million
GDP (PPP): $131.2 billion
7.6% growth in 2010
5-year compound annual growth 7.3%
$13,909 per capita
Unemployment: 1.0%
Inflation (CPI): 7.7%
FDI Inflow: $1.3 billion
Public Debt: 26.5% of GDP

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

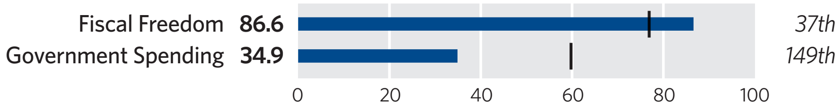
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



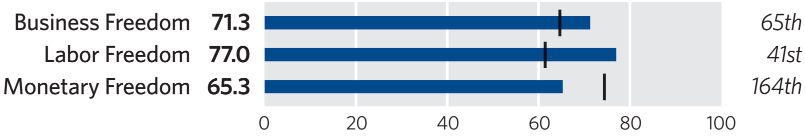
The structure of property rights is largely unchanged since the Soviet period, with state ownership of land and government-controlled collective and state farms. The state is involved in many commercial transactions. Private property rights are not adequately protected. Corruption is pervasive in both the private and public sectors, from the executive and judiciary to doctors, police, and teachers.

LIMITED GOVERNMENT



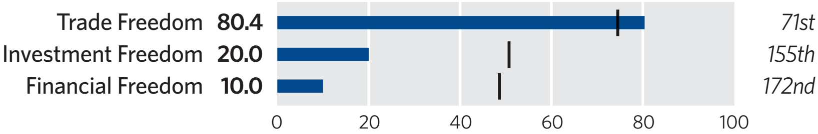
The income tax rate is a flat 12 percent. The top corporate tax rate remains 24 percent. Other taxes include excise taxes and a value-added tax (VAT) that has been increased to 20 percent, with the overall tax burden amounting to 24.9 percent of total domestic income. Although government spending has fallen slightly to 46.6 percent of total domestic output, the budget balance is in deficit. Public debt has increased to 26.5 percent of GDP.

REGULATORY EFFICIENCY



Business formation has been facilitated by simplified registration formalities and abolition of the minimum capital requirement. Procedural requirements for getting necessary permits have also been reduced. An efficient labor market is not fully developed, and wage increases have exceeded labor productivity growth in recent years. The government subsidizes many basic goods, sets prices of products made by state-owned enterprises, and controls wages.

OPEN MARKETS



The trade weighted tariff rate is 2.3 percent. Extensive import restrictions and 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 control. Many industries are primarily or exclusively state-run to the detriment of private investment and enterprises.

Score Changes

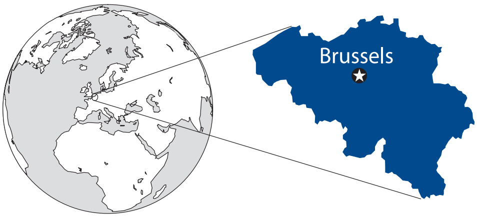
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+1.0

LIMITED GOVERNMENT	
Fiscal Freedom	+3.0
Government Spending	+8.7

REGULATORY EFFICIENCY	
Business Freedom	+0.7
Labor Freedom	–5.3
Monetary Freedom	+3.1

OPEN MARKETS	
Trade Freedom	+0.1
Investment Freedom	0
Financial Freedom	0

BELGIUM



World Rank: **38** Regional Rank: **18**

Belgium's economic freedom score is 69, making its economy the 38th freest in the 2012 *Index*. Its overall score has declined 1.2 points from last year, primarily reflecting a significant deterioration in government finance. Belgium is ranked 18th freest among the 43 countries in the Europe region, and its overall score is above the regional and global averages.

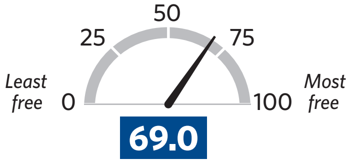
The global financial crisis has caused a sharp economic slowdown in Belgium. In response to turmoil in the banking sector and the subsequent contraction in overall economic activity, the government has stepped in to support the financial system and implement a moderate-size fiscal stimulus package. The economic recovery that began in mid-2009 has been modest and uneven, and the soundness of public finance has deteriorated.

More positively, with strong foundations of economic freedom in place, Belgium's economy has long benefited from open-market policies that support global trade and investment. However, lingering structural weaknesses hinder international competitiveness. The tax system is burdensome, and the extensive welfare state requires heavy state spending. Despite modest improvements, labor market rigidities remain a considerable barrier to productivity and job growth.

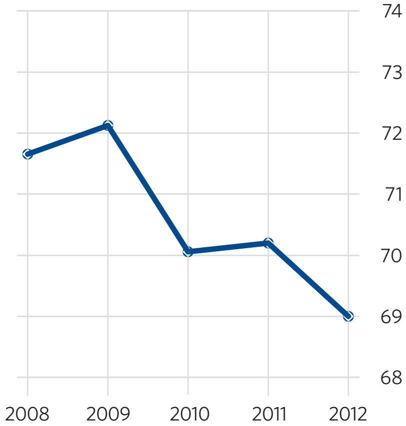
BACKGROUND: Belgium is a federal state consisting of three culturally different regions: Flanders, Wallonia, and the capital city of Brussels, which houses the headquarters of NATO and the European Union. Christian Democrat Herman Van Rompuy became prime minister on January 5, 2009. When he was selected to become the first president of the European Council on December 1, 2009, former premier Yves Leterme again became prime minister. In April 2010, an electoral dispute between the francophone and Flemish parties led to the collapse of the coalition government, and negotiations to form a new government were ongoing as of October 2011. Leterme continued to act as caretaker prime minister and committed Belgian forces to the NATO mission in Libya. 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

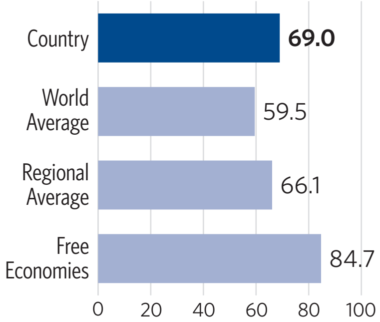
Economic Freedom Score



Freedom Trend



Country Comparisons



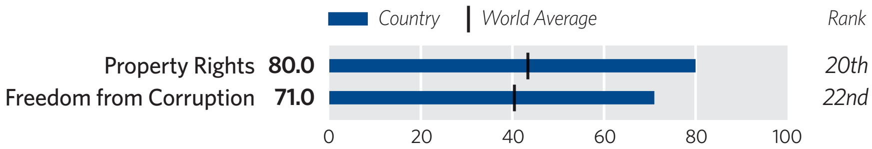
Quick Facts

Population: 10.9 million
GDP (PPP): $394.3 billion
2.0% growth in 2010
5-year compound annual growth 1.1%
$36,100 per capita
Unemployment: 8.3%
Inflation (CPI): 2.3%
FDI Inflow: $61.7 billion
Public Debt: 96.7% of GDP

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

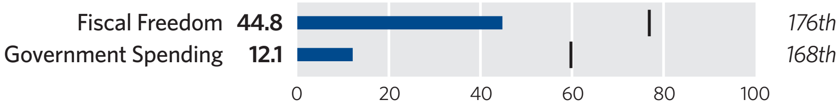
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



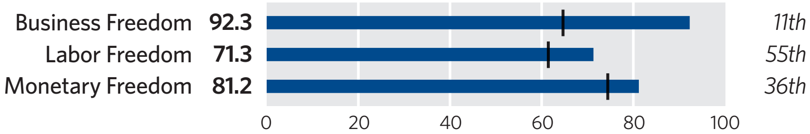
Laws are well codified, and the judicial system is generally respected, but the courts can be slow in practice. Similarly, intellectual property rights and contract enforcement are generally secure, though enforcement actions can be protracted. Corruption is minimal, and the government prohibits and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

LIMITED GOVERNMENT



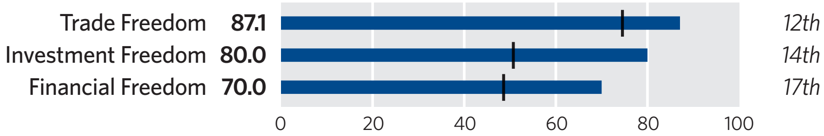
The top income tax rate is 50 percent, and the top corporate tax rate is effectively 34 percent. Other taxes include a value-added tax (VAT) and an estate tax, with the overall tax burden amounting to 43.2 percent of total domestic income. Government spending has increased to 54.1 percent of total domestic output, leading to higher budget deficits averaging 4 percent and growing public debt that has reached 96.7 percent of GDP.

REGULATORY EFFICIENCY



The overall regulatory environment is efficient and transparent. With the cost of establishing a company reduced, 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. Price-control policies affect a range of products and services.

OPEN MARKETS



Belgium has low tariffs similar to other members of the European Union, but non-tariff barriers increase the cost of trade. The investment regime is largely open, and the financial sector remains vibrant and generally free from government involvement. Some institutions received bailouts during the recent economic slowdown, and the Financial Crisis Law passed in June 2010 grants the government stronger powers to step in during crises.

Score Changes

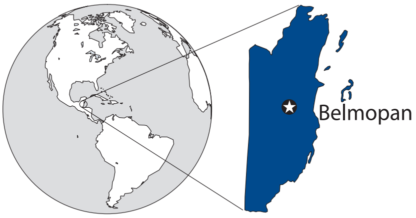
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	+3.0
Government Spending	–12.9

REGULATORY EFFICIENCY	
Business Freedom	–0.3
Labor Freedom	+0.3
Monetary Freedom	–1.3

OPEN MARKETS	
Trade Freedom	–0.5
Investment Freedom	0
Financial Freedom	0

BELIZE



World Rank: **77** Regional Rank: **14**

Belize's economic freedom score is 61.9, making its economy the 77th freest in the 2012 *Index*. Its overall score is 1.9 points worse than last year, primarily due to reductions in property rights, freedom from corruption, and labor freedom. Belize is ranked 14th out of 29 countries in the South and Central America/Caribbean region.

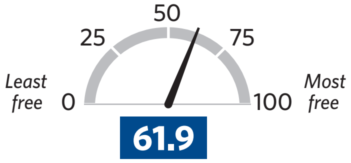
Belize's record on structural reform has been uneven, and more vibrant economic growth is constrained by lingering institutional weaknesses that undermine the foundations of economic freedom. The judicial system remains vulnerable to political interference, and corruption is common.

Entrepreneurial activity continues to be limited, and recovery from the recent economic slowdown has been narrowly based. The overall regulatory infrastructure remains inefficient and burdensome. Special licensing requirements discourage foreign investment in many sectors, and foreign exchange regulations are inconsistent and non-transparent. Myriad non-tariff barriers, together with the high cost of domestic financing, hinder private-sector development and economic diversification.

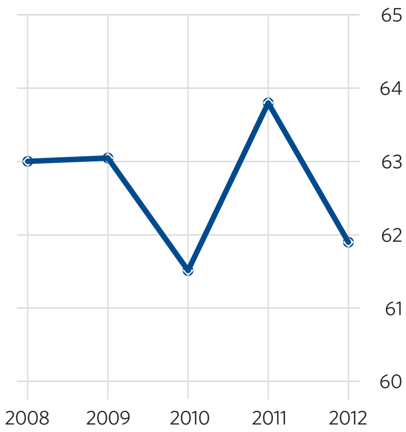
BACKGROUND: Belize is a parliamentary democracy and member of the British Commonwealth. Since taking power after defeating the incumbent People's United Party in 2008, Prime Minister Dean Barrow's United Democratic Party government has undermined the foreign direct investment climate by expropriating Belize's commercial "crown jewels" (the leading private telecommunications and electricity companies, owned by U.K. and Canadian investors) 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 account for most of Belize's small, private enterprise–led economy. Both tourism and the production of sugar, which is the country's principal export, have decreased significantly during the recession. Oil exploration increased during 2009. Belize is plagued by crime, money-laundering, and poverty.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

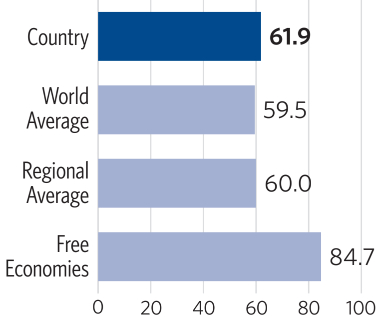
Economic Freedom Score



Freedom Trend



Country Comparisons



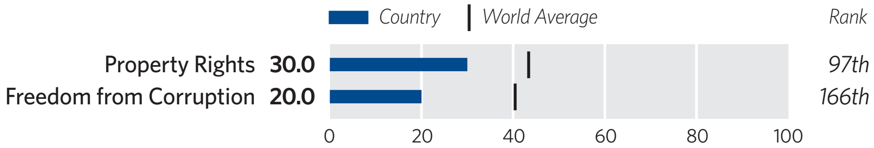
Quick Facts

Population: 0.3 million
GDP (PPP): $2.7 billion
2.0% growth in 2010
5-year compound annual growth 2.3%
$7,895 per capita
Unemployment: 13.1%
Inflation (CPI): 0.5%
FDI Inflow: $97.5 million
Public Debt: 81.4% of GDP

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

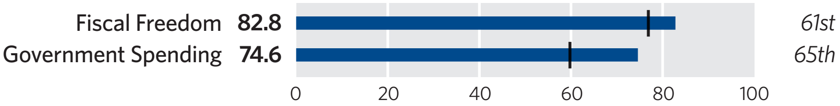
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



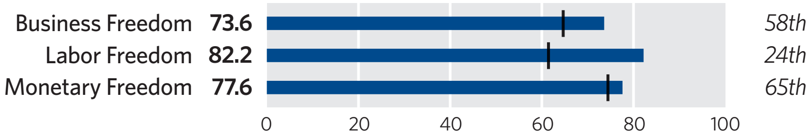
The court system is constitutionally independent but is often controlled by the executive; many prosecution lawyers are not adequately trained. Expropriation of personal property is relatively rare, but the current government has expropriated major private foreign-owned companies in the electricity and telecommunications sectors since taking office in 2008. Corruption is seen as widespread.

LIMITED GOVERNMENT



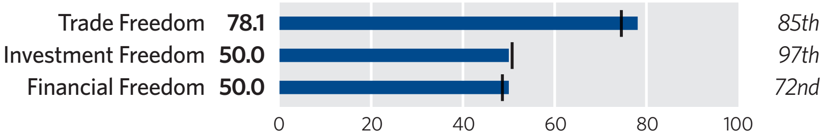
The top income and corporate tax rates are 25 percent; petroleum profits are taxed at 40 percent. Other taxes include a goods and services tax and a stamp duty, with the overall tax burden amounting to 21.7 percent of total domestic income. With budget deficits widening, government spending has increased to 29.1 percent of total domestic output. Public debt has also risen, reaching above 80 percent of GDP.

REGULATORY EFFICIENCY



The process for setting up a business and completing regulatory requirements has been streamlined a bit, with the number of licensing requirements reduced, but entrepreneurial activity often faces such challenges as poor enforcement of the commercial code and lack of regulatory transparency. Despite relatively flexible employment regulations, a formal labor market has not been fully developed. Inflation has been stable.

OPEN MARKETS



The trade weighted tariff is 5.9 percent, with non-tariff barriers raising the overall cost of trade. The investment regime is generally non-discriminatory toward foreign investment, but there are restrictions in certain sectors, and new foreign investments must be approved by the central bank. Obtaining credit is relatively straightforward, though the government influences the allocation of credit through the quasi-government banks.

Score Changes

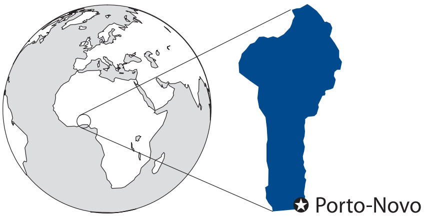
RULE OF LAW	
Property Rights	-10.0
Freedom from Corruption	-9.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.5
Government Spending	-1.5

REGULATORY EFFICIENCY	
Business Freedom	-0.1
Labor Freedom	-4.3
Monetary Freedom	-1.2

OPEN MARKETS	
Trade Freedom	+6.6
Investment Freedom	0
Financial Freedom	0

BENIN



World Rank: **118** Regional Rank: **21**

Benin's economic freedom score is 55.7, making its economy the 118th freest in the 2012 *Index*. Its overall score is 0.3 point worse than last year due to score declines in freedom from corruption, government spending, and business freedom. Benin is ranked 21st out of 46 countries in the Sub-Saharan Africa region, and its overall score is slightly higher than the regional average.

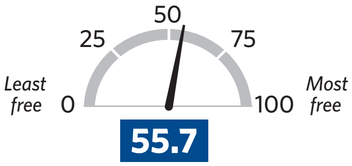
Benin has been able to maintain a relatively stable political and macroeconomic situation. Continuing its efforts to promote economic diversification and modernization, the government has introduced structural reforms to revitalize the economy. Nonetheless, the lack of political momentum to implement necessary reforms continues to be a serious obstacle to advancing economic freedom.

The most visible constraints on private-sector development are related to fiscal pressure, administrative complexities, and the lack of respect for contracts. Bureaucratic inefficiency and corruption affect much of the economy, severely undermining the foundations of economic freedom in the country. Court enforcement of property rights remains vulnerable to political interference.

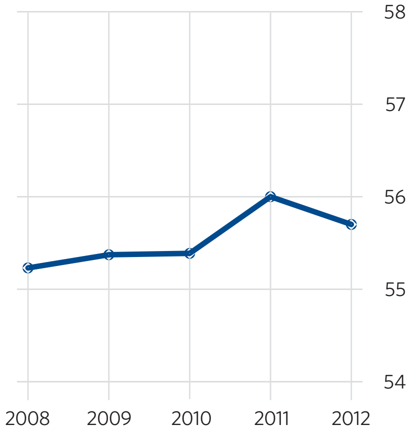
BACKGROUND: President Mathieu Kérékou, who ruled Benin for almost 20 years following a military coup, stepped down following a democratic transition in the early 1990s and later served two five-year elected terms. Current President Boni Yayi, former head of the West African Development Bank, was elected in a runoff election in 2006 that was generally regarded as free and fair. In 2011, he was re-elected for another five-year term. 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. Benin is attempting to attract foreign investment in tourism, food processing, and agriculture.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

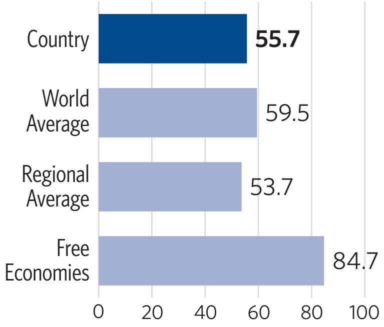
Economic Freedom Score



Freedom Trend



Country Comparisons



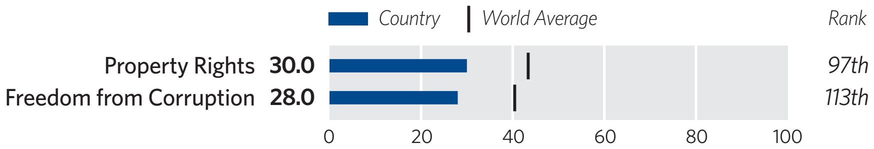
Quick Facts

Population: 9.6 million
GDP (PPP): $14 billion
2.5% growth in 2010
5-year compound annual growth 3.7%
$1,451 per capita
Unemployment: n/a
Inflation (CPI): 2.1%
FDI Inflow: $110.9 million
Public Debt: 31.1% of GDP

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

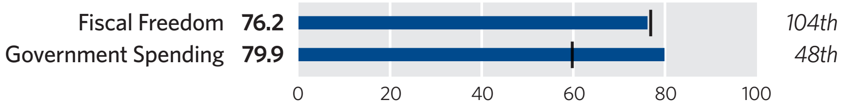
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



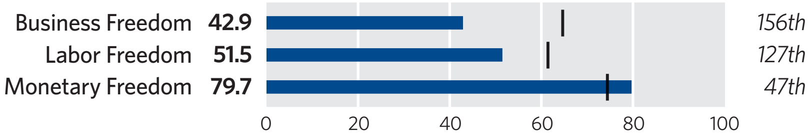
Benin's legal system is weak and subject to corruption. Businesses and other litigants routinely complain that corruption is particularly widespread at the trial court level and in administrative hearings. There are no separate commercial courts, and backlogs of civil cases cause long delays. Despite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

LIMITED GOVERNMENT



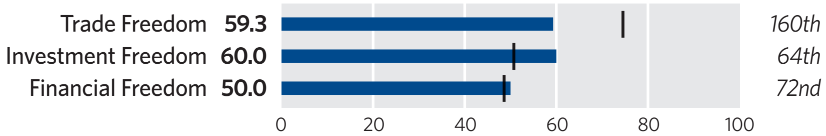
The top income tax rate is 35 percent, and the top corporate tax rate is 30 percent, with oil companies subject to a 45 percent rate. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden amounting to 16.1 percent of total domestic income. The overall fiscal situation remains difficult, with government expenditures increasing to 25.9 percent of total domestic output. Public debt is equivalent to around 30 percent of GDP.

REGULATORY EFFICIENCY



The overall entrepreneurial environment remains burdensome. Bureaucratic procedures are not streamlined and lack transparency. Obtaining necessary business licenses is time-consuming and costly, despite some progress. The agriculture sector accounts for nearly 70 percent of the workforce. Outmoded employment regulations hinder overall job creation and productivity growth. Inflation has been modest, with government price controls continuing.

OPEN MARKETS

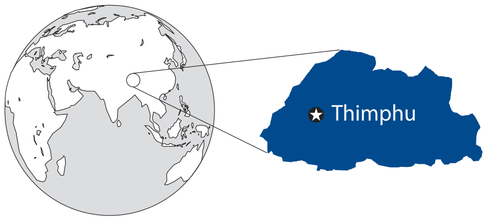


High tariffs and numerous non-tariff restrictions prevent dynamic growth in trade. Foreign investment is officially encouraged, but financial transfers or outward remittances can be restricted. The banking sector is predominantly private, and foreign ownership is allowed, but despite the noticeable development of microfinance institutions, overall access to credit remains low.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.4	Business Freedom	-0.1	Trade Freedom	+0.5
Freedom from Corruption	-1.0	Government Spending	-4.2	Labor Freedom	+0.8	Investment Freedom	0
				Monetary Freedom	+1.5	Financial Freedom	0

BHUTAN



World Rank: **111** Regional Rank: **21**

Bhutan's economic freedom score is 56.6, making its economy the 111th freest in the 2012 *Index*. Its score has decreased 1.0 point from last year, primarily because of worsening government spending, labor freedom, and trade freedom. Bhutan is ranked 21st out of 41 countries in the Asia–Pacific region, and its overall score is below the global average.

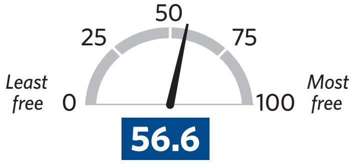
The foundations of economic freedom are relatively strong, with corruption present but under control, and new steps have been taken to ensure greater security for property rights. Recently, a higher priority has been placed on measures to diversify the economy, particularly in light of demographic shifts that will bring more young people into the labor market.

Over the past decade, Bhutan has made progress in modernizing its economic structure and reducing poverty. The public sector, especially hydropower, has long been the main source of economic growth, but the government now recognizes that private-sector development is crucial. Nonetheless, lingering constraints on private-sector development include the inefficient regulatory framework, 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 precludes entrepreneurial growth.

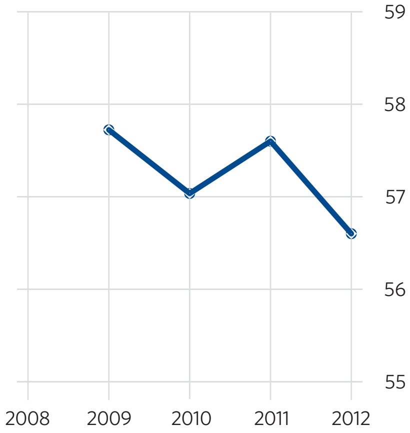
BACKGROUND: Bhutan, a small Himalayan constitutional monarchy that made the transition from absolute monarchy to parliamentary democracy in March 2008, has one of the world's smallest and least-developed economies. Until a few decades ago, the country was still largely agrarian, with few roads, little 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

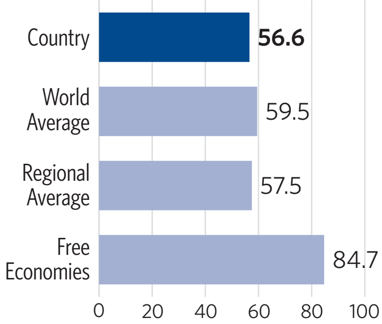
Economic Freedom Score



Freedom Trend



Country Comparisons



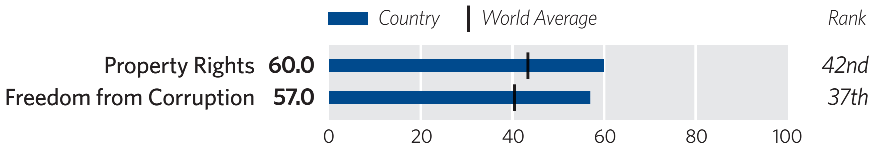
Quick Facts

Population: 0.7 million
GDP (PPP): $3.9 billion
6.7% growth in 2010
5-year compound annual growth 8.8%
$5,430 per capita
Unemployment: 4.0%
Inflation (CPI): 7.1%
FDI Inflow: $11.7 million
Public Debt: 70.9% of GDP

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

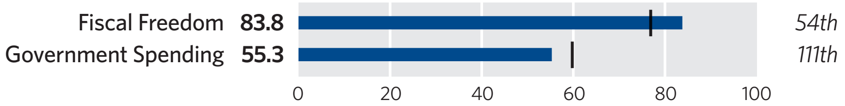
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



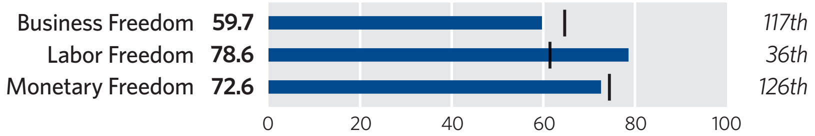
Protections for intellectual property rights are stipulated in the Industrial Property Act and the Copyright Act. Property rights are more equally protected than in most of South Asia, with women rather than men inheriting and owning property in some areas. The government's Anti-Corruption Commission has identified misuse of resources, bribery and collusion, and nepotism as major forms of corruption.

LIMITED GOVERNMENT



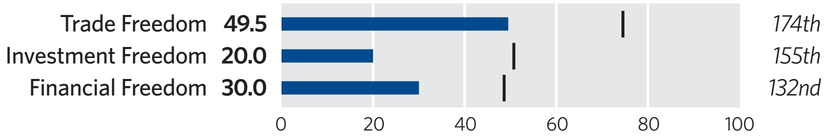
The top income tax rate is 25 percent, and the corporate tax rate is 30 percent. Other taxes include a property tax and an excise tax, with the overall tax burden equal to 9.9 percent of total domestic income. A value-added tax (VAT) is set to be introduced in an effort to broaden the tax base. Government spending has increased to 38.6 percent of total domestic output, with public debt reaching 70 percent of GDP.

REGULATORY EFFICIENCY



A modern regulatory framework has not been fully developed. Despite recent efforts, the business climate is still hampered by inconsistent enforcement of regulations. On average, it takes 36 days to start a company. The imbalance between labor supply and demand persists. Economic diversification has not progressed significantly, and unemployment has risen in recent years. Inflation has moderated slightly but remains worrisome.

OPEN MARKETS



High tariff and non-tariff barriers prevent dynamic growth in trade. Foreign investment has been a sensitive issue, largely due to concerns about its effect on culture and traditions and possibly because of the domestic private sector's 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

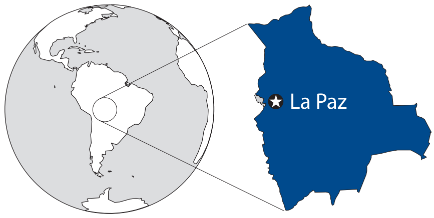
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+7.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.1
Government Spending	-8.8

REGULATORY EFFICIENCY	
Business Freedom	-0.1
Labor Freedom	-6.1
Monetary Freedom	+0.8

OPEN MARKETS	
Trade Freedom	-2.5
Investment Freedom	0
Financial Freedom	0

BOLIVIA



World Rank: **146** Regional Rank: **25**

Bolivia's economic freedom score is 50.2, making its economy the 146th freest in the 2012 *Index*. Its overall score is 0.2 point better than last year, with some improvements in three of the 10 economic freedoms, including freedom from corruption. Bolivia is ranked 25th out of 29 countries in the South and Central America/Caribbean region, and its overall score is below the world and regional averages.

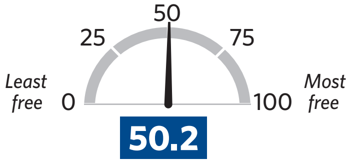
The foundations of economic freedom in Bolivia remain fragile, severely hampered by structural and institutional problems. With the judicial system becoming more vulnerable to political interference, corruption is prevalent, and the rule of law is weak across the country.

The state's presence in economic activity is gradually increasing through nationalization of industry, moving the Bolivian economy ever further from free-market openness and flexibility. Heavily dependent on the hydrocarbon sector, the economy suffers from a lack of dynamism. Poor economic infrastructure and weak regulatory and judicial frameworks impede expansion and diversification of the productive base. The lack of access to financing precludes entrepreneurial growth, and the investment regime lacks transparency.

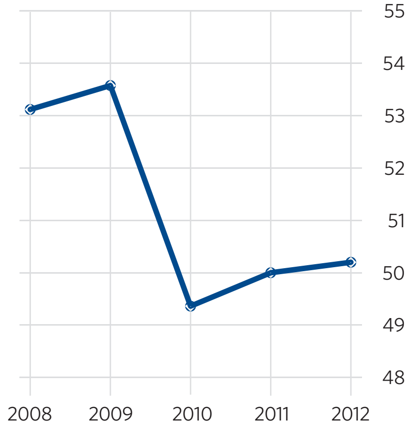
BACKGROUND: From the mid-1980s until 2005, successive elected governments pursued economic and social reform. In 2005, anti-market populist Evo Morales won the presidency with nearly 54 percent of the vote. Both as a candidate and as president, he has employed violence and intimidation to impose his will. Under Morales, Bolivia has adopted a new constitution that expands executive power, state control of key natural resources and industries, and redistribution of land. Re-elected in December 2009 with 64 percent of the vote, Morales promised to move Bolivia toward "communitarian socialism" with a stronger state guiding economic activity. Under Morales, Bolivia looks to Cuba and Venezuela for governance guidance. Approximately one-third of Bolivia's people live in poverty, with agriculture, mining, and the service industry providing most employment.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

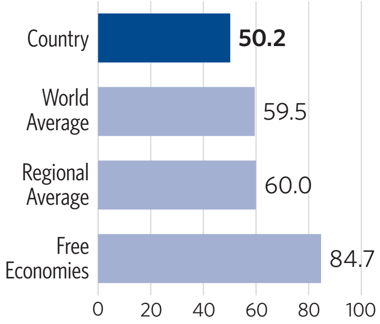
Economic Freedom Score



Freedom Trend



Country Comparisons



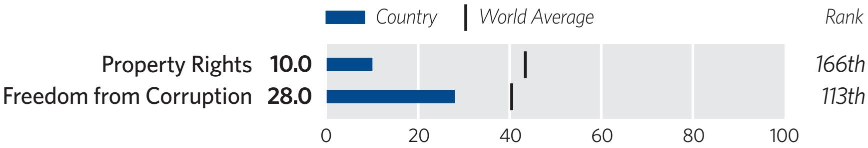
Quick Facts

Population: 10.4 million
GDP (PPP): $47.9 billion
4.2% growth in 2010
5-year compound annual growth 4.6%
$4,592 per capita
Unemployment: 6.5%
Inflation (CPI): 2.5%
FDI Inflow: $622 million
Public Debt: 36.6% of GDP

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

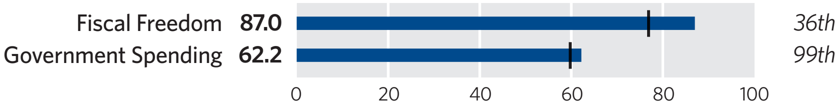
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



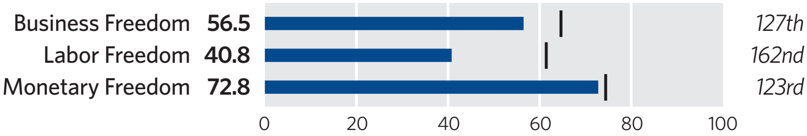
The judicial process is subject to political influence and corruption. Enforcement of intellectual property rights is erratic and largely ineffective. Competing claims to land titles and the absence of reliable dispute resolution make acquisition of real property risky. Expropriation is a problem, as is illegal squatting on rural private property. Anti-corruption measures are poorly enforced, and corruption is growing.

LIMITED GOVERNMENT



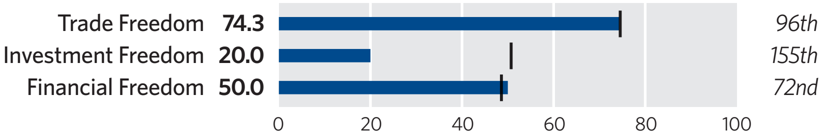
The top income tax rate is 13 percent, and the corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a transactions tax, with the overall tax burden equivalent to 22.6 percent of GDP. Government spending amounts to 35.5 percent of GDP, and budget surpluses have been narrowing in recent years. Public debt has dropped to below 40 percent of GDP.

REGULATORY EFFICIENCY



The regulatory environment is burdened with red tape and inconsistent enforcement of commercial regulations. With 15 procedures required, on average, it takes 50 days to start a company. The labor market is not fully developed, and employment regulations are not conducive to productivity growth. A series of public protests and strikes in early 2011 forced the government to backtrack on a much-needed reduction of fuel price subsidies.

OPEN MARKETS



The trade weighted tariff rate is 5.4 percent, with myriad non-tariff barriers raising the cost of trade. Bolivia's 2009 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 is vulnerable to state interference and remains poorly developed, although it has grown and become more open.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+3.1	Business Freedom	-0.7	Trade Freedom	-3.3
Freedom from Corruption	+1.0	Government Spending	-1.5	Labor Freedom	-0.7	Investment Freedom	0
				Monetary Freedom	+4.0	Financial Freedom	0

BOSNIA AND HERZEGOVINA

World Rank: **104** Regional Rank: **38**

Bosnia and Herzegovina's economic freedom score is 57.3, making its economy the 104th freest in the 2012 *Index*. Its overall score is 0.2 point worse than last year, with a significant decline in business freedom. Bosnia and Herzegovina is ranked 38th out of 43 countries in the Europe region, and its overall score remains well below the regional average.

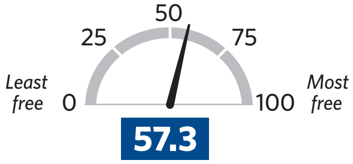
The foundations of economic freedom are fragile and uneven across the country. Poor protection of property rights and widespread corruption discourage entrepreneurial activity. The rule of law is weak, and local courts are subject to substantial political interference and lack the resources to prosecute complex crimes effectively. Intrusive bureaucracy and costly registration procedures reflect a history of central planning. Inefficient and high public spending perpetuates fiscal burdens imposed by the government.

After several years of strong economic growth, Bosnia and Herzegovina's economic performance has deteriorated, partly because of the global economic slowdown and also because of the generally slow pace of the transition to regulatory efficiency and open-market policies. The entrepreneurial environment remains one of the region's most discouraging.

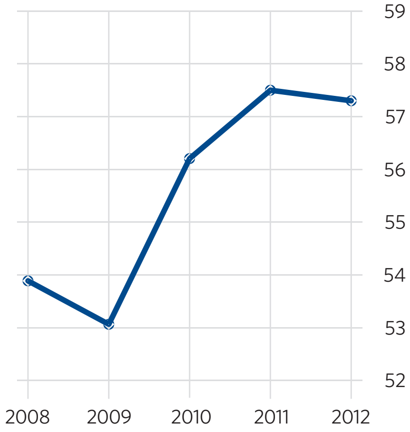
BACKGROUND: The 1995 Dayton Agreement ended three years of war and finalized Bosnia and Herzegovina's secession from the former Yugoslavia. Under a loose central government, two separate entities exist along ethnic lines: the Republika Srpska (Serbian) and the Federation of Bosnia and Herzegovina (Muslim/Croat). The European Union signed a Stabilization and Association Agreement with Bosnia and Herzegovina in June 2008, moving the country closer to EU membership. In May 2010, the EU adopted a proposal allowing citizens of Bosnia and Herzegovina to travel to Schengen-treaty countries (25 European states) without needing a visa. In May 2010, Bosnia received NATO's Membership Action Plan, outlining but not guaranteeing the steps required for membership in that alliance.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

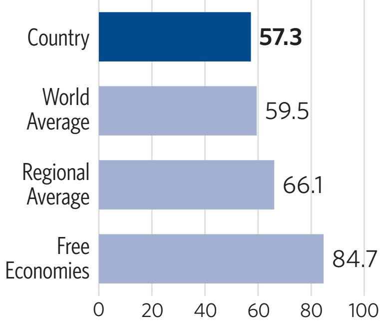
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

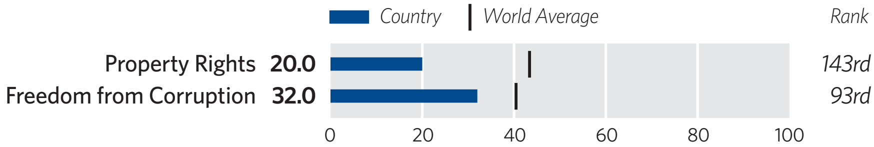
Population: 3.9 million
GDP (PPP): $30.3 billion
0.8% growth in 2010
5-year compound annual growth 3.1%
$7,782 per capita
Unemployment: 43.1%
Inflation (CPI): 2.1%
FDI Inflow: $63.4 million
Public Debt: 39.7% of GDP

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

BOSNIA AND HERZEGOVINA (continued)

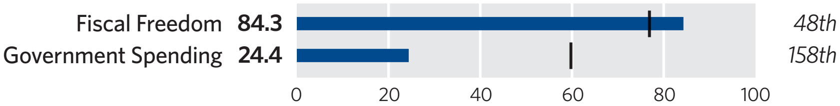
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



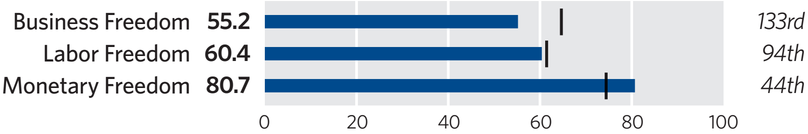
Property registries are largely unreliable, leaving transfers open to dispute. Efforts are being made to update real estate property laws, annul previous conflicting laws, and develop new workable registries in the two sub-federal entities. The judicial system does not cover commercial activities adequately. Contracts are almost unenforceable, and implementation of laws protecting intellectual property rights is inadequate. Corruption remains prevalent.

LIMITED GOVERNMENT



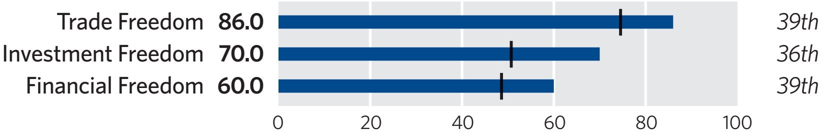
Bosnia and Herzegovina's various governing entities have different tax policies. The top income and corporate tax rates are 10 percent. Other taxes include a value-added tax (VAT), a sales tax, and a property tax, with the overall tax burden equivalent to 37 percent of total domestic income. Government expenditures amount to about half of total domestic output, resulting in chronic budget deficits and growing public debt.

REGULATORY EFFICIENCY



The average time required to start a company is about 15 days less than in previous years. However, licensing requirements have become considerably more burdensome and costly. Labor regulations' complex administrative structure has inspired a dual labor market. The unemployment rate, particularly among the young, is one of the highest in the region. Inflation has been modest.

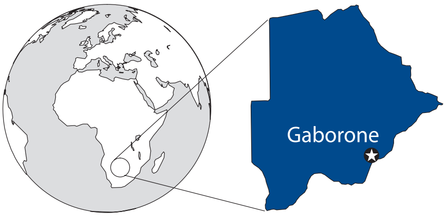
OPEN MARKETS



The trade weighted tariff is 2 percent, but non-tariff barriers persist. Myriad state and municipal administrations make up a non-transparent bureaucratic system that makes investment less appealing. About 80 percent of banking capital is privately owned, and around 90 percent of banks are foreign-owned. However, a lingering lack of contract enforcement and an insecure regulatory environment hamper credit availability.

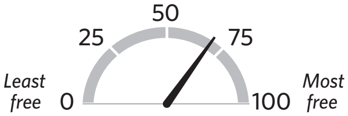
Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.4	Business Freedom	-5.2	Trade Freedom	0
Freedom from Corruption	+2.0	Government Spending	+0.3	Labor Freedom	+0.2	Investment Freedom	0
				Monetary Freedom	+0.1	Financial Freedom	0



BOTSWANA

Economic Freedom Score



69.6

World Rank: **33** Regional Rank: **2**

Botswana's economic freedom score is 69.6, making its economy the 33rd freest in the 2012 *Index*. Its overall score is 0.8 point better than last year, due primarily to improvements in freedom from corruption, monetary freedom, and trade freedom. 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.

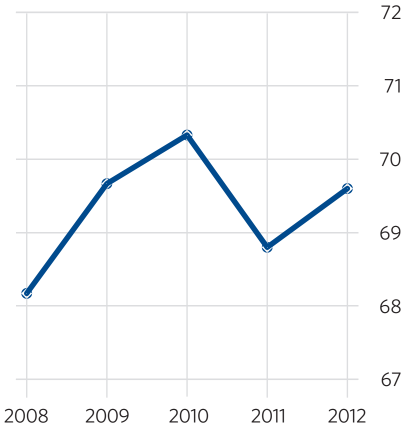
Botswana continues its transformation to a fast-growing and dynamic economy. Always one of the freest economies in Africa, it has recorded its third-highest score ever in the *Index* this year. In many of the four pillars of economic freedom, the country performs quite well. The foundations of economic freedom are among the strongest in the region and solid in comparison to other countries in the world. The independent judiciary provides strong protection of property rights.

A sensible regulatory environment and policies that support global trade and investment strengthen overall competitiveness. The financial sector is fairly well developed, with an independent central bank and little government intervention. Large fiscal deficits in recent years point to the need to focus on improving the management of public finance.

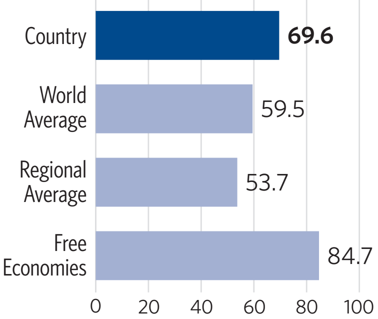
BACKGROUND: The Botswana Democratic Party has governed this multi-party democracy since independence in 1966. Ian Khama assumed the presidency in 2008. With significant natural resources and a market-oriented economy that encourages private enterprise, Botswana has Africa's highest sovereign credit rating. Despite efforts to diversify the economy, minerals (principally diamonds) account for three-fourths of exports and over 40 percent of GDP. The global economic crisis reduced the demand for diamonds, but production was expected to increase by 20 percent in 2011. Botswana has worked with other countries in the Southern African Development Community to mitigate the impact of the political turmoil in neighboring Zimbabwe. Botswana has one of the 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



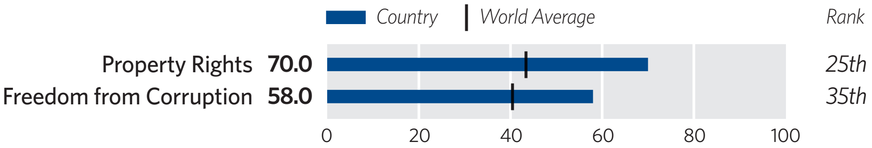
Quick Facts

Population: 1.8 million
GDP (PPP): $28.5 billion
8.6% growth in 2010
5-year compound annual growth 3.5%
$15,489 per capita
Unemployment: 7.5%
Inflation (CPI): 7.0%
FDI Inflow: $529.3 million
Public Debt: 13.2% of GDP

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

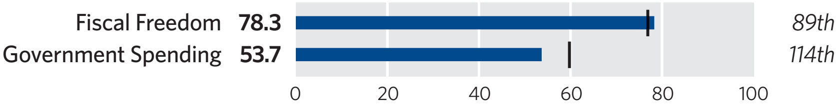
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



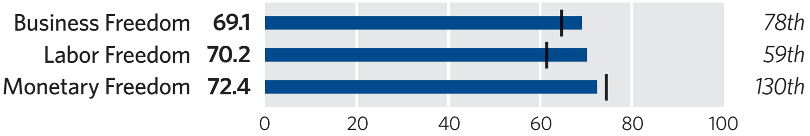
The legal system is sufficient to enforce secure commercial dealings, although a growing backlog of cases prevents timely trials. Protection of intellectual property rights has improved significantly. Botswana remains the least corrupt country on the African continent. The major corruption investigation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

LIMITED GOVERNMENT



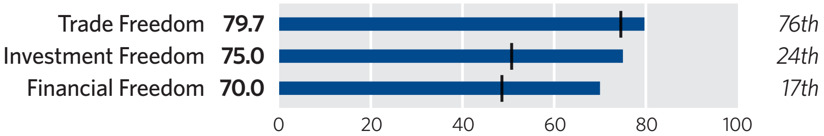
The top income and corporate tax rates are 25 percent. Other taxes include a property tax, an inheritance tax, and a value-added tax (VAT), with the total tax burden equivalent to 30.4 percent of total domestic income. Government spending is equivalent to 39.3 percent of total domestic output, with budget deficits above 5 percent of GDP in recent years. Public debt remains under 20 percent of GDP.

REGULATORY EFFICIENCY



A more streamlined licensing process has eased business start-up procedures. However, the overall pace of reform has slowed. Botswana's employment regulations are moderately flexible, with the non-salary cost of hiring a worker relatively low. Most prices are set by the market, but the state maintains pricing policies and can influence prices through numerous 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. Investment regulations are transparent though slow in execution. Foreign investment has played a significant role in the privatization of state-owned enterprises. Botswana's banking sector is one of Africa's most advanced. The government has abolished exchange controls, and the Botswana Stock Exchange is growing.

Score Changes

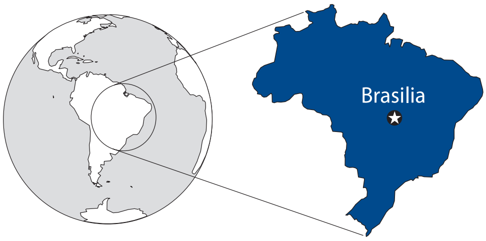
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+2.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.1
Government Spending	+2.2

REGULATORY EFFICIENCY	
Business Freedom	-1.4
Labor Freedom	+0.2
Monetary Freedom	+1.5

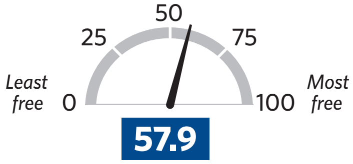
OPEN MARKETS	
Trade Freedom	+4.5
Investment Freedom	0
Financial Freedom	0

BRAZIL



World Rank: **99** Regional Rank: **20**

Economic Freedom Score



Brazil's economic freedom score is 57.9, making its economy the 99th freest in the 2012 *Index*. Its score is 1.6 points better than last year, with improvements in four of the 10 economic freedoms, including financial freedom. Brazil is ranked 20th out of 29 countries in the South and Central America/Caribbean region, and its overall score is below the regional and world averages.

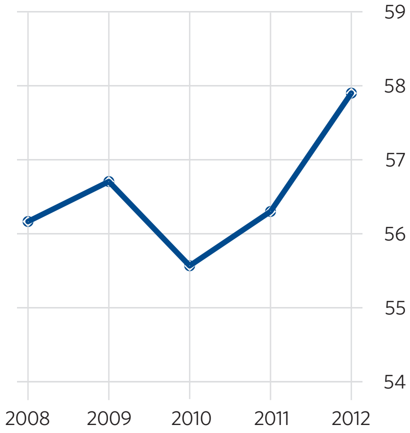
Despite the challenging global environment, the Brazilian economy has averaged better than 4 percent annual growth over the past five years. Strengthening the foundations of economic freedom, however, remains critical to capitalizing further on current growth momentum and ensuring a greater economic future. Corruption and property rights scores are relatively low, and the judicial system remains vulnerable to political influence.

The state presence in many areas of the economy remains considerable, undercutting development of a more vibrant private sector. The efficiency and overall quality of government services continue to be inadequate, particularly because of poor public finance management. Public-sector wages and transfer payments account for a large portion of government spending and are significant sources of fiscal pressure. Compared to other emerging economies, the overall pace of Brazil's regulatory reform has slowed.

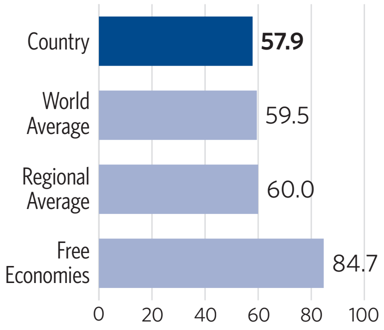
BACKGROUND: Brazil's democratic constitution dates from 1988. On January 1, 2011, Dilma Rousseff, two-term Workers' Party President Luiz Inacio "Lula" da Silva's hand-picked successor, became Brazil's first female president. It is her first elected government office. Brazil has benefited from surging prices for its commodity exports and has weathered the 2009 global economic downturn better than many developed countries. The *real* is stable, and the middle class is growing. 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. Ensuring adequate infrastructure when Brazil hosts the 2014 World Cup and 2016 Rio Olympic games will present many challenges.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



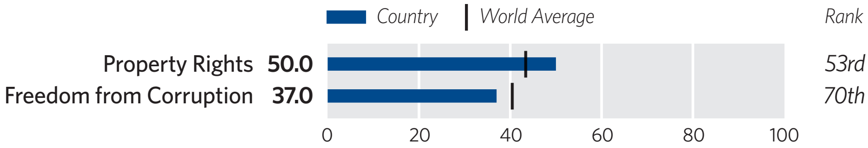
Quick Facts

Population: 193.3 million
GDP (PPP): $2.1 trillion
7.5% growth in 2010
5-year compound annual growth 4.4%
$11,239 per capita
Unemployment: 7.0%
Inflation (CPI): 5.0%
FDI Inflow: $48.4 billion
Public Debt: 66.8% of GDP

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

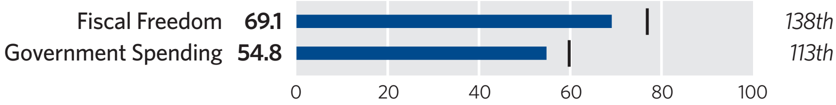
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



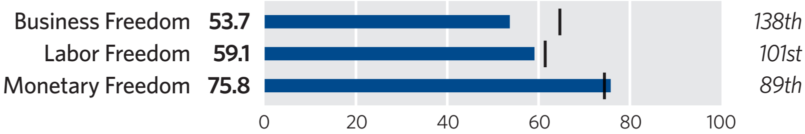
Contracts are generally considered secure, but Brazil's judiciary is inefficient and subject to political and economic influence. Protection of intellectual property rights has improved, but piracy of copyrighted material persists. Corruption continues to undermine economic freedom. Businesses bidding on government procurement contracts can encounter requests for bribes, also seen as a problem in the lower courts.

LIMITED GOVERNMENT



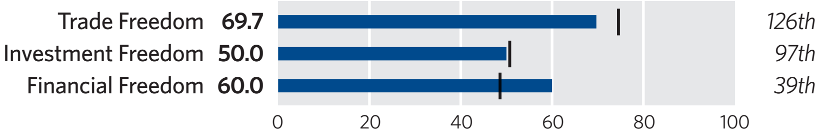
The top income tax rate is 27.5 percent. The standard corporate tax rate is 15 percent, but a 10 percent surtax and 9 percent social contribution on net profit paid by most industries bring the effective rate to 34 percent. Other taxes include a financial transactions tax, with the overall tax burden equal to 34.3 percent of total domestic income. Public spending is over one-third of GDP, resulting in chronic budget deficits. Government debt is 66.8 percent of GDP.

REGULATORY EFFICIENCY



Despite some progress, organizing new investment and production remains cumbersome and bureaucratic. It is costly and time-consuming to launch or close a business. On average, it takes more than 119 days to start a company, compared to the world average of 30 days. Stifling labor regulations continue to undermine employment and productivity growth. Mandated benefits amplify overall labor costs. Inflationary pressures remain significant.

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 granted national treatment, but their activity is restricted in some sectors, including communications and mining. The banking sector emerged relatively unscathed from the global downturn, with credits to the private sector increasing. The insurance sector has become the largest in the region.

Score Changes

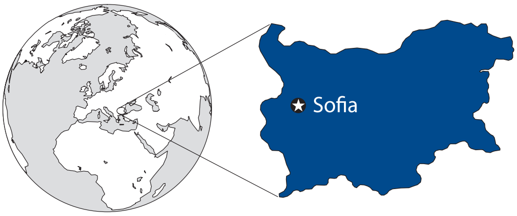
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.1
Government Spending	+5.2

REGULATORY EFFICIENCY	
Business Freedom	–0.6
Labor Freedom	+1.3
Monetary Freedom	–0.1

OPEN MARKETS	
Trade Freedom	–0.1
Investment Freedom	0
Financial Freedom	+10.0

BULGARIA



World Rank: **61** Regional Rank: **27**

Bulgaria's economic freedom score is 64.7, making its economy the 61st freest in the 2012 *Index*. Its overall score is down slightly, reflecting deterioration in freedom from corruption, government spending, and business freedom. Bulgaria is ranked 27th out of 43 countries in the Europe region, and its overall score is above the world average but below the regional average.

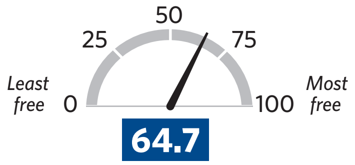
Bulgaria has weathered the impact of the global economic downturn relatively well, with the economy supported by generally prudent public finance management. Continued reform to strengthen the foundations of economic freedom, however, will be indispensable in ensuring vibrant economic development in coming years. Lingering corruption and the weak rule of law have added to the cost of conducting business.

Bulgaria'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 competitive trade regime, supported by a relatively efficient regulatory framework, have encouraged the development of a growing entrepreneurial sector.

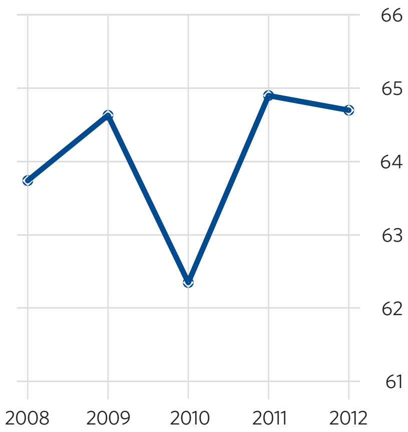
BACKGROUND: Bulgaria joined the European Union in January 2007 but has not adopted the euro. The center-right GERB (Citizens for European Development of Bulgaria) party was the clear winner in the July 2009 parliamentary elections but relies on the support of a right-wing nationalist group, Ataka, to pass legislation. In late 2010, France and Germany announced that they would block Bulgaria from joining the EU's passport-free zone until it makes "irreversible progress" in fighting corruption. Tourism, agriculture, and mining, including mining of coal, copper, and zinc, are the leading industries. Reversing previous growth trends, Bulgaria's economy contracted in 2009 and stagnated in 2010. Bulgaria is involved in two rival gas-pipeline projects: Russia's South Stream pipeline and the EU-backed Nabucco pipeline.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

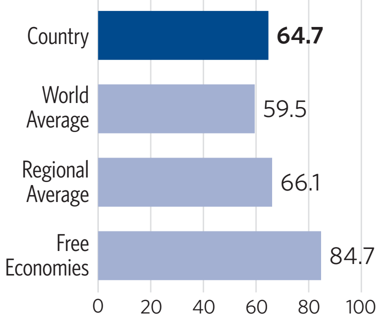
Economic Freedom Score



Freedom Trend



Country Comparisons



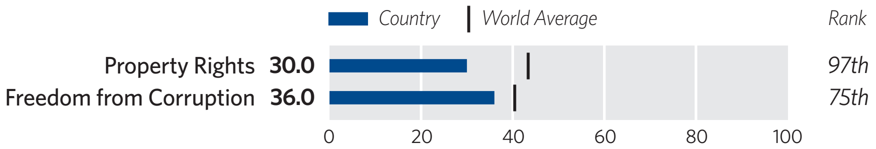
Quick Facts

Population: 7.5 million
GDP (PPP): $96.8 billion
0.2% growth in 2010
5-year compound annual growth 2.7%
$12,851 per capita
Unemployment: 9.2%
Inflation (CPI): 3.0%
FDI Inflow: $2.1 billion
Public Debt: 17.4% of GDP

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

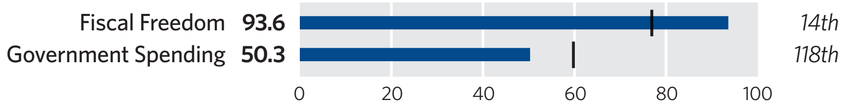
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



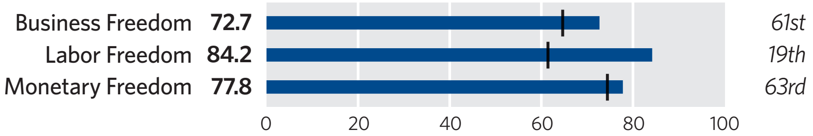
Respect for constitutional provisions securing property rights and providing for an independent judiciary is somewhat lax. The judicial system is unable to enforce property rights effectively, and inconsistent application of the rule of law discourages private investments. Despite legal restrictions, government corruption and organized crime present a threat to Bulgaria's border security.

LIMITED GOVERNMENT



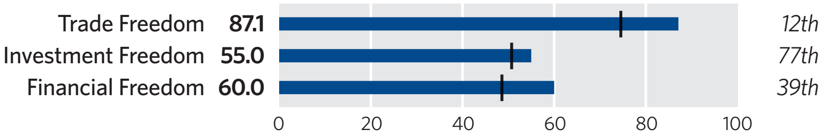
The income and corporate tax rates are a flat 10 percent. Other taxes include a value-added tax (VAT) and an estate tax, with the total tax burden equivalent to 25.7 percent of total domestic income. Government spending has risen to 40.7 percent of total domestic output, leading to a higher budget deficit of around 4 percent of GDP. Public debt remains quite low at 17.4 percent of GDP.

REGULATORY EFFICIENCY



Launching a business has become less time-consuming, and licensing requirements have been eased, though the pace of change has lagged behind some other countries in recent years. Labor regulations are relatively flexible, although the non-salary cost of employees can be burdensome. Labor productivity has been slightly higher than wage increases. Most prices are determined by market forces, and inflation has been modest.

OPEN MARKETS

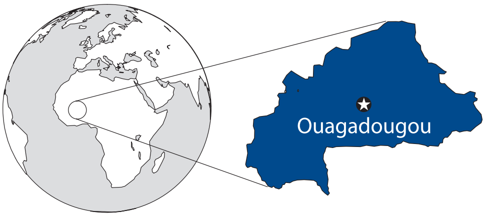


The trade weighted tariff is 1.4 percent as in other members of the European Union, with myriad non-tariff barriers sometimes nullifying the low tariff. Foreign and domestic investors are treated equally, but arbitrary bureaucracy is an impediment to more dynamic investment. Privatization of state-owned banks is complete, and foreign banks account for more than 80 percent of total assets. Credit is generally allocated on market terms.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+6.7	Business Freedom	-3.1	Trade Freedom	-0.5
Freedom from Corruption	-2.0	Government Spending	-8.0	Labor Freedom	+2.2	Investment Freedom	0
				Monetary Freedom	+2.3	Financial Freedom	0

BURKINA FASO



World Rank: **85** Regional Rank: **10**

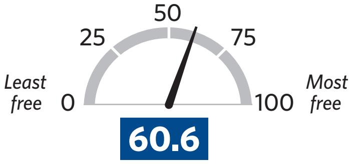
Burkina Faso's economic freedom score is 60.6, making its economy the 85th freest in the 2012 *Index*. Its overall score is the same as last year, with improvements in labor freedom and monetary freedom offset by declines in trade freedom and freedom from corruption. Burkina Faso is ranked 10th out of 46 countries in the Sub-Saharan Africa region, and its overall score is above the world average.

Progress in reforming the economy and developing the private sector has led to an average annual growth rate of almost 5 percent over the past five years. Burkina Faso scores relatively well in fiscal freedom and monetary freedom. Sustained efforts and pro-growth investments have resulted in some positive trends in overall human development, reducing poverty.

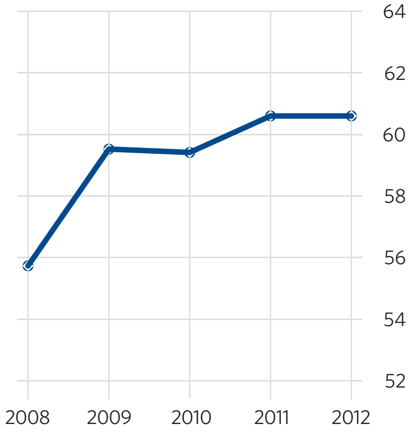
Nonetheless, Burkina Faso continues to confront systemic economic challenges. The foundations of economic freedom remain fragile because of a weak judiciary and pervasive corruption. Coupled with a lack of transparency, the regulatory burden on businesses continues to prevent the emergence of a more dynamic private sector.

BACKGROUND: Former army officer Blaise Compaoré, who seized power in 1987, won re-election for a fourth term in November 2010. (A constitutional amendment that would limit any president to two terms had been ruled not to apply to him.) Army revolts and mass protests contributed to a highly unstable political climate in 2011, and the president was forced to flee the palace during a mutiny by the presidential guard. Burkina Faso is one of the world's poorest countries. Approximately 80 percent of the population relies on subsistence agriculture. Drought, poor soil, lack of adequate communications and other infrastructure, a low literacy rate, and an economy vulnerable to external shocks are long-standing problems. Many Burkinabé live and work abroad, and remittances are a substantial source of income.

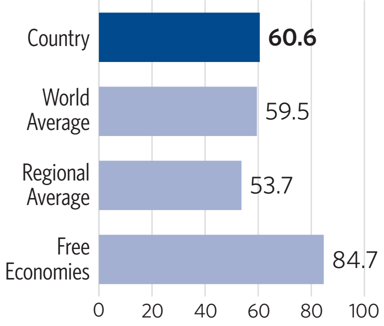
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 14.7 million

GDP (PPP): $20.0 billion

5.8% growth in 2010

5-year compound annual growth 4.7%

$1,360 per capita

Unemployment: 77.0%

Inflation (CPI): 0.4%

FDI Inflow: $37.1 million

Public Debt: 27.1% of GDP

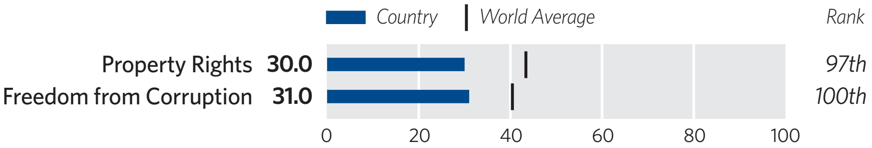
2010 data unless otherwise noted.
Data compiled as of September 2011.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

BURKINA FASO (continued)

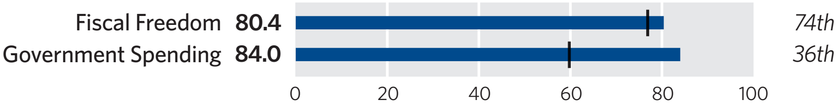
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



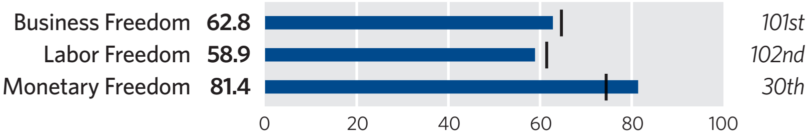
The judicial system is weak. The executive has extensive appointment and other judicial powers. Systemic weaknesses include arbitrary removal of judges, outdated legal codes, too few courts, a lack of financial and human resources, and excessive legal costs. Corruption is pervasive, partly because of the limited enforcement powers of anti-corruption institutions and the lack of an effective separation of powers.

LIMITED GOVERNMENT



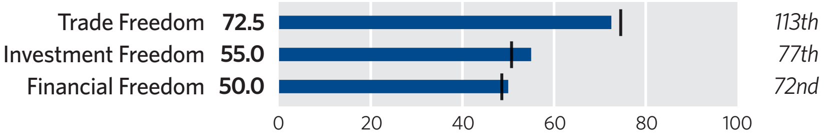
The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT), with the overall tax burden amounting to 12.6 percent of total domestic income. Government spending has been expansionary, rising to 23.1 percent of GDP. Budget deficits have widened to 5.8 percent of total domestic output. Public debt remains below 30 percent of GDP, although it has been increasing in recent years.

REGULATORY EFFICIENCY



Reforms to reduce red tape and streamline the regulatory process have been put into practice. Despite mixed progress, these measures have helped to enhance the regulatory environment and maintain the momentum for reform. A formal labor market has not been fully developed, but some modernization measures have been implemented. The state maintains price supports for cotton and influences other prices through the public sector.

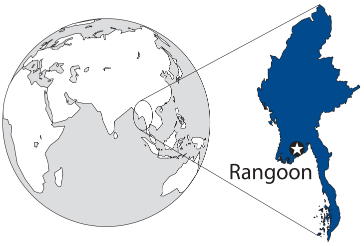
OPEN MARKETS



The trade weighted tariff rate is 8.8 percent, with lingering non-tariff barriers increasing the cost of trade. Although investment laws can be enforced unevenly, they guarantee equal treatment of foreign and domestic investors. The government has pursued banking liberalization and restructuring, limiting its direct participation. However, financial firms still lack the capacity to provide a full range of modern services for financing.

Score Changes

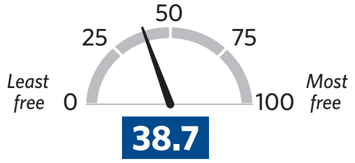
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.1	Business Freedom	+1.3	Trade Freedom	-3.7
Freedom from Corruption	-5.0	Government Spending	-2.0	Labor Freedom	+5.4	Investment Freedom	0
				Monetary Freedom	+4.6	Financial Freedom	0



BURMA

World Rank: **173** Regional Rank: **40**

Economic Freedom Score



Burma's economic freedom score is 38.7, making its economy the 173rd freest in the 2012 *Index*. Its score is 0.9 point better than last year, mainly due to improvements in monetary freedom and property rights. Burma is ranked 40th out of 41 countries in the Asia–Pacific region, and its overall score is much lower than the regional average.

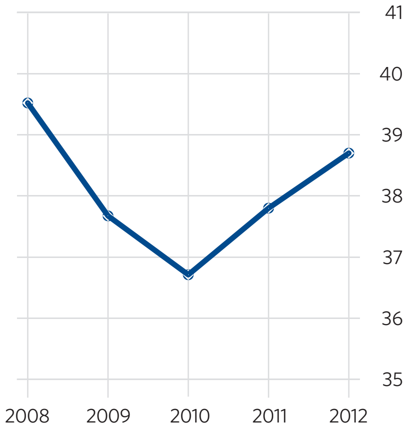
Historically scoring far below the world average, Burma's lack of economic freedom continues to justify the characterization of its economy as "repressed." The Burmese economy, hampered by extensive state controls and structural problems that severely undermine development of the private sector, lags in productivity growth and dynamic economic expansion. The foundations of economic freedom are fragile and uneven across the country.

Long-standing structural problems include poor public finance management and underdeveloped legal frameworks that undermine regulatory efficiency. Trade and investment policies needed to sustain open markets are undercut by government interference in the economy. Arbitrary tax policies, poor infrastructure, marginal enforcement of property rights, and weak rule of law have driven many people and enterprises into the informal sector.

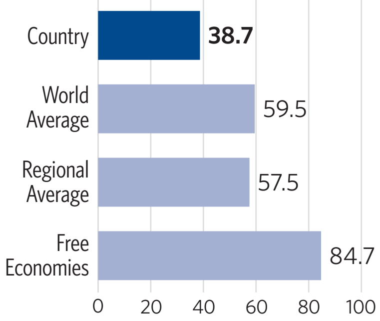
BACKGROUND: Burma has been ruled by a military junta since 1962. After the opposition National League for Democracy won a large majority in the 1990 legislative elections, the junta redoubled its efforts to crack down on dissent. The United Nations estimates that the violent government response to pro-democracy demonstrations in September 2007 resulted in over 30 fatalities. Elections were held on November 7, 2010, but the National League for Democracy refused to participate, and the election drew sharp criticism from the United Nations. On November 13, 2010, NLD leader and Nobel Peace Prize winner Aung San Suu Kyi was released from jail. 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 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



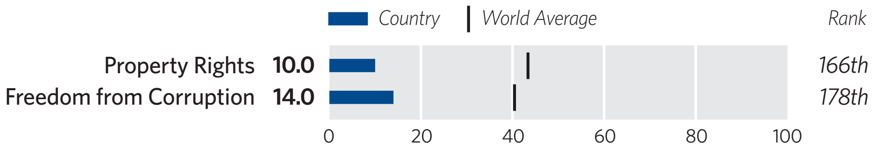
Quick Facts

Population: 61.2 million
GDP (PPP): $76.5 billion
5.3% growth in 2010
5-year compound annual growth 7.7%
$1,250 per capita
Unemployment: 5.7%
Inflation (CPI): 7.3%
FDI Inflow: $756.3 million
Public Debt: 42.8% of GDP

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

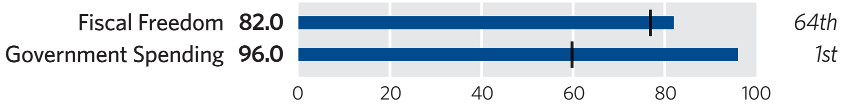
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



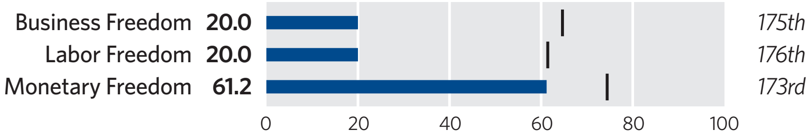
The foundations of economic freedom in Burma are weak. Private real property and intellectual property are not protected. Private and foreign companies are at a disadvantage in disputes with governmental and quasi-governmental organizations. In the absence of institutional reforms, corruption is rampant and continues to be a serious barrier to sustained economic development.

LIMITED GOVERNMENT



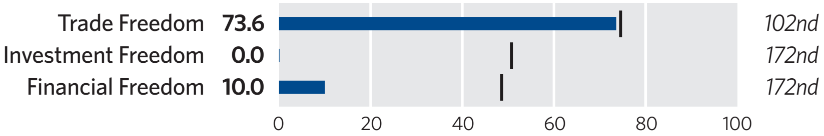
The top income and corporate tax rates are 30 percent. Official fiscal statistics are not regularly available. Overall tax revenue is estimated to be less than 5 percent of GDP, although income tax revenue has been rising rapidly in recent years. Government spending has increased to 11.5 percent of total domestic output, resulting in widening deficits. Public debt corresponds to 42.8 percent of GDP.

REGULATORY EFFICIENCY



The regulatory environment is severely hampered by lack of legal transparency, and much business activity is concentrated in state-owned enterprises. Political influence is strong in regulatory decision-making, and poor enforcement of laws undermines private-sector development. The government sets public-sector wages and influences wage-setting in the private sector. Other state price controls are in place, distorting domestic prices.

OPEN MARKETS

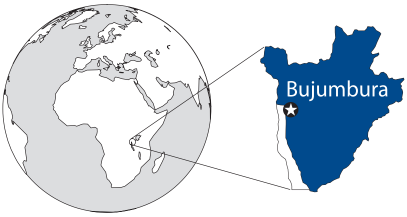


Trade freedom remains constrained by myriad non-tariff barriers that increase the cost of trade. Foreign and domestic private investment is approved case-by-case, with many sectors reserved for domestic and government-controlled activity. Banking is dominated by state-owned banks, although several private banks have been in operation. Most loans are directed to government projects, and access to credit is highly controlled.

Score Changes

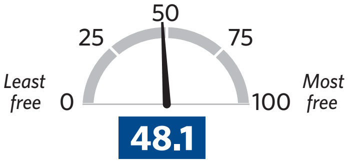
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	+5.0	Fiscal Freedom	+0.1	Business Freedom	0	Trade Freedom	+1.3
Freedom from Corruption	0	Government Spending	-2.1	Labor Freedom	0	Investment Freedom	0
				Monetary Freedom	+4.6	Financial Freedom	0

BURUNDI



World Rank: **157** Regional Rank: **37**

Economic Freedom Score



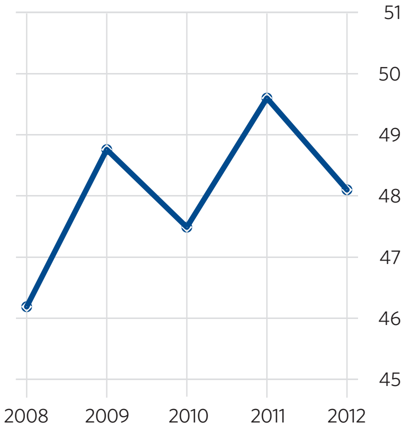
Burundi's economic freedom score is 48.1, making its economy the 157th freest in the 2011 *Index*. Its overall score is 1.5 points worse than last year, mainly because of deterioration in the management of public finance. Burundi is ranked 37th out of 46 countries in the Sub-Saharan Africa region, and its score is worse than the world average.

Continuing its status as a "repressed" economy, Burundi performs worse than world averages in many of the 10 economic freedoms. The fragility of the country's foundations of economic freedom is reflected in very low scores for property rights and corruption that undermine the rule of law.

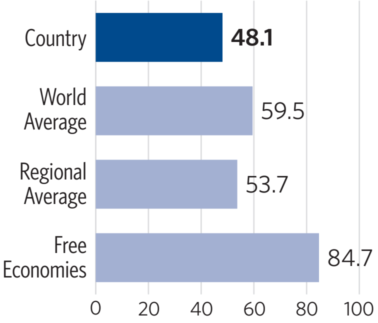
Many aspects of the entrepreneurial framework that are critical to sustaining regulatory efficiency and open markets are subject to intrusive and inefficient state action. The private sector operates in such a repressive policy environment that it is difficult to generate employment opportunities and lasting economic growth. Burundi continues to be excessively dependent on a widely fluctuating agricultural sector, the principal source of jobs for more than 80 percent of the population.

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 led to an estimated 300,000 deaths and the beginnings of 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's primary exports are tea and coffee. Agriculture accounts for over 30 percent of GDP.

Freedom Trend



Country Comparisons



Quick Facts

Population: 8.3 million

GDP (PPP): $3.4 billion

3.9% growth in 2010

5-year compound annual growth 4.1%

$411 per capita

Unemployment: n/a

Inflation (CPI): 6.4%

FDI Inflow: $14.1 million

Public Debt: 49.9% of GDP

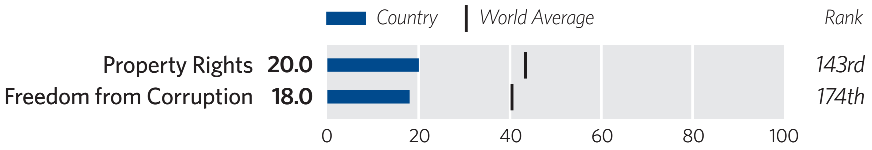
2010 data unless otherwise noted.
Data compiled as of September 2011.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

BURUNDI (continued)

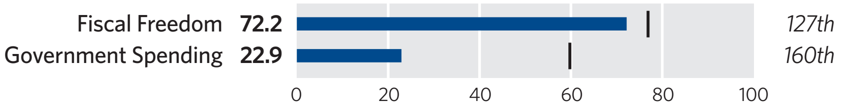
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



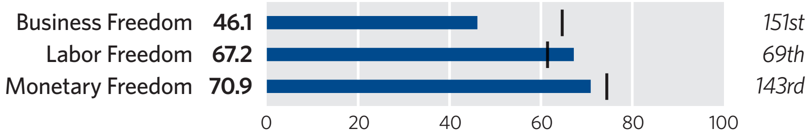
Private property is subject to government expropriation and armed banditry. The constitution guarantees the independence of the judiciary, but judges are appointed by the executive branch and subject to political pressure. Corruption is present in every area of life. It is most pervasive in government procurement, where the purchase and sale of government property frequently lead to allegations of bribery and cronyism.

LIMITED GOVERNMENT



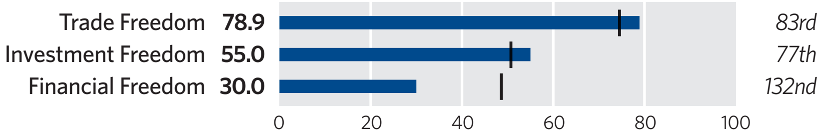
The top income and corporate tax rates are 35 percent. Other taxes include a value-added tax (VAT) that recently replaced the general sales tax, with the overall tax burden amounting to 18.1 percent of total domestic income. Government spending has risen to 50.7 percent of total domestic output, resulting in a deficit of around 5 percent of GDP. Public debt has also increased to about half the size of the economy.

REGULATORY EFFICIENCY



Despite steps taken to enhance regulatory efficiency, the overall business environment remains severely constrained by burdensome bureaucracy and the lack of transparency. Rigid employment regulations and an underdeveloped labor market hinder productivity growth and job creation. The government influences prices through state-owned enterprises, subsidies, and agriculture-support programs.

OPEN MARKETS



The trade regime is relatively open, but inadequate administrative capacity and poor infrastructure add to the cost of trade. Foreign and domestic investments receive equal treatment, and foreign investment generally is not subject to government screening. The underdeveloped financial sector provides a very limited range of services. The public sector dominates commercial banking, and many people rely on microcredit or informal lending.

Score Changes

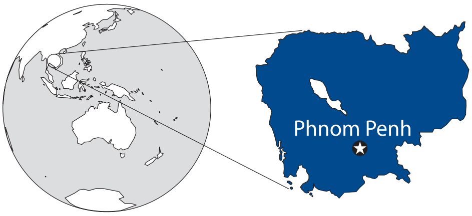
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	–0.1
Government Spending	–29.1

REGULATORY EFFICIENCY	
Business Freedom	+9.3
Labor Freedom	+0.1
Monetary Freedom	+4.8

OPEN MARKETS	
Trade Freedom	+0.1
Investment Freedom	0
Financial Freedom	0

CAMBODIA



World Rank: **102** Regional Rank: **17**

Cambodia's economic freedom score is 57.6, making its economy the 102nd freest in the 2012 *Index*. Its overall score is 0.3 point worse than last year due to a drop in scores for trade freedom and government spending. Cambodia is ranked 17th out of 41 countries in the Asia–Pacific region, and its overall score is slightly higher than the regional average.

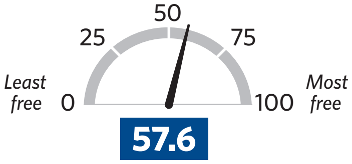
Cambodia has not experienced much progress in economic freedom, and the government shows little interest in fostering reform. The lack of dynamism in the domestic economy leaves it highly vulnerable to the vagaries of world markets, and though five-year average growth has been a respectable 6 percent, the country was significantly affected by the global economic slowdown.

Small gains in regulatory efficiency and the maintenance of relatively sound public finance management have allowed Cambodia to maintain economic stability, no small feat for a country previously ravaged by violence. Nonetheless, lingering institutional weaknesses still restrict economic freedom and prevent more dynamic growth. In particular, the rule of law, one of the basic foundations of economic freedom, remains fragile due to corruption and an inefficient judicial system that is vulnerable to political interference. Government tariffs and other restrictions reduce the benefits to the population from international trade.

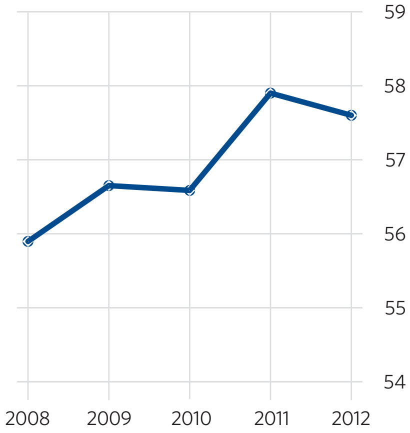
BACKGROUND: Between 1975 and 1979, the brutal Khmer Rouge regime of Pol Pot took the lives of an estimated 3 million Cambodians. Today, Cambodia is nominally a democracy, but it has been ruled since 1993, either formally or *de facto*, by Prime Minister Hun Sen, who has held power through elections that have often fallen short of international standards for fairness. In mid-2008, the former Khmer Rouge leader's Cambodian People's Party won a large majority in the National Assembly, and Hun Sen was re-elected prime minister. A tribunal established under an agreement with the United Nations to try senior officials involved in the atrocities gained its first conviction in July 2010. Cambodia's economy is heavily dependent on tourism and garment exports.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

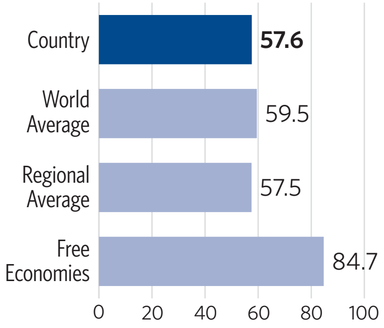
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

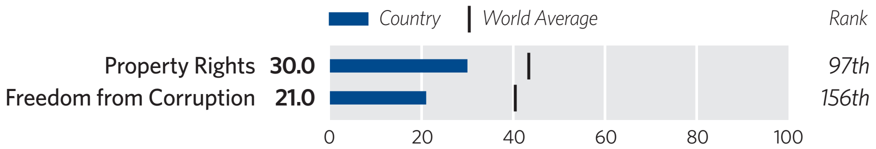
Population: 14.3 million
GDP (PPP): $30.2 billion
6.0% growth in 2010
5-year compound annual growth 6.2%
$2,112 per capita
Unemployment: 3.5%
Inflation (CPI): 4.0%
FDI Inflow: $782.6 million
Public Debt: 29.8% of GDP

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

CAMBODIA (continued)

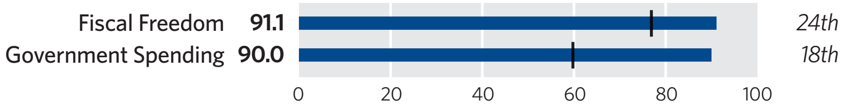
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



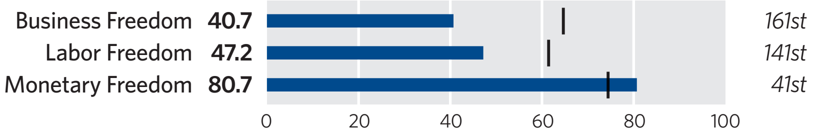
The legal system does not protect private property effectively. The executive branch usually dominates the judiciary. Inconsistent judicial rulings and outright corruption are common. The land titling system is not fully functional, and most property owners cannot prove their ownership. A new foreign ownership law passed in 2010, however, expanded the rights of foreigners to own property. Infringement of intellectual property rights is pervasive.

LIMITED GOVERNMENT



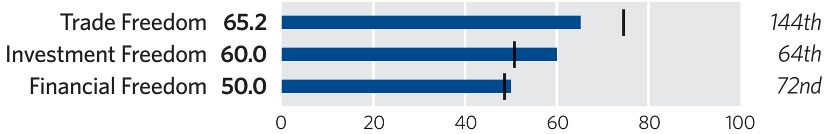
The top income and corporate tax rates are 20 percent. Other taxes include an excise tax and a value-added tax (VAT), with the overall tax burden amounting to 9.4 percent of total domestic income. Government spending has increased to 18.3 percent of total domestic output, but the budget balance remains under control. Public debt continues to remain below 30 percent of GDP.

REGULATORY EFFICIENCY



Measures to modernize commercial codes and facilitate private-sector development, including updated bankruptcy legislation, have been adopted in recent years. The market determines most prices, but the government attempts to maintain stable retail prices for fuel through subsidies. The non-salary cost of employing a worker is low, but enforcement of many aspects of the labor codes is not effective. Inflation has been relatively modest.

OPEN MARKETS



The trade weighted tariff is 9.9 percent, with other non-tariff barriers hampering the dynamic growth of trade. 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. Banking has become more market-oriented, but the financial sector remains subject to state influence.

Score Changes

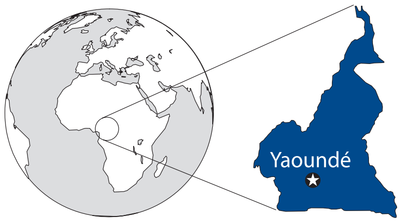
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+1.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.2
Government Spending	-4.2

REGULATORY EFFICIENCY	
Business Freedom	+1.2
Labor Freedom	+0.9
Monetary Freedom	+2.7

OPEN MARKETS	
Trade Freedom	-4.8
Investment Freedom	0
Financial Freedom	0

CAMEROON



World Rank: **135** Regional Rank: **29**

Cameroon's economic freedom score is 51.8, making its economy the 135th freest in the 2012 *Index*. Its overall score is the same as last year, with declines in monetary freedom and trade freedom offset by gains in fiscal freedom and business freedom. Cameroon is ranked 29th out of 46 countries in the Sub-Saharan Africa region, and its overall score is lower than the regional average.

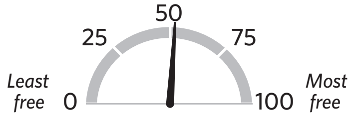
Cameroon's performance on most of the indicators of economic freedom has been dismal, and its economic freedom score has been in decline over the past five years. The weak foundations of economic freedom prevent sustained economic expansion. An unreliable legal system provides little protection for property rights and engenders widespread corruption. High tariffs and investment restrictions undercut potential gains from international commerce.

Cameroon's economy, although relatively diversified with services accounting for around 40 percent of GDP, remains dominated by the public sector. The global economic slowdown had a significant impact on growth, and economic development continues to be hampered by the lack of a dynamic private sector. Progress in structural reform has been only marginal, and the overall entrepreneurial environment is not conducive to creating more economic opportunities.

BACKGROUND: President Paul Biya has held office since 1982, and there is little evidence of democratic reform. In 2008, Biya's supporters in parliament passed constitutional amendments granting the president immunity for acts committed while in office and enabling Biya to run yet again in 2011. Public frustration with poor governance threatens to spark political unrest. Although the government claims to maintain strong civil rights laws, discrimination and charges of human rights abuse are abundant. In addition to unlawful arrests and excessive force by authorities, forced labor and human trafficking are chronic problems. Despite abundant natural resources, with oil and pipeline projects providing significant revenue, over half of the population depends on agriculture. The transparency of oil-related public finances has been improved, but economic mismanagement still inhibits development.

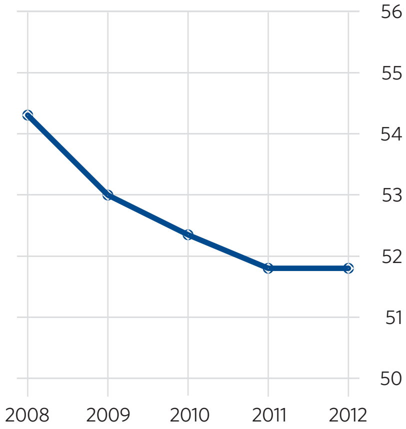
How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Economic Freedom Score

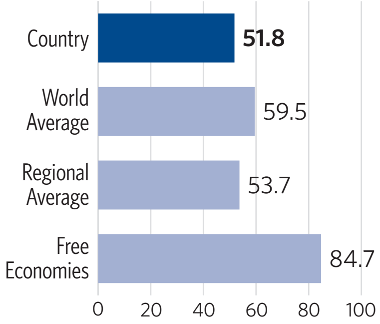


51.8

Freedom Trend



Country Comparisons



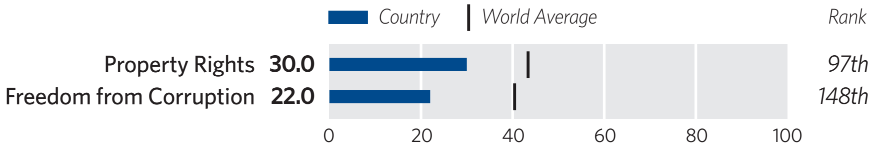
Quick Facts

Population: 20.4 million
GDP (PPP): $44.3 billion
3.0% growth in 2010
5-year compound annual growth 2.8%
$2,170 per capita
Unemployment: n/a
Inflation (CPI): 1.3%
FDI Inflow: $425.1 million
Public Debt: 12.1% of GDP

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

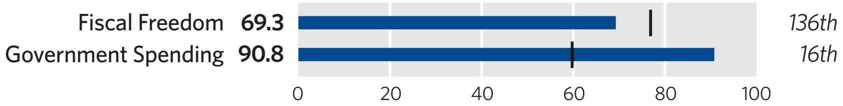
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



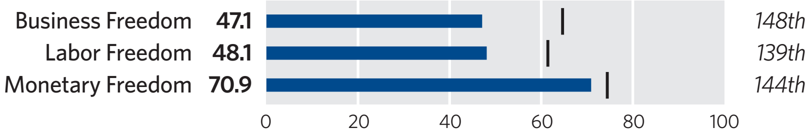
Protection of property rights remains weak due to lingering corruption and an inefficient judicial system. The court system is vulnerable to political interference and long delays. Trademarks and copyrights are routinely violated, and software piracy is widespread. Despite anti-corruption and good-governance initiatives, legal loopholes and legislative gaps allowing corruption have not been eliminated.

LIMITED GOVERNMENT



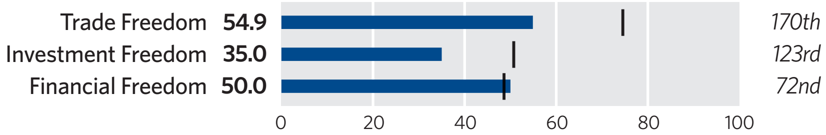
The top income and corporate tax rates are 38.5 percent (35 percent plus a 10 percent surcharge). Other taxes include a value-added tax (VAT), a property tax, and an inheritance tax, with the overall tax burden equal to 10.3 percent of total domestic income. Government spending is equivalent to 17.5 percent of total domestic output, with a budget deficit of 1.1 percent of GDP and public debt reaching 12 percent of GDP.

REGULATORY EFFICIENCY



Cameroon has made starting a business easier by simplifying requirements and reducing fees, but the overall entrepreneurial environment remains hampered by inefficiency and a lack of transparency. The labor market remains underdeveloped. Inflation has been modest, but the country’s tendency to rely on anti-market tools was underscored early in 2011 by creation of a new state-run agency to regulate the price and supply of basic goods.

OPEN MARKETS

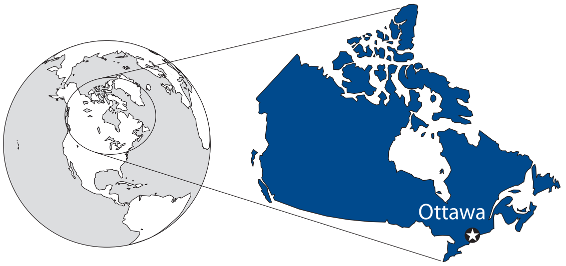


The trade weighted average tariff rate is quite high at 15 percent, with non-tariff barriers further increasing the cost of trade. The investment regime is constrained by heavy bureaucracy and a lack of transparency. New investments may be subject to government approval. The cost of financing remains high, and access to credit is very limited in rural areas. Long-term loans are hard to obtain, and the non-banking financial sector remains marginal.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+2.4	Business Freedom	+3.0	Trade Freedom	–4.7
Freedom from Corruption	0	Government Spending	+1.1	Labor Freedom	+1.1	Investment Freedom	0
				Monetary Freedom	–2.4	Financial Freedom	0

CANADA



World Rank: **6** Regional Rank: **1**

Canada's economic freedom score is 79.9, making its economy the 6th freest in the 2012 *Index*. Its overall score is 0.9 point lower than last year, reflecting worsening scores for government size and monetary freedom. Canada continues to be the freest economy in the North America region, though it has dropped just below the cutoff for characterization as a "free" economy.

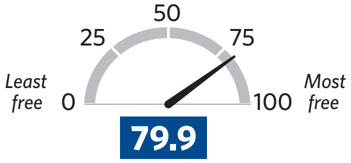
The foundations of economic freedom are very strong in Canada, and the economy has emerged from the global economic slowdown relatively unscathed. The rule of law is sustained by an effective and independent court system, ensuring protection of property rights and the equitable application of the commercial code.

Canada also performs well in other pillars of economic freedom and continues to sharpen its long-term competitiveness. The soundness of public finance has been notable, although government spending has been rising as a share of GDP. Along with open-market policies that support trade and dynamic investment, the efficient regulatory environment facilitates entrepreneurial activity and provides a high degree of certainty for business planning. The steady reduction of the standard corporate tax rate over the past three years has also contributed to Canada's competitiveness.

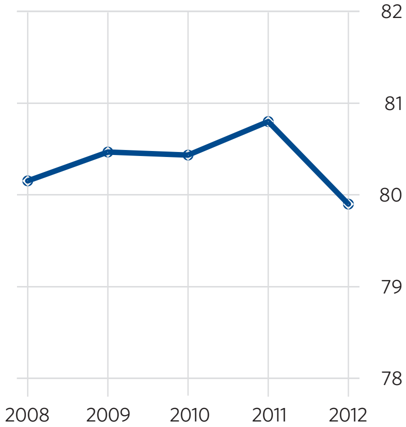
BACKGROUND: Canada's multi-ethnic population is governed under a federal democratic system that provides substantial provincial and territorial autonomy. Prime Minister Stephen Harper, whose priorities include lower taxes, a strong defense, and fighting crime, won a second term in May 2011 as his Conservative Party gained a solid majority in Parliament. Tensions between Anglo and French Canadians have softened in the past decade, and cultural protectionism in international trade has declined. Restrictions on foreign ownership in media and other sectors have been under review by the government and the courts. As a party to the North American Free Trade Agreement, which connects 450 million people in an economic area producing about one-third of the world's GDP, Canada is a major exporter of oil, minerals, automobiles, manufactured goods, and forest products.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

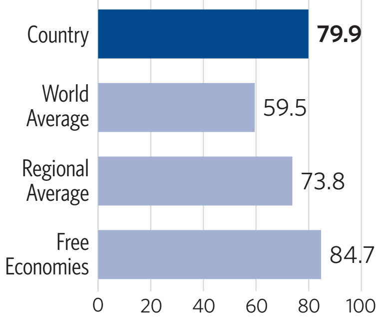
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 34.1 million

GDP (PPP): $1.3 trillion

3.1% growth in 2010

5-year compound annual growth 1.2%

$39,057 per capita

Unemployment: 8.0%

Inflation (CPI): 1.8%

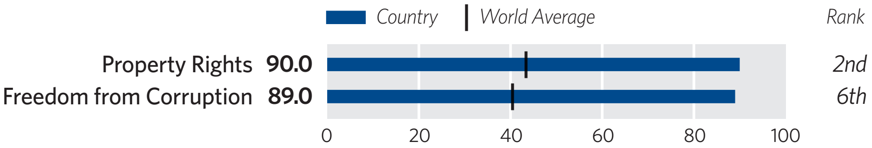
FDI Inflow: $23.4 billion

Public Debt: 83.9% GDP

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

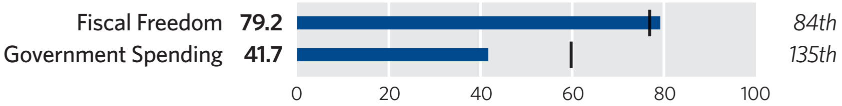
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



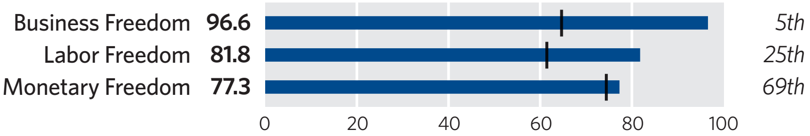
Canada's foundations of economic freedom are solid. Private property is well protected, with an independent and transparent judicial system firmly in place. Contract enforcement is very secure, and expropriation is highly unusual. Protection of intellectual property rights is consistent with world standards. Effective anti-corruption measures discourage bribery of public officials and uphold clean government.

LIMITED GOVERNMENT



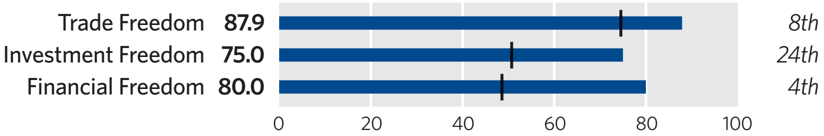
The top federal income tax rate remains at 29 percent. The 16.5 percent top corporate tax rate is scheduled to decline further to 15 percent in January 2012. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden amounting to 31.1 percent of total domestic income. Government spending has increased to over 40 percent of total domestic output. Budget deficits have widened, and public debt has risen.

REGULATORY EFFICIENCY



The regulatory framework is highly conducive to business formation and operation, with no minimum capital required for starting a company. The average cost of getting necessary licenses has been cut almost in half. 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

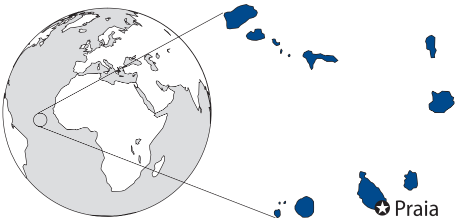


The trade regime is very competitive, with low tariff and non-tariff barriers facilitating dynamic gains from free trade. The country's openness and flexibility strongly sustain the investment environment, which has been efficient and dynamic. The prudent banking sector has weathered the global financial turmoil with no need for bailouts or considerable injections of state funds. The "big six" domestic banks account for around 90 percent of total assets.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.2	Business Freedom	+0.2	Trade Freedom	-0.2
Freedom from Corruption	+2.0	Government Spending	-11.0	Labor Freedom	+0.1	Investment Freedom	0
				Monetary Freedom	-1.5	Financial Freedom	0

CAPE VERDE



World Rank: 66 **Regional Rank: 4**

Cape Verde's economic freedom score is 63.5, making its economy the 66th freest in the 2012 *Index*. Its overall score is 1.1 points worse than last year as a result of score declines in four of the 10 components of economic freedom, including business freedom and government spending. Cape Verde is ranked 4th out of 46 countries in the Sub-Saharan Africa region, and its overall score is much higher than the regional average.

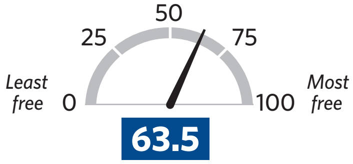
Strong economic performance reflects Cape Verde's commitment to reform. In many of the four pillars of economic freedom, the small island economy has achieved scores above world averages. The foundations of economic freedom are solid, with property rights strongly protected in comparison to other economies in the region.

The overall entrepreneurial environment benefits from high levels of regulatory flexibility and efficiency, although reform of the business start-up process has slowed. The tax regime is conducive to vibrant entrepreneurial activity, as are policies that support free trade and open markets. Public spending has been expansionary in recent years, resulting in widening deficits.

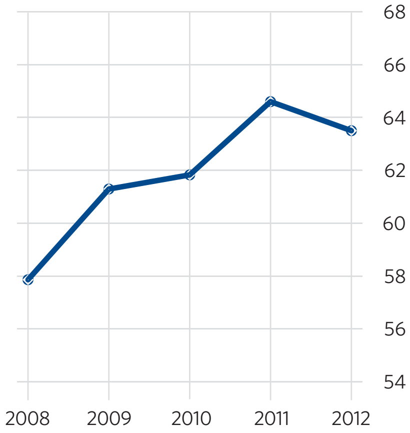
BACKGROUND: Cape Verde, a West African archipelago, is a stable, multi-party parliamentary democracy. The African Party for the Independence of Cape Verde maintained its majority in the February 2011 legislative elections and installed Jose Maria Neves as prime minister; opposition leader Jorge Carlos Fonseca won the more ceremonial presidency in August. 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 workforce. 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 to improve governance, security and stability, regional integration, and anti-poverty efforts. Cape Verde joined the World Trade Organization in 2008.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

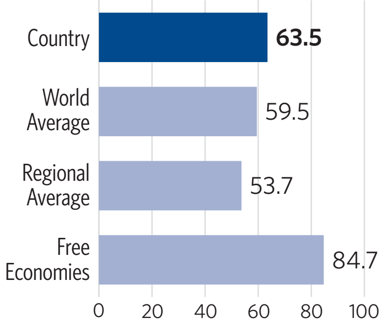
Economic Freedom Score



Freedom Trend



Country Comparisons



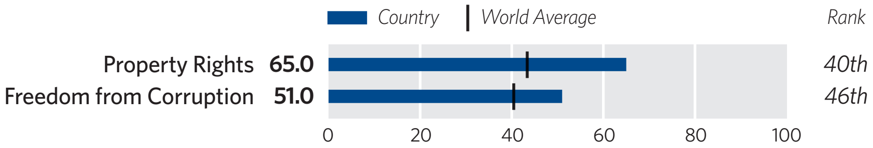
Quick Facts

Population: 0.5 million
GDP (PPP): $1.9 billion
5.4% growth in 2010
5-year compound annual growth 6.8%
$3,647 per capita
Unemployment: 10.7%
Inflation (CPI): 2.1%
FDI Inflow: $111.4 million
Public Debt: 73.2% of GDP

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

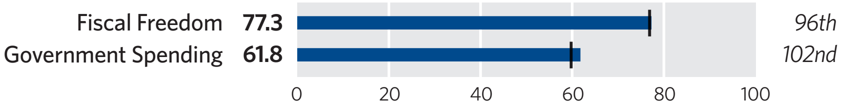
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



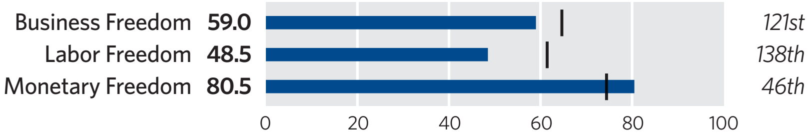
Private property is fairly well protected. The constitutional provision for an independent judiciary is generally respected, but the judicial system is inefficient, with the case backlog resulting in delays. Several recently signed treaties provide stronger protection for intellectual property. Political and economic governance is generally regarded as among the region's best, behind Botswana and South Africa.

LIMITED GOVERNMENT



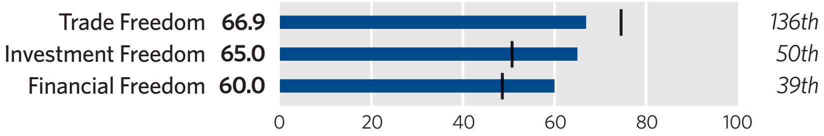
The top income tax rate is 35 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT), with the overall tax burden amounting to 20.6 percent of total domestic income. Government spending has increased to 35.7 percent of total domestic output, leading to a budget deficit of over 10 percent of GDP and growing public debt that has reached 73.2 percent of GDP.

REGULATORY EFFICIENCY



The business environment has gradually become more efficient. The process for launching a business is more streamlined, and licensing requirements are less burdensome. Modern and efficient bankruptcy procedures are not fully developed. Employment regulations remain rigid despite recent reform efforts. The market determines most prices, and inflation has been modest.

OPEN MARKETS



The trade weighted tariff is 11.6 percent. Non-tariff barriers include restrictions on services market access. Foreign investment is officially encouraged and receives the same treatment as domestic investment. Most sectors are open, but all foreign investment requires prior authorization. With credit generally allocated on market terms, small and medium-size enterprises have increasingly adequate access to financing.

Score Changes

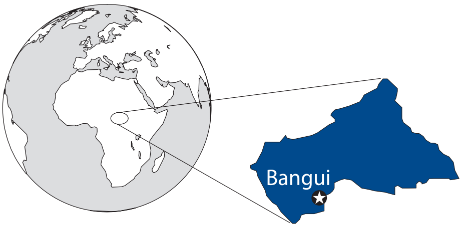
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	0
Government Spending	-9.2

REGULATORY EFFICIENCY	
Business Freedom	-5.8
Labor Freedom	-1.5
Monetary Freedom	+1.3

OPEN MARKETS	
Trade Freedom	-0.7
Investment Freedom	+5.0
Financial Freedom	0

CENTRAL AFRICAN REPUBLIC



World Rank: **145** Regional Rank: **31**

The Central African Republic's economic freedom score is 50.3, making its economy the 145th freest in the 2012 *Index*. Its overall score is 1.0 point higher than last year, primarily because of improvements in monetary and investment 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.

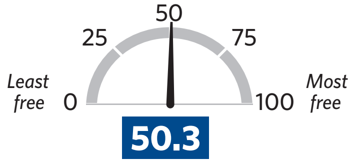
The Central African Republic has pulled itself out of the "repressed economy" category. However, the country performs poorly in many of the four pillars of economic freedom and needs to build stronger momentum for reform. In particular, the foundations of economic freedom remain fragile because of pervasive corruption and a deficient judicial system, which undermine equity and erode the effectiveness of government.

Despite overall progress this year, regulatory efficiency continues to be poor and unfavorable to the development of a more dynamic climate for entrepreneurial activity. The informal economy provides a large number of jobs for relatively unskilled labor. Existing policies aimed at promoting and sustaining open markets have been undercut considerably by a lack of determined implementation.

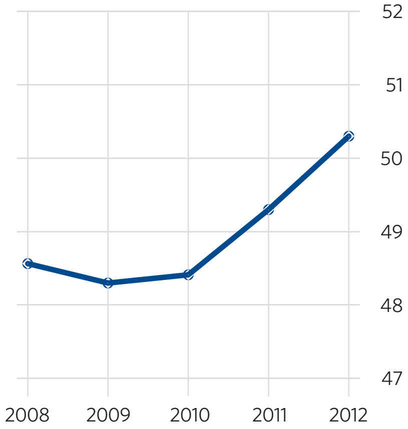
BACKGROUND: A December 2008 agreement between General François Bozizé (who overthrew the civilian government in 2003), opposition leaders, and some rebel groups established a consensus government. Elections scheduled for April 2010 were postponed, and Bozizé and parliament remained in office beyond the expiration of their terms. These elections were completed in March 2011. Bozizé was re-elected to a second term, and his party won 61 out of the 100 available legislative seats. Rebel groups remain active, and unrest in Sudan and the Democratic Republic of Congo continues to affect the CAR's security. Despite abundant timber, diamonds, gold, and uranium, the CAR is one of the world's least-developed countries. The majority of the population is engaged in subsistence farming. China is preparing to explore for oil.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

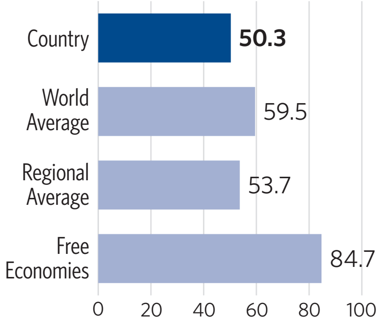
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

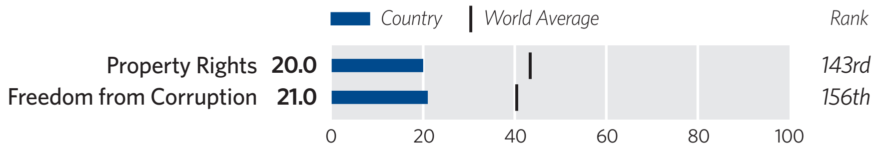
Population: 4.6 million
GDP (PPP): $3.4 billion
3.3% growth in 2010
5-year compound annual growth 2.9%
$745 per capita
Unemployment: 8.0%
Inflation (CPI): 1.5%
FDI Inflow: $72.0 million
Public Debt: 41.9% of GDP

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

CENTRAL AFRICAN REPUBLIC (continued)

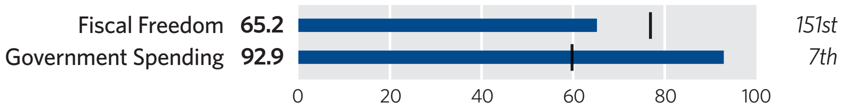
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



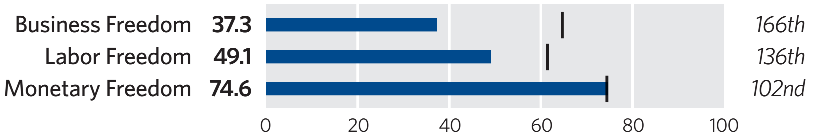
Protection of property rights is weak. Most of the country's territory is not under central government control, and there is a high risk of renewed violence in rebel-controlled areas. The judiciary is subject to executive interference. Because of inefficient administration, the courts barely function. Misappropriation of public funds and corruption are widespread.

LIMITED GOVERNMENT



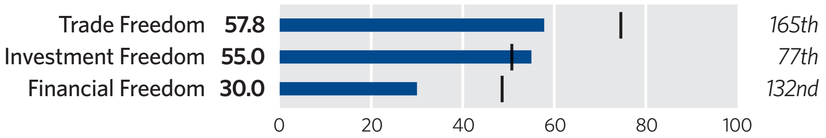
The top income tax rate is 50 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT), with the overall tax burden amounting to 8.7 percent of total domestic income. Government spending is equivalent to 15.4 percent of total domestic output. The budget balance has been in deficit in recent years, and public debt stands at 41.9 percent of GDP.

REGULATORY EFFICIENCY



Establishing a business has become less time-consuming, but other regulatory requirements remain burdensome and opaque, increasing the cost of conducting business. The minimum capital required to start a business is over four times average annual income. The underdeveloped labor market continues to hinder employment growth. The government influences most prices through the public sector, subsidies, and price controls.

OPEN MARKETS

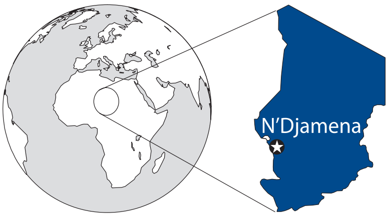


The trade weighted tariff rate is 13.6 percent. Myriad non-tariff barriers add to the cost of trade. Foreign and domestic investors are treated equally, and all sectors of the economy, including real estate, are open to foreign investment, typically without screening. The financial system is underdeveloped, and access to financing for businesses remains very limited. Less than 1 percent of the population has access to banking services.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.2	Business Freedom	+0.5	Trade Freedom	-0.3
Freedom from Corruption	+1.0	Government Spending	+0.1	Labor Freedom	+0.9	Investment Freedom	+5.0
				Monetary Freedom	+3.3	Financial Freedom	0

CHAD



World Rank: **166** Regional Rank: **41**

Chad's economic freedom score is 44.8, making its economy the 166th freest in the 2012 *Index*. Its overall score is 0.5 point lower than last year, with a considerable decline in its government spending score. Chad is ranked 41st out of 46 countries in the Sub-Saharan Africa region, and its overall score is lower than the regional average.

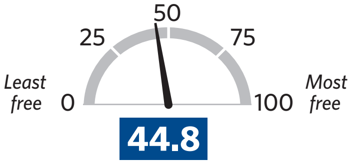
Chad lags far behind many other developing countries in terms of economic and human development. The economy is overly dependent on oil and remains vulnerable to market volatility. The country performs poorly in many of the four pillars of economic freedom. In particular, the rule of law is too weak to sustain meaningful economic progress. Protection of property rights remains weak, and corruption is rampant.

The effectiveness of government remains low, and the management of public finance has deteriorated considerably in recent years. Inflationary pressures undermine monetary stability, and government interference with market prices is extensive. Much-needed private-sector development is held back by an inefficient and unstructured regulatory system.

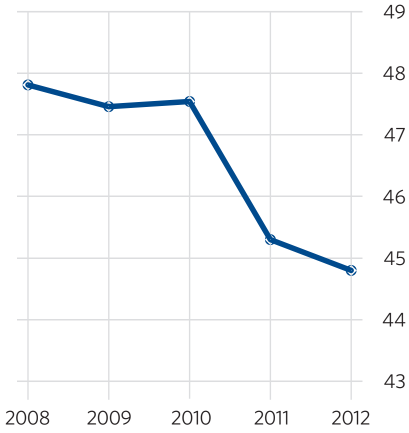
BACKGROUND: In March 2010, Prime Minister Youssouf Saleh Abbas, shaken by embezzlement scandals, resigned from office and was succeeded by former Minister of Decentralization Emmanuel Nadingar. President Idriss Deby, who had seized power in 1990, was re-elected to a fourth term in March 2011 amid allegations of electoral fraud and vote tampering. Conflict in eastern Chad and unrest in Sudan's Darfur region have created hundreds of thousands of Chadian and Sudanese refugees. Chad is thinly populated, landlocked, unstable, and impoverished. Over 80 percent of its people depend on subsistence agriculture, herding, and fishing. Oil revenues and investments in oil by American companies and China 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 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

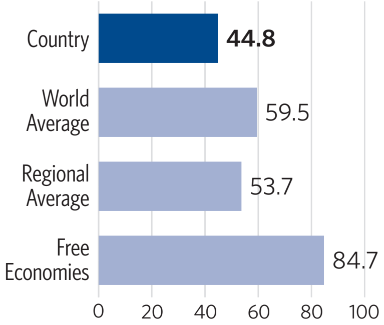
Economic Freedom Score



Freedom Trend



Country Comparisons



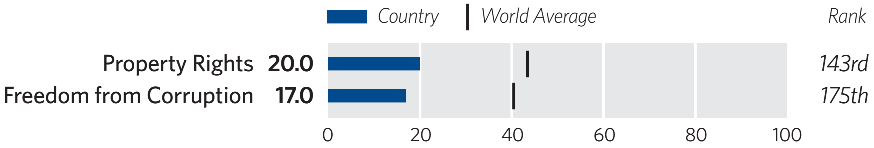
Quick Facts

Population: 10.2 million
GDP (PPP): $17.4 billion
5.1% growth in 2010
5-year compound annual growth 1.0%
$1,698 per capita
Unemployment: n/a
Inflation (CPI): 1.0%
FDI Inflow: $781.4 million
Public Debt: 32.6% of GDP

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

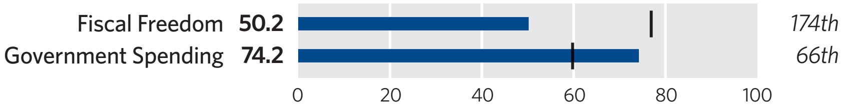
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



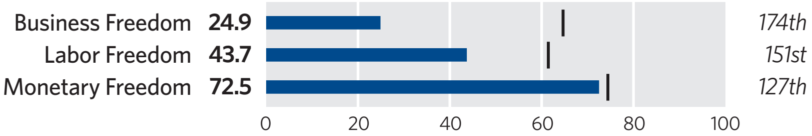
Protection of private property is weak, and the rule of law remains uneven across the country. The constitution guarantees judicial independence, but most key judicial officials are named by the president and assumed to be subject to political influence. Despite a "Ministry of Morality" that conducts anti-corruption seminars for government employees, corruption exists at all levels of government.

LIMITED GOVERNMENT



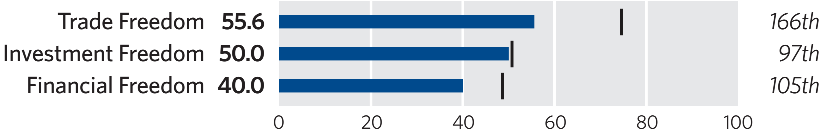
The top income tax rate is 60 percent, and the top corporate tax rate is 40 percent. Other taxes include a value-added tax (VAT) and a property tax, and the overall tax burden is equal to 7.1 percent of total domestic income. Government spending has risen to 29.3 percent of total domestic output, with a budget deficit of around 5.2 percent of GDP and public debt reaching over 30 percent of GDP.

REGULATORY EFFICIENCY



Starting a company takes longer than the world average of 30 days, and the cost of establishing a business remains more than twice the level of average annual income. With informal labor activity widespread, outmoded employment regulations hinder job creation and productivity growth. Most prices are determined in the market, but the government influences prices through state-owned enterprises and the regulation of key goods.

OPEN MARKETS

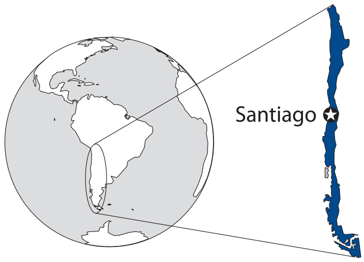


The trade weighted tariff rate is 14.7 percent, hindering dynamic growth in trade. Myriad non-tariff barriers further weaken trade freedom. Although Chad allows foreign ownership and provides equal treatment to foreign investors, bureaucratic requirements and restrictions continue to be serious impediments to new investment. The financial sector is underdeveloped, with domestic credit equivalent to less than 1 percent of GDP.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.2	Business Freedom	-0.4	Trade Freedom	0
Freedom from Corruption	+1.0	Government Spending	-11.1	Labor Freedom	-1.1	Investment Freedom	+5.0
				Monetary Freedom	+1.9	Financial Freedom	0

CHILE



World Rank: **7** Regional Rank: **1**

Chile's economic freedom score is 78.3, making its economy the 7th freest in the 2012 *Index*. Its overall score is 0.9 point better than last year due to improved scores in property rights, freedom from corruption, and monetary freedom. Chile enjoys the highest degree of economic freedom in the South and Central America/Caribbean region.

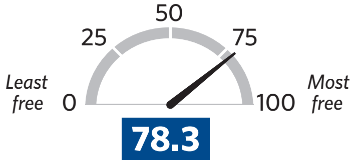
Regaining its status as one of the world's 10 freest economies, Chile continues to be a global leader in economic freedom. The economy benefits greatly from its solid foundations of economic freedom, which have been further strengthened in recent years. Recognizing the importance of limited government, the government has adhered to prudent public finance management practices that have kept public debt and recent budget deficits under control.

All the pillars of economic freedom are solidly maintained in Chile. With a transparent and stable business climate, the country has created a dynamic environment for entrepreneurs. Barriers to free trade are quite low, and commercial operations are aided by efficient regulations that support open-market policies. Inflationary pressures are under control, and foreign investment is welcome. Despite some stress in the financial system, Chile's modern and diversified economy has emerged from the global economic turmoil relatively unscathed.

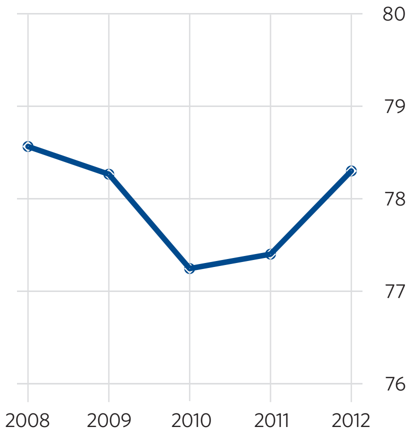
BACKGROUND: From 1990 to 2009, left-of-center governments largely maintained the market-based institutions and sound economic policies established under the 17-year rule of General Augusto Pinochet. President Sebastian Piñera and his center-right Alianza coalition assumed power in 2010. Chile is the world's leading producer of copper and has bounced back from the effects of a major earthquake in early 2010. 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 maintain fiscal balance. Exports of minerals, wood, fruit, seafood, and wine drive GDP growth. Chile joined the Organisation for Economic Co-operation and Development in 2010.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

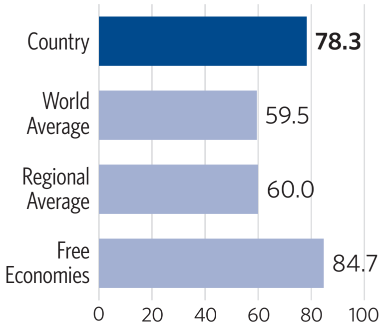
Economic Freedom Score



Freedom Trend



Country Comparisons



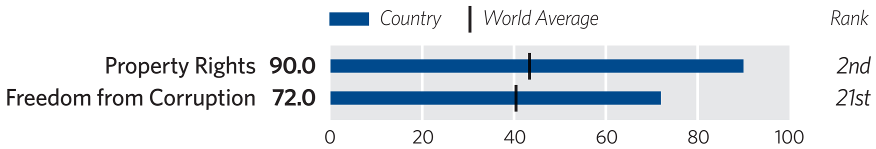
Quick Facts

Population: 17.2 million
GDP (PPP): $257.9 billion
5.3% growth in 2010
5-year compound annual growth 3.3%
$15,002 per capita
Unemployment: 8.1%
Inflation (CPI): 1.5%
FDI Inflow: $15.1 billion
Public Debt: 9.2% of GDP

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

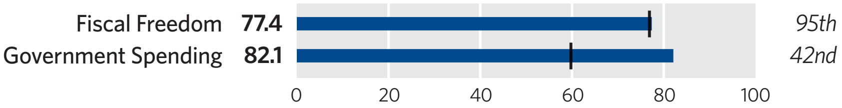
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



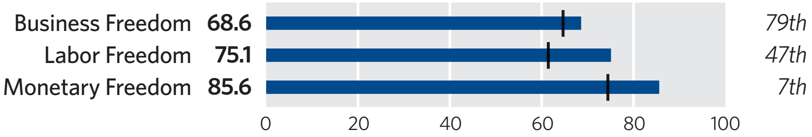
Contractual agreements in Chile are the most secure in Latin America. Courts are transparent and efficient. Property rights are strongly respected, and expropriation is rare. Lingering intellectual property rights concerns involve protection of patents and copyrights. In 2010, the government implemented a new intellectual property law amending its copyright law, and the Chilean Congress has ratified the Trademark Law Treaty.

LIMITED GOVERNMENT



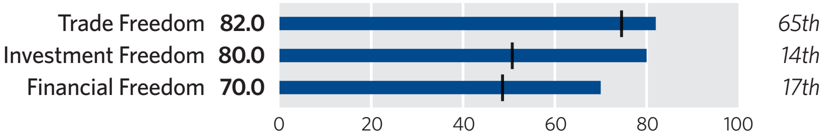
The top income tax rate is 40 percent. July 2010 tax amendments temporarily increased the 17 percent corporate tax rate to 20 percent for 2011. The rate will come down to 18.5 percent for 2012 and return to 17 percent for 2013. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden equal to 16.1 percent of GDP. Government spending is 24.4 percent of total domestic output, and public debt is under 10 percent of GDP.

REGULATORY EFFICIENCY



The overall regulatory framework facilitates entrepreneurial activity and productivity growth. The time needed to start a business has been reduced to seven days from 22, with only seven procedures required. Bankruptcy is relatively cumbersome and costly. Minimum wage increases have exceeded overall productivity growth in recent years, but labor laws generally facilitate efficient hiring and dismissal procedures. Inflation has been under control.

OPEN MARKETS

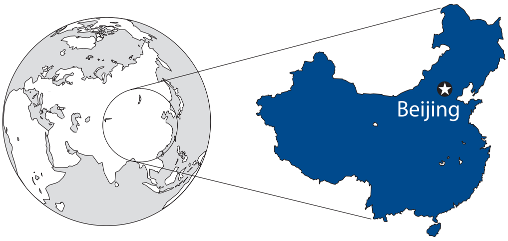


The trade weighted tariff rate is 4 percent, and non-tariff barriers are relatively low. Chile has actively pursued free trade deals with many countries. Guided by a transparent and efficient investment regime, foreign and domestic investors generally receive equal treatment. The financial sector remains one of the region's most stable and developed. Capital market reforms to enhance access to financing for individuals and firms have progressed gradually.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	+5.0	Fiscal Freedom	-0.3	Business Freedom	+1.4	Trade Freedom	-6.0
Freedom from Corruption	+5.0	Government Spending	-4.5	Labor Freedom	+0.6	Investment Freedom	0
				Monetary Freedom	+7.7	Financial Freedom	0

CHINA



World Rank: **138** Regional Rank: **30**

China's economic freedom score is 51.2, making its economy the 138th freest in the 2012 *Index*. Its overall score is 0.8 point lower than last year, reflecting worsening performance in business freedom and government spending. China is ranked 30th out of 41 countries in the Asia–Pacific region, and its overall score is lower than the global and regional averages.

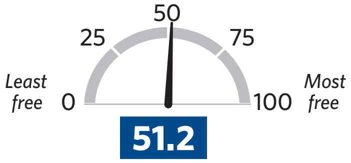
Economic freedom in China rests on fragile foundations. The judicial system is vulnerable to political influence and Communist Party directives, and corruption is perceived as widespread. The party's small leadership group holds ultimate authority, and direct control is exercised over many aspects of economic activity. The pace of genuinely liberalizing economic reform has slowed or stopped. The government has tried to counter the slowdown in global demand with expansionary fiscal and monetary interventions.

The embrace of market principles that could enhance efficiency and long-term competitiveness has become sporadic and is unevenly distributed throughout the country. The absence of political will to undertake more fundamental restructuring of the domestic economy has led to overreliance on public investment and exports to promote growth. The state-controlled financial sector continues to undercut efficiency and productivity through extensive use of subsidies and credit controls.

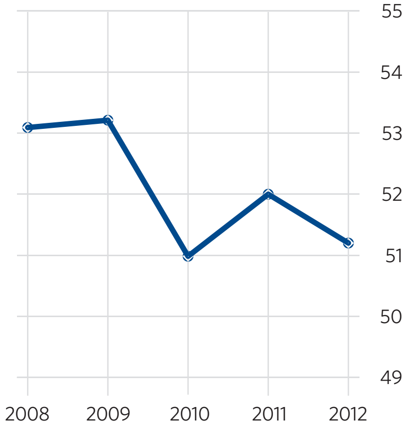
BACKGROUND: China remains a one-party state. The Communist Party maintains tight control of political expression, speech, religion, and assembly, and any social group that can organize on a large scale is deemed a threat, as are some individuals. A change of government set for late 2012 could be preceded by a further crackdown. Environmental degradation and the demographic transition and associated budgetary pressure that are the legacy of the "one-child" policy contribute to social unrest. China liberalized parts of its economy notably in the late 1970s and early 1980s and later achieved impressive GDP growth through greater integration into the world trading and financial systems. It 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

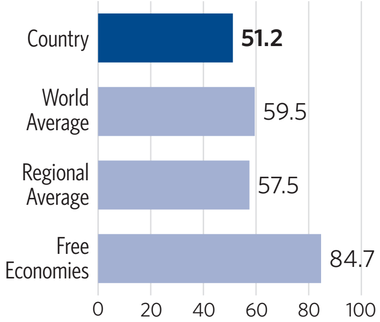
Economic Freedom Score



Freedom Trend



Country Comparisons



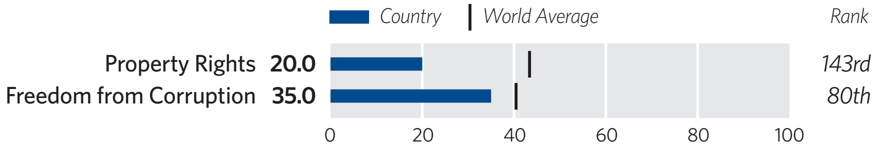
Quick Facts

Population: 1.34 billion
GDP (PPP): $10.1 trillion
10.3% growth in 2010
5-year compound annual growth 11.2%
$7,519 per capita
Unemployment: 4.3% (urban)
Inflation (CPI): 3.3%
FDI Inflow: $105.7 billion
Public Debt: 33.8% of GDP

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

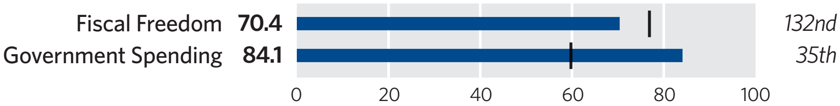
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



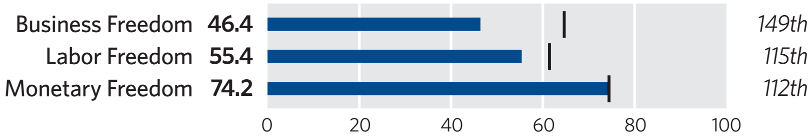
China's weak judicial system is highly vulnerable to political influence and corruption. All land is state-owned. Individuals and firms may own and transfer long-term leases that are subject to many restrictions. Intellectual property rights are not protected effectively, and infringements on copyrights, patents, and trademarks are quite common. Various forms of corruption severely affect banking, finance, government procurement, and construction.

LIMITED GOVERNMENT



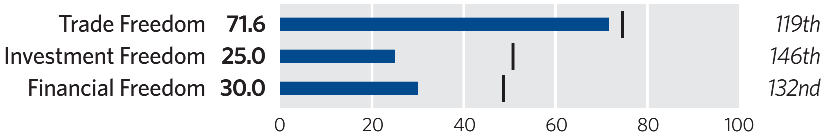
The top income tax rate is 45 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a real estate tax. The overall tax burden is equal to 17.5 percent of total domestic income. Government spending has been expanding, with central government spending now equivalent to 23 percent of GDP; off-budget obligations are extensive. Reported central government debt has increased to 33.8 percent of GDP.

REGULATORY EFFICIENCY



The overall regulatory framework remains complex, arbitrary, and uneven. The time and cost to start a business exceed world averages, and the cost of completing licensing requirements is over four times the level of average annual income. The labor regime remains repressive, although the labor law introduced in 2008 allows employees more contractual rights. Inflation has been monitored intensely, with the government often relying on price controls.

OPEN MARKETS

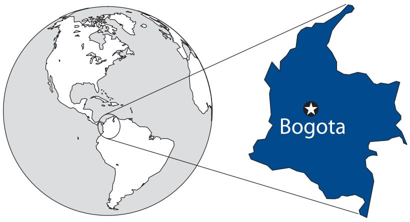


The trade weighted tariff rate is 4.2 percent, with layers of non-tariff barriers adding to the cost of trade. The investment regime is non-transparent and inefficient. The state continues its tight control of the financial system as its primary means for managing the rest of the economy. The government owns all large financial institutions, which lend according to state priorities and directives and favor large state enterprises.

Score Changes

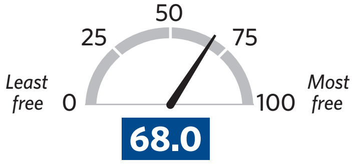
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.1	Business Freedom	-3.4	Trade Freedom	0
Freedom from Corruption	-1.0	Government Spending	-2.9	Labor Freedom	+0.5	Investment Freedom	0
				Monetary Freedom	-1.1	Financial Freedom	0

COLOMBIA



World Rank: **45** Regional Rank: **8**

Economic Freedom Score



Colombia's economic freedom score is 68, making its economy the 45th freest in the 2012 *Index*. Its overall score is the same as last year, with improvements in business, labor, and monetary freedom offset by worsened scores in government spending and freedom from corruption. Colombia is ranked 8th out of 29 countries in the South and Central America/Caribbean region.

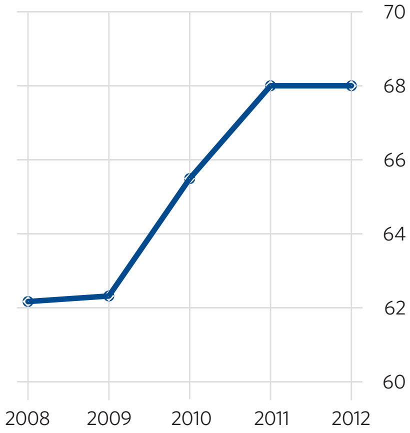
The Colombian economy has shown a moderate degree of resilience in the face of a challenging economic environment, and reform efforts have continued in many of the four pillars of economic freedom. The overall regulatory framework has become more efficient, and business procedures have been streamlined. Policies that support open markets and a strong private sector are being implemented, enhancing flows of investment and the vitality of entrepreneurship. Government spending has been expanding in recent years.

In contrast to its performance in other economic freedom pillars, Colombia has lagged 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 freedom and hampers the emergence of more vibrant economic activity.

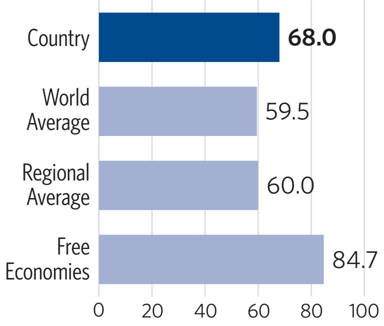
BACKGROUND: Colombia is one of South America's oldest continuous democracies. President Alvaro Uribe (2002–2010) fought left-wing revolutionaries and right-wing paramilitary forces to restore internal security. He also waged war on cocaine production. Security was restored to large areas of the country, and unemployment dropped significantly. Former Defense Minister Juan Manuel Santos won a presidential runoff election in June 2010. His program includes preserving "democratic security," advancing economic growth, and rectifying injustices resulting from decades of internal conflict. The economy depends heavily on exports of petroleum, coffee, and cut flowers. A long-delayed Colombia–U.S. free trade agreement is being implemented. Colombia has also concluded free trade agreements with Canada and the European Union and is pursuing stronger economic relations with China.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



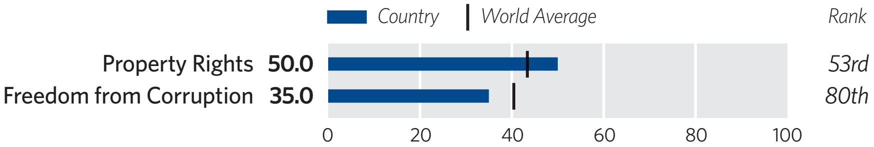
Quick Facts

Population: 45.5 million
GDP (PPP): $435.4 billion
4.3% growth in 2010
5-year compound annual growth 4.6%
$9,566 per capita
Unemployment: 11.8%
Inflation (CPI): 2.3%
FDI Inflow: $6.7 billion
Public Debt: 36% of GDP

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

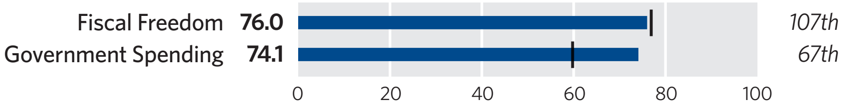
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



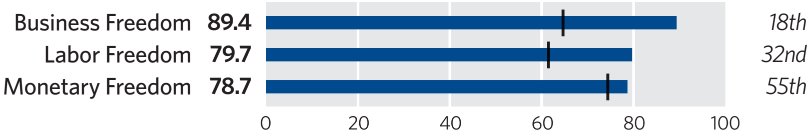
Property rights are generally respected, but infringements of intellectual property rights are common. The Inter-Sectoral Commission for Intellectual Property was created to coordinate agencies responsible for formulating and enforcing intellectual property laws. Despite improvements in fighting corruption and narcotics trafficking, concerns remain over criminal influence on the police, the military, and lower levels of the judiciary and civil service.

LIMITED GOVERNMENT



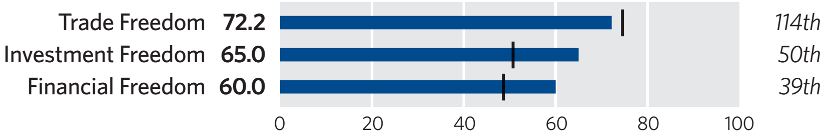
The top income and corporate tax rates are 33 percent. Other taxes include a value-added tax (VAT) and a financial transactions tax, and the overall tax burden is equal to 15 percent of total domestic income. Government spending has increased to 29.4 percent of total domestic output, with the budget deficit widening to 3 percent of GDP. Public debt remains below 40 percent of GDP.

REGULATORY EFFICIENCY



Colombia has reduced the costs associated with starting a business and the time and number of procedures required for licensing. Its performance on these indicators is now better than world averages. The non-salary cost of employing a worker remains somewhat burdensome, but the severance payment system is not a significant constraint on employment growth. Inflation has been modest, but the government regulates prices of certain products.

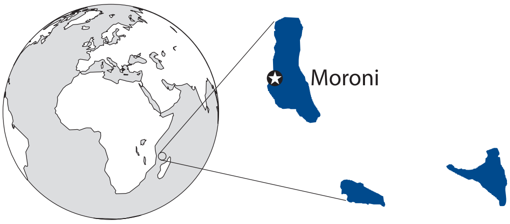
OPEN MARKETS



The trade weighted tariff rate is 8.9 percent, and statutory tariff rates for over 4,000 products have recently been lowered. 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 financial sector, which remains well capitalized. Of the 12 domestic banks in operation, one is state-owned.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.5	Business Freedom	+3.3	Trade Freedom	-1.0
Freedom from Corruption	-2.0	Government Spending	-4.8	Labor Freedom	+0.4	Investment Freedom	0
				Monetary Freedom	+2.9	Financial Freedom	0



World Rank: **165** Regional Rank: **40**

Comoros's economic freedom score is 45.7, making its economy the 165th freest in the 2012 *Index*. Its overall score is 1.9 points higher than last year, reflecting increases in trade freedom and investment freedom. Comoros is ranked 40th out of 46 countries in the Sub-Saharan Africa region, and its overall score is lower than the regional average.

Comoros remains one of the world's least economically free countries. As reflected in low scores for property rights and freedom from corruption, the country's foundations of economic freedom are limited and fragile. The public sector is inefficient and lacks transparency. Poor management of macroeconomic policies, coupled with political crises over the past decade, has hindered overall economic development.

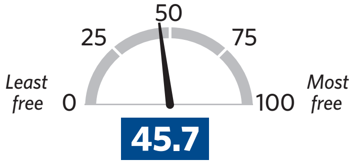
The overall business environment remains severely constrained. The development of a vibrant private sector is limited by a burdensome regulatory framework, poor access to credit, and the high costs of financing for entrepreneurial activity. In the absence of effective open-market policies, the economy remains highly dependent on foreign aid and remittances rather than trade and investment.

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 provided some stability. The presidency rotates among the three islands. Ikililou Dhoinine from Moheli was elected president in December 2010. 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. Though much of the terrain is not suitable for agriculture, Comoros is among the world's leading producers of ylang-ylang (a perfume ingredient), cloves, and vanilla. Basic infrastructure, such as ports and roads, is severely underdeveloped.

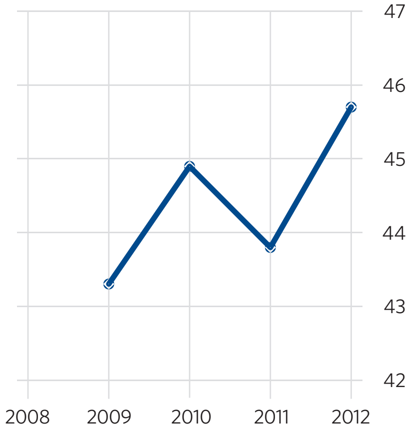
How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

COMOROS

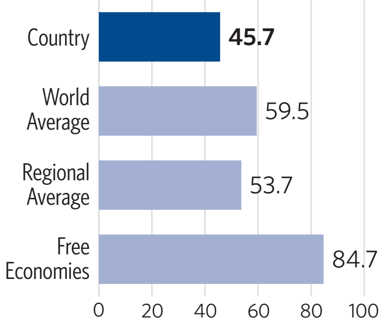
Economic Freedom Score



Freedom Trend



Country Comparisons



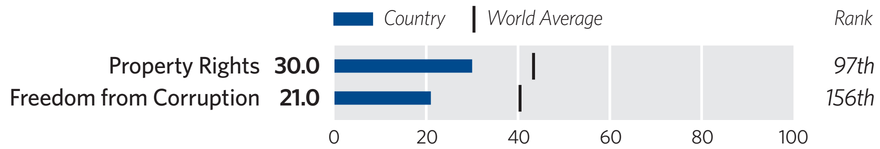
Quick Facts

Population: 0.7 million
GDP (PPP): $0.8 billion
2.1% growth in 2010
5-year compound annual growth 1.3%
$1,202 per capita
Unemployment: n/a
Inflation (CPI): 2.7%
FDI Inflow: $9.4 million
Public Debt: 51.8% of GDP

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

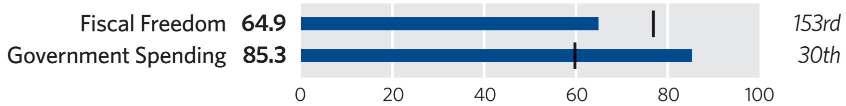
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



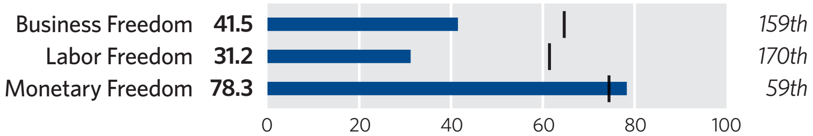
The judicial system is ineffective, contracts are weakly enforced, and courts are relatively inexperienced in commercial litigation. The government lacks the capacity to enforce intellectual property rights laws. Officials often engage in corrupt practices with impunity. The political environment remains fragile in the wake of the transfer of power following the December 2010 presidential election, which aggravated perceptions of corruption.

LIMITED GOVERNMENT



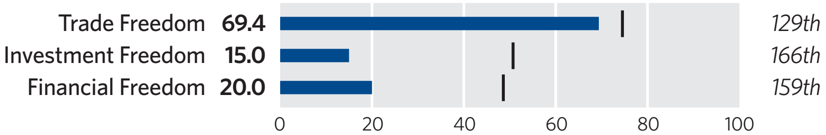
The top income tax rate is 30 percent, and the top corporate tax rate is 50 percent. Other taxes include a value-added tax (VAT) and an insurance tax, and the overall tax burden equals 10.4 percent of total domestic income. Government spending is equivalent to 22.1 percent of total domestic output. Public debt has decreased to 51.8 percent of GDP as a result of budget surpluses over the past three years.

REGULATORY EFFICIENCY



The overall freedom to establish and run private enterprises is constrained by the inefficient regulatory environment. Although starting a business takes slightly less than the world average of 30 days, the associated minimum capital requirement remains over twice the annual average income. Much of the workforce is employed in the small retail services sector, and informal labor activity is widespread. Inflation has been modest.

OPEN MARKETS



The trade weighted tariff rate is 7.8 percent, with myriad non-tariff barriers severely undermining trade freedom. Non-transparent investment regulations and underdeveloped markets inhibit investment. The small financial sector remains without adequate regulation or supervision. Banking penetration is low, and many people still rely on informal lending and have no bank accounts. Microfinance institutions account for around 20 percent of lending.

Score Changes

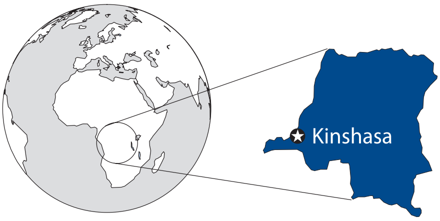
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-2.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.1
Government Spending	+7.5

REGULATORY EFFICIENCY	
Business Freedom	-1.4
Labor Freedom	+0.5
Monetary Freedom	+2.1

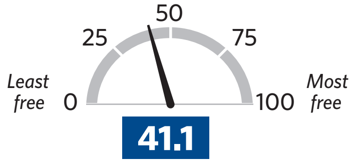
OPEN MARKETS	
Trade Freedom	+7.0
Investment Freedom	+5.0
Financial Freedom	0

DEMOCRATIC REPUBLIC OF CONGO

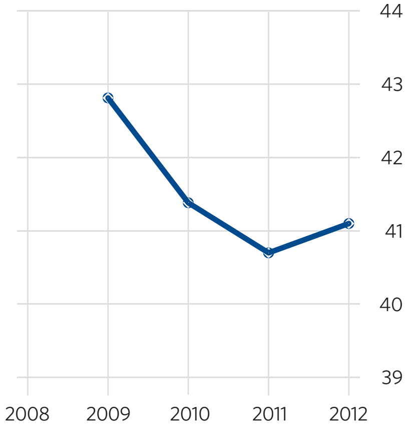


World Rank: **172** Regional Rank: **44**

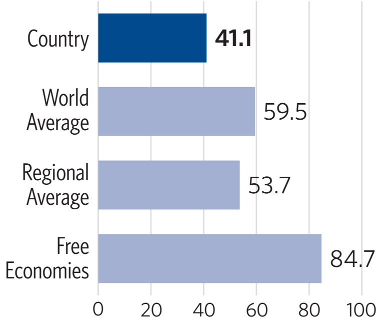
Economic Freedom Score



Freedom Trend



Country Comparisons



The Democratic Republic of Congo (DRC) has an economic freedom score of 41.1, making it the 172nd freest economy in the 2012 *Index*. Its overall score is 0.4 point higher than last year, reflecting marginal increases in its scores for monetary freedom and investment 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.

Economic development in the DRC remains hampered by a long period of instability and violence that has severely eroded the foundations of economic freedom. Marginal enforcement of property rights and the weak rule of law have driven many people and enterprises into the informal sector, which accounts for more than 80 percent of economic activity. Poor economic management, worsened by repeated political crises, has severely constrained economic freedom and exacerbated persistent poverty.

Entrepreneurial activity is constrained by an uncertain and underdeveloped regulatory environment and the absence of any effective institutional support for or facilitation of private-sector development. The government's inability to provide even basic public goods further limits economic opportunity.

BACKGROUND: Laurent Kabila, who had seized power in 1997, was assassinated in 2001. His son, Joseph, then assumed power and in 2006 won the first multi-party election in 40 years. Rebel groups remain active in the eastern region bordering Burundi, Rwanda, Sudan, and Uganda. It is believed that Lord's Resistance Army leader Joseph Kony is hiding in the DRC. His army abducts children and uses them as child soldiers and has promoted the rape of women as a reward. 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 virtually nonexistent in many areas.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

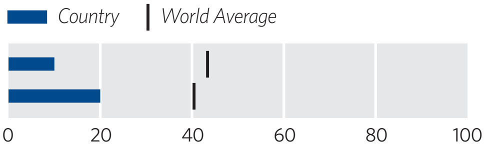
Quick Facts

Population: 70.5 million
GDP (PPP): $23.1 billion
7.2% growth in 2010
5-year compound annual growth 5.6%
$328 per capita
Unemployment: n/a
Inflation (CPI): 23.5%
FDI Inflow: $2.9 billion
Public Debt: 124.3% of GDP

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

THE TEN ECONOMIC FREEDOMS

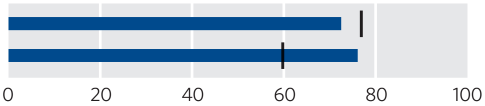
RULE OF LAW



Property Rights	**10.0**	*166th*
Freedom from Corruption	**20.0**	*166th*

Despite a recently adopted constitution, protection of property rights remains dependent on a dysfunctional public administration. Application of the complex legal code is selective. Human rights abuses, fighting, and banditry deter economic activity and foreign businesses. During more than 30 years of rule, the Mobutu regime created a culture of corruption that has been difficult to root out of the private and public environments.

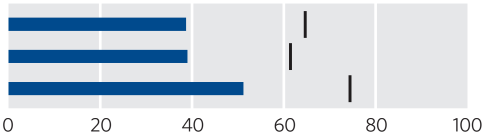
LIMITED GOVERNMENT



Fiscal Freedom	**72.5**	*125th*
Government Spending	**76.1**	*58th*

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, with the overall tax burden amounting to 15.9 percent of total domestic income. Taxation remains arbitrary across the country. Government spending has increased to 28.2 percent of total domestic output, with a budget deficit of over 5 percent and public debt corresponding to 124.3 percent of GDP in 2009.

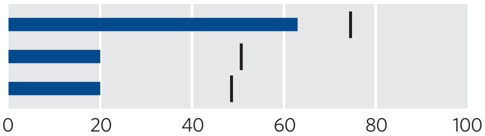
REGULATORY EFFICIENCY



Business Freedom	**38.7**	*164th*
Labor Freedom	**39.0**	*166th*
Monetary Freedom	**51.2**	*176th*

Reform measures in recent years have streamlined the procedures to establish a business, but business start-ups remain discouraged by other institutional deficiencies such as pervasive corruption and very limited access to credit. The agricultural sector is the largest source of employment, and formal-sector employment is negligible. Inflation has been high, and prices are still controlled and regulated by the government.

OPEN MARKETS



Trade Freedom	**63.0**	*149th*
Investment Freedom	**20.0**	*155th*
Financial Freedom	**20.0**	*159th*

The trade weighted tariff rate is quite high at 11 percent, with other non-tariff restrictions further constraining dynamic growth in trade. The investment regime, hampered by government controls, is poor and lacks transparency. Financial intermediation remains minimal, although more commercial banks opened in 2009 along with some new branches. Credit to the private sector is equivalent to less than 5 percent of GDP.

Score Changes

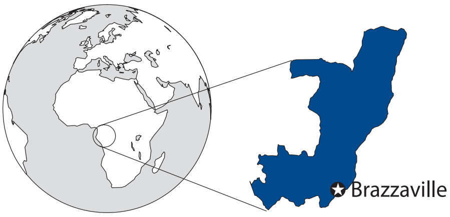
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+1.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.8
Government Spending	-8.4

REGULATORY EFFICIENCY	
Business Freedom	+0.9
Labor Freedom	+1.7
Monetary Freedom	+4.5

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

REPUBLIC OF CONGO



World Rank: **167** Regional Rank: **42**

The Republic of Congo's economic freedom score is 43.8, making its economy the 167th freest in the 2012 *Index*. Its overall score is marginally better than last year, with improved scores in freedom from corruption and labor freedom counterbalanced by losses in five other freedoms. 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.

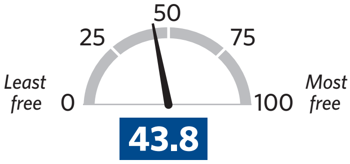
The four pillars of economic freedom remain fragile in Congo. Repressive governance, exacerbated by the weak rule of law, continues to deprive the Congolese people of economic freedom. The weak judiciary fuels corruption, and extensive state controls persist from the period of state socialism. Failing to provide basic public goods and infrastructure, the ineffective government has pushed many people into the informal economy, which accounts for most of the country's limited private-sector growth.

Many aspects of doing business, from obtaining licenses to attracting foreign investment, are subject to intrusive regulations. The slow pace of reform, coupled with political instability, has left the institutional capacity inadequate for modern economic activity.

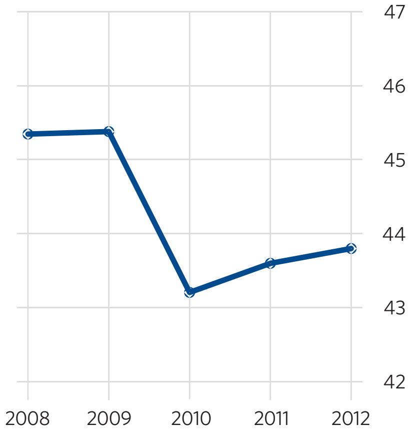
BACKGROUND: Congo has endured internal conflict and recurring coups since becoming independent in 1960. After seizing power in 1979, President Denis Sassou-Nguesso governed the country as a Marxist–Leninist state before moderating economic policy and allowing multi-party elections in 1992. Sassou-Nguesso 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. 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. Congo's economic performance in 2010 owes a great deal to the increase in its oil production, which generates roughly 80 percent of fiscal revenue and represents 70 percent of GDP.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

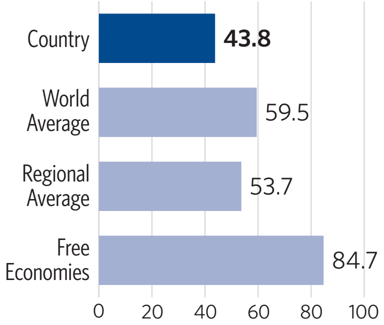
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 3.9 million

GDP (PPP): $17.1 billion

9.1% growth in 2010

5-year compound annual growth 5.3%

$4,427 per capita

Unemployment: n/a

Inflation (CPI): 5.0%

FDI Inflow: $2.8 billion

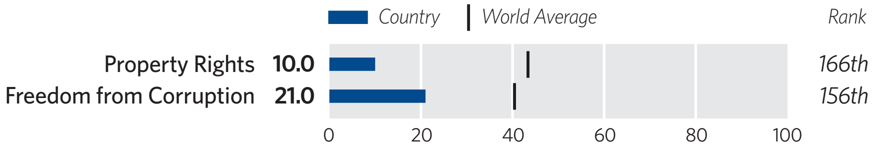
Public Debt: 23.8% of GDP

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

REPUBLIC OF CONGO (continued)

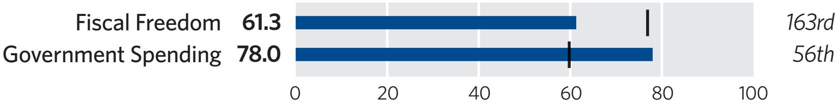
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



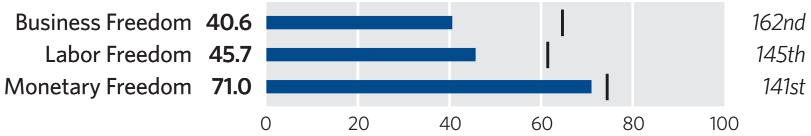
The civil war that ended in 2003 left the judiciary almost without records and subject to bribery. With a modern and independent judicial system not developed, traditional courts often handle local disputes. Contracts and intellectual property rights are not strongly guaranteed. Inadequate accounting systems and conflicts of interest in the state-owned oil company's marketing of oil are sources of corruption.

LIMITED GOVERNMENT



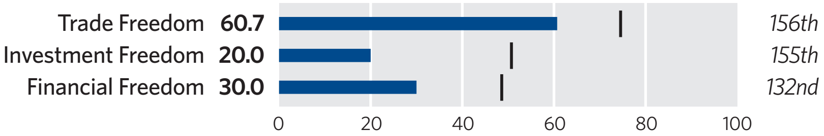
The top income tax rate is 50 percent, and the top corporate tax rate is 36 percent. Other taxes include a value-added tax (VAT), a tax on rental values, and an apprenticeship tax, with the overall tax burden equal to 8.6 percent of GDP. Government spending is 27.1 percent of total domestic output. Public debt has fallen to below 30 percent of total domestic income, while the budget surplus has nearly quadrupled to 16 percent of GDP due to large oil revenues.

REGULATORY EFFICIENCY



The cost of launching and running a business is high, and regulations are not enforced effectively. Starting a business takes over five times the world average of 30 days. In the absence of a modern labor market, the public sector remains the largest source of formal employment. Inflationary pressure persists. The prices of a range of goods and services are affected by government ownership and subsidization of the large public sector.

OPEN MARKETS



The trade weighted average tariff rate is quite high at 14.7 percent, and non-tariff barriers considerably increase the cost of trade. The investment regime remains hampered by heavy bureaucracy and a lack of transparency. The few state-owned enterprises have a disproportionate influence on investment conditions. Bank accounts are held by less than 3 percent of the population, and credit to the private sector has been limited.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.5	Business Freedom	-0.2	Trade Freedom	-0.3
Freedom from Corruption	+2.0	Government Spending	-1.7	Labor Freedom	+3.4	Investment Freedom	0
				Monetary Freedom	-0.4	Financial Freedom	0

COSTA RICA

World Rank: 44 **Regional Rank: 7**

Costa Rica's economic freedom score is 68.0, making its economy the 44th freest in the 2012 *Index*. Its overall score is 0.7 point higher than last year, reflecting small increases in four of the 10 economic freedoms including monetary freedom and labor freedom. Costa Rica is ranked 7th out of 29 countries in the South and Central America/Caribbean region, and its overall score is higher than the global and regional averages.

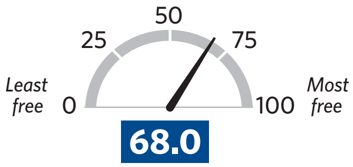
Costa Rica's economic rebound has gained some momentum and become more broad-based. The trade regime is more open, and management of public finances is relatively sound. Costa Rica has taken measures to improve financial-sector freedom by consolidating private banks, easing procedures for the operations of foreign banks, and introducing a new development bank structure.

In fact, all four pillars of economic freedom are relatively well maintained in Costa Rica, although the rule of law shows some signs of vulnerability. The court system, while transparent and not corrupt, is inefficient, and enforcement of property rights can be weak. Progress in enhancing the effectiveness of government has been uneven. Excessive and inefficient bureaucracy discourages dynamic entrepreneurial activity, and privatization and fiscal reform have lagged.

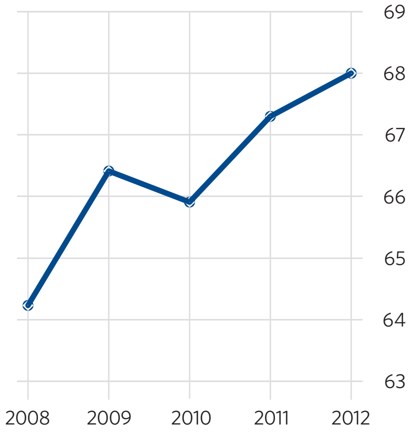
BACKGROUND: Costa Rica has a strong democratic tradition, and per capita income is high by regional standards. However, former President Oscar Arias left the government's fiscal accounts in shambles, increasing public spending to 20 percent of GDP and running up one of the largest deficits in Latin America—5.2 percent of GDP. President Laura Chinchilla, a social democrat elected in 2010, promised improved infrastructure, tax code reforms, and "green" jobs, but the government is broke. It also has faced a border dispute with Nicaragua and growing crime. A traditional producer of bananas, pineapples, and coffee, Costa Rica has benefited more recently from manufacturing investments in electronics and health care. The Central America–Dominican Republic–United States Free Trade Agreement entered into force in 2009.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

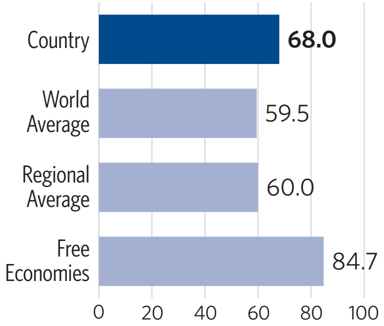
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

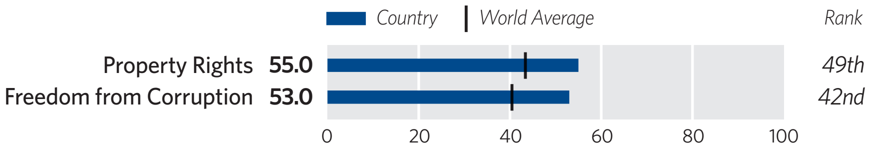
Population: 4.6 million
GDP (PPP): $51.2 billion
4.2% growth in 2010
5-year compound annual growth 4.4%
$11,216 per capita
Unemployment: 7.3%
Inflation (CPI): 5.7%
FDI Inflow: $1.4 billion
Public Debt: 29.6% of GDP

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

COSTA RICA (continued)

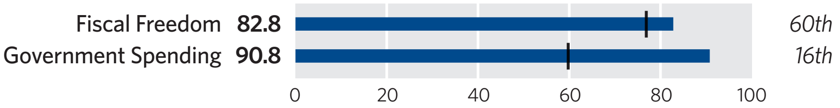
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



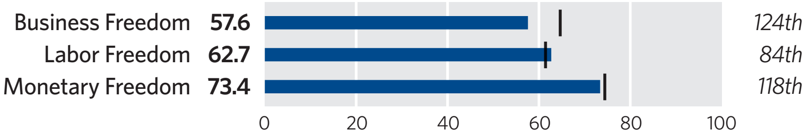
Property rights are secure, and contracts are generally upheld. However, the judicial system can be slow and complicated. Resolving a contract-related legal complaint remains a time-consuming process. Enforcement of intellectual property rights is often ineffective. Government has limited capacity to enforce anti-corruption laws, and allegations of lower-level corruption are common.

LIMITED GOVERNMENT



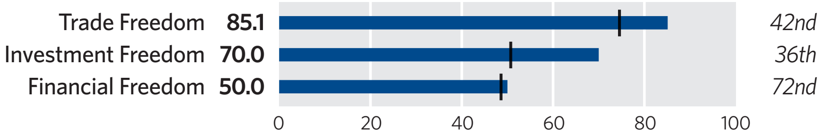
The top income tax rate is 25 percent, and the top corporate tax rate is 30 percent. Other taxes include a general sales tax and a real property tax, with the overall tax burden equal to 13.8 percent of total domestic income. Government spending is equivalent to 17.5 percent of total domestic output. Public debt remains low at below 30 percent of GDP, although budget deficits have been widening in recent years.

REGULATORY EFFICIENCY



Although licensing requirements have been reduced, procedures for launching a business remain cumbersome and time-consuming. Starting a business still takes more than the world averages of 30 days and seven procedures. Despite some progress, labor regulations remain rigid. Rules on work hours are flexible, but the non-salary cost of employing a worker remains high. Inflationary pressure persists, and the government maintains price controls.

OPEN MARKETS

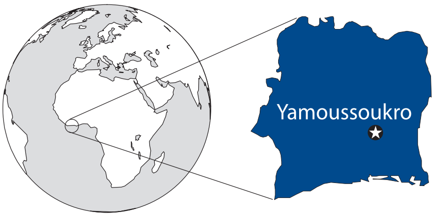


The trade weighted tariff rate is quite low at 2.4 percent, but non-tariff barriers continue to add to the cost of trade. The investment regime is relatively transparent, with foreign and domestic investors generally treated equally. No restrictions on the holding of foreign exchange accounts are imposed. The growing financial sector functions relatively well, with three state-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	-0.6	Trade Freedom	-0.1
Freedom from Corruption	0	Government Spending	+3.9	Labor Freedom	+0.6	Investment Freedom	0
				Monetary Freedom	+2.7	Financial Freedom	0

CÔTE D'IVOIRE



World Rank: **126** Regional Rank: **24**

Côte d'Ivoire's economic freedom score is 54.3, making its economy the 126th freest in the 2012 *Index*. Its score is 1.1 points lower than last year, reflecting a significant decline in property rights. 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.

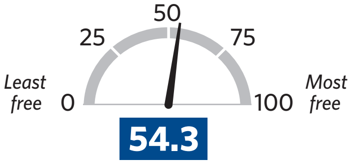
Côte d'Ivoire has demonstrated little progress in strengthening the four pillars of economic freedom, despite some efforts to improve macroeconomic stability and growth potential. Measures aimed at strengthening management of public finances and reforming outmoded government economic structures have 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.

Social and political instability continue to prevent meaningful progress in economic development, and conditions have deteriorated over the past year. The overall business climate remains unfavorable for long-term private investment and productivity growth. Property rights are severely undercut by a weak judiciary, and corruption is debilitating.

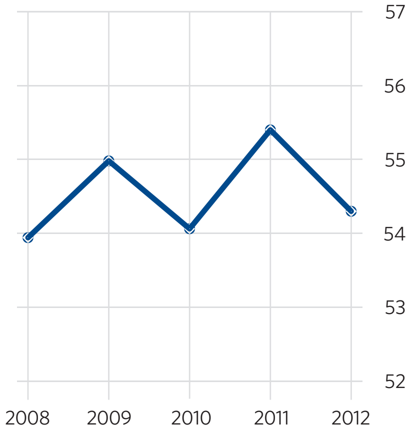
BACKGROUND: In 2002, civil war split Côte d'Ivoire between a rebel-controlled North and a government-controlled South. Despite the 2007 Ouagadougou Accord and the presence of U.N. peacekeepers, the country remains in crisis. President Laurent Gbagbo was ousted in April 2011 by French-backed rebels and detained in the North for trial. Côte d'Ivoire is the world's leading producer of cocoa. The agricultural sector employs over 60 percent of the population and accounts for about 25 percent of GDP. Much economic activity, including regional trade, has moved to the informal sector, and most businesses are operating at far below capacity. Côte d'Ivoire's announcement in July 2011 that it would not pay interest to its bondholders was a serious setback for the financial and banking sectors.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

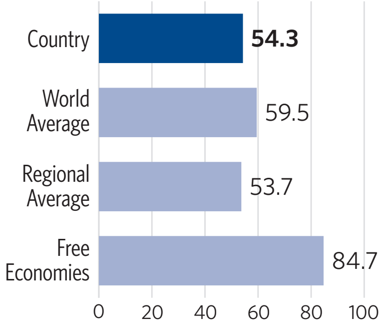
Economic Freedom Score



Freedom Trend



Country Comparisons



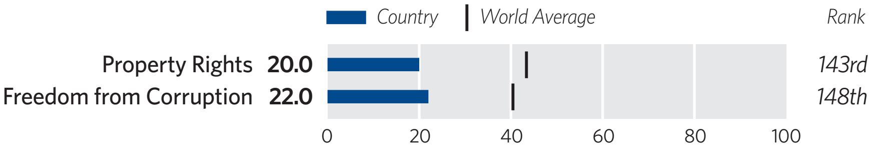
Quick Facts

Population: 22.0 million
GDP (PPP): $37.0 billion
2.6% growth in 2010
5-year compound annual growth 2.2%
$1,681 per capita
Unemployment: n/a
Inflation (CPI): 1.4%
FDI Inflow: $417.9 million
Public Debt: 66.8% of GDP

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

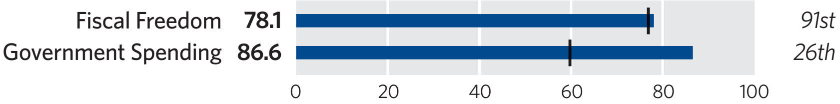
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



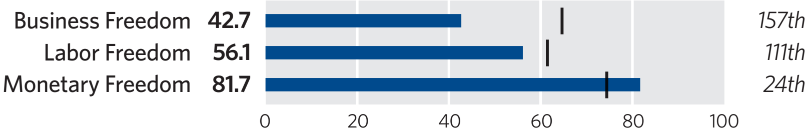
The rule of law has been weakened since the nation descended into war early in 2011. Protection of property rights is fragile. The judiciary is constitutionally independent but remains inefficient and vulnerable to political interference. Laws to combat corruption are not enforced effectively. Government corruption affects judicial proceedings, as well as customs and tax enforcement, and erodes accountability within the security forces.

LIMITED GOVERNMENT



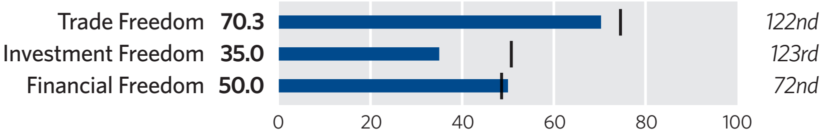
The top income tax rate is 36 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a tax on interest, and the overall tax burden is equal to 16.5 percent of total domestic income. Government spending is equivalent to 21.1 percent of total domestic output, with deficits widening to 2.3 percent of GDP and public debt hovering around 67 percent of GDP.

REGULATORY EFFICIENCY



Despite the recognized need for business law reforms, action has been marginal. Starting a business takes more than the world averages of seven procedures and 30 days, as well as minimum capital equal to twice the level of annual average income. With development of a modern labor market lagging, the informal sector is a growing source of employment. Inflation has been modest, but the government regulates the prices of many goods and services.

OPEN MARKETS

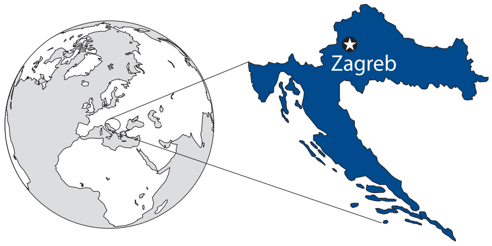


The trade weighted average tariff rate is 7.3 percent, and non-tariff barriers further limit trade freedom. The investment regime is almost irrelevant in light of ongoing political and social instability. Despite some modernization and restructuring before the 2011 crisis, the banking sector lacks the capacity to support a more vibrant private sector. The government has sold its shares in smaller banks but maintains holdings in several larger institutions.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	-10.0	Fiscal Freedom	-0.4	Business Freedom	-0.6	Trade Freedom	-1.9
Freedom from Corruption	+1.0	Government Spending	-1.8	Labor Freedom	+0.4	Investment Freedom	0
				Monetary Freedom	+1.5	Financial Freedom	0

CROATIA



World Rank: **83** Regional Rank: **35**

Croatia's economic freedom score is 60.9, making its economy the 83rd freest in the 2012 *Index*. Its overall score is 0.2 point lower than last year, with notable deterioration in the management of government spending and in business freedom. Croatia continues to fall behind other emerging economies in the region, and its overall score remains below the regional average.

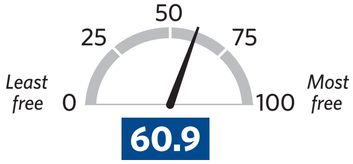
Despite some significant improvements over the past five years, Croatia's scores on most components of economic freedom remain decidedly average. The lack of an independent and efficient legal framework undermines the foundations of economic freedom, and corruption remains a serious concern, hampering the rule of law and eroding long-term development potential. Inefficient and high public spending has resulted in growing fiscal burdens for the population.

Competitive tax reforms and trade liberalization in earlier years have contributed to modernization of the economy and the emergence of a vibrant private sector. Revitalizing reform efforts will be critical to the country's economic future as its overall progress has been lagging behind that of other emerging markets. GDP growth remained negative in 2010, and the five-year average growth rate is only 1 percent.

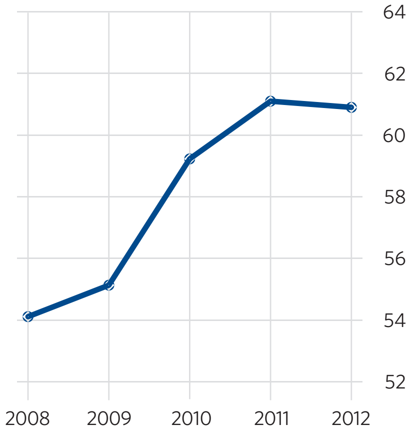
BACKGROUND: As Communism collapsed throughout Eastern Europe and Yugoslavia began to unravel along ethnic and religious lines, Croatia declared its independence in 1991. Years of conflict between Croats and Serbs ended formally in 1995 with the Dayton Peace Accords. Croatia became a member of NATO in April 2009, completed accession negotiations with the European Union in June 2011, and is expected to become a member of the EU by July 2013. Social Democrat Ivo Josipovic was elected president in January 2010 but, faced with charges of corruption, fled the country a year later. His successor, Jadranka Koso, is credited with making the final push toward EU accession. Tourism, focused on the Adriatic Coast, developed significantly during the 2000s but was hurt by recession at the end of the decade.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

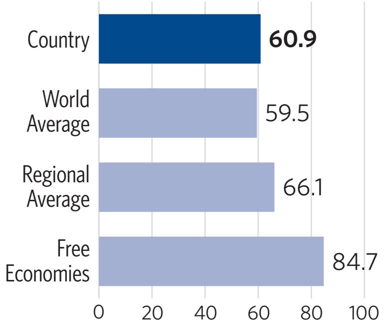
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

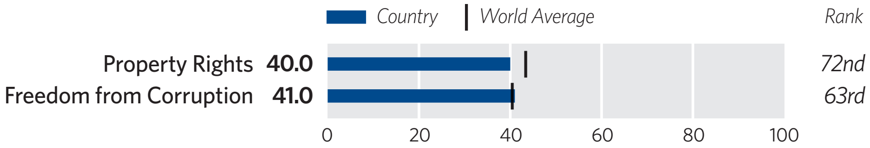
Population: 4.4 million
GDP (PPP): $78.1 billion
–1.4% growth in 2010
5-year compound annual growth 1.0%
$17,684 per capita
Unemployment: 17.6%
Inflation (CPI): 1.0%
FDI Inflow: $582.6 million
Public Debt: 40.6% of GDP

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

CROATIA (continued)

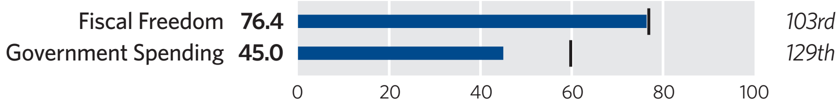
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



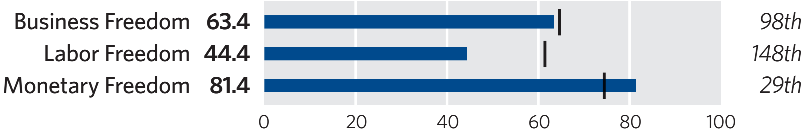
Judicial corruption undermines the rule of law. The court system is cumbersome and inefficient, and backlogs cause business disputes to drag on for years. The government is committed to judicial reform, but much remains to be done. Despite intellectual property rights legislation, piracy and counterfeiting continue. The number of high-profile corruption prosecutions has increased in recent years.

LIMITED GOVERNMENT



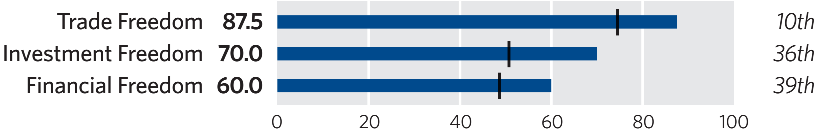
The top income tax rate is 40 percent, and the top corporate tax rate is 20 percent. Other taxes include a value-added tax (VAT) and excise taxes, with overall tax revenue equal to 19.1 percent of GDP. Government spending has increased to 42.8 percent of total domestic output. Public finance management has deteriorated significantly, and the deficit has widened to around 5 percent of GDP. Public debt has increased to over 40 percent of GDP.

REGULATORY EFFICIENCY



Reform measures in recent years have streamlined the procedures to establish a business. Nonetheless, Croatia's overall regulatory environment remains burdensome and inefficient. The cost and time required to obtain necessary licenses exceed world averages. The labor market remains rigid. Inflationary pressures linger, and the state influences price levels through a still-significant presence of state-owned enterprises.

OPEN MARKETS

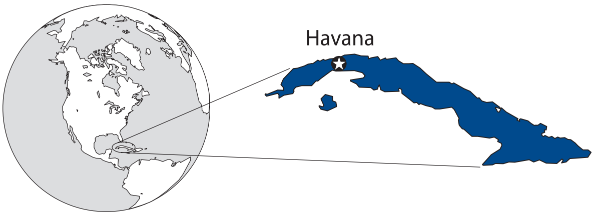


The trade weighted tariff rate is quite low at 1.2 percent, but lingering non-tariff barriers increase the cost of trade. Despite structural and administrative reforms, inefficient bureaucracy and the unpredictable legal system continue to inhibit investment. The consolidated banking sector is relatively sound and efficient, with over 30 commercial banks in operation. Securities markets are open to foreign investors.

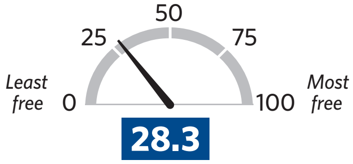
Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.8	Business Freedom	-1.8	Trade Freedom	-0.1
Freedom from Corruption	0	Government Spending	-5.3	Labor Freedom	+0.3	Investment Freedom	0
				Monetary Freedom	+2.9	Financial Freedom	0

CUBA



Economic Freedom Score



World Rank: **177** Regional Rank: **29**

Cuba's economic freedom score is 28.3, making its economy one of the world's least free. Its overall score is marginally higher than last year, with declines in freedom from corruption and monetary freedom offset by a gain in fiscal freedom. Cuba is ranked last of 29 countries in the South and Central America/Caribbean region, and its overall score is significantly lower than the regional average.

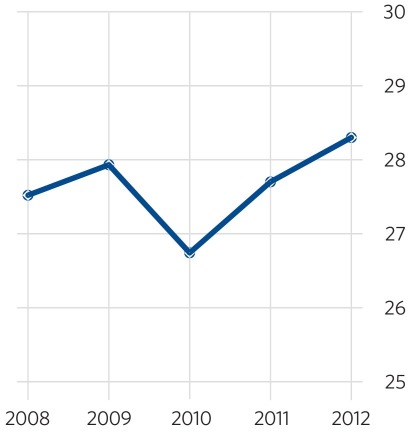
Cuba's inefficient state-run economy performs very poorly in the *Index*, with component scores far below world averages in many categories. The foundations of economic freedom are poorly laid and ill defended. The absence of an independent and fair judiciary weakens the rule of law, and widespread corruption affects most transactions. No courts are free of political interference, and private property is strictly regulated.

As the largest source of employment, the government sector accounts for more than 80 percent of all jobs. The government has eased some rules on private employment in an effort to reshape the economy and improve efficiency, but many details are obscure. The private sector has long been shackled with heavy regulations and tight state control. Open-market policies are not in place to spur dynamic growth in trade and investment.

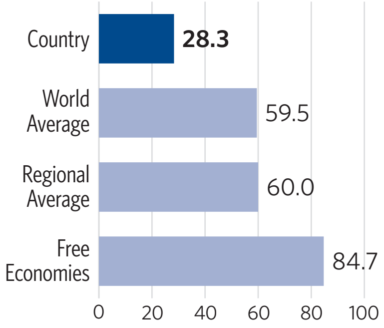
BACKGROUND: A one-party Communist state, Cuba depends heavily on external assistance (chiefly oil provided by Venezuela's Hugo Chávez and remittances from Cuban émigrés) and a captive labor force. There are no free elections, free speech, or property rights. Fidel Castro's 80-year-old younger brother, Raúl, is head of state and defense minister and in April 2011 became boss of the Cuban Communist Party (PCC). Official figures on per-capita GDP may not reflect reality. The agriculture sector is in shambles, mining is depressed, and tourism revenue has been falling. A watered-down reform package endorsed by the PCC in April 2011 trims the number of state workers and permits limited private enterprise, but the economy remains resolutely socialist/Communist.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



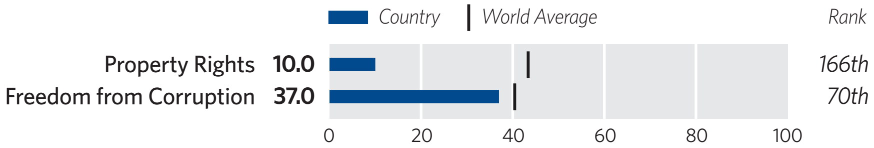
Quick Facts

Population: 11.2 million
GDP (PPP): $112.4 billion
2.1 % growth in 2010
5-year compound annual growth n/a
$9,855 per capita
Unemployment: n/a
Inflation (CPI): 2.9%
FDI Inflow: $85.5 million
Public Debt: 34.3% of GDP

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

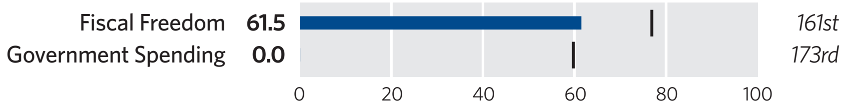
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



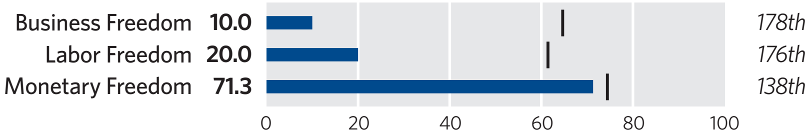
Private property rights are not strongly respected, and the judicial system remains vulnerable to political interference. Cuban citizens may own land and productive capital for farming and self-employment. The constitution subordinates the courts to the National Assembly of People’s Power and the Council of State. Corruption remains pervasive in many parts of the economy, undermining equity and respect for the rule of law.

LIMITED GOVERNMENT



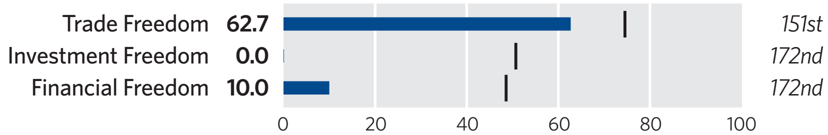
Cuba has an income tax rate of 50 percent. The top corporate tax rate is 30 percent (35 percent for companies with entirely foreign capital). Other taxes include a tax on property transfers and a sales tax, with overall tax revenue estimated to be over 20 percent of GDP. Taxation is erratic and not effectively administered. Inefficient public-sector spending remains high, reaching 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. The state-controlled labor market has resulted in a large informal sector. In an attempt to reduce labor market rigidity, the government 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

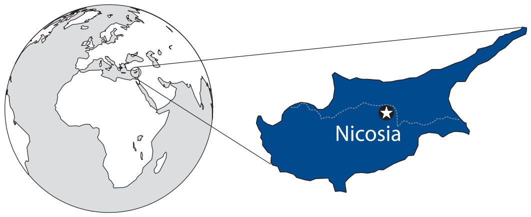


The trade regime, with high tariff barriers, remains largely non-transparent, and imports and exports are dominated by the state. Foreign investment must be approved by the government, which exercises extensive control of economic activity. The financial sector remains regulated, and access to credit 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	+12.5	Business Freedom	0	Trade Freedom	+0.5
Freedom from Corruption	-7.0	Government Spending	0	Labor Freedom	0	Investment Freedom	0
				Monetary Freedom	–0.3	Financial Freedom	0

CYPRUS



World Rank: **20** Regional Rank: **9**

Cyprus's economic freedom score is 71.8, making its economy the 20th freest in the 2012 *Index*. Its overall score is down by 1.5 points from last year, with significant declines in property rights, freedom from corruption, and public finance management. Cyprus is ranked 9th out of 43 countries in the Europe region.

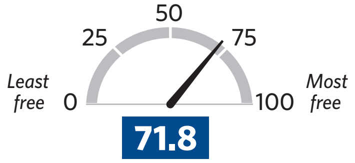
Cyprus has preserved its status as one of the "mostly free" economies in the *Index*, and the island economy maintains the four pillars of economic freedom relatively well. Particularly compared to other developing economies, Cyprus maintains sound foundations of economic freedom that are sustained by a generally well-functioning judicial system. Although public debt is moderate compared to other European economies, an increasing level of public spending is eroding respect for the principle of limited government and holding down Cyprus's overall economic freedom.

The government is pursuing policies that are intended to favor private-sector development. The regulatory framework is transparent and efficient, facilitating entrepreneurship and growth, and policies preserving open markets encourage productivity gains. The financial sector remains relatively sound, although stress has increased due to the ongoing euro-zone debt crisis.

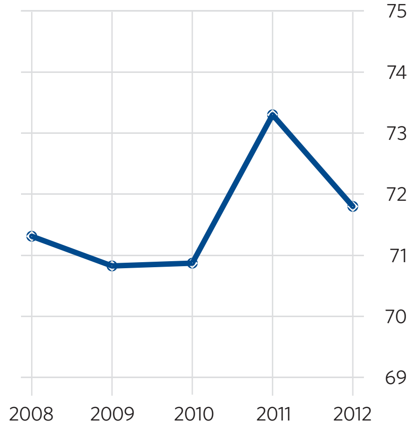
BACKGROUND: A U.N. buffer zone divides the Greek Cypriot Republic of Cyprus and the Turkish Republic of Northern Cyprus. The Republic of Cyprus is a member of the European Union and acts as the island's internationally recognized administration. Despite deep hostility between the two sides, Greek and Turkish leaders continue to negotiate on possible reunification through U.N.-brokered talks. Political and legal uncertainty has undermined the Turkish Cypriot economy, and Turkish Cypriots remain heavily dependent on trade and aid from Turkey. Tourism and financial services drive the Greek Cypriot economy, and restrictions on foreign investment have been lifted. EU membership has enhanced economic liberalization for Greek Cypriots, but utilities and telecommunications are still not privatized or deregulated. Cyprus joined the euro zone in 2008.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

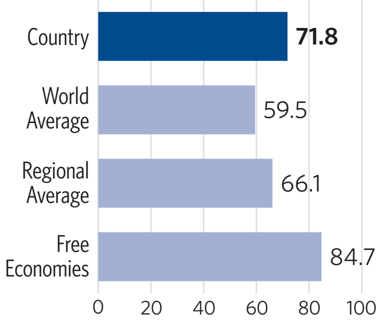
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

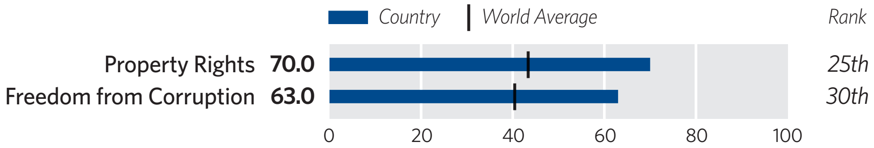
Population: 0.8 million
GDP (PPP): $23.2 billion
1.0% growth in 2010
5-year compound annual growth 2.4%
$28,256 per capita
Unemployment: 5.6%
Inflation (CPI): 2.6%
FDI Inflow: $4.8 billion
Public Debt: 60.8% of GDP

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

CYPRUS (continued)

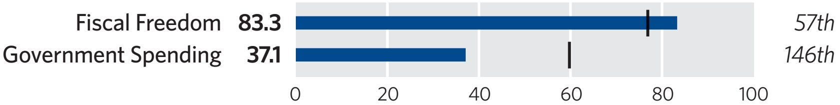
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



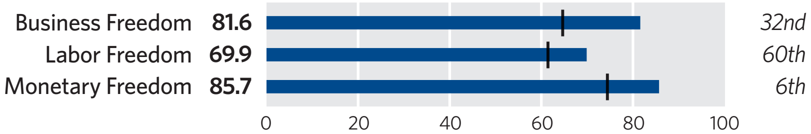
Contracts and property rights are generally enforced. The civil judiciary is independent constitutionally but not always in practice. Cypriot law imposes significant restrictions on the foreign ownership of real estate by non-EU residents. Corruption, patronage, and lack of transparency appear to continue in the area administered by Turkish Cypriots. The absence of a political settlement poses inherent risks for foreign investors.

LIMITED GOVERNMENT



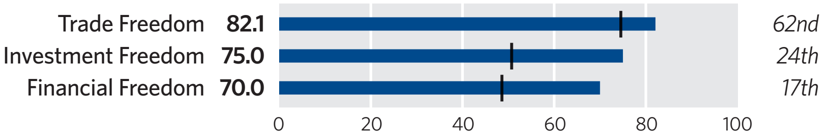
The top income tax rate is 30 percent, and the top corporate tax rate is 10 percent. Other taxes include a value-added tax (VAT) and a real estate tax, with the overall tax burden amounting to 25.8 percent of total domestic income. Government spending has increased to 45.8 percent of total domestic output, with the deficit widening to around 5 percent of GDP and public debt reaching over 60 percent of GDP.

REGULATORY EFFICIENCY



The overall freedom to start, operate, and close a business is relatively well maintained within the regulatory framework. With no minimum capital requirement, it takes only seven days to launch a company. 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

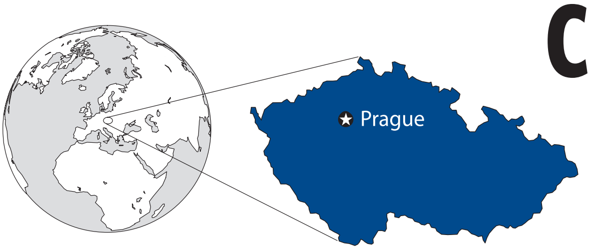


Cyprus's trade policy is the same as that of other members of the European Union, with the common EU weighted average tariff rate standing at 1.4 percent. The financial sector is diverse and relatively sound. With assets greater than seven times the island's GDP, the banking sector plays a large role in the economy. Banks hold a large amount of Greek debt but have nonetheless weathered the euro-zone turmoil relatively well.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	-10.0	Fiscal Freedom	+8.7	Business Freedom	+1.5	Trade Freedom	-0.5
Freedom from Corruption	-3.0	Government Spending	-8.5	Labor Freedom	-1.5	Investment Freedom	0
				Monetary Freedom	-1.9	Financial Freedom	0

CZECH REPUBLIC



World Rank: **30** Regional Rank: **15**

The Czech Republic's economic freedom score is 69.9, making its economy the 30th freest in the 2012 *Index*. Its overall score is 0.5 point worse than last year, reflecting deterioration in public finance management. 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.

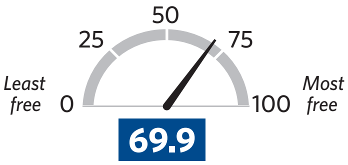
A strong commitment to economic and structural reform has helped the Czech Republic develop a modern and flexible economy. In many of the four pillars of economic freedom, the country performs above world averages. Sustaining global trade and investment, open-market policies have enabled the economy to capitalize further on regulatory efficiencies gained through earlier reforms. The private sector accounts for about 80 percent of GDP. Although a period of stable and robust economic expansion came to a stop in 2009 as a result of the global financial and economic downturn, the Czech Republic has weathered the European sovereign debt turmoil relatively well.

The foundations of the Czech Republic's economic freedom can be further strengthened through better protection of property rights and more effective elimination of corruption. In a move toward the principle of limited government, the country is placing a high priority on fiscal discipline and striving for budgetary balance after years of fiscal deficits.

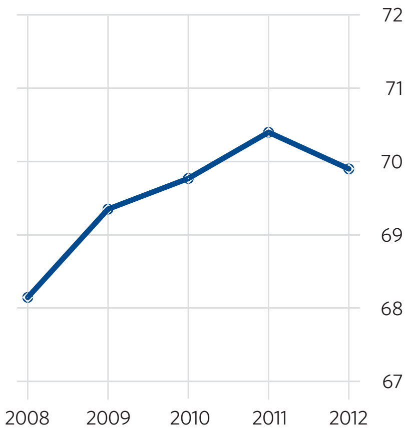
BACKGROUND: The Velvet Revolution of 1989 peacefully overthrew a Communist dictatorship and led to the election of dissident playwright Vaclav Havel as president of a democratic Czechoslovakia. The Czech Republic separated from Slovakia in the "velvet divorce," becoming an independent nation in 1993 and joining the European Union in 2004. The leftist Czech Social Democratic Party was defeated in the May 2010 elections, and a center-right coalition now governs under Prime Minister Petr Necas. The Czech Republic has been among the world's most industrialized states. The auto industry remains the single largest industrial sector and produced over a million cars in 2010.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

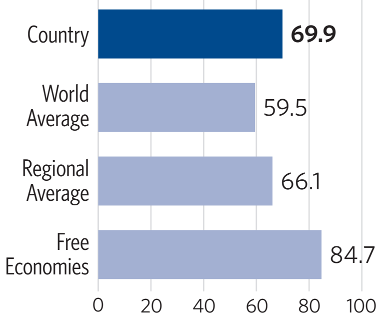
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

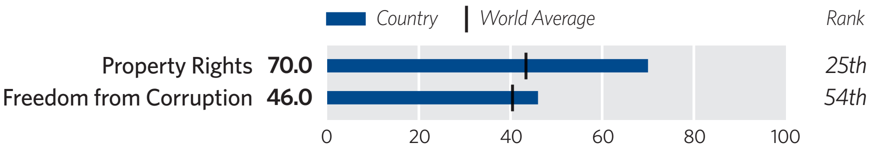
Population: 10.5 million
GDP (PPP): $261.3 billion
2.3% growth in 2010
5-year compound annual growth 2.6%
$24,869 per capita
Unemployment: 7.3%
Inflation (CPI): 1.5%
FDI Inflow: $6.7 billion
Public Debt: 38.5% of GDP

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

CZECH REPUBLIC (continued)

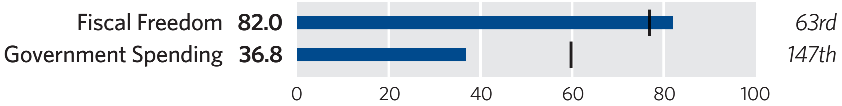
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



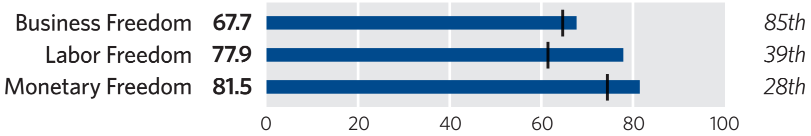
Property rights are relatively well protected by law, with an independent judicial system in place. Contracts are generally secure, but decisions vary from court to court. Commercial disputes can take years to resolve. Corruption remains a cause for concern as its pervasiveness continues to undermine the foundations of economic freedom and add to the cost of conducting business. Anti-corruption measures are not enforced effectively.

LIMITED GOVERNMENT



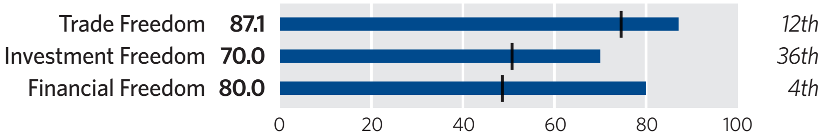
The income tax flat rate is 15 percent, and the standard corporate tax rate is 19 percent. Other taxes include a value-added tax (VAT) and an inheritance tax, with the overall tax burden equal to 34.8 percent of total domestic income. Government spending has increased to 45.9 percent of total domestic output. The government budget has been in deficit, driving public debt to over 38 percent of GDP.

REGULATORY EFFICIENCY



The overall regulatory environment has become more efficient and more conducive to entrepreneurial activity. Simplifying the process has reduced the time needed to obtain licenses. Nonetheless, compared to other emerging economies, overall regulatory reform has lagged. The labor market is relatively flexible. Inflation has been under control, but a range of goods and services remain subject to government price controls.

OPEN MARKETS

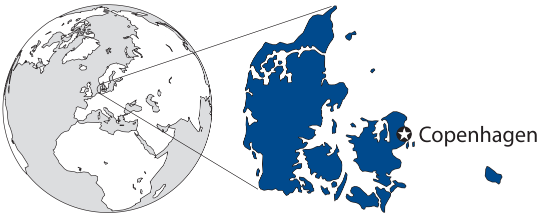


The trade weighted tariff rate is low as in other members of the European Union, but layers of non-tariff barriers increase the cost of trade. The investment regime is relatively competitive. Most major state-owned companies have been privatized with foreign participation. No restrictions on currency transfers are imposed, and residents and non-residents may hold foreign exchange accounts. The financial sector is one of the region's more advanced.

Score Changes

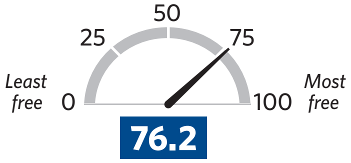
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	+5.0	Fiscal Freedom	+1.0	Business Freedom	-2.1	Trade Freedom	-0.5
Freedom from Corruption	-3.0	Government Spending	-8.0	Labor Freedom	+0.9	Investment Freedom	0
				Monetary Freedom	+1.5	Financial Freedom	0

DENMARK



World Rank: **11** Regional Rank: **3**

Economic Freedom Score



Denmark's economic freedom score is 76.2, making its economy the 11th freest in the 2012 *Index*. Its overall score is 2.4 points lower than last year, reflecting considerable deterioration in public finance management. Denmark is ranked 3rd out of 43 countries in the Europe region, and while its overall score remains well above average, the country has dropped out of the top 10 in the rankings.

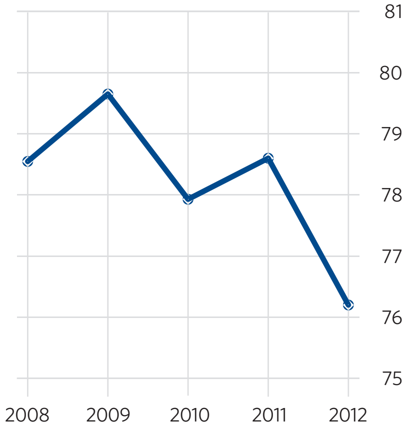
Denmark's foundations of economic freedom are solid. The judicial system, independent and free of corruption, provides strong protection of property rights. Lower scores in fiscal freedom and government spending, already far below world averages, indicate further weakening of respect for the principle of limited government. Although the corporate tax rate is competitive, the overall tax burden remains heavy. Government spending still accounts for over half of GDP.

With its economy open to global trade and investment, Denmark benefits from high degrees of business freedom, investment freedom, and financial freedom. The overall regulatory environment, transparent and efficient, encourages entrepreneurial activity. The banking sector has been under stress but remains guided by sensible regulations. Monetary stability is well maintained, and inflationary pressures are under control.

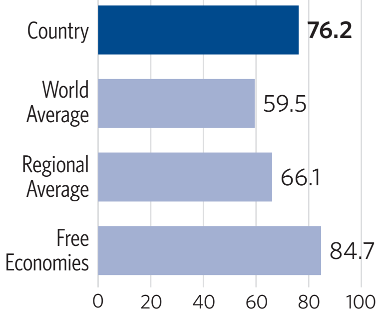
BACKGROUND: Denmark is a constitutional democracy. Lars Løkke Rasmussen, heading a center-right coalition, became prime minister in 2009 when then-Prime Minister Anders Fogh Rasmussen became Secretary General of NATO. Denmark's strong economy depends heavily on foreign trade, and the private sector is characterized by many small and medium-size companies. Denmark joined the European Union (then the EEC) in 1973 but has opted out of several EU programs including membership in the euro zone. Immigration has been a growing concern, and increased immigration spurred by the 2011 uprisings in North Africa has caused the government to consider more restrictive immigration laws. This adds to already strained relations with the Muslim world following the controversy surrounding publication of cartoons caricaturing the Prophet Muhammad in Danish newspapers in 2005, which caused widespread outrage among Muslims.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



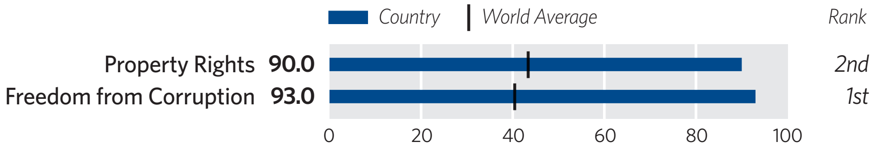
Quick Facts

Population: 5.5 million
GDP (PPP): $201.7 billion
2.1% growth in 2010
5-year compound annual growth 0.1%
$36,450 per capita
Unemployment: 7.2%
Inflation (CPI): 2.3%
FDI Inflow: –$1.8 billion
Public Debt: 43.7% of GDP

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

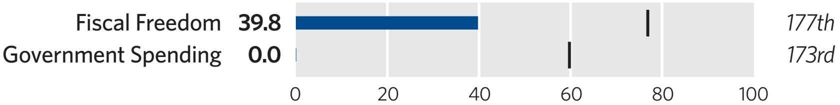
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



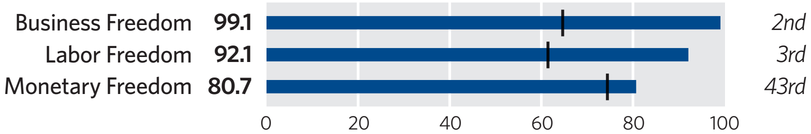
Protections for property rights are strongly enforced, with an independent and fair judicial system institutionalized throughout the economy. Commercial and bankruptcy laws are applied consistently. Intellectual property rights are well respected, and enforcement is consistent with world standards. Effective anti-corruption measures discourage bribery of public officials and uphold the integrity of government.

LIMITED GOVERNMENT



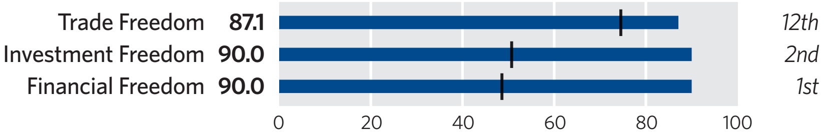
The top income tax rate is 55.4 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and the world's first tax on fatty foods. The overall tax burden is almost 50 percent of total domestic income. Amounting to more than 55 percent of GDP, government spending is extremely high. The budget has run a small deficit, but public debt remains below 50 percent of GDP.

REGULATORY EFFICIENCY



The overall regulatory environment remains one of the world's most transparent and efficient. Minimum capital requirements for limited liability companies have been reduced, and launching a business takes fewer days and procedures than world averages. Flexible and modern employment regulations sustain the labor market. Monetary stability has been well established. Medications are heavily subsidized, and rents are generally fixed by law.

OPEN MARKETS

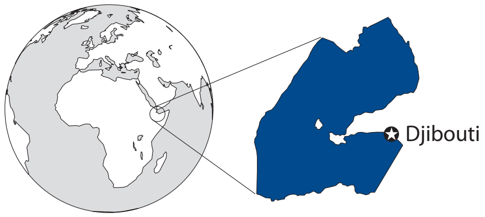


Denmark's trade regime, similar to that of other EU members, is fairly competitive and promotes the dynamic growth of trade. Denmark continues to be one of the world's most open economies with respect to foreign investment, and the investment code is transparent and efficiently administered. The modern and diversified financial sector has been undergoing 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	-3.4	Business Freedom	-0.6	Trade Freedom	-0.5
Freedom from Corruption	0	Government Spending	-19.5	Labor Freedom	0	Investment Freedom	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 2012 *Index*. Its overall score is 0.6 point lower than last year due to declining scores in government spending, business freedom, and labor freedom. Djibouti is ranked 25th out of 46 countries in the Sub-Saharan Africa region.

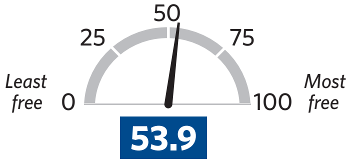
Implementation of deeper institutional reforms is critical to strengthening Djibouti's foundations of economic freedom and inspiring more dynamic economic growth. Systemic weaknesses persist in the protection of property rights and the effective enforcement of anti-corruption measures. The judiciary remains vulnerable to political influence.

The economy is driven mainly by services, with industry accounting for less than 20 percent of GDP. Regulatory efficiency remains poor as burdensome regulations continue to hinder the development of a more entrepreneurial environment. On the other hand, policies that sustain open markets are evolving in a positive way. Increased investment, particularly in construction and port operations, has led to relatively high economic growth. The financial sector is growing and, with new banking laws, becoming more competitive.

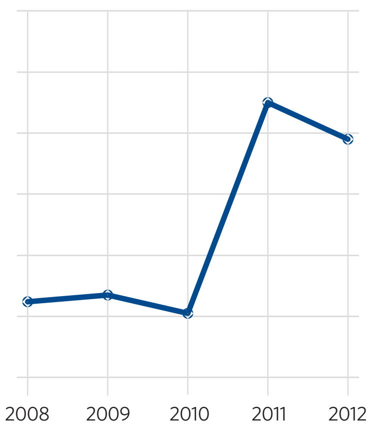
BACKGROUND: President Ismael Omar Guelleh, whose multi-party, multi-ethnic coalition controls all levels of government, was re-elected by a wide margin in April 2011. Djibouti is strategically located at the mouth of the Red Sea, and its economy is centered on port facilities, the railway, and French and American military bases. 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 have increased to 60 percent above their five-year average and are expected to continue rising as prices for wheat flour, sugar, and cooking oil increase. Djibouti is heavily dependent 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

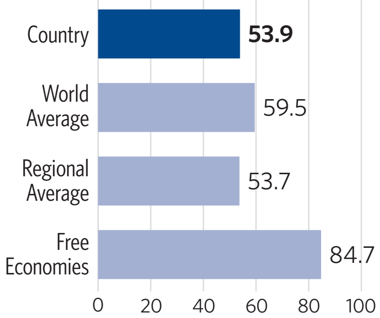
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

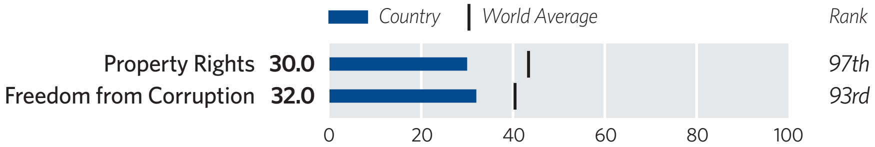
Population: 0.8 million
GDP (PPP): $2.1 billion
4.5% growth in 2010
5-year compound annual growth 5.0%
$2,555 per capita
Unemployment: 59.0%
Inflation (CPI): 4.0%
FDI Inflow: $26.8 million
Public Debt: 56.1% of GDP

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

DJIBOUTI (continued)

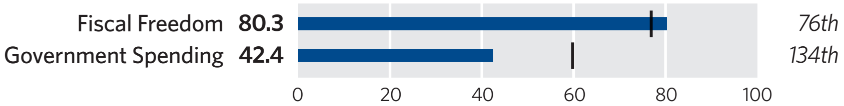
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



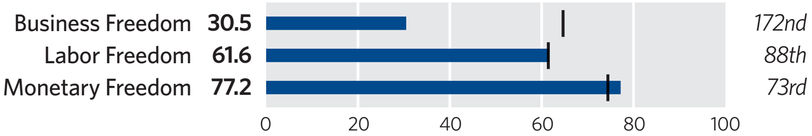
Protection of private property is weak. Courts are frequently overburdened, and enforcement of contracts can be time-consuming. Trials and judicial proceedings are subject to corruption. Political manipulation undermines the judicial system's credibility. Commercial and bankruptcy laws are not applied consistently. In the absence of effective anti-corruption measures, prosecution and punishment for corruption have been rare.

LIMITED GOVERNMENT



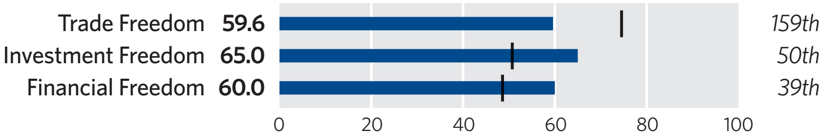
The top income tax rate is 30 percent, and the top corporate tax rate is 25 percent. Other taxes include a property tax and an excise tax, with the overall tax burden corresponding to 21 percent of total domestic income. Government spending amounts to 43.8 percent of total domestic output. Public debt has been reduced to below 60 percent of GDP, but the latest budget was in deficit.

REGULATORY EFFICIENCY



The regulatory system's lack of transparency and clarity injects considerable uncertainty into entrepreneurial decision-making. Launching a business remains time-consuming, with the minimum capital requirement amounting to over four times annual average income. A modern labor market has not been fully developed. Inflationary pressures continue, with a range of goods and services subject to government price controls.

OPEN MARKETS

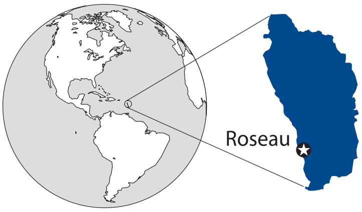


Djibouti's trade weighted tariff rate is quite high at 15.2 percent, with other complex non-tariff barriers further constraining trade freedom. Although no major laws discriminate against foreign investment, the investment regime lacks transparency and remains unfavorable to dynamic growth. The banking sector is expanding as more banks, particularly foreign banks, have entered the market and increased competition in recent years.

Score Changes

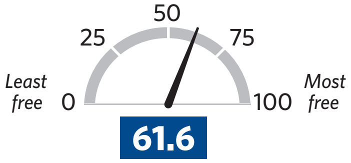
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.7	Business Freedom	-2.4	Trade Freedom	0
Freedom from Corruption	+4.0	Government Spending	-8.1	Labor Freedom	-6.1	Investment Freedom	+5.0
				Monetary Freedom	+0.6	Financial Freedom	0

DOMINICA



World Rank: **80** Regional Rank: **16**

Economic Freedom Score



Dominica's economic freedom score is 61.6, making its economy the 80th freest in the 2012 *Index*. Its overall score is 1.7 points lower than last year, with deteriorated ratings in seven of the 10 economic freedoms, including freedom from corruption, property rights, and investment freedom. Dominica is ranked 16th out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world average.

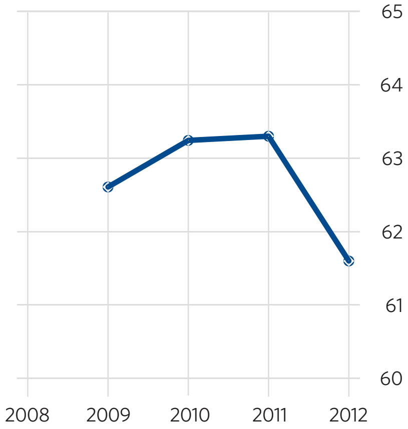
Dominica's record on institutional reforms has been uneven, and more vibrant economic growth is constrained by lingering structural weaknesses that continue to undercut some of the four pillars of economic freedom. The rule of law is not strongly supported by the judicial system, particularly because of growing corruption. Inefficient and high public spending has resulted in a considerable fiscal burden imposed on the population.

A series of pro-business reforms, including simplification of the business start-up process and reduction of the corporate tax rate, have led to increased regulatory efficiency. However, the pace of reform has slowed in recent years, and policies to open markets further have not been advanced.

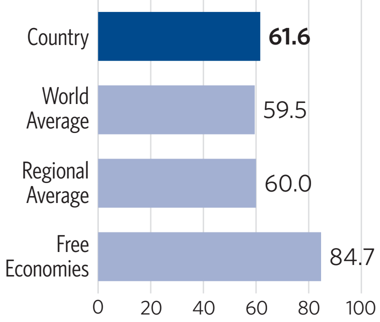
BACKGROUND: Dominica has a unicameral parliamentary government with a president and prime minister. In 2008, after Venezuela promised millions in funding for agricultural and industrial development, the government joined Hugo Chávez's Bolivarian Alternative for the Americas (ALBA), a trade organization consisting of socialist Latin American governments. 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. Tourism is less significant than on other Eastern Caribbean islands, although the rugged mountains and rain forests attract some ecotourists.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



Quick Facts

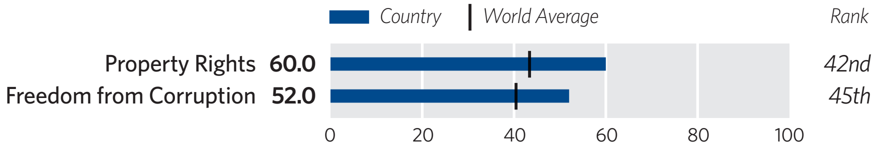
Population: 0.1 million
GDP (PPP): $0.8 billion
1.0% growth in 2010
5-year compound annual growth 2.2%
$10,416 per capita
Unemployment: 23.0%
Inflation (CPI): 2.9%
FDI Inflow: $30.9 million
Public Debt: 54.3% of GDP

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

DOMINICA (continued)

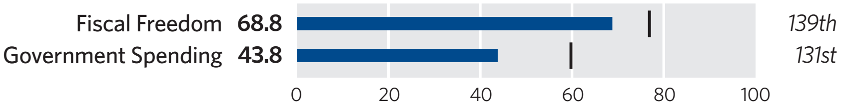
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



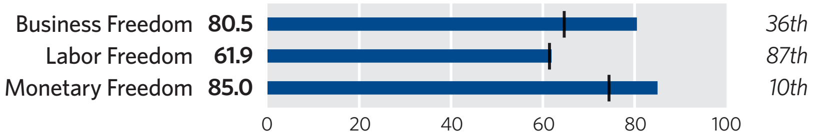
Dominica has an efficient legal system based on British common law, and private property rights are relatively well respected. The judiciary is independent, and public trials are generally fair. There are criminal penalties for official corruption, but the law is not implemented effectively. Pirated copyrighted material is sold openly. Monitoring of non-bank financial institutions needs to be strengthened to deter money laundering.

LIMITED GOVERNMENT



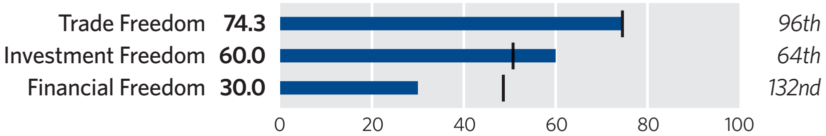
The top income tax rate is 35 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT), an environmental tax, and excise taxes, with the overall tax burden equal to 31.6 percent of total domestic income. Government spending has increased to over 40 percent of total domestic output. The budget balance has been in deficit, and public debt accounts for 54.3 percent of GDP.

REGULATORY EFFICIENCY



Dominica has made progress in eliminating regulatory bottlenecks and reducing the overall cost of conducting business. Launching a business takes less than the world averages of seven procedures and 30 days. The non-salary cost of employing a worker is moderate, but the labor market lacks flexibility in other areas. Inflation is low, and a comprehensive government restructuring of the economy, including the elimination of price controls, is ongoing.

OPEN MARKETS



Coupled with myriad non-tariff barriers, Dominica's high tariff barrier of around 8 percent continues to discourage dynamic growth in trade. Foreign investors generally receive national treatment and may hold up to 100 percent ownership. However, the investment regime remains bureaucratic. The financial sector remains underdeveloped. Shallow markets and a lack of available financial instruments restrict overall access to credit.

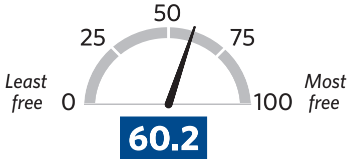
Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	-5.0	Fiscal Freedom	-0.7	Business Freedom	+5.7	Trade Freedom	0
Freedom from Corruption	-7.0	Government Spending	-2.0	Labor Freedom	-0.9	Investment Freedom	-5.0
				Monetary Freedom	-1.3	Financial Freedom	0

DOMINICAN REPUBLIC

World Rank: **89** Regional Rank: **18**

Economic Freedom Score



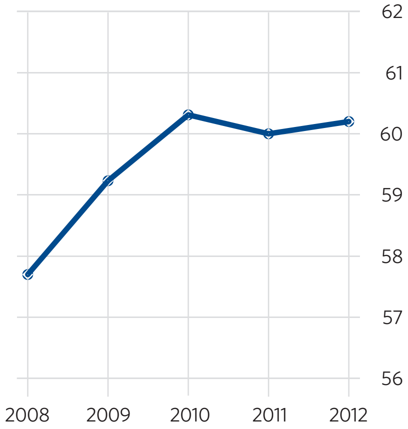
The Dominican Republic's economic freedom score is 60.2, making its economy the 89th freest in the 2012 *Index*. Its overall score is 0.2 point higher than last year due to modest improvements in labor freedom and the control of government spending. The Dominican Republic is ranked 18th out of 29 countries in the South and Central America/Caribbean region, and its score is about average for the region.

Wide-ranging reforms have resulted in some progress in regulatory efficiency, enhancing the Dominican Republic's overall entrepreneurial environment. Gradual economic diversification has strengthened resilience to external shocks. A relatively high degree of openness to global trade has aided the ongoing transition to a modern and competitive economic system, and modest tax rates have boosted competitiveness.

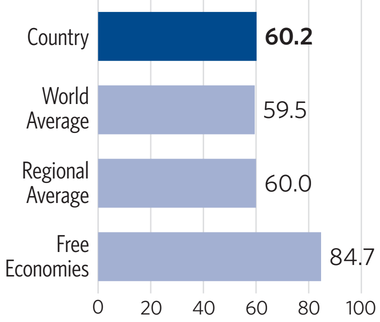
Substantial challenges remain, particularly in implementing deeper institutional and systemic reforms that are critical to strengthening the foundations of economic freedom. The protection of property rights and freedom from corruption are far below world standards, and the legal framework continues to be weak. Government interference and control have hurt overall monetary stability while retarding the development of a more dynamic private sector.

BACKGROUND: President Leonel Fernández of the Dominican Liberation Party announced in 2011 that he would not seek a fourth term in the May 2012 election. The Dominican Republic enjoyed a surge in economic growth led by tourism, telecommunications, and *maquiladora* manufacturing until the global economic downturn in 2008–2009. The economy rebounded somewhat in 2010. The Central America–Dominican Republic–United States Free Trade Agreement has helped to boost investment and exports and minimize losses to Asian textile manufacturers. The Dominican Republic suffers from government corruption, wasteful spending, and high unemployment, as well as unreliable electric service caused by seasonal drought, low collection rates, theft, and infrastructure problems.

Freedom Trend



Country Comparisons



Quick Facts

Population: 9.9 million

GDP (PPP): $87.2 billion

7.8% growth in 2010

5-year compound annual growth 7.1%

$8,836 per capita

Unemployment: 14.2%

Inflation (CPI): 6.3%

FDI Inflow: $1.6 billion

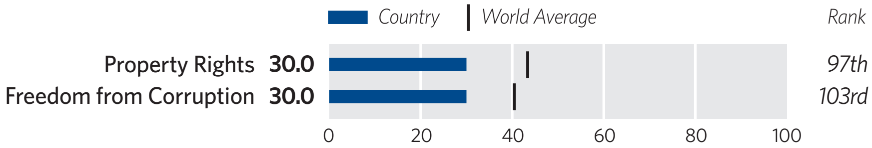
Public Debt: 28.7% of GDP

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

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

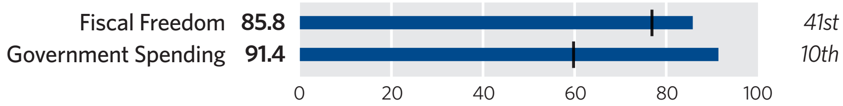
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



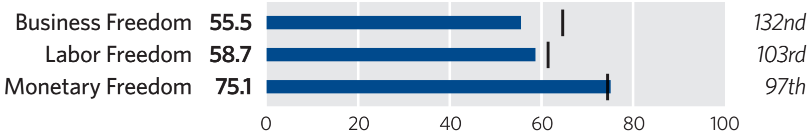
The court system is inefficient, and red tape is common. The government can expropriate property arbitrarily. Most confiscated property has been used for infrastructure or commercial development. Although the government has slowly improved patent and trademark laws, enforcement of intellectual property rights remains poor. Corruption remains endemic in both the public sector and the private sector.

LIMITED GOVERNMENT



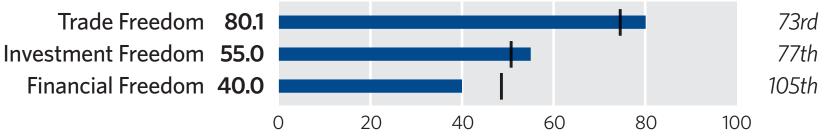
The top income tax rate is 25 percent, and the flat corporate tax rate is also 25 percent. Other taxes include a value-added tax (VAT), an estate tax, and a net wealth tax, with the overall tax burden amounting to 13.1 percent of total domestic income. Government spending is equivalent to 16.9 percent of total domestic output. The deficit has come down to around 2.5 percent of GDP, and public debt remains below 30 percent of GDP.

REGULATORY EFFICIENCY



The entrepreneurial environment is relatively streamlined. The cost of completing license requirements has been reduced, and launching a business takes less than the world average of seven procedures and 30 days. However, overall regulatory efficiency remains poor. The non-salary cost of employing a worker is moderate, but restrictions on work hours are rigid. Government price controls affect some products and services.

OPEN MARKETS



The trade weighted average tariff rate has come down to 4.9 percent, but 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

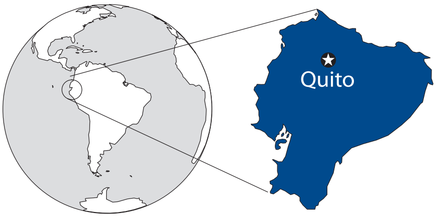
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.5
Government Spending	+2.3

REGULATORY EFFICIENCY	
Business Freedom	–0.9
Labor Freedom	+1.6
Monetary Freedom	–2.0

OPEN MARKETS	
Trade Freedom	+0.3
Investment Freedom	0
Financial Freedom	0

ECUADOR



World Rank: **156** Regional Rank: **26**

Ecuador's economic freedom score is 48.3, making its economy the 156th freest in the 2012 *Index*. Its overall score is 1.2 points higher than last year, with declining trade freedom offset by an improved score in government spending. 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.

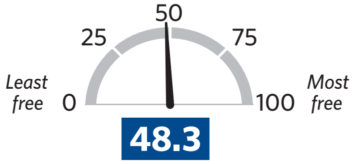
Considerably undermining economic freedom, the reach of Ecuador's government continues to expand to economic sectors beyond the petroleum industry. The rule of law is undermined by pervasive corruption that weakens property rights. The private sector is struggling to compete with the growing public sector in what has become a restrictive entrepreneurial environment.

Private investment has shrunk as costly regulations and uncertainty have made expansion planning more difficult. The trade regime has become more restrictive, reducing competition and eroding productivity. Ecuador's underdeveloped and state-controlled financial sector limits access to credit and adds costs to entrepreneurs. The overall investment climate has become increasingly risky as the government's economic policies continue to evolve rapidly in a repressive political environment.

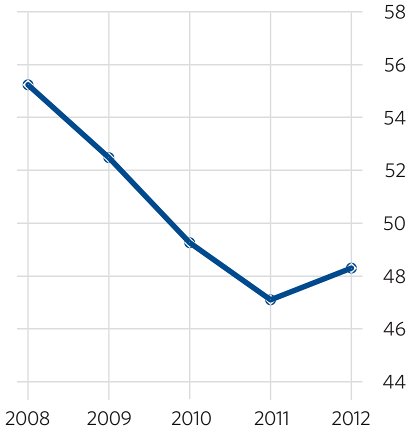
BACKGROUND: In 2007, Rafael Correa was elected president on a populist platform of tighter government control of banking and oil production. He also promised to renege on foreign debt and end free trade talks with the U.S. Capital flight has soared, and foreign direct investment has fallen. Aligned with Venezuela's Hugo Chávez, Correa has consolidated his power under a new constitution imposed in a climate of intimidation. He was elected to a second term in 2009. Ecuador is the world's largest banana exporter. It also has important petroleum reserves, but the government-run oil industry is mismanaged and corrupt, and production is declining. A series of 10 constitutional amendments passed in May 2011 have strengthened Correa's control of the media and the judicial system.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

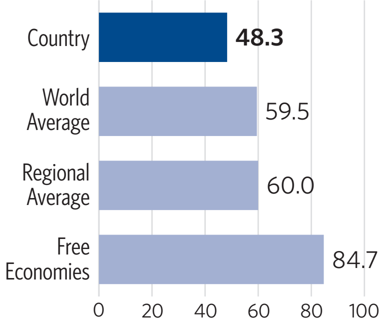
Economic Freedom Score



Freedom Trend



Country Comparisons



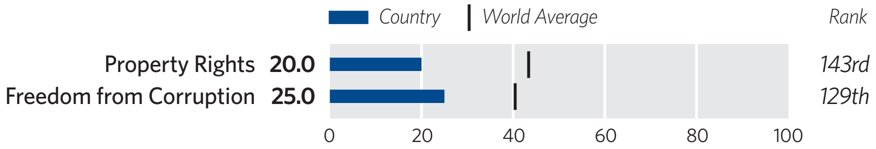
Quick Facts

Population: 14.8 million
GDP (PPP): $115.0 billion
3.2% growth in 2010
5-year compound annual growth 3.5%
$7,776 per capita
Unemployment: 5.0%
Inflation (CPI): 3.6%
FDI Inflow: $164.1 million
Public Debt: 20.4% of GDP

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

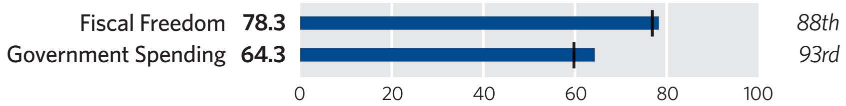
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



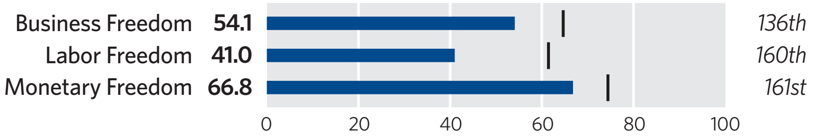
The foundations of economic freedom are fragile. The judicial system remains inefficient and vulnerable to political interference. Court delays are significant, and judgments are inconsistent. Expropriation is possible as the new constitution strengthens the government's right to control strategic sectors such as natural resources and telecommunications. With corruption pervasive, illicit payments for official favors and thefts of public funds are common.

LIMITED GOVERNMENT



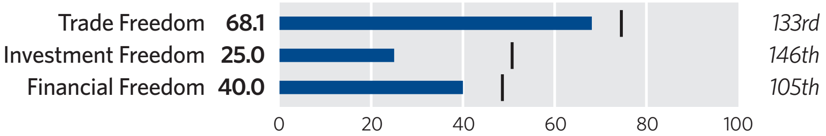
The top income tax rate is 35 percent, and the corporate tax rate is 25 percent. Profits reinvested in capital purchases are subject to a special 15 percent rate. Other taxes include a value-added tax (VAT) and an inheritance tax, with the overall tax burden equal to 17.9 percent of GDP. Government spending is equivalent to 34.5 percent of total domestic output. The deficit is now below 2 percent of GDP, but public debt has reached 20.4 percent of GDP.

REGULATORY EFFICIENCY



The inconsistent application of commercial laws increases the cost of conducting business. Launching a business takes more than the world averages of seven procedures and 30 days. Job-tenure regulations create a disincentive for new hiring, and employers resort to short-term outsourcing contracts. 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



In 2011, Ecuador embarked on a program of import substitution and voluntary import restraints to reduce its trade deficit. Further suppressing trade, the trade weighted average tariff rate rose to 6 percent. The investment regime is complex and non-transparent, with decision-making significantly politicized. The financial sector remains poorly developed. Non-performing loans have been rising, and state interference in banking has expanded.

Score Changes

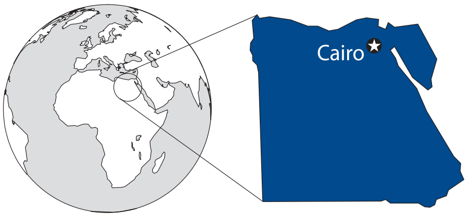
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+3.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.6
Government Spending	+14.2

REGULATORY EFFICIENCY	
Business Freedom	+0.6
Labor Freedom	+0.9
Monetary Freedom	+1.9

OPEN MARKETS	
Trade Freedom	-7.9
Investment Freedom	0
Financial Freedom	0

EGYPT



World Rank: **100** Regional Rank: **12**

Egypt's economic freedom score is 57.9, making its economy the 100th freest in the 2012 *Index*. Its overall score is 1.2 points lower than last year, reflecting declines in property rights, business freedom, and financial freedom. Egypt is ranked 12th out of 17 countries in the Middle East/North Africa region, and its overall score is just below world and regional averages.

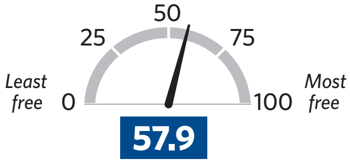
The Egyptian economy has been in turmoil since early 2011, and the gradual rise in economic freedom observed in recent years has come to a halt. As noted in earlier editions of the *Index*, deeper institutional reforms are critically needed to sustain long-term growth and stable economic development. Those reforms include a strengthened judicial system, better protection of property rights, and more effective eradication of corruption.

Given the political and economic upheaval, it is difficult to gauge the lasting effectiveness of earlier reforms aimed at promoting more broad-based economic expansion and dynamic job creation, such as liberalization of the investment regime, implementation of lower tax rates, and reform of the regulatory system. In any case, needed improvements have not occurred in other key policy areas, and the effectiveness of policies that might have helped to open markets and improve productivity has been undercut by the heavy presence of the state in the economy.

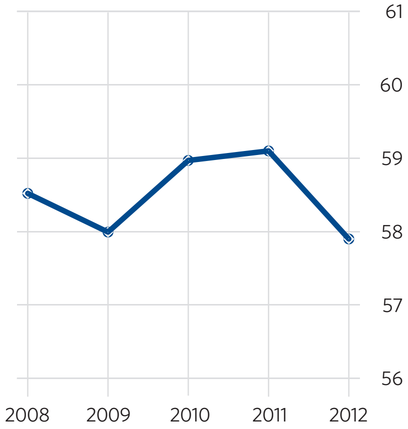
BACKGROUND: Egypt is the most populous Arab country and a major force in Middle Eastern affairs. President Hosni Mubarak, who had held power since 1981, was ousted in February 2011 by the Egyptian Army after massive protests and violent police responses threatened to destabilize the country. The Supreme Council of the Armed Forces, led by Defense Minister Mohamed Hussein Tantawi, assumed power and promised to prepare the way for free elections for a new parliament and president. Egypt's next government will face major political and economic challenges. The economy has been severely damaged by domestic instability, which depressed both tourism revenues and foreign investment. The legacy of Egypt's socialist past lingers, and the government still heavily subsidizes food, energy, and other key commodities.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

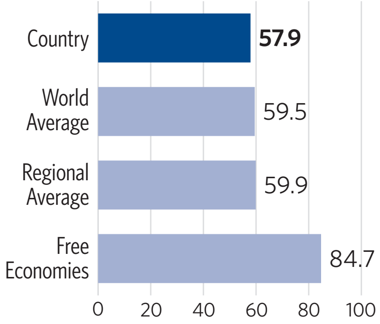
Economic Freedom Score



Freedom Trend



Country Comparisons



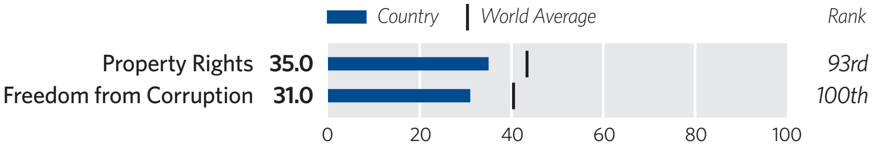
Quick Facts

Population: 78.3 million
GDP (PPP): $497.8 billion
5.1% growth in 2010
5-year compound annual growth 6.2%
$6,354 per capita
Unemployment: n/a
Inflation (CPI): 11.7%
FDI Inflow: $6.4 billion
Public Debt: 73.8% of GDP

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

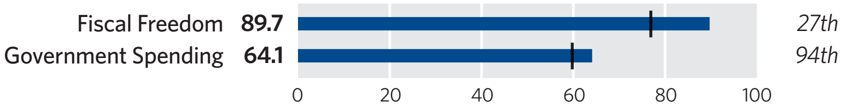
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



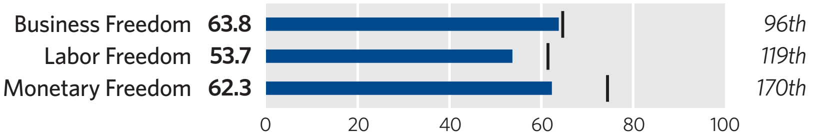
The rule of law has been unstable across the country, and the independence of the judicial system is poorly institutionalized. Judicial procedures tend to be protracted, costly, and subject to political pressure. Property rights are not protected effectively, and the enforcement of intellectual property rights is seriously deficient. Corruption continues to erode the foundations of economic freedom.

LIMITED GOVERNMENT



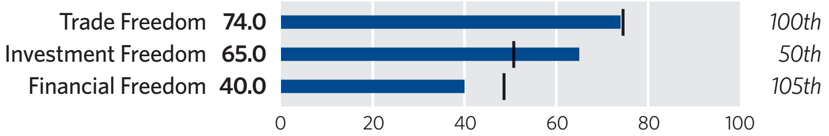
The top income and corporate tax rates are 20 percent. Other taxes include a property tax and a general sales tax (GST) that functions as a value-added tax (VAT), with the overall tax burden estimated to be below 20 percent of total domestic income. Government spending is over one-third of total domestic output, resulting in a widening deficit of around 8 percent of GDP and rising public debt that exceeds 70 percent of GDP.

REGULATORY EFFICIENCY



Previous regulatory reforms, including establishment of a "one-stop shop" for investment, made starting a business less time-consuming and costly. However, without needed reforms in other areas, those reforms have proved 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



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. The state owns about 45 percent of the banking system. The financial system has been under stress, with negative impacts from the global crisis exacerbated by domestic turbulence.

Score Changes

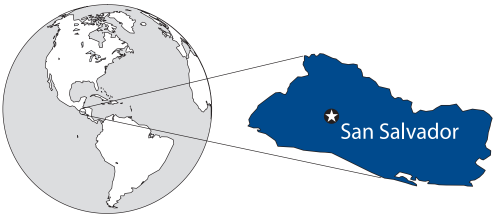
RULE OF LAW	
Property Rights	-5.0
Freedom from Corruption	+3.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.1
Government Spending	-1.2

REGULATORY EFFICIENCY	
Business Freedom	-0.7
Labor Freedom	+0.1
Monetary Freedom	+1.5

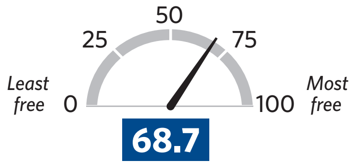
OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	-10.0

EL SALVADOR



World Rank: **41** Regional Rank: **5**

Economic Freedom Score



El Salvador's economic freedom score is 68.7, making its economy the 41st freest in the 2012 *Index*. Its overall score is about the same as last year, with declines in business freedom and trade freedom largely offset by improvements in four of the 10 freedoms. El Salvador is ranked 5th out of 29 countries in the South and Central America/Caribbean region, and its overall score remains well above the world average.

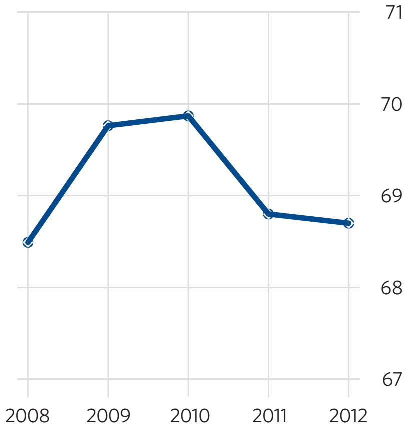
The Salvadoran economy remains one of the most economically free in the region. Overall competitiveness is promoted and sustained by a restrained and sensible regulatory environment and open-market policies that support trade and investment. The financial sector is fairly well developed and stable, providing entrepreneurs with good access to credit. Freedom from corruption is the only indicator on which the country scores significantly below the world average, but some improvement has been noted this year.

Lingering institutional weaknesses continue to slow El Salvador's transition toward greater economic freedom. Property rights are only moderately well protected, and the judicial system is relatively inefficient. Improved public finance management is needed to eliminate chronic fiscal deficits.

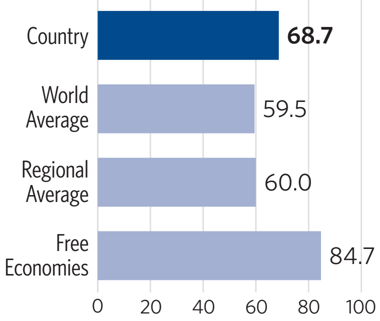
BACKGROUND: After the long civil war ended in 1992, El Salvador's political parties advanced reforms and restored civil liberties. Poverty reduction and moderate economic growth from *maquila* industries and the services sector were due in part to the National Republican Alliance (ARENA) party's free-market policies and sizeable emigrants' remittances. Mauricio Funes, elected in 2009 as El Salvador's first avowedly leftist president, has backtracked on many of ARENA's economic reforms. Government spending and debt are up sharply, and arbitrary harassment of the private sector and Funes' anti-business rhetoric have created a hostile environment for entrepreneurs. A poor education system and increasing criminal violence are major concerns. El Salvador participates in the Central America–Dominican Republic–United States Free Trade Agreement.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



Quick Facts

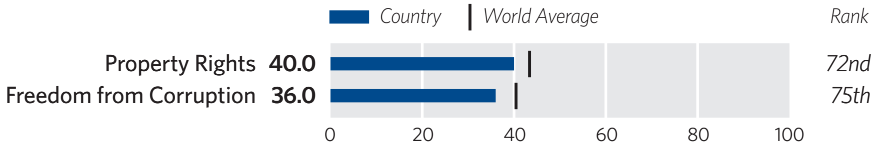
Population: 5.9 million
GDP (PPP): $43.6 billion
0.7% growth in 2010
5-year compound annual growth 1.6%
$7,430 per capita
Unemployment: 7.0%
Inflation (CPI): 1.2%
FDI Inflow: $78 million
Public Debt: 50.3% of GDP

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

EL SALVADOR (continued)

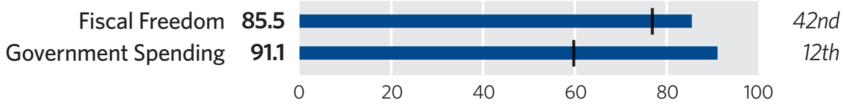
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



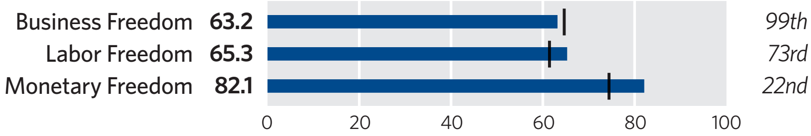
Property rights are not strongly respected, and law enforcement is inefficient and uneven. The judicial system is not fully independent and remains vulnerable to political influence and corruption. In the absence of effective measures to protect intellectual property rights, the market for pirated goods has been expanding. The perception of corruption dropped slightly this year.

LIMITED GOVERNMENT



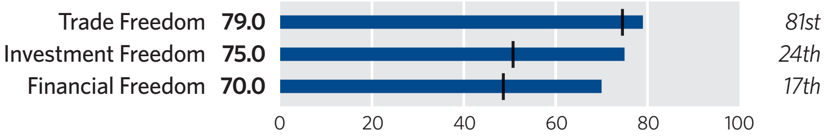
The top income and corporate tax rates are 25 percent. Other taxes include a value-added tax (VAT) and excise taxes, with the overall tax burden corresponding to 14 percent of total domestic income. Government spending amounts to 17.2 percent of total domestic output. The government budget is chronically in deficit, and public debt has increased to over 50 percent of GDP from 38 percent in 2007.

REGULATORY EFFICIENCY



A new commercial code was implemented to simplify the business start-up process by significantly reducing the minimum capital requirement. However, overall progress in easing constraints on business has lagged behind improvements in other countries. The labor market lacks flexibility, and imbalances persist in the demand and supply of skilled workers. Price controls are imposed on a range of goods and services.

OPEN MARKETS

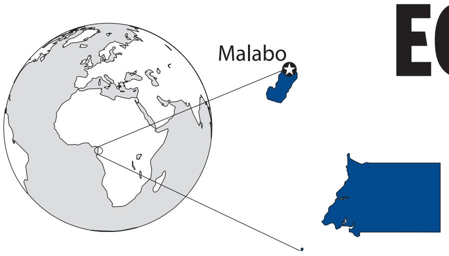


The trade weighted average tariff rate is 5.5 percent, and burdensome non-tariff barriers raise the cost of trade. The investment regime is relatively open and transparent. The law grants equal treatment to foreign and domestic investors. The stable banking sector provides easy access to credit. There are two state-owned banks, and the highly concentrated banking sector is dominated by four private banks that account for over 70 percent of total assets.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.3	Business Freedom	-2.3	Trade Freedom	-6.0
Freedom from Corruption	+2.0	Government Spending	+3.1	Labor Freedom	+0.4	Investment Freedom	0
				Monetary Freedom	+2.2	Financial Freedom	0

EQUATORIAL GUINEA



World Rank: **170** Regional Rank: **43**

Equatorial Guinea's economic freedom score is 42.8, making its economy the 170th freest in the 2012 *Index*. Its overall score fell 4.7 points, driven by notable deterioration in the management of government spending. 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. Its score decline is the second highest in the 2012 *Index*.

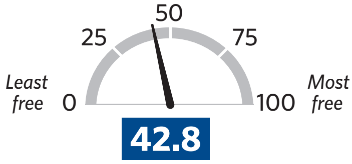
Overall economic development has been uneven, and poverty remains daunting. Persistent institutional weaknesses impede emergence of a more vibrant private sector and long-term economic development. Pervasive corruption further undermines the already weak rule of law. Private property is vulnerable to bureaucratic interference and even expropriation. Large oil revenues enable poor management of public spending.

Improving the investment and business climate to generate more broadly based economic expansion remains an urgent priority. Limited economic reform has led to overreliance on natural resource–driven investment, which is highly volatile. The oil sector has been the major source of high economic growth in recent years, but more than half of the workforce is estimated to work in the informal economy.

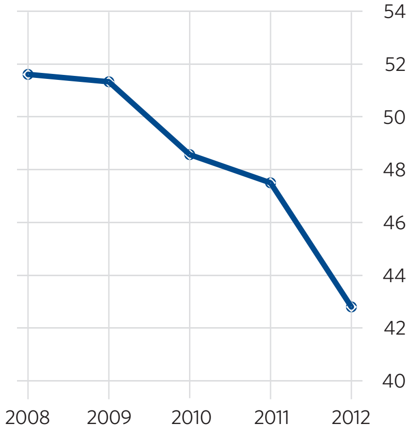
BACKGROUND: Equatorial Guinea's one-party rule ended in 1991, but opposition parties have won few victories. President Teodoro Obiang Nguema Mbasogo, who had seized power in a 1979 coup, won deeply flawed elections in 2002 and 2009 and still tightly controls both the military and the government. Tentative political reforms have been dismissed as more show than substance. Equatorial Guinea is a significant oil producer and one of Africa's fastest-growing economies. Oil resources are located mainly in the hydrocarbon-rich Gulf of Guinea. Oil accounted for 91 percent of GDP, 91 percent of government revenue, and 99 percent of exports in 2007. Government management of oil wealth, however, is not transparent, and average living standards are low. Most people still rely on subsistence farming, hunting, and fishing.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

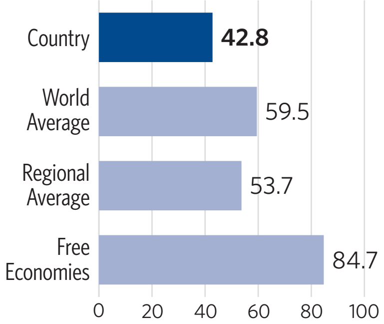
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 1.3 million

GDP (PPP): $23.8 billion

–0.8% growth in 2010

5-year compound annual growth 7.4%

$18,143 per capita

Unemployment: 22.3%

Inflation (CPI): 7.5%

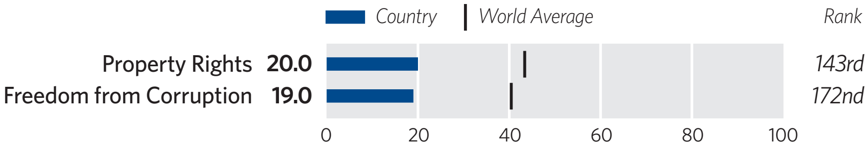
FDI Inflow: $695.0 million

Public Debt: 7.5% of GDP

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

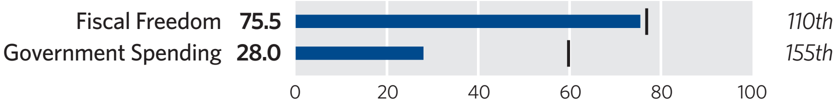
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



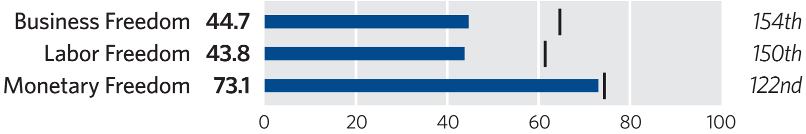
Protection of property rights is not strongly respected, and the rule of law remains uneven across the country. The inefficient judicial system is open to political influence, and application of laws is selective. Enforcement of intellectual property rights is weak. Corruption seriously undermines the foundations of economic freedom, and cronyism is pervasive, particularly in connection with the oil sector.

LIMITED GOVERNMENT



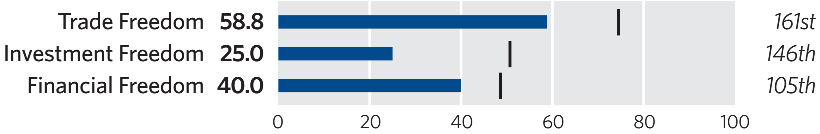
The top income and corporate tax rates are 35 percent. Other taxes include a value-added tax (VAT) and a tax on inheritance, with overall tax revenue estimated to be quite small as a percentage of total domestic product. Government spending has increased to about half of total domestic output. Because of substantial oil revenue, the deficit has come down to around 5 percent of GDP, and public debt stands below 10 percent of GDP.

REGULATORY EFFICIENCY



Regulatory efficiency is poor. Despite some progress, lingering constraints include cumbersome administrative procedures and relatively high costs of complying with licensing requirements. In the absence of private-sector employment opportunities, an efficient labor market has not emerged. Outmoded labor regulations create challenging hurdles for businesses. Inflation has been rising.

OPEN MARKETS

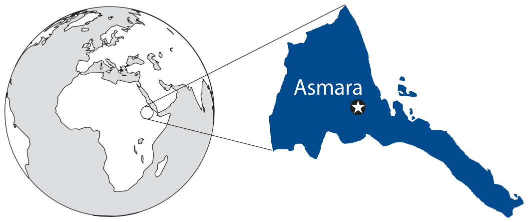


Burdensome tariff and non-tariff barriers continue to restrict trade freedom. The government officially welcomes foreign investment, but complex bureaucracy and arbitrary enforcement of regulations are serious impediments to investment growth. The financial sector remains underdeveloped. The high costs of finance and limited access to credit instruments hinder entrepreneurial activities.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	0	Business Freedom	+0.5	Trade Freedom	-0.1
Freedom from Corruption	+1.0	Government Spending	-52.5	Labor Freedom	+0.7	Investment Freedom	+5.0
				Monetary Freedom	-1.3	Financial Freedom	0

ERITREA



World Rank: **175** Regional Rank: **45**

Eritrea's economic freedom score is 36.2, making its economy one of the least free in the 2012 *Index*. Its overall score is 0.5 point lower than last year, reflecting large declines in fiscal freedom and labor freedom. Eritrea is ranked 45th out of the 46 countries in the Sub-Saharan Africa region.

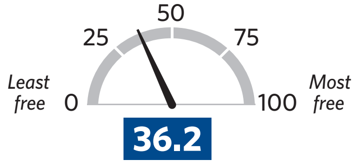
Poor governance and the lack of commitment to structural reforms continue to hamper Eritrea's economic freedom. The country performs very poorly in many components of the *Index*. Long-standing problems include poor public finance management and underdeveloped legal and regulatory frameworks. The weak enforcement of property rights and the fragile rule of law have driven many people into the informal sector.

The inefficient public sector remains the largest source of employment. Monetary stability remains fragile, largely reflecting excessive money creation to fund chronic fiscal deficits. Faced with substantial uncertainty and instability, the private sector has been marginalized to a great extent by the repressive environment. Open-market policies are not in place to spur dynamic growth in trade and investment.

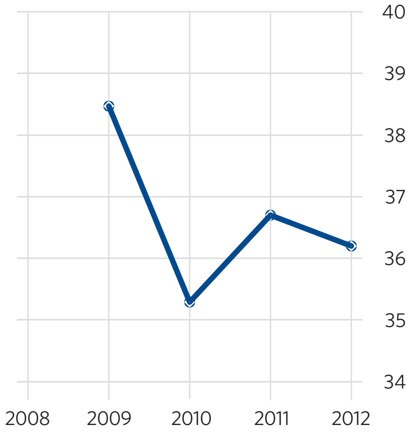
BACKGROUND: Eritrea won its independence from Ethiopia in 1993, but relations with Ethiopia remain tense. A U.N. peacekeeping mission ended in 2008, and Eritrea has ignored a U.N. resolution instructing it to remove troops from a disputed region on the border with Djibouti. President Isaias Afwerki has ruled without elections since 1993, and elections are unlikely due to the ongoing conflict with Ethiopia. Judicial independence is limited, and journalists and others have been held without trial for speaking against the government. Roughly three-quarters of Eritreans depend on small-scale agriculture and fishing, and two-thirds of the population receives food aid. Productivity is very low, and the International Monetary Fund estimates that remittances from Eritreans living overseas were equivalent to 23 percent of GDP in 2007.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

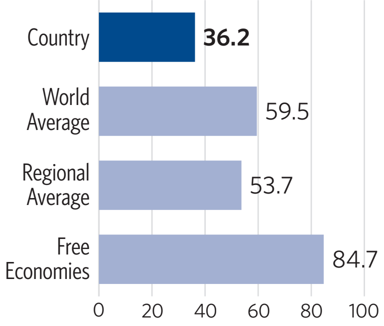
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

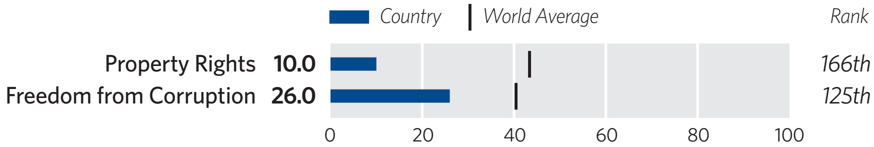
Population: 5.3 million
GDP (PPP): $3.6 billion
2.2% growth in 2010
5-year compound annual growth −0.8%
$681 per capita
Unemployment: n/a
Inflation (CPI): 12.7%
FDI Inflow: $55.6 million
Public Debt: 144.8% of GDP

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

ERITREA (continued)

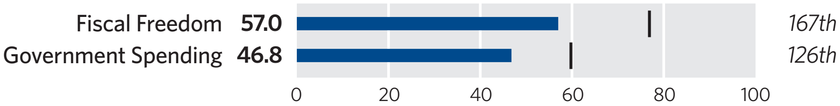
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



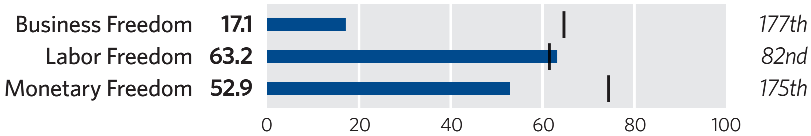
The rule of law remains fragile and uneven, severely undermined by a weak and inefficient judicial system. Protection of property rights is not strongly maintained. The government has a history of expropriating houses, businesses, and other private property without notice, explanation, or compensation. Pervasive corruption and cronyism continue to erode the foundations of economic freedom.

LIMITED GOVERNMENT



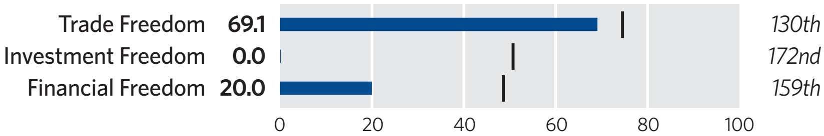
The top income and corporate tax rates are 30 percent. The overall tax burden is estimated to be quite high, although taxation is erratic and poorly administered. Government spending is equivalent to 42.1 percent of total domestic output. The deficit has been chronically high at over 15 percent of GDP, with public debt amounting to 144.8 percent of total domestic income.

REGULATORY EFFICIENCY



Procedures for establishing and running a business are opaque and costly. Regulations are severely outdated and not conducive to entrepreneurial activity. The required minimum capital for launching a business is equivalent to over twice the annual average income. Existing labor regulations are not enforced effectively in the absence of a well-functioning labor market. Monetary stability has been weak, and inflationary pressures continue.

OPEN MARKETS

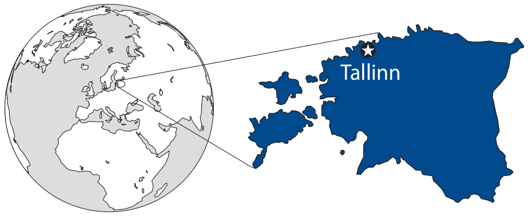


Eritrea's trade freedom remains severely restricted by prohibitive tariff and non-tariff barriers. The government-controlled economy leaves little room for private investment. Large-scale projects must be approved by the appropriate Office of the President. The financial system remains very much underdeveloped. All banks are majority-owned by the state, and private-sector involvement in the system remains limited.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-16.0	Business Freedom	-1.1	Trade Freedom	0
Freedom from Corruption	0	Government Spending	+15.3	Labor Freedom	-10.2	Investment Freedom	0
				Monetary Freedom	+6.9	Financial Freedom	0

ESTONIA



World Rank: **16** Regional Rank: **7**

Estonia's economic freedom score is 73.2, making its economy the 16th freest in the 2012 *Index*. Its overall score is 2.0 points lower than last year as a result of declines in freedom from corruption and business freedom and a deteriorating score for government spending. Estonia is ranked 7th out of 43 countries in the Europe region, and its overall score is well above the regional and world averages.

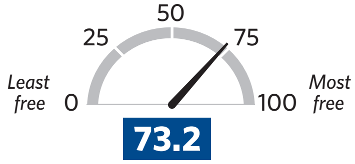
Estonia upholds all four pillars of economic freedom relatively well, with the rule of law strongly enforced by an independent and efficient judicial system. However, respect for the principle of limited government has eroded as government spending has risen as a share of GDP. Public finance management could be enhanced through clearer coordination between central and local governments as well as better targeting of social benefits. The debt burden remains quite low and has not undermined long-term economic competitiveness.

Flexibility and openness have equipped Estonia's small economy with an impressive capacity to adjust to external shocks. Sound economic policies grounded in a strong commitment to economic freedom have ensured high levels of investment and entrepreneurial activity. The overall investment code is conducive to dynamic growth, and the financial sector remains competitive.

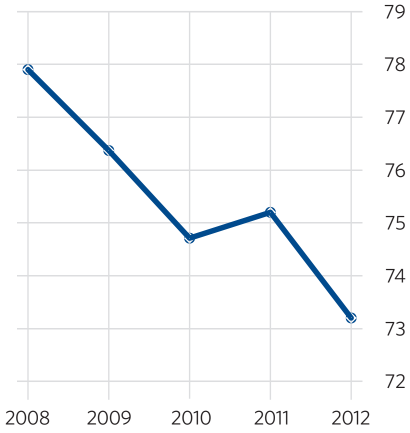
BACKGROUND: Estonia regained its independence in 1991 and has become a model of stable multi-party democracy. Since the March 2011 election, a center-right coalition of the Reform Party and the Pro Patria–Res Publica Union (IRL) has held a majority in parliament. Estonia has led reform among the former Soviet-bloc nations and has transformed itself into one of the world's most dynamic and modern economies. The 2005–2007 credit bubble ended two decades of strong growth, and the economy, strongly affected by the downturn in Finland, Sweden, and Germany, contracted significantly in 2009. Estonia became a member of NATO and the European Union in 2004, joined the Organisation for Economic Co-operation and Development in December 2010, and adopted the euro in January 2011.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

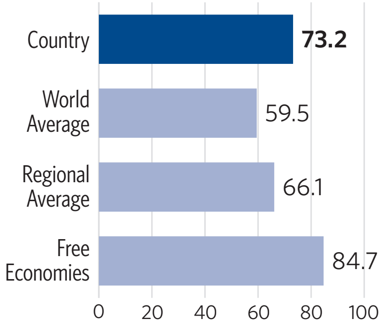
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

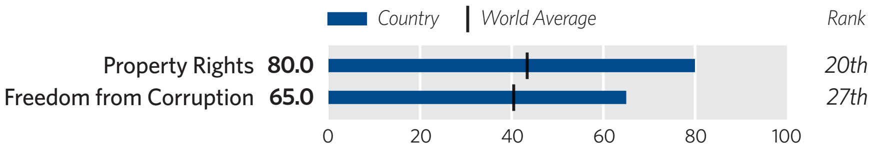
Population: 1.3 million
GDP (PPP): $24.7 billion
3.1% growth in 2010
5-year compound annual growth −0.1%
$18,519 per capita
Unemployment: 16.8%
Inflation (CPI): 2.9%
FDI Inflow: $1.5 billion
Public Debt: 6.6% of GDP

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

ESTONIA (continued)

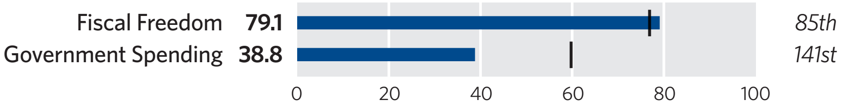
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



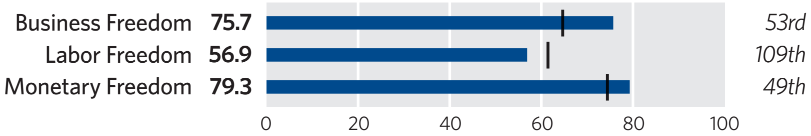
Estonia's judiciary is insulated from government influence. Property rights and contracts are well enforced and secure. Commercial codes are applied consistently. The long, complex property restitution process is almost complete, even in the area of non-residential property. Protection of intellectual property rights is consistent with global standards. Relatively effective anti-corruption measures are in place.

LIMITED GOVERNMENT



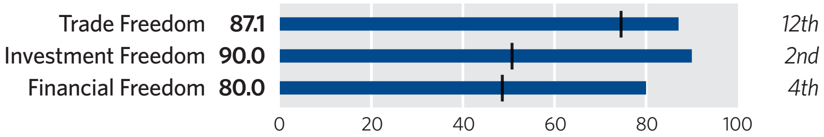
The top income and corporate tax rates are 21 percent. Undistributed profits are not taxed. Other taxes include a value-added tax (VAT) and excise taxes, with the overall tax burden corresponding to 34.7 percent of total domestic income. Government spending has increased to over 40 percent of total domestic output, but the overall budget balance has been under control, with narrowing deficits. Public debt amounts to less than 10 percent of GDP.

REGULATORY EFFICIENCY



Recent reforms facilitate insolvent firms' restructuring and make overall bankruptcy procedures less costly, but business reform has been uneven. Getting licenses has become more complex, with increases in the associated time and cost. Enhancing labor productivity has been a key goal, and the recently enacted labor law aims to increase flexibility by reducing costs of dismissing employees. Inflation has been modest.

OPEN MARKETS

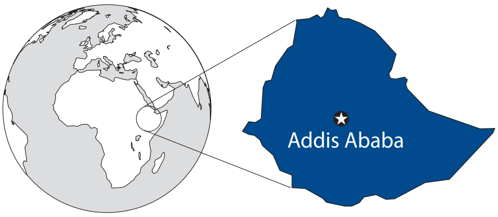


Estonia maintains a common external tariff with other members of the European Union, and the overall trade regime is fairly competitive and promotes the dynamic growth of trade. The investment environment is attractive and conducive to the free flow of capital. Foreign and domestic investors have the same legal rights. The competitive banking sector provides a wide range of financial services with little state intervention.

Score Changes

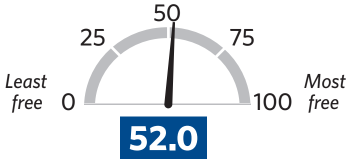
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-1.6	Business Freedom	-5.2	Trade Freedom	-0.5
Freedom from Corruption	-1.0	Government Spending	-13.4	Labor Freedom	+1.1	Investment Freedom	0
				Monetary Freedom	+0.6	Financial Freedom	0

ETHIOPIA



World Rank: **134** Regional Rank: **28**

Economic Freedom Score



Ethiopia's economic freedom score is 52.0, making its economy the 134th freest in the 2012 *Index*. Its overall score is 1.5 points higher than last year, reflecting improvements in four of the 10 economic freedoms including investment freedom and monetary freedom. Ethiopia is ranked 28th out of 46 countries in the Sub-Saharan Africa region, and its overall score is slightly below the regional average.

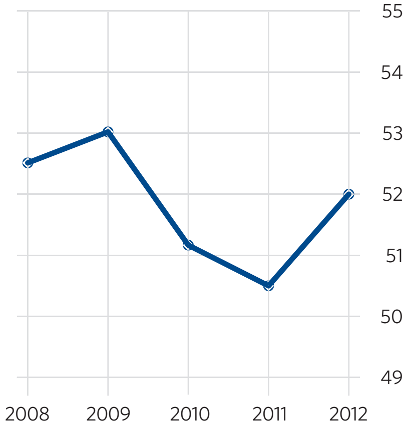
Progress toward greater economic freedom has been very uneven, and Ethiopia underperforms in many critical policy areas. The absence of an independent and fair judiciary weakens the rule of law and undermines prospects for long-term sustainable economic development. Corruption is pervasive, and the efficiency of government services is poor.

Weak regulatory frameworks and a lack of economic infrastructure impede expansion and diversification of the productive base. Open-market policies have been marginally advanced, but tariff and non-tariff barriers constrain the freedom to trade and the benefits derived from it. Lack of access to financing precludes entrepreneurial growth, and the investment regime lacks transparency.

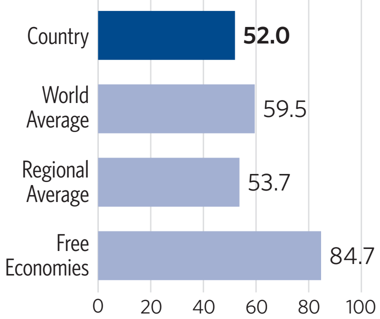
BACKGROUND: Prime Minister Meles Zenawi, in office since 1991, won a landslide victory in May 2010. His Ethiopian People's Revolutionary Democratic Front claimed to win all but two seats in parliament, but the opposition claims that the political environment is oppressive and that the government engages in intimidation tactics. Following war with Eritrea in the late 1990s, a U.N. peacekeeping mission was established on the border. The mission was terminated in 2008, but relations between the two countries remain tense. Ethiopia invaded Somalia in support of Somalia's transitional federal government in 2006 and withdrew in 2009 following a peace deal between the Somali government and moderate Islamic factions. Despite frequent drought and famine, agriculture contributes over 40 percent of GDP, accounts for over 70 percent of exports, and employs about 80 percent of the population. Government control of the economy has stunted growth, and the state-run banks are not competitive with private banks in neighboring countries.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



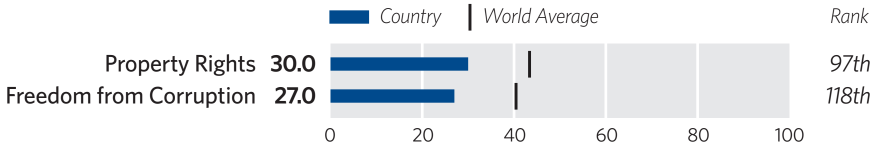
Quick Facts

Population: 84.8 million
GDP (PPP): $86.1 billion
8.0% growth in 2010
5-year compound annual growth 10.5%
$1,016 per capita
Unemployment: n/a
Inflation (CPI): 2.8%
FDI Inflow: $184 million
Public Debt: 36.7% of GDP

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

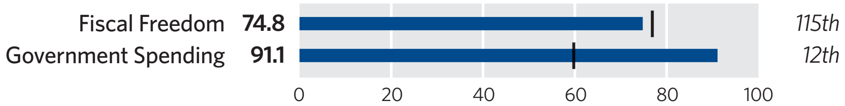
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



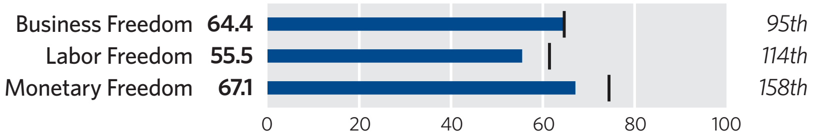
Property and contractual rights are recognized, but enforcement is weak. The judicial system is underdeveloped and vulnerable to political interference. A highly restrictive land-tenure policy makes it difficult to register property. State- and party-owned businesses receive preferential access to land leases and credit. Corruption further undermines the foundations of economic freedom.

LIMITED GOVERNMENT



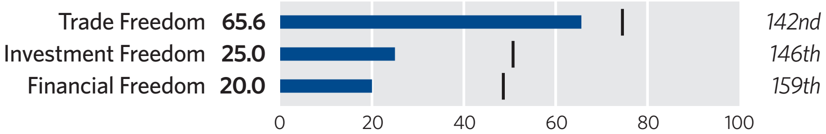
The top income and corporate tax rates are 35 percent. Unincorporated businesses are taxed at a rate of 30 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden equal to 8.6 percent of total domestic income. Government spending is equivalent to 17.2 percent of total domestic output, and the deficit has increased to 1.3 percent of GDP. Public debt amounts to 36.7 percent of GDP.

REGULATORY EFFICIENCY



Despite somewhat simpler administrative procedures and increased transparency, the overall regulatory framework needs much more improvement. The minimum capital requirement for launching a business equals over three times annual average income. The formal labor market is underdeveloped. Outmoded employment regulations remain a barrier to business, although enforcement is not stringent. Monetary stability has been weak.

OPEN MARKETS



The trade weighted tariff rate is quite high at 9.7 percent, with myriad non-tariff barriers raising the cost of trade. The investment regime, lacking transparency and efficiency, remains unfavorable to dynamic investment growth. The government strongly influences lending and owns the largest bank, which dominates the banking sector. The state has allowed the local private sector to participate in banking, but foreign ownership remains restricted.

Score Changes

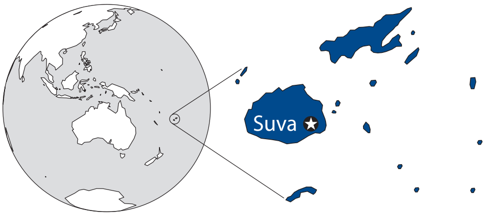
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.3
Government Spending	+2.4

REGULATORY EFFICIENCY	
Business Freedom	-3.0
Labor Freedom	-1.6
Monetary Freedom	+12.8

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

FIJI



World Rank: **105** Regional Rank: **18**

Fiji's economic freedom score is 57.3, making its economy the 105th freest in the 2012 *Index*. Its overall score is 3.1 points lower than last year due to considerable declines in property rights and freedom from corruption. Fiji is ranked 18th out of 41 countries in the Asia–Pacific region, and its overall score is below the world and regional averages. Fiji recorded the fifth largest score decline in the 2012 *Index*.

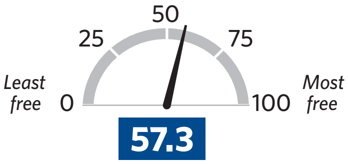
Performing notably worse across the 10 economic freedoms, the island economy is no longer one of the "moderately free" economies in the *Index*. The quality of the judicial framework has deteriorated considerably, severely hampered by the lack of judicial independence or any strong political will to eradicate corruption. With the judiciary becoming more vulnerable to political interference, corruption has become a serious cause for concern and undermines the foundations for long-term economic development.

Regulatory uncertainty and the lack of effective open-market policies continue to cause economic stagnation. Public debt has surpassed 50 percent of GDP, a level higher than that in most regional neighbors. Inefficient government-owned enterprises in sugar, electricity, and transportation significantly impede fiscal stability. Monetary freedom remains constrained by state meddling through price controls.

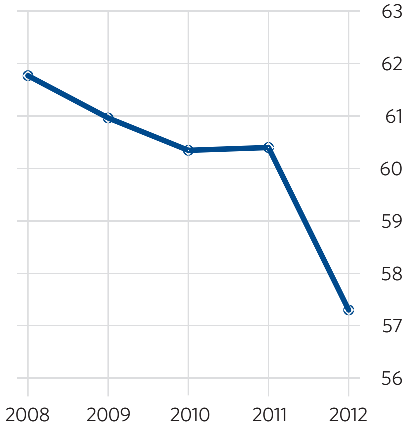
BACKGROUND: The Pacific island nation of Fiji is ruled by an interim government headed by military strongman Commodore Frank Bainimarama, who has dominated island politics for a decade. Fiji has long suffered from ethnic tension between the indigenous, mostly Christian population and a large minority 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

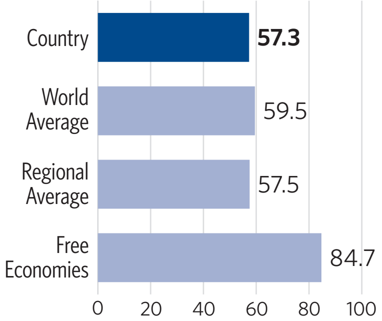
Economic Freedom Score



Freedom Trend



Country Comparisons



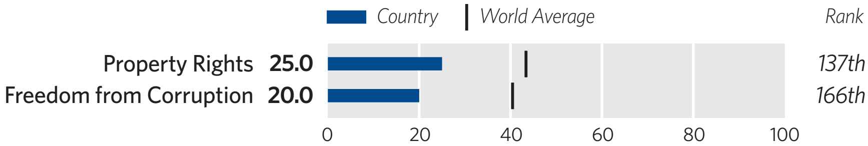
Quick Facts

Population: 0.9 million
GDP (PPP): $3.9 billion
0.1% growth in 2010
5-year compound annual growth –0.3%
$4,347 per capita
Unemployment: n/a
Inflation (CPI): 5.4%
FDI Inflow: $128.9 million
Public Debt: 55.8% of GDP

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

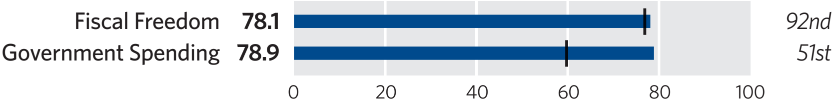
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



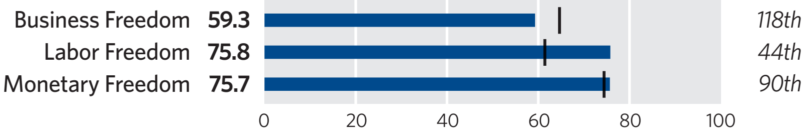
Protection of property is highly uncertain. The backlog of cases is significant, and there is a shortage of prosecutors. Government actions undermine the judiciary's independence. Obtaining land titles is difficult, and the enforcement of intellectual property rights is inadequate. Limited accountability for corruption and lack of effective disciplinary processes pose challenges to entrepreneurs.

LIMITED GOVERNMENT



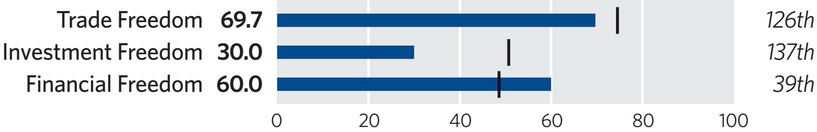
The top income tax rate is 31 percent, and the top corporate tax rate has been cut to 28 percent. Other taxes include a value-added tax (VAT) and a land sales tax. The overall tax burden is equal to 21.2 percent of total domestic income, and government spending is equivalent to 26.5 percent of total domestic output. Deficits have narrowed to 3.1 percent of GDP, with public debt amounting to 55.8 percent of GDP.

REGULATORY EFFICIENCY



Fiji's regulatory environment has improved, but more reforms are necessary to boost private investment and increase employment. Procedures for establishing and running a private enterprise are time-consuming and costly. The 2008 Employment Relations Act consolidated and updated the labor codes. However, labor regulations remain rigid, and an efficient labor market is not fully developed. Price controls are imposed on various goods.

OPEN MARKETS

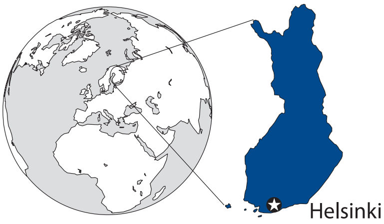


The trade weighted tariff rate is quite high at 10.1 percent, and non-tariff barriers raise the cost of trade. All foreign investment must be approved by the state, and the investment environment remains discouraging. The government withdrew from commercial banking, and foreign participation in banking is significant. Foreign exchange controls limit the amount of investment profit and capital that may be repatriated, but some controls have been eased.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**-5.0**	Fiscal Freedom	**0**	Business Freedom	**-3.9**	Trade Freedom	**-0.1**
Freedom from Corruption	**-20.0**	Government Spending	**-2.4**	Labor Freedom	**+0.1**	Investment Freedom	**0**
				Monetary Freedom	**-0.4**	Financial Freedom	**0**

FINLAND



World Rank: **17** Regional Rank: **8**

Finland's economic freedom score is 72.3, making its economy the 17th freest in the 2012 *Index*. Its score is 1.7 points worse than last year, with considerable deterioration in the management of government spending. Finland is ranked 8th out of 43 countries in the Europe region, and its overall score is well above the world average.

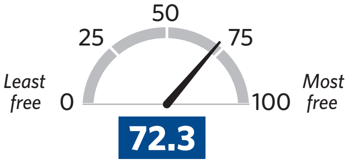
The strong competitiveness of Finland's economy is built on openness and transparency. The quality of the legal framework is among the world's highest, providing effective protection of property rights. The rule of law is well maintained, and a strong tradition of minimum tolerance for corruption continues. Although public debt remains under control, respect for the principle of limited government has been seriously undercut by heavy public spending that amounts to more than half of total domestic output.

As reflected in high ratings across key policy areas, the Finnish economy has long benefited from open-market policies that support dynamic trade and investment. The regulatory environment encourages entrepreneurial activity and innovation, sustaining a high degree of overall competitiveness.

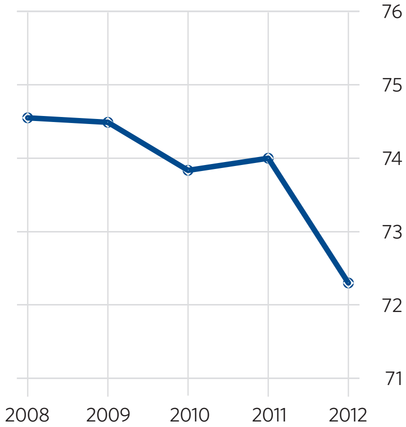
BACKGROUND: In April 2011, the National Coalition Party formed a six-party governing coalition that excluded Timo Soini's True Finn Party, despite True Finn's having won the second-highest vote in the parliamentary elections. The True Finns are opposed to euro-zone bailouts and stress the need for immigration reform. Finland became a member of NATO's Partnership for Peace program in 1994 and sits on the Euro–Atlantic Council but has not pursued full NATO membership because of its neutral military status. The country 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, but boasts a modern and competitive economy with vibrant information and communications technology sectors.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

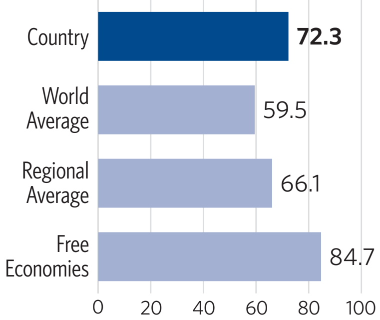
Economic Freedom Score



Freedom Trend



Country Comparisons



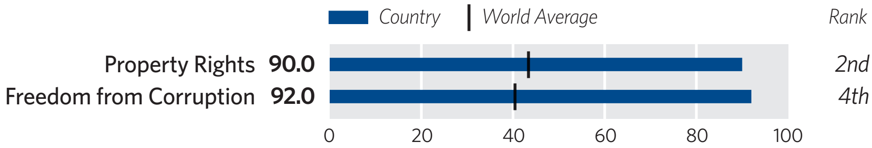
Quick Facts

Population: 5.4 million
GDP (PPP): $186.0 billion
3.1% growth in 2010
5-year compound annual growth 1.0%
$34,585 per capita
Unemployment: 8.4%
Inflation (CPI): 1.7%
FDI Inflow: $4.3 billion
Public Debt: 48.4% of GDP

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

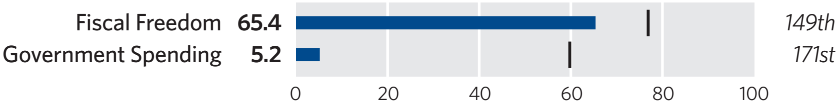
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



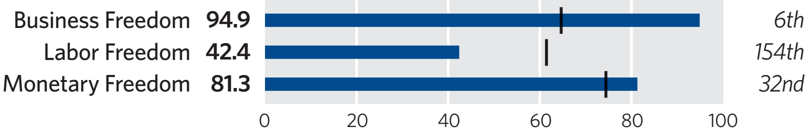
Property rights are well protected, and contractual agreements are strictly honored. The quality of the judiciary is generally high. Finland adheres to numerous international agreements concerning the protection of intellectual property. Maintaining a high degree of transparency has been a key part of Finland's institutional strength. Effective anti-corruption measures have helped to uphold clean government.

LIMITED GOVERNMENT



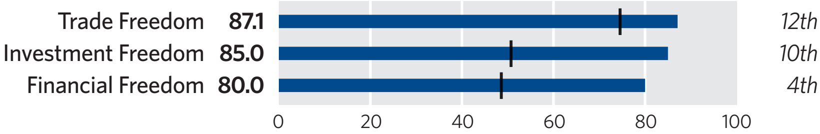
The top income tax rate is 30.5 percent, and the top corporate tax rate is 26 percent. Other taxes include a value-added tax (VAT) and a flat 28 percent tax on capital income, with the overall tax burden equal to 43.1 percent of total domestic income. Government spending has risen to 56.2 percent of GDP, and the budget has been in deficit in recent years. Public debt remains under control, although it has increased to 48.4 percent of GDP.

REGULATORY EFFICIENCY



The efficient business framework is conducive to innovation and productivity growth. Starting a company takes less than the world averages of seven procedures and 30 days. The labor market is characterized by high costs and burdensome regulations. The non-salary cost of employing a worker is high, and the severance payment system remains costly. Monetary stability has been well maintained.

OPEN MARKETS

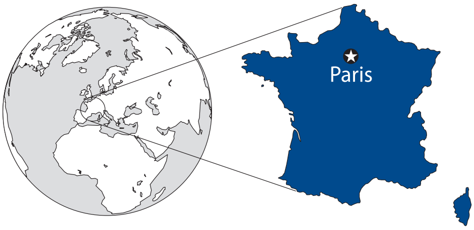


Finland's trade policy is the same as that of other members of the European Union, with the common EU weighted average tariff rate standing at 1.4 percent. However, myriad non-tariff barriers add to the cost of trade. Investment regulations are transparent and efficient, with openness to foreign investment long established. The financial sector, buttressed by sound regulations and prudent lending practices, provides a wide range of services.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.1	Business Freedom	-0.1	Trade Freedom	-0.5
Freedom from Corruption	+3.0	Government Spending	-21.3	Labor Freedom	+1.0	Investment Freedom	0
				Monetary Freedom	+0.6	Financial Freedom	0

FRANCE



World Rank: **67** Regional Rank: **30**

France's economic freedom score is 63.2, making its economy the 67th freest in the 2012 *Index*. Its overall score has declined 1.4 points due to deterioration in business freedom and the management of public finance. France is ranked 30th out of 43 countries in the Europe region, and its overall score is slightly higher than the world average.

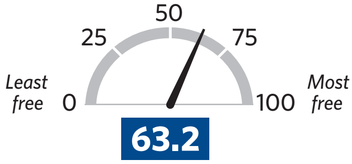
The French economy remains diversified and relatively resilient, with entrepreneurial activity generally facilitated by such institutional strengths as strong protection of property rights and a fairly efficient regulatory framework. Various reform measures have been adopted to increase the economy's competitiveness and flexibility, but overall progress has been marginal.

The state dominates major sectors of the economy and remains a large shareholder in many semi-public enterprises. Government spending accounts for more than half of total domestic output, and the budget has been chronically in deficit. Various stimulus measures have resulted in a deterioration of public finance, increasing the fiscal burdens imposed on French taxpayers. A politically contentious pension system reform that increased the retirement age was passed in late 2010.

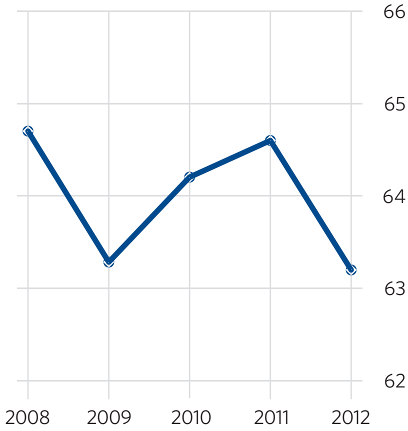
BACKGROUND: Under President Nicolas Sarkozy of the center-right Union for a Popular Movement party, France has made some attempt to deregulate the economy, but significant reforms remain incomplete. France was formally reintegrated into NATO's military command structures in April 2009 but remains apart from NATO's Nuclear Planning Group. In March 2011, France was a leading participant in NATO's military engagement in Libya. Though a founding member of the European Union, France struggles in the expanded Union to maintain its traditional influence over EU policy. France has a diversified industrial economy but remains the top recipient of market-distorting agricultural subsidies under the EU's Common Agricultural Policy. Economic and social integration of a growing Muslim population has proved difficult. In July 2011, former Finance Minister Christine Lagarde was appointed managing director of the International Monetary Fund.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

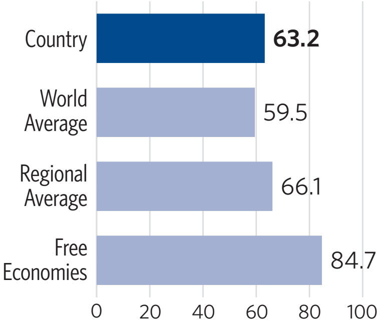
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 63.0 million

GDP (PPP): $2.1 trillion
1.5% growth in 2010
5-year compound annual growth 0.7%
$34,077 per capita

Unemployment: 9.3%

Inflation (CPI): 1.7%

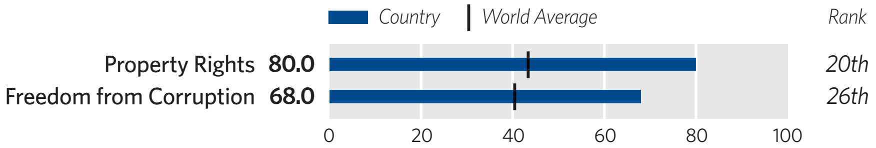
FDI Inflow: $33.9 billion

Public Debt: 84.3% of GDP

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

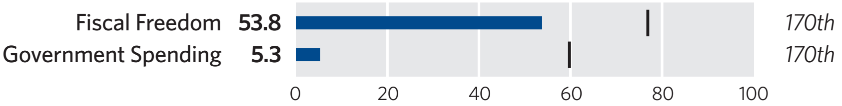
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



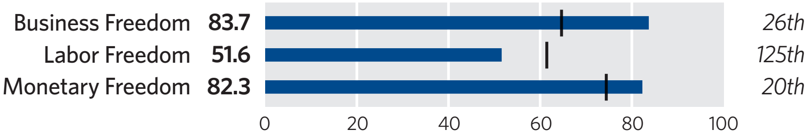
Property rights and contract enforcement are secure, with the rule of law strongly maintained. The well-functioning judiciary is independent and sustains the country's basic foundations of economic freedom. Intellectual property rights are well respected in accordance with international standards. Anti-corruption measures are in place to ensure transparency and clean government.

LIMITED GOVERNMENT



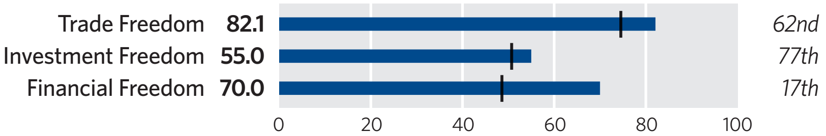
The top income tax rate is 41 percent, and the top corporate tax rate is 34.4 percent. Other taxes include a value-added tax (VAT), and the overall tax burden corresponds to 41.9 percent of total domestic income. Government spending has increased to a level equivalent to 55 percent of total domestic output. The deficit remains more than 6 percent of GDP, pushing public debt up to more than 80 percent of GDP.

REGULATORY EFFICIENCY



The regulatory framework remains relatively efficient. With no minimum capital requirement for launching a firm, the business start-up process is straightforward. The labor market is burdened with rigid regulations and lacks the capacity to generate more vibrant employment growth. While ostensibly protecting workers, the labor code hurts competitiveness and increases unemployment. Price controls affect a number of products and services.

OPEN MARKETS

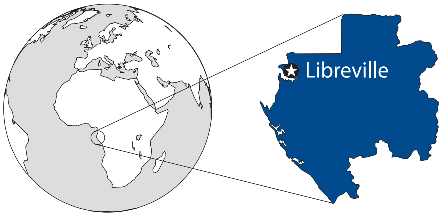


France's trade policy is the same as that of other members of the European Union, with the common EU weighted average tariff rate standing at 1.4 percent. However, layers of non-tariff barriers raise the cost of trade. Investment regulations are generally transparent, but bureaucratic impediments persist. The financial sector remains under relatively strong state influence, with a small number of foreign banks operating in mainstream banking.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.5	Business Freedom	-1.9	Trade Freedom	-0.5
Freedom from Corruption	-1.0	Government Spending	-11.1	Labor Freedom	+0.2	Investment Freedom	0
				Monetary Freedom	-1.4	Financial Freedom	0

GABON



World Rank: **113** Regional Rank: **17**

Gabon's economic freedom score is 56.4, making its economy the 113th freest in the 2012 *Index*. Its overall score is 0.3 point lower than last year, with declines in three of the 10 freedoms. Gabon is ranked 17th out of 46 countries in the Sub-Saharan Africa region, and its overall score is lower than the world average.

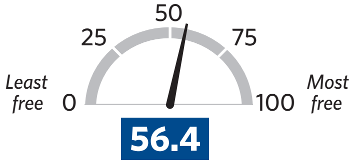
Gabon's economy is characterized by poor governance, the lack of a sound judicial framework, and heavy reliance on the oil sector. Undermining much-needed credible reform progress, these institutional weaknesses severely undercut the foundations of economic freedom and constrain long-term economic development. Corruption continues to raise the cost of doing business.

Regulatory efficiency remains poor, and the overall investment regime is not conducive to vibrant economic expansion. Open-market policies related to free trade and the free flow of capital have not been deeply rooted in the economic system. The heavy presence of the state in the economy further impedes the emergence of a dynamic private sector that could contribute to more broad-based growth.

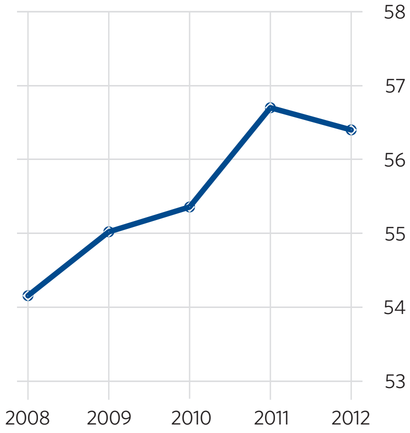
BACKGROUND: In 1968, President Omar Bongo declared Gabon to be a one-party state. Domestic unrest led to reforms under the 1991 constitution, including multi-party democracy with freedom of assembly and the press, but the democratic process remains deeply flawed. After Bongo died in 2009, his son, Ali Ben Bongo, was chosen to replace him. Gabon's economy is driven by oil, forestry, and minerals. In 2006, oil accounted for over 50 percent of GDP, over 60 percent of government revenues, and over 80 percent of exports. Gabon is Africa's third-largest oil producer. Despite relatively high income from oil revenue, which is controlled by the state, most of the population remains poor. Oil production is declining as fields are exhausted, and economic diversification is a pressing need.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

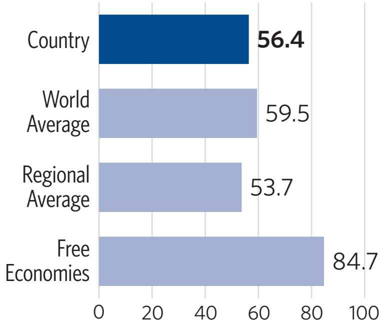
Economic Freedom Score



Freedom Trend



Country Comparisons



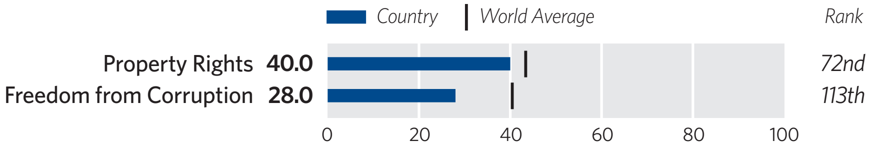
Quick Facts

Population: 1.5 million
GDP (PPP): $22.5 billion
5.7% growth in 2010
5-year compound annual growth 2.6%
$15,021 per capita
Unemployment: 21.0%
Inflation (CPI): 0.6%
FDI Inflow: $170.4 million
Public Debt: 25.1% of GDP

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

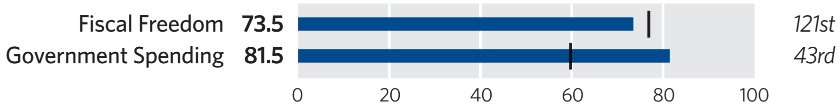
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



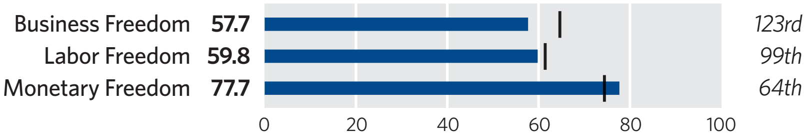
The rule of law remains uneven across the country. The judicial system is inefficient, and protections for property rights are not strongly enforced. The judiciary lacks transparency and is burdened by political interference from the executive. Contract enforcement can be lax. Pervasive corruption continues to cause concern, severely undermining the foundations for growth.

LIMITED GOVERNMENT



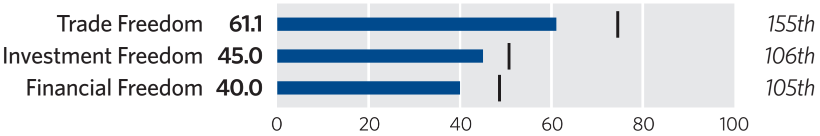
The top income and corporate tax rates are 35 percent. Other taxes include a value-added tax (VAT), and the overall tax burden is equal to 14.3 percent of total domestic income. Government spending is equivalent to 24.8 percent of total domestic output. The budget surplus has been reduced by more than half to 3.2 percent of GDP, with public debt corresponding to 25.1 percent of GDP.

REGULATORY EFFICIENCY



Despite some progress in recent years, entrepreneurial production and investment are often discouraged by time-consuming administrative procedures for incorporating businesses. It takes more than 200 days to complete licensing requirements. Labor regulations are outmoded, and the labor market does not function well. The state influences prices through subsidies to state-owned enterprises and directly controls the prices of other products.

OPEN MARKETS

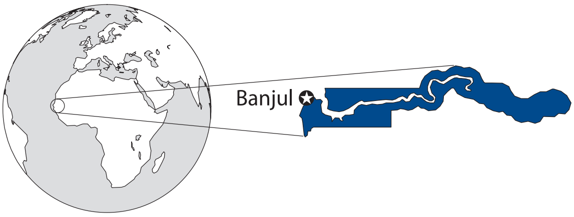


Gabon's trade weighted tariff rate is quite high at 14.5 percent, and complex non-tariff barriers severely restrain freedom to trade. The poor legal system, political influence, and inadequate infrastructure still impede dynamic investment growth. The financial sector remains state-controlled. Credit 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	-1.0	Business Freedom	+0.4	Trade Freedom	+0.1
Freedom from Corruption	-1.0	Government Spending	-6.4	Labor Freedom	+1.0	Investment Freedom	0
				Monetary Freedom	+3.9	Financial Freedom	0

THE GAMBIA



World Rank: **94** Regional Rank: **11**

The Gambia's economic freedom score is 58.8, making its economy the 94th freest in the 2012 *Index*. Its overall score is 1.4 points higher than last year, reflecting significant gains in investment freedom and freedom from corruption. Although the Gambia's overall score is lower than the world average, its economy is one of the 15 most improved in the 2012 *Index*.

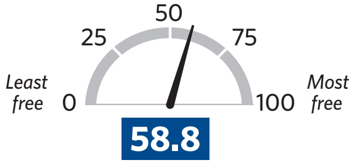
The Gambia has undertaken much-needed economic reforms to improve macroeconomic stability and enhance economic growth. These measures, which include reforming fiscal policies and strengthening the management of public finance, have generated some positive results. Although progress has been made in streamlining bankruptcy procedures, individuals wishing to establish and run a business still must overcome numerous bureaucratic hurdles.

Lingering institutional weaknesses continue to constrain overall economic freedom. The judicial system lacks the capacity to defend property rights effectively. Corruption remains widespread, undermining prospects for long-term economic development. A lack of commitment to open-market policies impedes the emergence of a more vibrant private sector, and high tariffs and investment restrictions hurt the growth of productivity.

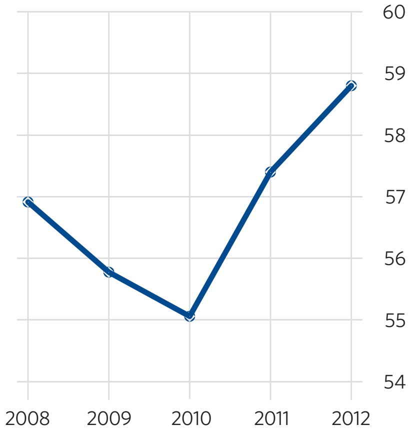
BACKGROUND: Lieutenant Yahya Jammeh ousted President Sir Dawda Kairaba Jawara in a military coup in 1994 and won flawed multi-party presidential elections in 1996, 2001, and 2006. The next executive elections were scheduled for November 2011, with legislative elections to follow in 2012. The government's 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 accounts for approximately 12 percent of GDP, and services account for approximately 59 percent. Groundnuts account for over half of domestic 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

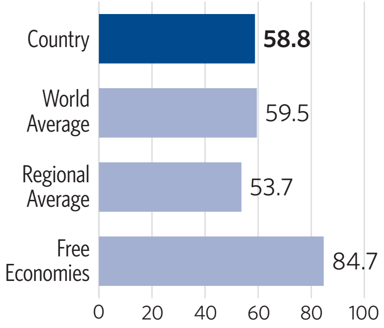
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 1.7 million

GDP (PPP): $3.5 billion

5.7% growth in 2010

5-year compound annual growth 5.6%

$2,018 per capita

Unemployment: n/a

Inflation (CPI): 5.0%

FDI Inflow: $37.4 million

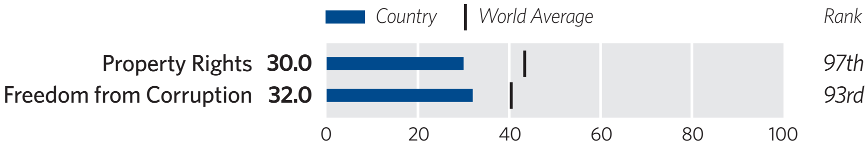
Public Debt: 57.8% of GDP

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

THE GAMBIA (continued)

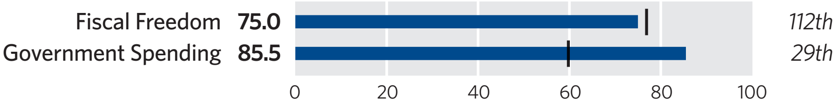
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



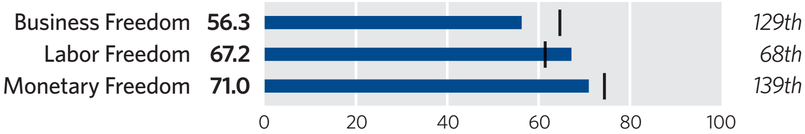
Lack of judicial security continues to undermine the foundations of economic freedom. The judicial system is inefficient and subject to pressure from the executive branch. Intimidation of lawyers, lack of independence, and lack of technical support severely undermine the administration of justice. The law provides inadequate protection for intellectual property rights. Corruption among government officials remains a serious problem.

LIMITED GOVERNMENT



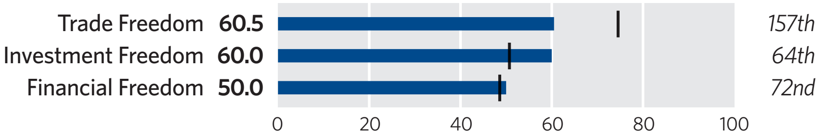
The top income tax rate is 35 percent, and the top corporate tax rate is 33 percent. Other taxes include a capital gains tax and a sales tax. The overall tax burden amounts to 13.6 percent of total domestic income, and government spending is at a level equivalent to 22 percent of total domestic output. The deficit has more than doubled to 5 percent of GDP, with public debt surging to close to 60 percent of GDP.

REGULATORY EFFICIENCY



The overall regulatory framework remains hampered by red tape and a lack of transparency. Inconsistent application of commercial regulations remains a considerable impediment to business. The cost of starting a business is over twice the level of average annual income. The labor market remains stagnant. Although there is a shortage of skilled labor, the economy is burdened with high unemployment as well as underemployment. Inflation has been rising.

OPEN MARKETS



The trade weighted average tariff rate is high at 14.8 percent; burdensome non-tariff barriers add to the cost of trade. Foreign and domestic investments generally receive equal treatment, but the overall investment environment remains poor. The banking sector has expanded and benefited from increased competition. Almost all commercial banks are majority-owned by foreign banks. Credit to the private sector has gradually increased.

Score Changes

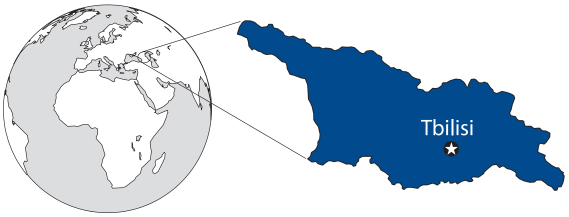
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+3.0

LIMITED GOVERNMENT	
Fiscal Freedom	+1.8
Government Spending	+5.8

REGULATORY EFFICIENCY	
Business Freedom	-1.5
Labor Freedom	0
Monetary Freedom	-0.4

OPEN MARKETS	
Trade Freedom	+0.1
Investment Freedom	+5.0
Financial Freedom	0

GEORGIA



World Rank: **34** Regional Rank: **16**

Georgia's economic freedom score is 69.4, making its economy the 34th freest in the 2012 *Index*. Its overall score is 1.0 point lower than last year, with declining ratings for corruption, government spending, business freedom, and monetary freedom. Georgia is ranked 16th out of 43 countries in the Europe region, and its overall score is higher than the world average.

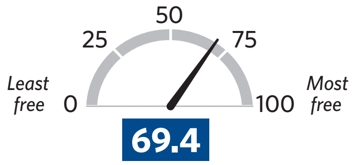
Georgia had attained status as a "mostly free" economy the past two years but fell back to the "moderately free" category this year. Still, the economy performs quite well in some key policy areas. Notable reforms to enhance regulatory efficiency have been implemented, and open-market policies are maintained along with low tax rates. Despite a sharp contraction due to the Russian invasion and the global recession, the economy demonstrated a high level of resilience overall.

Lingering institutional weaknesses in two areas call for much more committed reforms. Georgia continues to score below the world average in freedom from corruption and the protection of property rights, and marginal reforms have failed to generate much improvement. In addition, public spending has been growing as a share of GDP, and the budget balance has been negative.

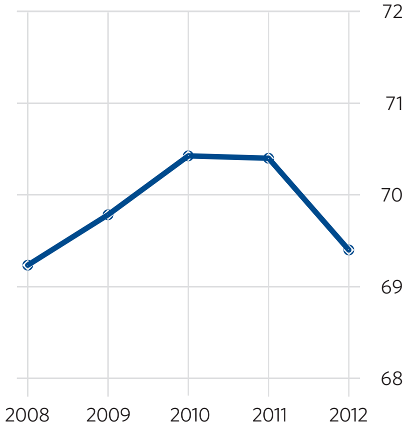
BACKGROUND: President Mikheil Saakashvili and his center-right United National Movement won presidential and parliamentary elections in 2008 and municipal elections in May 2010. The 2008 war with Russia contributed to Georgia's political and economic instability. Russia's continued military presence in the regions of Abkhazia and South Ossetia is also problematic, and their "succession" is recognized only by Russia and a couple of other countries. Georgia left the Commonwealth of Independent States in August 2009. Relations with Russia remain difficult, but issues that threatened Russia's accession to the World Trade Organization have been successfully negotiated. The economy contracted in 2009 but began to rebound in 2010.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

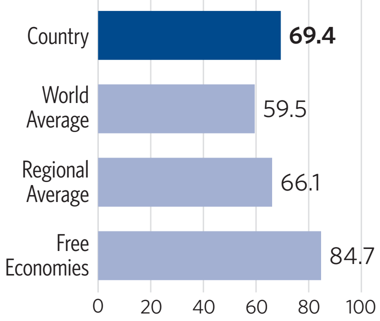
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 4.4 million

GDP (PPP): $22.4 billion

6.4% growth in 2010

5-year compound annual growth 5.2%

$5,114 per capita

Unemployment: 16.4%

Inflation (CPI): 7.1%

FDI Inflow: $548.8 million

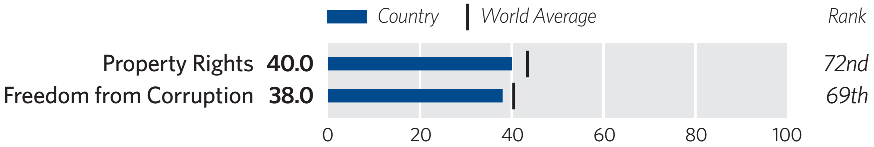
Public Debt: 39.1% of GDP

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

GEORGIA (continued)

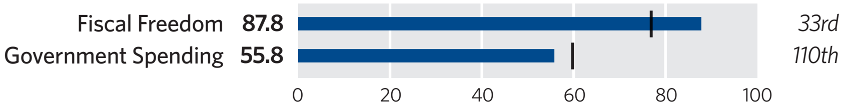
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



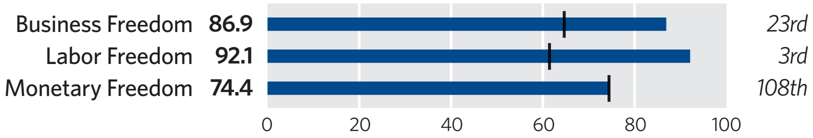
The rule of law is not strongly enforced. Despite some reform efforts, the judicial process remains subject to political influence and corruption. The effectiveness of the court system has not improved notably as a result of the requirement that judges be tested before appointment. The protection of intellectual property rights is erratic and largely ineffective. Corruption continues to undermine all facets of economic freedom.

LIMITED GOVERNMENT



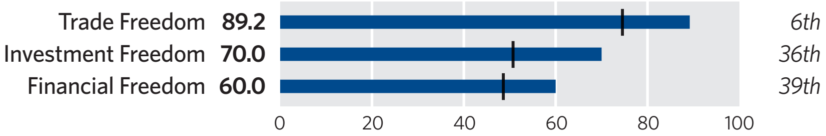
The flat income tax rate is 20 percent, and the flat corporate tax rate is 15 percent. Other taxes include a value-added tax (VAT) and a tax on dividends, with the overall tax burden equal to 24.4 percent of total domestic income. Government spending has been expansive, reaching 38.5 percent of total domestic output. The budget balance has been in deficit, but public debt remains below 40 percent of GDP.

REGULATORY EFFICIENCY



The regulatory environment is efficient. It takes only two procedures and two days to start a business, and no minimum capital is required. Reform of bankruptcy procedures and licensing requirements has slowed. The non-salary cost of hiring a worker is moderate, and regulations on work hours are quite flexible. Inflation has been rising. Prices are generally set in the market, but the state maintains price-control measures.

OPEN MARKETS



Trade has been considerably liberalized. With over 80 percent of imports entering Georgia duty-free, the trade weighted tariff rate is quite low at 0.4 percent. Non-tariff barriers are relatively modest. Foreign and domestic investments receive equal treatment, though transparency is an issue. With the banking sector growing and modernized, access to financing has improved. The stock exchange is small and underdeveloped.

Score Changes

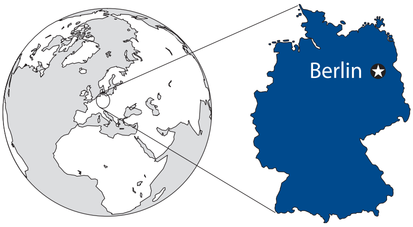
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-3.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.3
Government Spending	-4.5

REGULATORY EFFICIENCY	
Business Freedom	-0.4
Labor Freedom	0
Monetary Freedom	-2.3

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

GERMANY



World Rank: **26** Regional Rank: **12**

Germany's economic freedom score is 71.0, making its economy the 26th freest in the 2012 *Index*. Its overall score has declined slightly because of deterioration in the management of government spending. Germany is ranked 12th out of 43 countries in the Europe region, and its overall score is significantly higher than the world average.

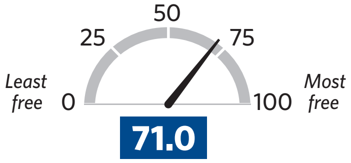
Despite a challenging external economic environment aggravated by the European sovereign debt turmoil, Germany continues to be one of the world's most powerful and dynamic economies. The foundations for long-term competitiveness and dynamic growth have been deeply rooted in the high quality of the judicial regime, which upholds a strong rule of law.

Regulatory efficiency and open-market policies enhance the benefits of Germany's vibrant engagement in global commerce. The economy has gradually emerged from the effects of the global economic slowdown, which had a significant negative impact on public finances and economic growth. The downward trend since 2003 in levels of government spending has reversed, with countercyclical and expansionary measures pushing the budget deficit to over 3 percent of GDP. As a result, Germany has embarked on an austerity program to rein in its rising fiscal deficits.

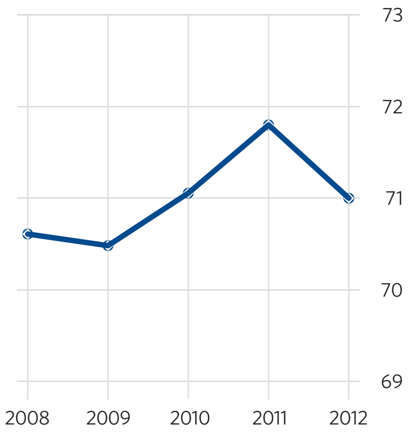
BACKGROUND: The election of Chancellor Angela Merkel in 2005 led to some economic reforms, but the inclusion of the Social Democrats in a grand coalition has limited the government's ability to carry out significant structural changes. Despite formation of a new coalition with the economically liberal Free Democratic Party in 2010, reforms have stalled because of Germany's almost exclusive focus on rescuing the euro. Germany has funded the lion's share of large rescue packages for fellow euro-zone member Greece. Ireland and Portugal also have received substantial rescue packages from the European Union and the International Monetary Fund, with Germany once again authorizing substantial loans. Germany is home to many world-class companies and has an enormous export industry and one of the world's highest incomes per capita.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

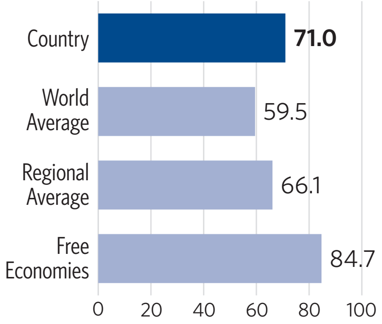
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

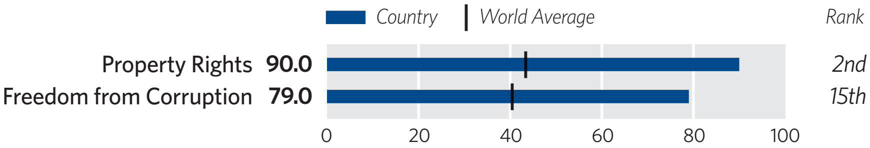
Population: 81.6 million
GDP (PPP): $2.9 trillion
3.5% growth in 2010
5-year compound annual growth 1.1%
$36,033 per capita
Unemployment: 6.8%
Inflation (CPI): 1.2%
FDI Inflow: $46.1 billion
Public Debt: 83.9% of GDP

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

GERMANY (continued)

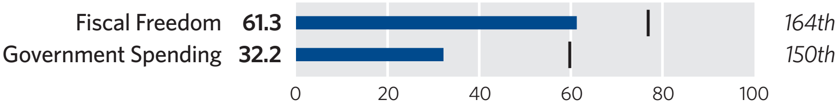
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



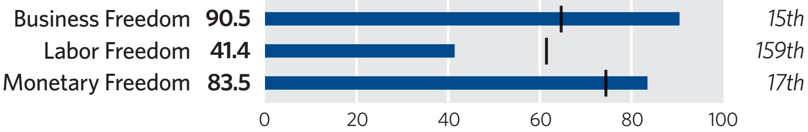
The legal framework is strong and functions well. Contractual arrangements are secure, and commercial law is strongly respected. All property rights are well protected, and the judiciary is highly professional. Protection of intellectual property rights is in accordance with world standards. Government transparency is high, and anti-corruption measures are enforced effectively.

LIMITED GOVERNMENT



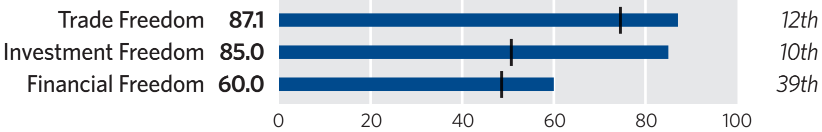
The top income tax rate is 47.5 percent. The federal corporate tax rate is 15.8 percent (15 percent plus a 5.5 percent solidarity tax), but trade taxes raise the effective top rate to roughly 33 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The overall tax burden equals 37 percent of GDP. Government spending is equivalent to 47.5 percent of GDP, and the deficit has been widening, with public debt reaching 84 percent of GDP.

REGULATORY EFFICIENCY



The efficient regulatory regime allows dynamic and innovative business formation and operation. With no minimum capital requirement, the process for starting a company is straightforward. Labor relations are sound, 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 tariff rate is low, as with other members of the European Union, but non-tariff barriers raise the cost of trade. The investment regime supports dynamic growth, with foreign and domestic investors treated equally. The competitive financial sector offers a full range of services, and the traditional three-tiered system of private, public, and cooperative banks remains intact, but solvency issues have arisen due to the euro crisis.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+2.8	Business Freedom	+0.9	Trade Freedom	–0.5
Freedom from Corruption	–1.0	Government Spending	–10.5	Labor Freedom	+0.8	Investment Freedom	0
				Monetary Freedom	–0.4	Financial Freedom	0

GHANA

World Rank: **84** Regional Rank: **9**

Ghana's economic freedom score is 60.7, making its economy the 84th freest in the 2012 *Index*. Its overall score is 1.3 points better than last year due to improvements in four of the 10 freedoms including labor freedom and monetary freedom. Ghana is ranked 9th out of 46 countries in the Sub-Saharan Africa region, and its overall score has risen above the world average.

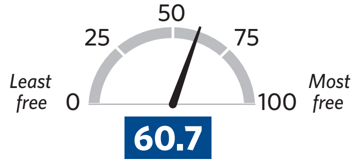
Recording one of the 20 largest score improvements in the 2012 *Index*, Ghana has become a "moderately free" economy. With a five-point increase in economic freedom since 2006, the economy has been growing at an average rate of 6 percent per year. A vibrant private sector, benefitting from macroeconomic stability and ongoing reforms, has contributed to the economic expansion. Maintaining the momentum for reform will be vital in solidifying an entrepreneurial framework that can sustain long-term economic growth and contribute to a further reduction in poverty.

Lingering institutional impediments to economic freedom include inefficient protection of property rights and weak rule of law. Despite some progress, corruption remains a serious deterrent to translating overall economic growth into sustained and broad-based economic development.

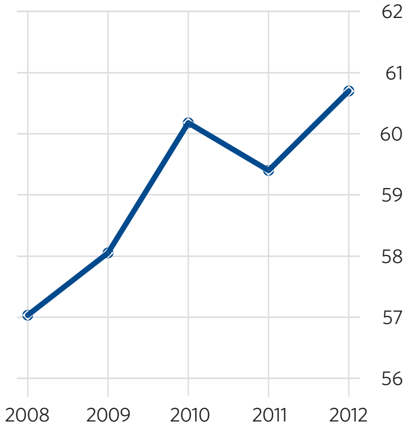
BACKGROUND: Ghana has been a stable democracy since 1992. Long-time opposition candidate John Atta Mills was elected president in December 2008. Considered a regional model for political and economic reform, Ghana has achieved strong growth within a sound macroeconomic environment. Prudent fiscal and monetary management has contributed to the easing of inflationary pressures with declining interest rates. Ghana is rich in natural resources, including gold, diamonds, manganese ore, and bauxite, and has significant oil reserves. The industrial sector, at about 30 percent of GDP in 2007, is more developed than in many other African countries, yet agriculture is the key economic pillar and in 2007 accounted for 50 percent of employment and 39 percent of exports (predominantly cocoa, cocoa products, and timber). Ghana is the world's second-largest producer of cocoa.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

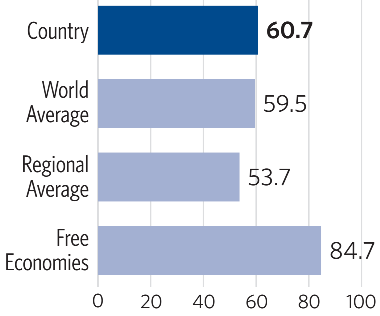
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

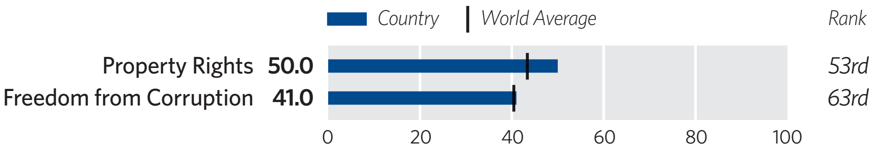
Population: 23.7 million
GDP (PPP): $62.0 billion
5.7% growth in 2010
5-year compound annual growth 6.0%
$2,615 per capita
Unemployment: 11.0%
Inflation (CPI): 10.7%
FDI Inflow: $2.5 billion
Public Debt: 37.4% of GDP

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

GHANA (continued)

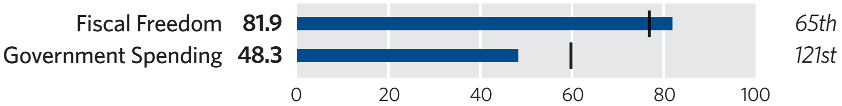
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



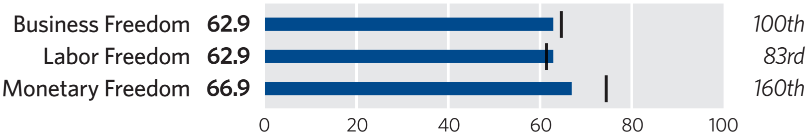
The judicial system is subject to political influence and suffers from corruption, albeit to a somewhat lesser extent than elsewhere in the region. The courts are slow to dispose of cases and face challenges in enforcing decisions, largely because of resource constraints and institutional inefficiencies. In the absence of effective anti-corruption measures, pervasive corruption severely undermines the foundations of economic freedom.

LIMITED GOVERNMENT



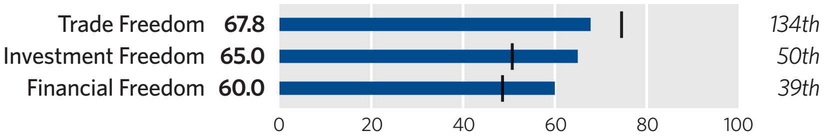
The top income and corporate tax rates are 25 percent. Other taxes include a value-added tax (VAT), a national health insurance levy, and a capital gains tax. The overall tax burden equals 23.7 percent of total domestic income, and government spending has come down to the equivalent of 41.5 percent of GDP. Although the budget balance remains in deficit, public debt remains equivalent to less than 40 percent of total domestic output.

REGULATORY EFFICIENCY



Recent regulatory reform measures have yielded reductions in bureaucracy and increases in transparency. However, progress in easing constraints on business and enhancing overall regulatory efficiency has lagged compared to other economies. Labor regulations have been modernized, but informal labor activity remains significant. The government influences prices through state-owned utilities.

OPEN MARKETS

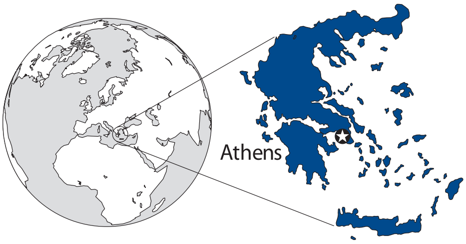


The trade weighted tariff rate remains quite high at 8.6 percent, with pervasive non-tariff barriers impeding the dynamic growth of trade. The government generally does not discriminate against foreign investors except in key sectors, but the overall investment regime lacks efficiency and transparency. The financial sector has undergone restructuring, but access to financing remains limited, particularly for major projects.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-1.4	Business Freedom	-0.5	Trade Freedom	0
Freedom from Corruption	+2.0	Government Spending	+2.2	Labor Freedom	+6.8	Investment Freedom	0
				Monetary Freedom	+3.6	Financial Freedom	0

GREECE



World Rank: **119** Regional Rank: **39**

Greece's economic freedom score is 55.4, making its economy the 119th freest in the 2012 *Index*. Its score is 4.9 points lower than last year, reflecting declines in six of the 10 economic freedoms with particularly acute problems in labor freedom, monetary freedom, and the control of government spending. Greece is ranked 39th out of 43 countries in the Europe region, and its overall score is below the world and regional averages.

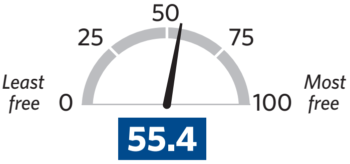
Recording the largest score decline in the 2012 *Index*, the Greek economy is now rated "mostly unfree." Greece continues to be challenged by a daunting debt burden and the severe erosion of competitiveness. Sparked by decades of overspending, a lack of structural reform progress, and endemic corruption, the ongoing sovereign debt turbulence must now be addressed in a climate of crisis and political instability.

Bold and committed adjustments are critically needed in such areas as government spending and labor freedom. The fiscal deficit remains unsustainable, with public debt exceeding 140 percent of GDP. The lack of competitiveness and fading business confidence are serious impediments to economic revival. Adjustments in market conditions have been stifled or delayed by public unions. The rigid labor market impedes productivity gains and discourages dynamic entrepreneurial activity.

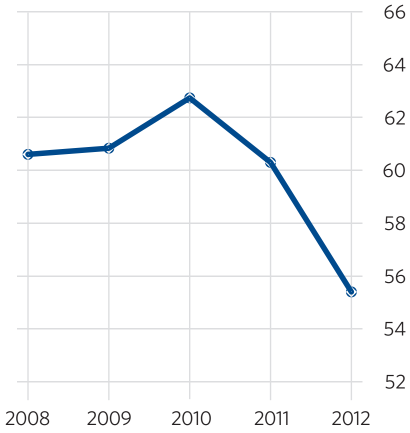
BACKGROUND: Greece has been a member of NATO since 1952, joined the European Union in 1981, and adopted the euro in 2002. Its economy depends heavily on tourism and other services. More than half of Greek industry is located in the greater Athens area. Following years of profligate government spending and inaccurate reporting to the European Central Bank, the economy faced collapse and an enormous sovereign debt crisis in 2010 and 2011 that caused significant domestic and political turmoil and threatened the overall stability of the euro zone. Large rescue packages have provided emergency loans from the EU, the European Central Bank, and the International Monetary Fund in exchange for the introduction of severe austerity measures.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

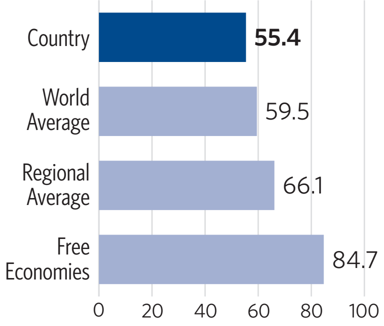
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

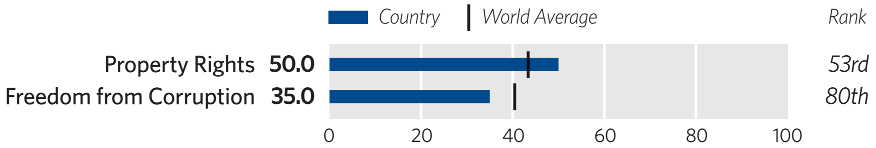
Population: 11.2 million
GDP (PPP): $318.1 billion
–4.5% growth in 2010
5-year compound annual growth 0.7%
$28,434 per capita
Unemployment: 12.5%
Inflation (CPI): 4.7%
FDI Inflow: $2.1 billion
Public Debt: 142.8% of GDP

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

GREECE (continued)

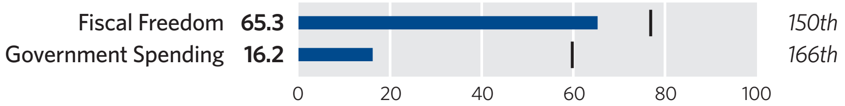
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



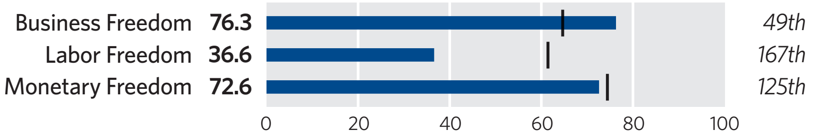
The judicial framework is weak and vulnerable to political interference. Protections for property rights are not strongly enforced, and the rule of law has deteriorated. The law provides severe penalties for bribery, but enforcement remains lax. The problem is most acute in government procurement, where political influence and cronyism continue to play a significant role in the evaluation of bids.

LIMITED GOVERNMENT



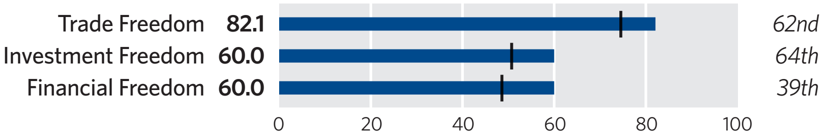
The top income tax rate has increased to 45 percent. The top corporate tax rate was 24 percent for the financial period from August 2010 to July 2011, with a lower 20 percent rate approved for the period after that. The overall tax burden amounts to about 30 percent of GDP, and government spending has reached a level exceeding 50 percent of GDP. Chronic budget deficits continue, and public debt far exceeds the size of the economy.

REGULATORY EFFICIENCY



The overall regulatory framework is hampered by government bureaucracy, and 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. Labor regulations are restrictive, with the non-salary cost of employing a worker high and restrictions on work hours rigid. Monetary stability is weakening.

OPEN MARKETS



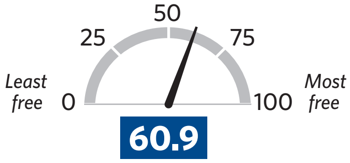
The trade weighted average tariff rate is low as with other members of the European Union, but cumbersome non-tariff barriers raise the cost of trade. The investment regime, constrained by a lack of transparency and efficiency, is not conducive to the dynamic growth of investment. Private financial institutions account for a majority of assets in the financial sector, though state interference is substantial. Banks have been under strain.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.6	Business Freedom	+0.1	Trade Freedom	-0.5
Freedom from Corruption	-3.0	Government Spending	-18.1	Labor Freedom	-18.6	Investment Freedom	0
				Monetary Freedom	-8.0	Financial Freedom	0

GUATEMALA

Economic Freedom Score



World Rank: **82** Regional Rank: **17**

Guatemala's economic freedom score is 60.9, making its economy the 82nd freest in the 2012 *Index*. Its score has decreased by 1.0 point, reflecting declines in four of the 10 economic freedoms including property rights, freedom from corruption, and business freedom. Guatemala is ranked 17th out of 29 countries in the South and Central America/Caribbean region, and its overall score is just above the world average.

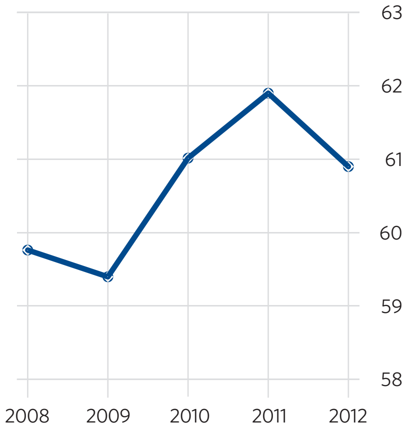
The Guatemalan government's record on structural reform has been uneven, and economic growth remains constrained by institutional weaknesses that erode the foundations for long-term economic development. In particular, the judicial system remains inefficient and vulnerable to political interference. Corruption, perceived as widespread, continues to be a problem.

The overall regulatory framework is not well designed to promote the emergence of a dynamic private sector and encourage broad-based employment growth. Guatemala enjoys relatively high trade freedom, as tariff rates are quite low, but the dynamic economic gains from trade are undercut by the absence of reform progress in other policy areas that are critical to sustaining open markets in the financial and investment areas.

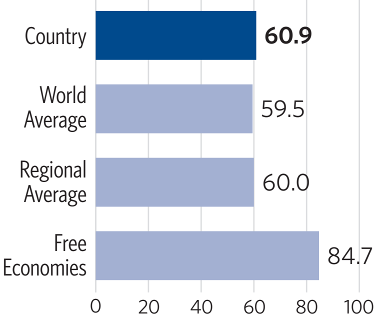
BACKGROUND: Guatemala has long suffered from political violence, corruption, and instability. More than half of the population lives below the poverty line, less than half of the youth are enrolled in secondary schools, and half of the labor force works in agriculture. Leftist President Álvaro Colom, elected in 2007 and constitutionally barred from re-election, divorced his wife in May 2011 to make her constitutionally eligible to run to succeed him. Their plan failed when the courts ruled her ineligible. Though Colom promised jobs and improvements in education and health care, the plight of the poor has not improved. Crime and drug trafficking remain persistent problems. The most advanced sector, telecommunications, is fully deregulated. The Central America–Dominican Republic–United States Free Trade Agreement has encouraged trade flows and employment.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



Quick Facts

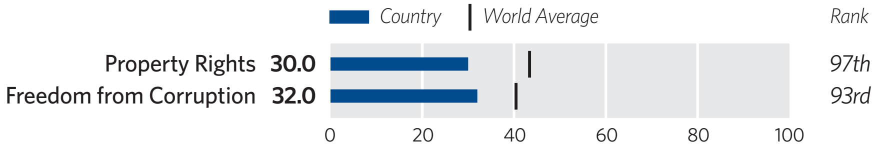
Population: 14.4 million
GDP (PPP): $70.2 billion
2.6% growth in 2010
5-year compound annual growth 3.6%
$4,885 per capita
Unemployment: 3.2%
Inflation (CPI): 3.9%
FDI Inflow: $686.8 million
Public Debt: 24.2% of GDP

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

GUATEMALA (continued)

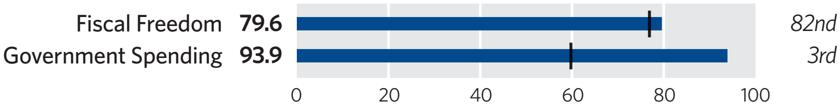
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



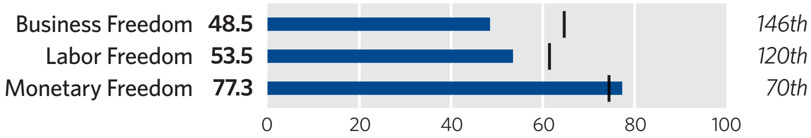
An effectively functioning legal framework is not in place. Judicial resolution of disputes is time-consuming and often unreliable. Inadequate documentation can lead to conflicting claims of land ownership, undercutting protection of property rights. Corruption remains pervasive. Despite reforms in 2009, large government procurements are often subject to injunctions based on claims of errors in the bidding process.

LIMITED GOVERNMENT



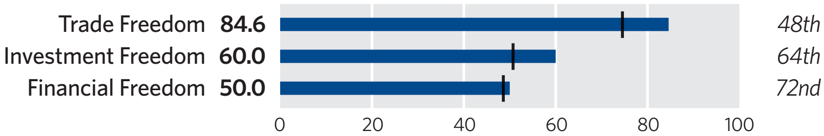
The top income and corporate tax rates are 31 percent. Other taxes include a value-added tax (VAT) and a tax on real estate, with the overall tax burden amounting to 10.7 percent of total domestic income. Government spending corresponds to 14.3 percent of total domestic output. The budget balance continues to be in deficit, although public debt remains less than 25 percent of GDP.

REGULATORY EFFICIENCY



Progress in improving Guatemala's regulatory framework has been uneven. Bureaucratic hurdles remain common, including lengthy processes for launching a business and obtaining necessary permits. Labor regulations are rigid, and a large portion of the workforce is employed in the informal sector. Inflation has been moderate. The state maintains few price controls but subsidizes numerous key economic activities and products.

OPEN MARKETS

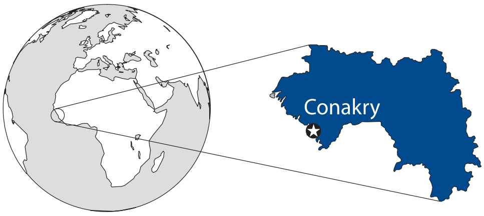


The trade weighted tariff rate is quite low at 2.7 percent, with a moderate level of non-tariff barriers adding slightly to the cost of trade. Foreign investors technically receive national treatment, but regulatory hurdles can serve as barriers to investment. The financial sector is dominated by bank-centered financial conglomerates, with the five largest banks accounting for almost 80 percent of total assets. Capital markets are underdeveloped.

Score Changes

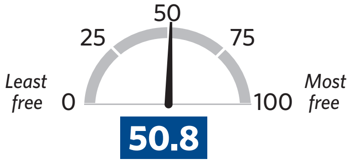
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**-5.0**	Fiscal Freedom	**+0.1**	Business Freedom	**-3.6**	Trade Freedom	**0**
Freedom from Corruption	**-2.0**	Government Spending	**-0.5**	Labor Freedom	**+0.1**	Investment Freedom	**0**
				Monetary Freedom	**+0.9**	Financial Freedom	**0**

GUINEA



World Rank: **141** Regional Rank: **30**

Economic Freedom Score



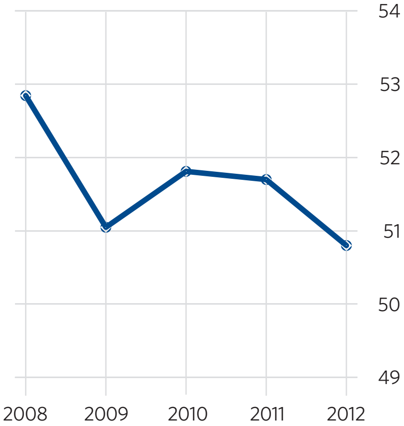
Guinea's economic freedom score is 50.8, making its economy the 141st freest in the 2012 *Index*. Its overall score is 0.9 point lower than last year, with improvements in freedom from corruption and investment freedom more than offset by declines in regulatory efficiency and the management of government finances. Guinea is ranked 30th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world and regional averages.

Economic development in Guinea remains hampered by instability and the weak rule of law. Marginal enforcement of property rights and high levels of corruption have driven many people into the informal sector. The weak judicial system, vulnerable to political interference, undermines prospects for long-term economic development.

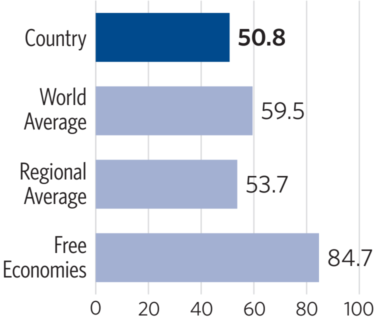
Guinea's economic growth remains fragile. State-controlled enterprises dominate key sectors, perpetuating inefficiency throughout the economy. An opaque regulatory environment, coupled with a lack of policies designed to facilitate flows of trade and investment, hinders entrepreneurial activity. Although the government has focused on improving its budgetary transparency and efficiency over the past several years, high deficits have increased public debt.

BACKGROUND: In 2008, a military junta led by Captain Moussa Dadis Camara seized power, suspended the constitution, and dissolved the parliament, supreme court, and other government institutions. The first free, democratic presidential election took place in November 2010, pitting Prime Minister Jean Marie Dore against Alpha Conde. Conde won the presidency, but Dore also declared himself the winner. The election results were upheld, and Conde 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 reserves of bauxite and large deposits of iron ore, gold, and diamonds.

Freedom Trend



Country Comparisons



Quick Facts

Population: 10.3 million

GDP (PPP): $10.8 billion

1.9% growth in 2010

5-year compound annual growth 2.2%

$1,046 per capita

Unemployment: n/a

Inflation (CPI): 15.5%

FDI Inflow: $302.9 million

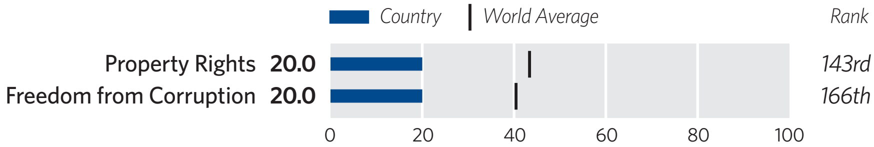
Public Debt: 88.6% of GDP

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

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

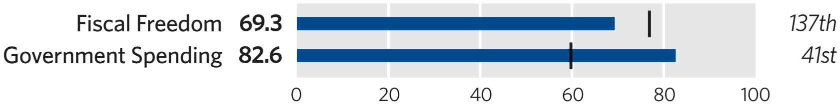
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



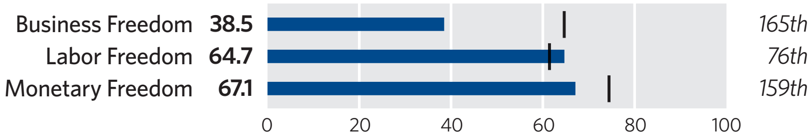
The rule of law is uneven across the country, and protection of property rights is very weak. The court system remains subject to political interference and lacks transparency. Corruption and nepotism continue to plague the administration of justice. The government has expressed its intention to reform the judiciary with the help of international donor agencies, but overall progress has been piecemeal or has even backtracked.

LIMITED GOVERNMENT



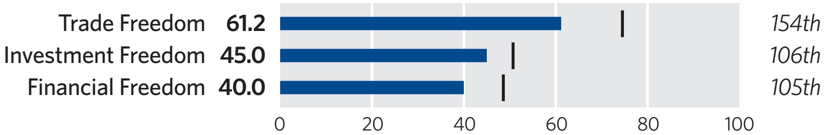
The top income tax rate is 40 percent, and the top corporate tax rate is 35 percent. Other taxes include a value-added tax (VAT) and an inheritance tax, with the overall tax burden equal to 15.8 percent of total domestic income. Government spending has increased to the equivalent of 24.1 percent of total domestic output. The deficit has nearly doubled to over 10 percent of GDP, and public debt has reached over 80 percent of GDP.

REGULATORY EFFICIENCY



Private enterprises face numerous hurdles. Launching a company takes 40 days on average, minimum capital requirements exceed four times the average level of annual income, and licensing can take almost a year. The formal labor market remains underdeveloped. Rising inflation has weakened monetary stability. The government maintains administrative price controls for key products and services.

OPEN MARKETS



The trade weighted tariff rate is quite high at more than 10 percent, with non-tariff barriers further constraining freedom to trade. Political instability has deterred foreign investment in the past, but recent democratic elections are an encouraging development. The financial sector remains underdeveloped. Most economic activity remains outside of the formal banking sector as there are fewer than 10 commercial banks in the country.

Score Changes

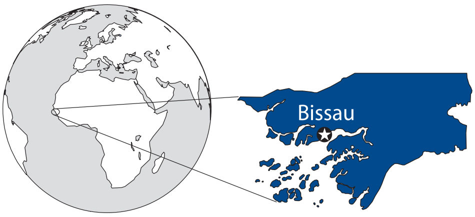
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+2.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.3
Government Spending	-8.3

REGULATORY EFFICIENCY	
Business Freedom	-2.3
Labor Freedom	-1.9
Monetary Freedom	-3.2

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

GUINEA-BISSAU



World Rank: **149** Regional Rank: **33**

Guinea–Bissau's economic freedom score is 50.1, making its economy the 149th freest in the 2012 *Index*. Its score has increased by 3.6 points, largely due to significant advances in business freedom, investment freedom, monetary freedom, and control of government spending. Although its overall score remains well below the world and regional averages, Guinea–Bissau is the second most improved economy in the 2012 *Index*.

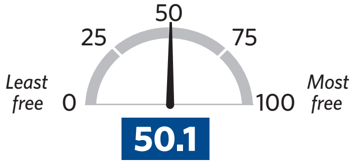
Guinea–Bissau's progress toward greater economic freedom has gained some traction, with major improvements in scores two years in a row. The economy is no longer regarded as one of the least free in the *Index*. Notable reforms have been implemented in key policy areas. A streamlined business formation process has reduced the time required to start a business by six months, and regulatory efficiency has been enhanced. Government spending as a percentage of GDP declined for the second year.

Nonetheless, the economic foundations for Guinea–Bissau's long-term development remain notably weak. Property rights and corruption scores are far below world averages, and the judicial system is inefficient and lacks transparency. 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.

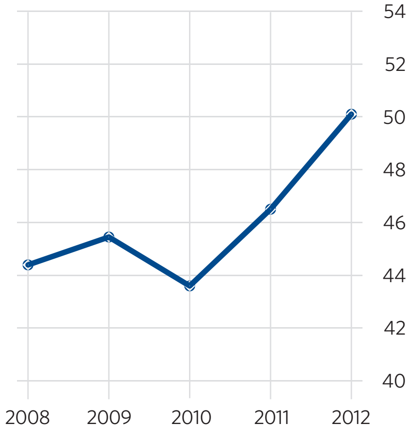
BACKGROUND: Guinea–Bissau is one of the world's poorest countries. Joao Vieira, ousted in 1998, won the presidency again in 2005 and was assassinated in March 2009. A presidential candidate and a prominent member of parliament were killed in June 2009 shortly before runoff elections that were won by former interim President Malam Bacai Sanha. Guinea–Bissau remains highly dependent on subsistence agriculture, the export of cashew nuts (its most important commercial crop), and foreign aid, including assistance from the International Monetary Fund. Agriculture accounts for over 60 percent of GDP, employs over 80 percent of the labor force, and comprises about 90 percent of exports. Guinea–Bissau has become a major center for the transshipment of drugs and light arms by international criminal gangs.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

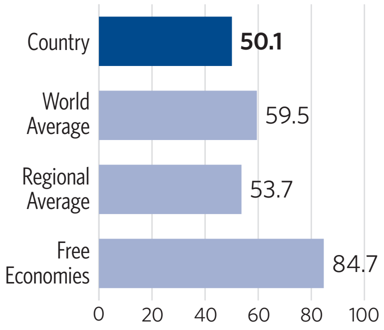
Economic Freedom Score



Freedom Trend



Country Comparisons



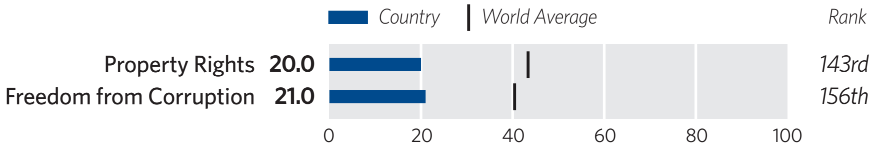
Quick Facts

Population: 1.6 million
GDP (PPP): $1.8 billion
3.5% growth in 2010
5-year compound annual growth 3.0%
$1,084 per capita
Unemployment: n/a
Inflation (CPI): 1.1%
FDI Inflow: $8.8 million
Public Debt: 47.7% of GDP

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

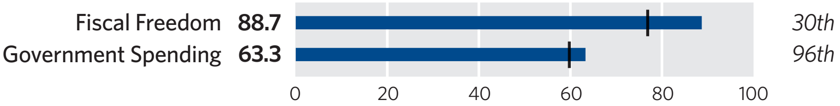
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



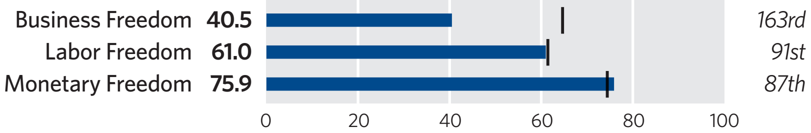
Protection of property rights is extremely weak, and the rule of law remains uneven across the country. The judiciary is influenced by the executive. Judges are poorly trained, poorly paid, and subject to corruption. Traditional practices prevail in most rural areas, and persons who live in urban areas often bring judicial disputes to traditional counselors to avoid the official system's costs and bureaucratic impediments.

LIMITED GOVERNMENT



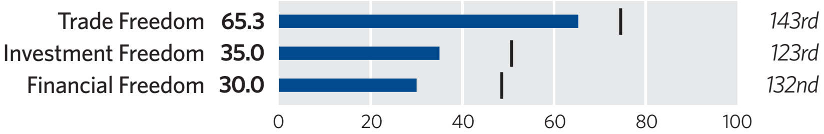
The top income tax rate is 20 percent, and the top corporate tax rate is 25 percent. The sales tax has been reduced from 15 percent to 10 percent for oil, gas, and food. The overall tax burden is equal to 10.2 percent of total domestic income. Government spending has decreased to 35 percent of total domestic output, and large oil revenues keep the budget deficit low. Public debt stands below 50 percent of GDP.

REGULATORY EFFICIENCY



After years of delay exacerbated by a lack of reform-minded leadership, Guinea–Bissau has finally implemented some measures to increase the efficiency of the regulatory environment. The cost of launching a business has been reduced considerably, with the time cut from 216 days to only nine. Much of the labor force is employed in the public sector or the informal economy. The government maintains price controls on key products.

OPEN MARKETS

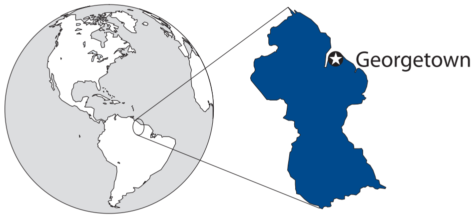


The trade weighted average tariff rate has fallen below 10 percent, although bureaucratic customs procedures add to the cost of trade. Political instability, inadequate regulatory capacity and infrastructure, and an unskilled workforce discourage foreign investment. A large part of the population is still outside of the formal banking sector. High credit costs and scarce access to financing severely impede entrepreneurial activity.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	0	Business Freedom	+15.0	Trade Freedom	+1.7
Freedom from Corruption	+2.0	Government Spending	+8.5	Labor Freedom	–0.4	Investment Freedom	+5.0
				Monetary Freedom	+3.7	Financial Freedom	0

GUYANA



World Rank: **137** Regional Rank: **23**

Guyana's economic freedom score is 51.3, making its economy the 137th freest in the 2012 *Index*. Its overall score is 1.9 points higher than last year, with score increases in freedom from corruption and government spending partially offset by declines in business freedom and financial freedom. Guyana is ranked 23rd out of 29 countries in the South and Central America/Caribbean region, and its overall score is well below the world and regional averages.

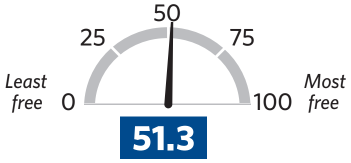
Guyana recorded one of the 20 largest score improvements in the 2012 *Index* and is no longer considered one of the least free in the *Index*. To sustain and capitalize on such growth in economic freedom, enhancements in the foundations of economic freedom have become more critical. Broad-based long-term economic development remains constrained by structural weaknesses that stem from an inefficient legal framework and widespread corruption.

The government has acted to improve the management of public finances. Although some positive results have been achieved, overall progress remains uneven and fragile. The average tariff rate has gradually decreased, but non-tariff barriers continue to limit overall trade freedom. Significant restrictions on foreign investment and inefficient bureaucracy continue to undermine the entrepreneurial environment.

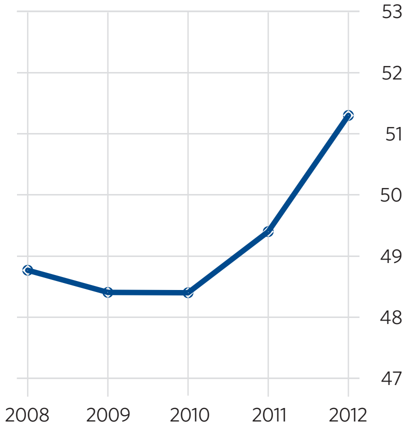
BACKGROUND: Support for the two major parties is ethnically and racially polarized, and attempts at reform have been made only under framework agreements with international organizations. In 2006, President Bharrat Jagdeo of the People's Progressive Party–Civic was returned to office in the first nonviolent elections in more than 20 years. Although the main opposition parties accepted the result and the risk of political violence is the lowest since the early 1990s, relations between the PPP–Civic and the People's National Congress–Reform remain hostile. 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 persist.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

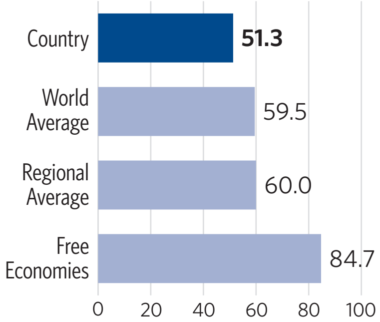
Economic Freedom Score



Freedom Trend



Country Comparisons



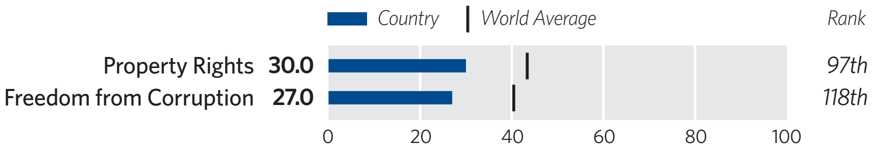
Quick Facts

Population: 0.8 million
GDP (PPP): $5.4 billion
3.6% growth in 2010
5-year compound annual growth 4.2%
$6,964 per capita
Unemployment: 11.0%
Inflation (CPI): 3.7%
FDI Inflow: $187.5 million
Public Debt: 60.2% of GDP

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

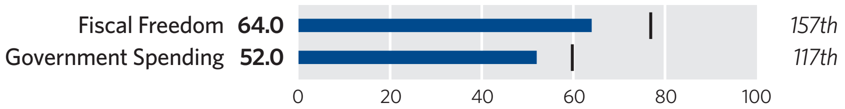
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



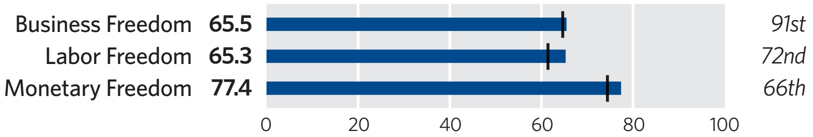
Guyana's judicial system is inefficient, and the rule of law is uneven across the country. The judiciary remains highly vulnerable to political interference, and the protection of property rights is insufficient. There is no enforcement mechanism for the protection of intellectual property rights. Corruption, perceived as widespread, undermines the foundations for entrepreneurship and diverts resources from productive activity.

LIMITED GOVERNMENT



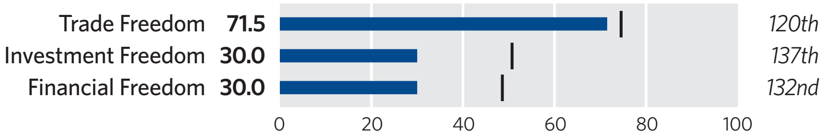
The top income tax rate is 33.3 percent, and the top corporate tax rate is 45 percent. Other taxes include a property tax and a value-added tax (VAT), with the overall tax burden equal to 21.6 percent of total domestic income. Government spending has dropped below the level of 40 percent of total domestic output. The budget balance is in deficit, and public debt has climbed to over 60 percent of total domestic output.

REGULATORY EFFICIENCY



Reform measures in recent years have streamlined the procedures for establishing a business, and the cost of licenses has been sharply reduced. Nonetheless, the overall pace of regulatory reform has lagged behind other countries. The public sector is large and inefficient, and a well-functioning private labor market has not yet emerged. The government still influences prices through the regulation of state-owned utilities and enterprises.

OPEN MARKETS

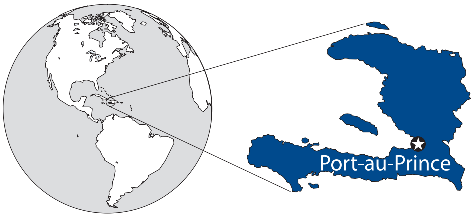


The trade weighted tariff rate is 6.8 percent, with overall trade freedom hampered by various non-tariff measures. The government generally does not discriminate between foreign and domestic investment, but most new foreign investments are screened. The approval process for investments can be burdensome and non-transparent. The banking sector, plagued by inefficiency and a poor institutional framework, has become more fragile.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.6	Business Freedom	-1.3	Trade Freedom	+0.2
Freedom from Corruption	+1.0	Government Spending	+22.9	Labor Freedom	+5.0	Investment Freedom	0
				Monetary Freedom	+1.6	Financial Freedom	-10.0

HAITI



World Rank: **142** Regional Rank: **24**

Haiti's economic freedom score is 50.7, making its economy the 142nd freest in the 2012 *Index*. Declines in labor freedom, business freedom, and the management of government spending have driven its overall score 1.4 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 lower than the world and regional averages.

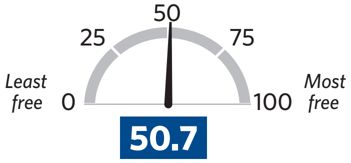
Overall progress in reforming the Haitian economy has been modest. The effectiveness of government spending has been severely undermined by political volatility that continues to sap the foundations of an already weak rule of law. Reforms to improve the business and investment climates have had little effect in light of Haiti's pervasive corruption and inefficient judicial framework. Limited efforts to liberalize trade have had little impact, and bureaucracy and red tape deter investment. Small improvements in reducing corruption and continued moderation of inflation offer signs of hope.

Haiti continues to focus on recovering from a devastating earthquake in 2010. Much of the basic economic infrastructure has been destroyed, and government documents, including those related to property rights and titles, have been lost. The international community has stepped in to assist in recovery and rebuilding efforts.

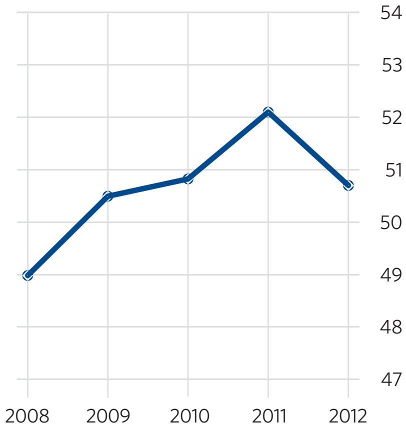
BACKGROUND: Haiti is the Western Hemisphere's poorest country and one of the world's least-developed nations. President Michel Martelly was elected in April 2011 and has pledged to re-establish Haiti's army, welcome investment, and end the government's hostility toward business. Despite a U.N. Stability Mission and a better-trained and equipped national police force, disorder is still easily sparked by paid gangs. Unemployment is very high, most economic activity is informal, and emigrants' remittances have yet to recover fully from the 2009 global economic downturn. Corruption, gang violence, drug trafficking, and organized crime are pervasive.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

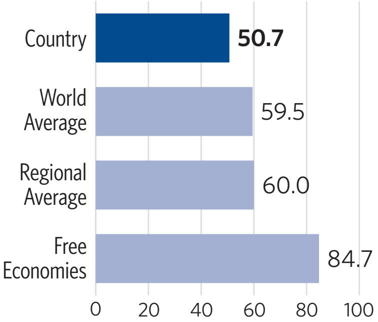
Economic Freedom Score



Freedom Trend



Country Comparisons



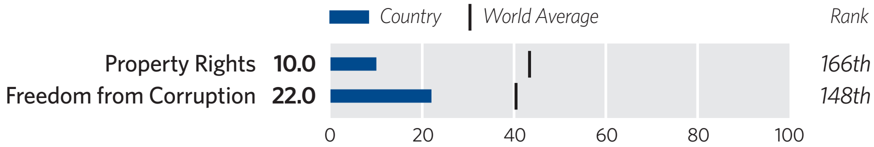
Quick Facts

Population: 9.9 million
GDP (PPP): $11.5 billion
–5.1% growth in 2010
5-year compound annual growth 0.8%
$1,165 per capita
Unemployment: 40.6%
Inflation (CPI): 4.1%
FDI Inflow: $150.0 million
Public Debt: 17.1% of GDP

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

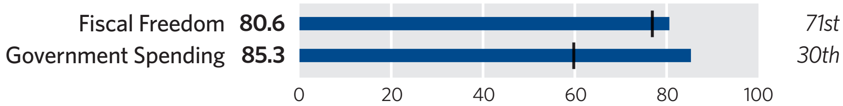
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



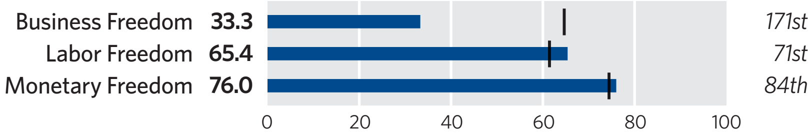
Protection of property rights is severely compromised by weak enforcement, a paucity of updated laws to handle modern commercial practices, and a dysfunctional legal system. Most commercial disputes are settled out of court if at all. Widespread corruption allows disputing parties to purchase favorable outcomes. Smuggling is a major problem, and contraband accounts for a large percentage of the manufactured consumables market.

LIMITED GOVERNMENT



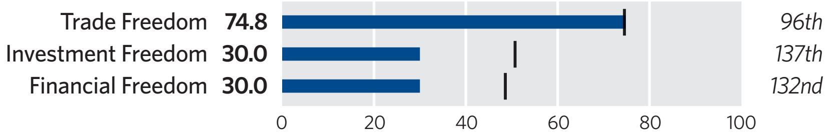
The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden estimated to be around 11 percent of GDP. Government spending has been expansionary, reaching a level exceeding 20 percent of total domestic output. The budget deficit has been chronic, although public debt stands at around 20 percent of GDP.

REGULATORY EFFICIENCY



The overall business environment, never highly efficient or conducive to sustainable entrepreneurial activity, has been hurt further by ongoing uncertainty. Haiti's formal labor market is not fully developed. Particularly since the earthquake in early 2010, a large portion of the workforce has been unemployed or dependent on informal activity to survive. Inflation has been modest.

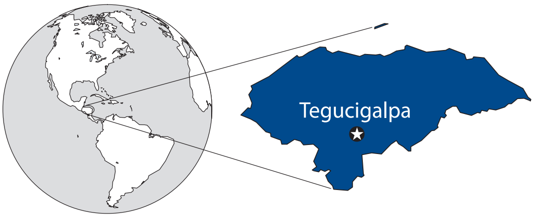
OPEN MARKETS



The trade weighted average tariff rate is 5.1 percent, with overall trade freedom hampered considerably by non-tariff barriers. Foreign investors are granted national treatment, but the investment regime is inefficient. The financial sector remains highly concentrated, with three large banks accounting for about 80 percent of total assets. Most financial transactions are handled informally, and credit for new business ventures is severely constrained.

Score Changes

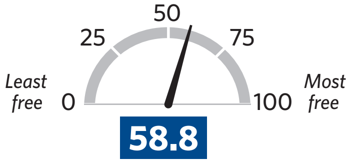
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**0**	Fiscal Freedom	**-0.3**	Business Freedom	**-4.2**	Trade Freedom	**0**
Freedom from Corruption	**+4.0**	Government Spending	**-4.8**	Labor Freedom	**-11.0**	Investment Freedom	**0**
				Monetary Freedom	**+2.3**	Financial Freedom	**0**



HONDURAS

World Rank: **93** Regional Rank: **19**

Economic Freedom Score



Honduras's economic freedom score is 58.8, making its economy the 93rd freest in the 2012 *Index*. Its overall score is 0.2 point better than last year, reflecting small gains in five of the 10 economic freedoms including investment freedom and monetary freedom. Honduras is ranked 19th out of 29 countries in the South and Central America/Caribbean region, and its overall score is lower than the world and regional averages.

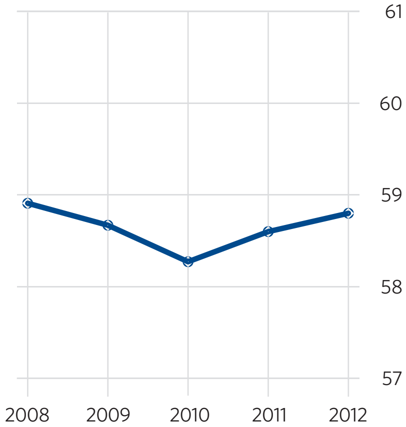
Implementation of deeper institutional reforms is critical to strengthening the foundations of economic freedom and inducing more dynamic economic growth. Systemic weaknesses persist in the protection of property rights and enforcement of anti-corruption measures. The judicial system is weak, undercut by political instability, and vulnerable to political influence.

The Honduran economy receives relatively high scores for policies that support and sustain open markets. The economy has benefited from implementation of the Central America–Dominican Republic–United States Free Trade Agreement and other free trade agreements that have resulted in overall tariff reductions and helped to enhance the investment environment. Regulatory efficiency is facilitated by moderate taxation.

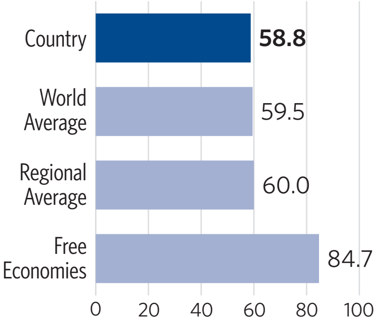
BACKGROUND: Following the June 2009 arrest of Liberal Party President Manuel Zelaya and his constitutional removal from office by the Honduran Supreme Court, the military deported him to Costa Rica, and the Congress later voted to remove him from power officially. In a highly politicized response, the Organization of American States (OAS) expelled Honduras. In November 2009, National Party candidate Porfirio Lobo won the presidency. In June 2011, Honduras returned to the OAS and Zelaya was allowed to return from exile and resume political activity. Political instability, drug trafficking, violent crime, and youth gangs are ongoing concerns. The economy, based on exports of coffee and bananas, has expanded to include shrimp, melons, tourism, and textiles. The government is shedding debt under World Bank and International Monetary Fund supervision.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



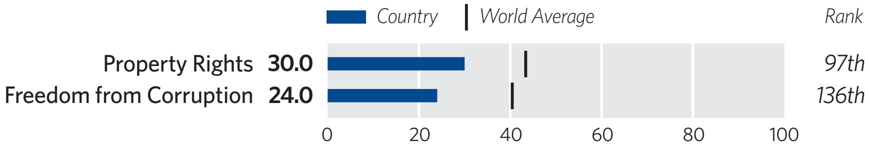
Quick Facts

Population: 7.6 million
GDP (PPP): $33.6 billion
2.8% growth in 2010
5-year compound annual growth 3.5%
$4,417 per capita
Unemployment: 5.1%
Inflation (CPI): 4.7%
FDI Inflow: $797.4 million
Public Debt: 26.3% of GDP

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

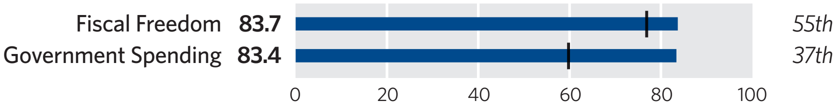
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



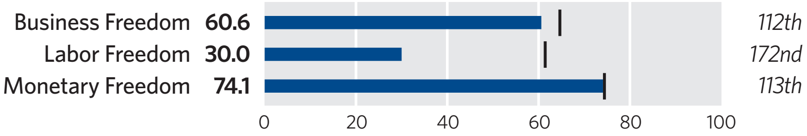
The legal framework remains underdeveloped, and protection of property rights is weak. Laws and practices regarding real estate differ substantially from those in more developed countries, and fraudulent deeds and titles are common. The court system is weak and inefficient, and disputed cases can take years to resolve. Corruption, perceived as pervasive, continues to undermine potential progress in other areas.

LIMITED GOVERNMENT



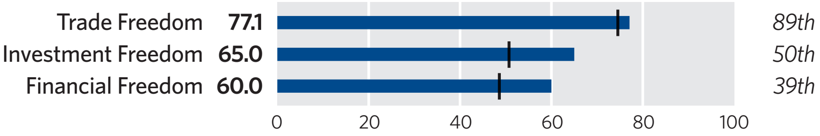
The top income and corporate tax rates are 25 percent, though the corporate rate is equivalent to 27.5 percent when a social contribution tax is included. Other taxes include a capital gains tax and a general sales tax. The overall tax burden equals 15.7 percent of total domestic income, and government spending is equivalent to 23.5 percent of GDP. The deficit has been declining, with public debt remaining under 30 percent of GDP.

REGULATORY EFFICIENCY



The regulatory environment continues to evolve, but the pace of reform has been sluggish. Although launching a business takes less than the world average of seven procedures and 30 days, completing licensing requirements remains costly. Labor regulations are burdensome and outmoded. A large part of the labor force relies on the informal sector for employment. The government continues to regulate the prices of key products and services.

OPEN MARKETS



The trade weighted average tariff rate is 6.5 percent. Non-tariff barriers remain onerous. Measures taken in 2011 to encourage foreign investment include the implementation of a law protecting investments from direct or indirect expropriation and the creation of a "single window" to provide information and guidance to potential foreign investors. Reforms in recent years appear to have strengthened and stabilized the banking sector.

Score Changes

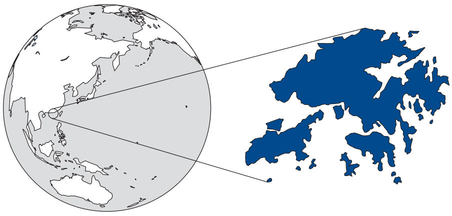
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-1.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.2
Government Spending	-2.3

REGULATORY EFFICIENCY	
Business Freedom	-1.5
Labor Freedom	+0.3
Monetary Freedom	+0.9

OPEN MARKETS	
Trade Freedom	+0.1
Investment Freedom	+5.0
Financial Freedom	0

HONG KONG



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

Hong Kong's economic freedom score is 89.9, making its economy the freest in the 2012 *Index*. Its overall score is 0.2 point higher than last year, with improvements in freedom from corruption and the control of government spending partially offset by a small decline in monetary freedom. Hong Kong is ranked 1st out of 41 countries in the Asia–Pacific region.

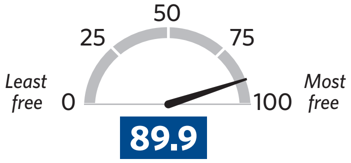
Hong Kong has demonstrated a high degree of resilience during the ongoing global turmoil and remains one of the world's most competitive financial and business centers. The high-quality legal framework, which provides effective protection of property rights and strong support for the rule of law, continues to be the cornerstone of strength for the dynamic city economy. There is little tolerance for corruption.

Regulatory efficiency and openness to global commerce strongly support entrepreneurial dynamism, while overall macroeconomic stability minimizes uncertainty. Economic interaction with China has become more intense and sophisticated, chiefly through strengthened financial linkages, and financial markets are extremely well capitalized. Although Hong Kong maintains its ranking as the world's freest economy, policies proposed or implemented since the second half of 2010, particularly the establishment of a minimum wage, have moved the economy modestly in the direction of greater regulation.

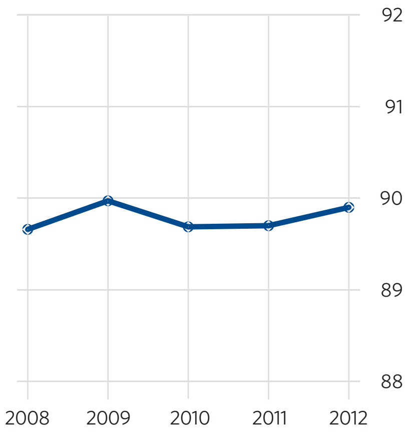
BACKGROUND: The Special Administrative Region of Hong Kong is part of the People's Republic of China but is self-governing on a day-to-day basis and enjoys a wide range of freedoms under a mini-constitution known as the Basic Law. The local government has promised democratic reforms, but implementation has been continuously delayed. Hong Kong boasts one of the world's most prosperous economies, thanks 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

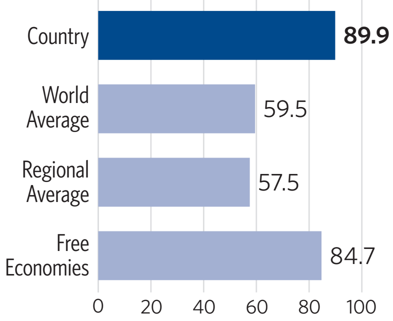
Economic Freedom Score



Freedom Trend



Country Comparisons



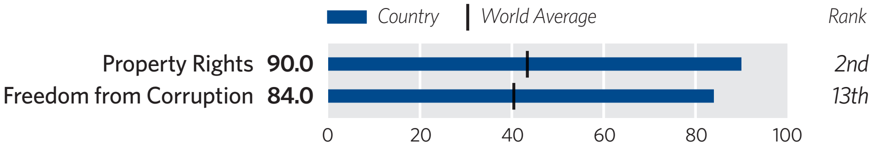
Quick Facts

Population: 7.1 million
GDP (PPP): $325.8 billion
7.0% growth in 2010
5-year compound annual growth 3.9%
$45,736 per capita
Unemployment: 4.4%
Inflation (CPI): 2.4%
FDI Inflow: $68.9 billion
Public Debt: 0.6% of GDP

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

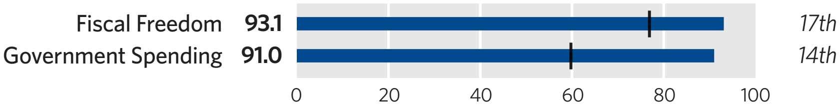
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



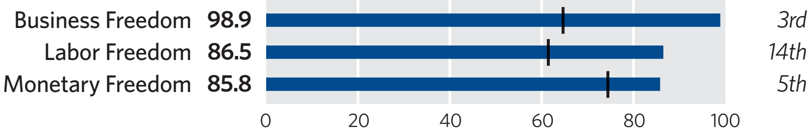
The legal system's efficiency encourages respect for the rule of law. The constitutional framework, provided by the Basic Law, protects private property rights and freedom of exchange. The judiciary is independent of influence from the executive and legislative branches. A strong tradition of minimum tolerance for corruption, further institutionalized by effective anti-corruption measures, promotes government integrity.

LIMITED GOVERNMENT



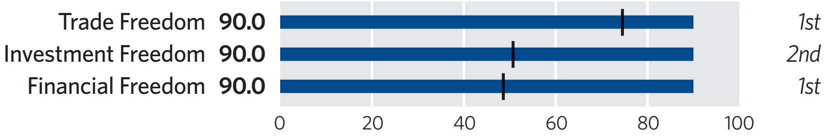
The standard income tax rate is 15 percent, and the top corporate tax rate is 16.5 percent. The tax system is simple and efficient, and the overall tax burden is low at 13.9 percent of total domestic output. Government spending is equivalent to 17.3 percent of GDP. The budget balance has recorded large surpluses, which the government has chosen to reduce through per capita cash payments and tax rebates. Public debt is low.

REGULATORY EFFICIENCY



The regulatory environment is highly supportive of business efficiency. With no minimum capital required, launching a business takes only three days. The impact of installing a statutory minimum wage has been relatively subdued, with labor productivity far exceeding the low minimum wage rate enforced in 2011. Monetary stability is well maintained, although inflationary pressures have increased. The government controls all land.

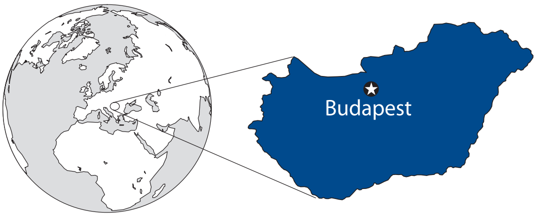
OPEN MARKETS



The trade regime is 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 has further solidified its competitive status as a dynamic international financial center with a high degree of transparency and prudent regulatory enforcement.

Score Changes

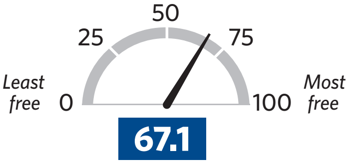
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.2	Business Freedom	+0.2	Trade Freedom	0
Freedom from Corruption	+2.0	Government Spending	+1.4	Labor Freedom	+0.3	Investment Freedom	0
				Monetary Freedom	-1.3	Financial Freedom	0



HUNGARY

World Rank: **49** Regional Rank: **22**

Economic Freedom Score



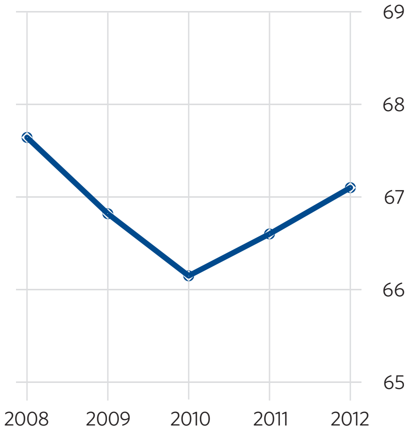
Hungary's economic freedom score is 67.1, making its economy the 49th freest in the 2012 *Index*. Its score has increased by 0.5 point, with declines in the management of public finance and investment freedom counterbalanced by improvements in property rights, business freedom, and fiscal freedom. Hungary is ranked 22nd out of 43 countries in the Europe region, and its overall score is well above the world average.

The Hungarian economy has implemented critical reforms in many facets of its system, helping to create and sustain a vibrant private sector that accounts for about 80 percent of economic output. Business start-up procedures have been streamlined, and a flat 16 percent personal income tax has been implemented. Overall regulatory efficiency is further enhanced by open-market policies that support increased trade and investment flows.

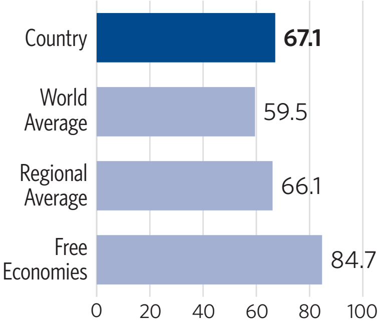
The relatively sound judicial framework that sustains the rule of law and provides consistent protection for property rights has contributed to Hungary's stability and long-term competitiveness. However, respect for the principle of limited government appears to have weakened. Fiscal consolidation and better management of public finance are needed to curb a growing debt burden caused by excessive spending.

BACKGROUND: Hungary emerged from 40 years of Communist rule more politically and economically open than its formerly Communist neighbors. The ruling coalition of the Hungarian Socialist Party and the liberal Alliance of Free Democrats collapsed in April 2008. The center-right FIDESZ party won a two-thirds majority in parliament in April 2010, and Viktor Orban became prime minister. Hungary has transformed itself into a market economy, but a high level of private and state borrowing left it vulnerable to the 2008 credit crunch. The economy rebounded in 2010 following a rise in exports, and continued growth is expected. Hungary joined the European Union in 2004 and in January 2011 assumed the six-month presidency of the EU for the first time.

Freedom Trend



Country Comparisons



Quick Facts

Population: 10.0 million
GDP (PPP): $187.6 billion
1.2% growth in 2010
5-year compound annual growth -0.2%
$18,738 per capita
Unemployment: 11.2%
Inflation (CPI): 4.9%
FDI Inflow: $2.3 billion
Public Debt: 80.2% of GDP

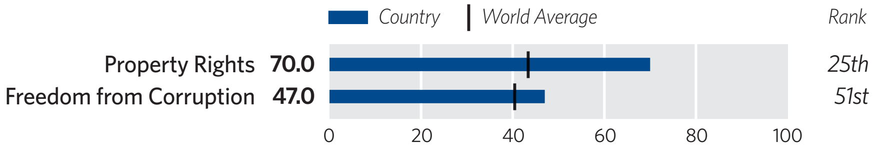
2010 data unless otherwise noted.
Data compiled as of September 2011.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

HUNGARY (continued)

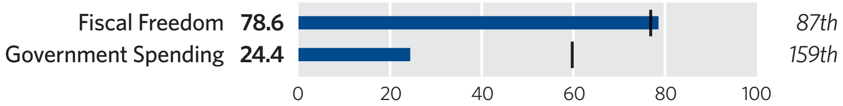
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



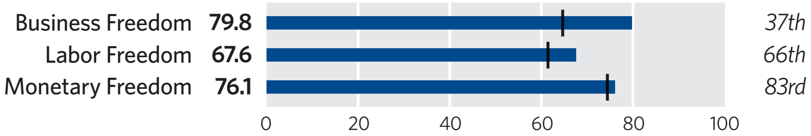
The judiciary is constitutionally independent, and the threat of expropriation is low. Property rights are relatively well respected, and the legal framework continues to evolve, although overall progress has been sluggish. Protection of intellectual property rights has improved somewhat. Despite efforts to eradicate corruption more effectively, concerns remain, particularly in the area of government procurement.

LIMITED GOVERNMENT



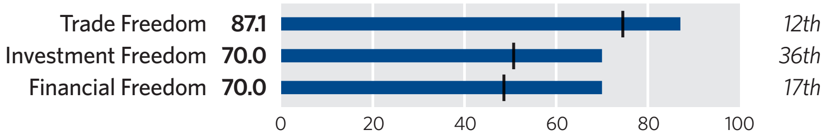
The income tax rate has been cut in half to a flat 16 percent, and the top corporate tax rate is 19 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden equal to 39.1 percent of total domestic income. Government spending has risen to a level equivalent to 50.2 percent of total domestic output. The budget balance has been negative, and public debt has reached a level equal to 80.2 percent of GDP.

REGULATORY EFFICIENCY



The transparent regulatory framework allows dynamic business formation and flexible and efficient operations. Dealing with licenses has become less burdensome, and the minimum capital requirement for launching a business has been cut to a level less than 10 percent of average annual income. The bankruptcy process is relatively easy. Labor regulations are fairly stringent, with rigid restrictions on work hours. Inflation has been under control.

OPEN MARKETS



Hungary maintains a common external tariff with other members of the European Union, and the trade regime is fairly competitive. The investment regime is relatively efficient, but deterrents such as bureaucracy and deficient transparency still impede the dynamic growth of investment. The government has largely withdrawn from banking, and over two-thirds of the sector is foreign-owned. Foreign investors participate freely in capital markets.

Score Changes

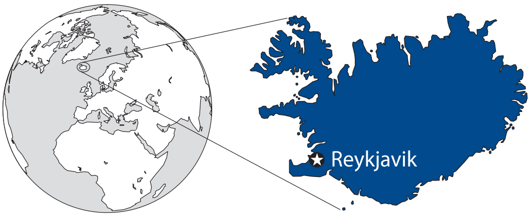
RULE OF LAW	
Property Rights	**+5.0**
Freedom from Corruption	**–4.0**

LIMITED GOVERNMENT	
Fiscal Freedom	**+8.9**
Government Spending	**–3.0**

REGULATORY EFFICIENCY	
Business Freedom	**+3.3**
Labor Freedom	**–0.1**
Monetary Freedom	**+0.2**

OPEN MARKETS	
Trade Freedom	**–0.5**
Investment Freedom	**–5.0**
Financial Freedom	**0**

ICELAND



World Rank: **27** Regional Rank: **13**

Iceland's economic freedom score is 70.9, making its economy the 27th freest in the 2012 *Index*. Its overall score is 2.7 points better than last year due to notable improvements in monetary freedom and the management of public finance. Iceland is ranked 13th out of 43 countries in the Europe region, and its overall score remains above the world and regional averages.

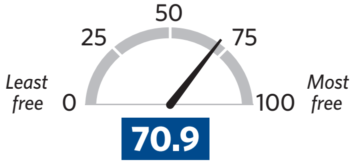
Achieving the third largest score improvement in the 2012 *Index*, Iceland is recovering strongly from its recent economic travail and has regained its status as one of the "mostly free" economies in the *Index*. The quality of the legal framework remains among the world's highest, providing effective 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, Iceland's government has demonstrated a strong commitment to restoring the soundness of public finance and the credibility of its policies. Bringing down government spending through deficit-cutting efforts, the country has created renewed momentum for economic recovery, which has been bolstered by a dependable commitment to regulatory efficiency and open-market polices.

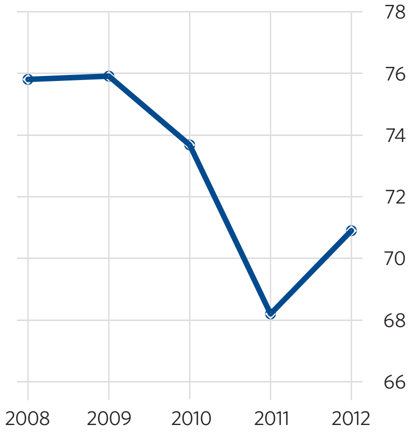
BACKGROUND: Iceland traditionally has enjoyed low unemployment and a growing economy, but the collapse of its banking sector in 2008 sparked a currency crisis and a substantial contraction of the economy. The government of Social Democrat Johanna Sigurðardóttir, who became prime minister in 2009, reversed a long-held policy and won a parliamentary vote in favor of applying for membership in the European Union. 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 the Icesave debt dispute. 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 (25 European countries with no internal travel barriers).

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

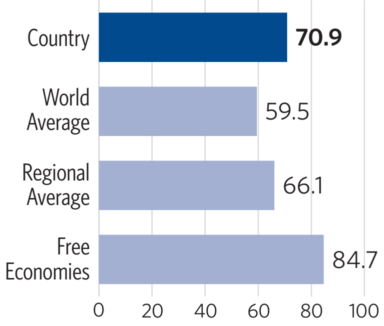
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 0.3 million

GDP (PPP): $11.8 billion

–3.5% growth in 2010

5-year compound annual growth 0.2%

$36,621 per capita

Unemployment: 7.5%

Inflation (CPI): 5.4%

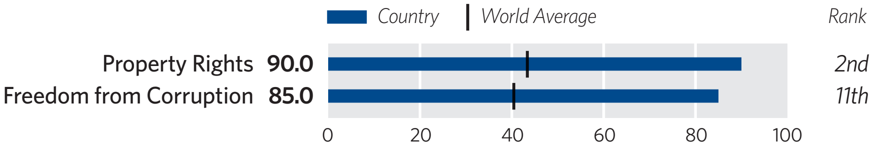
FDI Inflow: $3.0 billion

Public Debt: 92.4% of GDP

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

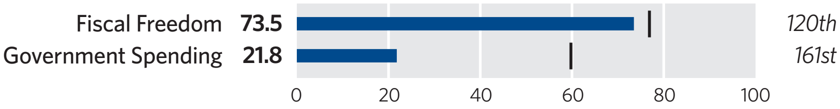
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



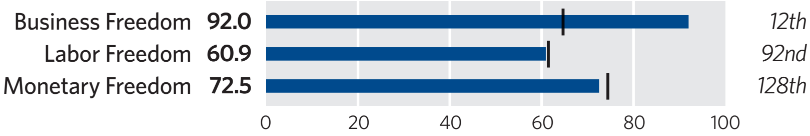
Private property is well protected. The constitution provides for an independent judiciary, and trials are generally public and fair. Iceland is one of the few countries with efficient, property rights–based fisheries management. Isolated cases of corruption are not an obstacle to foreign investment. Iceland's 1,000-year history of parliamentary government has encouraged the institutionalization of accountability and transparency.

LIMITED GOVERNMENT



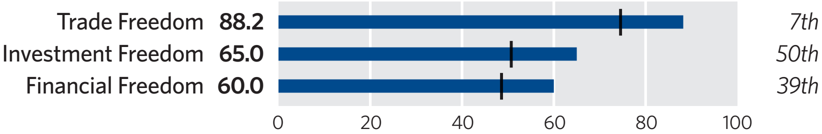
The top income tax rate is 33 percent, and the corporate flat tax rate has been raised from 18 percent to 20 percent. Other taxes include a value-added tax (VAT) and an estate tax. The overall tax burden is 34.1 percent of total domestic income, and government spending has come down to the equivalent of 51 percent of total domestic output. The deficit has declined to below 6 percent of GDP, but public debt has reached over 90 percent of GDP.

REGULATORY EFFICIENCY



Iceland's modern, transparent regulatory environment allows the processes of business formation and operation to be efficient and dynamic, encouraging entrepreneurial activity. Bankruptcy proceedings are relatively easy. Labor regulations are relatively rigid, with broad wage settlements and high unionization. Despite the challenging economic situation, monetary stability remains relatively well maintained.

OPEN MARKETS



The trade weighted average tariff rate is quite low at 0.9 percent, but modest non-tariff barriers add to the cost of trade. The investment regime is transparent and supports vibrant investment growth. The central bank has eased some of the restrictions on the movement of capital that were instituted following the financial turmoil in 2008. Recapitalizing its banking system, Iceland returned to the global bond market in 2011.

Score Changes

RULE OF LAW	
Property Rights	0
Freedom from Corruption	-2.0

LIMITED GOVERNMENT	
Fiscal Freedom	+3.7
Government Spending	+21.8

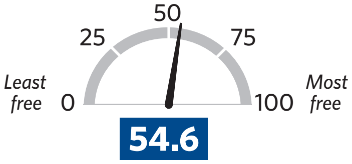
REGULATORY EFFICIENCY	
Business Freedom	-0.7
Labor Freedom	+0.2
Monetary Freedom	+3.9

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

INDIA

World Rank: **123** Regional Rank: **25**

Economic Freedom Score



India's economic freedom score is 54.6, making its economy the 123rd freest in the 2012 *Index*. Its score is unchanged from last year, with an improvement in labor freedom offset by declining scores in five other areas including business freedom, freedom from corruption, government spending, and monetary freedom. India is ranked 25th out of 41 countries in the Asia–Pacific region, and its overall score is below the world average.

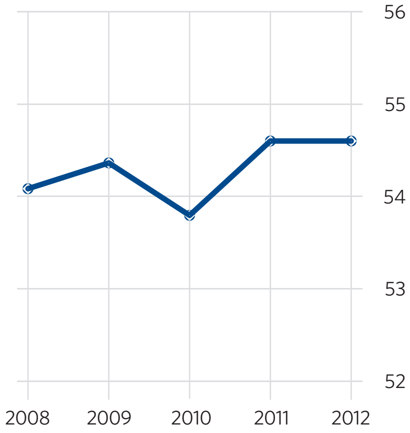
Despite India's high economic growth, the foundations for long-term economic development remain fragile in the absence of an efficiently functioning legal framework. Corruption, endemic throughout the economy, is becoming even more serious. The state maintains an extensive presence in many sectors through state-owned enterprises, and the legacy of decades of failed socialist policies includes a substantial tolerance for government meddling in economic activity.

Progress with market-oriented reforms has been uneven and often reversed at the urging of those with an interest in maintaining the status quo. India's restrictive and burdensome regulatory environment discourages private-sector growth and severely hampers realization of the economy's full potential. Increasing inflationary pressure poses a major risk to overall macroeconomic stability.

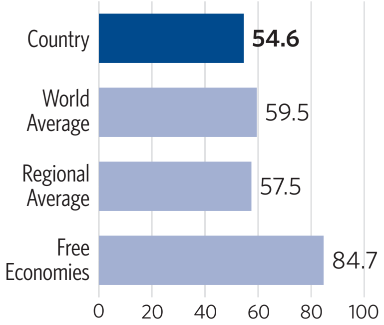
BACKGROUND: India is the world's most populous democracy. Although more than 80 percent of its population is Hindu, it also has one of the world's largest Muslim populations. The Congress Party government was re-elected in 2009 on a populist platform that included promises of guaranteed employment for rural households. India resumed bilateral talks with archrival Pakistan in 2010 after having suspended dialogue following attacks in Mumbai in November 2008 by a Pakistan-based terrorist group. Improved relations between the U.S. and India are evidenced by the launching of a Strategic Dialogue aimed at fostering cooperation in defense, energy, trade, education, and counterterrorism. The government has been roiled by a series of corruption scandals and the mishandling of the Commonwealth Games that were hosted in New Delhi in 2010.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



Quick Facts

Population: 1.2 billion

GDP (PPP): $4.0 trillion

10.4% growth in 2010

5-year compound annual growth 8.6%

$3,339 per capita

Unemployment: 10.8%

Inflation (CPI): 13.2%

FDI Inflow: $24.6 billion

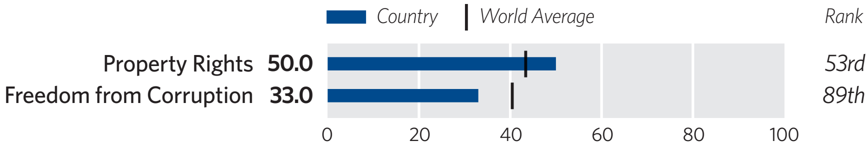
Public Debt: 64.1% of GDP

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

INDIA (continued)

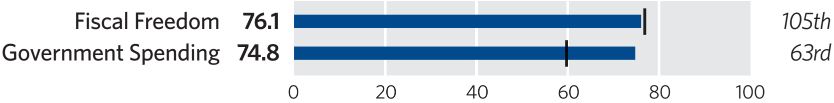
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



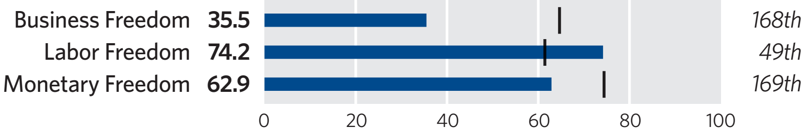
The rule of law is uneven across the country, and the independence of the judicial system is poorly institutionalized. Judicial procedures tend to be protracted, costly, and subject to political pressure. Property rights are not protected effectively, and the enforcement of intellectual property rights is seriously deficient. Corruption continues to erode confidence, particularly in connection with government procurement and defense contracts.

LIMITED GOVERNMENT



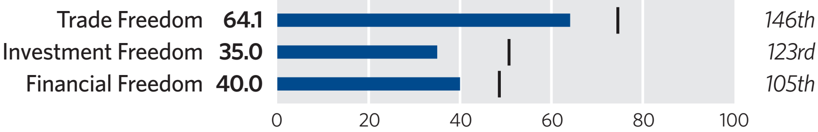
The top income tax rate is 30.9 percent (30 percent plus an education tax of 3 percent), and the top corporate tax rate is 33.22 percent (30 percent plus a reduced 7.5 percent surcharge and a 3 percent education tax on that total). The overall tax burden equals 16.8 percent of total domestic income, and government spending is equivalent to 29 percent of GDP. The budget balance remains in deficit, and public debt has reached 64.1 percent of GDP.

REGULATORY EFFICIENCY



Entrepreneurs continue to face severe challenges. The regulatory framework is burdensome. Completing licensing requirements takes more than 200 days and costs over 16 times the level of average annual income. The labor regulatory framework is still evolving, and the informal economy 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 burdensome at 7.9 percent, and complex non-tariff barriers further impede dynamic growth in trade. India's bureaucratic investment regime creates an unfavorable environment for new investment. Despite some liberalization, state-owned institutions dominate the banking sector and capital markets. Foreign participation is limited in capital markets, which remain illiquid.

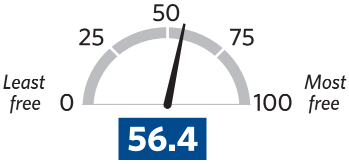
Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.7	Business Freedom	-1.4	Trade Freedom	-0.1
Freedom from Corruption	-1.0	Government Spending	-3.0	Labor Freedom	+7.0	Investment Freedom	0
				Monetary Freedom	-2.2	Financial Freedom	0

INDONESIA

World Rank: 115 **Regional Rank: 23**

Economic Freedom Score



Indonesia's economic freedom score is 56.4, making its economy the 115th freest in the 2012 *Index*. Its score is 0.4 point better than last year, with improvements in half of the 10 economic freedoms including monetary freedom and the control of government spending. Indonesia is ranked 23rd out of 41 countries in the Asia–Pacific region, and its overall score is below the world average.

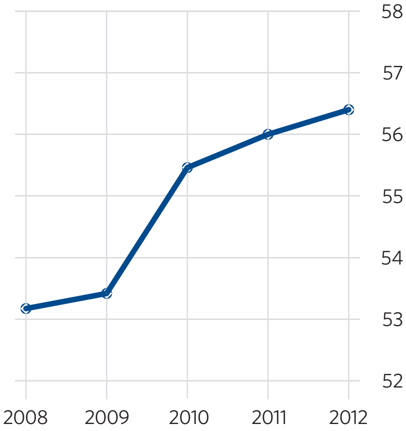
Indonesia has undertaken wide-ranging reforms to address various structural weaknesses in the economy and to improve competitiveness. The economy has shown considerable resilience, weathering the global economic slowdown relatively well, and annual growth rates averaging over 5 percent have been achieved during the past five years. Recent reform measures have put greater emphasis on improving regulatory efficiency, enhancing regional competitiveness, and creating a more vibrant private sector through decentralization. Public finance has been well managed, and debt has been kept under control.

Despite the progress in economic restructuring, Indonesia's growth potential remains fragile and hampered by inefficient legal and investment regimes that undermine entrepreneurship and job growth. Lingering political interference in the private economy discourages dynamic change, and pervasive corruption and a weak judicial system add uncertainty and risk, particularly to new economic endeavors.

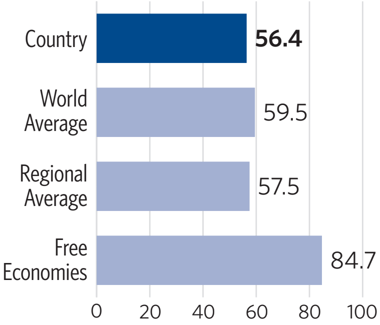
BACKGROUND: Indonesia is the world's most populous Muslim-majority democracy. In the years since 1998, when longstanding authoritarian ruler General Suharto stepped down, Indonesia's nearly 250 million people have enjoyed the blossoming of a wide range of political freedoms, and participation in the political process is high. President Susilo Bambang Yudhoyono has cracked down on corruption and has 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, Indonesia is playing an increasingly important role in international economic policy discussions.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



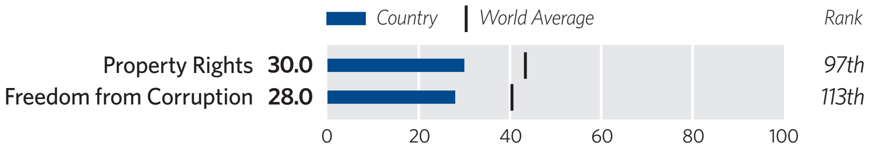
Quick Facts

Population: 234.4 million
GDP (PPP): $1.0 trillion
6.1% growth in 2010
5-year compound annual growth 5.7%
$4,394 per capita
Unemployment: 7.1%
Inflation (CPI): 5.1%
FDI Inflow: $13.3 billion
Public Debt: 27.4% of GDP

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

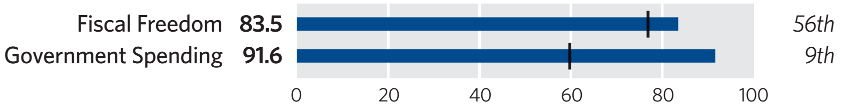
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



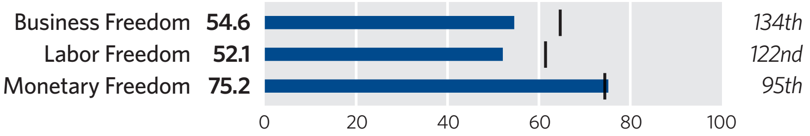
Property rights are generally respected, but enforcement is inefficient and uneven. The judicial system is not fully independent and remains vulnerable to political influence. In the absence of an efficient legal framework, court rulings can be arbitrary and inconsistent. Protection of intellectual property rights is not up to world standards, and the market for pirated goods has been expanding. Corruption continues to be pervasive.

LIMITED GOVERNMENT



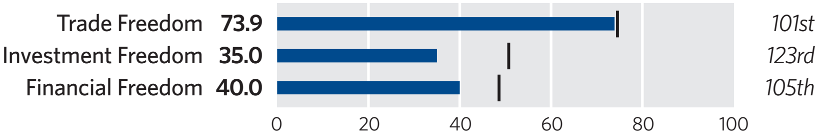
The top income tax rate is 30 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden amounting to 11.4 percent of total domestic income. Government spending is equivalent to 16.7 percent of GDP, and the budget deficit has come down to around 1 percent of GDP. Declining public debt has fallen below 30 percent of total domestic output.

REGULATORY EFFICIENCY



Despite notable simplification of licensing requirements, launching a business still takes more than the world average of seven days and 30 procedures. Overall regulatory efficiency is weak. Compared with other economies in the region, Indonesia's rigid labor market imposes more regulatory costs on the creation and termination of employment relationships. Inflation has been modest, but government interference in the market still distorts prices.

OPEN MARKETS



The trade weighted tariff rate is 3.1 percent, but trade flows are constrained by costly non-tariff barriers. Although the country publicly welcomes foreign investment, many investors, foreign and domestic alike, face significant hurdles due to inconsistencies in the investment codes and erratic enforcement. The financial sector is dominated by commercial banks, four of which are state-owned. Capital markets are not fully developed.

Score Changes

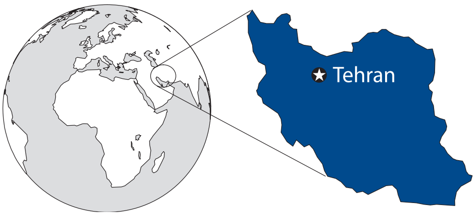
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.5
Government Spending	+2.7

REGULATORY EFFICIENCY	
Business Freedom	–0.3
Labor Freedom	+0.3
Monetary Freedom	+0.9

OPEN MARKETS	
Trade Freedom	+0.1
Investment Freedom	0
Financial Freedom	0

IRAN



World Rank: **171** Regional Rank: **16**

Iran's economic freedom score is 42.3, making its economy the 171st freest in the 2012 *Index*. Its score has increased by 0.2 point from last year, with a notable decline in business freedom offset by small improvements in five of the 10 economic freedoms. Iran is ranked 16th out of 17 countries in the Middle East/North Africa region, and its overall score is well below the world and regional averages.

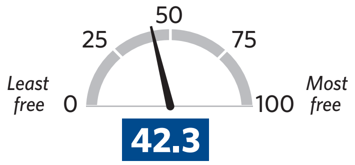
Heavy state interference undermines economic freedom in every category measured in the *Index* and seriously degrades economic dynamism. As a result of rampant corruption and deficiencies in the legal framework, the rule of law remains fragile and uneven. The government dictates most production and investment activity and derives most of its revenue from the oil sector.

The private sector, largely marginalized by the restrictive regulatory environment, is further weighed down by government inefficiency and mismanagement. Efforts to enhance the business climate have been modest, undone on occasion in the interest of maintaining the status quo. A recent move to cut subsidies, which had swollen to a level equal to roughly one-third of economic output, has been implemented erratically, causing substantial uncertainty in the affected sectors.

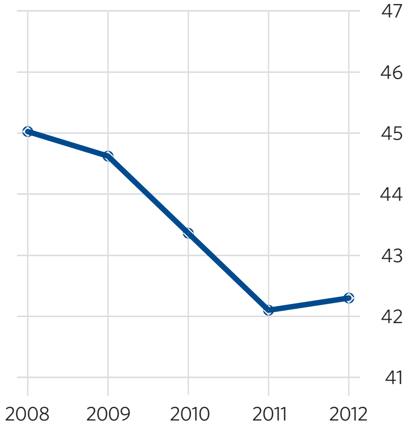
BACKGROUND: President Mahmoud Ahmadinejad's regime, after greatly expanding government spending, now plans to replace subsidies with cash payments to low-income Iranians. Iran's economy, once one of the Middle East's most advanced, has been crippled by the 1979 Islamic revolution, the Iran–Iraq war, gross mismanagement, and corruption. International concern about Iran's nuclear development and support for terrorism remains high. Oil export revenues, which provide about 85 percent of government revenues, increased in 2010 despite a gradual decline in production; higher world oil prices have partially offset the impact of U.S., EU, and U.N. economic sanctions. Iran's economy remains burdened by high inflation, corruption, costly subsidies, and an increasingly bloated public sector, and educated Iranians continue to seek better opportunities overseas.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

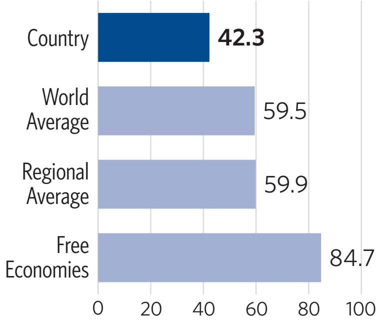
Economic Freedom Score



Freedom Trend



Country Comparisons



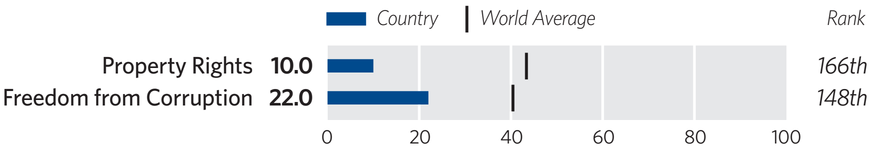
Quick Facts

Population: 75.4 million
GDP (PPP): $818.7 billion
1.0% growth in 2010
5-year compound annual growth 3.1%
$10,865 per capita
Unemployment: 14.6%
Inflation (CPI): 12.5%
FDI Inflow: $3.6 billion
Public Debt: 11.6% of GDP

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

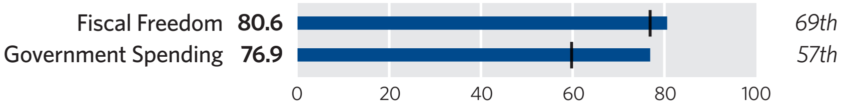
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



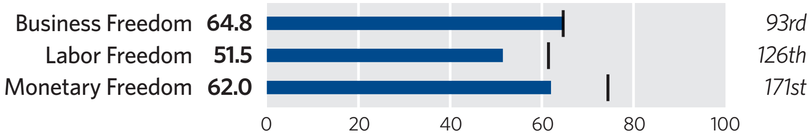
Corruption pervades all branches of government. Resorting to a court system infected by bribery and cronyism is often counterproductive; finding a local business partner with substantial political patronage is a more effective way to protect contracts. The constitution allows the government to confiscate property acquired either illicitly or in a manner not in conformance with Islamic law. Few laws protect intellectual property rights.

LIMITED GOVERNMENT



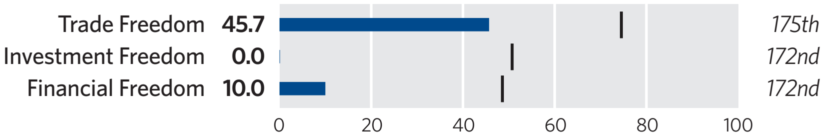
The top income tax rate is 35 percent, and the top corporate tax rate is 25 percent. All property transfers are subject to a standard tax. A value-added tax (VAT) has been collected intermittently. The overall tax burden is estimated to be 9.3 percent of total domestic income, and government spending is equivalent to 27.8 percent of GDP. The budget balance is in slight surplus, with public debt standing at 11.6 percent of total domestic output.

REGULATORY EFFICIENCY



The private sector continues to be hampered by a restrictive and burdensome regulatory environment. Although procedures for launching a business are relatively streamlined, the cost of completing licensing requirements is over three times the level of annual average income. Employment regulations are restrictive, and the labor market remains stagnant. Monetary stability is weak, and tight government controls distort price levels.

OPEN MARKETS

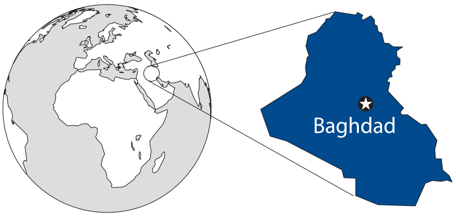


The trade weighted tariff rate is prohibitively high at close to 20 percent, with layers of non-tariff barriers further restricting trade activity. The investment regime is heavily regulated by the state, and foreign investment is banned in many sectors. Strict government controls limit access to financing 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	-0.5	Business Freedom	-4.6	Trade Freedom	+0.9
Freedom from Corruption	+4.0	Government Spending	+0.9	Labor Freedom	+0.8	Investment Freedom	0
				Monetary Freedom	+1.3	Financial Freedom	0

IRAQ



World Rank: **N/A** Regional Rank: **N/A**

Iraq remains unranked in the 2012 *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.

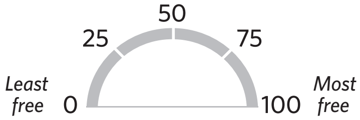
With its economic growth highly volatile, Iraq's ongoing economic reconstruction, though facilitated by high oil prices and foreign economic aid, has been fragile at best. Political instability and pervasive corruption continue to undermine the limited but measureable progress made over the past years.

Operating well below potential, the Iraqi economy lacks effective monetary and fiscal policies. The weak state of the financial system, coupled with its limited role within the economy, also makes development of a much-needed dynamic private sector extremely difficult. The country's main challenges are to improve security and fully restore the rule of law.

BACKGROUND: A U.S.-led coalition removed dictator Saddam Hussein from power in 2003, and Prime Minister Nuri al-Maliki's elected government took office in May 2006. Al-Maliki managed to retain his post in the fractious coalition government that emerged after the March 2010 elections. Iraq's oil industry, which provides more than 90 percent of government revenue, has been hurt by pipeline sabotage, electricity outages, and years of neglect. However, improved security, gradual restoration of exports, and higher world oil prices should encourage economic growth. The oil industry, still in government hands, holds Iraq's disparate factions together but is also a source of tension among them. The government seeks to encourage foreign investment, but inadequate infrastructure, bureaucratic red tape, and widespread corruption continue to undermine foreign investment and constrain private-sector growth.

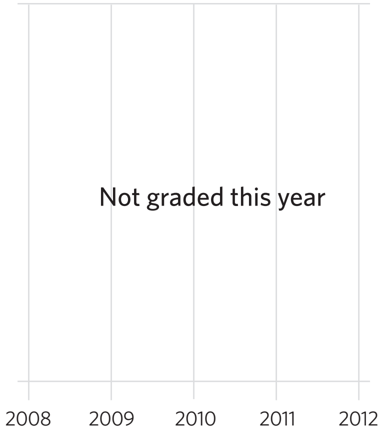
How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Economic Freedom Score

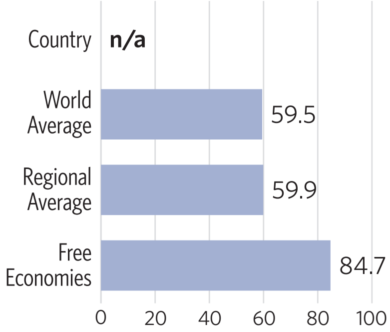


This economy is not graded

Freedom Trend



Country Comparisons



Quick Facts

Population: 32.0 million

GDP (PPP): $113.4 billion
0.8% growth in 2010
5-year compound annual growth 4.4%
$3,538 per capita

Unemployment: 15.3%

Inflation (CPI): 5.1%

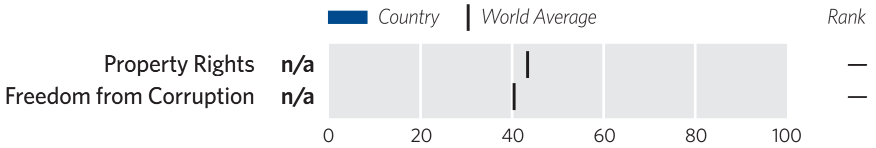
FDI Inflow: $1.4 billion

Public Debt: 119.6% of GDP

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

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 payments to "ghost" employees, salary skimming, and nepotism. In the absence of effective anti-corruption measures, fraud and mismanagement of public funds are endemic.

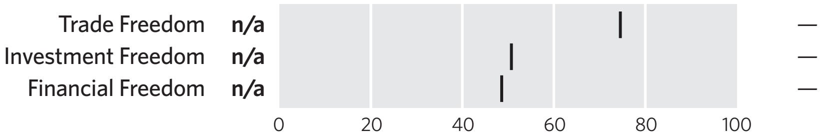
LIMITED GOVERNMENT

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 equivalent to 37.7 percent 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 declined but still equals about 120 percent of GDP.

REGULATORY EFFICIENCY

Despite some progress in enhancing the business environment, significant impediments to entrepreneurial activity persist. Weighed down by bureaucracy, enforcement of existing commercial regulations is inconsistent. Completing licensing requirements costs almost four times the level of annual average income. With a formal labor market not fully developed, most private-sector jobs are short-term and informal. Monetary stability is weak.

OPEN MARKETS

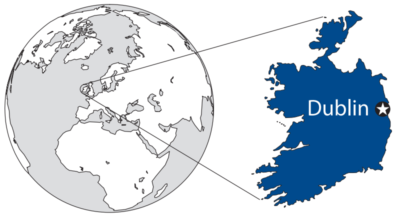


Trade flows remain far below potential as broad-based commercial activity is still suppressed. Numerous non-tariff barriers add to the cost of trade. Iraq is open to foreign investment in principle, but bureaucratic inertia, policy uncertainty, and security concerns deter investment growth. State banks 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: **9** Regional Rank: **2**

Ireland's economic freedom score is 76.9, making its economy the 9th freest in the 2012 *Index*. Its score has decreased by 1.8 points from last year, reflecting poorer management of government spending and reduced monetary freedom. The Irish economy fell to 2nd place in the Europe region behind Switzerland. Ireland recorded one of the 20 largest score declines in the 2012 *Index*.

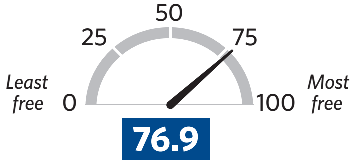
The Irish economy has undergone sharp economic adjustments. After suffering a deep downturn, it has been on a path of gradual recovery. Unlike other troubled euro-zone economies, however, Ireland has a number of firmly intact institutional strengths. The foundations of economic freedom are buttressed by well-institutionalized protection of property rights and a stable judiciary. Regulatory efficiency and openness to global commerce support Ireland's competitiveness.

The ballooning cost of bailouts has prolonged uncertainty in the financial sector and turned a banking crisis into a sovereign debt crisis. The budget deficit has been on the rise, increasing the debt burden. In a move aimed at reinforcing the principle of limited government, Ireland is placing a high priority on fiscal discipline and achievement of a balanced budget.

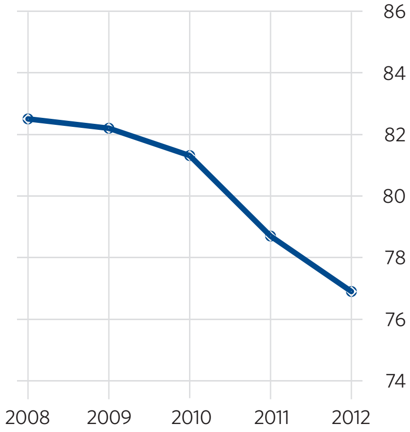
BACKGROUND: The Anglo–Irish Treaty of 1921 formally partitioned Ireland roughly along Catholic–Protestant lines into the Irish Free State, which in 1948 became the Republic of Ireland, and Northern Ireland, which remains under British rule. Sectarian violence declined in the 1990s, and the Irish Republican Army formally renounced armed struggle in 2005. In October 2009, Ireland became the final country to ratify the European Union's Lisbon Treaty. Enda Kenny's Fine Gael government was elected in February 2011. Ireland's modern, highly industrialized economy performed extraordinarily well throughout the 1990s, encouraged by free-market policies that made the country one of the world's most attractive destinations for investment capital. However, the burst of a speculative housing bubble in 2008 and the results of lax bank lending sent the economy into a tailspin. In 2010, the government nationalized several banks and accepted a $90 billion European Union–International Monetary Fund rescue package.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

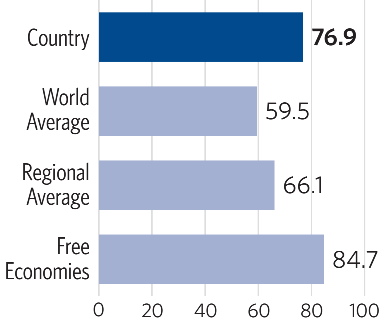
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

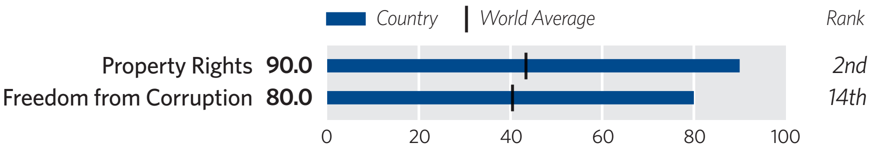
Population: 4.5 million
GDP (PPP): $172.3 billion
–1.0% growth in 2010
5-year compound annual growth –0.4%
$38,550 per capita
Unemployment: 13.5%
Inflation (CPI): –1.6%
FDI Inflow: $26.3 billion
Public Debt: 94.9% of GDP

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

IRELAND (continued)

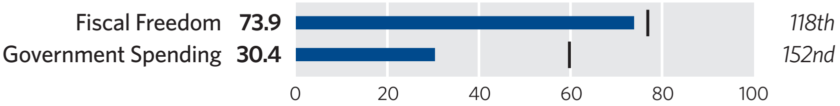
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



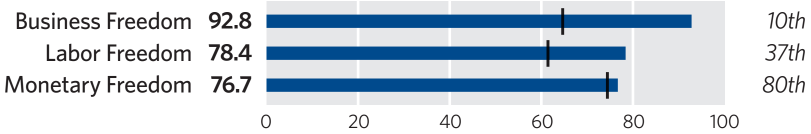
The rule of law is upheld strongly by an independent judiciary operating in a sound legal framework. An efficient, non-discriminatory legal system protects and facilitates acquisition and disposition of all property rights. Contracts are secure, and expropriation is rare. Ireland has one of Europe's most comprehensive legal frameworks for the protection of intellectual property rights. Corruption is not regarded as a serious problem.

LIMITED GOVERNMENT



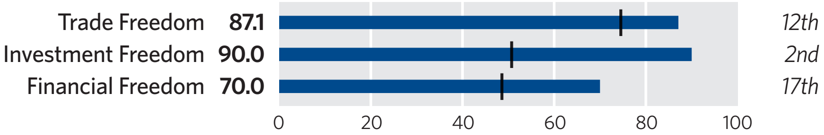
The top income tax rate is 41 percent, and the top corporate tax rate is 12.5 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the total tax burden amounting to 27.8 percent of total domestic income. Government spending has increased to a level equivalent to 48.2 percent of GDP. Deficits have widened, and public debt has reached over 90 percent of total domestic output.

REGULATORY EFFICIENCY



The streamlined regulatory process is very conducive to dynamic investment and supportive of business decisions that enhance productivity. With no minimum capital requirement, establishing a business takes only four procedures. Completing licensing requirements is not burdensome. The labor market remains relatively flexible, and labor costs have been moderate. Monetary stability has been relatively well maintained.

OPEN MARKETS

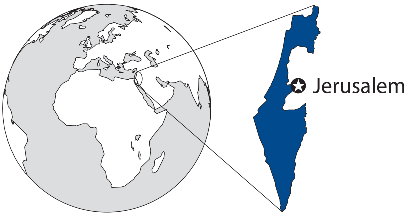


The trade weighted average tariff rate is low as with other members of the European Union, but non-tariff barriers add to the cost of trade. Domestic and foreign firms receive equal treatment under a competitive and efficient investment regime. The financial sector was hit hard by the collapse of a property bubble to which banks were highly exposed and by several related scandals, but substantial recapitalization appears to have restored soundness.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.8	Business Freedom	+0.8	Trade Freedom	-0.5
Freedom from Corruption	0	Government Spending	-16.7	Labor Freedom	+0.9	Investment Freedom	0
				Monetary Freedom	-4.0	Financial Freedom	0

ISRAEL



World Rank: **48** Regional Rank: **6**

Israel's economic freedom score is 67.8, making its economy the 48th freest in the 2012 *Index*. Its overall score has decreased by 0.7 point, primarily due to declines in trade freedom and the control of government spending. Israel is ranked 6th out of 17 countries in the Middle East/North Africa region.

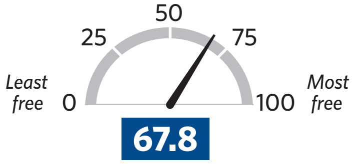
Israel's economic competitiveness is anchored in strong protection of property rights and relatively low levels of corruption, which have served as cornerstones of long-term economic expansion. There is still room for improvement in public finance management as respect for the principle of limited government has weakened in recent years.

Despite the challenging global economic environment, Israel's economy has been on a path of recovery. With an increasingly diversified productive base and ongoing structural reforms, growth has been close to 4 percent annually over the past five years. Openness to global commerce supports productivity growth, and reforms have enhanced regulatory efficiency. The top corporate income tax rate was reduced to 24 percent in 2011 and is scheduled to fall to 20 percent in 2015 and 18 percent in 2016. The top personal income tax rate will drop to 39 percent in 2016.

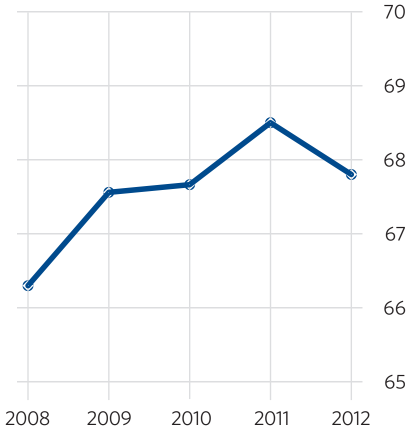
BACKGROUND: Israel gained independence in 1948 as a result of the partition of the British Mandate for Palestine, and its vibrant democracy remains unique in the region. Prime Minister Benjamin Netanyahu leads a right-of-center coalition government formed after the February 2009 elections. A series of wars for survival against its Arab neighbors have imposed a high defense burden on Israel's state-dominated economy. Although endowed with few natural resources, Israel has developed agriculture, industry, and a dynamic high-tech sector that attracts considerable foreign investment. 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, and the constant threat of war and terrorism, the economy has grown significantly.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

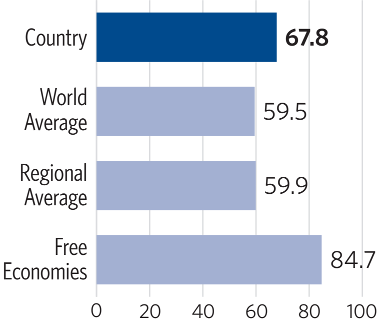
Economic Freedom Score



Freedom Trend



Country Comparisons



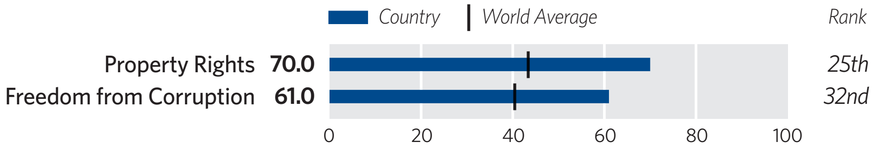
Quick Facts

Population: 7.4 million
GDP (PPP): $219.4 billion
4.6% growth in 2010
5-year compound annual growth 4.1%
$29,531 per capita
Unemployment: 6.6%
Inflation (CPI): 2.7%
FDI Inflow: $5.1 billion
Public Debt: 77.4% of GDP

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

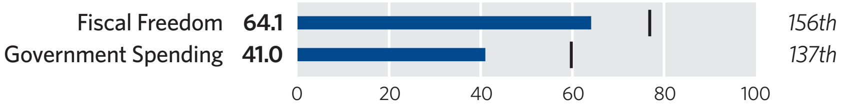
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



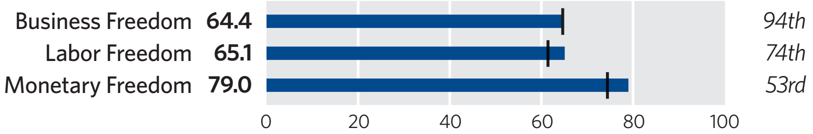
The rule of law is sustained by a modern legal framework based on British common law. Protections for property rights and contracts are enforced effectively. The court system is independent, and commercial laws are applied consistently. Bribery and other forms of corruption are illegal. Relatively effective anti-corruption measures have helped to strengthen the foundations of economic freedom.

LIMITED GOVERNMENT



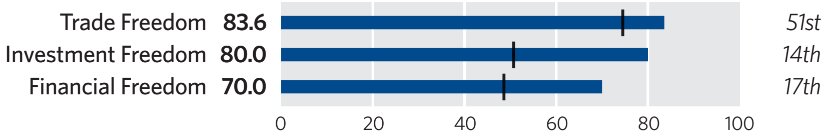
The top income tax rate is 45 percent, and the top corporate tax rate has been reduced to 24 percent in 2011. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden amounting to 31.4 percent of total domestic income. Government spending is equivalent to 44.3 percent of GDP. The budget balance has been in deficit, with public debt corresponding to over 70 percent of total domestic output.

REGULATORY EFFICIENCY



Israel’s overall regulatory framework promotes efficient entrepreneurial activity. The pace of regulatory reform has lagged slightly behind that of other emerging economies. The labor market is in need of more flexibility to accommodate rapid economic transformation. Unionization has declined steadily from about 80 percent of all jobs to below 35 percent. Inflation has been modest, but upward pressures linger.

OPEN MARKETS

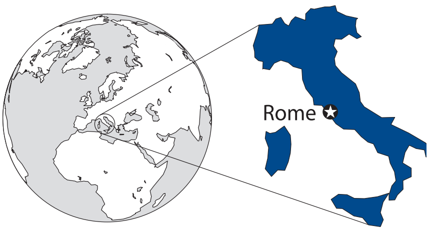


The trade weighted tariff rate is 3.2 percent, but non-tariff barriers add to the cost of trade. The investment regime is modern and efficient, supporting vibrant levels of foreign investment. Financial institutions offer a wide range of services, and credit is readily available on market terms. Capital markets have been greatly liberalized as part of Israel’s effort to reinvent itself as a financial hub.

Score Changes

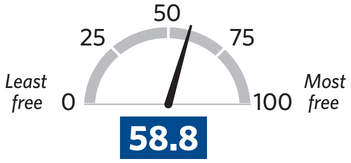
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.8	Business Freedom	-1.7	Trade Freedom	-4.2
Freedom from Corruption	0	Government Spending	-3.8	Labor Freedom	+0.8	Investment Freedom	0
				Monetary Freedom	+0.6	Financial Freedom	0

ITALY



World Rank: 92 **Regional Rank: 36**

Economic Freedom Score



Italy's economic freedom score is 58.8, making its economy the 92nd freest in the 2012 *Index*. Its overall score is 1.5 points lower than last year, with significant declines in freedom from corruption and the control of government spending. Italy is ranked 36th out of 43 countries in the Europe region, and its score is slightly below the world average.

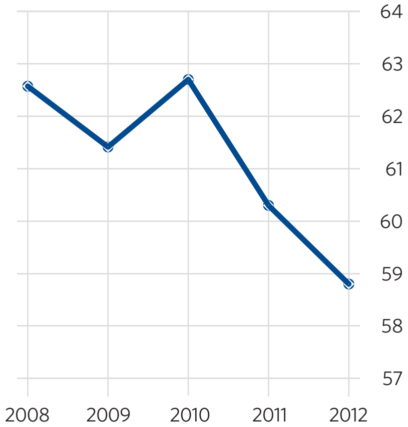
Despite repeated reform attempts, Italy's moves toward institutionalizing greater economic freedom have been uneven and relatively ineffectual. Short-term fixes have not been effective. Worse, the foundations of economic freedom remain weak in the absence of an efficient judicial framework to provide effective and timely resolution of cases. Corruption, often involving government officials, is a growing concern, severely undercutting confidence in the government.

The ongoing European sovereign debt crisis has taken a considerable toll on macroeconomic stability. Sharp increases in the debt burden, aggravated by structural weaknesses, are undermining 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.

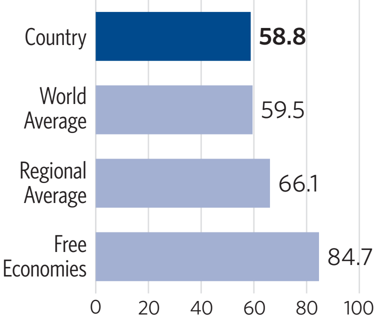
BACKGROUND: Center-right Prime Minister Silvio Berlusconi, elected for a third time in 2008, announced his resignation in November 2011 after challenges to his economic leadership and recurring personal scandals distracted attention from urgently needed reforms. The 2011 uprisings in North Africa caused a massive wave of immigration, and Italy granted short-term visas to many immigrants who were then encouraged to emigrate to other European Union Schengen member states. Although Italy emerged from recession in mid-2009, its deficit has grown above the euro zone's standards, its economic growth rate is one of the EU's lowest, and unemployment is high. Other persistent problems include organized crime, illegal immigration, and the long-standing imbalance between the prosperous and industrialized North and the less-developed, agricultural South.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



Quick Facts

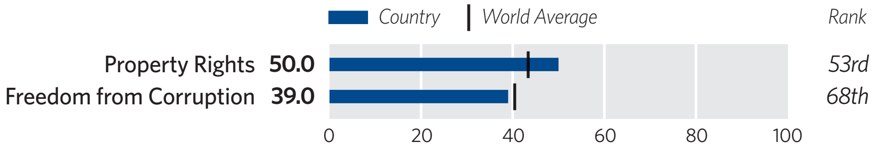
Population: 60.3 million
GDP (PPP): $1.7 trillion
1.3% growth in 2010
5-year compound annual growth −0.4%
$29,392 per capita
Unemployment: 8.4%
Inflation (CPI): 1.6%
FDI Inflow: $9.5 billion
Public Debt: 119.0% of GDP

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

ITALY (continued)

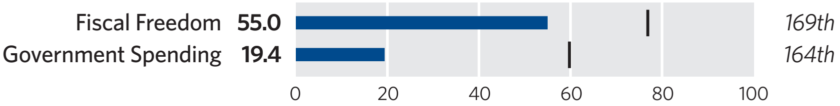
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



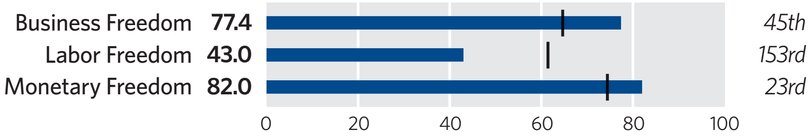
Property rights and contracts are secure, but court procedures are extremely slow, and many companies choose to settle out of court. The legal system is vulnerable to political interference. Enforcement of intellectual property rights falls below the standards of other developed Western European countries. Widespread corruption has bred a culture of lawlessness and tax evasion and has weakened respect for the judiciary.

LIMITED GOVERNMENT



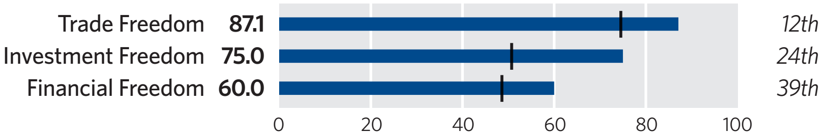
The top income tax rate is 43 percent, and the top corporate tax rate is 27.5 percent. Individuals also pay small regional and municipal income taxes. Other taxes include a value-added tax (VAT) and an inheritance tax, with the overall tax burden equaling 43.5 percent of GDP. Government spending has increased to a level equaling 51.8 percent of total domestic output. The deficit remains high, and public debt exceeds the size of the economy.

REGULATORY EFFICIENCY



Organizing new investment and production remains a cumbersome process. Inefficient administration and regulatory complexity cause delays and increase the cost of entrepreneurial activity. Lingering labor market rigidities constrain dynamic job growth, and the informal labor market accounts for a large part of employment. Monetary stability has been relatively well maintained, with inflation under control.

OPEN MARKETS

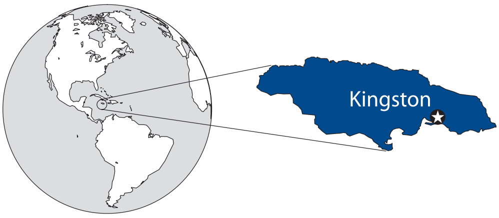


The trade weighted average tariff rate is low, but cumbersome non-tariff barriers raise the cost of trade. Foreign investment is officially welcome, but complex bureaucracy and arbitrary enforcement of regulations remain impediments to dynamic investment growth. The financial system, although relatively well developed, is subject to political interference, and banks have been highly strained by the impact of the European sovereign debt crisis.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.4	Business Freedom	+0.1	Trade Freedom	-0.5
Freedom from Corruption	-4.0	Government Spending	-9.2	Labor Freedom	-1.4	Investment Freedom	0
				Monetary Freedom	-0.1	Financial Freedom	0

JAMAICA



World Rank: **58** Regional Rank: **12**

Jamaica's economic freedom score is 65.1, making its economy the 58th freest in the 2012 *Index*. Its score is 0.6 point lower than last year, with losses in six of the 10 economic freedoms including business freedom and the management of public spending. Jamaica ranks 12th out of 29 countries in the South and Central America/Caribbean region.

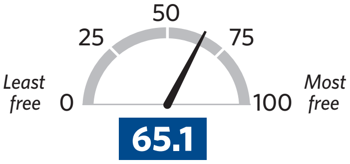
Critical development challenges confronting the Jamaican economy include corruption and relatively high government spending. Public debt has surpassed 115 percent of GDP. Reducing the bloated public sector, following through on plans to divest loss-making state-owned enterprises, and enforcing expenditure restraint are all essential in order to meet fiscal targets. Undermining anti-corruption efforts, the judicial system remains inefficient and clogged with a significant backlog of cases.

Jamaica has taken steps to enhance regulatory efficiency and better 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 welcome in many sectors, although the investment regime needs more transparency to spur dynamic investment growth.

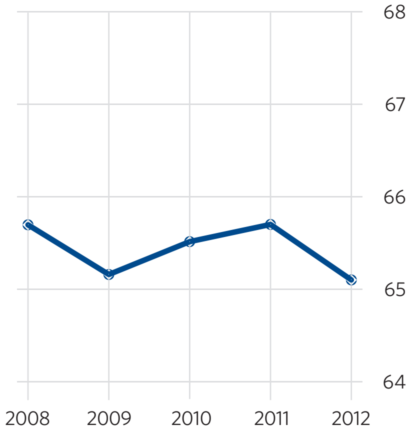
BACKGROUND: Jamaica Labour Party Prime Minister Bruce Golding took office in late 2007 with a slim parliamentary majority and has struggled to impose fiscal discipline and uphold the rule of law. In February 2010, Jamaica signed a US$1.27 billion Standby Agreement with the International Monetary Fund for balance of payment support that required the introduction of major fiscal reforms. Services account for more than 60 percent of GDP. Most foreign exchange comes from remittances, tourism, and bauxite. The decline in these sectors contributed to a deep recession in 2009. There is high unemployment and underemployment in the formal sector, and crime, fueled by the drug trade, is persistent. Tourism receipts recovered slightly in 2010, but the public debt burden is among the world's highest on a per capita basis.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

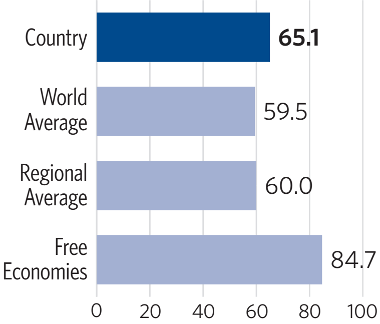
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

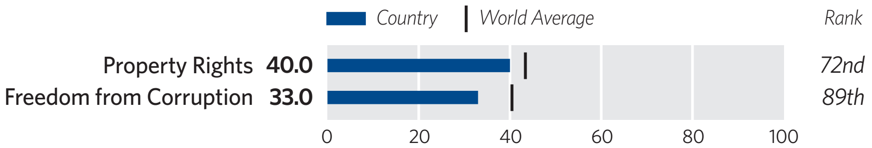
Population: 2.7 million
GDP (PPP): $23.7 billion
–1.1% growth in 2010
5-year compound annual growth –0.2%
$8,727 per capita
Unemployment: 12.9%
Inflation (CPI): 12.6%
FDI Inflow: $201.0 million
Public Debt: 143.4% of GDP

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

JAMAICA (continued)

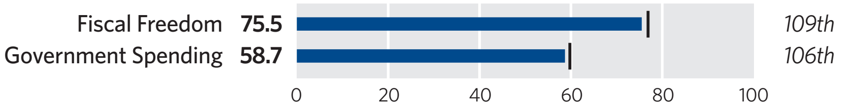
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



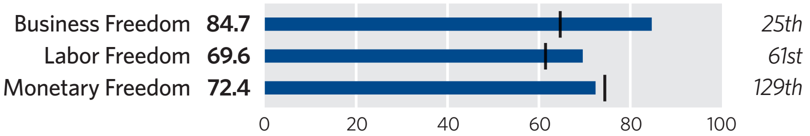
Jamaica’s judiciary lacks adequate resources, and trials can be delayed for years. Bureaucracy can cause significant delays in securing land titles. Inadequate law enforcement and an inefficient legal framework weaken the security of property rights and the rule of law. Pervasive public corruption undermines efforts against drug-related and other crimes and facilitates the passage of drugs and drug proceeds through Jamaica.

LIMITED GOVERNMENT



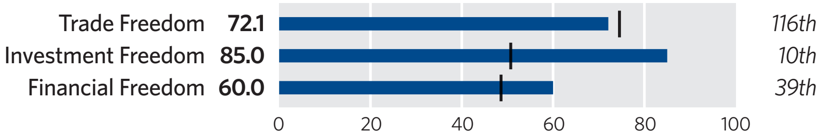
The top income tax rate is 25 percent, and the top corporate tax rate is 33.3 percent. Other taxes include a property transfer tax and a general consumption tax, with the overall tax burden amounting to 26.7 percent of total domestic income. Government spending is equivalent to 37.1 percent of total domestic output. The deficit has been reduced to 6.2 percent of GDP, and public debt has reached over 140 percent of GDP.

REGULATORY EFFICIENCY



The overall process for starting a business has been streamlined, but licensing requirements are burdensome and cost over twice the level of annual average income. Although the labor market remains underdeveloped and relatively constraining, restrictions on work hours are flexible. Most prices are set by the market, but the government regulates the prices of a number of goods and services. Inflationary pressures have been quite high.

OPEN MARKETS

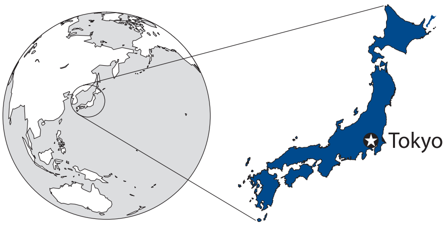


The trade weighted average tariff rate is quite high at 9 percent, and complex non-tariff barriers further constrain freedom to trade. Jamaica officially encourages foreign investment, but the investment regime lacks transparency and efficiency. Although some financial services are still not available, the private sector has access to a wide range of credit instruments. Overall, the banking sector remains relatively sound and well capitalized.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.4	Business Freedom	-1.6	Trade Freedom	-0.1
Freedom from Corruption	+3.0	Government Spending	-6.0	Labor Freedom	-0.6	Investment Freedom	0
				Monetary Freedom	-0.1	Financial Freedom	0

JAPAN



World Rank: **22** Regional Rank: **7**

Japan's economic freedom score is 71.6, making its economy the 22nd freest in the 2012 *Index*. Its score is 1.2 points lower than last year, with a particularly significant decline in the control of government spending. Japan is ranked 7th out of 41 countries in the Asia–Pacific region.

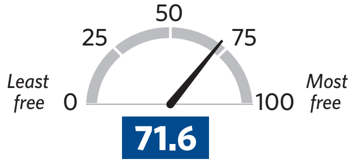
The Japanese economy benefits from relatively good levels of economic freedom in all areas. The foundations of economic freedom are solidly in place, supported by an effective judicial framework, a very low level of inflation, and the almost complete absence of corruption.

Nonetheless, Japan's overall progress in moving toward greater levels of economic freedom has been uneven in the absence of a strong political push from the country's leadership, and the economy remains stagnant. Large and growing public debt has taken a toll on private-sector economic activity, preventing more dynamic growth. Disparities in productivity between different segments of the economy continue to widen. The financial sector is modern and well developed, but it remains subject to growing political interference, as shown by the delay in reorganizing the state-owned postal savings system. Although the export-oriented economy has long benefited from global trade, non-tariff barriers continue to hurt overall trade freedom. Japan has lagged behind other countries in pursuing bilateral trade agreements.

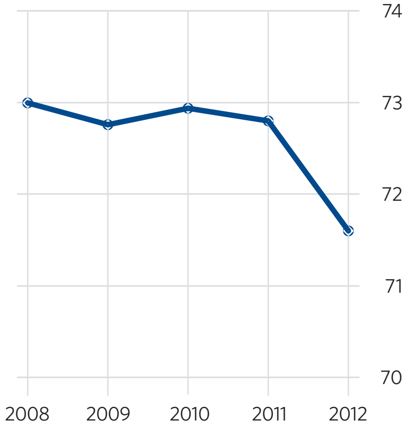
BACKGROUND: Following 55 years of Liberal Democratic Party rule, the Democratic Party of Japan won a historic victory in August 2009, capturing both houses of parliament and installing Yukio Hatoyama as prime minister. Hatoyama resigned abruptly in June 2010 and was succeeded by Finance Minister Naoto Kan, who was replaced in September 2011 by Yoshihiko Noda. The massive March 2011 earthquake and tsunami has strained an economy that, though the world's third largest, has struggled with slow growth and stagnation for two decades. A brief period of economic expansion under Prime Minister Junichiro Koizumi was driven primarily by exports, but 20 years of government taxation and failed stimulus spending have left the economy about the same size as it was in 1992.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

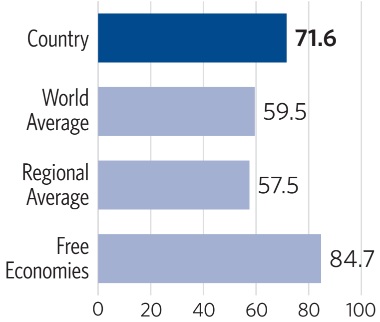
Economic Freedom Score



Freedom Trend



Country Comparisons



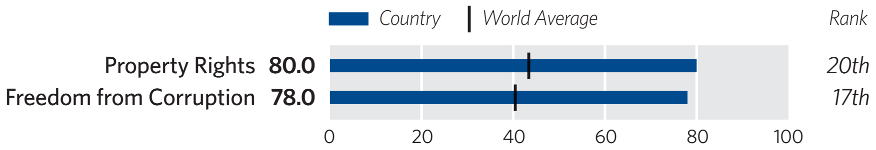
Quick Facts

Population: 127.5 million
GDP (PPP): $4.3 trillion
3.9% growth in 2010
5-year compound annual growth 0.1%
$33,805 per capita
Unemployment: 5.1%
Inflation (CPI): –0.7%
FDI Inflow: –$1.2 billion
Public Debt: 220.0% of GDP

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

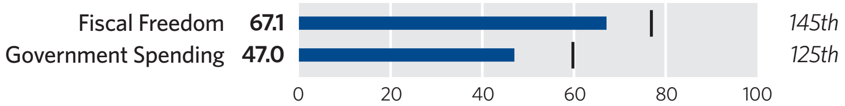
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



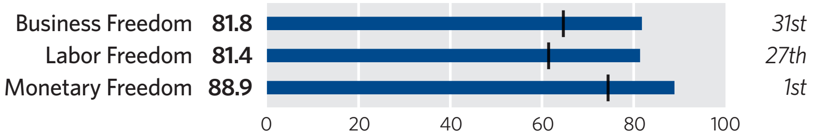
The judicial framework is solid, providing secure protection of real and intellectual property. The court system is independent of political interference but lacks efficiency. Obtaining and protecting patents and trademarks can be time-consuming and costly. The courts do not discriminate against foreign investors, and contracts are highly respected. A relatively nominal level of corruption has been one of Japan's key institutional assets.

LIMITED GOVERNMENT



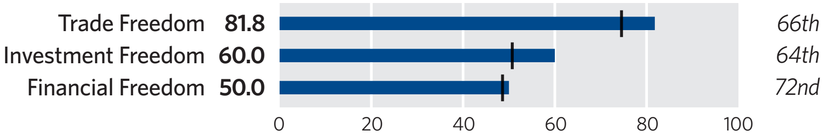
The top income tax rate is 40 percent, and the standard corporate tax rate is 30 percent, which local taxes and an enterprise tax can increase significantly. Other taxes include a value-added tax (VAT) and an estate tax. The overall tax burden amounts to 28.1 percent of total domestic income. Government spending is equivalent to 42 percent of GDP. The budget deficit has fallen below 10 percent of GDP, but public debt remains over 200 percent of GDP.

REGULATORY EFFICIENCY



The process for establishing and running a business is relatively streamlined. However, bureaucracy is sometimes stifling, and entrepreneurial growth is discouraged by structural problems unaddressed by reforms. The labor market functions well, but a propensity for lifetime employment guarantees and seniority-based wages impedes the development of a more flexible labor market. Inflation has been minimal.

OPEN MARKETS

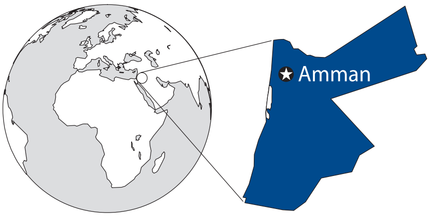


The trade weighted tariff rate is 1.6 percent, but layers of non-tariff barriers raise the cost of trade. Foreign investment is formally welcome, and inward investment is subject to few restrictions. However, foreign acquisition of domestic firms is inhibited by overregulation and a slow court system. The financial system remains vulnerable to political influence. Reform of the state-owned postal savings system has been derailed since late 2009.

Score Changes

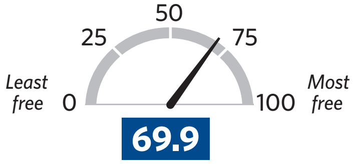
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.1	Business Freedom	-2.0	Trade Freedom	-0.8
Freedom from Corruption	+1.0	Government Spending	-11.7	Labor Freedom	+0.3	Investment Freedom	0
				Monetary Freedom	+1.0	Financial Freedom	0

JORDAN



World Rank: **32** Regional Rank: **3**

Economic Freedom Score



Jordan's economic freedom score is 69.9, making its economy the 32nd freest in the 2012 *Index*. Its score is 1.0 point better than last year, reflecting gains in half of the 10 economic freedoms including notable progress in business freedom and the control of government spending. Jordan is ranked 3rd out of 17 countries in the Middle East/North Africa region.

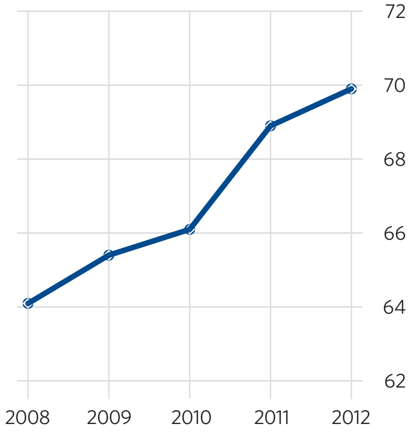
The Jordanian government's record on institutional reform has been uneven, and more vibrant economic growth is constrained by structural weaknesses that continue to undercut some of the four pillars of economic freedom. The rule of law is not strongly supported by the judicial system, particularly due to growing corruption.

Despite the challenging situation stemming from the external economic environment, progress in upgrading Jordan's economic infrastructure has been aided by openness to international trade and investment that has sustained economic growth. Levels of trade, fiscal, and investment freedom are relatively competitive. Public finance improvements and the privatization of government enterprises have been staples of the reform agenda. Social security and pension reforms are being followed by efforts that include containment of the public wage bill and reductions in capital spending.

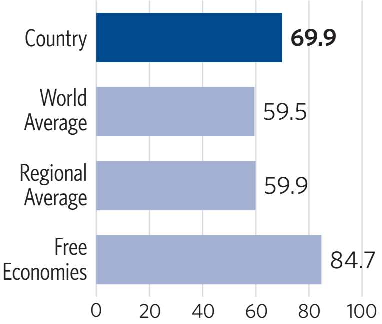
BACKGROUND: Jordan is a constitutional monarchy in which the king exercises significant executive power. In February 2011, King Abdullah responded to "Arab Spring" demonstrations by dismissing the cabinet and appointing Marouf al-Bakhit as prime minister with a mandate for reform. Jordan's economy, one of the smallest in the Middle East, is supported to a significant degree by foreign loans, international aid, and remittances from expatriate workers. 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 allow duty-free exports to the United States of goods made with some content from Israel. Ongoing problems include high unemployment, poverty, a large budget deficit, heavy debt, and the high cost of oil imports.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



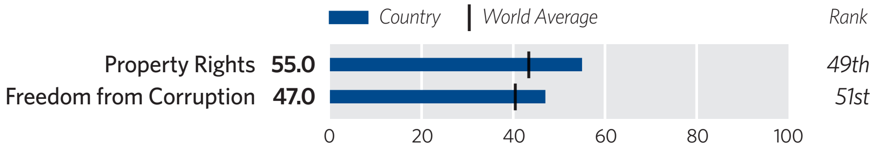
Quick Facts

Population: 6.1 million
GDP (PPP): $34.5 billion
3.1% growth in 2010
5-year compound annual growth 5.9%
$5,644 per capita
Unemployment: 13.4%
Inflation (CPI): 5.0%
FDI Inflow: $1.7 billion
Public Debt: 66.8% of GDP

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

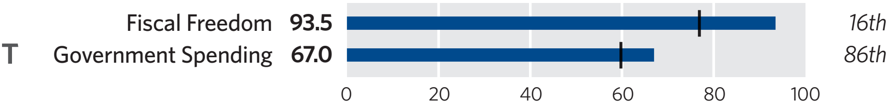
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



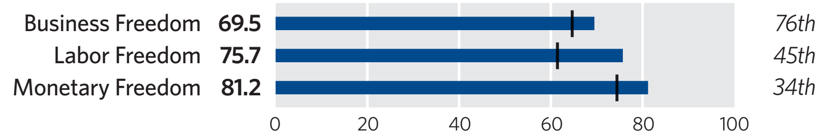
The legal system protects the acquisition and disposition of all property rights. The judiciary is generally independent, but the king is the ultimate authority. Despite efforts to limit its influence, the Ministry of Justice significantly affects judges' careers. Protection of intellectual property rights has improved. Influence peddling and lack of transparency undermine the fairness of government procurement and dispute settlement.

LIMITED GOVERNMENT



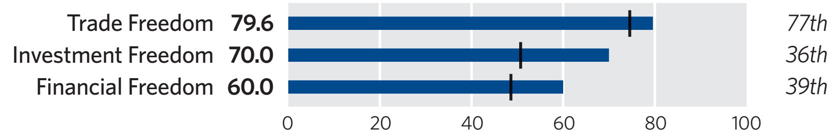
The top income and corporate tax rates are 14 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden equaling 16.2 percent of total domestic income. Government spending is equivalent to 33.2 percent of total domestic output. The deficit has come down to 5.3 percent of GDP, and public debt stands at over 60 percent of GDP.

REGULATORY EFFICIENCY



Recent reforms have made business formation and operation more efficient and dynamic. Licensing requirements have been simplified, and the minimum capital requirement is no longer in place. Progress toward reforming bloated public-sector employment has been dismal, with significant rigidity remaining in the labor market. Inflation has been rising. Most controls have been eliminated, but the government sets prices for some services.

OPEN MARKETS

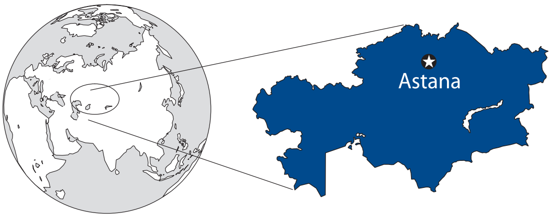


The trade weighted average tariff rate is 5.2 percent, with non-tariff barriers including inefficient customs administration adding to the cost of trade. Foreign investors receive national treatment, but bureaucracy, red tape, and inconsistent enforcement of regulations inhibit new investment. The consolidation of smaller banks has progressed. The state owns no commercial banks but does own five specialized credit institutions.

Score Changes

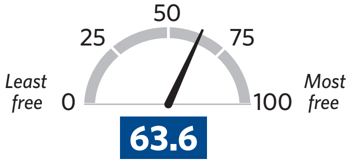
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.8	Business Freedom	+3.7	Trade Freedom	+0.8
Freedom from Corruption	-3.0	Government Spending	+6.1	Labor Freedom	+1.5	Investment Freedom	0
				Monetary Freedom	-0.2	Financial Freedom	0

KAZAKHSTAN

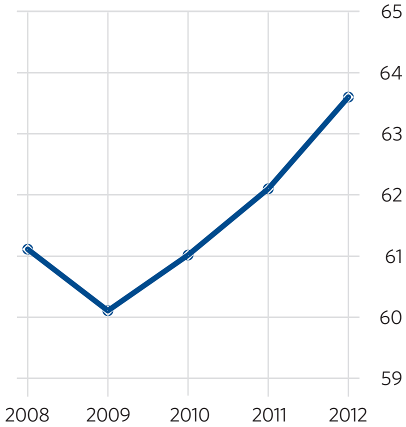


World Rank: 65 **Regional Rank: 11**

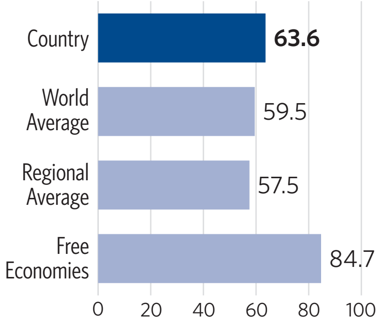
Economic Freedom Score



Freedom Trend



Country Comparisons



Kazakhstan's economic freedom score is 63.6, making its economy the 65th freest in the 2012 *Index*. Its score is 1.5 points higher than last year, reflecting improvements in six of the 10 freedoms including property rights, freedom from corruption, and the control of public spending. Kazakhstan ranks 11th out of 41 countries in the Asia–Pacific region, and its overall score is above the world and regional averages. The country recorded one of the 20 largest score improvements in the 2012 *Index*.

Kazakhstan continues its positive trend of advancing economic freedom. The country has become one of the first to return to the path of steady economic expansion since 2009, partly because of ongoing policy reforms that have enhanced regulatory efficiency. Substantial oil revenues enable a high degree of fiscal freedom.

With growth progressing, strengthening the foundations of economic freedom has become even more critical to the country's long-term economic prospects. Institutional shortcomings such as a weak judicial system and widespread corruption hold down diversification and modernization.

BACKGROUND: Nominally a democratic republic, Kazakhstan has been ruled since independence by former Communist Party head Nursultan Nazarbayev, who has run virtually unopposed in elections that have been criticized by the Organization for Security and Co-operation in Europe. Kazakhstan is strategically located in Central Asia between Russia and China, and a customs union with Russia and Belarus came into effect in July 2010. Oil output is projected to reach 3.5 million barrels a day by 2020. Kazakhstan possesses an estimated 20 percent of world uranium reserves and remains the world's largest producer of uranium. Excessive dependence on raw commodity exports makes the economy particularly vulnerable to global price changes. Rising commodity prices and improved domestic conditions encouraged substantial economic growth in 2010 and 2011. Kazakhstan has an ambitious economic development program, but resource nationalism and corruption deter progress.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Quick Facts

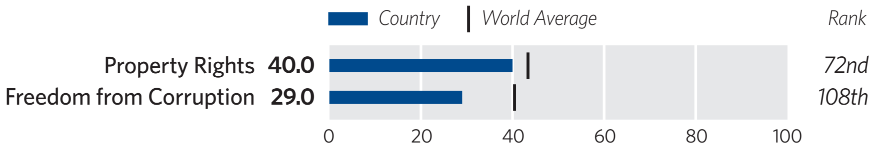
Population: 15.6 million
GDP (PPP): $196.4 billion
7.0% growth in 2010
5-year compound annual growth 6.1%
$12,603 per capita
Unemployment: 5.5%
Inflation (CPI): 7.4%
FDI Inflow: $9.9 billion
Public Debt: 10.7% of GDP

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

KAZAKHSTAN (continued)

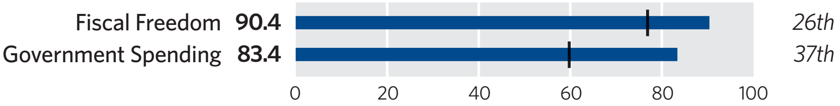
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



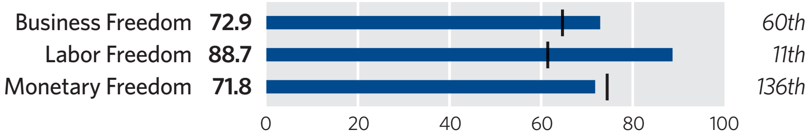
The legal framework remains inefficient and susceptible to political interference. The court system lacks the capacity to protect property rights effectively. Infringements of intellectual property rights are rife. Recent changes in the anti-corruption law instituted mandatory asset forfeitures and broadened the definition of corruption to include fraud by government officials. However, corruption remains endemic, eroding the rule of law.

LIMITED GOVERNMENT



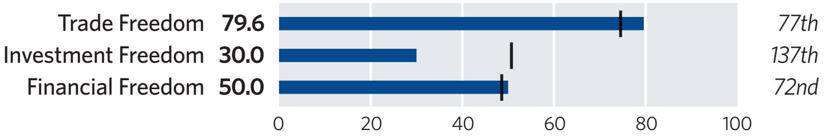
The flat income tax rate is 10 percent, and the standard corporate tax rate is 20 percent. Other taxes include a value-added tax (VAT) and excise taxes, with the overall tax burden amounting to 21.5 percent of total domestic income. Government spending is equivalent to 23.5 percent of total domestic output. Large oil revenues have kept the budget balance positive, and public debt stands at less than 15 percent of GDP.

REGULATORY EFFICIENCY



The regulatory framework has undergone a series of reforms. The procedures to establish a business have been streamlined in recent years, although they remain costly and lack effective enforcement. Labor regulations are relatively flexible, but enforcement of the labor code remains inefficient. Monetary stability is well maintained, but the government continues to exercise price control measures.

OPEN MARKETS



The trade weighted average tariff rate is about 3 percent. Import licensing requirements, nontransparent standards, and customs inefficiency add to the cost of trade. Foreign investment is officially welcome, but unclear legal codes, legislative favoritism toward Kazakh companies, and inconsistent application of regulations are deterrents. Troubled banks have been recapitalized, and the financial sector is stable. Capital markets remain underdeveloped.

Score Changes

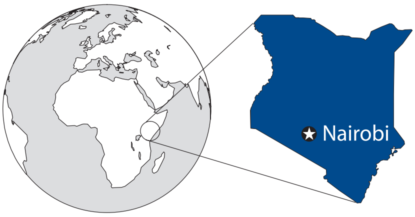
RULE OF LAW	
Property Rights	+5.0
Freedom from Corruption	+2.0

LIMITED GOVERNMENT	
Fiscal Freedom	+3.1
Government Spending	+4.9

REGULATORY EFFICIENCY	
Business Freedom	-1.4
Labor Freedom	+0.3
Monetary Freedom	+1.9

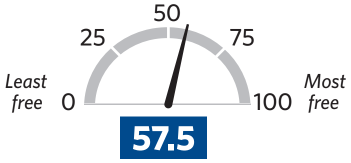
OPEN MARKETS	
Trade Freedom	-1.3
Investment Freedom	0
Financial Freedom	0

KENYA



World Rank: **103** Regional Rank: **13**

Economic Freedom Score



Kenya's economic freedom score is 57.5, making its economy the 103rd freest in the 2012 *Index*. Its score is virtually unchanged from last year, with gains in monetary freedom and the control of government spending offset by a significant loss of trade freedom. Kenya is ranked 13th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

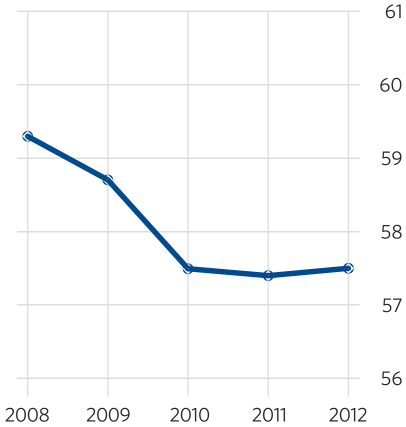
The foundations of economic freedom are fragile and uneven across the country. Poor protection of property rights and widespread corruption discourage entrepreneurial activity. The rule of law is weak, and local courts are subject to substantial political interference.

After several years of strong economic growth, Kenya's economic performance has deteriorated, partly because of the global economic slowdown and also because of the generally slow pace of efforts to improve regulatory efficiency and open markets to international trade and investment. Reforms in public finance management have continued, but progress has been sluggish.

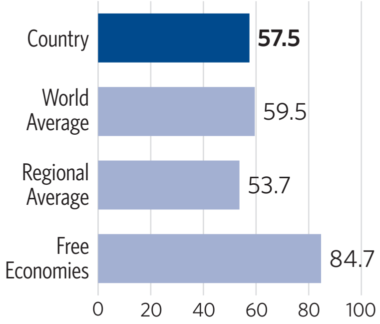
BACKGROUND: Widespread violence followed the 2007 election when both Mwai Kibaki, who had won the presidency in 2002, and rival Raila Odinga claimed victory. Months of negotiations resulted in a power-sharing arrangement. The political situation remains unstable as the government attempts to implement a new constitution. Corruption remains commonplace. Kenya is the transportation, communication, and financial hub of East Africa. Economic growth—hindered for decades by government mismanagement, counterproductive economic policies, and corruption—was improving before the post-election instability in 2007 and has picked up again since 2009. Civil service reform has been slow, and the government employs about one-third of the formal labor force. 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



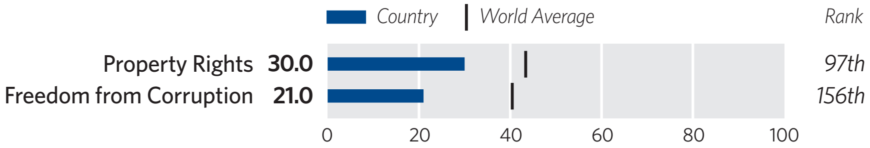
Quick Facts

Population: 39.7 million
GDP (PPP): $66.0 billion
5.0% growth in 2010
5-year compound annual growth 4.5%
$1,662 per capita
Unemployment: 40.0%
Inflation (CPI): 3.9%
FDI Inflow: $133.0 million
Public Debt: 52.3% of GDP

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

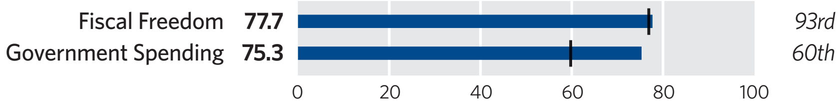
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



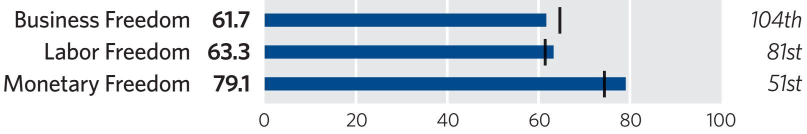
Kenya's judicial system, which is modeled on the British system, remains weak and fails to provide strong protection for private property rights. The independence of the courts is severely compromised, and the judicial system is mired in incompetence, executive interference, and corruption. The process for acquiring land titles is often non-transparent and cumbersome. The new constitution promulgated in 2010 aims to root out corruption.

LIMITED GOVERNMENT



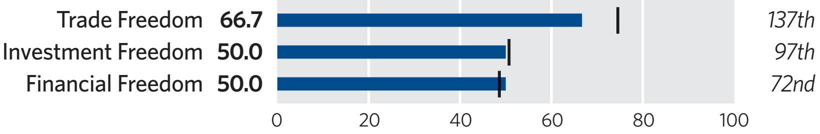
The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and a tax on interest, with the overall tax burden amounting to 20.7 percent of total domestic income. Government spending is equivalent to 28.7 percent of total domestic output. The deficit has increased to over 5 percent of GDP, and public debt has reached 52.3 percent of GDP.

REGULATORY EFFICIENCY



The implementation and enforcement of reforms to enhance regulatory efficiency have been uneven. Launching a business still takes more than the world averages of seven procedures and 30 days. A large portion of the labor force is employed in the informal economy. Monetary stability has weakened with rising inflation. The government 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 myriad non-tariff barriers further constrain freedom to trade. The poor investment regime lacks efficiency and transparency, discouraging investment activity. The financial sector remains vulnerable to government influence and inadequate supervision. The state owns or holds shares in several domestic financial institutions and continues to influence the allocation of credit.

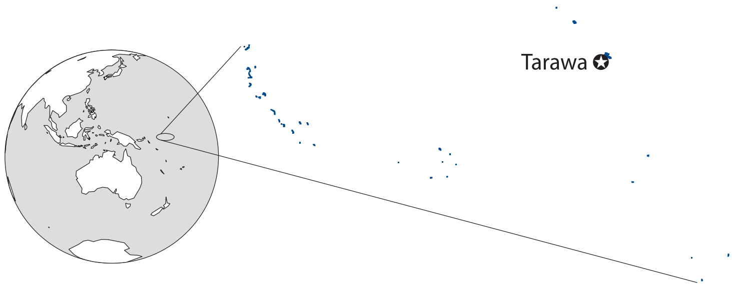
Score Changes

RULE OF LAW	
Property Rights	0
Freedom from Corruption	-1.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.1
Government Spending	+2.5

REGULATORY EFFICIENCY	
Business Freedom	–0.5
Labor Freedom	+0.4
Monetary Freedom	+5.9

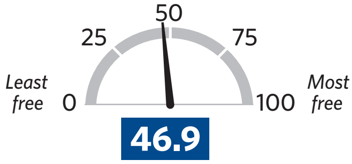
OPEN MARKETS	
Trade Freedom	-6.1
Investment Freedom	0
Financial Freedom	0



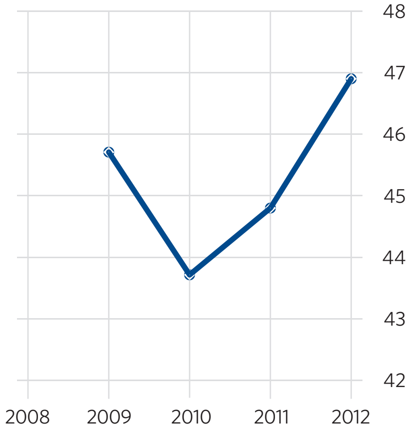
KIRIBATI

World Rank: **159** Regional Rank: **35**

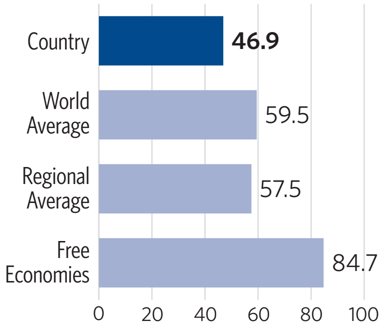
Economic Freedom Score



Freedom Trend



Country Comparisons



Kiribati's economic freedom score is 46.9, making its economy the 159th freest in the 2012 *Index*. Its score is 2.1 points better this year due to significant gains in freedom from corruption, monetary freedom, and fiscal freedom. Kiribati is ranked 35th out of 41 countries in the Asia–Pacific region, and its overall score is below the world and regional averages.

The island economy achieved one of the 20 largest score improvements in the 2012 *Index*. Much of this progress, however, is not firmly underpinned by a broad range of institutional reforms. Economic activity is still dominated by a public sector that accounts for two-thirds of employment and more than half of the economy. The economy relies heavily on foreign assistance and remittances. Kiribati has undergone a period of budgetary pressure caused by monetary instability combined with falling external income.

Economic dynamism continues to be undermined by the absence of an efficient regulatory framework and open-market policies that are critical to developing a more stable private sector. Only a small proportion of the labor force is employed in the formal sector. The government has tried to decentralize economic activity from the main islands, but progress has been very limited.

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 second term in 2007 and was seeking re-election in late 2011 for a third and final term. 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, and exports of fish and coconuts. Crippling algae in the corals surrounding Kiribati seriously threaten the fishing industry. As a result, preservation of Kiribati's coral ecosystem, the South Pacific's largest marine reserve, continues to be a priority.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Quick Facts

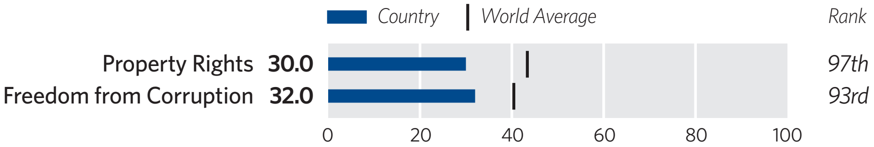
Population: 0.1 million
GDP (PPP): $0.6 billion
1.8% growth in 2010
5-year compound annual growth 0.4%
$6,209 per capita
Unemployment: n/a
Inflation (CPI): –1.4%
FDI Inflow: $3.7 million
Public Debt: 31.9% of GDP

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

KIRIBATI (continued)

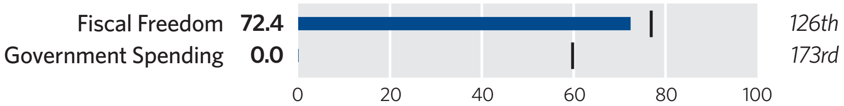
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



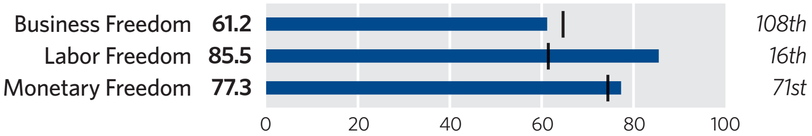
The judicial system is ineffective, and the rule of law remains uneven across the country. In the absence of a well-functioning legal framework, contracts are weakly enforced, and courts are relatively inexperienced in commercial litigation. The government lacks the capacity to enforce intellectual property rights laws. Corruption remains widespread, further undermining the foundations of economic freedom.

LIMITED GOVERNMENT



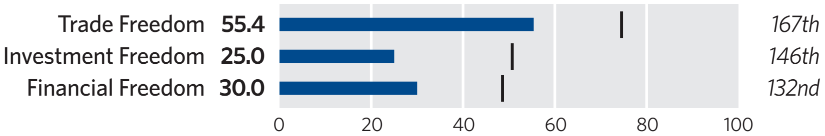
The top income and corporate tax rates are 35 percent. Taxation remains erratic and poorly administered. In the most recent year, the total tax burden was estimated to be 17.5 percent of total domestic income, while government spending is equivalent to 91 percent of GDP. The chronic budget deficit has decreased to below 10 percent of GDP from 19 percent of total domestic output in 2008. Public debt stands at around 30 percent of GDP.

REGULATORY EFFICIENCY



The regulatory environment is rudimentary. Commercial regulations are not enforced consistently and lack the capacity to spur more dynamic entrepreneurial growth. Modern bankruptcy procedures are not in place. Only a small share of the labor force participates in the formal economy. The government is the major source of employment. Monetary instability is mitigated by use of the Australian dollar as the official currency.

OPEN MARKETS

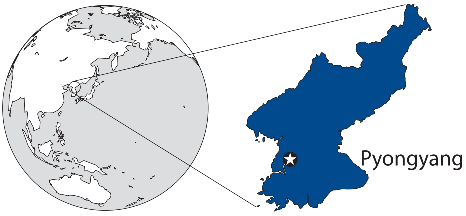


The trade weighted average tariff rate is prohibitively high at 17.3 percent, with import and export licensing, limited infrastructure, and geographic isolation adding to the cost of trade. A modern investment framework is not in place. High credit costs and constrained access to financing severely impede entrepreneurial activity and development of the private sector. A large part of the population remains outside the formal banking system.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+12.1	Business Freedom	–1.7	Trade Freedom	0
Freedom from Corruption	+4.0	Government Spending	0	Labor Freedom	+0.4	Investment Freedom	0
				Monetary Freedom	+6.2	Financial Freedom	0

NORTH KOREA



World Rank: **179** Regional Rank: **41**

North Korea continues its isolation from much of the rest of the world. Data collection is extremely challenging, and reported information is largely unreliable. Based on limited available information, North Korea's economic freedom score is 1, making its economy the least free in the 2012 *Index*. North Korea is ranked last out of 41 countries in the Asia–Pacific region.

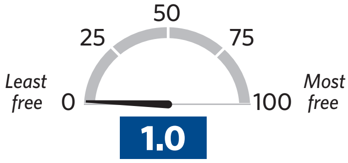
North Korea's dictatorial leadership remains unwilling to open or restructure its economy. It has experimented with a few market reforms but mainly adheres to the system of state command and control that has kept the country and its people in near bankruptcy for decades. The Communist Party controls every aspect of economic activity. The impoverished population is heavily dependent on food rations and government subsidies in housing. Deprivation is widespread. In recent years, the government has phased out or clamped down on existing private markets, reducing the already very limited free-market experimentation.

The North Korean economy has contracted for two consecutive years, with a negative growth rate of 0.5 percent in 2010 estimated after a 0.9 percent decline in 2009. The Hermit Kingdom may be attempting to allow limited foreign direct investment, but the dominant military establishment and ongoing leadership change make any significant near-term change unlikely. Normal foreign trade is minimal, with China and South Korea being the most important trading partners.

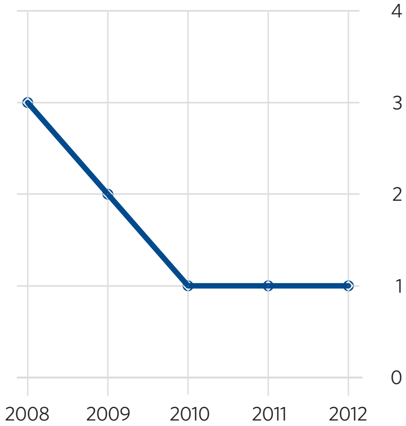
BACKGROUND: The Democratic People's Republic of Korea is a Communist regime. There are no human rights, and the state owns all industry. Belligerent foreign policies have led to international sanctions and restrictions on humanitarian assistance, and the DPRK remains heavily reliant on Chinese economic support. In late 2009, Pyongyang moved to regain control of burgeoning black markets. Though public unrest forced an unusual policy reversal, the attempt reflected continuing resistance to even minimal economic reform, and the government refuses to accept any responsibility for habitual food shortages.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

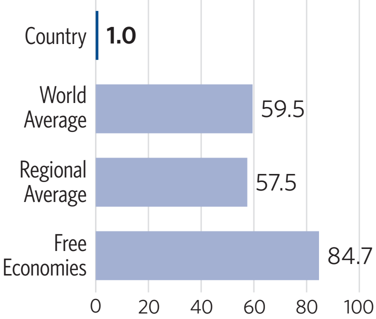
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

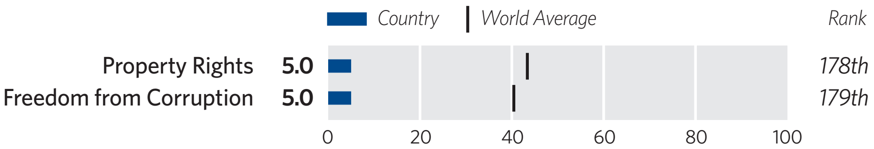
Population: 24.5 million
GDP (nominal): $26.5 billion
–0.5% growth in 2010
5-year compound annual growth n/a
n/a per capita
Unemployment: n/a
Inflation (CPI): n/a
FDI Inflow: n/a
Public Debt: n/a

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

NORTH KOREA (continued)

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 all 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 remains rampant. Military and government officials reportedly divert food aid from international donors and demand bribes before distributing it.

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. Since the 2002 economic reforms, factory managers have had limited autonomy to set wages and offer incentives, but the government controls the labor market. The botched currency reform in late 2009 has exacerbated monetary instability.

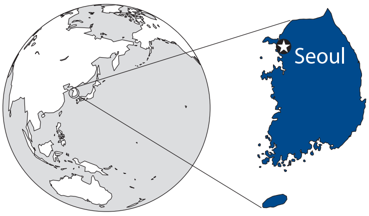
OPEN MARKETS

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 reform. Limited foreign participation is allowed in the economy through special economic zones where investment is approved on a case-by-case basis. The limited financial sector is tightly controlled by the state.

Score Changes

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

SOUTH KOREA



World Rank: **31** Regional Rank: **8**

South Korea's economic freedom score is 69.9, making its economy the 31st freest in the 2012 *Index*. Its score remains essentially unchanged, with gains in business freedom and labor freedom offset by a decline in the government spending score. South Korea is ranked 8th out of 41 countries in the Asia–Pacific region.

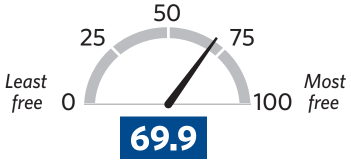
South Korea's dynamic economy has emerged from the ongoing global economic slowdown on a solid growth path. In an effort to confirm its status as one of the world's premier trading nations, the country has proactively entered into free trade pacts with several of the world's leading economies. A vibrant private sector, bolstered by a well-educated labor force and high capacity for innovation, has capitalized on the country's openness to global commerce and an improving regulatory framework. The financial sector has also become progressively more open and competitive.

A sound legal framework is firmly in place to uphold the rule of law, but corruption continues to damage government integrity and undermine the foundations of economic freedom. The extent of South Korea's long-term economic dynamism will be determined at least in part by the outcome of ongoing debates about the proper scope of government, the existing social contract, and welfare policies.

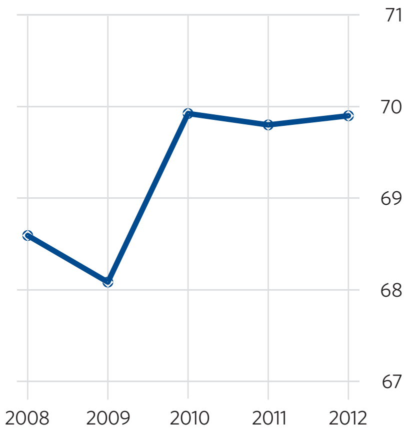
BACKGROUND: South Korea is one of Asia's liveliest democracies and the world's 15th largest economy. It has experienced decades of impressive economic growth since the early 1960s and has sophisticated electronics, telecommunications, automobile, and shipbuilding industries. Having implemented economic reforms, South Korea was not hurt as severely by the 1997–1998 Asian financial crisis as many of its neighbors. President Lee Myung-bak took office in 2008 with a large electoral majority, vowing further economic liberalization through freer trade, deregulation, and privatization of major industries. While the Korea–U.S. trade agreement remained stalled for four years, the European Union completed an FTA with Korea that was finalized in 2011.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

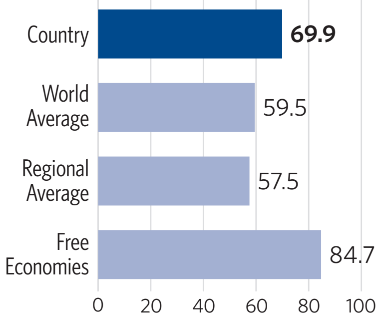
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

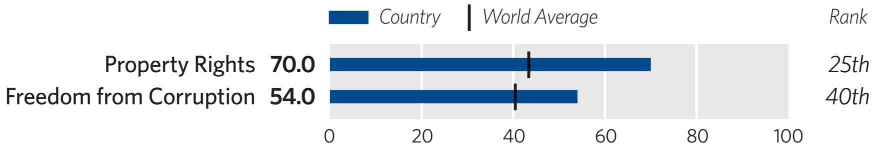
Population: 48.9 million
GDP (PPP): $1.4 trillion
6.1% growth in 2010
5-year compound annual growth 3.8%
$29,836 per capita
Unemployment: 3.7%
Inflation (CPI): 3.0%
FDI Inflow: $6.8 billion
Public Debt: 33.4% of GDP

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

SOUTH KOREA (continued)

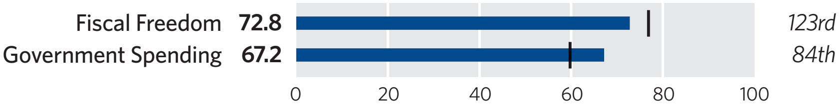
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



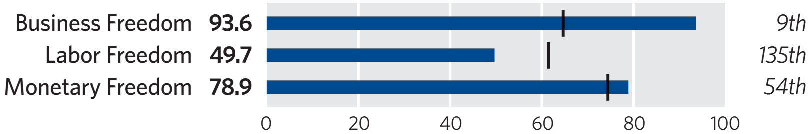
A well-functioning modern legal framework ensures strong protection of private property rights. The rule of law is effective, and the judicial system is efficient. Protection of intellectual property rights needs to be improved, as piracy of copyrighted material is significant. The importance the government places on IPR protection, however, has increased considerably. Corruption remains a substantial cause for concern.

LIMITED GOVERNMENT



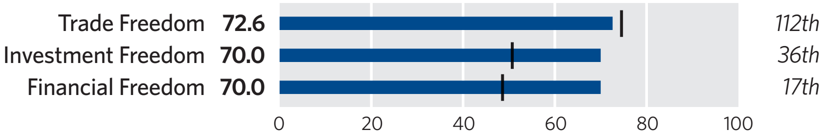
The top income tax rate is 35 percent, and the top corporate tax rate is 22 percent. A 10 percent surtax is applied to the income tax and corporate tax rates. Other taxes include a value-added tax (VAT), and the overall tax burden amounts to 25.6 percent of GDP. Government spending has risen to a level equivalent to 33.1 percent of total domestic output. The budget balance has been in small surplus, with public debt reaching 33 percent of GDP.

REGULATORY EFFICIENCY



The competitive regulatory framework facilitates entrepreneurial activity and innovation. Business formation and operating rules have become more efficient. Bankruptcy proceedings are relatively easy. The labor market is dynamic, but there are lingering regulatory rigidities, and powerful trade unions add to the cost of conducting business. Monetary stability has been well maintained, although inflationary pressures linger.

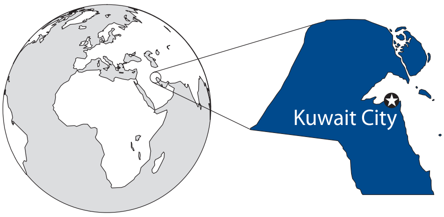
OPEN MARKETS



The trade weighted average tariff rate is 8.7 percent, with non-tariff barriers inhibiting more dynamic gains from trade. Increasingly open to foreign investors, the investment regime has become more transparent. The financial sector has undergone notable transformation and improved transparency and efficiency. Despite progress in recapitalizing banks and non-bank financial institutions, their soundness has been under renewed strain in 2011.

Score Changes

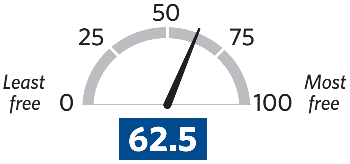
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.6	Business Freedom	+2.0	Trade Freedom	+1.8
Freedom from Corruption	-1.0	Government Spending	-5.8	Labor Freedom	+3.2	Investment Freedom	0
				Monetary Freedom	+0.2	Financial Freedom	0



KUWAIT

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

Economic Freedom Score



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

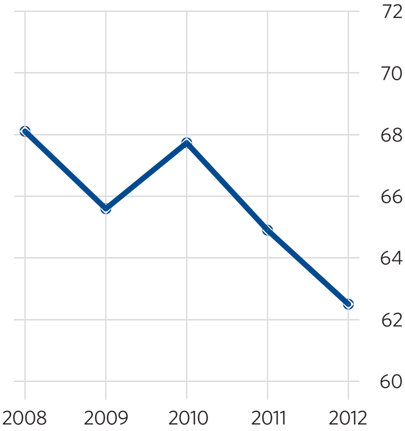
Lingering institutional weaknesses continue to constrain overall economic freedom. The judicial system lacks the capacity to defend property rights effectively. Despite some progress, corruption remains widespread, undermining prospects for long-term economic development. High oil revenues have delayed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

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

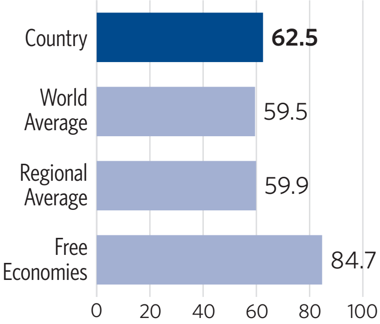
BACKGROUND: Kuwait has been a constitutional monarchy since 1961. Occupied in 1990 by Iraq, it was liberated by a U.S.-led coalition in 1991. Amir Sabah al-Ahmad al-Jabr Al Sabah remains committed to cautious economic reform but faces opposition from Islamist and populist members of parliament. During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

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



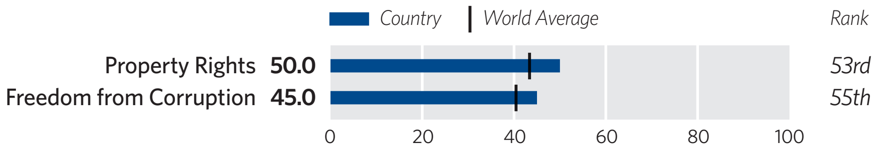
Quick Facts

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

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

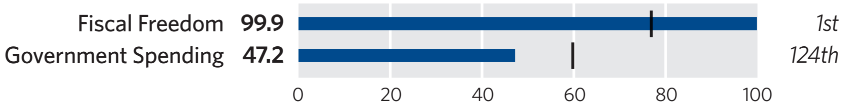
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



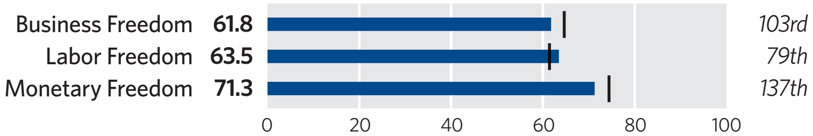
A well-functioning legal framework is absent, and the rule of law remains weak. The constitution provides for an independent judiciary, but the amir appoints all judges. The inefficient court system is susceptible to political pressures and corruption. Property rights are not protected effectively, and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

LIMITED GOVERNMENT



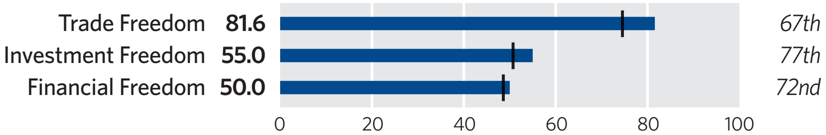
Kuwait does not tax individual income. In practice, foreign-owned firms and joint ventures are the only businesses that are subject to the corporate income tax, which is a flat 15 percent. There is no value-added tax (VAT) or sales tax, and overall tax revenue (mainly from duties on international trade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

REGULATORY EFFICIENCY



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

OPEN MARKETS



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

Score Changes

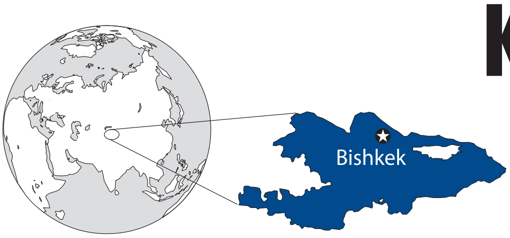
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+4.0

LIMITED GOVERNMENT	
Fiscal Freedom	0
Government Spending	-22.5

REGULATORY EFFICIENCY	
Business Freedom	-2.6
Labor Freedom	-4.4
Monetary Freedom	+2.0

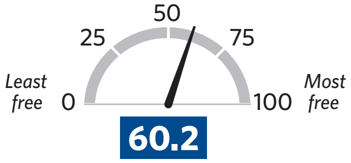
OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

KYRGYZ REPUBLIC



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

Economic Freedom Score



The Kyrgyz Republic's economic freedom score is 60.2, making its economy the 88th freest in the 2012 *Index*. Its score is 0.9 point worse than last year, with significant losses in property rights, the management of public finance, and business freedom. The Kyrgyz Republic is ranked 14th out of 41 countries in the Asia–Pacific region.

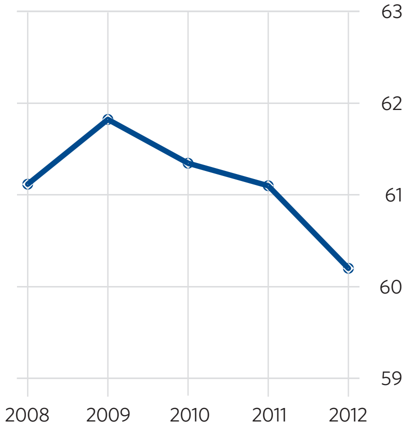
The Kyrgyz Republic's transition to a more market-driven economy is still a work in progress. Despite the implementation of reform measures, including adoption of a flat tax rate and simplification of the business start-up process, overall improvement in the entrepreneurial environment has been slow and uneven. Policies needed to support open markets remain deficient.

In more recent years, political turmoil has contributed to policy volatility and uncertainty, hampering economic development. Political rivalries and the power of vested interests have held back implementation of deeper institutional reforms, and the foundations of economic freedom are weak. Property rights are insecure, and corruption is pervasive, undermining the rule of law and hurting investment and business growth.

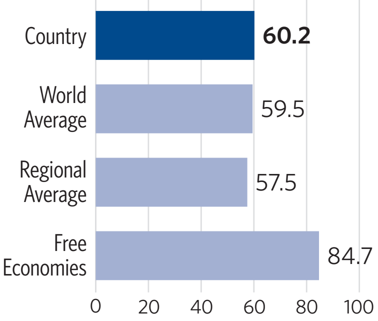
BACKGROUND: Kyrgyzstan is now a parliamentary republic. President Kurmanbek Bakiyev was ousted in April 2010 following violent unrest caused by a Russian-orchestrated rise in fuel prices. An interim government was established under Roza Otunbayeva, who was scheduled to serve as president until December 31, 2011. Moscow-backed 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. Political turbulence has contributed to a contraction in GDP, and the fiscal deficit widened to 11 percent of GDP in 2010. The Manas air base remains operational for U.S. forces, but French and Spanish military personnel had to leave in late 2009.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



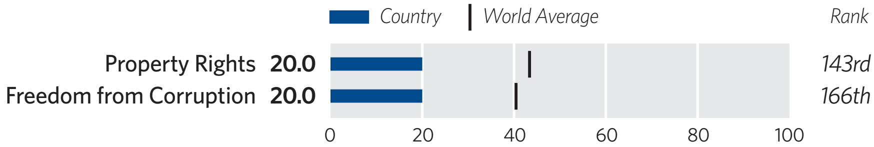
Quick Facts

Population: 5.3 million
GDP (PPP): $12.0 billion
–1.4% growth in 2010
5-year compound annual growth 4.1%
$2,248 per capita
Unemployment: 18.0%
Inflation (CPI): 7.8%
FDI Inflow: $233.6 million
Public Debt: 62.6% of GDP

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

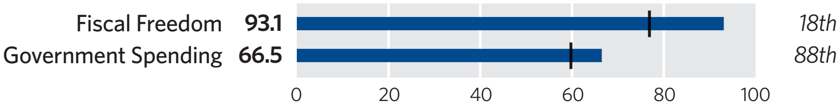
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



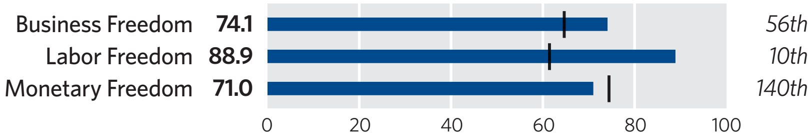
The legal framework is weak, and the rule of law is fragile. Property rights protections are emerging slowly, but the judicial system remains underdeveloped and lacks independence. Court actions can force the sale of property to enforce payments and other contractual obligations. Licensing, registration, and enforcement of contracts are prone to dispute. Corruption is endemic at all levels of society.

LIMITED GOVERNMENT



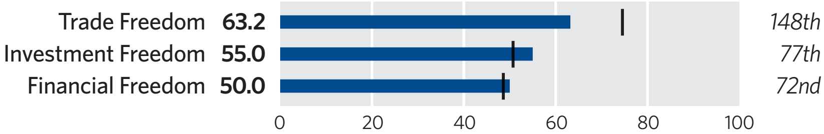
The income and corporate tax rates are a flat 10 percent. Taxation remains erratic and poorly administered. In the most recent year, the overall tax burden was estimated to be 22.2 percent of total domestic income. Government spending is equivalent to 33 percent of total domestic output. The budget deficit has been chronic, and public debt has increased to more than 60 percent of GDP from 48.5 percent in 2008.

REGULATORY EFFICIENCY



Reform measures in recent years have streamlined the procedures to establish a business. However, the overall regulatory environment is still hampered by bureaucratic impediments to private-sector production and investment. A new labor code designed to encourage employment changes in response to free-market conditions has been implemented. Monetary stability has been weak.

OPEN MARKETS

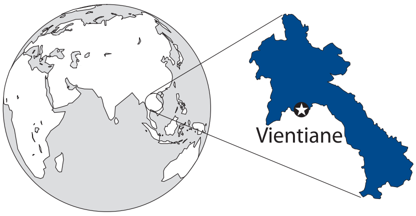


The trade weighted average tariff rate is 8.4 percent. Border closures in response to internal political unrest have greatly disrupted the flow of trade. Most of the economy is open to foreign investment, but rules and regulations are non-transparent and applied arbitrarily. Financial intermediation has continued to increase, but credit costs remain high. Credit provided by the banking sector is equivalent to less than 15 percent of GDP.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	-5.0	Fiscal Freedom	+0.5	Business Freedom	-1.3	Trade Freedom	0
Freedom from Corruption	+1.0	Government Spending	-7.7	Labor Freedom	+0.8	Investment Freedom	0
				Monetary Freedom	+2.4	Financial Freedom	0

LAOS



World Rank: **150** Regional Rank: **33**

Laos's economic freedom score is 50.0, making its economy the 150th freest in the 2012 *Index*. Its overall score is 1.3 points worse than last year, with improvements in business and labor freedom offset by large drops in property rights, the management of government spending, and trade 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.

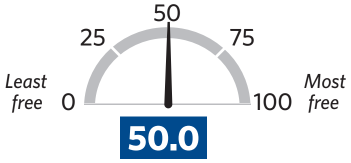
Many aspects of the Laotian economy are in critical need of deeper institutional reforms to spur broad-based long-term economic development. As reflected in low scores for property rights and freedom from corruption, the economy's overall legal framework is inefficient and lacks transparency. The rule of law is undermined by political interference, and rampant corruption corrodes the foundations of economic freedom.

Laos has largely dodged the negative effects of the global financial crisis due to its limited exposure to international trade and investment. The relatively strong levels of economic expansion recorded by the isolated Communist economy were facilitated in part by large inflows of Chinese and Vietnamese investment in its mining sector. Experimenting with limited introduction of free-market forces into the economy, Laos is attempting to reform its regulatory and investment regimes, particularly in order to join the World Trade Organization. Reforms are ongoing in the underdeveloped financial sector, and the first stock market opened in early 2011.

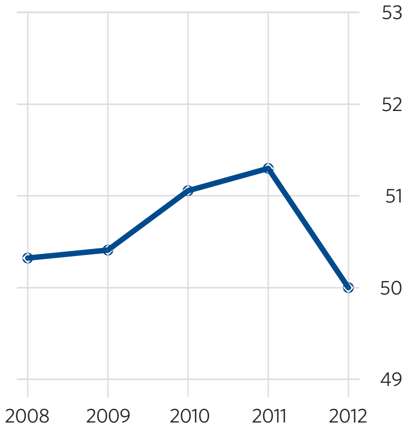
BACKGROUND: Upon coming to power in 1975, the Communist government imposed a rigid socialist system that has devastated the economy. The government began to liberalize slowly in 1986 but with only limited success. The country remains highly dependent on international aid and is burdened by high levels of corruption and the absence of the rule of law. Basic human rights are still heavily restricted. In 1998, Laos began formal negotiations with the World Trade Organization with an eye to joining by 2013.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

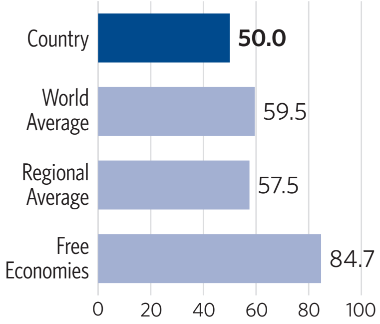
Economic Freedom Score



Freedom Trend



Country Comparisons



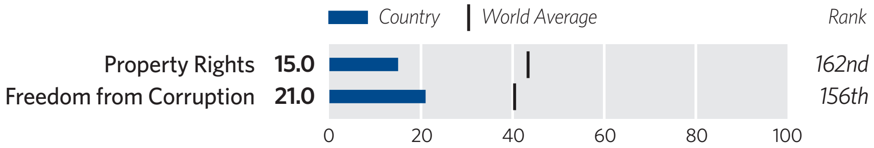
Quick Facts

Population: 6.4 million
GDP (PPP): $15.7 billion
7.7% growth in 2010
5-year compound annual growth 7.9%
$2,436 per capita
Unemployment: 2.5%
Inflation (CPI): 5.4%
FDI Inflow: $350.0 million
Public Debt: 62.0% of GDP

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

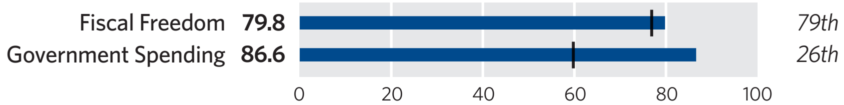
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



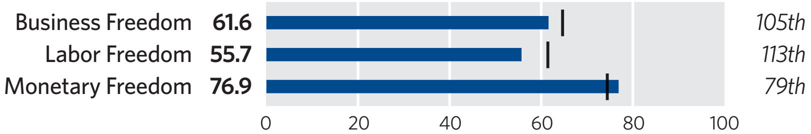
The rule of law remains weak and uneven across the country. The judicial system is inefficient, and protections for property rights are not enforced effectively. The judiciary lacks transparency and is burdened by political interference from the executive. Contract enforcement can be lax. Pervasive corruption continues to cause concern, severely undermining the foundations for growth.

LIMITED GOVERNMENT



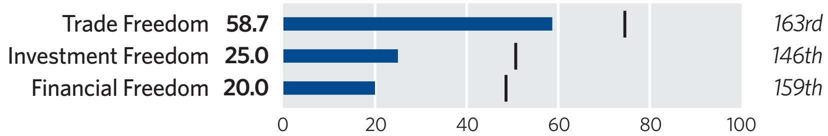
The top income tax rate is 25 percent, and the top corporate tax rate is 35 percent. Other taxes include a vehicle tax and excise taxes, with the overall tax burden amounting to 13.1 percent of total domestic income. Government spending is equivalent to 21.1 percent of total domestic output. The budget balance has been in chronic deficit, and public debt has hovered at around 60 percent of GDP.

REGULATORY EFFICIENCY



The efficiency of the regulatory environment has improved. Launching a business and completing licensing requirements have become less burdensome and costly. Despite some progress, 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 complex non-tariff barriers further constrain freedom to trade. Laos has tried to attract more foreign investment, but the overall investment regime lacks transparency. Government attempts to reform banking have been effective only in state-owned banks. In 2011, the first stock exchange came into operation, initially offering shares in two state-owned companies.

Score Changes

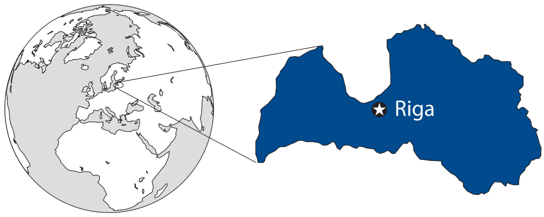
RULE OF LAW	
Property Rights	-5.0
Freedom from Corruption	+1.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.1
Government Spending	-3.5

REGULATORY EFFICIENCY	
Business Freedom	+2.8
Labor Freedom	+5.8
Monetary Freedom	-3.5

OPEN MARKETS	
Trade Freedom	-9.7
Investment Freedom	0
Financial Freedom	0

LATVIA



World Rank: **56** Regional Rank: **25**

Latvia's economic freedom score is 65.2, making its economy the 56th freest in the 2012 *Index*. Its score is 0.6 point worse than last year as a result of worsened management of public finance and corruption. Latvia is ranked 25th out of 43 countries in the Europe region, and its overall score is above the world average.

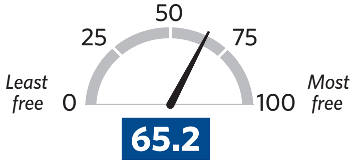
Latvia's ongoing transition to a more vibrant and market-oriented economy has been facilitated by openness to foreign trade and the efficiency of business regulations that promote entrepreneurial dynamism. Nonetheless, perceived corruption, exacerbated by a relatively inefficient judicial system, undermines the foundations of economic freedom and threatens long-term competitiveness.

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. The country had to take an International Monetary Fund–led bailout requiring strict budget management and other economic reforms but has followed through on budget-cutting measures. With signs of economic stabilization emerging and committed political leadership in place, Latvia is better positioned than some other countries in the region to regain robust levels of growth.

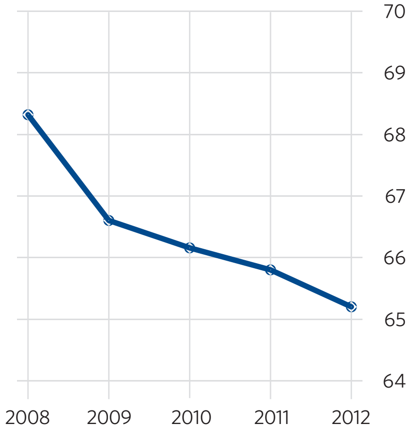
BACKGROUND: Latvia regained its independence when the Soviet Union collapsed in 1991. It joined the European Union and NATO in 2004, and its political system has been generally stable. The center-right coalition government led by Valdis Dombrovskis won a small parliamentary majority in October 2010, but the dissolution of parliament as a result of a corruption scandal was confirmed by a referendum in July 2011. Elections in September showed major gains for the pro-Russian party, but Dombrovskis formed a coalition to retain power. The economy, which had been developing strongly, particularly in financial and transportation services, banking, electronics manufacturing, and dairy, was hit hard by the global financial crisis. GDP contracted by around 18 percent in 2009, stabilized in 2010, and began to recover in 2011.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

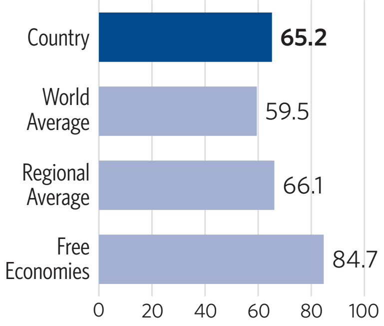
Economic Freedom Score



Freedom Trend



Country Comparisons



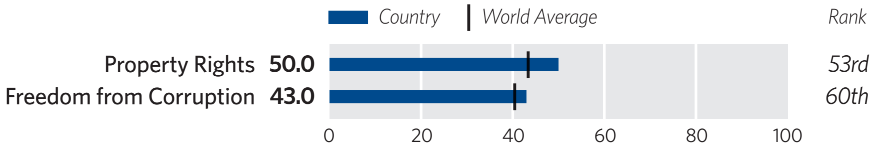
Quick Facts

Population: 2.2 million
GDP (PPP): $32.5 billion
–0.3% growth in 2010
5-year compound annual growth –0.7%
$14,460 per capita
Unemployment: 14.3%
Inflation (CPI): –1.2%
FDI Inflow: $349.5 million
Public Debt: 39.9% of GDP

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

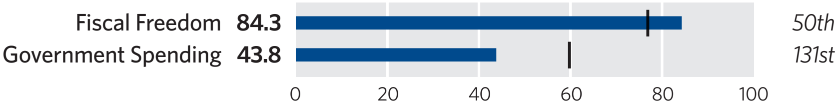
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



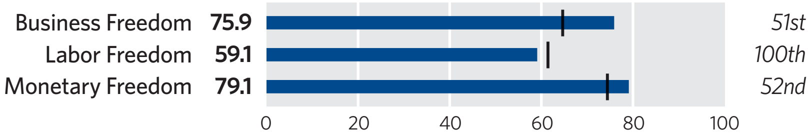
Latvia's constitution guarantees the right to private ownership. The judiciary is constitutionally independent, but the court system remains inefficient and subject to long delays. A legal framework for the protection of intellectual property is in place, but enforcement is weak. Money laundering has been linked to tax evasion and the proceeds from Russian organized crime. Lingering corruption is a cause for concern.

LIMITED GOVERNMENT



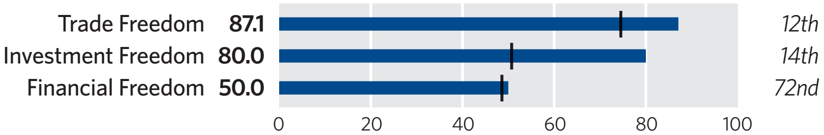
The income tax rate is a flat 25 percent, and the flat corporate tax rate is 15 percent. Other taxes include a value-added tax (VAT) and excise taxes, with the overall tax burden amounting to 26.9 percent of total domestic income. Government spending is equivalent to 43.3 percent of total domestic output. The budget deficit has been chronically high in recent years, and public debt has increased to around 40 percent of GDP.

REGULATORY EFFICIENCY



The overall regulatory framework is relatively efficient. Despite bureaucratic bottlenecks, rules regarding the formation and operation of private enterprises are relatively simple to observe. The labor market lacks flexibility, with high non-salary costs of employing workers and rigid restrictions on work hours. Inflation has been declining. The government continues to influence prices through state-owned enterprises.

OPEN MARKETS



The trade weighted average tariff rate is low as with other members of the European Union, but cumbersome non-tariff barriers raise the cost of trade. Investment regulations are relatively transparent but slow in execution. The financial sector has undergone significant regulatory adjustments since early 2009, and the government has provided capital injections. New legislation has accelerated the process of liquidating ailing banks.

Score Changes

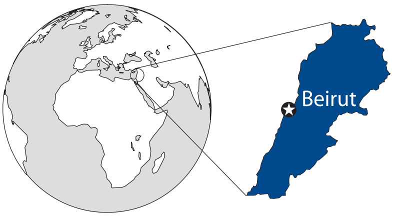
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-2.0

LIMITED GOVERNMENT	
Fiscal Freedom	+1.8
Government Spending	-11.7

REGULATORY EFFICIENCY	
Business Freedom	+3.1
Labor Freedom	-2.2
Monetary Freedom	+5.6

OPEN MARKETS	
Trade Freedom	-0.5
Investment Freedom	0
Financial Freedom	0

LEBANON



World Rank: **90** Regional Rank: **10**

Lebanon's economic freedom score is 60.1, making its economy the 90th freest in the 2012 *Index*. Its score remains unchanged from last year, with small gains in labor freedom and the control of government spending offset by small declines in business freedom and monetary freedom. Lebanon is ranked 10th out of 17 countries in the Middle East/ North Africa region, and its overall score is just above the world average.

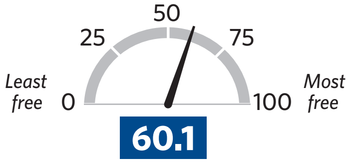
The Lebanese economy has weathered the impact of the global economic turmoil relatively well, achieving an average growth rate above 6 percent over the past five years. Continued economic expansion has been facilitated by open-market policies related to trade and low corporate tax rates. The financial sector is relatively well developed for the region.

Nonetheless, Lebanon's overall entrepreneurial environment, hampered by lingering political instability and regulatory inefficiency, remains unfavorable to more dynamic growth in private investment. Commercial regulations are still burdensome. In the absence of a well-functioning legal framework, protection of property rights remains weak, and corruption is widespread.

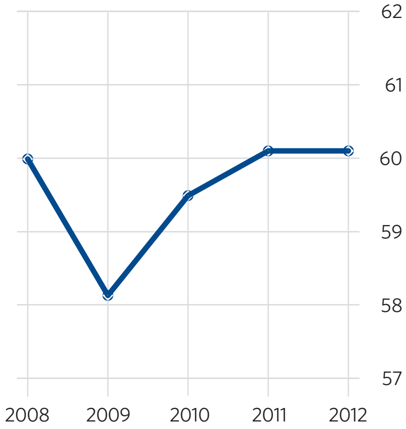
BACKGROUND: Lebanon flourished as a trading and international banking center until its economy was severely disrupted by the 1975–1990 civil war. Syria established hegemony but was forced to withdraw its army in 2005 after the Syrian government was implicated in the assassination of former Lebanese Prime Minister Rafiq Hariri. Lebanon's economy and political stability were set back by the Hezbollah-instigated conflict with Israel in 2006 and by tensions between the government and Hezbollah and other factions supported by Syria and Iran. A May 2008 agreement brokered by Qatar installed former army leader Michel Suleiman as president. Rafiq 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 of a new government.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

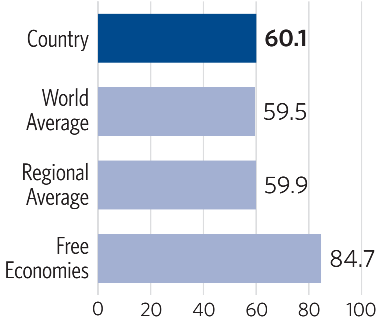
Economic Freedom Score



Freedom Trend



Country Comparisons



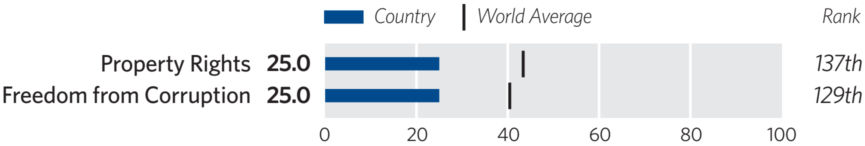
Quick Facts

Population: 3.9 million
GDP (PPP): $59.4 billion
7.5% growth in 2010
5-year compound annual growth 6.6%
$15,193 per capita
Unemployment: n/a
Inflation (CPI): 4.5%
FDI Inflow: $5.0 billion
Public Debt: 134.1% of GDP

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

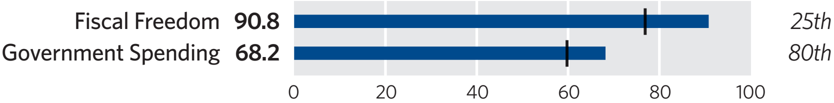
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



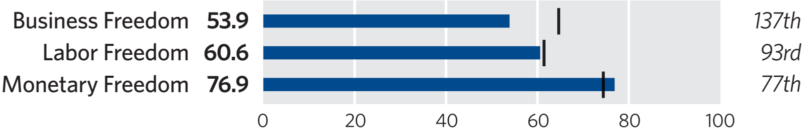
The judiciary is weak and vulnerable to political interference. The government-appointed prosecuting magistrate exerts considerable influence over judges. Trials, particularly of commercial cases, drag on for years. Lebanese law provides for some protection of intellectual property rights, but piracy remains a significant problem. Corruption is rampant, further undermining the fragile rule of law.

LIMITED GOVERNMENT



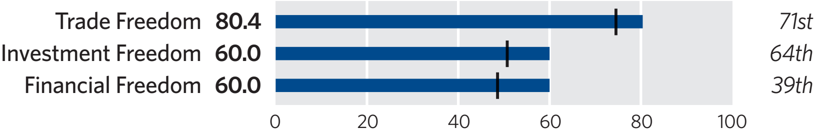
The top income tax rate is 20 percent, and the top corporate tax rate is 15 percent. Other taxes include a value-added tax (VAT) and an inheritance tax, with the overall tax burden amounting to 17.2 percent of total domestic income. Government spending is equivalent to 32.5 percent of total domestic output. The deficit equals 7.3 percent of GDP, and public debt remains larger than the size of the economy.

REGULATORY EFFICIENCY



Despite some progress, the overall freedom to conduct business remains limited by the burdensome regulatory environment. Licensing can cost over three times the level of annual average income. The process for closing a business is lengthy and costly. Labor regulations remain relatively rigid. The government influences prices through state-owned enterprises and directly controls the prices of key products. Monetary stability has weakened.

OPEN MARKETS

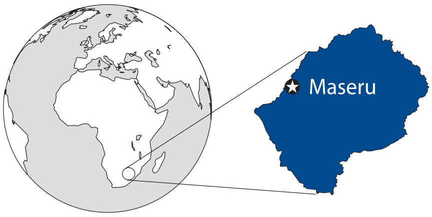


The trade weighted average tariff rate is 4.8 percent. The trade system is relatively open, and the country is working to join the World Trade Organization. Political instability and the arbitrary and non-transparent interpretation of laws continue to impede foreign investment. The government retains no ownership in any commercial banks, and competition among the private banks has contributed to improved efficiency.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.2	Business Freedom	-3.6	Trade Freedom	-0.1
Freedom from Corruption	0	Government Spending	+3.3	Labor Freedom	+1.6	Investment Freedom	0
				Monetary Freedom	-0.8	Financial Freedom	0

LESOTHO



World Rank: **161** Regional Rank: **39**

Lesotho's economic freedom score is 46.6, making its economy the 161st freest in the 2012 *Index*. Its score is 0.9 point worse than last year, with a large decline in the score for government spending partially offset by small gains in other freedoms. Lesotho is ranked 39th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

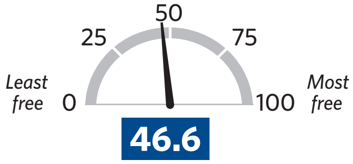
Lesotho lags far behind many other developing countries in terms of economic and human development, largely due to the lack of much-needed institutional reform. The economy performs poorly in many of the four pillars of economic freedom. In particular, the rule of law is too weak to sustain meaningful economic progress. Protection of property rights is ineffective, and corruption is rampant.

A large portion of Lesotho's population remains engaged in subsistence farming, and dynamic private-sector activity remains limited. Heavy state involvement in most economic activity fuels high levels of government spending and prevents the emergence of entrepreneurial dynamism. Significant barriers to trade constrain poverty-alleviating growth. Lesotho's burdensome regulatory environment increases the cost of foreign and domestic investment, constraining the development of a vibrant private sector.

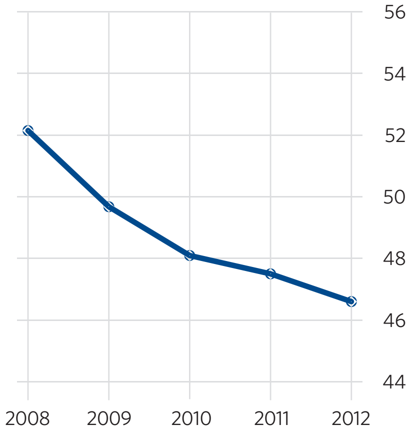
BACKGROUND: Lesotho became independent in 1966, but instability in the 1990s led to military intervention by South Africa and Botswana. An interim authority overhauled the government and oversaw elections in 2002. King Letsie III is ceremonial head of state, and Prime Minister Bethuel Pakalitha Mosisili is head of government and holds executive authority. Mosisili's party won a parliamentary majority in February 2007. Lesotho is surrounded by and economically integrated with South Africa, and its government relies on customs duties from the Southern Africa Customs Union for revenue. Lesotho's small economy relies on exports for its stability. Trade with the United States is important, and apparel exports have grown significantly with the help of the African Growth and Opportunity Act.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

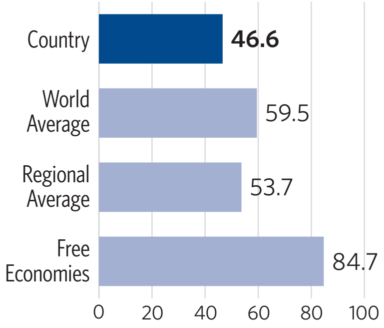
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

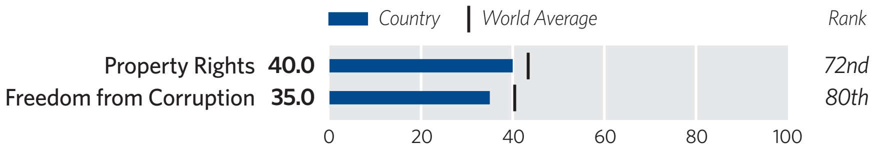
Population: 2.5 million
GDP (PPP): $3.3 billion
2.4% growth in 2010
5-year compound annual growth 3.9%
$1,299 per capita
Unemployment: 45.0%
Inflation (CPI): 3.8%
FDI Inflow: $54.7 million
Public Debt: 34.1% of GDP

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

LESOTHO (continued)

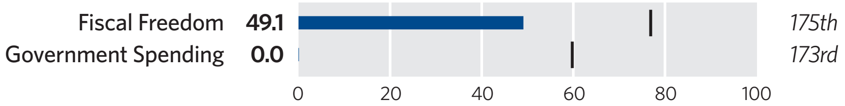
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



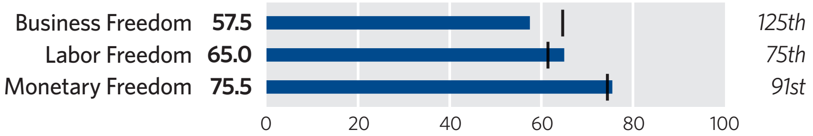
Protection of private property rights is ineffective, but expropriation is unlikely. The judiciary has been relatively independent, even during the years of military rule. However, draconian internal security legislation gives considerable power to the police and restricts the right of assembly and some forms of industrial action. A law to ensure the access of married women to property has been enacted. Corruption remains a major problem.

LIMITED GOVERNMENT



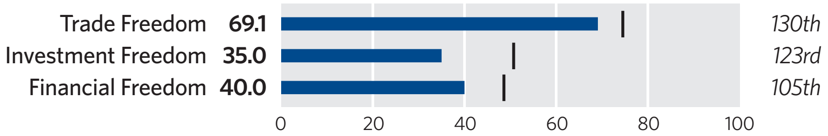
The top income tax rate is 35 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a tax on dividends, with overall tax revenue amounting to 56.9 percent of national income. Government spending has increased to a level equivalent to 65 percent of GDP. The deficit has also risen, and public debt amounts to about 40 percent of total domestic output.

REGULATORY EFFICIENCY



Lesotho has pursued regulatory reform measures including various incentives for small-scale enterprises. However, the regulatory system's overall efficiency remains limited, with licensing requirements costing over 10 times the level of average annual income. The labor market remains rigid, driving a large share of the labor force into the informal economy. Inflation has moderated. The government influences prices through state-owned enterprises.

OPEN MARKETS



The trade weighted average tariff rate is quite high at 10.5 percent, and import licensing and other non-tariff barriers raise the cost of trade. Lesotho's inadequate regulatory capacity and non-transparent regulations inhibit investment. 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

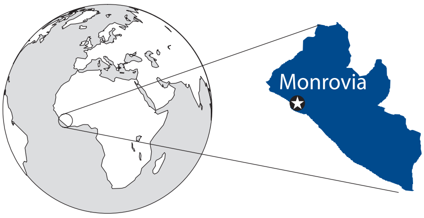
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+2.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.9
Government Spending	–21.4

REGULATORY EFFICIENCY	
Business Freedom	–1.4
Labor Freedom	+1.3
Monetary Freedom	+3.9

OPEN MARKETS	
Trade Freedom	+5.5
Investment Freedom	0
Financial Freedom	0

LIBERIA



World Rank: **154** Regional Rank: **35**

Liberia's economic freedom score is 48.6, making its economy the 154th freest in the 2012 *Index*. Its score has increased 2.1 points from last year, with higher scores in six of the 10 economic freedoms including freedom from corruption, business freedom, monetary freedom, and the management of government spending. The economy recorded one of the 10 largest score improvements in the 2012 *Index*. Liberia is ranked 35th out of 46 countries in the Sub-Saharan Africa region, and its overall rating remains significantly below the world and regional averages.

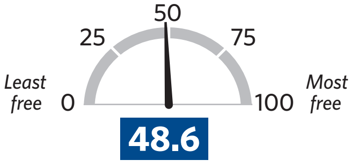
Despite the difficult global economic environment, Liberia's economy has expanded at an average rate of over 6 percent during the past five years. Foreign direct investment has picked up over the same period. Much-needed regulatory reforms have been undertaken in various sectors of the economy, enhancing the efficiency of the business environment. The corporate tax rate has been reduced, and licensing requirements have become less costly.

Liberia faces significant 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 corruption.

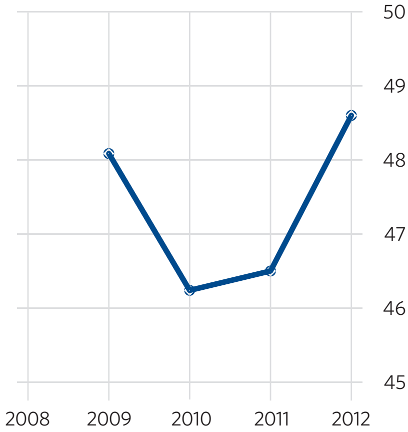
BACKGROUND: Founded in 1820 by freed American and Caribbean slaves, Liberia is Africa's oldest republic and one of the world's poorest countries. In 1997, after an eight-year civil war, rebel leader Charles Taylor was elected president. He was forced to resign in 2003. In 2005, Ellen Johnson Sirleaf became Africa's first democratically elected female president. Despite progress in recent years, corruption remains endemic. Unemployment and illiteracy are high, and 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, and 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

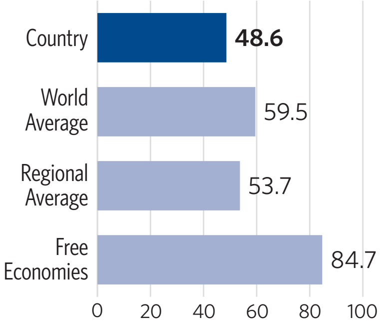
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

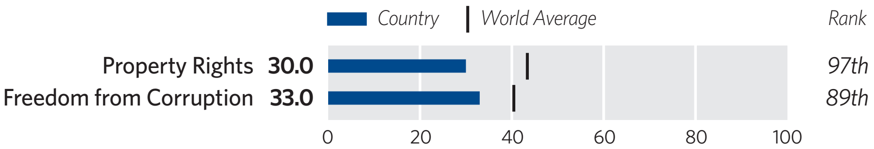
Population: 4.3 million
GDP (PPP): $1.7 billion
5.1% growth in 2010
5-year compound annual growth 6.8%
$392 per capita
Unemployment: 85.0%
Inflation (CPI): 7.3%
FDI Inflow: $248.0 million
Public Debt: 13.4 % of GDP

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

LIBERIA (continued)

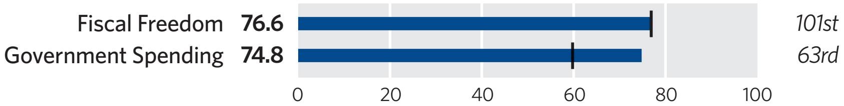
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



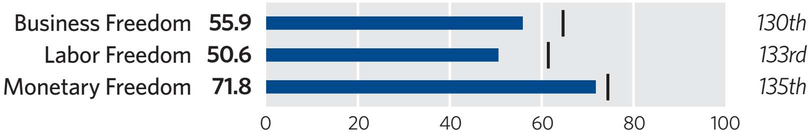
Property rights are not strongly protected, and the rule of law remains uneven across the country. A lack of adequate facilities for judicial officers degrades enforcement efforts. Although corruption has been endemic, the president and other high-level government officials have demonstrated a strong commitment to greater efforts to reduce bribery, control violence, and establish political stability.

LIMITED GOVERNMENT



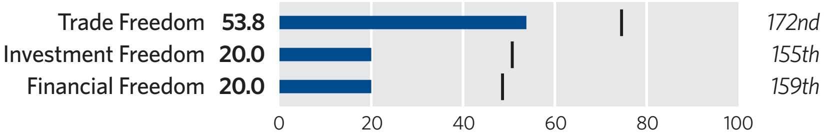
The top income tax rate is 35 percent, and the top corporate tax rate is 25 percent. Other taxes include a property tax and a goods and services tax (GST), with the overall tax burden amounting to 22.1 percent of total domestic income. Government spending is equivalent to 29 percent of GDP. The budget balance has been in deficit, but the burden of public debt has decreased considerably in recent years.

REGULATORY EFFICIENCY



Considerable efforts have been made to modernize the regulatory framework. The business start-up process is now 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

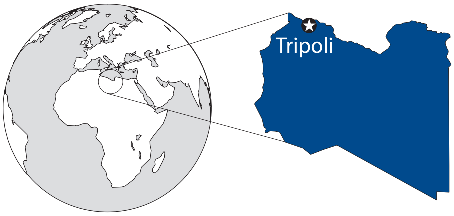


The trade weighted average tariff rate is prohibitively high at 15.6 percent, and complex non-tariff barriers further restrict freedom to trade. Foreign investment is permitted, but inadequate administrative infrastructure and a lack of transparency inhibit investment. The high cost of credit and scarce 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

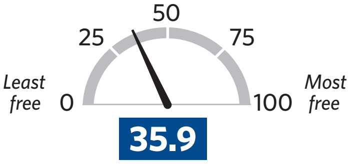
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+3.3	Business Freedom	+4.1	Trade Freedom	0
Freedom from Corruption	+2.0	Government Spending	+8.3	Labor Freedom	+1.7	Investment Freedom	0
				Monetary Freedom	+2.3	Financial Freedom	0

LIBYA

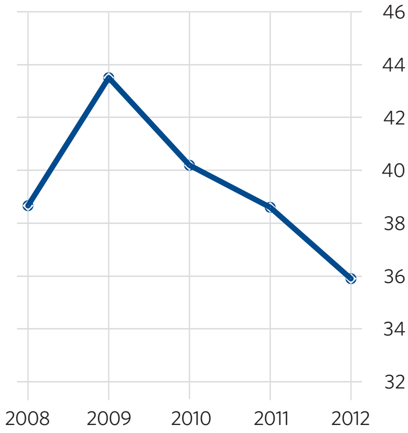


World Rank: **176** Regional Rank: **17**

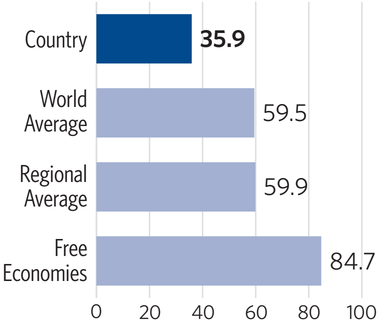
Economic Freedom Score



Freedom Trend



Country Comparisons



Libya's economic freedom score is 35.9, making its economy the 176th freest in the 2012 *Index*. Its score has decreased by 2.7 points, reflecting declines in freedom from corruption and control of government spending. Libya is ranked last in the Middle East/North Africa region, and its overall score is well below the world and regional averages. It also recorded one of the 10 largest score declines in the 2012 *Index*.

Before the downfall of the Qadhafi regime, the Libyan government, overly dependent on the oil sector, had undertaken very sluggish and limited reforms to diversify its economy. The banking sector, though still largely state-owned, saw some marginal financial liberalization and even the introduction of foreign banks. Much of the rest of the economy has remained tightly controlled by the state.

Substantial structural rigidities, severely aggravated by the weak rule of law and systemic corruption, further marginalize the private sector and hurt productivity growth, employment, and efforts at modernization. The economic infrastructure has been significantly degraded during the civil war, and economic uncertainty remains very high as the National Transitional Council struggles to restore the rule of law and establish a new system of governance.

BACKGROUND: Following nine months of political turmoil and civil war, rebels back 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 assumed power, and the ultimate shape and policy direction of the new government have been very much in doubt. Oil and natural gas provide about 95 percent of export revenues and 80 percent of government revenues. Despite one of Africa's highest per capita incomes, the economy has been devastated by decades of erratic leadership and socialist economic policies that have distorted incentives and squandered the country's oil wealth. Libya's economy was severely damaged by fighting in the civil war and the shutdown of oil and gas exports.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

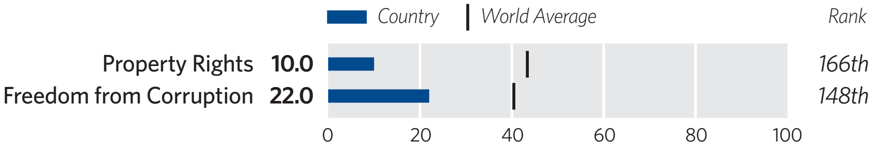
Quick Facts

Population: 6.6 million
GDP (PPP): $90.6 billion
4.2% growth in 2010
5-year compound annual growth 3.6%
$13,805 per capita
Unemployment: n/a
Inflation (CPI): 2.4%
FDI Inflow: $3.8 billion
Public Debt: n/a

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

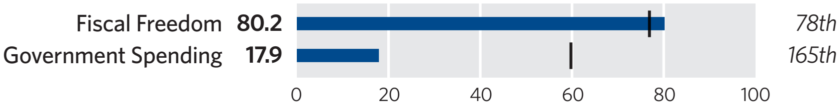
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



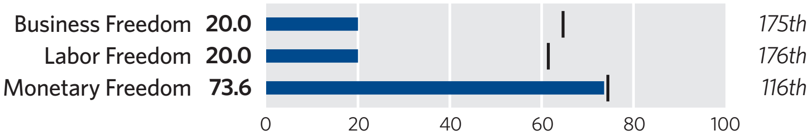
The judiciary is not independent, and there is a history of expropriation. The legal framework has been too weak and inefficient to sustain the rule of law. Private property rights have not been upheld, and property ownership has been limited to a single dwelling per family, with all other properties confiscated and redistributed. Corruption has been a major problem. The foundations of economic freedom are weak or lacking in every area.

LIMITED GOVERNMENT



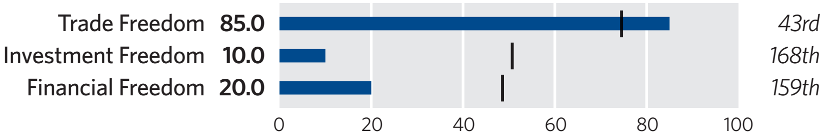
The top income tax rate is 15 percent, but other taxes have made the top rate much higher in practice. The top effective corporate tax rate is 41.6 percent (40 percent plus a 1 percent surcharge to the Solidarity Fund and a 3 percent Jihad surtax). Taxation has not been enforced effectively since early 2011. Large oil revenues have permitted government spending at a level equivalent to about 50 percent of total domestic output.

REGULATORY EFFICIENCY



Regulatory efficiency has been very poor, and only limited private entrepreneurial activity has been successful. State meddling in business decisions is extensive, and the application of existing regulations has been inconsistent and non-transparent. The state-controlled labor market has functioned poorly, and the informal sector is large as a result. Unemployment and underemployment are chronically high. Monetary stability has been fragile.

OPEN MARKETS

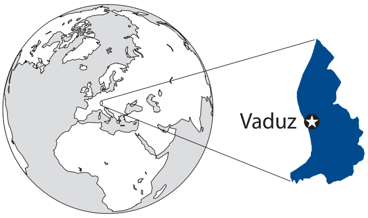


The Libyan Customs Administration has cancelled duties on more than 3,500 product categories, but a flat 4 percent "service fee" has been levied on most imported products, with myriad non-tariff barriers adding to the cost of trade. All banks were nationalized decades ago, and the financial sector has been subject to state influence. Limited access to financing has severely impeded any meaningful private business development.

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	-3.0	Government Spending	-26.6	Labor Freedom	0	Investment Freedom	0
				Monetary Freedom	+2.6	Financial Freedom	0

LIECHTENSTEIN



World Rank: **N/A** Regional Rank: **N/A**

Liechtenstein's economic freedom cannot be fully assessed in the 2012 *Index of Economic Freedom* because of a lack of sufficient comparable data. The country will receive an economic freedom score and ranking in future editions as information becomes available.

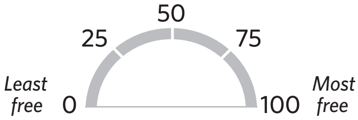
Flexibility and openness to global commerce have been the cornerstones of Liechtenstein's modern and efficient economy. The country's vigorous defense of property rights, coupled with a strong tradition of minimum tolerance for corruption, strongly sustains the foundations of economic freedom and keeps the dynamic economy competitive.

Liechtenstein's stable macroeconomic and regulatory environments have contributed to its status as an attractive place in which to conduct business. Moderate tax rates and a well-maintained monetary framework promote vibrant entrepreneurial activity. The parliament has adopted tax code changes that further improve the competitiveness of the financial sector and the economy as a whole. Under the reform, a flat corporate tax rate of 12.5 percent has been in effect since January 2011.

BACKGROUND: The principality of Liechtenstein occupies about 60 square miles between Switzerland and Austria. Its high living standards are based on a vibrant free-enterprise economy with a stable financial sector. Low taxes and traditions (now relaxed) of strict bank secrecy 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. Liechtenstein's economy is closely linked to Switzerland, whose currency it shares, and the European Union. Nearly two-thirds of its approximately 36,000 jobs are filled by commuters from Switzerland, Austria, and Germany. Liechtenstein is a member of the European Free Trade Association and the European Economic Area.

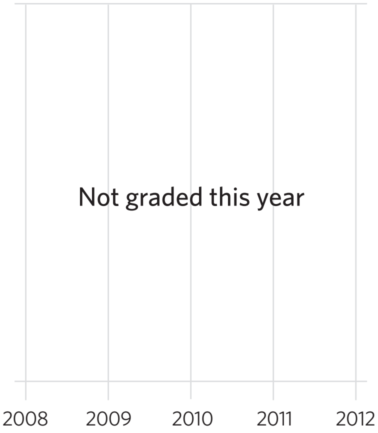
How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Economic Freedom Score

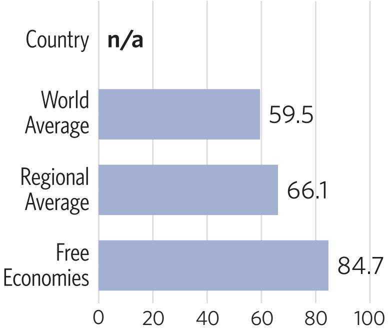


This economy is not graded

Freedom Trend



Country Comparisons



Quick Facts

Population: 36,032

GDP (nominal): $4.8 billion
n/a growth in 2010
5-year compound annual growth n/a
$133,941 per capita

Unemployment: n/a

Inflation (CPI): n/a

FDI Inflow: n/a

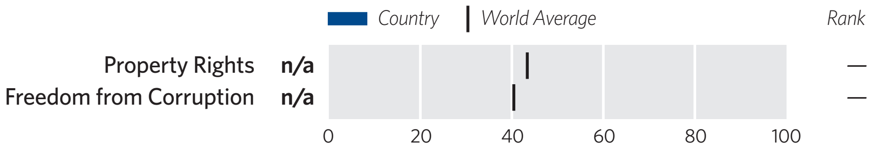
Public Debt: n/a

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

LIECHTENSTEIN (continued)

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 best in the world 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 has a competitive tax system and 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 the 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 has traditionally been very low. Labor market policies have been focused on reducing youth unemployment. Monetary stability has been well maintained.

OPEN MARKETS

The trade regime is competitive and efficient, with a zero tariff rate and minimal non-tariff barriers. Foreign investment is welcome, and the overall investment environment encourages dynamic growth in the private sector. 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 prudent regulatory regime.

Score Changes

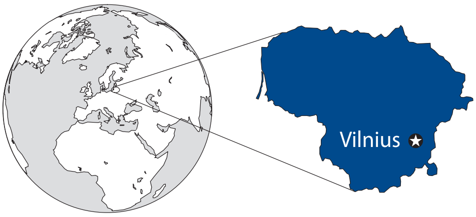
RULE OF LAW	
Property Rights	n/a
Freedom from Corruption	n/a

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

LITHUANIA



World Rank: **23** Regional Rank: **11**

Lithuania's economic freedom score is 71.5, making its economy the 23rd freest in the 2012 *Index*. Its overall score is 0.2 point higher than last year, with significant improvements in labor freedom, fiscal freedom, and monetary freedom offset to a large extent by a serious decline in the score for government spending. Lithuania is ranked 11th out of 43 countries in the Europe region, and its overall score is well above the world and regional averages.

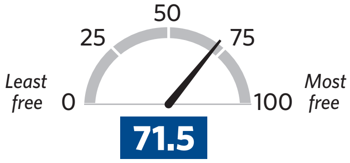
Lithuania's ongoing transition to a free-market economy has been facilitated by structural reforms and an increasingly vibrant private sector. Along with policies that open the country to global commerce and trade, competitive taxation and a well-designed regulatory system have contributed to a more dynamic and broadly based economic expansion. Lithuania has been recovering gradually from a sharp economic contraction.

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 the efficiency of the public sector, 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.

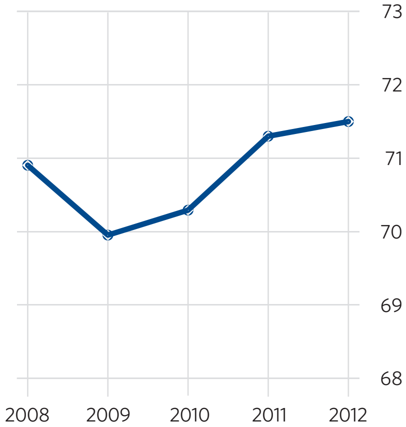
BACKGROUND: Lithuania, the largest of the Baltic States, regained its independence from the Soviet Union in 1991. It joined the European Union and NATO in 2004. Former Vice-Minister of Foreign Affairs and Finance Minister Dalia Grybauskaite, who is also a European Union budget commissioner, won presidential elections by a landslide in July 2009. Prime Minister Andrius Kubilius of the TS-LKD party won re-election as party chairman in May 2011, despite the party's poor performance in the previous local elections. Lithuania's economy has resumed growth, with the construction, financial services, and retail sectors performing particularly well, but unemployment remains a serious problem.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

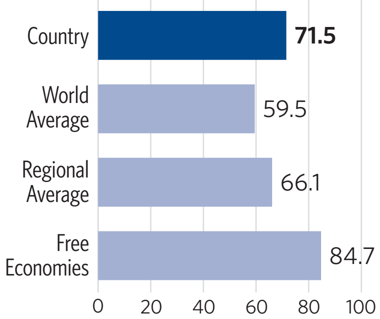
Economic Freedom Score



Freedom Trend



Country Comparisons



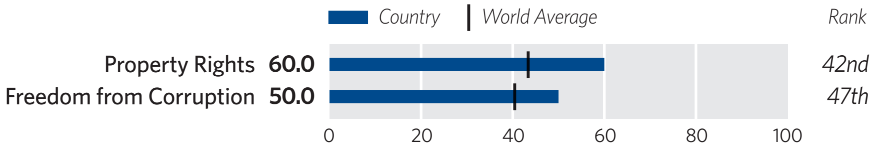
Quick Facts

Population: 3.3 million
GDP (PPP): $56.6 billion
1.3% growth in 2010
5-year compound annual growth 1.0%
$17,185 per capita
Unemployment: 17.9%
Inflation (CPI): 1.2%
FDI Inflow: $629.5 million
Public Debt: 38.7% of GDP

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

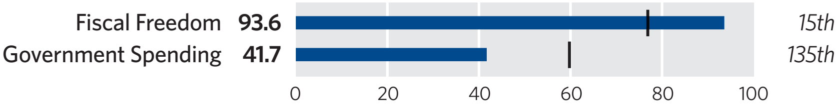
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



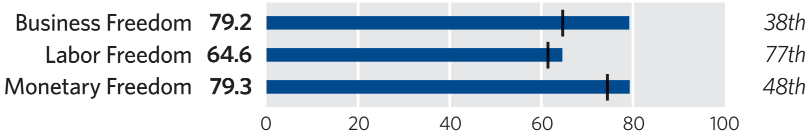
Private property is protected against nationalization or requisition. Accession to the EU has encouraged judicial reform, including strengthened independence and streamlined proceedings to clear the backlog of criminal cases, but the relatively inefficient legal framework does not provide for effective enforcement of contracts. Corruption persists at a level unusually high for a member of the EU.

LIMITED GOVERNMENT



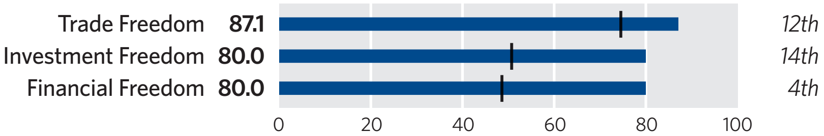
The income tax rate is 15 percent (with a 20 percent tax on redistributed profits), and the corporate tax rate is 15 percent. Other taxes include an inheritance tax and a value-added tax (VAT). The overall tax burden amounts to 16.6 percent of total domestic income. Government spending is equivalent to 44.1 percent of total domestic output. The budget is chronically in deficit, and public debt has risen to a level equivalent to 38 percent of GDP.

REGULATORY EFFICIENCY



The overall entrepreneurial framework has become fairly streamlined and efficient. Business formation and operation take place without bureaucratic interference. The minimum capital requirement is relatively low, and launching a business takes slightly less than the world averages of seven procedures and 30 days. Despite some reform, the labor market remains relatively rigid. Inflation has moderated, and the monetary system is stable.

OPEN MARKETS



Lithuania's trade policy is the same as that of other members of the European Union, with a low common external tariff but layers of non-tariff barriers. Foreign investment is welcome, and the investment regime has become conducive to dynamic growth in new investment. Lithuania's competitive financial sector offers a full range of financial services. Capital markets are small but function well.

Score Changes

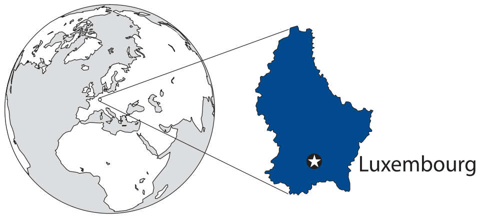
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+1.0

LIMITED GOVERNMENT	
Fiscal Freedom	+7.5
Government Spending	–16.3

REGULATORY EFFICIENCY	
Business Freedom	–2.5
Labor Freedom	+9.0
Monetary Freedom	+4.8

OPEN MARKETS	
Trade Freedom	–0.5
Investment Freedom	0
Financial Freedom	0

LUXEMBOURG



World Rank: **13** Regional Rank: **4**

Luxembourg's economic freedom score is 74.5, making its economy the 13th freest in the 2012 *Index*. Its overall score is 1.7 points worse than last year, reflecting declines in regulatory efficiency and control of government spending. Luxembourg is ranked 4th out of 43 countries in the Europe region.

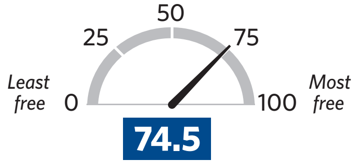
Luxembourg has long benefited from a favorable climate for entrepreneurial activity and high levels of openness and flexibility. Prudent financial regulations have supported the country's position as a global financial hub. The judiciary, independent of politics and free of corruption, has provided strong protection for property rights. Institutional support for open markets is similarly strong.

Although the government has undertaken gradual reforms to improve the management of public finance, public spending has risen. Recent stimulus measures and support for the banking sector have resulted in an increased budget deficit. In a move to rebalance to budget over the coming years, Luxembourg has adopted several new tax measures including an increased top marginal income tax rate and a higher unemployment fund surcharge. The efficiency of the regulatory structure, though still high, has declined relative to some other countries.

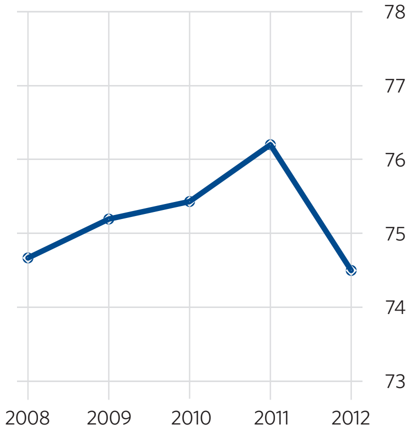
BACKGROUND: A founding member of the European Union in 1957, the Grand Duchy of Luxembourg was also one of the founding members of the single European currency in 1999 and continues to play a primary role in promoting European integration. Luxembourgers enjoy a good standard of living with one of the world's highest income levels, although they have experienced a deep recession as a result of the recent global economic crisis. During the 20th century, Luxembourg evolved from an industrial economy into a mixed manufacturing and services economy that includes a very strong financial services industry. Over the past decade, the government has sought to diversify the economy and promote Luxembourg as an information technology and e-commerce hub. The country benefits from a skilled workforce and well-developed infrastructure.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

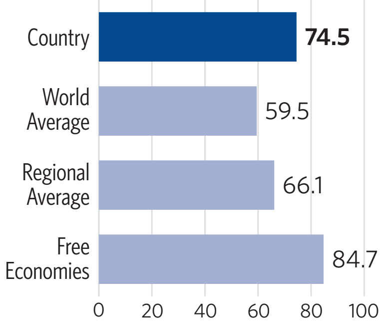
Economic Freedom Score



Freedom Trend



Country Comparisons



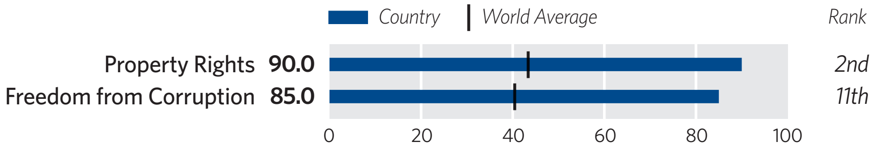
Quick Facts

Population: 0.5 million
GDP (PPP): $41.1 billion
3.4% growth in 2010
5-year compound annual growth 2.5%
$81,383 per capita
Unemployment: 6.0%
Inflation (CPI): 2.3%
FDI Inflow: $20.3 billion
Public Debt: 18.4% of GDP

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

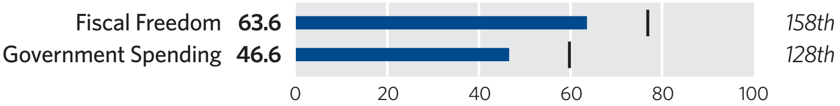
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



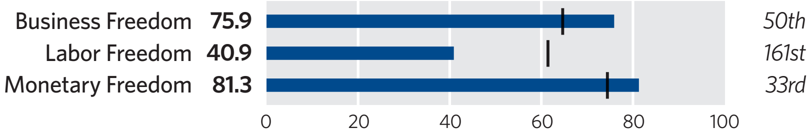
A well-functioning legal framework strongly supports respect for the rule of law. Private property rights are well protected, and contracts are secure. Luxembourg adheres to key international agreements on intellectual property rights and protects patents, copyrights, trademarks, and trade secrets. Anti-corruption laws are enforced effectively, and the society's minimum tolerance for corruption encourages transparency and clean government.

LIMITED GOVERNMENT



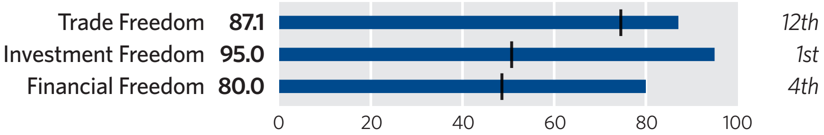
The top income tax rate is 42 percent, and the top corporate tax rate is 22 percent (21 percent plus a 5 percent unemployment fund surcharge). Other taxes include a value-added tax (VAT) and an inheritance tax. The overall tax burden amounts to 37.5 percent of total domestic income. Government spending is equivalent to 42.2 percent of total domestic output. The budget balance has become negative, but public debt is below 20 percent of GDP.

REGULATORY EFFICIENCY



The regulatory environment is transparent and efficient. Business formation and operation take place without bureaucratic interference, and licensing requirements are not burdensome. The labor market lacks 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

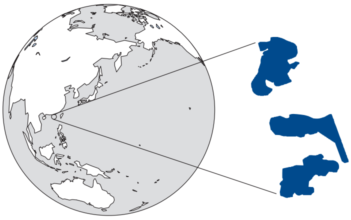


The trade weighted average tariff rate is low as in other members of the European Union, but non-tariff barriers increase the cost of trade. Under the efficient investment regime, foreign investment is welcomed without heavy bureaucratic interference. The sophisticated banking sector is well capitalized and competitive. The financial system was stressed by the recent financial turmoil, and the government joined others in the region in bailing out banks.

Score Changes

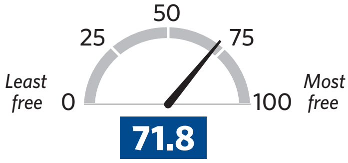
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-3.1	Business Freedom	-0.5	Trade Freedom	-0.5
Freedom from Corruption	+3.0	Government Spending	-11.9	Labor Freedom	-3.2	Investment Freedom	0
				Monetary Freedom	-0.8	Financial Freedom	0

MACAU



World Rank: **19** Regional Rank: **6**

Economic Freedom Score



Macau's economic freedom score is 71.8, making its economy the 19th freest in the 2012 *Index*. Its overall score is 1.3 points worse than last year, mainly due to declines in labor freedom, freedom from corruption, and the control of government spending. Macau is ranked 6th out of 41 countries in the Asia–Pacific region, and its overall score is well above the world and regional averages.

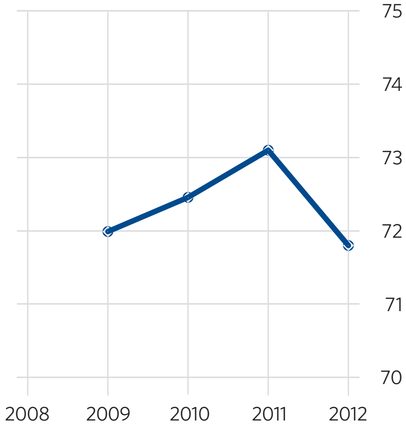
As a free port, Macau has long benefited from global trade and investment. The entrepreneurial environment is generally efficient and streamlined, and property rights are relatively well respected. Foreign investors can conduct business on the same terms as nationals. Taxation is low and relatively efficient. Since opening up the gaming industry in 2002, Macau has attracted significant amounts of foreign investment. Other growth areas include finance, insurance, and real estate.

The services sector accounts for almost 90 percent of GDP and over 70 percent of total employment. Investment in resort and entertainment projects and related infrastructure has transformed Macau into one of the world's leading tourism destinations. The small economy, however, is in need of more committed structural reforms to enhance the foundations of economic freedom and improve prospects for more broadly based long-term economic development.

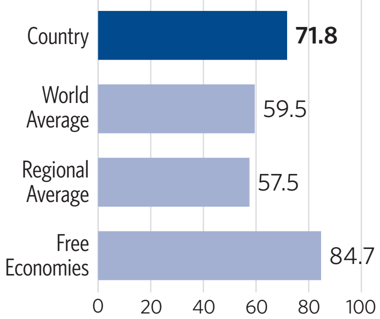
BACKGROUND: Macau became a Special Administrative Region of China in 1999. Like Hong Kong, it retains much of its historic political governance structure and economic system, although its chief executive is appointed by Beijing. Gambling revenues reportedly amounted to $23.5 billion in 2010, and direct 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 Chinese 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



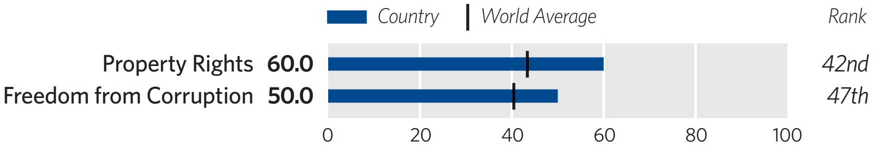
Quick Facts

Population: 573,004
GDP (nominal): $28.0 billion
26.4% growth in 2010
5-year compound annual growth n/a
$48,865 per capita (nominal)
Unemployment: 2.9%
Inflation (CPI): 2.8%
FDI Inflow: $2.5 billion
Public Debt: 0 % of GDP

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

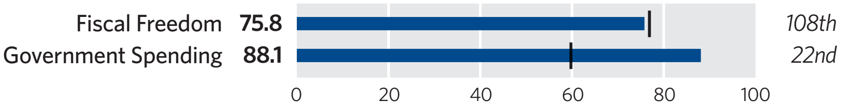
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



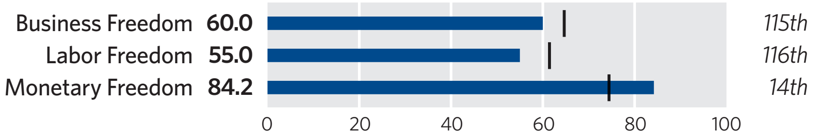
Macau has its own judicial system with a high court; the legal framework is based largely on Portuguese law. Property rights and commercial contracts are secure, but enforcement of intellectual property rights remains weak and inefficient. The Commission Against Corruption has powers of arrest and detention, and a public outreach campaign has led to a significant increase in the number of complaints handled.

LIMITED GOVERNMENT



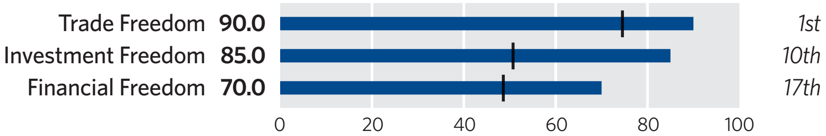
The top income tax rate is 12 percent, and the top corporate tax rate is 39 percent. Gambling tax revenues are quite high, and overall tax revenue amounts to 27.4 percent of GDP. Government spending is equivalent to 19.9 percent of total domestic product. Gambling revenue has outpaced public spending growth, generating considerable surpluses.

REGULATORY EFFICIENCY



The overall regulatory environment remains relatively efficient. 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 economy continues to lack a dynamic and broad-based labor market, in part due to the absence of serious reform efforts. Monetary stability has been relatively well maintained.

OPEN MARKETS

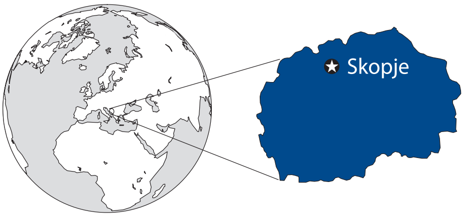


The trade regime is open, with no tariffs imposed on imports. However, non-tariff barriers continue to raise the cost of trade. The government does not officially discriminate between foreign and domestic investors, but there are a few restrictions in services markets. A relatively small financial system, dominated by banking, provides easy access to financing. Capital markets remain underdeveloped.

Score Changes

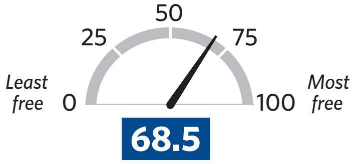
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.8	Business Freedom	0	Trade Freedom	0
Freedom from Corruption	-3.0	Government Spending	-5.2	Labor Freedom	-5.0	Investment Freedom	0
				Monetary Freedom	+0.8	Financial Freedom	0

MACEDONIA



World Rank: **43** Regional Rank: **21**

Economic Freedom Score



Macedonia's economic freedom score is 68.5, making its economy the 43rd freest in the 2012 *Index*. Its overall score has increased 2.5 points from last year, reflecting improvements in six of the 10 economic freedoms and an especially large gain in business freedom. Macedonia is ranked 21st out of 43 countries in the Europe region, and its overall score is above the world and regional averages.

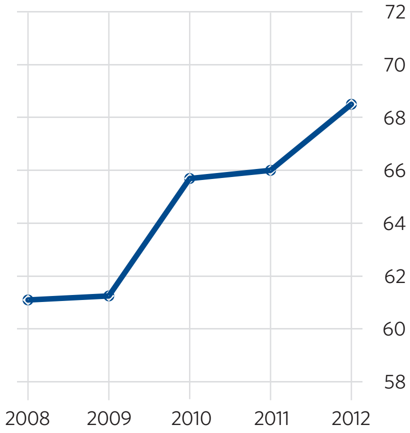
The Macedonian government has undertaken significant reforms in many sectors of the economy over the past few years, inspiring economic growth and the development of a thriving entrepreneurial sector. The economy recorded one of the five largest gains in economic freedom in the 2012 *Index*, and its overall score has improved a remarkable 10.5 points since the country first appeared in the rankings in 2002. Competitive flat tax rates and a growing financial sector that allocates credit on market terms contribute to private-sector dynamism, as do the country's open-market policies related to trade and investment.

There are lingering constraints on the development of a truly vibrant private sector. Despite some progress, corruption remains a cause for concern. The inefficient legal framework does not provide effective protection for property rights and remains a substantial drag on economic efficiency.

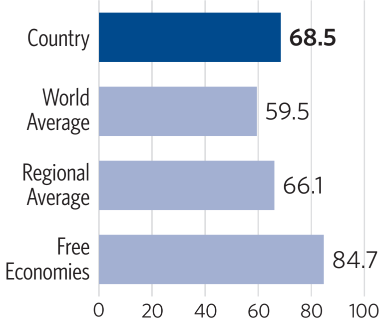
BACKGROUND: When it gained independence from the former Yugoslavia in 1991, the Republic of Macedonia was beset by political and economic problems, but it has managed to put itself on a more stable footing in recent years. Early parliamentary elections were held in June 2011 at the request of the Social Democrats, and Prime Minister Nikola Gruevski maintained control of his seat and his coalition with the Democratic Union for Integration. During NATO's 2008 Bucharest summit, Greece unilaterally blocked an invitation for Macedonia to join the alliance because of a long-standing name dispute, despite Macedonia's having fulfilled NATO's Membership Action Plan. The dispute is expected to delay Macedonia's accession to the European Union as well. Macedonia still has a large informal economy, and judicial procedures remain slow.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



Quick Facts

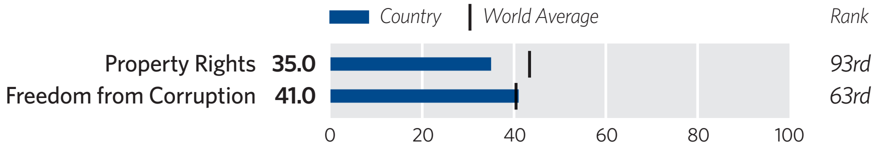
Population: 2.1 million
GDP (PPP): $20.0 billion
0.7% growth in 2010
5-year compound annual growth 3.1%
$9,728 per capita
Unemployment: 31.7%
Inflation (CPI): 1.5%
FDI Inflow: $293.2 million
Public Debt: 24.6% of GDP

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

MACEDONIA (continued)

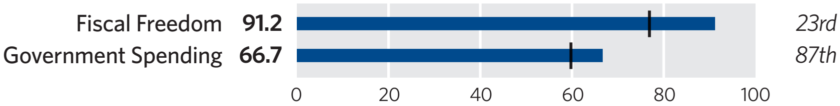
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



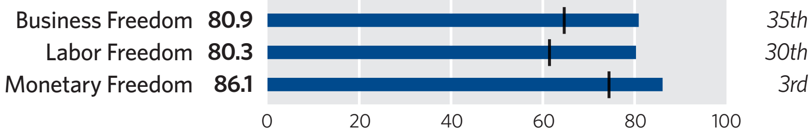
Protection of property rights is weak, and the judiciary is subject to executive influence. Relatively weak respect for the rule of law and the uncertainty of property rights, especially in registering real property and obtaining land titles, continue to undermine economic freedom. The law provides criminal penalties for official corruption, but implementation has not been effective. Corruption remains a cause for concern.

LIMITED GOVERNMENT



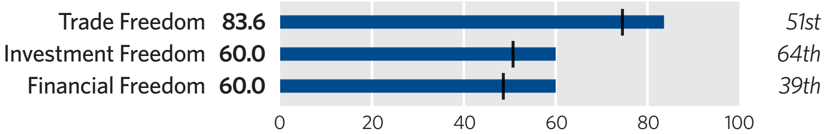
The individual income and corporate tax rates are a flat 10 percent. Other taxes include a value-added tax (VAT) and a property transfer tax, and overall tax revenue amounts to 26.1 percent of total domestic income. Government spending is equivalent to 33.3 percent of total domestic product, and the budget balance has shown a relatively small deficit. Public debt remains under control, standing at below 30 percent of GDP.

REGULATORY EFFICIENCY



The overall freedom to establish and run a business has improved. Streamlined processes for business formation and operation provide an environment fairly conducive to dynamic private-sector growth. After years of high unemployment and underemployment, recent labor market reforms have focused on the use of fixed-term contracts and easing restrictions on work hours. Monetary stability has been relatively well maintained.

OPEN MARKETS



The trade weighted average tariff rate is 3.2 percent; lingering non-tariff barriers include non-transparent import standards and customs corruption. Despite reforms in the investment regime, bureaucracy deters dynamic growth in new investment. The financial sector has strengthened in recent years, and government involvement has been limited primarily to enacting prudent and efficient regulations. Banking is becoming more competitive.

Score Changes

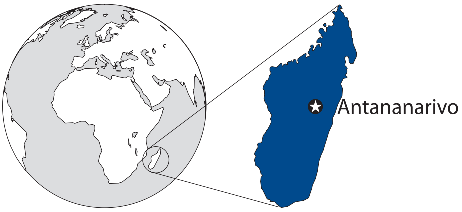
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+3.0

LIMITED GOVERNMENT	
Fiscal Freedom	+1.2
Government Spending	+2.4

REGULATORY EFFICIENCY	
Business Freedom	+16.3
Labor Freedom	+0.6
Monetary Freedom	+1.6

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

MADAGASCAR



World Rank: **75** Regional Rank: **6**

Madagascar's economic freedom score is 62.4, making its economy the 75th freest in the 2012 *Index*. Its score has increased by 1.2 points from last year, reflecting improvements in business freedom and the management of government spending. Madagascar is ranked 6th out of 46 countries in the Sub-Saharan Africa region, and its overall score is above the world average.

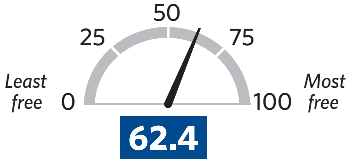
Madagascar has implemented some notable reforms to enhance its entrepreneurial environment. Procedures for launching a business have been streamlined, and minimum capital requirements have been abolished. Tax rates on individual and corporate income have been lowered, and the overall tax system has been simplified.

Despite such progress in much-needed economic reform, the combined impact of a still-deficient institutional framework and the ongoing risk of political instability continue to undermine much of the progress made in reducing poverty. The judicial system is underdeveloped, and convoluted administrative procedures facilitate corruption, weakening the foundations of free economic activity. Policies needed to sustain open markets are not firmly institutionalized.

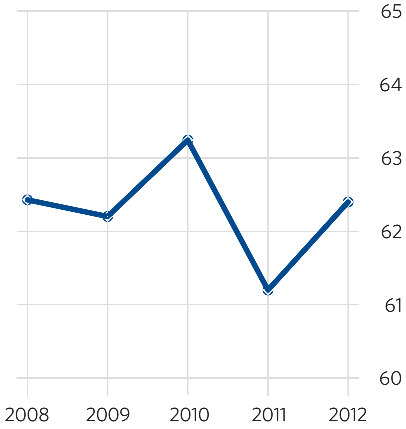
BACKGROUND: Both former President Didier Ratsiraka and opposition candidate Marc Ravalomanana claimed victory in the 2001 elections, and the resulting violence and economic disruption ended only when Ratsiraka fled into exile in 2002. Ravalomanana won a second term in 2006 but stepped down in March 2009 following a power struggle with the opposition. Opposition leader Andry Rajoelina seized power with military backing and declared himself president of the High Transitional Authority. Some donors have suspended aid, and both the African Union and the Southern African Development Community have suspended Madagascar's membership. Years of socialism and state planning have impeded economic growth. The economy depends heavily on agriculture and produces two-thirds of the world's vanilla exports. Infrastructure is poor, and bureaucracy is onerous.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

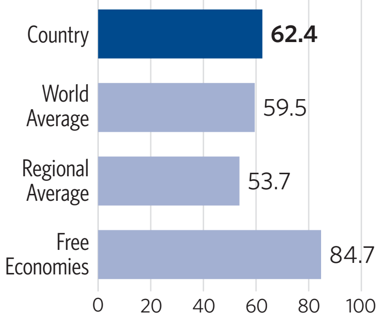
Economic Freedom Score



Freedom Trend



Country Comparisons



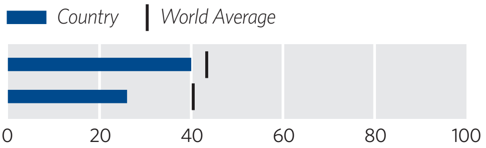
Quick Facts

Population: 21.3 million
GDP (PPP): $19.4 billion
–2.0% growth in 2010
5-year compound annual growth 2.5%
$911 per capita
Unemployment: n/a
Inflation (CPI): 9.0%
FDI Inflow: $860.4 million
Public Debt: 34.0% of GDP

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

THE TEN ECONOMIC FREEDOMS

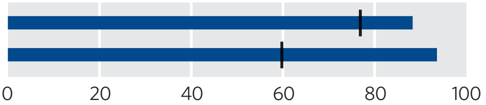
RULE OF LAW



		Rank
Property Rights	**40.0**	*72nd*
Freedom from Corruption	**26.0**	*125th*

The 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. Complicated administrative procedures introduce delays and uncertainties and multiply the opportunities for corruption. Enforcement of anti-corruption measures is weak, and corruption remains systemic.

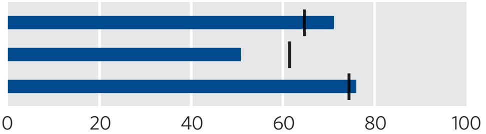
LIMITED GOVERNMENT



Fiscal Freedom	**88.3**	*32nd*
Government Spending	**93.6**	*4th*

The top income and corporate tax rates are 23 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden amounting to 10.5 percent of total domestic income. Government spending is equivalent to 14.6 percent of total domestic output. The budget balance has been in deficit, and public debt is at a level equivalent to 34 percent of GDP.

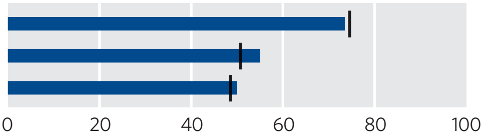
REGULATORY EFFICIENCY



Business Freedom	**71.1**	*66th*
Labor Freedom	**50.8**	*131st*
Monetary Freedom	**76.0**	*85th*

Procedures for setting up a business have been simplified, and no minimum capital requirement is now imposed. Licensing requirements are now less burdensome. The outmoded labor laws are restrictive and not conducive to the development of a dynamic labor market. Inflation has declined somewhat but still averaged a high 9 percent over the most recent three years. The government influences prices through state-owned enterprises.

OPEN MARKETS



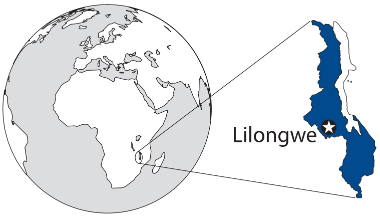
Trade Freedom	**73.5**	*102nd*
Investment Freedom	**55.0**	*77th*
Financial Freedom	**50.0**	*72nd*

The trade weighted average tariff rate is 8.3 percent, and complex non-tariff barriers further restrict the freedom to trade. The investment regime's inefficiency and lack of transparency curtail prospects for dynamic growth in new investment. Despite some progress, the relatively high cost of financing is a barrier to entrepreneurial growth in the private sector, particularly for small and medium-size firms. Capital markets remain weak.

Score Changes

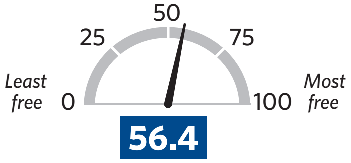
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.5	Business Freedom	+11.1	Trade Freedom	+0.3
Freedom from Corruption	-4.0	Government Spending	+3.9	Labor Freedom	+0.1	Investment Freedom	0
				Monetary Freedom	+0.1	Financial Freedom	0

MALAWI



World Rank: **114** Regional Rank: **18**

Economic Freedom Score



Malawi's economic freedom score is 56.4, making its economy the 114th freest in the 2012 *Index*. Its score has increased 0.6 point from last year, primarily reflecting modest improvements in the control of government spending and in freedom from corruption. Malawi is ranked 18th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

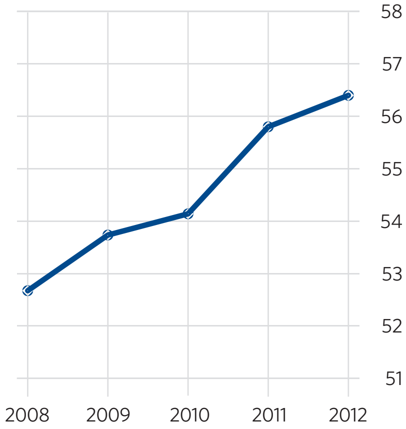
Relatively sound and consistent macroeconomic management has enabled Malawi to achieve annual economic growth of around 7 percent over the past five years. However, such economic expansion remains fragile in the absence of a dynamic private sector. A tradition of direct government involvement in economic activity continues to crowd out private-sector development.

By and large, Malawi lags in competitiveness and promotion of the broad-based economic activity that is critical to the reduction of poverty. The poor quality of physical as well as legal infrastructure, exacerbated by the government's inefficiency in delivering public goods, has been a serious impediment to long-term economic development.

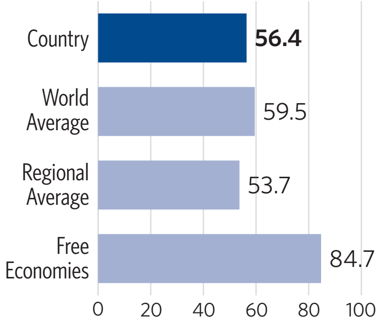
BACKGROUND: After achieving independence in 1964, Malawi became a one-party state that was ruled by Dr. Hastings Kamuzu Banda for 30 years. President Bingu wa Mutharika was elected in 2004 as the candidate of the ruling United Democratic Front. A year later, he threw the political system into chaos when he resigned from the UDF, accusing party leaders of impeding his anti-corruption efforts, and formed a new political party. Mutharika was re-elected in May 2009 by a large margin. 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 Malawi's most important exports. The United Kingdom has suspended budgetary aid, which totals almost $27 million (USD), because of alleged human rights abuses and poor economic management.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



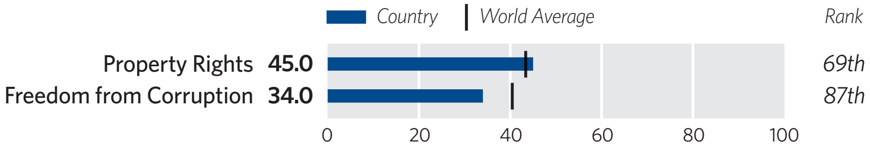
Quick Facts

Population: 15.7 million
GDP (PPP): $13.0 billion
6.6% growth in 2010
5-year compound annual growth 7.2%
$827 per capita
Unemployment: n/a
Inflation (CPI): 6.9%
FDI Inflow: $140.0 million
Public Debt: 37.4% of GDP

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

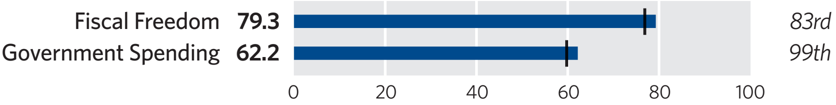
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



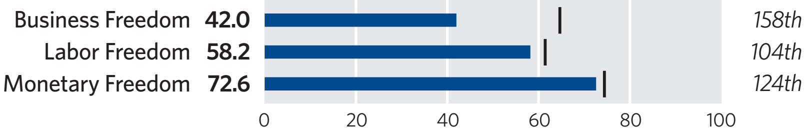
The inefficient legal framework does not protect property rights effectively or strongly maintain the rule of law. Court administration is weak, and due process can be very slow. There are reports of government intervention in some judicial cases and frequent allegations of bribery in civil and criminal cases. Corruption remains widespread, and there allegedly are serious problems in agencies handling customs, taxes, and procurement.

LIMITED GOVERNMENT



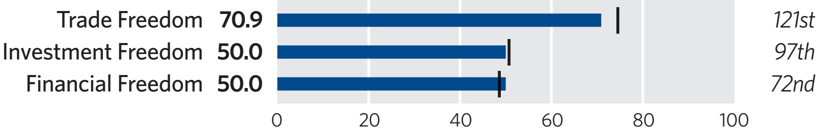
The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and an inheritance tax, with the overall tax burden amounting to 16.5 percent of total domestic income. Government spending is equivalent to 35.5 percent of total domestic output. The budget balance has gradually been improving, with public debt below 50 percent of GDP in recent years.

REGULATORY EFFICIENCY



Progress in improving the inefficient business framework has been slow. Although burdensome labor regulations are not generally enforced, the labor market remains poorly developed. Most of the population remains employed outside of the formal sector, primarily in agriculture. Inflation has been high, 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 7 percent, with non-tariff barriers further hampering dynamic growth in trade. Both foreign and domestic investors are subject to government restrictions and heavy bureaucracy. Capital transactions and foreign exchange accounts are also limited. The financial sector, dominated by banking, remains underdeveloped, and a full range of modern financing tools is not readily available.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	0	Business Freedom	-0.4	Trade Freedom	-0.1
Freedom from Corruption	+1.0	Government Spending	+5.5	Labor Freedom	-0.9	Investment Freedom	0
				Monetary Freedom	+1.0	Financial Freedom	0

MALAYSIA

World Rank: **53** Regional Rank: **9**

Malaysia's economic freedom score is 66.4, making its economy the 53rd freest in the 2012 *Index*. Its score is 0.1 point higher than last year, reflecting a gain in business freedom partially offset by declining effectiveness in the control of government spending. Malaysia is ranked 9th out of 41 countries in the Asia–Pacific region, and its overall score is above the world and regional averages.

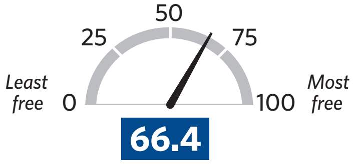
The Malaysian economy has shown a moderate degree of resilience in the face of a challenging global economic environment. Reform efforts have continued in many of the four pillars of economic freedom. The overall regulatory framework is now more efficient, and business procedures have been streamlined. Implementation of policies intended to support open markets and encourage a vibrant private sector is enhancing investment flows and improving the vitality of entrepreneurship.

In contrast to its performance in other areas, Malaysia has lagged in promoting the effective rule of law and enhancing and modernizing the legal framework. The judicial system remains vulnerable to political interference, and property rights are not strongly protected. Lingering corruption further undermines freedom and hampers long-term institutional competitiveness. Government spending has been expanding in recent years, threatening overall economic efficiency.

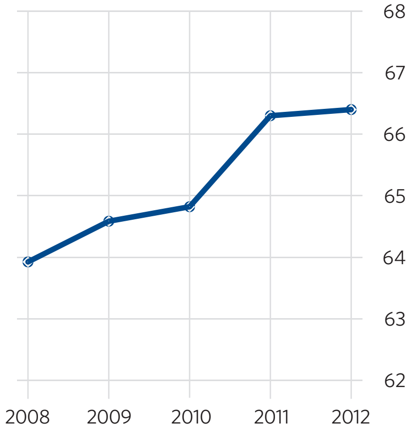
BACKGROUND: Malaysia, an ethnically and religiously diverse constitutional monarchy, became independent in 1957 and has been ruled continuously since then by the United Malays National Organization. Huge electoral inroads made by the People's Justice Party–led opposition coalition in March 2008 were largely the result of popular dissatisfaction with pro-Malay affirmative action programs and corruption. In 2011, the government cracked down heavily on protests by a coalition of civil society groups calling for electoral reform. Malaysia has slowly liberalized its economy, but government ownership stakes in such key sectors as banking, media, automobiles, and airlines remain high. 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

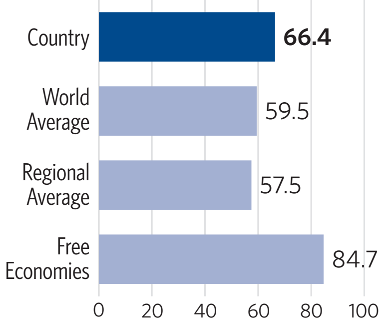
Economic Freedom Score



Freedom Trend



Country Comparisons



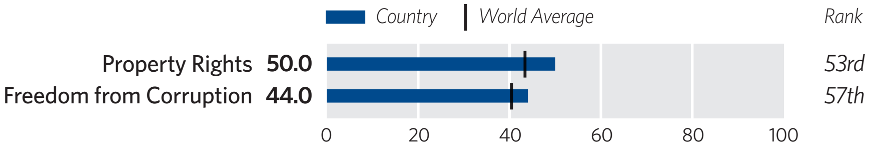
Quick Facts

Population: 28.3 million
GDP (PPP): $414.4 billion
7.2% growth in 2010
5-year compound annual growth 4.4%
$14,670 per capita
Unemployment: 3.5%
Inflation (CPI): 1.7%
FDI Inflow: $9.1 billion
Public Debt: 54.2% of GDP

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

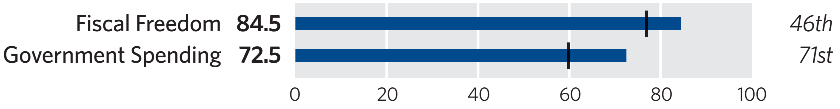
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



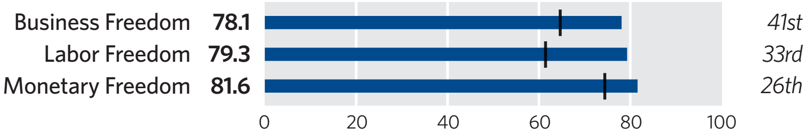
Private property is protected, but the judiciary is subject to political influence. Corporate lawsuits take over a year to adjudicate, and many contracts include a mandatory arbitration clause. Despite plans to ratify the World Intellectual Property Organization Copyright Treaty and Performances and Phonograms Treaty, complaints about lax enforcement of intellectual property rights persist. Corruption remains a cause for concern.

LIMITED GOVERNMENT



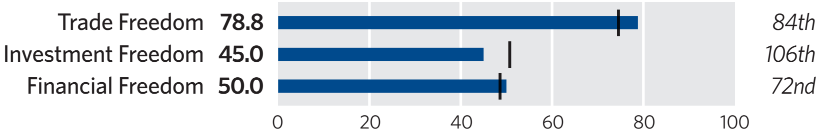
The top individual income tax rate is 26 percent, and the top corporate tax rate is 25 percent. Other taxes include a capital gains tax, and the overall tax burden amounts to 15.7 percent of total domestic income. Government spending has increased to a level equivalent to 30 percent of total domestic output. The budget balance has been in deficit, and public debt has climbed to over 50 percent of GDP.

REGULATORY EFFICIENCY



With no minimum capital required for establishing a company, it takes only four procedures and six days on average to start a business. Steps to introduce greater efficiency have been implemented in recent years, and licensing requirements are now considerably less time-consuming and bureaucratic. Labor regulations have become more modern and flexible. Inflation has been under control.

OPEN MARKETS

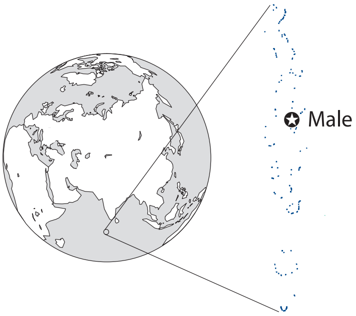


The trade weighted average tariff rate is modest at 3.1 percent, but non-tariff barriers increase the cost of trade. Foreign investment is officially welcome, and efforts to attract more flows have been made, but government interference and a lack of transparency deter dynamic growth in new investment. Despite the challenging external environment, the banking sector remains stable, although extensive regulations undermine competitiveness.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.1	Business Freedom	+8.4	Trade Freedom	+0.1
Freedom from Corruption	-1.0	Government Spending	-6.7	Labor Freedom	+0.1	Investment Freedom	0
				Monetary Freedom	+0.3	Financial Freedom	0

MALDIVES



World Rank: **151** Regional Rank: **34**

The Maldives' economic freedom score is 49.2, making its economy the 151st freest in the 2012 *Index*. Its score has increased by 0.9 point from last year, with a strong improvement in business 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.

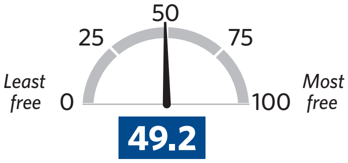
Despite uneven overall progress toward greater economic freedom, the Maldives' regulatory framework has been streamlined and has become more conducive to entrepreneurial activity. Continuing much-needed reform measures to enhance the prospects for long-term sustainable development remains vital.

Impediments to sustained private-sector growth and diversification remain considerable, in large part due to institutional deficiencies such as corruption and the weak protection of property rights. Other weaknesses include chronically high government spending and the inefficiency of the outsized public sector. The government still plays a large role in the economy through state-owned enterprises, limiting and crowding out private-sector activity. 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.

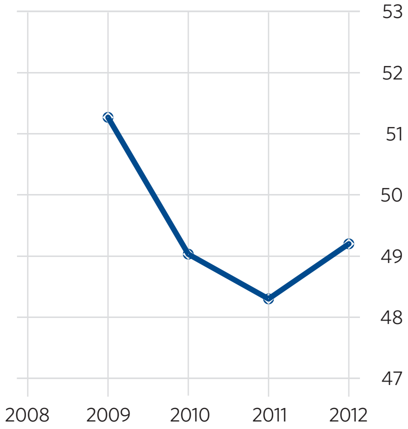
BACKGROUND: The Maldives held its first multi-party presidential elections in October 2008. President Mohammed Nasheed was sworn into office on November 11, 2008, succeeding Maumoon Abdul Gayoom, who had ruled the country for 30 years. The Maldives has largely recovered from the devastation caused by the 2004 Asian tsunami. Tourism is the centerpiece of the economy, contributing 30 percent of GDP in 2009. Fishing employs about 11 percent of the labor force, and manufacturing provides less than 7 percent of GDP. Street protests broke out in June 2011, prompting a power struggle between President Nasheed and the opposition-led parliament.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

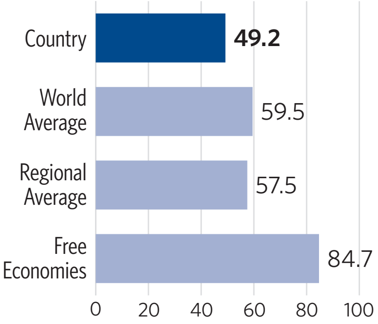
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

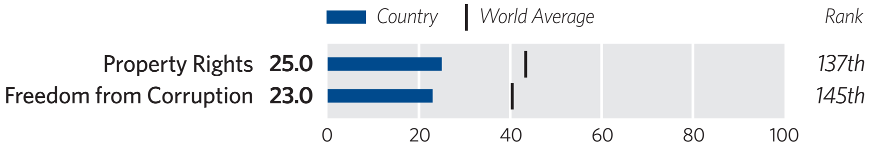
Population: 0.3 million
GDP (PPP): $2.7 billion
8.0% growth in 2010
5-year compound annual growth 9.7%
$8,541 per capita
Unemployment: 14.6%
Inflation (CPI): 5.0%
FDI Inflow: $163.8 million
Public Debt: 59.3% of GDP

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

MALDIVES (continued)

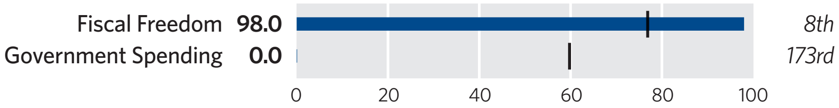
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



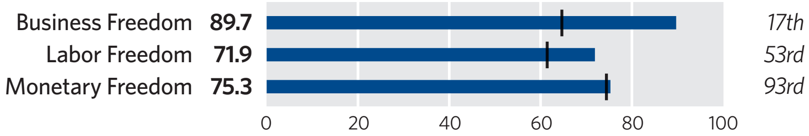
There is little private ownership of land, although land reform has been under consideration. The rule of law remains uneven across the country. The inefficient judicial system is subject to political influence, and application of laws is inconsistent. Enforcement of intellectual property rights is weak. Corruption remains systemic throughout the economy, considerably undermining the foundations of economic freedom.

LIMITED GOVERNMENT



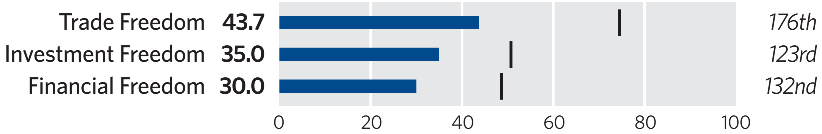
There is no income or corporate tax. Bank profits are subject to a profits tax. Overall tax revenue is estimated to be 14.1 percent of total domestic income. Government spending remains quite high at a level equivalent to 65 percent of GDP. The budget deficit has been chronically high at over 10 percent of total domestic output, and public debt has reached around 60 percent of GDP.

REGULATORY EFFICIENCY



The regulatory framework has become streamlined and less cumbersome. Launching a business takes less than the world averages of seven procedures and 30 days. Enforcement of labor regulations is not effective, and 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

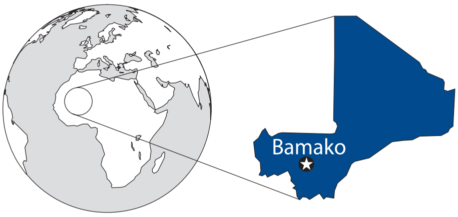


The trade weighted average tariff rate is prohibitively high at 20.6 percent, with non-tariff barriers adding further to the cost of trade. Heavy bureaucracy in the investment approval process severely hampers the already weak investment regime. Banking has expanded, with short-term financing widely available. However, high costs and limited access to financial services contribute to the overall shallowness of the financial sector.

Score Changes

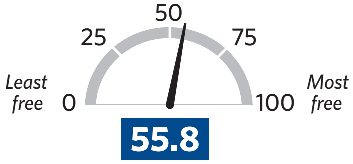
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+2.4	Business Freedom	+8.2	Trade Freedom	-0.1
Freedom from Corruption	-2.0	Government Spending	0	Labor Freedom	-1.5	Investment Freedom	0
				Monetary Freedom	+1.2	Financial Freedom	0

MALI



World Rank: **117** Regional Rank: **20**

Economic Freedom Score



Mali's economic freedom score is 55.8, making its economy the 117th freest in the 2012 *Index*. Its score has decreased by 0.5 point from last year, mainly reflecting declines in freedom from corruption and the management of government spending. Mali is ranked 20th out of 46 countries in the Sub-Saharan Africa region, and its score is above the regional average.

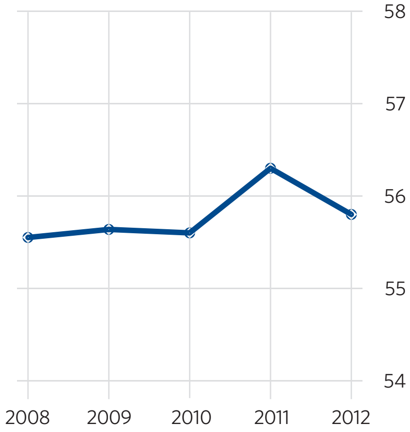
Mali has shown little progress in expanding economic freedom over the years and remains mired in the *Index*'s "mostly unfree" category. The lack of dynamism in the domestic economy leaves it highly vulnerable to external economic conditions, and though five-year average growth has been almost 5 percent, the country was hurt significantly by the global economic slowdown.

Lingering institutional weaknesses broadly restrict citizens' economic freedom and prevent the dynamic growth of economic activity. In particular, the rule of law, one of the basic foundations of economic freedom, remains fragile due to corruption and an inefficient judicial system that is vulnerable to political interference. Government tariffs and other restrictions reduce the benefits to the population from international trade.

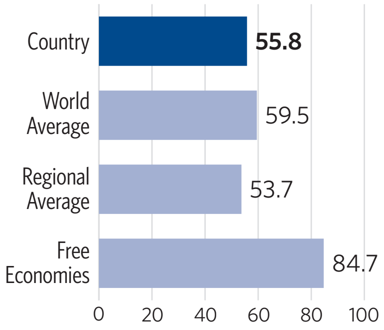
BACKGROUND: Mali was a one-party socialist state until multi-party democratic elections were held in 1992 on the heels of a 1991 military coup. Retired General Amadou Toumani Touré, who served as head of state during the transition to democracy in 1991 and 1992, was elected president in 2002 and re-elected in 2007. Tensions continue between the government and nomadic Tuareg tribes in northern Mali over land, cultural, and linguistic rights. Landlocked and located in the heart of the Sahel, Mali is arid and has relatively limited resources. It remains one of the world's poorest countries. Agriculture (mostly subsistence farming), livestock, and fishing in the Niger River occupy 70 percent of the population and accounted for about 33 percent of GDP in 2007. 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



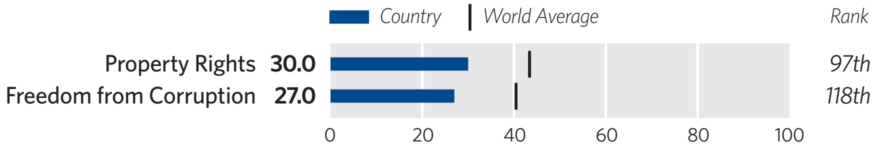
Quick Facts

Population: 13.4 million
GDP (PPP): $16.8 billion
4.5% growth in 2010
5-year compound annual growth 4.7%
$1,252 per capita
Unemployment: 30.0%
Inflation (CPI): 1.2%
FDI Inflow: $147.6 million
Public Debt: 29.6% of GDP

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

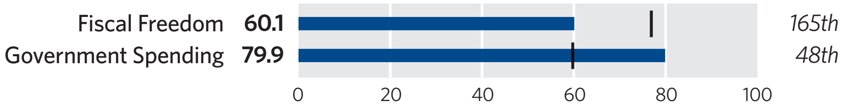
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



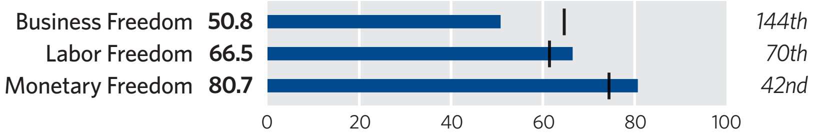
In theory, property rights are protected and the judiciary is constitutionally independent, but Mali's judicial system is considered notoriously inefficient and corrupt, with bribery and influence-peddling frequently encountered in the courts. Protection of intellectual property rights is inadequate. In the absence of effective anti-corruption measures, bribery remains prevalent in government procurement and dispute settlement.

LIMITED GOVERNMENT



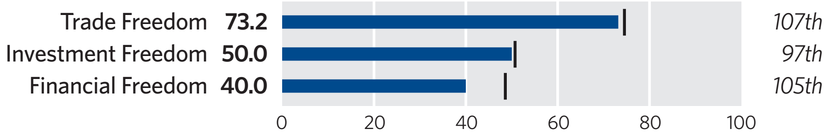
The top income tax rate is 50 percent, and the top corporate tax rate is 35 percent. Other taxes include a value-added tax (VAT), and overall tax revenue amounts to 16.4 percent of total domestic income. Government spending has increased to a level equivalent to 25.9 percent of total domestic output. The budget has been chronically in deficit, and public debt has reached a level equal to about 30 percent of GDP.

REGULATORY EFFICIENCY



Despite some progress in dismantling bureaucratic barriers, the regulatory framework for business is not efficient in spurring economic diversification or private-sector development. Much private-sector activity takes place outside of the formal economy. Labor regulations, although not fully enforced, are relatively rigid. Inflation has moderated, averaging 2.1 percent between 2008 and 2010.

OPEN MARKETS



The trade weighted average tariff rate is high at 8.4 percent, with complex and cumbersome non-tariff barriers considerably increasing the cost of trade. The investment regime remains severely hampered by instability and a lack of reform. Regional conflicts, poor infrastructure, and lack of contract enforcement deter investment. With financial intermediation minimal, the banks lack the capacity to provide adequate access to financing.

Score Changes

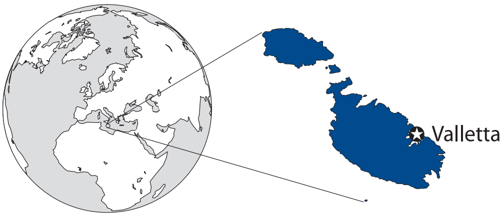
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-1.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.4
Government Spending	-6.6

REGULATORY EFFICIENCY	
Business Freedom	-0.4
Labor Freedom	+0.7
Monetary Freedom	+3.1

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

MALTA



World Rank: **50** Regional Rank: **23**

Malta's economic freedom score is 67.0, making its economy the 50th freest in the 2012 *Index*. Its overall score is 1.3 points higher than last year, with significant improvements in freedom from corruption, fiscal freedom, and the control of government spending. Malta ranks 23rd out of 43 countries in the Europe region, and its overall score is above the regional average.

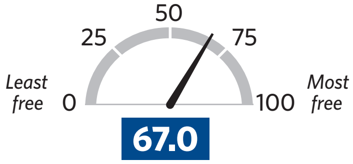
Malta's openness to international trade and investment has helped to restore economic growth to a healthy level, and the country has taken steps to enhance the competitiveness of its financial institutions. The banking sector is one of the soundest in Europe and has weathered the European sovereign debt turmoil relatively well with no need for capital injections.

Despite recent overall progress, some of the foundations of economic freedom remain weak, undermining prospects for more dramatic growth. The court system, while transparent and relatively free of corruption, remains inefficient. Measures designed to enhance the effectiveness of government have yielded uneven results, and bureaucracy continues to discourage dynamic entrepreneurial activity. Privatization has slowed. The government continues to intrude excessively into economic activity, imposing significant tax burdens and maintaining high levels of spending. Public debt, at almost 70 percent of GDP, has crept into potentially dangerous territory.

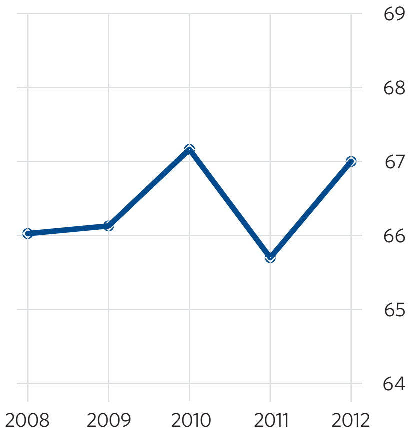
BACKGROUND: Malta's two main political parties enjoy almost equal levels of support, and elections are closely fought and often narrowly won. The government of Prime Minister Lawrence Gonzi, whose Nationalist Party holds a one-vote majority in parliament, has had to deal with soaring numbers of immigrants fleeing the 2011 uprisings in North Africa. The economy depends on tourism, trade, and manufacturing. Well-trained workers, low labor costs, and membership in the European Union attract foreign investment, but the government also maintains a sprawling socialist bureaucracy, and the majority of spending is allocated to housing, education, and health care.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

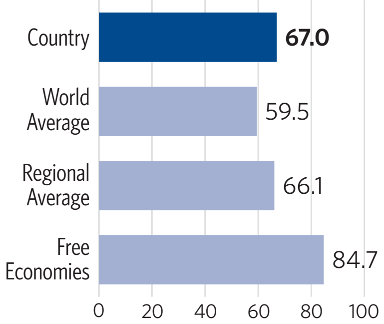
Economic Freedom Score



Freedom Trend



Country Comparisons



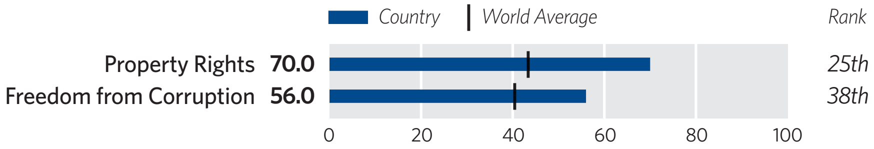
Quick Facts

Population: 0.4 million
GDP (PPP): $10.4 billion
3.7% growth in 2010
5-year compound annual growth 2.4%
$24,792 per capita
Unemployment: 6.9%
Inflation (CPI): 2.0%
FDI Inflow: $1.0 billion
Public Debt: 67.1% of GDP

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

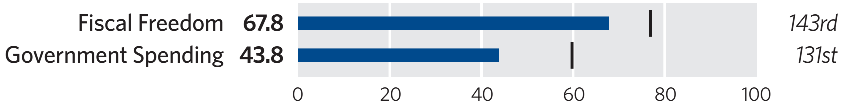
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



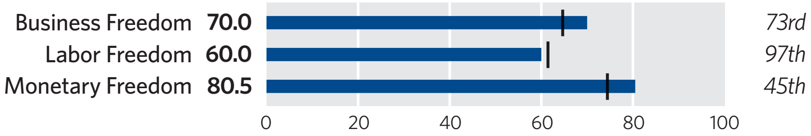
Malta's judiciary is independent, both constitutionally and in practice. Property rights are protected, and expropriation is unlikely. Foreigners do not have full rights to buy property in Malta unless they obtain Maltese nationality. Malta still lacks a comprehensive strategy for rooting out corruption as well as appropriate institutions to implement and monitor anti-corruption activities.

LIMITED GOVERNMENT



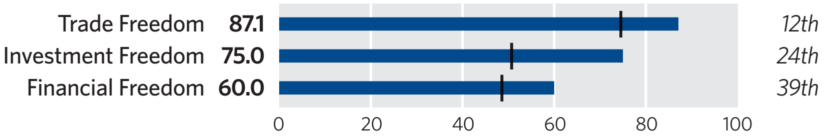
The top income and corporate tax rates are 35 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden amounting to 27.8 percent of total domestic income. Despite some reduction in spending, government expenditures remain high at a level equivalent to 43 percent of total domestic output. The budget balance has been in chronic deficit, and public debt has reached 67 percent of GDP.

REGULATORY EFFICIENCY



Malta has adopted transparent and effective regulations to foster competition, although the pace of reform has slowed. Business regulations are relatively straightforward and applied uniformly most of the time. 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

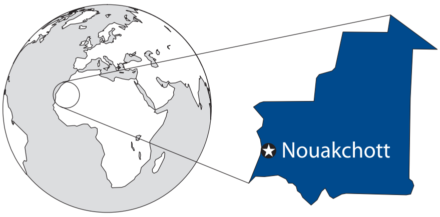


The trade regime is the same as that of other members of the European Union, with the common EU trade weighted average tariff rate standing at 1.4 percent, but layers of non-tariff barriers raise the cost of trade. Foreign investment is welcome, and investment regulations are generally transparent. The financial sector has undergone gradual restructuring and expansion, and the banking sector has become more open to foreign banks.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+5.3	Business Freedom	0	Trade Freedom	-0.5
Freedom from Corruption	+4.0	Government Spending	+4.0	Labor Freedom	0	Investment Freedom	0
				Monetary Freedom	+0.4	Financial Freedom	0

MAURITANIA



World Rank: **131** Regional Rank: **26**

Mauritania's economic freedom score is 53.0, making its economy the 131st freest in the 2012 *Index*. Its score has increased by 0.9 point since last year, with significant improvements in investment freedom, labor freedom, and business freedom; freedom from corruption declined. Mauritania is ranked 26th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world and regional averages.

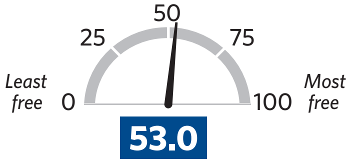
The Mauritanian economy has grown from its low productive base at an average annual rate of close to 4 percent over the past five years. Economic expansion has been aided by reform efforts that, although limited in scope, have enhanced the business and investment environments.

However, the economy suffers from serious institutional weaknesses that perpetuate a poor entrepreneurial environment and undercut prospects for long-term economic development. The protection of property rights is weak, and limited enforcement of the already fragile rule of law remains subject to pervasive political influence. Burdensome barriers to trade and the shallowness of the financial sector continue to hurt overall economic efficiency.

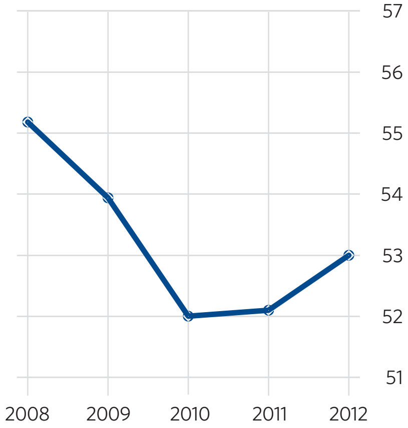
BACKGROUND: A military junta ruled Mauritania from 1978 until 1992, when the first multi-party elections were held. After President Sidi Ould Cheikh Abdallahi was overthrown in 2008, General Mohamed Ould Abdel Aziz declared himself president of the Higher State Council that ruled until elections in July 2009, which were won by Aziz. Frustration with the government has increased, and a youth protest movement is demanding greater political freedom and improved living standards. Popular discontent threatened the president's parliamentary alliance in the approach to elections scheduled for October 2011, and the elections were postponed at the request of several political parties. 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.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

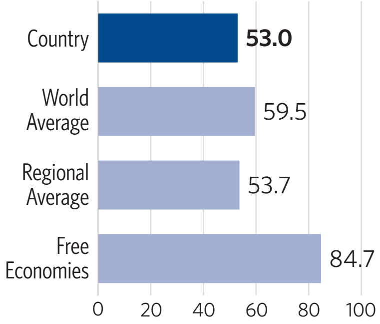
Economic Freedom Score



Freedom Trend



Country Comparisons



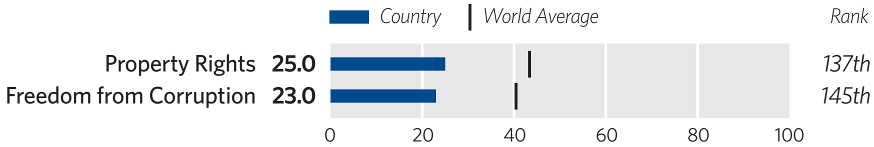
Quick Facts

Population: 3.2 million
GDP (PPP): $6.7 billion
4.7% growth in 2010
5-year compound annual growth 3.8%
$2,093 per capita
Unemployment: 36.0%
Inflation (CPI): 6.1%
FDI Inflow: $13.6 million
Public Debt: 86.2% of GDP

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

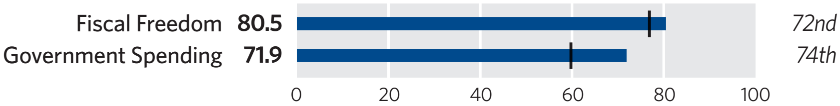
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



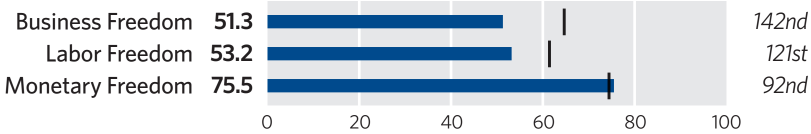
Mauritania's judicial system is chaotic and corrupt. The judiciary is influenced by the executive. Poorly trained judges are intimidated by social, financial, tribal, and personal pressures. Mauritania signed and ratified the World Trade Organization's Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement in 1994 but has yet to implement it. Widespread corruption weakens the government's ability to provide needed services.

LIMITED GOVERNMENT



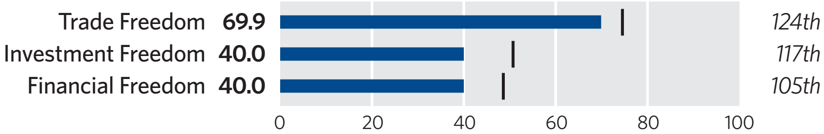
The top income tax rate is 33 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT), and the overall tax burden amounts to 15.2 percent of total domestic income. Government spending has increased to a level equivalent to 30 percent of total domestic output. The budget balance continues to be in deficit, with public debt standing at around 86 percent of GDP.

REGULATORY EFFICIENCY



The overall regulatory environment imposes significant burdens on potential entrepreneurs. The minimum capital requirement for launching a business is over three times the level of average annual income. Obtaining necessary licenses is time-consuming and costly. Outmoded labor regulations hinder job creation, and the absence of a well-functioning labor market has resulted in chronically high unemployment. Inflation has been rising gradually.

OPEN MARKETS



The trade weighted average tariff rate is high at 10.1 percent, and numerous non-tariff barriers further constrain freedom to trade. Despite some progress, investors continue to be subject to complicated bureaucratic procedures and uncertainty caused by political instability. Progress in modernizing the financial sector has been sluggish and limited. Given the financial system's lack of depth, capital markets are virtually nonexistent.

Score Changes

RULE OF LAW	
Property Rights	0
Freedom from Corruption	-2.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.6
Government Spending	-2.0

REGULATORY EFFICIENCY	
Business Freedom	+3.0
Labor Freedom	+2.9
Monetary Freedom	-1.9

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	+10.0
Financial Freedom	0

MAURITIUS

World Rank: **8** Regional Rank: **1**

Mauritius's economic freedom score is 77.0, making its economy the 8th freest in the 2012 *Index*. Its overall score is 0.8 point higher than last year, with improvements in property rights, monetary freedom, and the management of government spending. Mauritius is ranked 1st out of 46 countries in the Sub-Saharan African region, and its overall score is well above the world average.

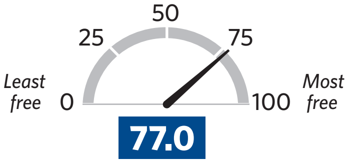
The Mauritius government's continued commitment to structural reforms and policies that promote integration into the global marketplace has positioned the island economy as a world leader in economic freedom. In the 2012 *Index*, Mauritius becomes the first Sub-Saharan African country ever to advance into the top 10 in the rankings.

The economy's impressive progress is underpinned by a sound and transparent legal framework that strongly upholds the rule of law. A competitive tax regime and an efficient regulatory environment have encouraged broad-based and diversified economic development. Open-market policies that support dynamic trade and investment have bolstered productivity and competitiveness. With only a modest natural resource base, economic prosperity has been achieved through policies that encourage flexibility and empower individuals.

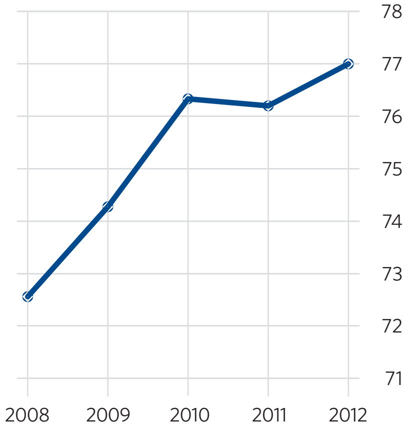
BACKGROUND: With a well-developed legal and commercial infrastructure and a tradition of entrepreneurship and representative government, Mauritius is one of the developing world's most successful democracies and one of Sub-Saharan Africa's strongest economies. The Alliance of the Future Coalition controls 45 of the parliament's 70 seats. Mauritius 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 have become less important, and services, especially tourism, are now the economic mainstay. The government still owns utilities and controls imports of rice, flour, petroleum products, and cement.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

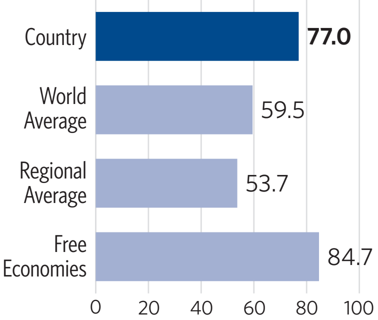
Economic Freedom Score



Freedom Trend



Country Comparisons



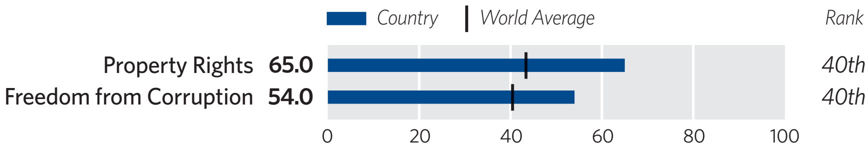
Quick Facts

Population: 1.3 million
GDP (PPP): $18.1 billion
4.0% growth in 2010
5-year compound annual growth 4.6%
$14,097 per capita
Unemployment: 7.5%
Inflation (CPI): 2.9%
FDI Inflow: $430.0 million
Public Debt: 50.5% GDP

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

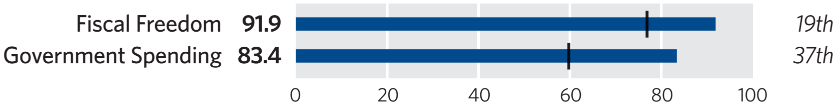
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



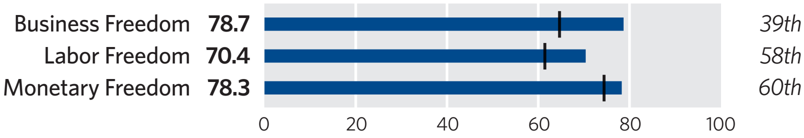
The judiciary is independent, and trials are fair. The legal system is generally non-discriminatory and transparent. Expropriation is unlikely. Enforcement of laws regarding intellectual property rights is relatively effective. The Independent Commission Against Corruption investigates offenses and can confiscate the proceeds of corruption and money laundering. Mauritius is one of Africa's least corrupt countries.

LIMITED GOVERNMENT



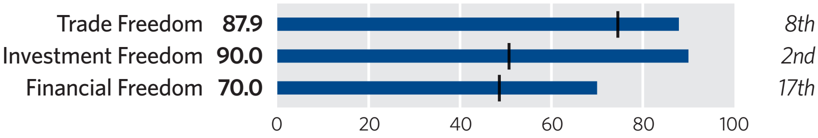
The income and corporate tax rates are a flat 15 percent. Other taxes include a value-added tax (VAT), and the overall tax burden amounts to 18.9 percent of total domestic income. Government spending has come down slightly to a level equivalent to 23.5 percent of total domestic output. The budget deficit has been under control, and public debt hovers at around 50 percent of GDP.

REGULATORY EFFICIENCY



The overall regulatory framework has undergone a series of reforms. There is no minimum capital required to start a business, and the overall start-up process has been simplified. The pace of reform has slowed in recent years compared to other emerging economies. Labor regulations are relatively flexible. Inflation has moderated, and monetary stability has been well maintained.

OPEN MARKETS



The trade weighted average tariff rate is competitively low at 1 percent, but non-tariff barriers still increase the cost of trade. The investment framework is open and efficient, facilitating the flow of new investment. The growing financial sector, dominated by private commercial banks, is competitive. Financial services account for over 10 percent of economic activity. Banks are well capitalized and have been resilient to external shocks.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	+5.0	Fiscal Freedom	0	Business Freedom	-3.3	Trade Freedom	-0.1
Freedom from Corruption	0	Government Spending	+3.4	Labor Freedom	0	Investment Freedom	0
				Monetary Freedom	+2.2	Financial Freedom	0

MEXICO

World Rank: **54** Regional Rank: **3**

Mexico's economic freedom score is 65.3, making its economy the 54th freest in the 2012 *Index*. Its score is 2.5 points worse than last year, reflecting declines in six of the 10 economic freedoms including trade freedom, business freedom, and investment freedom. Mexico is ranked 3rd out of three countries in the North America region, but its score is well above the world average.

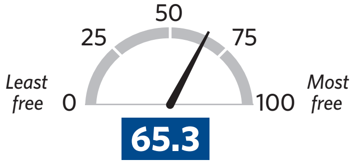
Mexico's record on economic freedom, as charted over the life of the *Index*, is one of considerable ups and downs. Registering one of the 10 largest score declines this year, the economy's ranking indicates that serious challenges remain. The rule of law has been severely undercut by ongoing violence and social instability related to drug trafficking. Other grave institutional weaknesses include rampant corruption and weak protection of private property rights. The reform agenda addressing these deficiencies has been extensive, but progress has been sluggish and marginal.

By and large, economic performance is far below potential. Although the regulatory environment has become more streamlined, shortcomings in the business environment, including a rigid labor market and burdensome non-tariff barriers, continue to undermine economic efficiency.

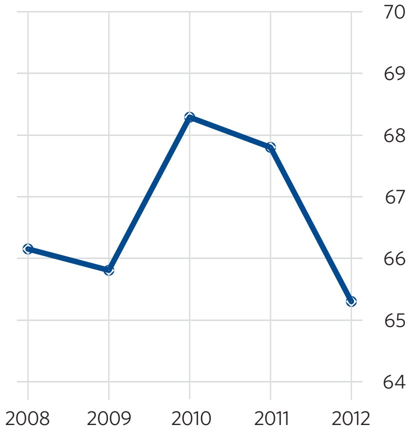
BACKGROUND: Since 1988, limited reforms have begun to alter Mexico's corporatist, statist economic model. President Felipe Calderon, the second president from the National Action Party (PAN) since 2000, has achieved important judicial, fiscal, pension, and electoral reforms, but economic liberalization has not progressed, with no movement in deregulating telecommunications or opening the energy sector fully to foreign investment. The PAN is likely to face a serious political challenge from a resurgent Institutional Revolutionary Party in the 2012 presidential election. Mexico is a party to the North American Free Trade Agreement with Canada and the U.S. and a member of the Organisation for Economic Co-operation and Development. Its economy depends heavily on commercial relations with the United States and remittances from migrant workers in the U.S. The overwhelming security challenge from illegal drug cartels is likely to continue.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

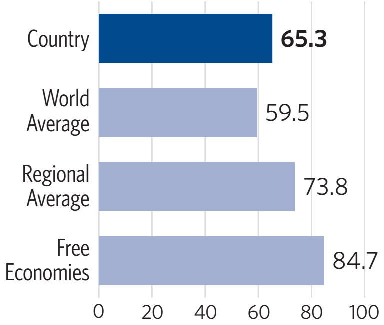
Economic Freedom Score



Freedom Trend



Country Comparisons



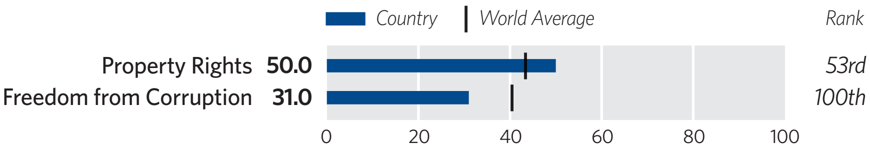
Quick Facts

Population: 108.6 million
GDP (PPP): $1.5 trillion
5.5% growth in 2010
5-year compound annual growth 1.8%
$14,430 per capita
Unemployment: 5.3%
Inflation (CPI): 4.2%
FDI Inflow: $18.6 billion
Public Debt: 42.9% of GDP

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

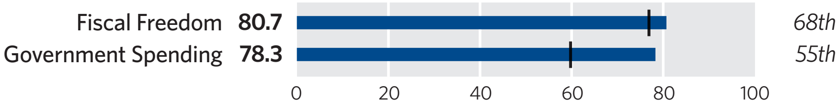
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



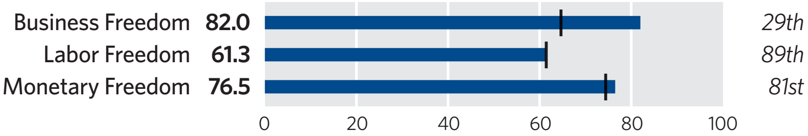
Respect for the rule of law has declined in the face of failed efforts to control drug trafficking and related violence. Contracts are generally upheld, but courts are inefficient and vulnerable to political interference. Despite a legal framework covering intellectual property rights, prosecution of infringement is ineffective. Corruption has been pervasive for years, and most government audit institutions lack operational and budgetary independence.

LIMITED GOVERNMENT



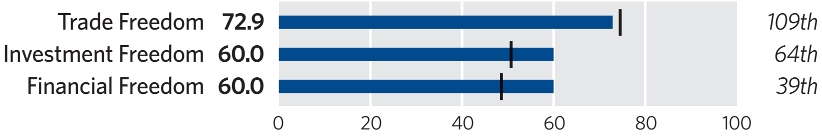
The top income and corporate tax rates were temporarily raised from 28 percent to 30 percent starting in 2010 and will be lowered to 29 percent in 2013 and 28 percent in 2014. Other taxes include a value-added tax (VAT), and the overall tax burden is about 18 percent of GDP. Government spending has risen to a level equivalent to 26.9 percent of total domestic output, with budget deficits widening. Public debt is 42.9 percent of GDP.

REGULATORY EFFICIENCY



Earlier reforms have enhanced the regulatory framework, but the pace of reform has slowed in comparison to other emerging economies. The cost of completing licensing requirements, particularly getting construction permits, has increased to over three times the level of average annual income. Labor market reforms have stalled. Inflation has moderated, averaging around 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 lacks efficiency and is hampered by violence and instability. The financial sector has become more competitive and open in recent years. The banking system remains relatively well capitalized, and foreign participation has grown rapidly.

Score Changes

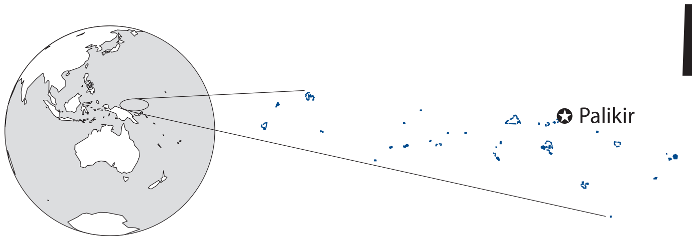
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-2.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.6
Government Spending	-4.8

REGULATORY EFFICIENCY	
Business Freedom	-5.3
Labor Freedom	+0.4
Monetary Freedom	+0.8

OPEN MARKETS	
Trade Freedom	-8.3
Investment Freedom	-5.0
Financial Freedom	0

MICRONESIA



World Rank: **143** Regional Rank: **31**

Micronesia's economic freedom score is 50.7, making its economy the 143rd freest in the 2012 *Index*. Its score has increased by 0.4 point since last year, with labor freedom and government spending registering minor improvements. Micronesia is ranked 31st out of 41 countries in the Asia–Pacific region, and its overall score is lower than the world and regional averages.

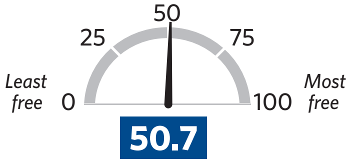
Poor governance and the lack of commitment to structural reform continue to hamper Micronesia's economic development. The country performs very poorly in many components of the *Index*. Long-standing problems include poor public finance management and underdeveloped legal and regulatory frameworks. Weak enforcement of property rights and the fragile rule of law have driven many people into the informal sector.

The inefficient public sector remains the largest source of employment. Monetary stability remains fragile. Faced with substantial uncertainty and instability, the private sector has been marginalized to a great extent in an economically stagnant environment. Open-market policies are not in place to spur dynamic growth of trade or investment.

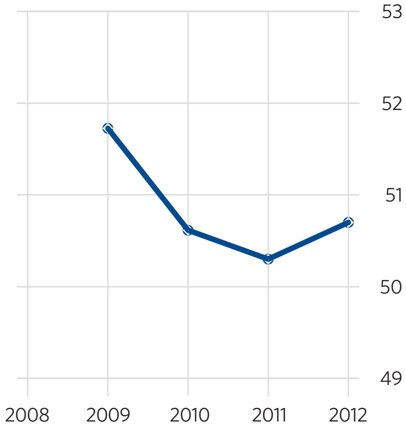
BACKGROUND: Micronesia spreads over a South Pacific archipelago of 607 islands. Politically organized as a confederation of four states—the island groups of Pohnpei, Chuuk, and Yap and the island of Kosrae—it has a central government with limited powers. The president is elected by the small unicameral 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, Micronesia receives $100 million annually from the U.S. in addition to $35 million in other U.S. government grants. The government sector employs more than half of Micronesia's workforce. Despite large inflows of foreign aid, the economy suffers from a lack of infrastructure, electricity, running water, and employment opportunities.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

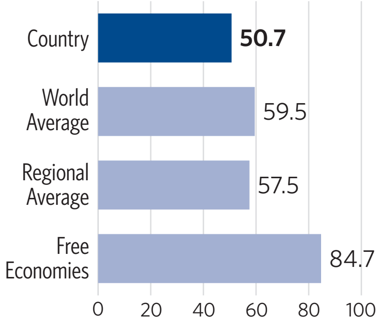
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

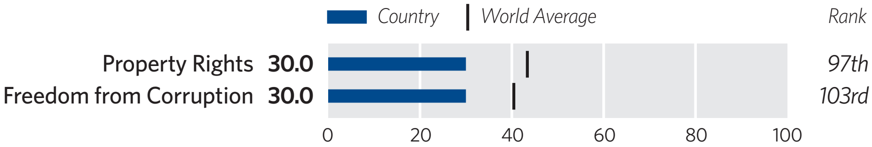
Population: 106,836
GDP (PPP): $238.1 million (2008)
n/a growth in 2010
5-year compound annual growth n/a
$2,200 per capita (2008)
Unemployment: 22.0%
Inflation (CPI): n/a
FDI Inflow: $10.0 million
Public Debt: n/a

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

MICRONESIA (continued)

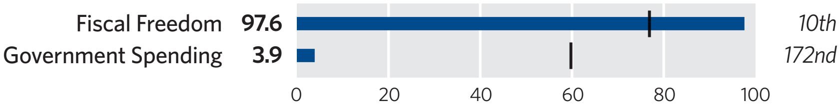
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



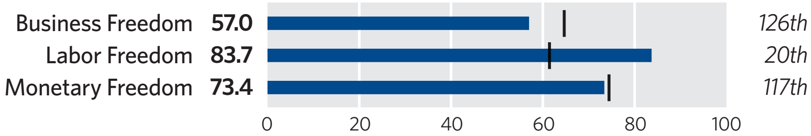
The rule of law remains uneven across the islands, and a well-functioning, consistent legal framework is not yet in place. Squatters, long-standing disputes over land ownership, and the absence of property records make the exercise or enforcement of property rights difficult. Commercial laws are ineffective and inconsistently applied, and contracts are not secure. Despite laws prohibiting and punishing corrupt acts, corruption is widespread.

LIMITED GOVERNMENT



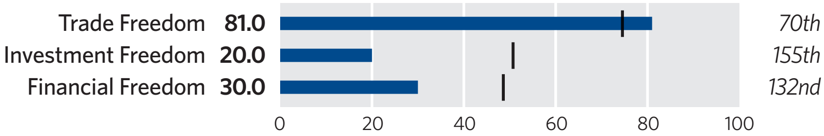
Tax laws are administered and enforced erratically. National taxes include a wages and salary tax (10 percent at the highest level); a 3 percent gross revenue tax on businesses with turnover that exceeds $10,000 a year; and an excise tax. In the most recent year, overall tax revenue was estimated to be 11.5 percent of GDP. Public spending has been chronically high at levels equivalent to over 55 percent of total domestic output.

REGULATORY EFFICIENCY



Procedures for establishing and running a business are opaque. Regulations are not applied consistently. The inefficient and non-transparent regulatory framework continues to discourage emergence of entrepreneurial dynamism. 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

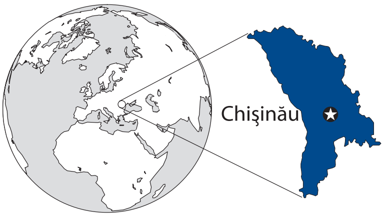


The trade weighted average tariff rate is 4.5 percent, and numerous complex non-tariff barriers severely constrain the freedom to trade. The investment framework remains too underdeveloped to facilitate flows of capital and foreign investment. High credit costs and scarce access to financing continue to constrain the small private sector. Much 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	–1.7	Trade Freedom	0
Freedom from Corruption	0	Government Spending	+3.9	Labor Freedom	+1.3	Investment Freedom	0
				Monetary Freedom	0	Financial Freedom	0

MOLDOVA



World Rank: 124 **Regional Rank: 40**

Moldova's economic freedom score is 54.4, making its economy the 124th freest in the 2012 *Index*. Its score has decreased by 1.3 points since last year, reflecting lower scores in four of the 10 economic freedoms including freedom from corruption and government spending. Moldova ranks 40th among 43 countries in the Europe region, and its overall score is below the regional and world averages.

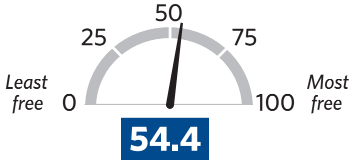
The Moldovan government's overall progress in achieving sound macroeconomic management and enhancing the entrepreneurial climate has been uneven. The foundations of economic freedom are neither well established nor strongly protected in the economy. The judiciary is vulnerable to political interference 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. Lingering state interference in the private sector increases economic risk in a volatile political environment. Political instability has left fiscal policy fragmented, and there is significant corruption in most areas of the bureaucracy.

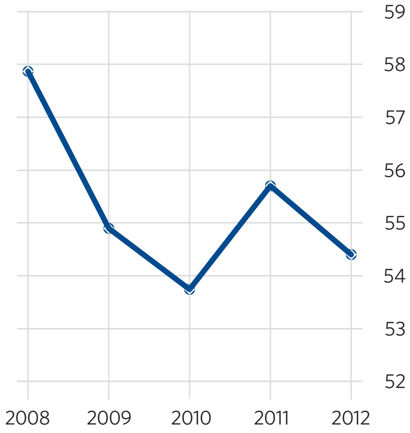
BACKGROUND: Moldova became independent after the collapse of the Soviet Union in 1991 and continues to face a secessionist, Communist, pro-Russian enclave in Transnistria. The reformed Communist Party supports European integration and while in power did not reverse market reforms instituted in the early 1990s. The Alliance for European Integration coalition government was reconstituted in January 2011 following the November 2010 election but remains a few votes short of electing a new president. Local and municipal elections in June 2011 were also inconclusive. Agriculture remains central to the economy, and foodstuffs, wine, and animal and vegetable products are the main exports. Moldova is Europe's poorest country, and remittances from other European countries, including Russia, are equivalent to one-third of GDP. Real GDP fell in 2009 but experienced a slow recovery in 2010.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

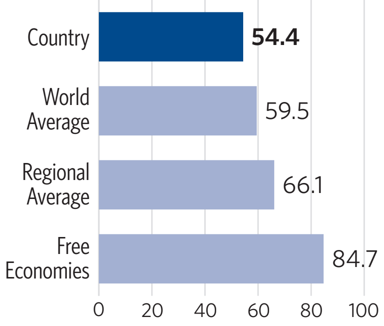
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 3.6 million

GDP (PPP): $11.0 billion
6.9% growth in 2010
5-year compound annual growth 3.2%
$3,083 per capita

Unemployment: 6.5%

Inflation (CPI): 7.4%

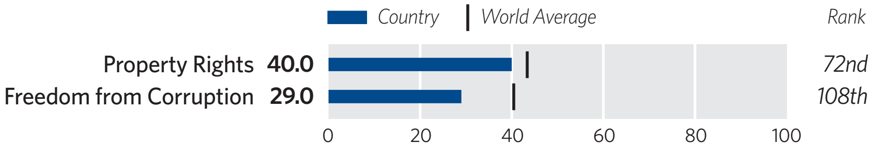
FDI Inflow: $198.9 million

Public Debt: 26.6% of GDP

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

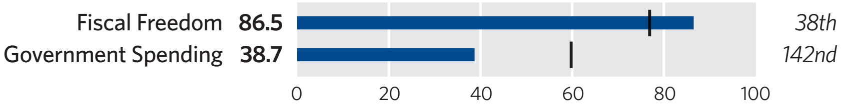
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



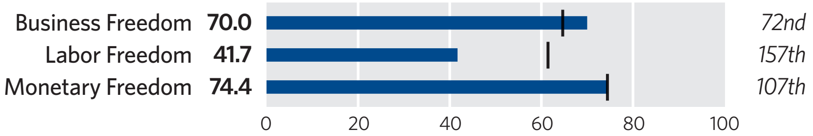
The rule of law is not strongly sustained by an effective legal framework. The judiciary has been improved but is vulnerable to executive influence. Enforcement of intellectual property rights is sporadic. A new law on copyright and related rights went into effect on January 1, 2011, increasing the role of Internet providers in preventing the spread of pirated materials. Corruption is perceived as widespread.

LIMITED GOVERNMENT



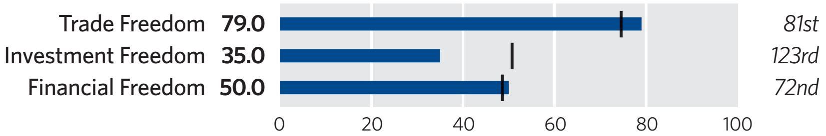
The top income tax rate is 18 percent. The corporate tax was eliminated as of January 2008, but authorities have discussed the reintroduction of a low corporate tax as early as 2012. Other taxes include a value-added tax (VAT), and the overall tax burden amounts to 32 percent of GDP. Government spending is equivalent to 45.2 percent of total domestic output. The budget balance shows a small deficit, but public debt is below 30 percent of GDP.

REGULATORY EFFICIENCY



Moldova has taken steps to reform its cumbersome regulatory framework, but lingering bureaucracy and a lack of transparency often make the formation and operation of private enterprises costly and burdensome. Labor regulations are rigid. The non-salary cost of employing a worker is high, and restrictions on work hours are stringent. Inflation has been rising, weakening monetary stability.

OPEN MARKETS



The trade weighted average tariff rate is low at 3 percent. However, numerous 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.

Score Changes

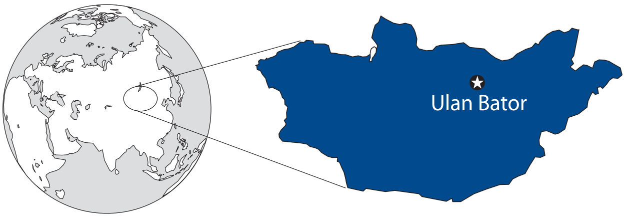
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-4.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.9
Government Spending	-9.4

REGULATORY EFFICIENCY	
Business Freedom	+0.5
Labor Freedom	+2.7
Monetary Freedom	-2.6

OPEN MARKETS	
Trade Freedom	-1.2
Investment Freedom	0
Financial Freedom	0

MONGOLIA



World Rank: **81** Regional Rank: **12**

Mongolia's economic freedom score is 61.5, making its economy the 81st freest in the 2012 *Index*. Its overall score is 2.0 points higher than last year, mainly reflecting increased scores in fiscal freedom and government spending. Mongolia is ranked 12th out of 41 countries in the Asia–Pacific region, and its overall score is above the regional average.

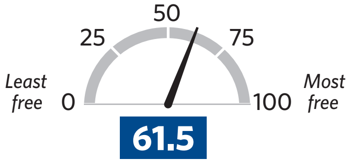
The Mongolian economy registered one of the 10 largest score improvements in the 2012 *Index*, regaining the status of "moderately free" economy. Renewed progress in advancing economic freedom has restored momentum for institutional reforms that are critical to ensuring long-term economic vitality. Economic reforms in recent years have supported economic expansion and reductions in poverty. Mongolia's developing entrepreneurial sector has benefited from increased access to financing following banking reforms. Competitive tax rates and an open trade regime are also promoting the emergence of a vibrant private sector.

Although Mongolia experienced no decline in any area covered by the *Index*, corruption and the weak rule of law remain drags on economic development. Accelerating judicial reforms, along with continued efforts to streamline public administration, will help to sustain economic growth and broaden the improvement of living standards.

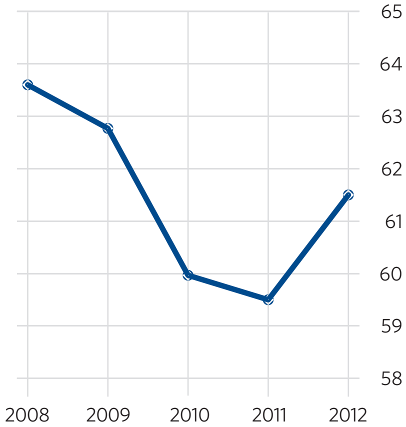
BACKGROUND: Mongolia emerged from the shadow of the former USSR with the adoption of a multi-party system and a new constitution in 1990. Political tension between the Mongolian People's Party, which has a majority in parliament, and the Democratic Party, which holds the presidency, has been considerable since 2009 and heightens the potential for parliamentary deadlock. Mongolia is a primary conduit for trade between Russia and China. At $2.4 billion, trade with China constituted 47 percent of Mongolia's total trade in 2009. Livestock herding employs a majority of the population, but the services and industry sectors account for about 80 percent of GDP. Mining continues to attract the largest portion of foreign investment, contributing to strong economic growth.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

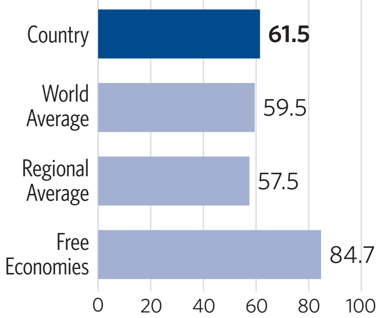
Economic Freedom Score



Freedom Trend



Country Comparisons



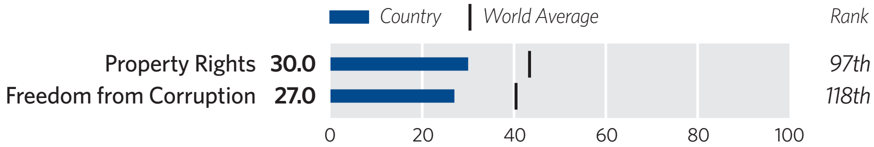
Quick Facts

Population: 2.8 million
GDP (PPP): $11.0 billion
6.1% growth in 2010
5-year compound annual growth 8.4%
$4,006 per capita
Unemployment: 11.5%
Inflation (CPI): 10.2%
FDI Inflow: $1.7 billion
Public Debt: 43.0% of GDP

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

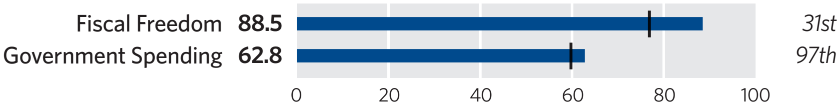
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



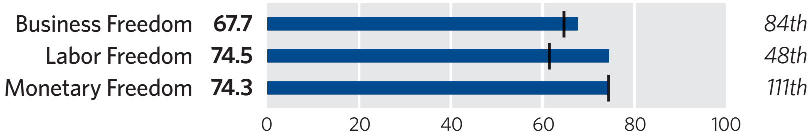
Property and contractual rights are recognized, but enforcement is weak. The judicial system remains inefficient and vulnerable to political interference. The government lacks the capacity to enforce intellectual property rights laws. Pervasive corruption continues to undermine the foundations of economic freedom and adds to the cost of conducting business. Anti-corruption measures are not enforced effectively.

LIMITED GOVERNMENT



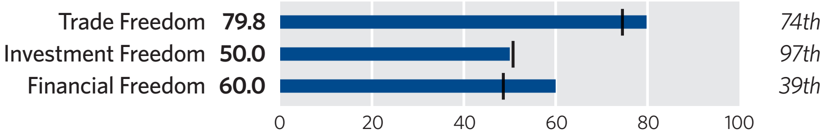
The individual income tax rate is a flat 10 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and an excise tax, and the overall tax burden amounts to 20.6 percent of GDP. Government spending is equivalent to 35 percent of total domestic output. The budget balance has turned to a surplus after recording deficits over the past two years, and public debt stands at around 40 percent of GDP.

REGULATORY EFFICIENCY



The regulatory framework continues to evolve. The minimum capital requirement for launching a business and the cost of completing licensing requirements have been reduced. Employment regulations are relatively flexible, but the labor market lacks dynamism. Inflation has been volatile, although stability is improving. Most price controls and subsidies have been phased out, but the state influences prices through the public sector.

OPEN MARKETS

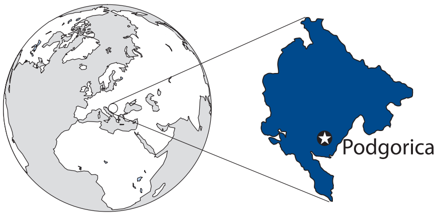


The trade weighted average tariff rate is 5.1 percent, and costly non-tariff barriers further constrain the freedom to trade. Foreign investment is officially welcome, but the legislative framework regarding investment is still developing in an effort to enhance efficiency. Despite the challenging global financial environment, the financial system has undergone rigorous modernization. The banking sector remains relatively well capitalized and stable.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+5.2	Business Freedom	0	Trade Freedom	0
Freedom from Corruption	0	Government Spending	+13.2	Labor Freedom	+0.4	Investment Freedom	0
				Monetary Freedom	+0.7	Financial Freedom	0

MONTENEGRO



World Rank: **72** Regional Rank: **33**

Montenegro's economic freedom score is 62.5, making its economy the 72nd freest in the 2012 *Index*. Its score is the same as last year, primarily because of deteriorations in business freedom and labor freedom that offset modest improvements in monetary freedom and the management of public finance. Montenegro ranks 33rd out of 43 countries in the Europe region, and its overall score is above the world average.

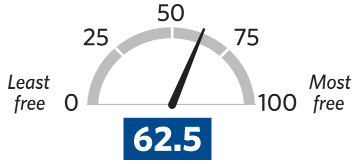
Montenegro is slowly developing a more modern and vibrant economy. The trade regime is increasingly open, and the regulatory framework has become more efficient, supporting the development of a growing private sector. Other measures, including competitive flat tax rates, have also contributed to entrepreneurial dynamism.

Despite the strides made since the country gained independence, the momentum for advancing economic freedom appears to have stalled. Montenegro's prospects for rapid long-term economic growth are curtailed by a lack of institutional commitment to the strong protection of property rights and ineffectiveness in the fight against corruption. The judicial framework remains vulnerable to political interference, undermining respect for the rule of law.

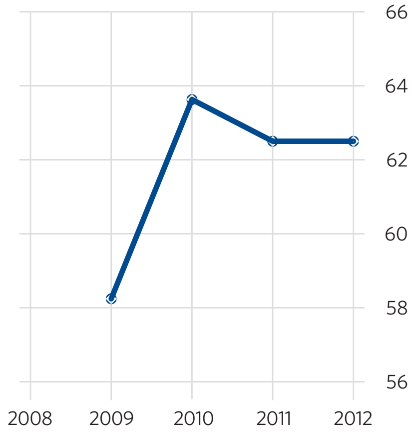
BACKGROUND: The Republic of Montenegro officially declared its independence on June 3, 2006, after a decade of gradual separation from Serbia during which Montenegro introduced significant privatization and began to use the German mark and then (despite not being a member of the euro zone) the euro as its legal tender. Montenegro is pursuing membership in the World Trade Organization, the European Union, and NATO. In 2009, NATO invited Montenegro to undertake a Membership Action Plan—in effect, a road map to membership. Montenegro also became a candidate for EU membership in 2010 and is awaiting the start of accession talks. Prime Minister Milo Djukanovic resigned from power in 2010, and parliament approved Igor Luksic as prime minister. Ongoing problems include unemployment and the black market.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

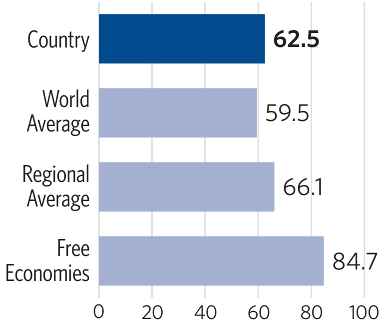
Economic Freedom Score



Freedom Trend



Country Comparisons



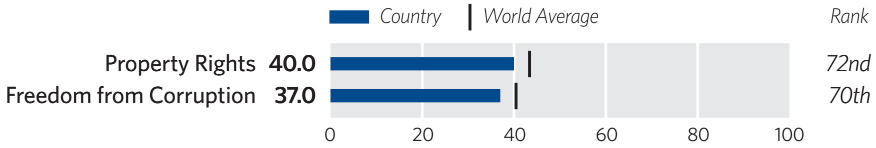
Quick Facts

Population: 661,807
GDP (PPP): $6.7 billion
1.1% growth in 2010
5-year compound annual growth 4.1%
$10,742 per capita
Unemployment: 14.7%
Inflation (CPI): 0.5%
FDI Inflow: $760.4 million
Public Debt: 44.1% of GDP

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

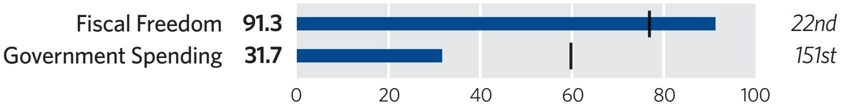
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



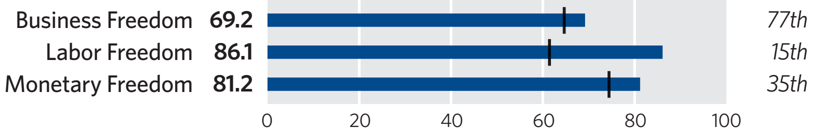
The constitution provides for an independent judiciary, but the system is inefficient and subject to political interference. Infringements of intellectual property rights are fairly widespread, and the laws on trademarks and designs will need to be amended to bring standards up to levels prevailing in the EU. Mistrust of government continues, particularly due to pervasive corruption in the executive and judicial branches.

LIMITED GOVERNMENT



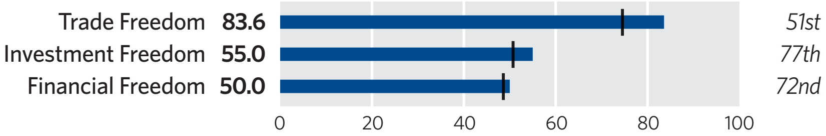
The income and corporate tax rates are a flat 9 percent. Other taxes include a value-added tax (VAT) and an inheritance tax, and the overall tax burden amounts to 26.7 percent of total domestic income. Government spending has increased to a level equivalent to 47.7 percent of total domestic output. The budget balance has been negative in recent years, and public debt has climbed to almost 45 percent of GDP.

REGULATORY EFFICIENCY



Procedures for setting up a business have been streamlined, and the number of licensing requirements has been reduced, but the overall pace of reform has slowed. The enforcement of regulations is sometimes inconsistent and non-transparent. Labor regulations lack flexibility, discouraging more dynamic job creation. Overall price levels have moderated, although inflationary pressures linger.

OPEN MARKETS



The trade weighted average tariff rate is 3.2 percent, but cumbersome non-tariff barriers increase the cost of trade. Although foreign investment is officially welcome, the investment regime remains too bureaucratic to allow dynamic investment growth. The small financial sector has gradually become more competitive and diversified, but non-performing loans have been on the rise.

Score Changes

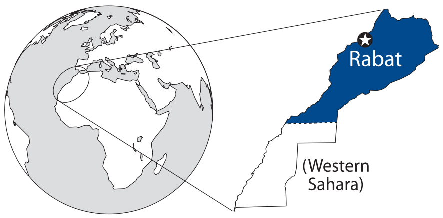
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-2.0

LIMITED GOVERNMENT	
Fiscal Freedom	+1.9
Government Spending	+3.1

REGULATORY EFFICIENCY	
Business Freedom	-2.1
Labor Freedom	-6.2
Monetary Freedom	+5.2

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

MOROCCO



World Rank: **87** Regional Rank: **9**

Morocco's economic freedom score is 60.2, making its economy the 87th freest in the 2012 *Index*. Its score is 0.6 point better than last year as a result of modest improvements in most of the categories of economic freedom. Morocco is ranked 9th out of 17 countries in the Middle East/North Africa region, and its overall score is just above the world average.

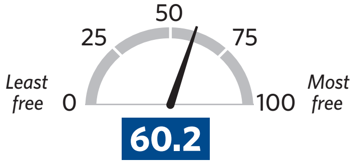
Economic freedom has advanced in Morocco for four consecutive years. In the 2012 *Index*, the kingdom has regained the status of "moderately free economy" that it last enjoyed in 2001. The country's gradual but notable progress is due in part to the government's consistent commitment to economic reforms that have encouraged a dynamically evolving private sector. Competitiveness has improved, and the productive base has diversified. The economy has expanded at an average annual rate of close to 5 percent over the past five years.

There are lingering challenges that will require deeper institutional reforms to overcome. The labor market is neither flexible nor vibrant, and a large segment of the labor force remains marginalized in the informal sector. The judicial framework is inefficient and vulnerable to political interference and corruption.

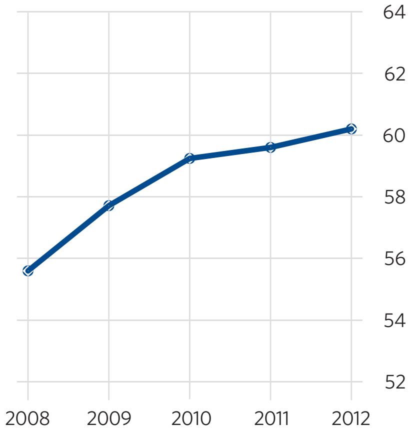
BACKGROUND: Morocco, a constitutional monarchy, has been a key Western ally in the struggle against Islamist extremism. King Mohammed VI has encouraged political and economic reform, expansion of civil rights, and efforts to reduce corruption. The king responded to demonstrations in February 2011 protesting corruption and high food prices and calling for greater democracy by authorizing a commission to propose amendments to the constitution, which were approved in a July referendum. Morocco has the world's largest phosphate reserves and is the world's leading exporter of phosphates. It also 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. A free trade agreement with the United States took effect in January 2006.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

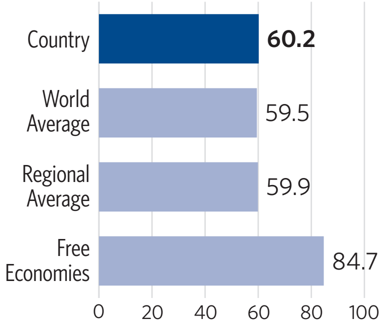
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 31.9 million

GDP (PPP): $151.4 billion
3.2% growth in 2010
5-year compound annual growth 4.8%
$4,754 per capita

Unemployment: 9.8%

Inflation (CPI): 1.0%

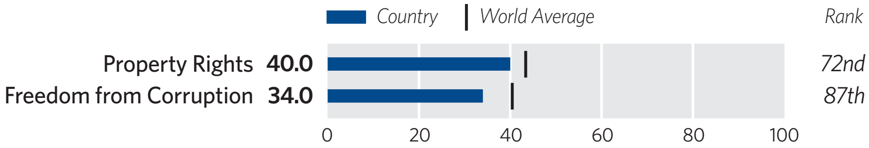
FDI Inflow: $1.3 billion

Public Debt: 51.1% of GDP

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

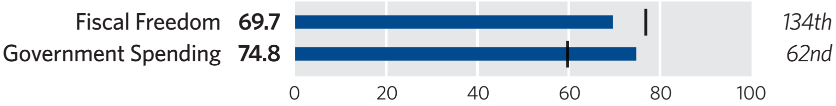
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



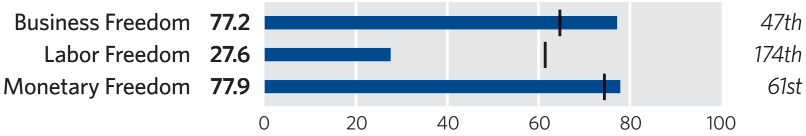
Private ownership is permitted in all sectors except for a few that are reserved for the state, like phosphate mining. With few exceptions, private entities may freely establish, acquire, and dispose of interests in business enterprises. The judiciary is influenced by the king, and adjudication of cases can be slow. It is unclear whether new laws protecting intellectual property rights will be enforced effectively. Corruption remains a concern.

LIMITED GOVERNMENT



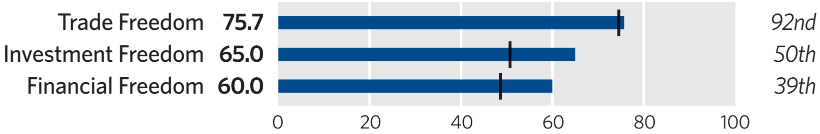
The top income tax rate is 40 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a gift tax, and the overall tax burden amounts to 23 percent of total domestic income. Government spending is equivalent to 29 percent of total domestic output. The budget has been in deficit in recent years, and public debt has climbed to over 50 percent of GDP.

REGULATORY EFFICIENCY



Procedures for setting up and registering private enterprises have been further streamlined. Launching a business takes less than the world averages of seven procedures and 30 days. However, the cost of completing licensing requirements is still over twice the level of annual average income. Labor market rigidity continues to discourage dynamic job growth. Monetary stability has been maintained with relatively modest inflation.

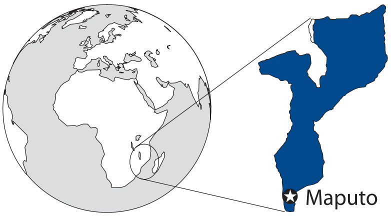
OPEN MARKETS



The trade weighted average tariff rate is 7.1 percent, and cumbersome non-tariff barriers 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 system is fairly well developed in comparison to other economies in the region, with financial intermediation increasing gradually. Credit costs remain relatively high.

Score Changes

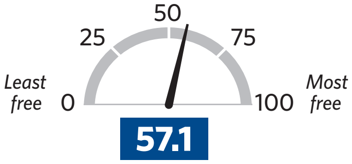
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.9	Business Freedom	+1.5	Trade Freedom	-0.1
Freedom from Corruption	+1.0	Government Spending	+0.2	Labor Freedom	+0.4	Investment Freedom	0
				Monetary Freedom	+1.4	Financial Freedom	0



MOZAMBIQUE

World Rank: **108** Regional Rank: **15**

Economic Freedom Score



Mozambique's economic freedom score is 57.1, making its economy the 108th freest in the 2012 *Index*. Its score is 0.3 point better than last year, with improvements in investment freedom and freedom from corruption largely offset by deteriorating scores in monetary freedom and government spending. Mozambique is ranked 15th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average but above the regional average.

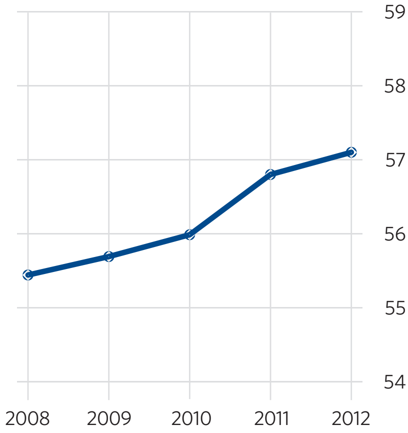
Although progress has been gradual, Mozambique has been implementing much-needed reforms in its regulatory and investment frameworks. Private-sector economic activity has increased, but privatization of state-owned enterprises has slowed. Foreign and domestic capital are treated similarly in most cases, and trade liberalization has progressed despite the persistence of non-tariff barriers.

Critical institutional shortcomings in economic freedom continue to hold back Mozambique's long-term economic development. The legal framework is ineffective and antiquated, and judicial proceedings remain vulnerable to corruption and political interference. Property rights enjoy little protection.

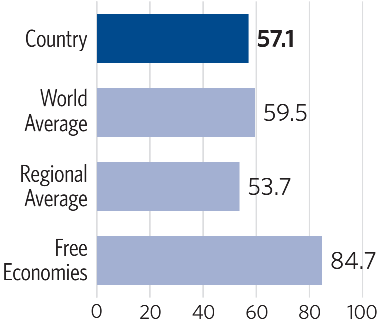
BACKGROUND: Mozambique held its first democratic elections in 1994 and since then has been a model for development and post-war recovery. President Armando Guebuza was re-elected in 2009. Economic growth has been generally strong since the mid-1990s, but the country remains poor and burdened by state-sanctioned monopolies and inefficient public services. Small-scale agriculture, fishing, and forestry employ roughly 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. Mozambique has granted the Indian navy access to the Mozambique Channel to fight Somali pirates.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



Quick Facts

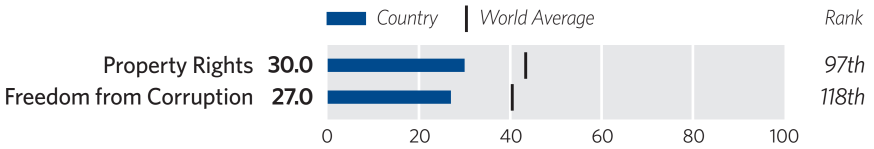
Population: 21.6 million
GDP (PPP): $21.8 billion
7.0% growth in 2010
5-year compound annual growth 7.2%
$1,010 per capita
Unemployment: n/a
Inflation (CPI): 12.7%
FDI Inflow: $788.9 million
Public Debt: 37.8% of GDP

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

MOZAMBIQUE (continued)

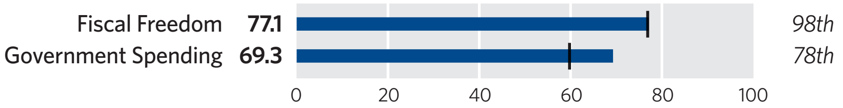
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



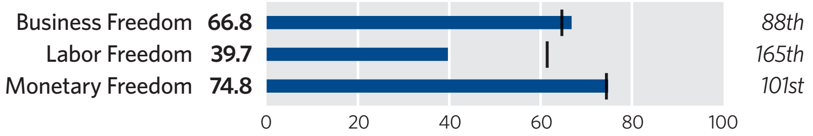
Property rights are not strongly respected, and law enforcement is inefficient and uneven. The judicial system is not fully independent and remains vulnerable to political influence and corruption. In the absence of an efficient legal framework, court rulings can be arbitrary and inconsistent. Protection of intellectual property rights is not up to world standards, and the market for pirated goods has been expanding.

LIMITED GOVERNMENT



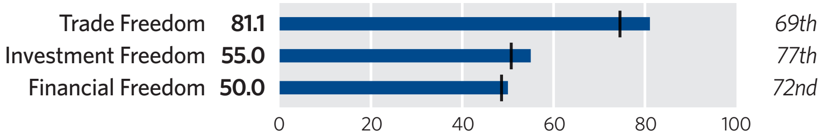
The top income and corporate tax rates are 32 percent. Other taxes include a value-added tax (VAT) and an inheritance tax, and the overall tax burden amounts to 15.4 percent of total domestic income. Government spending has increased to a level equivalent to 32 percent of total domestic output. The budget balance has shown a deficit, and public debt has been hovering at a level near 40 percent of GDP.

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. The cost of completing licensing requirements has been significantly reduced. A recently passed labor law was intended to make the labor market more flexible but also increased overtime restrictions. Inflationary pressures have been rising, undermining monetary stability.

OPEN MARKETS



The trade weighted average tariff rate is 4.5 percent, with complex non-tariff barriers further restricting freedom to trade. Despite some progress in enhancing the investment framework, layers of bureaucratic procedures continue to hamper more vibrant growth in new investment. The financial sector is growing but remains hindered by weak infrastructure and state controls. Most citizens still lack adequate access to financial services.

Score Changes

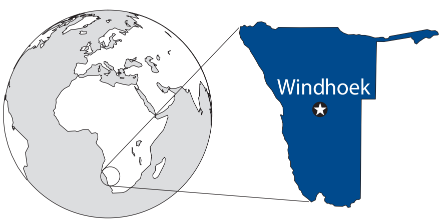
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+2.0

LIMITED GOVERNMENT	
Fiscal Freedom	−0.4
Government Spending	−7.2

REGULATORY EFFICIENCY	
Business Freedom	+3.7
Labor Freedom	+0.5
Monetary Freedom	−5.5

OPEN MARKETS	
Trade Freedom	+0.1
Investment Freedom	+10.0
Financial Freedom	0

NAMIBIA



World Rank: **76** Regional Rank: **7**

Namibia's economic freedom score is 61.9, making its economy the 76th freest in the 2012 *Index*. Its score is 0.8 point worse than last year, with declines in five of the 10 categories of economic freedom. Namibia is ranked 7th out of 46 countries in the Sub-Saharan Africa region, and its overall score is above the world and regional averages.

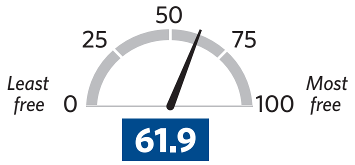
The Namibian economy continues to be categorized as "moderately free." Earlier reforms have enabled the economy to continue modest economic growth. Aided by a stable regulatory environment and a relatively high degree of openness to global trade, annual economic growth has averaged about 4 percent over the past five years.

Nonetheless, Namibia's economic expansion is not strongly sustained by government policies or institutions. As reflected in low scores for property rights and freedom from corruption, overall economic freedom is constrained by deficiencies in the judicial framework. Protection of property rights is weak, and the government has not been effective in eliminating corruption. The legal system is inconsistent in contract enforcement and vulnerable to political influence. Mistrust of government continues, particularly due to pervasive corruption in the executive and judicial branches.

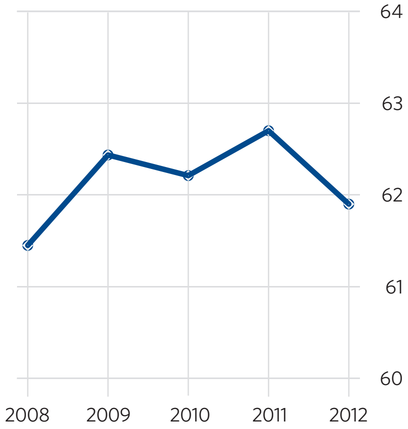
BACKGROUND: South West Africa People's Organization candidate Hifikepunye Pohamba succeeded President Sam Nujoma in 2005 and won a second five-year term in 2009. Namibia is rich in minerals, including uranium, diamonds, copper, gold, lead, and zinc, but weak infrastructure, high unemployment, and problems in the utility and electricity sectors have impeded growth. 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. HIV/AIDS is a serious problem. 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

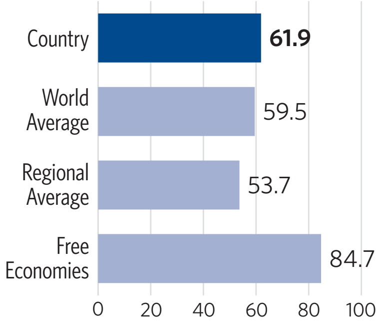
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

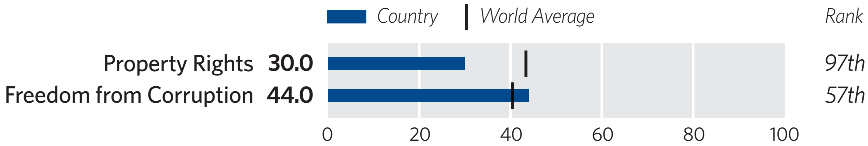
Population: 2.1 million
GDP (PPP): $14.6 billion
4.4% growth in 2010
5-year compound annual growth 4.0%
$6,953 per capita
Unemployment: n/a
Inflation (CPI): 4.5%
FDI Inflow: $857.6 million
Public Debt: 18.8% of GDP

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

NAMIBIA (continued)

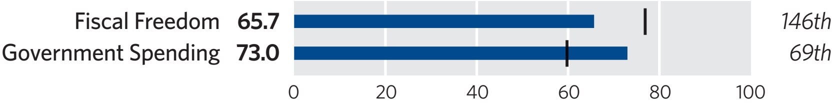
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



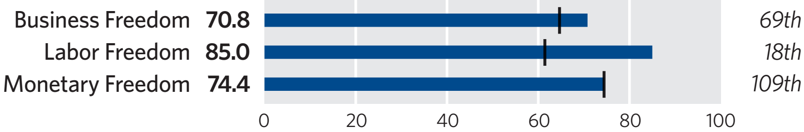
The rule of law remains weak and uneven across the country. Failing to provide effective protection of property rights, the legal framework remains inefficient and susceptible to political interference. The court system lacks the capacity to provide effective protection of property rights. Infringements of intellectual property rights are rife, and corruption remains endemic, eroding the rule of law.

LIMITED GOVERNMENT



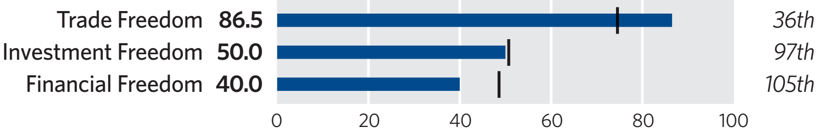
The top individual income tax rate is 37 percent, and the top corporate tax rate is 35 percent. Other taxes include a value-added tax (VAT), with the overall tax burden amounting to 28.9 percent of total domestic income. Government spending is at a level equivalent to 30 percent of GDP. The budget has been in deficit in recent years, and public debt stands at close to 19 percent of total domestic output.

REGULATORY EFFICIENCY



The overall regulatory framework is relatively efficient and streamlined, but the pace of reform has slowed. Although there is no minimum capital requirement, launching a business takes more than the world averages of seven procedures and 30 days. Labor regulations are not rigid, but the labor market lacks dynamism. After years of volatility, inflation has moderated over the past three years.

OPEN MARKETS

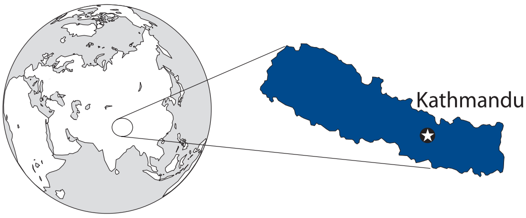


The trade weighted average tariff rate is low at 1.8 percent. However, extensive non-tariff barriers raise the cost of trade considerably. Although foreign investment is formally encouraged, the necessary regulatory infrastructure for spurring dynamic growth in new investment is not in place. The financial sector remains underdeveloped, and access to credit and other financial services is limited.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-2.2	Business Freedom	-2.1	Trade Freedom	+0.1
Freedom from Corruption	-1.0	Government Spending	-1.8	Labor Freedom	+0.4	Investment Freedom	-5.0
				Monetary Freedom	+3.5	Financial Freedom	0

NEPAL



World Rank: **147** Regional Rank: **32**

Nepal's economic freedom score is 50.2, making its economy the 147th freest in the 2012 *Index*. Its score is virtually unchanged from last year, with an improvement in investment freedom offset by deterioration in business freedom. Nepal is ranked 32nd out of 41 countries in the Asia–Pacific region, and its score remains far below world and regional averages.

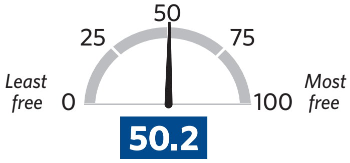
Nepal's statist approach to the economy continues to hold development progress far below the country's potential. The foundations of economic freedom are extremely weak, and corruption, a lack of transparency, and a burdensome business approval process impede much-needed expansion of private investment and production. Property rights are poorly protected by the inefficient judicial system, which is subject to substantial political influence.

Overall, the economy lacks the entrepreneurial dynamism for broad-based economic growth and sustainable long-term development. Its scores for investment freedom and financial freedom are among the worst in the world. State interference continues to hurt regulatory efficiency, and there has been little effort to open the economy or engage in world markets. Lingering political instability undermines the government's ability and willingness to implement necessary economic reforms.

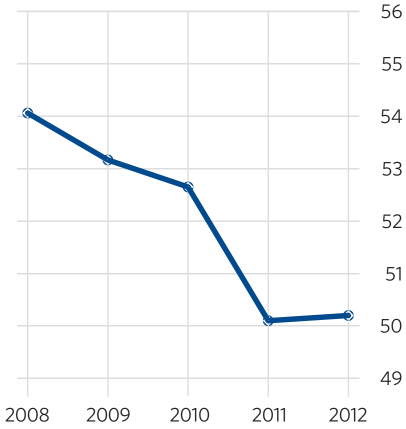
BACKGROUND: Five years after the end of a Maoist insurgency and the abolition of the monarchy, political instability continues to plague Nepal. Communist Party of Nepal (United Marxist–Leninist) leader Madhav Kumar left his post as prime minister in June 2010 to break a deadlock with the Maoist Party, which refused to extend the Constituent Assembly's term without his resignation. Constituent Assembly elections in February 2011 brought to power another coalition government led by Prime Minister Jhala Nath Khanal of the CPN (UM–L). Crafting an agreement to resolve the status of 19,000 former Maoist fighters has been a sticking point in Nepal's political transition. There is very little foreign direct investment, and the main industries are agriculture and services.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

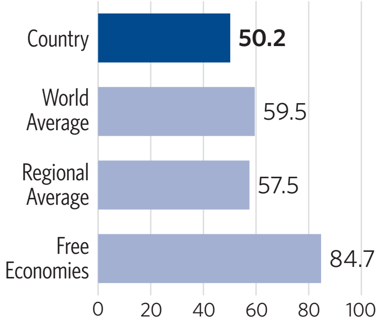
Economic Freedom Score



Freedom Trend



Country Comparisons



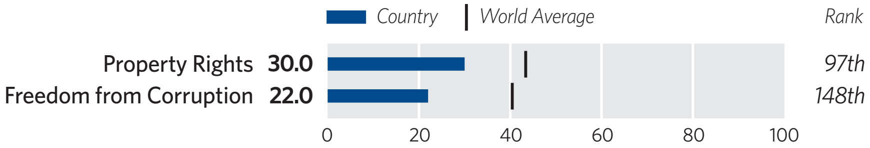
Quick Facts

Population: 28.2 million
GDP (PPP): $35.8 billion
4.6% growth in 2010
5-year compound annual growth 4.5%
$1,271 per capita
Unemployment: 46.0%
Inflation (CPI): 9.3%
FDI Inflow: $39.0 million
Public Debt: 35.9% of GDP

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

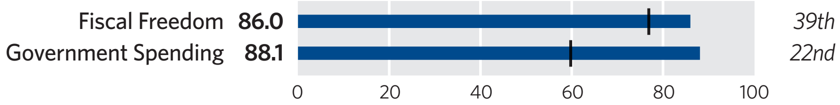
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



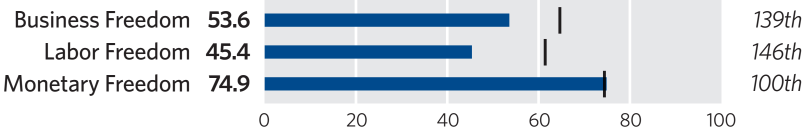
The rule of law is weak, and protections for both real and intellectual property rights are not enforced effectively. The judicial system is inefficient, with lower-level courts particularly vulnerable to political pressure. Public-sector corruption continues to be a serious concern. Effective anti-corruption measures are not in place, and government officials exploit their positions for personal gain.

LIMITED GOVERNMENT



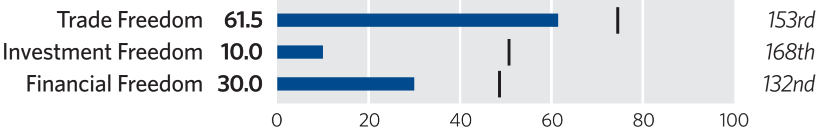
The top income and corporate tax rates are 25 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden amounting to 12.2 percent of total domestic income. Government spending is equivalent to 19.9 percent of total domestic output. The budget balance has been in deficit in recent years, and public debt stands at around 36 percent of GDP.

REGULATORY EFFICIENCY



Despite some progress in streamlining the process for launching a business, other requirements are time-consuming and costly. Completing licensing requirements takes more than 200 days and costs over seven times the level of annual average income. Labor regulations are obsolete. Labor–management tension has grown, and high underemployment persists. Inflation has been unstable and significant.

OPEN MARKETS

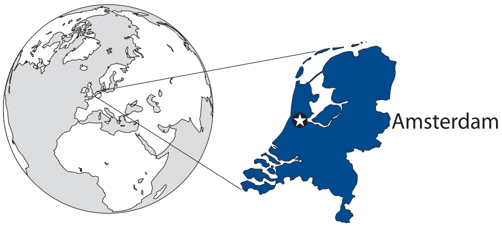


The trade weighted average tariff rate is prohibitively high at 14.3 percent, with pervasive non-tariff barriers further suppressing freedom to trade. Private investment is hamstrung by political instability, and the inefficient investment regime is a further impediment to much-needed foreign investment. The financial sector remains fragmented, and government ownership continues to be substantial.

Score Changes

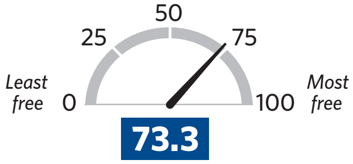
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.4	Business Freedom	-5.6	Trade Freedom	+0.1
Freedom from Corruption	-1.0	Government Spending	-0.3	Labor Freedom	+1.1	Investment Freedom	+5.0
				Monetary Freedom	+1.1	Financial Freedom	0

THE NETHERLANDS



World Rank: 15 **Regional Rank: 6**

Economic Freedom Score



The Netherlands' economic freedom score is 73.3, making its economy the 15th freest in the 2012 *Index*. Its score is 1.4 points worse than last year due to significant deterioration in the control of public spending. The Netherlands is ranked 6th out of 43 countries in the Europe region, and its overall score is above the world and regional averages.

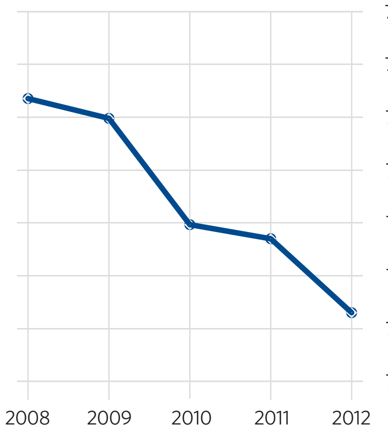
The Dutch economy benefits from a traditional emphasis on the rule of law and an efficient legal framework. The judicial system, independent and free of corruption, provides strong protection for property rights. Openness to global trade and investment is well established, and the overall regulatory and entrepreneurial environment remains transparent and efficient. Sensible banking regulations facilitate robust entrepreneurial activity, and lending practices are prudent. Monetary stability is well maintained, and inflationary pressures have been under control.

However, the Netherlands' respect for the concept of limited government has eroded further. Government spending has been expansive, and the overall tax regime to finance the growing scale of government has become burdensome and complex. Spending on subsidies and various social transfers has driven the deficit to over 5 percent of GDP and resulted in rising public debt.

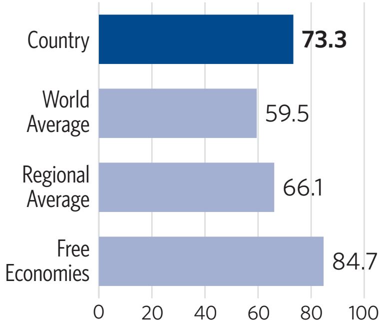
BACKGROUND: In elections held in June 2010, the right-wing Freedom Party of Geert Wilders, whose campaign highlighted problems with the assimilation of Muslim immigrants, showed the strongest gains, but Mark Rutte of the Peoples Party for Freedom and Democracy became prime minister as head of a center-right coalition. The Netherlands is heavily involved in international commerce, and its prosperous economy is sensitive to changes in the global economy. Rotterdam is one of the world's largest ports and Europe's largest in terms of cargo tonnage. During the financial turmoil in 2009, the government nationalized Dutch operations of Fortis bank and put billions into saving a large part of the troubled banking sector. The government's traditionally significant role in the economy may change as the new government works to shrink the public sector.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



Quick Facts

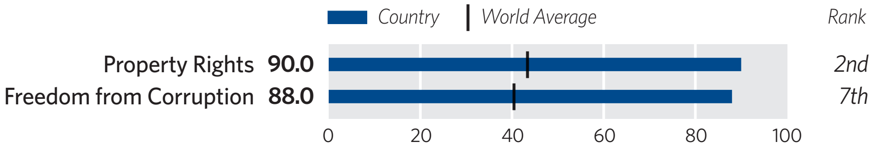
Population: 16.6 million
GDP (PPP): $676.9 billion
1.7% growth in 2010
5-year compound annual growth 1.4%
$40,765 per capita
Unemployment: 4.3%
Inflation (CPI): 0.9%
FDI Inflow: –$16.1 billion
Public Debt: 63.7% of GDP

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

THE NETHERLANDS (continued)

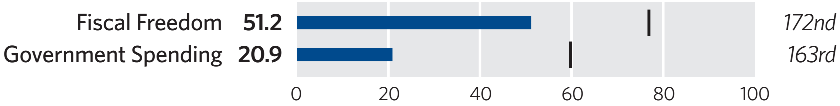
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



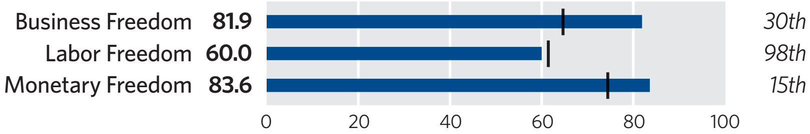
The well-functioning legal framework ensures strong protection of private property rights and enforcement of contracts. Citizens and foreigners purchasing real property receive equal treatment. Independent of political interference, the judiciary is respected and provides fair trials. Intellectual property rights are relatively well protected. Effective anti-corruption measures and minimal tolerance for corruption uphold government integrity.

LIMITED GOVERNMENT



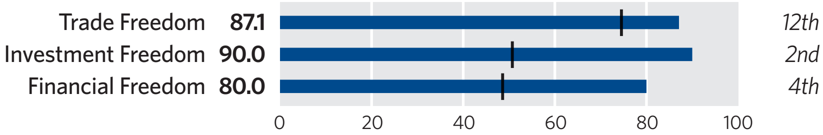
The top income tax rate is 52 percent, and the top corporate tax rate is 25.5 percent. Other taxes include a value-added tax (VAT) and environmental taxes, with the overall tax burden amounting to 39.1 percent of total domestic income. Government spending is equivalent to 51.4 percent of total domestic output. The budget has been in deficit in recent years, and public debt has grown to over 60 percent of GDP.

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 eight 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, with very low inflation.

OPEN MARKETS

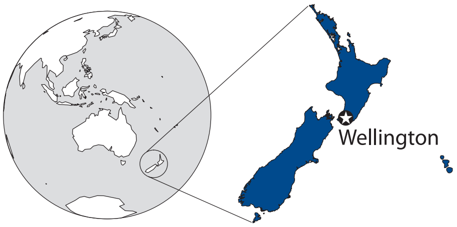


The trade weighted average tariff rate, standard throughout the European Union, is low, but lingering non-tariff barriers add to the cost of trade. With few restrictions in place, the investment environment is favorable to dynamic growth in new investment and production. The well-developed financial sector has been competitive. Banking remains relatively stable, despite the ongoing European sovereign debt turmoil.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.6	Business Freedom	0	Trade Freedom	-0.5
Freedom from Corruption	-1.0	Government Spending	-15.9	Labor Freedom	+1.7	Investment Freedom	0
				Monetary Freedom	+0.9	Financial Freedom	0

NEW ZEALAND



World Rank: **4** Regional Rank: **4**

New Zealand's economic freedom score is 82.1, making its economy the 4th freest in the 2012 *Index*. Its score is 0.2 point worse than last year, reflecting modest declines in investment freedom and the control of government spending that offset an improvement in fiscal freedom. New Zealand is ranked 4th out of 41 countries in the Asia–Pacific region, and its score is far above the world and regional averages.

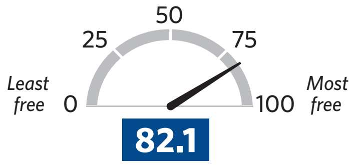
New Zealand's strong commitment to economic freedom has resulted in a policy framework that encourages impressive economic resilience. Openness to global trade and investment are firmly institutionalized, and the economy rebounded quickly from the global recession. A severe earthquake in 2011 in Christchurch caused only a transitory dip in healthy economic growth.

The financial system has remained stable, and prudent regulations allowed banks to withstand the global financial turmoil with little disruption. Other institutional strengths include relatively sound public finance management and strong protection of property rights. The government has delivered on its commitment to tax reform. The corporate rate was cut from 30 percent to 28 percent in 2011. A transparent and stable business climate makes New Zealand one of the world's friendliest environments for entrepreneurs.

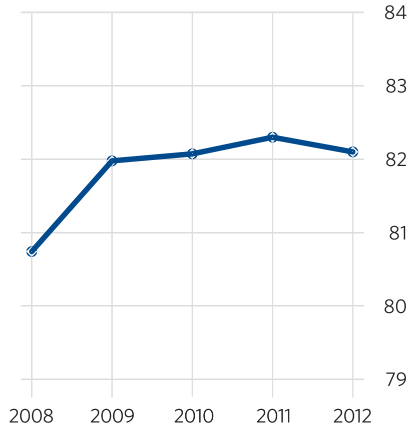
BACKGROUND: New Zealand is a parliamentary democracy and one of the Asia–Pacific region's most prosperous countries. After 10 years of Labor Party–dominated governments, the National Party, led by Prime Minister John Key, returned to power in November 2008. Far-reaching economic liberalization in the 1980s and 1990s largely deregulated the economy, which is powered mainly by agriculture but also benefits from a flourishing manufacturing sector, a thriving tourism industry, and a strong renewable energy resource base. The global economic recession, however, 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 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

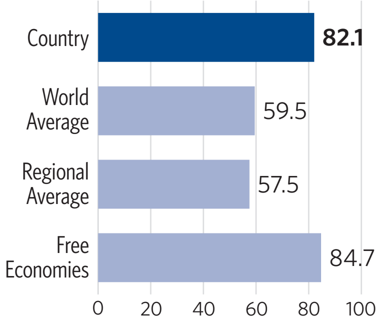
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 4.4 million

GDP (PPP): $117.8 billion
1.5% growth in 2010
5-year compound annual growth 0.6%
$26,966 per capita

Unemployment: 6.5%

Inflation (CPI): 2.3%

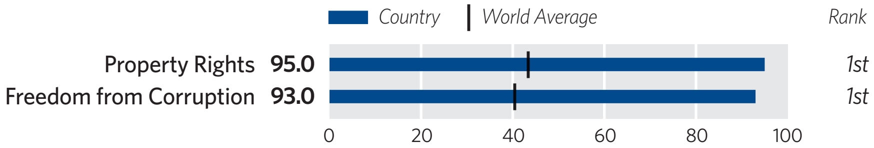
FDI Inflow: $560.7 million

Public Debt: 32.0% of GDP

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

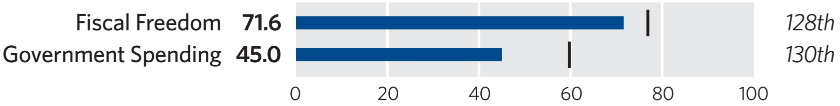
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



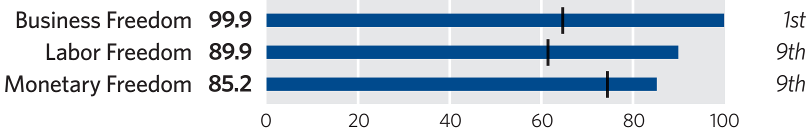
The judicial system is independent and functions well. Private property rights are strongly protected, and contracts are notably secure. Enforcement of intellectual property rights is solid. Amendments to existing copyright laws came into force in 2011. Effective anti-corruption measures and the sound legal framework continue to ensure government integrity and transparency.

LIMITED GOVERNMENT



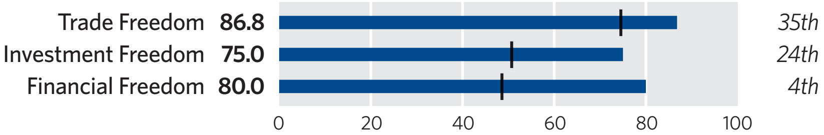
The top income tax rate is 33 percent, and the top corporate tax rate has been cut to 28 percent. Other taxes include a goods and services tax (GST) and environmental taxes, with the overall tax burden amounting to 31 percent of total domestic income. Government spending has risen to a level equivalent to 42.8 percent of total domestic output. The budget balance has registered small deficits in recent years, but public debt remains under control.

REGULATORY EFFICIENCY



New Zealand's entrepreneurial environment is 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 for launching a company, 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 very few limitations on investment activities, and foreign investment has been actively encouraged. The well-developed financial sector offers a wide range of financing instruments. Overall financial regulations are prudent and transparent. Banks remain well-capitalized and stable.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+6.9	Business Freedom	0	Trade Freedom	+0.2
Freedom from Corruption	–1.0	Government Spending	–4.3	Labor Freedom	+0.7	Investment Freedom	–5.0
				Monetary Freedom	+0.4	Financial Freedom	0

NICARAGUA

World Rank: 101 **Regional Rank: 21**

Nicaragua's economic freedom score is 57.9, making its economy the 101st freest in the 2012 *Index*. Its score is 0.9 point worse than last year, with declines in property rights, fiscal freedom, business freedom, and labor 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.

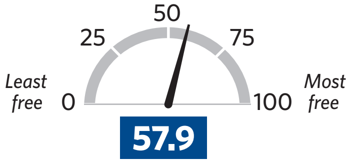
The Nicaraguan government's efforts to improve macroeconomic stability and enhance economic growth have been modest. Government spending has been relatively well controlled, strengthening the management of public finance, but inefficiency and uncertainty in other key areas such as the regulatory and investment frameworks have held back dynamic growth. Entrepreneurs wishing to establish new businesses must overcome numerous bureaucratic hurdles.

Legal and institutional weaknesses continue to constrain overall economic development. The judicial system lacks the capacity to defend property rights effectively. Corruption remains widespread, and the government, lacking a strong commitment to open-market policies, has left burdensome non-tariff barriers and investment restrictions in place, raising costs, hurting productivity growth, and impeding the emergence of a vibrant private sector.

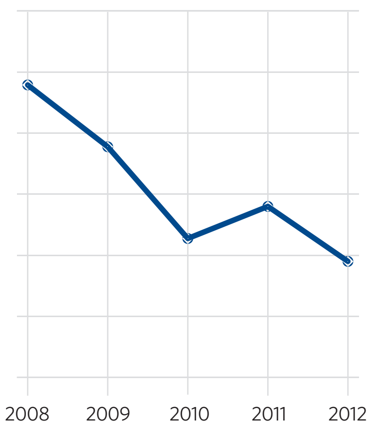
BACKGROUND: Sandinista leader Daniel Ortega returned to power in 2006 despite having won only 38 percent of the vote. Claiming to embrace "fair markets" and democracy, Ortega supports Venezuela's Hugo Chávez and his Bolivarian Alliance for the Americas (ALBA), a Latin American socialist trade organization. Fraud in the November 2008 municipal elections and a crackdown on civil liberties led the U.S. to cancel part of its Millennium Challenge grant to Nicaragua. Ortega has manipulated the election laws to make himself eligible to run again in November 2011. Nearly half of the workforce is unemployed or underemployed in the formal sector. The Central America–Dominican Republic–United States Free Trade Agreement came into force in 2006, and the economy has diversified to include mineral and textile production.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

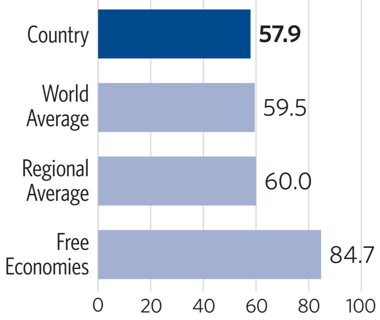
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

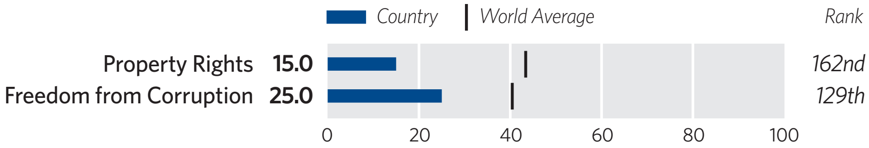
Population: 5.8 million
GDP (PPP): $17.7 billion
4.5% growth in 2010
5-year compound annual growth 2.6%
$3,045 per capita
Unemployment: 8.0%
Inflation (CPI): 5.5%
FDI Inflow: $508.0 million
Public Debt: 80.3% of GDP

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

NICARAGUA (continued)

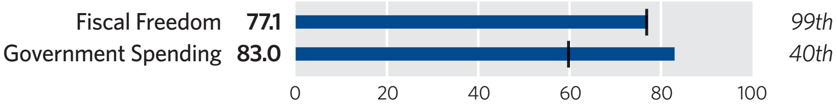
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



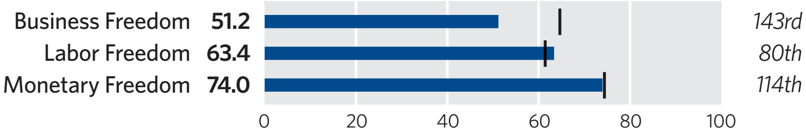
The rule of law remains uneven across the country, and the judicial system is not independent of political interference. Protection of private property rights is not enforced effectively, and contracts are not always secure. The registry of land titles is inefficient, and many expropriation cases from earlier years remain unresolved. Corruption, nepotism, and political deal-making continue to undermine the foundations of economic freedom.

LIMITED GOVERNMENT



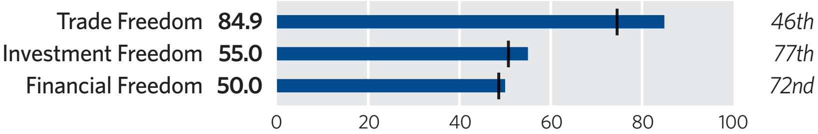
The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden amounting to 22.2 percent of total domestic income. Government spending is equivalent to 23.8 percent of GDP, and the budget balance has registered small deficits in recent years. Public debt hovers at around 80 percent of total domestic output.

REGULATORY EFFICIENCY



Burdensome regulations continue to hinder private-sector development. The regulatory system suffers from a lack of transparency and clarity, and regulations are not always enforced consistently. The labor market remains rigid, and the lack of employment opportunities has caused chronic underemployment. Inflation has been volatile, eroding monetary stability.

OPEN MARKETS

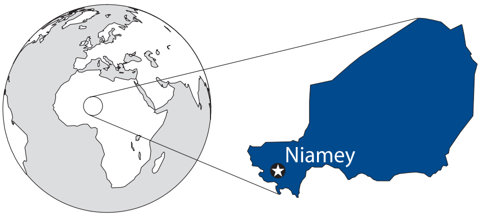


The trade weighted average tariff rate is moderate at 2.6 percent, but additional trade barriers in the form of complex regulations increase the cost of trade. The investment regime is not transparent and efficient, although foreign investment is formally welcome. Ongoing political uncertainty and instability add to the risk of long-term investment. The financial sector remains underdeveloped, providing a limited range of services.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**-5.0**	Fiscal Freedom	**-1.7**	Business Freedom	**-3.1**	Trade Freedom	**+0.1**
Freedom from Corruption	**0**	Government Spending	**+1.7**	Labor Freedom	**-3.7**	Investment Freedom	**0**
				Monetary Freedom	**+2.3**	Financial Freedom	**0**

NIGER



World Rank: **125** Regional Rank: **23**

Niger's economic freedom score is 54.3, making its economy the 125th freest in the 2012 *Index*. Its score is unchanged from last year, with declines in half of the economic freedoms offsetting a considerable gain in monetary freedom. Niger is ranked 23rd out of 46 countries in the Sub-Saharan Africa region, and its overall score is above the regional average.

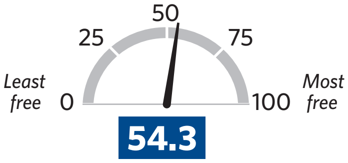
Progress in Niger toward greater economic freedom has been uneven and sluggish. Lingering institutional weaknesses hamper prospects for macroeconomic stability and poverty reduction. In particular, the rule of law, one of the key foundations of economic freedom, remains fragile due to corruption and an inept judicial system that is subject to political interference.

Economic expansion, driven mainly by minerals exports, has averaged 5 percent per year for the past five years. The commencement of oil production and refining in 2012 is likely to have a significant impact on the economy. However, sustaining steady growth will be challenging because of the lack of economic dynamism. The economy remains highly vulnerable to external shocks, and the inefficient regulatory environment continues to constrain commercial operations and investment. The underdeveloped financial system remains weak and fragmented, reflecting the small size of the formal economy.

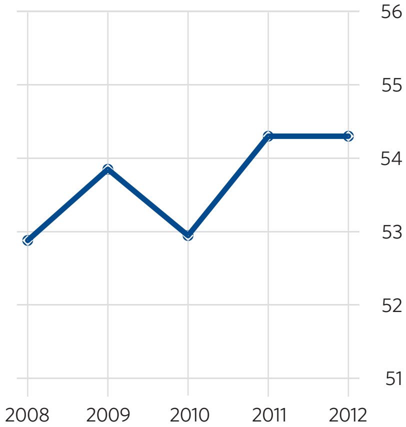
BACKGROUND: President Mamadou Tandja introduced a new constitution in 2009 to extend his term in office but was overthrown in 2010. Major Salou Djibo was named head of the Supreme Council for the Restoration of Democracy. Following a peaceful election a year later, Mahamadou Issoufou was inaugurated 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. 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 seriously 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 drought hinder food production.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

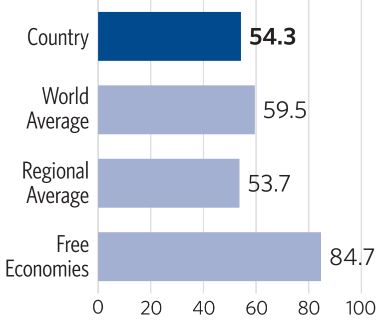
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 14.6 million

GDP (PPP): $11.1 billion

7.5% growth in 2010

5-year compound annual growth 5.0%

$755 per capita

Unemployment: n/a

Inflation (CPI): 0.9%

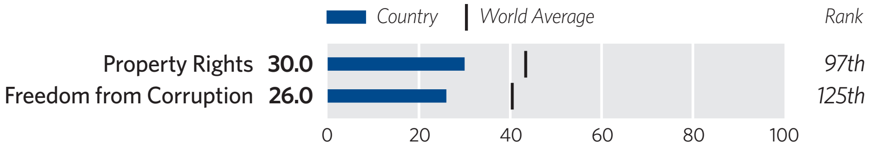
FDI Inflow: $946.9 million

Public Debt: 16.2% of GDP

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

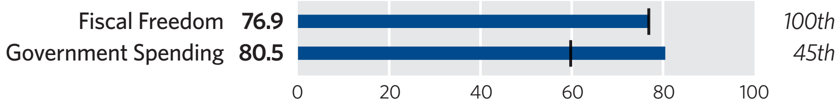
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



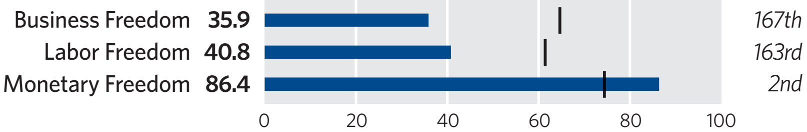
The rule of law is fragile under an ineffective judicial framework. The court system remains weak and vulnerable to political interference. The government lacks the capacity to enforce intellectual property rights protection laws effectively. Corruption in the executive and legislative branches is compounded by poorly trained law enforcement, weak administrative controls, and politicization of the public service.

LIMITED GOVERNMENT



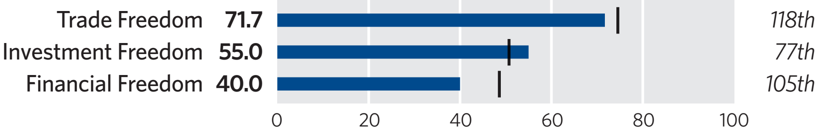
The top income tax rate is 35 percent, and the top corporate tax rate is 30 percent. Other taxes include a tax on interest and a capital gains tax, with the overall tax burden amounting to 13.6 percent of total domestic income. Government spending has increased to a level equivalent to 25.5 percent of GDP. The budget balance remains negative, although public debt stands at below 20 percent of total domestic output.

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 20 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

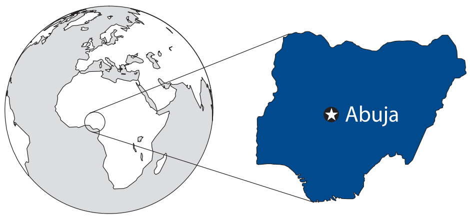


The trade weighted average tariff rate is high at 9.1 percent, and extensive non-tariff barriers further increase the cost of trade. The investment framework remains outmoded and non-transparent, deterring vibrant growth in private investment. Despite some progress toward modernizing the financial sector, 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	**-0.6**	Business Freedom	**-1.0**	Trade Freedom	**-0.1**
Freedom from Corruption	**-3.0**	Government Spending	**-2.5**	Labor Freedom	**+0.5**	Investment Freedom	**0**
				Monetary Freedom	**+6.4**	Financial Freedom	**0**

NIGERIA



World Rank: **116** Regional Rank: **19**

Nigeria's economic freedom score is 56.3, making its economy the 116th freest in the 2012 *Index*. Its score is 0.4 point lower than last year, reflecting declines in six of the 10 economic freedoms, including labor freedom, monetary freedom, trade freedom, and freedom from corruption, that overwhelmed a modest gain in business freedom. Nigeria is ranked 19th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

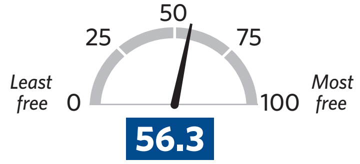
The Nigerian government has pursued structural reforms centered on enhancing the management of public finance and improving the efficiency of the entrepreneurial environment. With a strong surge in oil production, the economy has achieved an average annual growth rate of around 7 percent over the past five years.

Nonetheless, the structural changes that are necessary to develop a more vibrant private sector or achieve more broad-based growth have not emerged. The oil sector continues to dominate the economy. Lingering institutional problems hamper activity elsewhere. With the judicial system susceptible to political interference, corruption is prevalent, and the rule of law is weak throughout the country. Cronyism is pervasive, particularly in connection with the oil and gas sector.

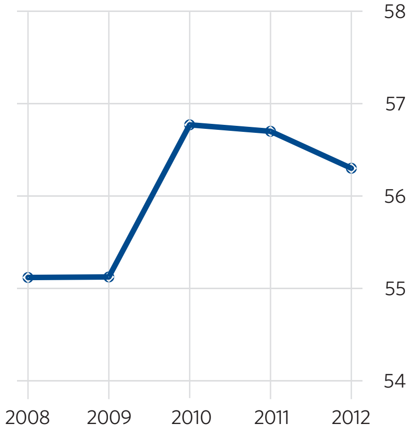
BACKGROUND: After the death of President Umaru Yar'Adua in May 2010, Vice President Goodluck Jonathan was sworn in as president. He was re-elected in April 2011. Nigeria is Africa's most populous nation, with an estimated population of over 150 million. It is also Africa's leading oil producer, although 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. Ethnic, regional, and religious violence has taken a heavy toll in parts of Nigeria, aggravated by the imposition of Islamic law in several states.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

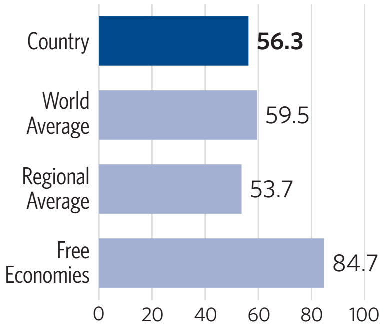
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

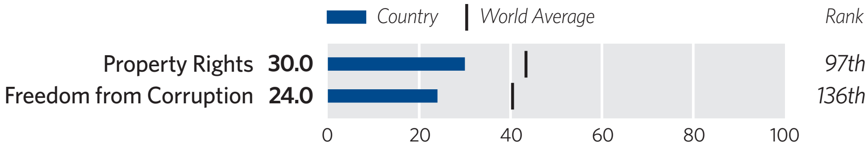
Population: 156.1 million
GDP (PPP): $377.9 billion
8.4% growth in 2010
5-year compound annual growth 6.9%
$2,422 per capita
Unemployment: n/a
Inflation (CPI): 13.7%
FDI Inflow: $6.1 billion
Public Debt: 17.3% of GDP

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

NIGERIA (continued)

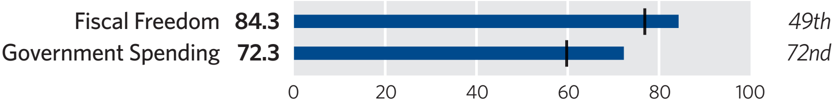
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



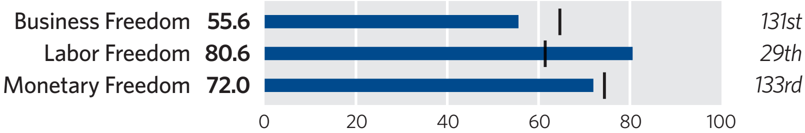
The legal system suffers from political interference, bureaucratic delays, insufficient funding, and the lack of a document-processing system. One of the world's least efficient property registration systems makes acquiring and maintaining rights to real property difficult. Enforcement of copyrights, patents, and trademarks is deficient. Corruption is endemic at many levels of the public sector.

LIMITED GOVERNMENT



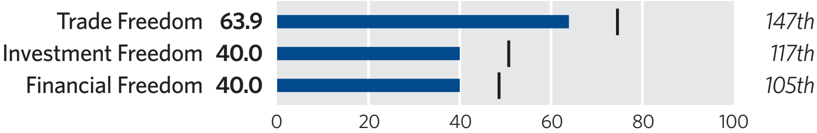
The top income tax rate is 25 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden amounting to 6.9 percent of total domestic income. Government spending has increased slightly to a level equivalent to 30.4 percent of total domestic output. The budget deficit has been over 5 percent of GDP, although public debt remains below 20 percent of GDP.

REGULATORY EFFICIENCY



The business environment has improved only marginally. The entrepreneurial environment remains burdened by time-consuming and costly regulatory procedures. The minimum capital requirement for starting a business has been eliminated, but completing licensing requirements still costs over five times the level of annual average income. Much of the formal labor force is employed in the public or energy sectors. Inflation has been high.

OPEN MARKETS

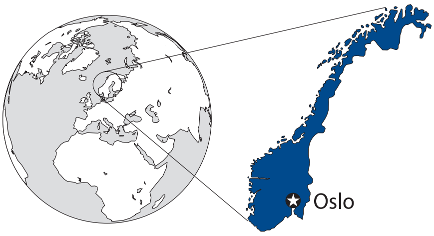


The trade weighted average tariff rate is quite high at 10.6 percent, and onerous non-tariff barriers further deter dynamic growth in trade. Most sectors are open to private investment, and regulations formally treat foreign and domestic investment equally. However, the investment regime lacks efficiency and transparency. The economy remains largely cash-based, and the state continues to influence the allocation of credit.

Score Changes

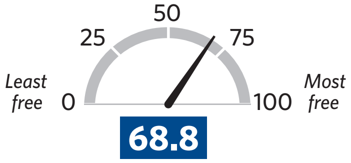
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**0**	Fiscal Freedom	**-0.1**	Business Freedom	**+4.0**	Trade Freedom	**-1.1**
Freedom from Corruption	**-1.0**	Government Spending	**-0.7**	Labor Freedom	**-3.9**	Investment Freedom	**0**
				Monetary Freedom	**-1.5**	Financial Freedom	**0**

NORWAY



World Rank: **40** Regional Rank: **20**

Economic Freedom Score



Norway's economic freedom score is 68.8, making its economy the 40th freest in the 2012 *Index*. Its score has decreased by 1.5 points since last year, mainly reflecting a considerable deterioration in the control of government spending. Norway is ranked 20th out of 43 countries in the Europe region, and its overall score is well above the world and regional averages.

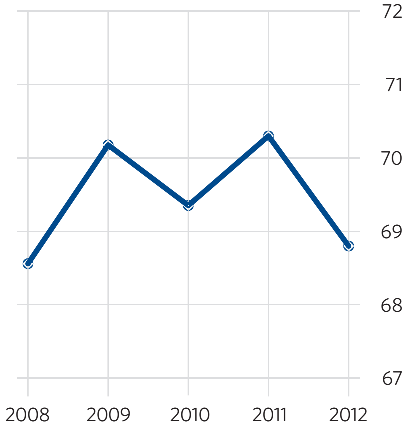
The Norwegian economy is diversified and modern, benefitting from high levels of flexibility and institutional strengths that include strong protection of property rights and an efficient legal framework. Together with openness to global commerce, prudent and transparent regulations sustain economic dynamism and a commercial environment that is innovative and resilient.

Norway dropped from "mostly free" to "moderately free" in the 2012 *Index*, primarily because of expansive public spending. The government has focused on containing expensive welfare programs, but government spending as a percentage of GDP rose sharply. The state maintains substantial ownership in key industries, including telecommunications and hydropower. The accumulation of assets from hydrocarbon production in the National Wealth Fund has provided a cushion for fiscal stimulus, but the central government's structural non-oil deficit has widened.

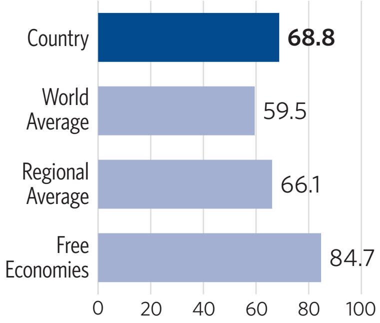
BACKGROUND: Prime Minister Jens Stoltenberg heads a labor–socialist coalition government. Norway has been a member of NATO since 1949, but voters have twice rejected membership in the European Union. Instead, the country maintains close economic interaction with EU members under the European Economic Area agreement. Norway is one of the world's most prosperous countries. Fisheries, metal, and oil are the most important commodities. In 2010, Norway was the world's sixth-largest oil exporter and second-largest gas exporter. It weathered the economic crisis well, thanks to substantial government savings and high oil prices, 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 oil export revenues in investment funds outside of the country as insurance against depleting reserves.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



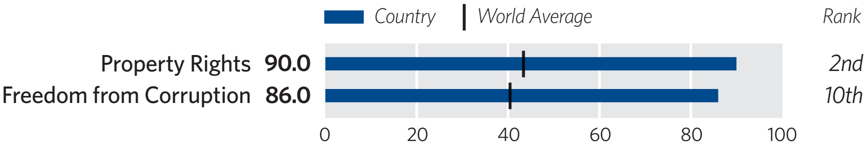
Quick Facts

Population: 4.9 million
GDP (PPP): $255.3 billion
0.4% growth in 2010
5-year compound annual growth 0.9%
$52,013 per capita
Unemployment: 3.6%
Inflation (CPI): 2.4%
FDI Inflow: $11.8 billion
Public Debt: 55.4% of GDP

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

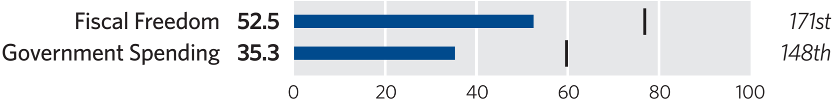
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



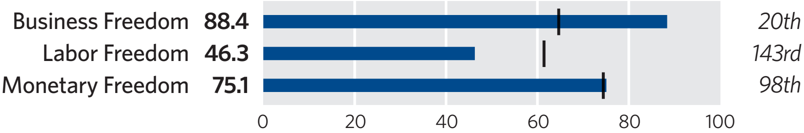
The judicial system is sound and efficient, providing secure protection of private property rights and good enforcement of commercial contracts. With consistent application of law, protection of intellectual property rights is consistent with world standards. Well-established anti-corruption measures uphold government integrity. Transparency has been an emphasis and is a key institutional asset.

LIMITED GOVERNMENT



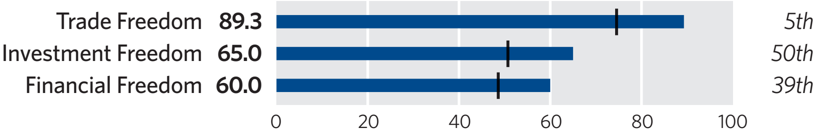
The top income tax rate is 47.8 percent, and the corporate tax rate is a flat 28 percent. Other taxes include a value-added tax (VAT), a tax on net wealth, and environmental taxes, with the overall tax burden amounting to 41 percent of total domestic income. Government spending has risen to a level equivalent to 46.4 percent of total domestic output, but the budget balance remains in surplus due to oil revenues. Public debt is below 60 percent of GDP.

REGULATORY EFFICIENCY



The regulatory regime is highly efficient. Starting a business takes an average of seven days, compared to the world average of 30 days. Obtaining a business license requires less than the world average of 16 procedures. Bankruptcy proceedings are relatively simple. The labor market lacks flexibility, although the non-salary cost of employment is not high in comparison to other countries in the region. Monetary stability is well maintained.

OPEN MARKETS

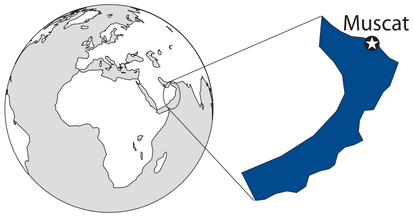


The trade weighted average tariff rate is quite low at less than 1 percent, and non-tariff barriers are nominal and not burdensome. The investment code is transparent and efficiently administered, but domestic or European Economic Area investors are favored. The financial sector is dynamic and competitive, although the government retains ownership of the largest financial institution, which accounts for about 40 percent of total assets.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.9	Business Freedom	+0.1	Trade Freedom	-0.1
Freedom from Corruption	0	Government Spending	-16.2	Labor Freedom	+0.5	Investment Freedom	0
				Monetary Freedom	0	Financial Freedom	0

OMAN



World Rank: **47** Regional Rank: **5**

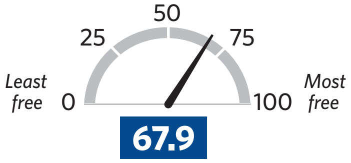
Oman's economic freedom score is 67.9, making its economy the 47th freest in the 2012 *Index*. Its score is 1.9 points lower than last year, reflecting declines in five of the 10 economic freedoms, including freedom from corruption, labor freedom, and government spending. Oman is ranked 5th out of 17 countries in the Middle East/North Africa region, and its overall score is above the world and regional averages.

Oman's economy has been undergoing modernization. Although the rule of law has been relatively well maintained, the judiciary remains vulnerable to political interference. Overall economic freedom remains constrained by state involvement in the private sector and public enterprises. The lack of market competition has gradually inflated price levels. Reliance on a large state-owned energy sector has left the economy vulnerable to external shocks.

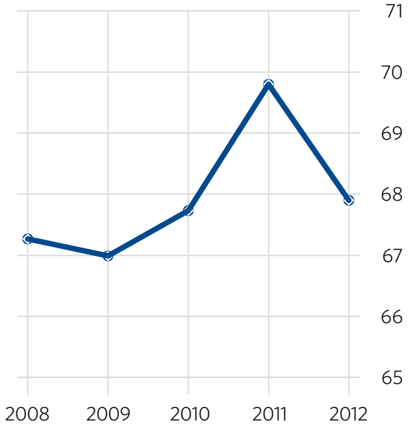
Recognizing the importance of developing a dynamic entrepreneurial environment, the government has acted to diversify economic activity and stimulate broader-based development. Efficiency is improving in the evolving regulatory framework, and tax rates are competitive. Foreign investment is welcome in many sectors, although the approval process can be burdensome.

BACKGROUND: In early 2011, activists demanded greater political rights, economic benefits, and action against corruption. Sultan Qabus bin Said responded by changing cabinet ministers, promising political and economic reforms, and committing to create more government jobs. Oman has been trying to modernize its oil-dominated economy without diluting the ruling al-Said family's power. The government seeks to expand exports of natural gas; develop gas-based industries; and encourage foreign investment in petrochemicals, electric power, telecommunications, and other industries. It also places a high priority on its policy of "Omanization" (replacement of 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.

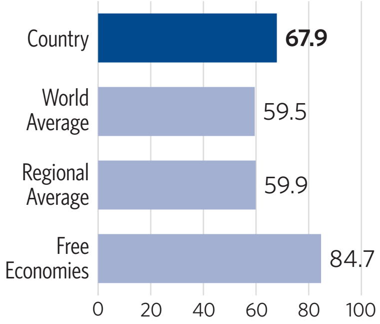
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 3.0 million

GDP (PPP): $75.8 billion

4.2% growth in 2010

5-year compound annual growth 6.0%

$25,439 per capita

Unemployment: 15.0%

Inflation (CPI): 3.3%

FDI Inflow: $2.0 billion

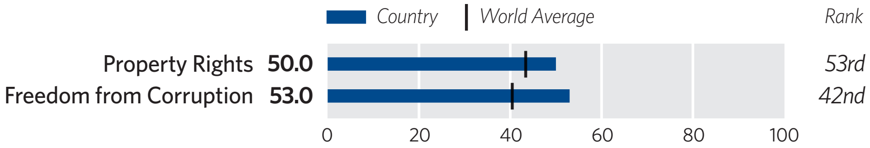
Public Debt: 5.7% of GDP

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

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

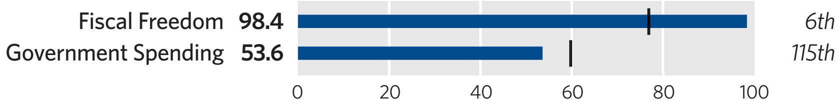
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



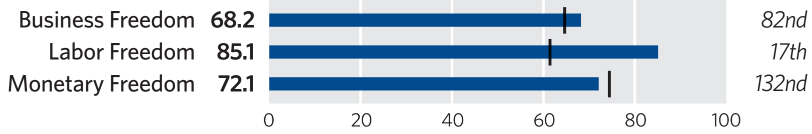
The rule of law has been relatively well maintained, but the judiciary remains vulnerable to political interference. The legal system facilitates transfers of property rights, which are well protected. The threat of expropriation is low. Only Gulf Cooperation Council nationals may own commercial real estate. Enforcement of intellectual property laws has improved. In comparison to other countries in the region, corruption is moderate.

LIMITED GOVERNMENT



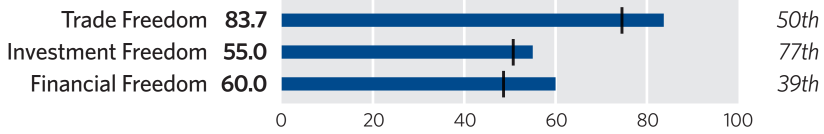
There is no income tax, and the top corporate tax rate is 12 percent. There is no consumption tax or value-added tax (VAT), and the overall tax burden amounts to only 4.2 percent of total domestic income. Government spending has increased to a level equivalent to 39.3 percent of total domestic output. Revenue from the oil sector continues to keep the budget balance in surplus, and public debt remains below 10 percent of GDP.

REGULATORY EFFICIENCY



Oman's regulatory environment is still evolving. Starting a business takes an average of 12 days, compared to the world average of 30 days, but the required minimum capital is still over twice the average level of annual income. The 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

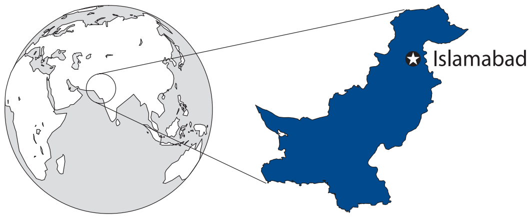


The trade weighted average tariff rate is modest at 3.2 percent, but complex non-tariff barriers continue to raise the cost of trade. Although foreign investment is welcome, sectoral restrictions can be non-transparent and inconsistent. The state continues to dominate a significant portion of the banking sector. Most credit is offered at market rates, but the government uses subsidized loans to promote investment.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.1	Business Freedom	-1.2	Trade Freedom	+0.1
Freedom from Corruption	-2.0	Government Spending	-14.5	Labor Freedom	-4.0	Investment Freedom	0
				Monetary Freedom	+2.6	Financial Freedom	0

PAKISTAN



World Rank: **122** Regional Rank: **24**

Pakistan's economic freedom score is 54.7, making its economy the 122nd freest in the 2012 *Index*. Its score is 0.4 point lower than last year, with declines in freedom from corruption and investment 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.

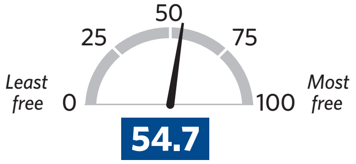
The Pakistani government has demonstrated little commitment to much-needed economic reform. Efforts in key areas have been marginal at best. Measures to strengthen management of public finances and reform outmoded economic structures have met institutional resistance and bureaucratic delays. Overall reform progress lags significantly behind other countries in the region.

Social and political instability continues to prevent meaningful progress in economic development, and conditions have deteriorated over the past year. Property rights are severely undercut by a weak judiciary susceptible to political interference and rampant corruption. In dealing with the aftermath of devastating 2010 floods, the government's response has fallen far short of adequate.

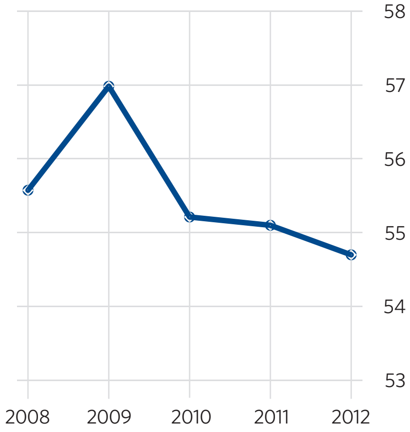
BACKGROUND: Pakistan, the world's second-largest Muslim-majority country, has been plagued by political instability and violence. The election of President Asif Ali Zardari in 2008 brought a formal end to 10 years of military rule, but civilian and military leaders continue to jockey for power. Pakistan continues to face terrorist attacks throughout the country and a well-organized insurgency along its 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 sparked a crisis in U.S.–Pakistan relations that has led Islamabad to expel some 90 U.S. military trainers and the U.S. to cut back its security aid to the Pakistan military. Pakistan has opened somewhat to international trade and has privatized some state-run industries, but the economy is still heavily regulated, and the highly volatile security situation discourages foreign investment. Pakistan is plagued by increasing energy shortages and rising food prices.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

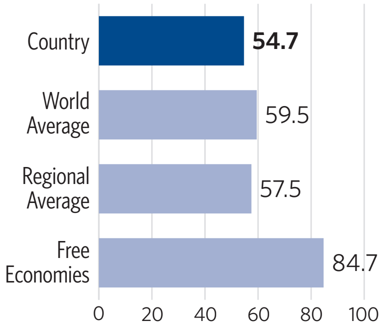
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

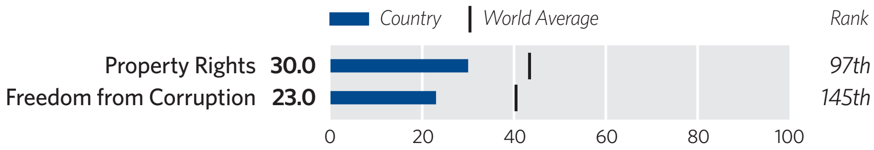
Population: 166.6 million
GDP (PPP): $464.9 billion
4.8% growth in 2010
5-year compound annual growth 4.3%
$2,791 per capita
Unemployment: 15.0%
Inflation (CPI): 11.7%
FDI Inflow: $2.0 billion
Public Debt: 56.8% of GDP

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

PAKISTAN (continued)

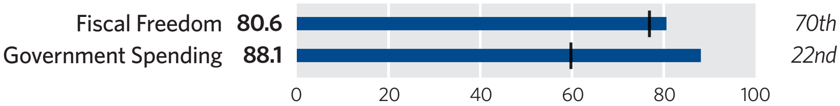
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



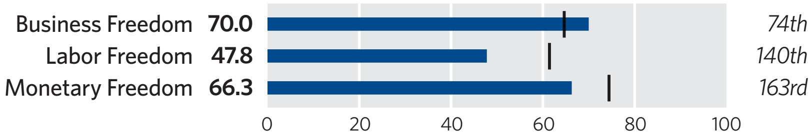
The rule of law has been fragile and unstable across the country. The independence of the legal system is poorly institutionalized, and judicial procedures tend to be protracted, costly, and subject to political pressure. Property rights are not protected effectively, and enforcement of intellectual property rights is seriously deficient. Pervasive corruption continues to erode the foundations of economic freedom.

LIMITED GOVERNMENT



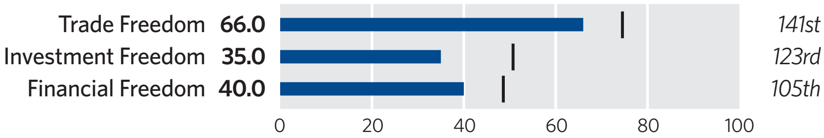
The top income tax rate is 25 percent, and the top corporate tax rate is 35 percent. Taxation is poorly administered. Other taxes include a general sales tax (GST) and an interest tax. The overall tax burden amounts to 9.3 percent of total domestic income. Government spending is equivalent to 19.9 percent of GDP. The deficit has been over 5 percent of GDP, and public debt amounts to over 50 percent of total domestic output.

REGULATORY EFFICIENCY



Little progress has been made in improving the entrepreneurial environment. Starting a business takes an average of 21 days, compared to the world average of 30 days. Completing licensing requirements still costs over twice the average level of annual income. The labor market remains stagnant. A large portion of the workforce is underemployed in the informal sector. Inflation has been quite high, disrupting monetary stability.

OPEN MARKETS



The trade weighted average tariff rate is highly restrictive at 9.5 percent, and complex non-tariff barriers further constrain freedom to trade. The investment regime remains inefficient. Foreign direct investment has been on the decline, impeded by political instability, sectarian conflict, and heavy bureaucracy. A majority of commercial banks are private, but the banking sector remains vulnerable to state interference.

Score Changes

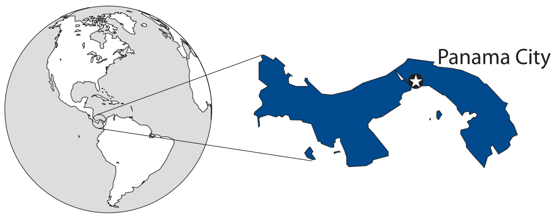
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-1.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.1
Government Spending	-0.7

REGULATORY EFFICIENCY	
Business Freedom	-0.9
Labor Freedom	+1.5
Monetary Freedom	+2.7

OPEN MARKETS	
Trade Freedom	-1.0
Investment Freedom	-5.0
Financial Freedom	0

PANAMA



World Rank: **55** Regional Rank: **11**

Panama's economic freedom score is 65.2, making its economy the 55th freest in the 2012 *Index*. Its score is 0.3 point better than last year due to improvements in freedom from corruption, monetary freedom, and fiscal freedom. Panama is ranked 11th out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world and regional averages.

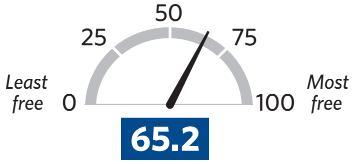
The Panamanian government has pursued structural reforms to improve the entrepreneurial environment and enhance legal transparency. Management of public finance has been relatively prudent, and the top income tax rate and the corporate tax rate have been reduced to 25 percent. Capitalizing on Panama's liberal trade and investment frameworks, the service-oriented economy continues to be a dynamic international business hub for such activities as maritime transport, distribution services, and banking.

Despite progress, Panama's overall economic freedom continues to be restrained by institutional shortcomings that undermine prospects for long-term economic expansion. Anti-corruption laws seem to have had little impact, and the judicial system remains vulnerable to political interference.

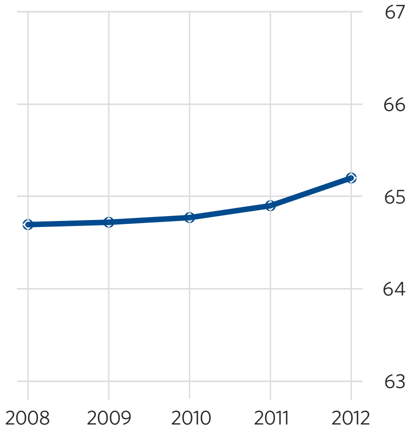
BACKGROUND: President Ricardo Martinelli's center-right Alliance for Change coalition took office in 2009 and immediately expanded spending on state-run infrastructure and public transportation. Though Martinelli claims to be a market liberal, future plans include a government office skyscraper in the capital and a "governmental city." Banking and services jobs account for 80 percent of employment in the formal economy. Panama is solely responsible for operating the Panama Canal and has converted U.S. bases in the former Canal Zone to commercial and tourism uses. The government is constructing a third set of locks to modernize and enlarge the canal. The U.S.–Panama Trade Promotion Agreement, approved by the U.S. Congress in 2011, should encourage economic growth and development. Money laundering, narcotics trafficking, and crime are major challenges.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

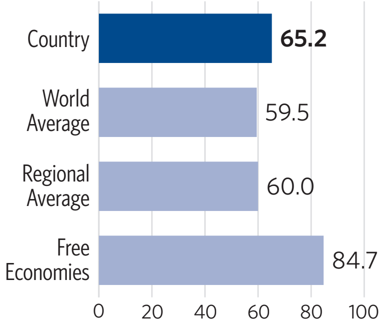
Economic Freedom Score



Freedom Trend



Country Comparisons



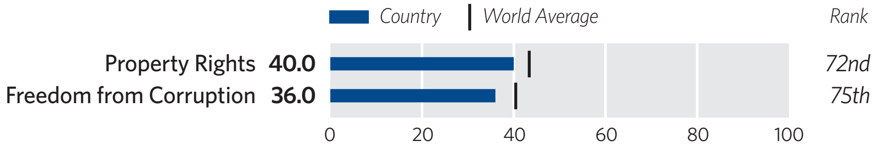
Quick Facts

Population: 3.5 million
GDP (PPP): $44.4 billion
7.5% growth in 2010
5-year compound annual growth 8.3%
$12,578 per capita
Unemployment: 6.5%
Inflation (CPI): 3.5%
FDI Inflow: $2.3 billion
Public Debt: 38.7% of GDP

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

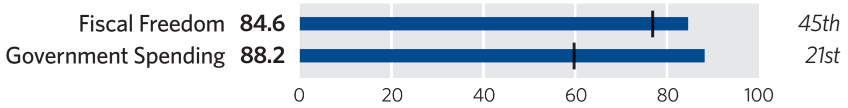
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



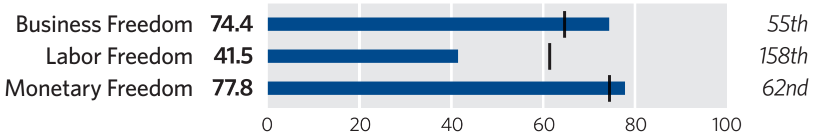
The rule of law has gradually strengthened. However, the judiciary, although constitutionally independent, is still susceptible to political interference. The court system remains inefficient, with severe backlogs and weak capacity to resolve contractual disputes. Enforcement of copyrights is improving. Anti-corruption laws are not applied rigorously, particularly in high-profile cases.

LIMITED GOVERNMENT



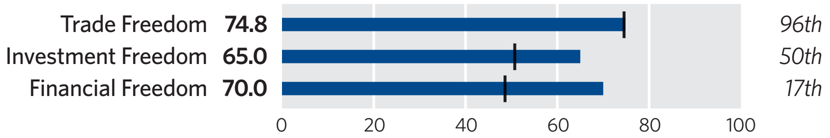
The top income and corporate tax rates are 25 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden amounting to 17 percent of total domestic income. Government spending is equivalent to 19.8 percent of GDP. The budget balance has recorded small deficits in recent years, and public debt has been around 40 percent of total domestic output.

REGULATORY EFFICIENCY



The overall regulatory environment is efficient, but the pace of reform has slowed. With no minimum capital requirements, starting a business takes only eight days in comparison to the world average of 30 days. The labor market lacks flexibility. Restrictions on work hours are rigid, and the non-salary cost of hiring a worker is relatively high. Monetary stability has been fairly well maintained.

OPEN MARKETS

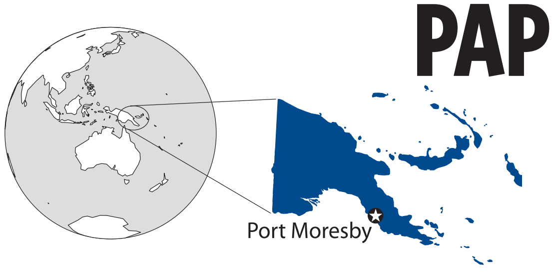


The trade weighted average tariff rate is 7.6 percent, with non-tariff barriers adding to the cost of trade. Foreign investment is officially welcome and subject to national treatment, but there are sectoral restrictions. The investment regime is not particularly conducive to spurring growth in new investment. The financial sector, vibrant and generally well regulated, provides a wide range of services.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+2.0	Business Freedom	-0.7	Trade Freedom	-1.0
Freedom from Corruption	+2.0	Government Spending	-0.4	Labor Freedom	+0.4	Investment Freedom	0
				Monetary Freedom	+0.7	Financial Freedom	0

PAPUA NEW GUINEA



World Rank: **128** Regional Rank: **26**

Papua New Guinea's economic freedom score is 53.8, making its economy the 128th freest in the 2012 *Index*. Its score is 1.2 points better than last year, primarily because of a significant improvement in the control of government spending. 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.

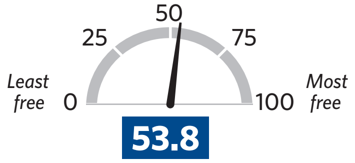
Papua New Guinea is seemingly mired in the "mostly unfree" category in the *Index*. The economy remains divided between a formal sector based on exports of natural resources and a large informal sector that relies on subsistence farming and other small-scale economic activity. The fragility of prospects for long-term economic development is reflected in the very low score for property rights and a level of corruption that undermines the rule of law. Much-needed private-sector development is also held back by regulatory deficiencies and the lack of institutionalization of open-market policies.

The effectiveness of government remains low, although the management of public finance has improved notably in recent years. Over the past decade, public debt has dropped from about 70 percent of GDP to below 30 percent of GDP.

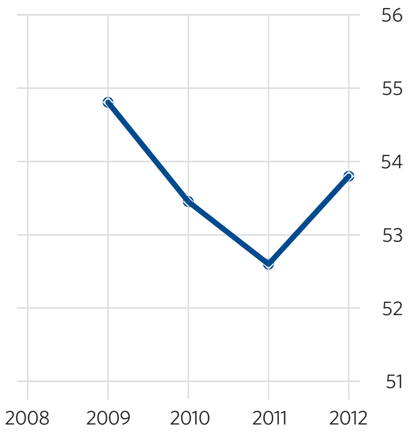
BACKGROUND: Papua New Guinea is a parliamentary democracy with an extraordinarily diverse population of nearly 7 million people speaking over 860 different languages. President Michael Somare's coalition government, the first to serve out a complete term since independence, will face elections in 2012. The formal economy is dominated by the mining of rich deposits of gold, copper, oil, and natural gas, but the vast majority of Papua New Guinea's people depend on subsistence hunting or agriculture for their livelihood. Between 2007 and 2008, Australia provided US$300 million worth of foreign aid to Papua New Guinea, making it the country's largest donor. Ongoing problems include political corruption, election irregularities, weak governance, crime, and a lack of capability to respond effectively to natural disasters.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

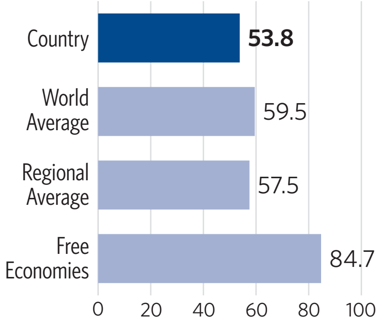
Economic Freedom Score



Freedom Trend



Country Comparisons



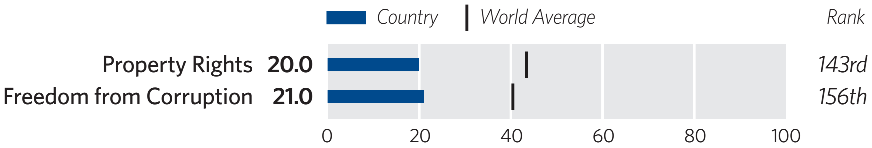
Quick Facts

Population: 6.5 million
GDP (PPP): $14.9 billion
7.0% growth in 2010
5-year compound annual growth 5.7%
$2,300 per capita
Unemployment: 1.8%
Inflation (CPI): 6.6%
FDI Inflow: $28.9 million
Public Debt: 26.5% of GDP

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

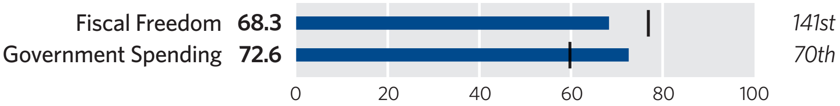
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



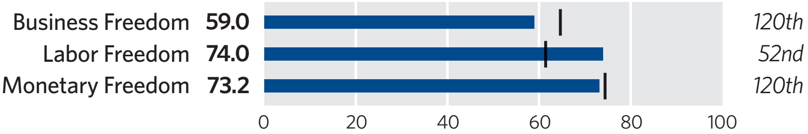
A modern and well-functioning judicial framework is not firmly in place, and land is often held communally. Corruption is a serious problem due to weak public institutions, lack of transparency, and politicization of the bureaucracy. A new prime minister took office in 2011, pledging to establish an independent commission to investigate graft and increase support for the national police force.

LIMITED GOVERNMENT



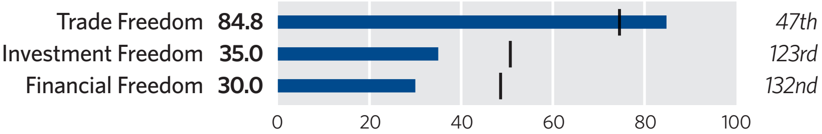
The top income tax rate is 42 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and an excise tax, with the overall tax burden amounting to 22.4 percent of total domestic income. Government spending has reached a level equivalent to 30 percent of GDP. The budget balance has recorded a small deficit, and public debt has dropped below 30 percent of total domestic output.

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 2.6 percent, but lingering non-tariff barriers and poor trade infrastructure 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 unserved by the formal banking sector.

Score Changes

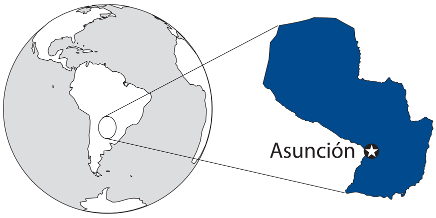
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	+2.0
Government Spending	+9.3

REGULATORY EFFICIENCY	
Business Freedom	-1.2
Labor Freedom	+1.6
Monetary Freedom	+0.3

OPEN MARKETS	
Trade Freedom	-0.6
Investment Freedom	0
Financial Freedom	0

PARAGUAY



World Rank: **79** Regional Rank: **15**

Paraguay's economic freedom score is 61.8, making its economy the 79th freest in the 2012 *Index*. Its score is 0.5 point worse than last year, reflecting modest declines in fiscal, business, and trade freedom and the control of government spending. 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.

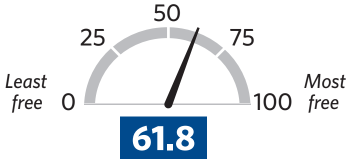
The Paraguayan economy's progress toward greater economic freedom has been patchy, and the economy underperforms in many critical areas. The absence of an independent and fair judiciary weakens the rule of law and undermines prospects for long-term sustainable economic development. Corruption is pervasive, and the efficiency of government services is poor. Reform measures have been sporadic, and proposals for policy changes have often met with resistance from vested political interests.

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.

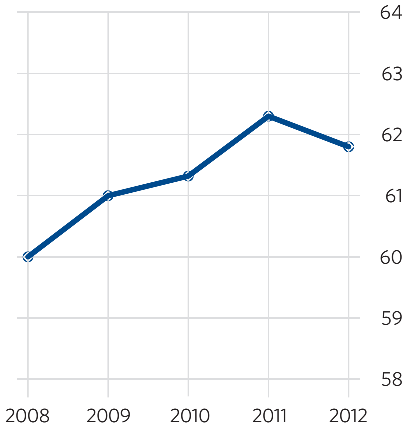
BACKGROUND: Paraguayans have implemented democratic governance since General Alfredo Stroessner's 35-year rule ended in 1989. President Fernando Lugo, a former bishop supported by the leftist Patriotic Alliance for Change coalition, ended more than 50 years of domination by the conservative Colorado Party when he was elected to a five-year term in 2008. Lugo promised to support the indigenous population, redistribute land to the poor, and secure more revenue from the Itaipu Dam. Nearly half of all jobs are in agriculture, the major export earner. Formal-sector unemployment is high. More than one-third of Paraguayans live below the poverty line. The government has reduced smuggling and given closer scrutiny to suspected terrorist groups in the tri-border area with Brazil and Argentina.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

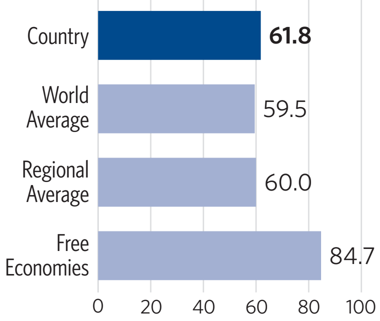
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 6.4 million

GDP (PPP): $33.3 billion

15.3% growth in 2010

5-year compound annual growth 5.5%

$5,202 per capita

Unemployment: 5.7%

Inflation (CPI): 4.7%

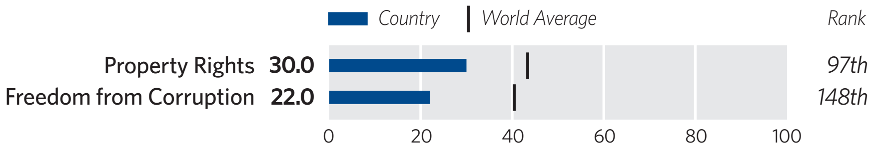
FDI Inflow: $418.7 million

Public Debt: 15.4% of GDP

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

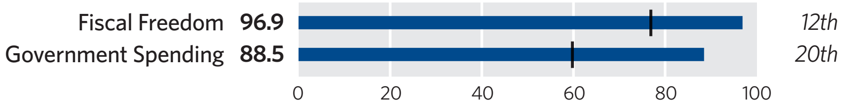
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



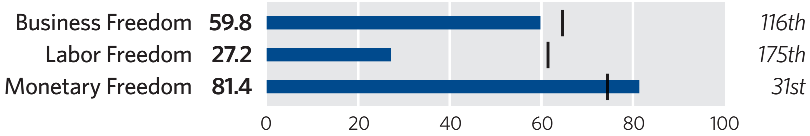
The judicial framework remains largely incapable of protecting property rights and maintaining the rule of law effectively. After decades of dictatorship, Paraguay has a legacy of institutional corruption. Contraband trade on the borders facilitates money laundering. Weak institutions impede anti-corruption efforts. Impunity and the slow pace of judicial reform continue to undermine the foundations of economic freedom.

LIMITED GOVERNMENT



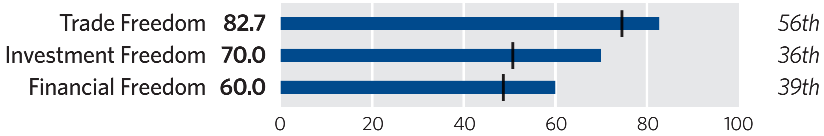
There is no income tax, and the top corporate tax rate is 10 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden amounting to 14.5 percent of total domestic income. Government spending has reached a level equivalent to 19.6 percent of GDP, reducing the budget surplus recorded in earlier years. Public debt remains quite low at below 20 percent of GDP.

REGULATORY EFFICIENCY



Despite some progress over the past few years, 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 average level of annual income. The labor market lacks flexibility, hurting job growth. Inflation has moderated.

OPEN MARKETS

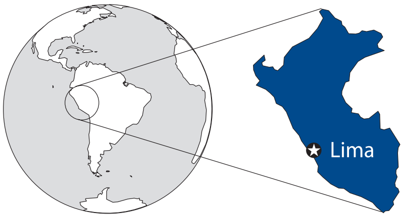


The trade weighted average tariff rate is modest at 3.7 percent, but non-tariff barriers remain more serious impediments to the free flow of goods and services. Most sectors are open to private investment, and equal treatment of foreign investment is formally guaranteed. However, the investment regime lacks efficiency, mainly due to 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	-0.7	Business Freedom	-1.9	Trade Freedom	-0.3
Freedom from Corruption	+1.0	Government Spending	-4.9	Labor Freedom	+2.3	Investment Freedom	0
				Monetary Freedom	+0.5	Financial Freedom	0

PERU



World Rank: **42** Regional Rank: **6**

Peru's economic freedom score is 68.7, making its economy the 42nd freest in the 2012 *Index*. Its score is virtually unchanged from last year, with improvements in monetary freedom and labor freedom largely offset by a decline in freedom from corruption. Peru is ranked 6th out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world and regional averages.

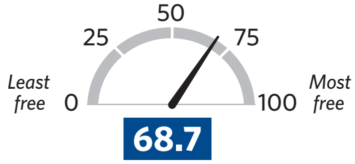
Economic reforms in recent years have supported economic expansion and reductions in poverty. Peru's evolving entrepreneurial sector has benefited from increased access to financing as well as improved regulatory efficiency. Open-market policies that support trade and investment have been gradually institutionalized. The government has entered into free trade pacts with a number of countries around the world.

Although the Peruvian economy has gained in economic freedom over the past five years, the weak rule of law and corruption continue to undermine prospects for long-term economic development. Accelerating judicial reforms, along with continued efforts to streamline public administration, will help to sustain economic growth and broaden the improvement in living standards.

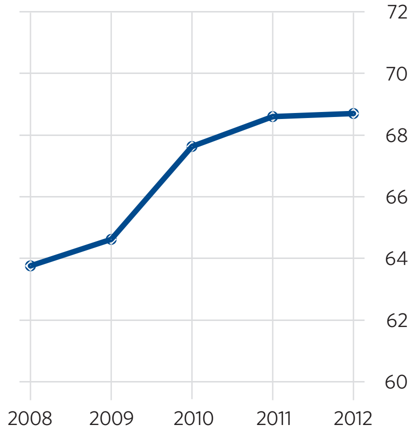
BACKGROUND: Peru has emerged from its political instability of the late 20th century. In June 2011, former military officer Ollanta Humala of the leftist Peruvian Nationalist Party won the presidency in a runoff vote against Keiko Fujimori, daughter of disgraced former President Alberto Fujimori, by a very slim margin. He has promised to pursue a moderate, pro-market policy. Under former president Alan Garcia (2006–2011), Peru experienced a notable reduction in poverty accompanied by high levels of economic growth driven by private investment. Significant natural resources include gold, copper, and silver. Roughly 35 percent of Peru's people live below the poverty line, but economic growth is well above the Latin American average. The U.S.–Peru Free Trade Agreement has expanded trade flows and employment.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

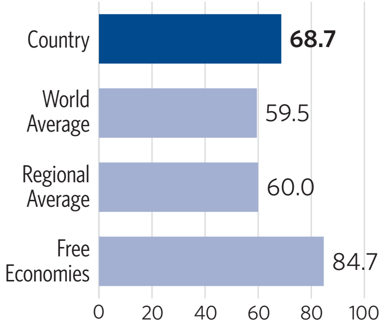
Economic Freedom Score



Freedom Trend



Country Comparisons



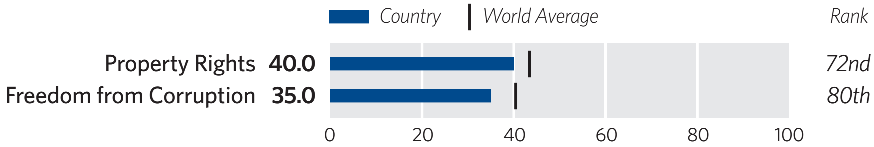
Quick Facts

Population: 29.6 million
GDP (PPP): $275.7 billion
8.8% growth in 2010
5-year compound annual growth 7.2%
$9,330 per capita
Unemployment: 7.9%
Inflation (CPI): 1.5%
FDI Inflow: $7.3 billion
Public Debt: 24.5% of GDP

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

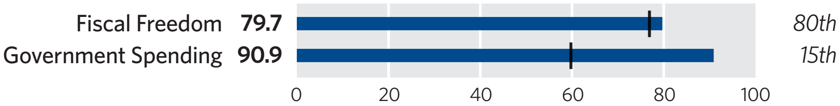
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



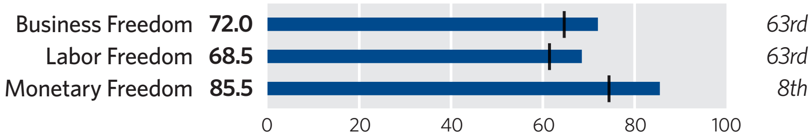
The rule of law is not strongly upheld. The judicial system continues to lack independence and efficiency, and political interference lingers. Since 2008, Peruvian law enforcement has worked with political and civil society organizations to reduce opportunities for corruption, but Peruvians remain skeptical of the government's commitment to eliminating high-level graft. Enforcement of intellectual property rights is weak.

LIMITED GOVERNMENT



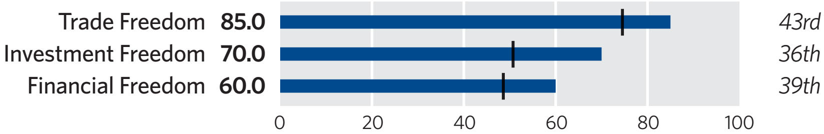
The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and a financial transactions tax, with the overall tax burden amounting to 15.2 percent of total domestic income. Government spending is equivalent to 17.4 percent of GDP. The budget balance has fallen into deficit in recent years, and public debt has climbed to almost 25 percent of total domestic output.

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.

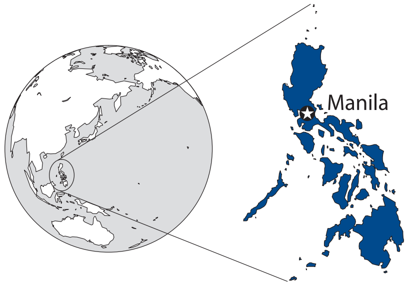
OPEN MARKETS



The trade weighted average tariff rate is low at 2.5 percent, but numerous non-tariff barriers raise the cost of trade. Most sectors are open to foreign investment, but 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

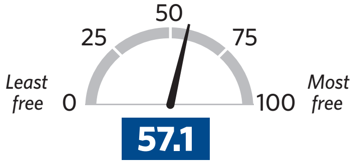
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.3	Business Freedom	+0.1	Trade Freedom	-1.0
Freedom from Corruption	-2.0	Government Spending	-0.1	Labor Freedom	+0.8	Investment Freedom	0
				Monetary Freedom	+2.4	Financial Freedom	0



THE PHILIPPINES

World Rank: **107** Regional Rank: **19**

Economic Freedom Score



The Philippines' economic freedom score is 57.1, making its economy the 107th freest in the 2012 *Index*. Its score is 0.9 point higher than last year, with a significant improvement in business freedom. The Philippines ranks 19th out of 41 countries in the Asia–Pacific region, and its overall score is slightly below the world and regional averages.

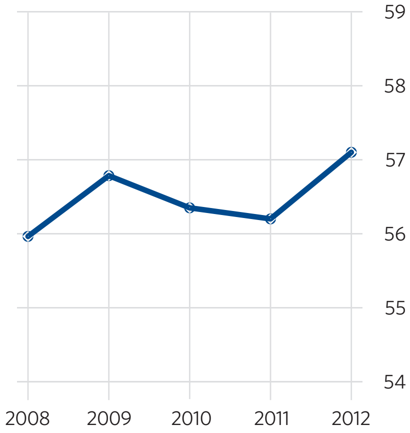
Despite the challenging global economic environment, the Philippine economy has been on a steady path of economic expansion. The government has pursued a series of legislative reforms to enhance the entrepreneurial environment and develop a stronger private sector to generate broader-based job growth. Overall progress has been gradual, but regulatory efficiency has been notably enhanced. The economy has expanded at an average annual rate of close to 5 percent over the past five years.

There are lingering institutional challenges that will require deeper commitment to reform. Despite some progress, corruption continues to undermine prospects for long-term economic development. The inefficient judiciary, which remains susceptible to political interference, does not provide effective protection for property rights or strong and transparent enforcement of the law.

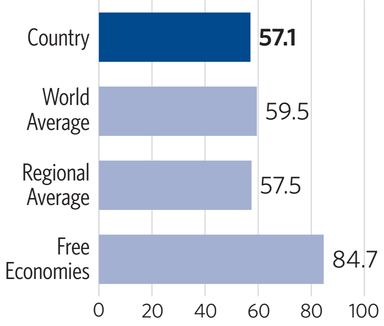
BACKGROUND: The Philippines' diverse population, which speaks more than 80 languages and dialects, is spread over 7,000 islands in the Western Pacific Ocean. The country returned to democracy in 1986 after two decades of autocratic rule. President Benigno Aquino III took office in 2010 with a mandate to address pervasive government corruption. Although 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 also saw the Philippines continue its long slide from being one of Asia's richest economies to being one of its poorest, economic growth has accelerated. The economy relies heavily on emigrants' remittances, which are equivalent to more than 10 percent of GDP.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



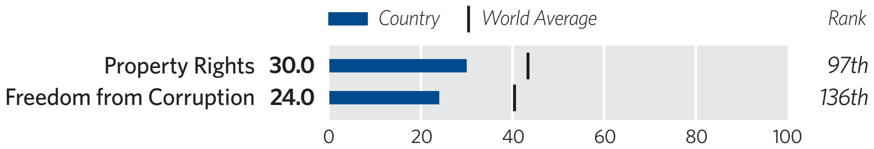
Quick Facts

Population: 94.0 million
GDP (PPP): $351.4 billion
7.3% growth in 2010
5-year compound annual growth 4.9%
$3,737 per capita
Unemployment: 7.3%
Inflation (CPI): 3.8%
FDI Inflow: $1.7 billion
Public Debt: 44.7% of GDP

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

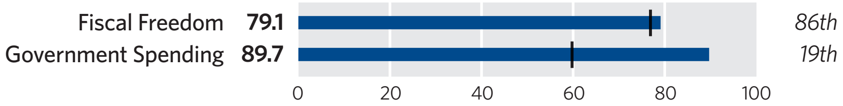
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



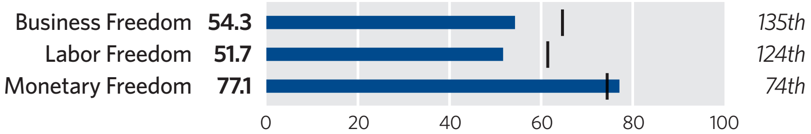
The rule of law remains uneven, and the legal framework is deficient in independence and efficiency. The cumbersome court system and loose regard for contracts continue to be causes for concern. The judiciary is nominally independent but susceptible to political interference. Despite some progress, government anti-corruption efforts have been too inconsistent to eradicate bribery and graft effectively.

LIMITED GOVERNMENT



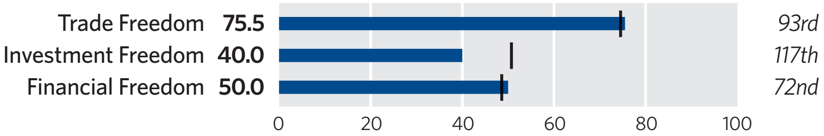
The top income tax rate is 32 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and an environmental tax, with the overall tax burden amounting to 12.8 percent of total domestic income. Government spending is equivalent to 18.5 percent of GDP. The deficit has been over 3 percent of GDP, and public debt has hovered at around 45 percent of total domestic output.

REGULATORY EFFICIENCY



The business regulatory environment has improved considerably. Although launching a business still takes more than the world averages of seven procedures and 30 days, the overall process has become less costly. The time and cost involved in dealing with licensing requirements have been notably reduced. The labor market remains structurally rigid, but existing regulations are not particularly burdensome. Inflation is modest.

OPEN MARKETS

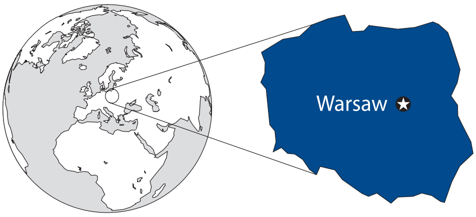


The trade weighted average tariff rate is 4.8 percent, and layers of non-tariff barriers further inhibit more dynamic gains in trade. Despite a strong desire to attract longer-term foreign investment, systemic inefficiency exacerbated by heavy bureaucracy discourages dynamic growth in investment. The 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	+0.3	Business Freedom	+10.9	Trade Freedom	-2.3
Freedom from Corruption	0	Government Spending	-1.3	Labor Freedom	+1.0	Investment Freedom	0
				Monetary Freedom	+0.8	Financial Freedom	0

POLAND



World Rank: **64** Regional Rank: **29**

Poland's economic freedom score is 64.2, making its economy the 64th freest in the 2012 *Index*. Its score is 0.1 point better than last year, reflecting an improvement in freedom from corruption that is offset by a lower score for government spending. Poland is ranked 29th out of 43 countries in the Europe region, and its overall score is above the world average.

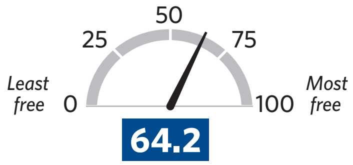
Poland has emerged from the global economic downturn largely unscathed, continuing its transition to a more flexible economy. The economy performs relatively well in many areas of economic freedom. With a transparent and efficient business climate further supported by political stability, Poland has created a dynamic environment for entrepreneurs. Barriers to free trade are quite low, and commercial operations are aided by regulations that support open-market policies. Inflationary pressures are under control, and foreign investment is welcome.

Nonetheless, institutional weaknesses still hold back economic freedom and prevent more dynamic growth. Particularly, the foundations of economic freedom remain challenged by corruption and an inefficient judicial system that is vulnerable to political interference. The accumulation of large fiscal deficits in recent years risks undermining Poland's long-term competitiveness and highlights the need for more disciplined management of public finance.

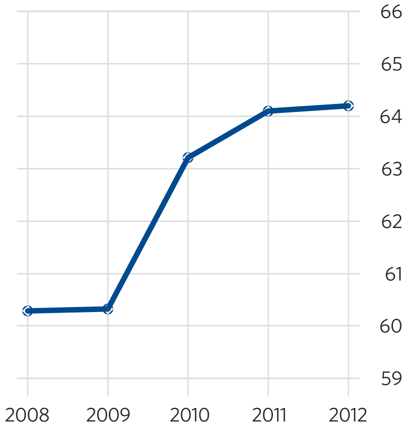
BACKGROUND: Soviet control of Poland ended with the anti-Communist Solidarity trade union movement taking over parliament in 1989 and the presidency in 1990. In the 1990s, Poland had a favorable investment climate and achieved rapid real income growth. It joined NATO in 1999 and the European Union in 2004. In April 2010, Poland's top political leadership died in the crash of the presidential plane in Russia. Bronislaw Komorowski of the pro-business, center-right Civic Platform party was subsequently elected president. Parliamentary elections were scheduled for October 2011. Poland is the only EU country to maintain positive economic growth during the 2008–2009 economic downturn, and real GDP increased by 3.8 percent in 2010.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

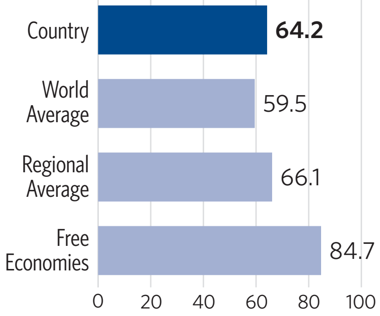
Economic Freedom Score



Freedom Trend



Country Comparisons



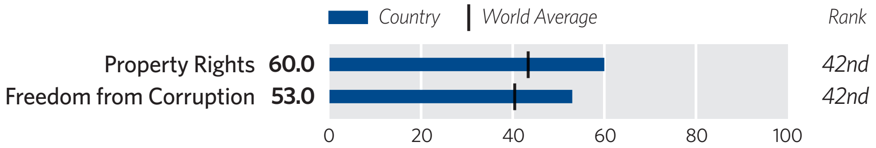
Quick Facts

Population: 38.1 million
GDP (PPP): $721.3 billion
3.8% growth in 2010
5-year compound annual growth 4.7%
$18,936 per capita
Unemployment: 9.6%
Inflation (CPI): 2.6%
FDI Inflow: $9.6 billion
Public Debt: 54.9% of GDP

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

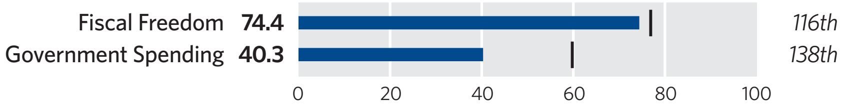
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



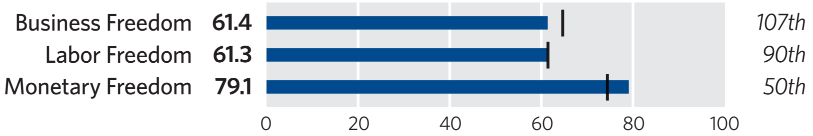
The legal system protects the acquisition and disposition of property, but the judiciary is slow to resolve cases and susceptible to political interference. There can be unexpected changes in laws and regulations. Piracy of intellectual property continues despite government efforts to improve protection. Bribery and abuse of public office are punishable under the criminal code, but systemic corruption remains a cause for concern.

LIMITED GOVERNMENT



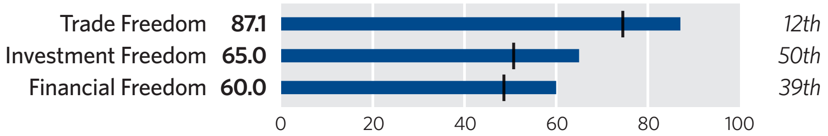
The top income tax rate is 32 percent, and the top corporate tax rate is a flat 19 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden amounting to 34.3 percent of total domestic income. Government spending has risen to a level equivalent to 44.6 percent of GDP, and the budget balance has become negative in recent years. Public debt has reached about 55 percent of total domestic output.

REGULATORY EFFICIENCY



Measures have been taken to further streamline business start-up procedures and facilitate private-sector development, but the pace of reform has slowed. It still takes slightly more than the world average of 30 days to launch a business. The cost of completing licensing requirements has been cut almost in half. Labor codes are relatively stringent, and unions exercise considerable influence on labor issues. Inflation has been under control.

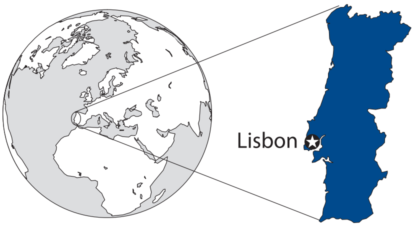
OPEN MARKETS



The trade weighted average tariff rate is low at 1.4 percent as in other members of the European Union, but layers of non-tariff barriers increase the cost of trade. Certain areas of investment require government approval, and the regulatory system is not particularly efficient. Foreign and domestic investors are generally treated equally. The financial sector consists mainly of private banks, and capital markets are expanding.

Score Changes

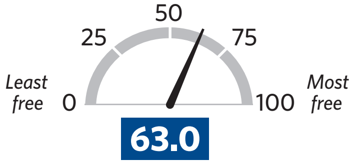
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.4	Business Freedom	0	Trade Freedom	-0.5
Freedom from Corruption	+3.0	Government Spending	-3.5	Labor Freedom	+0.1	Investment Freedom	0
				Monetary Freedom	+1.0	Financial Freedom	0



PORTUGAL

World Rank: 68 **Regional Rank: 31**

Economic Freedom Score



Portugal's economic freedom score is 63.0, making its economy the 68th freest in the 2012 *Index*. Its score is 1.0 point worse than last year, mainly due to deterioration in the management of government spending, labor freedom, and fiscal freedom. Portugal is ranked 31st out of 43 countries in the Europe region, and its overall score is above the world average.

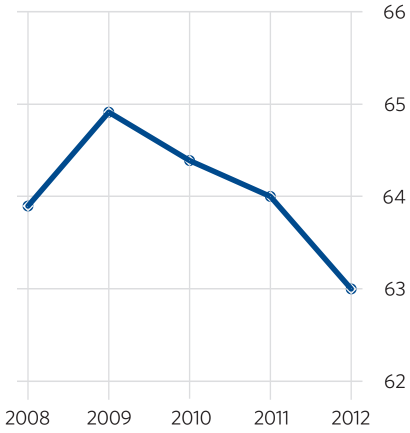
Portugal has been undergoing challenging economic adjustments. Previous years' reforms, which had helped to modernize the economy and diversify the productive base, have lost momentum. Despite relatively sound institutional processes such as an efficient business framework and a well-functioning judicial system, the indebted and inefficient public sector has eroded private-sector dynamism and hurt the economy's overall competitiveness.

Although reforms in public finance administration are ongoing, the burden of the deficit is rising. Revitalizing the Portuguese economy will require comprehensive public-sector reforms, enhanced flexibility in the labor market, and improved tax policy to improve competitiveness and productivity.

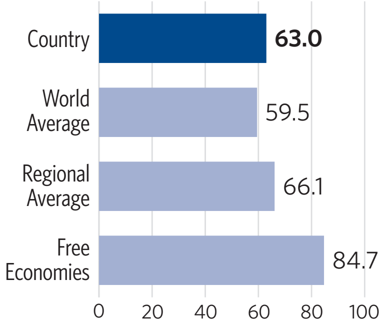
BACKGROUND: Portugal joined the European Union in 1986 and the euro zone in 2002. By 2011, however, a sovereign debt crisis threatened to sink the economy. Prime Minister Jose Socrates' Socialist Party was defeated in the 2011 general elections by the center-right Social Democrats. Portugal accepted a €78 billion joint European Union–International Monetary Fund bailout plan, and the new government of Prime Minister Pedro Passos Coelho was expected to implement strict austerity measures. Some state enterprises have been privatized, but Portugal still suffers from public-sector inefficiency and a lack of private-sector confidence. Its comparative advantage in cheap labor has eroded since the accession of Central and Eastern European countries to the EU, and its growth lags behind the EU's generally. Unemployment is high and increasing.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



Quick Facts

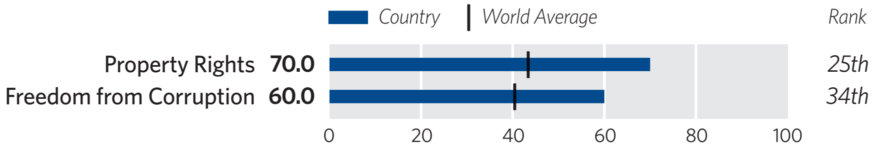
Population: 10.6 million
GDP (PPP): $247.0 billion
1.4% growth in 2010
5-year compound annual growth 0.5%
$23,223 per capita
Unemployment: 10.8%
Inflation (CPI): 1.4%
FDI Inflow: $1.4 billion
Public Debt: 92.9% of GDP

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

PORTUGAL (continued)

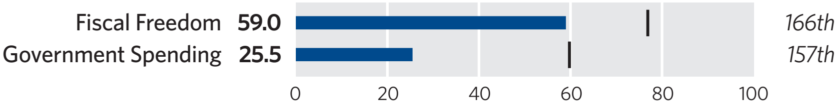
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



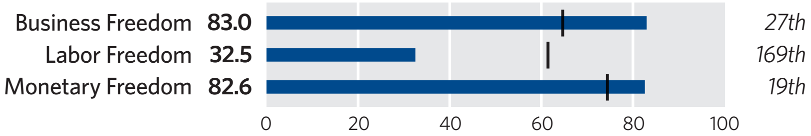
The judicial system is relatively independent but lacks efficiency. The court system is slow, and the number of years that it takes to resolve cases is well above the EU average. Corruption remains a cause for concern. A series of new laws passed in 2010 to combat corruption included increased penalties for bribery and extended statutes of limitations for certain corruption-related crimes, such as bribery and abuse of official function.

LIMITED GOVERNMENT



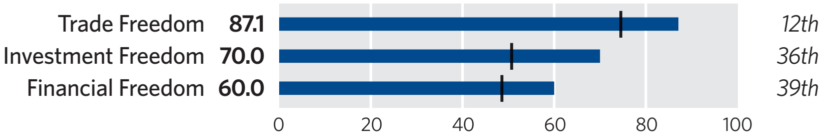
The top income tax rate is 46.5 percent, and the top corporate tax rate is 26.5 percent (a flat 25 percent plus a maximum 1.5 percent surtax). Other taxes include a value-added tax (VAT), with the overall tax burden amounting to 35.2 percent of total domestic income. Government spending has increased to a level equivalent to 49.8 percent of GDP. The budget balance has recorded large deficits, with public debt reaching over 90 percent of total domestic output.

REGULATORY EFFICIENCY



The overall regulatory framework is efficient. Rules regarding the formation and operation of private enterprises are now more straightforward. The minimum capital requirements for launching a business have been eliminated. Starting a company now takes only five days in comparison to the world average of 30 days. Regulations on dismissals and temporary contracts are burdensome and costly. Monetary stability has been well maintained.

OPEN MARKETS

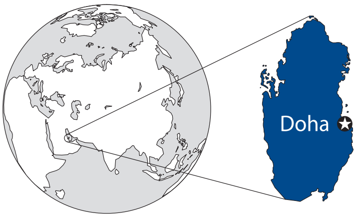


Trade policy is the same as that of other members of the European Union, with the common EU weighted average tariff rate at 1.4 percent, but myriad non-tariff barriers add to the cost of trade. Foreign and domestic investors are allowed equal access to investment opportunities, though certain sectors are restricted. The financial sector remains relatively sound, with no major bank collapses and public confidence in the system still high.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-2.1	Business Freedom	+2.9	Trade Freedom	-0.5
Freedom from Corruption	+2.0	Government Spending	-10.7	Labor Freedom	-2.2	Investment Freedom	0
				Monetary Freedom	+0.3	Financial Freedom	0

QATAR



World Rank: 25 **Regional Rank: 2**

Qatar's economic freedom score is 71.3, making its economy the 25th freest in the 2012 *Index*. Its score is 0.8 point better than last year, reflecting notable improvements in freedom from corruption and monetary freedom. Qatar is ranked 2nd out of 17 countries in the Middle East/North Africa region, and its overall score is above the world and regional averages.

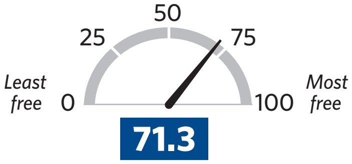
The Qatari government has pursued reforms to improve the entrepreneurial environment and broaden the economic base beyond oil and gas. The foundations of economic freedom are relatively solid. With a well-functioning legal framework in place, the level of corruption is much lower than the world average. Qatar has promoted a flexible regulatory system for business ventures. Its open trade regime and growing status as a regional financial hub have also contributed to private-sector growth outside of the oil and gas industries.

While Qatar has made significant progress in laying the institutional groundwork for sustained and diversified economic growth, the volatility of prices continues to undermine macroeconomic stability and entrepreneurial activity. Restrictions on foreign investment and considerable state involvement in the economy are serious drags on generating more vibrant economic dynamism.

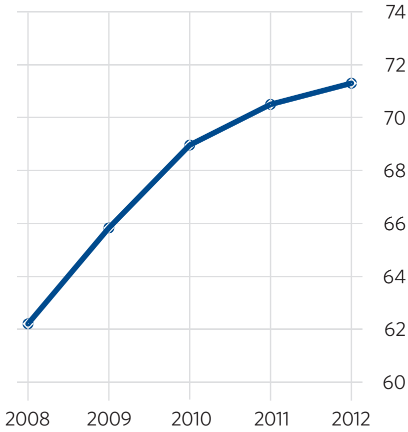
BACKGROUND: Qatar has been ruled by the Al-Thani family since independence from Great Britain in 1971. Reforms promoted by Sheikh Hamad bin Khalifa al-Thani, who replaced his father in a bloodless coup in 1995, include universal suffrage, an independent judiciary, and more transparent government funding. Despite attempts to diversify, oil and gas account for about 85 percent of export revenues and more than 50 percent of GDP. Qatar is endowed with 25 billion barrels of proven oil reserves and the world's third-largest natural gas reserves, about 15 percent of the world total. It has permitted extensive foreign investment in its natural gas industry and in 2007 became the world's largest exporter of liquefied natural gas. With immense energy reserves and a small population, Qatar enjoys one of the world's highest levels of per capita income.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

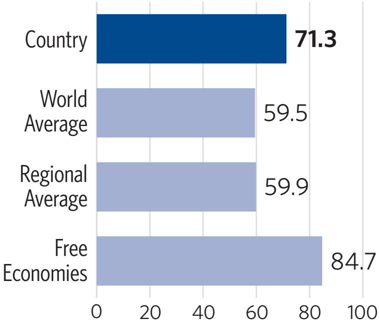
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

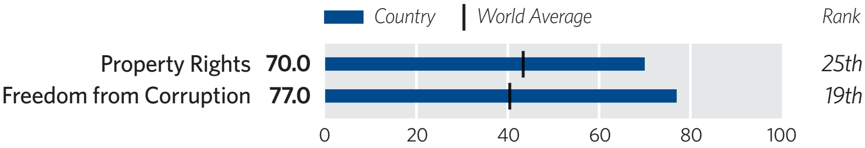
Population: 1.7 million
GDP (PPP): $150.6 billion
16.3% growth in 2010
5-year compound annual growth 19.0%
$88,559 per capita
Unemployment: 0.5%
Inflation (CPI): –2.4%
FDI Inflow: $5.5 billion
Public Debt: 27.0% of GDP

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

QATAR (continued)

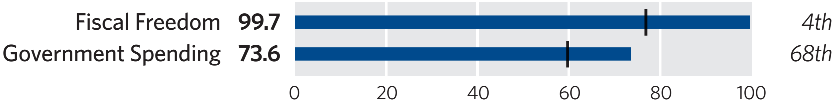
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



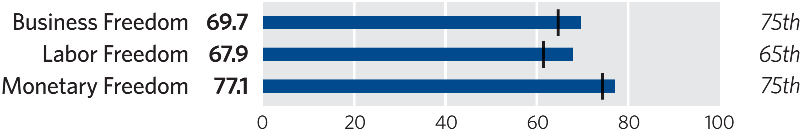
The rule of law has been solidly respected. A well-functioning legal framework is in place, but the judiciary is susceptible to political influence and can be bureaucratic. Protection of intellectual property rights has been strengthened. The law imposes penalties for bribery on public officials and those who attempt to influence them illegally. Qatar continues to maintain the Middle East's highest degree of transparency.

LIMITED GOVERNMENT



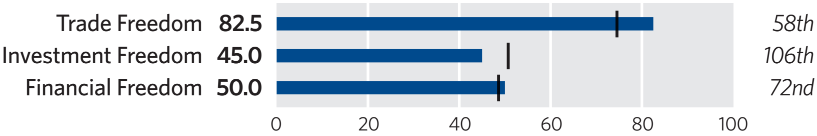
There is no income or corporate tax. Foreign corporations operating in Qatar are subject to a flat 10 percent corporate tax rate. Aside from customs duties, there are no other major taxes. The tax burden amounts to 5.6 percent of GDP. Government spending is equivalent to 29.7 percent of total domestic output. The government has maintained budget surpluses in recent years, and public debt remains below 30 percent of GDP.

REGULATORY EFFICIENCY



The process for launching a business and completing licensing requirements is now more streamlined, but the pace of regulatory reform has slowed. Efficient bankruptcy procedures are not 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 been volatile, hurting monetary stability.

OPEN MARKETS



The trade weighted average tariff rate is modest at 3.8 percent, with non-tariff barriers adding to the cost of trade. 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 has undergone modernization, attracting more foreign firms. The government retains considerable ownership in the sector.

Score Changes

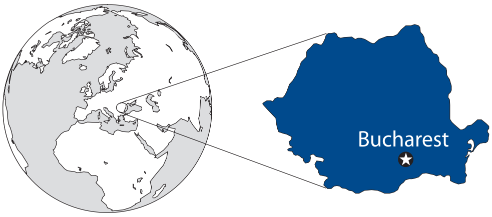
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+7.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.1
Government Spending	-4.5

REGULATORY EFFICIENCY	
Business Freedom	-0.6
Labor Freedom	+0.9
Monetary Freedom	+5.2

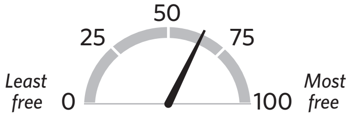
OPEN MARKETS	
Trade Freedom	+0.1
Investment Freedom	0
Financial Freedom	0

ROMANIA



World Rank: **62** Regional Rank: **28**

Economic Freedom Score



64.4

Romania's economic freedom score is 64.4, making its economy the 62nd freest in the 2012 *Index*. Its score is 0.3 point worse than last year, reflecting deterioration in freedom from corruption, business freedom, and the management of government spending. Romania is ranked 28th out of 43 countries in the Europe region, and its overall score is higher than the world average.

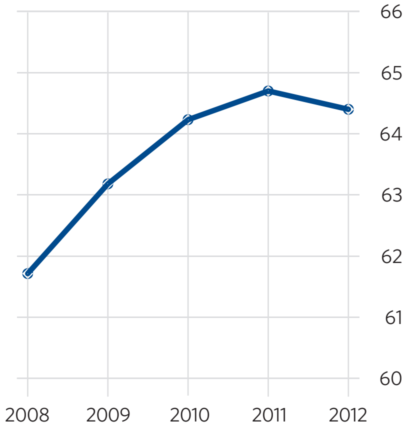
The Romanian economy has benefitted substantially from its openness and flexibility over the past decade. However, economic dynamism has slowed in recent years, and the economy has been forced to endure sharp adjustments. Poor management of public finance has resulted in large budget deficits, putting greater pressure on the government to cut spending.

Previous structural reforms have included privatization in the banking sector, implementation of competitive flat tax rates, and modernization of the regulatory environment. However, deeper institutional reforms in such areas as public finance management and the labor market have become more critical than ever. The judiciary remains inefficient and vulnerable to political interference. Corruption continues to undermine the prospects for long-term economic development.

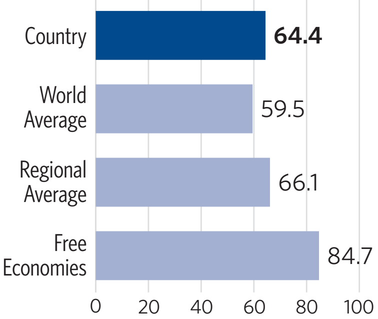
BACKGROUND: The Romanian government fell in October 2009 and was replaced by an unstable coalition composed of the Democratic Liberal Party and the Hungarian Union of Democrats in Romania. Traian Basescu won the presidency in December 2009 for the second time. An austerity package announced by Basescu in May 2010 was strongly opposed by trade unions and opposition parties, which threatened strikes. Romania has been a fast-growing member of the European Union and NATO, and the government has been implementing economic reforms that are consistent with the Maastricht criteria. Macroeconomic improvements have spurred the growth of the middle class and helped to reduce poverty. GDP contracted in 2009 and 2010, and Romania's IMF borrowing agreement imposed some austerity measures, but positive growth resumed in 2011.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



Quick Facts

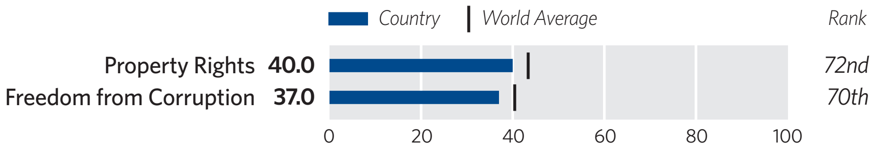
Population: 21.4 million
GDP (PPP): $254.2 billion
–1.3% growth in 2010
5-year compound annual growth 2.5%
$11,860 per capita
Unemployment: 8.2%
Inflation (CPI): 6.1%
FDI Inflow: $3.5 billion
Public Debt: 31.7% of GDP

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

ROMANIA (continued)

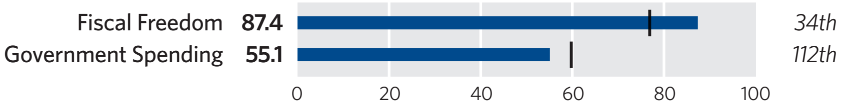
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



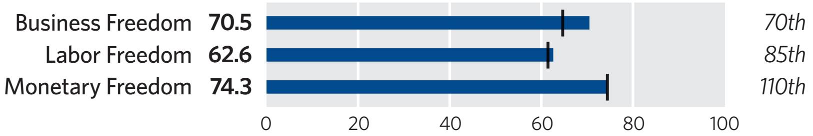
The rule of law is uneven, and contracts are not always strongly upheld. The judicial system suffers from political interference, inefficiency, and excessive workloads. Romania is a signatory to international conventions concerning intellectual property rights, but enforcement of legislation protecting patents, trademarks, and copyrights is very weak. Mistrust of government continues due to widespread public-sector corruption.

LIMITED GOVERNMENT



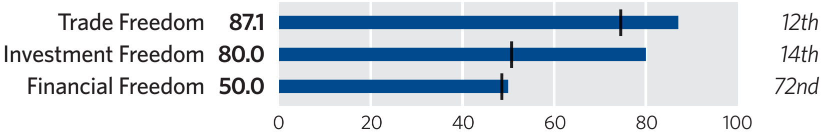
Both the income and corporate tax rates are a flat 16 percent. Other taxes include a value-added tax (VAT) and an environmental tax, with the overall tax burden amounting to 27.4 percent of total domestic income. Government spending has risen to a level equivalent to 38.7 percent of total domestic output. The deficit has been chronically high in recent years, and public debt has reached over 30 percent of GDP.

REGULATORY EFFICIENCY



The process for business registration and operation has been streamlined. Launching a business takes six procedures and 14 days in comparison to the world averages of seven procedures and 30 days. However, 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. Inflationary pressure is increasing.

OPEN MARKETS



The trade weighted average tariff rate is low as in other members of the European Union, but layers of non-tariff barriers increase the cost of trade. Foreign investment is encouraged officially but discouraged in practice by regulatory inconsistency, unpredictability, and nontransparency. Despite the relatively stable and open banking environment, the level of financial intermediation remains one of the lowest in the region.

Score Changes

RULE OF LAW	
Property Rights	0
Freedom from Corruption	-1.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.6
Government Spending	-2.5

REGULATORY EFFICIENCY	
Business Freedom	-1.5
Labor Freedom	+1.8
Monetary Freedom	-0.1

OPEN MARKETS	
Trade Freedom	-0.5
Investment Freedom	0
Financial Freedom	0

RUSSIA

World Rank: **144** Regional Rank: **41**

Russia's economic freedom score is 50.5, making its economy the 144th freest in the 2012 *Index*. Its score is unchanged from last year, with a significant increase in business freedom counterbalanced by a significant deterioration in control of government spending. Russia is ranked 41st out of 43 countries in the Europe region, and its overall score is below the world and regional averages.

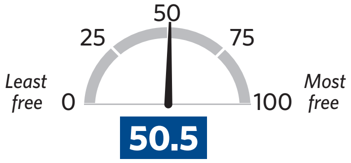
The Russian government has demonstrated little if any commitment to economic reform in recent years, and the country's economic freedom score remains stuck at the lower end of the "mostly unfree" category. While strong returns from hydrocarbons have buoyed the economy, prospects for sustained long-term growth and diversification remain dim. Pervasive corruption and limited respect for property rights undermine the rule of law, increasing uncertainty and investment risk.

Extensive state interference in the economy mutes private-sector dynamism. Layers of complex non-tariff barriers significantly increase the cost of trade. Deterrents to foreign direct investment include bureaucratic inconsistency and regulatory obscurity. The lack of market competition has inflated price levels. Public spending has been expanding, with little transparency or public accountability for expenditures. The budget has become increasingly dependent on oil prices.

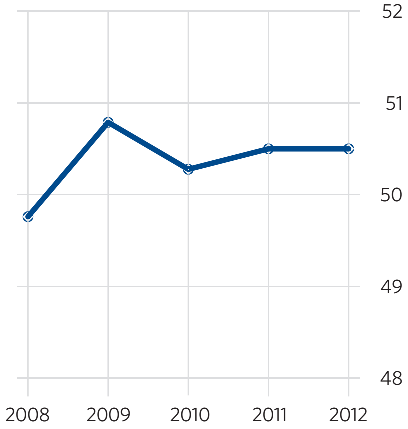
BACKGROUND: Russia's highly centralized government has tightened controls on civil society. Dmitry Medvedev was elected president in March 2008, but former President Vladimir Putin remains prime minister and leader of the ruling United Russia party and the newly created "Popular Front." The state has reasserted its dominant role in the extractive industries and depends heavily on exports of natural resources, especially hydrocarbons, for revenue. The global financial crisis, overregulation, pervasive corruption, and the war with Georgia sparked capital flight in 2008, and GDP contracted in 2009. The economy began to grow again in 2010, and high oil prices buoyed growth in 2011. Russia's accession to the World Trade Organization, long delayed by issues of intellectual property rights, the rule of law, and resistance by Georgia, was moving forward at the end of 2011.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

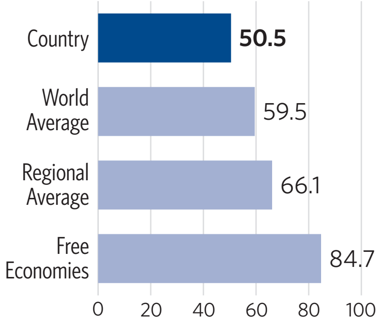
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 140.4 million

GDP (PPP): $2.2 trillion
4.0% growth in 2010
5-year compound annual growth 3.4%
$15,837 per capita

Unemployment: 7.6%

Inflation (CPI): 6.9%

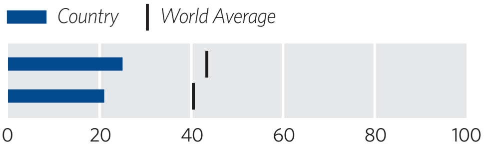
FDI Inflow: $41.2 billion

Public Debt: 11.7% of GDP

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

THE TEN ECONOMIC FREEDOMS

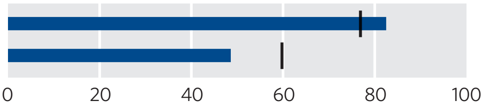
RULE OF LAW



		Rank
Property Rights	**25.0**	137th
Freedom from Corruption	**21.0**	156th

Russia's legal framework is not up to the needs of a modern market economy. The rule of law is not strongly maintained across the country, and the judiciary is neither independent of political pressure nor consistent 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 serious concern.

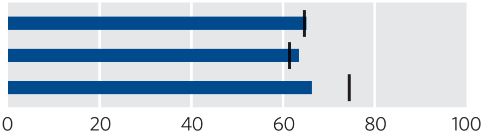
LIMITED GOVERNMENT



Fiscal Freedom	**82.5**	62nd
Government Spending	**48.6**	120th

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, with the overall tax burden amounting to 34.4 percent of total domestic income. Government spending has increased to a level equivalent to 41 percent of GDP, turning the budget balance to deficit. Public debt has hovered at around 11 percent of total domestic output.

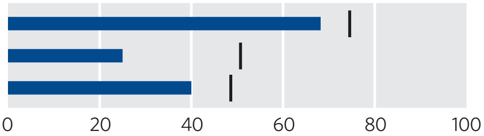
REGULATORY EFFICIENCY



Business Freedom	**65.1**	92nd
Labor Freedom	**63.5**	78th
Monetary Freedom	**66.3**	162nd

The business environment has improved only marginally, and regulations remain burdensome. Bureaucratic obstacles and inconsistent enforcement of regulations inject considerable uncertainty into entrepreneurial decision-making. 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



Trade Freedom	**68.2**	132nd
Investment Freedom	**25.0**	146th
Financial Freedom	**40.0**	105th

The trade weighted average tariff rate is 5.9 percent, and layers of bureaucratic non-tariff barriers further 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. In mid-2011, regulators and the state-controlled VTB Group bailed out the Bank of Moscow with an injection of $14.2 billion.

Score Changes

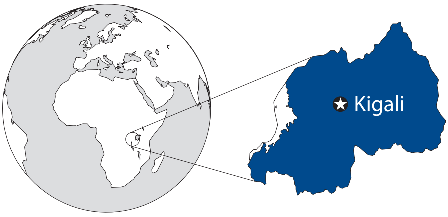
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-1.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.2
Government Spending	-16.5

REGULATORY EFFICIENCY	
Business Freedom	+14.4
Labor Freedom	+0.6
Monetary Freedom	+3.2

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

RWANDA



World Rank: **59** Regional Rank: **3**

Rwanda's economic freedom score is 64.9, making its economy the 59th freest in the 2012 *Index*. Its score is 2.2 points better than last year, reflecting notable improvements in freedom from corruption, monetary freedom, and investment freedom. Rwanda is ranked 3rd out of 46 countries in the Sub-Saharan Africa region and achieved the fifth largest score improvement in the 2012 *Index*.

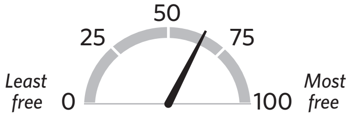
Securing its status as one of the world's "moderately free" economies, the Rwandan economy has registered impressive score gains of more than two points in each of the past three years. Reforms have supported economic expansion and a gradual reduction in poverty.

The positive economic results achieved through advancing economic freedom have created valuable momentum for additional institutional reforms that are needed to ensure long-term economic vitality. The weak rule of law and lingering corruption remain serious drags on economic development. Accelerating judicial reforms, along with continued efforts to streamline public administration, will help to sustain economic growth and further broaden improvements in living standards.

BACKGROUND: Decades of ethnic tension culminated in 1994 in the genocidal slaughter of an estimated one million Tutsis and moderate Hutus. After 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. Kagame, who has focused on political reconciliation and rebuilding Rwanda's shattered economy, was re-elected overwhelmingly in August 2010 amid allegations of fraud, voter intimidation, and violence. Recovery has been bolstered by economic reforms, but the government has been criticized for constraints on 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 supplemented by cash crops.

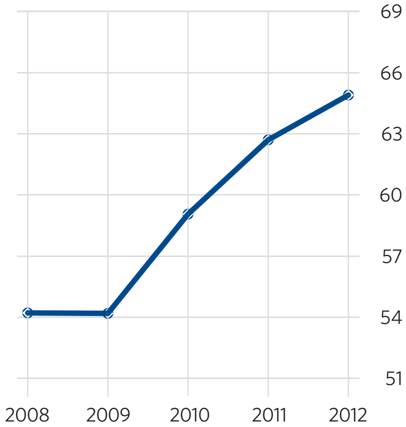
How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Economic Freedom Score

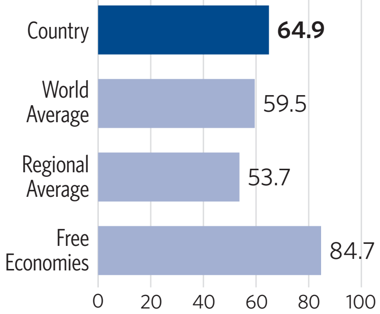


64.9

Freedom Trend



Country Comparisons



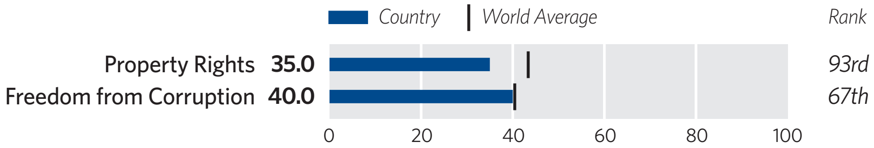
Quick Facts

Population: 10.0 million
GDP (PPP): $12.2 billion
6.5% growth in 2010
5-year compound annual growth 7.3%
$1,217 per capita
Unemployment: n/a
Inflation (CPI): 2.3%
FDI Inflow: $42.3 million
Public Debt: 23.2% of GDP

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

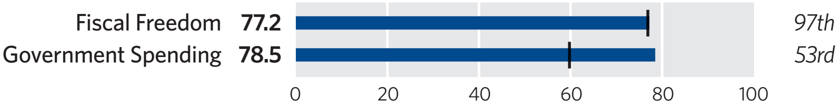
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



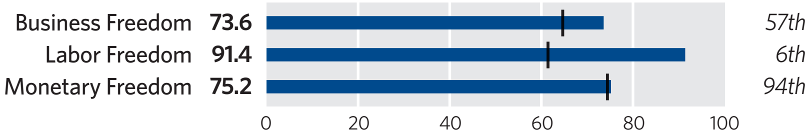
The legal framework is not adequate to maintain respect for the rule of law or provide strong protection for property rights. The judiciary remains vulnerable to political interference. Administrative inefficiency causes delays in the court system. Enforcement of intellectual property rights is not effective, and trading of counterfeit goods continues. Despite some progress, corruption is still perceived as significant.

LIMITED GOVERNMENT



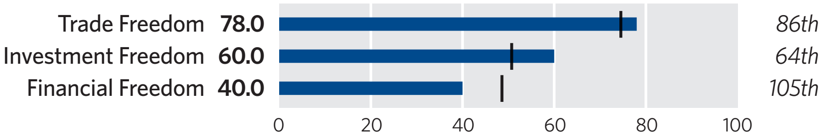
The top income tax rate is 35 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a property transfer tax, with the overall tax burden amounting to 12.3 percent of total domestic income. Government spending is equivalent to 26.8 percent of GDP, with the budget balance recording small surpluses in recent years. Public debt has hovered at around 20 percent of total domestic output.

REGULATORY EFFICIENCY



Impressive regulatory reforms have been implemented since 2008, eliminating bureaucratic hurdles to entrepreneurial activity and increasing regulatory efficiency. Legislative actions have contributed to a more favorable business environment, although the pace of reform has slowed in comparison to previous years. Labor regulations are relatively flexible, but a more vibrant formal labor market has yet to develop. Inflation has moderated.

OPEN MARKETS

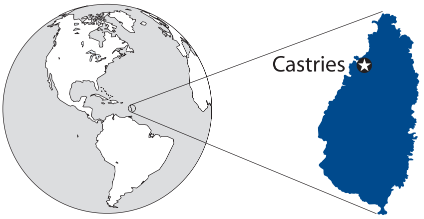


The trade weighted average tariff rate is 6 percent, and non-tariff barriers add to the cost of trade. Domestic and foreign investors officially receive equal treatment, with most sectors open to foreign investment. However, the investment regime is still evolving and is not conducive to dynamic expansion 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	0	Fiscal Freedom	+0.3	Business Freedom	-3.3	Trade Freedom	+0.2
Freedom from Corruption	+7.0	Government Spending	-0.1	Labor Freedom	+1.5	Investment Freedom	+10.0
				Monetary Freedom	+6.7	Financial Freedom	0

SAINT LUCIA



World Rank: **24** Regional Rank: **2**

Saint Lucia's economic freedom score is 71.3, making its economy the 24th freest in the 2012 *Index*. Its score is 0.5 point better than last year, with improvements in monetary, investment and labor freedom offset by deterioration in the control of government spending and business 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.

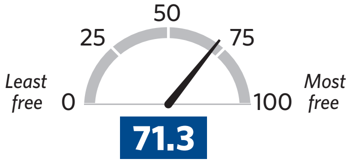
The Saint Lucian economy has long benefited from a well-developed legal and commercial infrastructure and a tradition of entrepreneurial dynamism in the private sector. The business environment is generally efficient and transparent, and the regulatory framework has become more streamlined. The small financial sector has not suffered any serious impact from the global financial turmoil, but the recession has hurt the tourism sector.

Saint Lucia's open-market policies are not firmly institutionalized. Trade freedom is limited by tariff and non-tariff barriers, and the investment regime lacks efficiency. Greater access to financing opportunities remains critical to private-sector development. In recent years, expansionary government spending has driven up public debt to around 65 percent of GDP.

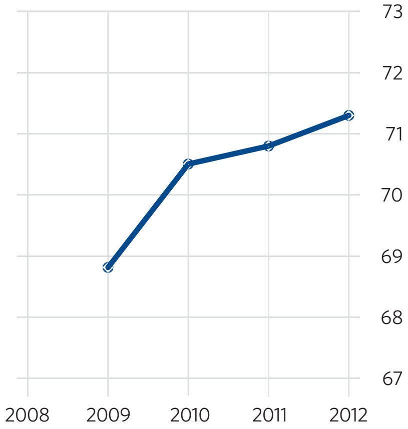
BACKGROUND: Saint Lucia is a two-party democracy with a bicameral parliament. Prime Minister Stephenson King and his business-friendly United Workers Party took office in 2007. Saint Lucia is a member of the Caribbean Community and Common Market and home to the Organization of Eastern Caribbean States. Its economy depends primarily on tourism, banana production, and light manufacturing. An educated workforce and improved roads, communications, water supply, sewerage, and port facilities have attracted foreign investment in tourism and petroleum storage and transshipment. The 2009 recession in the U.S., Canada, and Europe caused a decline in tourism. Fluctuations in banana prices and reduced European Union banana trade preferences have led the government to encourage production of such other crops as cocoa, mangos, and avocados.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

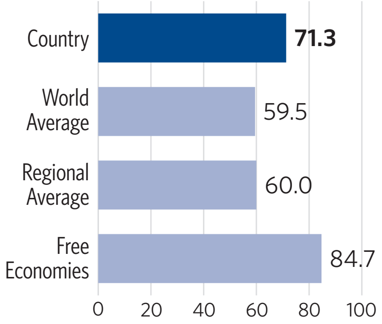
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

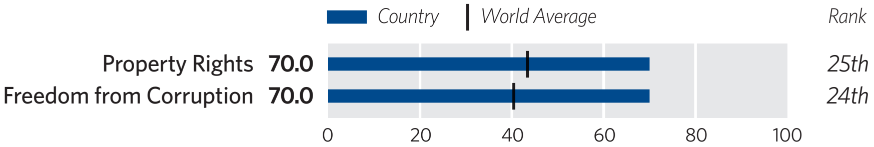
Population: 0.2 million
GDP (PPP): $1.8 billion
0.8% growth in 2010
5-year compound annual growth 0.7%
$10,350 per capita
Unemployment: 20.0%
Inflation (CPI): 1.8%
FDI Inflow: $99.1 million
Public Debt: 65.3% of GDP

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

SAINT LUCIA (continued)

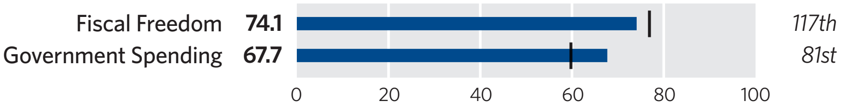
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



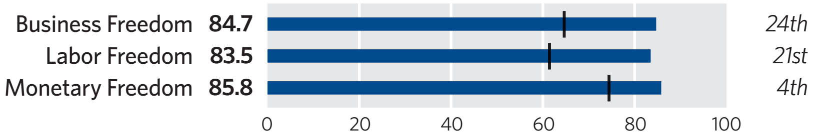
Saint Lucia's efficient legal system is based on British common law. The judiciary is independent and conducts generally fair public trials. Enforcement of intellectual property rights has been very weak in the absence of an effective legal framework to protect them, and pirated copyrighted material is sold openly with no fear of arrest or prosecution. The government generally maintains effective anti-corruption measures.

LIMITED GOVERNMENT



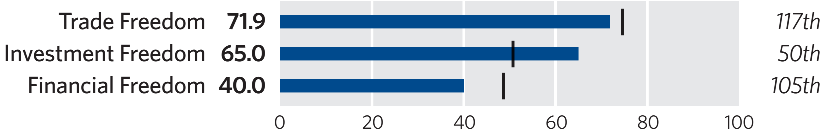
The top income and corporate tax rates are 30 percent. Other taxes include a consumption tax and a property transfer tax, with the overall tax burden amounting to 28.1 percent of total domestic income. Government spending is equivalent to 32.8 percent of GDP, and the deficit has widened to over 3 percent of GDP in recent years. Public debt has climbed to around 65 percent of total domestic output.

REGULATORY EFFICIENCY



The regulatory environment fosters private-sector development. Establishing a business is not time-consuming or costly, and licensing requirements are not burdensome. There is no minimum capital requirement, and it takes half of the world average of 30 days to start a business. Labor regulations are flexible, but an efficient labor market has not fully developed. Application of labor codes is uneven. Inflation has been low.

OPEN MARKETS



The trade weighted average tariff rate is high at 9 percent, and time-consuming non-tariff barriers and poor trade infrastructure further raise costs. 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

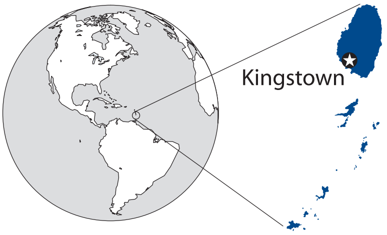
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.3
Government Spending	-3.7

REGULATORY EFFICIENCY	
Business Freedom	-1.5
Labor Freedom	+0.1
Monetary Freedom	+0.5

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	+10.0
Financial Freedom	0

SAINT VINCENT AND THE GRENADINES



World Rank: **52** Regional Rank: **10**

Saint Vincent and the Grenadines' economic freedom score is 66.5, making its economy the 52nd freest in the 2012 *Index*. Its score is 0.4 point lower than last year, with declines in business freedom and the control of government spending outweighing a modest increase in monetary stability. Saint Vincent and the Grenadines ranks 10th out of 29 countries in the South and Central America/Caribbean region, and its score is well above the regional average.

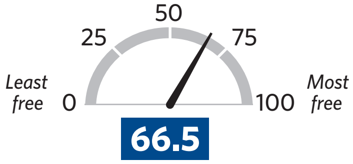
Saint Vincent and the Grenadines performs quite well in most aspects of economic freedom. The economic system is characterized by flexible regulations, an efficient legal system that secures private property, and macroeconomic stability. The tourism industry is the primary driver of the economy and the main draw for foreign investment.

More vibrant entrepreneurial activity remains stifled by limited access to financing in an underdeveloped financial environment, as well as by inefficient open-market policies that impede trade and international investment. Fiscal policy is constrained by a rising level of public debt and an uncompetitive tax regime. The challenging global economic environment makes external borrowing for long-term projects like the construction of a new airport more difficult to obtain.

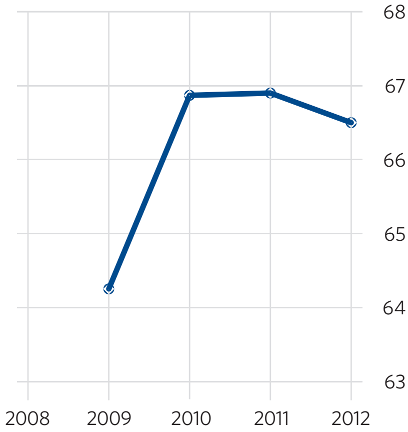
BACKGROUND: Prime Minister Ralph Gonsalves' Unity Labour Party has governed since 2001. Saint Vincent and the Grenadines is part of the British Commonwealth and is a member of CARICOM and the Organization of Eastern Caribbean States. Many of its goods enter the United States duty-free under the U.S. Caribbean Basin Initiative. Banana production and tourism employ most of the workforce, but very high unemployment in the formal sector 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 yet recovered from the 2009 global recession. One-quarter of all revenue is directed toward servicing the nation's debt, which exceeds 60 percent of GDP.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

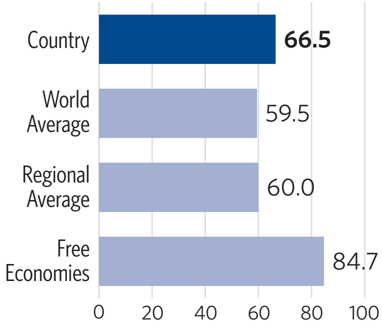
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

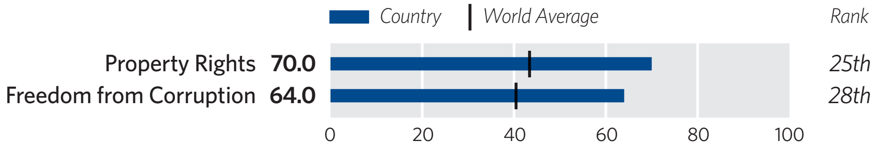
Population: 0.1 million
GDP (PPP): $1.1 billion
–2.3% growth in 2010
5-year compound annual growth 2.2%
$9,970 per capita
Unemployment: 15.0%
Inflation (CPI): 1.5%
FDI Inflow: $91.8 million
Public Debt: 66.8% of GDP

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

SAINT VINCENT AND THE GRENADINES (continued)

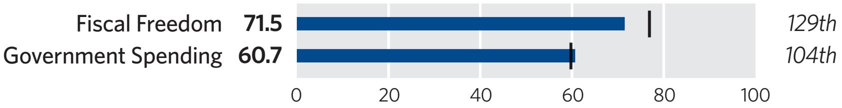
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



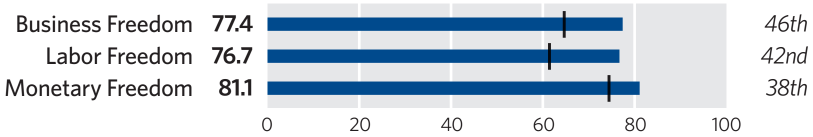
Saint Vincent and the Grenadines' judicial system is based on British common law. The judiciary is relatively independent and efficient, providing generally fair public trials. In comparison with other countries in the region, the rule of law remains strong, and corruption is not pervasive in the economy. The law provides criminal penalties for official corruption, but enforcement is not always effective.

LIMITED GOVERNMENT



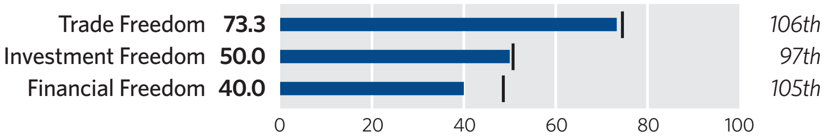
The top income and corporate tax rates are 32.5 percent. Other taxes include a property tax and a value-added tax (VAT), with the overall tax burden amounting to 27.1 percent of total domestic income. Government spending has increased to a level equivalent to 36.2 percent of total domestic output. The budget balance has been in deficit, and public debt has reached over 60 percent of GDP.

REGULATORY EFFICIENCY



The formation and operation of businesses is 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 moderated.

OPEN MARKETS

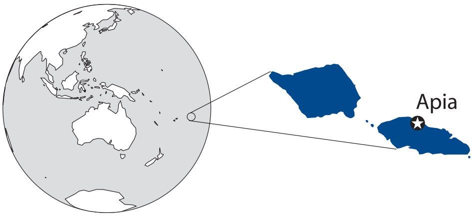


The trade weighted average tariff rate is high at 8.4 percent, and onerous non-tariff barriers further constrain freedom to trade. Investment-related regulations and laws are complex and non-transparent, thwarting prospects for attracting new investment. The developing financial system is dominated by banking. 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		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.8	Business Freedom	-1.9	Trade Freedom	0
Freedom from Corruption	0	Government Spending	-4.4	Labor Freedom	-0.1	Investment Freedom	0
				Monetary Freedom	+2.9	Financial Freedom	0

SAMOA



World Rank: **86** Regional Rank: **13**

Samoa's economic freedom score is 60.5, making its economy the 86th freest in the 2012 *Index*. Its score is 0.1 point worse than last year, with a significant improvement in monetary freedom offset by declines in freedom from corruption and the control of government spending. Samoa ranks 13th out of 41 countries in the Asia–Pacific region, and its overall score is above the world and regional averages.

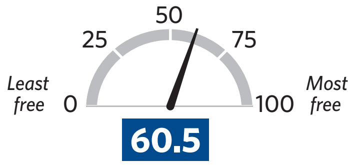
The Samoan economy's record on institutional reform has been uneven and sluggish. More vibrant economic growth is constrained by structural weaknesses that continue to undermine economic freedom. The rule of law is not firmly institutionalized through a well-functioning judicial system, particularly due to persistent corruption. Inefficient and high public spending has resulted in a considerable fiscal burden on the population.

Modest regulatory reforms, including simplification of the business start-up process, have led to increased efficiency. However, the pace of reform has slowed in recent years, and policies to open markets further have not been advanced. The Samoan economy has become more dependent on remittances and foreign aid.

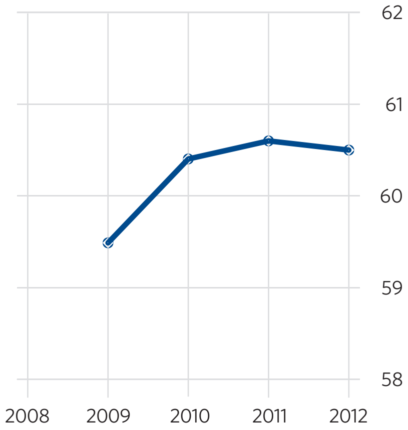
BACKGROUND: Samoa is a small South Pacific archipelago with a population of less than 200,000. Independent from administration by New Zealand since 1962, Samoa is now a multi-party electoral democracy, although its government has been dominated politically by the Human Rights Protection Party. There was much controversy over the 2011 parliamentary elections when a few politicians were found guilty of bribery, but the Human Rights Protection Party 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. In September 2009, a sizable tsunami killed over 200 people and caused significant damage to infrastructure and property.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

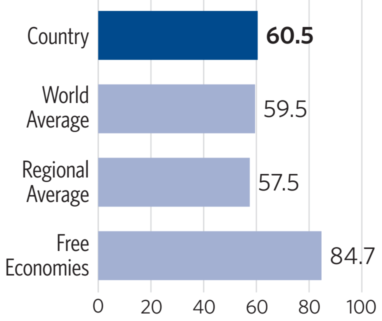
Economic Freedom Score



Freedom Trend



Country Comparisons



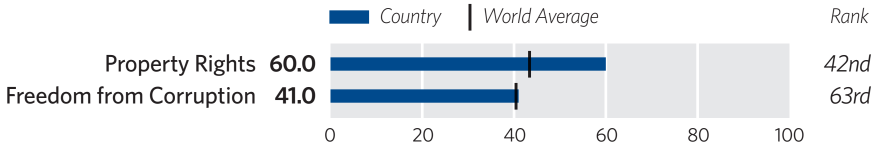
Quick Facts

Population: 0.2 million
GDP (PPP): $1.1 billion
0.0% growth in 2010
5-year compound annual growth 0.8%
$5,500 per capita (est.)
Unemployment: n/a
Inflation (CPI): –0.2%
FDI Inflow: $2.2 million
Public Debt: 54.3% of GDP

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

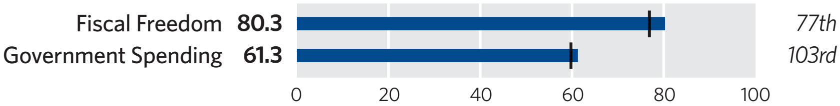
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



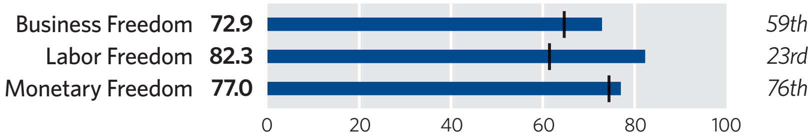
Samoa's legal system is based on British common law. The judiciary is independent and conducts generally fair public trials. However, a modern and well-functioning legal framework for land ownership and enforcement of property rights is not firmly in place. More than 80 percent of the land is owned by extended families represented by their chiefs. Government bans on media reporting of corruption have caused concern.

LIMITED GOVERNMENT



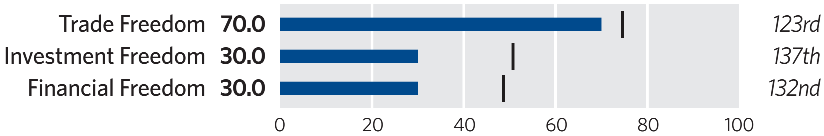
The top income and corporate tax rates are 27 percent. Other taxes include a value-added tax (VAT) and excise taxes, with the overall tax burden amounting to 22.7 percent of total domestic income. Government spending has risen to a level equivalent to 35.9 percent of GDP. The budget deficit has widened to over 10 percent of GDP, and public debt has grown to over 50 percent of total domestic output.

REGULATORY EFFICIENCY



The regulatory framework, improved by recent years' reforms, 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 10 percent, and complex 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 keeps 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	+0.2	Business Freedom	+0.1	Trade Freedom	0
Freedom from Corruption	-4.0	Government Spending	-6.6	Labor Freedom	+0.2	Investment Freedom	0
				Monetary Freedom	+8.5	Financial Freedom	0

SÃO TOMÉ AND PRÍNCIPE

World Rank: **148** Regional Rank: **32**

São Tomé and Príncipe's economic freedom score is 50.2, making its economy the 148th freest in the 2012 *Index*. Its score has increased by 0.7 point from last year, reflecting a significant gain in business freedom offset by a correspondingly large deterioration in the management of government spending. São Tomé and Príncipe is ranked 32nd out of 46 countries in the Sub-Saharan Africa region, and its score is below the world and regional averages.

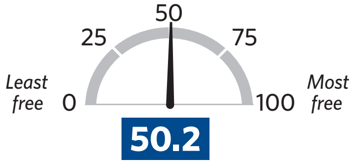
With three consecutive years of advancing economic freedom, the island economy is no longer considered one of the least free in the *Index*. Notable reforms have been implemented in key areas. The corporate tax rate has been significantly reduced to a flat 25 percent. Regulatory efficiency has been enhanced through establishment of a streamlined business formation process. São Tomé and Príncipe recorded the largest improvement in business freedom in the 2012 *Index*.

Nevertheless, institutional weaknesses continue to constrain overall economic freedom. The judicial system lacks the capacity to defend property rights effectively. Corruption remains widespread, undermining prospects for long-term sustainable economic development. High public spending perpetuates fiscal burdens. 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.

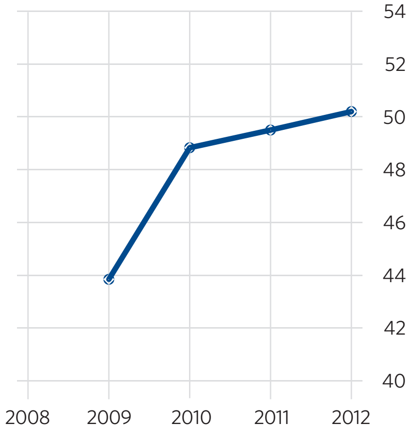
BACKGROUND: The population of São Tomé and Príncipe, a two-island republic in the Gulf of Guinea, is heavily concentrated on São Tomé. President Fradique de Menezes, first elected in 2001, was re-elected in 2006. His election in December 2009 to lead the MDFM party as well was challenged, both within 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), palm kernels, and coffee. Offshore oil fields shared with Nigeria are thought to hold billions of barrels of oil but have not been exploited.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

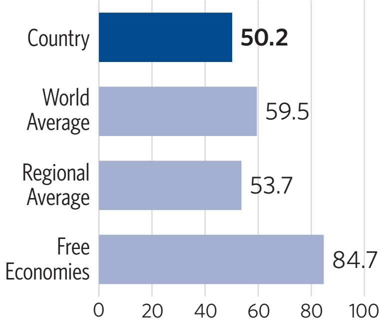
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

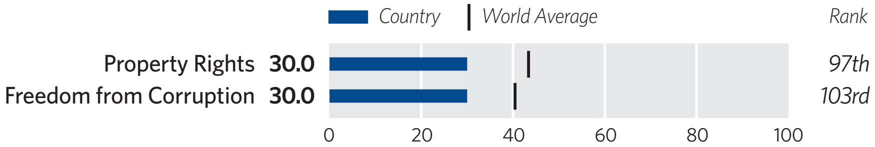
Population: 0.2 million
GDP (PPP): $0.3 billion
4.5% growth in 2010
5-year compound annual growth 5.4%
$1,881 per capita
Unemployment: n/a
Inflation (CPI): 14.4%
FDI Inflow: $3.0 million
Public Debt: 71.4% of GDP

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

SÃO TOMÉ AND PRÍNCIPE (continued)

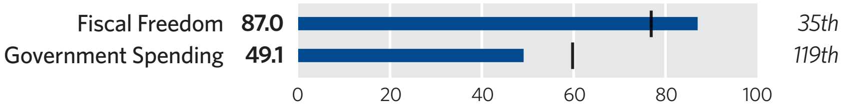
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



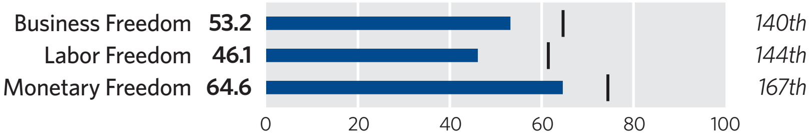
The legal system is weak, inefficient, and subject to persistent political influence, and property rights are not protected effectively. There is no separate commercial court system, and backlogs of civil cases cause long delays. The absence of effective measures or strong political will to fight corruption is a cause for concern. Bribery, embezzlement, and mismanagement of public funds are regarded as endemic.

LIMITED GOVERNMENT



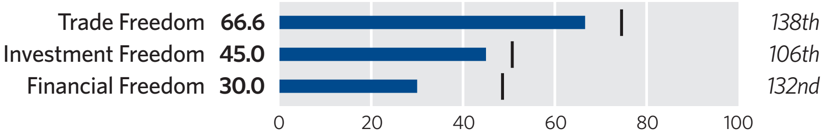
The top income tax rate is 20 percent, and the corporate tax rate is a flat 25 percent. Other taxes include a sales tax and a dividend tax, with the overall tax burden amounting to 16.7 percent of total domestic income. Government spending has increased to the equivalent of 41.2 percent of total domestic output, leading to chronically high deficits of over 10 percent of GDP and growing public debt exceeding 70 percent of GDP.

REGULATORY EFFICIENCY



Recent efforts to streamline the business start-up process have produced positive results. The time taken to start a company has been reduced to only 10 days from 144 days, and licensing requirements have also been simplified. Regulatory efficiency remains weak. In the absence of a well-functioning labor market, informal labor activity remains significant. Monetary stability is not well maintained, and inflation has been high.

OPEN MARKETS

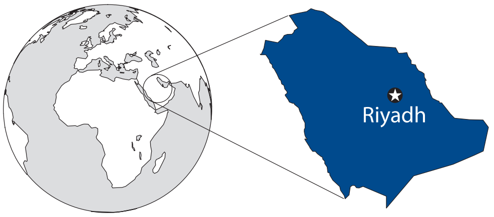


The trade weighted tariff rate is high at over 10 percent, although the tariff structure has been simplified. Non-tariff barriers are numerous, and accession to the World Trade Organization has moved slowly since the country's application in 2005. The investment regime remains inefficient and lacks transparency. The underdeveloped financial sector does not provide adequate access to banking services for a large portion of the population.

Score Changes

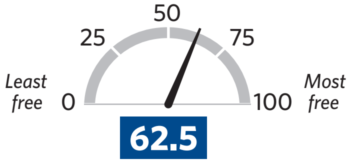
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.2	Business Freedom	+21.2	Trade Freedom	0
Freedom from Corruption	+2.0	Government Spending	-18.4	Labor Freedom	-0.3	Investment Freedom	0
				Monetary Freedom	+2.4	Financial Freedom	0

SAUDI ARABIA

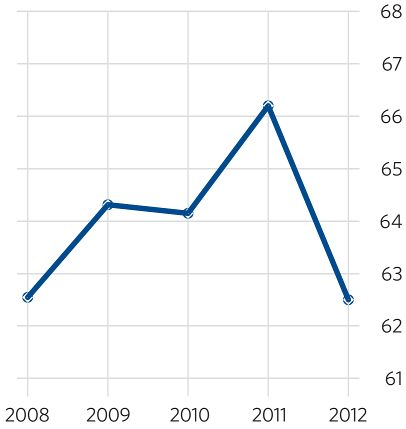


World Rank: **74** Regional Rank: **8**

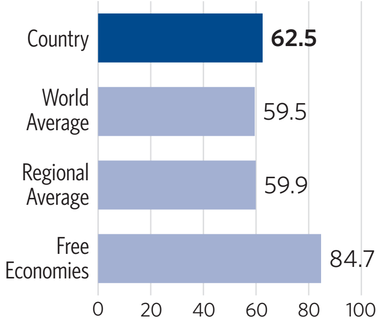
Economic Freedom Score



Freedom Trend



Country Comparisons



Saudi Arabia's economic freedom score is 62.5, making its economy the 74th freest in the 2012 *Index*. Its score is 3.7 points worse than last year, with a huge increase in levels of government spending and a notable drop in labor freedom overwhelming a modest gain in freedom from corruption. Saudi Arabia is ranked 8th out of 17 countries in the Middle East/North Africa region, and its overall score remains above the world average.

Reversing its previous trend of advancing economic freedom, Saudi Arabia recorded the fourth largest score decline in the 2012 *Index*. The decline was caused largely by higher spending, intended apparently to quell potential public unrest.

Saudi Arabia's overall economic freedom remains deficient in other areas. Although there has been notable progress in tackling corruption in recent years, levels of monetary freedom, investment freedom, and property rights are average at best. The legal system remains susceptible to political influence. Investment freedom remains hampered by heavy bureaucracy and a lack of transparency. Monetary stability is weak and continues to be adversely affected by price controls.

BACKGROUND: Saudi Arabia is an absolute monarchy ruled by King Abdallah bin Abdul Aziz Al Saud. In early 2011, Shia activists in the eastern part of the country mounted several pro-reform demonstrations, but most of the dominant Sunni population appeared to be satisfied by increased economic benefits and the promise of greater political participation in municipal elections. Saudi Arabia controls more than 20 percent of the world's oil reserves and, as the world's leading oil producer and exporter, plays a dominant role in the Organization of 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 the government has sought to attract foreign investment and promote diversification. Islamist extremists have targeted Saudi oil facilities, foreign workers, and the government for terrorist attacks.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

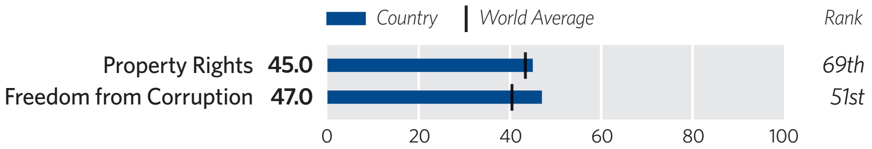
Quick Facts

Population: 26.1 million
GDP (PPP): $622.0 billion
3.7% growth in 2010
5-year compound annual growth 2.7%
$23,826 per capita
Unemployment: 10.8%
Inflation (CPI): 5.4%
FDI Inflow: $28.1 billion
Public Debt: 9.9% of GDP

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

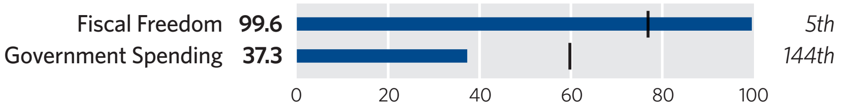
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



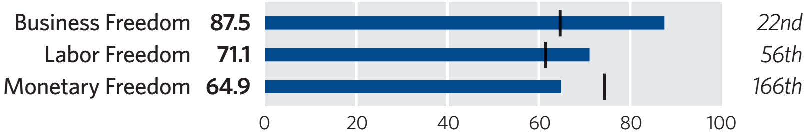
Saudi courts do not always enforce contracts efficiently. The judicial system is slow, non-transparent, and vulnerable to interference from the ruling elite. Laws protecting intellectual property rights are being revised to comply with the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement, but enforcement has been weak. Government decision-making lacks transparency, and corruption remains a concern.

LIMITED GOVERNMENT



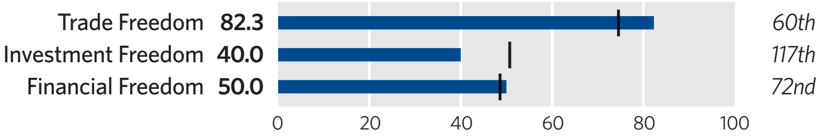
Saudi nationals or citizens of the Gulf Cooperation Council and corporations pay a 2.5 percent religious tax mandated by Islamic law rather than traditional income or corporate taxes. Overall tax revenue is less than 6 percent of GDP. Government spending has risen to a level equivalent to 45.7 percent 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



The regulatory framework is relatively sound. Forming a business has become less time-consuming, and licensing requirements have been eased. With no minimum capital required, starting a business takes only three procedures and five days. There is no mandated minimum wage, but wage increases have exceeded labor productivity. Inflation is high, and the government influences prices through extensive 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 traded goods and services. Despite progress, the investment regime remains restrictive, with controls in some sectors. There are minimum capital requirements for foreign investors who want to establish a business. The financial sector has undergone gradual transformation, with some restrictions on foreign investment in financial services eased.

Score Changes

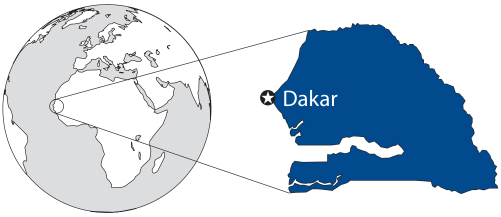
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+4.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.2
Government Spending	–37.3

REGULATORY EFFICIENCY	
Business Freedom	+1.4
Labor Freedom	–5.9
Monetary Freedom	+0.6

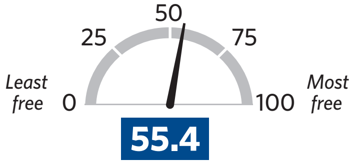
OPEN MARKETS	
Trade Freedom	+0.1
Investment Freedom	0
Financial Freedom	0

SENEGAL



World Rank: **120** Regional Rank: **22**

Economic Freedom Score



Senegal's economic freedom score is 55.4, making its economy the 120th freest in the 2012 *Index*. Its score has decreased by 0.3 point since last year, reflecting declines in four of the 10 economic freedoms including business freedom and trade freedom. Senegal is ranked 22nd out of 46 countries in the Sub-Saharan Africa region, and its score is below the world average.

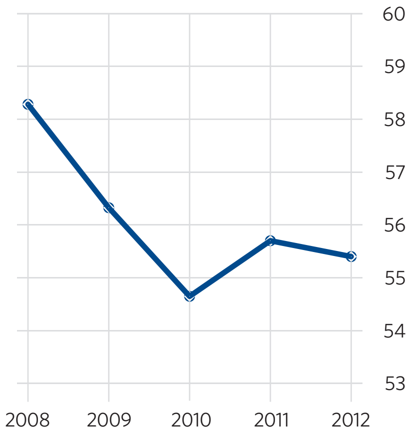
The Senegalese economy has experienced uneven progress toward greater economic freedom over the past five years. The regulatory framework discourages dynamism and tends to curb private-sector development. Despite some improvement in streamlining business formation, government bureaucracy and the lack of transparency create a poor entrepreneurial climate, and the government's lack of commitment to open markets has hindered integration into the global marketplace.

Implementation of deeper institutional reforms to improve the foundations of economic freedom is critical to Senegal's prospects for long-term economic development and greater poverty reduction. Systemic weaknesses persist in the protection of property rights and the effective enforcement of anti-corruption measures. The judiciary remains vulnerable to political influence.

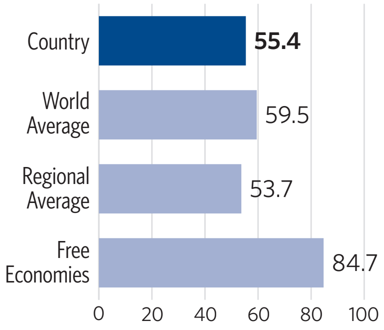
BACKGROUND: President Abdoulaye Wade, elected in 2000 and re-elected in 2007, has amended Senegal's constitution over a dozen times to increase executive power and weaken the opposition. Privatization and market-oriented economic reforms have proceeded slowly. Peace in the southern Casamance region has progressed fitfully since a 2004 accord between the government and rebel leaders, but sporadic fighting continues. 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. In 2010, the Senegalese people protested frequent power cuts. The government pledged to expand capacity by 2012 and to promote renewable energy, but until Senegal has more capacity, economic activity will be hindered.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



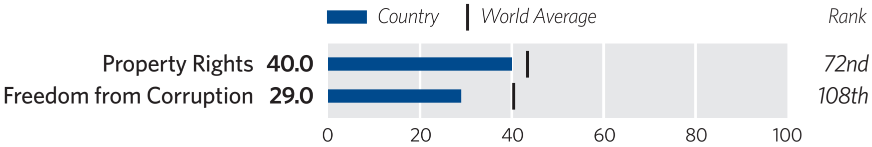
Quick Facts

Population: 13.1 million
GDP (PPP): $23.9 billion
4.2% growth in 2010
5-year compound annual growth 3.4%
$1,819 per capita
Unemployment: 48.0%
Inflation (CPI): 1.2%
FDI Inflow: $237.2 million
Public Debt: 38.0% of GDP

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

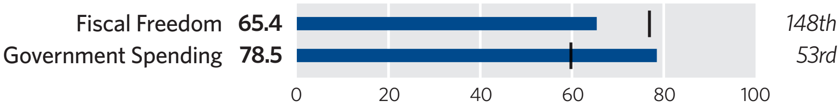
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



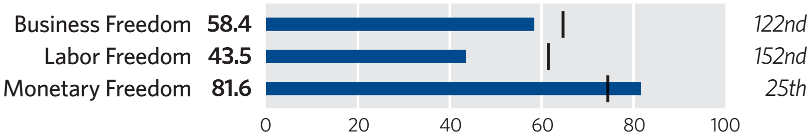
The legal system does not provide secure protection of property rights, and the rule of law remains weak. The government has streamlined procedures for registering property and reduced associated costs, but the administration of property titles and land registration procedures is uneven outside of urban areas. Commercial courts are inefficient, and rulings can be arbitrary and inconsistent. Corruption remains a cause for concern.

LIMITED GOVERNMENT



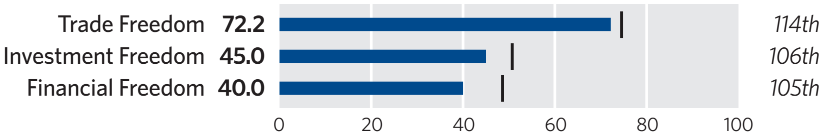
The top income tax rate is 50 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and an insurance tax, with the overall tax burden amounting to 18.3 percent of total domestic income. Government spending has increased to a level equivalent to 26.8 percent of total domestic product. The budget balance has been in chronic deficit, and public debt has reached around 40 percent of GDP.

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 income. Given the large agricultural sector that employs about 70 percent of the working population, 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 layers of complex 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

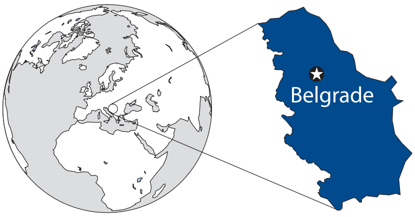
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-1.0

LIMITED GOVERNMENT	
Fiscal Freedom	0
Government Spending	-0.3

REGULATORY EFFICIENCY	
Business Freedom	-3.9
Labor Freedom	+0.6
Monetary Freedom	+1.9

OPEN MARKETS	
Trade Freedom	-1.0
Investment Freedom	0
Financial Freedom	0

SERBIA



World Rank: **98** Regional Rank: **37**

Serbia's economic freedom score is 58.0, making its economy the 98th freest in the 2012 *Index*. Its score remains unchanged from last year, reflecting modest improvements in trade and monetary freedom offset by losses in business freedom and the management of government spending. Serbia is ranked 37th out of 43 countries in the Europe region, and its overall score is below the world and regional averages.

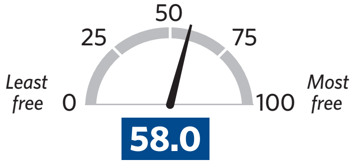
Despite some progress, Serbia's overall economic freedom continues to be constrained by the lack of political will to undertake the bold reforms that are required. Government spending remains inefficient, high, and poorly managed. Deeper institutional reforms are needed to tackle bureaucracy, reduce corruption, and strengthen a judicial system that is vulnerable to political interference.

Over the past decade, Serbia has implemented significant structural reforms in some parts of its economy. Facilitated by a reform process involving privatization and consolidation, the once-defunct banking sector has revived and continues to evolve. The economy's competitiveness is supported by low flat tax rates, relative openness to global trade, and ongoing regulatory reforms.

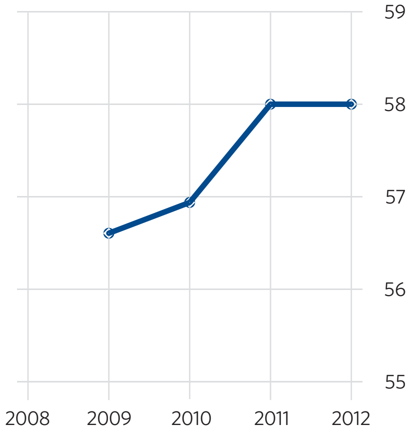
BACKGROUND: Serbia signed a Stability and Association Agreement with the European Union in May 2008 and submitted its formal application for membership in December 2009. Accession talks were made contingent on the arrest of wartime leader Ratko Mladic, who was finally apprehended in May 2011. President Boris Tadic's government seeks Euro–Atlantic integration and membership in the World Trade Organization. In July 2010, the International Court of Justice ruled that the former province of Kosovo's declaration of independence in 2008 was in accordance with international law, and Serbia agreed to engage in an EU-facilitated dialogue with Kosovo on practical issues in March 2011. Serbia's economy has attracted significant foreign investment in manufacturing and services over the past decade and has become far more integrated into the international economic system.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

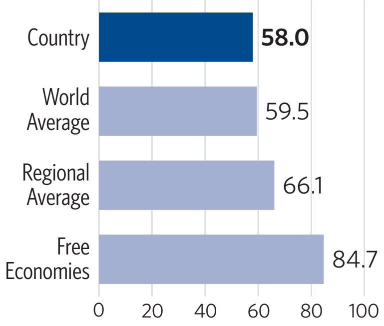
Economic Freedom Score



Freedom Trend



Country Comparisons



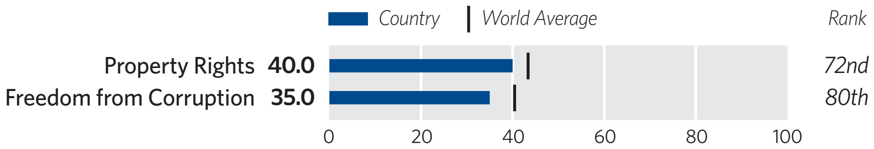
Quick Facts

Population: 7.4 million
GDP (PPP): $80.1 billion
1.8% growth in 2010
5-year compound annual growth 3.2%
$10,830 per capita
Unemployment: 19.2%
Inflation (CPI): 6.2%
FDI Inflow: $1.3 billion
Public Debt: 44.9% of GDP

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

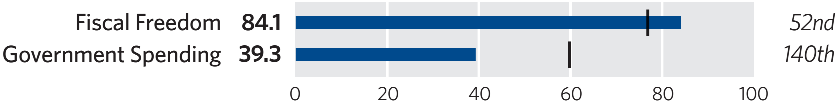
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



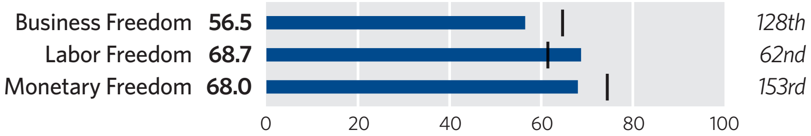
Serbia's constitution supports an independent judiciary, but the system is inefficient and vulnerable to political interference. Protection of property rights is not enforced effectively. The legal regime for protection of intellectual property rights has improved, but enforcement is still insufficient. Organized criminal groups engage in money laundering, and corruption remains widespread in the economy.

LIMITED GOVERNMENT



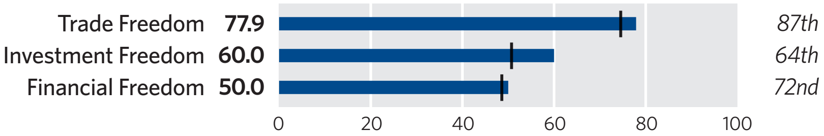
The top income tax rate is 15 percent, and the corporate tax rate is a flat 10 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden amounting to 35.5 percent of total domestic income. Government spending has risen to a level equivalent to 45 percent of GDP, and the budget deficit has widened to over 3 percent of GDP. Public debt has climbed to around 45 percent of total domestic output.

REGULATORY EFFICIENCY



Bureaucratic bottlenecks increase the cost of doing business. Despite some progress in streamlining the process for launching a business, other requirements remain time-consuming. Completing licensing requirements costs over 16 times the average level of annual income. A fully functioning modern labor market has not developed, and the informal sector remains significant. Inflation has been high.

OPEN MARKETS

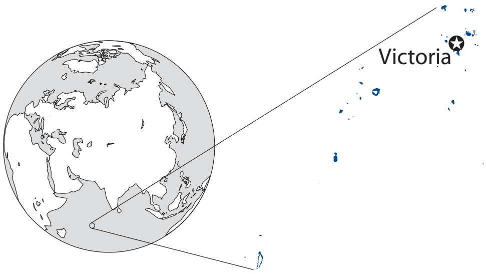


The trade weighted average tariff rate is 6 percent, and layers of non-tariff barriers add to the cost of trade. Most sectors are open to foreign investment, and recent reforms have improved the investment environment, but regulatory uncertainty and lack of transparency deter vibrant investment growth. A wider range of credit instruments has become available to the private sector, but the level of financial intermediation remains relatively low.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.5	Business Freedom	−2.5	Trade Freedom	+2.7
Freedom from Corruption	0	Government Spending	−2.6	Labor Freedom	−0.2	Investment Freedom	0
				Monetary Freedom	+2.0	Financial Freedom	0

SEYCHELLES



World Rank: **132** Regional Rank: **27**

Seychelles’ economic freedom score is 53.0, making its economy the 132nd freest in the 2012 *Index*. Its score is 1.8 points higher than last year, reflecting a significant improvement in monetary freedom and the control of government spending. Seychelles is ranked 27th among 46 countries in the Sub-Saharan Africa region.

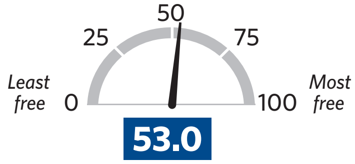
The Seychelles economy registered one of the 15 highest score improvements in the 2012 *Index*. The government has implemented major tax reforms, cutting and simplifying personal and corporate tax rates. Privatization has been slow, but efforts to enhance transparency and improve the governance of state-owned enterprises have continued.

Despite such progress, the overall entrepreneurial environment remains hampered by an inefficient regulatory framework, poor access to financing, and the pervasive state presence in the economy. The judicial system lacks the ability to defend property rights effectively. Corruption remains widespread, undermining prospects for long-term sustainable economic development. High public spending perpetuates fiscal burdens, although some progress toward debt sustainability has been made through the restructuring of external debt. A lack of commitment to open-market policies holds back growth in trade and long term investment.

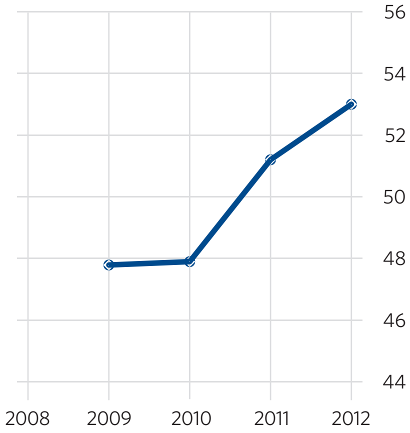
BACKGROUND: The Seychelles People’s Progressive Front has been the ruling party since 1977, when France Albert René seized power in a bloodless coup. In 2004, René ceded power to Vice President James Michel. Michel was elected to a third term in May 2011. The economy of this Indian Ocean archipelago 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

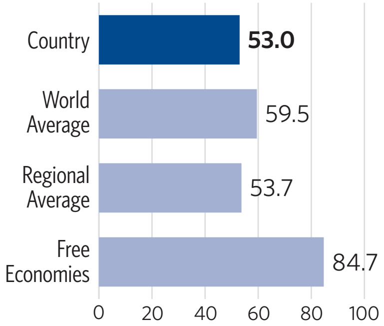
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 0.1 million

GDP (PPP): $2.1 billion
6.2% growth in 2010
5-year compound annual growth 4.2%
$23,428 per capita

Unemployment: 2.0%

Inflation (CPI): –2.4%

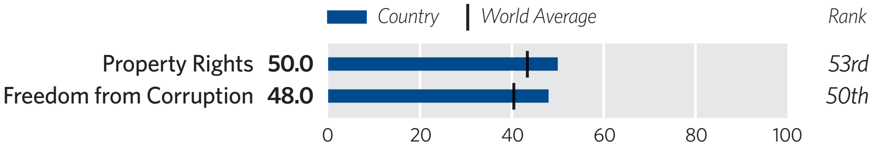
FDI Inflow: $369.0 million

Public Debt: 83.1% of GDP

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

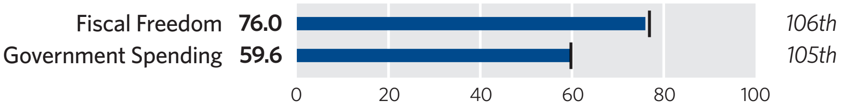
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



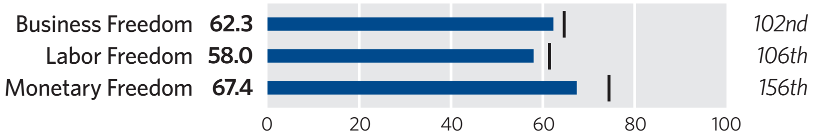
Seychelles' judicial system is inefficient and subject to executive influence. Civil court cases take years to resolve. Recent changes in the law on property ownership offer freehold title and residency rights to foreign owners and their immediate families in a bid to open the islands to more foreign investment. Widespread public-sector corruption undermines the government's capacity to provide basic services.

LIMITED GOVERNMENT



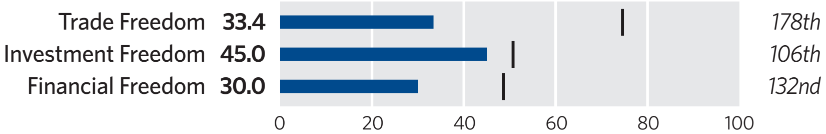
The top income tax rate is a flat 15 percent, and the top corporate tax rate is 33 percent. Other taxes include an interest tax and a vehicle tax, with the overall tax burden amounting to 30.9 percent of total domestic income. Government spending is equivalent to 36.7 percent of total domestic output. The budget surplus has been narrowing, and public debt is equivalent to over 80 percent of GDP.

REGULATORY EFFICIENCY



The regulatory framework still confronts potential entrepreneurs with considerable bureaucratic and procedural hurdles, and continuing reform will be critical to improving competitiveness and ensuring broader-based economic development. 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. With flows further obstructed by non-tariff barriers, Seychelles' trading environment is among the world's most restricted. Investment is hindered by heavy bureaucracy and inadequate infrastructure. 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

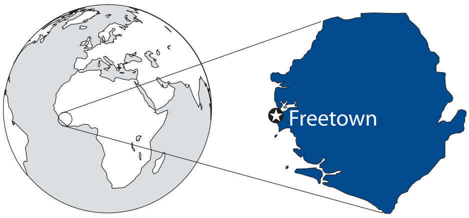
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	-1.7
Government Spending	+7.1

REGULATORY EFFICIENCY	
Business Freedom	-0.1
Labor Freedom	-0.1
Monetary Freedom	+12.5

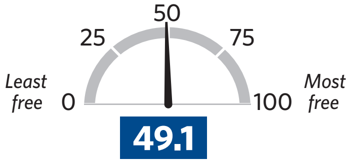
OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

SIERRA LEONE



World Rank: **152** Regional Rank: **34**

Economic Freedom Score



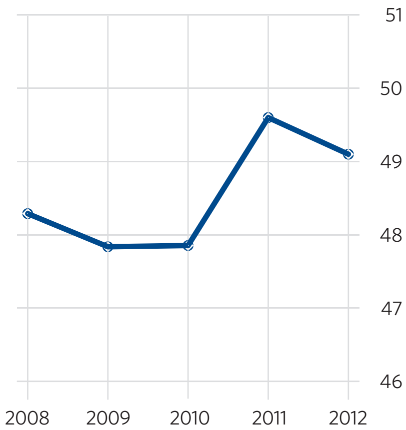
Sierra Leone's economic freedom score is 49.1, making its economy the 152nd freest in the 2012 *Index*. Its score is 0.5 point lower than last year, reflecting declines in scores for the control of government spending, business freedom, and monetary freedom that more than offset small gains in labor freedom and freedom from corruption. Sierra Leone is ranked 34th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the global average.

The foundations of economic freedom in Sierra Leone remain severely hampered by structural and institutional problems. With the rule of law weak across the country, nearly nonexistent property rights and pervasive corruption continue to be a weighty drag on private-sector development.

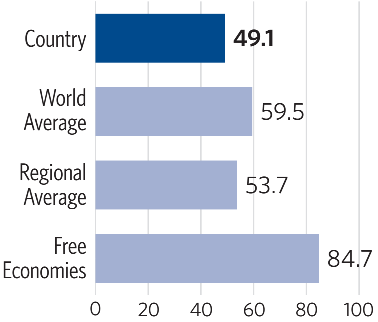
Heavily dependent on the agricultural sector, Sierra Leone's economy suffers from a lack of economic dynamism. Poor infrastructure and erratic regulatory enforcement impede expansion and diversification of the productive base. The financial system, still recovering from the civil war, lacks the capacity to provide sufficient credit for growing business activity. In an effort to move away from dependence on diamond production, Sierra Leone has invested in improving its legal and physical infrastructure. It also has taken steps to improve tax administration and public debt management.

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, and the people remain very poor. Industry (primarily mining) accounted for about 23 percent of GDP in 2008. Mineral exports remain the principal foreign exchange earner. Sierra Leone is a major producer of gem-quality diamonds, which account for nearly half of exports. Though rich in this resource, the country has struggled to manage its exploitation and trade. Several offshore oil discoveries were announced in 2009 and 2010, but these possibly significant reserves have yet to be developed.

Freedom Trend



Country Comparisons



Quick Facts

Population: 5.8 million

GDP (PPP): $4.7 billion

5.0% growth in 2010

5-year compound annual growth 5.5%

$807 per capita

Unemployment: n/a

Inflation (CPI): 17.8%

FDI Inflow: $35.8 million

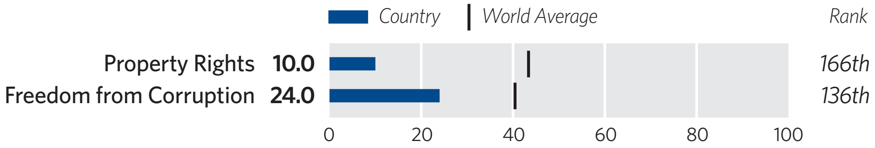
Public Debt: 64.7% of GDP

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

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

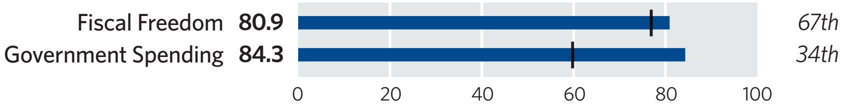
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



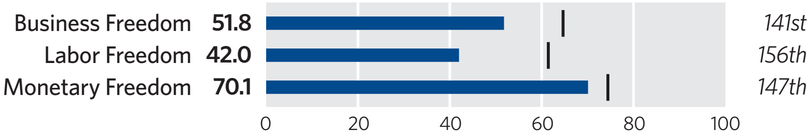
The rule of law is fragile and uneven across the country. In the absence of an effectively functioning legal framework, property rights and contracts are not secure. There is no land titling system, and judicial corruption is significant. Traditional tribal justice systems still serve as a supplement to the central government's judiciary, especially in rural areas. Corruption remains pervasive in all branches of government.

LIMITED GOVERNMENT



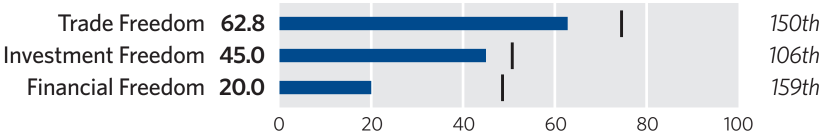
The top income and corporate tax rates are 30 percent. Other taxes include a goods and services tax (GST) and an interest tax, with the overall tax burden amounting to 10.4 percent of total domestic income. Government spending is equivalent to 22.9 percent of GDP. The budget deficit has increased to over 3 percent of GDP, and public debt has reached a level equivalent to about 65 percent of total domestic output.

REGULATORY EFFICIENCY



The procedure for establishing a business has been simplified, but licensing requirements remain burdensome. In theory, starting a company takes less than the world averages of seven procedures and 30 days, but completing licensing requirements is time-consuming and costly. Outmoded labor regulations have little practical impact as much of the labor force is employed in the informal sector. Inflation has been chronically high.

OPEN MARKETS



The trade weighted average tariff rate is prohibitively high at 13.6 percent, with additional non-tariff barriers severely constraining freedom to trade. Private investment activity has been weak, and much-needed long-term investment continues to be discouraged by the weak 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

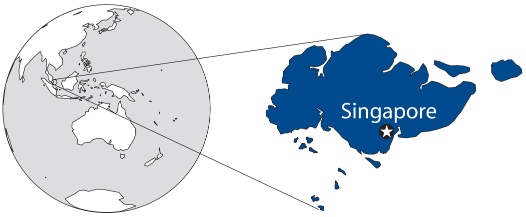
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+2.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.1
Government Spending	-2.5

REGULATORY EFFICIENCY	
Business Freedom	-3.1
Labor Freedom	+2.6
Monetary Freedom	-4.1

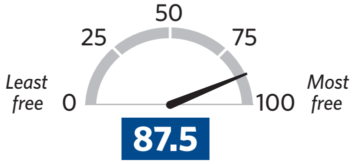
OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

SINGAPORE

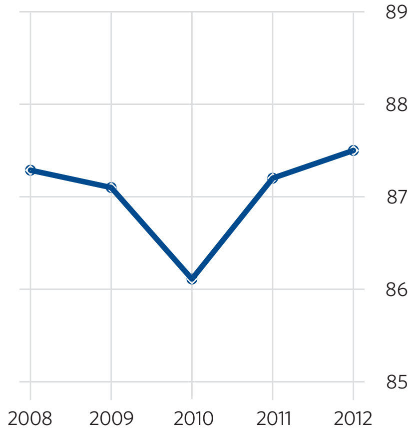


World Rank: **2** Regional Rank: **2**

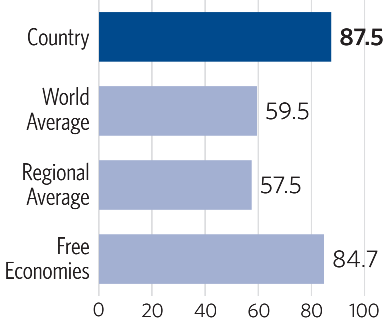
Economic Freedom Score



Freedom Trend



Country Comparisons



Singapore's economic freedom score is 87.5, making its economy the 2nd freest in the 2012 *Index*. Its score is slightly higher than last year, reflecting gains in freedom from corruption and financial freedom that offset losses in labor and monetary freedoms. Singapore is ranked 2nd out of 41 countries in the Asia–Pacific region, and its overall score remains significantly higher than the world average.

The foundations of economic freedom in Singapore are firmly sustained with strong protection of property rights and effective enforcement of anti-corruption laws. The government is very efficient, with competitive tax rates and low government expenditures. The regulatory environment is flexible and transparent, encouraging vibrant commercial activity. A strong tradition of openness to global trade and investment continues to boost productivity while facilitating the emergence of a more dynamic and competitive financial sector.

While the private sector has been the source of Singapore's economic success, the government maintains a proactive role in guiding economic development. State ownership and involvement in key sectors remains substantial. A government statutory entity, the Central Provident Fund, administers public housing, health care, and various other programs, and public debt is over 90 percent of GDP.

BACKGROUND: Singapore is a nominally democratic state that has been ruled by the People's Action Party (PAP) since 1965, when the country became independent. The May 7, 2010, election left the PAP in power but put six opposition members into Parliament with the PAP winning its lowest percentage of the popular vote since independence. Certain rights, such as freedom of assembly and freedom of speech, remain restricted, but the PAP has also 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.

Quick Facts

Population: 5.2 million
GDP (PPP): $291.9 billion
14.5% growth in 2010
5-year compound annual growth 6.4%
$56,522 per capita
Unemployment: 2.1%
Inflation (CPI): 2.8%
FDI Inflow: $38.6 billion
Public Debt: 96.3% of GDP

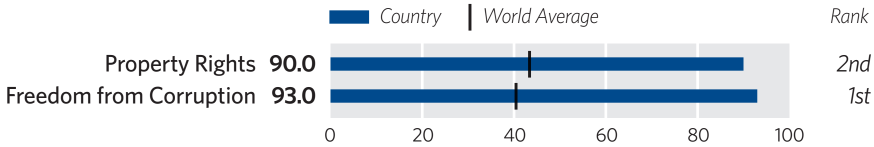
2010 data unless otherwise noted.
Data compiled as of September 2011.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

SINGAPORE (continued)

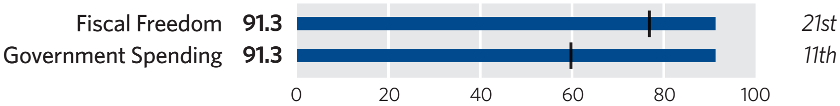
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



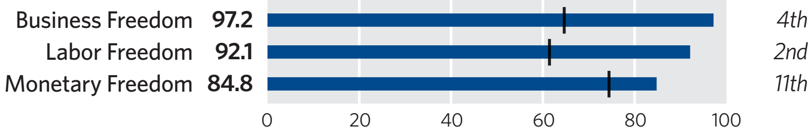
Contracts are secure, there is no expropriation, and the commercial court functions efficiently. Singapore has one of Asia's strongest intellectual property rights regimes, though enforcement could be improved. The government enforces strong anti-corruption measures. It is a crime for a citizen to bribe a foreign official or any other person, either within or outside of Singapore.

LIMITED GOVERNMENT



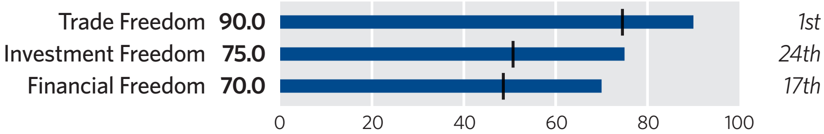
The top income tax rate is 20 percent, and the top corporate tax rate is 17 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden amounts to around 14 percent of total domestic income. With structural budget surpluses that sustain high public debt, government spending stands at 17 percent of GDP. The state remains involved in the economy through Singapore's many government-linked companies.

REGULATORY EFFICIENCY



Starting a business takes only three days, and required procedures are streamlined. 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 government influences prices through regulation and state-linked enterprises and can impose controls as it deems necessary.

OPEN MARKETS

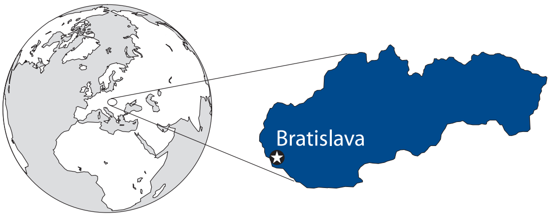


The trade regime is open and competitive, and no tariffs are imposed on imports. Foreign and domestic businesses are treated equally under the law, and nearly all sectors of the economy are open to 100 percent foreign ownership. There are no requirements on current transfers or repatriation of profits. In the competitive financial sector, there are 120 commercial banks, 114 of which are foreign banks whose market share has increased.

Score Changes

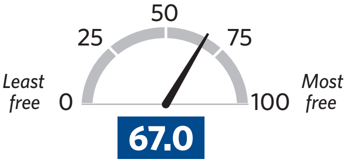
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.2	Business Freedom	-1.0	Trade Freedom	0
Freedom from Corruption	+1.0	Government Spending	0	Labor Freedom	-5.9	Investment Freedom	0
				Monetary Freedom	-1.4	Financial Freedom	+10.0

SLOVAKIA



World Rank: **51** Regional Rank: **24**

Economic Freedom Score



Slovakia's economic freedom score is 67.0, making its economy the 51st freest in the 2012 *Index*. Its score has decreased by 2.5 points from last year, with declines in freedom from corruption, business freedom, labor freedom, and the management of public finance. Slovakia is ranked 24th out of 43 countries in the Europe region, and its overall score is higher than the world average. The country recorded one of the 10 largest reductions in score in the 2012 *Index*.

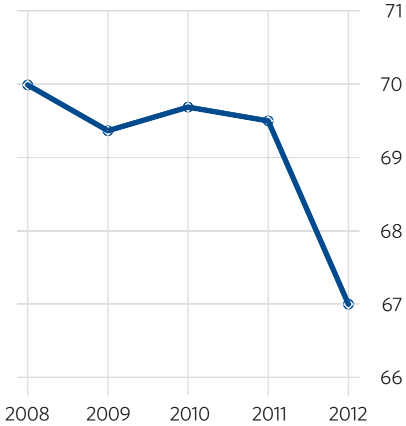
Economic freedom peaked in Slovakia in 2008 and has been on a downward trend ever since. The momentum for implementing deeper institutional reforms appears to be all but stalled. Prospects for long-term economic development are curtailed by ineffectiveness in the fight against corruption and a lack of political commitment to enhancing the legal framework. Undermining respect for the rule of law, the judiciary remains vulnerable to political interference.

Government spending has been increasing, and privatization of many remaining state assets has been suspended.

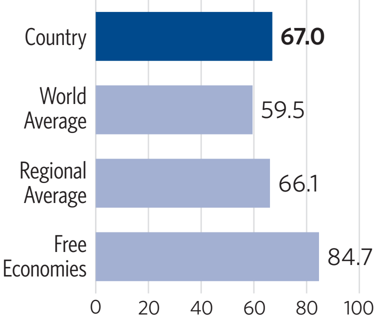
BACKGROUND: Slovakia became independent following its "velvet divorce" from the former Czechoslovakia in 1993. Reforms implemented by former Prime Minister Mikulas Dzurinda in the 1990s resulted in low labor costs, low taxes, and political stability, making Slovakia one of Europe's most attractive economies, especially for automobile manufacturing. The pace of reform slowed significantly after the election of Robert Fico of the social democratic SMER party as prime minister in 2006. Though SMER won a plurality of seats in the 2010 parliamentary elections, a center-right coalition of several smaller parties installed Iveta Radicova as prime minister. Slovakia faced political uncertainty following the collapse of the government in October 2011. An early election has been set for March 2012. Slovakia became a member of the European Union and NATO in 2004 and adopted the euro as its national currency in 2009.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



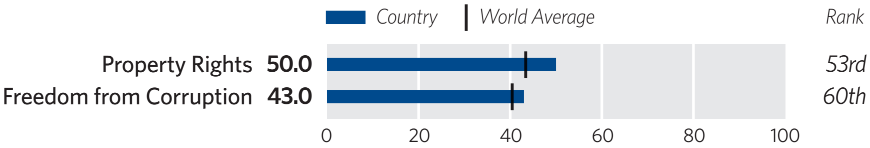
Quick Facts

Population: 5.4 million
GDP (PPP): $120.2 billion
4.0% growth in 2010
5-year compound annual growth 4.7%
$22,219 per capita
Unemployment: 14.4%
Inflation (CPI): 0.7%
FDI Inflow: $525.5 million
Public Debt: 41.8% of GDP

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

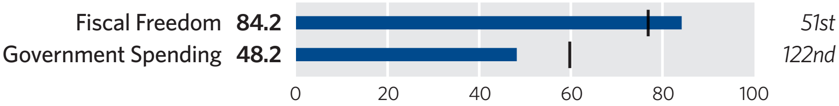
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



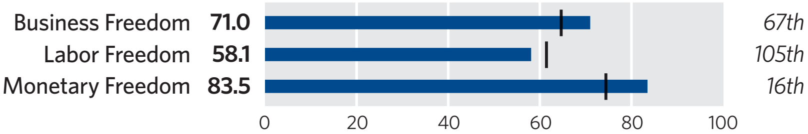
The judiciary is independent and comparatively effective. Secured interests in property and contractual rights are recognized and enforced. Court decisions can take years, and the business community views corruption as a significant factor in judicial outcomes. Intellectual property rights are protected under the legal framework, but there is room for improvement. Corruption in the legislative and executive branches continues to be a concern.

LIMITED GOVERNMENT



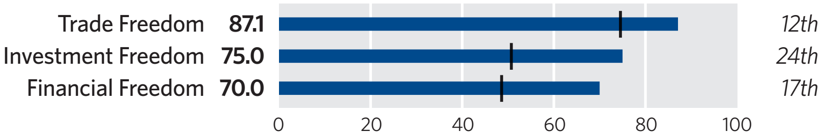
The income and corporate tax rates are a flat 19 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden amounting to 29.3 percent of total domestic income. Government spending has risen to a level equivalent to 41.5 percent of GDP, and the budget deficit has widened to over 5 percent of GDP. Public debt has reached about 42 percent of total domestic output.

REGULATORY EFFICIENCY



The overall regulatory framework has undergone a series of reforms aimed at facilitating entrepreneurial activity. However, the pace of reform has slowed 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 1.4 percent. However, onerous non-tariff barriers add 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

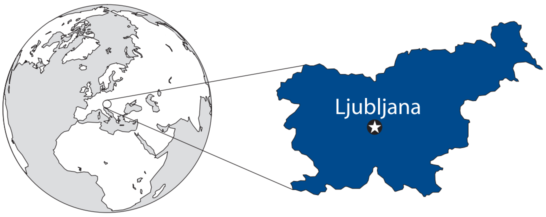
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-2.0

LIMITED GOVERNMENT	
Fiscal Freedom	0
Government Spending	-15.5

REGULATORY EFFICIENCY	
Business Freedom	-2.4
Labor Freedom	-6.4
Monetary Freedom	+1.9

OPEN MARKETS	
Trade Freedom	-0.5
Investment Freedom	0
Financial Freedom	0

SLOVENIA



World Rank: **69** Regional Rank: **32**

Slovenia's economic freedom score is 62.9, making its economy the 69th freest in the 2012 *Index*. Its score has decreased by 1.7 points since last year, with declines in half of the 10 economic freedoms, including a substantial drop in its score for government spending. Slovenia is ranked 32nd out of 43 countries in the Europe region, and its overall score is still above the world average.

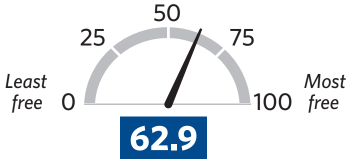
The Slovenian government's record on structural reform has been uneven, and economic dynamism remains constrained by institutional weaknesses that undermine prospects for long-term economic development. In particular, the judicial system remains inefficient and vulnerable to political interference. Corruption, perceived as widespread, continues to be a problem.

The overall regulatory framework has been gradually evolving to promote the emergence of a more vibrant private sector and encourage broad-based employment growth. Slovenia enjoys a comparatively high degree of trade freedom, as tariff rates are quite low, but dynamic economic gains from trade are undercut by the lack of reform progress in other areas that are critical to sustaining open markets in the financial and investment areas.

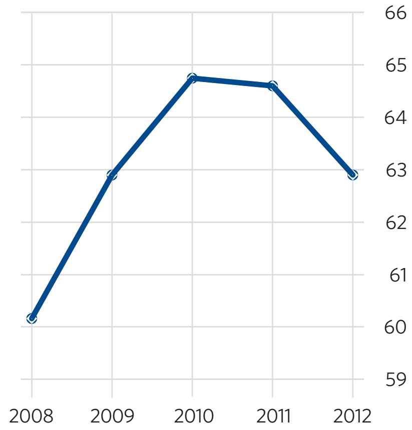
BACKGROUND: Prime Minister Borut Pahor heads a center-left coalition government. As the first entity to secede from the former Yugoslavia in 1991, Slovenia largely managed to avoid the bloody conflict that followed Croatia's secession. Its economic infrastructure remained intact, and its economy experienced solid growth in the years before the 2008 global recession. Slovenia is a member of all major financial institutions, including the International Monetary Fund, the World Bank Group, and the European Bank for Reconstruction and Development, as well as 40 other international organizations. It joined the European Union and NATO in 2004; adopted the euro as its currency on January 1, 2007; chaired the European Union for six-months in 2008 and the Council of Europe in 2009; and became a member of the Organisation for Economic Co-operation and Development in May 2010.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

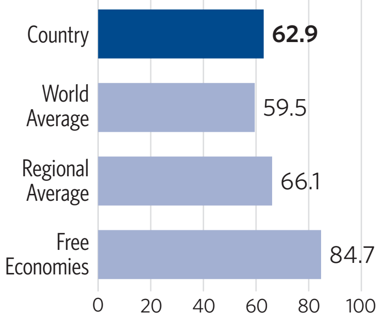
Economic Freedom Score



Freedom Trend



Country Comparisons



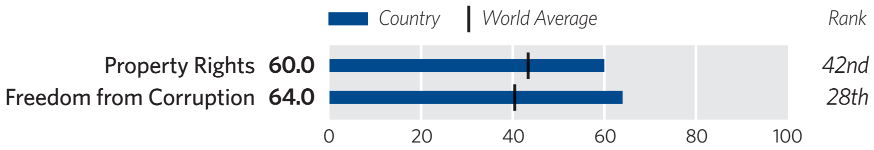
Quick Facts

Population: 2.0 million
GDP (PPP): $56.6 billion
1.2% growth in 2010
5-year compound annual growth 1.8%
$28,030 per capita
Unemployment: 7.2%
Inflation (CPI): 1.8%
FDI Inflow: $834.1 million
Public Debt: 37.3% of GDP

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

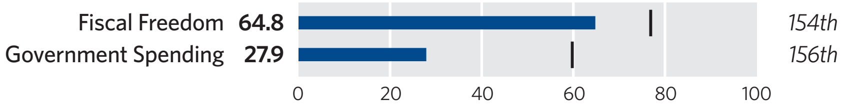
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



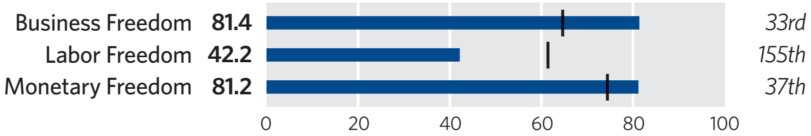
Private property rights are constitutionally guaranteed, but the courts are inadequately staffed and slow. The judicial framework, despite gradual progress, remains vulnerable to political interference. Enforcement of legal measures to safeguard intellectual property rights is ineffective. Corruption continues to linger in all levels of government, undermining the foundations of economic freedom.

LIMITED GOVERNMENT



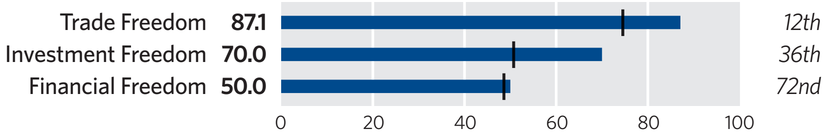
The top income tax rate is 41 percent, and the corporate tax rate is a flat 20 percent. Other taxes include a value-added tax (VAT) and a property transfer tax. The overall tax burden amounts to 37.9 percent of total domestic income. Government spending has risen to a level equivalent to 49 percent of GDP, pushing up the deficit to over 3 percent of GDP. Public debt remains under control, standing at below 40 percent of total domestic output.

REGULATORY EFFICIENCY



Despite progress in streamlining the process for launching a business, other time-consuming requirements reduce regulatory efficiency. With no minimum capital required, launching a business takes only six days, but it takes almost 200 days to complete all of the necessary licensing requirements. The labor market remains saddled with rigid labor regulations that hamper dynamic employment growth. Inflation has been low.

OPEN MARKETS



The trade weighted average tariff rate is low as in other members of the European Union, but layers of complex non-tariff barriers increase the cost of trade. Most sectors of the economy are open to foreign investment, but the overall investment regime lacks efficiency due to lingering bureaucracy. Privatization of state-owned financial institutions has been uneven, and the banking sector has been under strain.

Score Changes

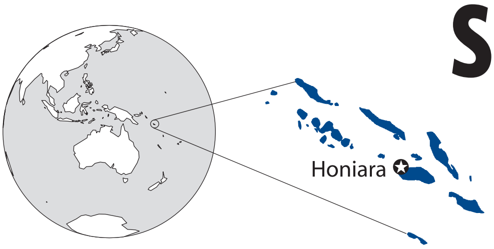
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-2.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.3
Government Spending	-13.2

REGULATORY EFFICIENCY	
Business Freedom	-2.2
Labor Freedom	+0.4
Monetary Freedom	+0.7

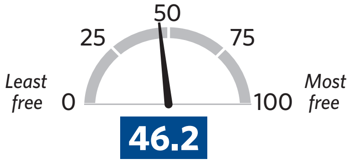
OPEN MARKETS	
Trade Freedom	-0.5
Investment Freedom	0
Financial Freedom	0

SOLOMON ISLANDS



World Rank: **162** Regional Rank: **36**

Economic Freedom Score



The Solomon Islands' economic freedom score is 46.2, making its economy the 162nd freest in the 2012 *Index*. Its score is 0.3 point better than last year, with improvements in regulatory efficiency undercut by a loss of trade freedom. The Solomon Islands is ranked 36th out of 41 countries in the Asia–Pacific region, and its overall score is far below the world average.

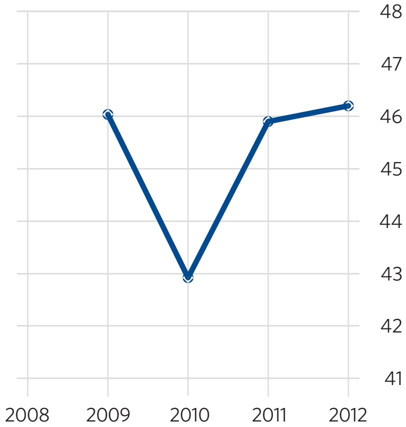
The Solomon Islands' economic dynamism and development remain stifled by a number of serious deficiencies that include poor governance and an inefficient public sector. Underdeveloped legal and physical infrastructure, combined with political instability, continue to undermine the emergence of a vibrant private sector. The government's outsized role in the economy further reduces opportunities for private-sector development, and a lack of political will for reforms leaves businesses struggling within a poor regulatory framework.

The island economy's limited protection of property rights is a further drag on entrepreneurial activity. Despite attempts at reform, widespread corruption increases the cost of doing business and deters much-needed long-term investment. With few new enterprises to generate jobs, most employment remains in the agricultural sector.

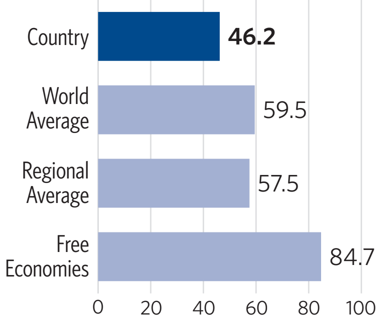
BACKGROUND: The Solomon Islands is a parliamentary democracy and one of Asia's poorest nations. The election of Danny Philip as prime minister in 2010 appears to have stabilized a chaotic political environment. Australia has had to intervene several times in recent years to defuse ethnic conflict, and civil war has held back the islands' 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 exports of timber. The islands suffer frequently from earthquakes and tsunamis.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



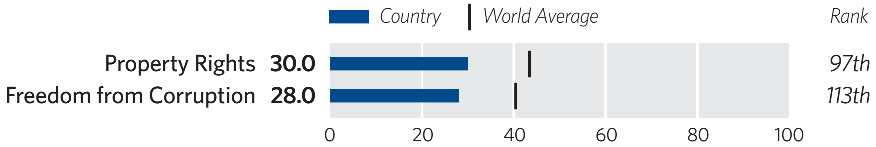
Quick Facts

Population: 0.5 million
GDP (PPP): $1.6 billion
5.6% growth in 2010
5-year compound annual growth 5.8%
$3,063 per capita
Unemployment: n/a
Inflation (CPI): 1.0%
FDI Inflow: $237.8 million
Public Debt: 25.7% of GDP

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

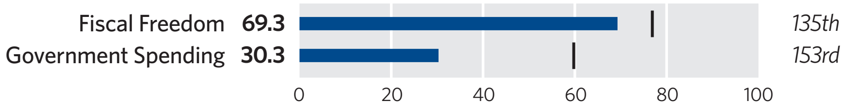
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



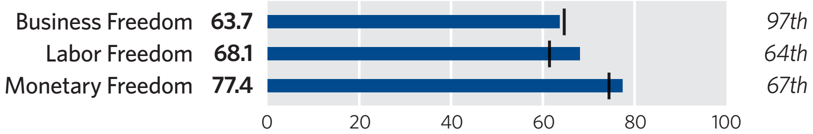
An effectively functioning modern legal framework has not emerged. Land ownership is reserved for Solomon Islanders. Generally, land is still held on a family or village basis and may be handed down from the mother or father according to local custom. Islanders are reluctant to provide land for nontraditional economic undertakings, and there are continuous disputes over land ownership. Corruption continues to erode the rule of law.

LIMITED GOVERNMENT



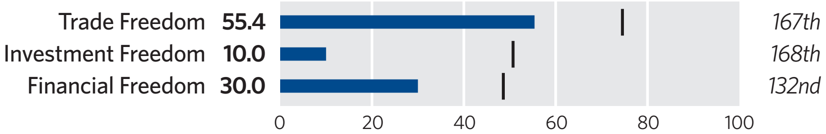
The top income tax rate is 40 percent, and the top corporate tax rate is 30 percent. Other taxes include a property tax and a sales tax, with the overall tax burden amounting to 23.8 percent of total domestic income. Government spending has reached a level equivalent to 48.2 percent of GDP, and the budget balance has been in small surplus. Public debt amounts to about 25 percent of total domestic output.

REGULATORY EFFICIENCY



The business environment has been improved only marginally by the implementation of a simplified registration process. The regulatory process continues to be undermined by uneven enforcement of existing laws. Completing licensing requirements still costs over three times the level of average annual income. The labor market is underdeveloped, and informal labor activity remains substantial. Monetary stability is weak.

OPEN MARKETS

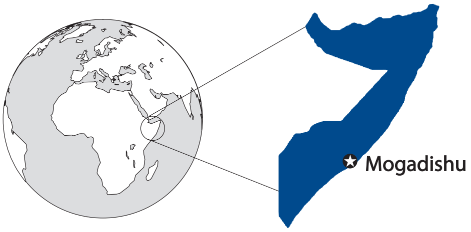


The trade weighted average tariff is prohibitively high at 17.3 percent, and extensive layers of non-tariff barriers constrain freedom to trade even further. Investment laws are outmoded, and bureaucracy is slow and inefficient. Inadequate infrastructure and political uncertainty also discourage investment. 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	+0.1	Business Freedom	+3.9	Trade Freedom	-7.0
Freedom from Corruption	0	Government Spending	-2.6	Labor Freedom	+1.5	Investment Freedom	0
				Monetary Freedom	+7.0	Financial Freedom	0

SOMALIA



World Rank: **N/A** Regional Rank: **N/A**

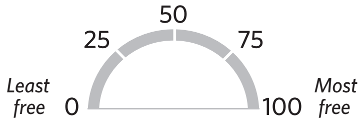
The 2012 *Index* resumes covering Somalia for the first time since 2001. Somalia's economic freedom is not graded because of the lack of reliable data. The last time Somalia was fully graded was in the 2000 *Index* when the country received a score of only 27.8.

Somalia is a failed state. Extreme violence, political instability, and famine have ravaged the already fragile living situation over the past decade. The economy has been mired in a tragic situation, aggravated by civil war and the absence of a functioning national government, in which even basic needs cannot be provided. Decades of lawlessness have destroyed any foundation of economic freedom on which a developing economy might be built. Complete economic collapse has resulted in massive human migrations, and a humanitarian catastrophe has been unfolding in the devastated economy due to the most severe drought in recent years. It has been estimated that about 4 million Somalis are in crisis nationwide. Over 700,000 people in the southern parts of Somalia are reportedly at risk of death.

BACKGROUND: Since the collapse of the socialist Siad Barre regime in 1991, Somalia has descended into chaos. An autonomous Republic of Somaliland, not recognized by any government, maintains a relatively stable existence. The Bari, Nugaal, and northern Mudug regions comprise the semi-autonomous state of Puntland. Conditions worsened when a U.N. humanitarian mission's mandate ended in 1995. After several transitional governments, Somalia still lacks effective national governance. The current Transitional Federal Government (TFG) has failed to establish stability and uses the African Union's peacekeeping mission to Somalia (AMISOM) to protect civilians. Somalia's informal economy is largely based on agriculture and livestock herding. Traditional exports include hides, fish, charcoal, and bananas. With the economy in shambles, the population is heavily dependent on overseas remittances and foreign aid.

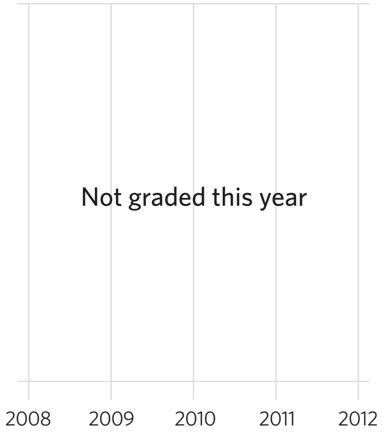
How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Economic Freedom Score

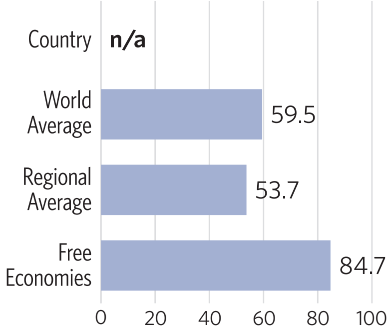


This economy is not graded

Freedom Trend



Country Comparisons



Quick Facts

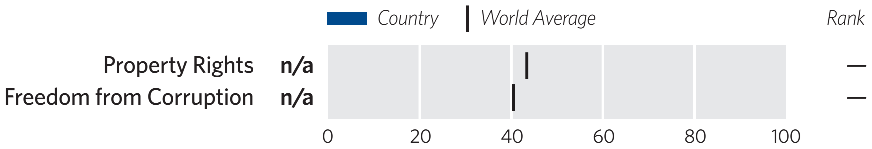
Population: 9.1 million
GDP (PPP): n/a
n/a growth in 2010
5-year compound annual growth n/a
n/a per capita
Unemployment: n/a
Inflation (CPI): n/a
FDI Inflow: n/a
Public Debt: n/a

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

SOMALIA (continued)

THE TEN ECONOMIC FREEDOMS

RULE OF LAW



The rule of law does not exist in the absence of a functioning central government. Numerous armed groups and militias control different parts of the country, exercising their own informal rule of law. In April 2009, Somalia's transitional federal parliament ordered that Islamic Sharia law be applied throughout the country. However, in practice, local authorities or elders enforce laws based on traditional customs.

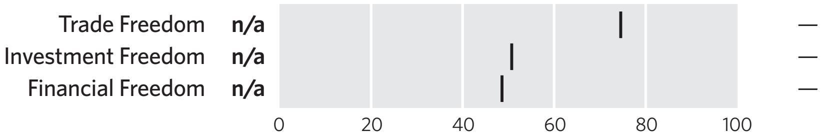
LIMITED GOVERNMENT

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

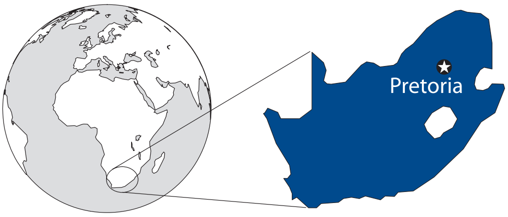


Much of the population remains outside of the formal trade and banking sectors, and private investment remains extremely limited. Swiss Financial Bank announced in 2011 that it intends to open a bank in Somaliland. The bank is one of three international commercial banks that have applied for licenses to operate in Somaliland in anticipation of parliament passing a new banking act.

Score Changes

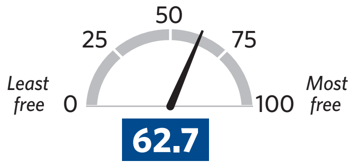
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	n/a	Fiscal Freedom	n/a	Business Freedom	n/a	Trade Freedom	n/a
Freedom from Corruption	n/a	Government Spending	n/a	Labor Freedom	n/a	Investment Freedom	n/a
				Monetary Freedom	n/a	Financial Freedom	n/a

SOUTH AFRICA



World Rank: **70** Regional Rank: **5**

Economic Freedom Score



South Africa's economic freedom score is 62.7, making its economy the 70th freest in the 2012 *Index*. Its score is the same as last year, with improvements in business freedom and monetary freedom offset by worsened scores in government spending and freedom from corruption. South Africa is ranked 5th out of 46 countries in the Sub-Saharan Africa region, and its overall score is higher than the world average.

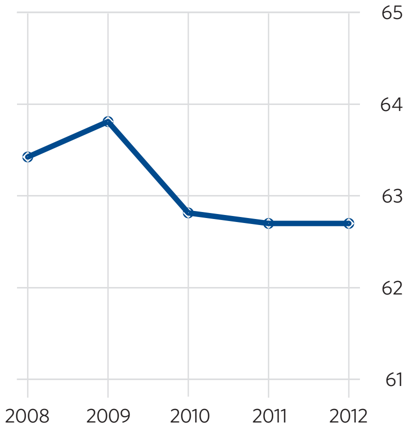
South Africa's transition to a more open and flexible economic system has been facilitated by a decade of substantial restructuring. While maintaining macroeconomic stability, the country has made considerable progress in income growth and poverty reduction. A relatively competitive trade regime, supported by an increasingly efficient regulatory framework, has encouraged the development of a growing entrepreneurial sector.

To sustain this positive momentum and ensure vibrant long-term economic development, South Africa will need to continue reforms aimed at strengthening the foundations of economic freedom. Lingering corruption and the weak rule of law add to the cost of doing business and erode overall economic competitiveness. Public spending has been expanding, and the tax regime necessary to finance the growing scale of government has become burdensome and complex.

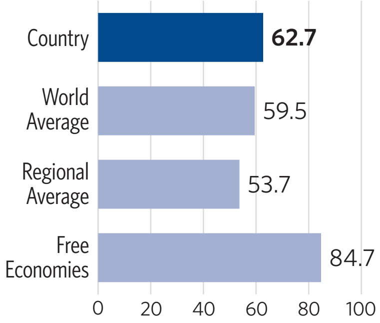
BACKGROUND: Jacob Zuma was elected president in May 2009 by the National Assembly, still dominated by Nelson Mandela's African National Congress. South Africa is Sub-Saharan Africa's economic hub and one of the world's largest producers and exporters of gold and platinum. Mining, services, manufacturing, and agriculture rival similar sectors in the developed world. However, unemployment is high and poverty is widespread. Much of the population is poorly educated and lacks access to infrastructure and services. The government aims to increase farmland ownership by black South Africans to 30 percent by 2014, and its affirmative-action mandates threaten private property rights. South Africa has one of the world's highest HIV/AIDS rates.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



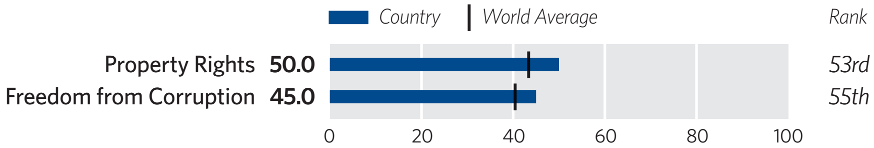
Quick Facts

Population: 49.9 million
GDP (PPP): $524.0 billion
2.8% growth in 2010
5-year compound annual growth 3.1%
$10,498 per capita
Unemployment: 23.3%
Inflation (CPI): 4.3%
FDI Inflow: $1.5 billion
Public Debt: 33.8% of GDP

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

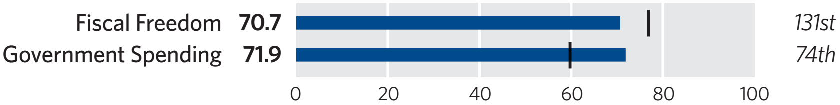
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



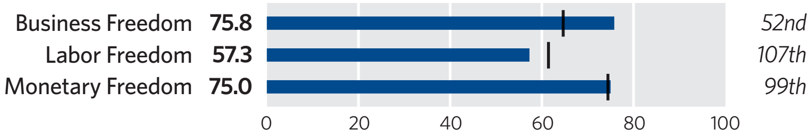
The rule of law remains weak and uneven across the country. The legal system has gained more independence and provides relatively effective protection of property rights. Contracts are generally secure. However, the court system is slow, understaffed, underfunded, and overburdened. The courts impose undue burdens and costs on rights holders pursuing infringement cases. Corruption continues to undermine the foundations of economic freedom.

LIMITED GOVERNMENT



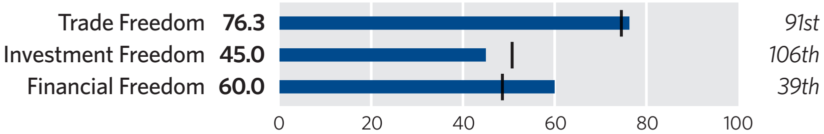
The top income tax rate is 40 percent, and the top corporate tax rate is 28 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden amounting to 23.4 percent of total domestic income. Government spending has reached a level equivalent to 30.6 percent of GDP, and the budget balance has fallen into deficit. Public debt amounts to 33.8 percent of total domestic output.

REGULATORY EFFICIENCY



There is no minimum capital requirement for establishing a business. It takes five procedures and 19 days to launch a company, compared to the world averages of seven procedures and 30 days. The cost of completing licensing requirements has been reduced. 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 extensive non-tariff barriers undercut potential gains from the free flow of goods and services. Private investment continues to be hindered by non-transparent laws, and foreign investment confronts additional restrictions that breed inefficiency. The financial sector has undergone modernization, and the banking sector is regarded as resilient and sound.

Score Changes

RULE OF LAW	
Property Rights	0
Freedom from Corruption	-2.0

LIMITED GOVERNMENT	
Fiscal Freedom	+1.1
Government Spending	-5.6

REGULATORY EFFICIENCY	
Business Freedom	+3.5
Labor Freedom	+0.6
Monetary Freedom	+3.1

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

SPAIN

World Rank: **36** Regional Rank: **17**

Spain's economic freedom score is 69.1, making its economy the 36th freest in the 2012 *Index*. Its score is 1.1 points lower than last year, with a significant deterioration in the management of government spending overwhelming a modest gain in business freedom. Spain is ranked 17th out of 43 countries in the Europe region, and its overall score is well above the world average.

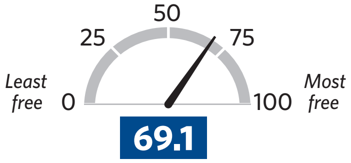
Spain dropped from "mostly free" to "moderately free" in the 2012 *Index*, due primarily to expansive public spending. Challenges are particularly significant in the areas of fiscal freedom, government spending, and financial freedom. Government spending is over 40 percent of GDP. Large fiscal deficits and rising public debt signal the need for financial management reforms and a return to a sustainable level of public spending.

Since the financial crisis, Spain has imposed greater transparency on its banking system in comparison to other countries in the region. Savings banks (*cajas*) have been insulated from market pressures and have been considered too politically powerful to be allowed to fail. They remain burdened with bad loans from the years of the housing boom. As of October 2011, three savings banks had been nationalized. Consolidation of the savings banks has brought the number down from 45 to below 20, and their future is in question.

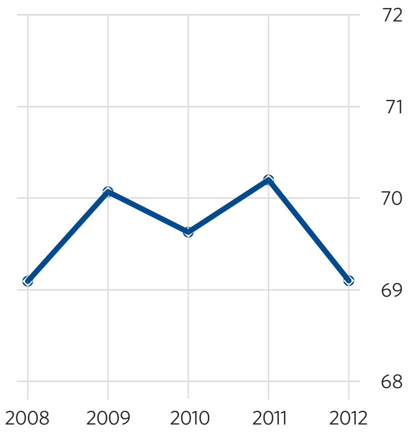
BACKGROUND: Spain has enjoyed democratic rule since 1977 and joined the European Community in 1986. Public security has been marred by the nearly 50-year terrorist campaign of the Basque separatist ETA. Following years of economic reform and growth under former People's Party Prime Minister José María Aznar, José Luis Rodríguez Zapatero of the Spanish Socialist Workers Party won office in the wake of a series of al-Qaeda bomb attacks in Madrid in 2004. Zapatero was re-elected in 2008. The global economic crisis hit Spain hard in 2009. To curb the recession, Zapatero introduced spending on public works and unemployment benefits, and the budget deficit has grown rapidly. In May 2010, the government introduced austerity reforms to reduce the deficit. Spain's conservative Popular Party, led by Mariano Rajoy, won the November 2011 election.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

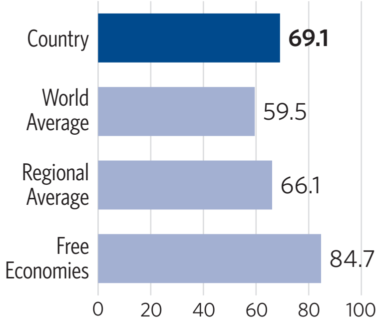
Economic Freedom Score



Freedom Trend



Country Comparisons



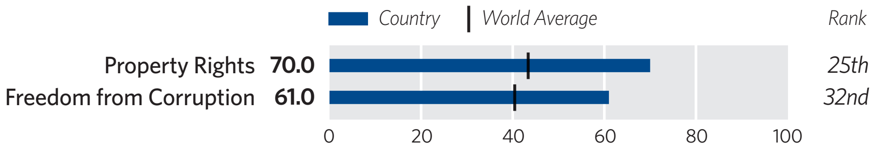
Quick Facts

Population: 46.0 million
GDP (PPP): $1.3 trillion
–0.1% growth in 2010
5-year compound annual growth 0.9%
$29,742 per capita
Unemployment: 20.1%
Inflation (CPI): 2.0%
FDI Inflow: $24.5 billion
Public Debt: 60.1% of GDP

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

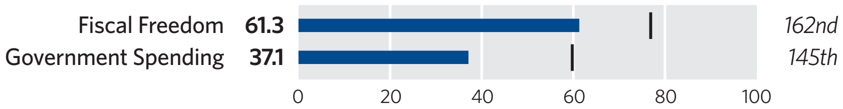
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



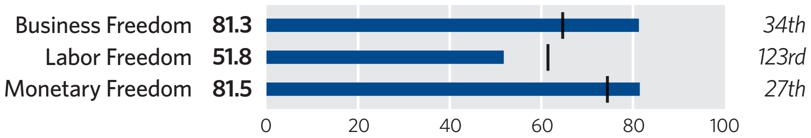
The judiciary is independent in practice, but bureaucratic obstacles are significant. Contracts are secure, although enforcement is very slow. Patent, copyright, and trademark laws approximate or exceed EU levels of intellectual property protection. Enforcement actions using Spain's new legal framework concerning intellectual property rights have greatly increased criminal and civil actions against infringements.

LIMITED GOVERNMENT



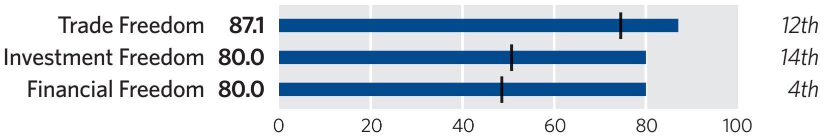
The top income tax rate is 45 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden amounting to 30.7 percent of total domestic income. Government spending has increased to a level equivalent to 45.8 percent of GDP. The budget balance has fallen into deficit, and public debt has grown to around 60 percent of total domestic output.

REGULATORY EFFICIENCY



Procedures for setting up a business have been streamlined, with the number of licensing requirements reduced. Bankruptcy proceedings are fairly easy and straightforward. Steps taken in 2010 to reform the labor market make it less costly to dismiss a permanent worker and give employers more influence over employee organizing. Despite some progress, labor regulations remain restrictive. Monetary stability has been well maintained.

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 1.4 percent, but myriad non-tariff barriers increase the cost of trade. Nearly all sectors are open to foreign investment, and approval procedures have been streamlined. The banking sector has been under considerable strain, with savings banks burdened with volumes of bad loans.

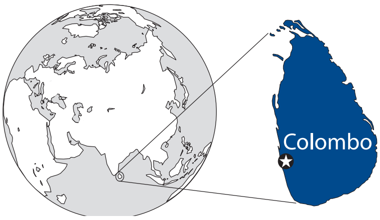
Score Changes

RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.3
Government Spending	-12.2

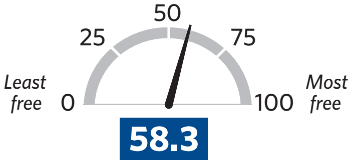
REGULATORY EFFICIENCY	
Business Freedom	+4.1
Labor Freedom	-1.2
Monetary Freedom	-0.9

OPEN MARKETS	
Trade Freedom	-0.5
Investment Freedom	0
Financial Freedom	0



SRI LANKA

Economic Freedom Score



World Rank: **97** Regional Rank: **16**

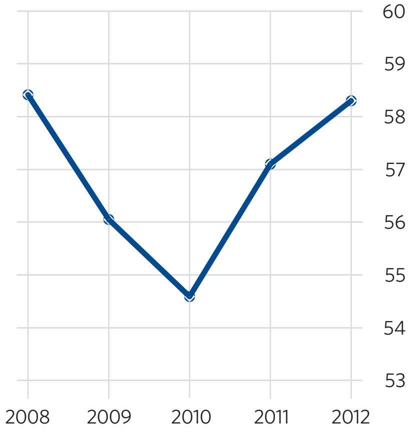
Sri Lanka's economic freedom score is 58.3, making its economy the 97th freest in the 2012 *Index*. Its score is 1.2 points higher than last year, reflecting solid gains in trade freedom, monetary freedom, and business freedom. Sri Lanka is ranked 16th out of 41 countries in the Asia–Pacific region, and its score remains below the world average.

The Sri Lankan economy continues to progress toward greater economic freedom, registering significant score gains in the past two years. Notable changes have been implemented in key areas. Regulatory efficiency has been considerably enhanced through establishment of a streamlined business formation process and simplification of licensing requirements. Non-tariff barriers are relatively low, statutory tariff rates have been reduced, and many import surcharges have been eliminated.

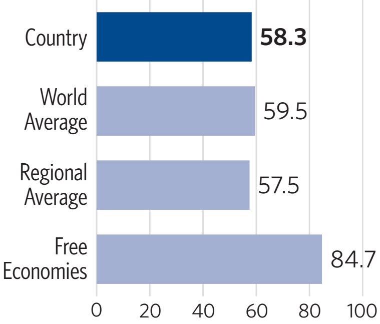
Nevertheless, challenges to economic freedom in Sri Lanka are considerable, particularly in strengthening the fundamentals. Property rights are undermined by an inefficient judicial system that remains susceptible to substantial corruption and political influence. The heavy state presence in the economy continues to hamper private-sector development.

BACKGROUND: In April 2010, President Mahinda Rajapakse's ruling coalition won a landslide victory in parliamentary elections. Rajapakse's re-election was attributed to success in defeating the terrorist Liberation Tigers of Tamil Eelam and eliminating its top leadership in 2009, thus ending a three-decade civil war that took the lives of some 70,000 people. The government announced plans to ease emergency laws in May 2010 but is still under pressure from the international community to conduct an inquiry into its handling of the final days of the war. The government has been accused of stifling press freedom and recently rejected an opposition-initiated bill to loosen restrictions on the media. Sri Lanka depends heavily on foreign assistance, and China has become a significant lender for infrastructure projects.

Freedom Trend



Country Comparisons



Quick Facts

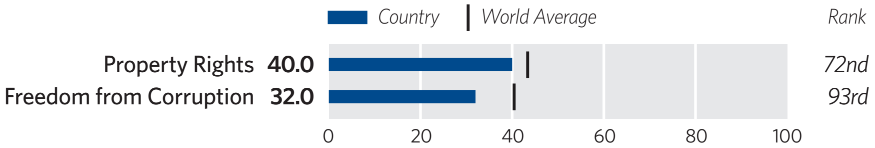
Population: 20.4 million
GDP (PPP): $106.5 billion
9.1% growth in 2010
5-year compound annual growth 6.7%
$5,220 per capita
Unemployment: 5.4%
Inflation (CPI): 5.9%
FDI Inflow: $477.6 million
Public Debt: 86.2% of GDP

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

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

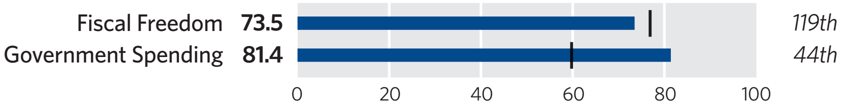
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



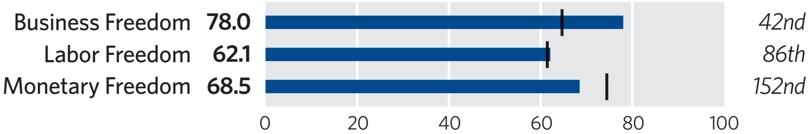
The judicial system is weak and vulnerable to political interference. The commercial court system is subject to extensive delays that often lead investors to pursue out-of-court settlements. A fairly reliable registration system exists for recording private property, including land and buildings, but fraud and forged documents are problems. Mistrust of government is considerable due to widespread public-sector corruption.

LIMITED GOVERNMENT



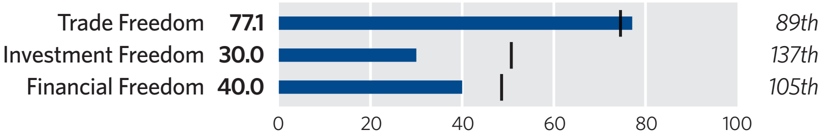
The top income tax rate is 35 percent, and the top corporate tax rate is 35.5 percent. Other taxes include a value-added tax (VAT), with the overall tax burden amounting to 12.8 percent of total domestic income. Government spending has risen to a level equivalent to 24.9 percent of GDP. The budget deficit continues to be over 5 percent of GDP, and public debt remains at over 80 percent of GDP.

REGULATORY EFFICIENCY



Procedures for setting up a business have been streamlined, and the number of licensing requirements has been reduced. With no minimum capital required, launching a business takes four procedures and slightly longer than the world average of 30 days. The cost of completing licensing requirements is now significantly lower. Labor regulations are rigid, though enforcement can be lax. Inflation has been high but declining.

OPEN MARKETS

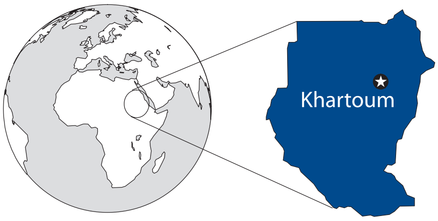


The trade weighted average tariff rate is 6.4 percent, and extensive non-tariff barriers further constrain freedom to trade. Inadequate infrastructure and burdensome bureaucracy hinder much-needed dynamic growth in private investment. Non-performing loans in the banking system remain a problem, and the state continues to influence the allocation of credit. The non-banking financial sector remains underdeveloped.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.1	Business Freedom	+6.1	Trade Freedom	+4.9
Freedom from Corruption	+1.0	Government Spending	–3.3	Labor Freedom	+0.3	Investment Freedom	0
				Monetary Freedom	+2.7	Financial Freedom	0

SUDAN



World Rank: **N/A** Regional Rank: **N/A**

Sudan's economic freedom is not graded because of the lack of sufficient data. The last time Sudan was fully graded was in 2000, when it received a score of 47.2.

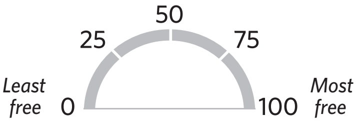
A political settlement that established a new breakaway Republic of South Sudan in July 2011 offered some hope for cessation of the violence and political instability that have wracked the country and ruined prospects for sustainable development. Sudan has taken very limited steps to expand its productive base. It has widened the tax base, and the small services sector has been marginally expanding. The large informal economy has been an important source of employment in the fragile economy.

Outside of the hydrocarbon sector, economic development is limited by the region's ongoing political instability. Attempts to develop and diversify the economy are constrained by a lack of institutional capacity. Regulations governing investment and banking are opaque and subject to frequent change, further discouraging entrepreneurial activity. Insufficient respect for private property rights and rampant corruption are serious drags on long-term development of the private sector.

BACKGROUND: In April 2010, President Omar Hassan al-Bashir, in power since 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 killed. In July 2011, southern Sudan became an independent state. Unresolved issues include citizenship, allocation of borders, and oil rights. The border areas of Abyei and South Kordofan also pose challenges. Instability, poor infrastructure, mismanagement, and corruption hinder development, and exports other than oil are largely stagnant. Sudan has lost two-thirds of its oil revenue to the South.

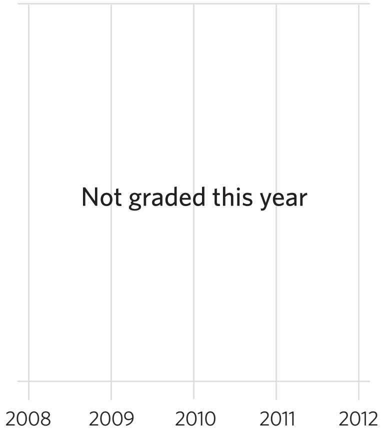
How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

Economic Freedom Score

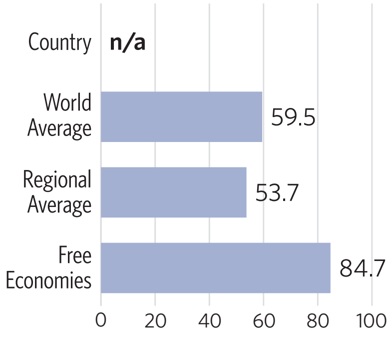


This economy is not graded

Freedom Trend



Country Comparisons



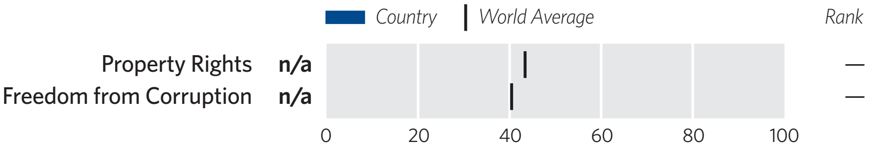
Quick Facts

Population: 40.1 million
GDP (PPP): $100.0 billion
5.1% growth in 2010
5-year compound annual growth 7.8%
$2,492 per capita
Unemployment: 18.7%
Inflation (CPI): 13.0%
FDI Inflow: $1.6 billion
Public Debt: 71.0% of GDP

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

THE TEN ECONOMIC FREEDOMS

RULE OF LAW



The rule of law remains fragile and uneven across the country. There is little respect for private property, with the legal framework 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. Widespread corruption continues to weaken the government's capacity to provide basic services.

LIMITED GOVERNMENT

The top income tax rate is 10 percent, and the top corporate tax rate is 35 percent. Taxation has been administered erratically. In the most recent year, overall tax revenue as a percentage of GDP was estimated to be below 10 percent. Though oil revenues have begun to rebound, the non-oil sector needs greater structural support. Government spending is estimated to be below one-third of total domestic output, with public debt around 80 percent of GDP.

REGULATORY EFFICIENCY

Sudan's entrepreneurial environment is not conducive to private-sector development. Inconsistent enforcement of regulations and other institutional shortcomings, including a dysfunctional court system, often impede business activity and prevent sustained economic development. The labor market remains underdeveloped, and much of the labor force is employed in the informal sector. Monetary stability has been severely undermined.

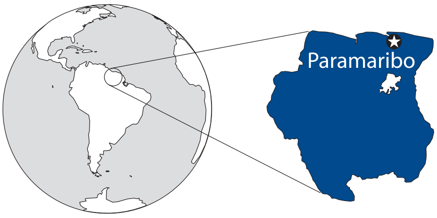
OPEN MARKETS

The trade weighted average tariff rate is estimated to be less than 10 percent, but extensive non-tariff barriers severely constrain freedom to trade. 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

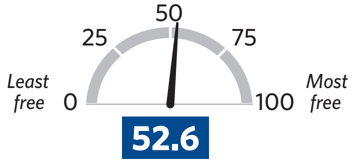
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	n/a	Fiscal Freedom	n/a	Business Freedom	n/a	Trade Freedom	n/a
Freedom from Corruption	n/a	Government Spending	n/a	Labor Freedom	n/a	Investment Freedom	n/a
				Monetary Freedom	n/a	Financial Freedom	n/a

SURINAME



World Rank: **133** Regional Rank: **22**

Economic Freedom Score



Suriname's economic freedom score is 52.6, making its economy the 133rd freest in the 2012 *Index*. Its score is 0.5 point lower than last year, reflecting declines in five of the 10 economic freedoms that overwhelmed a significant gain in investment freedom. Suriname is ranked 22nd out of 29 countries in the South and Central America/Caribbean region, and its overall score is lower than the world and regional averages.

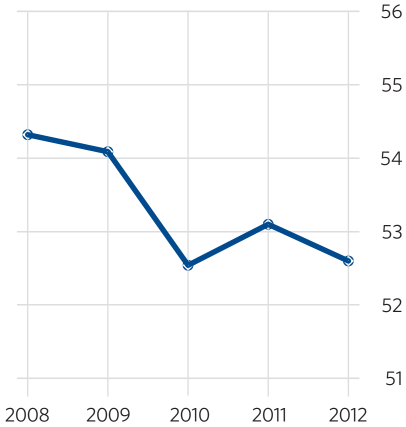
Poor policy choices and the uncertainty generated by poor management of fiscal and monetary policy have severely weakened the prospects for much-needed long-term economic development in Suriname. Pervasive corruption continues to undermine the judicial system and the rule of law, increasing the difficulty of establishing a solid foundation for economic freedom.

Despite some progress in achieving macroeconomic stability and market-oriented reform, there has been little overall development of a more dynamic private sector. Suriname's entrepreneurial environment remains constrained by a burdensome and inefficient regulatory framework, and private-sector growth has been hampered by the state's heavy presence in the economy. Privatization has been slow and uneven, with state dominance of the economy undercutting competitiveness.

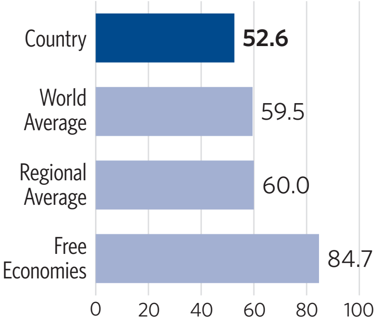
BACKGROUND: Democracy was re-established in Suriname in 1991 after more than a decade of military rule. In 2010, former military dictator Desi Bouterse of the National Democratic Party, who ran in a coalition with the incumbent and economic reform–oriented New Front party, was returned to power by the voters as the country's new president. 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. Prospects for the onshore oil industry are positive, and bauxite deposits are among the world's richest.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



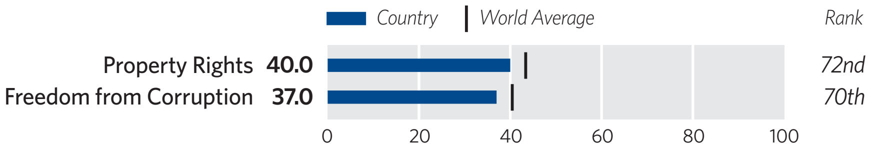
Quick Facts

Population: 0.5 million
GDP (PPP): $4.7 billion
4.4% growth in 2010
5-year compound annual growth 7.0%
$8,924 per capita
Unemployment: 9.5%
Inflation (CPI): 6.9%
FDI Inflow: $180.0 million
Public Debt: 21.6% of GDP

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

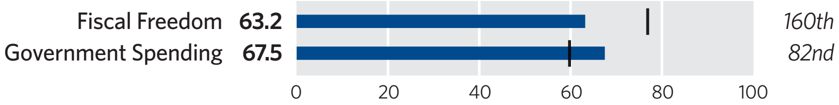
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



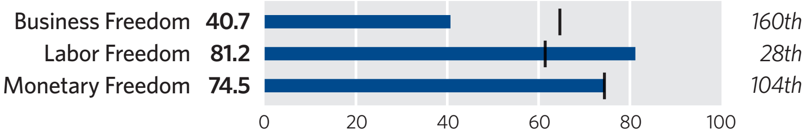
Property rights are not well protected. There is a severe shortage of judges, and dispute settlement can be very time-consuming. Suriname has signed key international intellectual property rights treaties, but IPR protection is nonexistent in practice because the treaty rights have not been incorporated into domestic law. Widespread corruption undermines the government's capacity to provide basic public services.

LIMITED GOVERNMENT



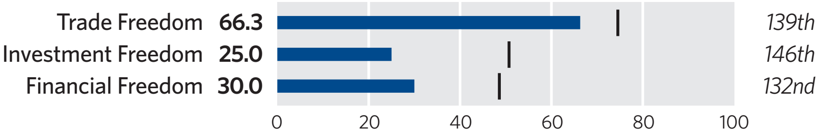
The top income tax rate is 38 percent, and the top corporate tax rate is 36 percent. Other taxes include a property tax, a tax on dividends, and an excise tax, with the overall tax burden amounting to 30.6 percent of total domestic income. Government spending has increased to a level equivalent to 32.9 percent of GDP, leading to rising deficits. Public debt amounts to about 22 percent of total domestic output.

REGULATORY EFFICIENCY



The overall freedom to launch and run a business is very limited under Suriname's regulatory code. Licensing requirements are burdensome, and procedures for launching a business are very time-consuming. Bankruptcy proceedings are difficult and often prolonged. The formal labor market is not fully developed, and the public sector remains a major source of employment. The state influences prices through regulations and state-owned enterprises.

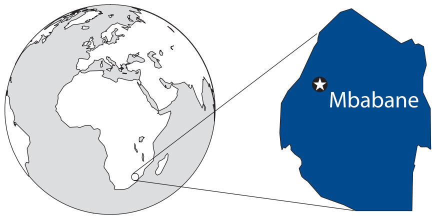
OPEN MARKETS



The trade weighted average tariff rate is prohibitively high at 11.9 percent, and pervasive non-tariff barriers further limit freedom to trade. Private investment remains weak, due in part to heavy government interference in the economy. The onerous and non-transparent investment regime still deters much-needed long-term foreign investment. The financial sector is underdeveloped, and credit decisions are subject to state influence.

Score Changes

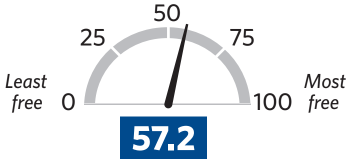
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-4.9	Business Freedom	0	Trade Freedom	-0.1
Freedom from Corruption	0	Government Spending	-12.8	Labor Freedom	-0.6	Investment Freedom	+15.0
				Monetary Freedom	-1.9	Financial Freedom	0



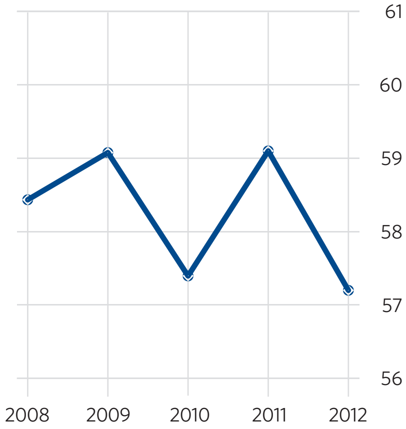
SWAZILAND

World Rank: **106** Regional Rank: **14**

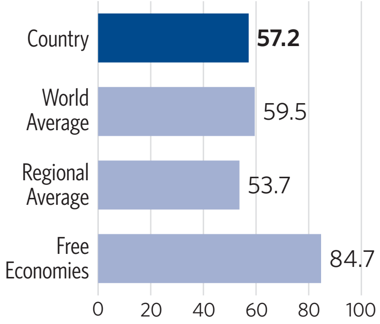
Economic Freedom Score



Freedom Trend



Country Comparisons



Swaziland's economic freedom score is 57.2, making its economy the 106th freest in the 2012 *Index*. Its score is 1.9 points worse than last year, reflecting lower trade freedom, freedom from corruption, and government spending scores. Swaziland is ranked 14th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

Swaziland's progress toward greater economic freedom has been uneven. With annual growth averaging only 2.4 percent over the past five years, development has lagged behind other economies in the region. Although the economic base is fairly diversified, inefficient regulatory and legal frameworks have deterred the dynamic development of private investment and production. Privatization has been part of the government's reform agenda, but overall progress has been marginal.

Bureaucratic inefficiency and corruption affect many aspects of the economy, slowing growth and discouraging private-sector development. The most visible constraints on economic dynamism are poor public finance management, administrative complexities, and the lack of respect for contracts. Court enforcement of property rights is vulnerable to political interference.

BACKGROUND: Swaziland is bordered by South Africa to the west and Mozambique to the east. Its 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 this has been responsible for creating over 30,000 jobs in its apparel industry.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

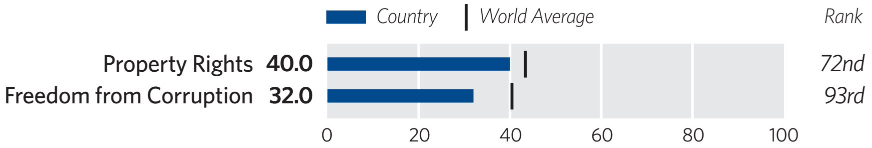
Quick Facts

Population: 1.2 million
GDP (PPP): $6.1 billion
2.0% growth in 2010
5-year compound annual growth 2.4%
$5,227 per capita
Unemployment: 40.0%
Inflation (CPI): 4.5%
FDI Inflow: $92.7 million
Public Debt: 17.5% of GDP

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

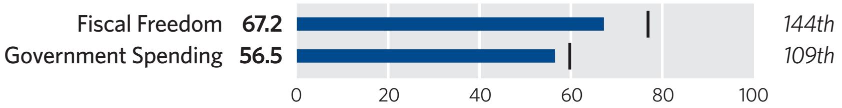
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



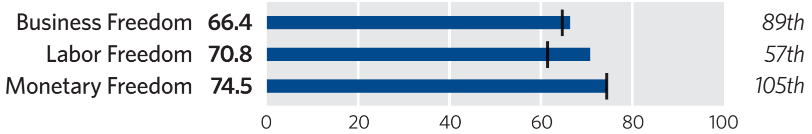
The judicial system is weak and vulnerable to corruption. The commercial court system is inefficient, and investors often pursue out-of-court settlements. Delays are common, and the executive branch significantly influences decisions. Protection of patents, trademarks, and copyrights is inadequate. Mistrust of government is considerable due to widespread public-sector corruption.

LIMITED GOVERNMENT



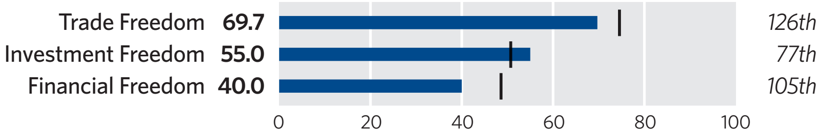
The top income tax rate is 33 percent, and the top corporate tax rate is 30 percent. Other taxes include a fuel tax and a sales tax, with the overall tax burden amounting to 35.9 percent of total domestic income. Government spending has risen to a level equivalent to 38.1 percent of GDP, and the budget balance has fallen into deficit. Public debt remains below 20 percent of total domestic output.

REGULATORY EFFICIENCY



Swaziland has an inefficient regulatory environment with many requirements that increase the overall cost of entrepreneurial activity. It takes more than the world average of seven procedures and 30 days to establish a business. A formal labor market is not 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 prohibitively high at 10.2 percent, with layers of non-tariff barriers further constraining freedom to trade. 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, but non-bank financial institutions are active.

Score Changes

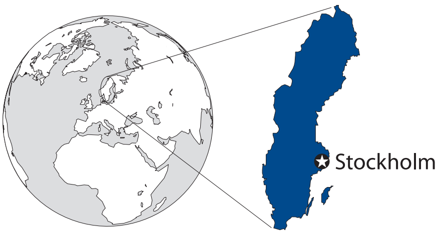
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-4.0

LIMITED GOVERNMENT	
Fiscal Freedom	0
Government Spending	-9.4

REGULATORY EFFICIENCY	
Business Freedom	0
Labor Freedom	+1.4
Monetary Freedom	+3.5

OPEN MARKETS	
Trade Freedom	-10.1
Investment Freedom	0
Financial Freedom	0

SWEDEN



World Rank: **21** Regional Rank: **10**

Sweden's economic freedom score is 71.7, making its economy the 21st freest in the 2012 *Index*. Its score has decreased by 0.2 point since last year, with a decline in the score for government spending offsetting a gain in investment freedom. Sweden is ranked 10th out of 43 countries in the Europe region, and its overall score is above the world and regional averages.

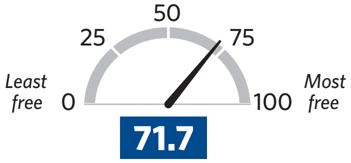
The Swedish economy performs remarkably well in regulatory efficiency, with open-market policies that sustain flexibility, competitiveness, and large flows of trade and investment. The transparent and efficient regulatory and legal environment encourages robust entrepreneurial activity. Banking regulations are sensible, and lending practices have been prudent. Monetary stability is well maintained, with inflationary pressures under control. The judicial system provides strong protection for property rights.

Sweden's respect for the concept of limited government has not been particularly strong. Government spending has been expansive. The overall tax regime needed to finance the ever-growing scope of government has become more burdensome and complex, although such institutional assets as high degrees of business efficiency and regulatory flexibility have counterbalanced some of the shortcomings of heavy social spending.

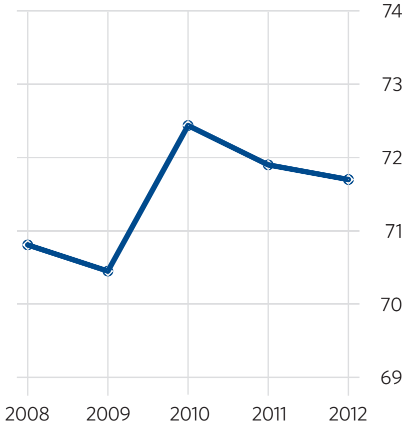
BACKGROUND: The center-right Alliance for Sweden coalition headed by Moderate Party leader Fredrik Reinfeldt unseated the Social Democrat Party in September 2006, pledging to sell state assets, increase growth, and reduce government debt. Sweden joined the European Union in 1995 but rejected adoption of the euro in 2003, and its public remains hostile to euro-zone membership. Before the international financial crisis, Sweden enjoyed a buoyant economy, but being heavily dependent on European trade, it experienced a downturn in 2009. Banks remained well capitalized, and Stockholm weathered the financial crisis better than others in Europe. Principal exports include automobiles, telecommunications products, construction equipment, and other investment goods.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

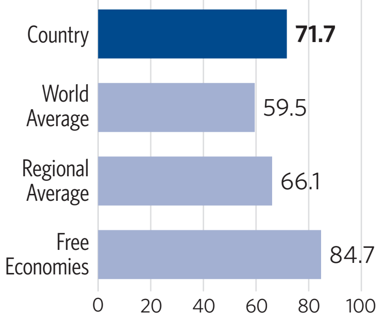
Economic Freedom Score



Freedom Trend



Country Comparisons



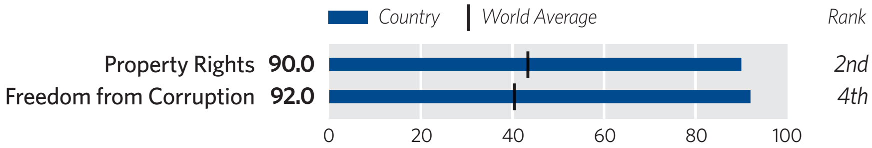
Quick Facts

Population: 9.3 million
GDP (PPP): $354.7 billion
5.5% growth in 2010
5-year compound annual growth 1.4%
$38,031 per capita
Unemployment: 8.4%
Inflation (CPI): 1.9%
FDI Inflow: $5.3 billion
Public Debt: 39.7% of GDP

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

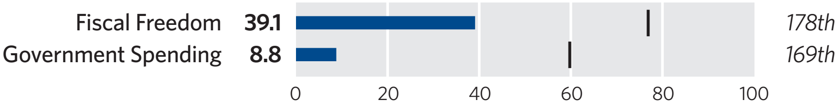
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



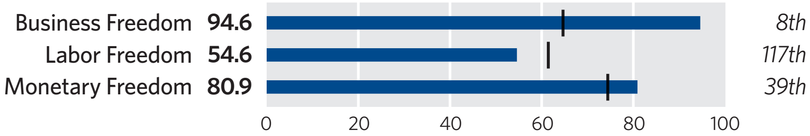
The rule of law is well maintained. Sweden's judicial system operates independently and impartially, with consistent application of laws. Property rights and contract enforcement are very secure, and expropriation is highly unusual. Protection of intellectual property rights is consistent with world standards. Effective anti-corruption measures discourage bribery of public officials and uphold government integrity.

LIMITED GOVERNMENT



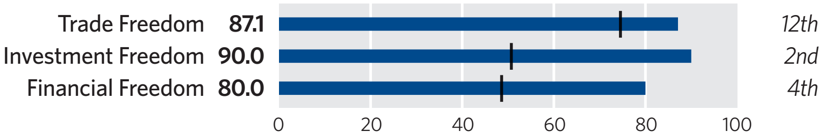
The top income tax rate is 57 percent, and the top corporate tax rate is 26.3 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden amounting to 46.4 percent of total domestic income. Government spending has risen to a level equivalent to 55.2 percent of GDP. The budget balance has recorded small deficits in recent years, and public debt amounts to a bit more than one-third of total domestic output.

REGULATORY EFFICIENCY



Sweden's regulatory environment is highly efficient. The minimum capital requirement for limited liability companies has been 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 are among the most rigid in Europe. Monetary stability has been well maintained.

OPEN MARKETS

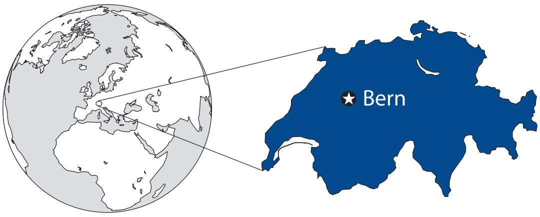


Trade policy is the same as that of other members of the European Union, with the common EU weighted average tariff rate of 1.4 percent. However, myriad non-tariff barriers increase the cost of trade. The modern investment regime is open and generally transparent, and regulations are applied consistently. The banking sector has regained much of its stability, but an implicit state guarantee raises the risk of future bailouts.

Score Changes

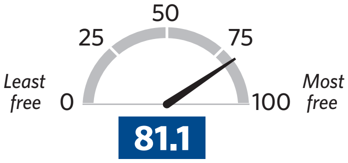
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.5	Business Freedom	–0.4	Trade Freedom	–0.5
Freedom from Corruption	0	Government Spending	–8.5	Labor Freedom	+0.6	Investment Freedom	+5.0
				Monetary Freedom	+0.8	Financial Freedom	0

SWITZERLAND



World Rank: **5** Regional Rank: **1**

Economic Freedom Score



Switzerland's economic freedom score is 81.1, making its economy the 5th freest in the 2012 *Index*. Its score has dropped by 0.8 point since last year, with declines in freedom from corruption, business freedom, and the score for government spending. Switzerland is ranked 1st out of 43 countries in the Europe region, and its overall score is much higher than the world average.

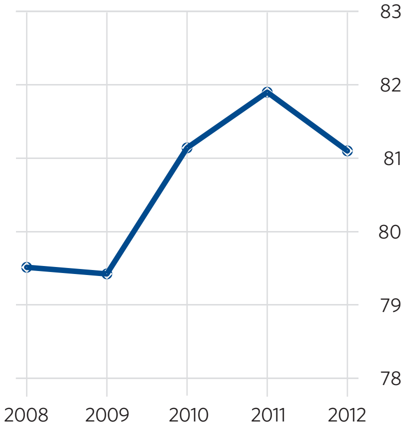
Well-secured property rights, including for intellectual property, promote entrepreneurship and productivity growth. A tradition of minimum tolerance for corruption has been well institutionalized in an efficient legal framework, strongly sustaining the rule of law. The judicial system, independent of political influence, ensures effective and transparent enforcement of commercial contracts.

Switzerland's openness to foreign trade and investment continues to provide real stimulus for a dynamic and resilient economy. A sound regulatory environment and minimal barriers to trade have contributed to its status as one of the world's most competitive and innovative economies. Macroeconomic stability and a highly developed and competitive financial sector reinforce Switzerland's position as a global financial hub. The financial sector has recovered swiftly from the global financial crisis and has withstood a weakening of bank secrecy laws.

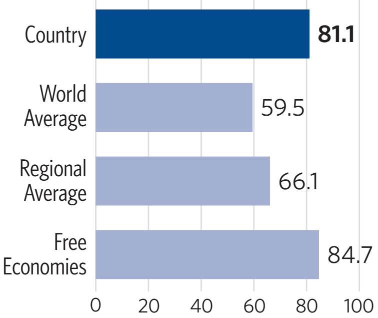
BACKGROUND: A federal system of government disperses power widely, and executive authority is exercised collectively by the seven-member Federal Council. Switzerland has a long tradition of openness to the world yet jealously guards its independence and neutrality. A ban on the building of minarets on mosques was introduced in November 2009 after approval by popular referendum. Switzerland joined the United Nations in 2002. Two referenda on membership in the European Union have failed by wide margins, and 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



Quick Facts

Population: 7.8 million

GDP (PPP): $324.5 billion

2.6% growth in 2010

5-year compound annual growth 1.9%

$41,663 per capita

Unemployment: 4.5%

Inflation (CPI): 0.7%

FDI Inflow: –$6.5 billion

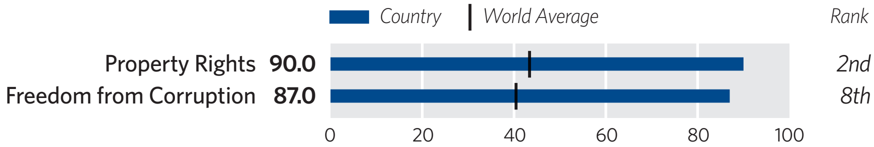
Public Debt: 55.0% of GDP

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

SWITZERLAND (continued)

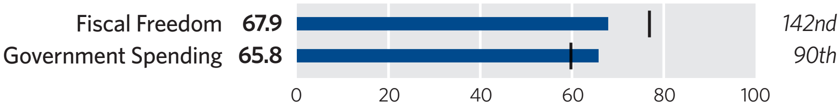
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



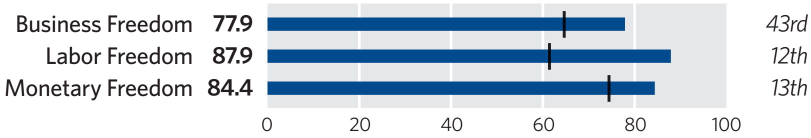
Protection of property rights is strongly enforced, with an independent and fair judicial system institutionalized throughout the economy. Commercial and bankruptcy laws are applied consistently and efficiently. Intellectual property rights are respected, and enforcement is consistent with world standards. Effective anti-corruption measures discourage bribery of public officials and uphold the integrity of government.

LIMITED GOVERNMENT



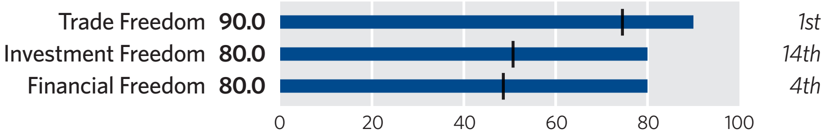
Taxation is more burdensome at the cantonal levels than at the federal level. The top federal income tax rate is 11.5 percent, with the combined tax rate as high as 41.5 percent. The federal corporate tax rate is 8.5 percent, but the joint rate can be up to 24 percent. The overall tax burden amounts to 30.3 percent of total domestic income. Government spending is equivalent to 33.7 percent of GDP, with small budget surpluses still in place.

REGULATORY EFFICIENCY



The competitive regulatory framework strongly supports commercial activity, allowing efficient and dynamic business formation and operation. Bankruptcy proceedings are relatively easy, although the overall pace of improving business efficiency has slowed somewhat in comparison to other economies. Labor regulations are relatively flexible, and provisions concerning work hours have been eased. Monetary stability is solid.

OPEN MARKETS



The trade weighted average tariff rate is zero, but non-tariff barriers add to the cost of trade. 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, banking remains well capitalized and sound.

Score Changes

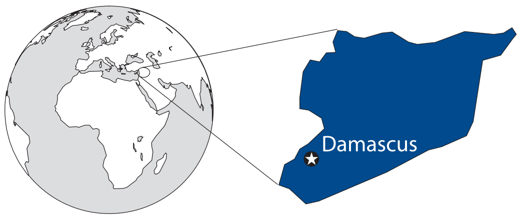
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-3.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.5
Government Spending	-3.5

REGULATORY EFFICIENCY	
Business Freedom	-2.3
Labor Freedom	+0.1
Monetary Freedom	+0.6

OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

SYRIA



World Rank: **139** Regional Rank: **14**

Syria's economic freedom score is 51.2, making its economy the 139th freest in the 2012 *Index*. Its score is 0.1 point worse than last year, with lower scores in four of the 10 economic freedoms, including government spending and labor freedom. Syria is ranked 14th out of 17 countries in the Middle East/North Africa region, and its overall score is lower than the regional average.

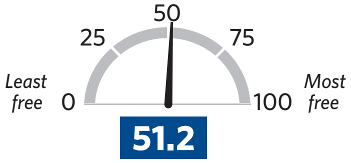
The Syrian economy falls below world averages in many of the 10 economic freedoms. The fragility of the country's foundations of economic freedom is reflected in very low scores for property rights and corruption, and erratic and politically motivated enforcement severely undermines the rule of law.

Many aspects of the entrepreneurial framework that are critical to economic dynamism have been weakened by intrusive and inefficient state action. The state dominates many areas of economic activity, and a generally repressive environment marginalizes the private sector and prevents the sustainable development of new enterprises or industries. Monetary freedom has been gravely marred by state price controls and interference. Opaque regulations drive up the cost of investment and production, and layers of complex non-tariff barriers have added greatly to the cost of trade.

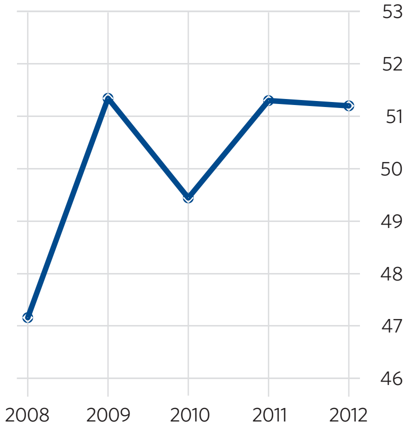
BACKGROUND: Hafez al-Assad's son Bashar, who succeeded him in 2000, has failed to deliver on promises to reform Syria's socialist economy and ease political repression. The regime responded to anti-government protests throughout 2011 with a combination of brutal crackdowns and promises of future reforms, and the situation has been gradually deteriorating. Growing political instability poses a significant threat both to the Assad regime and to future economic development. Foreign investment has been constrained by the increasingly violent atmosphere, government restrictions, economic sanctions, and Syria's growing international isolation. Syria's economy remains hobbled by state bureaucracy, high unemployment, falling oil production, rising budget deficits, and inflation.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

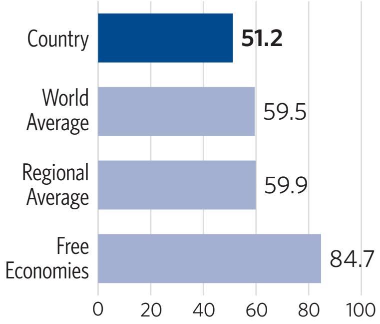
Economic Freedom Score



Freedom Trend



Country Comparisons



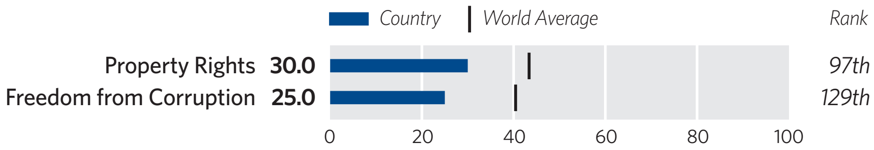
Quick Facts

Population: 20.6 million
GDP (PPP): $107.4 billion
3.2% growth in 2010
5-year compound annual growth 4.9%
$5,208 per capita
Unemployment: 8.3%
Inflation (CPI): 4.4%
FDI Inflow: $1.3 billion
Public Debt: 29.7% of GDP

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

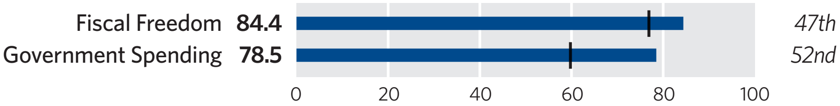
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



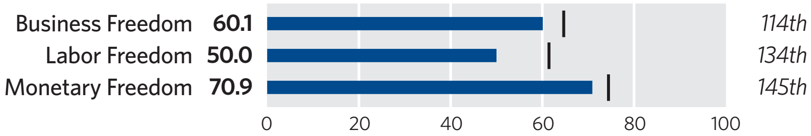
The rule of law remains fragile and uneven across the country. The legal framework is inefficient, and protections for private property rights are not strongly enforced. The judiciary lacks transparency and is not independent of political interference. Pervasive corruption has exacerbated the weak rule of law, severely undermining the foundations of economic freedom and slowing progress in modernizing the economy.

LIMITED GOVERNMENT



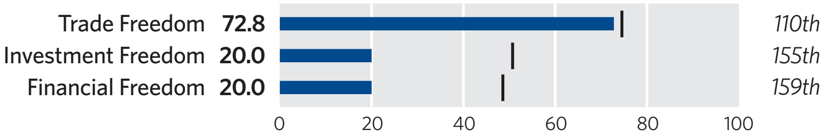
The top income tax rate is 22 percent, and the top corporate tax rate is 30.8 percent. Other taxes include an inheritance tax and a property transfer tax, with the overall tax burden amounting to 11.5 percent of total domestic income. Government spending is equivalent to 26.8 percent of GDP. The budget balance has turned to deficits in recent years, and public debt amounts to about 30 percent of total domestic output.

REGULATORY EFFICIENCY



The business environment has improved only marginally. The regulatory framework lacks transparency and efficiency. The repressive business environment, burdened by heavy state intervention, continues to retard entrepreneurial activity and prolong economic stagnation. Labor regulations are rigid, and the labor market suffers from state interference and control. Monetary stability has weakened, and inflation remains volatile.

OPEN MARKETS



The trade weighted average tariff rate is 6.1 percent, but systemic non-tariff barriers severely constrain freedom to trade. Private investment is deterred by heavy bureaucracy, direct state interference, and political instability. Although the number of private banks has increased steadily since they were first permitted in 2004, government influence in the financial sector remains extensive.

Score Changes

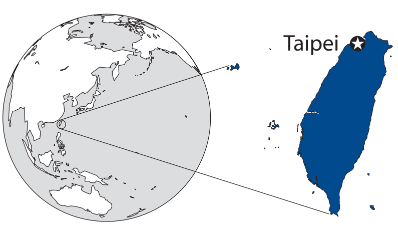
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-1.0

LIMITED GOVERNMENT	
Fiscal Freedom	-0.2
Government Spending	-6.8

REGULATORY EFFICIENCY	
Business Freedom	+4.2
Labor Freedom	-5.8
Monetary Freedom	+1.2

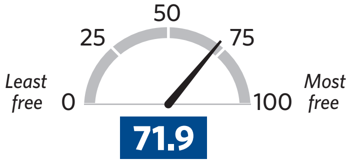
OPEN MARKETS	
Trade Freedom	+7.4
Investment Freedom	0
Financial Freedom	0

TAIWAN



World Rank: **18** Regional Rank: **5**

Economic Freedom Score



Taiwan's economic freedom score is 71.9, making its economy the 18th freest in the 2012 *Index*. Its score is 1.1 points higher than last year, with improvements in six of the 10 economic freedoms including business freedom and government spending. Taiwan is ranked 5th out of 41 economies in the Asia–Pacific region, and its overall score is higher than the world average.

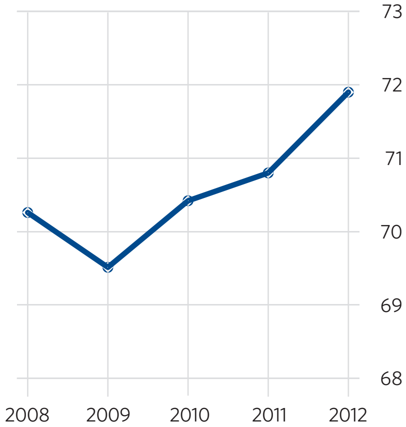
Taiwan is now one of the world's 20 freest economies. A strong commitment to structural reform and openness to global commerce have enabled it to become a global leader in economic freedom. The dynamic economy has benefitted from a well-developed legal framework and a tradition of private-sector entrepreneurial dynamism, and open-market policies that facilitate the free flow of goods and capital are firmly institutionalized. The efficient business environment has been further enhanced through the recent implementation of a 17 percent corporate tax rate and the elimination of minimum capital requirements for establishing a company. Taiwan's small and medium-size enterprises are well positioned to compete in the global marketplace.

Although the level of state involvement in the economy remains considerable, government spending is under control. Despite some progress, corruption and a rigid labor market continue to restrain Taiwan's overall economic freedom.

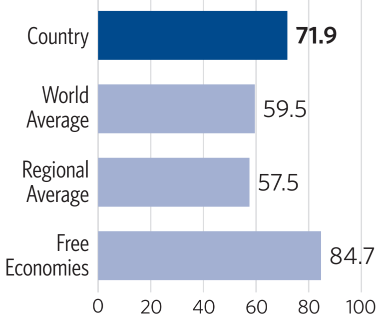
BACKGROUND: Taiwan is a dynamic multi-party democracy. President Ma Ying-jeou, elected on a platform that promised a more open economic relationship with China, has moved to relax cross-Strait barriers and has negotiated a formal economic agreement with mainland China. The country remains excluded from membership in the United Nations and other international organizations as a result of efforts by Beijing to pressure it into unification with China. Although internal opposition to engaging with China is considerable because of fears that sovereignty will be lost, the trade agreement seems to have encouraged 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



Quick Facts

Population: 23.3 million

GDP (PPP): $821.8 billion

10.8% growth in 2010

5-year compound annual growth 4.1%

$35,227 per capita

Unemployment: 5.2%

Inflation (CPI): 1.0%

FDI Inflow: $2.5 billion

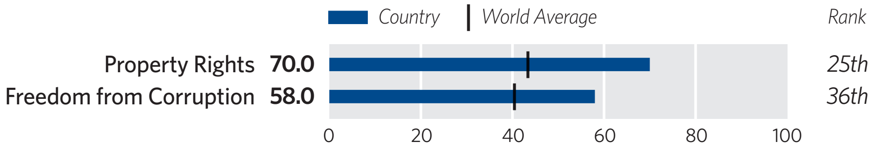
Public Debt: 38.6% of GDP

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

TAIWAN (continued)

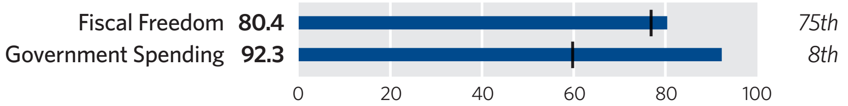
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



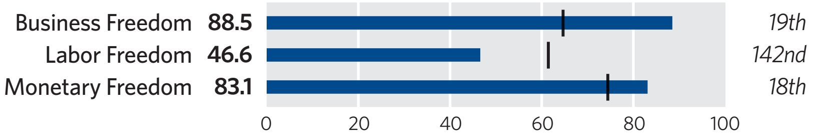
The rule of law is well maintained, and the court system is independent of political interference. Property rights are generally protected, and the judiciary enforces contracts. The legal regime for intellectual property rights has advanced, but there are continuing concerns about counterfeit pharmaceuticals and infringement of copyrighted material. Despite some progress, corruption continues to be a cause for concern.

LIMITED GOVERNMENT



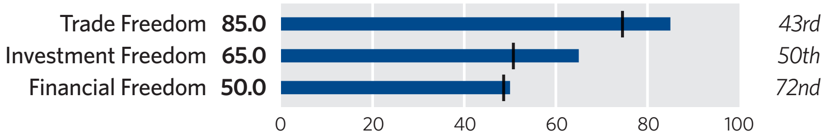
The top income tax rate is 40 percent, and the top corporate tax rate has been reduced to 17 percent. Other taxes include a value-added tax (VAT) and an interest tax, with the overall tax burden amounting to 8.4 percent of total domestic income. Government spending is equivalent to 16 percent of GDP. The budget balance has fallen into deficit, and public debt has reached approximately 39 percent of GDP.

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 for establishing a business, it takes only three procedures to start a company. The labor market lacks flexibility. Monetary stability has been well maintained.

OPEN MARKETS

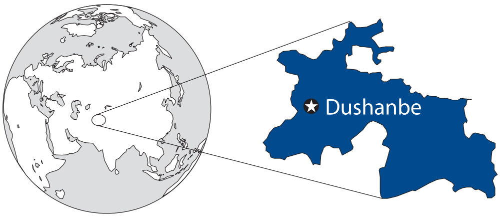


The trade weighted average tariff rate is competitively low at 2.5 percent, but non-tariff barriers add to the cost of trade. Foreign investment is generally welcome, and the overall investment regime has become more transparent and efficient. The financial sector continues to evolve, providing a wide range of financial instruments and services. Government institutions dominate banking, and the foreign bank presence is relatively small.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+2.1	Business Freedom	+3.8	Trade Freedom	-1.2
Freedom from Corruption	+2.0	Government Spending	+2.6	Labor Freedom	+0.5	Investment Freedom	0
				Monetary Freedom	+1.1	Financial Freedom	0

TAJIKISTAN



World Rank: **129** Regional Rank: **27**

Tajikistan's economic freedom score is 53.4, making its economy the 129th freest in the 2012 *Index*. Its score is 0.1 point lower than last year, reflecting declines in property rights and government spending scores. Tajikistan is ranked 27th out of 41 countries in the Asia–Pacific region, and its overall score is lower than the world average.

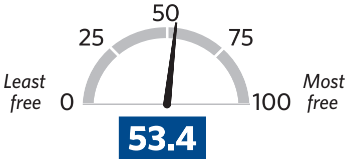
Tajikistan lags far behind many other developing countries in terms of economic and human development. The economy is overly dependent on commodity export earnings and remains vulnerable to market volatility. The government does a poor job of maintaining several of the pillars of economic freedom. In particular, the rule of law is too weak to sustain meaningful economic progress. Property rights are not well respected, and corruption is rampant.

The effectiveness of government remains low, and the quality of the management of public finance has deteriorated considerably. Inflationary pressures undermine monetary stability, and government interference with market prices is extensive. Much-needed private-sector development is held back by an inefficient and unstructured regulatory system.

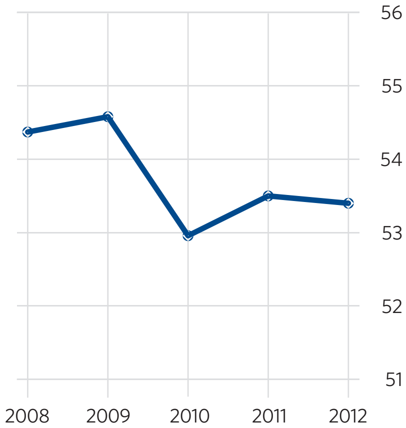
BACKGROUND: Tajikistan faces a number of challenges to its stability, including Islamist terrorism and tensions in relations with Kyrgyzstan. Tajikistan's transition to democracy has been uncertain since the 1992–1997 civil war between an Islamist/democratic coalition and the ruling post-Communists. President Imomali Rahmon, whose 20-year rule has been perpetuated through widely criticized elections, controls all three branches of government. Human-rights abuses are widespread, poverty and corruption remain pervasive, and remittances and drug production and trafficking are important sources of income. Security incidents in 2010 included a mass prison break, Tajikistan's first suicide car bombing, and armed conflicts between government forces and opposition militants. Regional Islamist radical groups are increasingly active. Nonetheless, Tajikistan experienced significant real GDP growth in 2010. Major exports are aluminum, cotton, and electricity.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

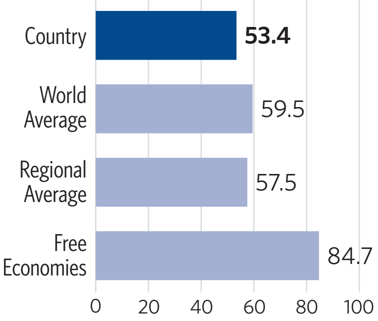
Economic Freedom Score



Freedom Trend



Country Comparisons



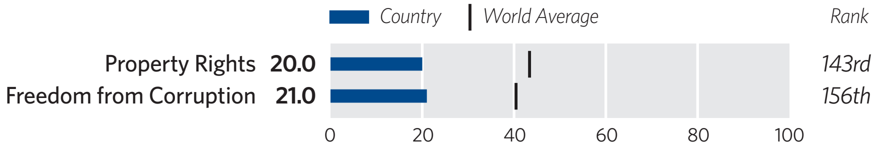
Quick Facts

Population: 7.6 million
GDP (PPP): $14.7 billion
6.5% growth in 2010
5-year compound annual growth 6.6%
$1,935 per capita
Unemployment: 2.2%
Inflation (CPI): 6.5%
FDI Inflow: $44.8 million
Public Debt: 36.7% of GDP

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

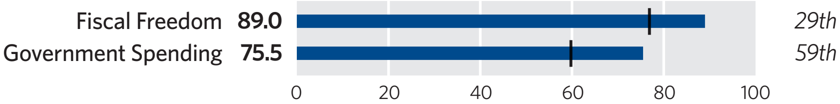
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



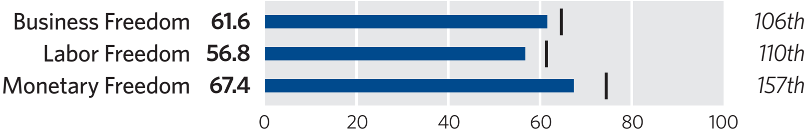
Protection of private property rights is weak. Judicial corruption is widespread, and the courts are sensitive to government pressure. Legal proceedings are not transparent, and a lack of respect for due process undermines the freedom of civil society. Under Tajik law, all land belongs to the state; individuals or entities may be granted first- or second-tier land use rights. Widespread cronyism and nepotism are symptoms of pervasive corruption.

LIMITED GOVERNMENT



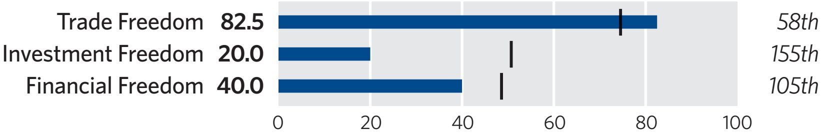
The top income tax rate is 13 percent. The statutory corporate tax rate is 15 percent, but the top corporate tax rate for transport and banking services is 25 percent. Other taxes include a value-added tax (VAT), with the overall tax burden amounting to 17.6 percent of GDP. Government spending is equivalent to 28.6 percent of total domestic output. The budget balance has been chronically in deficit, and public debt stands at 36.7 percent of GDP.

REGULATORY EFFICIENCY



The business environment has improved only marginally, with a more simplified business registration process implemented in recent years. Entrepreneurial activity is seriously hampered by state interference that increases regulatory costs and by inconsistent bureaucracy. The labor market remains underdeveloped. The government influences prices through regulation, subsidies, and numerous state-owned enterprises.

OPEN MARKETS

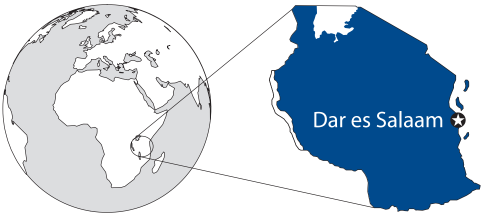


The trade weighted average tariff rate is 3.8 percent, but onerous non-tariff barriers are pervasive throughout the economic system and severely constrain the freedom to trade. All private investment is screened and requires government approval. Investment laws are implemented inconsistently. Financial-sector assets have grown rapidly, but the state's continuing interference seriously handicaps private-sector development.

Score Changes

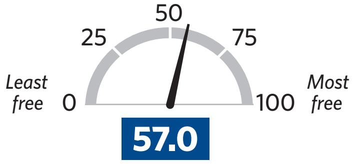
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**-5.0**	Fiscal Freedom	**+0.4**	Business Freedom	**+0.9**	Trade Freedom	**0**
Freedom from Corruption	**+1.0**	Government Spending	**-1.8**	Labor Freedom	**+0.4**	Investment Freedom	**0**
				Monetary Freedom	**+2.9**	Financial Freedom	**0**

TANZANIA



World Rank: **110** Regional Rank: **16**

Economic Freedom Score



Tanzania's economic freedom score is 57, making its economy the 110th freest in the 2012 *Index*. Its score is unchanged from last year, as a decline in investment freedom was offset by improvements in trade freedom and labor freedom. Tanzania is ranked 16th out of 46 countries in the Sub-Saharan Africa region, and its overall score is slightly lower than the world average.

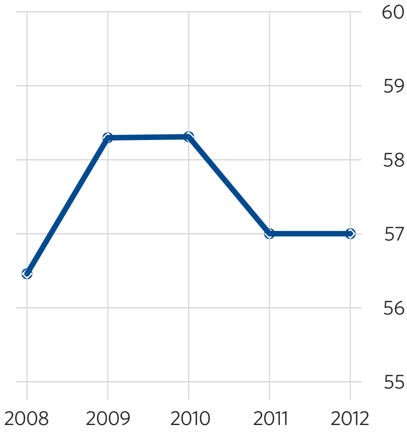
Tanzania has made progress in achieving income growth and poverty reduction over the past decade. While small in size, the financial sector has undergone modernization, and credit is increasingly allocated at market rates, supporting the development of a more vibrant entrepreneurial sector.

Despite these recent gains, the Tanzanian government seems to lack strong commitment to further institutional reforms that are essential to long-term economic development. Long-standing structural problems include poor public finance management and an underdeveloped legal framework that interferes with regulatory efficiency. Trade and investment policies needed to sustain open markets are undercut by lingering government interference in the economy. Widespread corruption, particularly in the public sector, further undermines the weak rule of law.

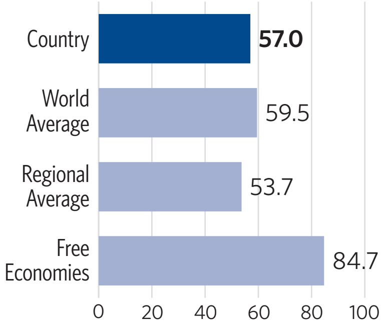
BACKGROUND: Former Foreign Minister Jakaya Kikwete has served as president since winning election in December 2005. Elections for president and all parliamentary seats were last held in October 2010. The next presidential and parliamentary elections will be in 2015. Tanzania remains very poor. Its historically state-led economy is becoming more market-based but remains hindered by poor infrastructure and the country's high HIV/AIDS rate. The economy is overwhelmingly donor-dependent, with 30 percent of the budget dependent on donor assistance. Agriculture constitutes the most important sector of the economy, providing about 27 percent of GDP and 80 percent of employment. Price controls and unreliable cash flow to farmers continue to hamper growth in the agricultural sector.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



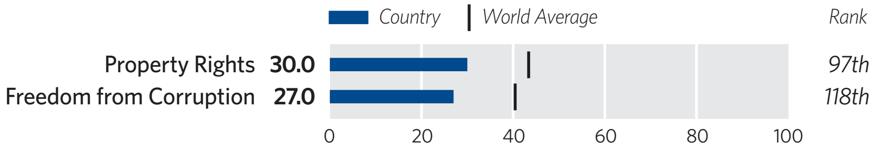
Quick Facts

Population: 41.3 million
GDP (PPP): $58.4 billion
6.5% growth in 2010
5-year compound annual growth 6.9%
$1,413 per capita
Unemployment: n/a
Inflation (CPI): 10.5%
FDI Inflow: $700.0 million
Public Debt: 40.1% of GDP

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

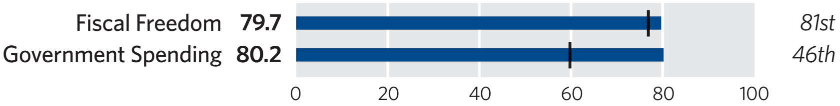
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



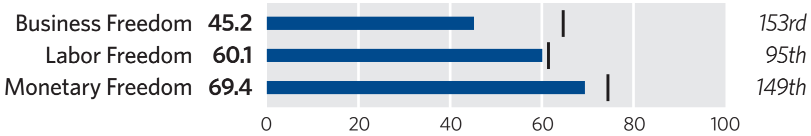
The judicial system is subject to political interference and severely inefficient. Recent reforms have been aimed at establishing a reliable system of transferable property rights, but there is no single comprehensive law covering transactions. Legislation conforms to international intellectual property rights conventions, but violations are not seriously investigated. Enforcement of anti-corruption laws and penalties is ineffective.

LIMITED GOVERNMENT



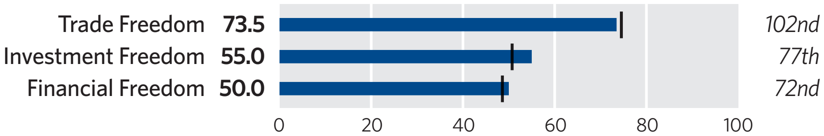
The top income tax and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and an interest tax, with the overall tax burden amounting to 15.3 percent of total domestic income. Government spending is equivalent to 25.7 percent of GDP. The budget deficit has been over 3 percent of GDP in recent years, and public debt has reached 40 percent of total domestic output.

REGULATORY EFFICIENCY



The business environment remains hampered by continuing problems in the regulatory framework. Although requirements for launching a business are not time-consuming, the licensing process costs over 11 times the average level of annual income. Labor regulations are not modern and flexible enough to support a vibrant labor market. The lack of competition in the market has inflated price levels, hurting monetary stability.

OPEN MARKETS

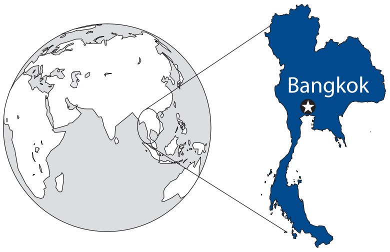


The trade weighted average tariff rate is high at 8.2 percent, with costly non-tariff barriers further inhibiting free trade. Investment regulations are outmoded, and burdensome bureaucracy and inadequate infrastructure are ongoing deterrents to investment growth. The small financial sector has been 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		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.1	Business Freedom	-0.8	Trade Freedom	+3.9
Freedom from Corruption	+1.0	Government Spending	-0.3	Labor Freedom	+1.1	Investment Freedom	-5.0
				Monetary Freedom	+0.6	Financial Freedom	0

THAILAND



World Rank: 60 **Regional Rank: 10**

Thailand's economic freedom score is 64.9, making its economy the 60th freest in the 2012 *Index*. Its score is 0.2 point better than last year due to gains in four of the 10 economic freedoms, including business freedom and labor freedom. 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.

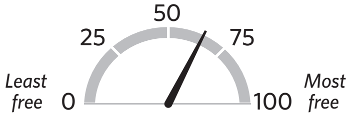
The Thai economy has rebounded quickly from the recent economic slowdown with strong export performance. Economic fundamentals remain relatively solid, and the main challenges are to strengthen investor confidence and move forward with institutional reforms. Lingering political instability is the major concern, undermining the investment climate and economic potential. 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 continues to evolve gradually in ways that promote the emergence of a dynamic private sector and encourage broad-based employment growth. Thailand enjoys relatively high trade freedom, as tariff rates are modest, but the potential economic gains from trade are undercut by the absence of progress in reforming policies that restrict investment.

BACKGROUND: Thailand's turbulent political history since becoming a constitutional monarchy in 1932 includes 18 military coups. The government returned to democratic civilian control in December 2007 and after a year of political turmoil experienced a peaceful transfer of power. That government was toppled by military-supported street protests, and a pro-monarchy, pro-elite government headed by Abhisit Vejjajiva was installed. Nationwide parliamentary elections were held in July 2011, and the opposition party and vehicle for exiled leader Thaksin Shinawatra, Peua Thai, won an outright majority. 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.

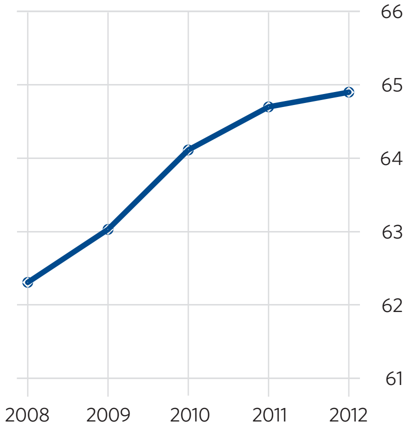
How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Economic Freedom Score

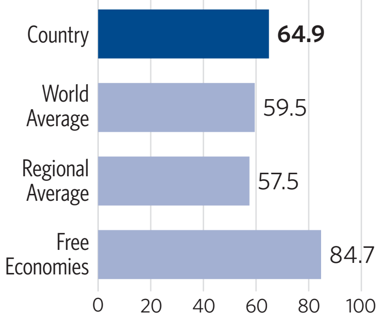


64.9

Freedom Trend



Country Comparisons



Quick Facts

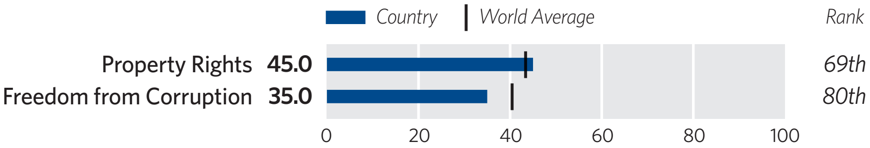
Population: 63.9 million
GDP (PPP): $586.9 billion
7.8% growth in 2010
5-year compound annual growth 3.6%
$9,187 per capita
Unemployment: 1.2%
Inflation (CPI): 3.3%
FDI Inflow: $5.8 billion
Public Debt: 44.1% of GDP

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

THAILAND (continued)

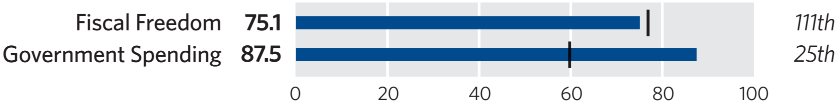
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



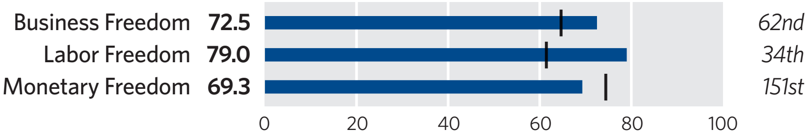
A well-functioning legal framework is not firmly in place. The judiciary continues to be vulnerable to political interference. Private property is generally protected, but the legal process is slow, and judgments can be affected through extralegal means. Infringements of intellectual property rights are substantial. In the absence of effective enforcement measures, corruption has become deeply rooted in society.

LIMITED GOVERNMENT



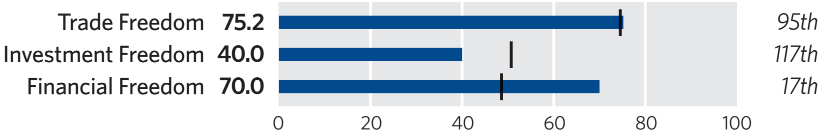
The top income tax rate is 37 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden amounting to 14.9 percent of total domestic income. Government spending has risen to a level equivalent to 20.4 percent of gross domestic output. The budget balance has fallen into deficit, and public debt has reached around 45 percent of total domestic output.

REGULATORY EFFICIENCY



Recent reforms have improved regulatory efficiency. With no minimum capital requirement, starting a business takes slightly less than the world average of 30 days and seven procedures. Labor regulations are relatively flexible, but informal labor activity remains substantial. Monetary stability has been maintained, but inflationary pressure lingers. 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 onerous 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

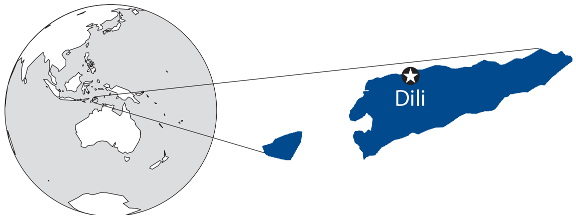
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+1.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.3
Government Spending	-3.1

REGULATORY EFFICIENCY	
Business Freedom	+2.6
Labor Freedom	+2.7
Monetary Freedom	-1.5

OPEN MARKETS	
Trade Freedom	-0.7
Investment Freedom	0
Financial Freedom	0

TIMOR-LESTE



World Rank: **169** Regional Rank: **39**

Timor-Leste's economic freedom score is 43.3, making its economy the 169th freest in the 2012 *Index*. Its score has increased by 0.5 point from last year, reflecting improvements in freedom from corruption and investment freedom. Timor-Leste is ranked 39th out of 41 countries in the Asia–Pacific region, and its overall score is well below the world and regional averages.

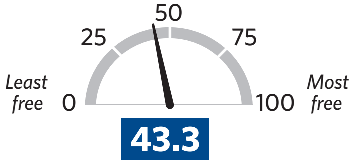
Timor-Leste's economy has made modest progress since independence in 2002. Some gains have been made in poverty reduction and income growth, supported by competitive tax rates that promote private-sector activity.

Nonetheless, economic freedom remains severely constrained in Timor-Leste. The economic base is narrow, and continued political instability hampers lasting economic development. The state plays an outsized role in the economy. Private-sector development is also limited by the country's burdensome regulatory environment and underdeveloped financial sector. Widespread corruption unchecked by a weak judicial system has been a considerable drag on economic activity.

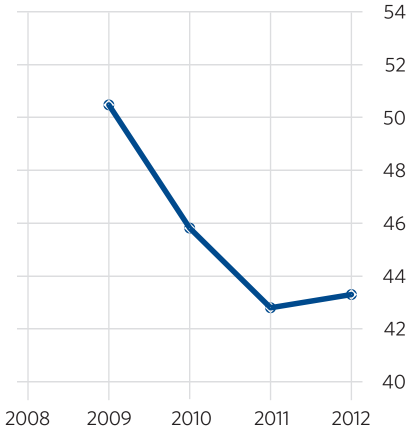
BACKGROUND: The Democratic Republic of Timor-Leste is one of Asia's poorest countries. Since 2002, when Timor-Leste became independent after 25 years of Indonesian occupation and two and a half years of administration by the United Nations, the government has struggled to pacify the country. Prime Minister Xanana Gusmao, who along with President Ramos-Horta survived assassination attempts in 2008, heads a coalition government that faces parliamentary elections in 2012. Economic liberalization has mostly stalled, and the economy remains heavily dependent on foreign aid. Infrastructure is very poor, and corruption is pervasive. Timor-Leste benefits from offshore petroleum revenues but remains primarily an agricultural economy. In 2008, more than 95 percent of government proceeds was derived from oil and gas profits. The government deposits all income from the oil sector in a Petroleum Fund that is not counted as part of GDP but is reflected in government revenue figures.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

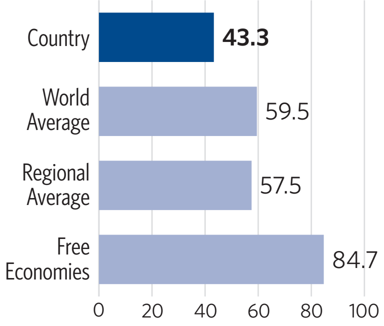
Economic Freedom Score



Freedom Trend



Country Comparisons



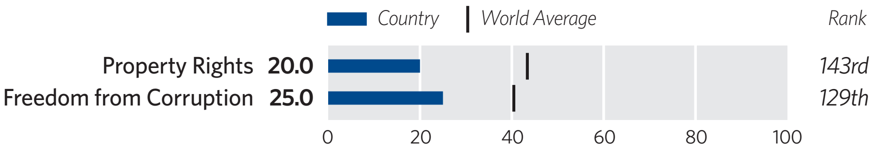
Quick Facts

Population: 1.1 million
GDP (PPP): $3.1 billion
6.1% growth in 2010
5-year compound annual growth 6.4%
$2,861 per capita
Unemployment: 20.0%
Inflation (CPI): 4.9%
FDI Inflow: $279.6 million
Public Debt: 0.0% of GDP

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

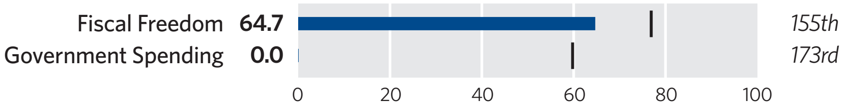
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



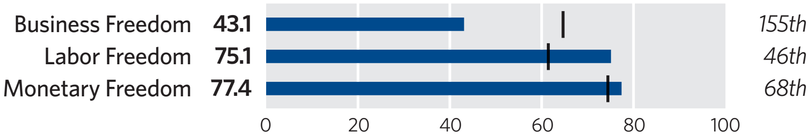
A rudimentary legal system has been established, but the justice system remains among the weakest sectors of government, relying heavily on foreign assistance. Land titles from the Portuguese colonial period may conflict with competing claims from the Indonesian occupation and also with claims from squatters who may occupy the land. Overall progress in fighting corruption has been marginal.

LIMITED GOVERNMENT



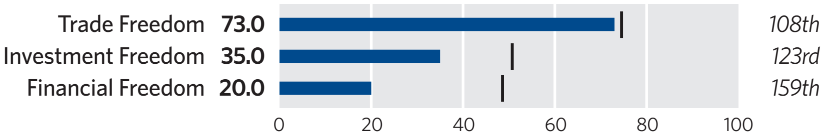
The top income and corporate tax rates are 10 percent. Most government revenue comes from offshore petroleum projects in the Timor Sea. Non-oil tax revenue amounts to less than 10 percent of non-oil GDP. Reflecting increased transfer payments and other subsidies, government spending has increased to a level equivalent to 108.7 percent of total domestic output. The budget balance has been in huge surplus.

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 about twice 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 been relatively moderate.

OPEN MARKETS



The trade weighted average tariff rate is 6 percent, with non-tariff barriers continuing to distort trade activity. The investment environment is significantly limited by inadequate institutional capacity, complex licensing requirements, and poor infrastructure. The financial sector is very small and underdeveloped. Less than 2 percent of the population has access to financial services.

Score Changes

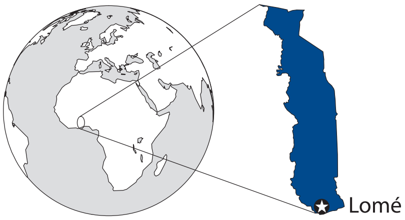
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+3.0

LIMITED GOVERNMENT	
Fiscal Freedom	0
Government Spending	0

REGULATORY EFFICIENCY	
Business Freedom	-1.1
Labor Freedom	-1.4
Monetary Freedom	-0.7

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

TOGO



World Rank: **155** Regional Rank: **36**

Togo's economic freedom score is 48.3, making its economy the 155th freest in the 2012 *Index*. Its score is 0.8 point lower than last year, reflecting declines in four of the 10 economic freedoms including freedom from corruption, business freedom, and the government spending category. Togo is ranked 36th out of 46 countries in the Sub-Saharan Africa region, and its overall score is well below the world and regional averages.

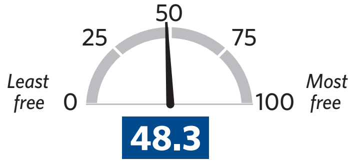
Economic progress in Togo is undermined by the weak foundations of economic freedom. Property rights are difficult to secure and enforce, and high levels of corruption have driven many people into the informal sector. The weak judicial system is vulnerable to political interference, increasing investment risk and slowing economic growth.

Togo's overall competitiveness has been 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, coupled with a lack of policies designed to facilitate flows of trade and investment, hinders the emergence of a vibrant private sector.

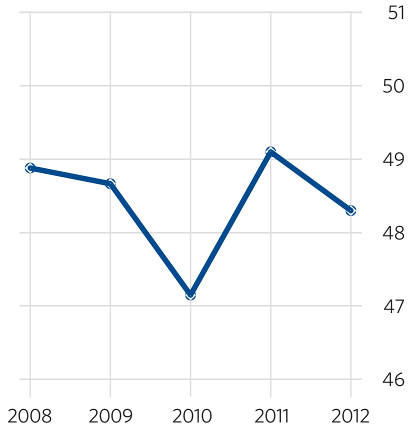
BACKGROUND: In 2005, the military appointed Faure Gnassingbé to serve as president following the death of his father, who had ruled for 38 years. Partly because of condemnation and sanctions by the Economic Community of West African States and the African Union, he stepped down. He then won the 2005 election, 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 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

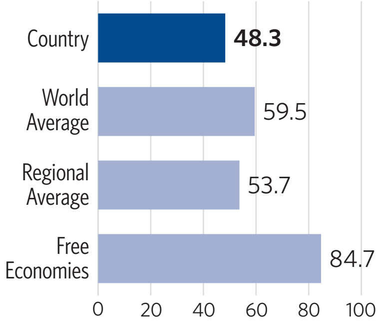
Economic Freedom Score



Freedom Trend



Country Comparisons



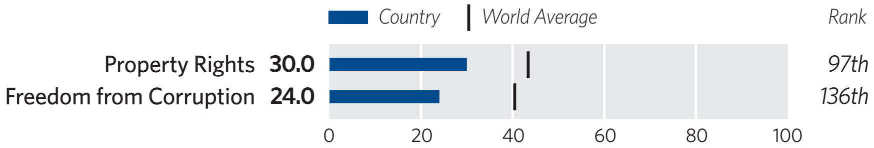
Quick Facts

Population: 7.0 million
GDP (PPP): $6.0 billion
3.4% growth in 2010
5-year compound annual growth 3.1%
$858 per capita
Unemployment: n/a
Inflation (CPI): 3.2%
FDI Inflow: $41.1 million
Public Debt: 32.3% of GDP

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

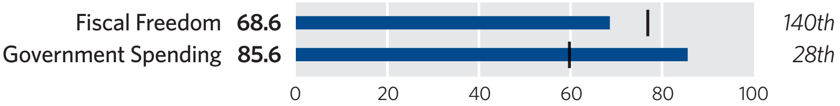
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



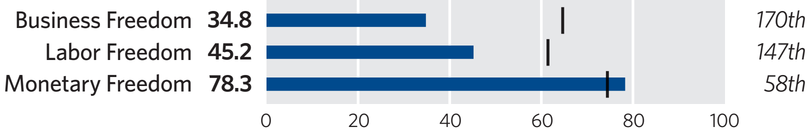
The judicial system is vulnerable to strong influence from the executive and does not provide independent protection of private property. Contracts are difficult to enforce. Ownership of physical property is frequently disputed due to poorly defined inheritance laws. Togo has a large informal market in pirated optical media, computer software, and counterfeit products. The executive and legislative branches are subject to corruption.

LIMITED GOVERNMENT



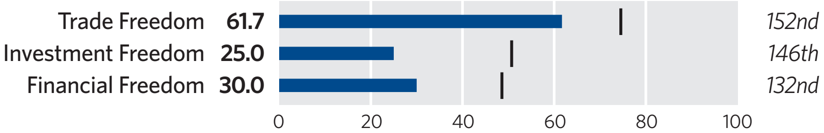
The top income tax rate is 45 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden amounting to 14.5 percent of total domestic income. Government spending is equivalent to 21.9 percent of gross domestic output. The budget balance has fallen into deficit, and public debt stands at 32.3 percent of GDP.

REGULATORY EFFICIENCY



Measures to improve the entrepreneurial environment have not been implemented effectively. The overall business environment remains quite burdensome. It takes 84 days to start a company, with the minimum capital requirement costing about five times the level of average annual income. The labor market is underdeveloped, and informal labor activity remains substantial. Inflation is moderate.

OPEN MARKETS

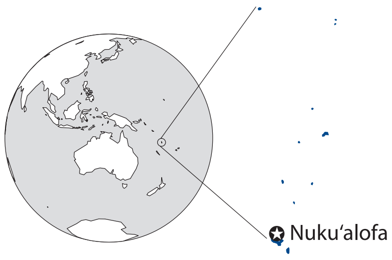


The trade weighted average tariff rate is prohibitively high at 14.2 percent, with onerous non-tariff barriers further increasing the cost of trade. Investment is permitted only in certain sectors and is screened case-by-case. Capital transactions are subject to some controls or government approval. The underdeveloped banking system remains subject to strong government influence and suffers from a lack of solvency and liquidity.

Score Changes

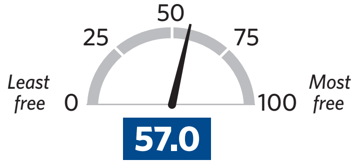
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.5	Business Freedom	-2.0	Trade Freedom	-0.5
Freedom from Corruption	-4.0	Government Spending	-3.0	Labor Freedom	+1.5	Investment Freedom	0
				Monetary Freedom	+0.2	Financial Freedom	0

TONGA



World Rank: 109 **Regional Rank: 20**

Economic Freedom Score



Tonga's economic freedom score is 57.0, making its economy the 109th freest in the 2012 *Index*. Its score has increased by 1.2 points from last year, reflecting a particularly large improvement in trade freedom that was partially undermined by expansive levels of government spending. Tonga is ranked 20th out of 41 countries in the Asia–Pacific region. The country recorded one of the 20 largest score gains in the 2012 *Index*.

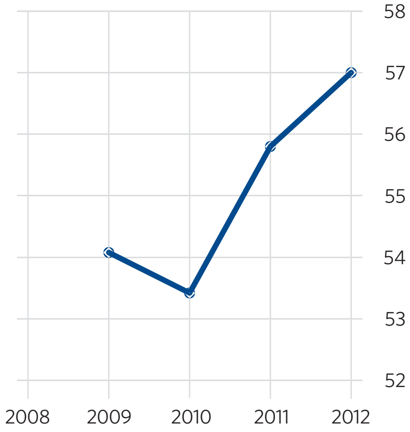
Tonga's progress toward greater economic freedom has gained some traction with improvements in scores two years in a row. Nonetheless, the economic foundations for long-term development remain notably weak. Property rights and corruption scores are far below world averages, and the country's judicial system remains inefficient and lacks transparency. Although trade weighted average tariffs dropped significantly, a lack of commitment to opening markets fully holds back growth in investment and thwarts the emergence of a more dynamic private sector.

The Tongan economy continues to be heavily dependent 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.

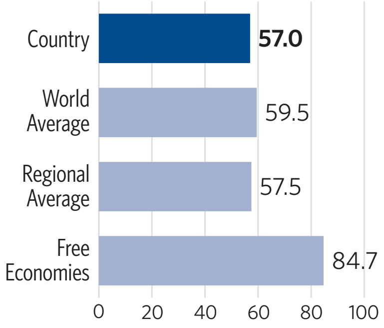
BACKGROUND: The Kingdom of Tonga is the South Pacific's last Polynesian monarchy. Some 100,000 people are spread across about 50 of its 171 islands. Tonga has been independent since 1970, and its political life is dominated by the royal family, hereditary nobles, and a small number of other landholders. Tonga held its first elections on November 25, 2010. 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. 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



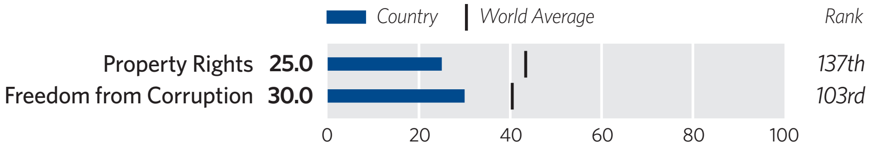
Quick Facts

Population: 0.1 million
GDP (PPP): $0.8 billion
0.3% growth in 2010
5-year compound annual growth 0.4%
$7,275 per capita
Unemployment: 13.0%
Inflation (CPI): 4.0%
FDI Inflow: $16.2 million
Public Debt: 42.8% of GDP

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

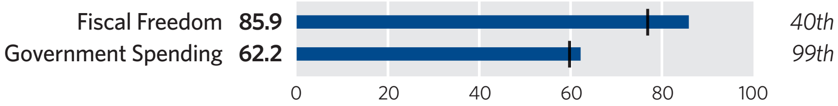
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



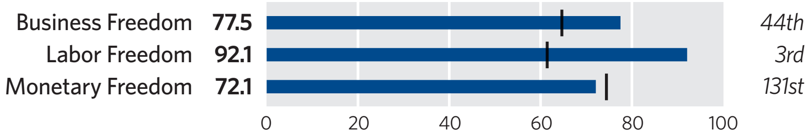
Tonga has a fairly efficient legal system based on British common law. The judiciary is independent and conducts generally fair public trials, although all judges are appointed by the monarch. Property rights are uncertain. Enforcement of legislation protecting intellectual property rights is weak. The office of Anti-corruption Commissioner has been established, but pervasive corruption continues to undermine government integrity.

LIMITED GOVERNMENT



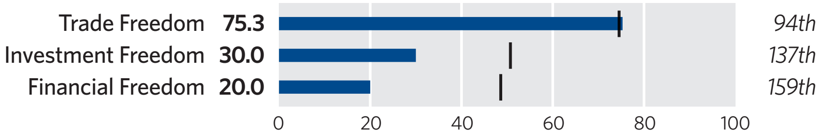
The top income tax rate is 20 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and an interest tax, with the overall tax burden amounting to 19.5 percent of total domestic income. Government spending has increased to a level equivalent to 35.5 percent of GDP, keeping the budget balance in deficit. Public debt amounts to around 43 percent of total domestic output.

REGULATORY EFFICIENCY



Regulatory codes are relatively sound, but implementation of regulations remains ineffective. There is no minimum capital requirement for establishing a business, but the process can be time-consuming, with 16 days required on average. Labor codes are favorable to labor market flexibility, but informal labor persists at high levels. Monetary stability is weak as inflationary pressure lingers.

OPEN MARKETS



The trade weighted average tariff rate has dropped by more than half but is still restrictive at 7.3 percent. Non-tariff barriers further raise the cost of trade. Many investment activities are stringently regulated. The legal system impedes efficient lending, and the lack of reliable information on creditworthiness increases credit costs. There are no capital markets. Much of the population operates financially outside of the formal banking sector.

Score Changes

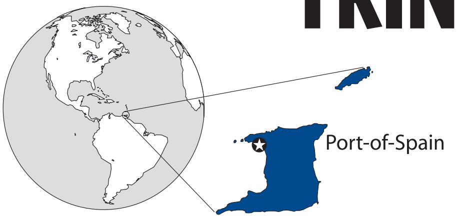
RULE OF LAW	
Property Rights	0
Freedom from Corruption	0

LIMITED GOVERNMENT	
Fiscal Freedom	+2.8
Government Spending	-11.0

REGULATORY EFFICIENCY	
Business Freedom	+0.1
Labor Freedom	0
Monetary Freedom	+1.0

OPEN MARKETS	
Trade Freedom	+19.1
Investment Freedom	0
Financial Freedom	0

TRINIDAD AND TOBAGO



World Rank: **63** Regional Rank: **13**

Trinidad and Tobago's economic freedom score is 64.4, making its economy the 63rd freest in the 2012 *Index*. Its score is 2.1 points lower than last year, reflecting declines in scores for government spending, monetary freedom, and trade freedom. Trinidad and Tobago is ranked 13th out of 29 countries in the South and Central America/Caribbean region, and its overall score is higher than the world and regional averages.

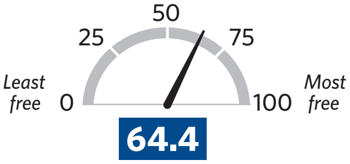
Overall progress in advancing economic freedom and enhancing the entrepreneurial climate has been uneven. Reflecting a lack of consistent commitment to structural reform, the economy registered one of the 20 largest score declines in the 2012 *Index*. Overdependence on oil and gas continues to hold back private-sector development, although diversification of the economic base has made some progress, as in the financial sector. Non-oil productivity and job growth generally remain stifled by inefficient and non-transparent investment regulatory frameworks.

The judiciary is relatively independent, and Trinidad and Tobago benefits from a tradition of institutional stability. Nevertheless, lingering corruption and ineffective protection of private property rights undermine prospects for more dynamic long-term economic development.

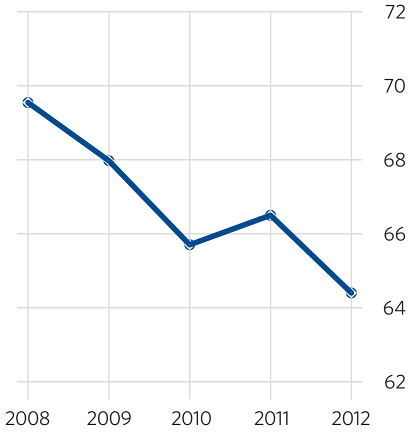
BACKGROUND: Kamla Persad-Bissessar became Prime Minister of Trinidad and Tobago in 2010 when her People's Partnership coalition ousted the People's National Movement amid soaring crime and allegations of corruption. Robust foreign investment since 1990 has made Trinidad and Tobago the Western Hemisphere's largest supplier of liquefied natural gas and one of CARICOM's largest and most industrialized economies. The economy has doubled since 2002, with hydrocarbons accounting for more than 40 percent of GDP and 80 percent of exports. Economic growth has resumed after slowing substantially in 2009–2010. In 2000, the government created the countercyclical Heritage and Stabilization Fund to put aside revenue during periods when oil prices exceed the long-term average.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

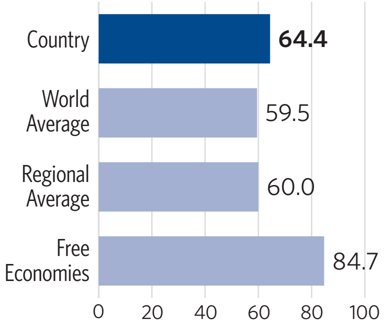
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

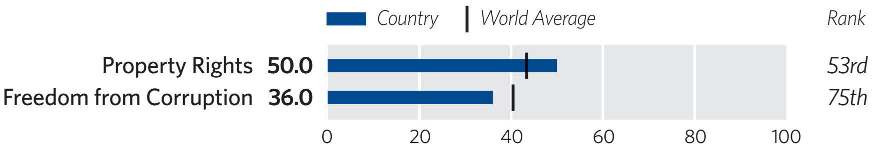
Population: 1.3 million
GDP (PPP): $26.1 billion
0.0% growth in 2010
5-year compound annual growth 3.2%
$21,200 per capita
Unemployment: 6.4%
Inflation (CPI): 10.7%
FDI Inflow: $549.4 million
Public Debt: 40.1% of GDP

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

TRINIDAD AND TOBAGO (continued)

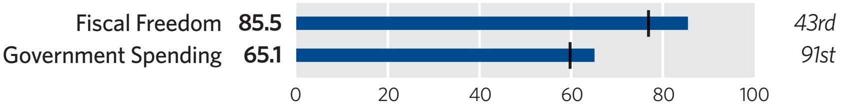
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



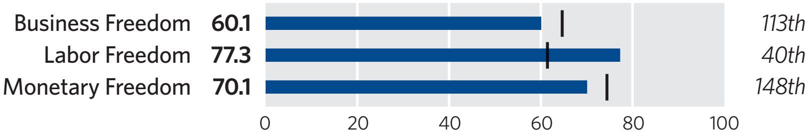
Property rights are protected under the constitution and common-law practice. Secured interests in property are recognized and enforced. The judiciary is independent and fair, but cases are time-consuming, and the backlog is several years long. Legislation protecting intellectual property is among the hemisphere's most advanced, but enforcement is lax in some areas. Widespread corruption continues to undermine government integrity.

LIMITED GOVERNMENT



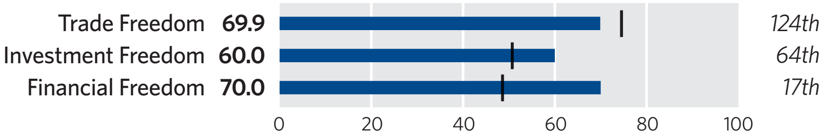
The top income tax rate and the standard corporate tax rate are 25 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden amounting to 14.1 percent of total domestic income. Government spending has risen to a level equivalent to 34.1 percent of GDP. The budget has been in deficit in recent years, and public debt has climbed to 40 percent of total domestic output.

REGULATORY EFFICIENCY



Despite some progress, the regulatory system lacks transparency and clarity, and regulations are enforced inconsistently. Although there is no minimum capital requirement, it takes 43 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 highly educated labor force. Inflation has been quite high.

OPEN MARKETS

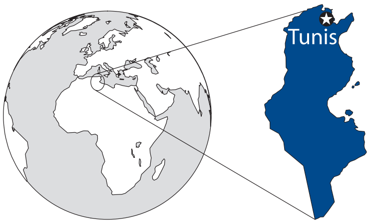


The trade weighted average tariff rate is restrictive at 10 percent, and cumbersome non-tariff barriers further increase the cost of trade. Foreign investment in private business is not subject to limitations, but the overall investment regime is not stable enough to drive dynamic growth in long-term investment. The financial sector is relatively well developed and has become a catalyst for economic growth. State influence is not substantial.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.8	Business Freedom	+1.7	Trade Freedom	-11.8
Freedom from Corruption	0	Government Spending	-10.7	Labor Freedom	+0.2	Investment Freedom	0
				Monetary Freedom	-1.7	Financial Freedom	0

TUNISIA



World Rank: **95** Regional Rank: **11**

Tunisia's economic freedom score is 58.6, making its economy the 95th freest in the 2012 *Index*. Its score is virtually unchanged from last year, though wide swings in individual categories of economic freedom reflect the overall level of turmoil within the society. Tunisia is ranked 11th out of 17 countries in the Middle East/North Africa region, and its overall score is just below the world average.

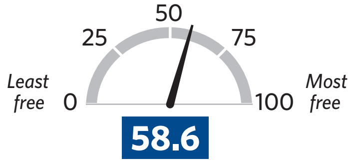
Before the popular uprising in early 2011, Tunisia had implemented a number of structural reforms to boost competitiveness and reduce poverty. Some progress had been made in lowering barriers to foreign investment and promoting an evolving entrepreneurial sector.

However, key institutional reform measures had failed to bring tangible benefits to the stagnant economic system or revitalize its dynamism. As the Tunisian economy is undergoing a challenging transition, deeper reforms to enhance governance and strengthen the foundations of economic freedom are critically needed. Those reforms include strengthening of the judicial system, better protection for property rights, and more effective eradication of corruption.

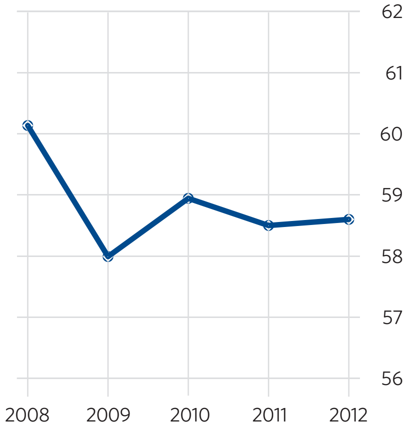
BACKGROUND: Gradual economic reforms undertaken by President Zine al-Abidine Ben Ali since the early 1990s included privatization of some state-owned firms, simplification of the tax code, and greater fiscal restraint, but crony capitalism, corruption, nepotism, and political repression triggered a revolt that forced him into exile in January 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 the new constitution. Tunisia's economy includes significant agricultural, mining, energy, tourism, and manufacturing sectors. An association agreement with the European Union has helped to create jobs and modernize the economy, which has also benefited from expanded trade and tourism, but the EU economic slowdown has depressed demand for Tunisian-made goods. Real economic growth fell steeply in 2011 due to political uncertainty, declining tourism, and reduced inflows of foreign investment.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

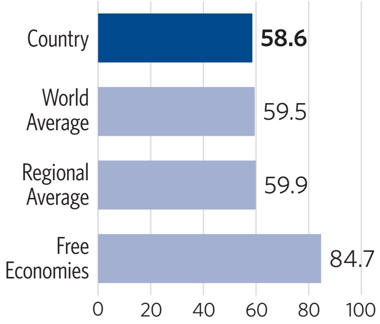
Economic Freedom Score



Freedom Trend



Country Comparisons



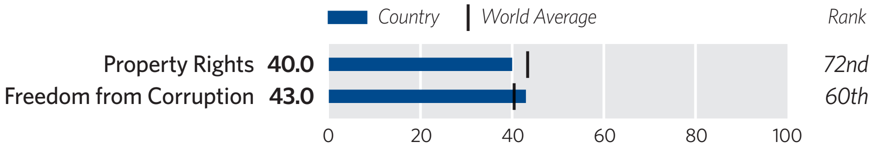
Quick Facts

Population: 10.5 million
GDP (PPP): $100.0 billion
3.7% growth in 2010
5-year compound annual growth 4.6%
$9,483 per capita
Unemployment: 14.0%
Inflation (CPI): 4.4%
FDI Inflow: $1.5 billion
Public Debt: 40.4% of GDP

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

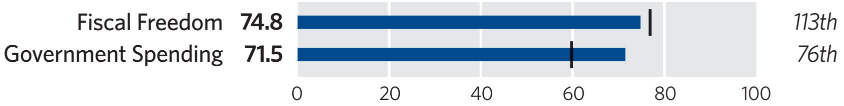
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



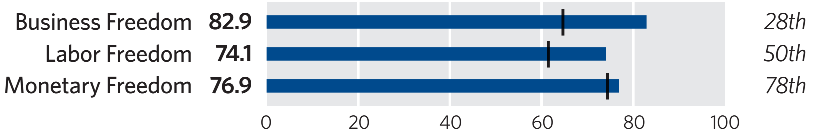
The future security of property rights in Tunisia is uncertain due to political instability and ongoing changes. The rule of law has become uneven across the country. Protection of property rights is not enforced effectively, with an independent and fair judicial system poorly institutionalized throughout the economic system. Corruption continues to erode the foundations of economic freedom.

LIMITED GOVERNMENT



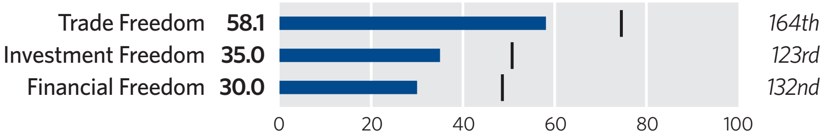
The top income tax rate is 35 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a property transfer tax, with the overall tax burden amounting to 19.9 percent of total domestic income. Government spending has reached a level equivalent to 30.8 percent of GDP. The budget has run small deficits in recent years, and public debt has hovered at around 40 percent of GDP.

REGULATORY EFFICIENCY



Despite some progress, the regulatory framework has long lacked transparency or efficiency. Although the business start-up process has been streamlined on paper, completing licensing requirements still costs more than twice the level of average annual income. The rigid labor market has been stagnant, failing to generate dynamic job growth. The government influences prices through state-owned enterprises.

OPEN MARKETS



The trade weighted average tariff rate is prohibitively high at 16 percent, with non-tariff barriers further raising 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

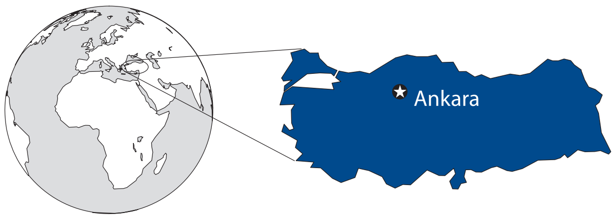
RULE OF LAW	
Property Rights	-10.0
Freedom from Corruption	+1.0

LIMITED GOVERNMENT	
Fiscal Freedom	+1.1
Government Spending	-6.1

REGULATORY EFFICIENCY	
Business Freedom	+2.7
Labor Freedom	+8.4
Monetary Freedom	-0.4

OPEN MARKETS	
Trade Freedom	+4.6
Investment Freedom	0
Financial Freedom	0

TURKEY



World Rank: **73** Regional Rank: **34**

Turkey's economic freedom score is 62.5, making its economy the 73rd freest in the 2012 *Index*. Its score is 1.7 points lower than last year, reflecting explosive growth in government spending mitigated to some extent by a notable improvement in financial freedom. Turkey is ranked 34th out of 43 countries in the Europe region, and its overall score is higher than the world average.

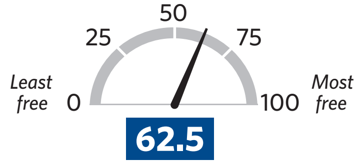
The Turkish economy is one of the region's most dynamically developing markets. The private sector is expanding rapidly, though the state remains heavily involved in the economy. The banking sector has weathered the financial turmoil relatively well with little government intervention. An improving regulatory environment and open-market policies that support global trade and investment sustain overall competitiveness.

Turkey's transition toward greater economic freedom has slowed notably, however, weighed down by lingering institutional shortcomings. Property rights are moderately well protected, but the relatively inefficient judicial system is ineffective in combating corruption. Chronic fiscal deficits highlight the need to enhance public finance management and restructure public-sector programs.

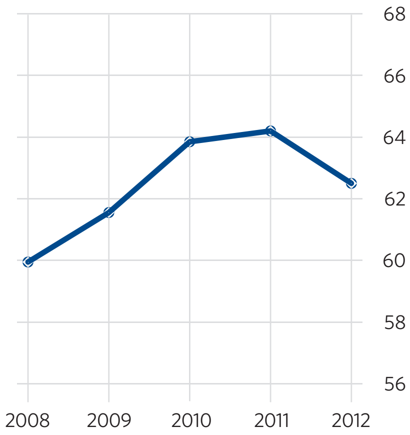
BACKGROUND: Turkey, a constitutionally secular state often viewed as a bridge between East and West, has developed into a successful multi-party democracy. Some in the West worry that Prime Minister Recep Tayyip Erdogan's Justice and Development Party (AKP) is pushing an Islamist agenda and eroding Turkey's Euro–Atlantic connections. Yet Turkey is a maturing democracy, and under Erdogan's leadership, modernization is progressing despite clashes with the media and the slow pace of judicial reform. In parliamentary elections in June 2011, the AKP fell short of gaining enough seats to write a new constitution. The European Union formally granted Turkey candidate status in 1999, but strong opposition from France, Germany, and Austria makes final accession unlikely. Turkey's ongoing dispute with Cyprus has also delayed negotiations. Principal exports include foodstuffs, textiles, clothing, iron, and steel.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

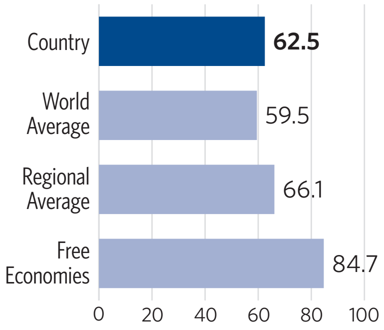
Economic Freedom Score



Freedom Trend



Country Comparisons

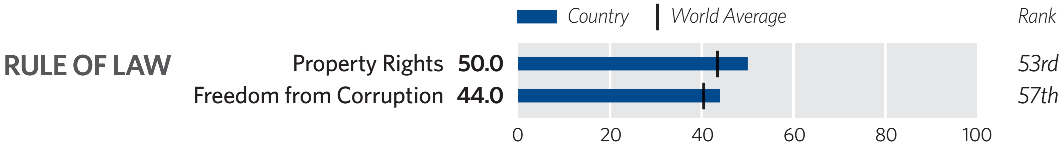


Quick Facts

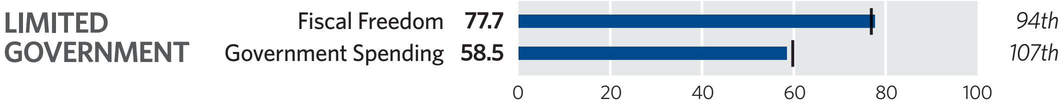
Population: 71.3 million
GDP (PPP): $960.5 billion
8.2% growth in 2010
5-year compound annual growth 3.0%
$13,464 per capita
Unemployment: 11.7%
Inflation (CPI): 8.6%
FDI Inflow: $9.0 billion
Public Debt: 42.2% of GDP

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

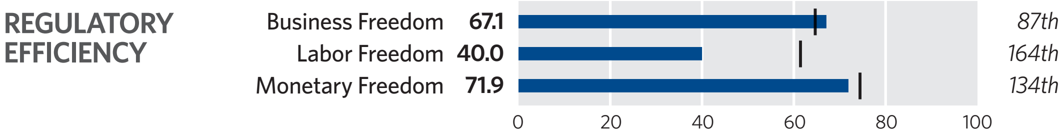
THE TEN ECONOMIC FREEDOMS



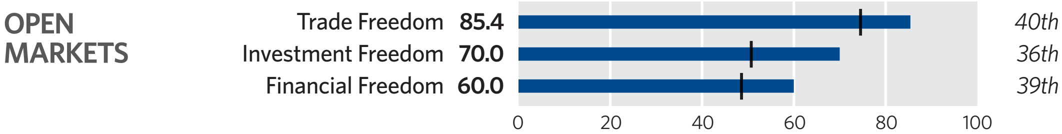
Property rights are generally enforced, but the courts are overburdened and slow, and judges are not well trained for commercial cases. The judiciary is subject to government influence. The intellectual property rights regime has improved, but infringement remains high. Bribery is outlawed, and some officials have been prosecuted for corruption, but corruption continues to undermine perceptions of government integrity.



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 environmental tax, with the overall tax burden amounting to 24.6 percent of total domestic income. Government spending has risen to a level equivalent to 37.2 percent of GDP. The budget balance has been in deficit in recent years, and public debt has reached 42.2 percent of GDP.



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. The labor market's rigidity has contributed to the formation of a large informal sector. Monetary stability remains weak.

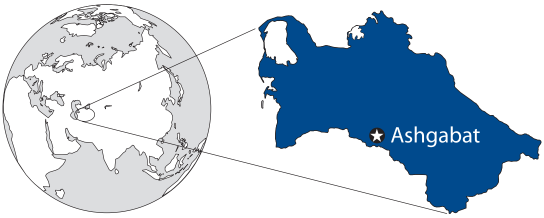


The trade weighted average tariff rate is relatively low at 2.3 percent, but non-tariff barriers constrain freedom to trade. Foreign investment is officially welcome, but restrictions remain in a number of sectors. All investors face excessive bureaucracy and frequent changes in the legal and regulatory 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	-0.5	Business Freedom	-1.6	Trade Freedom	0
Freedom from Corruption	0	Government Spending	-25.1	Labor Freedom	+0.4	Investment Freedom	0
				Monetary Freedom	-0.8	Financial Freedom	+10.0

TURKMENISTAN



World Rank: 168 **Regional Rank: 38**

Turkmenistan's economic freedom score is 43.8, making its economy the 168th freest in the 2012 *Index*. Its score is 0.2 point higher than last year, reflecting improved fiscal and monetary freedom. Turkmenistan is ranked 38th out of 41 countries in the Asia–Pacific region, and its overall score is significantly lower than the world and regional averages.

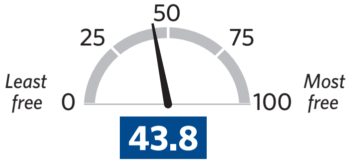
Turkmenistan's record on structural reforms has been dismal, and much-needed vibrant economic growth is severely constrained by long-standing institutional weaknesses that undermine the foundations of economic freedom. The inefficient legal framework remains highly vulnerable to political interference and corruption that 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 has led to economic stagnation in non-hydrocarbon 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.

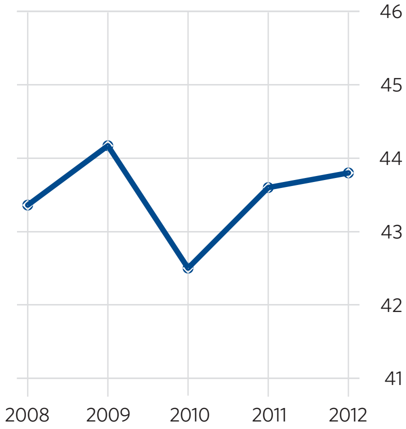
BACKGROUND: President Gurbanguly Berdymukhammedov has pursued policies that are more open than those of his authoritarian predecessor, Saparmurad Niyazov (Turkmenbashi), but the state still largely controls politics, the economy, and the media. Turkmenistan exports gas, oil, and petrochemicals, primarily to Russia, China, and Iran, and claims to have the world's fifth-largest natural gas reserves. In 2010, new gas export pipelines that transport Turkmen gas to China and northern Iran began operating, effectively ending the Russian monopoly on Turkmen gas exports. Berdymukhammedov has made overtures to the West and the Gulf states and has encouraged foreign investment in hydrocarbons. Relations with Russia have deteriorated. Turkmenistan's main agricultural product is cotton, but the government hopes to diversify the economy.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

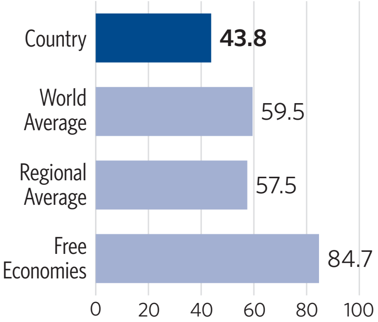
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

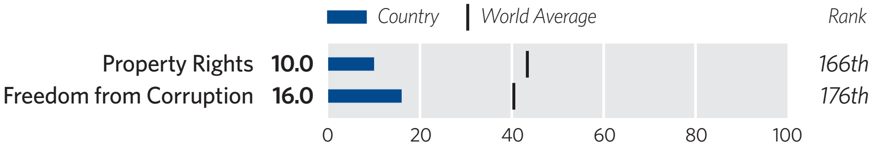
Population: 5.4 million
GDP (PPP): $36.9 billion
9.2% growth in 2010
5-year compound annual growth 10.4%
$6,785 per capita
Unemployment: 60.0%
Inflation (CPI): 4.4%
FDI Inflow: $2.0 billion
Public Debt: 11.8% of GDP

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

TURKMENISTAN (continued)

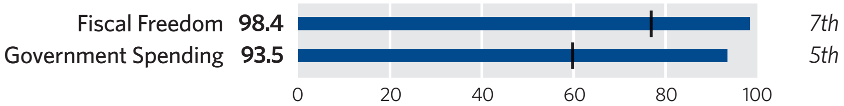
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



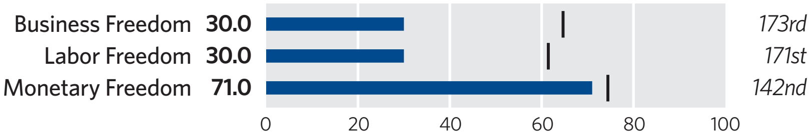
The legal system does not enforce contracts and property rights effectively. Laws are poorly developed, and judicial employees and judges are poorly trained and open to bribery. All land is owned by the government, and other ownership rights are limited. Laws to protect intellectual property rights are implemented arbitrarily if at all. Pirated copies of copyrighted and trademarked materials are widely available. Corruption remains rampant.

LIMITED GOVERNMENT



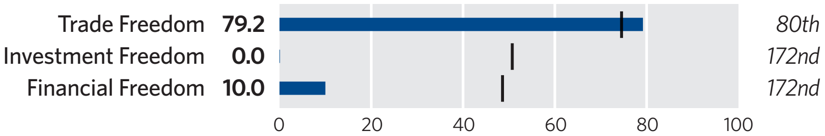
The income tax rate is a flat 10 percent, and the corporate tax rate is 8 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden estimated to be 21 percent of GDP. Government spending is equivalent to 14.7 percent of total domestic output. The budget balance has recorded small surpluses in recent years, and public debt amounts to around 12 percent of GDP.

REGULATORY EFFICIENCY



The overall freedom to establish and run a business is very limited under Turkmenistan's regulatory environment. The system is non-transparent, and enforcement is inconsistent. Regulatory codes are outmoded, and 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 extensive non-tariff barriers severely undermine freedom to trade. 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 financial system remains heavily government-controlled, with 90 percent of all loans directed to state-owned enterprises.

Score Changes

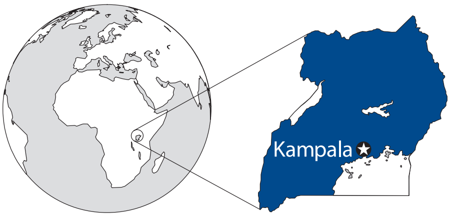
RULE OF LAW	
Property Rights	0
Freedom from Corruption	-2.0

LIMITED GOVERNMENT	
Fiscal Freedom	+4.8
Government Spending	-2.0

REGULATORY EFFICIENCY	
Business Freedom	0
Labor Freedom	0
Monetary Freedom	+1.4

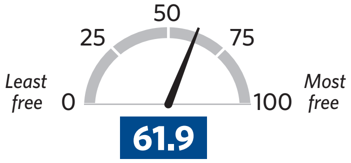
OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

UGANDA



World Rank: **78** Regional Rank: **8**

Economic Freedom Score



Uganda's economic freedom score is 61.9, making it the 78th freest economy in the 2012 *Index*. Its score is 0.2 point higher than last year due to improvements in monetary freedom and the control of government spending. Uganda is ranked 8th out of 46 countries in the Sub-Saharan Africa region, and its overall score is above the world average.

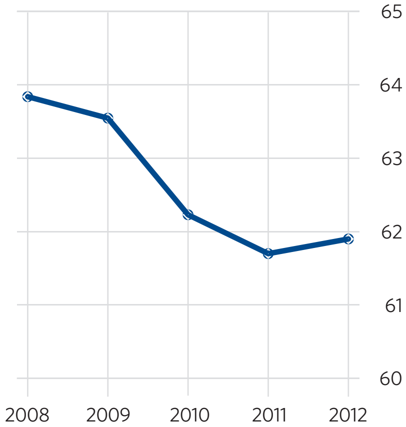
The Uganda economy has weathered the impact of the global economic turmoil relatively well, achieving an average growth rate above 8 percent over the past five years. Continued economic expansion has been facilitated by open-market policies related to global commerce. The financial sector is relatively well developed for the region.

Despite some progress, institutional shortcomings continue to undermine prospects for dynamic long-term economic expansion. Uganda has attempted to update various 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 are even more serious problems, eroding the effectiveness of government.

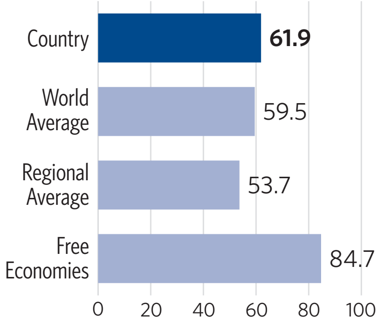
BACKGROUND: Milton Obote led Uganda to independence in 1962, suspended the constitution in 1966, and was ousted in 1971 by Idi Amin Dada. When Tanzanian forces ousted Amin in 1979, Obote returned to power until he was deposed by a military coup. Insurgent leader Yoweri Museveni took power in 1986, and 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. The paramilitary Lord's Resistance Army, forced out of Uganda, remains active in the Central African Republic, Sudan, and the Democratic Republic of Congo, brutally attacking civilians. Despite market reforms, more than a decade of relatively strong economic growth, and substantial natural resources, Uganda remains poor. 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



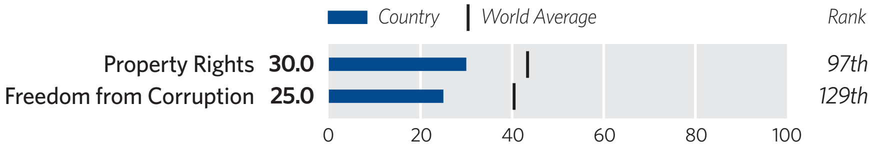
Quick Facts

Population: 34.0 million
GDP (PPP): $42.2 billion
5.2% growth in 2010
5-year compound annual growth 8.1%
$1,241 per capita
Unemployment: n/a
Inflation (CPI): 9.4%
FDI Inflow: $847.6 million
Public Debt: 23.6% of GDP

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

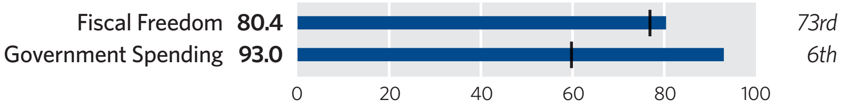
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



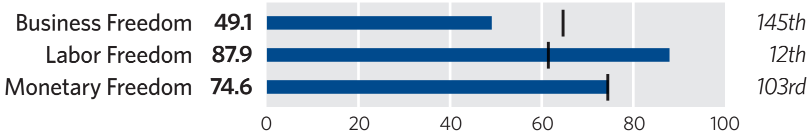
The rule of law remains weak, and the legal system is too inefficient to provide strong protection of property rights. The issue of land rights and titles is complicated by the existence of four different land tenure systems. The judiciary continues to be subjected to political interference, and the court system is prone to delays. Widespread corruption undermines the government's capacity to provide basic public services efficiently.

LIMITED GOVERNMENT



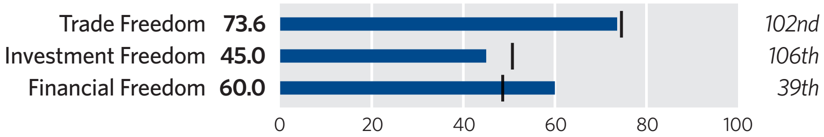
The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden amounting to 12.5 percent of total domestic income. Government spending has reached a level equivalent to 15.3 percent of GDP. The budget balance has recorded deficits in recent years, and public debt amounts to 23.6 percent of total domestic output.

REGULATORY EFFICIENCY



The overall regulatory framework remains poor. 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 nine times the level of average annual income. Labor regulations are relatively flexible, but a well-functioning labor market is not fully developed. Inflation has been high.

OPEN MARKETS

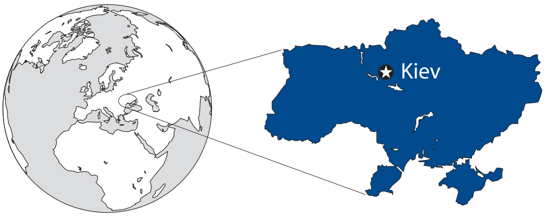


The trade weighted average tariff rate is quite high at 8.2 percent, and non-tariff barriers further constrain freedom to trade. The investment regime is complex and non-transparent, although foreign investment is allowed in most sectors of the economy. The financial system is dominated by banking, which is increasingly open to competition. Access to financial services has expanded gradually across the country.

Score Changes

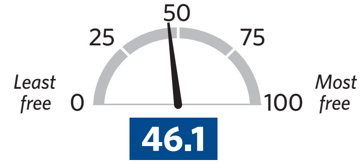
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.2	Business Freedom	-1.2	Trade Freedom	-1.2
Freedom from Corruption	0	Government Spending	+2.5	Labor Freedom	+0.1	Investment Freedom	0
				Monetary Freedom	+1.4	Financial Freedom	0

UKRAINE



World Rank: **163** Regional Rank: **43**

Economic Freedom Score



Ukraine's economic freedom score is 46.1, making its economy the 163rd freest in the 2012 *Index*. Its score is 0.3 point higher than last year, reflecting modest gains in monetary 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.

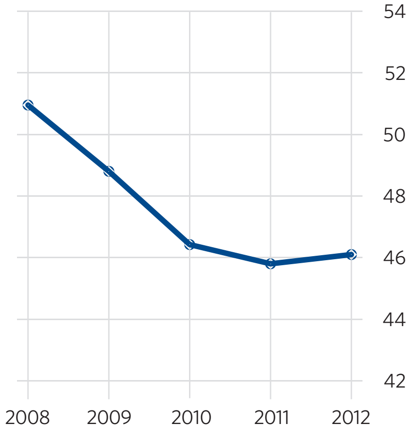
The foundations of economic freedom are fragile in Ukraine and unevenly established across the country. Poor protection of property rights and widespread corruption discourage entrepreneurial activity, severely undermining prospects for long-term economic expansion. The rule of law is weak, and the judicial system remains susceptible to substantial political interference.

After several years of strong growth, Ukraine's economic vitality has deteriorated, partly because of the global economic slowdown and also because of the generally sluggish pace of efforts to improve regulatory efficiency and open markets to international investment. The financial sector is not developed enough to provide the necessary credit for private-sector expansion, and the regulatory environment remains opaque and burdensome. Recent large fiscal deficits have strained public finances, forcing Ukraine to confront the challenge of restoring sustainable levels of public spending.

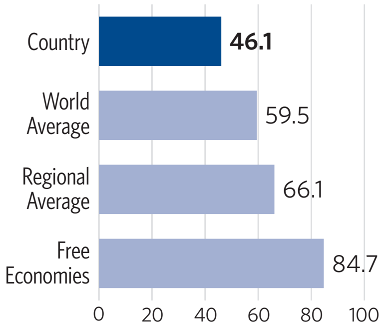
BACKGROUND: Ukraine has been independent since the collapse of the Soviet Union in 1991. President Victor Yanukovych of the Party of Regions, elected in January 2010, has fast-tracked rapprochement with Russia, harassed the political opposition, and impeded freedom of the press. Russia's Black Sea Fleet's naval base lease has been extended until 2042 in exchange for discounted Russian gas. Parliament has rejected plans to join NATO, but Ukraine joined the World Trade Organization in 2008 and the European Union's Eastern Partnership in 2009. Ukraine has well-developed industry, rich agricultural lands, and significant natural resources. It is also an important route for oil and gas exports from Russia to Western Europe. Corruption and government intervention in the economy continue to undermine economic growth.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



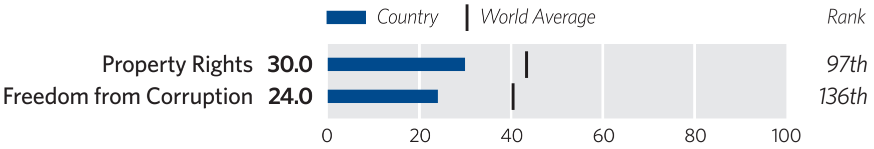
Quick Facts

Population: 45.5 million
GDP (PPP): $305.2 billion
4.2% growth in 2010
5-year compound annual growth 1.0%
$6,712 per capita
Unemployment: 8.4%
Inflation (CPI): 9.4%
FDI Inflow: $6.5 billion
Public Debt: 40.1% of GDP

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

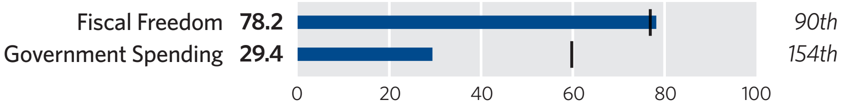
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



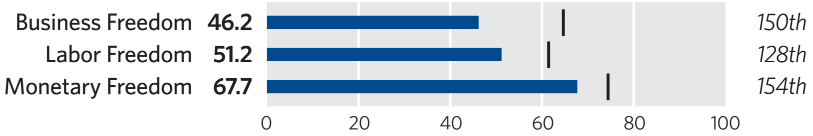
The rule of law is uneven across the country, and protection of property rights is weak. The judiciary is subject to executive branch and criminal pressure, and judicial corruption is significant. Contracts are not well enforced, and expropriation is a threat. Ukraine is a major transshipment point, storage location, and market for illegal optical media produced in Russia and elsewhere. Corruption pervades all levels of the executive branch.

LIMITED GOVERNMENT



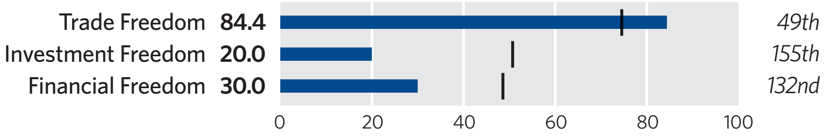
The standard income tax rate is 17 percent, and the standard corporate tax rate is 23 percent. Other taxes include a value-added tax (VAT) and a property tax, and the overall tax burden amounts to 36.9 percent of total domestic income. Government spending has risen to a level equivalent to 48.5 percent of GDP. The budget deficit has been over 3 percent of GDP in recent years, and public debt has reached 40 percent of total domestic output.

REGULATORY EFFICIENCY



Despite progress in regulatory reform, 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

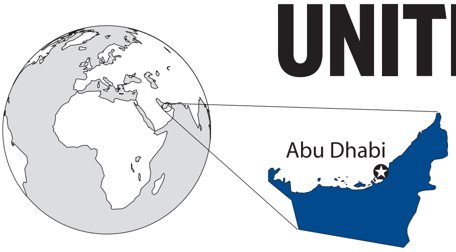


The trade weighted average tariff rate is low at 2.8 percent, but non-tariff barriers severely constrain freedom to trade. The investment framework remains underdeveloped, and bureaucratic requirements deter much-needed growth in private investment. The primarily cash-based economy is plagued by a lack of sufficient capitalization. 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	+0.9	Business Freedom	-0.9	Trade Freedom	-0.8
Freedom from Corruption	+2.0	Government Spending	-3.5	Labor Freedom	+1.2	Investment Freedom	0
				Monetary Freedom	+4.5	Financial Freedom	0

UNITED ARAB EMIRATES



World Rank: **35** Regional Rank: **4**

The United Arab Emirates' economic freedom score is 69.3, making its economy the 35th freest in the 2012 *Index*. Its score is 1.5 points higher than last year, reflecting improvements in property rights, monetary freedom, and labor freedom. The UAE is ranked 4th out of 17 countries in the Middle East/North Africa region, and its overall score is higher than the world and regional averages.

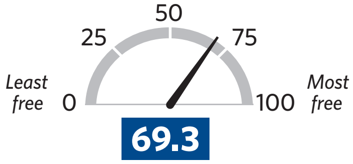
Continuing its trend of advancing economic freedom, the UAE registered one of the 20 best score improvements in the 2012 *Index*. Economic restructuring has been underpinned by efforts to strengthen the business climate, boost investment, and foster the emergence of a more vibrant private sector. The generally open trade regime has helped to sustain momentum for growth while controlling costs. The UAE aims to be a regional financial hub, and its banking sector has handled the recent financial turmoil comparatively well.

The UAE's overall economic freedom is curbed by shortcomings in the legal system and a burdensome investment framework. Foreign investment still faces various restrictions, and the judicial system, despite some progress, remains vulnerable to political influence. The level of corruption is relatively low, particularly in comparison to other economies in the region.

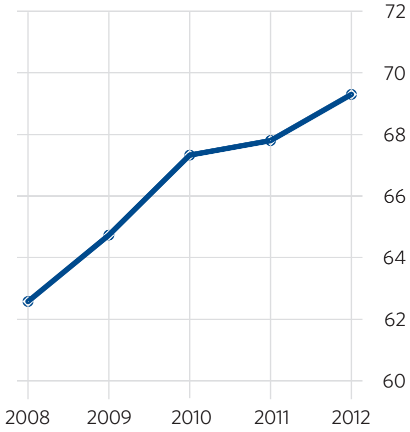
BACKGROUND: The United Arab Emirates is a federation of seven monarchies: Abu Dhabi, Ajman, Dubai, Fujairah, Ras Al-Khaimah, Sharjah, and Umm al-Qaiwain. Abu Dhabi accounts for about 90 percent of oil production and takes a leading role in political and economic decision-making; Dubai is the foremost center of finance, commerce, transportation, and tourism. Free trade zones that offer opportunities for 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 still account for roughly 80 percent of total government revenues. In 2008–2009, the UAE was hit hard by falling oil prices, the collapse of a real estate bubble, and the global banking crisis, but the economy has slowly rebounded.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

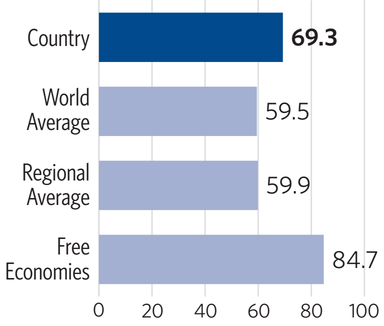
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 5.1 million

GDP (PPP): $246.8 billion
3.2% growth in 2010
5-year compound annual growth 4.1%
$48,821 per capita

Unemployment: 2.4%

Inflation (CPI): 0.9%

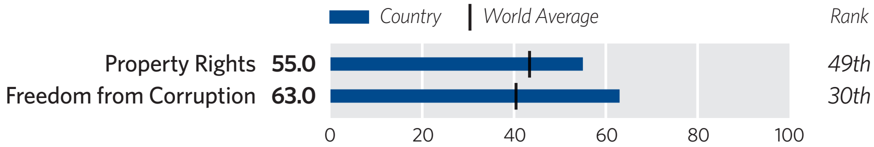
FDI Inflow: $3.9 billion

Public Debt: 20.9% of GDP

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

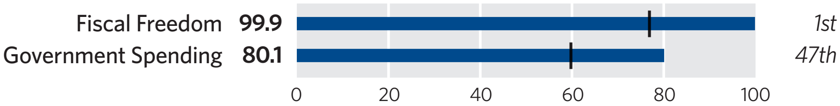
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



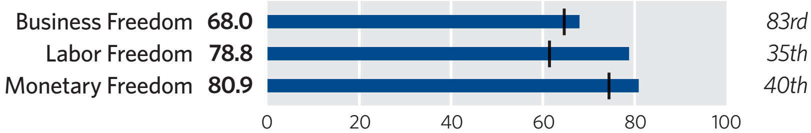
The rule of law is relatively well maintained, but the ruling families exercise considerable influence on the judiciary. All land in Abu Dhabi, largest of the seven emirates, is government-owned. According to a new resolution concerning property ownership in 2010, non-citizens are allowed the right to own, buy, sell, rent, and mortgage property and invest in special areas. Corruption is present at modest levels.

LIMITED GOVERNMENT



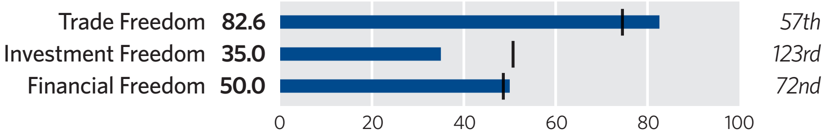
The UAE has no income tax and no federal-level corporate tax, but there are different corporate tax rates for certain activities in some emirates. There is no general sales tax, and the overall tax burden is quite low at less than 3 percent of GDP. Government spending is equivalent to 25.8 percent of total domestic product. Large oil revenues have kept the government budget in surplus and public debt at around 20 percent of GDP.

REGULATORY EFFICIENCY



Regulatory efficiency has improved. There is no minimum capital requirement for establishing a business, and the process 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

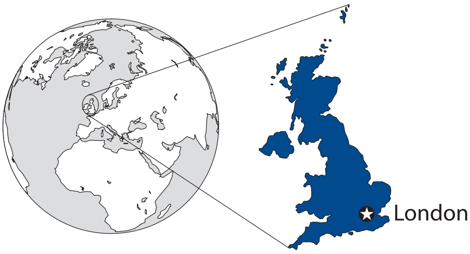


The trade weighted average tariff rate is modest at 3.7 percent, but lingering non-tariff barriers add to the cost of trade. Foreign investors do not receive national treatment. Except for companies in "free zones," at least 51 percent of a business must be owned by a UAE national. The financial sector provides a full range of services, though the state presence is considerable. Capital markets are open and vibrant.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**+5.0**	Fiscal Freedom	**0**	Business Freedom	**+0.7**	Trade Freedom	**0**
Freedom from Corruption	**-2.0**	Government Spending	**+1.0**	Labor Freedom	**+6.4**	Investment Freedom	**0**
				Monetary Freedom	**+4.4**	Financial Freedom	**0**

UNITED KINGDOM



World Rank: **14** Regional Rank: **5**

The United Kingdom's economic freedom score is 74.1, making its economy the 14th freest in the 2012 *Index*. Its score is 0.4 point lower than last year, reflecting primarily a deterioration in the management of government spending. The U.K. is ranked 5th out of 43 countries in the Europe region, and its overall score is much higher than the world average.

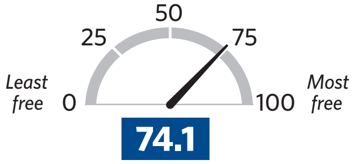
Struggling to emerge from the severe economic slowdown of the past three years, the British economy continues to underperform, with average annual growth of less than 1 percent over the past five years. The dramatic state expansion that had taken place in reaction to the financial turmoil has slowed, and several bold reform measures have been undertaken, including various austerity measures and a series of corporate tax rate cuts that will continue until 2014. Nonetheless, significant reforms are still needed to place the economy on a solid path of recovery, with prospects complicated further by the ongoing European sovereign debt crisis.

Restoring the soundness of public finances remains the most critical issue and will require a sustained commitment to downsizing government spending. The budget deficit has been over 7 percent of GDP in recent years, and public debt has risen to over 70 percent of total domestic output.

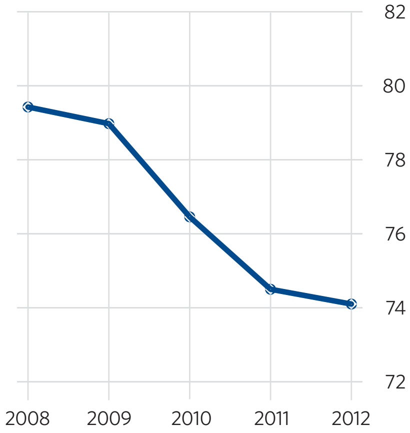
BACKGROUND: Following the market reforms instituted by center-right Prime Minister Margaret Thatcher in the 1980s, Britain experienced steady economic growth, outpacing other large European Union economies throughout the 1990s. However, the government's size and spending grew significantly under successive Labour governments, damaging Britain's competitive edge. The budget deficit was exacerbated by Labour's bailout of several British banks in 2008. Prime Minister David Cameron's Conservative–Liberal Democrat coalition government has made deep cuts in the national budget but has pledged not to cut spending on the National Health Service or international development. The significant costs of membership in the European Union continue to be debated, and Cameron 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 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

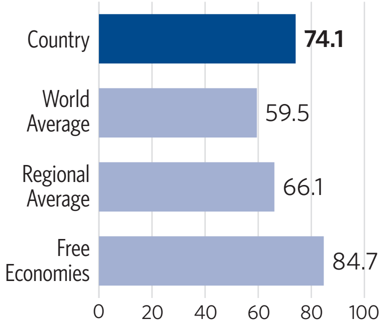
Economic Freedom Score



Freedom Trend



Country Comparisons



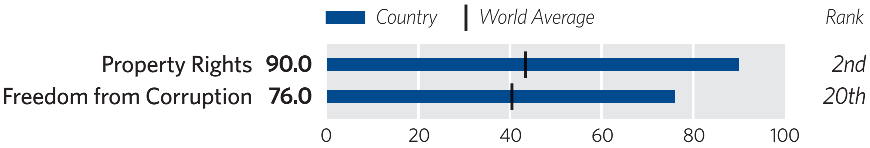
Quick Facts

Population: 62.2 million
GDP (PPP): $2.1 trillion
1.3% growth in 2010
5-year compound annual growth 0.3%
$34,920 per capita
Unemployment: 7.9%
Inflation (CPI): 3.3%
FDI Inflow: $45.9 billion
Public Debt: 75.5% of GDP

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

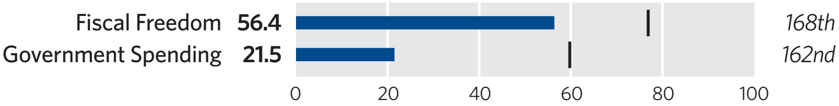
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



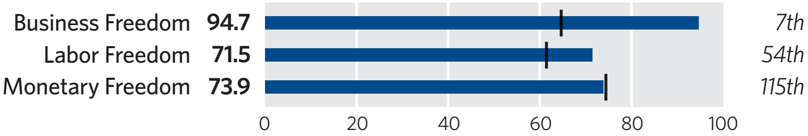
The rule of law is well established within an independent legal framework. Private property rights and contracts are very secure, and the court system is efficient. Protection of intellectual property rights is enforced effectively. Strong anti-corruption measures discourage bribery of public officials and uphold government integrity. The Bribery Act, which came into force in 2011, provides a modern legal framework to combat bribery.

LIMITED GOVERNMENT



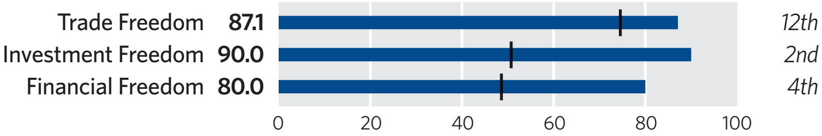
The top income tax rate is 50 percent, and the top corporate tax rate has been reduced to 26 percent. Other taxes include a value-added tax (VAT) and an environmental tax. The overall tax burden amounts to 34.3 percent of total domestic income. Government spending has risen to a level equivalent to 51.2 percent of GDP. The budget has a deficit of over 7 percent of GDP, and public debt has climbed to 75.5 percent of total domestic output.

REGULATORY EFFICIENCY



The efficient and transparent regulatory framework encourages entrepreneurship. With no minimum capital requirement, 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

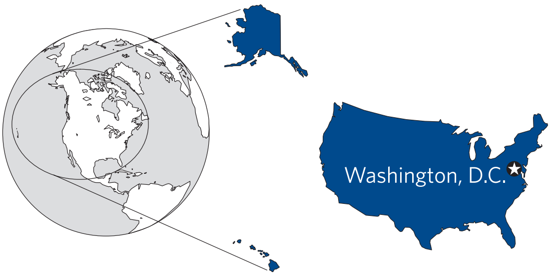


The trade weighted average tariff rate is low as in other members of the European Union, but non-tariff barriers increase the cost of trade. Under the efficient investment regime, foreign investment is welcomed without heavy bureaucratic interference. The sophisticated banking sector is well capitalized and competitive. The financial system was stressed by the recent financial turmoil, but stability has gradually been restored.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	+5.0	Fiscal Freedom	+4.4	Business Freedom	+0.1	Trade Freedom	-0.5
Freedom from Corruption	-1.0	Government Spending	-11.4	Labor Freedom	+0.3	Investment Freedom	0
				Monetary Freedom	-1.0	Financial Freedom	0

UNITED STATES



World Rank: **10** Regional Rank: **2**

The United States' economic freedom score of 76.3 drops it to 10th place in the 2012 *Index*. Its score is 1.5 points lower than last year, reflecting deteriorating scores for government spending, freedom from corruption, and investment freedom. The U.S. is ranked 2nd out of three countries in the North America region, and its overall score remains well above the world and regional averages.

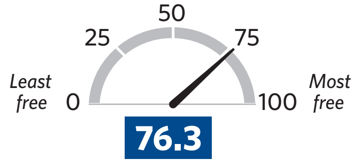
The U.S. economy faces enormous challenges. Although the foundations of economic freedom remain strong, recent government interventions have eroded limits on government, and public spending by all levels of government now exceeds one-third of total domestic output. The regulatory burden on business continues to increase rapidly, and heightened uncertainty further increases regulations' negative impact. Fading confidence in the government's determination to promote or even sustain open markets has discouraged entrepreneurship and dynamic investment within the private sector.

Restoring the U.S. economy to the status of a "free" economy will require significant policy changes to reduce the size of government, overhaul the tax system, and transform costly entitlement programs. By boosting growth in the private sector, such freedom-enhancing policies are the best hope for bringing down high unemployment rates and reducing public debt to manageable levels.

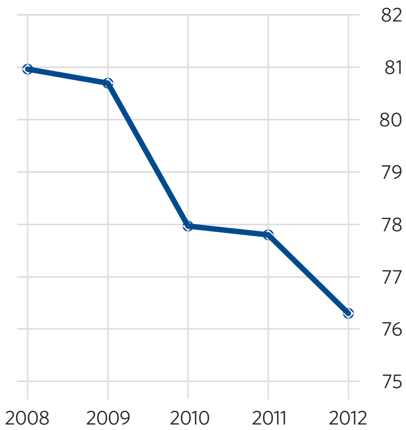
BACKGROUND: The U.S. economy, the world's largest, has not recovered fully from the 2008 financial crisis and ensuing recession. Under Democratic President Barack Obama, the federal system of government, designed to reserve significant powers to the state and local levels, has been strained by the national 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 that greatly expanded the central government's reach has been under challenge in the courts, and the Dodd–Frank financial overhaul bill has roiled credit markets. Although the election of a Republican Party majority in the House of Representatives in late 2010 slowed spending growth, divided government has left U.S. economic policy in flux.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

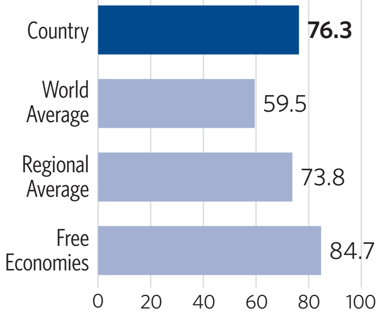
Economic Freedom Score



Freedom Trend



Country Comparisons



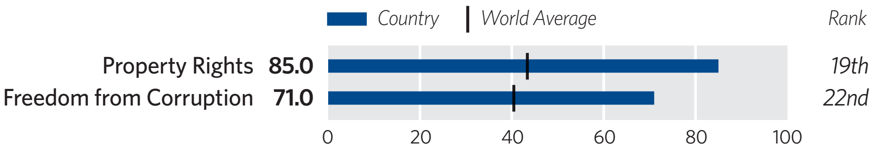
Quick Facts

Population: 310.0 million
GDP (PPP): $14.6 trillion
2.8% growth in 2010
5-year compound annual growth 0.9%
$47,284 per capita
Unemployment: 9.6%
Inflation (CPI): 1.6%
FDI Inflow: $228.2 billion
Public Debt: 102.6% of GDP (2011 est.)

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

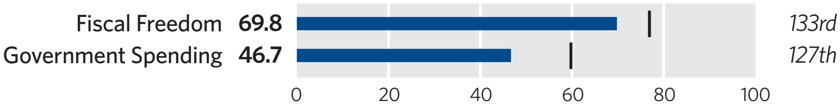
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



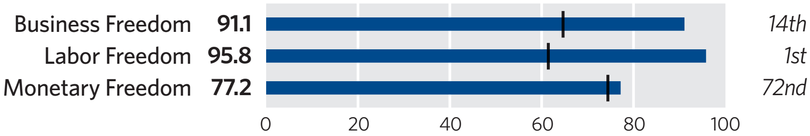
Property rights are guaranteed, and the judiciary functions independently and predictably. Serious constitutional questions related to government-mandated health insurance have been under consideration in the courts. Corruption is a growing concern as the cronyism and economic rent-seeking associated with the growth of government have undermined institutional integrity.

LIMITED GOVERNMENT



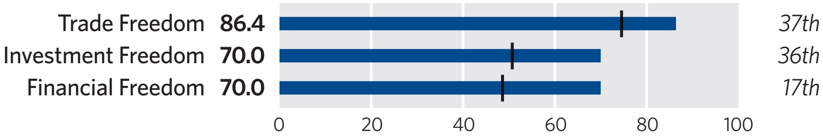
In the absence of comprehensive tax reforms, the top individual and corporate tax rates remain at 35 percent. Other taxes include a capital gains tax and excise taxes, with the overall tax burden amounting to 24 percent of total domestic income. Government expenditures have grown to 42.2 percent of GDP, and the budget deficit is close to 10 percent of GDP. Total public debt is now larger than the size of the economy.

REGULATORY EFFICIENCY



Business start-up procedures are efficient, and the labor market remains flexible. However, over 70 new major regulations have been imposed since early 2009, with annual costs of more than $38 billion. There were only six major deregulatory actions during that time, with reported savings of just $1.5 billion. Although inflation is under control, price distortions caused by government interventions persist.

OPEN MARKETS

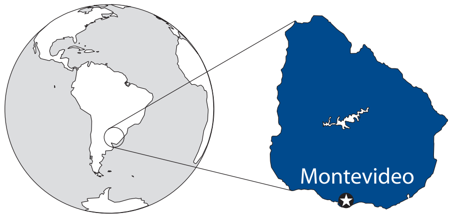


The trade weighted average tariff rate is 1.8 percent, with non-tariff barriers such as "buy American" procurement rules adding to the cost of trade. Investment freedom is hampered by ongoing protectionist restrictions. The impact of the recently passed financial reform bills has yet to be measured, as detailed regulations are gradually emerging. However, they are likely to increase compliance costs, complicating the banking sector's recovery.

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
Freedom from Corruption	-4.0	Government Spending	-7.9	Labor Freedom	+0.1	Investment Freedom	-5.0
				Monetary Freedom	-0.2	Financial Freedom	0

URUGUAY



World Rank: **29** Regional Rank: **3**

Uruguay's economic freedom score is 69.9, making its economy the 29th freest in the 2012 *Index*. Its score is 0.1 point lower than last year, with improvements in freedom from corruption and business freedom offset by deterioration in the management of public finance and a loss of investment freedom. Uruguay is ranked 3rd out of 29 countries in the South and Central America/Caribbean region, and its overall score is significantly higher than the world average.

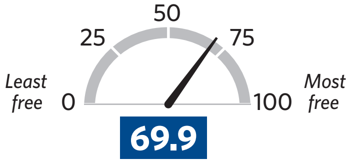
Uruguay has been on an upward trend in the *Index* over the past five years. Notable progress in advancing economic freedom has been accompanied by annual growth rates averaging over 6 percent during the same period. Overall, the economy performs quite well in maintaining the four pillars of economic freedom and a prudent macroeconomic environment.

With a solid record of democratic governance, Uruguay continues to protect the rule of law effectively. Scores for property rights and freedom from corruption are relatively high compared to other countries in the region. The regulatory environment for business has improved substantially, facilitating the development of a more robust private sector. Despite the challenging global situation, Uruguay has been able to restore foreign investment to levels predating the crisis.

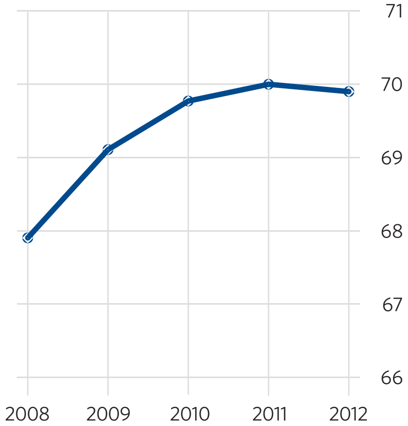
BACKGROUND: Uruguay has a large middle class, high GDP growth rates, and low levels of extreme poverty. The leftist Frente Amplio party won a majority in the 2009 parliamentary elections, and Jose Mujica of the Frente won the presidential election in March 2010. A founding member of MERCOSUR, a Southern Cone trade organization, Uruguay signed a Trade and Investment Framework Agreement with the United States in January 2007. The economy is based largely on beef and wool exports, but wood and software are gaining export market share. State involvement in the economy is substantial. Deregulation is needed in telecommunications, energy, and public utilities.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

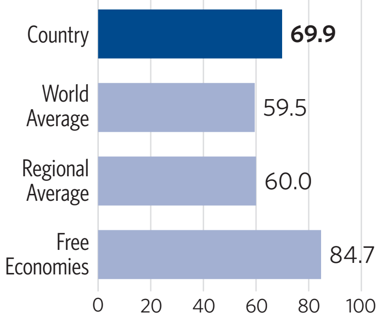
Economic Freedom Score



Freedom Trend



Country Comparisons



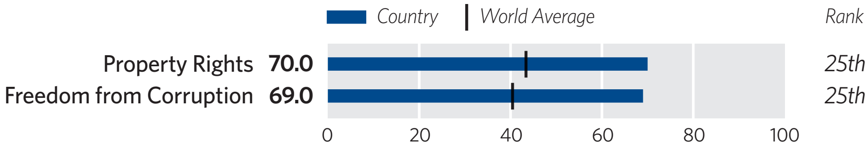
Quick Facts

Population: 3.4 million
GDP (PPP): $48.0 billion
8.5% growth in 2010
5-year compound annual growth 6.2%
$14,296 per capita
Unemployment: 6.8%
Inflation (CPI): 6.7%
FDI Inflow: $2.3 billion
Public Debt: 57.1% of GDP

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

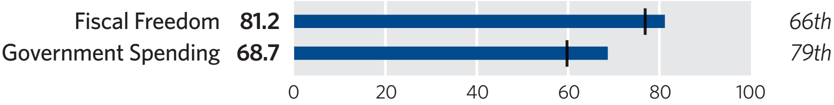
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



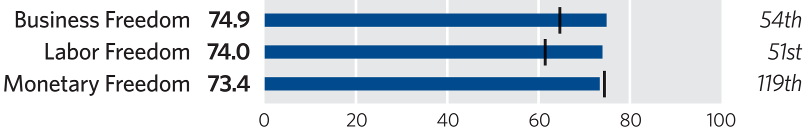
Private property is generally secure, and expropriation is unlikely. Contracts are enforced, although the judiciary tends to be slow. The government has established a Settlement and Arbitration Center to handle investment disputes. Regulations protecting copyrights are in place, and aggressive anti-piracy campaigns have led to several successful prosecutions. Government integrity and transparency have been relatively well maintained.

LIMITED GOVERNMENT



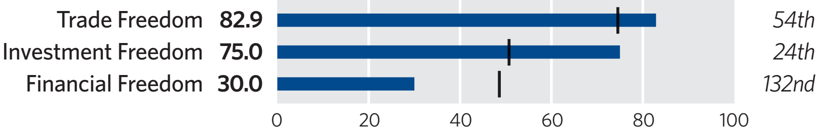
The top income and corporate tax rates are 25 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden amounting to 25.1 percent of total domestic income. Government spending has reached a level equivalent to 32.3 percent of GDP. Small budget deficits have been recorded in recent years, but public debt remains below 60 percent of total domestic product.

REGULATORY EFFICIENCY



Recent reforms have considerably enhanced regulatory efficiency. It now takes five procedures and seven days to start a business, compared to 15 procedures and 65 days previously. 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

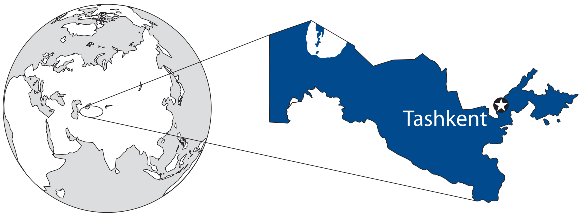


The trade weighted average tariff rate is 3.6 percent, with lingering non-tariff barriers adding to the cost of trade. Foreign investments do not need prior authorization or registration, and the investment regime is efficient. The financial sector has become more stable and modernized, although the government presence remains considerable. Capital markets are underdeveloped and concentrated in government debt.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-3.1	Business Freedom	+13.4	Trade Freedom	-0.1
Freedom from Corruption	+2.0	Government Spending	-7.8	Labor Freedom	-0.9	Investment Freedom	-5.0
				Monetary Freedom	+0.6	Financial Freedom	0

UZBEKISTAN



World Rank: **164** Regional Rank: **37**

Uzbekistan's economic freedom score is 45.8, making its economy the 164th freest in the 2012 *Index*. Its score is unchanged from last year, with a decline in the score for government spending that offsets small gains in fiscal freedom and monetary freedom. Uzbekistan is ranked 37th out of 41 countries in the Asia–Pacific region, and its overall score is much lower than the world average.

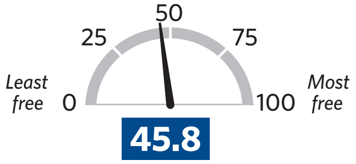
Uzbekistan continues to score poorly in most areas of economic freedom. The lack of meaningful reform and continuing reliance on the energy sector as the main source of economic expansion have effectively precluded broader-based economic development. More critically, weak protection of property rights and widespread corruption, both exacerbated by the absence of an independent judicial system, are significant drags on economic freedom and long-term economic development.

The overall regulatory environment is burdensome, severely limiting entrepreneurial dynamism. State control and interference remain high in many areas of the economy. The poor investment regime lacks transparency, and investment regulations are applied inconsistently, discouraging business creation or expansion. The informal economy is quite large and remains a vital source of employment for much of the population.

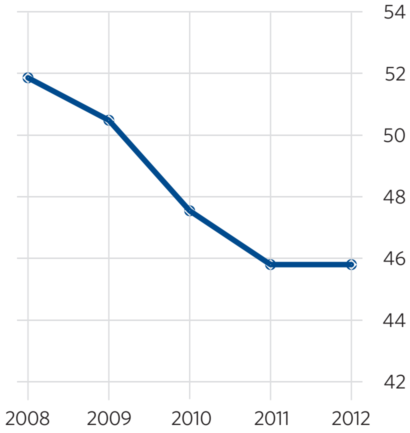
BACKGROUND: Strongly authoritarian President Islam Karimov has been in power since the late 1980s. Relations with the U.S. and the European Union have improved slightly due to cooperation in the fight against Islamist terrorism. Uzbekistan has guaranteed the U.S. and Germany limited access to the Termez air base for operations in Afghanistan. The EU relaxed economic sanctions imposed for the political crackdown following the 2005 Andijon uprising, but human rights violations remain a concern. An agreement with the U.S. signed in 2009 allows shipment of non-lethal supplies to Afghanistan through Uzbekistan's territory. Remittance inflows from Russia rose by 39 percent in 2010 following a decline of almost one-third in 2009. Uzbekistan relies heavily on natural gas, oil, gold, and uranium exports, but cotton remains the main source of export revenues.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

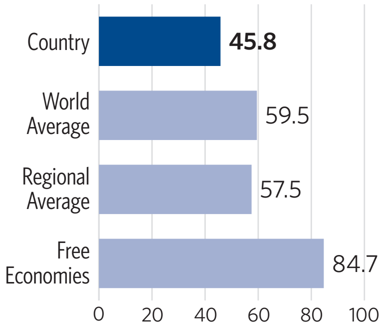
Economic Freedom Score



Freedom Trend



Country Comparisons



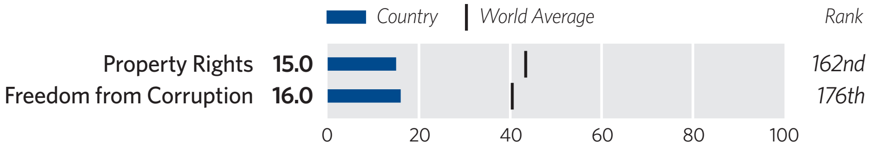
Quick Facts

Population: 28.2 million
GDP (PPP): $85.8 billion
8.5% growth in 2010
5-year compound annual growth 8.5%
$3,039 per capita
Unemployment: 1.1%
Inflation (CPI): 9.4%
FDI Inflow: $822.0 million
Public Debt: 10.0% of GDP

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

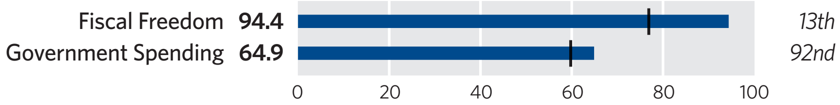
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



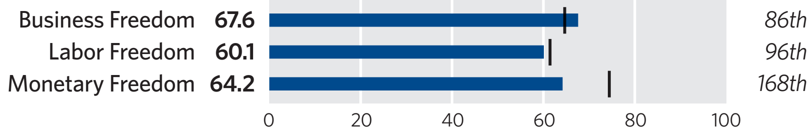
Property ownership is generally respected by local and central authorities, although it can be subverted by the government. The legal framework remains poor, and the executive influences the judiciary. There is no general system for registration of liens on chattel property. Court procedures fall short of international standards, and expropriation is possible. Corruption remains pervasive in many parts of the economy.

LIMITED GOVERNMENT



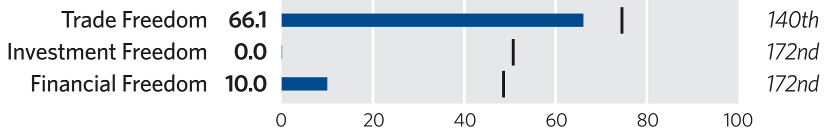
The top income tax rate is 22 percent, and the top corporate tax rate is 9 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden estimated to be around 20 percent of GDP. Government spending has reached a level equivalent to 34.2 percent of GDP. The budget balance has been in surplus, and public debt has hovered at around 10 percent of total domestic output.

REGULATORY EFFICIENCY



Despite some progress, the regulatory system lacks transparency and clarity, and regulations are inconsistently enforced, injecting 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 remains fragile.

OPEN MARKETS

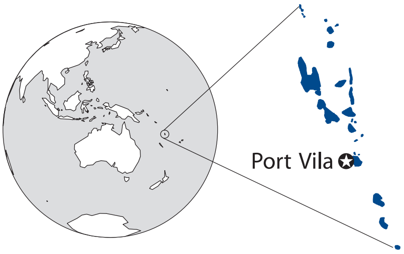


The trade weighted average tariff rate is high at 6.9 percent, and non-tariff barriers further increase the cost of trade. The investment regime, lacking transparency and efficiency, remains unfavorable to dynamic investment growth. The financial sector is subject to heavy state intervention. Along with the high costs of financing, the banking sector's limited capacity for financial intermediation is a key barrier to private-sector development.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	**0**	Fiscal Freedom	**+3.9**	Business Freedom	**+0.8**	Trade Freedom	**-0.1**
Freedom from Corruption	**-1.0**	Government Spending	**-6.1**	Labor Freedom	**-0.1**	Investment Freedom	**0**
				Monetary Freedom	**+2.5**	Financial Freedom	**0**

VANUATU



World Rank: **112** Regional Rank: **22**

Vanuatu's economic freedom score is 56.6, making its economy the 112th freest in the 2012 *Index*. Its score has decreased by 0.1 point since last year, with improvements in freedom from corruption and monetary freedom offset by a considerable decline in business freedom. Vanuatu is ranked 22nd out of 41 countries in the Asia–Pacific region, and its overall score is below the world average.

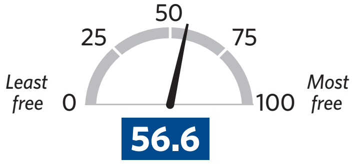
Despite progress in sustaining economic growth, improvements in the investment and business climate are needed to generate more broadly based economic expansion. The government's lack of political will to undertake institutional reforms continues to slow the development of a dynamic private sector. Property rights are poorly protected, and inadequate physical and legal infrastructure deters investment. Lingering corruption further undermines economic security and hampers entrepreneurial activity.

Vanuatu has taken steps to enhance regulatory efficiency and better integrate its economy into the global marketplace. Sixteen years have passed since Vanuatu started its WTO accession process. Negotiations were finally completed in May 2011, with membership expected to follow by the end of the year.

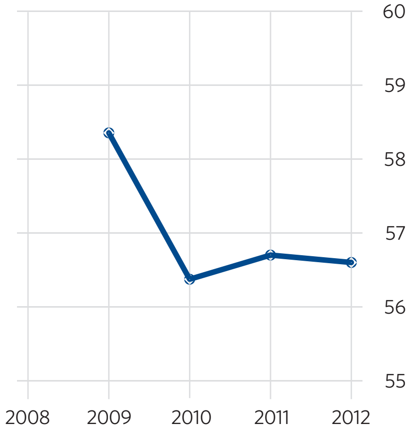
BACKGROUND: The Republic of Vanuatu, 83 islands spread over 4,500 square miles of the South Pacific, achieved independence in 1980. Formerly administered by a British–French condominium, it is today a parliamentary democracy that remains divided between its English-speaking and French-speaking citizens. Vanuatu has largely avoided the political unrest experienced by several of its neighbors in the South Pacific. Lolu Abil was elected president by the electoral college in September 2009. Controversy rocked the country in 2010 and 2011, however, when the election of Prime Minister Sato Kilman was declared unconstitutional. 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 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

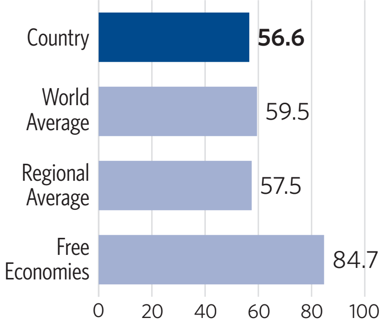
Economic Freedom Score



Freedom Trend



Country Comparisons



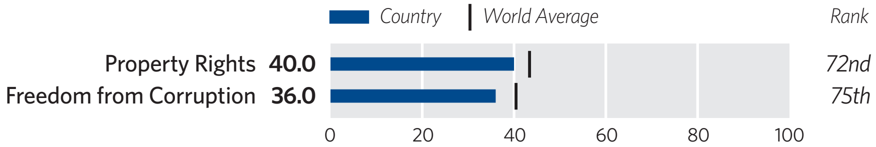
Quick Facts

Population: 0.2 million
GDP (PPP): $1.1 billion
2.2% growth in 2010
5-year compound annual growth 5.1%
$4,751 per capita
Unemployment: n/a
Inflation (CPI): 2.8%
FDI Inflow: $38.9 million
Public Debt: 20.0% of GDP

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

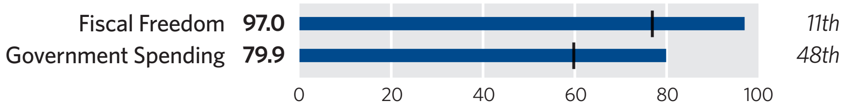
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



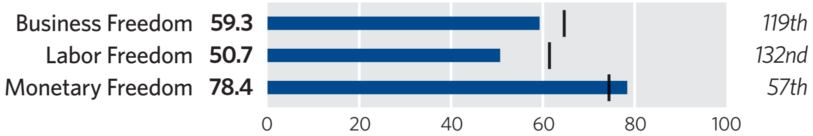
Vanuatu has a fairly efficient legal system based on British common law, but the judicial process is extremely slow. The constitution states that village or island courts presided over by chiefs should be established by parliament to deal with questions of customary law. Land disputes are a constant source of tension. The law provides criminal penalties for official corruption, but enforcement has not been effective.

LIMITED GOVERNMENT



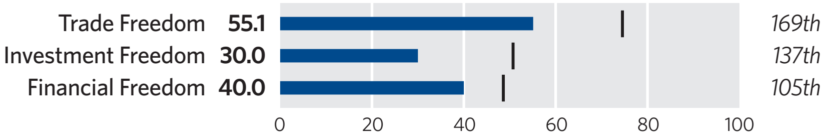
There is no individual or corporate income tax. Taxes include a value-added tax (VAT) and import duties, with the overall tax burden amounting to 17.2 percent of total domestic income. Government spending has reached a level equivalent to 25.9 percent of GDP. The budget balance has been in small deficit for a number of years, and public debt remains low at 20 percent of total domestic output.

REGULATORY EFFICIENCY



Bureaucratic procedures are complex and non-transparent. Starting a business remains time-consuming; there is no minimum capital requirement, but it takes more than the world average of seven procedures and 30 days. Completing licensing requirements costs over three times the level of average annual income. Labor codes are rigid and outmoded, and the formal labor market is not fully developed. Inflation has been modest.

OPEN MARKETS



The trade weighted average tariff rate is high at 15 percent, and myriad non-tariff barriers 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. Access to financing remains poor, with only about 13 percent of rural adults having access to formal banking services.

Score Changes

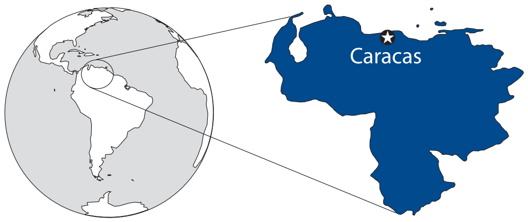
RULE OF LAW	
Property Rights	0
Freedom from Corruption	+4.0

LIMITED GOVERNMENT	
Fiscal Freedom	+0.9
Government Spending	+0.8

REGULATORY EFFICIENCY	
Business Freedom	-9.5
Labor Freedom	+0.9
Monetary Freedom	+1.9

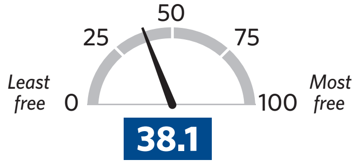
OPEN MARKETS	
Trade Freedom	0
Investment Freedom	0
Financial Freedom	0

VENEZUELA



World Rank: **174** Regional Rank: **28**

Economic Freedom Score



Venezuela's economic freedom score is 38.1, making its economy the 174th freest in the 2012 *Index*. Its score increased by 0.5 point since last year, with a modest gain in labor freedom partly offset by a drop in trade freedom. Venezuela is ranked 28th out of 29 countries in the South and Central America/Caribbean region, and its overall score is much lower than the world average.

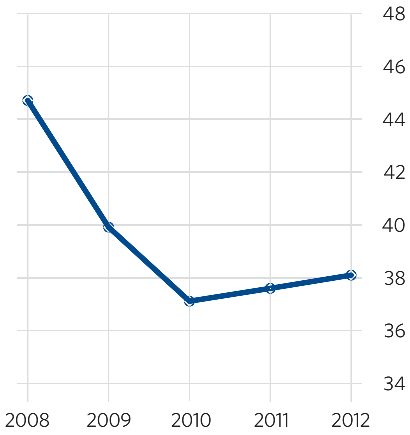
Venezuela continues to be mired in a climate of economic repression. Severely hampered by state interference, the formal economy is increasingly stagnant, and informal economic activity is expanding. Monetary stability is particularly weak, and there are extensive price controls on almost all goods and services. Government interference in the financial sector further distorts price levels and constrains private-sector growth by allocating credit on non-market terms.

Because of rampant corruption and deficiencies in the legal framework, the rule of law remains fragile and uneven across the Venezuelan economy. Contracts and property rights are not well respected, and the threat of government expropriation remains high. The government dictates most production and investment activity.

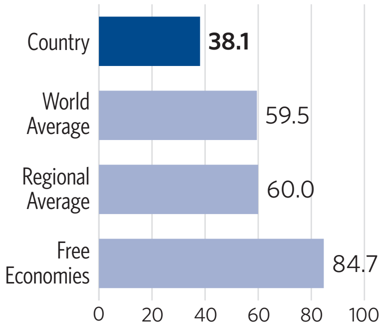
BACKGROUND: President Hugo Chávez styles himself the leader of Latin America's anti–free market forces and has sought allies in China, Cuba, Russia, and rogue states like Iran. He has hobbled political opponents, outlawed free speech, done away with property rights, nationalized private businesses, pursued a military buildup, imposed foreign exchange controls, and antagonized neighboring Colombia. A 2009 constitutional revision permits Chávez to rule as president for life, although his many treatments for prostate cancer in 2011 may presage the ultimate term limit. Legislative elections in 2010 split evenly between pro- and anti-Chávez forces. Venezuela has Latin America's highest inflation rate, a chronic electricity crisis, food shortages, an epidemic of crime, and the lowest economic growth rate currently measured in the Americas.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

Freedom Trend



Country Comparisons



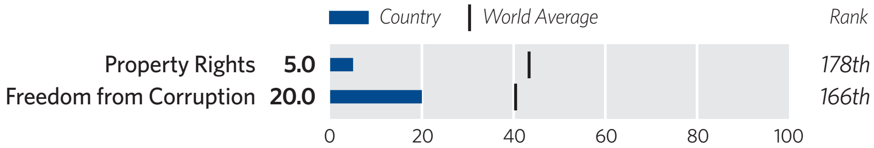
Quick Facts

Population: 29.2 million
GDP (PPP): $345.2 billion
–1.9% growth in 2010
5-year compound annual growth 3.4%
$11,829 per capita
Unemployment: 12.1%
Inflation (CPI): 28.2%
FDI Inflow: –$1.4 billion
Public Debt: 38.4% of GDP

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

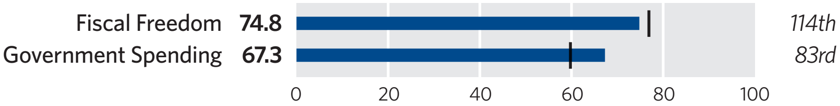
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



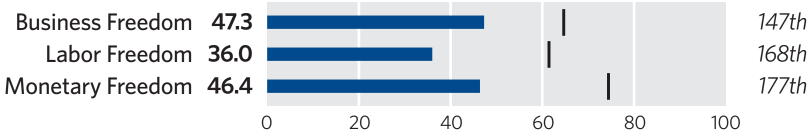
The judiciary is completely controlled by the executive, politically inconvenient contracts are abrogated, and the legal system discriminates against or in favor of investors from certain foreign countries. Land and other private holdings across the economy are expropriated by the government arbitrarily and without compensation. Corruption, exacerbated by cronyism and nepotism, remains rampant at all level of government.

LIMITED GOVERNMENT



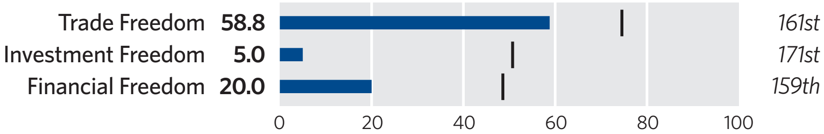
The top income and corporate tax rates are 34 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden estimated to be 14.5 percent of GDP. Taxation is poorly administered. Government spending has reached a level equivalent to 33 percent of GDP, and the budget balance has been in deficit. Public debt amounts to about 40 percent of total domestic output.

REGULATORY EFFICIENCY



The overall freedom to engage in entrepreneurial activity is constrained by heavy government control and inconsistent enforcement of regulations. There is little transparency in decision-making, and most contracts are awarded without competition. No minimum capital requirement for establishing a business is imposed, but the process takes over 100 days. The labor market remains controlled by the state. Inflation has been very high.

OPEN MARKETS

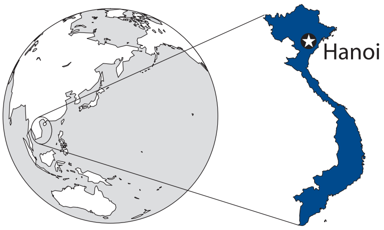


The trade weighted average tariff rate is prohibitively high at 10.6 percent, and extensive non-tariff barriers further distort the free flow of goods and services. Private investment remains hampered by state interference in the economy, and hostility to foreign investment, coupled with threats of expropriation, persists. The financial sector is tightly controlled by the state, which often allocates credit based on political expediency.

Score Changes

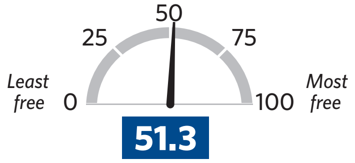
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.2	Business Freedom	-0.5	Trade Freedom	-2.4
Freedom from Corruption	+1.0	Government Spending	+2.0	Labor Freedom	+4.9	Investment Freedom	0
				Monetary Freedom	-0.6	Financial Freedom	0

VIETNAM



World Rank: **136** Regional Rank: **29**

Economic Freedom Score



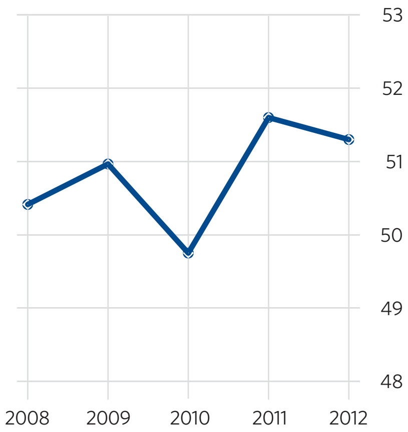
Vietnam's economic freedom score is 51.3, making its economy the 136th freest in the 2012 *Index*. Its score is 0.3 point worse than last year, with a notable improvement in trade freedom counterbalanced by lower scores in government spending and monetary freedom. Vietnam is ranked 29th out of 41 countries in the Asia–Pacific region, and its overall score is lower than the world and regional averages.

The Vietnamese economy has registered annual growth rates averaging about 7 percent over the past five years. Capitalizing on its gradual integration into the global trade and investment system, the economy has been transforming itself into a more market-oriented economy. Reforms have included partial privatization of state-owned enterprises, liberalization of the trade regime, and increasing recognition of private property rights.

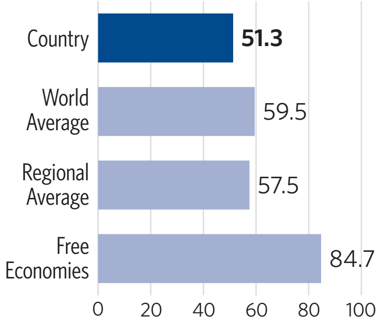
Nonetheless, institutional weaknesses undermine prospects for more sustained long-term economic development. The foundations of economic freedom remain fragile due to corruption and an inefficient judicial system that is vulnerable to political interference. The regulatory efficiency needed to develop a more dynamic entrepreneurial private sector has not been established.

BACKGROUND: The Socialist Republic of Vietnam is governed by a one-party authoritarian regime that has embarked on the path of economic liberalization only recently, starting with its *doi moi* reforms in 1986. In 2007, the country joined the World Trade Organization. Vietnam now boasts one of Southeast Asia's fastest-growing economies, which is driven primarily by tourism and exports, but it also has a serious inflation problem and has struggled to attract more investment in the absence of a transparent rule of law. The government is slowly liberalizing key economic sectors, including financial institutions, but political repression and the lack of respect for basic human rights remain serious concerns.

Freedom Trend



Country Comparisons



Quick Facts

Population: 88.3 million

GDP (PPP): $276.6 billion

6.8% growth in 2010

5-year compound annual growth 7.0%

$3,134 per capita

Unemployment: 2.9%

Inflation (CPI): 9.2%

FDI Inflow: $8.1 billion

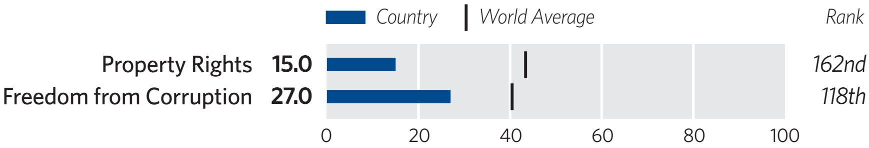
Public Debt: 52.8% of GDP

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

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

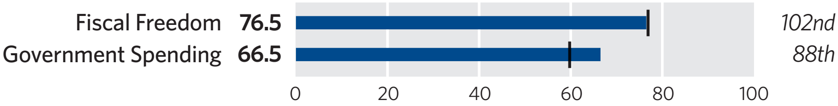
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



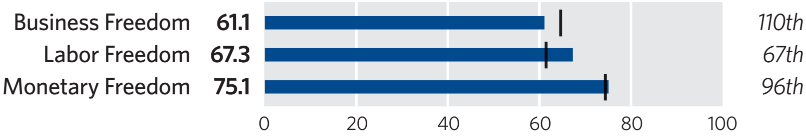
The judicial system is not independent and lacks efficiency. Private property rights are not strongly respected, and resolution of disputes can take years. Infringement of intellectual property rights is common. Corruption is due in large part to a lack of transparency, accountability, and media freedom as well as inadequate systems for holding officials accountable for their actions.

LIMITED GOVERNMENT



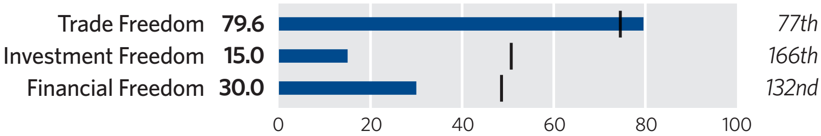
The top income tax rate is 35 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden amounts to 22.3 percent of total domestic income. Government spending has increased to a level equivalent to 33.4 percent of GDP. The budget has recorded deficits of over 3 percent of GDP for two years, and public debt has climbed to 52.8 percent of total domestic output.

REGULATORY EFFICIENCY



Despite ongoing reform efforts, the regulatory framework lacks efficiency. Although no minimum capital requirement is imposed, starting a business still takes more than the world average of 30 days and seven procedures. Completing licensing requirements remains costly and time-consuming. The labor market remains rigid, and there is considerable informal labor activity. Inflation has been high, hurting monetary stability.

OPEN MARKETS

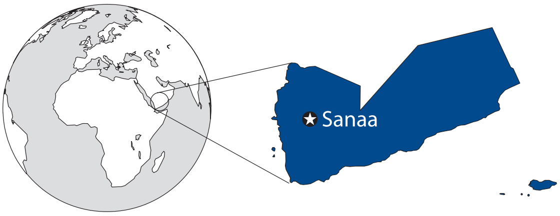


The trade weighted average tariff rate is 5.2 percent, with layers of non-tariff barriers curtailing more dynamic gains from trade. Despite a desire to attract more foreign investment, the investment regime lacks efficiency and is severely hampered by various restrictions. The financial sector continues to evolve, and directed lending by state-owned commercial banks has been scaled back in recent years.

Score Changes

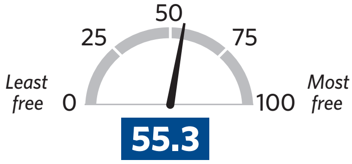
RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.6	Business Freedom	–0.5	Trade Freedom	+10.7
Freedom from Corruption	0	Government Spending	-8.6	Labor Freedom	–0.9	Investment Freedom	0
				Monetary Freedom	–4.0	Financial Freedom	0

YEMEN



World Rank: **121** Regional Rank: **13**

Economic Freedom Score



Yemen's economic freedom score is 55.3, making its economy the 121st freest in the 2012 *Index*. Its score is 1.1 point higher than last year due to improvements in freedom from corruption, labor freedom, and the control of government spending that in sum exceed a significant drop in monetary freedom. Yemen is ranked 13th out of 17 countries in the Middle East/North Africa region, and its overall score is lower than the world and regional averages.

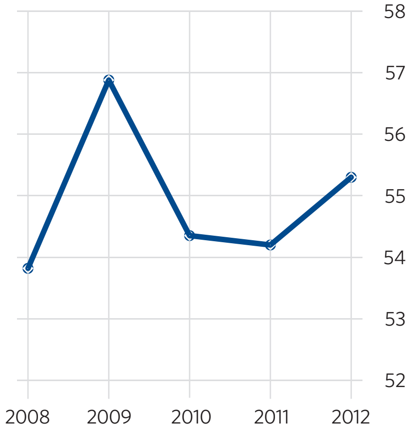
Yemen's economy confronts daunting challenges exacerbated by ongoing political turmoil. The economic pain caused by rising unemployment has been compounded by higher living costs, weak monetary stability, and substantial levels of uncertainty.

After a decade of rapid improvement in economic freedom, progress in Yemen has stalled over the past three years. A series of economic reform measures, including reforms in public finance management and the legal framework, have been introduced, but many have been either delayed or not fully implemented. Pervasive government interference in the economy and an underdeveloped financial sector continue to hamper the development of a more vibrant private sector. Corruption remains widespread, unchecked by a weak judicial system that is vulnerable to political influence.

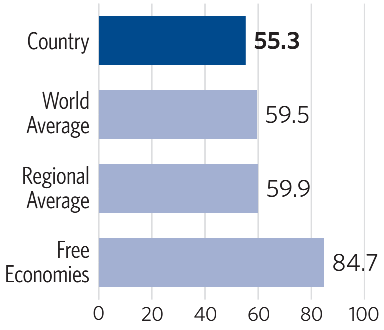
BACKGROUND: Yemen is one of the Arab world's poorest countries. The government has faced chronic challenges from secessionists, unruly tribes, and Islamist extremists opposed to its moderate foreign policy and cooperation with the United States against al-Qaeda. The government began an economic reform program in 2006 to strengthen the non-oil sectors and attract foreign investment, but declining oil production, terrorist attacks, clashes between Sunni and Shia Muslims, and kidnappings have undermined tourism and foreign investment. In early 2011, important members of President Ali Abdullah Saleh's government defected to a growing coalition of opposition forces. Saleh was forced to seek medical attention in Saudi Arabia after an attack on his presidential compound in June. Yemen's economic prospects remain clouded by political violence and instability.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Freedom Trend



Country Comparisons



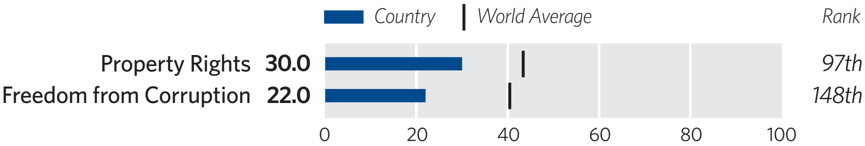
Quick Facts

Population: 24.4 million
GDP (PPP): $63.4 billion
8.0% growth in 2010
5-year compound annual growth 4.4%
$2,598 per capita
Unemployment: 35.0%
Inflation (CPI): 12.1%
FDI Inflow: –$329.0 million
Public Debt: 40.6% of GDP

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

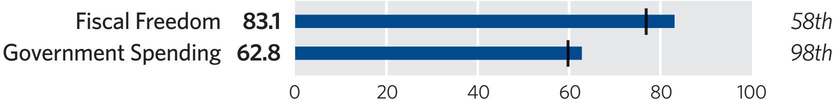
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



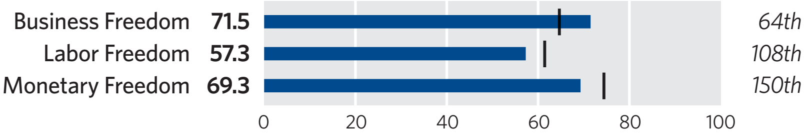
The judicial system is subject to political pressure and corruption. Enforcement of contracts is weak, and private property rights are not strongly respected. Foreigners may own property, but foreign firms must operate through Yemeni agents. Protection of intellectual property rights is inadequate. The civil service is overstaffed, underpaid, and highly vulnerable to corruption, which has been widespread throughout the economy.

LIMITED GOVERNMENT



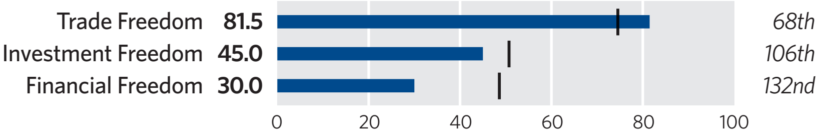
The top income tax rate is 20 percent, and the top corporate tax rate is 35 percent. Other taxes include a general sales tax (GST) and a property tax, with the overall tax burden amounting to 8 percent of total domestic income. Government spending has reached a level equivalent to 35.2 percent of GDP. The budget has been chronically in deficit in recent years, and public debt amounts to 40.6 percent of total domestic output.

REGULATORY EFFICIENCY



Measures to create a more efficient entrepreneurial environment have been implemented. The regulatory process has become more streamlined on paper, with the minimum capital requirement eliminated, but overall impact has been mixed, and little new private activity has been generated. The weakness of the private sector results in chronic underemployment in informal economic pursuits. Inflation has been high.

OPEN MARKETS

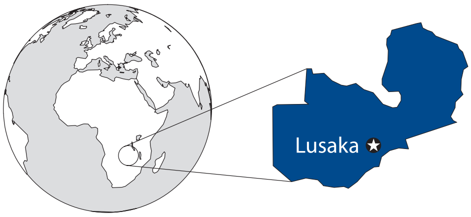


The trade weighted average tariff rate is 4.2 percent, but systemic non-tariff barriers severely limit freedom to trade. Officially, the government permits foreign investment in most sectors and grants equal treatment to domestic and foreign investors. In practice, the inefficient investment regime inhibits 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	-0.1	Business Freedom	-2.2	Trade Freedom	-0.1
Freedom from Corruption	+1.0	Government Spending	+18.3	Labor Freedom	+6.4	Investment Freedom	0
				Monetary Freedom	-13.0	Financial Freedom	0

ZAMBIA



World Rank: **96** Regional Rank: **12**

Zambia's economic freedom score is 58.3, making its economy the 96th freest in the 2012 *Index*. Its score has decreased by 1.4 points, reflecting lower scores in four of the 10 economic freedoms, including monetary freedom and labor freedom. Zambia is ranked 12th out of 46 countries in the Sub-Saharan Africa region, and its overall score is just below the world average.

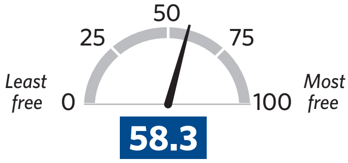
Previous reforms, coupled with relative political stability and strong commodity exports, have enabled Zambia to maintain steady economic expansion over the past five years. The financial sector has benefited from reforms that include implementation of the Financial Sector Development Plan. Management of public finance has been relatively sound, although the fiscal deficit has been on the rise.

Nevertheless, the Zambian economy still needs more intensive structural reforms. The overall legal framework is inefficient and lacks transparency, the rule of law is undermined by political interference, and rampant corruption corrodes the foundations of economic freedom.

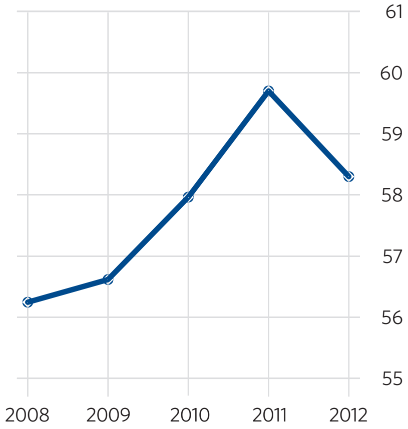
BACKGROUND: In 1991, growing popular discontent led the government of Kenneth Kaunda, who had ruled since independence in 1964, to enact a new constitution instituting multi-party democracy. President Levy Mwanawasa, elected in 2001 and re-elected in 2006, made fighting corruption the centerpiece of his presidency. Rupiah Banda won a narrow victory in October 2008 following Mwanawasa's death. Opposition leader Michael Sata of the Patriotic Front won the presidential election in 2011, the first time a candidate from a party other than the Movement for Multiparty Democracy had been successful. 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. It rebounded quickly from the global economic crisis when copper prices rose and the maize crop increased in 2010. A relatively high HIV/AIDS burden and market-distorting agricultural policies contribute to high poverty rates.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

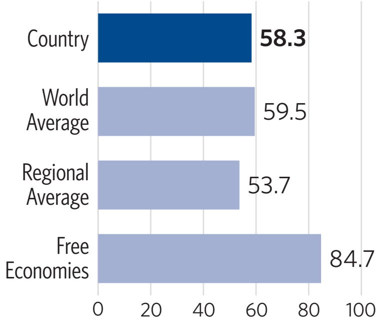
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

Population: 13.3 million

GDP (PPP): $20.0 billion

7.6% growth in 2010

5-year compound annual growth 6.4%

$1,512 per capita

Unemployment: 14.0%

Inflation (CPI): 8.5%

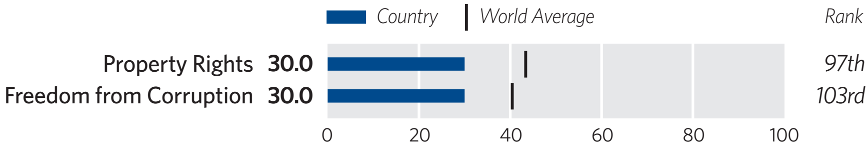
FDI Inflow: $1.0 billion

Public Debt: 24.6% of GDP

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

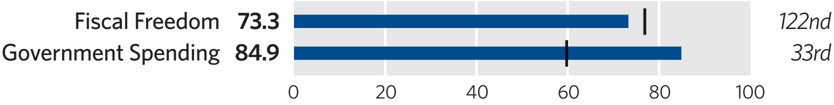
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



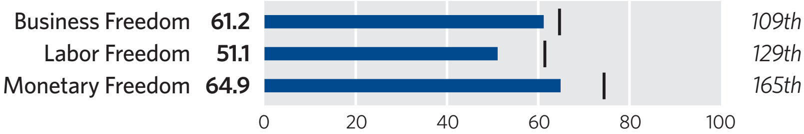
The rule of law remains uneven across the country. The judicial system suffers from inefficiency, government influence, and a lack of resources. Contract enforcement is weak, and courts are relatively inexperienced in commercial litigation. The government lacks the capacity to enforce intellectual property rights laws effectively. Corruption remains widespread, further undermining the foundations of economic freedom.

LIMITED GOVERNMENT



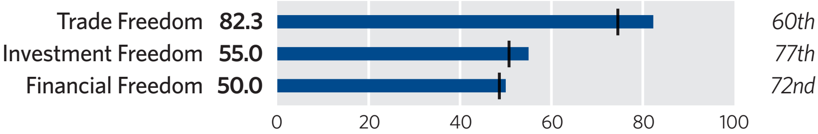
The top income and corporate tax rates are 35 percent. Other taxes include a value-added tax (VAT) and a property transfer tax, with the overall tax burden amounting to 15 percent of total domestic income. Government spending has reached a level equivalent to 22.4 percent of GDP. The budget balance has registered chronic deficits, and public debt amounts to 24.6 percent of total domestic output.

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. Labor regulations are outdated and not consistently applied. Firms tend to hire workers on an informal or short-term basis. Monetary stability has been weak as a result of high inflation.

OPEN MARKETS

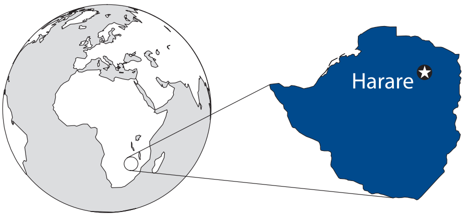


The trade weighted average tariff rate is 3.8 percent, but extensive non-tariff barriers severely distort the flow of goods and services. Foreign investment is officially welcome, but a modern investment framework is not in place. The financial system is dominated by banking. Zambia has a relatively advanced banking regime, and financial intermediation and credit to the private sector continue to expand.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.9	Business Freedom	-1.0	Trade Freedom	-0.1
Freedom from Corruption	0	Government Spending	+3.1	Labor Freedom	-5.2	Investment Freedom	0
				Monetary Freedom	-12.4	Financial Freedom	0

ZIMBABWE



World Rank: **178** Regional Rank: **46**

Zimbabwe's economic freedom score is 26.3, making its economy the 178th freest in the 2012 *Index*. Its score has increased by 4.2 points from last year, reflecting gains in half of the 10 economic freedoms. Zimbabwe is ranked last out of 46 countries in the Sub-Saharan Africa region and is the second least free country ranked in the 2012 *Index*.

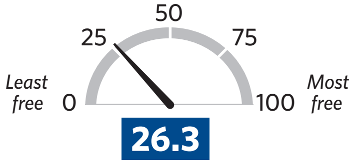
The Zimbabwean economy has recorded some progress toward stability after years of economic and social destruction by the repressive Mugabe regime. Its improvement is relatively broad-based, but the impressive size of the score change is driven primarily by renormalization of government spending levels that had spiked extraordinarily during the country's recent crisis.

Zimbabwe is still characterized by instability and policy volatility, both hallmarks of excessive government interference and mismanagement of the economy. The fragile economic infrastructure has crumbled after years of neglect. The lingering impacts of years of hyperinflation continue to impede entrepreneurial activity, severely undermining the country's economic potential. A corrupt and inefficient judicial system and general lack of transparency severely exacerbate business costs and entrepreneurial risk.

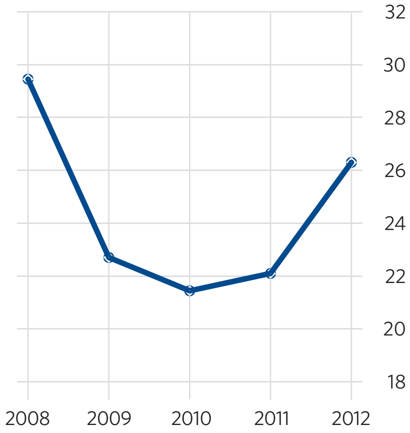
BACKGROUND: When it became independent in 1965, Zimbabwe had a diversified economy, a well-developed infrastructure, and an advanced financial sector. It is now one of Africa's poorest countries. Robert Mugabe became prime minister in 1980 and president in 1987. Still in power in 2008, his party lost 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. A referendum on a new constitution has been delayed to 2012. The economy has stabilized somewhat, and allowing foreign currencies to be used for all transactions has curtailed hyperinflation. Agriculture has been crippled by expropriation of white-owned commercial farms.

How Do We Measure Economic Freedom?
See page 455 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index.*

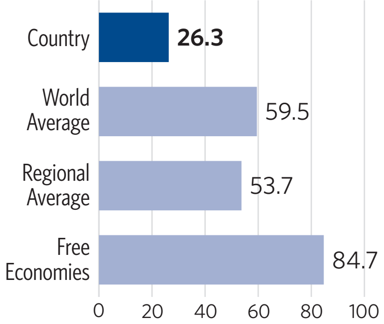
Economic Freedom Score



Freedom Trend



Country Comparisons



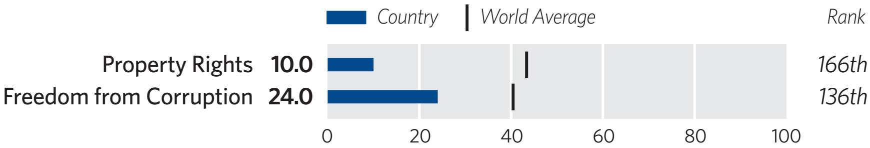
Quick Facts

Population: 12.6 million
GDP (PPP): $5.5 billion
9.0% growth in 2010
5-year compound annual growth −2.4%
$434 per capita
Unemployment: 95.0%
Inflation (CPI): 3.0%
FDI Inflow: $105.4 million
Public Debt: 56.2% of GDP

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

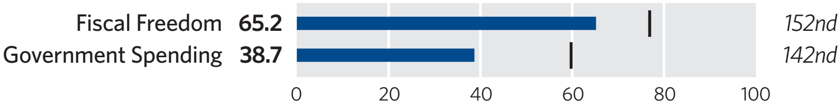
THE TEN ECONOMIC FREEDOMS

RULE OF LAW



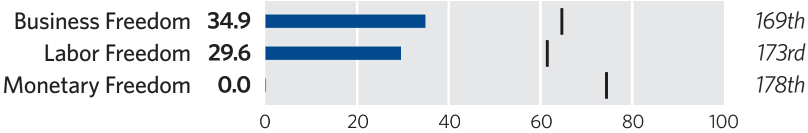
The executive branch strongly influences the judiciary and openly challenges court outcomes. Expropriation is common. The government's land reform program, characterized by chaos and violence, has badly damaged the commercial farming sector, turning Zimbabwe into a net importer of food products. Corruption, encouraged by government officials at all levels, remains pervasive.

LIMITED GOVERNMENT



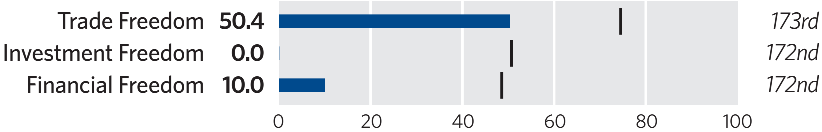
The top income tax rate is 35 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden amounting to 39 percent of total domestic income. Government spending has reached a level equivalent to 45.2 percent of GDP. The budget balance has been in deficit, and public debt amounts to about 56 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 10 times the level of average annual income. The labor market is essentially non-functional, but informal markets provide some jobs. 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 pervasive non-tariff barriers constraining freedom to trade even further. Heavy government interference cripples investment opportunities. Extensive state involvement in finances and ongoing political instability have caused Zimbabwe's financial sector to contract significantly in recent years.

Score Changes

RULE OF LAW	
Property Rights	+5.0
Freedom from Corruption	+2.0

LIMITED GOVERNMENT	
Fiscal Freedom	-5.1
Government Spending	+38.7

REGULATORY EFFICIENCY	
Business Freedom	+2.8
Labor Freedom	-7.2
Monetary Freedom	0

OPEN MARKETS	
Trade Freedom	+5.4
Investment Freedom	0
Financial Freedom	0

Appendix

Index of Economic Freedom Scores, 1995–2012

Country	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
Bhutan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	57.7	57.0	57.6	56.6
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
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
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
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
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
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
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
Burundi	-	-	45.4	44.7	41.1	42.6	-	-	-	-	-	48.7	46.9	46.2	48.8	47.5	49.6	48.1
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
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

Index of Economic Freedom Scores, 1995–2012

Country	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
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
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
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
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
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
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
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
Comoros	-	-	-	-	-	-	-	-	-	-	-	-	-	-	43.3	44.9	43.8	45.7
Congo-Dem Rep	41.4	39.5	39.5	40.6	34.0	34.8	-	-	-	-	-	-	-	-	42.8	41.4	40.7	41.1
Congo-Rep	-	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
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
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
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
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
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
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
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	78.5	79.6	77.9	78.6	76.2
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
Dominica	-	-	-	-	-	-	-	-	-	-	-	-	-	-	62.6	63.2	63.3	61.6
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
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
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
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
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
Eritrea	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38.5	35.3	36.7	36.2
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
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
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

Index of Economic Freedom Scores, 1995–2012

Country	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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

Index of Economic Freedom Scores, 1995–2012

Country	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
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
Kiribati	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45.7	43.7	44.8	46.9
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
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
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
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
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
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
Liberia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	48.1	46.2	46.5	48.6
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
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
Macau	-	-	-	-	-	-	-	-	-	-	-	-	-	-	72.0	72.5	73.1	71.8
Macedonia	-	-	-	-	-	-	-	58.0	60.1	56.8	56.1	59.2	60.6	61.1	61.2	65.7	66.0	68.5
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
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
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
Maldives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	51.3	49.0	48.3	49.2
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
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
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
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
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
Micronesia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	51.7	50.6	50.3	50.7
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
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
Montenegro	-	-	-	-	-	-	-	46.6	43.5	-	-	-	-	-	58.2	63.6	62.5	62.5

Index of Economic Freedom Scores, 1995–2012

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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
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
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
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
The 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
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
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
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
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
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
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
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
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
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
Papua New Guinea	-	58.6	56.7	55.2	56.3	55.8	57.2	-	-	-	-	-	-	-	54.8	53.5	52.6	53.8
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
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
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
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
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
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
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
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
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
Saint Lucia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	68.8	70.5	70.8	71.3
Saint Vincent and the Grenadines	-	-	-	-	-	-	-	-	-	-	-	-	-	-	64.3	66.9	66.9	66.5
Samoa	-	47.6	51.5	49.9	58.7	60.8	63.1	-	-	-	-	-	-	-	59.5	60.4	60.6	60.5

Index of Economic Freedom Scores, 1995–2012

Country	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
São Tomé and Príncipe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	43.8	48.8	49.5	50.2
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
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
Serbia	-	-	-	-	-	-	-	46.6	43.5	-	-	-	-	-	56.6	56.9	58.0	58.0
Seychelles	-	-	-	-	-	-	-	-	-	-	-	-	-	-	47.8	47.9	51.2	53.0
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
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
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
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
Solomon Islands	-	-	-	-	-	-	-	-	-	-	-	-	-	-	46.0	42.9	45.9	46.2
Somalia	-	25.6	25.6	27.8	27.8	27.8	-	-	-	-	-	-	-	-	-	-	-	-
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
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
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
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
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
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
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
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
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
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
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
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
Timor-Leste	-	-	-	-	-	-	-	-	-	-	-	-	-	-	50.5	45.8	42.8	43.3
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
Tonga	-	-	-	-	-	-	-	-	-	-	-	-	-	-	54.1	53.4	55.8	57.0
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

Index of Economic Freedom Scores, 1995–2012

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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
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
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
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
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
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
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
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
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
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
Vanuatu	-	-	-	-	-	-	-	-	-	-	-	-	-	-	58.4	56.4	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
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
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
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
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
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

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 Report* and *Country Commerce,* 2008–2011; U.S. Department of Commerce, *Country Commercial Guide,* 2008–2011; U.S. Department of State, *Country Reports on Human Rights Practices,* 2008–2011; 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 2010, which measures the level of corruption in 178 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.

---

[1] The following nine countries are not covered by the 2010 CPI: Belize, Burma, the Bahamas, Fiji, Micronesia, North Korea, Saint Lucia, Saint Vincent and the Grenadines, and Suriname.

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*, 2010; U.S. Department of Commerce, *Country Commercial Guide*, 2008–2011; Economist Intelligence Unit, *Country Commerce* and *Country Report*, 2008–2011; Office of the U.S. Trade Representative, *2011 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 both the direct tax burden in terms of the top tax rates on individual and corporate incomes and the overall amount of tax revenue as a percentage of GDP. Thus, the fiscal freedom component is composed of three quantitative factors:

- The top tax rate on individual income,
- The top 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 2012 *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. The overall tax burden in Mauritius as a portion of GDP is 18.9 percent, yielding a tax burden factor score of 89.3. When the three factors are averaged together, the country's overall fiscal freedom score becomes 91.9.

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," 2008–2011; PricewaterhouseCoopers, *Worldwide Tax Summaries*, 2008–2011; countries' investment agencies; other government authorities (embassy confirmations and/or the country's treasury or tax authority); and Economist Intelligence Unit, *Country Report*, *Country Profile*, *Country Commerce*, or *Country Finance*, 2008–2011.

For information on tax revenue 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 2011*; International Monetary Fund, *Staff Country Report*, "Selected Issues," and *Staff Country Report*, "Article IV Consultation," 2008–2011; Asian Development Bank, *Key Indicators for Asia and the Pacific*, 2008–2011; World Trade Organization, *Trade Policy Reviews*, 2008–2011; official government publications of each country; 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 ideal 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 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, will be penalized by lower scores on some of the other components of economic freedom (such as property rights and financial freedom).

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 receive much worse scores in a quadratic fashion (for example, doubling spending yields four times less freedom), so that only really large government spending—for example over 58 percent of GDP—receives the 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 2011*; International Monetary Fund, *Staff Country Report*, "Selected Issues and Statistical Appendix," and *Staff Country Report*, "Article IV Consultation," 2008–2011; Asian Development Bank, *Key Indicators for Asia and the Pacific*, 2008–2011; African Development Bank, *Selected Statistics on African Countries 2010*; official government publications of each country; and Economist Intelligence Unit, *Country Report* and *Country Profile*, 2008–2011.

REGULATORY EFFICIENCY

Business Freedom

Business freedom is a quantitative measure of the ability to start, operate, and close a business that represents the overall burden of regulation as well as the efficiency of government in the regulatory process. 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* report:

- 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:

$$\text{Factor Score}_i = 50\ \text{factor}_{average} / \text{factor}_i$$

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 16 procedures to get necessary licenses. Canada's 12 licensing procedures are a factor value better than the average, resulting in a ratio of 1.33. That ratio multiplied by 50 equals the final factor score of 66.7.

For the eight countries that are not covered by the World Bank's *Doing Business* report, business freedom is scored by looking into 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 2012*; Economist Intelligence Unit, *Country Report* and *Country Commerce*, 2008–2011; U.S. Department of Commerce, *Country Commercial Guide*, 2008–2011; and official government publications of each country.

Labor Freedom

The labor freedom component is a quantitative measure that looks into various aspects of the legal and regulatory framework of a country's labor market. It provides cross-country data on regulations concerning minimum wages; laws inhibiting layoffs; severance requirements; and measurable regulatory burdens on hiring, hours, and so on.

---

[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] Eight countries are not covered by the World Bank's *Doing Business* report: Barbados, Burma, Cuba, North Korea, Libya, Macau, Malta, 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.

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 from the World Bank's *Doing Business* report, 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 eight countries that are not covered by the World Bank's *Doing Business* report, 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 2012*; Economist Intelligence Unit, *Country Report* and *Country Commerce*, 2008–2011; U.S. Department of Commerce, *Country Commercial Guide*, 2008–2011; 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.

---

[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 2012 *Index,* the three indices were reconstructed by *Index* authors according to the methodology used previously by the *Doing Business* report.

[7] See note 4.

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*, April 2011; Economist Intelligence Unit, *Country Report*, 2006–2011; 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.

---

[8] MFN is now referred to as permanent normal trade relations (PNTR).

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 2011*; World Trade Organization, *Trade Policy Review*, 1995–2011; Office of the U.S. Trade Representative, *2011 National Trade Estimate Report on Foreign Trade Barriers*; World Bank, *Doing Business 2011* and *Doing Business 2012*; U.S. Department of Commerce, *Country Commercial Guide*, 2008–2011; Economist Intelligence Unit, *Country Report* and *Country Commerce*, 2008–2011; World Bank, *Data on Trade and Import Barriers: Trends in Average Applied Tariff Rates in Developing and Industrial Countries, 1981–2009*; 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 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* and *Country Report,* 2008–2011; Office of the U.S. Trade Representative, *2011 National Trade Estimate Report on Foreign Trade Barriers;* and U.S. Department of Commerce, *Country Commercial Guide,* 2008–2011.

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*, *Country Finance*, and *Country Report*, 2008–2011; International Monetary Fund, *Staff Country Report*, "Selected Issues," and *Staff Country Report*, "Article IV Consultation," 2008–2011; Organisation for Economic Co-operation and Development, *Economic Survey*; official government publications of each country; U.S. Department of Commerce, *Country Commercial Guide*, 2008–2011; Office of the U.S. Trade Representative, *2011 National Trade Estimate Report on Foreign Trade Barriers*; U.S. Department of State, *Investment Climate Statements*, 2008–2011; World Bank, *World Development Indicators 2011*; 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 2010 through the first half of 2011. To the extent possible, the information considered for each factor was current as of June 30, 2011. It is important to understand, however, that some component scores are based on historical information. For example, the monetary freedom component is a three-year weighted average rate of inflation from January 1, 2008, to December 31, 2010.

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 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 empirical econometricians 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 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 (June 30, 2011). Any new legislative changes or policy actions effective after that date have no positive or negative impact.[9]

---

[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 2011 have not affected the rankings for the 2012 *Index* but will almost certainly show up in scores for the next edition of the *Index*.

Major Works Cited

The 2012 *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.

African Development Bank, *Statistics Pocketbook 2011*; available at *http://www.afdb.org/en/knowledge/publications/the-adb-statistics-pocketbook/.*

African Development Bank and Organisation for Economic Co-operation and Development, *African Economic Outlook 2011*; available at *http://www.africaneconomicoutlook.org/en/countries/.*

Asian Development Bank, *Asian Development Outlook 2011: South-South Economic Links*; available at *http://www.adb.org/Documents/Books/ADO/2011/ado2011.pdf.*

——, *Key Indicators for Asia and the Pacific 2011*; available at *http://www.adb.org/Documents/Books/Key_Indicators/2011/pdf/Key-Indicators-2011.pdf.*

Country statistical agencies, central banks, and ministries of finance, economy, and trade; available at *http://unstats.un.org/unsd/methods/inter-natlinks/sd_natstat.asp*; *http://www.census.gov/aboutus/stat_int.html*; and *http://www.bis.org/cbanks.htm.*

Deloitte, International Tax and Business Guide, *Country Highlights*; available at *http://www.deloitte.com/view/en_PG/pg/insights-ideas/itbg/index.htm.*

Economist Intelligence Unit, Ltd., *Country Commerce,* London, U.K., 2008–2011.

——, *Country Finance,* London, U.K., 2008–2011.

——, *Country Report*, London, U.K., 2008–2011.

European Bank for Reconstruction and Development, *Country Strategies*, 2008–20110; available at *http://www.ebrd.com/pages/country.shtml.*

European Commission, Eurostat, *European Statistics*; available at *http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes.*

——, *Statistics in Focus: Tax Revenue in the European Union*; available at *http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-11-026/EN/KS-SF-11-026-EN.PDF.*

International Monetary Fund, *Article IV Consultation Staff Reports*, various countries, Washington, D.C., 2008–2011; available at *http://www.imf.org/external/ns/cs.aspx?id=51.*

——, *Country Information*; available at *http://www.imf.org/external/country/index.htm.*

——, *Selected Issues and Statistical Appendix*, various countries, Washington, D.C., 2006–2011.

——,World Economic Outlook Database, April 2011; available at *http://www.imf.org/external/pubs/ft/weo/2011/01/weodata/index.aspx.*

Low Tax Network, various countries; available at *http://www.lowtax.net.*

Organisation for Economic Co-operation and Development, *OECD Economic Outlook*, No. 89 (May 2011); available at *http://www.oecd.org/document/3/0,3343,en_2649_34573_2483901_1_1_1_1,00.html.*

——, *OECD Factbook 2010*; available at *http://www.oecd.org/site/0,3407,en_21571361_34374092_1_1_1_1_1,00.html.*

——, *OECD Statistics Portal*; available at *http://www.oecd.org/statsportal/0,3352,en_2825_293564_1_1_1_1_1,00.html.*

——, OECD Web site; available at *www.oecd.org/home.*

PricewaterhouseCoopers, *Worldwide Tax Summaries*; available with registration at *http://www.pwc.com/gx/en/worldwide-tax-summaries.*

Transparency International, *The Corruption Perceptions Index*, Berlin, Germany, 2000–2010; available at *http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results.*

United Nations Conference on Trade and Development, World Investment Report 2011: Non-Equity Modes of International Production and Development; available at *http://www.unctad-docs.org/files/UNCTAD-WIR2011-Full-en.pdf.*

United States Central Intelligence Agency, *The World Factbook 2011*; available at *https://www.cia.gov/library/publications/the-world-factbook/index.html.*

United States Department of Commerce, *Country Commercial Guides*, Washington, D.C., 2007–2011; available at *http://www.buyusainfo.net/adsearch.cfm?search_type=int&loadnav=no.*

United States Department of State, *Country Reports on Human Rights Practices for 2009*, released by the Bureau of Democracy, Human Rights, and Labor, March 2011; available at *http://www.state.gov/g/drl/rls/hrrpt/2010/index.htm.*

——, *Investment Climate Statements: 2009–2011*, released by the Bureau of Economic, Energy, and Business Affairs; available at *http://www.state.gov/e/eeb/rls/othr/ics/.*

United States Office of Budget and Management, Historical Tables, Table 7.1—Federal Debt at the End of Year: 1940–2016; available at *http://www.whitehouse.gov/omb/budget/Historicals/.*

United States Trade Representative, Office of the, *2011 National Trade Estimate Report on Foreign Trade Barriers*, Washington, D.C., 2011; available at *http://www.ustr.gov/webfm_send/2751.*

World Bank, *World Bank World Development Indicators Online*, Washington, D.C., 2011; available at *http://siteresources.worldbank.org/DATASTATISTICS/Resources/wdi_ebook.pdf.*

——, *Country Briefs and Trade-at-a-Glance (TAAG) Tables*, Washington, D.C., 2009/2010; available at *http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,contentMDK:22421950~pagePK:148956~piPK:216618~theSitePK:239071,00.html.*

——, *Doing Business*, 2005–2011; available at *www.doingbusiness.org.*

World Trade Organization, *Trade Policy Reviews*, 1996–2011; available at *http://www.wto.org/english/tratop_e/tpr_e/tpr_e.htm.*

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: office@
adriaticinstitute.org
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

16a Jasinskio St.
LT-01112 Vilnius
Lithuania

Phone: +370-5-25-26-255
E-mail: LFMI@freema.org
Web Site: www.freema.org

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

Alcántara 498, Las Condes
Santiago de Chile

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: ++51 1 222 3269
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