2011 Index of Economic Freedom

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Ambassador Terry Miller

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Foreword

Financial panics and global recessions tend to be bad times for free markets, as worried citizens look to the state for relief. So it is a pleasant surprise to learn that the 2011 *Index of Economic Freedom* has found an overall increase in liberty across the world after two years of decline. Perhaps the Great Recession of 2008–2009 will turn out to be only a detour, not a major disruption, in what had been a 30-year march of free-market reform.

If so, the turn will not have been led by the United States, which fell another spot in the world rankings to ninth, following a drop of two spaces last year. The demotion was well-earned, as Congress and the White House imposed the largest expansion of government in two generations. The health-care reform known as Obamacare will by itself push the U.S. toward European levels of spending and state economic control unless it can be repealed or replaced.

The U.S. economic recovery has also been lackluster, despite an unprecedented monetary and fiscal stimulus. Most disappointing is that the recovery momentum that began in late 2009 (5 percent growth in the final quarter) has slowed to 2 percent or less. This is in contrast to recent recessions when the American economy led the world toward new periods of expansion. U.S. businesses have cleaned up their balance sheets, but they are either sitting on their capital or investing it elsewhere around the world. My reporting suggests this is a classic "capital strike" related to government policies that have raised the costs of hiring and investment, targeted banks and corporations for political vilification, and created great uncertainty about America's business climate.

Another relative loser is the United Kingdom, which reacted to the financial panic by returning to the bad policy habits of the pre-Thatcher era. As recently as 2000, British government spending as a share of GDP was 36.4 percent; in 2007, it was 41 percent. As I write this, it is 47.5 percent following a Keynesian spending binge that was supposed to stimulate growth but has resulted in a slower recovery than the one in Germany, which spent far less. Taxes have naturally followed spending upward, with Britain's top income tax rate rising to 50 percent from 40 percent. It's thus no surprise that Britain has fallen out of the world's top 15 in this year's *Index*.

The good news comes in small national packages. Africa has been the continent least open to free-market ideas, but Rwanda and Djibouti made significant gains in 2010. Several Middle Eastern nations continued their trend toward more economic openness, albeit from a low base. As China and India have shown, however, countries can ignite a growth spurt by making even partial reforms that liberate their citizens to exploit their talents. The direction of policy is crucial.

On this point, the major question at the end of 2010 was whether the reaction that has begun against statist policies could build into another era of expanded liberty. The evidence is mixed. In the U.K., a new coalition government was cutting spending but not taxes and seemed to lack a pro-growth strategy. Europe was growing overall again but also bailing out the likes of Greece and Ireland at the price of austerity and higher taxes.

Asia is booming again, having avoided the worst of the panic and policy mistakes, but inflation was also building, notably in China. More important, some Asian nations are drawing the wrong lesson from their relative success, giving credit to state-directed industrial policy while asserting that the U.S.-led market model has been repudiated. If they believe this, they will court a political and trade backlash in the West and eventually hit a growth roadblock at home.

As for the U.S., voters have shut down Barack Obama's historic government expansion by electing a Republican House of Representatives. This should prevent further policy harm in the short term, but it doesn't repair the damage already done by regulations and higher taxes that are still moving forward or are set to take effect without legislative action. Much will depend on whether Mr. Obama accommodates the new public mood or digs in and takes a populist left turn.

The larger point is that economic prosperity is not a national birthright. Rich countries can fall into stagnation all too quickly, while long-suffering nations can ascend from poverty to powerhouse in a matter of years. Think of Argentina's decline from a country with a GDP akin to Europe's to one of South America's laggards or Japan's two-decade malaise. Or consider China's rise in a mere 30 years from a nation whose main mode of transportation was the bicycle to a global industrial giant.

The abiding lesson of the *Index of Economic Freedom* is that the most important variable in the wealth of nations is liberty. What the world economy needs above all at the end of 2010 is for the United States government to recall that truth and act on it.

Paul A. Gigot
Editorial Page Editor
The Wall Street Journal
November 2010

Preface

The results of the 2011 *Index of Economic Freedom* will be encouraging for champions of individual freedom and policies that promote openness and competition. After two years of decline, the world's average level of economic freedom is again on the rise, up by about a third of a point. This news is particularly cheering because the current growth of economic freedom is driven primarily by the sound policy choices of many evolving and developing economies that have joined the free world only recently.

The embrace of capitalism by the young democracies of Eastern Europe and the former Soviet Union has proved particularly durable, and many developing countries have made major gains in reducing poverty by adopting measures that open up their economies and encourage economic engagement with the world. The strong commitment to economic freedom in these countries paves their way to more vibrant economic growth and greater prosperity in the years to come.

Friedrich von Hayek once observed, "To be controlled in our economic pursuits means to be controlled in everything." That observation resonates astonishingly well in today's world. Proposals for greater government control of economic activity have not taken the world by storm. In fact, there has been little global demand for a shift to government planning or extensive state ownership of private businesses in the name of recovery and stability. Too many people in too many parts of the globe have lived under such systems too recently, missing out on chances to fulfill their dreams. Many of those people truly understand the costs of big government and the limits of government effectiveness. They have no intention of giving up economic or political freedoms only recently won.

It should not, then, be a surprise that only a small number of countries have responded to the global financial and economic crisis of 2008–2010 with measures that sharply reduced their citizens' economic freedom. Just 19 of the countries ranked in the *Index of Economic Freedom* have had cumulative drops of three points or more in economic freedom since 2008. Unfortunately, among those countries were the United States and the United Kingdom, two economies that, more than many others, have served as engines of growth for the world economy over the past century.

We cannot, of course, know what would have happened had the U.S. and the U.K. gone through the crisis with leaders who had high levels of faith and confidence in free-market institutions. The fact is, they didn't. We do know that misguided and mismanaged government interventions in these two economies have produced a recession of unusual depth and duration. We also, in a note of hope, can see that the voters in both of these countries have recently repudiated both the policies and the officials responsible for the loss of economic freedom.

Those governments that opted to move away from economic freedom by continuing massive government spending in the name of Keynesian economic stimulus have, for the most part, seen their efforts fail. The *Index* results show no positive correlation between stimulus spending and the pace of recovery. The explosion of unsustainable debt and the erosion of long-term competitiveness in countries that have been losing economic freedom have led to a searing reassessment and sometimes painful readjustment of spending and economic priorities. Indeed, for many countries we may, as highlighted in a provocative essay by *Index* editor Terry Miller, have reached the limits of government expansion.

The 2011 *Index of Economic Freedom* documents a global economy that is progressing yet still engaged in the great battle between government and free markets. The fight for freedom is a never-ending struggle.

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. 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. By dispersing economic power and decision-making throughout an economy, economic freedom empowers ordinary people with more choices and greater opportunity for success.

Over the past 17 years, the *Index* has analyzed and confirmed the strong interplay between economic freedom and prosperity in countries around the world. The *Index* began to record the worldwide march of freedom and free exchange shortly after the fall of the Berlin Wall. In spite of ups and downs, the *Index* has witnessed profound advances as the cause of freedom has swept the globe.

The 2011 *Index* records a resumption of this positive trend. Even more encouraging, political authorities have found themselves increasingly held accountable by those they govern. People around the world are opting, when they have a choice, for greater freedom. That their wisdom seems sometimes to outpace that of their leaders is one of the enduring lessons of the benefits of democracy.

In addition to the rankings and analysis of the results, the 2011 *Index* contains two informative chapters that examine facets of economic freedom that are particularly relevant to today's policy debates.

- In chapter 4, Ben Lieberman, Senior Fellow in Environmental Policy at the Competitive Enterprise Institute, highlights the vital link between economic freedom and the environment. The same free-market principles that have proven to be the key to economic success can also deliver environmental success.
- In chapter 5, Professors Pietro Navarra and Sebastiano Bavetta of the London School of Economics contribute a pioneering empirical study that sheds light on the critical relationship between economic freedom and broadly defined measures for individual well-being and the pursuit of happiness.

The 2011 *Index of Economic Freedom*, like its predecessors, provides ample evidence of the benefits of economic freedom, both to individuals and to societies. With global economic recovery far from secure, the need for greater economic growth is stronger than ever.

Clearly, many countries are at a critical juncture that requires both political will and decisive policy choices. Those that fail to make the policy adjustments necessary to enhance economic freedom and revitalize economic growth risk long-term stagnation or, worse, a return to recession and crisis.

Edwin J. Feulner, Ph.D., President
The Heritage Foundation
November 2010

Acknowledgments

The *Index of Economic Freedom* has evaluated countries' economic environments each year since 1995 with the help of countless individuals and organizations around the world. Their dedication to accuracy, context, depth, and breadth of analysis has contributed greatly to the relevance and vitality of the *Index*.

While it is impossible to mention them all, we wish to express our profound gratitude to the many individuals serving with various international organizations, accounting firms, businesses, research institutions, U.S. government agencies, foreign embassies, and other organizations who cooperated by providing us with the data used in the *Index*. Their assistance is vital and appreciated each year.

There are many members of The Heritage Foundation who, under the vision and leadership of Dr. Edwin J. Feulner, our president, have made valuable contributions to this 17th edition of the *Index of Economic Freedom*.

The Heritage Foundation's Center for International Trade and Economics (CITE) produces the *Index*. The CITE team of Anthony Kim, Bryan Riley, James Roberts, and Caroline Walsh 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 Cannon and interns Margaret Crawford, Daniel Fullerton, Jacob Honsvick, Chelsey Mullins, Renee Pirrong, Holly Redmond, Andre Rougeot, and Julia Swanson 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, 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, Owen Graham, 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, Morgan Roach, and Brett Schaefer 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 Therese Pennefather, Elizabeth Brewer, Ralph Buglass, and Doug Sampson were responsible for all aspects of the production process, handling design and layout for the *Index* and each subsidiary product. With an emphasis on reader accessibility, they developed and formatted world and country maps, charts, and tables, all of which bring to life the quantitative data underpinning the 2011 *Index* findings.

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 editing the entire book. Every year, their professionalism, commitment, and attention to detail are essential to maintaining consistency of tone and making the *Index* a reality. 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, Joel Smith, and Martha Galante. We are grateful to the entire Heritage IT staff for their tireless work.

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 Relations; Genevieve Wood, Vice President, Leadership for America Operations; and Michael Gonzalez, Vice President, Communications, is sincerely appreciated. We also thank Deputy Director of the Kathryn and Shelby Cullom Davis Institute for International Studies James Jay Carafano, Center for Data Analysis Director William Beach, Director of Coalition Relations Bridgett Wagner, and Deputy Director of Government Relations James Dean for their insightful contributions to the *Index*.

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. We hope this year's effort meets the expectations of our supporters as well as the thoughtful critics who so often have provided the insights that enable us to continue to improve the *Index*.

Ambassador Terry Miller
Kim R. Holmes, Ph.D.
November 2010

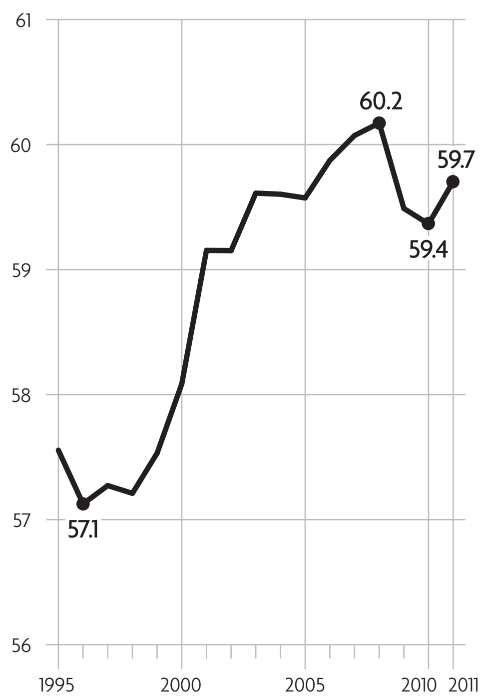
Executive Highlights

Economic freedom advanced this year, regaining much of the momentum lost during the fiscal crisis and global recession. Many governments around the world have rededicated themselves to fiscal soundness, openness and reform, and the majority of countries are once again on a positive path to greater freedom.

The 2011 *Index of Economic Freedom* reports on economic policy developments since the second half of 2009 in 183 economies. Based on 10 measures that evaluate openness, the rule of law, and competitiveness, the *Index* ranks economies according to their economic freedom. The principles of economic freedom emphasized in the *Index* are individual empowerment, non-discimination, and the promotion of competition.

Global Average Economic Freedom

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



Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*.

Chart 1 heritage.org

HIGHLIGHTS FROM THE 2011 *INDEX OF ECONOMIC FREEDOM*

• **The global average economic freedom score for the 2011 *Index* is 59.7, a 0.3 point increase from last year.** (See Chart 1.) Despite the challenging global economic environment, the forces of economic freedom around the world have been resilient and even increasing. In fact, economic freedom has taken an upturn in the majority of the economies that are assessed in the 2011 *Index*. Those gains are particularly welcome and significant given the fact that the biggest improvements have been achieved in developing and emerging economies where poverty reduction is a top priority. (See Table 1.)

Biggest Gainers and Losers in the 2011 *Index*

Nations that Gained or Lost at Least 2 Points in their *Index* Scores from Last Year

GAINERS		LOSERS	
Rwanda	+3.6	Iceland	–5.5
Djibouti	+3.4	Algeria	–4.5
Seychelles	+3.3	Timor-Leste	–3.0
Soloman Islands	+3.0	Kuwait	–2.8
Guinea–Bissau	+2.9	Ireland	–2.6
Jordan	+2.8	Nepal	–2.6
Cape Verde	+2.8	Greece	–2.4
Bulgaria	+2.6	Italy	–2.4
Sri Lanka	+2.5	Ecuador	–2.2
Colombia	+2.5	Angola	–2.2
Tonga	+2.4	Chad	–2.2
Cyprus	+2.4	Madagascar	–2.1
Belize	+2.3	Albania	–2.0
The Gambia	+2.3	United Kingdom	–2.0
Oman	+2.1		
Burundi	+2.1		
Moldova	+2.0		
Saudi Arabia	+2.0		
Togo	+2.0		

Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*.

Table 1 heritage.org

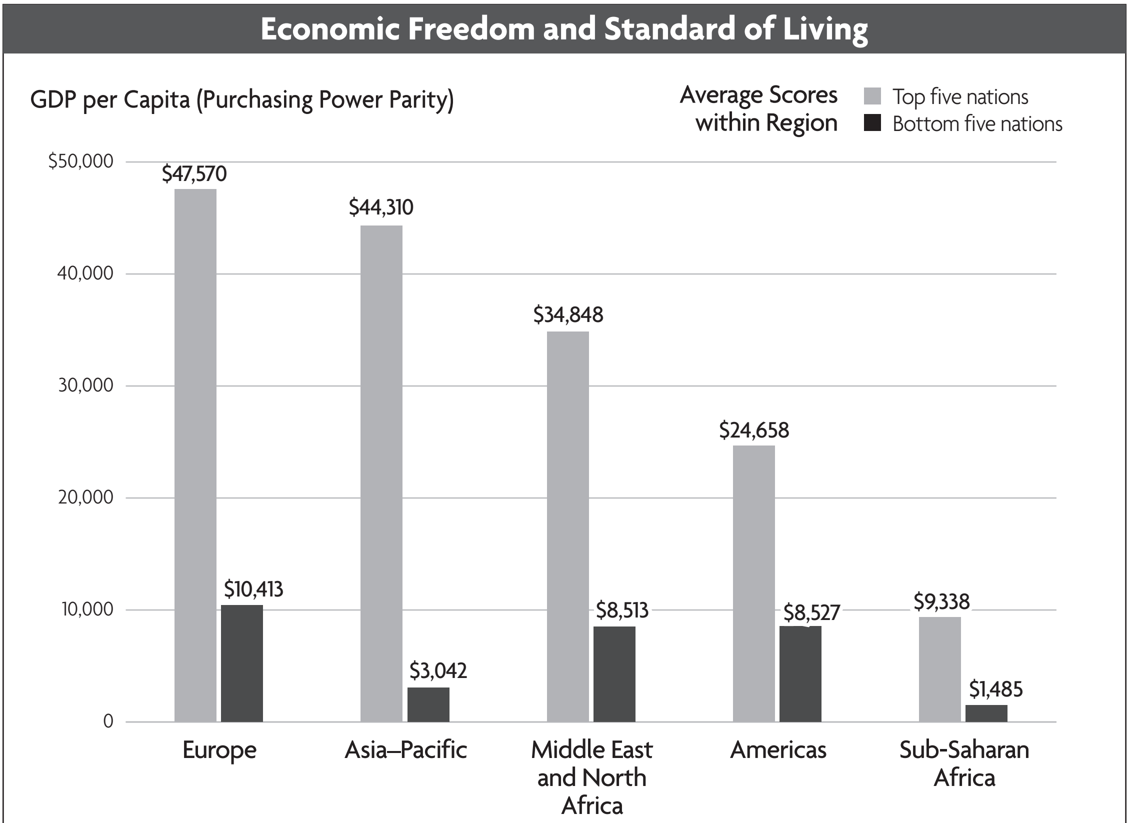
• **The scores of 117 economies are better, the scores of 58 are worse, and those of four are unchanged.** Of the 117 economies whose scores improved, 102 are developing or emerging economies, many of which are in Sub-Saharan Africa and the South and Central America/Caribbean region.

• **All regions except Europe and North America recorded increased levels of economic freedom.** The Sub-Saharan Africa region, led by Rwanda, Djibouti, and Cape Verde, achieved the largest score improvement, with countries gaining over half a point on average in the 2011 *Index*. The South and Central America/Caribbean region gained the second most freedom on average, exactly half a point, owing to significant progress in Colombia and Costa Rica, among others. The Middle East and North Africa and Asia–Pacific regions also showed gains, but North America and Europe, despite increases by some countries, experienced a decline in economic freedom and no change, respectively, on average.

• **Along with Hong Kong and Singapore, Australia, New Zealand, Switzerland, and Canada have solidified their status as the world's "free" economies.** These top six economies are the only countries to achieve scores above 80 on the 0 to 100 economic freedom grading scale. Hong Kong was able to uphold its status as the world's freest economy, a position it has held for 17 consecutive years. Singapore remains a close second, narrowing the gap with Hong Kong. Australia and New Zealand have maintained their previous rankings of 3rd and 4th in the 2011 *Index*, while Switzerland climbed up to the 5th spot, overtaking Ireland, which fell to 7th place. The relative strength of the "free" economies is no accident. Their strong commitment to all facets of economic freedom has endowed their economies with a high degree of resilience. All are recovering rapidly from the shocks of the global slowdown.

• **Every region continues to maintain at least one of the top 20 freest economies.** Nine of them are in Europe, six are in the Asia–Pacific region, and two are from 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). Bahrain recorded impressive progress, now becoming the world's 10th freest economy. Across all the regions, economic freedom is the key to greater opportunity and prosperity. (See Chart 2.)

• **Economic freedom is key to overall well-being.** The 2011 edition of the *Index* con-



Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*.

Chart 2 heritage.org

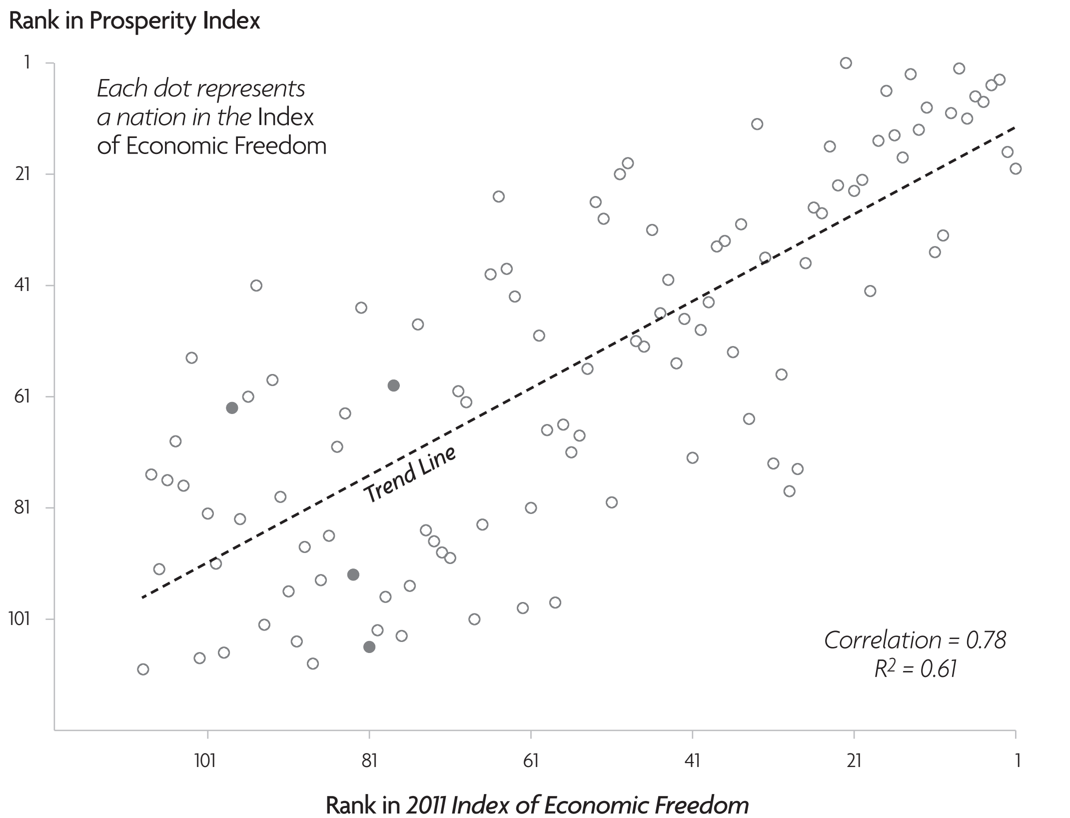
firms findings from previous editions regarding the various tangible benefits of living in freer societies. Not only are higher levels of economic freedom associated with higher per capita incomes, but greater economic freedom is also strongly correlated to overall well-being, which takes into account such factors as health, education, security, and personal freedom. (See Chart 3.)

Responding to Crisis

• **Policy responses to the global economic turmoil have led to noticeable reshuffling in the top 20 countries in the 2011 *Index*.** Nine of the 20 freest economies are European, led by Switzerland, Ireland, and Denmark. With its economic freedom score declining by 5.5 points, Iceland slid out of the top 20 while Denmark surpassed the U.S. Continuing its downward trend, the U.S. became the 9th freest economy. The United Kingdom is now out of the top 15.

• **High levels of government spending in response to the global economic turmoil have not resulted in higher economic growth.** In light of the economic crisis, many advanced economies' governments have stepped up their direct interference in the economy with government spending. Though volumes of evidence have highlighted the negative results of massive government spending, in a time of crisis, some have tried the Keynesian policy prescription of stimulating demand with government spending. That spending, more than any market factor, has posed the greatest risk to economic dynamism. Relying on government spending in the form of various stimulus packages not only has failed to promote growth and employment, but also has seemed to prolong the crisis by hampering private-sector investment. Bloated government debt has turned the economic slowdown into a fiscal crisis in many countries, with economic stagnation fueling a long-term employment crisis. (See Chart 4.)

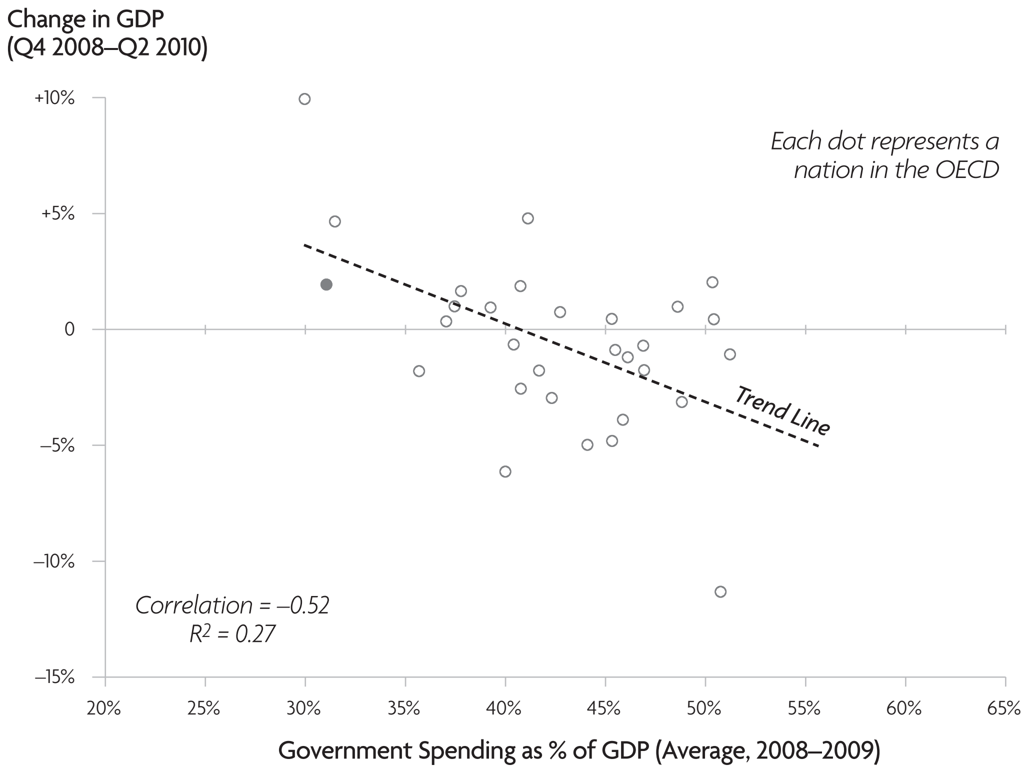
Economic Freedom Promotes Overall Well-Being



Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*, and 2010 Legatum Prosperity Index, at *http://www.prosperity.com/downloads/2010LegatumProsperityIndexBrochure.pdf* (November 1, 2010).

Chart 3 heritage.org

Higher Government Spending, Lower Growth



Source: Organisation for Economic Co-operation and Development, OECD.StatExtracts, Quarterly National Accounts: Quarterly Growth Rates of GDP, volume, at *http://stats.oecd.org/index.aspx* (November 3, 2010).

Chart 4 heritage.org

2011 *Index of Economic Freedom* World Rankings

World Rank	Country	Overall Score	Change from 2010	Business Freedom	Trade Freedom	Fiscal Freedom	Government Spending	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
1	Hong Kong	89.7	0.0	98.7	90.0	93.3	89.6	87.1	90.0	90.0	90.0	82.0	86.2
2	Singapore	87.2	1.1	98.2	90.0	91.1	91.3	86.2	75.0	60.0	90.0	92.0	98.0
3	Australia	82.5	–0.1	90.1	84.4	61.3	64.7	85.0	80.0	90.0	90.0	87.0	92.2
4	New Zealand	82.3	0.2	99.9	86.6	64.7	49.3	84.8	80.0	80.0	95.0	94.0	89.2
5	Switzerland	81.9	0.8	80.2	90.0	68.4	69.3	83.8	80.0	80.0	90.0	90.0	87.8
6	Canada	80.8	0.4	96.4	88.1	78.0	52.7	78.8	75.0	80.0	90.0	87.0	81.7
7	Ireland	78.7	–2.6	92.0	87.6	72.1	47.1	80.7	90.0	70.0	90.0	80.0	77.5
8	Denmark	78.6	0.7	99.7	87.6	43.2	19.5	81.4	90.0	90.0	90.0	93.0	92.1
9	United States	77.8	–0.2	91.0	86.4	68.3	54.6	77.4	75.0	70.0	85.0	75.0	95.7
10	Bahrain	77.7	1.4	77.4	82.8	99.8	80.2	74.0	75.0	80.0	60.0	51.0	97.0
11	Chile	77.4	0.2	67.2	88.0	77.7	86.6	77.9	80.0	70.0	85.0	67.0	74.5
12	Mauritius	76.2	–0.1	82.0	88.0	91.9	80.0	76.1	90.0	70.0	60.0	54.0	70.4
13	Luxembourg	76.2	0.8	76.4	87.6	66.7	58.5	82.1	95.0	80.0	90.0	82.0	44.1
14	Estonia	75.2	0.5	80.9	87.6	80.7	52.2	78.7	90.0	80.0	80.0	66.0	55.8
15	The Netherlands	74.7	–0.3	81.9	87.6	50.6	36.8	82.7	90.0	80.0	90.0	89.0	58.3
16	United Kingdom	74.5	–2.0	94.6	87.6	52.0	32.9	74.9	90.0	80.0	85.0	77.0	71.2
17	Finland	74.0	0.2	95.0	87.6	65.3	26.5	80.7	85.0	80.0	90.0	89.0	41.4
18	Cyprus	73.3	2.4	80.1	82.6	74.6	45.6	87.6	75.0	70.0	80.0	66.0	71.4
19	Macau	73.1	0.6	60.0	90.0	76.6	93.3	83.4	85.0	70.0	60.0	53.0	60.0
20	Japan	72.8	–0.1	83.8	82.6	67.0	58.7	87.9	60.0	50.0	80.0	77.0	81.1
21	Austria	71.9	0.3	72.8	87.6	50.3	28.0	82.9	80.0	70.0	90.0	79.0	78.2
22	Sweden	71.9	–0.5	95.0	87.6	37.6	17.3	80.1	85.0	80.0	90.0	92.0	54.0
23	Germany	71.8	0.7	89.6	87.6	58.5	42.7	83.9	85.0	60.0	90.0	80.0	40.6
24	Lithuania	71.3	1.0	81.7	87.6	86.1	58.0	74.5	80.0	80.0	60.0	49.0	55.6
25	Taiwan	70.8	0.4	84.7	86.2	78.3	89.7	82.0	65.0	50.0	70.0	56.0	46.1
26	Saint Lucia	70.8	0.3	86.2	71.9	74.4	71.4	85.3	55.0	40.0	70.0	70.0	83.4
27	Qatar	70.5	1.5	70.3	82.4	99.8	78.1	71.9	45.0	50.0	70.0	70.0	67.0
28	Czech Republic	70.4	0.6	69.8	87.6	81.0	44.8	80.0	70.0	80.0	65.0	49.0	77.0
29	Georgia	70.4	0.0	87.3	89.2	87.5	60.3	76.7	70.0	60.0	40.0	41.0	92.1
30	Norway	70.3	0.9	88.3	89.4	51.6	51.5	75.1	65.0	60.0	90.0	86.0	45.8
31	Spain	70.2	0.6	77.2	87.6	61.0	49.3	82.4	80.0	80.0	70.0	61.0	53.0
32	Belgium	70.2	0.1	92.6	87.6	41.8	25.0	82.5	80.0	70.0	80.0	71.0	71.0
33	Uruguay	70.0	0.2	61.5	83.0	84.3	76.5	72.8	80.0	30.0	70.0	67.0	74.9
34	Oman	69.8	2.1	69.4	83.6	98.5	68.1	69.5	55.0	60.0	50.0	55.0	89.1
35	South Korea	69.8	–0.1	91.6	70.8	72.2	73.0	78.7	70.0	70.0	70.0	55.0	46.5
36	Armenia	69.7	0.5	82.4	85.5	89.2	85.7	76.0	75.0	70.0	30.0	27.0	75.9
37	Slovak Republic	69.5	–0.2	73.4	87.6	84.2	63.7	81.6	75.0	70.0	50.0	45.0	64.5
38	Jordan	68.9	2.8	65.8	78.8	92.7	60.9	81.4	70.0	60.0	55.0	50.0	74.2

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World Rank	Country	Overall Score	Change from 2010	Business Freedom	Trade Freedom	Fiscal Freedom	Government Spending	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
39	El Salvador	68.8	–1.1	65.5	85.0	85.8	88.0	79.9	75.0	70.0	40.0	34.0	64.9
40	Botswana	68.8	–1.5	70.5	75.2	78.4	51.5	70.9	75.0	70.0	70.0	56.0	70.0
41	Peru	68.6	1.0	71.9	86.0	79.4	91.0	83.1	70.0	60.0	40.0	37.0	67.7
42	Barbados	68.5	0.2	90.0	60.5	70.7	48.8	76.3	45.0	60.0	80.0	74.0	80.0
43	Israel	68.5	0.8	66.1	87.8	62.3	44.8	78.4	80.0	70.0	70.0	61.0	64.3
44	Iceland	68.2	–5.5	92.7	88.2	69.8	0.0	68.6	65.0	60.0	90.0	87.0	60.7
45	Colombia	68.0	2.5	86.1	73.2	74.5	78.9	75.8	65.0	60.0	50.0	37.0	79.3
46	The Bahamas	68.0	0.7	72.5	42.2	97.2	86.9	74.6	30.0	70.0	70.0	55.0	81.3
47	United Arab Emirates	67.8	0.5	67.3	82.6	99.9	79.1	76.5	35.0	50.0	50.0	65.0	72.4
48	Mexico	67.8	–0.5	87.3	81.2	81.3	83.1	75.7	65.0	60.0	50.0	33.0	60.9
49	Costa Rica	67.3	1.4	58.2	85.2	82.3	86.9	70.7	70.0	50.0	55.0	53.0	62.1
50	Saint Vincent and the Grenadines	66.9	0.0	79.3	73.3	72.3	65.1	78.2	50.0	40.0	70.0	64.0	76.8
51	Hungary	66.6	0.4	76.5	87.6	69.7	27.4	75.9	75.0	70.0	65.0	51.0	67.7
52	Trinidad and Tobago	66.5	0.8	58.4	81.7	83.7	75.8	71.8	60.0	70.0	50.0	36.0	77.1
53	Malaysia	66.3	1.5	69.7	78.7	84.6	79.2	81.3	45.0	50.0	50.0	45.0	79.2
54	Saudi Arabia	66.2	2.0	86.1	82.2	99.4	74.6	64.3	40.0	50.0	45.0	43.0	77.0
55	Macedonia	66.0	0.3	64.6	83.6	90.0	64.3	84.5	60.0	60.0	35.0	38.0	79.7
56	Latvia	65.8	–0.4	72.8	87.6	82.5	55.5	73.5	80.0	50.0	50.0	45.0	61.3
57	Malta	65.7	–1.5	70.0	87.6	62.5	39.8	80.1	75.0	60.0	70.0	52.0	60.0
58	Jamaica	65.7	0.2	86.3	72.2	75.9	64.7	72.5	85.0	60.0	40.0	30.0	70.2
59	Panama	64.9	0.1	75.1	75.8	82.6	88.6	77.1	65.0	70.0	40.0	34.0	41.1
60	Bulgaria	64.9	2.6	75.8	87.6	86.9	58.3	75.5	55.0	60.0	30.0	38.0	82.0
61	Kuwait	64.9	–2.8	64.4	81.6	99.9	69.7	69.3	55.0	50.0	50.0	41.0	67.9
62	Thailand	64.7	0.6	69.9	75.9	74.8	90.6	70.8	40.0	70.0	45.0	34.0	76.3
63	Romania	64.7	0.5	72.0	87.6	86.8	57.6	74.4	80.0	50.0	40.0	38.0	60.8
64	France	64.6	0.4	85.6	82.6	52.3	16.4	83.7	55.0	70.0	80.0	69.0	51.4
65	Cape Verde	64.6	2.8	64.8	67.6	77.3	71.0	79.2	60.0	60.0	65.0	51.0	50.0
66	Slovenia	64.6	–0.1	83.6	87.6	65.1	41.1	80.5	70.0	50.0	60.0	66.0	41.8
67	Turkey	64.2	0.4	68.7	85.4	78.2	83.6	72.7	70.0	50.0	50.0	44.0	39.6
68	Poland	64.1	0.9	61.4	87.6	74.0	43.8	78.1	65.0	60.0	60.0	50.0	61.2
69	Portugal	64.0	–0.4	80.1	87.6	61.1	36.2	82.3	70.0	60.0	70.0	58.0	34.7
70	Albania	64.0	–2.0	67.1	79.8	92.1	68.7	79.9	65.0	70.0	35.0	32.0	50.4
71	Belize	63.8	2.3	73.7	71.5	82.3	76.1	78.8	50.0	50.0	40.0	29.0	86.5
72	Dominica	63.3	0.0	74.8	74.3	69.5	45.8	86.3	65.0	30.0	65.0	59.0	62.8
73	Namibia	62.7	0.5	72.9	86.4	67.9	74.8	70.9	55.0	40.0	30.0	45.0	84.6
74	South Africa	62.7	–0.1	72.3	77.2	69.6	77.5	71.9	45.0	60.0	50.0	47.0	56.7
75	Rwanda	62.7	3.6	76.9	77.8	76.9	78.6	68.5	50.0	40.0	35.0	33.0	89.9

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World Rank	Country	Overall Score	Change from 2010	Business Freedom	Trade Freedom	Fiscal Freedom	Government Spending	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
76	Montenegro	62.5	–1.1	71.3	83.6	89.4	28.6	76.0	55.0	50.0	40.0	39.0	92.3
77	Paraguay	62.3	1.0	61.7	83.0	97.6	93.4	80.9	70.0	60.0	30.0	21.0	24.9
78	Kazakhstan	62.1	1.1	74.3	80.9	87.3	78.5	69.9	30.0	50.0	35.0	27.0	88.4
79	Guatemala	61.9	0.9	52.1	84.6	79.5	94.4	76.4	60.0	50.0	35.0	34.0	53.4
80	Uganda	61.7	–0.5	50.3	74.8	80.6	90.5	73.2	45.0	60.0	30.0	25.0	87.8
81	Madagascar	61.2	–2.1	60.0	73.2	87.8	89.7	75.9	55.0	50.0	40.0	30.0	50.7
82	Croatia	61.1	1.9	65.2	87.6	74.6	50.3	78.5	70.0	60.0	40.0	41.0	44.1
83	Kyrgyz Republic	61.1	–0.2	75.4	63.2	92.6	74.2	68.6	55.0	50.0	25.0	19.0	88.1
84	Samoa	60.6	0.2	72.8	70.0	80.1	67.9	68.5	30.0	30.0	60.0	45.0	82.1
85	Burkina Faso	60.6	1.2	61.5	76.2	80.5	86.0	76.8	55.0	50.0	30.0	36.0	53.5
86	Fiji	60.4	0.1	63.2	69.8	78.1	81.3	76.1	30.0	60.0	30.0	40.0	75.7
87	Italy	60.3	–2.4	77.3	87.6	55.4	28.6	82.1	75.0	60.0	50.0	43.0	44.4
88	Greece	60.3	–2.4	76.2	82.6	65.9	34.3	80.6	60.0	60.0	50.0	38.0	55.2
89	Lebanon	60.1	0.6	57.5	80.5	91.0	64.9	77.7	60.0	60.0	25.0	25.0	59.0
90	Dominican Republic	60.0	–0.3	56.4	79.8	85.3	89.1	77.1	55.0	40.0	30.0	30.0	57.1
91	Zambia	59.7	1.7	62.2	82.4	72.4	81.8	77.3	55.0	50.0	30.0	30.0	56.3
92	Azerbaijan	59.7	0.9	72.9	77.1	83.9	71.0	72.6	55.0	40.0	20.0	23.0	81.1
93	Morocco	59.6	0.4	75.7	75.8	67.8	74.6	76.5	65.0	60.0	40.0	33.0	27.2
94	Mongolia	59.5	–0.5	67.7	79.8	83.3	49.6	73.6	50.0	60.0	30.0	27.0	74.1
95	Ghana	59.4	–0.8	63.4	67.8	83.3	46.1	63.3	65.0	60.0	50.0	39.0	56.1
96	Egypt	59.1	0.1	64.5	74.0	89.6	65.3	60.8	65.0	50.0	40.0	28.0	53.6
97	Swaziland	59.1	1.7	66.4	79.8	67.2	65.9	71.0	55.0	40.0	40.0	36.0	69.4
98	Nicaragua	58.8	0.5	54.3	84.8	78.8	81.3	71.7	55.0	50.0	20.0	25.0	67.1
99	Honduras	58.6	0.3	62.1	77.0	83.5	85.7	73.2	60.0	60.0	30.0	25.0	29.7
100	Tunisia	58.5	–0.5	80.2	53.5	73.7	77.6	77.3	35.0	30.0	50.0	42.0	65.7
101	Serbia	58.0	1.1	59.0	75.2	83.6	41.9	66.0	60.0	50.0	40.0	35.0	68.9
102	Cambodia	57.9	1.3	39.5	70.0	90.9	94.2	78.0	60.0	50.0	30.0	20.0	46.3
103	Bhutan	57.6	0.6	59.8	52.0	83.9	64.1	71.8	20.0	30.0	60.0	50.0	84.7
104	Bosnia and Herzegovina	57.5	1.3	60.4	86.0	83.9	24.1	80.6	70.0	60.0	20.0	30.0	60.2
105	The Gambia	57.4	2.3	57.8	60.4	73.2	79.7	71.4	55.0	50.0	30.0	29.0	67.2
106	Kenya	57.4	–0.1	62.2	72.8	77.6	72.8	73.2	50.0	50.0	30.0	22.0	62.9
107	Sri Lanka	57.1	2.5	71.9	72.2	73.4	84.7	65.8	30.0	40.0	40.0	31.0	61.8
108	Tanzania	57.0	–1.3	46.0	69.6	79.8	80.5	68.8	60.0	50.0	30.0	26.0	59.0
109	Mozambique	56.8	0.8	63.1	81.0	77.5	76.5	80.3	45.0	50.0	30.0	25.0	39.2
110	Gabon	56.7	1.3	57.3	61.0	74.5	87.9	73.8	45.0	40.0	40.0	29.0	58.8
111	Nigeria	56.7	–0.1	51.6	65.0	84.4	73.0	73.5	40.0	40.0	30.0	25.0	84.5
112	Vanuatu	56.7	0.3	68.8	55.1	96.1	79.1	76.5	30.0	40.0	40.0	32.0	49.8
113	Brazil	56.3	0.7	54.3	69.8	69.0	49.6	75.9	50.0	50.0	50.0	37.0	57.8

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World Rank	Country	Overall Score	Change from 2010	Business Freedom	Trade Freedom	Fiscal Freedom	Government Spending	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
114	Mali	56.3	0.7	51.2	73.2	60.5	86.5	77.6	50.0	40.0	30.0	28.0	65.8
115	The Philippines	56.2	–0.2	43.4	77.8	78.8	91.0	76.3	40.0	50.0	30.0	24.0	50.7
116	Indonesia	56.0	0.5	54.9	73.8	83.0	88.9	74.3	35.0	40.0	30.0	28.0	51.8
117	Benin	56.0	0.6	43.0	58.8	75.8	84.1	78.2	60.0	50.0	30.0	29.0	50.7
118	Tonga	55.8	2.4	77.4	56.2	83.1	73.2	71.1	30.0	20.0	25.0	30.0	92.1
119	Malawi	55.8	1.7	42.4	71.0	79.3	56.7	71.6	50.0	50.0	45.0	33.0	59.1
120	Moldova	55.7	2.0	69.5	80.2	85.6	48.1	77.0	35.0	50.0	40.0	33.0	39.0
121	Senegal	55.7	1.1	62.3	73.2	65.4	78.8	79.7	45.0	40.0	40.0	30.0	42.9
122	Côte d'Ivoire	55.4	1.3	43.3	72.2	78.5	88.4	80.2	35.0	50.0	30.0	21.0	55.7
123	Pakistan	55.1	–0.1	70.9	67.0	80.5	88.8	63.6	40.0	40.0	30.0	24.0	46.3
124	India	54.6	0.8	36.9	64.2	75.4	77.8	65.1	35.0	40.0	50.0	34.0	67.2
125	Djibouti	54.5	3.4	32.9	59.6	79.6	50.5	76.6	60.0	60.0	30.0	28.0	67.7
126	Niger	54.3	1.4	36.9	71.8	77.5	83.0	80.0	55.0	40.0	30.0	29.0	40.3
127	Yemen	54.2	–0.2	73.7	81.6	83.2	44.5	82.3	45.0	30.0	30.0	21.0	50.9
128	Tajikistan	53.5	0.5	60.7	82.5	88.6	77.3	64.5	20.0	40.0	25.0	20.0	56.4
129	Suriname	53.1	0.6	40.7	66.4	68.1	80.3	76.4	10.0	30.0	40.0	37.0	81.8
130	Bangladesh	53.0	1.9	65.0	58.0	72.7	92.4	68.6	55.0	20.0	20.0	24.0	54.3
131	Papua New Guinea	52.6	–0.9	60.2	85.4	66.3	63.3	72.9	35.0	30.0	20.0	21.0	72.4
132	Algeria	52.4	–4.5	69.4	72.8	83.5	62.4	75.4	20.0	30.0	30.0	28.0	52.9
133	Haiti	52.1	1.3	37.5	74.8	80.9	90.1	73.7	30.0	30.0	10.0	18.0	76.4
134	Mauritania	52.1	0.1	48.3	69.9	81.1	73.9	77.4	30.0	40.0	25.0	25.0	50.3
135	China	52.0	1.0	49.8	71.6	70.3	87.0	75.3	25.0	30.0	20.0	36.0	54.9
136	Cameroon	51.8	–0.6	44.1	59.6	66.9	89.7	73.3	35.0	50.0	30.0	22.0	47.0
137	Guinea	51.7	–0.1	40.8	61.2	69.6	90.9	70.3	40.0	40.0	20.0	18.0	66.6
138	Argentina	51.7	0.5	62.4	69.5	68.7	81.7	63.2	45.0	30.0	20.0	29.0	47.9
139	Vietnam	51.6	1.8	61.6	68.9	75.9	75.1	79.1	15.0	30.0	15.0	27.0	68.2
140	Syria	51.3	1.9	55.9	65.4	84.6	85.3	69.7	20.0	20.0	30.0	26.0	55.8
141	Laos	51.3	0.2	58.8	68.4	79.9	90.1	80.4	25.0	20.0	20.0	20.0	49.9
142	Seychelles	51.2	3.3	62.4	33.4	77.7	52.5	54.9	45.0	30.0	50.0	48.0	58.1
143	Russia	50.5	0.2	50.7	68.2	82.7	65.1	63.1	25.0	40.0	25.0	22.0	62.9
144	Ethiopia	50.5	–0.7	67.4	65.6	74.5	88.7	54.3	20.0	20.0	30.0	27.0	57.1
145	Micronesia	50.3	–0.3	58.7	81.0	97.6	0.0	73.4	20.0	30.0	30.0	30.0	82.4
146	Nepal	50.1	–2.6	59.2	61.4	86.4	88.4	73.8	5.0	30.0	30.0	23.0	44.3
147	Bolivia	50.0	0.6	57.2	77.6	83.9	63.7	68.8	20.0	50.0	10.0	27.0	41.5
148	Burundi	49.6	2.1	36.8	78.8	72.3	52.0	66.1	55.0	30.0	20.0	18.0	67.1
149	Sierra Leone	49.6	1.7	54.9	62.8	80.8	86.8	74.2	45.0	20.0	10.0	22.0	39.4
150	São Tomé and Príncipe	49.5	0.7	32.0	66.6	87.2	67.5	62.2	45.0	30.0	30.0	28.0	46.4
151	Guyana	49.4	1.0	66.8	71.3	64.6	29.1	75.8	30.0	40.0	30.0	26.0	60.3

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World Rank	Country	Overall Score	Change from 2010	Business Freedom	Trade Freedom	Fiscal Freedom	Government Spending	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
152	Central African Republic	49.3	0.9	36.8	58.1	65.4	92.8	71.3	50.0	30.0	20.0	20.0	48.2
153	Togo	49.1	2.0	36.8	62.2	68.1	88.6	78.1	25.0	30.0	30.0	28.0	43.7
154	Maldives	48.3	–0.7	81.5	43.8	95.6	0.0	74.1	35.0	30.0	25.0	25.0	73.4
155	Belarus	47.9	–0.8	70.6	80.3	83.6	26.2	62.2	20.0	10.0	20.0	24.0	82.3
156	Lesotho	47.5	–0.6	58.9	63.6	48.2	21.4	71.6	35.0	40.0	40.0	33.0	63.7
157	Equatorial Guinea	47.5	–1.1	44.2	58.9	75.5	80.5	74.4	20.0	40.0	20.0	18.0	43.1
158	Ecuador	47.1	–2.2	53.5	76.0	78.9	50.1	64.9	25.0	40.0	20.0	22.0	40.1
159	Guinea–Bissau	46.5	2.9	25.5	63.6	88.7	54.8	72.2	30.0	30.0	20.0	19.0	61.4
160	Liberia	46.5	0.3	51.8	53.8	73.3	66.5	69.5	20.0	20.0	30.0	31.0	48.9
161	Angola	46.2	–2.2	41.4	70.2	84.5	48.1	61.8	35.0	40.0	20.0	19.0	42.3
162	Solomon Islands	45.9	3.0	59.8	62.4	69.2	32.9	70.4	10.0	30.0	30.0	28.0	66.6
163	Uzbekistan	45.8	–1.7	66.8	66.2	90.5	71.0	61.7	0.0	10.0	15.0	17.0	60.2
164	Ukraine	45.8	–0.6	47.1	85.2	77.3	32.9	63.2	20.0	30.0	30.0	22.0	50.0
165	Chad	45.3	–2.2	25.3	55.6	50.4	85.3	70.6	45.0	40.0	20.0	16.0	44.8
166	Kiribati	44.8	1.1	62.9	55.4	60.3	0.0	71.1	25.0	30.0	30.0	28.0	85.1
167	Comoros	43.8	–1.1	42.9	62.4	64.8	77.8	76.2	10.0	20.0	30.0	23.0	30.7
168	Republic of Congo	43.6	0.4	40.8	61.0	61.8	79.7	71.4	20.0	30.0	10.0	19.0	42.3
169	Turkmenistan	43.6	1.1	30.0	79.2	93.6	95.5	69.6	0.0	10.0	10.0	18.0	30.0
170	Timor-Leste	42.8	–3.0	44.2	73.0	64.7	0.0	78.1	30.0	20.0	20.0	22.0	76.5
171	Iran	42.1	–1.3	69.4	44.8	81.1	76.0	60.7	0.0	10.0	10.0	18.0	50.7
172	Democratic Republic of Congo	40.7	–0.7	37.8	63.0	73.3	84.5	46.7	15.0	20.0	10.0	19.0	37.3
173	Libya	38.6	–1.6	20.0	85.0	80.3	44.5	71.0	10.0	20.0	10.0	25.0	20.0
174	Burma	37.8	1.1	20.0	72.3	81.9	98.1	56.6	0.0	10.0	5.0	14.0	20.0
175	Venezuela	37.6	0.5	47.8	61.2	75.0	65.3	47.0	5.0	20.0	5.0	19.0	31.1
176	Eritrea	36.7	1.4	18.2	69.1	73.0	31.5	46.0	0.0	20.0	10.0	26.0	73.4
177	Cuba	27.7	1.0	10.0	62.2	49.0	0.0	71.6	0.0	10.0	10.0	44.0	20.0
178	Zimbabwe	22.1	0.7	32.1	45.0	70.3	0.0	0.0	0.0	10.0	5.0	22.0	36.8
179	North Korea	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0	5.0	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	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

The Limits of Government

Ambassador Terry Miller

A critical battle has been raging between friends and foes of economic liberty. The global economic and financial turmoil of the past two years emboldened critics of the capitalist, free enterprise system and raised questions about the best policy framework for supporting economic growth, employment, and overall prosperity. Questions relating to the role and size of government have been front and center, both in national debates and in international discussions:

- With countries from Europe to China facing the demographic challenges of aging populations, problems of funding pensions on a sustainable basis are becoming acute.
- Health costs are rising rapidly around the world, with many countries facing hard choices about the allocation of care and rationing.
- The recession has strained social safety nets almost everywhere; increased spending in some countries has turned what was previously a debate about long-term funding solutions into an acute crisis demanding immediate decisions about austerity measures to restrain national debt.

With battle lines drawn more starkly than at any time since the fall of the Soviet Union, the advocates of free enterprise and economic freedom have faced new challengers from some unexpected quarters, particularly the governments of the United States and, until May of 2010, the United Kingdom. These governments, championing state intervention and government control for the first time since the *Index of Economic Freedom* began ranking countries in 1995, have led the calls for greater international regulation of business, backed away from the cause of free trade, and shed economic freedom at home, stifling their own growth and, in effect, turning off two of the most important engines that had driven world growth for half a century or more.

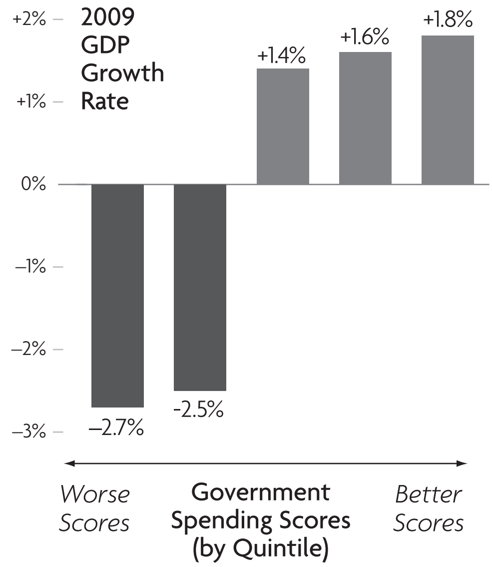
When dealing with democracies, of course, battles are fought not just among countries, but also within them through the political system and the electoral process. A great debate emerged, particularly in the United States, between those who claimed that economic freedom caused, or at least exacerbated, the first global economic crisis of the new century and those who blamed past government interventions that inflated unsustainable bubbles in housing and financial markets.

U.S. voters, apparently more interested in practical solutions than ideology, responded pragmatically. As the first shock wave of the global financial troubles washed over them in late 2008, they elected President Barack Obama and installed a Congress with large left-leaning majorities that massively increased government spending and regulation. Then, only two years later, voters just as massively rejected the President's failed statist solutions, as well as many of the politicians who had championed them.

In Europe, decades of high social welfare spending and stifling regulation have combined to reduce economic and social dynamism and flexibility. As electorates were clamoring for action during the financial crisis and recession, governments' scope for effective response proved surprisingly small. For governments increasingly constrained by budget deficits and rising debt, the disconnect between their past promises and their capability to fulfill them, and between their financial assets and liabilities, became difficult to ignore. A fundamental rethinking of the social contract, the basic relationship between government and citizen, became, for some countries like Greece or France, not just an academic exercise but a political debate that spilled into the streets.

Government Size and Economic Growth

Nations with better scores in the Government Spending component of the Index of Economic Freedom *also have faster-growing economies.*



Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*.

Chart 1 heritage.org

RIGHT-SIZING GOVERNMENT

The *Index of Economic Freedom* has never, in its methodology, claimed that there was an appropriate or ideal level of government spending against which countries' economic performance should be measured. Factors as diverse as culture and geography have an impact on the need for government. Demands on government vary widely between developed and developing countries. It is undeniable, however, that there is an opportunity cost to government spending: resources used by government are unavailable for private-sector consumption or investment. In addition, governments, because they operate outside of market constraints and competition, are typically susceptible to excessive bureaucracy, corruption, and waste.

Whatever the ideal level of government may be, the political and economic developments of the past year have made clear that in many societies, particularly among the more developed countries, the limits of appropriate or tolerable government spending may have been reached or even surpassed. Debates are underway in many of these countries that may fundamentally alter the relationship between citizen and state and provide new insights into our understanding of government spending as a constraint on economic freedom.

With global economic recovery far from secure, many countries are at a critical juncture and face decisive policy choices. Leaders will either acknowledge the limits of government and make necessary policy adjustments, or they will carry on with ill-guided policies that empower governments but not people. The alternatives are clear: openness or protectionism; austerity or fiscal collapse; entrepreneurial dynamism or economic stagnation.

The 2011 *Index* results demonstrate clearly that for many of the countries of the world, particularly those that experienced the inevitable results of state economic control under Communist systems in the past, policy solutions that would re-regulate economic activity or undo the integration of economies in a globalized trade and investment market hold little attraction.

Their skepticism is justified. Countries that reduced government spending had economic growth rates almost two percentage points higher in 2009 than countries whose government spending scores worsened, and countries with the highest rates of government spending had gross domestic product (GDP) growth rates 4.5 percentage points lower on average than countries where government spending was best contained. (See Chart 1.)

ECONOMIC FREEDOM: THE FOUNDATION FOR RESILIENCE, INNOVATION, AND GROWTH

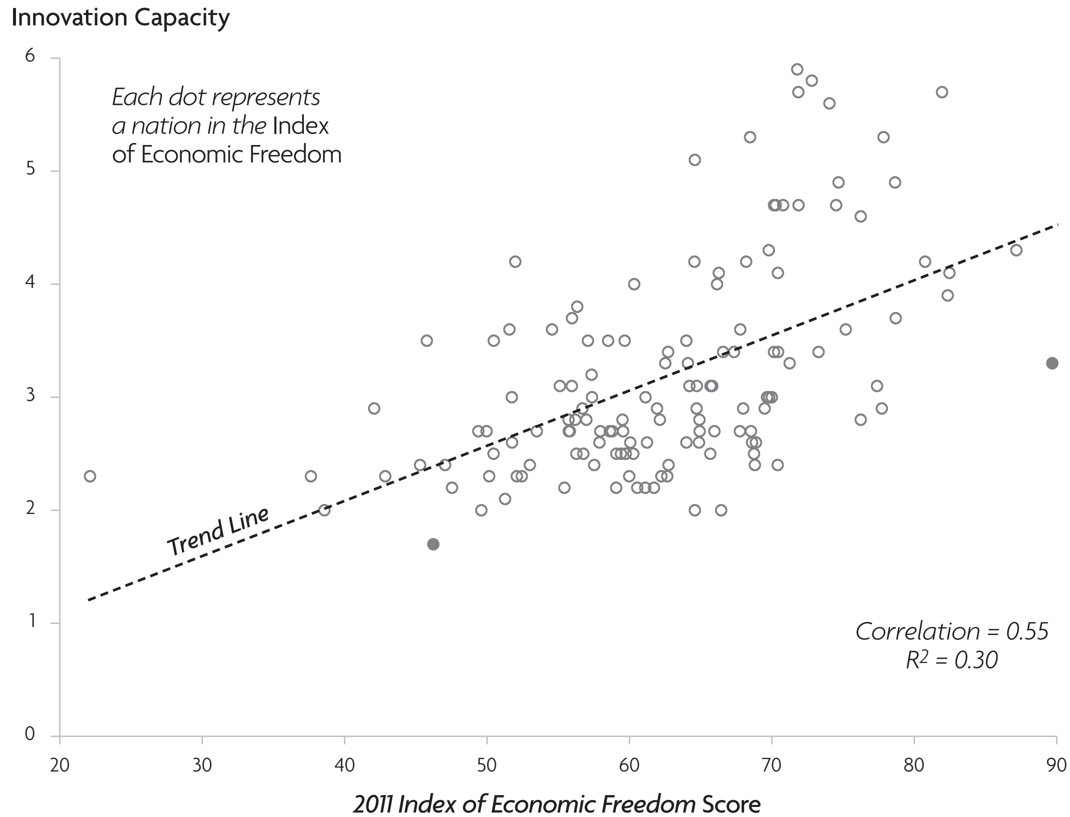
While the global economic crisis has tested confidence in economic freedom, the *Index* results, when compared with real data about changes in economic and social conditions in

Economic Freedom Promotes Greater Prosperity

Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*; World Bank Group, *World Development Indicators Online*, at *http://publications.worldbank.org/WDI/* (November 5, 2010); International Monetary Fund, World Economic Outlook Databases, at *http://www.imf.org/external/ns/cs.aspx?id=28* (November 5, 2010).

Chart 2 heritage.org

Economic Freedom Propels Innovation



Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index; Global Competitiveness Report 2010–2011*, World Economic Forum, at *http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm* (November 4, 2010).

Chart 3 heritage.org

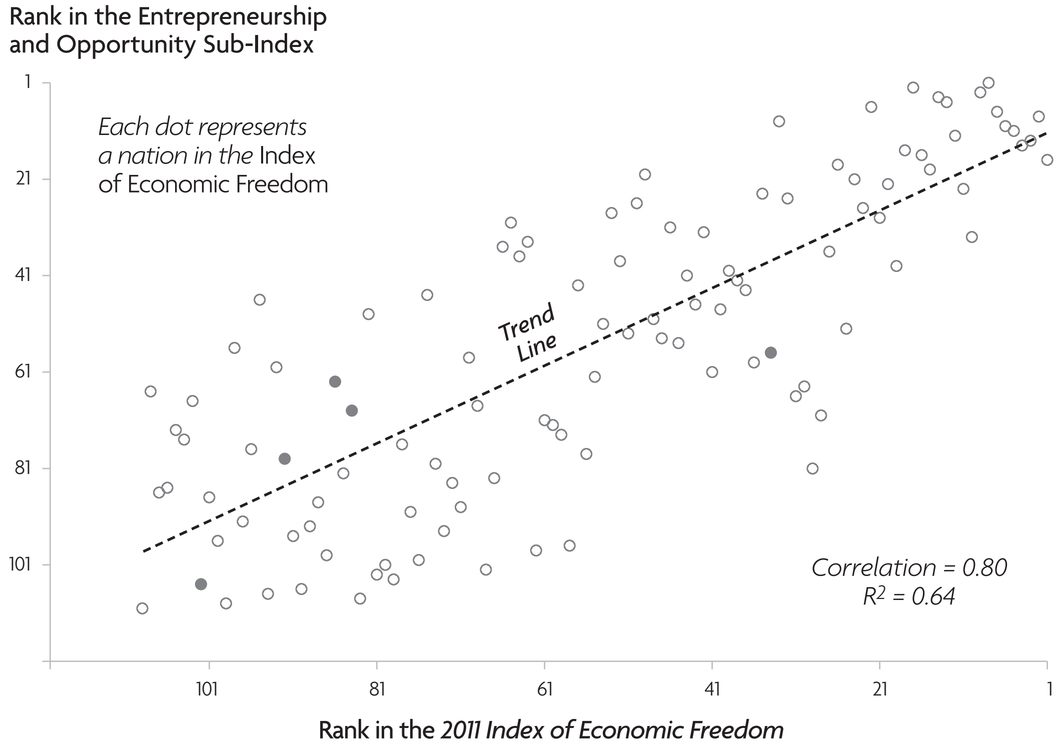
societies around the world, provide strong evidence that the free-market system remains not only viable—with such core features as private property rights, openness, and flexibility almost uncontested—but uniquely able to promote long-term prosperity.

Over the past decades, the globalized economic and trading system that is based on economic freedom has fueled unprecedented economic growth around the world. From 1980 to 2008, the world economy achieved real GDP expansion of around 145 percent, lifting hundreds of millions of people out of poverty. Globally, poverty has fallen by 40 percent since 1990. Economic freedom has helped economies to become more flexible and resilient and has promoted increased productivity and higher wages.

The positive relationship between economic freedom and prosperity has been confirmed yet again in the 2011 *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.

Given this relationship, it should be apparent that a government's most effective stimulus activity will not be to increase its own spending or increase layers of regulation, both of which reduce economic freedom. The best results are likely to be achieved instead through policy reforms that improve the

Economic Freedom Promotes Entrepreneurial Dynamism



Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index;* 2010 Legatum Prosperity Index at *http://www.prosperity.com/downloads/2010LegatumProsperityIndexBrochure.pdf* (November 4, 2010).

Chart 4 heritage.org

incentives that drive entrepreneurial activity, creating greater opportunities for investment and job growth.

One proven path to stimulating 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 help create the social and economic resilience to sustain and empower individuals in a rapidly evolving economic environment. As shown in Chart 3, economic freedom is positively linked to innovation.

Today's successful economies are not necessarily geographically large or richly blessed with natural resources. Many economies have managed to expand opportunities for their citizens by enhancing their economic dynamism and vitality. Economic freedom is highly correlated with societies' openness to entrepreneurial activity that creates new jobs and increases opportunity and choice for individuals in advancing their own well-being. (See Chart 4.)

For countries in which the economic crisis lingers, and particularly for those in which job creation is a priority, it is imperative to pick up the pace of economic reform. The political will to resist elite and special interests that support the status quo, whether through tariffs and other protectionist measures or through domestic regulations so complex that only the largest and most well-entrenched companies can afford to implement them, is critical. Reforms to facilitate business startups are essential, and those countries that lighten the regulatory and financial burden for the private sector will be on the fast track to economic success in the future.

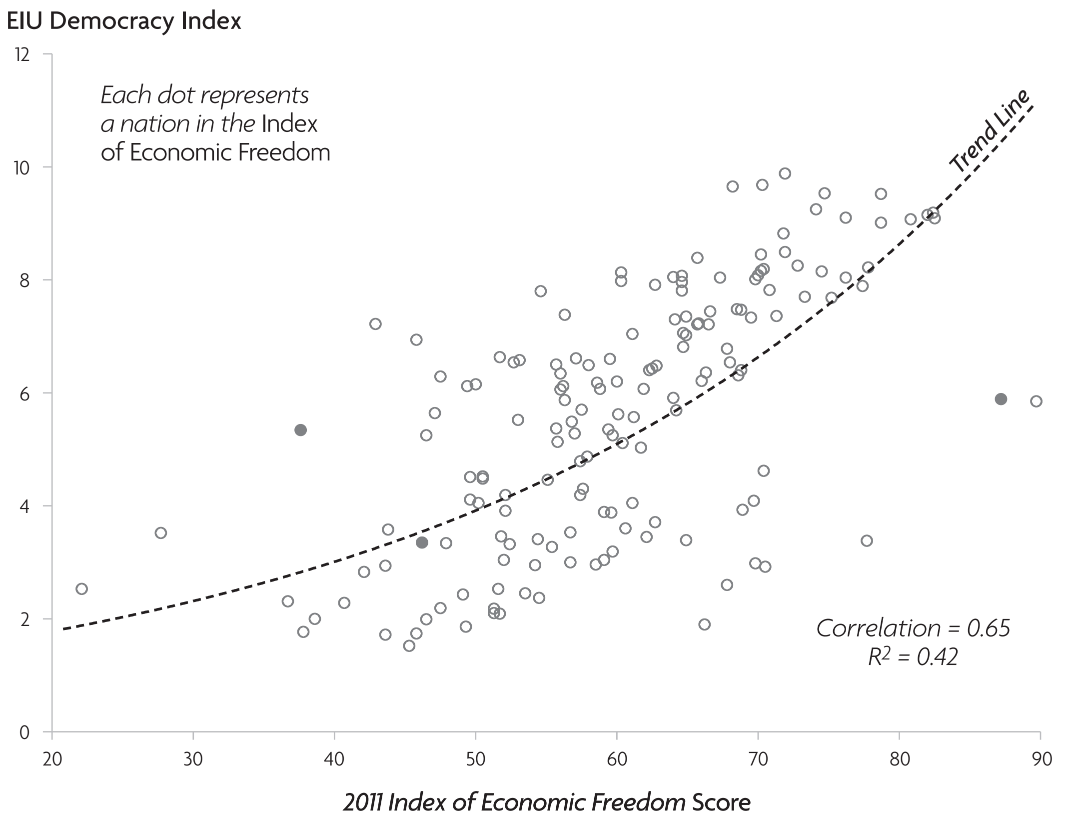
THE FREE MARKET: A DEMOCRATIC CHALLENGE TO GOVERNMENT POWER

The *Index of Economic Freedom* has often explored the relationship between economic freedom and political freedom or democracy. There is a strong correlation between the two and little doubt that higher levels in either can have a positive impact on the other. (See Chart 5.)

What has been ignored too often is the democratic nature of the free market itself. In a market that is truly free, consumers, producers, and investors exercise sovereignty over their own individual lives. In making the best decisions for themselves, whether by seeking the lowest cost for goods or the maximum opportunities for profit, they are helping to identify their society's true priorities. Through their individual decisions, they help determine the nature and characteristics of the society in which they live. This is the essence of democracy.

In a political democracy, government decisions about economic matters may, of course, reflect the will of the people, or at least 51 percent of the people. Unfortunately, a minority may have their freedom constrained or even repressed by one-size-fits-all government solutions. A system that provides for economic freedom allows for greater diversity, promoting creativity and innovation. In addition, a

Economic Freedom and Democratic Governance



Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*; Economist Intelligence Unit, EIU's Democracy Index, at *http://graphics.eiu.com/PDF/Democracy%20Index%202008.pdf* (November 4, 2010).

Chart 5 heritage.org

free society requires the dispersal of power to prevent monopoly or abuse. Competition for power will always occur within governments; free markets provide an additional channel in which individuals may challenge entrenched interests.

RENEWING CONFIDENCE IN ECONOMIC FREEDOM

Perhaps the largest lesson of the past years is that the fundamental superiority and value of economic liberty must be retaught to a new generation of political leaders, either by their peers who have lived in less free systems and less free times or by their own citizens, who understand instinctively that when individuals are allowed to decide for themselves how best to pursue their dreams and aspirations, their collective achievements can add up to a better society for all.

Some world leaders have seemed shocked and disoriented by the global financial crisis and recession. Those with a greater knowledge of history, or perhaps just longer memories, have maintained their confidence in the free enterprise system as the most rapid means to increase prosperity. They understand that there will be interruptions from time to time as bubbles burst, or pauses to retool and restructure, but they know that over decades and even centuries, the trend will be dependably upwards.

By contrast, those who in a time of crisis turn to increased government power and control for answers are repeating a fundamental error exposed many times in the past. No another systems that have been tried have come close to free-market capitalism in terms of providing broad-based economic expansion. In no case have even the best efforts of central planners and bureaucrats led to dependable growth over an extended period. Such efforts are certain to be futile. Indeed, the only real question is how much damage they will do.

The certain path to prosperity and a greater society is the path of renewal and recommitment to the fundamental principles of economic freedom. That is the course charted and evaluated in the *Index of Economic Freedom*. The evidence is strong that individual liberty leads to more sustainable development and to collective happiness. Countries that embrace freedom are sure to achieve a better future for their people.

Chapter 2

Defining Economic Freedom

Ambassador Terry Miller and Anthony B. Kim

> *Fortunately, we are waking up. We are again recognizing the dangers of an over-governed society, coming to understand that good objectives can be perverted by bad means, that reliance on the freedom of people to control their own lives in accordance with their own values is the surest way to achieve the full potential of a great society. Fortunately, also, we are as a people still free to choose which way we should go—whether to continue along the road we have been following to ever bigger government, or to call a halt and change direction.*
>
> —Milton and Rose Friedman[1]

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

In an economically free society, individuals succeed or fail based on their individual effort and ability. The institutions of a free and open society do not discriminate 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 and inform every measurement in the *Index of Economic Freedom*.

1. Milton Friedman and Rose D. Friedman, *Free to Choose: A Personal Statement* (New York: Harcourt Brace Jovanovich, 1979), pp. 309–310.

ECONOMIC FREEDOM: AUTONOMY, NOT ANARCHY

The discussion of economic freedom has at its heart consideration of the relationship between the individual and the state. 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 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 create 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. This Lockean idea is embodied in the U.S. Constitution. 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.

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 consumption of goods and services (including, of course, labor services).[2]

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

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2. "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.

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* is comprehensive in its view of economic freedom as well as in its worldwide coverage of countries. The *Index* looks at economic freedom from 10 different viewpoints. Some aspects of economic freedom are external in nature, measuring the extent of an economy's openness to global investment or trade. Most are internal in nature, assessing the liberty of individuals to use their labor or finances without restraint and government interference. Each is vital to the development of personal and national prosperity. The fundamental right of property, for example, has been recognized for centuries by the great philosophers of liberty, such as Locke and Montesquieu, as a bulwark of free people.

Over time, scholars and practitioners have recognized many other pillars of economic liberty, including free trade, stable currency, access to finance, control of government spending, and lower taxation. Each one illuminates some aspect of the interplay between the individual and the state, and all should be viewed in light of the fundamental principles of economic liberty—individual empowerment, non-discrimination, and open competition—outlined above.

The 10 specific economic freedoms measured in the *Index of Economic Freedom* are discussed below. Each of the freedoms 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.

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. Finally, rigid and onerous bankruptcy procedures are also distortionary, providing a disincentive for entrepreneurs to start businesses in the first place.

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 an outright trade ban.

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.

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 burden 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 consumption, thereby thwarting the choices of individuals. Even worse, a government's insulation from market discipline often leads to inefficiency, bureaucracy, lower productivity, and waste.

Most notably, the government's appetite for private resources affects both economic freedom and lasting economic growth. Even if an economy achieves fast growth through heavy government expenditure, such economic expansion tends to be only short-lived and causes long-term damage to a country's growth potential by eroding economic freedom.

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 now widespread recognition that price controls corrupt market efficiency and lead to shortages or surpluses.

Investment Freedom

A free and open investment environment provides maximum entrepreneurial opportunities and incentives for expanded economic activity, productivity increases, 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; 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.

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 proven to be key determinants of a country's prospects for long-term economic growth. Such a system is also vital to the maintenance of peace and security and the protection of human rights.

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

Freedom from Corruption

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.

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.

THE *INDEX*: AN EVOLVING MEASURE OF DURABLE VALUES

Taken together, these 10 economic freedoms provide a comprehensive, albeit imperfect, picture of economic freedom, both in individual countries and in the global economy as a whole. At present, our understanding of economic freedom has outpaced the availability of data on a worldwide basis. As data become more readily available, we will continue to refine the measures to provide the most complete picture possible.

It also may well be that our understanding of various facets of economic freedom will improve or evolve over time. There is no question, for example, that our understanding of discrimination has broadened in recent decades. Similar advances may occur in our understanding of the ideal relationship between individuals and society and—critically—of the role that government may play in bolstering equitable competition.

What will not change is our commitment to freedom, and particularly economic freedom, as a fundamental and inalienable human right.

The 10 Economic Freedoms: A Global Look

BUSINESS FREEDOM — *64.3*

While some countries have continued to streamline and modernize their business frameworks, reforms have stalled in many others, seemingly as a result of some combination of reform fatigue and complacency. In a few countries, including the United States, ongoing regulatory changes have injected new uncertainty into the business environment, in itself a constraint on entrepreneurial activity. For the world as a whole, business freedom worsened slightly by 0.3 point, with 49 countries improving and 113 declining.

TRADE FREEDOM — *74.8*

Despite the challenging global economic environment, the world average for trade freedom improved by 0.6 point in the 2011 *Index*. Average applied tariffs fell by almost half a percentage point over the past year to 6.4 percent. Only a few of the countries whose scores fell this year actually increased their tariffs. Most resorted instead to a variety of other restrictive measures that impede the free flow of goods or services, continuing a disturbing trend toward increasing non-tariff barriers.

FISCAL FREEDOM — *76.3*

Over the previous year, 36 countries have introduced reforms in direct taxes or have implemented tax cuts as previously planned, despite the fiscal challenges caused by the global economic slowdown. Six countries, including the United Kingdom, Iceland, and Mexico, implemented either temporary or permanent tax rate increases. Overall fiscal freedom improved by 0.9 point in the 2011 *Index*. The average top tax rate on individual income is now 28.7 percent, and the average top tax rate on corporate income is 24.8 percent. The average total tax burden as a percentage of GDP is 24.4 percent.

GOVERNMENT SPENDING — *63.9*

The average score for government spending decreased by 1.1 points in the 2011 *Index*. In response to the global financial and economic turmoil, many governments around the world, particularly in advanced economies, launched various stimulus programs that increased spending. Deficits and debt levels have increased, and better management of public finance is urgently needed in many countries. The average level of government spending as a percentage of GDP is 33.5 percent, up from 32.8 percent in the 2010 *Index*. The average level of gross public debt as a percentage of GDP in advanced economies has risen sharply to over 90 percent.[1]

MONETARY FREEDOM — *73.4*

The 2011 *Index* registered a sharp improvement in monetary freedom, with the global average score up 2.8 points as a result of reduced inflationary pressures. Inflation has fallen more sharply in emerging economies than in the developed world. Interest rates have been brought down considerably, close to the zero floor in many advanced economies, but price control measures have increased in some economies.

INVESTMENT FREEDOM — *50.2*

Although progress was uneven, investment freedom advanced in the 2011 *Index*. The average investment freedom score improved by 1.3 points. Of the 102 foreign investment–related policy measures during 2009,

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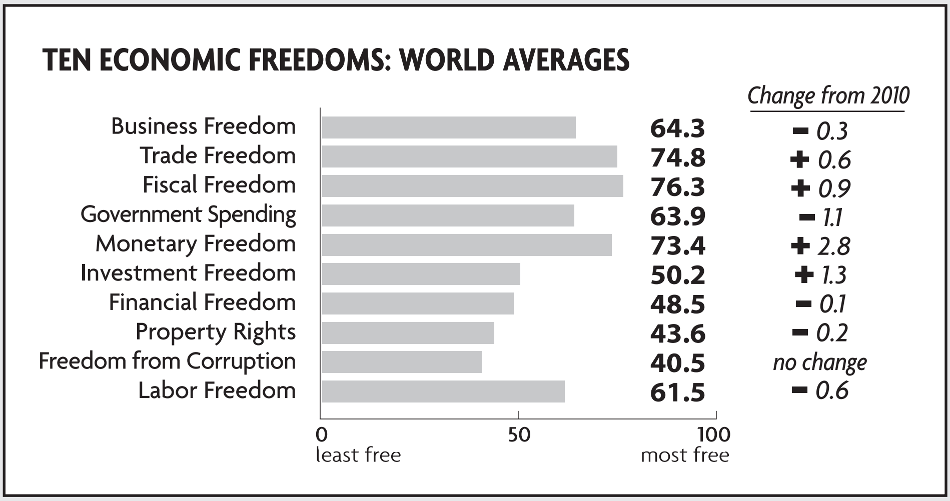
1. Organisation for Economic Co-operation and Development, OECD Economic Outlook No. 87 (May 2010), Annex Table 32, at *http://www.oecd.org/document/61/0,3343,en_2649_34573_2483901_1_1_1_1,00.html* (November 17, 2010).



71 focused on further liberalization and promotion of investment. Leading the global recovery in foreign direct investment flows, developing and transition economies attracted half of global FDI inflows.[2]

FINANCIAL FREEDOM — *48.5*

Following dramatic adjustments in the financial sector during the previous year, stability has improved and only a few countries' financial freedom scores changed in the 2011 *Index*. The effectiveness of financial-sector reform measures that were implemented during the first half of 2010 remains to be seen, but policy uncertainty continues. Governments that have reversed bailouts or other interventionist actions were not further penalized. Overall, the average financial freedom score remained essentially unchanged from the past year.

PROPERTY RIGHTS — *43.6*

The average score on property rights declined by 0.2 point in the 2011 *Index*. Some governments sought to justify expropriations and nationalizations on the basis of the global financial and economic turmoil. On the positive side, protection of property rights improved in 15 countries.

FREEDOM FROM CORRUPTION — *40.5*

Corruption continues to be a significant drag on economic freedom, and scores for freedom from corruption continue to lag behind those of other components of the *Index of Economic Freedom.* The average score for freedom from corruption did not change in the 2011 *Index.* Only 15 countries scored 80 or higher on this component, while 129 countries scored below 50. High levels of persistent corruption in many of the less developed countries continue to severely undermine economic growth.

LABOR FREEDOM — *61.5*

In light of the growing importance of labor-market flexibility in enhancing productivity and improving job growth, many economies have adopted more flexible labor regulations in recent years. Regrettably, reform progress slowed considerably this year, and the global average score for labor freedom decreased by 0.6 point in the 2011 *Index*, with 64 countries improving and 106 declining.

2. United Nations Conference on Trade and Development, *World Investment Report 2010: Investing in a Low-Carbon Economy*, Overview, p. 19, at *http://www.unctad.org/en/docs/wir2010overview_en.pdf* (November 17, 2010).

Chapter 3

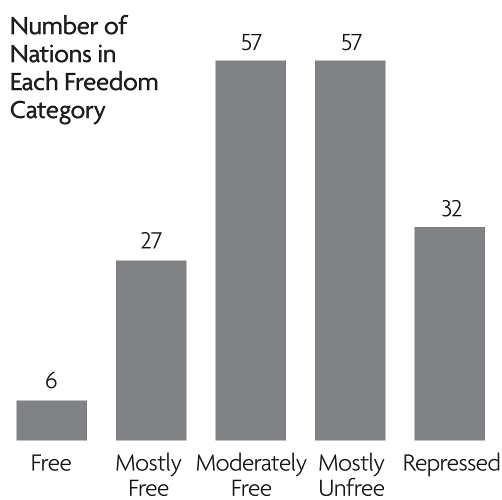
Economic Freedom Around the World

Anthony B. Kim

Of the 179 economies graded in the 2011 *Index*, six are "free" economies that score above 80. With ratings between 70 and 80, the next 27 countries are "mostly free." These 33 economies provide institutional environments in which individuals and private enterprises enjoy a substantial degree of economic freedom in the pursuit of greater prosperity and success. An equal number of countries are divided between "moderately free" and "mostly unfree," accounting, in the middle of the distribution, for the largest share of the countries graded in the *Index*—114 countries. With scores below 50, there are 32 countries that remain economically "repressed." (See Chart 1.)

Each of the world's regions has registered at least one country that is ranked among the top 20 freest economies in the 2011 *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 do share certain

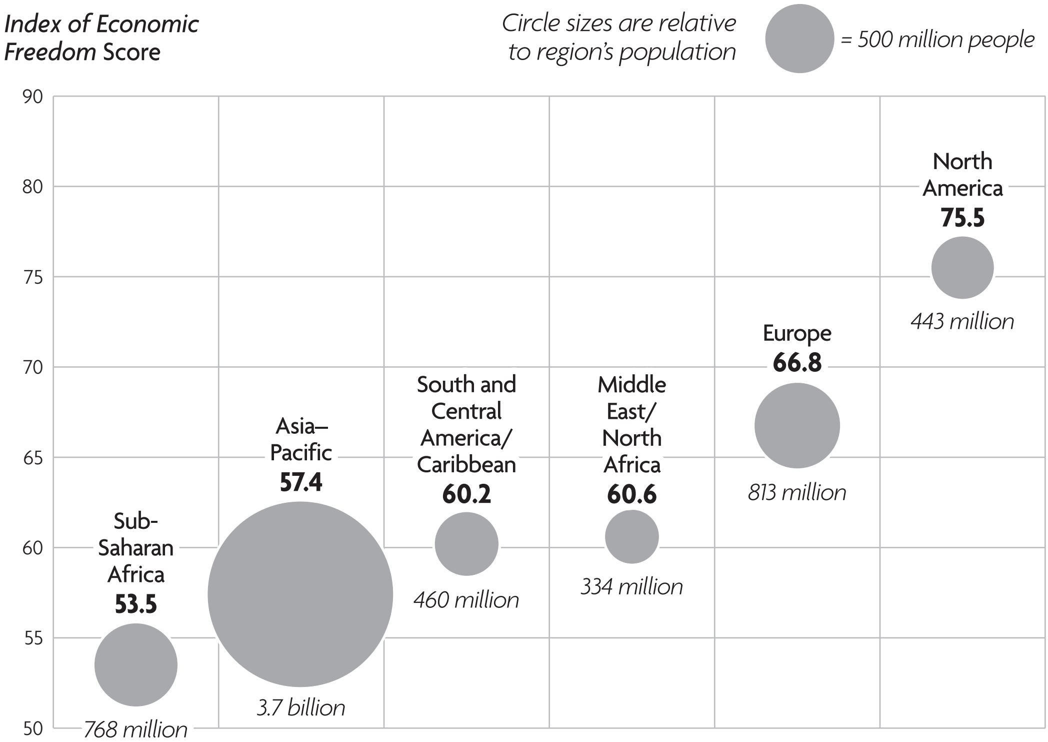
Global Distribution of Economic Freedom



Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*.

Chart 1 heritage.org

Economic Freedom by Region, with Population



Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*; International Monetary Fund, World Economic Outlook Databases, at *http://www.imf.org/external/ns/cs.aspx?id=28* (November 18, 2010)

Chart 2 heritage.org

characteristics—cultural, geographical, historical, or others—with their regional neighbors that may help to shed light on the particular challenges to economic freedom that they face.

As shown in Chart 2, economic freedom varies noticeably by region, with inhabitants of North America and Europe enjoying greater levels of economic freedom than those who live in other regions of the world.

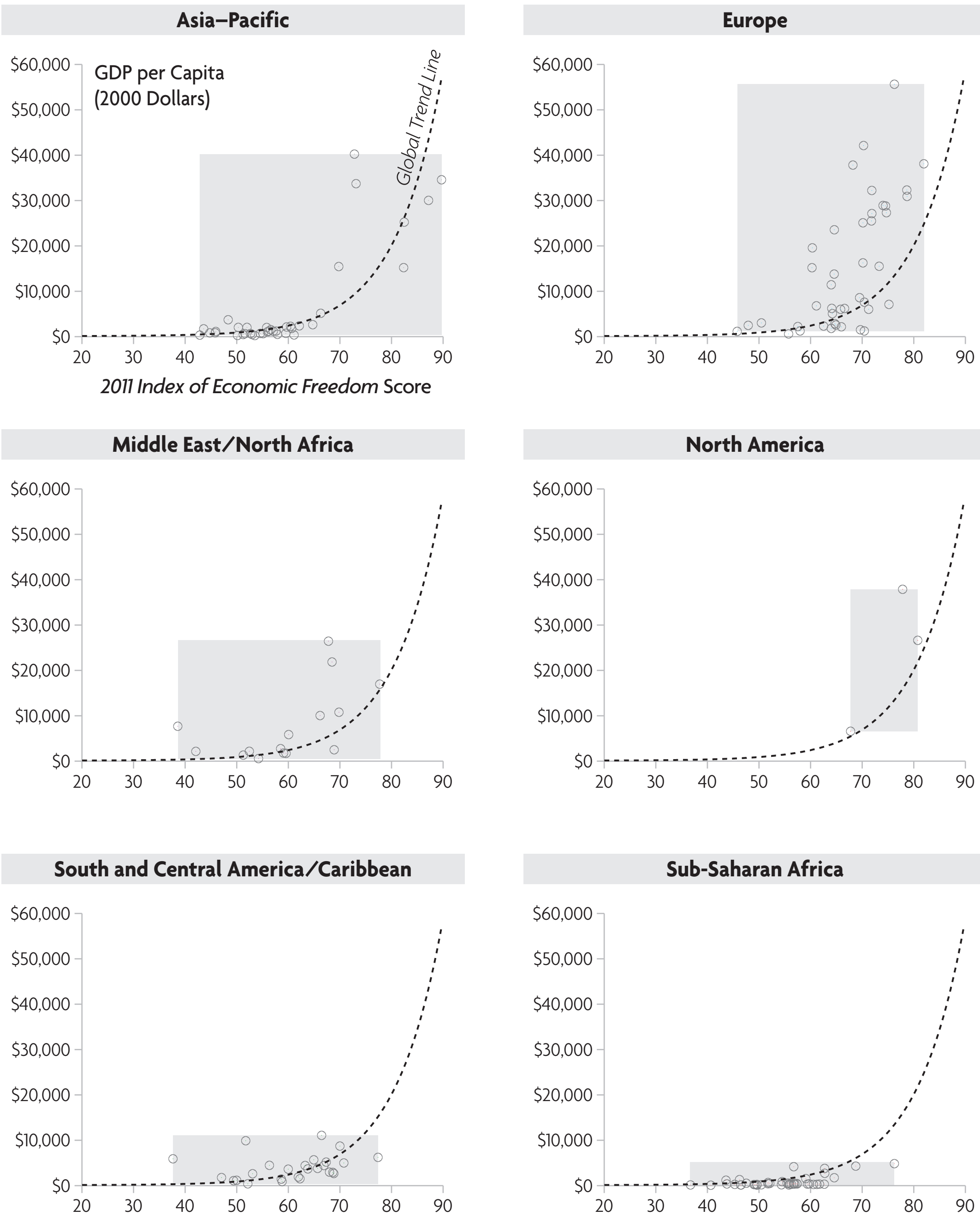
Despite varying degrees of economic freedom across the regions, the relationship between economic freedom and prosperity remains constant within the regions. Per capita incomes are much higher in countries that are economically free. (See Chart 3.)

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.

Previous editions of the *Index* have confirmed the tangible benefits of living in freer societies. Not only are higher levels of economic freedom associated with higher per capita incomes and higher GDP growth rates, but those higher growth rates seem to create a virtuous cycle, triggering faster poverty reduction and further improvements in economic freedom. Over the decade, the countries with improvements in economic freedom achieved much better reductions in poverty, almost by a factor of two, as

Economic Freedom and Prosperity by Region

Each dot represents a nation in the Index of Economic Freedom.



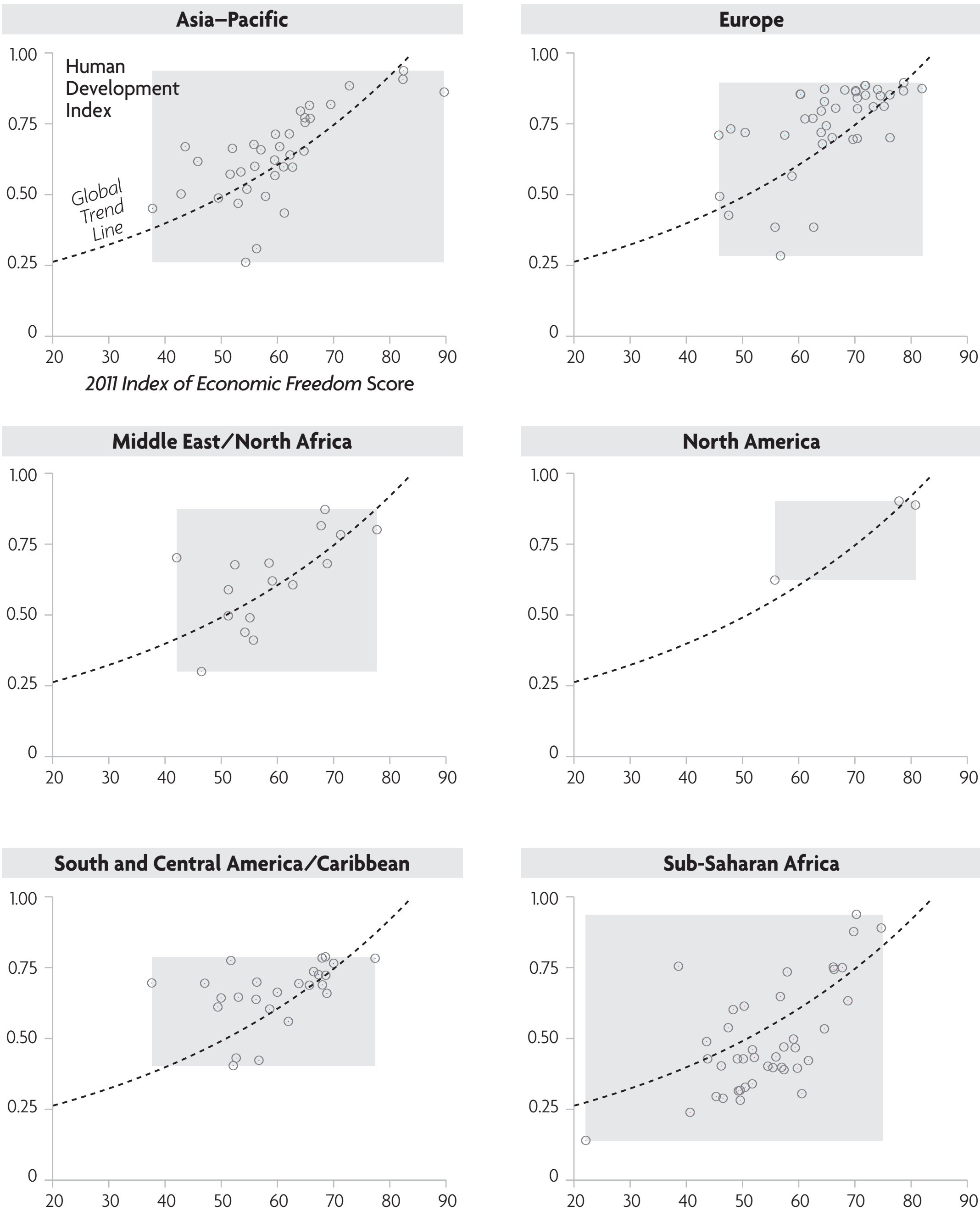
Note: Trend lines are for all countries in the *Index of Economic Freedom*.

Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*; World Bank Group, *World Development Indicators Online*, at *http://publications.worldbank.org/WDI/* (November 5, 2010); International Monetary Fund, World Economic Outlook Databases, at *http://www.imf.org/external/ns/cs.aspx?id=28* (November 5, 2010).

Chart 3 heritage.org

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

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

Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*; and Human Development Reports, United Nations Human Development Programme, at *http://hdr.undp.org/en/reports* (November 17, 2010).

Chart 4 **heritage.org**

measured by the United Nations Human Poverty Index. (See Table 1.)

Human Poverty Index (HPI)

From *2001 Index of Economic Freedom* to *2011 Index of Economic Freedom*	Change in Percentage of the Population in Poverty, from the 1999 HPI Index to the 2009 HPI Index
All countries	–4.5
Countries that gained economic freedom	–5.8
Countries that lost economic freedom	–3.1

Note: Data compiled from the *Index of Economic Freedom*, 2001 to 2011, and the Human Poverty Index, 1999 to 2009.

Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*; and Human Development Reports, United Nations Human Development Programme, at *http://hdr.undp.org/en/reports* (November 17, 2010).

Table 1 heritage.org

In a recent study that estimates the world's income distribution, Maxim Pinkovskiy of the Massachusetts Institute of Technology and Xavier Sala-i-Martin of Columbia University also find that world poverty has indeed been disappearing faster than previously thought.[1] As economic freedom has advanced steadily over the past decades, the global poverty rate has been cut significantly. According to the two prominent scholars, "the percentage of the world population living on less than $1 a day went down to 5.4 percent in 2006 from 26.8 percent in 1970," with poverty rates dramatically falling across all the regions.

DIVERGING PATTERNS OF ECONOMIC FREEDOM

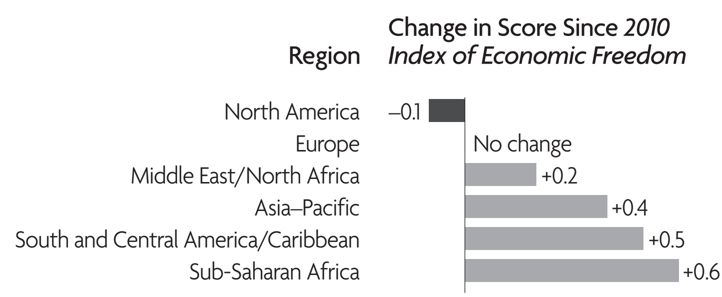
While the global average score for the 2011 *Index* has improved since last year, progress has not been uniform across the regions. North America and Europe have lagged, while much of the developing world has surged ahead. (See Chart 5.)

The Sub-Saharan Africa region achieved the largest score improvement, with countries gaining over half a point on average in the 2011 *Index*. The South and Central America/Caribbean region gained the second most freedom on average, exactly half a point. The Middle East/North Africa and Asia–Pacific regions also showed gains. Economic freedom held steady in Europe and actually declined in North America.

Table 2 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 drops in fiscal freedom and government spending, which now trail the world averages. European countries fall over five points below the world average

One-Year Freedom Score Change



Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*.

Chart 5 heritage.org

1. Maxim Pinkovskiy and Xavier Sala-i-Martin, "Parametric Estimations of the World Distribution of Income," National Bureau of Economic Research *Working Paper* 15433, October 2009, at *http://www.nber.org/papers/w15433* (November 16, 2010).

Each Region's Ten Economic Freedoms in Comparison to the World Average

Region	Business Freedom	Trade Freedom	Fiscal Freedom	Government Spending	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
North America	+27.3	+10.4	–0.4	–0.4	+3.9	+21.5	+21.5	+31.4	+24.5	+17.9
Europe	+12.7	+11	–5.2	–20	+4.4	+19.7	+15	+17.6	+15.5	+0.3
South and Central America/Caribbean	–1.4	–0.3	+1.5	+8	+1	+0.1	–0.6	–2	–1.2	–0.4
Middle East/North Africa	+2.4	+1.4	+11.2	+3.8	–0.6	–4.6	–2.6	–1.5	–0.4	–0.1
Asia–Pacific	0	–4.2	+1.9	+4.8	–1	–12.2	–7.3	–4.7	–4.2	+4.1
Sub-Saharan Africa	–13.6	–7.4	–1.9	+8	–3.8	–7.3	–7.4	–12.4	–11.4	–5

Source: Terry Miller and Kim R. Holmes, *2010 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2010), at *www.heritage.org/index*.

Table 2 heritage.org

in fiscal freedom and 20 points below the world average in government spending—a reflection of their bloated government budgets that fund high levels of welfare spending. Rigid labor regulations also continue to hamper the region's freedom, with negative results for job creation and employment growth.

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

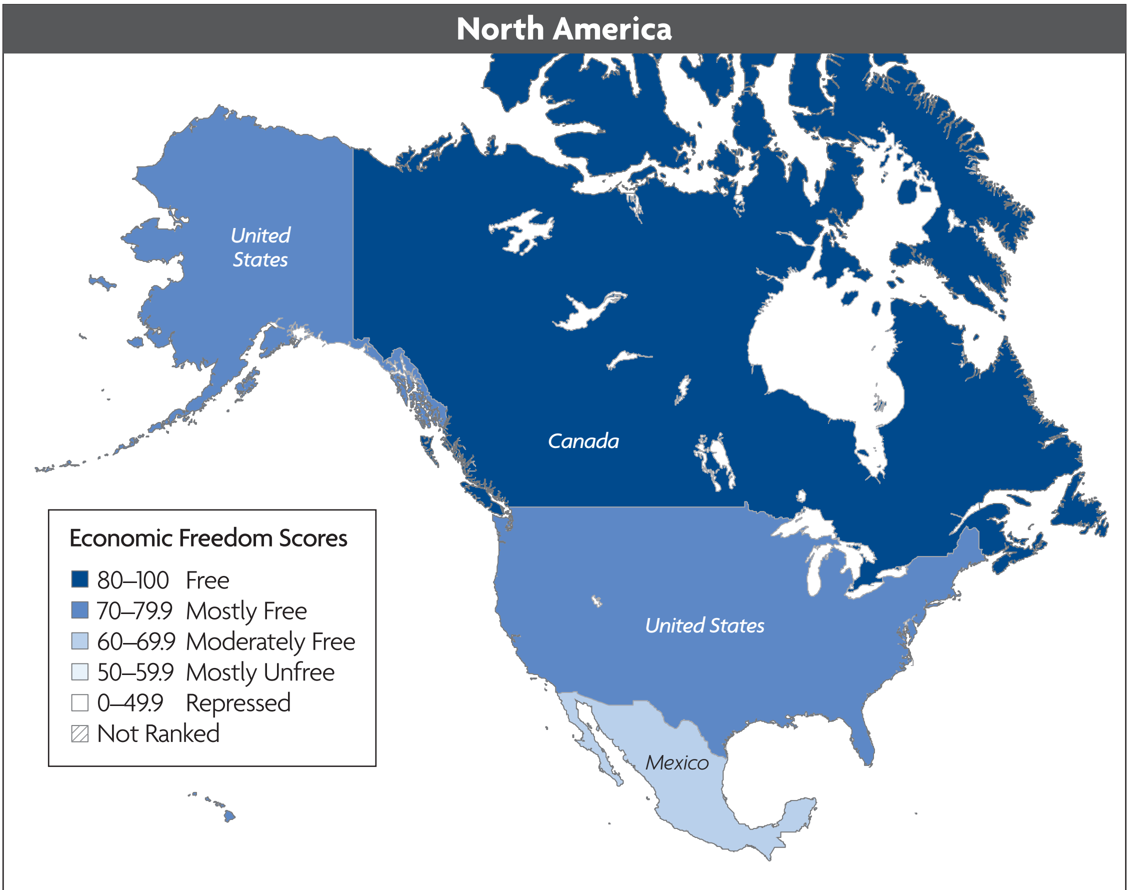
NORTH AMERICA

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 the region enjoys the highest degree of economic freedom among the six regions, there has been a notable reordering within the region in the aftermath of the recent global financial and economic crisis. While Canada has solidified its status as a "free" economy, the U.S. and Mexico are seemingly stuck in the "mostly free" and "moderately free" categories, respectively. (See Table 3.)

The U.S. government's policy responses to the crisis and economic slowdown have been far-reaching and implemented at the cost of curtailing economic freedom. Recent policy choices have included more intrusive and burdensome regulations, government bailouts of private firms, loose monetary policy, and increasingly protectionist trade policy.

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.



Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*.

Map 1 heritage.org

Economic Freedom in North American Countries

World Rank	Region Rank	Country	Overall Score	Change from 2010	Business Freedom	Trade Freedom	Fiscal Freedom	Government Spending	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
6	1	Canada	80.8	0.4	96.4	88.1	78.0	52.7	78.8	75.0	80.0	90.0	87.0	81.7
9	2	United States	77.8	–0.2	91.0	86.4	68.3	54.6	77.4	75.0	70.0	85.0	75.0	95.7
48	3	Mexico	67.8	–0.5	87.3	81.2	81.3	83.1	75.7	65.0	60.0	50.0	33.0	60.9

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

Europe

Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*.

Map 2 heritage.org

EUROPE

The Europe region consists of 43 countries and, taken as a whole, is enjoying economic prosperity and stability. Extensive and long-established free-market institutions in most 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.

Despite the recent global financial and economic turmoil, such policy improvements as tax cuts, simplifying regulatory frameworks, and other structural reforms have continued, resulting in overall score improvements in 26 reform-minded economies including Bulgaria, Moldova, Serbia, Lithuania, and Poland. By contrast, 16 economies (including Iceland, Ireland, Italy, Greece, and the United Kingdom, each of which lost more than two points) have recorded significant erosion of their economic freedom.

Europe's overall economic freedom rating is seriously undermined by weak scores in government spending, fiscal freedom, and labor freedom, reflecting the cost of welfare states that consume a large percentage of GDP. Burdensome labor regulations are plainly hindering both productivity growth and more dynamic job creation, causing

Economic Freedom in European Countries

World Rank	Region Rank	Country	Overall Score	Change from 2010	Business Freedom	Trade Freedom	Fiscal Freedom	Government Spending	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
5	1	Switzerland	81.9	0.8	80.2	90.0	68.4	69.3	83.8	80.0	80.0	90.0	90.0	87.8
7	2	Ireland	78.7	–2.6	92.0	87.6	72.1	47.1	80.7	90.0	70.0	90.0	80.0	77.5
8	3	Denmark	78.6	0.7	99.7	87.6	43.2	19.5	81.4	90.0	90.0	90.0	93.0	92.1
13	4	Luxembourg	76.2	0.8	76.4	87.6	66.7	58.5	82.1	95.0	80.0	90.0	82.0	44.1
14	5	Estonia	75.2	0.5	80.9	87.6	80.7	52.2	78.7	90.0	80.0	80.0	66.0	55.8
15	6	The Netherlands	74.7	–0.3	81.9	87.6	50.6	36.8	82.7	90.0	80.0	90.0	89.0	58.3
16	7	United Kingdom	74.5	–2.0	94.6	87.6	52.0	32.9	74.9	90.0	80.0	85.0	77.0	71.2
17	8	Finland	74.0	0.2	95.0	87.6	65.3	26.5	80.7	85.0	80.0	90.0	89.0	41.4
18	9	Cyprus	73.3	2.4	80.1	82.6	74.6	45.6	87.6	75.0	70.0	80.0	66.0	71.4
21	10	Austria	71.9	0.3	72.8	87.6	50.3	28.0	82.9	80.0	70.0	90.0	79.0	78.2
22	11	Sweden	71.9	–0.5	95.0	87.6	37.6	17.3	80.1	85.0	80.0	90.0	92.0	54.0
23	12	Germany	71.8	0.7	89.6	87.6	58.5	42.7	83.9	85.0	60.0	90.0	80.0	40.6
24	13	Lithuania	71.3	1.0	81.7	87.6	86.1	58.0	74.5	80.0	80.0	60.0	49.0	55.6
28	14	Czech Republic	70.4	0.6	69.8	87.6	81.0	44.8	80.0	70.0	80.0	65.0	49.0	77.0
29	15	Georgia	70.4	0.0	87.3	89.2	87.5	60.3	76.7	70.0	60.0	40.0	41.0	92.1

(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 4 heritage.org

Economic Freedom in European Countries (continued)

World Rank	Region Rank	Country	Overall Score	Change from 2010	Business Freedom	Trade Freedom	Fiscal Freedom	Government Spending	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
30	16	Norway	70.3	0.9	88.3	89.4	51.6	51.5	75.1	65.0	60.0	90.0	86.0	45.8
31	17	Spain	70.2	0.6	77.2	87.6	61.0	49.3	82.4	80.0	80.0	70.0	61.0	53.0
32	18	Belgium	70.2	0.1	92.6	87.6	41.8	25.0	82.5	80.0	70.0	80.0	71.0	71.0
36	19	Armenia	69.7	0.5	82.4	85.5	89.2	85.7	76.0	75.0	70.0	30.0	27.0	75.9
37	20	Slovak Republic	69.5	–0.2	73.4	87.6	84.2	63.7	81.6	75.0	70.0	50.0	45.0	64.5
44	21	Iceland	68.2	–5.5	92.7	88.2	69.8	0.0	68.6	65.0	60.0	90.0	87.0	60.7
51	22	Hungary	66.6	0.4	76.5	87.6	69.7	27.4	75.9	75.0	70.0	65.0	51.0	67.7
55	23	Macedonia	66.0	0.3	64.6	83.6	90.0	64.3	84.5	60.0	60.0	35.0	38.0	79.7
56	24	Latvia	65.8	–0.4	72.8	87.6	82.5	55.5	73.5	80.0	50.0	50.0	45.0	61.3
57	25	Malta	65.7	–1.5	70.0	87.6	62.5	39.8	80.1	75.0	60.0	70.0	52.0	60.0
60	26	Bulgaria	64.9	2.6	75.8	87.6	86.9	58.3	75.5	55.0	60.0	30.0	38.0	82.0
63	27	Romania	64.7	0.5	72.0	87.6	86.8	57.6	74.4	80.0	50.0	40.0	38.0	60.8
64	28	France	64.6	0.4	85.6	82.6	52.3	16.4	83.7	55.0	70.0	80.0	69.0	51.4
66	29	Slovenia	64.6	–0.1	83.6	87.6	65.1	41.1	80.5	70.0	50.0	60.0	66.0	41.8
67	30	Turkey	64.2	0.4	68.7	85.4	78.2	83.6	72.7	70.0	50.0	50.0	44.0	39.6
68	31	Poland	64.1	0.9	61.4	87.6	74.0	43.8	78.1	65.0	60.0	60.0	50.0	61.2
69	32	Portugal	64.0	–0.4	80.1	87.6	61.1	36.2	82.3	70.0	60.0	70.0	58.0	34.7
70	33	Albania	64.0	–2.0	67.1	79.8	92.1	68.7	79.9	65.0	70.0	35.0	32.0	50.4
76	34	Montenegro	62.5	–1.1	71.3	83.6	89.4	28.6	76.0	55.0	50.0	40.0	39.0	92.3
82	35	Croatia	61.1	1.9	65.2	87.6	74.6	50.3	78.5	70.0	60.0	40.0	41.0	44.1
87	36	Italy	60.3	–2.4	77.3	87.6	55.4	28.6	82.1	75.0	60.0	50.0	43.0	44.4
88	37	Greece	60.3	–2.4	76.2	82.6	65.9	34.3	80.6	60.0	60.0	50.0	38.0	55.2
101	38	Serbia	58.0	1.1	59.0	75.2	83.6	41.9	66.0	60.0	50.0	40.0	35.0	68.9
104	39	Bosnia and Herzegovina	57.5	1.3	60.4	86.0	83.9	24.1	80.6	70.0	60.0	20.0	30.0	60.2
120	40	Moldova	55.7	2.0	69.5	80.2	85.6	48.1	77.0	35.0	50.0	40.0	33.0	39.0
143	41	Russia	50.5	0.2	50.7	68.2	82.7	65.1	63.1	25.0	40.0	25.0	22.0	62.9
155	42	Belarus	47.9	–0.8	70.6	80.3	83.6	26.2	62.2	20.0	10.0	20.0	24.0	82.3
164	43	Ukraine	45.8	–0.6	47.1	85.2	77.3	32.9	63.2	20.0	30.0	30.0	22.0	50.0
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 4 heritage.org

unemployment and slowing economic expansion. Stagnant growth has exacerbated debt levels, leaving many European countries with no choice but to cut spending to reduce fiscal deficits.

Nine of the world's 20 freest countries are in Europe. (See Table 4.) Ireland, whose global ranking has fallen to 7th, is now behind Switzerland. Denmark passed the United States this year to move into 8th place. The United Kingdom now stands at 16th, falling out of the top 15 in the *Index* for the first time. The British economy has undergone far-reaching adjustments in reaction to the global financial and economic turmoil, and a dramatic expansion of state ownership has taken place since late 2008. Luxembourg, the Netherlands, Estonia, Finland, and Cyprus all score in the top 20.

Denmark's overall score is 0.8 point higher than last year. In addition to high transparency and low corruption, the Danish economy boasts an efficient regulatory regime and an independent judiciary. Both Bulgaria and Cyprus recorded score gains of over two points, largely because of improved investment freedom, freedom from corruption, and labor freedom.

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

Although uneven, notable progress toward greater economic freedom has been made in many countries of the region as the result of policy reforms. Twenty-five countries in the region recorded gains in economic freedom, while only three had declines. With more than half of the region's 29 economies implementing some form of business reform over the past year, regulatory systems are becoming more transparent and modern, and the overall climate for entrepreneurship is improving.

The countries in the South and Central America/Caribbean region perform better than the world average in four of the 10 components of economic freedom measured in the *Index*. Corruption and a lack of protection for property rights are the major problem areas, reflecting long-standing issues of poor governance and 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 slightly better protected than in other parts of the developing world.

The region has maintained an overall level of economic freedom that is half a point higher than the global average of 59.7. Colombia is the most improved country in the region, gaining 2.5 points in the 2011 *Index*. (See Table 5.) It has become one of South America's most stable economies. Improvements in its entrepreneurial environment, facilitated by openness to trade and investment, have led to steady economic growth. Recent reforms have focused on improving regulation and fostering a strong private sector.

One of the 29 countries in the South and Central America/Caribbean region ranks among the top 20 in the world: Chile (11th). Chile's continuing commitment to economic freedom and its dynamic private sector have facilitated steady economic growth.

Noticeably, the 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 eight countries receive an economic freedom score between 50 and 70, and 15 countries fall in the middle category of "moderately free."

South and Central America/Caribbean

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

Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), 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 2010	Business Freedom	Trade Freedom	Fiscal Freedom	Government Spending	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
11	1	Chile	77.4	0.2	67.2	88.0	77.7	86.6	77.9	80.0	70.0	85.0	67.0	74.5
26	2	Saint Lucia	70.8	0.3	86.2	71.9	74.4	71.4	85.3	55.0	40.0	70.0	70.0	83.4
33	3	Uruguay	70.0	0.2	61.5	83.0	84.3	76.5	72.8	80.0	30.0	70.0	67.0	74.9
39	4	El Salvador	68.8	–1.1	65.5	85.0	85.8	88.0	79.9	75.0	70.0	40.0	34.0	64.9
41	5	Peru	68.6	1.0	71.9	86.0	79.4	91.0	83.1	70.0	60.0	40.0	37.0	67.7
42	6	Barbados	68.5	0.2	90.0	60.5	70.7	48.8	76.3	45.0	60.0	80.0	74.0	80.0
45	7	Colombia	68.0	2.5	86.1	73.2	74.5	78.9	75.8	65.0	60.0	50.0	37.0	79.3
46	8	The Bahamas	68.0	0.7	72.5	42.2	97.2	86.9	74.6	30.0	70.0	70.0	55.0	81.3
49	9	Costa Rica	67.3	1.4	58.2	85.2	82.3	86.9	70.7	70.0	50.0	55.0	53.0	62.1
50	10	Saint Vincent and the Grenadines	66.9	0.0	79.3	73.3	72.3	65.1	78.2	50.0	40.0	70.0	64.0	76.8
52	11	Trinidad and Tobago	66.5	0.8	58.4	81.7	83.7	75.8	71.8	60.0	70.0	50.0	36.0	77.1
58	12	Jamaica	65.7	0.2	86.3	72.2	75.9	64.7	72.5	85.0	60.0	40.0	30.0	70.2
59	13	Panama	64.9	0.1	75.1	75.8	82.6	88.6	77.1	65.0	70.0	40.0	34.0	41.1
71	14	Belize	63.8	2.3	73.7	71.5	82.3	76.1	78.8	50.0	50.0	40.0	29.0	86.5
72	15	Dominica	63.3	0.0	74.8	74.3	69.5	45.8	86.3	65.0	30.0	65.0	59.0	62.8
77	16	Paraguay	62.3	1.0	61.7	83.0	97.6	93.4	80.9	70.0	60.0	30.0	21.0	24.9
79	17	Guatemala	61.9	0.9	52.1	84.6	79.5	94.4	76.4	60.0	50.0	35.0	34.0	53.4
90	18	Dominican Republic	60.0	–0.3	56.4	79.8	85.3	89.1	77.1	55.0	40.0	30.0	30.0	57.1
98	19	Nicaragua	58.8	0.5	54.3	84.8	78.8	81.3	71.7	55.0	50.0	20.0	25.0	67.1
99	20	Honduras	58.6	0.3	62.1	77.0	83.5	85.7	73.2	60.0	60.0	30.0	25.0	29.7
113	21	Brazil	56.3	0.7	54.3	69.8	69.0	49.6	75.9	50.0	50.0	50.0	37.0	57.8
129	22	Suriname	53.1	0.6	40.7	66.4	68.1	80.3	76.4	10.0	30.0	40.0	37.0	81.8
133	23	Haiti	52.1	1.3	37.5	74.8	80.9	90.1	73.7	30.0	30.0	10.0	18.0	76.4
138	24	Argentina	51.7	0.5	62.4	69.5	68.7	81.7	63.2	45.0	30.0	20.0	29.0	47.9
147	25	Bolivia	50.0	0.6	57.2	77.6	83.9	63.7	68.8	20.0	50.0	10.0	27.0	41.5
151	26	Guyana	49.4	1.0	66.8	71.3	64.6	29.1	75.8	30.0	40.0	30.0	26.0	60.3
158	27	Ecuador	47.1	–2.2	53.5	76.0	78.9	50.1	64.9	25.0	40.0	20.0	22.0	40.1
175	28	Venezuela	37.6	0.5	47.8	61.2	75.0	65.3	47.0	5.0	20.0	5.0	19.0	31.1
177	29	Cuba	27.7	1.0	10.0	62.2	49.0	0.0	71.6	0.0	10.0	10.0	44.0	20.0

- 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

Middle East/North Africa

Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*.

Map 4 heritage.org

MIDDLE EAST/NORTH AFRICA

The Middle East/North Africa region remains pivotal in world economic affairs. Encompassing some of the world's most ancient civilizations, it consists of 17 countries. Although the region's overall economic freedom has increased by 0.2 point since the 2010 *Index*, many of its economies remain only "moderately free" or "mostly unfree." Cursed in some ways by the region's enormous natural oil resources, many of the local populations suffer from extreme concentrations of wealth and poverty.

Despite some progress in recent years, structural problems abound. 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. Despite the outflow of crude oil, the actual trade flows of the region's countries remain relatively low, indicating a lack of economic dynamism. The oil industry requires very little investment in labor or human capital and only a marginal amount of investment in the land. People need freedom to be produc-

Economic Freedom in Middle East/North African Countries

World Rank	Region Rank	Country	Overall Score	Change from 2010	Business Freedom	Trade Freedom	Fiscal Freedom	Government Spending	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
10	1	Bahrain	77.7	1.4	77.4	82.8	99.8	80.2	74.0	75.0	80.0	60.0	51.0	97.0
27	2	Qatar	70.5	1.5	70.3	82.4	99.8	78.1	71.9	45.0	50.0	70.0	70.0	67.0
34	3	Oman	69.8	2.1	69.4	83.6	98.5	68.1	69.5	55.0	60.0	50.0	55.0	89.1
38	4	Jordan	68.9	2.8	65.8	78.8	92.7	60.9	81.4	70.0	60.0	55.0	50.0	74.2
43	5	Israel	68.5	0.8	66.1	87.8	62.3	44.8	78.4	80.0	70.0	70.0	61.0	64.3
47	6	United Arab Emirates	67.8	0.5	67.3	82.6	99.9	79.1	76.5	35.0	50.0	50.0	65.0	72.4
54	7	Saudi Arabia	66.2	2.0	86.1	82.2	99.4	74.6	64.3	40.0	50.0	45.0	43.0	77.0
61	8	Kuwait	64.9	–2.8	64.4	81.6	99.9	69.7	69.3	55.0	50.0	50.0	41.0	67.9
89	9	Lebanon	60.1	0.6	57.5	80.5	91.0	64.9	77.7	60.0	60.0	25.0	25.0	59.0
93	10	Morocco	59.6	0.4	75.7	75.8	67.8	74.6	76.5	65.0	60.0	40.0	33.0	27.2
96	11	Egypt	59.1	0.1	64.5	74.0	89.6	65.3	60.8	65.0	50.0	40.0	28.0	53.6
100	12	Tunisia	58.5	–0.5	80.2	53.5	73.7	77.6	77.3	35.0	30.0	50.0	42.0	65.7
127	13	Yemen	54.2	–0.2	73.7	81.6	83.2	44.5	82.3	45.0	30.0	30.0	21.0	50.9
132	14	Algeria	52.4	–4.5	69.4	72.8	83.5	62.4	75.4	20.0	30.0	30.0	28.0	52.9
140	15	Syria	51.3	1.9	55.9	65.4	84.6	85.3	69.7	20.0	20.0	30.0	26.0	55.8
171	16	Iran	42.1	–1.3	69.4	44.8	81.1	76.0	60.7	0.0	10.0	10.0	18.0	50.7
173	17	Libya	38.6	–1.6	20.0	85.0	80.3	44.5	71.0	10.0	20.0	10.0	25.0	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 6 heritage.org

tive, but oil does not generate the incentives needed for societies to embrace openness. To the contrary, an abundance of oil seems most often to inspire repression.

The region's overall economic freedom score is slightly above the world average of 59.7, mainly due to a high degree of fiscal freedom that reflects low income and corporate tax rates. However, other institutional problems pose serious impediments to private-sector development and economic diversification. Investment freedom, financial freedom, property rights, and freedom from corruption all score below world averages, degrading the region's overall economic freedom and economic potential.

The ongoing transformation of innovative and reform-oriented states like Bahrain, Qatar, Kuwait, Oman, and Israel may pave the way for more robust and dynamic regional economic growth. As Table 6 shows, scores for most of the 17 countries in the region are concentrated between 50 and 70. Jordan and Oman made the biggest leaps forward with gains of over two points in economic freedom. Improving the entrepreneurial environment and broadening the economic base beyond the energy sector, a series of economic reforms has made Jordan and Oman, respectively, the 6th and 15th most improved economies in the 2011 *Index*.

Bahrain, ranked 10th globally with an economic freedom score of 77.7, is the only Middle Eastern country among the world's 10 freest economies. Structural reforms and openness to global commerce have made Bahrain a financial hub and the regional leader in economic freedom. One of the region's least oil-dependent economies, it has a competitive tax regime and a sophisticated financial sector that facilitates the flow of capital and foreign investment.

Qatar became a "mostly free" economy for the first time in the 2011 *Index*, with gains in areas such as freedom from corruption, property rights, and monetary freedom. Seven "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.

The lowest-ranking countries in the region continue to be Iran and Libya, bonded together 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 from other regions by the extraordinary disparity in levels of economic freedom among its countries. 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, both in the region and in the world. The region's overall economic freedom score is above the world average of 59.7.

The Asia–Pacific region, which consists of 41 economies, scores higher than the world average in three of the 10 economic freedoms: fiscal freedom, government spending, and labor freedom. Lower government expenditures result in a regional government spending score that is about five points better than the world average. The region's labor freedom score is also better than the world average by 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. Asian countries could make the most progress by strengthening their banking and investment institutions and by enhancing transparency and corporate governance.

Asia and the Pacific

Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*.

Map 5 heritage.org

Economic Freedom in Asia–Pacific Countries

World Rank	Region Rank	Country	Overall Score	Change from 2010	Business Freedom	Trade Freedom	Fiscal Freedom	Government Spending	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
1	1	Hong Kong	89.7	0.0	98.7	90.0	93.3	89.6	87.1	90.0	90.0	90.0	82.0	86.2
2	2	Singapore	87.2	1.1	98.2	90.0	91.1	91.3	86.2	75.0	60.0	90.0	92.0	98.0
3	3	Australia	82.5	–0.1	90.1	84.4	61.3	64.7	85.0	80.0	90.0	90.0	87.0	92.2
4	4	New Zealand	82.3	0.2	99.9	86.6	64.7	49.3	84.8	80.0	80.0	95.0	94.0	89.2
19	5	Macau	73.1	0.6	60.0	90.0	76.6	93.3	83.4	85.0	70.0	60.0	53.0	60.0
20	6	Japan	72.8	–0.1	83.8	82.6	67.0	58.7	87.9	60.0	50.0	80.0	77.0	81.1
25	7	Taiwan	70.8	0.4	84.7	86.2	78.3	89.7	82.0	65.0	50.0	70.0	56.0	46.1
35	8	South Korea	69.8	–0.1	91.6	70.8	72.2	73.0	78.7	70.0	70.0	70.0	55.0	46.5
53	9	Malaysia	66.3	1.5	69.7	78.7	84.6	79.2	81.3	45.0	50.0	50.0	45.0	79.2
62	10	Thailand	64.7	0.6	69.9	75.9	74.8	90.6	70.8	40.0	70.0	45.0	34.0	76.3
78	11	Kazakhstan	62.1	1.1	74.3	80.9	87.3	78.5	69.9	30.0	50.0	35.0	27.0	88.4
83	12	Kyrgyz Republic	61.1	–0.2	75.4	63.2	92.6	74.2	68.6	55.0	50.0	25.0	19.0	88.1
84	13	Samoa	60.6	0.2	72.8	70.0	80.1	67.9	68.5	30.0	30.0	60.0	45.0	82.1
86	14	Fiji	60.4	0.1	63.2	69.8	78.1	81.3	76.1	30.0	60.0	30.0	40.0	75.7
92	15	Azerbaijan	59.7	0.9	72.9	77.1	83.9	71.0	72.6	55.0	40.0	20.0	23.0	81.1
94	16	Mongolia	59.5	–0.5	67.7	79.8	83.3	49.6	73.6	50.0	60.0	30.0	27.0	74.1
102	17	Cambodia	57.9	1.3	39.5	70.0	90.9	94.2	78.0	60.0	50.0	30.0	20.0	46.3
103	18	Bhutan	57.6	0.6	59.8	52.0	83.9	64.1	71.8	20.0	30.0	60.0	50.0	84.7
107	19	Sri Lanka	57.1	2.5	71.9	72.2	73.4	84.7	65.8	30.0	40.0	40.0	31.0	61.8
112	20	Vanuatu	56.7	0.3	68.8	55.1	96.1	79.1	76.5	30.0	40.0	40.0	32.0	49.8
115	21	The Philippines	56.2	–0.2	43.4	77.8	78.8	91.0	76.3	40.0	50.0	30.0	24.0	50.7
116	22	Indonesia	56.0	0.5	54.9	73.8	83.0	88.9	74.3	35.0	40.0	30.0	28.0	51.8
118	23	Tonga	55.8	2.4	77.4	56.2	83.1	73.2	71.1	30.0	20.0	25.0	30.0	92.1
123	24	Pakistan	55.1	–0.1	70.9	67.0	80.5	88.8	63.6	40.0	40.0	30.0	24.0	46.3
124	25	India	54.6	0.8	36.9	64.2	75.4	77.8	65.1	35.0	40.0	50.0	34.0	67.2
128	26	Tajikistan	53.5	0.5	60.7	82.5	88.6	77.3	64.5	20.0	40.0	25.0	20.0	56.4
130	27	Bangladesh	53.0	1.9	65.0	58.0	72.7	92.4	68.6	55.0	20.0	20.0	24.0	54.3
131	28	Papua New Guinea	52.6	–0.9	60.2	85.4	66.3	63.3	72.9	35.0	30.0	20.0	21.0	72.4
135	29	China	52.0	1.0	49.8	71.6	70.3	87.0	75.3	25.0	30.0	20.0	36.0	54.9
139	30	Vietnam	51.6	1.8	61.6	68.9	75.9	75.1	79.1	15.0	30.0	15.0	27.0	68.2
141	31	Laos	51.3	0.2	58.8	68.4	79.9	90.1	80.4	25.0	20.0	20.0	20.0	49.9

- 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 7 heritage.org

Economic Freedom in Asia–Pacific Countries (continued)

World Rank	Region Rank	Country	Overall Score	Change from 2010	Business Freedom	Trade Freedom	Fiscal Freedom	Government Spending	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
145	32	Micronesia	50.3	–0.3	58.7	81.0	97.6	0.0	73.4	20.0	30.0	30.0	30.0	82.4
146	33	Nepal	50.1	–2.6	59.2	61.4	86.4	88.4	73.8	5.0	30.0	30.0	23.0	44.3
154	34	Maldives	48.3	–0.7	81.5	43.8	95.6	0.0	74.1	35.0	30.0	25.0	25.0	73.4
162	35	Solomon Islands	45.9	3.0	59.8	62.4	69.2	32.9	70.4	10.0	30.0	30.0	28.0	66.6
163	36	Uzbekistan	45.8	–1.7	66.8	66.2	90.5	71.0	61.7	0.0	10.0	15.0	17.0	60.2
166	37	Kiribati	44.8	1.1	62.9	55.4	60.3	0.0	71.1	25.0	30.0	30.0	28.0	85.1
169	38	Turkmenistan	43.6	1.1	30.0	79.2	93.6	95.5	69.6	0.0	10.0	10.0	18.0	30.0
170	39	Timor-Leste	42.8	–3.0	44.2	73.0	64.7	0.0	78.1	30.0	20.0	20.0	22.0	76.5
174	40	Burma	37.8	1.1	20.0	72.3	81.9	98.1	56.6	0.0	10.0	5.0	14.0	20.0
179	41	North Korea	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0	5.0	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 7 heritage.org

Leading the world in four of the 10 economic freedoms, Hong Kong once again is the freest economy overall in the 2011 *Index*. (See Table 7.) Singapore is the top country in labor freedom and the second overall, both in the region and in the world. Singapore grants private firms the most flexibility in hiring and firing workers. New Zealand sets the standard for clean, corruption-free government and benefits significantly from its transparent and straightforward business environment.

About two-thirds 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 2011 *Index*, the scores of 26 countries in the region have improved, while those of 13 are worse. Boosted by improved scores in trade freedom and investment freedom, Sri Lanka became the region's most improved country. Nepal, 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 29th, respectively, in the region, and both remain "mostly unfree." Despite these seemingly low scores, however, there can be no denying that the winds of change are still blowing in Asia, particularly in these two economic leviathans. Notwithstanding their very slow progress domestically, both have taken good advantage of opportunities available as a result of improvements in global economic freedom, especially in the area of trade.

SUB-SAHARAN AFRICA

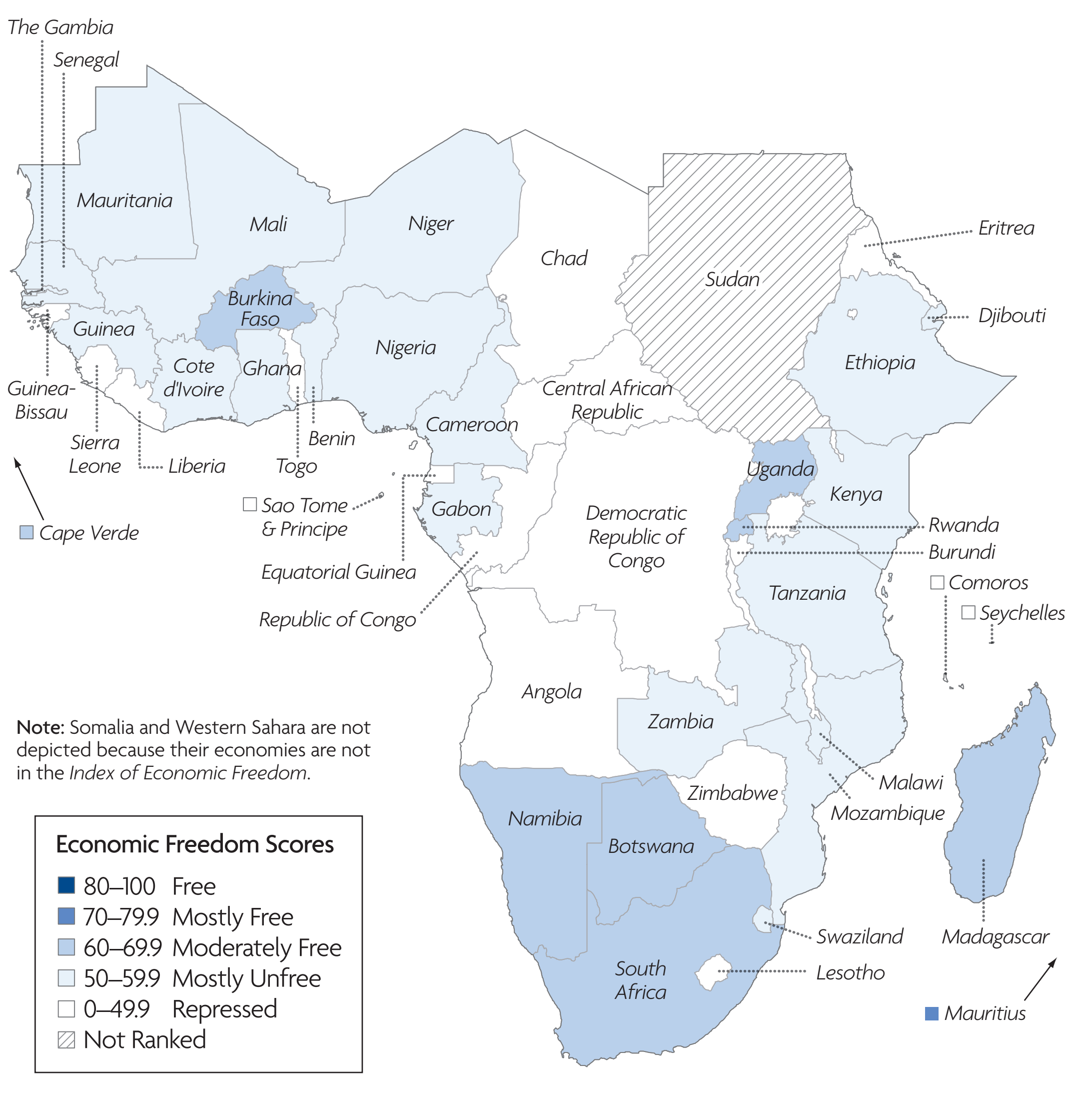
Africa's overall level of economic freedom is weaker than that of any other region. Sub-Saharan Africa is ranked last in seven of the 10 components of economic freedom and performs especially poorly in terms of property rights and freedom from corruption.

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 2011 *Index* shows some encouraging developments. No region has made greater strides in economic freedom than Sub-Saharan Africa. With a score gain of 0.6 point that reflects a net gain of economic freedom in 28 countries, the Sub-Saharan Africa region is the most improved region in the 2011 *Index*.

Mauritius remains among the world's 20 freest economies. (See Table 8.) With an eco-

Sub-Saharan Africa



Sources: Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), 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 2010	Business Freedom	Trade Freedom	Fiscal Freedom	Government Spending	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
12	1	Mauritius	76.2	–0.1	82.0	88.0	91.9	80.0	76.1	90.0	70.0	60.0	54.0	70.4
40	2	Botswana	68.8	–1.5	70.5	75.2	78.4	51.5	70.9	75.0	70.0	70.0	56.0	70.0
65	3	Cape Verde	64.6	2.8	64.8	67.6	77.3	71.0	79.2	60.0	60.0	65.0	51.0	50.0
73	4	Namibia	62.7	0.5	72.9	86.4	67.9	74.8	70.9	55.0	40.0	30.0	45.0	84.6
74	5	South Africa	62.7	–0.1	72.3	77.2	69.6	77.5	71.9	45.0	60.0	50.0	47.0	56.7
75	6	Rwanda	62.7	3.6	76.9	77.8	76.9	78.6	68.5	50.0	40.0	35.0	33.0	89.9
80	7	Uganda	61.7	–0.5	50.3	74.8	80.6	90.5	73.2	45.0	60.0	30.0	25.0	87.8
81	8	Madagascar	61.2	–2.1	60.0	73.2	87.8	89.7	75.9	55.0	50.0	40.0	30.0	50.7
85	9	Burkina Faso	60.6	1.2	61.5	76.2	80.5	86.0	76.8	55.0	50.0	30.0	36.0	53.5
91	10	Zambia	59.7	1.7	62.2	82.4	72.4	81.8	77.3	55.0	50.0	30.0	30.0	56.3
95	11	Ghana	59.4	–0.8	63.4	67.8	83.3	46.1	63.3	65.0	60.0	50.0	39.0	56.1
97	12	Swaziland	59.1	1.7	66.4	79.8	67.2	65.9	71.0	55.0	40.0	40.0	36.0	69.4
105	13	The Gambia	57.4	2.3	57.8	60.4	73.2	79.7	71.4	55.0	50.0	30.0	29.0	67.2
106	14	Kenya	57.4	–0.1	62.2	72.8	77.6	72.8	73.2	50.0	50.0	30.0	22.0	62.9
108	15	Tanzania	57.0	–1.3	46.0	69.6	79.8	80.5	68.8	60.0	50.0	30.0	26.0	59.0
109	16	Mozambique	56.8	0.8	63.1	81.0	77.5	76.5	80.3	45.0	50.0	30.0	25.0	39.2
110	17	Gabon	56.7	1.3	57.3	61.0	74.5	87.9	73.8	45.0	40.0	40.0	29.0	58.8
111	18	Nigeria	56.7	–0.1	51.6	65.0	84.4	73.0	73.5	40.0	40.0	30.0	25.0	84.5
114	19	Mali	56.3	0.7	51.2	73.2	60.5	86.5	77.6	50.0	40.0	30.0	28.0	65.8
117	20	Benin	56.0	0.6	43.0	58.8	75.8	84.1	78.2	60.0	50.0	30.0	29.0	50.7
119	21	Malawi	55.8	1.7	42.4	71.0	79.3	56.7	71.6	50.0	50.0	45.0	33.0	59.1
121	22	Senegal	55.7	1.1	62.3	73.2	65.4	78.8	79.7	45.0	40.0	40.0	30.0	42.9
122	23	Côte d'Ivoire	55.4	1.3	43.3	72.2	78.5	88.4	80.2	35.0	50.0	30.0	21.0	55.7
125	24	Djibouti	54.5	3.4	32.9	59.6	79.6	50.5	76.6	60.0	60.0	30.0	28.0	67.7
126	25	Niger	54.3	1.4	36.9	71.8	77.5	83.0	80.0	55.0	40.0	30.0	29.0	40.3
134	26	Mauritania	52.1	0.1	48.3	69.9	81.1	73.9	77.4	30.0	40.0	25.0	25.0	50.3
136	27	Cameroon	51.8	–0.6	44.1	59.6	66.9	89.7	73.3	35.0	50.0	30.0	22.0	47.0
137	28	Guinea	51.7	–0.1	40.8	61.2	69.6	90.9	70.3	40.0	40.0	20.0	18.0	66.6
142	29	Seychelles	51.2	3.3	62.4	33.4	77.7	52.5	54.9	45.0	30.0	50.0	48.0	58.1
144	30	Ethiopia	50.5	–0.7	67.4	65.6	74.5	88.7	54.3	20.0	20.0	30.0	27.0	57.1
148	31	Burundi	49.6	2.1	36.8	78.8	72.3	52.0	66.1	55.0	30.0	20.0	18.0	67.1

(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 8 heritage.org

Economic Freedom in Sub-Saharan Africa Countries (continued)

World Rank	Region Rank	Country	Overall Score	Change from 2010	Business Freedom	Trade Freedom	Fiscal Freedom	Government Spending	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
149	32	Sierra Leone	49.6	1.7	54.9	62.8	80.8	86.8	74.2	45.0	20.0	10.0	22.0	39.4
150	33	São Tomé and Príncipe	49.5	0.7	32.0	66.6	87.2	67.5	62.2	45.0	30.0	30.0	28.0	46.4
152	34	Central African Republic	49.3	0.9	36.8	58.1	65.4	92.8	71.3	50.0	30.0	20.0	20.0	48.2
153	35	Togo	49.1	2.0	36.8	62.2	68.1	88.6	78.1	25.0	30.0	30.0	28.0	43.7
156	36	Lesotho	47.5	–0.6	58.9	63.6	48.2	21.4	71.6	35.0	40.0	40.0	33.0	63.7
157	37	Equatorial Guinea	47.5	–1.1	44.2	58.9	75.5	80.5	74.4	20.0	40.0	20.0	18.0	43.1
159	38	Guinea–Bissau	46.5	2.9	25.5	63.6	88.7	54.8	72.2	30.0	30.0	20.0	19.0	61.4
160	39	Liberia	46.5	0.3	51.8	53.8	73.3	66.5	69.5	20.0	20.0	30.0	31.0	48.9
161	40	Angola	46.2	–2.2	41.4	70.2	84.5	48.1	61.8	35.0	40.0	20.0	19.0	42.3
165	41	Chad	45.3	–2.2	25.3	55.6	50.4	85.3	70.6	45.0	40.0	20.0	16.0	44.8
167	42	Comoros	43.8	–1.1	42.9	62.4	64.8	77.8	76.2	10.0	20.0	30.0	23.0	30.7
168	43	Republic of Congo	43.6	0.4	40.8	61.0	61.8	79.7	71.4	20.0	30.0	10.0	19.0	42.3
172	44	Democratic Republic of Congo	40.7	–0.7	37.8	63.0	73.3	84.5	46.7	15.0	20.0	10.0	19.0	37.3
176	45	Eritrea	36.7	1.4	18.2	69.1	73.0	31.5	46.0	0.0	20.0	10.0	26.0	73.4
178	46	Zimbabwe	22.1	0.7	32.1	45.0	70.3	0.0	0.0	0.0	10.0	5.0	22.0	36.8
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 8 ☎ heritage.org

nomic freedom score of 76.2, it is both the 12th freest economy in the world and the leader in economic freedom in the region. It scores above the global average in eight economic freedoms, including trade freedom, investment freedom, property rights, freedom from corruption, and fiscal freedom. Mauritius has also demonstrated its strong commitment to enhancing economic freedom by accelerating major tax reforms. Botswana remains the region's second freest economy, followed by Cape Verde and Namibia. Despite considerable progress over the past decade, reform in South Africa has been outpaced by other countries in the region.

Most notably, several of the most improved economies in the 2011 *Index* are in Sub-Saharan Africa. Rwanda, whose competitiveness and entrepreneurial environment have been greatly enhanced by a series of recent reforms, is the most improved economy. Djibouti, Guinea–Bissau, and Cape Verde also improved notably. Trade facilitation and other regulatory reforms have strongly contributed to advancing economic freedom in these countries.

Despite some progress, Eritrea and Zimbabwe remain the region's two most "repressed" economies. 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.

PRESERVING AND ADVANCING ECONOMIC FREEDOM

The diversity of the world's peoples and cultures implies that there will be many paths to economic development and prosperity. Indeed, the fundamental value that underpins an economically free and open society is the empowerment of individuals to choose their own paths to prosperity. The whole idea of economic freedom is to increase opportunities for diverse types of activities, with free and open markets as the ultimate arbiter of societies' values and desires.

As shown in the *Index* over the past 17 years, economic freedom is the indispensable link between economic potential and prosperous outcomes. Other systems lag far behind in terms of providing for broad-based 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 durable economic gains irrespective of history, resources, or level of development.

Today's world economy can emerge stronger if the right policy choices are made at this critical juncture. 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.

A recurring theme of human history has been resilience and revival. The *Index of Economic Freedom* provides a road map for economic revival in the years ahead. The stories of countries that have created environments for human progress and development chart a positive course that others, who still face challenges, can follow to their benefit. There are warnings, too, of the perils of conflict, autocracy, or simply the hubris of government planners who think they have all the answers.

Every region has positive examples of countries that have chosen freedom and reaped the rewards for their citizens. Their course is the one we extol in the *Index of Economic Freedom*.

Chapter 4

A Free Economy Is a Clean Economy: How Free Markets Improve the Environment

Ben Lieberman

Environmental protection has become synonymous with big government: massive environmental statutes and global treaties, volumes of expansive and expensive regulations, and armies of bureaucrats micromanaging the private sector in an effort to reduce pollution. This certainly describes nearly all of the existing policies for addressing environmental concerns as well as most pending proposals dealing with global warming.

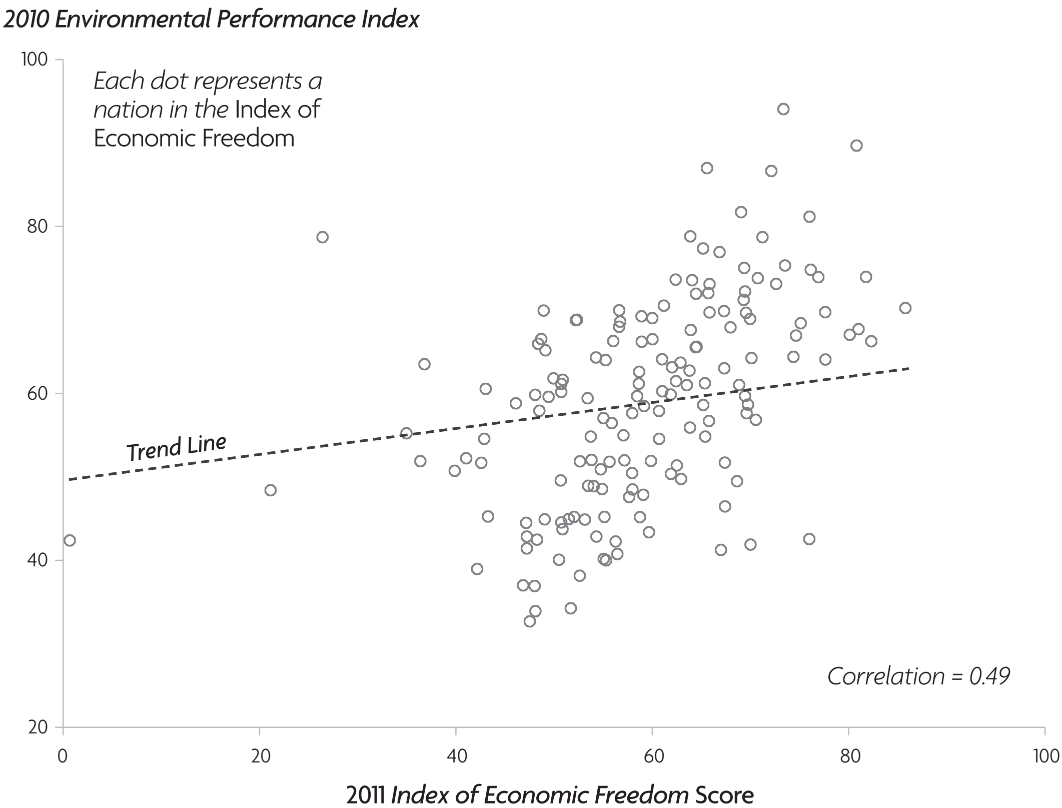
However, the *Index of Economic Freedom* strongly suggests that this command-and-control approach to "going green" is a fundamentally misguided one. It is the nations whose economies are ranked as most free that do the best to protect the environment, while the least free ones do the worst. Thus, the same free-market principles that have proven to be the key to economic success can also deliver environmental success and point the way to an approach that advances both concerns.

THE CORRELATION BETWEEN ECONOMIC FREEDOM AND ENVIRONMENTAL PERFORMANCE

While the *Index* ranks 179 economies based on 10 measures of economic freedom, others have tried to gauge nations' environmental performance. Such evaluations are subjective—likely more so than measures of economic freedom—and limited by the availability of reliable data. However, one well-regarded effort is the 2010 Environmental Performance Index (EPI), conducted by Yale University's Center for Environmental Law and Policy and other organizations.[1]

1. Yale Center for Environmental Law & Policy and Center for International Earth Science Information Network in collaboration with the World Economic Forum and Joint Research Centre of the European Commission, *2010 Environmental Performance Index*, January 2010, at *http://www.epi.yale.edu/file_columns/0000/0157/epi2010_report.pdf*, and "2010

Economic Freedom and Environmental Performance



Sources: Yale Center for Environmental Law & Policy and Center for International Earth Science Information Network in collaboration with the World Economic Forum and Joint Research Centre of the European Commission, *2010 Environmental Performance Index*, January 2010, at *http://www.epi.yale.edu/file_columns/0000/0157/epi2010_report.pdf*, and "2010 Environmental Performance Index: Summary for Policymakers," at *http://ciesin.columbia.edu/repository/epi/data/2010EPI_summary.pdf*; Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*.

Chart 1 heritage.org

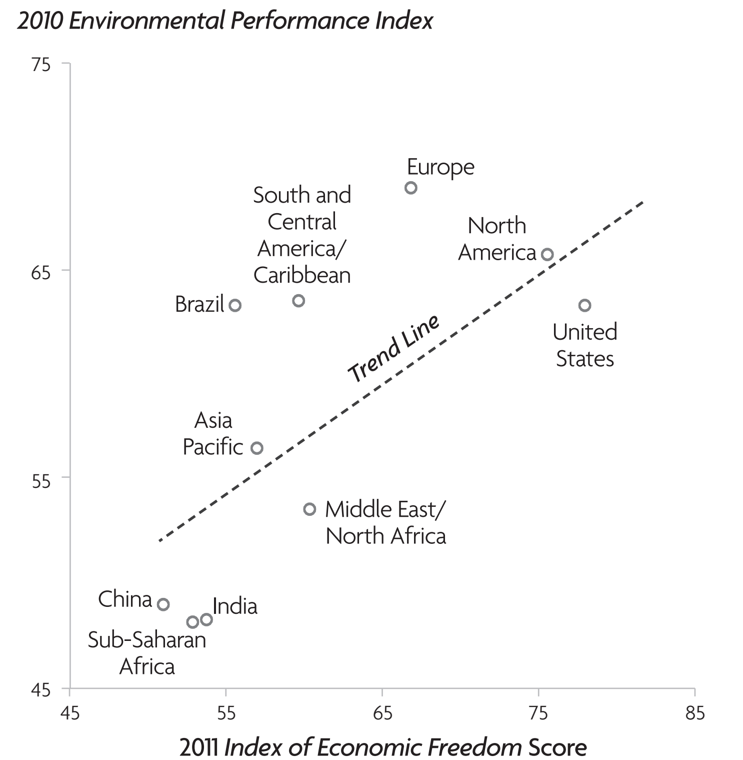
The EPI ranks 163 nations based on 10 categories of environmental public health and ecosystem measures. Among the former are access to safe drinking water and sanitation, and among the latter are protection of forests and fisheries as well as efforts to address global warming. Drawing on data from 2007 and 2008, the best performers include Iceland, Switzerland, Sweden, and Costa Rica. Among the worst are Mauritania, the Central African Republic, Turkmenistan, and Haiti.

Environmental Performance Index: Summary for Policymakers," at *http://ciesin.columbia.edu/repository/epi/data/2010EPI_summary.pdf* (cited hereafter as "2010 EPI Summary").

The EPI is not without its flaws, such as the excessive weight it gives to global warming relative to other environmental concerns. Furthermore, America's sharp drop in the rankings over a short span—28th in 2006, 39th in 2008, and 61st in 2010—raises methodological questions, especially given that, by most measures, America's environment was improving over this same period. Overall, however, the EPI is a useful gauge of national environmental performance.

Correlating the two indices, one finds a positive relationship between a nation's level of economic freedom and its environmental performance. (See Chart 1.) In other words, free economies tend to be clean economies.

Environmental Performance by Region



Sources: Yale Center for Environmental Law & Policy and Center for International Earth Science Information Network in collaboration with the World Economic Forum and Joint Research Centre of the European Commission, *2010 Environmental Performance Index*, January 2010, at *http://www.epi.yale.edu/file_columns/0000/0157/epi2010_report.pdf*, and "2010 Environmental Performance Index: Summary for Policymakers," at *http://ciesin.columbia.edu/repository/epi/data/2010EPI_summary.pdf*; Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*.

Chart 2 heritage.org

This pattern can be seen regionally as well. (See Chart 2.) Recognition of this relationship points to a number of significant policy lessons that can be drawn as nations seek to improve their approach to protecting the environment.

FREE = WEALTHY = CLEAN

The *Index of Economic Freedom* finds a very clear association between economic freedom and prosperity.[2] The EPI similarly finds that "[w]ealth correlates highly with EPI scores."[3]

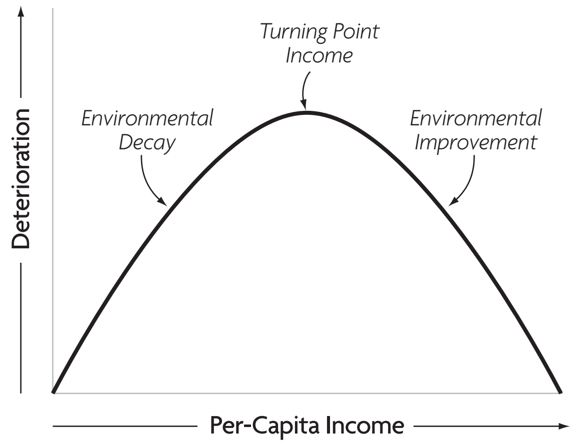
There are simple reasons for the association between wealth and environmental performance. One can think of environmental protection as a good that only prosperous societies can afford. People who lack the necessities do not have the luxury of worrying about endangered species or the health of forests, and even if they did, they would not have the wherewithal to do much about it. However, as economies develop, a point is reached at which there is both the willingness and the means to address environmental concerns. Most countries show increasing levels of environmental harm over time until a certain level of per capita wealth is achieved, and then the environment begins to improve.[4] The exact level of wealth needed before things start to become cleaner varies across countries and among different environmental concerns, but the general trend is clear. This is often referred to as the environmental transition or the environmental Kuznets curve. (See Chart 3.)

2. See Chart 3, "Economic Freedom Promotes Greater Prosperity," in Terry Miller and Kim R. Holmes, *2010 Index of Economic Freedom* (Washington: The Heritage Foundation and Dow Jones & Company, Inc., 2010), p. 49.

3. "2010 EPI Summary," p. 3.

4. Indur M. Goklany, *The Improving State of the World: Why We're Living Longer, Healthier, More Comfortable Lives on a Cleaner Planet* (Washington: Cato Institute, 2007) pp. 103–116; Bruce Yandle, Madhusudan Bhattarai, and Maya Vijayaraghavan, "Environmental Kuznets Curves: A Review of Findings, Methods, and Policy Implications," Property and Environment Research Center *Research Study* No. 02-1 Update, April 2004, at *http://www.perc.org/pdf/rs02_1a.pdf*.

Environmental Kuznets Curve



Sources: Property and Environment Research Center, "Environmental Kuznets Curves," p. 3, Figure 1, *at http://www.perc.org/pdf/rs02_1a.pdf* (October 14, 2010).

Chart 3 heritage.org

Many mistakenly believe that rising wealth harms the environment as per capita usage of energy and other resources increases. Indeed, some activists and academics pursue environmentalism as if it were a crusade against materialism.[5] However, such views are out of step with the empirical evidence. In reality, anything that jeopardizes continued economic growth likely also jeopardizes continued environmental improvement.

Another common assumption is that the environment improves only after national laws and regulations are imposed, but this is not the case. For example, air pollution in America actually reached its peak and began improving before the enactment of the federal Clean Air Act and creation of the Environmental Protection Agency to implement it in 1970.[6] To the extent that governments took the lead, it was state and local governments. In effect, Americans reached a level of prosperity (as well as accompanying technological advancement) that enabled progress in air quality at the state and local levels as the public began to demand it. The private sector also played a role, as the profit motive leads to improvements in energy and resource efficiency, which drive down emissions per unit of output.

Similarly, improvements in America's water quality began decades before enactment of the Clean Water Act and Safe Drinking Water Act in the early 1970s, and similar trends have occurred in many other nations.[7] Once again, state and local governments and private-sector innovation led the way. If anything, national laws were a lagging indicator, and to the extent that they were unnecessarily expensive or interfered with ongoing efforts, they may even have been counterproductive.[8]

Nor are environmental laws of any value without the wealth to implement them. Many developing nations have tough laws on the books that are simply underenforced or ignored in practice. For example, Mexico has stringent air and water pollution statutes not unlike the American statutes, but air and water quality are worse south of the border.

National laws are only one (and not necessarily the best) means by which a society committed to addressing environmental concerns can do so. But it is the underlying wealth that

5. See Anne H. Ehrlich and Paul R. Ehrlich, *Healing the Planet: Strategies for Resolving the Environmental Crisis* (Reading, Pa.: Perseus Publishing, 1991).

6. Goklany, *The Improving State of the World*, pp. 137–139, 232–234.

7. *Ibid*., pp. 153–158, 232–234.

8. Steven F. Hayward, "The United States and the Environment: Laggard or Leader?" American Enterprise Institute *Environmental Policy Outlook* No. 1, February 2008, at *http://www.aei.org/outlook/27548*; Jonathan H. Adler, "Free and Green: A New Approach to Environmental Protection," *Harvard Journal of Law & Public Policy*, Vol. 24, No. 2 (Spring 2001), at *http://www.thefreelibrary.com/Free+and+green:+a+new+approach+to+environmental+protection-a074802881*.

makes any chosen means feasible, and a free economy is the best way to generate that necessary wealth.

NON-WEALTH FACTORS THAT MAKE FREE ECONOMIES CLEAN

Most significantly, a well-developed system of private property rights, enforced through an effective legal system, provides for better stewardship of natural resources than is provided by a system that is characterized by no clear ownership or overwhelming government ownership.[9] In fact, measures of property rights (one of the 10 equally weighted factors that comprise the *Index of Economic Freedom*) correlate more closely with environmental performance than do measures of overall economic freedom. (See Chart 4.)

A property owner with the three d's—defined, defensible, and devisable rights—is uniquely incentivized to take care of his own property and actively discourage others from harming it. We see this all around us. Consider a typical homeowner's yard, which is better maintained and kept freer of trash than an unclaimed lot or a public park.

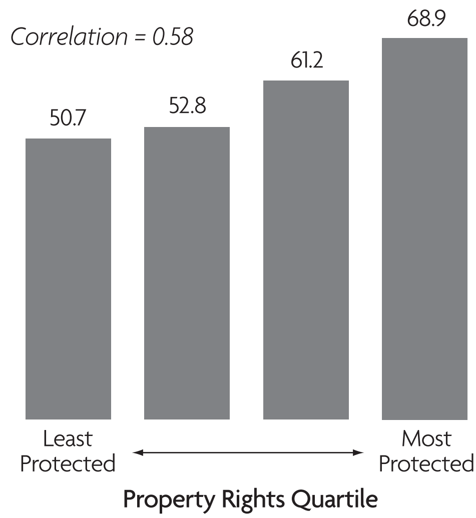
This phenomenon turns out to be true on a larger scale as well, and with environmental implications.[10] For example, the devastating forest fires that have become common in the western U.S. in recent years have originated primarily on federally controlled lands, not in privately owned forests, which tend to be much better managed against such risks.[11] Around the world, nations that lack well-enforced private property rights—corrupt states like Zimbabwe, where farmland is routinely confiscated and it is uncertain who really owns what, or Communist states like North Korea where the central government controls nearly every acre—score low in both economic freedom and environmental performance.[12]

Environmental measures that infringe on property rights often backfire, as evidenced in the United States by the Endangered Species

Environmental Performance and Property Rights

In the chart below, nations are placed into four equal-sized groups based on their Property Rights score in the 2011 Index of Economic Freedom.

Average Score of the Environmental Performance Index



Sources: Yale Center for Environmental Law & Policy and Center for International Earth Science Information Network in collaboration with the World Economic Forum and Joint Research Centre of the European Commission, *2010 Environmental Performance Index*, January 2010, at *http://www.epi.yale.edu/file_columns/0000/0157/epi2010_report.pdf*, and "2010 Environmental Performance Index: Summary for Policymakers," at *http://ciesin.columbia.edu/repository/epi/data/2010EPI_summary.pdf*; Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*.

Chart 4 heritage.org

9. Robert J. Smith, "Privatizing the Environment," *Policy Review*, Spring 1982, pp. 11–50; Terry L. Anderson and Donald R. Leal, *Free Market Environmentalism* (Boulder, Colo.: Westview Press, 1991).

10. Robert J. Smith," Resolving the Tragedy of the Commons by Creating Private Property Rights in Wildlife," *Cato Journal*, Vol. 1, No. 2 (Fall 1981), at *http://cei.org/pdf/4420.pdf*.

11. Robert Nelson, *A Burning Issue: A Case for Abolishing the U.S. Forest Service* (Lanham, Md.: Rowman & Littlefield, 2000).

12. Miller and Holmes, *2010 Index of Economic Freedom*, pp. 255–256 and 447–448; "2010 EPI Summary," p. 4.

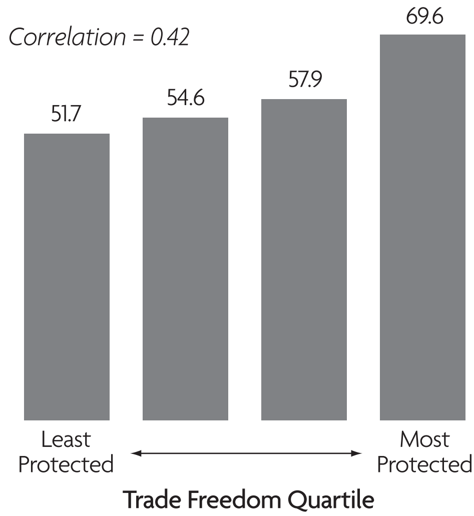
Act.[13] The statute has a very poor record of actually helping listed species, in part because it punishes farmers, ranchers, and other property owners with onerous restrictions if such species appear on their land. The application of this law forces landowners—many, if not most, of whom would otherwise be predisposed toward helping species—to preemptively make their land unsuitable for endangered animals (for example, by cutting down trees before they become big enough to serve as nesting sites for certain listed birds) and thus avoid the act's potentially ruinous burdens.[14]

Free trade, another component of the *Index of Economic Freedom*, also correlates strongly with environmental performance. (See Chart 5.) The reasons go beyond the wealth created by the mutually beneficial exchange of goods and services. Perhaps more important, trade encourages the development and widespread deployment of cleaner and more efficient technologies regardless of their nation of origin.[15] It also allows nations to specialize, enhancing efficiencies that are both economically and environmentally beneficial. Of course, to the extent that nations restrict trade, they forgo some or all of these benefits. For example, some countries impose strict tariffs on technologies that could reduce greenhouse gas emissions and air pollutants.[16]

Environmental Performance and Trade Freedom

In the chart below, nations are placed into four equal-sized groups based on their Trade Freedom score in the 2011 Index of Economic Freedom.

Average Score of the Environmental Performance Index



Sources: Yale Center for Environmental Law & Policy and Center for International Earth Science Information Network in collaboration with the World Economic Forum and Joint Research Centre of the European Commission, *2010 Environmental Performance Index*, January 2010, at *http://www.epi.yale.edu/file_columns/0000/0157/epi2010_report.pdf*, and "2010 Environmental Performance Index: Summary for Policymakers," at *http://ciesin.columbia.edu/repository/epi/data/2010EPI_summary.pdf*; Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at *www.heritage.org/index*.

Chart 5 heritage.org

Free economies also encourage social stability, which is necessary in dealing with environmental challenges. This is especially true of environmental problems with costly and complex solutions that require a long-term commitment. Economic freedom is also correlated with democratization and freedom from corruption: The governments that are

13. *Implementation of the Endangered Species Act of 1973*, Report to the House Committee on Resources, Majority Staff, 109th Congress, May 2005, at *http://www.waterchat.com/Features/Archive/050517_ESA_Implementation_Report.pdf*.

14. Charles C. Mann and Mark L. Plummer, *Noah's Choice: The Future of Endangered Species* (New York: Alfred A. Knopf, 1995).

15. Daniella Markheim, "Opportunity at Copenhagen—Nations Should Promote Free Trade at the Climate Conference," Heritage Foundation *Copenhagen Consequences*, No. 7, December 4, 2009, pp. 3–5, at *http://s3.amazonaws.com/thf_media/2009/pdf/CC7.pdf*; Sallie James, "A Harsh Climate for Trade: How Climate Change Proposals Threaten Global Commerce," Cato Institute *Trade Policy Analysis* No. 41, September 9, 2009, pp. 14–17, at *http://www.cato.org/pub_display.php?pub_id=10520*.

16. Tim Wilson, "Undermining Mitigation Technology: Compulsory Licensing, Patents and Tariffs," Institute of Public Affairs *Backgrounder* 21/1, August 2008, at *http://www.ipa.org.au/library/publication/1219192134_document_wilson_mitigationtechnology.pdf*.

most responsive to the popular will are the ones that deal most effectively with their environmental concerns.

In sum, the very same principles that make people freer and unleash economic progress also serve to advance environmental improvement.

FREEDOM'S TECHNOLOGICAL EDGE

The role of technology is also critical to environmental protection. Many environmental challenges await the technologies that can address them effectively and affordably, and free economies foster such innovation. This is partially due to the wealth effect, as stronger economies invest more in research and development and can more readily afford to deploy new technologies.[17] In addition, free economies reward successful entrepreneurs, including those who find ways to improve efficiency or reduce waste.[18] Intellectual property rights also help to incentivize the development of new technologies, as do tax policies that encourage the replacement of older and dirtier plant and equipment with newer and cleaner production processes. On the other hand, governments that prop up inefficient state-run entities or impose burdensome environmental regulations on new facilities while grandfathering less efficient older ones impede the benefits of capital turnover.

There are many examples of free economies leading the way with advances that provide both economic and environmental benefits. For example, American agriculture has become much more efficient by incorporating improvements in crop varieties as well as advances in farming methods and machinery. This has enabled a nearly threefold increase in the amount of food grown in the U.S. since 1930 while actually decreasing the acreage needed to grow it.[19] Needless to say, the many experiments in state-run agriculture over this span did not do nearly as well. Improvements in yield per acre have allowed other land to be left in its natural state; in fact, the extent of American forests and other natural habitat has increased along with rising farm productivity.[20]

The agriculture example also demonstrates how technology and trade can intersect to extend the environmental benefits around the world. American food production currently exceeds domestic demand, and the surplus is exported to countries that are less able to produce it as efficiently. In other instances, the technological advances themselves have been exported, allowing farmers in other nations to achieve similar yield gains using the breakthroughs pioneered in the U.S. Either way, the environment benefits by reducing the amount of global habitat destruction from conversion to cropland. Of course, such benefits can accrue only to the extent allowed by trade policy.

Just as farmers operating in a free economy have dramatically improved productivity and efficiency by incorporating new technologies, so have manufacturers. Over time, every ton of steel, ream of paper, or new car requires less energy and other resource inputs to produce and thus causes less pollution to be emitted. In other words, technological advancement allows for a shrinking environmental impact per unit of production.[21] Though the motive is cost reduction and increased profits, the end result is good for the environment.

Manufacturing in Germany provides a good example of the technological and environmental benefits of economic freedom. During the Cold War, West Germany had more freedom and a cleaner environment than East Germany. It produced energy and goods with considerably lower emissions per unit of output. With the collapse of Communism, superior West German technology flooded into the former East Germany, and environmental

17. Goklany, *The Improving State of the World*, p. 108.

18. Indur Goklany, "Richer Is Cleaner: Long-Term Trends in Global Air Quality," in *The True State of the Planet: Ten of the World's Premier Environmental Researchers in a Major Challenge to the Environmental Movement*, ed. Ronald Bailey (New York: Free Press, 1995), pp. 343–345.

19. Goklany, *The Improving State of the World*, pp. 117–121, 190.

20. Dennis Avery, "Saving the Planet with Pesticides: Increasing Food Supplies While Preserving the Earth's Biodiversity," in *The True State of the Planet*, pp. 72–73.

21. Goklany, "Richer Is Cleaner," in *The True State of the Planet*, pp. 344–345.

quality has been improving there ever since. Today, North Korea and South Korea are in the same situation as East and West Germany before the Berlin Wall came down, with disparities in economic freedom leading to disparities in technological progress and environmental performance.

The benefits of technology are likewise significant when it comes to global warming policy, as they can achieve reductions in carbon dioxide emissions from fossil fuel use. Carbon intensity, defined as carbon dioxide emissions per unit of gross domestic product (GDP), has been declining globally.[22]

There is a correlation between carbon intensity trends and economic freedom: The freest of the major economies have generally led the way in reducing carbon intensity.[23] In other words, free economies encourage finding ways to improve energy efficiency or utilize alternative energy sources, and this minimizes the increases in carbon dioxide emissions that are created by each additional dollar of GDP.

The carbon intensity declines point the way to a rational market-based global warming policy that has been ignored in the rush to expand the role of government. The 1997 Kyoto Protocol global warming treaty and national laws and regulations restricting greenhouse gas emissions—one form or another of centralized control over energy use—are all costly departures from economic freedom that show little promise.[24] For example, the Kyoto Protocol has been remarkably ineffective, and the United States has done a better job of reducing emissions as a treaty outsider than have many signatory nations.[25] Further, unlike these expensive and heavy-handed restrictions on energy use, economic freedom makes sense whether or not global warming actually turns out to be a real crisis.

In effect, free economies spur technological advances that allow us to meet human needs while treading ever more lightly on the Earth.

POLICY LESSONS

The correlation between economic freedom and environmental protection and the reasons behind it offer two important lessons as the world addresses environmental concerns.

The first is that the same principles that make societies wealthy—free markets, property rights, rule of law, free trade, limited government—can also make them clean. Thus, the potential for environmental improvement offers yet another good reason for nations to pursue an agenda that raises their score in the *Index of Economic Freedom*.

The second is that environmental measures that take nations in a direction away from economic freedom—for example, by destroying wealth or undercutting the workings of the free market—can be ineffective if not counterproductive and should be avoided.

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22. U.S. Department of Energy, Energy Information Administration, *International Energy Annual 2006*, Table H.1pco2, "World Carbon Intensity—World Carbon Dioxide Emissions from the Consumption and Flaring of Fossil Fuels per Thousand Dollars of Gross Domestic Product Using Purchasing Power Parities, 1980–2006," at *http://www.eia.doe.gov/pub/international/iealf/tableh1pco2.xls*.

23. Todd Wynn, "Economic Freedom: A No-Regrets Strategy for Reducing Global Energy Consumption," Cascade Policy Institute, April 2010, at *http://www.cascadepolicy.org/pdf/041310_Freedom_on_Energy.pdf*.

24. See Ben Lieberman, "What Americans Need to Know About the Copenhagen Global Warming Conference," Heritage Foundation *Special Report* No. 71, November 17, 2009, at *http://www.heritage.org/Research/Reports/2009/11/What-Americans-Need-to-Know-About-the-Copenhagen-Global-Warming-Conference*; David W. Kreutzer, Karen A. Campbell, William W. Beach, Ben Lieberman, and Nicolas D. Loris, "What Boxer–Kerry Will Cost the Economy," Heritage Foundation *Backgrounder* No. 2365, January 26, 2010, at *http://www.heritage.org/Research/Reports/2010/01/What-Boxer-Kerry-Will-Cost-the-Economy*; Ben Lieberman, "Proposed Global Warming Bills and Regulations Will Do More Harm Than Good," Heritage Foundation *WebMemo* No. 2665, October 23, 2009, at *http://www.heritage.org/Research/Reports/2009/10/Proposed-Global-Warming-Bills-and-Regulations-Will-Do-More-Harm-Than-Good*.

25. See Lieberman, "What Americans Need to Know About the Copenhagen Global Warming Conference," p. 2.

Chapter 5

Economic Freedom and the Pursuit of Happiness

Sebastiano Bavetta, Ph.D., and Pietro Navarra, Ph.D.

Seventeen years of freedom measurements conducted by The Heritage Foundation show that economic freedom and economic prosperity go hand in hand. The strong relationship between the two variables is important and desirable. Nonetheless, the relationship is subject to criticism for ignoring other important aspects of prosperity that involve non-material aspects of subjective well-being such as happiness. In broadening the understanding of the relationship, it is necessary to expand the concept of economic freedom so that it can explicitly encompass individuals' conscious and responsible exercise of free choice.

This chapter looks at ways in which a measure of economic freedom like the *Index of Economic Freedom* might be broadened to include a quantitative assessment, through subjective testimony, of a constitutive aspect of economic freedom—that is, the extent of responsible exercise of free choice—and then tests the interrelationships between the more broadly defined economic freedom and well-being.

EXERCISING FREE CHOICE

In a celebrated essay on freedom, Isaiah Berlin singled out the notion of *negative freedom*: that is, being free *from* impediments (chiefly coercion by other people or the state) in the exercise of one's voluntary actions.[1] One might measure such voluntariness empirically through data that reflect an individual's opportunity to choose in a given legal or policy environment.

This, in fact, is the thrust of The Heritage Foundation's *Index of Economic Freedom*. The following passage from the 2010 *Index* is revealing in this regard:

> A comprehensive definition of economic freedom should *encompass all liberties and rights of production, distribution, or consumption of goods and services. The highest*

1. See "Two Concepts of Liberty," in Isaiah Berlin, *Four Essays on Liberty* (London: Oxford University Press, 1996).

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 please under a rule of law, with their freedom at once both protected and respected by the state.[2]

All of the features of economic freedom mentioned by the *Index*'s authors—foremost among them the explicit reference to voluntary exchange—recall, within the Berlinian frame, the idea of voluntariness of action and absence of coercion by the state. While this idea goes a long way in defining and delineating economic freedom, some thoughtful writers have suggested that there may be more to consider.

In his fundamental contribution to a contractarian theory of the state, James Buchanan writes that "the free market offers maximal scope for private, personal eccentricity, for individual freedom in its most elementary meaning."[3] Similarly, Milton Friedman highlights, chiefly in *Capitalism and Freedom* and *Free to Choose*,[4] the intimate relationship that ties economic freedom to diversity. Consider, for example, the following:

> The characteristic feature of action through political channels is that it tends to require or enforce substantial conformity. The great advantage of the market, on the other hand, is that it permits wide diversity. It is, in political terms, a system of proportional representation. Each man can vote, as it were, for the color of the tie he wants and get it; he does not have to see what color the majority wants and then, if he is in the minority, submit.
>
> It is this feature of the market we refer to when we say that the market provides economic freedom.[5]

The interesting point in both Buchanan and Friedman's quotations is that they identify the possibility of shaping one's own view of life in a unique fashion offered by market exchanges as the essential feature of economic freedom. This is hardly surprising. Many authors share the romantic view—masterfully canvassed by John Stuart Mill—that self-determination is a fundamental part of being free. In this conception, it is not enough to have the opportunity to choose; rather, the act of choosing, and the acceptance of responsibility for the consequences of the choices made, is the focal point around which one's individuality is shaped and fostered, leading to the exercise of a person's autonomy. This notion of autonomy is elaborated in a field of normative economics known as the Freedom of Choice Literature.[6] Given its relatively recent elaboration and the difficulties of quantifying the concepts involved, it is perhaps not surprising that this idea of autonomy as a constitutive dimension of freedom has received scant treatment in conventional measures of economic freedom.

The authors of the *Index* deal indirectly with this issue by identifying what they call "fundamental principles of economic freedom—empowerment of the individual, non-discrimination, and open competition—[that] underpin and inform every measurement in

2. Terry Miller and Anthony B. Kim, "Defining Economic Freedom," Chapter 5 in Terry Miller and Kim R. Holmes, Ph.D., *2010 Index of Economic Freedom* (Washington: The Heritage Foundation and Dow Jones & Company, Inc., 2010), p. 58.

3. James M. Buchanan, *The Limits of Liberty: Between Anarchy and Leviathan* (Chicago: University of Chicago Press, 1975), p. 18.

4. See Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), and Milton Friedman and Rose Friedman, *Free to Choose: A Personal Statement* (New York: Harvest Books, 1990).

5. Friedman, *Capitalism and Freedom*, p. 15.

6. See Sebastiano Bavetta and Francesco Guala, "Autonomy Freedom and Deliberation," *Journal of Theoretical Politics*, Vol. 15, No. 4 (October 2003), pp. 423–443.

the *Index of Economic Freedom*."[7] The *Index* does not, however, attempt to provide empirical data that directly measure these fundamental principles of economic freedom.

The following analysis attempts to fill that gap, using an empirical measure of autonomy introduced by Bavetta *et al.* in 2009[8] that is based on data from the World Values Survey (WVS).[9] The goal is to determine whether and the extent to which the effect on well-being exercised by an individual's perception of his or her autonomy (autonomy freedom) is either reinforced or moderated by the traditional measures of economic freedom involving the absence of government coercion.

THEORETICAL HYPOTHESES

The basic claim of this analysis is that economic freedom and autonomy freedom complement each other in the enhancement of an individual's well-being. This claim can be tested through the development and examination of two theoretical hypotheses.

Hypothesis 1: *For a given level of autonomy freedom, the probability of greater well-being is higher for individuals who live in countries with a higher level of economic freedom and lower for individuals who live in countries with a lower level of economic freedom.*

Consider two countries. In the first, state intervention supplants individual decision processes, leading to atrophy of people's deliberative skills and attitudes. In such a country, citizens are mere recipients of public goods and services, the quantity and quality of which are decided by others. Under these circumstances, it is unlikely that acting autonomously delivers happiness; people have few if any opportunities for self-determination, and real choices are severely constrained. In the second country, market institutions and private ownership are firmly established. People are the masters of their lives and, acting out of their own choices, determine the quantity and quality of the goods and services they consume. In such a country, though the exercise of freedom of choice entails some costs, as far as it gives people control over their lives, it makes them happier.

The first country is representative of state-led economies—for example, a former Communist country in Eastern Europe or an authoritarian state in the Middle East—where goods and services are publicly provided and people are passive recipients of heteronymous choices made by the government. The second is representative of market economies—for example, an Organisation for Economic Co-operation and Development (OECD) country—where private enterprise guides the allocation of goods and services to their most efficient use out of people's voluntary choices.

Hypothesis 2: *A given increase in autonomy freedom has a larger impact on well-being in countries where economic freedom is lower and a smaller impact on well-being in countries where economic freedom is higher.*

Although changes in the level of economic freedom affect the relationship between autonomy and well-being as described in Hypothesis 1, it is important to examine the effect on individual well-being of changes in autonomy for different levels of economic freedom. We hypothesize that a given change in autonomy grants higher well-being returns in countries that are characterized by a lower level of economic freedom.

Consider two countries with different levels of economic freedom. In the first, a high degree of economic freedom makes a wider set of opportunities to choose available to individuals. Such opportunities, however, bring

7. Miller and Kim, "Defining Economic Freedom," p. 57.

8. See Sebastiano Bavetta, Maria Bottero, Dario Maimone Ansaldo Patti, and Pietro Navarra, "Autonomy Freedom: An Empirical Measure for a Theoretical Concept," mimeographed, London School of Economics, Centre for Philosophy of Natural and Social Science, 2009.

9. See World Values Survey 1981–2008 Official Aggregate v. 20090901, 2009. *World Values Survey Association (www.worldvaluessurvey.org). Aggregate File Producer:* ASEP/JDS, Madrid.

about higher deliberative costs for decision makers since processing the available information in order to make truly autonomous choices requires greater effort. The exercise of autonomous behavior has limited effects on well-being. In the second country, low levels of economic freedom leave individuals with few opportunities for choice. Under this circumstance, an increase in autonomy is unlikely to bring about the higher deliberative costs that might lead to significant improvements in the perceived level of well-being. Therefore, we expect that the same increase in the level of autonomy provides greater well-being returns in countries that are characterized by a lower level of economic freedom.

Hypotheses 1 and 2 can be empirically tested.

DATA AND EMPIRICAL METHODOLOGY

The data used in this empirical analysis are drawn from two main sources: the World Value Survey database and The Heritage Foundation/Wall Street Journal *Index of Economic Freedom*. The dataset allows a cross-country analysis that takes into consideration about 60 countries over a time span covering the period 2004–2008. The list of countries under investigation in the empirical analysis is reported in Table 1.

The dependent variable in the empirical analysis is the extent of well-being enjoyed by individuals. The two measures commonly adopted in the literature to evaluate the extent of individual well-being are happiness and life-satisfaction. Data for both variables are drawn from the WVS database. Happiness is assessed by asking respondents to indicate how happy they are, using four categories: "very happy," "rather happy," "not very happy," and "not at all happy." On the basis of this scale, a binary dummy variable is constructed taking the value of 1 if the individual is rather happy or very happy and 0 otherwise. Life satisfaction is measured by asking respondents to indicate how satisfied they are with their life as a whole, using a scale that ranges from 1 (not at all satisfied) to 10 (very satisfied). Again, a binary dummy variable takes the value of 1 if the individual's level of life satisfaction falls between 6 and 10 and the value of 0 otherwise.

Happiness and life satisfaction are two different elements of subjective well-being. In order to corroborate the results of the analysis, each person's responses to the questions about happiness and life satisfaction are combined to produce a composite measure of subjective well-being (SWB) by giving equal weight to each variable. However, to accomplish this task, it is necessary to consider two facts.

- Life satisfaction is measured on a 10-point scale, while happiness is measured on a four-point scale, and
- The two survey questions have opposite polarity.

Countries Under Investigation in This Analysis

Argentina	India	Rwanda
Australia	Indonesia	South Africa
Brazil	Iran	South Korea
Bulgaria	Iraq	Serbia
Burkina Faso	Italy	Slovenia
Canada	Japan	Spain
Chile	Jordan	Sweden
China	Malaysia	Switzerland
Colombia	Mali	Taiwan
Cyprus	Mexico	Thailand
Egypt	Moldova	Trinidad and Tobago
Ethiopia	Morocco	Turkey
Finland	Netherlands	Ukraine
France	New Zealand	Uruguay
Georgia	Norway	United Kingdom
Germany	Peru	United States
Ghana	Poland	Vietnam
Guatemala	Romania	Zambia
Hong Kong	Russia	

Table 1 heritage.org

Therefore, following Ronald Inglehart *et al*.,[10] the SWB composite index is constructed as follows: SWB = life satisfaction – 2.5 × happiness. If 100 percent of a given country's people are very happy and extremely satisfied, such a country will get the maximum score of 7.5. If happiness and life satisfaction are evenly balanced, the country will get a score of zero. If there are more people dissatisfied or unhappy than satisfied or happy, the country will get a negative score. As before, a binary dummy variable takes the value of 1 if SWB ranges between 5 and 7.5 and 0 otherwise.

The determinant of individual well-being is freedom of choice. As noted, there are two aspects of free choice: *opportunity* to choose and *autonomy* to choose. To calculate the extent to which individuals enjoy opportunity to choose, we use The Heritage Foundation/Wall Street Journal *Index of Economic Freedom*. This is a numerical indicator that ranges between 0 (the lowest degree of economic freedom) and 100 (the highest degree of economic freedom). For the sake of a better data comparison, the *Index* is rescaled over a range that goes from 1 (low economic freedom) to 10 (high economic freedom). As far as the measurement of the individual's extent of autonomy to choose, the measure of autonomy freedom (AF) introduced in Bavetta *et al*. is used. Such a measure is based on individual-level data from the WVS in which survey respondents are asked to indicate to what extent they feel they have free choice and control over their lives, using a scale that ranges from 1 (none at all) to 10 (a great deal). Therefore, the higher the value of responses, the greater the extent of autonomy to choose.

A multilevel logit (ML) model is used to establish whether economic freedom and autonomy complement each other to enhance individual well-being. The ML model allows disentanglement of the effects of two different components on an individual's level of well-being: a random component (upper level) given by the level of economic freedom (opportunity to choose) existing in the country where the individual lives and a fixed component (lower level) given by the extent of autonomy (autonomy to choose) that the individual enjoys.

This econometric technique allows examination of whether and to what extent the impact of autonomy on the level of the individual's well-being is either reinforced or moderated by the degree of economic freedom existing in the country where he lives. With this objective in mind, the following equation is estimated:

$$WB_{ij} = \alpha_0 + \alpha_1 AF_{ij} + \alpha_2 HEF_j + v_{0j} + v_{1j} HEF_j + \varepsilon_{ij}$$

where *WB* is the extent of well-being of individual *i* in country *j*, *AF* indicates his level of autonomy, *HEF* indicates the extent of economic freedom in country *j*, and ε is the error term.

The terms ν_{0j} and $\nu_{1j}HEF_j$ contextualize the relationship between an individual's autonomy and his own well-being by considering the level of economic freedom in the country where he lives. More specifically, ν_{0j} is the specific effect that shifts the intercept of the relationship between autonomy and well-being above or below the mean according to the extent of the country's economic freedom. The term $\nu_{1j}HEF_j$ allows the slope of the relationship between autonomy and well-being to be steeper or flatter than the mean according to the level of the country's economic freedom.

Therefore, according to this equation, the level of economic freedom existing in a specific country shifts the intercept term of the regression line above or below the mean and makes its slope flatter or steeper.

ESTIMATION AND RESULTS

Table 2 displays six ML regression models. In columns (a) and (b), the focus is on the relationship between freedom of choice and happiness. More specifically, in column (a) a random intercept model is carried out. This is a simplified estimation of the foregoing equa-

10. Ronald Inglehart, Roberto Foa, Christopher Peterson, and Christian Welzel, "Development, Freedom, and Rising Happiness: A Global Perspective (1981–2007)," *Perspectives on Psychological Science*, Vol. 3, No. 4 (2008), pp. 264–285.

Freedom of Choice and Individual Well-Being: Multilevel Logit Models

Standard errors are in parentheses.

	Freedom of Choice and Happiness		Freedom of Choice and Life Satisfaction, Subjective Well-Being			
Independent Variables	A	B	C	D	E	F
Constant	–1.827* (0.621)	–1.875* (0.666)	–4.551* (0.619)	–4.547* (0.693)	–4.906* (0.633)	–4.995* (0.691)
Individual-level variable: **Autonomy**	0.196* (0.004)	0.197* (0.004)	0.277* (0.004)	0.278* (0.004)	0.268* (0.005)	0.269* (0.005)
Country-level variable: **Economic Freedom**	0.036* (0.009)	0.036* (0.01)	0.035* (0.009)	0.036* (0.01)	0.026* (0.009)	0.028* (0.01)
Explained country-level variance (intercept)	12.24%	40.72%	12.34%	46.61%	12.69%	54.34%
Explained country-level variance (slope)		9.03%		10.84%		17.54%

* Statistically significant at 1 percent. **Note:** Individual-level variance: 3.29.

Sources: Authors' calculations.

Table 2 heritage.org

tion, in which the between-country heterogeneity captured by differences in economic freedom is only given by shifts in the intercept of the regression. The results indicate that a rise in autonomy as well as in economic freedom increases the probability of happiness.

The ML analysis shows also that the level of economic freedom explains 12.24 percent of country-level differences in the relationship between autonomy and happiness. This implies that economic freedom and autonomy are two complementary aspects of freedom of choice in enhancing happiness: For a given level of autonomy, the probability of happiness is higher in countries where the extent of economic freedom is higher and lower in countries where the extent of economic freedom is lower.

This finding, depicted in Chart 1, confirms empirically the prediction stated in Hypothesis 1.

Column (b) displays the results obtained by estimating a random slope model in which the full specification of our equation is estimated. As already pointed out, this model allows examination of the between-country heterogeneity in terms of economic freedom by moves in the intercept as well as in the slope of the regression line.

Results in column (b) confirm the positive effect of both autonomy and economic freedom on the probability of happiness as in column (a). They also show that economic freedom affects the relationship between autonomy and happiness in both the intercept and the slope. The level of economic freedom explains 40.72 percent of the country-level differences in the relationship between autonomy and happiness in terms of shifts in the intercept and 9.03 percent in terms of changes in the slope.

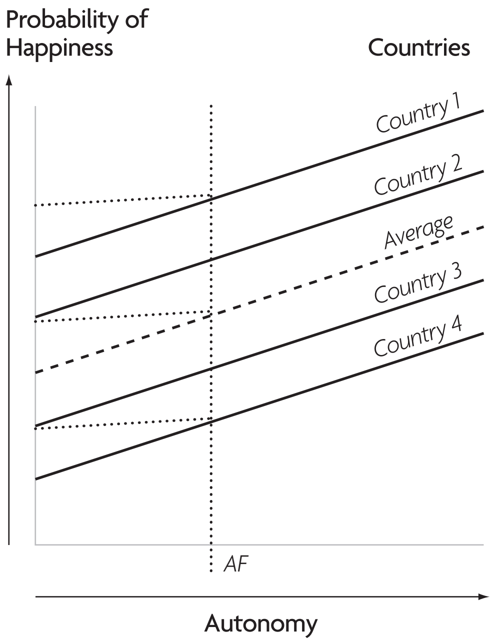
These findings bring about two important implications.

First, as in column (a), for a given level of autonomy the probability of happiness is greater in countries with higher levels of economic freedom and lower in countries with lower levels of economic freedom. Therefore, Hypothesis 1 is once more confirmed by the data.

Second, a change in the level of autonomy freedom grants higher happiness returns in

Freedom of Choice and Happiness, by Country

Taking two individuals enjoying the same extent of autonomy (AF), the probability of being happy is greater for the one who lives in a country with higher levels of economic freedom. Therefore, economic freedom and autonomy are complementary aspects of freedom of choice in enhancing happiness. The level of economic freedom is the highest in Country 1 and progressively declines in Countries 2, 3, and 4. The average refers to the average level of economic freedom in the sample of countries under investigation.

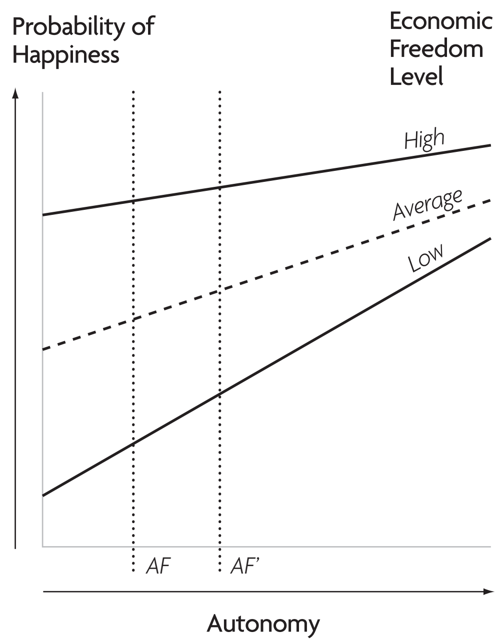


Note: Chart is based on a random-intercept multilevel logit model.

Chart 1 heritage.org

Economic Freedom, Freedom of Choice, and Happiness

In this chart, countries are clustered in two groups according to their level of economic freedom, low and high. The average indicates the average level of economic freedom in the sample of countries under investigation. Taking two individuals enjoying the same extent of autonomy (AF), the probability of being happy is greater for the one who lives in a country with higher levels of economic freedom. However, the same change in autonomy for both individuals (from AF to AF') grants higher happiness returns to the one who lives in a country belonging to the low economic freedom group.



Note: Chart is based on a random-intercept multilevel logit model.

Chart 2 heritage.org

countries endowed with lower levels of economic freedom and lower happiness returns in countries with higher levels of economic freedom. This result, depicted in Chart 2, empirically supports the theoretical predictions stated in Hypothesis 2.

Columns (c) to (f) explore the relationship between freedom of choice and both life satisfaction and subjective well-being. The same econometric analysis already implemented in columns (a) and (b) is used. The results mirror those obtained for happiness and therefore represent an empirical validation of Hypotheses 1 and 2.

First, economic freedom and autonomy are two aspects of freedom of choice that complement each other in determining life satisfaction and subjective well-being.

Second, a given change in the level of autonomy grants higher returns in terms of life satisfaction and/or subjective well-being in countries that are characterized by greater levels of economic freedom and lower returns in countries that are characterized by lower levels of economic freedom.

Third, the same change in the level of autonomy awards higher returns in terms of both life satisfaction and subjective well-being in countries displaying lower levels of economic freedom and lower returns in countries with higher levels of economic freedom.

POLICY PRESCRIPTIONS AND CONCLUSIONS

This chapter argues that economic freedom and autonomy are complementary measures. The claim is confirmed by means of a robust empirical analysis. Estimation results show that both economic freedom and autonomy foster individual well-being.

More specifically, a given level of autonomy leads to higher levels of happiness in countries that display a higher level of economic freedom. The reason for such a conclusion is that people in countries where market mechanisms prevail acquire the *know-how* to use their autonomy. However, a change in autonomy increases the probability of happiness more in those countries in which economic freedom is low. The reason for this conclusion is the limited *cost of choice* imposed on decision makers where opportunities are restricted by the pervasiveness of the state or the absence of material prosperity.

Our estimation results suggest some practical considerations concerning the role of autonomous choice as a policy instrument for the advancement of well-being. A dissenting view states that an increase in the complexity of the deliberative process jeopardizes the achievement of higher levels of well-being, especially in advanced countries that enjoy the benefit of high levels of economic freedom and, as a consequence, offer decision makers wider possibilities for choice. As the exercise of autonomous behavior increases, it is argued, frustration pushes individual well-being backwards because the complexity of the deliberative process imposes costs that people can hardly manage.

The results of our analysis, however, point to a different hypothesis. As a matter of fact, economically freer countries are characterized by institutional environments in which decision makers learn how to use the opportunities on offer. The positive slope of the relationship between autonomy and happiness depicted in Chart 1 shows that the know-how that people acquire systematically prevails over the complexity of the deliberative process. Contrary to some dissenting positions, this analysis concludes that autonomy never depresses well-being, no matter how the latter term is defined.

The second consideration, which applies to countries that do not experience substantial levels of economic freedom, is more an intuition than a direct consequence of the analysis. The results show that economic freedom and autonomy complement each other. Observing the incredible variety of consequences produced by liberalization processes, it is highly likely that autonomy plays a fundamental role in their success. As state-led economies open to market-oriented reforms, it is likely that both material and non-material well-being will increase. Yet, because of complementarity, this requires that the degree of autonomy enjoyed by individuals also increases. If it does not, one could observe liberalizations without prosperity or, alas, a failure of the model. Restricting reflections to the first case only, the policy consequence is that any government genuinely interested in the implementation of effective liberalization must foster autonomy or run the risk of being unsuccessful.

Be that as it may, one should always remember that autonomy can never be imposed successfully from above. Policymakers should never lose sight of the fact that the desire for responsibility, the search for one's unique identity and way of living, is a seed that delivers fruit only if planted in each individual's soul. Such a fragile trait, no less than the sense of a person's dignity inscribed in the affirmation of his or her identity, is almost certainly transmitted mainly and most effectively through cultural values and traditions that pass from generation to generation.

Chapter 6

The Countries

This chapter reports data on economic freedom in each of the 183 countries covered in the *Index of Economic Freedom*. Of these 183 countries, 179 are fully scored and ranked. Because of data constraints, the remaining four—Afghanistan, Iraq, Sudan, and Liechtenstein—are covered without numerical grading. 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. These statistics and their sources are outlined in detail below.

Four visuals are included for each country. (The charts for Albania presented here are examples of what the reader will see on each country page.)

The first chart indicates the total economic freedom score earned in the 2010 *Index*. The range of scores, from 0 to 100, is displayed on a 180 degree arc, and a pointer indicates the country's economic freedom level.

The second shows the evolution of the country's score over time, from 1995 (or the earliest year for which data are available) through 2010. In some cases, a country is not graded continuously for all 16 years, often because

Albania's Overall 2011 Economic Freedom Score

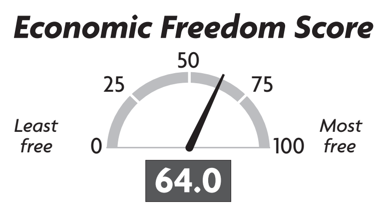


Chart 1 heritage.org

The Evolution of Albania's Economic Freedom Score

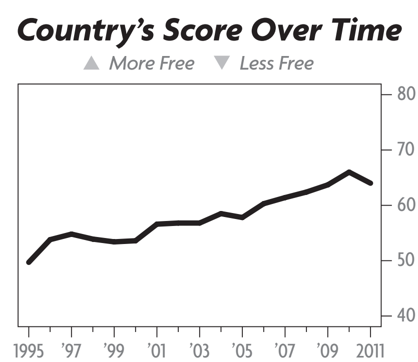


Chart 2 heritage.org

grading did not begin in the 1995 edition and frequently because violence, political instability, or natural disaster has resulted in a lack of reliable information, making continuous scoring impossible.

The third chart graphs the country's economic freedom score in comparison to the world average, the regional average, and the average score of "free" economies in the 2011 *Index*.

Albania's 2011 Economic Freedom Score Versus Average Ratings

Country Comparisons

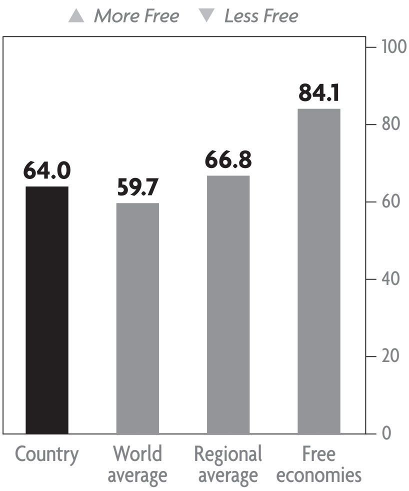


Chart 3 heritage.org

The fourth visual shows the country's global ranking in each of the 10 components of economic freedom so that readers can quickly identify the comparative strengths and weaknesses of economic freedom in each country.

Albania's Global Ranking by the 10 Components of Economic Freedom

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 85	Investment Freedom	No. 50
Trade Freedom	No. 78	Financial Freedom	No. 17
Fiscal Freedom	No. 16	Property Rights	No. 94
Government Spending	No. 93	Freedom from Corruption	No. 95
Monetary Freedom	No. 42	Labor Freedom	No. 130

Chart 4 heritage.org

Additionally, in the headings for the paragraphs explaining the country's score in each component, an indication is provided of the change in the score for that component from the 2010 *Index* to the 2011 *Index*.

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" with eight different categories of information. Unless otherwise indicated, the data in each country's profile are for 2009 (the year for which the most recent data are widely available) and in current 2009 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:** 2009 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 2010*. The major secondary source is International Monetary Fund, *World Economic Outlook Database April 2010*. 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 April 2010*. Secondary sources include World Bank, *World Develop-*

ment Indicators Online 2010; Economist Intelligence Unit, *Country Reports*, 2008–2010; Asian Development Bank, *Asian Development Outlook 2010*; and a country's statistical agency and/or central bank.

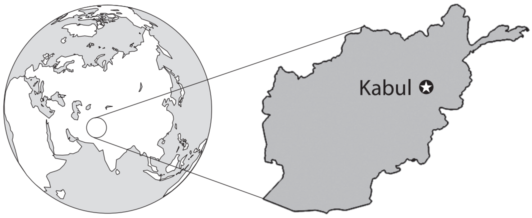
- **GDP five-year compound annual growth:** The compound average growth rate measured over a specified period of time. The compound annual growth rate is measured using data from 2004 to 2009, based on real GDP expressed in constant national currency units, based on country-specific years. It is calculated by taking the *n*th root of the total percentage growth rate, where *n* is the number of years in the period being considered. The primary source is International Monetary Fund, *World Economic Outlook Database*, *April 2010*. Secondary sources are World Bank, *World Development Indicators Online 2010*, and Asian Development Bank, *Asian Development Outlook 2010*.
- **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 2010*; International Monetary Fund, *World Economic Outlook Database April 2010*; U.S. Central Intelligence Agency, *The World Factbook 2010*; 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 2010*; Economist Intelligence Unit, *Country Reports*, 2008–2010; International Monetary Fund, *Article IV Staff Reports*, 2008–2010; and a country's statistical agency.
- **Inflation:** The annual percent change in consumer prices as measured for 2009 (or the most recent available year). The primary source for 2009 data is International Monetary Fund, *World Economic Outlook Database, April 2010*. Secondary sources are Economist Intelligence Unit, *Country Reports*, 2008–2010; Asian Development Bank, *Asian Development Outlook 2010*; 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 2009 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 2010*, and Economist Intelligence Unit, *Country Reports*, 2008–2010.

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.

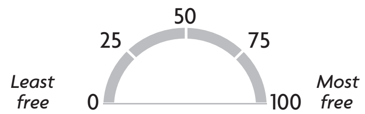
- **SACU:** Southern African Customs Union, consisting of Botswana, Lesotho, Namibia, South Africa, and Swaziland.
- **WTO:** World Trade Organization, founded in 1995 as the central organization dealing with the rules of trade between nations and based on signed agreements among 153 member countries.



AFGHANISTAN

World Rank: Not ranked   Regional Rank: Not ranked

Economic Freedom Score



The economy is not graded

Afghanistan's economic freedom cannot be graded because of a lack of reliable data. Political uncertainty and security challenges remain formidable, and government compilations of official economic data have been inadequate. This *Index* 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.

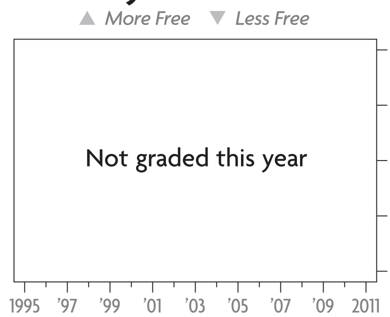
Despite a decade of serious political and social upheavals, the Afghan economy has achieved uneven but noticeable development. Construction is the main driver of growth in the formal, legitimate economy. Massive foreign assistance has permitted some improvements in areas such as health and education.

Overall, the economic, political, and security environment tends to suppress entrepreneurial activity, and there has been little growth in productivity. Mid-level government officials can impose bureaucratic delays on approvals and permits and may be out of step with official policies aimed at fostering a vibrant private sector. Continued political instability and corruption are serious challenges to economic development. The judicial system is weak.

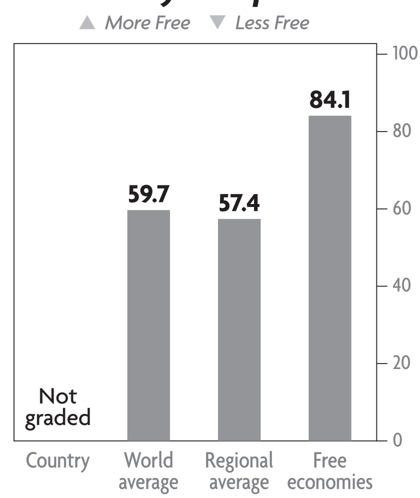
BACKGROUND: Roiled by conflict since the 1978 Communist coup, Afghanistan is one of the world's poorest countries. After an American-led coalition ousted the Taliban government in 2001, a U.N.-sponsored conference established a framework that led to a new constitution and successful elections for a president in 2004 and parliament in 2005. GDP grew significantly in 2009, largely as a result of foreign aid, but the economy remains hobbled by poor infrastructure, a Taliban-led insurgency, and the government's inability to extend the rule of law to many rural areas. 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. The economic dominance of illegal opium production is a major impediment to political stability and sustainable development.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 28.9 million
GDP (PPP): $27.0 billion
22.5% growth in 2009
11.9% 5-year compound annual growth
$935 per capita
Unemployment: 35.0% (2008)
Inflation (CPI): –12.0%
FDI Inflow: $185 million

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *NOT GRADED*

Processes for establishing businesses and obtaining business licenses have been relatively streamlined, but other structural barriers persist. The inadequate regulatory system and corruption among the officials who administer it seriously impede entrepreneurial activity.

TRADE FREEDOM: *NOT GRADED*

Afghanistan's weighted average tariff rate in 2008 was 6.5 percent. Inefficient customs administration, inadequate economic and physical infrastructure, undeveloped regulatory administration, and corruption delay transactions and increase costs. If Afghanistan were being graded, 15 points would be deducted from its trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *NOT GRADED*

The top income and corporate tax rates are 20 percent. There is also a 2 percent to 5 percent sales tax. In the most recent year, overall tax revenue as a percentage of GDP was 4.8 percent. Authorities are working to improve the tax system, but weak governance and corruption impede tax collection.

GOVERNMENT SPENDING: *NOT GRADED*

Though security spending is rising, increased donor funding has kept the fiscal balance relatively stable. In the most recent year, total government expenditures, including consumption and transfer payments, remained low at 19.4 percent of GDP. Commercial laws that could lay the foundation for further privatization have not been implemented. Public enterprises need greater transparency and stronger governance.

MONETARY FREEDOM: *NOT GRADED*

Lower world food prices and prudent monetary policy pushed the 12-month rate of inflation down from a peak of 43 percent in May 2008 to –13 percent in November 2009. Price controls exist in major cities, and controls on egg, milk, cheese, bread, meat, fruit, and vegetable prices vary by municipality. If Afghanistan were being graded, 10 points would be deducted from its monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *NOT GRADED*

Foreign and domestic firms are treated equally under the law, but foreign investment in certain sectors, such as non-banking financial activities, insurance, natural resources, power, water, sewage, waste treatment, airports, telecommunications, and health and education facilities, receives special scrutiny. Foreign investors may not own land but may own 100 percent of a company. Afghanistan has no capital or currency controls. The state can expropriate an investment or asset for public-interest purposes on a non-discriminatory basis and must provide fair-market-value compensation. No seizures of foreign-owned assets have been reported. Investment is discouraged by security concerns, inadequate regulations, lack of financial capacity, corruption, inefficient bureaucracy, and slow privatization of the many state-owned enterprises.

COUNTRY'S WORLD RANKINGS

Business Freedom	n/a	Investment Freedom	n/a
Trade Freedom	n/a	Financial Freedom	n/a
Fiscal Freedom	n/a	Property Rights	n/a
Government Spending	n/a	Freedom from Corruption	n/a
Monetary Freedom	n/a	Labor Freedom	n/a

FINANCIAL FREEDOM: *NOT GRADED*

The economy remains largely cash-based. There are 17 commercial banks. Restructuring of state-owned banks has progressed, and domestic private banks account for around half of total assets. Nevertheless, the financial sector, with its inadequate management and irregularities concerning insider lending, remains weak and a key impediment to private-sector development. Most bank credit is short-term, and regulatory inefficiency undermines development. The difficulty of accessing credit through formal financial institutions makes existing firms dependent on family funds and limits opportunities for entrepreneurial activity. Facing sudden withdrawals of cash deposits triggered by allegations of corruption in 2010, the government stepped in to prevent the collapse of Kabul Bank, the largest private bank, which has ties to the Karzai administration.

PROPERTY RIGHTS: *NOT GRADED*

Afghanistan's judicial system is severely underdeveloped. There is no enforcement of patent and copyright laws. Protection of property rights is weak due to a lack of property registries or a land titling database, disputed land titles, lack of capacity by commercial courts, and widespread corruption. The bankruptcy law is ineffective. Afghanistan has no legislation on intellectual property rights and does not belong to any international IPR-protection organizations.

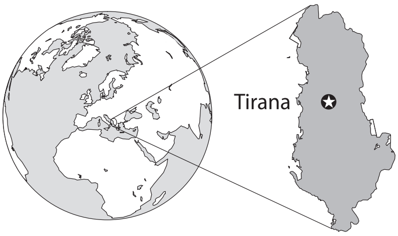
FREEDOM FROM CORRUPTION: *NOT GRADED*

Corruption is perceived as rampant. Afghanistan ranks 179th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. 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.

LABOR FREEDOM: *NOT GRADED*

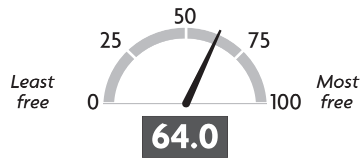
Political and security instability prevents the development of a modern labor market. Laws and regulations on wage rates and work hours are ineffective. Opium-related activities and a large informal economy dampen development of a functioning labor market. A new labor law went into effect in mid-2009, but the government lacks the capacity to enforce labor regulations.

ALBANIA

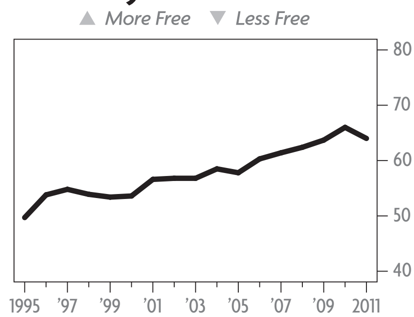


World Rank: **70** Regional Rank: **33**

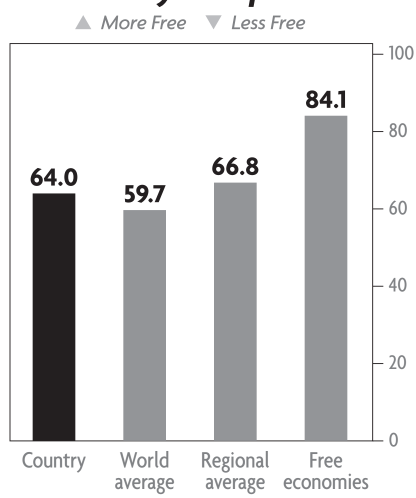
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Albania's economic freedom score is 64, making its economy the 70th freest in the 2011 *Index*. Its level of economic freedom declined by 2 points during the past year, due primarily to decreases in trade freedom, investment freedom, freedom from corruption, labor freedom, and its government spending score. Albania is ranked 33rd freest among the 43 countries in the Europe region, and its overall score is above the world average.

Albania has achieved strong economic growth over the past five years, driven mainly by the services and construction sectors and reflecting significant diversification of the economic base. The government has taken steps to enhance the business environment and has adopted broad structural reforms to foster growth in the private sector.

Although foreign direct investment has increased in recent years, levels still remain among the lowest in the region. Albania's overall economic freedom score is constrained by weak property rights and pervasive corruption. The low property rights score is largely a result of political interference in the judiciary.

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 for several years. 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. The EU is currently working with Albania to liberalize European visa requirements so that Schengen-area countries may be entered without a visa. In April 2009, Albania achieved full membership in NATO, marking a milestone in its political development. Albania's transportation and energy infrastructure are poor by European standards. The agricultural sector remains the largest source of employment.

Quick Facts

Population: 3.2 million
GDP (PPP): $22.8 billion
2.8% growth in 2009
5.5% 5-year compound annual growth
$7,164 per capita
Unemployment: 12.8%
Inflation (CPI): 2.2%
FDI Inflow: $979.4 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *67.1* — 0.9

Albania's regulatory system is not fully transparent but is becoming more conducive to entrepreneurial activity. Establishing and running a business has been facilitated by recent reforms. Many license requirements have been abolished, and a broad simplification of licensing procedures has been undertaken.

TRADE FREEDOM: *79.8* — 6.0

Albania's weighted average tariff rate in 2009 was 5.1 percent. Import taxes may be based on a government-determined fair market price, regardless of the actual price paid. Weak enforcement of intellectual property rights, inadequate trade capacity, and administrative bureaucracy delay trade and increase costs. Ten points were deducted from Albania's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *92.1* — 0.5

Personal income and corporate tax rates are a flat 10 percent. Other taxes include a value-added tax (VAT), a property tax, and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 24 percent.

GOVERNMENT SPENDING: *68.7* — 5.5

A fiscal stimulus totaling 1 percent of GDP was financed in large part by privatization of the national electricity distribution systems. In the most recent year, total government expenditures, including consumption and transfer payments, rose slightly to 32.3 percent of GDP. The once-steady fiscal deficit jumped to 7.4 percent of GDP, driving public debt to 60 percent of GDP, the legal limit in Albania.

MONETARY FREEDOM: *79.9* + 1.2

Inflation was relatively low at 2.2 percent in 2009 due to the sharp fall in international oil prices and food price disinflation, but averaged 4.1 percent in the first quarter of 2010 following the depreciation of the lek against the euro and the U.S. dollar. Regulatory agencies continue to oversee prices. Ten points were deducted from Albania's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *65* — 5.0

Foreign and domestic firms are treated equally under the law, and nearly all sectors are open to foreign investment. Foreigners may not purchase agricultural land but may rent it for up to 99 years. They also may purchase commercial property if the proposed investment is worth three times the price of the land. There are no restrictions on foreign ownership of other property. Foreigners may own 100 percent of Albanian companies, and monetary expatriation is legal. Residents and non-residents may hold foreign exchange accounts. The state can expropriate an investment or asset in rare cases for public-interest purposes, but there are legal provisions for compensation. Inadequate infrastructure, lack of reliable power, weak rule of law, poorly defined property rights, inefficient bureaucracy, and corruption discourage foreign investment.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 85	Investment Freedom	No. 50
Trade Freedom	No. 78	Financial Freedom	No. 17
Fiscal Freedom	No. 16	Property Rights	No. 94
Government Spending	No. 93	Freedom from Corruption	No. 95
Monetary Freedom	No. 42	Labor Freedom	No. 130

FINANCIAL FREEDOM: *70* *no change*

Albania's financial sector has grown rapidly and is totally dominated by commercial banks funded with private capital. Currently, 16 banks are in operation: two domestically owned banks and 14 foreign or joint ventures. Banking has benefited from more competition and better availability of services. Supervisory regulations have been strengthened to preserve financial stability. In response to the global financial crisis, the Bank of Albania has acted to increase liquidity and maintain public confidence. With little or no direct exposure to recently troubled international financial assets, Albania's banking system has been able to withstand the global financial shock with little disruption.

PROPERTY RIGHTS: *35* *no change*

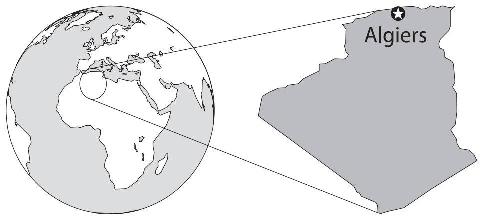
Albania's constitution provides for an independent judiciary, but political pressure, intimidation, corruption, limited resources, and organized crime are obstacles to the effective administration of justice. Overall protection of intellectual property rights is weak, although there has been some progress with respect to industrial property and trademarks. 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.

FREEDOM FROM CORRUPTION: *32* — 2.0

Corruption is perceived as widespread. Albania ranks 95th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a decline from 2008. While significant reforms of the legal system are underway, the courts are slow, inefficient, and subject to political pressures and corruption. Albania is a major transit country for human trafficking and illegal arms and narcotics.

LABOR FREEDOM: *50.4* — 1.7

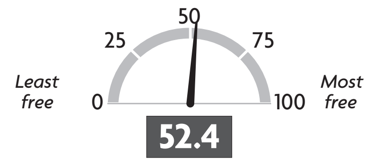
Albania has a high level of self-employment, which in part reflects poor development of the labor market. Labor demand in the formal economy is largely restricted to the public sector. Rigid employment regulations hinder productivity growth.



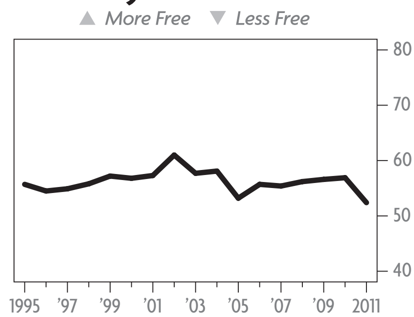
ALGERIA

World Rank: **132** Regional Rank: **14**

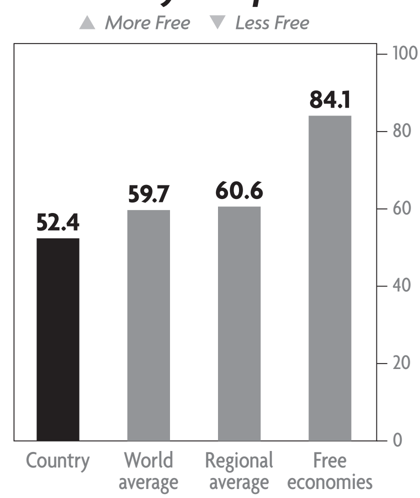
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Algeria's economic freedom score is 52.4, making its economy the 132nd freest in the 2011 *Index*. Its overall score is 4.5 points lower than last year due to worsened investment freedom, government spending, freedom from corruption, and labor freedom. Algeria is ranked 14th among the 17 countries in the Middle East and North Africa region, and its score remains lower than both the regional and world averages.

Algeria still faces critical economic challenges. Structural reforms to diversify the economic base have achieved only marginal success. Government revenue from hydrocarbons has allowed reductions in external debt, but the inefficient business environment continues to impede development of the non-hydrocarbon sector and job creation.

In more than half of the 10 economic freedoms, Algeria performs below world averages. Persistent problems include an underdeveloped financial sector, corruption, and political interference in the judiciary. A 49 percent cap on foreign investors' ownership in significant ventures introduced in 2009 has caused Algeria's investment freedom score to decline. Liberalization of external trade has slowed, and accession to the World Trade Organization has been further delayed.

BACKGROUND: After Algeria gained its independence from France in 1962 following eight years of civil war, the revolutionary government adopted a socialist economic model that held back development. Violent conflict in the 1990s between Islamist militants and the government claimed more than 100,000 lives. A peace accord negotiated in 1999 delivered greater political stability, but some Islamist militants merged with al-Qaeda in 2006 and remain a threat. Although President Abdelaziz Bouteflika was re-elected by a wide margin in 2009, some opposition leaders questioned the fairness of the elections. Algeria is the world's fourth-largest exporter of natural gas and has the world's eighth-largest natural gas reserves and 15th-largest oil reserves. The government hopes to diversify the economy by attracting foreign and domestic private investment in non-energy sectors.

Quick Facts

Population: 35.0 million
GDP (PPP): $240.3 billion
2.0% growth in 2009
2.4% 5-year compound annual growth
$6,869 per capita
Unemployment: 10.2%
Inflation (CPI): 5.7%
FDI Inflow: $2.8 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *69.4* — 1.8

Years of ineffective regulatory reform have brought little relief. The inefficient entrepreneurial environment continues to impede broader economic development and worsen unemployment. The regulatory framework is often undermined by complex bureaucracy and inconsistent application of commercial laws.

TRADE FREEDOM: *72.8* + 2.1

Algeria's weighted average tariff rate in 2009 was 8.6 percent. Problems with customs clearance procedures are the principal complaint from foreign companies. Inconsistent enforcement of property rights, import and export controls, and restrictive labeling, sanitary, and phytosanitary regulations still delay trade and increase costs. Ten points were deducted from Algeria's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *83.5* *no change*

The top income tax rate is 35 percent. The top corporate tax rate is 25 percent, though production, public works, and tourism are subject to a 19 percent rate. Other major taxes include a value-added tax (VAT) and a withholding tax on dividends. In the most recent year, overall tax revenue as a percentage of GDP has held steady at 8 percent. Tax reform efforts have centered on improving the collection of non-hydrocarbon taxes.

GOVERNMENT SPENDING: *62.4* — 11.0

Hydrocarbon export revenue continues to finance government spending, including the public infrastructure program. Government spending has risen to 35.4 percent of GDP. Authorities have acknowledged the need to modernize the budgetary system and improve the efficiency of public spending to maintain long-term fiscal stability and counter Algeria's first fiscal deficit in a decade, reported at 8 percent of GDP.

MONETARY FREEDOM: *75.4* — 1.8

Domestic price pressures remained high in 2010 with inflation, which averaged 5.8 percent in 2009, only slightly weaker at a projected 4.9 percent due to robust domestic demand and monopolistic price rigidity in a number of product markets. Distortionary subsidies and direct price controls on some essential commodities including water, energy, and agricultural products remain in place. Ten points were deducted from Algeria's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *20* — 25.0

The Complementary Finance Law of 2009 requires majority Algerian ownership of new foreign investment. Foreign ownership is limited to joint-venture relationships in hydrocarbons and some other sectors. Privatization has stalled due to limited interest among foreign investors and the government's lack of confidence in the process. The global financial crisis has put bank privatization on hold.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 78	Investment Freedom	No. 152
Trade Freedom	No. 110	Financial Freedom	No. 133
Fiscal Freedom	No. 53	Property Rights	No. 99
Government Spending	No. 111	Freedom from Corruption	No. 113
Monetary Freedom	No. 90	Labor Freedom	No. 122

The investment code is transparent, but administration and bureaucracy can be burdensome. Residents and non-residents may hold foreign exchange, subject to some restrictions. Foreign investors may repatriate profits, subject to restrictions. Tax law requires companies to reinvest within four years the value of any tax incentives received or face a 30 percent penalty, and foreign companies transferring profits out of Algeria are subject to a tax of 15 percent.

FINANCIAL FREEDOM: *30* *no change*

Banking and financial reform, ostensibly a goal over the past decade, has been uneven and slow. The financial system remains vulnerable to government interference. Delays in modernizing the banking sector and reducing state involvement have led to inefficient credit allocation and have kept the non-hydrocarbon sector from developing. State-owned banks account for around 90 percent of assets. In late 2007, citing the slowdown of global financial markets, the government delayed the privatization of one of the state-owned banks, Credit Populaire d'Algerie; it has now been suspended indefinitely. The stock exchange remains undeveloped and lists only three companies.

PROPERTY RIGHTS: *30* *no change*

The constitution provides for an independent judiciary, but the legal system is inefficient, and the executive branch influences judicial actions. Most real property is government-owned, and conflicting title claims make buying and financing real estate difficult. Implementation of legislation protecting copyright and related rights, trademarks, patents, and integrated circuits is inconsistent, and enforcement remains spotty.

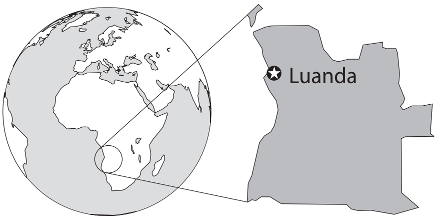
FREEDOM FROM CORRUPTION: *28* — 4.0

Corruption is perceived as widespread. Public procurement is often tainted with irregularities, including excessive use of private agreements. Algeria ranks 111th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a drop from 2008. There were a number of arrests in 2009 and early 2010 in several corruption scandals involving high-ranking officials in a variety of ministries and state-owned enterprises.

LABOR FREEDOM: *52.9* — 3.5

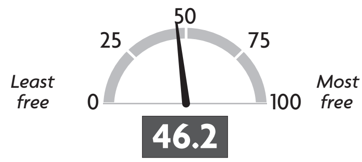
With about 75 percent of the unemployed younger than 30, youth unemployment remains persistently high. The non-salary cost of employing a worker is high, although dismissing a redundant employee is relatively easy and inexpensive.

ANGOLA



World Rank: **161** Regional Rank: **40**

Economic Freedom Score



Angola's economic freedom score is 46.2, making its economy the 161st freest in the 2011 *Index*. Its overall score has declined by 2.2 points, primarily because of worsened scores in business freedom, government spending, and labor freedom. Angola is ranked 40th out of 46 countries in the Sub-Saharan Africa region.

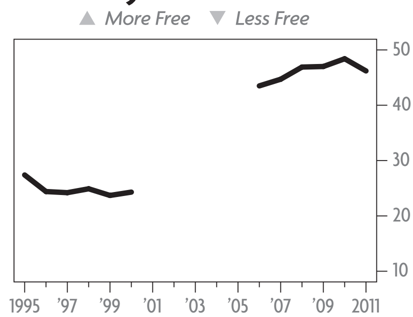
The Angolan economy remains heavily dependent on oil production, with growth vulnerable to global oil prices. The drop in oil prices triggered by the global economic slowdown had a significant effect on government revenue.

Despite the government's plan to diversify its economic base away from oil and diamonds, progress in stimulating development of the non-oil private sector has been sluggish. Pervasive corruption and a lack of institutional momentum undermine the implementation of other important reform policies. Monetary stability remains fragile, regulation chokes private business investment, and the judiciary is politically influenced. Inconsistent and confusing regulations make entrepreneurial activity costly and difficult. Monopolies and quasi-monopolies still dominate the leading sectors of the economy.

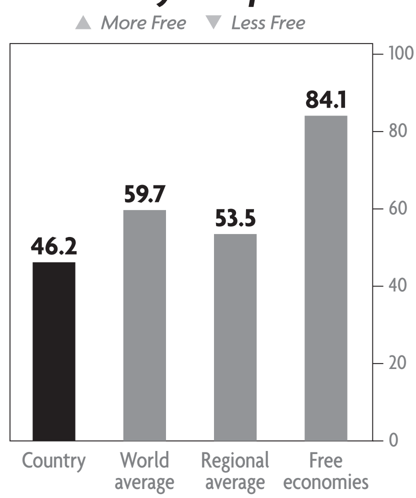
BACKGROUND: Since the end of a 27-year civil war in 2002, Angola has been repairing and improving its ravaged infrastructure and weak political and social institutions. President José Eduardo dos Santos has ruled since 1979, and his Popular Movement for the Liberation of Angola (MPLA) won a strong victory in the 2008 parliamentary elections. Despite promising to hold presidential elections in 2009, dos Santos has made an election date contingent on the drafting of a new constitution. 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 447 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 17.3 million
GDP (PPP): $105.9 billion
–0.4% growth in 2009
12.6% 5-year compound annual growth
$6,117 per capita
Unemployment: 40% (2006)
Inflation (CPI): 14.0%
FDI Inflow: $13.1 billion

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *41.4* — 2.0

Despite some progress, burdensome regulations continue to hinder private-sector development. The regulatory system lacks transparency and clarity, and regulations are inconsistently enforced.

TRADE FREEDOM: *70.2* — 0.2

Angola's weighted average tariff rate was 7.4 percent in 2009. Angola is the first Southern African Development Community country to publish a consolidated customs code. Barriers to free trade include preferential treatment for domestic companies with respect to government procurement, variable and high customs fees and taxes, import licensing, government import authorizations, the unclear regulatory environment, inadequate customs capacity, and issues involving enforcement of intellectual property rights. Fifteen points were deducted from Angola's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *84.5* — 0.6

Angola has a relatively low income tax rate but a burdensome corporate tax rate. The top income tax rate has been raised to 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, while agriculture benefits from a 20 percent rate. Other taxes include a fuel tax and a consumption tax. In the most recent year, overall tax revenue as a percentage of GDP remained steady at 6.1 percent.

GOVERNMENT SPENDING: *48.1* — 14.7

Increased oil revenue has funded rising expenditures, though external financing still accounts for most public infrastructure investment. Government interference in the economy is widespread. In the most recent year, total government spending, including consumption and transfer payments, rose to 41.6 percent of GDP. The fiscal deficit reached 9 percent of GDP. Debt management capacity is fragmented and weak.

MONETARY FREEDOM: *61.8* — 0.8

Inflation rose to an average of 13.7 percent in 2009. Monetary and exchange-rate policy has been politicized as a result of the loss in May 2010 of central bank independence in setting interest rates, and inflation is forecast to remain above 13 percent through 2011. Key sectors remain government-owned, and price controls are pervasive in many sectors, including fuel and electricity. Fifteen points were deducted from Angola's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *35* *no change*

Foreign investors receive equal treatment, but investment in certain sectors is restricted. Government approval is needed for foreign investments exceeding $100,000 and investments that require a concession (such as oil and mining). The regulatory system is non-transparent and time-consuming, lacks capacity, and is subject to corruption. There are few specific performance requirements on foreign investments, but "Angolanization" of companies and greater use of Angolan suppliers are encouraged. Reforms have improved local access to foreign exchange, and repatriation of profits for officially approved foreign investment is guaranteed, subject to some restrictions. Land generally must be obtained from the state. Direct expropriation of foreign investors' assets is relatively unlikely.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 157**	Investment Freedom	**No. 123**
Trade Freedom	**No. 123**	Financial Freedom	**No. 106**
Fiscal Freedom	**No. 41**	Property Rights	**No. 146**
Government Spending	**No. 137**	Freedom from Corruption	**No. 164**
Monetary Freedom	**No. 168**	Labor Freedom	**No. 155**

FINANCIAL FREEDOM: *40* *no change*

Banking is relatively well capitalized, and foreign banks have driven growth. There are 18 commercial banks, but three major banks (two of them government-owned) still dominate the system. The granting of credit to the private sector, which had increased sharply before the global financial crisis, has slowed. Banking services remain rudimentary. Complicated administrative procedures for obtaining a loan or opening a bank account have limited access to financial services. After years of delay, the Luanda Stock Exchange was expected to open during 2010 with 10 companies listed. The insurance sector has only five companies and is funded primarily from the oil and gas sector.

PROPERTY RIGHTS: *20* *no change*

Angola's legal and judicial system is inefficient and subject to executive influence. Legal fees are high, and most businesses avoid taking commercial disputes to court. All non-urban and some urban land is ultimately state-owned but can be leased to private entities. Regulations to implement the 2004 land-tenure law have not been issued. Property registration is lengthy and expensive. Angola ranked 114th out of 115 countries in the 2009 International Property Rights Index.

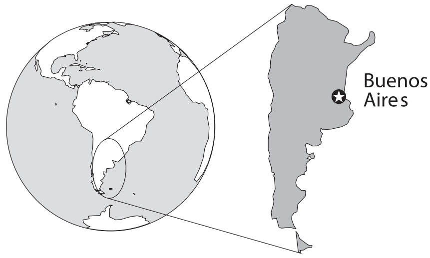
FREEDOM FROM CORRUPTION: *19* *no change*

Corruption is perceived as rampant, especially among government officials at all levels, and investigations and prosecutions of government officials are practically nonexistent. Angola ranks 162nd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009.

LABOR FREEDOM: *42.3* — 2.9

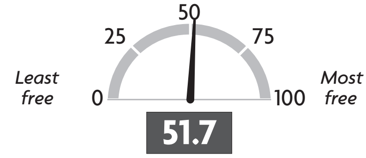
Restrictive labor regulations hinder employment and productivity growth. The non-salary cost of employing a worker is low, but dismissing a redundant employee is relatively costly.

ARGENTINA



World Rank: 138 **Regional Rank: 24**

Economic Freedom Score



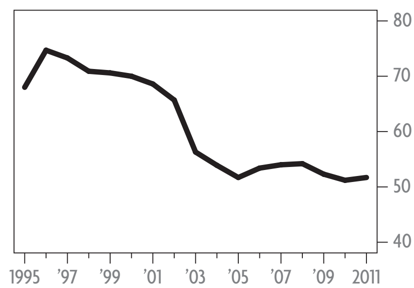
Argentina's economic freedom score is 51.7, making its economy the 138th freest in the 2011 *Index*. Its overall score has increased by 0.5 point from the 2010 *Index*. Argentina is ranked 24th out of 29 countries in the South and Central America/Caribbean region, and its overall score is below the regional and world averages.

Having weathered the global economic slowdown, the Argentine economy is recovering from a sharp economic contraction in 2009. Recent growth has been driven mainly by the agricultural sector and exports of agricultural commodities. The strength of the economic rebound, however, may be held back by the government's ongoing expansionary fiscal and monetary policies.

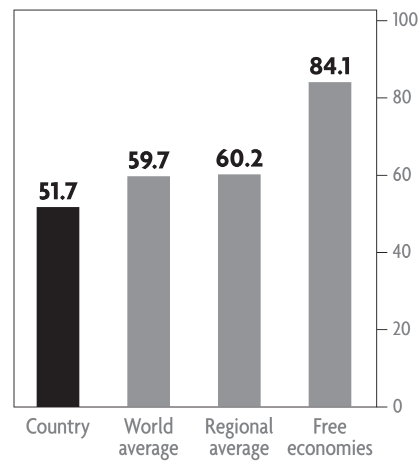
The government has increased regulatory intervention in recent years, undermining previous years' structural reforms that encouraged diversification and private investment. The state's role in the economy has grown, and the financial sector remains constrained by government influence. Institutional weaknesses, including corruption and a weak judiciary, continue to hold back Argentina's overall economic freedom and development.

BACKGROUND: Argentina has a long history of political instability; since World War II, three democratically elected presidents have been forced out of office. Cristina Fernández de Kirchner succeeded her husband Néstor as president in late 2007. Argentina is a leading exporter of agricultural commodities, especially soybeans and beef, and has rich natural resources, a highly literate population, and a diversified industrial base. President Kirchner's popularity declined steadily starting in early 2008 after she attempted to impose steep export taxes on commodities when world prices were booming. The seizure of more than $25 billion in private pension funds to support increasingly statist government spending adversely affected private investment and economic growth, as did the global economic downturn. By the middle of 2010, the economy had recovered slightly as a result of higher commodity prices.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 40.1 million
GDP (PPP): $584.4 billion
0.9% growth in 2009
6.1% 5-year compound annual growth
$14,561 per capita
Unemployment: 8.7%
Inflation (CPI): 6.3%
FDI Inflow: $4.9 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *62.4* — *+ 0.3*

Argentina's regulatory environment remains burdensome, inconsistent, and not fully transparent. The state's rules governing market entry and the creation of new corporations, as well as various sectoral regulations, do not support innovation and productivity growth.

TRADE FREEDOM: *69.5* — *no change*

Argentina's weighted average tariff rate was 5.3 percent in 2009. Import and export bans and controls, restrictions on trade in services, import and export taxes and fees, minimum and reference pricing, regulations and licensing provisions, sanitary and phytosanitary rules, subsidies, restrictions on ports of entry, domestic preference in government procurement, and issues involving enforcement of intellectual property rights add to the cost of trade. Twenty points were deducted from Argentina's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *68.7* — *– 0.8*

Argentina has relatively high tax rates. The top income and flat corporate tax rates are 35 percent. Other taxes include a value-added tax (VAT), a wealth tax, and a tax on financial transactions. In the most recent year, overall tax revenue as a percentage of GDP was 26.1 percent.

GOVERNMENT SPENDING: *81.7* — *+ 6.1*

In the most recent year, total government expenditures, including consumption and transfer payments, fell to 24.7 percent of GDP. Price setting still prevails in energy and transportation, but some subsidies have been eased because of shrinking revenues and growing public debt, which has reached 49.8 percent of GDP. Government ownership persists in banking, electricity, and energy.

MONETARY FREEDOM: *63.2* — *+ 2.0*

According to Argentina's national statistics agency, the official inflation rate hit a four-year high of 11 percent in June 2010; unofficial estimates place the actual rate at almost 30 percent. The government subsidizes or regulates prices of electricity, water, retail-level gas distribution, urban transport, and local telephone services. It also pressures companies to fix prices and wages to contain rising inflationary pressures. In 2010, the executive branch subordinated the formerly independent Central Bank to its authority. Twenty points were deducted from Argentina's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *45* — *no change*

Foreign and domestic investors have equal rights to establish and own businesses, but foreign investment is prohibited in a few sectors. Foreign exchange and capital flows are subject to restrictions. Foreign companies may send profits abroad, but export proceeds must be repatriated to Argentina. Inflows of foreign funds from certain private-sector debt, inflows for most fiduciary funds, and investments in public-sector securities purchased in the secondary market are restricted. Foreign and domestic institutional investors are restricted to total currency transactions of $2 million per month; transactions by institutions acting as intermediaries do not count against this limit. Investments may be expropriated or nationalized only for public purposes and upon prompt payment of compensation at fair market value. Corruption, weak institutions, and uncertain creditor, contract, and property rights are serious deterrents to investment.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 103	Investment Freedom	No. 103
Trade Freedom	No. 130	Financial Freedom	No. 133
Fiscal Freedom	No. 137	Property Rights	No. 146
Government Spending	No. 49	Freedom from Corruption	No. 107
Monetary Freedom	No. 164	Labor Freedom	No. 138

FINANCIAL FREEDOM: *30* — *no change*

The Argentinean government has considerable control over financial activities. Argentina's largest bank is state-owned and may be the sole financial institution in some areas. Since the 2001–2002 debt default and banking crisis, regulation and supervision have become more prudential. The banking sector has expanded faster than the overall economy since 2005 but is struggling to regain confidence and stability. Capital controls remain in place. The stock exchange is active and lists over 100 companies, but the investor base is small. Private pension funds were nationalized in 2008. In mid-2010, the government provided a debt restructuring process for private holders of defaulted bonds in which two-thirds of the private bondholders participated.

PROPERTY RIGHTS: *20* — *no change*

The executive branch influences Argentina's judiciary. The courts are notoriously slow, inefficient, secretive, and corrupt, and many foreign investors resort to international arbitration. 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 billions in interest payments.

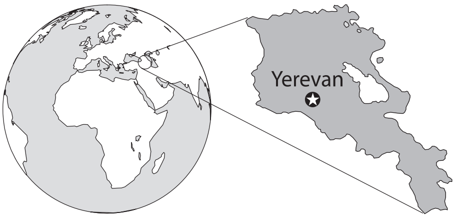
FREEDOM FROM CORRUPTION: *29* — *no change*

Corruption is perceived as widespread. Argentina ranks 106th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Foreign investors complain about government and private-sector corruption. Money laundering, trafficking in narcotics and contraband, and tax evasion plague the financial system.

LABOR FREEDOM: *47.9* — *– 2.2*

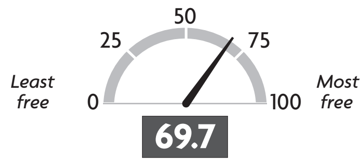
Rigid labor regulations hinder employment creation and productivity growth. The non-salary cost of employing a worker is high, and dismissing a redundant employee can be costly.

ARMENIA



World Rank: **36** Regional Rank: **19**

Economic Freedom Score



Armenia's economic freedom score is 69.7, making its economy the 36th freest in the 2011 *Index*. Its overall score increased by 0.5 point from last year. Armenia is ranked 19th freest among the 43 countries in the Europe region, and its score puts it above the world and regional averages.

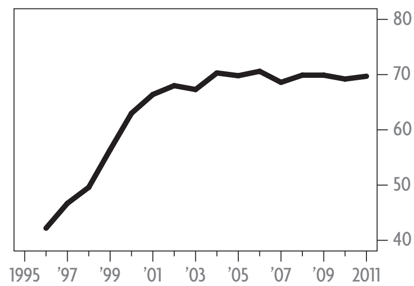
Armenia receives high marks in eight of the 10 economic freedoms. Over the past decade, market liberalization and privatization have recharged the economy. Despite the economic slowdown in recent years, a macroeconomic policy environment supported by low taxes and stable government spending has promoted steady economic growth. The regulatory framework is sound, and an open trade regime with low tariffs facilitates the free flow of goods.

Further growth in economic freedom in Armenia will require deeper institutional reforms that include better protection of property rights and strengthening of the judicial system. Corruption remains widespread in many sectors of the economy. Despite relatively low tax rates, tax evasion has become a growing concern.

BACKGROUND: Armenia achieved independence from the Soviet Union in 1991. The 21-year dispute with Azerbaijan over Nagorno–Karabakh remains unresolved. Although a cease-fire has been in effect since 1994 and most displaced ethnic Armenians have returned home, more than 500,000 Azeris still live as refugees in Azerbaijan, and borders with Azerbaijan and Turkey remain closed. In October 2009, Armenia and Turkey signed two protocols aimed at reopening their borders and re-establishing diplomatic links, but the agreements were not ratified. Armenia's economy relies on manufacturing, services, remittances, and agriculture. Most sectors are recovering from the 2008 global financial crisis. The government, which relies on loans from the World Bank, the International Monetary Fund, the Asian Development Bank, and Russia, is running a large budget deficit.

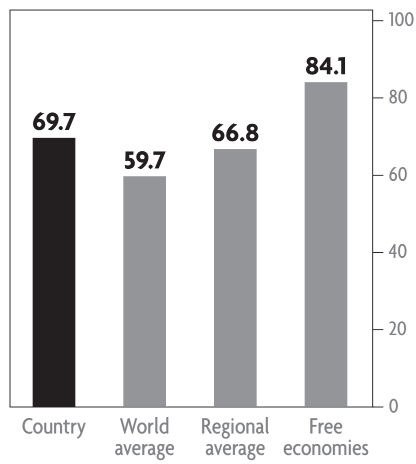
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 3.3 million
GDP (PPP): $16.2 billion
–14.4% growth in 2009
4.2% 5-year compound annual growth
$4,966 per capita
Unemployment: 6.9%
Inflation (CPI): 3.4%
FDI Inflow: $837.6 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *82.4* — *1.0*

Licensing requirements have been reduced, and the bankruptcy procedure has been modernized. However, the bureaucratic application of business regulations, coupled with petty corruption, remains a considerable impediment to conducting business.

TRADE FREEDOM: *85.5* + *5.0*

Armenia had a low weighted average tariff rate of 2.3 percent in 2008. Customs procedures have been improved, but excise taxes and fees, inadequate infrastructure, customs valuation concerns, inefficient customs administration, weak enforcement of property rights, and corruption add to the cost of trade. Ten points were deducted from Armenia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *89.2* — *0.1*

The top income and corporate tax rates are 20 percent. Other taxes include a value-added tax (VAT) and excise taxes. In the most recent year, overall tax revenue as a percentage of GDP was 16.8 percent. In response to a dramatic shortfall in tax revenue in early 2009, authorities announced intentions to improve tax administration, step up compliance, boost revenue, and widen the tax base.

GOVERNMENT SPENDING: *85.7* — *5.2*

Total government expenditures, including consumption and transfer payments, increased to 21.8 percent of GDP in the most recent year, owing primarily to increased social spending during the financial crisis and recession. Public debt has increased dramatically and is approaching 50 percent of GDP. Authorities have expressed a commitment to reducing the deficit and bringing the debt back down to a sustainable level.

MONETARY FREEDOM: *76* + *3.1*

The devaluation of the dram in March 2009 pushed up the cost of imports denominated in U.S. dollars. Combined with a 40 percent increase in the price of gas imports from Russia in April, this encouraged a resurgence of inflationary pressures that were tempered somewhat by lower money supply growth and weaker domestic demand. Government subsidies and regulations distort prices in some sectors, such as public transportation, electricity, and gas. Ten points were deducted from Armenia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *75* *no change*

Officially, foreign and domestic investors are treated equally and have the same right to establish businesses in nearly all sectors. Privatization, though generally successful and legally open to all bidders, has not been transparent, and some sectors are dominated by a few domestic firms. There are no restrictions or controls on foreign exchange accounts, invisible transactions, or current transfers, and there are no repatriation requirements. Investment regulations can be burdensome and lack transparency, and their administration is inefficient and prone to corruption. Non-residents may lease but not own land. By law, foreign investments cannot be expropriated except in extreme cases of a natural or state emergency, upon a decision by the courts, and with compensation.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 28	Investment Freedom	No. 26
Trade Freedom	No. 43	Financial Freedom	No. 17
Fiscal Freedom	No. 25	Property Rights	No. 99
Government Spending	No. 38	Freedom from Corruption	No. 122
Monetary Freedom	No. 81	Labor Freedom	No. 45

FINANCIAL FREEDOM: *70* *no change*

Armenia has accelerated the pace of legal and regulatory reform to restructure its financial sector. Regulatory reforms have included adoption of international accounting standards, and many banks have closed or merged. The state no longer has a stake in any bank, and banks are all privately owned. Financial-sector infrastructure has been enhanced through improved market transparency. However, the banking sector, which accounts for over 90 percent of total financial-sector assets, still suffers from insufficient long-term funding and market segmentation. Capital markets and insurance are not fully developed. The securities market has a legal framework in place but remains small. Due to the limited external exposure of local banks, the global financial turmoil has not had a direct adverse impact on the financial system's stability.

PROPERTY RIGHTS: *30* *no change*

Armenia ranks 109th out of 125 countries in the 2010 International Property Rights Index. Its score on the component of the IPRI concerned with intellectual property rights was the world's second lowest. The judicial system is still recovering from underdevelopment and corruption—legacies of the Soviet era that substantially impede the enforcement of contracts.

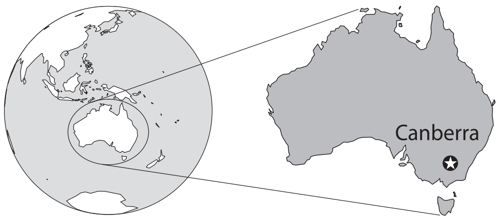
FREEDOM FROM CORRUPTION: *27* — *2.0*

Corruption is perceived as widespread and even pervasive. Demands for bribes by government officials are routine. Government-connected businesses hold monopolies on the importation of numerous vital products. Armenia ranks 120th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009.

LABOR FREEDOM: *75.9* + *5.3*

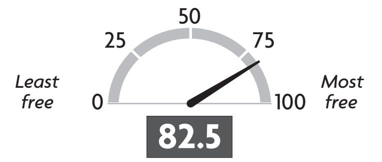
Armenia's labor market has undergone regulatory reforms to increase flexibility and overall productivity growth. The non-salary cost of employing a worker is moderate, and dismissing a redundant employee is relatively inexpensive.

AUSTRALIA

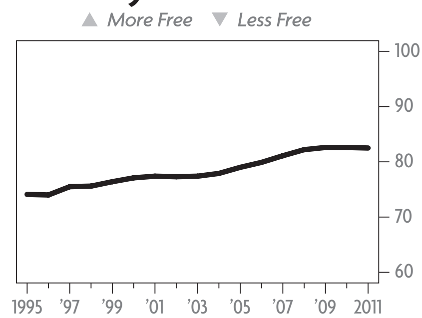


World Rank: **3** Regional Rank: **3**

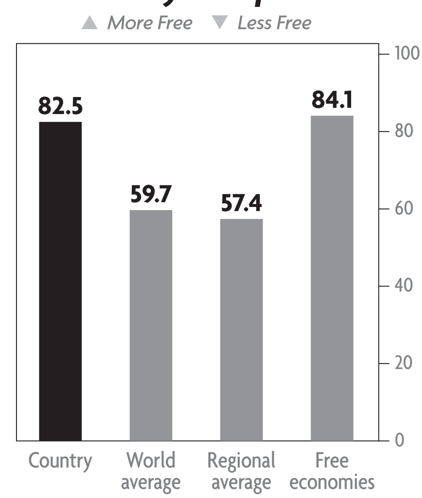
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Australia's economic freedom score is 82.5, making its economy the 3rd freest in the 2011 *Index*. Its overall score is 0.1 point lower than last year. Australia is ranked 3rd out of 41 countries in the Asia–Pacific region, and its score is well above the regional and world averages.

While many large advanced economies have emerged from the recent economic downturn with growing debt burdens, Australia's gross public debt stands at less than 25 percent of GDP. With robust supervision and sound regulation, the banking system has coped well with the financial turmoil, and the government's budget deficit is much lower than those of other major economies. Temporary stimulus measures have largely been phased out.

Australia's modern and competitive economy performs well on many of the 10 economic freedoms. The country has a strong tradition of openness to global trade and investment, and transparent and efficient regulations are applied evenly in most cases. An independent judiciary protects property rights, and the level of corruption is quite low.

BACKGROUND: 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. From the early 1980s until 2007, successive Labor and Liberal governments deregulated financial and labor markets and reduced trade barriers. Australia has enjoyed economic expansion for almost two decades and has come through the recession relatively unscathed, maintaining good levels of business investment and employment. However, recent stimulus spending by the Labor government has led the country into deficit in a single year. Australia is an internationally competitive producer of services, technologies, and high-value-added manufactured goods. Exports remain heavily focused on mining and agriculture.

Quick Facts

Population: 21.9 million
GDP (PPP): $851.2 billion
1.3% growth in 2009
2.7% 5-year compound annual growth
$38,911 per capita
Unemployment: 5.6%
Inflation (CPI): 1.8%
FDI Inflow: $22.6 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *90.1* — *0.2*

The efficient regulatory framework strongly helps business formation and operation to be dynamic and innovative. The government generally follows a hands-off approach in sectors dominated by small businesses.

TRADE FREEDOM: *84.4* — *0.7*

Australia's weighted average tariff rate was 2.8 percent in 2009. Import restrictions and bans, stringent sanitary and biotechnology measures, a quarantine regime, subsidies and other support programs for agriculture and manufacturing products, and barriers to trade in services raise the cost of trade. Exports of bulk and containerized wheat have been liberalized, but bulk exports still require a license before shipment. Imports may be subject to antidumping laws, and government procurement procedures maintain some preferences for domestic producers. Ten points were deducted from Australia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *61.3* — *0.1*

Australia has a high income tax rate and a moderately high corporate tax rate. The top income tax rate is 45 percent (plus a Medicare levy of 1.5 percent). The corporate tax rate is a flat 30 percent. The thresholds for some intermediate tax brackets have been raised in the past two years. Other taxes include a goods and services tax and a tax on the transfer of real property (applied at the state level). In the most recent year, overall tax revenue as a percentage of GDP was 30.8 percent. The most recent stimulus package included special tax breaks for small businesses. Authorities have proposed a super profits tax that targets mining companies. The Carbon Pollution Reduction Scheme has been put on hold due to political opposition.

GOVERNMENT SPENDING: *64.7* — *0.2*

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 34.3 percent of GDP. A large stimulus package of transfers to households and increased infrastructure spending shifted the fiscal balance into deficit. Although budget plans call for further government spending on infrastructure, the deficit should narrow on account of strong revenues led by the mining sector.

MONETARY FREEDOM: *85* + *2.3*

Inflation has been moderate, with the consumer price index rising 2.9 percent in the first quarter of 2010, up from an average of 2.5 percent between 2007 and 2009 . The government can impose price controls, but competition reforms are reducing the range of goods subject to control. Five points were deducted from Australia's monetary freedom score to account for measures that distort retail gas and electricity prices.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 14	Investment Freedom	No. 14
Trade Freedom	No. 52	Financial Freedom	No. 1
Fiscal Freedom	No. 161	Property Rights	No. 2
Government Spending	No. 104	Freedom from Corruption	No. 8
Monetary Freedom	No. 7	Labor Freedom	No. 5

INVESTMENT FREEDOM: *80* *no change*

Foreign and domestic investors receive equal treatment, but foreign investments may be screened. The government generally must be notified about investments in Australian businesses above certain monetary thresholds and may reject proposals deemed inconsistent with the "national interest." Foreign investors may own land, subject to approval and a number of restrictions. Residents and non-residents have access to foreign exchange and may conduct international payments and capital transactions. There are no controls on capital repatriation. Private property can be expropriated for public purposes in accordance with the law, and compensation is paid.

FINANCIAL FREEDOM: *90* *no change*

Australia's well-developed and highly competitive financial sector includes banking, insurance, and equity industries. All banks are privately owned. Government regulation is minimal, and foreign banks, licensed as branches or subsidiaries, offer a full range of services. The banking sector is dominated by four major Australian banks that are not allowed to merge. Relatively low leverage and a high ratio of capital adequacy, coupled with banks' limited exposure to securitized assets, helped to avert a sharp credit contraction during the global financial crisis. Foreign insurance companies are permitted, and regulation is focused on capital adequacy, solvency, and prudential behavior.

PROPERTY RIGHTS: *90* *no change*

Property rights are well protected. The rule of law is highly respected, and enforcement is even-handed. The government respects the independence of the judiciary. Protection of intellectual property rights meets or exceeds world standards. Contracts are secure, and expropriation is highly unusual.

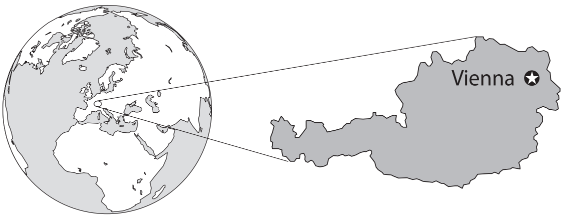
FREEDOM FROM CORRUPTION: *87* *no change*

Corruption is perceived as minimal. Australia ranks 8th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, and the government actively promotes international efforts to curb bribery of foreign officials.

LABOR FREEDOM: *92.2* — *2.7*

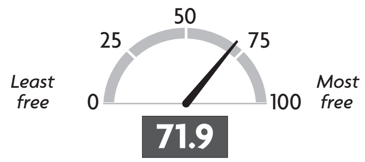
Highly flexible employment regulations enhance employment and productivity growth. The non-salary cost of employing a worker is moderate, and dismissing a redundant employee is costless. Unemployment remains well below the OECD average.

AUSTRIA

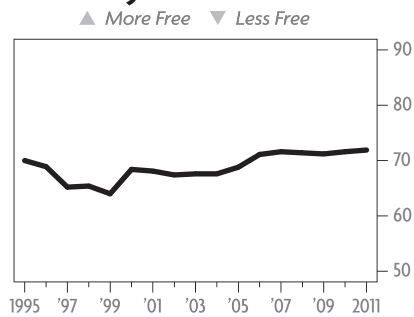


World Rank: **21** Regional Rank: **10**

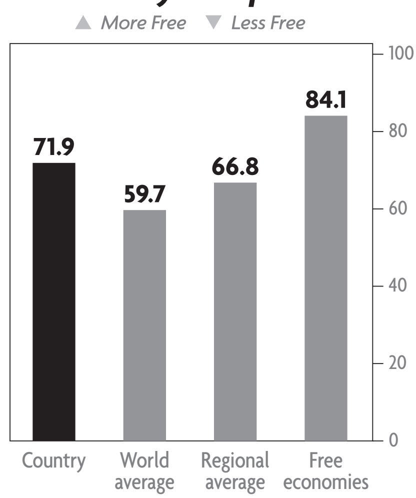
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Quick Facts

Population: 8.3 million
GDP (PPP): $322.5 billion
–3.6% growth in 2009
1.3% 5-year compound annual growth
$38,839 per capita
Unemployment: 4.8%
Inflation (CPI): 0.4%
FDI Inflow: $7.1 billion

2009 data unless otherwise noted.
Data compiled as of September 2010.

Austria's economic freedom score is 71.9, making its economy the 21st freest in the 2011 *Index*. Its score is 0.3 point better than last year. Austria is ranked 10th out of 43 countries in the Europe region, and its overall score is well above the regional and world averages.

Over the past two years, Austria has been through its first major recession since the early 1980s. Austrian banks, with a large exposure to Central and Eastern European countries that were hit hard by the global financial crisis, have been under considerable strain. Still, the overall impact of the economic slowdown has not been as severe as in other advanced economies.

Austria's international orientation and tradition of strong property rights are the backbone of its economic growth. The government has streamlined time-consuming regulations, and a comprehensive legal framework promotes competition. Foreign investment requirements are not particularly stringent, and the financial market facilitates entrepreneurial activity. The corporate tax regime is competitive, although individuals still face high tax rates and an onerous overall tax burden.

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. The subsequent coalition government of Social Democrat Alfred Gusenbauer was dissolved after 18 months. In the September 2008 parliamentary elections, far-right anti-immigrant parties made significant gains, but Social Democrat Werner Faymann was able to form a center-right coalition government with the People's Party. In April 2010, Federal President Heinz Fischer was reelected for a second term. EU member states account for more than 80 percent of Austria's trade. The government has gradually relinquished control of formerly nationalized oil, gas, steel, and engineering companies and has deregulated telecommunications and electricity. Austria's economy relies on large services and industrial sectors and a small but highly developed agricultural industry.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 59	Investment Freedom	No. 14
Trade Freedom	No. 12	Financial Freedom	No. 17
Fiscal Freedom	No. 173	Property Rights	No. 2
Government Spending	No. 162	Freedom from Corruption	No. 16
Monetary Freedom	No. 15	Labor Freedom	No. 36

BUSINESS FREEDOM: *72.8* — *0.8*

Austria's overall regulatory framework encourages business innovation and productivity growth. Lingering barriers to market entry have been eased in wholesale and retail trade. The administrative cost of launching a business remains burdensome.

TRADE FREEDOM: *87.6* + *0.1*

Austria's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. EU-wide non-tariff barriers include agricultural and manufacturing subsidies, quotas, import restrictions and bans on some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration. There are additional restrictions on biotechnology and certain service sectors. Ten points were deducted from Austria's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *50.3* — *0.9*

Austria has a high income tax rate and a moderate corporate tax rate. 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), a tax on insurance contracts, and a tax on real estate transfers. In the most recent year, overall tax revenue as a percentage of GDP was 42.9 percent.

GOVERNMENT SPENDING: *28* — *0.8*

Spending is high even in comparison to other European countries. In the most recent year, total government expenditures, including consumption and transfer payments, equaled 49 percent of GDP. Stimulus spending drove public-sector debt to nearly 67 percent of GDP. Sustainability of the pension program and other social schemes is in jeopardy.

MONETARY FREEDOM: *82.9* + *3.6*

Austria is a member of the euro zone. Inflation has been roughly in line with the euro area's average and is forecast to be 1.6 percent–1.7 percent for 2010–2011. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. It also subsidizes rail transportation and operates some state-owned firms, utilities, and services. Ten points were deducted from Austria's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *80* + *5.0*

For foreign investments, at least one manager must meet residency and other legal qualifications, and non-residents must appoint a representative in Austria. Foreign and domestic private enterprises may establish, acquire, and dispose of business interests, except in some infrastructure areas, utilities, and a few state monopolies. Environmental restrictions are strict, and many industries fall under a greenhouse-gas emissions trading system. There are no controls or requirements on current transfers, access to foreign exchange, or repatriation of profits. Real estate transactions are subject to approval by local authorities. Legal, regulatory, and accounting systems are transparent, but bureaucracy can be cumbersome and unpredictable. Expropriation is rare and requires special legal authorization.

FINANCIAL FREEDOM: *70* *no change*

Austria has one of the world's most competitive banking systems. Banks provide a wide range of credit and financial services, credit is allocated at market terms, and domestic and foreign investors enjoy unrestricted access to capital markets. The five largest banking groups account for around 60 percent of total assets. Financial regulations are consistent with international norms. Foreign exchange is fully liberalized, and there are no limitations on cross-border transactions. The government has responded to banks' exposure to troubled assets in Central and Eastern Europe with a deposit guarantee and capital injections. In December 2009, the government nationalized the Hypo Group Alpe Adria.

PROPERTY RIGHTS: *90* *no change*

Private property is very secure. Contractual agreements are enforced, and the protection of intellectual property is well established. The rule of law is respected, and the judiciary is independent.

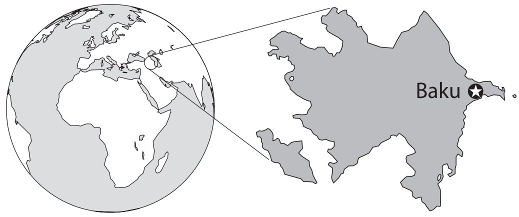
FREEDOM FROM CORRUPTION: *79* — *2.0*

Corruption is perceived as minimal. Austria ranks 16th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Bribery of an Austrian or foreign government official is subject to criminal penalties. In September 2009, the government amended and defined more precisely its criminal regulations against corruption to alleviate some measures viewed as too strict.

LABOR FREEDOM: *78.2* — *0.9*

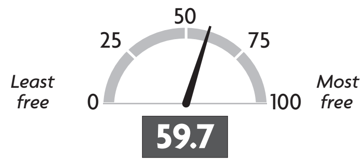
Relatively flexible labor regulations facilitate employment and productivity growth. However, the non-salary cost of employing a worker remains high, and the cost of fringe benefits per employee is among the EU's highest. There is no nationally mandated minimum wage.

AZERBAIJAN



World Rank: **92** Regional Rank: **15**

Economic Freedom Score



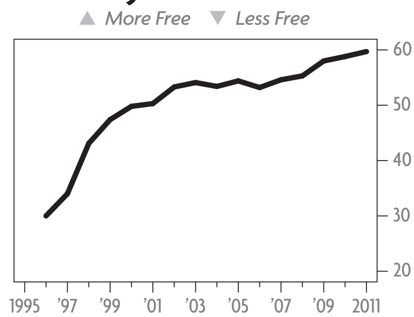
Azerbaijan's economic freedom score is 59.7, making its economy the 92nd freest in the 2011 *Index*. Its overall score is 0.9 point higher than last year, reflecting significant improvements in fiscal freedom, monetary freedom, and freedom from corruption. Azerbaijan is ranked 15th out of 41 countries in the Asia–Pacific region, and its overall score is above the regional average.

Azerbaijan's government has embraced wide-ranging reforms to improve economic freedom. Openness to global trade, relatively moderate taxation, and streamlined business processes have aided the country's transition to a market-based system. Continued transformation and restructuring are needed both to capitalize on Azerbaijan's well-educated labor force and tradition of entrepreneurship and to diversify production.

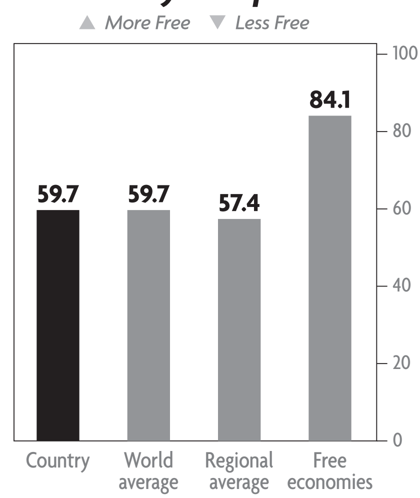
Despite considerable gains in regulatory reform and economic diversification, substantial challenges remain, particularly in implementing deeper institutional and systemic reforms. Property rights and freedom from corruption remain weak, and government interference and control hurt overall monetary stability and foreign investment.

BACKGROUND: Oil-rich Azerbaijan's dispute with Armenia over the region of Nagorno–Karabakh has cost thousands of lives and a fifth of Azerbaijan's territory. Baku is balancing its foreign relationships with major regional powers but has also inched toward Russia, hoping to gain concessions from Armenia. Limits on the media include the suspension of foreign radio broadcast licenses. President Ilham Aliyev's New Azerbaijan Party won the December 2009 municipal elections, but questions of fairness and legitimacy persist. A constitutional amendment to abolish presidential term limits, passed by national referendum in 2009, allowed Aliyev to seek a third term. While Azerbaijan was hurt by the global economic downturn, real GDP expanded in 2009 by 9.3 percent. Expanded oil and gas production has reduced the impact of lower energy prices, and increased private investment and consumption reflect growing investor confidence.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 9.0 million
GDP (PPP): $85.8 billion
9.3% growth in 2009
19.5% 5-year compound annual growth
$9,564 per capita
Unemployment: 6.0%
Inflation (CPI): 1.5%
FDI Inflow: $473.3 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *72.9* — *1.7*

Azerbaijan's overall regulatory framework has improved, but private-sector development has been held back by the lack of regulatory transparency and such other institutional shortcomings as poor access to financing for starting and expanding a business.

TRADE FREEDOM: *77.1* *no change*

Azerbaijan's weighted average tariff rate was 3.9 percent in 2009. A weak legal regime, arbitrary customs administration, regulatory conflicts of interest, subsidies, import and export controls and restrictions, weak enforcement of property rights, and customs corruption add to the cost of trade. Fifteen points were deducted from Azerbaijan's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *83.9* + *4.4*

As of January 1, 2010, the top individual income tax rate was lowered to 30 percent from 35 percent, and the top corporate tax rate was reduced to 20 percent from 22 percent. Income of self-employed persons is taxed at 20 percent. Other taxes include a value-added tax (VAT) and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 17.7 percent.

GOVERNMENT SPENDING: *71* — *6.5*

Increased social spending and capital investment have been financed by transfers from the State Oil Fund of Azerbaijan. In the most recent year, total government spending, including consumption and transfer payments, rose to 31.1 percent of GDP. Public-sector debt stands at around 12 percent of GDP.

MONETARY FREEDOM: *72.6* + *9.9*

Inflation reached 20.8 percent—the highest rate for more than a decade—in 2008 but dropped to 1.5 percent in 2009 as lower international oil prices reduced export revenues and inflationary pressures. Higher energy and commodity prices, combined with increased capital inflows, high government spending, and a rise in domestic demand, contributed to a moderately higher rate in 2010. The government controls prices of most energy products and operates several state-owned enterprises. Monopolist importers in many sectors prevent declines in commodity prices from being fully passed on to consumers. Ten points were deducted from Azerbaijan's monetary freedom score to account for measures that distort domestic price.

INVESTMENT FREEDOM: *55* *no change*

Foreign direct investment is allowed in most sectors, but foreign investment in areas related to national security and defense is prohibited, and the government controls other key sectors, such as energy and communications. The regulatory system has been improved, but non-transparency, corruption, weak legal institutions, and informal bureaucratic controls hinder competition. The law provides that foreign investors be "not less favored" than local investors and allows repatriation of profits, revenues, and other investment-related funds as long as applicable taxes are paid. There are few restrictions on converting or transferring investment-associated funds into freely tradable currency. Foreign citizens and enterprises may lease but not own land. Expropriation may occur in the event of natural disaster, epidemic, or other extraordinary situation, and foreign investors are entitled to adequate compensation.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 57	Investment Freedom	No. 75
Trade Freedom	No. 90	Financial Freedom	No. 106
Fiscal Freedom	No. 47	Property Rights	No. 146
Government Spending	No. 88	Freedom from Corruption	No. 145
Monetary Freedom	No. 116	Labor Freedom	No. 31

FINANCIAL FREEDOM: *40* *no change*

Azerbaijan's banking sector has been growing rapidly. Bank credit has expanded, and prudential supervision has been the central bank's priority. Private banks have grown faster than state-owned banks, but banking remains dominated by the state-owned International Bank of Azerbaijan, and the availability of long-term financial instruments for small and medium-sized enterprises is still limited. The government and corporate bond market remains small and illiquid. The government sold a 50 percent stake in the state-owned Kapital Bank in 2007 and further privatized the bank in 2008. In 2009, the central bank stepped in with measures to support and stabilize the banking system.

PROPERTY RIGHTS: *20* *no change*

Azerbaijan's judicial system, filled with bureaucratic requirements and generally seen as corrupt and inefficient, does not function independently of the executive. The poor quality, reliability, and transparency of governance, as well as regulatory abuse and poor contract enforcement, significantly impede the ability of many companies to do business.

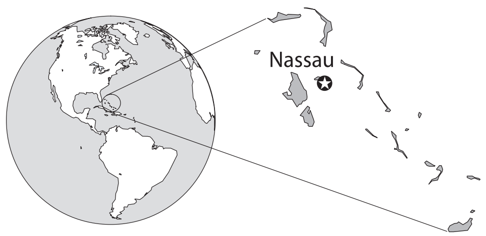
FREEDOM FROM CORRUPTION: *23* + *4.0*

Corruption is perceived as rampant. Azerbaijan ranks 143rd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Judicial and police corruption is widespread. Arbitrary tax and customs administration creates opportunities for graft, regulatory practices favor monopolies, and corruption exists at all levels. Politically connected businesses have achieved control of several lucrative sectors of the economy.

LABOR FREEDOM: *81.1* — *1.4*

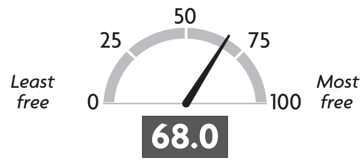
Relatively flexible employment regulations have been implemented as a result of recent reforms. The non-salary cost of employing a worker is moderate, and dismissing a redundant employee is not burdensome.

THE BAHAMAS



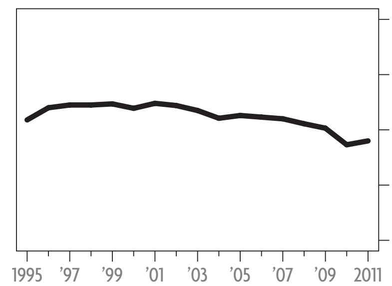
World Rank: **46** Regional Rank: **8**

Economic Freedom Score



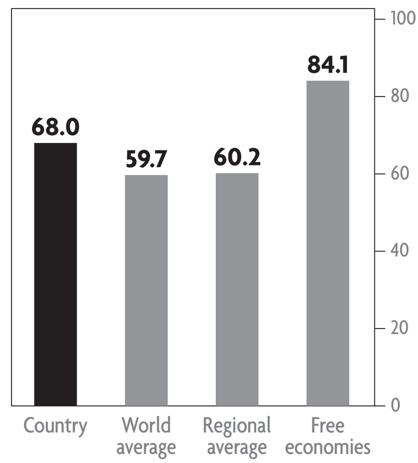
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



The Bahamas' economic freedom score is 68, making its economy the 46th freest in the 2011 *Index*. Its overall score is 0.7 point better than last year, due primarily to higher scores in fiscal freedom, government spending, and monetary freedom. The Bahamas is ranked 8th 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, interrupted by the recent global economic slowdown. There is no personal income tax, corporate tax, or value-added tax (VAT). The labor market is flexible, and the overall regulatory environment is relatively efficient. The financial services sector's domestic and offshore activities contribute around 15 percent of GDP.

The poor trade regime remains one of the most cumbersome challenges. An abundance of tariff and non-tariff barriers continues to create a costly trade burden. Intrusively bureaucratic approval processes hinder investment freedom and undermine development of a more vibrant private sector.

BACKGROUND: The Bahamas is a parliamentary democracy with two main parties, the Free National Movement (led by Prime Minister Hubert Ingraham) and the Progressive Liberal Party. Its legal and political traditions closely follow the United Kingdom's. The Bahamas is also one of the Caribbean's most prosperous nations. Tourism generates about half of all jobs and accounts for more than 60 percent of GDP. The number of visitors dropped significantly in 2008–2009 as a result of the global economic recession. Tourism has rebounded slightly, 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. Historically, the Bahamas has been a haven for drug smugglers and illegal aliens seeking to enter the United States.

Quick Facts

Population: 341,000
GDP (PPP): $9.0 billion
–5.0% growth in 2009
–0.5% 5-year compound annual growth
$26,474 per capita
Unemployment: 14.2% (2006)
Inflation (CPI): 2.1%
FDI Inflow: $653.7 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *72.5* — 0.9

Overall, the regulatory environment remains favorable to private-sector development. However, the process for obtaining a business license is not always transparent and straightforward, and officials have considerable discretionary power.

TRADE FREEDOM: *42.2* *no change*

According to the World Bank, the Bahamas' weighted average tariff rate was 23.9 percent in 2006. Tariffs provide about 60 percent of government revenue. High tariffs and a "stamp" tax on most imports, high duties that protect a few agricultural items and consumer goods, occasional import bans, and some import licensing and permits add to the cost of trade. Ten points were deducted from the Bahamas' trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *97.2* + 2.0

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. In the most recent year, overall tax revenue as a percentage of GDP was 16.8 percent.

GOVERNMENT SPENDING: *86.9* + 3.3

In the most recent year, total government spending, including consumption and transfer payments, decreased slightly to 20.9 percent of GDP. Spending priorities have shifted toward capital and unemployment benefits. Lagging tourism and low import duties led to a revenue shortfall and a deteriorating fiscal balance. The fiscal deficit reached 5 percent of GDP and drove debt up to 40 percent of GDP.

MONETARY FREEDOM: *74.6* + 1.9

Inflation, which reached 4.5 percent in 2008, moderated to 2.1 percent in 2009. Fifteen points were deducted from the Bahamas' monetary freedom score to account for measures that distort domestic prices for such "breadbasket" items as medicines, gasoline, diesel oil, and petroleum gas.

INVESTMENT FREEDOM: *30* *no change*

Activities reserved exclusively for Bahamians include wholesale and retail operations; commission import–export agencies; real estate and property management; newspaper and magazine publication; advertising and public relations firms; nightclubs and certain restaurants; security services; distribution and building supplies; certain construction, personal cosmetics and beauty services; certain fishing operations; auto and appliance service operations; and public transportation. All other foreign direct investment must be approved by the government. New foreign ventures perceived as competing with existing Bahamian businesses may face loss or refusal of business licenses. All outward capital transfers and inward transfers by non-residents require approval, but exchange controls are not known to hamper repatriation of approved investment capital. To buy real estate for commercial purposes or to buy more than five acres, foreigners must obtain a permit from the Investments Board.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 61	Investment Freedom	No. 134
Trade Freedom	No. 177	Financial Freedom	No. 17
Fiscal Freedom	No. 9	Property Rights	No. 26
Government Spending	No. 32	Freedom from Corruption	No. 38
Monetary Freedom	No. 94	Labor Freedom	No. 29

FINANCIAL FREEDOM: *70* *no change*

The financial sector accounts for around 20 percent of GDP. The government has adopted incentives to encourage foreign financial business, and further banking and finance reforms have moved forward gradually. The government plans to merge the regulatory functions of key financial institutions, including the Central Bank of the Bahamas (CBB) and the Securities and Exchange Commission. There are restrictions and controls on capital and money market instruments, and the CBB administers exchange controls. Development of local capital markets has been rather slow. Reflecting the banking system's relative soundness, the impact of the global financial crisis on the financial sector has been limited, but the number of non-performing loans has been rising.

PROPERTY RIGHTS: *70* *no change*

The Bahamas has an efficient legal system based on British common law. The judiciary is independent. The judicial process tends to be very slow, and some investors complain of malfeasance by court officials. Copyright laws are widely ignored, and there is widespread piracy of video and music recordings and broadcasts.

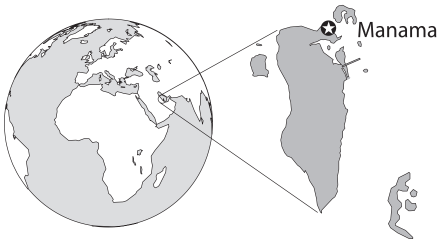
FREEDOM FROM CORRUPTION: *55* *no change*

The law provides criminal penalties for official corruption, and the government generally implements these laws effectively. Piracy of software, music, and videos is a problem. Illegal drug trafficking and money laundering reportedly involve police, coast guard, and other government employees. Violent crime has escalated sharply. Even though Internet gambling is illegal, many online gambling sites are reportedly based in the Bahamas, sometimes using Internet cafes as fronts. The Bahamas has neither signed nor ratified the U.N. Convention Against Corruption.

LABOR FREEDOM: *81.3* + 0.3

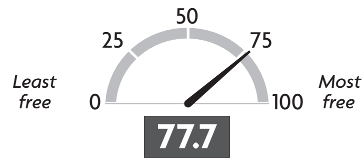
Flexible employment regulations have not been implemented effectively. Employment contracts, though not mandatory, are often used. There is no legal entitlement to notice of termination. Unemployment has been on the rise in recent years, reaching around 14 percent.

BAHRAIN



World Rank: **10** Regional Rank: **1**

Economic Freedom Score



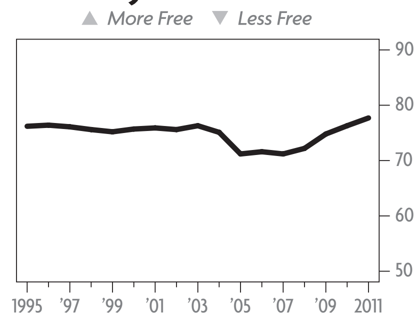
Bahrain's economic freedom score is 77.7, making its economy the 10th freest in the 2011 *Index*. Its overall score is 1.4 points better than last year, with improvements in investment freedom and labor freedom. Bahrain is ranked 1st out of 17 countries in the Middle East/North Africa region, and its economic freedom score is well above the world average.

Commitment to structural reforms and openness to global commerce have enabled Bahrain to become a financial hub and the regional leader in economic freedom. As one of the region's least oil-dependent economies, it benefits from a competitive tax regime and a sophisticated financial sector that facilitates the free flow of capital and foreign investment. The government has modernized its regulatory framework and continues to focus on diversifying the productive base.

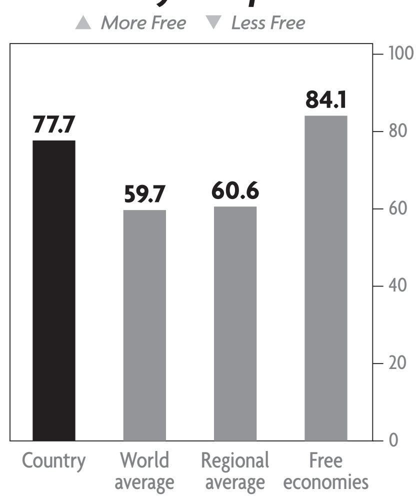
The global economic downturn has slowed overall economic growth, but its impact on Bahrain's banking sector has been relatively subdued. There has been no severe liquidity contraction, and the financial sector has demonstrated a high degree of resilience. Despite the implementation of more flexible employment regulations, unemployment remains high.

BACKGROUND: Bahrain has developed one of the Persian Gulf's most advanced economies and most progressive political systems since gaining independence from Great Britain in 1971. Under a constitution promulgated by Sheikh Hamad bin Isa al-Khalifa, the country became a constitutional monarchy in 2002, and the government has sought 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 reliable regulatory structure, and a cosmopolitan outlook. In 2006, the U.S. and Bahrain implemented the first free trade agreement between the U.S. and a Persian Gulf state. The global financial crisis and lower oil prices slowed Bahrain's economy in 2009.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 1.0 million
GDP (PPP): $28.1 billion
2.9% growth in 2009
5.9% 5-year compound annual growth
$27,068 per capita
Unemployment: 15.0% (2005)
Inflation (CPI): 2.8%
FDI Inflow: $257.2 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *77.4* — 0.4

Bahrain's commercial law system is relatively straightforward, but the regulatory environment is uncoordinated. The government is working with the private sector to streamline regulations and create the necessary entrepreneurial infrastructure.

TRADE FREEDOM: *82.8* — 0.1

Bahrain's weighted average tariff rate was 3.6 percent in 2009. There are few non-tariff barriers, but a limited number of products are subject to import and export prohibitions or restrictions, and standards can be inconsistent. Foreign companies must have a local presence to compete for government procurement contracts. Enforcement of intellectual property rights is improving but can still be a problem. Ten points were deducted from Bahrain's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *99.8* — 0.1

Historically, Bahrain has imposed no taxes on personal income. However, the government levies a 1 percent tax on the salaries of Bahraini nationals and a 3 percent tax on the salaries of expatriate employees working for companies with more than 50 employees as a way to fund unemployment schemes. Most companies are not subject to a corporate tax, but a 46 percent corporate tax is levied on oil companies. A small stamp duty is collected on property transfers, and a new tax on property purchases was established in November 2009. In the most recent year, overall tax revenue as a percentage of GDP was 4.8 percent.

GOVERNMENT SPENDING: *80.2* — 0.6

In the most recent year, total government expenditures, including consumption and transfer payments, remained relatively low at 25.7 percent of GDP. Authorities are committed to fiscal prudence and long-term sustainability, but expenditures spiked in the run-up to the 2010 elections, and there is considerable work to do on privatization.

MONETARY FREEDOM: *74* + 0.6

Inflation averaged a moderate 3 percent between 2007 and 2009. Fifteen points were deducted from Bahrain's monetary freedom score to account for extensive price controls and subsidies that distort domestic prices for many food products, electricity, water, and petroleum.

INVESTMENT FREEDOM: *75* + 10.0

The government generally welcomes foreign investment, but certain sectors are restricted. Bahrain permits 100 percent foreign ownership of new industrial entities and the establishment of representative offices or branches of foreign companies without local sponsors. Wholly foreign-owned companies may be established for regional distribution services and operate within the domestic market if they do not pursue domestic commercial sales exclusively. Gulf Cooperation Council nationals may own 100 percent of the shares of firms listed on the stock exchange; non-GCC nationals are limited to 49 percent. 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.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 40	Investment Freedom	No. 26
Trade Freedom	No. 58	Financial Freedom	No. 4
Fiscal Freedom	No. 3	Property Rights	No. 42
Government Spending	No. 55	Freedom from Corruption	No. 45
Monetary Freedom	No. 101	Labor Freedom	No. 2

FINANCIAL FREEDOM: *80* *no change*

Bahrain is a regional financial hub. Foreign and local individuals and companies enjoy access to credit on market terms. With more than 400 banks and financial institutions, the financial sector accounts for over 25 percent of GDP. Foreign and domestic investors have access to a wide range of financial services. Financial regulation has become more flexible and comprehensive. The financial services industry is regulated by the Central Bank of Bahrain. The impact of the global financial turmoil has been mild, although Gulf Finance House, Bahrain's Islamic investment bank, has undergone intensive debt restructuring. In 2009, the banking sector accounted for the largest contribution to GDP for the first time, although there are concerns about loan quality.

PROPERTY RIGHTS: *60* *no change*

Property ownership is secure, and expropriation is unlikely. The king can appoint judges and amend the constitution, but the legal system is well regarded, and foreign firms can resolve disputes through the local courts. There are no prohibitions on the use of international arbitration to safeguard contracts. Bahrain was ranked 38th out of 125 countries in the 2010 International Property Rights Index.

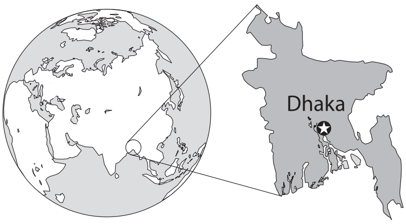
FREEDOM FROM CORRUPTION: *51* — 3.0

Corruption is perceived as present. Bahrain ranks 46th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption affects the management of scarce water resources, and significant areas of government activity lack transparency.

LABOR FREEDOM: *97* + 7.6

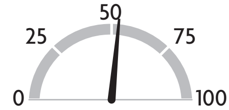
Bahrain has pursued more flexible labor regulations. There is no nationally mandated minimum wage, and the government has adopted a four-pillar labor reform process to enhance productivity and create more private-sector job opportunities.

BANGLADESH



World Rank: **130** Regional Rank: **27**

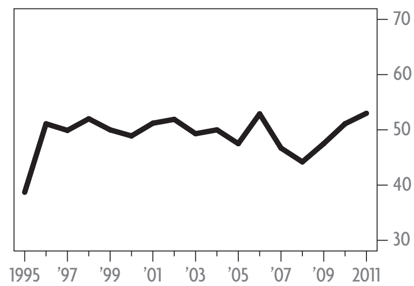
Economic Freedom Score



53.0

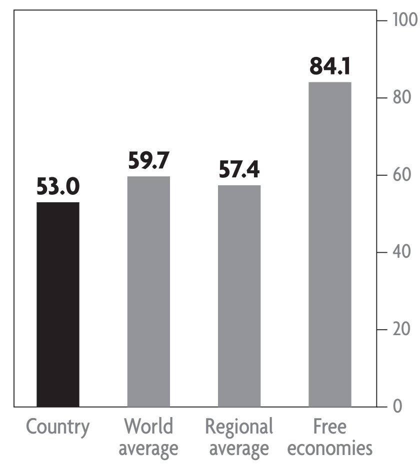
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Bangladesh's economic freedom score is 53, making its economy the 130th freest in the 2011 *Index*. Its overall score is 1.9 points better than last year, mainly reflecting improvements in business freedom and investment freedom. Bangladesh is ranked 27th out of 41 countries in the Asia–Pacific region.

Bangladesh's economy remains overly dependent on agriculture, which accounts for almost 20 percent of GDP and employs more than half of the labor force. State-owned enterprises are a significant presence in most productive sectors, including those that are usually dominated by the private sector in other economies.

Weak governance and structural problems continue to constrain Bangladesh's development. The inefficient regulatory regime is often heavily politicized, and the substantial presence of state-owned enterprises crowds out private investment. Corruption, coupled with onerous bureaucracy, is still perceived as pervasive, and the underdeveloped financial sector impedes the growth of a more dynamic private sector.

BACKGROUND: After nearly two years of military-backed rule, the People's Republic of Bangladesh returned to democracy in December 2008. The secular Awami League won over two-thirds of the 300 parliamentary seats, reinstalling Sheikh Hasina Wajed as prime minister, a post she had held from 1996–2001. Bangladesh is one of the world's poorest and most densely populated nations, and the majority of its people work in agriculture, though service industries now account for over half of GDP. Weak institutions, poverty, and corruption undermine economic development and fuel social and political unrest despite relatively large inflows of remittances and around $100 million a year in aid from the United States. Sheikh Hasina faced the most serious challenge to her leadership in February 2009 when a mutiny broke out within the Bangladesh Rifles, part of the armed forces. Islamist extremist groups also threaten Bangladesh's democracy and pluralist traditions, although the government has taken steps to curb their activities.

Quick Facts

Population: 164.7 million
GDP (PPP): $241.3 billion
5.4% growth in 2009
6.1% 5-year compound annual growth
$1,465 per capita
Unemployment: 5.1%
Inflation (CPI): 6.1%
FDI Inflow: $716 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *65* — + 5.6

Existing commercial regulations are not enforced effectively. The entrepreneurial environment is hampered by regulatory uncertainty that raises start-up and operational costs. Other institutional weaknesses such as pervasive petty corruption continue to impede private production and investment.

TRADE FREEDOM: *58* — *no change*

Bangladesh's weighted average tariff rate was 11 percent in 2007. Import and export restrictions, numerous border taxes and fees, restrictive labeling requirements, burdensome import licensing rules, export subsidies and other support programs, government monopolies and state trading boards, complex and non-transparent government procurement, inefficient and corrupt customs administration, and weak enforcement of intellectual property rights also add to the cost of trade. Twenty points were deducted from Bangladesh's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *72.7* — − 0.1

Bangladesh has a moderate income tax rate and a high corporate tax rate. 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) and a tax on interest. In the most recent year, overall tax revenue as a percentage of GDP was 8.8 percent.

GOVERNMENT SPENDING: *92.4* — − 1.5

In the most recent year, total government expenditures, including consumption and transfer payments, equaled 15.9 percent of GDP. Expenditures on welfare spending increased as a response to the global crisis, but budget reallocation kept the total fiscal stimulus relatively low. Underimplementation of the Annual Development Plan kept the fiscal balance steady despite revenue shortfalls. Cash flow from the treasury to independent ministries is poorly managed.

MONETARY FREEDOM: *68.6* — + 2.0

Inflation is on pace to average 8 percent in 2010, compared with 5.4 percent in 2009, because of global commodity price increases. Subsidies and other government assistance to agriculture have doubled since 2005. Public finances are further strained by the government's determination to continue subsidies for electricity. Fifteen points were deducted from Bangladesh's monetary freedom score to account for measures that distort domestic prices for petroleum products, some pharmaceuticals, and goods produced in state-owned enterprises.

INVESTMENT FREEDOM: *55* — + 10.0

Officially, foreign investment is welcomed, but certain sectors remain restricted, and potential investors face a host of challenges: delays in project approvals, burdensome bureaucratic procedures, high levels of corruption, and uncertainty about contract and regulatory enforcement.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 93	Investment Freedom	No. 75
Trade Freedom	No. 166	Financial Freedom	No. 159
Fiscal Freedom	No. 121	Property Rights	No. 146
Government Spending	No. 8	Freedom from Corruption	No. 141
Monetary Freedom	No. 149	Labor Freedom	No. 116

The law guarantees the right of repatriation of invested capital, profits, capital gains, post-tax dividends, and approved royalties and fees. Foreign firms may repatriate funds without much difficulty, provided the appropriate documentation is in order. In general, government laws and regulations and their implementation create rather than reduce distortions or impediments to investment.

FINANCIAL FREEDOM: *20* — *no change*

Bangladesh's banking sector has recorded credit and deposit growth as well as a reduction in non-performing loans in recent years. However, with limited options for financing and uneven access, the financial sector remains underdeveloped. State-owned commercial banks account for more than 30 percent of total banking assets, undermining competitiveness and efficiency. The system is afflicted with weak financial supervision, fraudulent transactions, mismanagement, and political influence in lending practices. Government ownership and interference are quite heavy. There are controls and limits on transactions regarding money market instruments. An extensive microfinance presence remains largely unsupervised. Two stock exchanges are in place, but their market capitalization is low.

PROPERTY RIGHTS: *20* — *no change*

Bangladesh has a civil court system based on the British model. The constitution provides for an independent judiciary, but the lower courts are considered to be part of the executive branch and suffer from serious corruption. Contract enforcement is weak, and dispute settlement is further hampered by shortcomings in accounting practices and real property registration.

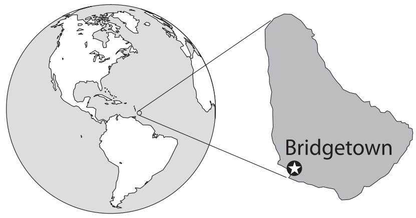
FREEDOM FROM CORRUPTION: *24* — + 3.0

Corruption is perceived as pervasive. Bangladesh ranks 139th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a slight improvement from 2008. Corruption remains a serious impediment to investment and economic growth. By some estimates, off-the-record payments by firms result in an annual loss of 2 percent–3 percent of GDP. Given that corruption blights all other economic freedoms, this continues to be a key area for improvement.

LABOR FREEDOM: *54.3* — + 0.5

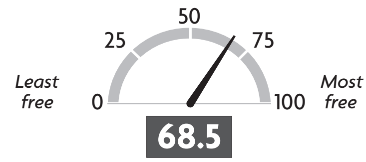
Bangladesh has not been able to develop a well-functioning labor market, and much of the labor force is employed in the agricultural sector. Worsened by the inefficient labor market infrastructure, underemployment has become a growing problem.

BARBADOS

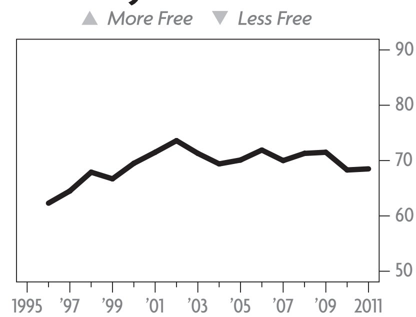


World Rank: **42** Regional Rank: **6**

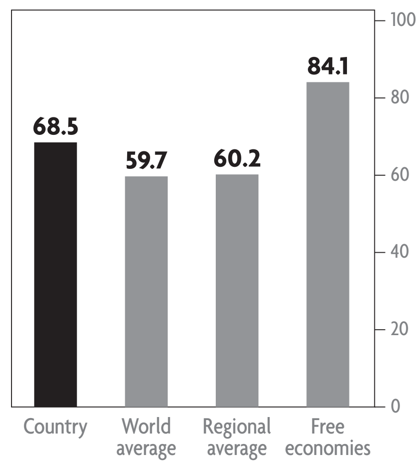
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Barbados's economic freedom score is 68.5, making its economy the 42nd freest in the 2010 *Index*. Its score is 0.2 point better than last year due to improvements in its freedom from corruption and monetary freedom scores. Barbados is 6th out of 29 countries in the South and Central America/Caribbean region, and its overall score remains well above global and regional averages.

The Barbados government's economic policies are focused on attracting international companies. Business regulations facilitate private-sector growth, and labor policies are not burdensome. Transparency levels the playing field for domestic and foreign businesses, despite certain restrictions on foreign investment. The legal system adjudicates business disputes effectively and encourages a relatively low level of corruption. The financial sector has been modestly affected by the global financial turmoil, and the overall macroeconomic situation remains stable.

Barbados is one of the Caribbean region's most prosperous economies, and offshore finance and tourism have been important sources of economic growth. However, growth has slowed in recent years, and government spending has increased. Due to a large fiscal deficit, government debt has continued to rise rapidly. As of June 2010, the debt level equaled approximately 95 percent of GDP.

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. 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. Freundel Stuart was named prime minister in October following the untimely death of Prime Minister David Thompson.

Quick Facts

Population: 276,000
GDP (PPP): $5.0 billion
–5.3% growth in 2009
0.3% 5-year compound annual growth
$18,131 per capita
Unemployment: n/a
Inflation (CPI): 3.5%
FDI Inflow: $289.5 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *90* — *no change*

The overall process for obtaining licenses and starting a business is straightforward. The Company Act ensures flexibility and simplicity in establishing and operating companies. Transparent policies and effective laws generally facilitate competition.

TRADE FREEDOM: *60.5* — *no change*

Barbados's weighted average tariff rate was 14.8 percent in 2007. Import levies and fees; requirements for permits, licenses, or permission before importation; labeling, sanitary, and phytosanitary policies; and direct and indirect export subsidies add to the cost of trade. State trading is limited to imports of chicken and turkey wings. Certain state companies are de facto sole traders. Ten points were deducted from Barbados's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *70.7* — *+ 0.6*

Barbados has a relatively high income tax rate and a moderate corporate tax rate. 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. In the most recent year, overall tax revenue as a percentage of GDP fell slightly to 32.9 percent.

GOVERNMENT SPENDING: *48.8* — *– 5.8*

In the most recent year, total government expenditures, including consumption and transfer payments, have risen slightly to 41.3 percent of GDP. Following the global economic crisis, the fiscal deficit has soared. Authorities are attempting to dampen wage bill growth, improve management of state-owned enterprises, and better prioritize capital spending.

MONETARY FREEDOM: *76.3* — *+ 3.2*

Inflation dipped to 3.5 percent in 2009 but rose significantly in 2010. Although prices are generally set by the market, ten points were deducted from Barbados's monetary freedom score to account for measures that distort domestic prices for basic food items, transportation, and fuel.

INVESTMENT FREEDOM: *45* — *no change*

Barbados is generally open to foreign investors. Tour operators, travel agents, certain ground transport, and food retail services are reserved for locally domiciled firms. There are few monopolies other than utilities and some state trading enterprises. Residents' purchases of securities abroad require exchange control approval, and earnings must be repatriated and surrendered to an authorized dealer. Credit operations and direct investments also require exchange control approval. The central bank regulates investment transfers and capital remittances. In general, foreign currency may be freely repatriated for current transactions; if substantial capital gains have been realized, repatriation must generally be phased over a period determined by the central bank. Companies can freely repatriate profits and capital from foreign direct investment if they registered with the central bank at the time of investment. Central bank approval is required for residents and non-residents to hold and transact in foreign exchange accounts. The government can acquire property for public use upon prompt payment of compensation at fair market value. Acquisition of real estate by foreigners requires permission from the central bank.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 15	Investment Freedom	No. 103
Trade Freedom	No. 159	Financial Freedom	No. 38
Fiscal Freedom	No. 127	Property Rights	No. 20
Government Spending	No. 136	Freedom from Corruption	No. 20
Monetary Freedom	No. 76	Labor Freedom	No. 32

FINANCIAL FREEDOM: *60* — *no change*

Barbados's six commercial banks are dominated by Caribbean Community and Common Market and Canadian institutions. The banking sector provides a wide range of services for domestic and foreign investors. While maintaining strong regulatory standards, the government also seeks to expand offerings in other financial services. Compliance with international supervisory standards is high for offshore and onshore banking institutions. Revised guidelines have further refined controls on money laundering. CARICOM-related exchange controls have been abolished, and restrictions on non-CARICOM transactions are to be removed eventually. Securities markets are illiquid and lack depth. While the banking system remains well capitalized, there has been a significant rise in non-performing loans.

PROPERTY RIGHTS: *80* — *no change*

Barbados has an efficient legal system based on British common law. Private property is well protected. The Caribbean Court of Justice is the court of final appeal for Barbados and other CARICOM member states. By regional standards, the police and courts are efficient and unbiased.

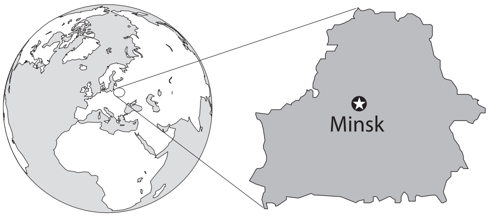
FREEDOM FROM CORRUPTION: *74* — *+ 4.0*

Corruption is perceived as present. Barbados ranks 20th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. There are criminal penalties for official corruption, and the government generally implements these laws effectively. Barbados is a narcotics trafficking transit country and attracts drug money–laundering operations.

LABOR FREEDOM: *80* — *no change*

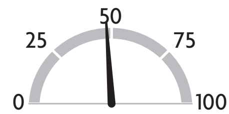
Flexible employment regulations enhance overall productivity growth and job creation. Employees are guaranteed at least two weeks of annual leave and are covered by unemployment benefits and national insurance legislation. Employers are not legally obligated to recognize unions.

BELARUS

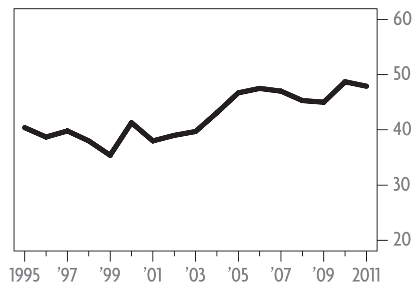


World Rank: **155** Regional Rank: **42**

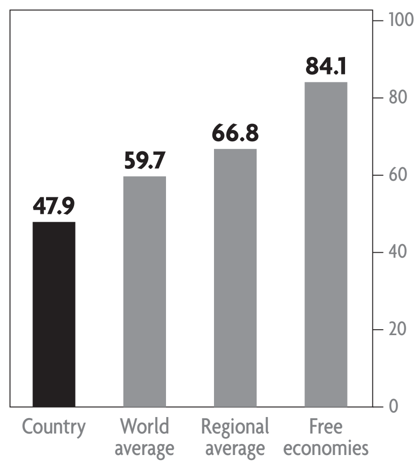
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Belarus's economic freedom score is 47.9, making its economy the 155th freest in the 2010 *Index*. Its overall score is 0.8 point worse than last year due to declines in five of the 10 economic freedoms. Belarus is ranked 42nd among the 43 countries in the Europe region.

Belarus has achieved limited success in only a few of the 10 economic freedoms. The costs of starting a business are relatively low compared to the world average. The average tariff rate is competitive, but trade is limited by restrictions. The moderate corporate tax rate is coupled with a low income tax rate to generate high fiscal freedom.

Although Belarus has undergone minor advances towards deregulation, a major shift toward a more liberal economic policy has not been a priority. Corruption remains widespread, and the enforcement of property rights is subject to an ineffective judiciary and time-consuming bureaucracy. Government interference with the private sector still weakens monetary freedom, investment freedom, and financial freedom.

BACKGROUND: In October 2004, authoritarian President Alexander Lukashenko, in power since 1994, changed the constitution, effectively becoming president for life. In 2005, Lukashenko vowed to guide Belarus toward "market socialism," and the economy has been deteriorating ever since. Industry and state-controlled agriculture are uncompetitive. GDP is expected to grow by only 3.5 percent in 2011, a laggard pace for an emerging market. In 2008, Russia extended a $2 billion loan to Belarus that was linked to creation of a single currency between the two countries. The International Monetary Fund approved a $2.46 billion loan in January 2009. Growing ties with Iran, Venezuela, and China have not improved economic prospects; nor did Belarus's effort to move toward a customs union with Russia and Kazakhstan as a part of the Eurasian Economic Community.

Quick Facts

Population: 9.5 million
GDP (PPP): $120.8 billion
0.2% growth in 2009
7.1% 5-year compound annual growth
$12,737 per capita
Unemployment: n/a
Inflation (CPI): 13.0%
FDI Inflow: $1.9 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *70.6* — 1.5

Recent reforms have enhanced the overall freedom to establish and run a business, but lingering government interference and the lack of consistency in enforcing regulations continue to discourage much-needed private-sector development.

TRADE FREEDOM: *80.3* *no change*

Belarus's weighted average tariff rate was 2.3 percent in 2009. Extensive import restrictions and quotas, licensing requirements, non-transparent and arbitrary regulations, weak enforcement of property rights, domestic preference in government procurement, and government subsidies add to the cost of trade. Fifteen points were deducted from Belarus's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *83.6* — 1.6

Belarus has a low income tax rate and a moderate corporate tax rate. The income tax rate is a flat 12 percent. The top corporate tax rate remains 24 percent. The value-added tax (VAT) has been increased from 18 percent to 20 percent; taxes on agriculture and vehicles have been reduced; and excise taxes on alcohol and tobacco, raised as of July 1, 2009, are set to increase again. In the most recent year, overall tax revenue as a percentage of GDP was 30.4 percent.

GOVERNMENT SPENDING: *26.2* — 5.8

In the most recent year, total government expenditures, including consumption and transfer payments, have risen to 49.6 percent of GDP. The government plans to curtail some subsidies but has not made progress with privatization of state-owned enterprises in energy and telecommunication and refuses to liberalize state wages. The budget deficit stands just below 1 percent of GDP.

MONETARY FREEDOM: *62.2* — 0.4

Inflation was forecast to average 7 percent in 2010, down from 12.9 percent in 2009. The government subsidizes many basic goods and services, sets prices of products made by state-owned enterprises, controls wages, and regulates retail-sector prices. Fifteen points were deducted from Belarus's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *20* *no change*

The government discriminates against domestic and foreign private parties in favor of state-owned businesses. Foreign investments undergo additional screening and are allowed only on a case-by-case basis. Numerous industries remain the exclusive domain of the state, and profitable and strategic sectors are often under de facto government control. Inefficient bureaucracy, corruption, contradictory enforcement of regulations, lack of respect for law, and official resistance to the private sector hinder foreign investment. Foreigners and businesses may not own land. Capital transactions, resident and non-resident accounts, and current transfers are subject to restrictions. When expropriating property, the government commonly alleges breaches of business law and offers no compensation.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 68	Investment Freedom	No. 152
Trade Freedom	No. 76	Financial Freedom	No. 172
Fiscal Freedom	No. 51	Property Rights	No. 146
Government Spending	No. 165	Freedom from Corruption	No. 141
Monetary Freedom	No. 167	Labor Freedom	No. 24

FINANCIAL FREEDOM: *10* *no change*

Belarus's banking system remains heavily government-influenced, with commercial banks' lending practices subject to state pressure. State-directed lending through government-owned banks accounts for about 50 percent of lending and causes inefficient credit allocation throughout the economy. Foreign banks face major impediments, and barriers to credit remain high. Businesses have access to various credit mechanisms, but long bureaucratic delays discourage smaller companies. The small non-bank financial sector is inhibited by state intervention and irregular regulatory enforcement. The stock market is small and largely dormant.

PROPERTY RIGHTS: *20* *no change*

The structure of property rights is unchanged since the Soviet period, with state ownership of land and government-controlled collective and state farms. The legal system does not fully protect private property, and inefficient courts do not enforce contracts consistently. The judiciary is neither independent nor objective by international standards. The government has wide scope to interfere in commercial transactions. Registration, assessment, sales, and purchases of property are highly bureaucratic and time-consuming. Independent lawyers cannot practice without a special license from the Ministry of Justice. Protection of intellectual property is weak.

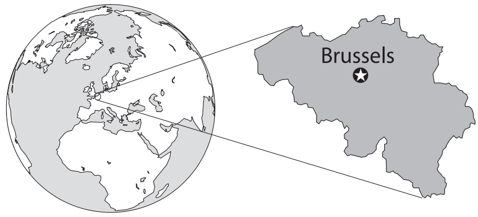
FREEDOM FROM CORRUPTION: *24* + 4.0

Corruption is perceived as pervasive. Belarus ranks 139th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Owners of import–export businesses complain of corruption at every point in a transaction. According to independent polls, corruption is most pervasive among local government officials, directors of large state enterprises, police, doctors, and teachers. The lack of transparent discrimination between the president's personal funds and official government accounts and a heavy reliance on off-budget revenues suggest corruption within the executive branch.

LABOR FREEDOM: *82.3* — 2.5

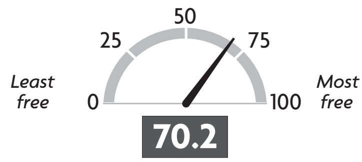
The Belarus economy has failed to benefit much from a relatively flexible labor code, as it lacks a dynamic private sector in which job creation and productivity growth could occur.

BELGIUM

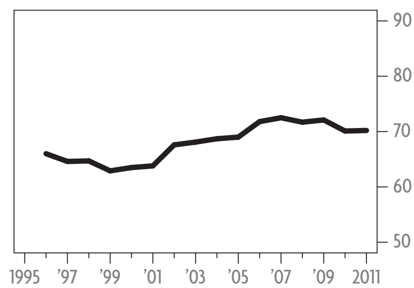


World Rank: **32** Regional Rank: **18**

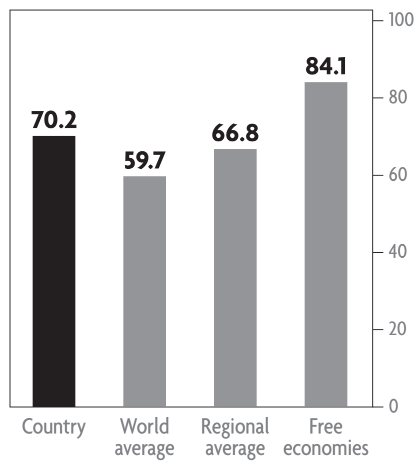
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Belgium's economic freedom score is 70.2, making its economy the 32nd freest in the 2011 *Index*. Its overall score has improved slightly from last year, primarily due to increases in monetary and labor freedom. Belgium is ranked 18th freest among the 43 countries in the Europe region, and its overall score is above the regional and global averages.

Generally friendly to free-market competition, Belgium's economy has long benefited from its openness to global trade and investment. However, lingering structural weaknesses hinder reforms to enhance economic freedom and international competitiveness. The tax system is burdensome, and the extensive welfare state is supported by high government spending, with the government's debt burden soaring over 100 percent of GDP. Despite some progress, labor market rigidities remain a considerable barrier to productivity and job growth.

The global financial crisis has caused a sharp economic slowdown in Belgium. In response to the 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, with the soundness of public finance deteriorating.

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, formerly president of the Chamber of Representatives, became prime minister on January 5, 2009. When Van Rompuy was selected to become the first president of the European Council on December 1, 2009, former premier Yves Leterme again became prime minister. Belgium assumed the EU presidency in July 2010. Services account for 75 percent of economic activity. Leading exports are electrical equipment, vehicles, diamonds, and chemicals.

Quick Facts

Population: 10.8 million
GDP (PPP): $382.7 billion
–3.0% growth in 2009
0.8% 5-year compound annual growth
$35,422 per capita
Unemployment: 7.9%
Inflation (CPI): –0.2%
FDI Inflow: $33.8 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *92.6* — *0.3*

The overall freedom to establish and run a business is well protected. An innovative form of limited enterprise was introduced in 2010; "starter" firms with no minimum capital may retain part of their profits to improve their financial viability but are expected to develop into full limited-liability companies within five years.

TRADE FREEDOM: *87.6* + *0.1*

Belgium's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.3 percent in 2008. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Belgian policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from Belgium's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *41.8* — *0.4*

Belgium's income tax rate is one of the world's highest, and its corporate tax rate is moderately high. The top income tax rate is 50 percent, and the top corporate tax rate is effectively 34 percent (33 percent plus a 3 percent austerity tax charged on the income tax due). Other taxes include a value-added tax (VAT), a real property tax, and an estate tax. Rates of the last two vary by region. In the most recent year, overall tax revenue as a percentage of GDP was 46.5 percent.

GOVERNMENT SPENDING: *25* — *5.0*

Total government expenditures, including consumption and transfer payments, are very high. In the most recent year, government spending rose to 50 percent of GDP. Post-crisis intervention led to a deteriorating fiscal balance and a deficit of 6 percent of GDP. The Belgian Stability Program has as its goal the achievement of a balanced budget by 2015.

MONETARY FREEDOM: *82.5* + *4.6*

Belgium is a member of the euro zone. The weighted average annual rate of inflation rose to 2.5 percent in 2010 after dropping nearly to zero in 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. Price-control policies affect water supply, waste handling, homes for the elderly, medicines and implantable medical devices, certain cars, compulsory insurance, fire insurance, petroleum products, cable television, and certain types of bread. Ten points were deducted from Belgium's monetary freedom score to account for measures that distort domestic prices.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 10	Investment Freedom	No. 14
Trade Freedom	No. 12	Financial Freedom	No. 17
Fiscal Freedom	No. 177	Property Rights	No. 20
Government Spending	No. 166	Freedom from Corruption	No. 21
Monetary Freedom	No. 17	Labor Freedom	No. 57

INVESTMENT FREEDOM: *80* *no change*

Foreign investors may enter into joint ventures and partnerships on the same basis as domestic parties, except for such professions as doctors, lawyers, accountants, and architects. Permission is required to open department stores, provide transportation and security services, produce and sell certain food items, cut and polish diamonds, or sell firearms and ammunition. There are no restrictions on the purchase of real estate, resident and non-resident foreign exchange accounts, repatriation of profit, or transfer of capital. If the government acquires property for a public purpose, adequate compensation is paid.

FINANCIAL FREEDOM: *70* *no change*

Belgium's modern financial sector is dominated by banking. Domestic and foreign banks operate in a very competitive environment. Credit is allocated at market terms, but regional authorities may subsidize medium- and long-term borrowing. Capital markets are integrated into Euronext, a broader European exchange. Responding to the financial crisis, the government has bailed out several major banks. Other financial groups have received additional recapitalization, and the government has offered inter-bank loan guarantees. The banking sector's financial situation remains fragile.

PROPERTY RIGHTS: *80* *no change*

Property ownership is protected, and contracts are secure. Laws are codified, and the judiciary and civil service, while often slow, are of high quality. Intellectual property rights are protected, but implementation of relevant EU directives is slow.

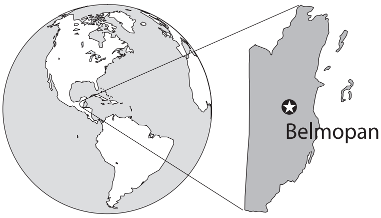
FREEDOM FROM CORRUPTION: *71* — *2.0*

Corruption is perceived as minimal. Belgium ranks 21st out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Belgium outlaws both active bribery and "passive bribery," whereby officials request or accept bribes to benefit themselves or others in exchange for certain behavior.

LABOR FREEDOM: *71* + *3.9*

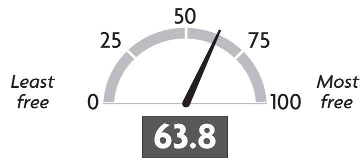
Employment regulations have gradually become less burdensome. The non-salary cost of employing a worker remains high, and dismissing a redundant employee is relatively costly.

BELIZE

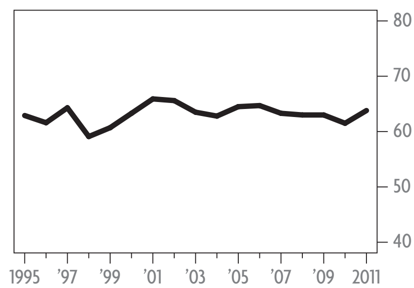


World Rank: **71** Regional Rank: **14**

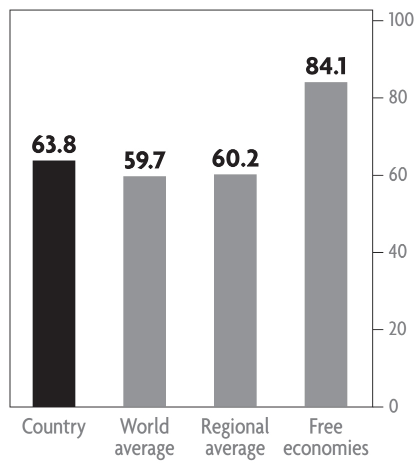
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Belize's economic freedom score is 63.8, making its economy the 71st freest in the 2011 *Index*. Its overall score is 2.3 points better than last year, primarily due to improved scores in fiscal, monetary, and labor freedoms. Belize is ranked 14th out of 29 countries in the South and Central America/Caribbean region.

Belize's record on structural reforms has been uneven, and more dynamic economic growth is constrained by lingering policy weaknesses in many parts of the economy. Entrepreneurial activity continues to be limited, and recovery from the recent economic slowdown has been narrowly based. Burdensome tariff and non-tariff barriers, together with the high cost of domestic financing, hinder private-sector development and economic diversification.

Belize's overall economic freedom remains limited by other institutional weaknesses. The overall regulatory infrastructure is inefficient and raises the cost of conducting entrepreneurial activity. Special licensing requirements discourage foreign investment in many sectors, and foreign exchange regulations are inconsistent and non-transparent. The judicial system remains vulnerable to political interference, and corruption is common.

BACKGROUND: Belize is a parliamentary democracy and member of the British Commonwealth. In February 2008, the United Democratic Party defeated the incumbent People's United Party—a visible response to the country's high unemployment, high crime rates, and growing involvement in the drug trade. Prime Minister Dean Barrow has worked to restore confidence in the government, but high public-sector debt leaves him little fiscal room 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.

Quick Facts

Population: 0.3 million
GDP (PPP): $2.6 billion
–1.1% growth in 2009
2.1% 5-year compound annual growth
$7,719 per capita
Unemployment: 8.2% (2008)
Inflation (CPI): 2.0%
FDI Inflow: $95.4 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *73.7* — *0.4*

The process for setting up a business and completing regulatory requirements has been streamlined a bit, but, entrepreneurial activity often faces such challenges as poor enforcement of the commercial code and lack of transparency.

TRADE FREEDOM: *71.5* *no change*

Belize's weighted average tariff rate was 9.3 percent in 2008. Import restrictions, import licensing rules for some products, customs corruption, and weak enforcement of intellectual property rights add to the cost of trade. Ten points were deducted from Belize's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *82.3* + *14.0*

Belize has moderate personal income and corporate tax rates. The top income and corporate tax rates are 25 percent, with petroleum profits taxed at 40 percent. Other taxes include a goods and services tax and a stamp duty. In the most recent year, overall tax revenue as a percentage of GDP was 22.7 percent.

GOVERNMENT SPENDING: *76.1* + *1.2*

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 28.2 percent of GDP. Public debt is high at 83 percent of GDP, but continued and transparent fiscal consolidation should help to implement long-term debt reduction.

MONETARY FREEDOM: *78.8* + *3.2*

Inflation is increasing, averaging 4.1 percent in 2010 after a steep decline in 2009. The government sets the prices of some basic commodities, such as rice, flour, beans, sugar, bread, butane gas, and fuel, and controls the retail price of electricity. Price controls are enforced for a handful of goods, although regulations define administrative prices or mark-ups for several other products. Ten points were deducted from Belize's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *50* *no change*

Belize generally is non-discriminatory toward foreign investment, but there are restrictions in certain sectors. Full foreign ownership of businesses is legal, although the government encourages partnerships with locals. Bureaucracy can be non-transparent, and dispute resolution can be time-consuming. Residents and non-residents may hold foreign exchange accounts subject to government approval. Officially, no person other than authorized dealers and depositories may retain any foreign currency without the central bank's consent. All capital transactions must be notified to or approved by the central bank. Applications to buy more than 10 acres of land require the Ministerial Cabinet's approval, and non-residents must obtain approval for transfers of any land or buildings. The government must assess and pay appropriate compensation if it expropriates an asset.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 53	Investment Freedom	No. 94
Trade Freedom	No. 119	Financial Freedom	No. 70
Fiscal Freedom	No. 62	Property Rights	No. 73
Government Spending	No. 74	Freedom from Corruption	No. 107
Monetary Freedom	No. 46	Labor Freedom	No. 16

FINANCIAL FREEDOM: *50* *no change*

Belize's financial system is small but growing, and obtaining credit is relatively straightforward. There are five commercial banks, eight international banks, and several quasi-government banks. Government policy has fostered development of offshore financial activities. Subsidiaries of foreign banks are competitive, but approval is required to secure a foreign currency loan from outside Belize, and only authorized dealers may retain foreign currency. The government influences the allocation of credit through the quasi-government banks. The financial system has remained largely insulated from the global financial crisis, but non-performing loans have increased considerably.

PROPERTY RIGHTS: *40* *no change*

The judiciary is constitutionally independent but subject to political influence. There is a severe lack of trained prosecutors, and police officers often assume that role in the magistrates' courts. There are lengthy trial backlogs. Expropriation of personal property is relatively rare. Many property disputes involve foreign investors and landowners, and it is often difficult to trace the ownership history or specific borders of land holdings. Protection of intellectual property rights is lax.

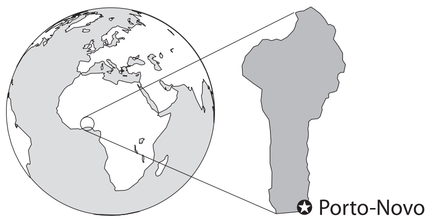
FREEDOM FROM CORRUPTION: *29* *no change*

Corruption is perceived as widespread. Belize was ranked 109th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008 (it was not ranked in 2009 due to shortage of survey sources within Belize). Money laundering, related primarily to narcotics trafficking and contraband smuggling, occurs through banks operating in Belize. In 2009, nine persons were arrested in connection with money laundering, and charges of corruption and misconduct were levied against the mayor of Belize City. There is one licensed Internet gaming site, but an undisclosed number of Internet gaming sites operate illegally.

LABOR FREEDOM: *86.5* + *4.8*

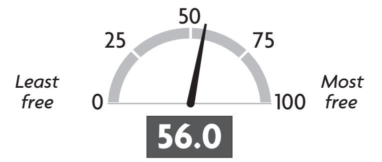
The non-salary cost of employing a worker is relatively low, and terminating labor contracts is not cumbersome. Overall, flexible employment regulations support employment and productivity growth, but a formal labor market has not been fully developed.

BENIN



World Rank: **117** Regional Rank: **20**

Economic Freedom Score



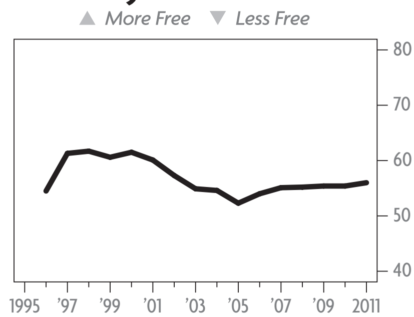
Benin's economic freedom score is 56, making its economy the 117th freest in the 2011 *Index*. Its overall score is 0.6 point better than last year, with increases in trade freedom, monetary freedom, and labor freedom. Benin is ranked 20th out of 46 countries in the Sub-Saharan Africa region, and its overall score is slightly higher than the regional average.

Benin's entrepreneurial environment benefits from 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. However, inefficient regulation and the lack of political momentum to implement necessary reforms fully continue to be serious obstacles to advancing economic freedom.

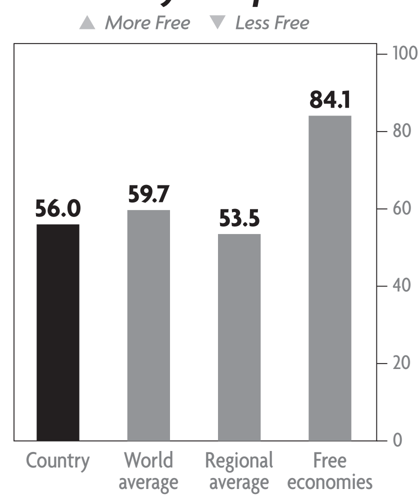
The most visible constraints on private-sector development are related to fiscal pressure, administrative complexities, and the lack of respect for contracts. Bureaucratic inefficiency and corruption affect much of the economy. Court enforcement of property rights remains vulnerable to political interference. The lack of economic freedom has fueled the growth of the informal sector, which accounts for about 60 percent of Benin's GDP.

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, came to power in 2006 in elections that were generally regarded as free and fair. The next elections are scheduled for 2011. Benin remains underdeveloped and dependent on subsistence agriculture. Cotton, the main commercial crop, accounts for over 40 percent of foreign exchange earnings, 17 percent of exports, and about 7 percent of GDP. In order to increase economic growth, Benin is attempting to attract foreign investment in tourism, food processing, and agriculture.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 9.4 million
GDP (PPP): $13.6 billion
2.7% growth in 2009
4.0% 5-year compound annual growth
$1,445 per capita
Unemployment: n/a
Inflation (CPI): 2.2%
FDI Inflow: $92.5 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *43* — + *0.7*

Benin's overall entrepreneurial environment remains burdensome. Bureaucratic procedures are not streamlined and lack transparency. Obtaining necessary business licenses is time-consuming and costly. Closing a business is a cumbersome process.

TRADE FREEDOM: *58.8* — + *1.8*

Benin's weighted average tariff rate was 15.6 percent in 2009. Customs inefficiency and corruption, restrictions on some imports, and import taxes add to the cost of trade, and the enforcement of intellectual property rights is inadequate. Ten points were deducted from Benin's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *75.8* — − *0.1*

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), a property tax, and a tax on insurance contracts. In the most recent year, overall tax revenue as a percentage of GDP was 17.2 percent.

GOVERNMENT SPENDING: *84.1* — − *1.1*

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 23 percent of GDP. Privatizations in cotton, banking, wood, and cement are complete, and Benin Telecom is expected to follow suit. Government involvement in utility pricing has compounded problems with energy shortages and high electricity costs. Limiting recurrent spending to open up space for critical investment in infrastructure remains a major fiscal goal but will be possible only with a serious commitment to curbing public sector wage growth.

MONETARY FREEDOM: *78.2* — + *3.6*

As a member of the West African Economic and Monetary Union, Benin uses the CFA franc, which is pegged to the euro. Inflation was projected to rise slightly to 3.3 percent in 2010 from 2.2 percent in 2009. The government regulates prices in the state-owned water, telecommunications, and electricity sectors, and the parastatal cotton sector benefits from government subsidies and price supports. State subsidies to the troubled electricity sector have jumped, as have public-sector wages. Ten points were deducted from Benin's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *60* — *no change*

Benin officially encourages foreign investment, and foreign investors have taken advantage of opportunities linked to the privatization of state-owned enterprises. Bureaucracy is inefficient and subject to corruption. Judicial resolution of civil disputes is time-consuming. International intellectual property agreements are not adequately enforced.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 154**	Investment Freedom	**No. 62**
Trade Freedom	**No. 164**	Financial Freedom	**No. 70**
Fiscal Freedom	**No. 103**	Property Rights	**No. 99**
Government Spending	**No. 44**	Freedom from Corruption	**No. 107**
Monetary Freedom	**No. 53**	Labor Freedom	**No. 129**

Transfers exceeding 300,000 FCFA (approximately $600) to a Western country other than France require central bank and government approval. There are no restrictions on remittance of profits by companies, but remittances by individual resident investors can be restricted. Foreign investors generally may own land. The government can seize property by eminent domain but is required to pay compensation to the owners.

FINANCIAL FREEDOM: *50* — *no change*

Benin's highly concentrated banking sector is predominantly private, and foreign ownership is allowed. Despite the noticeable development of microfinance institutions, overall access to credit remains low. Bank credit to the economy is estimated at equivalent to less than 20 percent of GDP in 2009. The Central Bank of West African States governs Benin's financial institutions, and regulatory oversight can be unwieldy. Banks have difficulty with nonperforming loans and recovering collateral on those loans.

PROPERTY RIGHTS: *30* — *no change*

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. International donor assistance projects aim to improve the judiciary by training staff and expanding physical capacity. Benin was ranked 75th out of 125 countries in the 2010 International Property Rights Index.

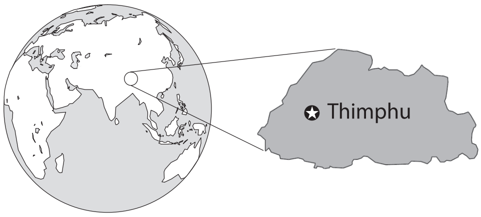
FREEDOM FROM CORRUPTION: *29* — − *2.0*

Corruption is perceived as widespread. Benin ranks 106th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a decline from 2008. Despite several high-profile prosecutions, government corruption continues to impede development and deter investment. Benin's citizens reportedly encounter demands for bribes at every turn in their day-to-day dealings with government officials.

LABOR FREEDOM: *50.7* — + *2.9*

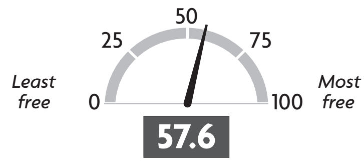
The agriculture sector accounts for nearly 70 percent of the workforce. Outmoded employment regulations hinder overall job creation and productivity growth. Restrictions on the number of working hours remain rigid, and the nonsalary cost of employing a worker is high.

BHUTAN



World Rank: **103** Regional Rank: **18**

Economic Freedom Score



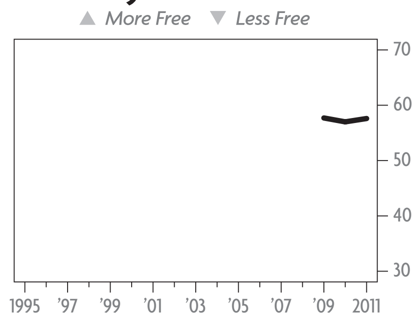
Bhutan's economic freedom score is 57.6, making its economy the 103rd freest in the 2011 *Index*. Its score has improved slightly from last year, primarily because of improved scores in government spending and investment freedom. Bhutan is ranked 18th out of 41 countries in the Asia–Pacific region, and its overall score is slightly below the global average.

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 developing the private sector is crucial. A higher policy priority has been given to measures to diversify the economy, particularly in light of demographic shifts that will bring more young people into the labor market. Steps to ensure greater security for property rights have been also taken.

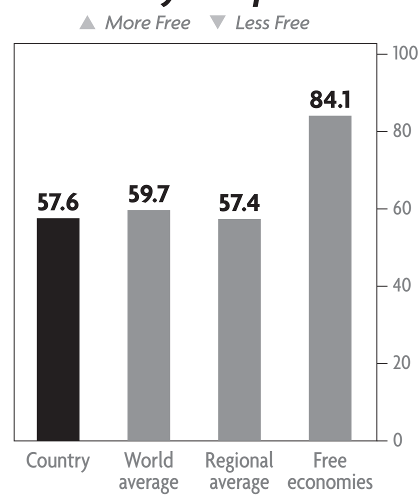
Lingering constraints on private-sector development include the inefficient regulatory framework, pervasive non-tariff barriers, and a rudimentary investment code. The financial sector remains small and without adequate regulation or supervision. The lack of access to financing precludes entrepreneurial 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, this still largely agrarian country had few roads, little electricity, and no modern hospitals. Rugged terrain makes the development of infrastructure difficult, but recent interregional economic cooperation, particularly in the area of trade with Bangladesh and India, is helping to encourage economic growth. Bhutan's international trade has long been dominated by India, and connections to global markets are limited.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 0.7 million
GDP (PPP): $3.5 billion
6.3% growth in 2009
9.2% 5-year compound annual growth
$5,212 per capita
Unemployment: 4.0%
Inflation (CPI): 8.7%
FDI Inflow: $36.4 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *59.8* — *0.7*

A modern regulatory framework has not been fully developed. Despite recent efforts, the business climate is still hampered by inconsistent enforcement of regulations and a lack of transparency.

TRADE FREEDOM: *52* *no change*

Bhutan's weighted average tariff rate in 2007 was 16.5 percent. Bhutan has not yet joined the World Trade Organization. Import and export restrictions, services market access restrictions, inadequate infrastructure and trade capacity, underdeveloped markets, and non-transparent and arbitrary regulation add to the cost of trade. Fifteen points were deducted from Bhutan's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *83.9* — *0.2*

Bhutan has moderate personal income tax and corporate tax rates. The top income tax rate is 25 percent, and the corporate tax rate is 30 percent. Other taxes include a motor vehicle tax, a property tax, and an excise tax. A value-added tax (VAT) is set to be introduced in an effort to broaden the tax base. In the most recent year, overall tax revenue as a percentage of GDP was 9 percent.

GOVERNMENT SPENDING: *64.1* + *5.8*

In the most recent year, total government expenditures, including consumption and transfer payments, declined slightly to 34.6 percent of GDP. As part of the tightened fiscal management advocated by the tenth five-year development plan (2008–2013), budgetary targets are now updated several times a year. Public spending is targeted toward transportation infrastructure and hydropower. External borrowing from India for hydropower development is responsible for high public debt, but the fiscal balance remains stable. Further development is planned to rely on public–private partnerships, although there is currently no legal framework for them.

MONETARY FREEDOM: *71.8* — *1.6*

Inflation decreased from a high of 8.4 percent in 2008 to 4.3 percent in 2009. The government maintains an effective monopoly on imports of rationed goods such as fertilizer, kerosene, and liquefied petroleum gas, providing these to domestic users at subsidized prices. Ten points were deducted from Bhutan's monetary freedom score to account for the economy's lack of competition and broad-based ownership.

INVESTMENT FREEDOM: *20* + *5.0*

Foreign investment is prohibited in some industries and capped in others. Foreign direct investment has been a sensitive issue, largely because of concerns about its effect on culture and traditions and possibly because of the private sector's unwillingness to lose the benefits that restrictions provide. Foreign exchange and capital transactions are subject to government controls.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 119	Investment Freedom	No. 152
Trade Freedom	No. 173	Financial Freedom	No. 133
Fiscal Freedom	No. 45	Property Rights	No. 42
Government Spending	No. 107	Freedom from Corruption	No. 48
Monetary Freedom	No. 122	Labor Freedom	No. 19

FINANCIAL FREEDOM: *30* *no change*

Bhutan needs a more efficient and competitive financial sector to mobilize savings and channel long-term capital to facilitate private-sector development. The financial sector is small, and an underdeveloped regulatory framework limits access to capital for entrepreneurs. Two state-owned commercial banks have branches around the country. The Bank of Bhutan enjoyed a monopoly for many years, but competition has improved with the establishment of the Bhutan National Bank and the opening of the sector to more foreign partnerships. The government-owned Bhutan Development Finance Corporation and Royal Insurance Corporation of Bhutan have high levels of non-performing loans. Credit is not always allocated on market terms. Foreign exchange is tightly regulated, and the currency is not convertible. The four state-owned financial institutions dominate the Royal Securities Exchange. In 2010, a Financial Services Bill, aimed at divesting the two state-owned banks, was ratified by the lower house of parliament.

PROPERTY RIGHTS: *60* *no change*

Bhutan has taken some steps that facilitate private-sector development. Protections of intellectual property rights are stipulated in the Industrial Property Act and the Copyright Act. The Ministry of Trade and Industry's Intellectual Property Division is responsible for implementing intellectual property policies. Property rights are more equally protected than in most of South Asia, with women rather than men inheriting and owning property in some areas.

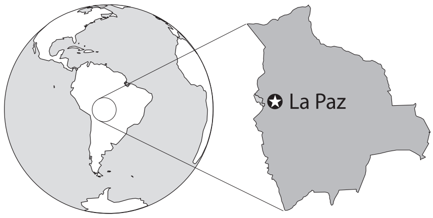
FREEDOM FROM CORRUPTION: *50* — *2.0*

Corruption is perceived as present. Bhutan ranks 49th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The government's Anti-Corruption Commission has identified misuse of resources, bribery and collusion, and nepotism as major forms of corruption.

LABOR FREEDOM: *84.7* — *0.4*

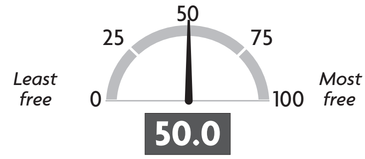
Dynamic private-sector growth is critical to correcting the imbalance between labor supply and demand in Bhutan. Economic diversification has not progressed much, and unemployment has risen in recent years. Despite flexible employment regulations that could facilitate overall productivity growth, a formal and efficient labor market is not yet fully developed.

BOLIVIA



World Rank: **147** Regional Rank: **25**

Economic Freedom Score



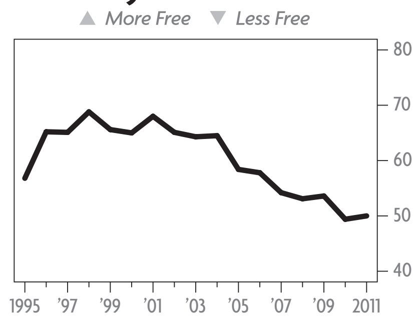
Bolivia's economic freedom score is 50, making its economy the 147th freest in the 2011 *Index*. Its overall score is 0.6 point better than last year, with improvements in four of the 10 economic freedoms. Bolivia is ranked 25th out of 29 countries in the South and Central America/Caribbean region, and its overall score is below the world and regional averages.

Bolivia's overall economic development remains severely hampered by structural and institutional problems. 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.

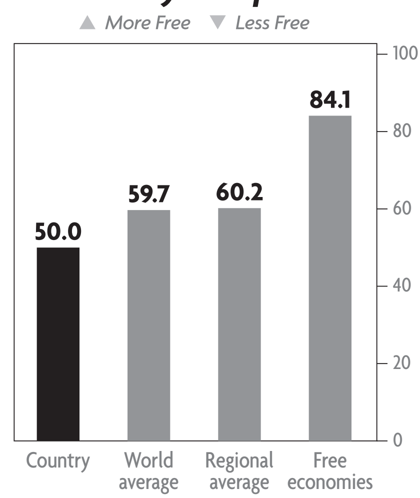
The state's presence in economic activity is gradually increasing through nationalization, and the judicial system is becoming more vulnerable to political interference. Corruption is prevalent and the rule of law is weak in many areas. The lack of access to financing precludes entrepreneurial growth, and the investment regime lacks transparency.

BACKGROUND: From the mid-1980s until 2005, successive elected governments pursued economic and social reform. President Gonzalo Sánchez de Lozada (1993–1997) implemented partial privatization and lowered taxes and tariffs. In a second term in office in 2003, Sánchez de Lozada proposed tax hikes and a plan to export Bolivian gas through Chile, but leftist nationalists led riots that brought down his government. In 2005, they similarly unseated President Carlos Mesa. In 2006, anti-market populist Evo Morales took office. Morales used violence and intimidation to impose a new constitution that expanded executive power, state control of key natural resources and industries, and the redistribution of land. Re-elected in December 2009, he promised to move Bolivia toward "communitarian socialism" with a powerful state to integrate the economic system. Bolivia continues to look to Cuba and Venezuela for governance models. Almost two-thirds of Bolivia's people live in poverty, engaged primarily in subsistence agriculture.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 10.2 million
GDP (PPP): $45.6 billion
3.3% growth in 2009
4.7% 5-year compound annual growth
$4,455 per capita
Unemployment: 8.5%
Inflation (CPI): 3.5%
FDI Inflow: $423 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *57.2* — *0.1*

The entrepreneurial environment is burdened with red tape, corruption, and inconsistent enforcement of commercial regulations. Overall, interventionist policies continue to impair the business environment and limit the private investment needed for faster economic growth.

TRADE FREEDOM: *77.6* + *0.7*

Bolivia's weighted average tariff rate was 3.7 percent in 2009. Inconsistent customs valuation, import bans and restrictions, domestic preference in government procurement, inconsistent sanitary and phytosanitary rules, export subsidies, customs corruption, weak infrastructure, and issues related to the enforcement and protection of intellectual property rights add to the costs of trade. Many imports are smuggled into the country to avoid taxation. Fifteen points were deducted from Bolivia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *83.9* — *0.4*

Bolivia has a relatively low income tax and a moderate corporate tax. 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 transaction tax. In the most recent year, overall tax revenue as a percentage of GDP was 28.5 percent.

GOVERNMENT SPENDING: *63.7* — *3.8*

In the most recent year, total government expenditures, including consumption and transfer payments, rose slightly to 34.8 percent of GDP. Strategic sectors (hydrocarbons and telecommunications) are nationalized, and public spending is on the rise. The public debt is roughly 38 percent of GDP. The division of spending responsibilities at various levels of government is being worked out through an agreement called the Fiscal Pact.

MONETARY FREEDOM: *68.8* + *5.6*

Inflation declined significantly from 14.0 percent in 2008 to 3.5 percent in 2009 but is forecast to rise in 2010–2011 due to expansionary monetary policy, growing domestic demand, and high government spending. Weather conditions have a significant impact on local food production and food price inflation. Regulations control prices for most public utilities, petroleum products, and potable water. Fifteen points were deducted from Bolivia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *20* + *5.0*

Bolivia's 2009 constitution prioritizes domestic investment over foreign investment. Residents and non-residents may hold foreign exchange accounts. The government has nationalized several large industries. Despite a relatively transparent investment code, private investment is hindered by arbitrary implementation, cumbersome bureaucracy, pervasive corruption, uncertainty about future nationalizations, and social unrest. There are minimal restrictions on currency transfers and remittances. The government can expropriate property but must provide compensation. Competing claims to land titles and the absence of reliable dispute resolution create risk and uncertainty in real property acquisition.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 130	Investment Freedom	No. 152
Trade Freedom	No. 88	Financial Freedom	No. 70
Fiscal Freedom	No. 46	Property Rights	No. 166
Government Spending	No. 108	Freedom from Corruption	No. 122
Monetary Freedom	No. 147	Labor Freedom	No. 157

FINANCIAL FREEDOM: *50* *no change*

Bolivia's financial sector is vulnerable to state interference and remains poorly developed, although it has grown and become more open. Credit is generally allocated on market terms, but domestic collateral is required. Credit to the private sector has expanded very slowly. Political and social unrest hinder the development of a modern securities exchange. Capital markets are focused on trading in government bonds, although corporate debt and mutual funds have grown.

PROPERTY RIGHTS: *10* *no change*

Article 308 of the 2009 constitution states that "the private accumulation of economic power" will not be permitted to "endanger the economic sovereignty of the State" and that the "the right to own private property either individually or collectively [must] fulfill a social function" and "not harm the collective interest." Although other statutes guarantee property rights, 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.

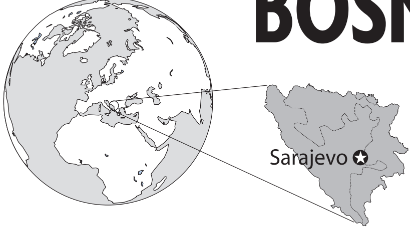
FREEDOM FROM CORRUPTION: *27* — *3.0*

Corruption is perceived as pervasive and growing. Bolivia ranks 120th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a significant decline from 2008. Officials accused of corruption are rarely prosecuted or convicted. A government report has rated the national police, customs, and justice system as the most corrupt institutions. More than one-third of total imports are smuggled into the country.

LABOR FREEDOM: *41.5* + *2.1*

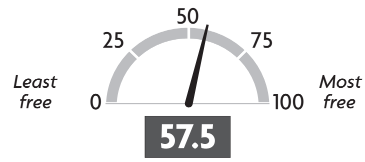
Bolivia's labor market is not fully developed, and employment regulations are rigid and not conducive to productivity growth. The government has established minimum wages for the public and private sectors.

BOSNIA AND HERZEGOVINA



World Rank: **104** Regional Rank: **39**

Economic Freedom Score



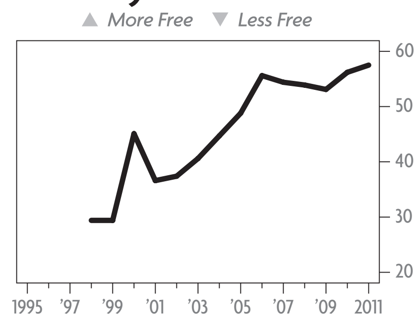
Bosnia and Herzegovina's economic freedom score is 57.5, making its economy the 104th freest in the 2011 *Index*. Its overall score is 1.3 points better than last year, with significant improvements in trade freedom, monetary freedom, and property rights. Bosnia and Herzegovina is ranked 39th out of 43 countries in the Europe region, and its overall score remains well below the regional average.

After several years of strong economic growth, Bosnia and Herzegovina's economic performance has deteriorated markedly, partly because of the global economic crisis and also because of the generally slow pace of the transition to greater economic freedom. Inefficient and high government spending, weak 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. Intrusive bureaucracy and costly registration procedures reflect a history of central planning. The informal economy remains quite large.

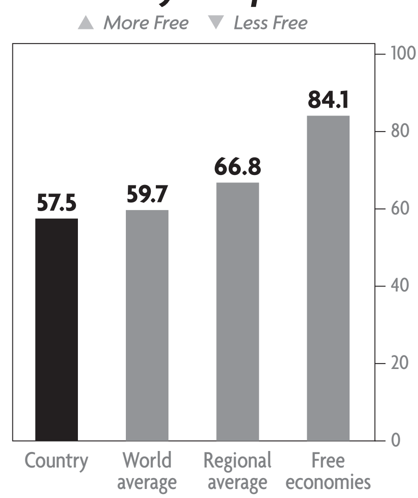
The entrepreneurial environment has improved a bit but remains one of the region's most burdensome. Early economic development was boosted by reconstruction efforts, but international trade has been the major source of economic expansion.

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. The EU is currently working with Bosnia and Herzegovina to liberalize European visa requirements so that Schengen area countries may be entered without a visa. Bosnia received NATO's Membership Action Plan in May 2010, outlining but not guaranteeing the steps required for membership in the alliance.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 4.0 million
GDP (PPP): $29.5 billion
–3.4% growth in 2009
3.6% 5-year compound annual growth
$7,361 per capita
Unemployment: 40.0%
Inflation (CPI): –0.4%
FDI Inflow: $501.3 million

2009 data unless otherwise noted.
Data compiled as of September 2010.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *60.4* — 0.9

Despite progress in recent years, regulatory inefficiency still impairs the business environment and limits the private investment needed for faster economic growth. The processes for getting business licenses and launching a business remain cumbersome and vulnerable to bureaucratic delays.

TRADE FREEDOM: *86* + 5.2

Bosnia and Herzegovina's weighted average tariff rate was 2 percent in 2009. Import and export restrictions, non-transparent regulations and government procurement, additional import duties on agriculture products, and numerous border fees add to the cost of trade. Low-priced imports may be penalized with antidumping or countervailing duties. Enforcement of intellectual property rights remains problematic. Tariffs on 11,000 products from the EU have been eliminated, and the country is working to join the World Trade Organization. Ten points were deducted from Bosnia and Herzegovina's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *83.9* + 0.7

Bosnia and Herzegovina's various governing entities have different tax policies. The top income tax rate and top corporate tax rate are 10 percent. Other taxes include a value-added tax (VAT), a sales tax, and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 37.6 percent.

GOVERNMENT SPENDING: *24.1* — 4.7

In the most recent year, total government expenditures, including consumption and transfer payments, rose to 50.3 percent of GDP. The fiscal deficit is 5.3 percent of GDP. Authorities plan to freeze wages following reductions in 2009. Pension reform and improved budget transparency are high priorities.

MONETARY FREEDOM: *80.6* + 5.9

In 2009, inflation declined sharply from its high of 7.4 percent in 2008, although it has increased slightly in 2010. Price controls apply to electricity, gas, and telecommunications services. Ten points were deducted from Bosnia and Herzegovina's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *70* *no change*

The law accords foreign investors the same rights as domestic investors. With the exception of armaments and media, where foreign control is limited to 49 percent, there are no restrictions on investment. The right to transfer and repatriate profits and remittances immediately is guaranteed. A complex legal and regulatory framework, non-transparent business procedures, and a weak judiciary remain serious obstacles to investment. Myriad state and municipal administrations make up a non-transparent bureaucratic system that creates opportunities for corruption. Privatization of state-owned enterprises lags behind other countries in the region. There are few restrictions on capital transactions and foreign exchange accounts. The law prohibits expropriation and nationalization of assets, except under special circumstances and with due compensation.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 114**	Investment Freedom	**No. 38**
Trade Freedom	**No. 41**	Financial Freedom	**No. 38**
Fiscal Freedom	**No. 48**	Property Rights	**No. 146**
Government Spending	**No. 167**	Freedom from Corruption	**No. 99**
Monetary Freedom	**No. 32**	Labor Freedom	**No. 93**

FINANCIAL FREEDOM: *60* *no change*

The financial sector has undergone more restructuring than any other sector of Bosnia and Herzegovina's economy. The banking system has expanded rapidly, and consolidation and privatization have followed. Most banks are in private hands, accounting for more than 80 percent of banking capital. Along with relatively easy access to financing, a wide range of financial services is available. Credit to the private sector has fallen substantially during the economic downturn. Foreign-owned banks account for over 90 percent of total banking assets. Long-term lending is still hindered by insufficient enforcement of contracts and the poor regulatory environment. The central bank has attempted to consolidate financial oversight, but the process has been sluggish. Capital markets remain underdeveloped. There are no restrictions on payments and transfers related to international current and capital transactions.

PROPERTY RIGHTS: *20* + 10.0

Property registers 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. Court decisions are difficult to enforce. Contracts are almost unenforceable, and implementation of laws protecting intellectual property rights is inadequate.

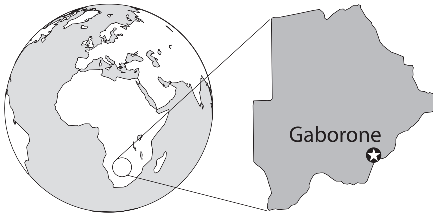
FREEDOM FROM CORRUPTION: *30* — 2.0

Corruption is perceived as widespread. Bosnia and Herzegovina ranks 99th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption remains prevalent in many political and economic institutions. Judges typically request bribes and respond to pressure from public officials. Business registration and licensing are particularly vulnerable to corruption.

LABOR FREEDOM: *60.2* — 1.0

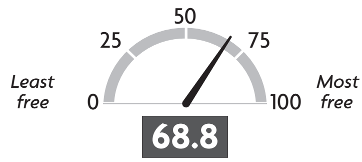
Relatively flexible employment regulations are not enforced effectively. A rigid system of wage determination, influenced strongly by an outmoded collective bargaining system, undermines job creation and worker mobility.

BOTSWANA



World Rank: **40** Regional Rank: **2**

Economic Freedom Score



Botswana's economic freedom score is 68.8, making its economy the 40th freest in the 2011 *Index*. Its overall score is 1.5 points worse than last year, due primarily to a large increase in government spending as a percentage of GDP. 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.

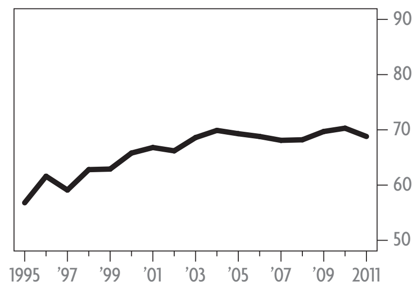
Botswana continues its transformation from one of the world's poorest countries to a fast-growing, dynamic economy. A sensible regulatory environment, openness to foreign investment and trade, and relatively flexible employment regulations promote competitiveness and flexibility. The financial sector is fairly well developed, with an independent central bank and little government intervention. The independent judiciary provides strong protection of property rights.

In an effort to move away from dependence on diamond production, the government has instituted competitive corporate tax rates, streamlined the application process for business ventures, and committed to increased transparency. The economy is emerging from the effects of the global economic slowdown, which severely affected economic growth and exports. With large fiscal deficits in recent years, Botswana faces the challenge of ensuring a return to sustainable levels of public spending.

BACKGROUND: The Botswana Democratic Party has governed this multi-party democracy since independence in 1966. Ian Khama assumed the presidency in 2008 as hand-picked successor to former President Festus Mogae. 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. Botswana has worked with other countries in the Southern African Development Community to mitigate the impact of the political turmoil in neighboring Zimbabwe and the resulting influx of Zimbabwean refugees. Botswana has the world's second highest HIV/AIDS infection rates.

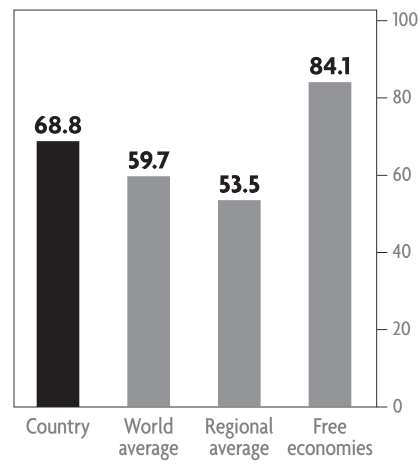
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 1.8 million
GDP (PPP): $25.4 billion
–6.0% growth in 2009
1.7% 5-year compound annual growth
$13,992 per capita
Unemployment: 7.5% (2007)
Inflation (CPI): 8.1%
FDI Inflow: $234.5 million

2009 data unless otherwise noted.
Data compiled as of September 2010.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *70.5* — *no change*

The overall freedom to establish and run a business is relatively well protected under Botswana's regulatory environment. A one-stop shop for entrepreneurs is in place, and the process for closing a business has become easy and straightforward.

TRADE FREEDOM: *75.2* — *+ 1.3*

Botswana's weighted average tariff rate was 7.4 percent in 2009. Import bans and restrictions on some products, import taxes, import licensing, domestic bias in government procurement, and weak enforcement of intellectual property rights add to the cost of trade. Botswana may apply antidumping and countervailing duties to low-priced imports. Ten points were deducted from Botswana's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *78.4* — *+ 4.3*

Botswana's tax rates remain among the lowest in Southern Africa. 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), increased from 10 percent to 12 percent as of April 1, 2010. In the most recent year, overall tax revenue as a percentage of GDP was 30.2 percent.

GOVERNMENT SPENDING: *51.5* — *– 15.6*

In the most recent year, total government expenditures, including consumption and transfer payments, soared to 40.2 percent of GDP. Years of fiscal surpluses built on diamond revenues allowed for spending on a growing public-sector wage bill, social programs, and infrastructure. Authorities are committed to bringing social spending down to prior levels and are confident that development spending will fall as infrastructure projects are completed.

MONETARY FREEDOM: *70.9* — *+ 2.1*

Inflation declined from 12.6 percent in 2008 to 8.1 percent in 2009. Most prices are set by the market, but the government maintains price policies for some agricultural and livestock goods and can influence prices through numerous state-owned enterprises and service providers. Ten points were deducted from Botswana's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *75* — *– 5.0*

While generally open to foreign participation in its economy, Botswana reserves a number of sectors for citizen participation. Foreign investment plays a significant role in the privatization of state-owned enterprises. Foreign investors must register a company in Botswana in order to invest. Investment regulations are transparent, and bureaucratic procedures are straightforward and open, though slow in execution. Profits and dividends, debt service, capital gains, returns on intellectual property, royalties, franchise fees, and service fees can be repatriated without limits. There are no restrictions on foreign exchange accounts or international transfers. The constitution prohibits the nationalization of private property.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 69	Investment Freedom	No. 26
Trade Freedom	No. 97	Financial Freedom	No. 17
Fiscal Freedom	No. 87	Property Rights	No. 26
Government Spending	No. 127	Freedom from Corruption	No. 36
Monetary Freedom	No. 134	Labor Freedom	No. 60

FINANCIAL FREEDOM: *70* — *no change*

Botswana's banking sector is one of Africa's most advanced. Generally adhering to global standards in the transparency of financial policies and banking supervision, the financial sector provides considerable access to credit and has expanded in recent years. In 2009, the Dutch bank ABN AMRO, one of the world's leading diamond banks, established a branch in Botswana. The government is involved in banking through state-owned financial institutions and a special financial incentives program that is aimed at increasing Botswana's status as a financial center. Credit is allocated on market terms, although the government provides subsidized loans. Reform of non-bank financial institutions has continued, and a newly created single financial regulatory agency provides more effective supervision. The government has abolished exchange controls, and the Botswana Stock Exchange is growing.

PROPERTY RIGHTS: *70* — *no change*

The constitution prohibits the nationalization of private property and provides for an independent judiciary, and the government respects this in practice. 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 is ranked 44th out of 125 countries in the 2010 International Property Rights Index, second only to South Africa among sub-Saharan Africa countries.

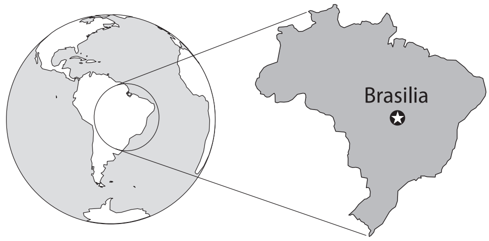
FREEDOM FROM CORRUPTION: *56* — *– 2.0*

Corruption is perceived as present. Botswana ranks 37th out of 179 countries in Transparency International's Corruption Perceptions Index for 2009 and remains Africa's least corrupt country.

LABOR FREEDOM: *70* — *– 0.8*

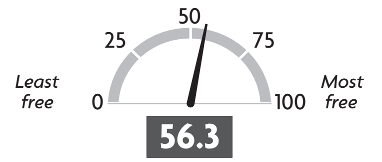
Botswana's employment regulations are relatively flexible. Employers are not required to make pension, health insurance, and unemployment insurance contributions. The non-salary cost of employing a worker is very low, and dismissing a redundant employee can be almost costless.

BRAZIL

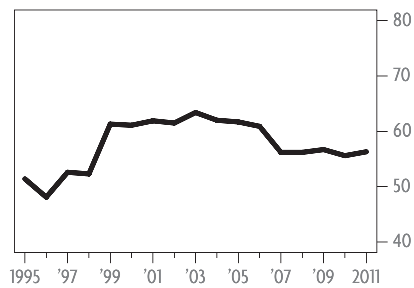


World Rank: **113** Regional Rank: **21**

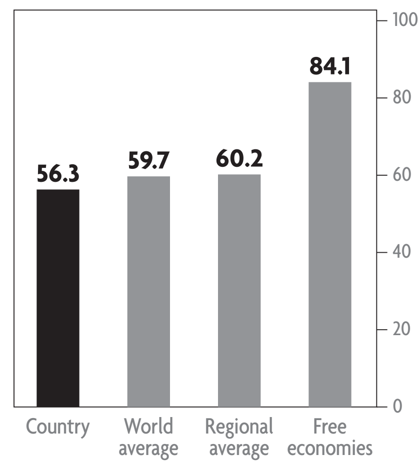
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Brazil's economic freedom score is 56.3, making its economy the 113th freest in the 2011 *Index*. Its score is 0.7 point better than last year as a result of improvements in investment freedom and trade freedom. Brazil is ranked 21st out of 29 countries in the South and Central America/Caribbean region, and its overall score is below the regional and world averages.

The Brazilian economy has been expanding with the help of booming commodity exports. Over the past decade, economic growth has averaged around 4 percent, accompanied generally by low inflation. Brazil has a large agricultural and industrial base, but a growing services sector has accounted for over 60 percent of GDP in recent years. The global financial and economic turmoil's impact has been moderate.

The state's role in the economy has been heavy and even increasing. However, the efficiency and overall quality of government services remain poor despite high government spending as a percentage of GDP. Barriers to entrepreneurial activity include burdensome taxes, inefficient regulation, poor access to long-term financing, and a rigid labor market. The judicial system remains vulnerable to political influence and corruption.

BACKGROUND: Brazil's democratic constitution dates from 1988. Workers' Party President Luiz Inacio "Lula" da Silva, elected in 2002 and re-elected in 2006, was constitutionally barred from seeking a third term. In the October 2010 presidential elections, Lula's hand-picked successor, Dilma Rousseff, was elected Brazil's first female president. Brazil has benefited from surging prices for its booming exports of commodities and weathered the global economic downturn in 2009 better than many developed countries did. A stable currency has boosted living standards, and the middle class is growing. Brazil is the world's fifth-largest country. Its almost 200 million people are heavily concentrated on the coast, where a dozen major metropolitan areas offer direct access to the Atlantic Ocean.

Quick Facts

Population: 191.5 million
GDP (PPP): $2.0 trillion
–0.2% growth in 2009
3.7% 5-year compound annual growth
$10,514 per capita
Unemployment: 8.1%
Inflation (CPI): 4.9%
FDI Inflow: $25.9 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *54.3* — 0.2

Despite some progress, organizing new investment and production remains cumbersome and bureaucratic. It is costly and time-consuming to launch or close a business.

TRADE FREEDOM: *69.8* + 0.6

Brazil's weighted average tariff rate was 7.6 percent in 2009. Import bans and restrictions, market access barriers in services, high tariffs, border taxes and fees, restrictive regulatory and licensing rules, subsidies, complex customs procedures, and problematic protection of intellectual property rights add to the cost of trade. Fifteen points were deducted from Brazil's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *69* + 0.6

Brazil's top income tax rate is 27.5 percent. The standard corporate tax rate is 15 percent, but a surtax of 10 percent and a 9 percent social contribution on net profit paid by most industries bring the effective rate to 34 percent. Other taxes include a real estate transfer tax and a tax on financial transactions. In the most recent year, overall tax revenue as a percentage of GDP was 34.4 percent.

GOVERNMENT SPENDING: *49.6* — 0.7

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 41 percent of GDP. Public debt is now below 40 percent of GDP. Besides debt service, government spending is focused mainly on pensions, transfers to local governments, and the bureaucracy. Additional planned stimulus spending will widen the overall fiscal deficit. Tax and pension reform, abandoned during the global crisis, are back on the fiscal agenda.

MONETARY FREEDOM: *75.9* + 0.1

Inflation has been better controlled in recent years, averaging 5 percent between 2007 and 2009. Prudent fiscal and monetary policies are credited with helping Brazil to avoid the worst of the global financial crisis of 2008 and 2009. Although such public services as railways, telecommunications, and electricity have been privatized, regulatory agencies oversee prices. The National Petroleum Agency fixes the wholesale price of fuel, and the government controls airfares. Ten points were deducted from Brazil's monetary freedom score to account for price controls.

INVESTMENT FREEDOM: *50* + 5.0

Foreign investors are granted national treatment, but foreign investment is restricted in several industries. In general, Brazilian nationals must constitute at least two-thirds of all employees and receive at least two-thirds of total payroll in firms employing three or more persons. Bureaucracy and administration are non-transparent, burdensome, complex, and subject to corruption. Legal disputes can be time-consuming. There are few restrictions on foreign exchange transactions. Foreign investors, upon registering their investments with the central bank, may remit dividends, capital (including capital gains), and royalties. The central bank regulates outward direct investment in some cases, including transfers and remittances. Foreign investors must obtain specific authorization to purchase land along borders.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 136	Investment Freedom	No. 94
Trade Freedom	No. 127	Financial Freedom	No. 70
Fiscal Freedom	No. 136	Property Rights	No. 52
Government Spending	No. 132	Freedom from Corruption	No. 75
Monetary Freedom	No. 83	Labor Freedom	No. 103

FINANCIAL FREEDOM: *50* *no change*

Brazil's financial sector is diversified and competitive, but the state's role remains considerable. Public-sector commercial and development bank assets account for around 40 percent of the financial system's total assets. The two largest state-owned banks control about 25 percent of total assets, and the government directs banks to channel loans to preferred sectors. Three of the top 10 banks are now foreign-owned. Brazil's insurance sector is now the region's largest, and the reinsurance market was opened to private-sector competition in 2008. A Credit Guarantee Fund was introduced in March 2009 to provide state guarantees on bank certificates of deposit. Overall, the banking sector has withstood the global financial turmoil relatively well.

PROPERTY RIGHTS: *50* *no change*

Contracts are generally considered secure, but Brazil's judiciary is inefficient, subject to political and economic influence, and lacks resources and staff training. Decisions can take years, and judgments by the Supreme Federal Tribunal are not automatically binding on lower courts. Protection of intellectual property rights has improved, but piracy of copyrighted material persists.

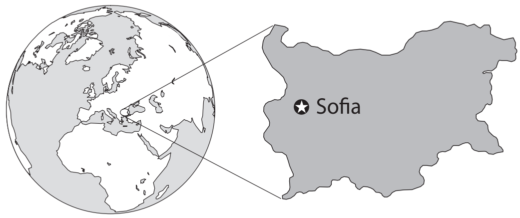
FREEDOM FROM CORRUPTION: *37* + 2.0

Corruption is perceived as significant. Brazil ranks 75th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption can be an obstacle to investment. Businesses bidding on government procurement contracts can encounter corruption, which is also a problem in the lower courts.

LABOR FREEDOM: *57.8* + 0.3

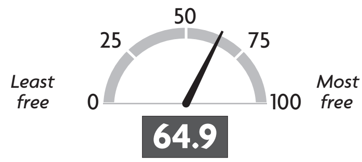
Rigid and outmoded labor regulations undermine employment and productivity growth. The non-salary cost of employing a worker is high, and dismissing a redundant employee can be costly. Mandated benefits amplify overall labor costs. The informal sector remains sizeable.

BULGARIA



World Rank: **60** Regional Rank: **26**

Economic Freedom Score



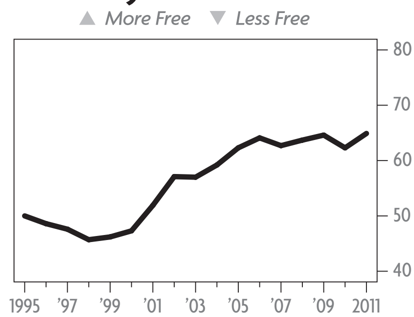
Bulgaria's economic freedom score is 64.9, making its economy the 60th freest in the 2011 *Index*. Its overall score is 2.6 points better than last year, reflecting gains in seven of the 10 economic freedom categories. Bulgaria is ranked 26th out of 43 countries in the Europe region, and its overall score is above the world average but below the regional average.

Bulgaria has implemented substantial economic reforms over the past decade. While maintaining macroeconomic stability, it has made considerable progress in income growth and poverty reduction. Competitive flat tax rates and an open trade regime, supported by a relatively efficient regulatory framework, have encouraged the development of a growing entrepreneurial sector. Bulgaria has weathered the impact of the global economic downturn relatively well, with the economy supported by generally prudent fiscal policy and sound public debt management.

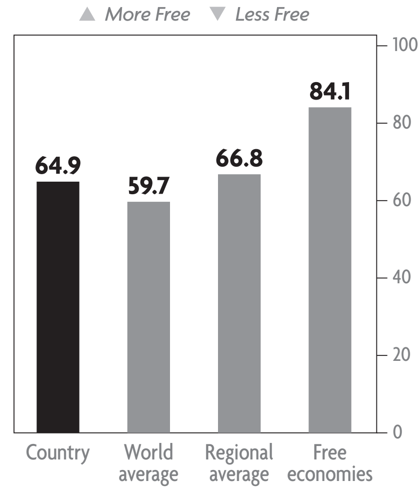
Continued reform in other areas, however, will be indispensable to sustaining high economic growth in coming years. Corruption and the weak rule of law increase the cost of conducting business and constrain more dynamic economic development.

BACKGROUND: Bulgaria held its first multi-party election since World War II in 1990 and joined the European Union in January 2007. Boiko Borisov of the center-right GERB (Citizens for European Development of Bulgaria) party was the clear winner in general elections held in July 2009. The major challenge for his government was to combat widespread corruption that had prevented Bulgaria from using its EU funds, which were made available after the government implemented reforms in December 2009. Tourism, agriculture, and natural resource mining, including coal, copper, and zinc, are the leading industries. Since the signing of an EU accession agreement in 2004, Bulgaria has experienced a vast inflow of capital and high rates of growth, although the economy contracted in 2009.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 7.6 million
GDP (PPP): $90.1 billion
–5.0% growth in 2009
3.2% 5-year compound annual growth
$11,900 per capita
Unemployment: 9.1%
Inflation (CPI): 2.5%
FDI Inflow: $4.5 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *75.8* — *2.0*

The overall freedom to establish and run a business remains relatively well protected within the regulatory framework. Launching a business has become less time-consuming, and licensing requirements have been eased, though the pace of change lagged behind some other countries.

TRADE FREEDOM: *87.6* + *0.2*

Bulgaria's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Bulgarian policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Enforcement of intellectual property rights and non-transparent government procurement remain problematic. Ten points were deducted from Bulgaria's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *86.9* + *0.6*

Bulgaria has low tax rates. The corporate and income tax rates are a flat 10 percent. Other taxes include a value-added tax (VAT), an estate tax, and a vehicle tax. In the most recent year, overall tax revenue as a percentage of GDP was 33.3 percent. Steps have been taken to improve tax compliance.

GOVERNMENT SPENDING: *58.3* + *10.0*

In the most recent year, total government expenditures, including consumption and transfer payments, equaled 37.3 percent of GDP. In July 2009, authorities announced freezes on public wages in 2010, to be accompanied by scaled-back pension and health care spending. Public-sector debt has been reduced to 16 percent of GDP.

MONETARY FREEDOM: *75.5* + *6.0*

Inflation declined significantly from 12 percent in 2008 to 2.5 percent in 2009. Privatization of state-owned firms has progressed, and most prices are determined by market forces, but regulation affects the prices of electricity, water, natural gas, and pharmaceuticals. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. Ten points were deducted from Bulgaria's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *55* + *5.0*

Foreign and domestic investors are treated equally. Government approval is required for majority foreign ownership in some sectors. Licensing, regulation, and arbitrary bureaucracy deter investment, as do pervasive corruption, a slow-moving judiciary, and the influence of organized crime. Foreign exchange and capital transactions may be subject to restrictions and require prior registration with the central bank. There are no legal restrictions on acquisition of land by locally registered companies with majority foreign participation. If public needs cannot be met by other means, expropriation may be undertaken, provided that the owner is adequately compensated.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 47	Investment Freedom	No. 75
Trade Freedom	No. 12	Financial Freedom	No. 38
Fiscal Freedom	No. 32	Property Rights	No. 99
Government Spending	No. 116	Freedom from Corruption	No. 72
Monetary Freedom	No. 89	Labor Freedom	No. 26

FINANCIAL FREEDOM: *60* *no change*

Introduction of a currency board, stronger supervision, and tighter prudential rules have helped to transform Bulgaria's banking sector. Consolidation began in 2004, and privatization of state-owned banks is complete. Combined assets of commercial banks exceed 100 percent of GDP. The three largest banks account for more than 30 percent of assets. In the domestic credit market, foreign banks account for more than 80 percent of total assets. Credit is generally allocated on market terms. The insurance sector, with strong foreign participation, is private and expanding. Strong banking supervision and prudential regulations have lessened the impact of global financial turmoil.

PROPERTY RIGHTS: *30* *no change*

Although the law protects the acquisition and disposition of property, the judicial system does not resolve commercial disputes, register businesses, or enforce judgments effectively. The constitution provides for an independent judiciary, but the sometimes ineffective rule of law limits investor confidence in the enforcement of contracts, ownership and shareholders rights, and intellectual property rights.

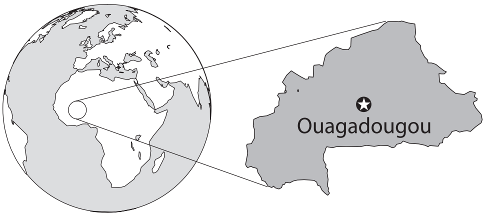
FREEDOM FROM CORRUPTION: *38* + *2.0*

Corruption is perceived as widespread. Bulgaria ranks 71st out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Despite advances in laws and legal instruments, organized crime and government and judicial corruption persist. Corruption's threat to the security of the common border is a matter of great concern to the EU.

LABOR FREEDOM: *82* + *3.9*

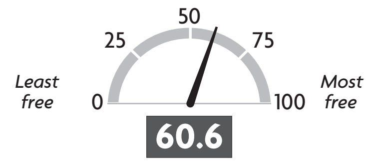
Relatively flexible labor regulations enhance employment and productivity growth, although there is room for further reforms. The non-salary cost of employing a worker is high, but the dismissal cost is moderate.

BURKINA FASO

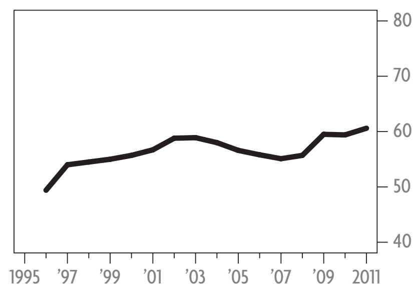


World Rank: **85** Regional Rank: **9**

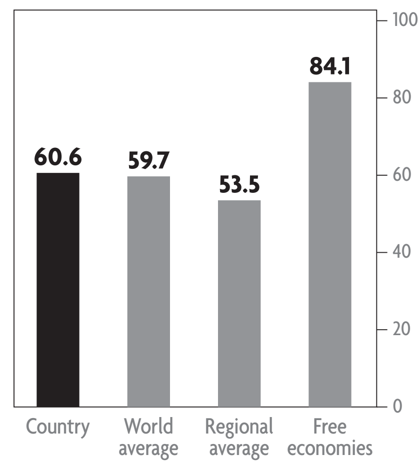
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Burkina Faso's economic freedom score is 60.6, making its economy the 85th freest in the 2011 *Index*. Its overall score is 1.2 points better than last year, due to notable improvements in trade freedom, monetary freedom, and investment freedom that were partially offset by a loss of labor freedom. Burkina Faso is ranked 9th out of 46 countries in the Sub-Saharan Africa region, and its overall score is above the world average.

Progress in opening the economy and developing the private sector has led to annual growth rates of over 4 percent over the past five years. Burkina Faso scores relatively well in fiscal freedom, government spending, and monetary freedom. Sustained efforts and pro-growth investments have resulted in some positive trends in overall human development, reducing poverty.

However, systemic weaknesses in business freedom, property rights, investment freedom, and freedom from corruption persist. Extensive regulations hinder entrepreneurial activity, and the weak judicial system fuels corruption. Deeper structural and institutional reforms remain critical to maintaining stable growth and diversification of the production base.

BACKGROUND: Burkina Faso has been ruled for over two decades by former army officer Blaise Compaoré, who seized power in a 1987 coup and executed his predecessor. Compaoré won a third term as president in November 2005, but a constitutional amendment that entered into force that same year should limit the presidency to two terms in the future. Burkina Faso is a very poor agrarian country with limited natural resources. Approximately 90 percent of the population is engaged in subsistence agriculture. Many Burkinabé live and work abroad, with as many as 4 million living in or migrating annually to neighboring Côte d'Ivoire for seasonal agricultural work. Remittances are a substantial source of income. Inadequate communications, poor infrastructure, and a high rate of illiteracy have slowed development.

Quick Facts

Population: 14.4 million
GDP (PPP): $18.7 billion
3.2% growth in 2009
4.4% 5-year compound annual growth
$1,304 per capita
Unemployment: n/a
Inflation (CPI): 2.6%
FDI Inflow: $171.4 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *61.5* ✚ *1.5*

Reforms to reduce red tape and streamline the regulatory process have been implemented. Although progress has been mixed, these measures have helped to enhance the entrepreneurial environment and maintain the momentum for reform.

TRADE FREEDOM: *76.2* ✚ *4.9*

Burkina Faso's weighted average tariff rate was 6.9 percent in 2009. In addition to the common external tariff applied by all members of the West African Economic and Monetary Union, supplementary taxes on imports, import fees and bans, import authorization for certain products, and weak enforcement of intellectual property rights add to the cost of trade. Ten points were deducted from Burkina Faso's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *80.5* ✚ *0.1*

Burkina Faso has moderate tax rates. The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and a tax on insurance contracts. In the most recent year, overall tax revenue as a percentage of GDP was 12.1 percent. The government remains committed to reforming the VAT and the corporate tax, which may be reduced to 25 percent.

GOVERNMENT SPENDING: *86* ✚ *6.0*

In the most recent year, total government expenditures, including consumption and transfer payments, fell to 21.6 percent of GDP. Authorities have expressed the intention to channel money to strengthen social safety nets and address humanitarian needs like the rebuilding of infrastructure damaged in the September 2009 flooding. The deficit, surpassing 6 percent of GDP, is expected to rise, at least temporarily, as a result.

MONETARY FREEDOM: *76.8* ✚ *3.8*

Inflation declined significantly from 10.7 percent in 2008 to 2.6 percent in 2009 but rose above 4 percent again in 2010, in part due to a sharp rise in public spending ahead of the 2010 presidential election. The regional Banque Centrale des Etats de l'Afrique de l'Ouest maintains the CFA franc's peg to the euro. The market determines most prices, but the government maintains price supports for cotton and influences prices through the public sector. Ten points were deducted from Burkina Faso's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *55* ✚ *5.0*

The law guarantees equal treatment of foreign and domestic investors. Investments are screened to determine eligibility for incentives. The government is liberalizing most monopolies and adopting transparent laws to foster competition, but inadequate infrastructure, a weak legal system, and corruption still deter investment. Foreign investors are guaranteed the right to transfer abroad any investment-associated funds, including dividends, receipts from liquidation, assets, and salaries. If property is expropriated, the government must compensate the property holder in advance, except in the event of an emergency.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 111	Investment Freedom	No. 75
Trade Freedom	No. 92	Financial Freedom	No. 70
Fiscal Freedom	No. 73	Property Rights	No. 99
Government Spending	No. 37	Freedom from Corruption	No. 79
Monetary Freedom	No. 68	Labor Freedom	No. 119

FINANCIAL FREEDOM: *50* *no change*

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. Microfinance has expanded considerably, and reforms aimed at tightening supervision and improving credit access are ongoing. Credit is generally allocated on market terms, but the government still influences lending. The financial sector remains hampered by difficulties in mobilizing long-term resources. Due to limited exposure to international financial markets, the impact of the global financial crisis on the banking sector has been minimal.

PROPERTY RIGHTS: *30* *no change*

Burkina Faso's judicial system is weak. Villagers have their own customary or traditional courts. 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.

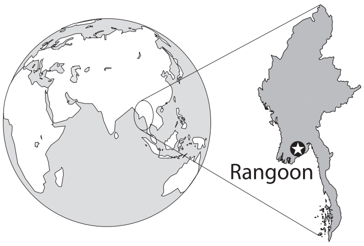
FREEDOM FROM CORRUPTION: *36* ✚ *1.0*

Corruption is perceived as pervasive. Burkina Faso ranks 79th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The main challenges are poor access to information, a weak judiciary, limited enforcement powers of anti-corruption institutions, misappropriation of public funds, and lack of an effective separation of powers. Civil servants cited most often for corruption include members of the police force and gendarmerie, customs officials, political groups, justice officials, health care workers, educators, tax collectors, and the media.

LABOR FREEDOM: *53.5* ━ *10.9*

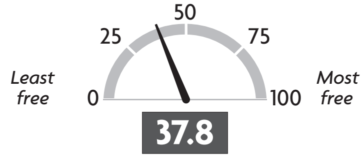
Burkina Faso has taken limited measures to modernize the labor market and enhance its flexibility. A new labor law implemented in 2008 made it easier for employers to hire workers for shorter contracts. Although progress has been gradual, relatively flexible employment regulations should facilitate productivity growth.

BURMA

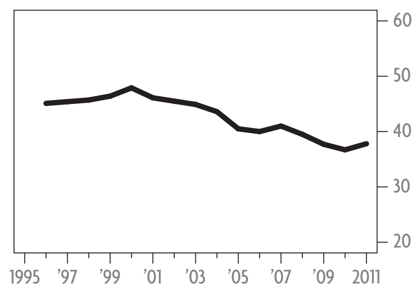


World Rank: **174** Regional Rank: **40**

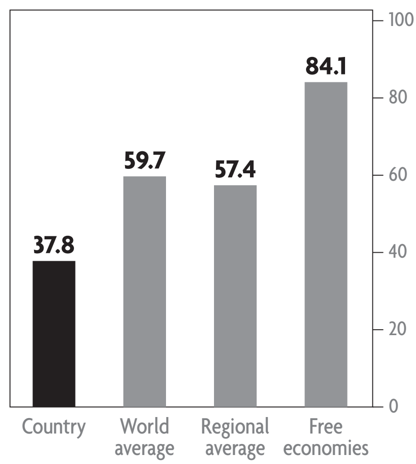
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Burma's economic freedom score is 37.8, making its economy the 174th freest in the 2011 *Index*. Its score is 1.1 points better than last year, mainly due to an improvement in monetary freedom. Burma is ranked 40th out of 41 countries in the Asia–Pacific region, and its overall score is much lower than the regional average.

The Burmese economy, afflicted with extensive state controls and structural problems that severely undermine the development of the private sector, lags in productivity growth and dynamic economic expansion. Historically scoring far below the world average, Burma's economic freedom has deteriorated significantly over the past decade.

Long-standing structural problems include poor public finance management and underdeveloped legal and regulatory frameworks. Investment freedom, financial freedom, property rights, and freedom from corruption are extraordinarily weak. Monetary stability remains fragile, and inflation is high, largely reflecting excessive money creation to fund fiscal deficits. 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. Political instability continues, and the United Nations estimates that the violent government response to pro-democracy demonstrations in September 2007 resulted in over 30 fatalities. A new constitution approved by referendum in 2008 and a planned election in late 2010 generated deep skepticism among international observers. Burma is richly endowed with natural resources, but government intervention in the economy has made it one of the world's poorest countries.

Quick Facts

Population: 60.0 million
GDP (PPP): $71.8 billion
4.8% growth in 2009
8.3% 5-year compound annual growth
$1,197 per capita
Unemployment: 4.9%
Inflation (CPI): 7.9%
FDI Inflow: $323 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *20* — *no change*

Much business activity is concentrated in state-owned enterprises. Burma's regulatory environment is severely hampered by lack of legal transparency. Political influence is strong in regulatory decision-making, and poor enforcement of laws undermines private-sector development.

TRADE FREEDOM: *72.3* — *no change*

Burma's weighted average tariff rate was 3.9 percent in 2007. Import and export bans and restrictions, high import and export taxes and fees, non-transparent import and export permit and licensing rules, arbitrary policy changes, non-transparent and outdated regulations and standards, customs corruption, state trading, poor intellectual property rights protection, and inefficient regulatory and customs bureaucracy add to the cost of trade. Twenty points were deducted from Burma's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *81.9* — *no change*

Burma has moderately high tax rates. The top income and corporate tax rates are 30 percent. The government does not provide timely economic data; According to the most recent information, overall tax revenue as a percentage of GDP was 3 percent.

GOVERNMENT SPENDING: *98.1* — *− 0.3*

Government intervention in the economy is widespread and poorly managed. However, total government expenditures, including consumption and transfer payments, are among the world's lowest. In the most recent year, government spending equaled only 8 percent of GDP, but the resulting high score on this factor reflects a severe lack of government capacity rather than policy restraint. International donors continue to rebuild the transportation, energy, and health infrastructures damaged by the May 2008 cyclone. Domestic spending has led to soaring fiscal deficits.

MONETARY FREEDOM: *56.6* — *+ 10.1*

Inflation declined from 22.5 percent in 2008 to a still-high 7.9 percent in 2009. The state is heavily engaged in mining and power, and state-owned firms are prominent in transport, trade, and manufacturing. Price controls and subsidies help to maintain below-market prices for such staples as gasoline, cooking oil, propane, and soap. Such products are strictly rationed, so retailers often sell on the black market. Twenty points were deducted from Burma's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *0* — *no change*

Foreign and domestic private investment is approved case-by-case. Many sectors are reserved for domestic and government-controlled activity. Investment is severely limited by government design, corruption, cronyism, political intervention, complex and capricious regulation, the lack of rule of law, and poor infrastructure. All official trade in goods, extractive industries, sources of capital, the movement of labor, and access to information are government-controlled. Manufacturing and services remain undeveloped. Access to capital is very limited, and the government favors state-owned banks over the few private banks, restricts foreign exchange accounts and current transfers, and controls all capital transactions. Multiple exchange rates make conversion and repatriation of foreign exchange complex and prone to corruption. Foreign firms may lease land from the government.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 175**	Investment Freedom	**No. 172**
Trade Freedom	**No. 112**	Financial Freedom	**No. 172**
Fiscal Freedom	**No. 64**	Property Rights	**No. 176**
Government Spending	**No. 1**	Freedom from Corruption	**No. 178**
Monetary Freedom	**No. 172**	Labor Freedom	**No. 176**

FINANCIAL FREEDOM: *10* — *no change*

Most loans are directed to government projects, and access to credit is highly constrained. Banking is dominated by state-owned banks, although there are several private banks. Opaque regulatory and legal institutions add to a fairly hostile climate. Onerous restrictions have kept private banks from taking in new deposits or extending significant new loans. Money laundering continues to grow. Conversion and repatriation of foreign exchange are ripe for corruption due to multiple exchange rates. Only state banks may deal with foreign exchange transactions.

PROPERTY RIGHTS: *5* — *no change*

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. Foreign investors who have conflicts with the local government or whose businesses are illegally expropriated have little success in obtaining compensation.

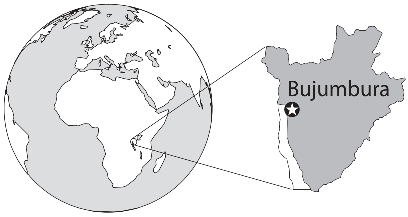
FREEDOM FROM CORRUPTION: *14* — *+ 1.0*

Corruption is perceived as rampant. Burma ranks 178th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Investors complain of official corruption in taxation, investment permission, import and export licenses, and land and real estate lease approvals. Many economists and businesspeople consider corruption the most serious barrier to investment and commerce.

LABOR FREEDOM: *20* — *no change*

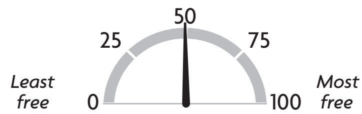
State control and intervention continue to distort Burma's labor market, creating unemployment as well as underemployment. Regulations regarding wage rates and maximum work hours are not uniformly observed. The government sets public-sector wages and influences wage-setting in the private sector. The state uses forced labor to construct military buildings and commercial enterprises.

BURUNDI



World Rank: **148** Regional Rank: **31**

Economic Freedom Score



49.6

Burundi's economic freedom score is 49.6, making its economy the 148th freest in the 2011 *Index*. Its overall score is 2.1 points better than last year, reflecting higher ratings in trade freedom, monetary freedom, government spending, and investment freedom. Burundi is ranked 31st out of 46 countries in the Sub-Saharan Africa region, and its score is worse than the world average.

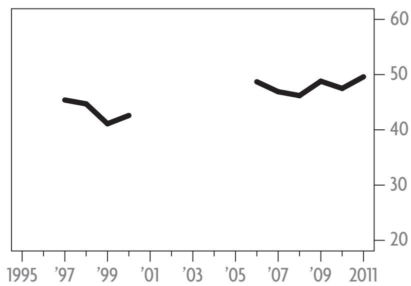
Burundi remains excessively dependent on its widely fluctuating agricultural sector, the principal source of jobs for over 80 percent of the population. The private sector operates in a policy environment that makes it difficult to generate employment opportunities and lasting economic growth.

The Burundian economy scores significantly below world averages in many of the 10 economic freedoms. The government has shown little interest in undertaking necessary reforms in restructuring and modernizing the economy. Many aspects of the business regulatory framework, from obtaining licenses to attracting foreign investment, are subject to intrusive and inefficient regulations. The weak judiciary fuels corruption.

BACKGROUND: Since becoming fully independent in 1962, Burundi has suffered from tension between the dominant Tutsi minority and the Hutu majority. The 1993 assassination of the 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. In 2005, a new constitution was adopted by referendum and the National Assembly elected Pierre Nkurunziza president. In the June 2010 elections, Nkurunziza was the only candidate. Burundi's primary exports are tea and coffee. Agriculture accounts for over 30 percent of GDP.

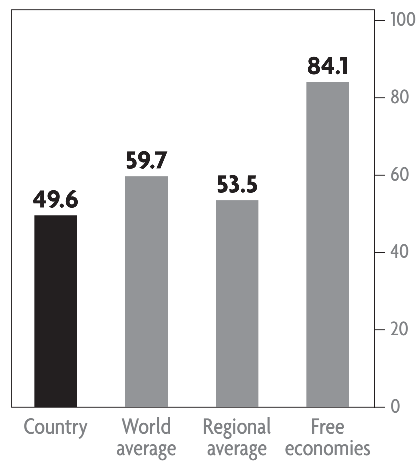
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 8.1 million
GDP (PPP): $3.2 billion
3.5% growth in 2009
4.2% 5-year compound annual growth
$400 per capita
Unemployment: n/a
Inflation (CPI): 11.3%
FDI Inflow: $9.9 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *36.8* — 1.0

The overall business environment remains severely constrained by burdensome regulations and inefficiency. Despite new regulations, continuing instability and a massive, corrupt bureaucracy impede entrepreneurial activity.

TRADE FREEDOM: *78.8* + 10.2

Burundi's weighted average tariff rate was 5.6 percent in 2009. Burundi has joined the East African Community and is lowering its tariffs to bring them in line with other EAC member countries. The trade regime is relatively open, but inadequate administrative capacity, poor infrastructure, and customs corruption add to the cost of trade. Ten points were deducted from Burundi's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *72.3* + 0.1

Burundi has relatively high tax rates. The top income and corporate tax rates are 35 percent. A value-added tax (VAT) replaced the general sales tax on July 1, 2009. In the most recent year, overall tax revenue as a percentage of GDP was 18 percent.

GOVERNMENT SPENDING: *52* + 9.3

In the most recent year, total government expenditures, including consumption and transfer payments, dropped to 40 percent of GDP. The coffee industry, central to the economy, remains in state hands. Spending commitments made under the 2009 Finance Act and promised civil service salary increases will drive the budget further into deficit.

MONETARY FREEDOM: *66.1* + 3.4

Inflation declined significantly from 24.4 percent in 2008 to a still-high 11.3 percent in 2009. A weather-related crop failure, however, has put pressure on food prices. The government influences prices through state-owned enterprises, subsidies, and agriculture-support programs. Ten points were deducted from Burundi's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *55* + 5.0

Foreign and domestic investments receive equal treatment, and foreign investment generally is not subject to government screening. Corruption, underdeveloped markets, the state of post-conflict infrastructure, geographic isolation, and proximity to regional conflicts discourage large foreign investment. In theory, there are no limitations on the flow of funds for remittance of profits, debt service, capital, capital gains, returns on intellectual property, or imported inputs; however, there are no significant foreign enterprises to test the effectiveness of this policy. In principle, there are no restrictions on converting or transferring funds associated with foreign investment; in practice, limitations depend on the availability of hard currency. The government may expropriate property for "exceptional and state-approved reasons," but "a just and prior compensatory allowance is required."

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 168	Investment Freedom	No. 75
Trade Freedom	No. 83	Financial Freedom	No. 133
Fiscal Freedom	No. 124	Property Rights	No. 146
Government Spending	No. 126	Freedom from Corruption	No. 170
Monetary Freedom	No. 154	Labor Freedom	No. 71

FINANCIAL FREEDOM: *30* *no change*

Burundi's underdeveloped financial sector provides a very limited range of services. Retail and corporate banking remain at an early stage of development. Many people still rely on microcredit or informal lending. The state dominates commercial banking. It is not easy for small enterprises to get credit, and the lack of domestic investment opportunities also hinders financial-sector development. Non-performing loans, many to the government and to state-owned enterprises, account for about 19 percent of gross total lending. Banking regulation is bureaucratic and arduous. Other difficulties include the largely inadequate availability of long-term capital and an undeveloped payments system.

PROPERTY RIGHTS: *20* — 5.0

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 are subject to political pressure. A large number of refugees and internally displaced persons are blocked from resettlement by weak land tenure and property rights systems and by the lack of ownership records.

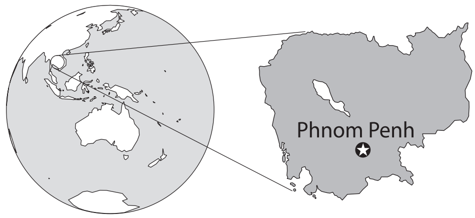
FREEDOM FROM CORRUPTION: *18* — 1.0

Corruption is perceived as pervasive. Burundi ranks 168th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a significant deterioration from 2007. From senior government officials demanding large kickbacks on procurement tenders to low-level civil servants demanding petty bribes for services, licenses, or permits, corruption is present in every area of life. It is most pervasive in government procurement, where the purchase and sale of government property frequently leads to allegations of bribery and cronyism. The ruling party has been accused of using arbitrary arrests, detentions without trial, and even torture against political adversaries.

LABOR FREEDOM: *67.1* + 0.2

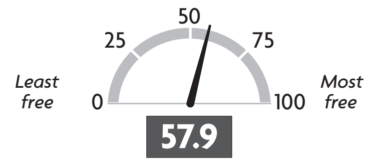
Rigid employment regulations and an underdeveloped labor market hinder productivity growth and job creation. The non-salary cost of employing a worker is low, but enforcement of existing labor regulations is uneven and ineffective.

CAMBODIA

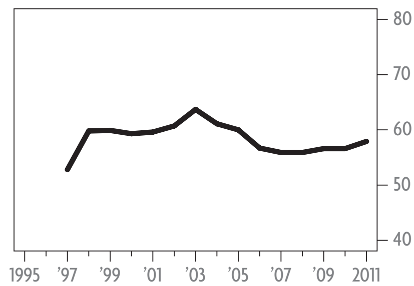


World Rank: **102** Regional Rank: **17**

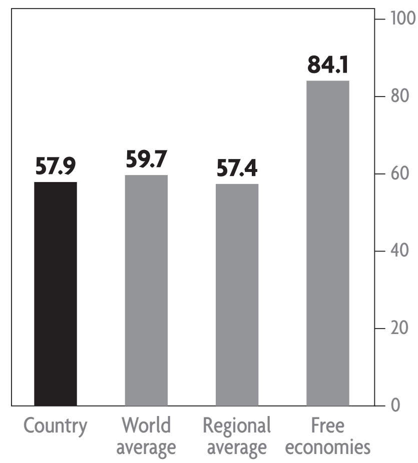
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Cambodia's economic freedom score is 57.9, making its economy the 102nd freest in the 2011 *Index*. Its overall score is 1.3 points better than last year due to improvements in monetary freedom, labor freedom, and freedom from corruption. 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 continues to integrate into the global trading framework and to make progress in reducing poverty. There has been notable reform in the management of public finances, and the trade regime is more open and transparent.

However, lingering institutional weaknesses hamper macroeconomic stability and retard growth. Weak property rights, pervasive corruption, and burdensome bureaucracy continue to hold back economic freedom, and the development of a more independent judicial system remains a key area for reform. The rigidity of the formal labor market is partly responsible for the existence of an underground dual labor market.

BACKGROUND: Cambodia's multigenerational effort to recover from war and the brutal Khmer Rouge regime of Pol Pot continues. An estimated 3 million people were killed by the government or died as a result of the forced evacuation of cities, torture, or starvation between 1975 and 1979. A tribunal established under an agreement with the United Nations to try senior officials involved in the atrocities held its first trial in 2009. Nominally a democracy, Cambodia has been ruled since 1993, either formally or de facto, by Prime Minister Hun Sen, who has held power through elections that outside observers see as flawed. The former Khmer Rouge leader's Cambodian People's Party won again in mid-2008, taking a large majority of the seats in the National Assembly, and Hun Sen was re-elected prime minister. Cambodia's economy is heavily dependent on tourism and garment exports.

Quick Facts

Population: 13.9 million
GDP (PPP): $28.1 billion
–2.5% growth in 2009
6.2% 5-year compound annual growth
$2,015 per capita
Unemployment: 3.5% (2007)
Inflation (CPI): –0.7%
FDI Inflow: $532.5 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *39.5* — *0.4*

The overall freedom to establish and run a business remains constrained by Cambodia's regulatory environment. Measures to modernize commercial codes and facilitate private-sector development have been taken in recent years. In 2009, updated bankruptcy legislation was adopted.

TRADE FREEDOM: *70* *no change*

Cambodia's weighted average tariff rate was 10 percent in 2007. Cambodia has removed most of its non-tariff trade barriers, but import bans and restrictions, discretionary tax levies, non-automatic import licensing, non-transparent government procurement, weak enforcement of intellectual property rights, and inconsistent and cumbersome customs administration add to the cost of trade. Ten points were deducted from Cambodia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *90.9* — *0.1*

Cambodia's tax rates are relatively low. The top income and corporate tax rates are 20 percent. Other taxes include an excise tax and a value-added tax (VAT). In the most recent year, overall tax revenue was 10.5 percent of GDP.

GOVERNMENT SPENDING: *94.2* + *1.3*

In the most recent year, total government expenditures, including consumption and transfer payments, fell to 13.9 percent of GDP. Efforts to reform public financial management continue to target weak budget coordination, execution, and transparency. Spending on the wage bill and defense projects continues to rise. The budget deficit widened to 6 percent of GDP in 2009.

MONETARY FREEDOM: *78* + *7.5*

Inflation declined dramatically from 25 percent in 2008 to a deflationary –0.7 percent in 2009 but rose moderately in 2010 due to some recovery of economic growth and higher global oil prices. The market determines most prices, but the government attempts to maintain stable retail prices for fuel through subsidies. The effectiveness of monetary policy is limited because of the economy's high degree of dollarization. Five points were deducted from Cambodia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *60* *no change*

Foreign capital and domestic capital are generally treated equally, and up to 100 percent foreign ownership is allowed in most sectors. In a few sectors, foreign investment is subject to conditions, local equity participation, or prior authorization. Investment can be hampered by regulatory inconsistencies, corruption, and a non-transparent court system. Privatization of state enterprises and other transactions involving state property have not always been carried out in a transparent manner. There are no restrictions or controls on the holding of foreign exchange accounts by residents or non-residents. Non-residents may lease but not own land. The government may expropriate property only in the public interest and with compensation.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 161	Investment Freedom	No. 62
Trade Freedom	No. 124	Financial Freedom	No. 70
Fiscal Freedom	No. 20	Property Rights	No. 99
Government Spending	No. 4	Freedom from Corruption	No. 160
Monetary Freedom	No. 57	Labor Freedom	No. 143

FINANCIAL FREEDOM: *50* *no change*

Privatization and consolidation have improved banking-sector efficiency. Banking has become more market-oriented, and credit to the private sector has increased to over 10 percent of GDP. The National Bank of Cambodia is solely a regulatory and supervisory agency. Eight commercial banks are now majority-owned by foreign investors. Overall, however, the financial system remains segmented and subject to government influence. Credit is allocated on market terms, but the government influences lending decisions. Non-performing loans have risen over the past two years. There are no bond or securities markets. The government implemented legislation on the issuance and trading of non-government securities in 2007 and plans to establish a stock market.

PROPERTY RIGHTS: *30* *no change*

Cambodia's legal system does not protect private property effectively, and there are many gaps in company law, bankruptcy procedures, and arbitration. The executive branch usually dominates the legislature and 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 April 2010 expands the rights of foreigners to own property.

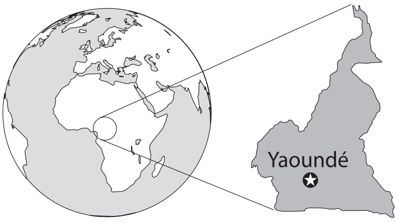
FREEDOM FROM CORRUPTION: *20* + *2.0*

Corruption is perceived as pervasive. Cambodia ranks 158th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Businesspeople, both local and foreign, have identified corruption, particularly within the judiciary, as the single biggest deterrent to investment, and demands for petty bribes are common. Pervasive corruption makes Cambodia highly vulnerable to penetration by drug traffickers and foreign crime syndicates.

LABOR FREEDOM: *46.3* + *2.7*

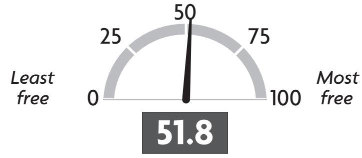
Inflexible employment regulations impede job creation and productivity growth. The non-salary cost of employing a worker is low, but work hours are rigid. Despite efforts at improvement, enforcement of many aspects of the labor codes is not effective.

CAMEROON



World Rank: **136** Regional Rank: **27**

Economic Freedom Score



Cameroon's economic freedom score is 51.8, making its economy the 136th freest in the 2011 *Index*. Its overall score is 0.6 point worse than last year, primarily as a result of declines in freedom from corruption, fiscal freedom, and labor freedom that were not entirely offset by a gain in business freedom. Cameroon is ranked 27th out of 46 countries in the Sub-Saharan Africa region, and its overall score is lower than the regional average.

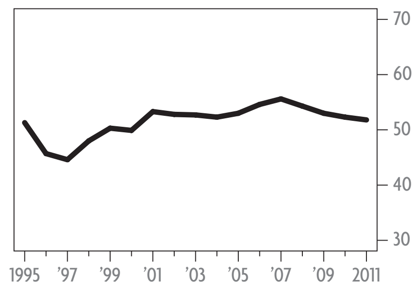
Cameroon's economy, although relatively diversified with services accounting for around 40 percent of GDP, remains dominated by the public sector. The global economic slowdown had a significant impact on growth, and economic development continues to be hampered by the lack of a dynamic private sector.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

The economy lags in many of the 10 economic freedoms. Cameroonian entrepreneurs face lingering systematic challenges that include inefficient bureaucracy, an unreliable legal system, and poor infrastructure. Restrictive regulations hurt employment and productivity growth. Restrictions on trade through non-tariff barriers persist, and the weak judicial system allows pervasive corruption that erodes the potential for long-term economic expansion.

BACKGROUND: President Paul Biya has held office since 1982, and there is little evidence of political reform. In 2008, Biya's supporters in parliament, having won a strong majority in 2007, 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. 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 continues to inhibit development.

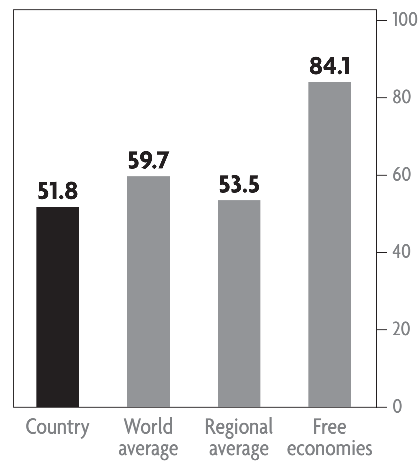
Country's Score Over Time

▲ *More Free* ▼ *Less Free*



Country Comparisons

▲ *More Free* ▼ *Less Free*



Quick Facts

Population: 19.9 million
GDP (PPP): $42.8 billion
2.0% growth in 2009
2.8% 5-year compound annual growth
$2,147 per capita
Unemployment: n/a
Inflation (CPI): 3.0%
FDI Inflow: $337.4 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *44.1* + *6.9*

Cameroon's overall entrepreneurial environment remains hampered by burdensome regulations. The regulatory regime is inefficient and non-transparent. Despite some reforms, requirements for business entry and exit are time-consuming and costly.

TRADE FREEDOM: *59.6* – *0.1*

Cameroon's weighted average tariff rate was 15 percent in 2009. Surcharges and inconsistent customs valuation, import and export restrictions, import and export taxes and fees, import registration and licensing, domestic preference in government procurement, corruption, and inadequate enforcement of intellectual property rights add to the cost of trade. Fifteen points were deducted from Cameroon's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *66.9* – *4.9*

Cameroon has high tax rates but ineffective tax collection. Both the top income tax rate and the top corporate tax rate are 38.5 percent (35 percent plus a 10 percent surcharge). Other taxes include a value-added tax (VAT), a transfer tax on businesses sold, a property tax, and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 18.5 percent. Reforms are underway to broaden the tax base and bring new taxpayers from the informal sector into the system.

GOVERNMENT SPENDING: *89.7* – *3.0*

In the most recent year, total government spending, including consumption and transfer payments, equaled 18.5 percent of GDP. Expenditures are driven primarily by an expanding public wage bill amounting to 5 percent of GDP and by subsidies to SONARA (the national oil refinery) and other state-owned enterprises. Public debt hovers at 9.5 percent of GDP.

MONETARY FREEDOM: *73.3* + *1.4*

Inflation has been moderate, averaging 3.4 percent between 2007 and 2009, and is forecast to continue declining to 1.9 percent in 2010. The regional Banque des Etats de l'Afrique Centrale (BEAC) prioritizes the control of inflation and maintenance of the CFA franc's peg to the euro. The market determines most prices, but the government subsidizes and controls prices for such "strategic" items as rice, flour, consumer goods, agriculture inputs, electricity, water, petroleum products, telecommunications, cooking gas, pharmaceuticals, and cotton. Fifteen points were deducted from Cameroon's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *35* *no change*

Foreign investments face government screening. Corruption, cumbersome bureaucracy, and decision-making delays persist. The government generally maintains a large ownership interest in privatized companies. Dividends, capital returns, interest and principal on foreign debt, lease payments, royalties and management fees, and returns on liquidation can be freely remitted abroad. Liquidation of foreign direct investment must be declared at the Ministry of Finance and the central bank. Residents may open foreign exchange accounts with central bank and Ministry of Finance approval. Many capital transactions, including foreign borrowing, foreign direct investment, liquidation, and foreign securities, are subject to controls and generally require the approval of or declaration to the government. Delay and corruption are encountered in resolving commercial disputes.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 151	Investment Freedom	No. 123
Trade Freedom	No. 161	Financial Freedom	No. 70
Fiscal Freedom	No. 146	Property Rights	No. 99
Government Spending	No. 17	Freedom from Corruption	No. 148
Monetary Freedom	No. 109	Labor Freedom	No. 139

FINANCIAL FREEDOM: *50* *no change*

The cost of financing remains high, and access to credit is very limited in rural areas. There is a wide network of microfinance institutions. Three major banks still dominate the banking sector, and the sector's performance has deteriorated due to lack of transparency and accountability in lending. The largest insurer is foreign-owned, but Cameroonian ownership is increasing. The stock exchange remains small.

PROPERTY RIGHTS: *30* *no change*

Corruption and legal uncertainty can lead to confiscation of private property. Courts and administrative agencies often favor domestic firms and are accused of corruption. Some foreign companies allege that unfavorable judgments are the result of fraud or frivolous lawsuits. Trademarks and copyrights are routinely violated, and software piracy is widespread. Cameroon is ranked 109th out of 125 countries in the 2010 International Property Rights Index.

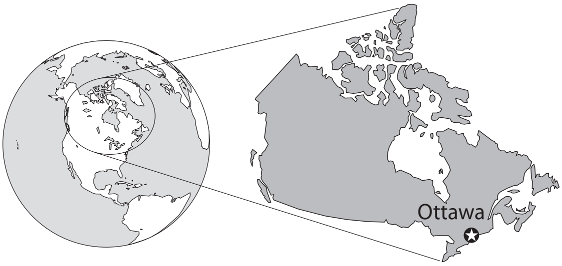
FREEDOM FROM CORRUPTION: *22* – *1.0*

Corruption is perceived as pervasive. Cameroon ranks 146th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Courts and government agencies have been accused of corrupt practices, and there continue to be reports of beatings of detainees, arbitrary arrests, and illegal searches. Despite anti-corruption and good-governance initiatives, legal loopholes and legislative gaps allowing corruption have not been eliminated.

LABOR FREEDOM: *47* – *5.2*

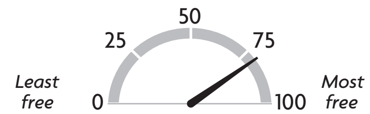
Cameroon's labor market remains inflexible and inefficient, although the overall legal framework for a well-functioning market is in place. The non-salary cost of employing a worker is moderate, and dismissing a redundant employee is not costly.

CANADA



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

Economic Freedom Score



80.8

Canada's economic freedom score is 80.8, making its economy the 6th freest in the 2011 *Index*. Its overall score is 0.4 point higher than last year, reflecting gains in fiscal and monetary freedom. Canada is ranked 1st out of three countries in the North America region.

The Canadian economy continues to sharpen its long-term competitiveness. Scoring high in many of the 10 economic freedoms, Canada performs particularly well in business freedom, financial freedom, property rights, and freedom from corruption. Straightforward regulations and the competitive tax regime facilitate entrepreneurial activity and lure dynamic investment. The corporate tax rate is scheduled to decline further to 15 percent in 2012.

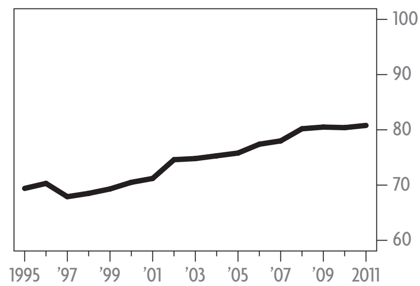
Overall, regulation is thorough but essentially transparent. A strong rule of law ensures property rights and equitable application of the commercial code. Canada has emerged from the global downturn relatively unscathed, and sound public finance management has enabled the economy to undertake stimulus measures without undermining fiscal soundness and competitiveness.

BACKGROUND: Canada's strong and stable democratic political system is currently led by Prime Minister Stephen Harper and a conservative minority government. With rich natural resources and strong manufacturing and high-technology sectors, it is one of the world's leading free-market economies and a major exporter of oil, minerals, automobiles, manufactured goods, and forest products. Nearly 75 percent of its exports are to the United States. Legislation was passed in March 2009, to modernize the Competition Act of 1985, bringing Canadian law more into line with the practices of major trading partners. Canada's energy industry was indirectly affected by the BP oil well spill in the Gulf of Mexico, which led to increasing regulation of offshore oil and gas. Despite some of the most restrictive foreign ownership policies in telecommunications, publishing, broadcasting, aviation, mining, and fishing among all Organisation for Economic Co-operation and Development countries, macroeconomic fundamentals remain strong.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

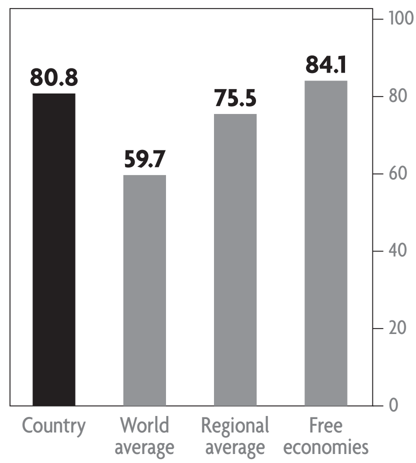
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 33.7 million
GDP (PPP): $1.3 trillion
–2.6% growth in 2009
0.8% 5-year compound annual growth
$38,025 per capita
Unemployment: 8.3%
Inflation (CPI): 0.3%
FDI Inflow: $18.7 billion

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *96.4* — 0.1

Canada's efficient regulatory environment encourages entrepreneurship. The transparent regulatory framework facilitates commercial activity, allowing the processes of business formation and operation to be efficient and dynamic.

TRADE FREEDOM: *88.1* *no change*

Canada's weighted average tariff rate was 1 percent in 2009. Federal and provincial non-tariff barriers, restrictions on imports of domestic "supply managed" agricultural products, export-support programs for industry and agriculture producers, cumbersome standards and import licensing, and weak protection of intellectual property rights add to the cost of trade. Ten points were deducted from Canada's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *78* + 1.3

Canada has moderate tax rates. The top federal income tax rate is 29 percent, and provincial rates range from 10 percent to 24 percent. The general corporate tax rate was reduced to 18 percent from 19.5 percent as of January 1, 2010, with provincial rates ranging from 10 percent to 16 percent. Other taxes include a value-added tax (VAT) and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 32.2 percent.

GOVERNMENT SPENDING: *52.7* — 1.4

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 39.7 percent of GDP. Privatization is widespread, and the government encourages competition even in sectors formerly operated by government or in privately owned monopolies. With a lower debt-to-GDP ratio, Canada was well positioned to finance a significant stimulus plan in the wake of the global downturn.

MONETARY FREEDOM: *78.8* + 3.4

Inflation has been low, averaging 1.0 percent between 2007 and 2009. The market determines most prices, but the government regulates the prices of some utilities, subsidizes industry and agriculture producers, controls prices for some agricultural products, and influences prices through state-owned enterprises. The government controls virtually all prices for health care services through its mandatory "single-payer" nationalized program. Fifteen points were deducted from Canada's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *75* *no change*

Canada treats foreign and domestic capital equally in almost all situations. Large acquisitions by foreign investors must demonstrate a net benefit to be approved by the government. Foreign investment in media, telecommunications, fishing, mining, and aviation is restricted. There are no restrictions on currency transfers, repatriation of profits, or access to foreign exchange. Prince Edward Island, Saskatchewan, and Nova Scotia all limit real estate sales to out-of-province parties. The government may expropriate property but must provide compensation.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 5	Investment Freedom	No. 26
Trade Freedom	No. 8	Financial Freedom	No. 4
Fiscal Freedom	No. 91	Property Rights	No. 2
Government Spending	No. 123	Freedom from Corruption	No. 8
Monetary Freedom	No. 47	Labor Freedom	No. 28

FINANCIAL FREEDOM: *80* *no change*

Canada's financial system is efficient, and the banking sector remains well capitalized despite the challenging environment. The "big six" domestic banks account for around 90 percent of total assets. Revisions of the Bank Act in 2007 focused on streamlining regulation and enhancing consumer protection. Mergers between large banks are restricted, and large banks may not buy large insurance companies. Credit is allocated on market terms. A wide range of well-established non-bank financial companies operate in a prudent business environment. Securities markets are well developed, but the regulatory system remains fragmented. The Montreal and Toronto exchanges merged in May 2008 while maintaining areas of specialization. The banking sector has weathered the global financial turmoil with no need for an injection of state funds.

PROPERTY RIGHTS: *90* *no change*

Private property is well protected. The judiciary is independent, and judges and civil servants are generally honest. Foreign investors have full access to the legal system, and private property rights are limited only by the rights of governments to establish monopolies and expropriate for public purposes. Canada has yet to ratify the World Intellectual Property Organization's Internet Treaties, which it signed in 1997. Enforcement against counterfeiting and piracy is reportedly cumbersome and ineffective.

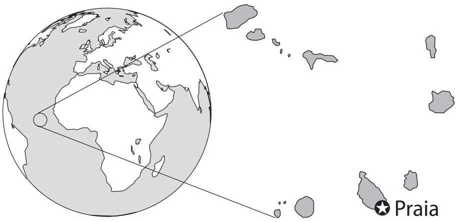
FREEDOM FROM CORRUPTION: *87* *no change*

Corruption is perceived as minimal. Canada ranks 8th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Bribery and other forms of corruption are rare. Canada has signed the U.N. Convention Against Corruption.

LABOR FREEDOM: *81.7* + 0.2

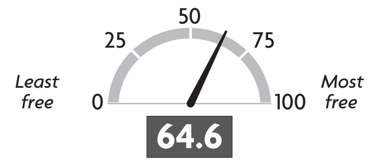
Canada's efficient and flexible labor regulations enhance employment and productivity growth. The non-salary cost of employing a worker is moderate, and dismissing a redundant employee is not burdensome. Rules on work hours are flexible.

CAPE VERDE



World Rank: **65** Regional Rank: **3**

Economic Freedom Score



Cape Verde's economic freedom score is 64.6, making its economy the 65th freest in the 2011 *Index*. Its overall score is 2.8 points better than last year, as a result of notable improvements in six of the 10 economic freedoms. Cape Verde is ranked 3rd out of 46 countries in the Sub-Saharan Africa region, and its overall score is much higher than the regional average.

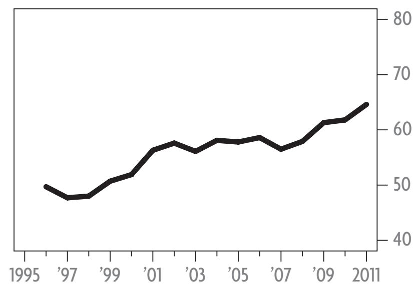
Strong economic performance reflects Cape Verde's commitment to reform. Growth exceeds 4 percent, and infrastructure investments and trade liberalization have improved the entrepreneurial environment. Cape Verde scores relatively well in financial freedom, investment freedom, and especially property rights, which are strongly protected by the rule of law in comparison to other countries in the region. Individual and corporate income tax rates have been reduced.

However, lingering challenges could derail the transition to a more vibrant economy. Inefficient state-owned enterprises continue to undermine productivity growth and long-term competitiveness. Revised labor regulations are meant to make the labor market more flexible, but given the large informal sector, their effect has been uneven.

BACKGROUND: Cape Verde, a West African archipelago, is a multi-party parliamentary democracy, and its government is considered one of Africa's most stable. The country 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. The World Bank notes that remittances from the many Cape Verdeans who live abroad declined in 2007 and 2008. Cape Verde joined the World Trade Organization in 2008.

Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

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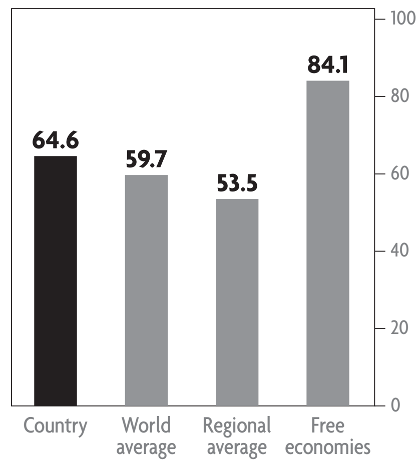


Quick Facts

Population: 0.5 million
GDP (PPP): $1.8 billion
4.1% growth in 2009
7.1% 5-year compound annual growth
$3,588 per capita
Unemployment: n/a
Inflation (CPI): 1.2%
FDI Inflow: $119.6 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *64.8* ✚ *1.5*

Cape Verde's 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.

TRADE FREEDOM: *67.6* ✚ *2.1*

Cape Verde's weighted average tariff rate was 11.8 percent in 2009. Cape Verde joined the World Trade Organization in 2008. There are no formal non-tariff trade barriers, but services market access restrictions, import fees, inefficient regulatory and customs processes, non-transparent sanitary and phytosanitary regulations, state trade in certain products, weak enforcement of intellectual property rights, and export incentives add to the cost of trade. Ten points were deducted from Cape Verde's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *77.3* ✚ *11.7*

Cape Verde has a high income tax rate and a moderate corporate tax rate. 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 special consumption tax. In 2009, the VAT on cereals and the stamp duty on sales and checks were abolished. In the most recent year, tax revenue as a percentage of GDP was 20.6 percent.

GOVERNMENT SPENDING: *71* ✚ *5.7*

Poorly run nationalized companies have become financial burdens. Restructuring of the national airline and electric companies has not progressed significantly. In the most recent year, total government expenditures, including consumption and transfer payments, declined to 31.1 percent of GDP. Public debt has grown to 4.7 percent of GDP.

MONETARY FREEDOM: *79.2* ✚ *4.7*

Inflation is moderately high, averaging 2.9 percent between 2007 and 2009. The market determines most prices, but the government controls the prices of water and electricity and regulates some others, including those for petroleum products and basic food items. Ten points were deducted from Cape Verde's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *60* *no change*

Foreign investment is officially encouraged and receives the same treatment as domestic investment. Most sectors are open, but all foreign investment requires prior authorization. The government has simplified and expedited registration, and privatization efforts are open to foreign investors. Cumbersome and time-consuming bureaucracy and inadequate institutional capacity and infrastructure undermine investment. Residents and non-residents may hold foreign exchange accounts, subject to some restrictions. Most capital transactions are permitted but are also subject to advance approval by the central bank or other controls.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 94	Investment Freedom	No. 62
Trade Freedom	No. 136	Financial Freedom	No. 38
Fiscal Freedom	No. 98	Property Rights	No. 38
Government Spending	No. 88	Freedom from Corruption	No. 45
Monetary Freedom	No. 44	Labor Freedom	No. 133

FINANCIAL FREEDOM: *60* *no change*

Cape Verde's financial sector has expanded, albeit from a low base. The highly concentrated sector is dominated by two commercial banks that account for more than 70 percent of assets and deposits. Credit is generally allocated on market terms and is available to foreign and domestic investors without discrimination. Credit to the private sector has climbed to around 50 percent of GDP. The non-performing loan ratio has improved significantly. The financial sector has been strengthened by improved regulations. New financial instruments including tax-free government bonds have been introduced. The government remains active in financial institutions that handle public investment and international aid. The legal and institutional framework for the Cape Verde Stock Exchange has been strengthened, and the stock market has been reinvigorated with increasing market capitalization. During the first half of 2010, a new bank, Novo Banco, was established to bring more of the population into the formal economy along with small and medium enterprises that do not have adequate access to financing.

PROPERTY RIGHTS: *65* *no change*

Private property is fairly well protected. The constitutional provision for an independent judiciary is generally respected, but the judicial system is overburdened, understaffed, and inefficient. The case backlog leads to delays of six months or more. Several recently signed treaties provide protection for intellectual property.

FREEDOM FROM CORRUPTION: *51* *no change*

Corruption is perceived as significant. Cape Verde ranks 46th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Its political and economic governance is generally regarded as Africa's third best, behind Botswana and South Africa. The economy is about 40 percent informal. Customs corruption is criminally punishable.

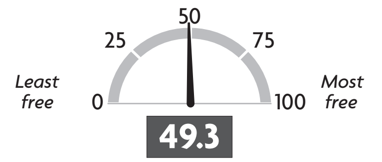
LABOR FREEDOM: *50* ✚ *1.9*

Employment regulations remain rigid despite reform efforts. The non-salary cost of employing a worker is moderate, but the cost of dismissing a worker is relatively high. A recent labor reform aimed at increasing flexibility and competitiveness has not produced significant benefits.

CENTRAL AFRICAN REPUBLIC

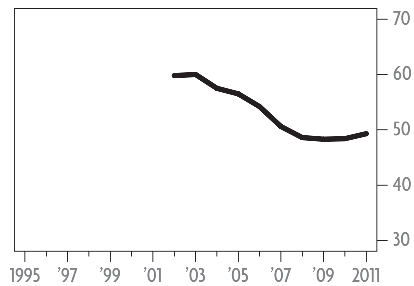
World Rank: 152 | **Regional Rank: 34**

Economic Freedom Score



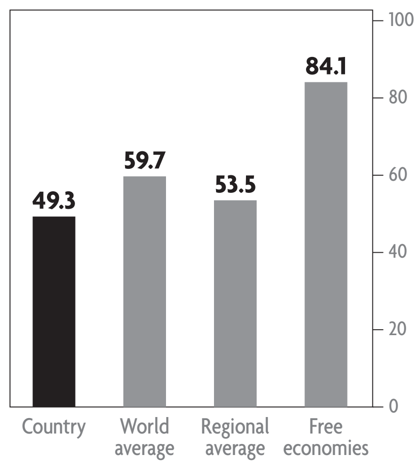
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 4.4 million
GDP (PPP): $3.3 billion
1.7% growth in 2009
2.8% 5-year compound annual growth
$745 per capita
Unemployment: n/a
Inflation (CPI): 3.5%
FDI Inflow: $42.3 million

2009 data unless otherwise noted.
Data compiled as of September 2010.

The Central African Republic's economic freedom score is 49.3, making its economy the 152nd freest in the 2011 *Index*. Its overall score is 0.9 point higher than last year, primarily because of an improved investment freedom score. The CAR is ranked 34th out of 46 countries in the Sub-Saharan Africa region, and its overall score is lower than the regional average.

Only marginal progress has been made in developing a more dynamic climate for entrepreneurial activity. Inflation has been contained, but the government still intervenes in the prices of certain goods. Improved fiscal governance and more efficient government services are critical needs. The informal economy provides a large number of jobs for relatively unskilled labor.

The Central African Republic scores very poorly on such institutional factors as business and investment climate, labor market flexibility, and taxation. Taxes are burdensome, and despite some progress, the overall regulatory framework remains time-consuming and costly. Weak rule of law and pervasive corruption seriously impede economic development.

BACKGROUND: The Central African Republic has a history of political instability. General François Bozizé overthrew the civilian government in 2003 and won the 2005 election. Fighting between rebels and government troops in the North has displaced tens of thousands of people. A December 2008 agreement between Bozizé, 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 June 2010 expiration of their terms. Rebel groups remain active, and unrest in Sudan and the Democratic Republic of Congo continues to affect the CAR's security. In March 2009, an EU peacekeeping force was replaced by the U.N. mission in the CAR and Chad. 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.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *36.8* — 0.7

The Central African Republic's inefficient regulatory environment, coupled with a severe lack of transparency, continues to hamper much-needed development of private enterprises. Establishing a business has become less time-consuming, but other regulatory requirements remain burdensome and opaque, increasing the cost of conducting business.

TRADE FREEDOM: *58.1* *no change*

The Central African Republic's weighted average tariff rate was 13.5 percent in 2007. Limits on imports of sugar and coffee, import and export taxes, inappropriate customs valuation for certain imports, inadequate infrastructure, weak regulatory and customs administration, and customs fraud and inefficiency add to the cost of trade. Fifteen points were deducted from the CAR's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *65.4* — 0.1

The Central African Republic has a high income tax rate and a moderate corporate tax rate. 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). In the most recent year, overall tax revenue as a percentage of GDP was 7.9 percent.

GOVERNMENT SPENDING: *92.8* — 1.3

In the most recent year, total government expenditures, including consumption and transfer payments, have risen slightly to 15.5 percent of GDP. Energy remains under state control. Although better fiscal management remains a top reform priority, authorities have been able to control spending, clear arrears, and avoid large domestic borrowing. Some investment spending has been delayed to help hold down costs.

MONETARY FREEDOM: *71.3* + 3.0

Inflation has moderated, averaging 4.7 percent between 2007 and 2009, although inflationary pressures are expected to return as rising government spending drives an increase in domestic consumption. The government influences most prices through the public sector, subsidies, and price controls on 17 food staples, coffee, cotton, electricity, water, and petroleum. Fifteen points were deducted from the CAR's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *50* + 10.0

Foreign and domestic investors are treated equally, and all sectors of the economy, including real estate, are open to foreign investment. A weak security environment, non-transparent and corrupt bureaucracy, and inadequate infrastructure are significant deterrents. Residents may hold foreign exchange accounts. All capital transactions, transfers, and payments to countries other than certain regional nations, France, and Monaco are subject to government approval and reporting requirements. Sale or issue of capital market securities and commercial credits likewise requires government approval.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 166	Investment Freedom	No. 94
Trade Freedom	No. 165	Financial Freedom	No. 133
Fiscal Freedom	No. 151	Property Rights	No. 146
Government Spending	No. 7	Freedom from Corruption	No. 160
Monetary Freedom	No. 129	Labor Freedom	No. 137

FINANCIAL FREEDOM: *30* *no change*

The CAR's 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. Regulation and supervision are inadequate. The banking sector is used to finance government expenditures, and the accumulation of state debt and lack of promised credits have undermined the system. Overall, the quality of bank performance is very poor due to the heavy burden of bad loans that have been accumulated over the years. The regional Central African Economic and Monetary Community countries share a common central bank and a common currency pegged to the euro. The two largest commercial banks, Banque Internationale pour le Centrafrique and Commercial Bank Centrafrique, have been privatized, but the Banque Populaire Maroco-Centrafricaine is still partly government-owned.

PROPERTY RIGHTS: *20* *no change*

Most of the countryside is not under government control. Protection of property rights is weak. The constitution has been suspended, allowing the president to rule by decree. Judges are appointed by the president, and the judiciary is subject to executive interference. Because of inefficient administration, a shortage of trained personnel, growing salary arrears, and a lack of material resources, the courts are barely functioning.

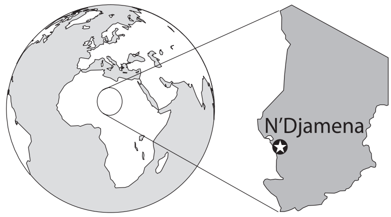
FREEDOM FROM CORRUPTION: *20* *no change*

Corruption is perceived as pervasive. The Central African Republic ranks 158th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Informal market activity and smuggling, especially in diamonds, are extensive. Misappropriation of public funds and corruption are widespread, and government officials can engage in corrupt practices with impunity. The formal sector has contracted significantly because of regulation and corruption, and a large part of the population works informally. The police and the judiciary are reportedly among the country's most corrupt institutions.

LABOR FREEDOM: *48.2* — 2.5

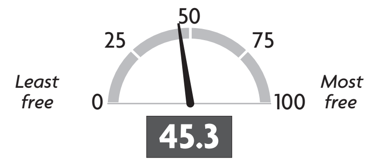
Rigid labor regulations continue to hinder employment and productivity growth. The high cost of laying off workers creates a disincentive for employment expansion.

CHAD

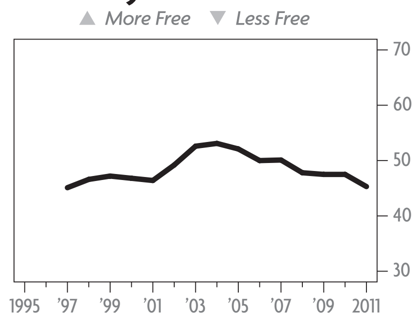


World Rank: **165** Regional Rank: **41**

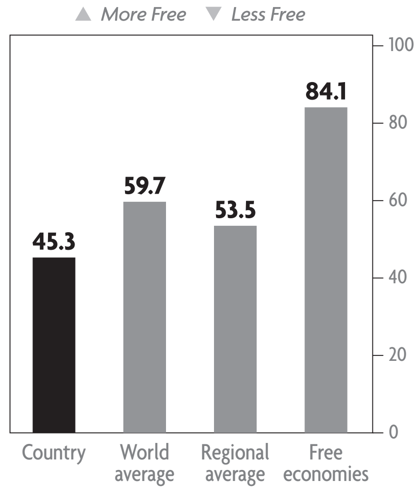
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Chad's economic freedom score is 45.3, making its economy the 165th freest in the 2011 *Index*. Its overall score fell 2.2 points with considerable declines in business and monetary freedom. Chad is ranked 41st out of 46 countries in the Sub-Saharan Africa region, and its overall score is lower than the regional average.

Chad performs poorly in many of the 10 economic freedoms, and development of a dynamic entrepreneurial environment is nearly stalled. Market volatility has hurt the economy, which is overly dependent on oil. Chad lags far behind many other similarly situated countries in terms of economic and human development.

The efficiency and quality of government remain poor. Inflationary pressures undermine monetary stability, and government interference with market prices is extensive. Regulation is burdensome, and the labor market is underdeveloped. Protection of property rights remains weak, and corruption is rampant.

BACKGROUND: President Idriss Deby seized power in 1990 and in 2006 won a third term in an election that was boycotted by the main opposition parties. The next presidential elections are expected in May 2011. 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. Conflict in eastern Chad and unrest in Sudan's Darfur region have created hundreds of thousands of Chadian and Sudanese refugees, and each country has accused the other of supporting rebels in its territory. In March 2009, a European Union peacekeeping force was replaced by the U.N. mission in the Central African Republic and Chad. Chad is thinly populated, landlocked, unstable, and impoverished; over 80 percent of its people depend on subsistence agriculture, herding, and fishing. Investments in oil since 2001 by the United States and China and oil revenues since 2003 have fueled economic growth, and oil now accounts for about half of GDP.

Quick Facts

Population: 10 million
GDP (PPP): $16.1 billion
–1.6% growth in 2009
–0.4% 5-year compound annual growth
$1,612 per capita
Unemployment: n/a
Inflation (CPI): 10.1%
FDI Inflow: $461.8 million

2009 data unless otherwise noted.
Data compiled as of September 2010.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *25.3* — *7.4*

Much-needed private-sector development is held back by an inefficient and unstructured regulatory system. Starting a business takes almost twice the world average of 35 days, and the cost of establishing a business remains quite high.

TRADE FREEDOM: *55.6* — *2.8*

Chad's weighted average tariff rate was 14.7 percent in 2009. Import and export restrictions, import fees, inappropriate customs valuation for some products, a non-transparent customs code, weak enforcement of intellectual property rights, non-transparent government procurement, subsidies, corruption, and inefficient customs administration add to the cost of trade. Fifteen points were deducted from Chad's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *50.4* — *0.1*

Chad has very high tax rates. 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), a property tax, and an apprenticeship tax. In the most recent year, overall tax revenue as a percentage of GDP was 5.3 percent.

GOVERNMENT SPENDING: *85.3* — *3.9*

In the most recent year, total government expenditures, including consumption and transfer payments, rose slightly to 22.1 percent of GDP. Privatization has slowed, and the state retains control of cotton, water, and electricity. Chad's economy is highly vulnerable to changes in the price of oil. The non-oil deficit has surpassed 25 percent of GDP. A law passed in July 2009 allowed the government to revamp the budget, but normal budget procedures continue to be disregarded.

MONETARY FREEDOM: *70.6* — *6.1*

Inflation has been rising, averaging 9.4 percent between 2007 and 2009. The Banque des Etats de l'Afrique Centrale maintains the CFA franc's peg to the euro. Most prices are determined in the market, but the government influences prices through state-owned enterprises and regulation of such key goods and services as cotton, telecommunications, water, road transportation, and energy. Ten points were deducted from Chad's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *45* *no change*

Chad allows foreign ownership of enterprises and provides equal treatment to foreign investors, subject to bureaucratic requirements and restrictions in some sectors. Investment is inhibited by inadequate infrastructure and technical expertise, burdensome taxes, underdeveloped markets, weak dispute mechanisms, and corruption. Bureaucracy is burdensome and non-transparent and can be arbitrary. Residents and non-residents may hold foreign exchange accounts with government approval. Capital transactions, payments, and transfers to certain countries are subject to some controls and restrictions. Crime and violence are additional barriers to investment.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 174**	Investment Freedom	**No. 103**
Trade Freedom	**No. 168**	Financial Freedom	**No. 106**
Fiscal Freedom	**No. 172**	Property Rights	**No. 146**
Government Spending	**No. 40**	Freedom from Corruption	**No. 177**
Monetary Freedom	**No. 138**	Labor Freedom	**No. 146**

FINANCIAL FREEDOM: *40* *no change*

The small financial system continues to suffer from weak market infrastructure and legal and judicial frameworks. Chad and the five other countries in the Central African Economic and Monetary Community share a common central bank and a common currency pegged to the euro. Significant banking privatization has been completed, and there are now five commercial banks. However, informal financial services are common, and supervision and regulation remain insufficient and increasingly outmoded. Difficult access to credit and its high cost hinder private-sector development. Small and medium-size enterprises rely mainly on self-financing or mutual aid systems. There are no capital or money markets.

PROPERTY RIGHTS: *20* *no change*

Protection of private property is weak. It is widely felt that the courts should be avoided at all costs, and most disputes are settled privately. The constitution guarantees judicial independence, but most key judicial officials are named by the president and assumed to be subject to political influence. Legal clerks often obstruct procedures in order to elicit bribes. Chad is ranked 121st out of 125 countries in the 2010 International Property Rights Index.

FREEDOM FROM CORRUPTION: *16* *no change*

Corruption is perceived as rampant. Chad ranks 175th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Despite a "Ministry of Morality" that conducts anti-corruption seminars for government employees, corruption exists at all levels of government. It may be most pervasive in the customs and tax enforcement services, but it is notable in the judiciary and government procurement as well. The government actively obstructs the work of domestic human rights organizations through arrest, detention, and intimidation.

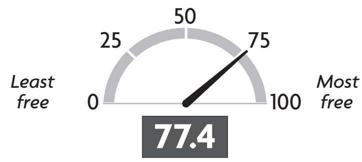
LABOR FREEDOM: *44.8* — *2.1*

Burdensome employment regulations hinder job creation and productivity growth. The non-salary cost of employing a worker is high, and dismissing a redundant employee is relatively costly. The labor market is mostly informal, and the workforce remains mostly unskilled.

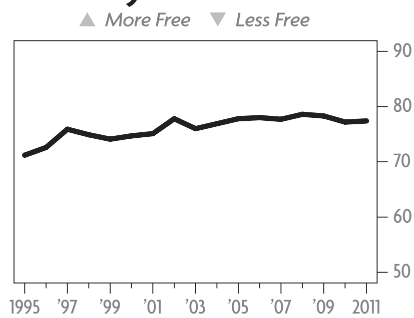
CHILE

World Rank: **11** Regional Rank: **1**

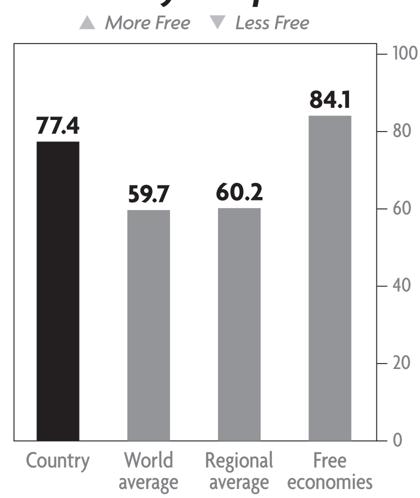
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Chile's economic freedom score is 77.4, making its economy the 11th freest in the 2011 *Index*. Its overall score is 0.2 point better than last year due to improved scores in business freedom and monetary freedom. Chile enjoys the highest degree of economic freedom in the South and Central America/Caribbean region.

The Chilean economy has demonstrated great resilience in coping with the global economic downturn and the February 2010 earthquake. With openness to global trade and investment firmly established, economic recovery has resumed at a steady pace, and the earthquake caused only a transitory dip in Chile's healthy economic growth.

Chile's dynamic economy has long reflected a solid commitment to economic freedom. Chile has pursued free trade agreements with countries around the world. The financial system remains stable, and prudent regulations allowed banks to withstand the global financial turmoil with little disruption. Other institutional strengths include sound public finance management and strong protection of property rights. There is room for improvement in business and labor freedom.

BACKGROUND: From 1990–2009, left-of-center governments largely maintained the market-based institutions and policies established under the 17-year rule of General Augusto Pinochet. In March 2010, President Sebastian Piñera and his center-right Alianza coalition in Congress assumed power. Chile is the world's leading producer of copper, and exports of minerals, wood, fruit, seafood, and wine drive GDP growth. Under a rule-based, countercyclical fiscal policy, Chile accumulates surpluses when copper prices and economic growth are high and operates in deficit only when copper prices and economic activity are in decline. Chile belongs to the Asia–Pacific Economic Cooperation forum and has signed or is negotiating trade agreements with China and other Pacific Rim countries to supplement its agreement with the U.S. In 2010, Chile became the first South American country to join the Organisation for Economic Co-operation and Development.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Quick Facts

Population: 17 million
GDP (PPP): $243.6 billion
–1.5% growth in 2009
2.8% 5-year compound annual growth
$14,341 per capita
Unemployment: 10.8%
Inflation (CPI): 1.7%
FDI Inflow: $12.7 billion

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 84	Investment Freedom	No. 14
Trade Freedom	No. 9	Financial Freedom	No. 17
Fiscal Freedom	No. 93	Property Rights	No. 17
Government Spending	No. 35	Freedom from Corruption	No. 25
Monetary Freedom	No. 58	Labor Freedom	No. 48

BUSINESS FREEDOM: *67.2* — *+ 2.4*

Chile's overall regulatory framework facilitates entrepreneurial activity and productivity growth. However, barriers to market entry remain, and bankruptcy procedures are cumbersome and costly.

TRADE FREEDOM: *88* — *no change*

Chile's weighted average tariff rate was 1 percent in 2008. Adequate protection of intellectual property rights remains a concern. Approval requirements and stringent sanitary and phytosanitary regulations on imports of agricultural products and processed food, an import ban on used vehicles, and export subsidies for some sectors add to the cost of trade. Ten points were deducted from Chile's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *77.7* — *+ 0.2*

Chile's income tax rate is well above average, but its corporate tax rate is well below average. The top income tax rate is 40 percent, and the top standard corporate tax rate is 17 percent. Other taxes include a value-added tax (VAT) and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 18.6 percent.

GOVERNMENT SPENDING: *86.6* — *– 3.0*

In the most recent year, total government expenditures, including consumption and transfer payments, increased to 21.1 percent of GDP. Large fiscal savings and exemplary public financial management have allowed Chile to weather the international crisis. In January 2009, authorities announced a stimulus package equaling 2.9 percent of GDP, including substantial subsidies, social transfers, and tax reform measures.

MONETARY FREEDOM: *77.9* — *+ 4.9*

Inflation has been moderate, averaging 3.6 percent between 2007 and 2009, and is expected to remain at that level even as the rebound in domestic demand accelerates due to reconstruction from the February 2010 earthquake. Many prices are determined in the market, but the government controls prices for utilities, and price bands for certain agricultural products remain in effect. Ten points were deducted from Chile's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *80* — *no change*

Foreign and domestic investments generally receive equal treatment. Foreigners may invest in most sectors of the economy. Regulation tends to be transparent and efficient. Residents and non-residents may hold foreign exchange accounts, and there are no restrictions on repatriation. There are few controls on current transfers and capital transactions. The government can expropriate property for public or national interests on a non-discriminatory basis and in accordance with due process of law if immediate compensation at full market value is provided.

FINANCIAL FREEDOM: *70* — *no change*

The banking system has withstood the global financial turmoil well because of prudential lending and sound regulations. Chile's financial system remains one of the region's most stable and developed. Reforms that affected capitalization requirements and shareholder obligations have increased competition and widened the range of operations. Foreign and domestic banks compete on an equal footing. The four largest banks control about 65 percent of total assets. The state-owned Banco Estado is Chile's third largest bank and accounts for about 15 percent of assets. Credit is issued on market terms. Chile's liberal capital market is the region's largest. Legislation to enhance access to financing for individuals and firms was passed in April 2009. In May 2010, a new package of capital market reforms was announced.

PROPERTY RIGHTS: *85* — *no change*

Private property is well protected. Contracts are secure, and courts are transparent and efficient. Expropriation is rare, and owners receive compensation. Intellectual property rights laws and regulations are substantively deficient, and IPR enforcement is inadequate. Principal concerns involve protection of pharmaceutical patents and test data and copyright piracy of movies, music, and software. Chile has ratified the Patent Cooperation Treaty, which came into force in June 2009.

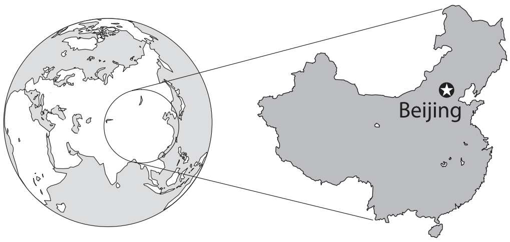
FREEDOM FROM CORRUPTION: *67* — *– 2.0*

Corruption is perceived as minimal. Chile ranks 25th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Contractual agreements are the most secure in Latin America, and local public administration is generally considered honest. Nevertheless, the ruling coalition is increasingly accused of corruption. In 2009, as part of the OECD accession process, Chile passed a law that completed the implementation of its Anti-Bribery Convention obligations. Chile has ratified the Organization of American States Convention Against Corruption. Judicial corruption is rare.

LABOR FREEDOM: *74.5* — *– 0.9*

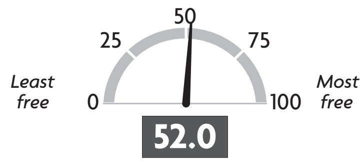
The non-salary cost of employing a worker is low, but the severance payment system remains relatively costly. With minimum wage increases exceeding overall productive growth, the labor market has become more rigid.

CHINA



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

Economic Freedom Score



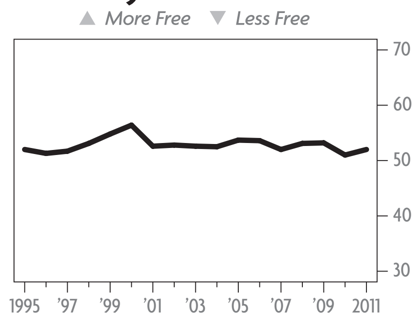
China's economic freedom score is 52, making its economy the 135th freest in the 2011 *Index*. Its overall score is one point higher than last year, reflecting small improvements in monetary freedom, investment freedom, and labor freedom that offset declining scores for trade freedom and government spending. China is ranked 29th out of 41 countries in the Asia–Pacific region, and its overall score is lower than the global and regional averages.

China's economy has emerged largely unscathed from the global financial crisis and recession. The government has made expansionary fiscal and monetary interventions to counter the slowdown in international demand, and the export sector and government infrastructure investment continue to be the main drivers of economic expansion.

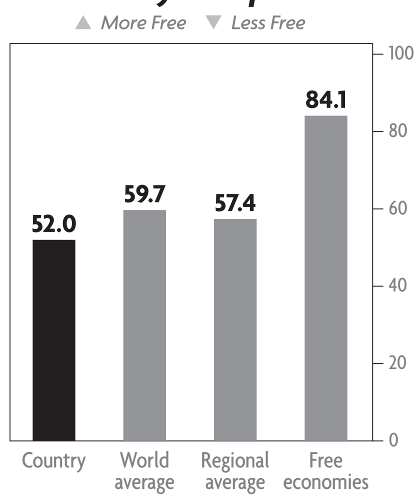
The Communist Party, though allowing some economic movements in response to market forces, still maintains ultimate authority over virtually all economic decision-making. The state-controlled financial sector often allocates credit based on political criteria, undermining economic efficiency and productivity. Beyond sporadic attempts to facilitate nominal openness to foreign investment or to imply currency market liberalization, recent years have seen the virtual cessation of economic reform and an absence of political will to undertake more fundamental restructuring.

BACKGROUND: China has liberalized parts of its economy to a notable degree since the late 1970s. It joined the World Trade Organization in 2001, and its industrial and manufacturing sector is now second in size only to that of the United States. At the same time, China remains a one-party state in which the Communist Party maintains tight control of political expression, speech, religion, and assembly. Any social group that can organize on a large scale is deemed a threat, as are many individual dissidents. The government is struggling to manage environmental degradation, demographic instability, and the world's largest-ever migration from rural to urban areas, all of which contribute to social unrest.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 1.3 billion
GDP (PPP): $8.8 trillion
8.7% growth in 2009
10.7% 5-year compound annual growth
$6,567 per capita
Unemployment: 4.3%
Inflation (CPI): –0.7%
FDI Inflow: $95.0 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *49.8* ✚ *0.1*

The government has allowed some business freedom, but the overall regulatory framework lacks transparency and remains complex, arbitrary, and unevenly implemented. Enforcement of regulations can be ineffective, hampered by petty corruption and bureaucracy.

TRADE FREEDOM: *71.6* ━ *0.6*

China's weighted average tariff rate was 4.2 percent in 2009. China has gradually been opening its market to international trade, but import and export bans and restrictions, import and export licensing, non-transparent tariff classifications, complex regulations and standards, subsidies, state trading in certain goods, services market restrictions, issues involving the protection of intellectual property rights, and inconsistent and corruption-prone customs administration add to the cost of trade. Twenty points were deducted from China's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *70.3* ✚ *0.1*

The top income tax rate is 45 percent, and the top corporate tax rate is 25 percent. The government encourages new-technology businesses with a corporate rate of 15 percent and grants small businesses a rate of 20 percent. Other taxes include a value-added tax (VAT) and a real estate tax. In the most recent year, overall tax revenue as a percentage of GDP was 18 percent.

GOVERNMENT SPENDING: *87* ━ *1.1*

In the most recent year, central government expenditures, including consumption and transfer payments, held steady at 20.8 percent of GDP. State ownership persists in most sectors. Mergers have been more frequent than divestments. Government-issued bonds will cover 25 percent of fiscal stimulus spending; the rest will be financed by local governments and loans from state-owned banks. The fiscal deficit is 2.8 percent of GDP, and central government debt is about 30 percent of GDP.

MONETARY FREEDOM: *75.3* ✚ *4.7*

Inflation has been relatively low, averaging 2.3 percent between 2007 and 2009. The market determines the prices of most traded products, but the government maintains prices for energy and agricultural products and other "essential" goods, now including pharmaceuticals. Subsidies allow state-owned enterprises to produce and sell goods to wholesalers and retailers at artificially low prices. Fifteen points were deducted from China's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *25* ✚ *5.0*

The government has the authority to restrict or deny foreign investment. Investors face regulatory non-transparency, complex and inconsistently enforced laws and regulations, weak protection of intellectual property rights, corruption, industrial policies protecting local firms, and a legal system that cannot guarantee the sanctity of contracts. Foreign investors may access foreign exchange for current account transactions like repatriating profits, but capital account transactions are tightly regulated. Chinese law prohibits nationalization of foreign investment except under "special" circumstances, and compensation is required. New rules adopted in 2009 explicitly allow foreigners to participate in partnerships.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 144	Investment Freedom	No. 146
Trade Freedom	No. 118	Financial Freedom	No. 133
Fiscal Freedom	No. 129	Property Rights	No. 146
Government Spending	No. 31	Freedom from Corruption	No. 79
Monetary Freedom	No. 91	Labor Freedom	No. 115

FINANCIAL FREEDOM: *30* *no change*

The state continues to control the financial system as its primary tool 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. China has only two private banks; four state-owned banks account for over 50 percent of total assets. Since joining the WTO, China has gradually removed barriers to foreign banks, but cumbersome capital requirements remain. Foreign banks account for less than 2 percent of total assets. Foreign participation in capital markets remains limited. Expanding access to financial services remains a challenge.

PROPERTY RIGHTS: *20* *no change*

China's judicial system is weak, and many companies resort to arbitration. Local officials can ignore court decisions with impunity. All land is state-owned, but individuals and firms may own and transfer long-term leases (subject to many restrictions) as well as structures and personal property. Chinese courts have an inconsistent record in protecting the legal rights of foreigners. Intellectual property rights are not enforced effectively. Copyrights, patents, brand names, trademarks, and trade secrets are routinely stolen.

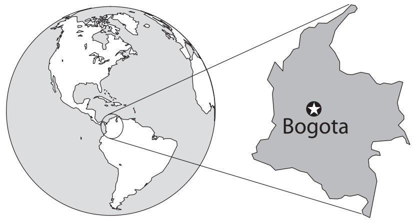
FREEDOM FROM CORRUPTION: *36* *no change*

Corruption is perceived as widespread. China ranks 79th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption affects banking, finance, government procurement, and construction most severely, and there is a lack of independent investigative bodies and courts.

LABOR FREEDOM: *54.9* ✚ *1.7*

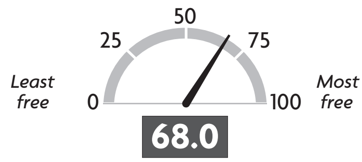
Rigid labor regulations still hinder overall employment and productivity growth, though enforcement is poor. The labor law introduced in 2008 allows employees more contractual rights. Dismissing employees may require prior consultation with local labor bureaus and labor unions.

COLOMBIA



World Rank: **45** Regional Rank: **7**

Economic Freedom Score



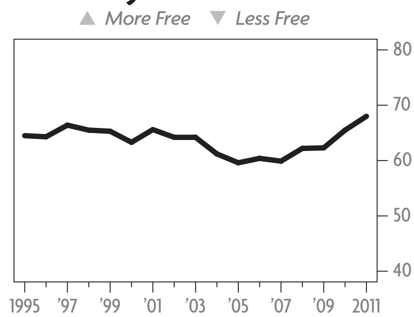
Colombia's economic freedom score is 68, making its economy the 45th freest in the 2011 *Index*. Its overall score is 2.5 points higher than last year, reflecting improved scores for business, investment, labor freedom, and government spending. Colombia is ranked 7th out of 29 countries in the South and Central America/Caribbean region and is one of the most improved economies in the 2011 *Index*.

Despite the economic slowdown in 2009, Colombia continues to maintain strong economic fundamentals, including macroeconomic stability and openness to global trade and finance. With a relatively sound economic policy framework, the economy has expanded at an average of over 4 percent annually over the past five years. Recent reforms have focused on improving regulation and fostering a stronger private sector.

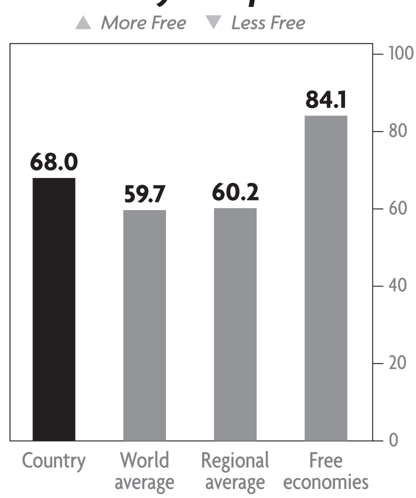
Further growth in economic freedom in Colombia will require deeper institutional reforms that include better protection of property rights and a stronger judicial system. Corruption remains considerable in many sectors of the economy, and the relatively high marginal tax rates encourage tax evasion.

BACKGROUND: Colombia is one of South America's oldest continuous democracies. President Alvaro Uribe, elected in 2002 and re-elected in 2006, made national security a priority by prosecuting a war against both the left-wing Revolutionary Armed Forces of Colombia and ELN and the right-wing paramilitary. In cooperation with the U.S., he also waged a vigorous war on narcotics trafficking. Over his tenure, peace was restored to large areas of the country and unemployment dropped significantly. On June 20, 2010, former Defense Minister Juan Manuel Santos won a run-off election with 64 percent of the vote, vowing to preserve "democratic security" and advance economic growth. The economy depends heavily on exports of petroleum, coffee, and cut flowers. A U.S.–Colombia free trade agreement that would encourage economic diversification and growth has not been pushed to ratification by the current U.S. Administration.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 45 million
GDP (PPP): $402.0 billion
0.1% growth in 2009
4.2% 5-year compound annual growth
$8,936 per capita
Unemployment: 12.0%
Inflation (CPI): 4.2%
FDI Inflow: $7.2 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *86.1* + *2.5*

The efficiency of the overall business environment has been aided by simplified procedures for establishing and running a business. The regulatory framework is generally conducive to private business activity.

TRADE FREEDOM: *73.2* + *0.7*

Colombia's weighted average tariff rate was 8.4 percent in 2009. Import bans and restrictions, import price bands for certain goods, services market access limits, restrictive standards and regulations, restrictive import licensing, issues involving the enforcement of intellectual property rights, non-transparent customs administration and valuation, export-promotion programs, and corruption add to the cost of trade. There are limits on foreign companies' eligibility for government procurement contracts. Ten points were deducted from Colombia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *74.5* + *0.2*

The top income and corporate tax rates are 33 percent. Other taxes include a value-added tax (VAT) and a financial transactions tax. In the most recent year, overall tax revenue as a percentage of GDP was 19.3 percent. Tax evasion, though on the decline, is still relatively high. Many investment tax incentives are available.

GOVERNMENT SPENDING: *78.9* + *4.1*

In the most recent year, total government expenditures, including consumption and transfer payments, fell to 26.5 percent of GDP, reflecting budget underspending. Public debt is roughly 35 percent of GDP but could grow with court-mandated spending in health care. Long-term fiscal sustainability will depend on keeping the non-oil deficit as low as possible, primarily by exercising expenditure restraint.

MONETARY FREEDOM: *75.8* + *1.8*

Inflation has been relatively moderate, averaging 5 percent between 2007 and 2009. The government controls prices for ground and air transport, some pharmaceutical products, petroleum derivatives, natural gas, some petrochemicals, public utility services, residential rents, schoolbooks, and school tuition, and the Agriculture Ministry may intervene temporarily to freeze prices of basic foodstuffs through agreements with regional wholesalers. Ten points were deducted from Colombia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *65* + *10.0*

Foreign investment receives national treatment, and 100 percent foreign ownership is permitted in most sectors. The legal and regulatory systems are generally transparent and consistent with international norms. Foreign investments must be registered with the central bank to allow repatriation of profits and remittances and to access foreign exchange. Residents who work in certain internationally related companies may hold foreign exchange accounts. Investors are compensated for assets expropriated by eminent domain.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 22	Investment Freedom	No. 50
Trade Freedom	No. 106	Financial Freedom	No. 38
Fiscal Freedom	No. 112	Property Rights	No. 52
Government Spending	No. 62	Freedom from Corruption	No. 75
Monetary Freedom	No. 86	Labor Freedom	No. 34

FINANCIAL FREEDOM: *60* *no change*

Colombia's relatively large financial sector has become more stable and modern. Banking has undergone significant consolidation and privatization since early 2000. The government has strengthened regulations and seized some banks for falling below solvency requirements. Two private financial groups account for about 50 percent of bank assets. Foreign banks account for less than 30 percent of total assets. Credit is allocated on market terms. As of early 2008, the government retained 15 percent of total banking assets. Colombia's small capital market provides limited access to long-term credit and is heavily concentrated in government bonds. In 2009, a new financial law was passed that gives more investment options for pension funds and opens the stock market to foreign issuers.

PROPERTY RIGHTS: *50* *no change*

Colombia's constitution explicitly protects the right to private property. Contracts are generally respected. Arbitration is complex and dilatory, especially with regard to the enforcement of awards. The law guarantees indemnification in expropriation cases. Enforcement of intellectual property rights remains erratic. Infringements, especially unauthorized use of trademarks, are common. In 2009, the National Copyright Directorate spent considerable resources in modernizing its technological platform to allow for the online registration of works subject to copyright and related rights.

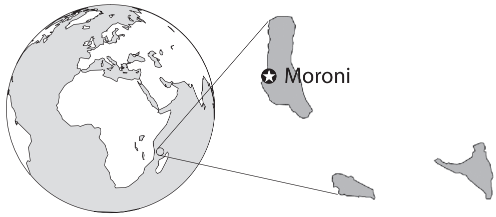
FREEDOM FROM CORRUPTION: *37* – *1.0*

Corruption is perceived as significant. Colombia ranks 75th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Despite notable improvements in fighting corruption and narcotics trafficking, concerns remain over the influence of criminal organizations on the police, the military, and lower levels of the judiciary and civil service. The local chapter of Transparency International has implemented a number of anti-corruption measures, including ethics and entrepreneurial programs, in an effort to reverse these trends.

LABOR FREEDOM: *79.3* + *6.6*

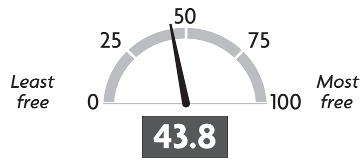
Labor regulations have become more flexible. The non-salary cost of employing a worker remains somewhat burdensome, but the severance payment system is not a significant constraint on employment growth. Regulations controlling work hours are relatively flexible.

COMOROS



World Rank: **167** Regional Rank: **42**

Economic Freedom Score



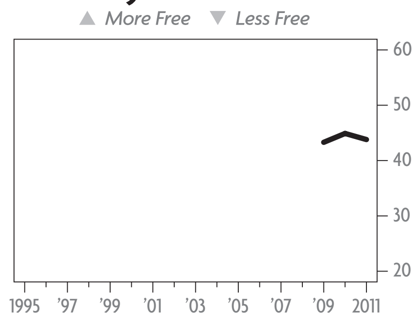
Comoros's economic freedom score is 43.8, making its economy the 167th freest in the 2011 *Index*. Its overall score is 1.1 points lower than last year, reflecting significant decreases in its ratings for government spending and freedom from corruption. Comoros is ranked 42nd out of 46 countries in the Sub-Saharan Africa region, and its overall score is lower than the regional average.

Comoros remains one of the least economically free countries in the world. Poor management of macroeconomic policies, coupled with political crises over the past decade, have hindered overall economic development. The economy remains highly dependent on foreign aid and remittances.

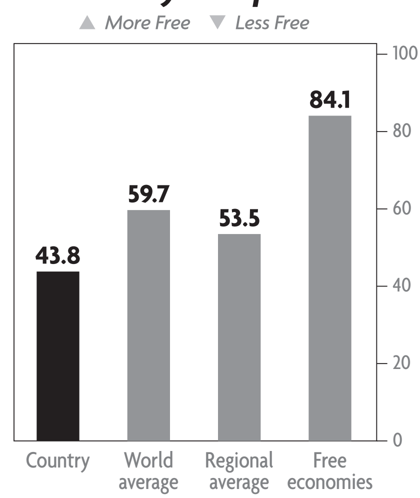
As reflected in low scores for property rights and freedom from corruption, Comoros's institutional support for economic freedom is limited and fragile. The public sector is inefficient and lacks transparency. Poor access to credit and the high costs of financing for entrepreneurial activity continue to limit the development of a vibrant private sector.

BACKGROUND: After declaring its independence from France in 1975, Comoros experienced political instability and numerous coups. A 2001 constitution granting the islands of Grande Comore, Anjouan, and Moheli increased autonomy provided some stability. The presidency rotates among the three islands. President Ahmed Abdallah Sambi's 2006 election was the country's first democratic transfer of leadership. The next elections are scheduled for 2011. 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, including basic transportation between the three islands, ports, and roads, is severely underdeveloped.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 0.7 million
GDP (PPP): $0.8 billion
1.1% growth in 2009
1.0% 5-year compound annual growth
$1,160 per capita
Unemployment: n/a
Inflation (CPI): 4.8%
FDI Inflow: $9.1 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *42.9* — *− 0.8*

Comoros has failed to upgrade its business environment, and there seems to be little political will to implement reform. The overall freedom to establish and run private enterprises is constrained by the poor regulatory environment.

TRADE FREEDOM: *62.4* — *no change*

Comoros's simple average tariff rate was 11.3 percent in 2008. Import bans and restrictions, import fees, inadequate infrastructure and trade capacity, fragmented and non-transparent customs administration, inefficient regulation, state trading, and underdeveloped markets add to the cost of trade. Fifteen points were deducted from Comoros's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *64.8* — *− 0.2*

Comoros has a very high corporate tax rate in an apparent attempt to maximize revenue from its few formal-sector businesses. The top personal income tax rate is 30 percent, and the top corporate tax rate is 50 percent. Other taxes include a value-added tax (VAT), an insurance tax, a vehicle tax, and a tax on real estate transactions. In the most recent year, despite the high rates, overall tax revenue as a percentage of GDP was only 10.8 percent. Different administrative bodies collect taxes from the Union and each individual island.

GOVERNMENT SPENDING: *77.8* — *− 7.3*

In the most recent year, total government expenditures, including consumption and transfer payments, jumped to 27.2 percent of GDP. Spending projects were largely funded by donor grants. The wage bill accounts for the majority of government spending.

MONETARY FREEDOM: *76.2* — *− 0.2*

Inflation has been moderate, averaging 4.8 percent between 2007 and 2009. Membership in the Franc Zone has a restraining effect on inflation, limiting the government's ability to print money to finance deficits and curtailing growth of the money supply. Inflationary pressures will be buoyed by a rise in international oil prices and an increase in imported inflation, which will be driven by a weakening of the euro, to which the Comorian franc is pegged. Ten points were deducted from Comoros's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *10* — *no change*

The Investment Division of the Ministry of Finance, Budget, Economy, Commerce, and Investments monitors and facilitates investment in Comoros. Investments are reviewed by the government. Non-transparent investment regulations, corruption, weak enforcement of contracts, inadequate infrastructure, political instability, and underdeveloped markets inhibit investment. Capital transfers are subject to prior approval, and the central bank controls foreign exchange.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 155	Investment Freedom	No. 166
Trade Freedom	No. 150	Financial Freedom	No. 159
Fiscal Freedom	No. 154	Property Rights	No. 99
Government Spending	No. 67	Freedom from Corruption	No. 145
Monetary Freedom	No. 78	Labor Freedom	No. 171

FINANCIAL FREEDOM: *20* — *no change*

Comoros's 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 account. Microfinance institutions account for around 20 percent of lending. Access to credit for entrepreneurial activities is limited. Three commercial banks are in full operation. In addition to the Banque Internationale du Commerce, which had been a de facto commercial banking monopoly, two new commercial banks, Eximbank and the Banque Fédérale du Commerce, have opened in recent years. The Banque de Développement has been undergoing privatization and restructuring toward commercial banking. Overall, the financial system lacks an effective regulatory structure to facilitate dynamic business investment. The central bank controls foreign exchange, and capital transfers need prior authorization from various government agencies. Comoros has no capital market.

PROPERTY RIGHTS: *30* — *no change*

Protection of property rights is weak, and registration of real property is time-consuming and expensive. Although women do not have the same legal protections as men, traditional customs afford women favorable inheritance and property rights. The judicial system is ineffective, contracts are weakly enforced, and courts are relatively inexperienced in commercial litigation. Despite an adequate legal regime for the protection of intellectual property rights, the government lacks the capacity to enforce copyright violations.

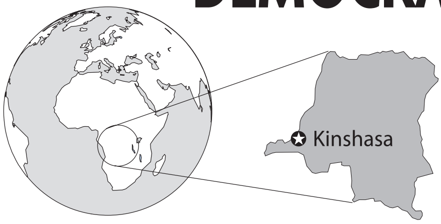
FREEDOM FROM CORRUPTION: *23* — *− 2.0*

Corruption is perceived as pervasive. Comoros ranks 143rd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a decline from 2008. The law providing criminal penalties for official corruption is not implemented effectively, and officials engage in corrupt practices with impunity. The current fragile political environment and attendant risk of military intervention have aggravated perceptions of corruption.

LABOR FREEDOM: *30.7* — *− 0.7*

Much of the workforce is employed in the small retail services sector. Inflexible employment regulations hinder overall productivity growth. The non-salary cost of employing a worker is very high, and dismissing a redundant employee is relatively costly.

DEMOCRATIC REPUBLIC OF CONGO



World Rank: 172 **Regional Rank: 44**

The Democratic Republic of Congo (DRC) has an economic freedom score of 40.7, making it the 172nd freest economy in the 2011 *Index*. Its overall score is 0.7 point lower than last year, reflecting considerable declines in its scores for monetary freedom and government spending. The DRC is ranked 44th out of 46 countries in the Sub-Saharan Africa region, and its score is far below the regional average.

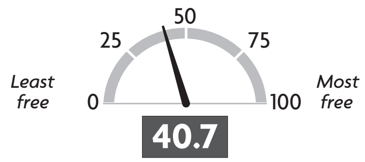
Economic development in the DRC has been severely hampered by a long period of instability and violence. Poor economic management, worsened by repeated political crises, has severely constrained economic freedom and driven the economy into persistent poverty. The government's failure to provide basic public goods further deprives citizens of economic opportunities.

Entrepreneurial activity is curtailed by an uncertain regulatory environment and the absence of institutional support or facilitation for private-sector development. Arbitrary taxation, poor infrastructure, 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.

BACKGROUND: After Laurent Kabila overthrew Mobutu Sese Seko in 1997, a five-year conflict between government forces supported by Angola, Namibia, and Zimbabwe and rebels backed by Rwanda and Uganda claimed an estimated 3 million lives. Kabila was assassinated in 2001. His son Joseph then assumed power and in 2006 won the first multi-party election in 40 years. The next elections are scheduled for October 2011. Rebel groups remain active in the eastern region bordering Burundi, Rwanda, Sudan, and Uganda. 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, corruption and mismanagement are powerful disincentives to economic activity in the formal sector, and infrastructure is virtually nonexistent in many areas.

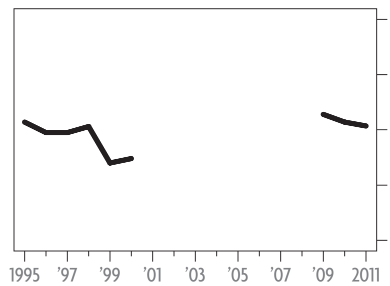
How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Economic Freedom Score



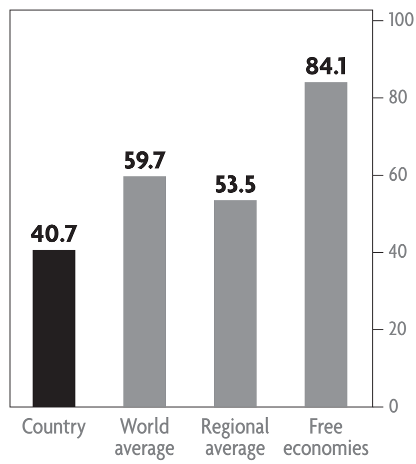
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 64.8 million
GDP (PPP): $21.5 billion
2.8% growth in 2009
5.2% 5-year compound annual growth
$332 per capita
Unemployment: n/a
Inflation (CPI): 46.2%
FDI Inflow: $2.1 billion

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *37.8* ✚ *4.3*

The regulatory system remains unfavorable for entrepreneurship. Outmoded regulations increase the cost of running businesses and hamper private-sector development. Launching a business is time-consuming and costly. Business startups are discouraged by other institutional deficiencies such as pervasive corruption and very limited access to credit.

TRADE FREEDOM: *63* ✚ *1.3*

The DRC's weighted average tariff rate was 11 percent in 2009. Import restrictions, import taxes, services market restrictions, inadequate infrastructure, complex regulations, bureaucracy, inefficient customs administration, and corruption add to the cost of trade, and there is substantial unrecorded trade. Enforcement of intellectual property laws is weak. Fifteen points were deducted from the DRC's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *73.3* − *0.7*

The Democratic Republic of Congo has a moderate income tax rate and a relatively high corporate tax rate. 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. In the most recent year, overall tax revenue as a percentage of GDP was 13.1 percent.

GOVERNMENT SPENDING: *84.5* − *6.0*

Public financial management is weak, inefficient, and unaccountable. Budgetary procedures are often ignored, and nondiscretionary spending is high. In the most recent year, total government expenditures, including consumption and transfer payments, rose significantly to 22.7 percent of GDP. A government program aimed at re-establishing economic and social stability after the global crisis was formed in March 2009. The central bank was required to finance the budget deficit, and total debt is about 93 percent of GDP.

MONETARY FREEDOM: *46.7* − *12.0*

Due largely to the near collapse of the Congolese franc and lax fiscal policy, inflation has been out of control, averaging 36.6 percent between 2007 and 2009. Despite partial liberalization, some prices are still controlled through the public sector. Import price controls can be significant because nearly all manufactured goods and many food items are imported. Fifteen points were deducted from the Democratic Republic of Congo's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *15* *no change*

Regulations do not generally discriminate against foreign investors but are burdensome for all investors. There are no formal limits on foreign ownership of businesses. Underdeveloped infrastructure, inadequate contract enforcement, limited access to credit, physical insecurity, lack of property rights, non-transparent bureaucracy, and corruption constrain private-sector development. The granting of permits and licenses is often subject to corruption. All investors are subject to audits by government agencies seeking evidence of violations of tax laws or price controls. Restructuring of approximately 60 state-owned enterprises has been slow. International transfers of funds take place freely when transacted through a local commercial bank. Official channels often do not provide recourse in the event of property seizure.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 162	Investment Freedom	No. 164
Trade Freedom	No. 148	Financial Freedom	No. 159
Fiscal Freedom	No. 118	Property Rights	No. 166
Government Spending	No. 43	Freedom from Corruption	No. 164
Monetary Freedom	No. 176	Labor Freedom	No. 167

FINANCIAL FREEDOM: *20* *no change*

The financial system provides a minimal range of banking services. Access to financing for entrepreneurial activity remains poor. Financial intermediation remains minimal, although more commercial banks opened in 2009 along with some new branches. Credit to the private sector accounts for less than 5 percent of GDP. Most banks act as financial agents for the government or extend credit to international institutions operating in the country. More than 80 percent of the money supply is held outside of the banking system. Larger banks are mostly subsidiaries of foreign banks. Informal lending is an important source of finance, and microfinance is beginning to emerge. There is no stock exchange.

PROPERTY RIGHTS: *10* *no change*

Despite a recently adopted constitution and enhanced attempts at enforcement, protection of property rights remains weak and dependent on a dysfunctional public administration and judicial system. Fighting, banditry, and abuses of human rights threaten property rights and deter economic activity. Courts suffer from widespread corruption, public administration is unreliable, and application of the complex legal code is selective.

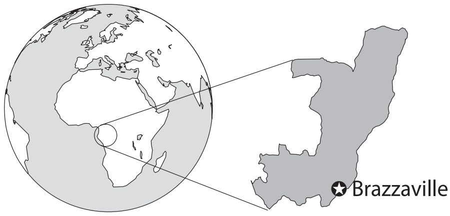
FREEDOM FROM CORRUPTION: *19* ✚ *2.0*

Corruption is perceived as rampant. The Democratic Republic of Congo ranks 162nd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Foreign businessmen often cite corruption as a principal obstacle to doing business. Corruption and government policies have given rise to a parallel economy.

LABOR FREEDOM: *37.3* ✚ *3.9*

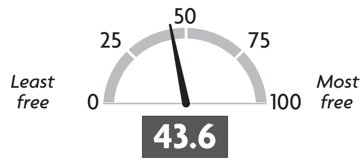
The agricultural sector is the largest employment source, and formal-sector employment is negligible. Restrictive and outmoded labor regulations are in place, but enforcement is sporadic.

REPUBLIC OF CONGO



World Rank: **168** Regional Rank: **43**

Economic Freedom Score



The Republic of Congo's economic freedom score is 43.6, making its economy the 168th freest in the 2011 *Index*. Its overall score is 0.4 point better than last year, with improved scores in government spending and investment freedom offset by losses in business and labor freedom. Congo is ranked 43rd out of 46 countries in the Sub-Saharan Africa region, and its overall score is much lower than the global and regional averages.

Repressive governance continues to deprive the Congolese people of economic freedom. Extensive state controls persist from the period of state socialism, and the government has failed to provide basic public goods and infrastructure. Public-sector inefficiency has pushed many people into the informal economy, which accounts for most of the country's limited private-sector growth.

The economy scores significantly below world averages in many of the 10 economic freedoms. The slow pace of reform has left the institutional capacity inadequate for modern economic activity. Many aspects of doing business, from obtaining licenses to attracting foreign investment, are subject to intrusive and inefficient regulations. The weak judiciary fuels corruption.

BACKGROUND: Congo has endured internal conflict and 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. Although most Congolese are engaged in agriculture, oil accounted for about 65 percent of GDP, over 90 percent of exports, and 85 percent of government revenue in 2008.

Country's Score Over Time

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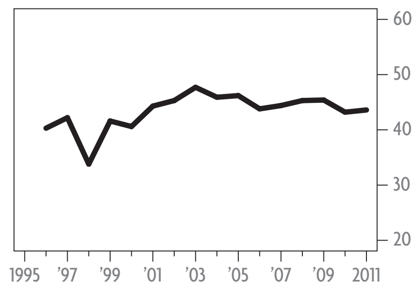

Country Comparisons

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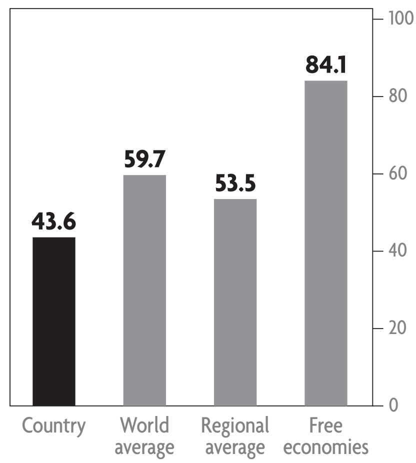


Quick Facts

Population: 3.8 million
GDP (PPP): $15.6 billion
7.6% growth in 2009
4.4% 5-year compound annual growth
$4,146 per capita
Unemployment: n/a
Inflation (CPI): 4.3%
FDI Inflow: $951.4 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *40.8* — 7.9

The regulatory environment continues to be characterized by bureaucracy and a lack of transparency. The cost of launching and running a business is high, and regulations are not enforced effectively.

TRADE FREEDOM: *61* *no change*

Congo's weighted average tariff rate was 14.5 percent in 2007. Import and export quotas, restrictive import licensing rules, burdensome and non-transparent bureaucracy, government export-promotion programs, an inefficient customs service, and corruption add to the cost of trade. Ten points were deducted from Congo's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *61.8* + 1.5

Congo has high tax rates but an ineffective tax system. The top income tax rate is 50 percent. The top corporate tax rate is 36 percent, down from 38 percent as of January 2010. Other taxes include a value-added tax (VAT), a tax on rental values, and an apprenticeship tax. In the most recent year, overall tax revenue as a percentage of GDP was 5.3 percent.

GOVERNMENT SPENDING: *79.7* + 10.4

State ownership persists in railways, electricity, oil, and water. The government has agreed to implement public-sector reforms aimed at more transparent fiscal management and stronger budget execution, but political pressure has held up such reforms in the past, and the administrative capacity needed to implement reforms is lacking. In the most recent year, total government expenditures, including consumption and transfer payments, fell to 26 percent of GDP. In 2009, creditors cancelled a large part of Congo's debt, allowing total public debt to fall to 77 percent of GDP.

MONETARY FREEDOM: *71.4* + 0.6

Inflation has been moderate, averaging 4.6 percent between 2007 and 2009. The regional Banque des Etats de l'Afrique Centrale prioritizes the control of inflation and maintenance of the CFA franc's peg to the euro. The prices of rail transport, telecommunications, electricity, water, and other goods and services are affected by government ownership and subsidization of the large public sector. Fifteen points were deducted from Congo's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *20* + 5.0

Congo does not generally discriminate against foreign investors. The few state-owned enterprises have a disproportionate influence on economic performance and business conditions. Privatization has been slow. Bureaucracy and corruption are significant impediments to investment. Residents may not hold foreign exchange accounts; companies may hold such accounts with special approval. Non-residents may hold foreign exchange accounts subject to government approval. Payments and transfers to most countries are subject to documentation requirements. Capital transactions require approval. There have been no problems with expropriation in recent years.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 158	Investment Freedom	No. 152
Trade Freedom	No. 157	Financial Freedom	No. 133
Fiscal Freedom	No. 160	Property Rights	No. 166
Government Spending	No. 57	Freedom from Corruption	No. 164
Monetary Freedom	No. 127	Labor Freedom	No. 154

FINANCIAL FREEDOM: *30* *no change*

Congo's underdeveloped financial sector remains hampered by inadequate regulation and lingering government interference. Bank development has been stunted by poor management, bad loans, and government interference. Congo shares a common central bank with the other five members of the Central African Economic and Monetary Community. Banking dominates Congo's financial sector, and six banks are privately owned. Banking-sector weakness limits access to credit for business and investment. Bank accounts are held by less than 3 percent of the population. Bank credit to the private sector has been limited, but microfinance has been expanding rapidly.

PROPERTY RIGHTS: *10* *no change*

The civil war that ended in 2003 left the judiciary corrupt, overburdened, underfinanced, subject to political influence and bribery, and almost without records. Security of contracts and the enforcement of justice cannot be guaranteed, and protection of intellectual property is virtually nonexistent. In rural areas, traditional courts handle many local disputes, especially those involving inheritance and property.

FREEDOM FROM CORRUPTION: *19* *no change*

Corruption is perceived as pervasive. The Republic of Congo ranks 162nd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption is seen as permeating the government, and financial non-transparency, inadequate internal controls and accounting systems, and conflicts of interest in the state-owned oil company's marketing of oil are concerns. Low-level corruption among security personnel and customs and immigrations officials is widespread. An anti-corruption commission was created by the government in September 2009 in conjunction with the Heavily Indebted Poor Countries debt relief initiative.

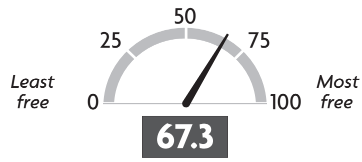
LABOR FREEDOM: *42.3* — 5.8

A modern labor market has not been developed, and the public sector remains the largest source of formal employment. In the absence of a dynamic private sector that can generate long-term economic growth, unemployment has been chronically high.

COSTA RICA

World Rank: **49** Regional Rank: **9**

Economic Freedom Score



Costa Rica's economic freedom score is 67.3, making its economy the 49th freest in the 2011 *Index*. Its overall score is 1.4 points higher than last year, reflecting small increases in five of the 10 economic freedoms. Costa Rica is ranked 9th out of 29 countries in the South and Central America/Caribbean region, and its overall score is higher than the global and regional averages.

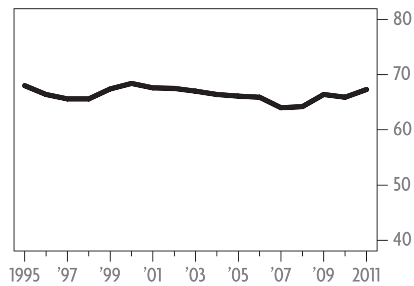
Following the recent years of economic contraction, Costa Rica's economic rebound has gained some momentum and become more broad-based. The trade regime is more open, and management of public finances is sound. Costa Rica has taken measures to improve financial-sector freedom by consolidating private banks, easing procedures for the operations of foreign banks, and introducing a new development bank structure.

However, lingering government bureaucracy continues to discourage dynamic entrepreneurial activity, and privatization and fiscal reform have slowed. The court system, while transparent and not corrupt, remains inefficient, and enforcement is weak.

BACKGROUND: Costa Rica has a strong democratic tradition and has managed to avoid the political violence that has afflicted Central America during the past half-century. Former President Oscar Arias (1986–1990) won a second term in 2006 on a pledge to break up state monopolies, especially in telecommunications and insurance. Insurance has been deregulated. The state still has a telecommunications monopoly, but the sector is expected to be opened by September 2011. Laura Chinchilla, elected president in February 2010, promised to improve infrastructure, reform the tax code, and expand the number of "green" jobs. An important producer of bananas, pineapples, and coffee, Costa Rica has benefited from industrialization in electronics and health care, and per capita income is high by regional standards. The Central America–Dominican Republic–United States Free Trade Agreement, narrowly approved in October 2007, entered into force on January 1, 2009.

Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

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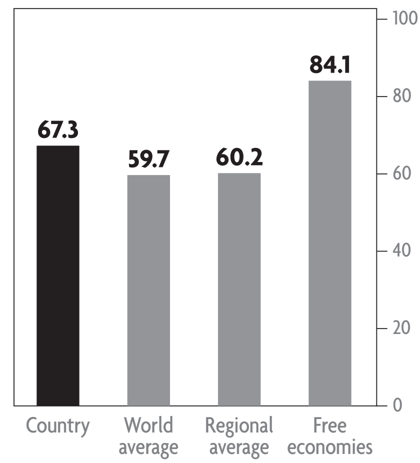


Quick Facts

Population: 4.6 million
GDP (PPP): $48.9 billion
–1.1% growth in 2009
4.5% 5-year compound annual growth
$10,579 per capita
Unemployment: 7.8%
Inflation (CPI): 7.8%
FDI Inflow: $1.3 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *58.2* — 1.1

The overall business framework does not fully support entrepreneurial activity. Although licensing requirements have been reduced, procedures for launching a business remain cumbersome and time-consuming.

TRADE FREEDOM: *85.2* + 2.7

Costa Rica's weighted average tariff rate was 2.4 percent in 2009. High tariffs remain in the poultry and dairy sectors, among others. Costa Rica has been working to improve enforcement of its intellectual property laws. Government corruption and the perception of a weak and inefficient judicial system add to the cost of trade. Ten points were deducted from Costa Rica's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *82.3* — 0.1

Costa Rica has moderate tax rates. 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. In the most recent year, overall tax revenue as a percentage of GDP was 15.6 percent.

GOVERNMENT SPENDING: *86.9* — 0.1

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 20.9 percent of GDP. Prudent fiscal management allowed some leeway with stimulus spending. Though privatization has been successful in some sugar production and transportation activities, state ownership persists, particularly in banking and insurance. Government intervention is highest in utilities, education, and hydrocarbons. The fiscal deficit has grown to 3.6 percent of GDP, and the withdrawal of fiscal stimulus planned for 2010 has been pushed to 2011.

MONETARY FREEDOM: *70.7* + 2.9

Inflation has been relatively high, averaging 9.3 percent between 2007 and 2009. The government controls the prices of goods on a basic consumption list, including energy, petroleum, telecommunications, and water. Ten points were deducted from Costa Rica's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *70* *no change*

Costa Rica generally treats foreign and domestic investors equally. Some industries, including power generation, broadcasting, professional services, wholesale distribution, fixed-line telecommunications, energy generation and distribution, transportation, and petroleum, are reserved for state companies or require participation of a certain percentage of Costa Rican residents. Laws, regulations, and practices are generally transparent, although bureaucratic procedures are often burdensome and the judicial system is backlogged. There are no controls on capital flows, but reporting requirements are mandatory for some transactions. There are no restrictions or controls on the holding of foreign exchange accounts, which are readily transferable and available at market rates. There are no restrictions on land purchases, but some land owned by foreign investors has been expropriated.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 126	Investment Freedom	No. 38
Trade Freedom	No. 46	Financial Freedom	No. 70
Fiscal Freedom	No. 63	Property Rights	No. 50
Government Spending	No. 32	Freedom from Corruption	No. 42
Monetary Freedom	No. 137	Labor Freedom	No. 84

FINANCIAL FREEDOM: *50* *no change*

Costa Rica's small but growing financial sector functions relatively well. Banking remains dominated by the three state-owned financial institutions, which account for almost 60 percent of total assets, although they have given up a greater portion of the market to private-sector banks in recent years. A new development bank structure draws in private and public banks. Procedures for operations of foreign banks have been simplified, and their presence is considerable. Credit is generally available on market terms, although the government retains some influence over lending. Earlier financial reforms have liberalized Costa Rica's capital account and guarantee the free exchange of foreign currency. There was little exposure within the country to structured financial products, and the impact of the global financial turmoil was relatively mild.

PROPERTY RIGHTS: *55* + 5.0

The judicial system can be slow and complicated. Contracts are generally upheld, and investments are secure, but it takes an average of more than 1.5 years to resolve a contract-related legal complaint. The system quickly recognizes rights acquired by squatters, especially when land is rural and not actively worked. Despite a legal framework, enforcement of intellectual property rights is often ineffective. Costa Rica is ranked 50th out of 125 countries in the 2010 International Property Rights Index.

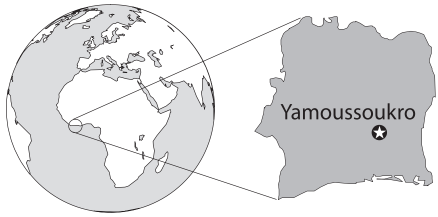
FREEDOM FROM CORRUPTION: *53* + 2.0

Corruption is perceived as present. Costa Rica ranks 43rd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The government does not emphasize enforcement of anti-corruption laws, regulations, and penalties. Allegations of lower-level corruption are common, and some prosecutions have resulted. Some foreign firms complain of corruption in the administration of public tenders.

LABOR FREEDOM: *62.1* + 3.1

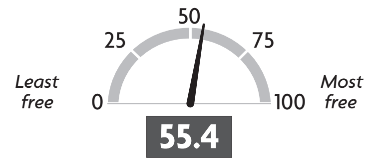
Despite some progress, labor regulations remain rigid overall. Rules on work hours are quite flexible, but the non-salary cost of employing a worker remains high.

CÔTE D'IVOIRE

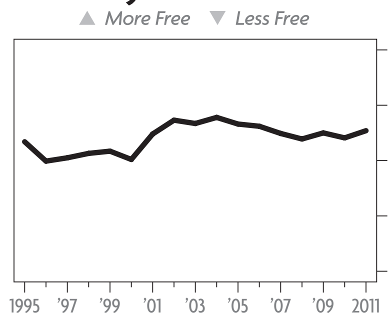


World Rank: **122** Regional Rank: **23**

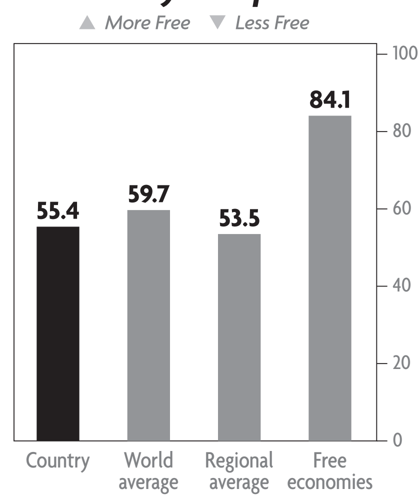
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Côte d'Ivoire's economic freedom score is 55.4, making its economy the 122nd freest in the 2011 *Index*. Its score is 1.3 points higher than last year, reflecting significant gains in trade and monetary freedom. Côte d'Ivoire is ranked 23rd out of 46 countries in the Sub-Saharan Africa region, and its overall score is above the regional average.

Côte d'Ivoire has undertaken much-delayed economic reforms to improve its macroeconomic stability and growth potential. These measures include strengthening management of public finances and structural reforms to foster a more dynamic private sector. Despite slow progress in public-sector reform, the government has maintained its policy of divesting state-owned enterprises.

However, the overall business climate remains unfavorable to private investment and productivity growth. Social and political instability have prevented meaningful progress in economic development. Commercial regulations and bureaucratic red tape are burdensome. Property rights are undermined 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, the country remains divided, and U.N. peacekeepers are still present. U.N. Security Council resolutions have extended the mandate of President Laurent Gbagbo, whose five-year term expired in 2005. A transition government with rebel leader Guillaume Soro as prime minister and Gbagbo as president was formed in 2007, and presidential and legislative elections were scheduled for 2009 and 2010, respectively. Côte d'Ivoire is the world's leading producer of cocoa, and 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 production levels far below capacity.

Quick Facts

Population: 21.4 million
GDP (PPP): $35.8 billion
3.8% growth in 2009
2.1% 5-year compound annual growth
$1,674 per capita
Unemployment: n/a
Inflation (CPI): 1.0%
FDI Inflow: $408.9 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *43.3* — *0.4*

Côte d'Ivoire's regulatory infrastructure for private-sector development continues to be undermined by bureaucratic bottlenecks and uneven enforcement of existing laws. Despite recognition of the great need for business law reforms, policy action has been marginal.

TRADE FREEDOM: *72.2* + *7.9*

Côte d'Ivoire's weighted average tariff rate was 6.4 percent in 2009. Import prohibitions and restrictions, import authorization requirements for certain goods, import fees and taxes, services market access restrictions, minimum price floors for some imports, corruption in customs and government procurement, and weak enforcement of intellectual property rights add to the cost of trade. Fifteen points were deducted from Côte d'Ivoire's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *78.5* + *0.2*

Côte d'Ivoire has a relatively high income tax rate and a moderate corporate tax rate. 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. In the most recent year, overall tax revenue as a percentage of GDP was 15.2 percent.

GOVERNMENT SPENDING: *88.4* + *1.3*

A reform plan for public financial management implemented in 2009 aims to enhance the budget process's credibility and transparency. In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 19.7 percent of GDP. The fiscal balance showed a budget surplus of 1.1 percent of GDP.

MONETARY FREEDOM: *80.2* + *4.2*

Inflation has been lower, averaging 2.4 percent between 2007 and 2009. The regional Banque Centrale des Etats de l'Afrique de l'Ouest prioritizes control of inflation and maintenance of the CFA franc's peg to the euro. The government regulates prices of pharmaceuticals, petroleum products, and public-sector goods and services, and cocoa and coffee prices and quotas are part of a price stabilization program. Ten points were deducted from Côte d'Ivoire's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM: *35* *no change*

In general, foreign and domestic investors are treated equally. Approval is required for investment in the health sector, travel agencies, and law and accounting firms, and majority foreign ownership is not permitted in these sectors. Investment in other industries also requires government permission, which typically is granted. Bureaucracy, ad hoc tax policy, corruption, and burdensome contract enforcement inhibit investment. Large currency transfers require government approval. Despite land reform, freehold tenure outside of urban areas is difficult, and most businesses opt for long-term leases. Expropriation of property by the government has not been a problem, but there have been instances of poor protection against expropriation by private parties.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 153	Investment Freedom	No. 123
Trade Freedom	No. 113	Financial Freedom	No. 70
Fiscal Freedom	No. 86	Property Rights	No. 99
Government Spending	No. 27	Freedom from Corruption	No. 156
Monetary Freedom	No. 36	Labor Freedom	No. 112

FINANCIAL FREEDOM: *50* *no change*

The financial sector, dominated by banking, is underdeveloped, and the government has expanded its role. State-owned banks are heavily involved in financing housing and investment, but their role is poorly defined. Despite some modernization and restructuring, the banking sector lacks the capacity to support private-sector development and economic diversification. There are over 100 microfinance institutions, though their activity is not robust. The largest banks include foreign ownership and are regarded as more reliable in the unstable climate. The government has sold its shares in smaller banks but maintains holdings in several larger institutions. Two financially troubled banks have been taken over by the state. Trading on the Côte d'Ivoire–based regional stock market is minimal.

PROPERTY RIGHTS: *30* *no change*

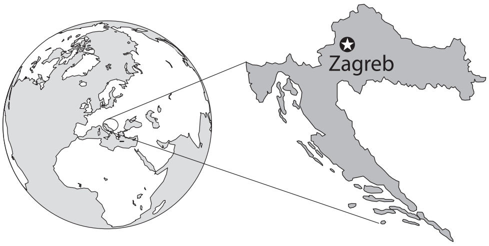
The judiciary is constitutionally independent but slow, inefficient, and subject to executive branch, military, and other influences. Judges serve at the discretion of the executive, and some are open to bribery. Outside of urban areas, traditional property rights of villages and ethnic groups prevent the sale of land.

FREEDOM FROM CORRUPTION: *21* + *1.0*

Corruption is perceived as pervasive. Côte d'Ivoire ranks 154th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Domestic laws and regulations to combat corruption are neither generally nor effectively enforced. Government corruption and lack of transparency affect judicial proceedings, contract awards, customs and tax issues, and the accountability of security forces. Racketeering by security and defense forces is often denounced in the media and receives wide attention from the authorities and the population.

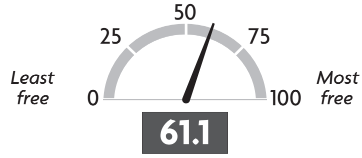
LABOR FREEDOM: *55.7* — *0.4*

Burdensome labor regulations hinder employment and productivity growth. The non-salary cost of employing a worker is relatively low, but dismissing an employee is costly. Regulations on work hours are rigid.



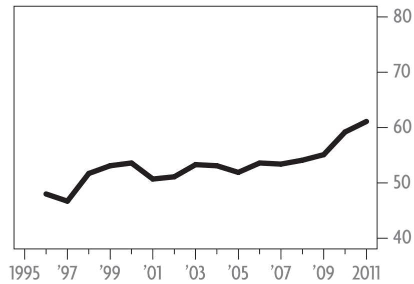
CROATIA

Economic Freedom Score

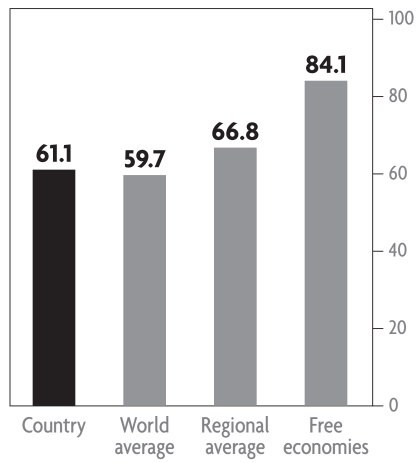


World Rank: **82** Regional Rank: **35**

Country's Score Over Time



Country Comparisons



Croatia's economic freedom score is 61.1, making its economy the 82nd freest in the 2011 *Index*. Its overall score is 1.9 points higher than last year, with improvements in six of the 10 economic freedoms. Croatia has moved up 10 spots in the world rankings, but its overall score is still below the regional average.

Croatia's gradual transition to greater economic freedom has been facilitated by structural reforms and an increasingly vibrant private sector. Openness to global trade and competitive tax reforms contributed to modernization of the economy and strong economic expansion before the global economic slowdown. A prudent regulatory framework helped the sector to weather the financial turmoil relatively well.

Considerable state intervention in key areas of the economy is the main constraint on overall economic freedom. Rigid labor regulations continue to restrain productivity and job growth. Corruption and political interference, especially in the judiciary, also continue.

BACKGROUND: Rapid industrialization in the years following World War II made Croatia the most prosperous area of the former Yugoslavia. As Communism collapsed throughout Eastern Europe and Yugoslavia began to unravel along ethnic and religious lines, Croatia declared its independence in 1991. Years of ensuing conflict between Croats and Serbs ended formally in 1995 with the Dayton Peace Accords. Croatia has actively pursued greater integration into the Euro–Atlantic community. It became a full member of NATO in April 2009 and hopes to join the European Union in 2011. Croatia has already closed 18 of 30 chapters of its accession requirements, but corruption and organized crime are proving hard to combat. Social Democrat Ivo Josipovic was elected president in January 2010. Croatia's tourism industry, focused on the Adriatic Coast, developed significantly during the 2000s but was hurt by recession at the end of the decade.

Quick Facts

Population: 4.4 million
GDP (PPP): $78.5 billion
–5.8% growth in 2009
1.6% 5-year compound annual growth
$17,703 per capita
Unemployment: 16.1%
Inflation (CPI): 2.4%
FDI Inflow: $2.6 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *65.2* — + 3.7

Despite some progress, Croatia's overall regulatory environment remains burdensome and inefficient. The bureaucratic application of business regulations, coupled with petty corruption, remains a considerable impediment to conducting business.

TRADE FREEDOM: *87.6* — − 0.2

Croatia's weighted average tariff rate was 1.2 percent in 2009. High tariffs on agricultural products, import licensing for certain goods, burdensome regulations and standards, and inefficient customs administration add to the cost of trade. Weak enforcement of intellectual property rights is an ongoing concern. Ten points were deducted from Croatia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *74.6* — + 4.3

Croatia has a high income tax rate but a low corporate tax rate. The top income tax rate is 40 percent, reduced from 45 percent as of July 1, 2010, and the top corporate tax rate is 20 percent. A special surcharge tax on salaries and pensions that exceed a certain level per month was enacted in August 2009 but was reduced in June 2010 and scheduled for revocation on November 1, 2010. Other taxes include a value-added tax (VAT) and excise taxes on alcohol, tobacco, and energy. In the most recent year, overall tax revenue as a percentage of GDP was 23.3 percent.

GOVERNMENT SPENDING: *50.3* — + 3.2

In the most recent year, total government expenditures, including consumption and transfer payments, equaled 40.7 percent of GDP. Public debt (including guaranteed debt) soared from 35 percent to 50 percent of GDP. Croatia lags behind its regional peers in privatization and competition policy.

MONETARY FREEDOM: *78.5* — + 2.7

Inflation has been moderate, averaging 3.3 percent between 2007 and 2009. Many price supports and subsidies have been eliminated, but proposed price changes on some 30 products require Ministry of Economy approval. The government also influences prices through state-owned enterprises and still controls a significant part of the economy. Ten points were deducted from Croatia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *70* — + 5.0

Croatia does not screen foreign investment and does not discriminate between foreign and domestic investors. Despite economic and administrative reforms, inefficient bureaucracy can inhibit economic activity. Corruption remains a problem. There is steady pressure to increase transparency and fulfill commitments to adopt EU laws, norms, and practices. The constitution guarantees the free transfer and repatriation of profits and invested capital for foreign investments. To purchase land, foreign investors need government approval.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 92	Investment Freedom	No. 38
Trade Freedom	No. 12	Financial Freedom	No. 38
Fiscal Freedom	No. 109	Property Rights	No. 73
Government Spending	No. 130	Freedom from Corruption	No. 65
Monetary Freedom	No. 50	Labor Freedom	No. 149

FINANCIAL FREEDOM: *60* — *no change*

Undergoing restructuring and modernization, Croatia's financial system has become more efficient and competitive, and access to financing for entrepreneurial activity has gradually improved. Privatization and regulatory improvements have done much to encourage confidence in banking. Two national commercial banks are majority foreign-owned and control almost half of all assets, and foreign banks own the majority of total assets. Supervisory and regulatory frameworks for the financial sector are efficient, and credit is allocated on market terms. The consolidated banking sector is relatively well functioning, with 34 commercial banks operating as of early 2010. The rapidly growing stock exchange now lists more than 200 companies, and securities markets are open to foreign investors. The Capital Market Act, which aims to strengthen securities regulation and transparency, came into force in January 2009.

PROPERTY RIGHTS: *40* — *no change*

The right to own private property is established in the constitution and protected by numerous acts and regulations. Observers view the judicial system as most affected by corruption. The court system is cumbersome and inefficient, and backlogs cause business disputes to drag on for years. Some investors insist that contract arbitration take place outside of Croatia. The government is committed to judicial reform, but much remains to be done. Despite intellectual property rights legislation, piracy of digital media and counterfeiting continue. Croatia is ranked 69th out of 125 countries in the 2010 International Property Rights Index.

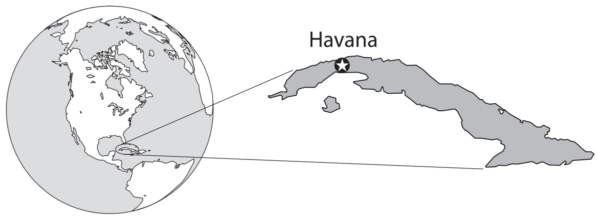
FREEDOM FROM CORRUPTION: *41* — − 3.0

Corruption is perceived as significant. Croatia ranks 66th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The government has initiated a process to overhaul areas particularly afflicted by corruption: the judicial and health systems, local governments, political party financing, public administration, and economic agencies. Citizens continue to cite corruption as one of Croatia's most important problems.

LABOR FREEDOM: *44.1* — + 3.3

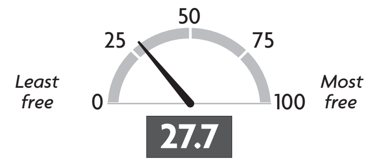
Burdensome labor regulations continue to hinder employment and productivity growth. The non-salary cost of employing a worker is high.

CUBA



World Rank: **177** Regional Rank: **29**

Economic Freedom Score



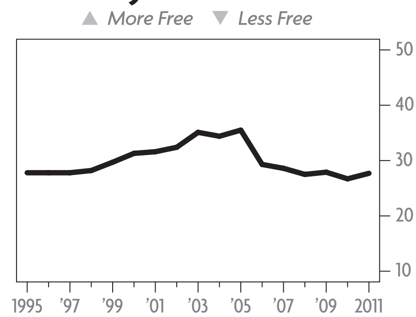
Cuba's economic freedom score is 27.7, making its economy one of the world's least free. Its overall score is one point higher than last year, reflecting slight improvements in fiscal and monetary freedom. Cuba is ranked at the bottom of 29 countries in the South and Central America/Caribbean region, and its overall score is significantly lower than the regional average.

Cuba's state-run economy remains remarkably inefficient. As the largest source of employment, the government sector accounts for more than 80 percent of the labor force. The government has eased the rules on private employment in an effort to reshape the economy and improve efficiency, but many details of the reform are unclear.

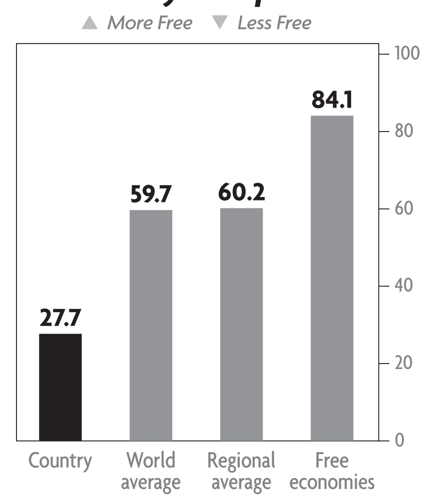
Entrepreneurs have long been shackled with heavy regulations and tight government control. No courts are free of political interference, and private property is strictly regulated. Lack of transparency and excessive bureaucracy limit trade and investment. In an effort to court more foreign investment, Cuba has been building closer ties with China and Venezuela.

BACKGROUND: A one-party Communist state with a command economy, Cuba depends heavily on external assistance (chiefly oil provided by Venezuela's Hugo Chávez and remittances from Cuban émigrés) and a captive labor force. The regime refuses to allow free elections and restricts freedom of expression, property ownership, and other basic rights. The government continues to suppress all efforts to promote democratic change, and there are hundreds of political prisoners. In February 2008, Fidel Castro's 75-year-old brother Raul became head of state, but an ailing Fidel reportedly still controls the Communist Party and state decision-making. Little reliable economic information is available, and official figures on per capita GDP may not reflect reality. The agricultural sector is devastated, tourism revenue has been falling, and the government has refused to introduce meaningful economic reform despite widespread poverty.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 11.5 million
GDP (PPP): $110.9 billion
1.4% growth in 2009
5-year compound annual growth n/a
$9,700 per capita
Unemployment: n/a
Inflation (CPI): –0.5%
FDI Inflow: $30.6 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *10* — *no change*

The overall freedom to form and run a business remains constrained by the state. Only limited private entrepreneurship exists. The application of regulations is inconsistent and non-transparent.

TRADE FREEDOM: *62.2* — *+ 0.5*

Cuba's weighted average tariff rate was 8.9 percent in 2009. The trade regime remains largely non-transparent, customs corruption is common, rules and regulations are burdensome, and imports and exports are dominated by the government. Twenty points were deducted from Cuba's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *49* — *+ 3.1*

Cuba has a high income tax rate of 50 percent. The top corporate tax rate is 30 percent (35 percent for companies with entirely foreign capital). In the most recent year, tax revenue as a percentage of GDP was 41.2 percent. Other taxes include a tax on property transfers and a sales tax.

GOVERNMENT SPENDING: *0* — *no change*

Total government expenditures, including consumption and transfer payments, are very high. In the most recent year, government spending climbed to 78.1 percent of GDP, reflecting continued state dominance of the economy. Expansive government employment commitments are an obstacle to sound fiscal management.

MONETARY FREEDOM: *71.6* — *+ 4.9*

Officially reported inflation has been low, averaging 1.1 percent between 2007 and 2009. Year-end 2009 deflation of –0.5 percent was achieved by suppressing food costs, but the removal of some goods from the food ration in the second half of 2010 is forecast to increase the year-end rate of inflation to 6.2 percent. The government determines prices for most goods and services and subsidizes much of the economy, although some private and informal-market retail activity is not government-controlled. Twenty points were deducted from Cuba's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *0* — *no change*

Foreign investment must be approved by the government. The Foreign Investment Act theoretically guarantees transferability of profits to foreign countries; bans expropriation without compensation; allows transfer of ownership to other foreign investors; and permits three types of foreign investment: international association contracts, joint ventures, and totally foreign-owned companies. In practice, investment is inhibited by arbitrary and non-transparent regulation, discrimination against foreign and private domestic investment, and state control of the economy. Private-sector opportunities are limited. The government is aggressively pursuing recentralization of economic activity and maintains strict capital and exchange controls. Some restrictions have been loosened to permit investment commitments and credit lines from China and Venezuela. There is no foreign ownership of land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 178	Investment Freedom	No. 172
Trade Freedom	No. 153	Financial Freedom	No. 172
Fiscal Freedom	No. 174	Property Rights	No. 166
Government Spending	No. 172	Freedom from Corruption	No. 60
Monetary Freedom	No. 124	Labor Freedom	No. 176

FINANCIAL FREEDOM: *10* — *no change*

Cuba's financial sector remains underdeveloped, and access to credit for entrepreneurial activity is seriously impeded by bureaucracy and the shallowness of the financial market. Despite a decade of incremental changes, the government remains firmly in control. The Cuban peso is the domestic currency; a separate convertible peso is still required for foreign exchange and nonessential retail purchases. Over a dozen foreign banks have opened offices, but they are not allowed to operate freely. New products, such as travel and medical insurance and personal pensions, are being introduced. The government established a central bank in 1997 and converted the Banco Nacional de Cuba into one of a new set of state banks. Central bank authority was enhanced in 2005 to allow closer control of the use of hard currency and convertible pesos.

PROPERTY RIGHTS: *10* — *no change*

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. The NAPP and its lower-level counterparts choose all judges. The law and trial practices do not meet international standards for fair public trials.

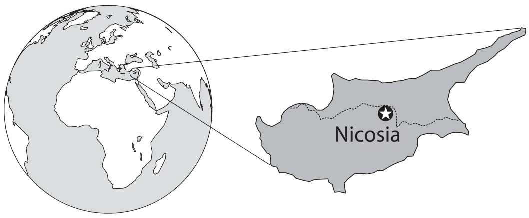
FREEDOM FROM CORRUPTION: *44* — *+ 1.0*

Corruption is perceived as significant. Cuba ranks 61st out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Customs officials reportedly have requested unauthorized fees or have confiscated the belongings of citizens legally residing overseas who were returning to Cuba after visiting relatives, and senior officials in large state-run tourism organizations have been jailed for corruption.

LABOR FREEDOM: *20* — *no change*

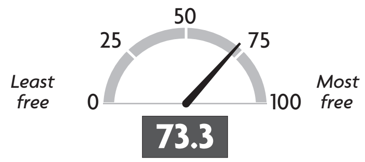
The formal labor market is not developed, and the government-controlled labor market has helped to create a large informal economy and "over-employment." In an attempt to reduce labor market rigidity, the government implemented a measure to allow workers to hold more than one job. Its impact has been limited.

CYPRUS

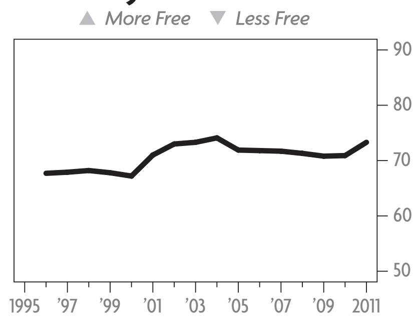


World Rank: **18** Regional Rank: **9**

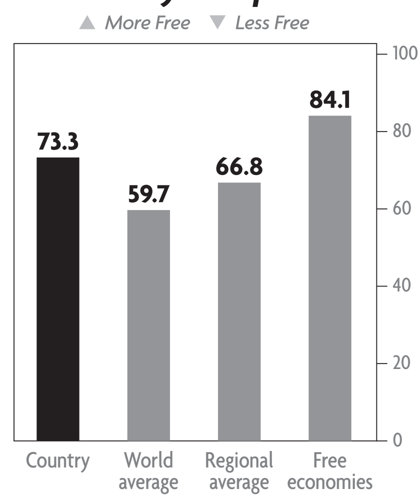
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Cyprus's economic freedom score is 73.3, making its economy the 18th freest in the 2011 *Index*. Its overall score is up by 2.4 points from last year, with significant improvements in the corruption, labor, investment, and monetary freedom categories. Cyprus is ranked 9th out of 43 countries in the Europe region, and its overall score is one of the most improved in the 2011 *Index*.

Scoring high in many of the 10 economic freedoms, Cyprus does particularly well in trade freedom and monetary freedom. The regulatory framework is relatively transparent and efficient, the financial sector has become more open and efficient, and the government has pursued policies that are more favorable to private-sector development.

Although public debt is moderate compared to other European economies, a high level of government spending is the primary weakness that holds down Cyprus's overall economic freedom. There is also room for improvement in freedom from corruption and investment freedom.

BACKGROUND: A U.N. buffer zone divides the Greek Cypriot Republic of Cyprus and the Turkish Republic of Northern Cyprus (TRNC). The Republic of Cyprus is a member of the European Union and acts as the island's internationally recognized administration. There is deep hostility between the two sides. Greek and Turkish leaders continue to negotiate on possible reunification. Prime Minister Dervis Eroglu of the National Unity Party, elected president of the TRNC in April 2010, has favored greater independence for Northern Cyprus in U.N.-brokered talks. 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 telecommunications and utilities are still not privatized or deregulated. Cyprus joined the euro zone in 2008. Political and legal uncertainty have undermined the Turkish Cypriot economy, and Turkish Cypriots remain heavily dependent on trade and aid from Turkey.

Quick Facts

Population: 0.8 million
GDP (PPP): $22.7 billion
–1.7% growth in 2009
2.7% 5-year compound annual growth
$28,544 per capita
Unemployment: 5.3%
Inflation (CPI): 0.2%
FDI Inflow: $5.8 billion

2009 data unless otherwise noted.
Data compiled as of September 2010.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *80.1* — 0.2

The overall freedom to start, operate, and close a business is relatively well maintained within the regulatory framework. Regulations have been streamlined, administrative procedures have been simplified, and business regulations are transparent and consistently applied.

TRADE FREEDOM: *82.6* + 0.1

Cyprus's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Cypriot policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Pharmaceutical and biotechnology regulations are more burdensome than EU policy, services markets are further restricted, enforcement of intellectual property rights remains problematic, and there is a dichotomy between the trade regimes of the Greek and Turkish areas. Fifteen points were deducted from Cyprus's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *74.6* + 1.9

Cyprus has moderate tax rates. The top income tax rate is 30 percent, and the corporate tax rate is 10 percent, except for companies vaguely defined as public corporate bodies, which are subject to a rate of 25 percent. Other taxes include a value-added tax (VAT) and a real estate tax. In the most recent year, tax revenue as a percentage of GDP was 39.2 percent.

GOVERNMENT SPENDING: *45.6* + 0.8

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 42.6 percent of GDP. Authorities hope to reduce the fiscal deficit from 6 percent of GDP to 3 percent of GDP by 2012.

MONETARY FREEDOM: *87.6* + 4.7

Inflation was low, averaging 1.4 percent between 2007 and 2009, but has risen above the expected euro area average in 2010, reflecting weak retail-sector competition and the impact of higher oil prices. The government controls prices of some agricultural products. Five points were deducted from Cyprus's monetary freedom score to account for this practice.

INVESTMENT FREEDOM: *75* + 5.0

The government grants national treatment to foreign investors. In the Greek-controlled area, business-related procedures and regulations are generally transparent and evenly applied. The area administered by Turkish Cypriots has adopted more transparent regulation but still lags behind European or U.S. standards. Non-EU investors may not invest in tertiary education, mass media, banking, and construction. Accession to the EU has reduced barriers to investment, but some have been replaced by EU-wide barriers. EU residents may own 100 percent of local companies and any company listed on the stock exchange. Restrictions on capital transfers have been lifted. Cypriot law restricts foreign, non-EU ownership of real property.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 36	Investment Freedom	No. 26
Trade Freedom	No. 59	Financial Freedom	No. 17
Fiscal Freedom	No. 108	Property Rights	No. 20
Government Spending	No. 142	Freedom from Corruption	No. 27
Monetary Freedom	No. 2	Labor Freedom	No. 55

FINANCIAL FREEDOM: *70* *no change*

Cyprus's financial sector is diverse and relatively sound. Regulation and supervision of banking and finance are efficient, and access to credit is not constrained. Financing for domestic and foreign investors is available at market rates. The three dominant banks' lending practices are prudent and conservative. There are no exchange controls and no interest rate ceiling. Cyprus has developed into a center for non-banking offshore activity, facilitated by a competitive tax regime and double-taxation treaties with many countries. The stock exchange is one of the smallest in Europe.

PROPERTY RIGHTS: *80* *no change*

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. Intellectual property rights are not adequately protected in the area administered by Turkish Cypriots. Real property remains contested. The absence of a political settlement poses an inherent risk for the foreign investor interested in buying or leasing property in the North.

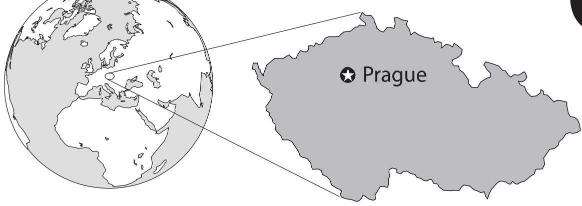
FREEDOM FROM CORRUPTION: *66* + 2.0

Corruption is perceived as present. Cyprus ranks 27th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Some foreign companies complain of bias and a lack of transparency in government consideration of competing bids. Corruption and patronage appear to continue in the Turkish Cypriot area.

LABOR FREEDOM: *71.4* + 9.9

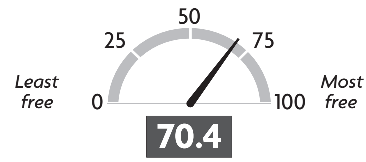
Relatively flexible labor regulations facilitate employment and productivity growth. The government mandates a minimum wage, and union power is quite strong.

CZECH REPUBLIC



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

Economic Freedom Score



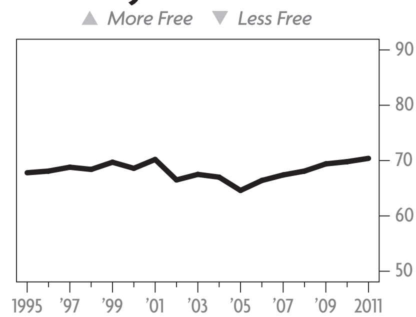
The Czech Republic's economic freedom score is 70.4, making its economy the 28th freest in the 2011 *Index*. Its overall score is 0.6 point better than last year, primarily reflecting improvements in business and monetary freedom. The Czech Republic is ranked 14th out of 43 countries in the Europe region, and its overall score is higher than the regional and global averages.

A strong commitment to economic and structural reforms has helped the Czech Republic develop a modern and flexible economy. Open to global trade and investment, the country enjoys high degrees of trade freedom, fiscal freedom, and financial freedom. The private sector accounts for about 80 percent of GDP and is the main driver of economic growth. Years of stable and robust economic expansion came to a stop in 2009 as a result of the global financial and economic downturn, but the Czech Republic weathered the turmoil relatively well.

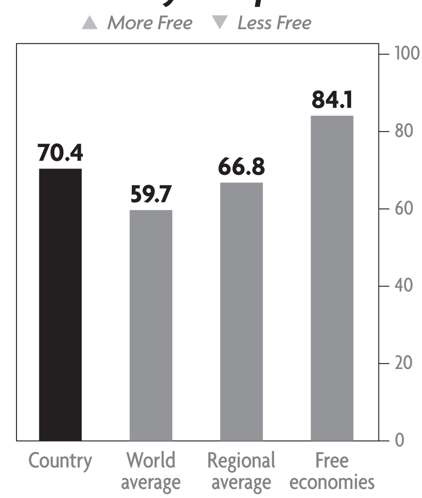
Further growth in economic freedom in the Czech Republic will require strengthened management of public finances, better protection of property rights, and more effective elimination of corruption. The government is placing a high priority on fiscal discipline and striving for budgetary balance after 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. Historically, the Czech Republic has been among the world's most industrialized states, and its economy was significantly affected by the 2009 recession, with declines in both industrial production and exports within the European Union.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 10.5 million
GDP (PPP): $253.0 billion
–4.3% growth in 2009
2.7% 5-year compound annual growth
$24,093 per capita
Unemployment: 6.7%
Inflation (CPI): 1.0%
FDI Inflow: $2.7 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *69.8* — + 4.3

Despite improvements, regulatory bottlenecks and lack of transparency remain burdensome. Licensing and bankruptcy processes are lengthy and costly.

TRADE FREEDOM: *87.6* — + 0.1

The Czech Republic's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Czech policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Services market restrictions exceed EU policy, and non-transparent government procurement and the enforcement of intellectual property rights remain problematic. Ten points were deducted from the Czech Republic's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *81* — + 0.9

The Czech Republic has relatively low tax rates. The flat income tax rate is 15 percent, and the top corporate tax rate has been reduced from 20 percent to 19 percent. Other taxes include a value-added tax (VAT), a real estate transfer tax, and an inheritance tax on non-family recipients. In the most recent year, overall tax revenue as a percentage of GDP was 36.2 percent.

GOVERNMENT SPENDING: *44.8* — − 0.8

The government is critically involved in the economy, particularly in social programs. In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 42.9 percent of GDP. The government has sold its remaining stakes in a telecommunications company and a petrochemicals refiner. The overall fiscal deficit is 6 percent, and public debt is 60 percent.

MONETARY FREEDOM: *80* — + 4.4

Inflation has been low, averaging 2.5 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. The Ministry of Finance can fix prices, set minimum or maximum commercial transaction prices, and establish periods when prices may not change. Energy, some raw materials, domestic rents, and rail and bus transport are subject to controls. Maximum prices apply to mail and telecommunications tariffs. Ten points were deducted from the Czech Republic's monetary freedom score to account for measures that distort domestic prices.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 73	Investment Freedom	No. 38
Trade Freedom	No. 12	Financial Freedom	No. 4
Fiscal Freedom	No. 68	Property Rights	No. 38
Government Spending	No. 143	Freedom from Corruption	No. 51
Monetary Freedom	No. 39	Labor Freedom	No. 40

INVESTMENT FREEDOM: *70* — *no change*

Legally, foreign and domestic investors are treated identically. The government screens foreign investment projects in banking, insurance, and defense, where the state is a partner. Slow legislative and judicial reform, uneven contract enforcement, bureaucracy, and corruption are obstacles to foreign investment. Most major state-owned companies have been privatized with foreign participation. There are no restrictions on payments or current transfers, and residents and non-residents may hold foreign exchange accounts. Branches or offices of foreign companies may buy local real estate, except for farmland or woodland.

FINANCIAL FREEDOM: *80* — *no change*

The Czech Republic's financial sector is one of Central and Eastern Europe's most advanced. The state is controlling shareholder in two banks. Foreign-controlled banks account for over 80 percent of assets. Insurance companies and pension funds include significant foreign participation. The supervisory framework is well established. Capital markets are small and lack transparency, but regulatory bodies have been merged to streamline oversight. The global financial turmoil's impact on banking has been relatively modest.

PROPERTY RIGHTS: *65* — *no change*

Property rights are protected by law, and contracts are generally secure. The judiciary is independent, but decisions vary from court to court. Commercial disputes can take years to resolve. Company registration is controlled by the courts and can be slow and complicated. Enforcing judgments and foreclosing security interests in land and personal property can be difficult.

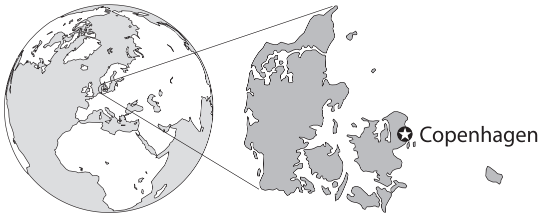
FREEDOM FROM CORRUPTION: *49* — − 3.0

Corruption is perceived as significant. The Czech Republic ranks 52nd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Allegations of corruption most often involve the court-controlled company registration system and the police. The Czech Republic has ratified the OECD's anti-bribery convention, but there is little or no enforcement. It has signed but not ratified the U.N. Convention Against Corruption.

LABOR FREEDOM: *77* — + 0.6

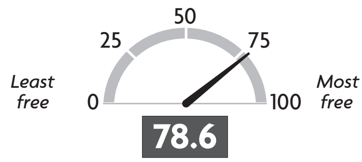
The labor market is relatively flexible. The non-salary cost of employing a worker can be high, but the severance payment system is relatively straightforward and not costly.

DENMARK

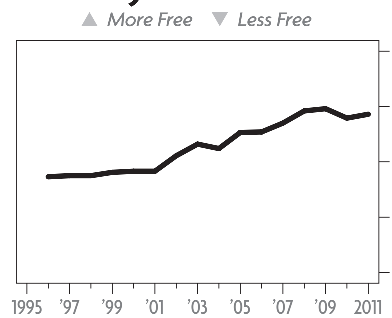


World Rank: **8** Regional Rank: **3**

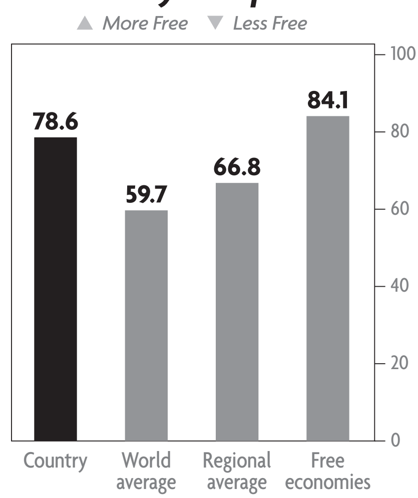
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Denmark's economic freedom score is 78.6, making its economy the 8th freest in the 2011 *Index*. Its overall score is 0.7 point higher than last year, reflecting improvements in fiscal freedom, business freedom, and monetary freedom. Denmark is ranked 3rd out of 43 countries in the Europe region, and its overall score is well above the regional average.

With its economy open to global trade and investment, Denmark is among the world leaders in business freedom, investment freedom, financial freedom, property rights, and freedom from corruption. The overall regulatory and legal environment, transparent and efficient, encourages entrepreneurial activity. Banking is guided by sensible regulations and prudent lending practices. Monetary stability is well maintained, with inflationary pressures under control. The judicial system, independent and free of corruption, provides strong protection of property rights.

Denmark's scores in fiscal freedom and government spending remain lower than world averages. Although the corporate tax rate is competitive, the overall tax burden remains heavy. Despite a decade of gradual decline, total government spending is more than half of GDP.

BACKGROUND: Denmark's strong economy depends heavily on foreign trade, and the private sector is characterized by many small and medium-size companies. The historically large welfare state, though strongly supported by the population, is the subject of increasing concern as its burden on the overall economy becomes more difficult to sustain. Concerns about immigration have surfaced in recent years, and relations between Denmark and the Muslim world have been precarious since September 2005 when several cartoon caricatures of the Prophet Muhammad were printed in Danish newspapers. Turkey attempted to block Danish Prime Minister Anders Fogh Rasmussen's appointment as Secretary General of NATO in April 2009 because of the scandal but conceded after U.S.-brokered concessions were offered to Ankara. Lars Rasmussen became Prime Minister in 2009 at the head of a continuing right-of-center coalition.

Quick Facts

Population: 5.5 million
GDP (PPP): $197.1 billion
–5.1% growth in 2009
–0.3% 5-year compound annual growth
$35,757 per capita
Unemployment: 6.0%
Inflation (CPI): 1.3%
FDI Inflow: $7.8 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *99.7* ✚ *1.8*

Denmark's regulatory environment allows the processes of business formation and operation to be among the world's most efficient and dynamic. The business framework is highly conducive to innovation and productivity growth.

TRADE FREEDOM: *87.6* ✚ *0.1*

Denmark has been a leading opponent of trade barriers as a member of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Danish policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from Denmark's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *43.2* ✚ *7.3*

Denmark has a very high income tax rate and a moderate corporate tax rate. The top income tax rate was lowered from 59 percent to 51.5 percent in January 2010. The top corporate tax rate is 25 percent. County municipal taxes range from 22.7 percent to 27.8 percent. State taxes vary from 5 percent to 15 percent. An 8 percent health tax and an optional church tax of up to 1.5 percent are also applicable. Other taxes include a value-added tax (VAT) and a vehicle tax. In the most recent year, overall tax revenue as a percentage of GDP fell slightly to 49 percent.

GOVERNMENT SPENDING: *19.5* ━ *2.5*

Most industries and businesses are now in private hands, though plans to privatize DONG Energy have been abandoned. Total government expenditures, including consumption and transfer payments, are very high. In the most recent year, government spending equaled 51.8 percent of GDP. The deficit stands at 2.8 percent of GDP. Some efforts have been made to reduce or consolidate public expenditures, including cutting the length of unemployment benefits from four years to two years and improving budget coordination among national, regional, and municipal authorities.

MONETARY FREEDOM: *81.4* ✚ *2.1*

Inflation has been low, averaging 1.9 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. Medications are heavily subsidized, and rents are generally fixed by law. Ten points were deducted from Denmark's monetary freedom score to account for policies that distort domestic prices.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 2	Investment Freedom	No. 2
Trade Freedom	No. 12	Financial Freedom	No. 1
Fiscal Freedom	No. 176	Property Rights	No. 2
Government Spending	No. 169	Freedom from Corruption	No. 2
Monetary Freedom	No. 26	Labor Freedom	No. 6

INVESTMENT FREEDOM: *90* *no change*

With a few exceptions, foreign direct investment is not restricted or prescreened. The investment code is relatively transparent, as are legal and regulatory procedures. There are no restrictions on converting or transferring investment-associated funds into or out of Denmark. EU citizens and companies from EU member states may purchase any type of real estate (except vacation properties) without prior authorization; non-EU citizens and companies not previously based in Denmark for at least five years need government permission.

FINANCIAL FREEDOM: *90* *no change*

Denmark's financial system is competitive, though the two largest banks account for about 75 percent of assets. No banks are state-owned, and the central bank is independent. Supervision and regulation are based on EU legislation. The securities market is highly developed, and the bond market is one of the world's largest. The global financial turmoil caused the collapse of several small and medium-sized banks. In response to the crisis, the parliament passed legislation calling for a joint financing program by private banks and the government. Relatively prudent lending in a sound regulatory framework has enabled Denmark to weather the crisis with resilience.

PROPERTY RIGHTS: *90* *no change*

The judiciary is independent and generally fair and efficient. Commercial and bankruptcy laws are consistently applied, and secured interests in property are recognized and enforced. Denmark adheres to key international conventions and treaties on the protection of intellectual property rights.

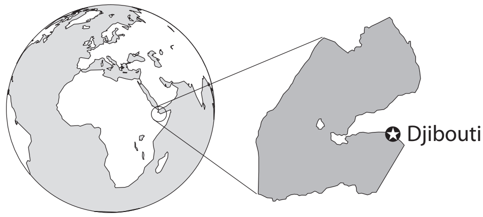
FREEDOM FROM CORRUPTION: *93* *no change*

Denmark is ranked 2nd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Denmark has signed the OECD Anti-Bribery Convention. The Public Prosecutor for Serious Economic Crime has investigated the involvement of Danish firms in the U.N. Oil-for-Food scandal.

LABOR FREEDOM: *92.1* ━ *1.6*

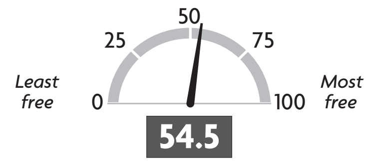
Flexible and modern labor regulations enhance employment opportunities and productivity growth. The non-salary cost of employing a worker is low, and the severance payment system is relatively inexpensive.

DJIBOUTI



World Rank: 125 **Regional Rank: 24**

Economic Freedom Score



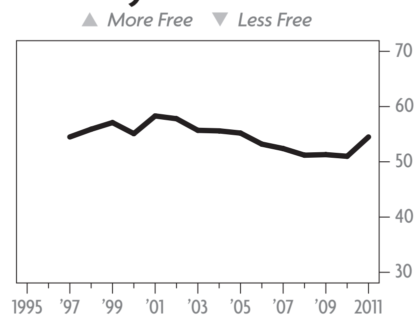
Djibouti's economic freedom score is 54.5, making its economy the 125th freest in the 2011 *Index*. Its overall score is 3.4 points higher than last year, with impressive gains in trade, labor, and monetary freedom. Djibouti is ranked 24th out of 46 countries in the Sub-Saharan Africa region, and its economy is the second most improved in the 2011 *Index*.

Djibouti is trying to transform itself into a regional trade, finance, and telecommunications hub. The economy is driven mainly by services, with industry accounting for less than 20 percent of GDP. 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 efficient.

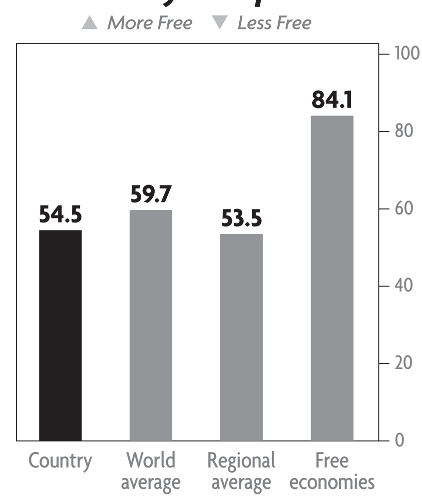
However, deeper structural and institutional reforms remain critical to maintaining stable growth and diversifying the production base. There are systemic weaknesses in business freedom, property rights, and freedom from corruption. Extensive regulations hinder the development of a more entrepreneurial environment, and the weak judicial system fuels corruption.

BACKGROUND: Djibouti has struggled toward multi-party democracy ever since gaining its independence in 1977. President Ismael Omar Guelleh was elected in 1999 and re-elected in 2005, and his multi-party, multi-ethnic coalition controls all levels of government. Opposition groups boycotted the 2005 presidential election and the February 2008 legislative election. An effort is underway to amend the constitution to permit Guelleh to run for a third term in 2011. Djibouti is strategically located at the mouth of the Red Sea along the shipping route between the Mediterranean Sea and the Indian Ocean. 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 continues its nomadic desert existence.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 0.8 million
GDP (PPP): $2.0 billion
5.0% growth in 2009
5.2% 5-year compound annual growth
$2,484 per capita
Unemployment: 59% (2007)
Inflation (CPI): 1.7%
FDI Inflow: $100 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *32.9* — 2.8

Burdensome regulations continue to hinder the development of a more vibrant private sector. The regulatory system suffers from a lack of transparency and clarity, and regulations are inconsistently enforced, injecting considerable uncertainty into entrepreneurial decision-making.

TRADE FREEDOM: *59.6* + 27.7

Djibouti's weighted average tariff rate was 15.2 percent in 2009. Despite some reforms, the prohibition of certain imports, variable and sometimes high import taxes and fees, import licensing requirements, market access restrictions in the services sector, weak enforcement of intellectual property rights, and insufficient capacity in older port facilities add to the cost of trade. Ten points were deducted from Djibouti's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *79.6* + 1.4

Djibouti has average tax rates. The top income tax rate is 30 percent, and the top corporate tax rate is 25 percent. Other taxes include a property tax, an excise tax, and a value-added tax (VAT) introduced in January 2009. In the most recent year, overall tax revenue as a percentage of GDP was 22.7 percent.

GOVERNMENT SPENDING: *50.5* — 8.4

In the most recent year, total government expenditures, including consumption and transfer payments, climbed to 40.6 percent of GDP, reflecting social spending aimed at easing the pain of high food prices. Privatization has been slow, and private enterprises are hampered by weak infrastructure and the high cost of labor, power, and telecommunications. A project to rebuild the rail connection with Ethiopia has encountered multiple delays. A new public administrative body has been appointed to oversee a central social security fund.

MONETARY FREEDOM: *76.6* + 6.1

Inflation has moderated, averaging 4.5 percent between 2007 and 2009. Goods and services such as medicines, bread, water, electricity, telecommunications, postal services, and urban transport are subject to price controls. The government also influences prices through its regulation of state-owned enterprises. Ten points were deducted from Djibouti's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *60* *no change*

No major laws discriminate against foreign investment. Certain sectors, such as public utilities, are state-owned and not open. Privatization has progressed, but the private sector remains underdeveloped outside of Djibouti's free trade zone. Reforms are being introduced, but bureaucratic procedures are complicated, and the legal system, derived from French civil law, is complex, opaque, and slow. Corruption is a deterrent to investment. Residents and non-residents may hold foreign exchange accounts, and there are no restrictions on payments or transfers. The government may not expropriate property without providing compensation.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 169**	Investment Freedom	**No. 62**
Trade Freedom	**No. 161**	Financial Freedom	**No. 38**
Fiscal Freedom	**No. 79**	Property Rights	**No. 99**
Government Spending	**No. 129**	Freedom from Corruption	**No. 113**
Monetary Freedom	**No. 70**	Labor Freedom	**No. 65**

FINANCIAL FREEDOM: *60* *no change*

Djibouti's financial sector has been growing as more banks, particularly foreign banks, enter the market and increase competition. Since 2006, the central bank has permitted more foreign banks to operate. The government retains a minority stake in the largest commercial bank. The government has acted to promote the integrity and efficiency of the banking sector by adopting new banking laws. Credit is allocated on market terms, but access to credit for entrepreneurial activity is still limited by high costs and the lack of other available financing instruments. The government imposes no limitations on international fund conversions or transfers, and there are no foreign exchange controls. Capital markets have not been developed.

PROPERTY RIGHTS: *30* *no change*

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. The government does not enforce laws protecting intellectual property rights, and pirated goods are sold openly in the informal markets.

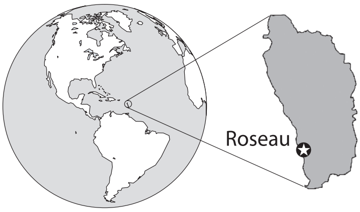
FREEDOM FROM CORRUPTION: *28* — 2.0

Corruption is perceived as widespread. Djibouti ranks 111th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. It is estimated that more than 80 percent of enterprises are within the informal sector, including microenterprises that play a key role in the economy. Anti-corruption laws are rarely enforced. Administrative delays, demands for petty bribes, and a non-transparent judicial system are barriers to foreign direct investment.

LABOR FREEDOM: *67.7* + 12.4

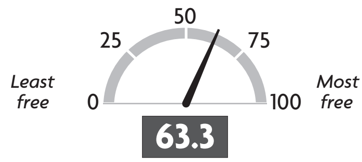
Relatively inflexible labor regulations continue to limit employment and productivity growth. The non-salary cost of employing a worker is moderate, but dismissing an employee can be relatively burdensome. Regulations on work hours are not fully flexible.

DOMINICA

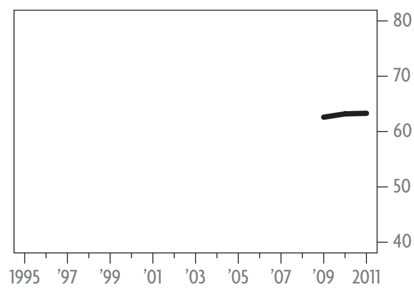


World Rank: **72** Regional Rank: **15**

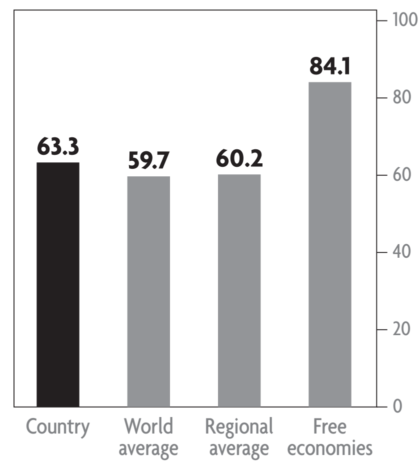
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Dominica's economic freedom score is 63.3, making its economy the 72nd freest in the 2011 *Index*. Its overall score is virtually unchanged from last year, with small gains in monetary and fiscal freedom offset by modest losses elsewhere. Dominica is ranked 15th out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world average.

Dominica performs relatively well in many of the 10 economic freedoms. The entrepreneurial environment is now more dynamic, and foreign and domestic investors are generally treated equally. Thanks to a stronger macroeconomic framework, the impact of the global economic downturn has been less severe than in neighboring countries. The top individual income tax rate has been reduced to 35 percent.

Ensuring long-term economic growth, however, will require increasingly prudent public finance management. Government spending remains over 40 percent of GDP, and government services are inefficient. Dominica's low financial freedom score reflects lingering problems with bank supervision and the regulatory framework.

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, Dominica's government decided to join Venezuela's Bolivarian Alternative for the Americas (ALBA) socialist trade agenda. This could undermine regional economic integration under the CARICOM Single Market and Economy. As a member of the Organization of Eastern Caribbean States, Dominica will likely sign a treaty for greater economic and political integration in December 2010. Tourism is less significant than on other Eastern Caribbean islands, although the rugged mountains and rain forests attract some ecotourists. 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.

Quick Facts

Population: 73,000
GDP (PPP): $0.7 billion
–0.3% growth in 2009
2.6% 5-year compound annual growth
$10,177 per capita
Unemployment: n/a
Inflation (CPI): 0.0%
FDI Inflow: $46.5 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *74.8* — *0.6*

With measures to improve the country's entrepreneurial environment implemented, Dominica has made progress in eliminating regulatory bottlenecks and reducing the overall cost of conducting business. However, the reform process has slowed in recent years.

TRADE FREEDOM: *74.3* *no change*

Dominica's weighted average tariff rate was 7.9 percent in 2007. Dominica is trying to improve customs efficiency, modernize customs operations, and address inefficiencies in the clearance of goods, but some import and export bans and restrictions, import taxes and fees, export fees, restrictions on services markets, import licensing, export subsidies, and limited state trading add to the cost of trade. Ten points were deducted from Dominica's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *69.5* + *1.8*

After some stalled reform plans, the top income tax rate was reduced to 35 percent from 38 percent as of January 1, 2010. The corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT), an environmental tax, and excise taxes on food and fuel. In the most recent year, overall tax revenue as a percentage of GDP was 30.4 percent.

GOVERNMENT SPENDING: *45.8* — *4.0*

In the most recent year, total government expenditures, including consumption and transfer payments, increased slightly to 42.5 percent of GDP. Capital spending has remained at the high levels introduced to spur post-hurricane recovery in 2008, but because of steady VAT revenues, the budget remains in surplus. Prudent management of aid inflows remains a key to sound fiscal management.

MONETARY FREEDOM: *86.3* + *6.3*

Inflation has been low, averaging 1.9 percent between 2007 and 2009. Dominica's currency is the regional Eastern Caribbean Dollar. The Eastern Caribbean Central Bank issues the EC$, manages monetary policy, and regulates and supervises commercial banking in member countries. A comprehensive government restructuring of the economy, including elimination of price controls and privatization of the state banana company, is ongoing. Five points were deducted from Dominica's monetary freedom score to account for remaining price controls on fuel.

INVESTMENT FREEDOM: *65* *no change*

Dominica is relatively open to foreign investment. Foreign investors generally receive national treatment, and they may hold up to 100 percent ownership. Dominica reserves many small-business opportunities for nationals. Investment is hindered by non-transparent bureaucracy and regulation, infrastructure constraints, underdeveloped markets, and inefficient contract enforcement and land registration. There are no restrictions on the repatriation of dividends for totally foreign-owned firms; a mixed foreign–domestic company may repatriate profits to the extent of its foreign participation. In general, non-national investors must obtain an Alien Landholding License to purchase up to one acre of land for residential use and up to three acres for trade or business purposes.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 51	Investment Freedom	No. 50
Trade Freedom	No. 101	Financial Freedom	No. 133
Fiscal Freedom	No. 134	Property Rights	No. 38
Government Spending	No. 141	Freedom from Corruption	No. 34
Monetary Freedom	No. 4	Labor Freedom	No. 83

FINANCIAL FREEDOM: *30* *no change*

Dominica's financial sector is not fully developed, and regulation and supervision are poor. Shallow markets and a lack of available financial instruments restrict overall access to credit. Dominica is one of nine members of the Eastern Caribbean Central Bank. In recent years, bank credit to the private sector has gradually increased, and non-performing loans have fallen to around 10 percent of total assets. The recently implemented Financial Services Unit Act is aimed at strengthening the regulatory and prudential framework for non-bank financial institutions, a sector that is dominated by insurance companies and credit unions.

PROPERTY RIGHTS: *65* *no change*

Dominica has an efficient legal system based on British common law. The judiciary is independent, and public trials are generally fair. When the male head of household dies without a will, the wife may not inherit or sell the property, but she may live in it and pass it to her children. Pirated copyrighted material is sold openly.

FREEDOM FROM CORRUPTION: *59* — *1.0*

Corruption is perceived as significant. Dominica ranks 34th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. There are criminal penalties for official corruption, but the law is not implemented effectively. Monitoring of non-bank financial institutions needs to be strengthened to deter money laundering.

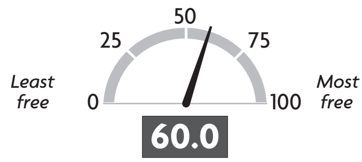
LABOR FREEDOM: *62.8* — *2.4*

Dominica's employment regulations are relatively inflexible. The non-salary cost of employing a worker is moderate, and dismissing a redundant employee remains costly.

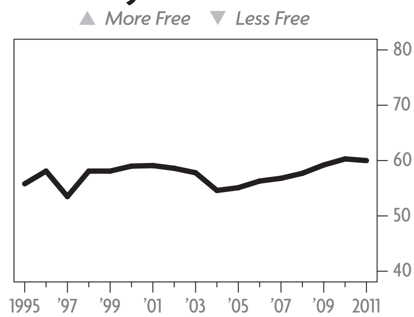
DOMINICAN REPUBLIC

World Rank: **90** Regional Rank: **18**

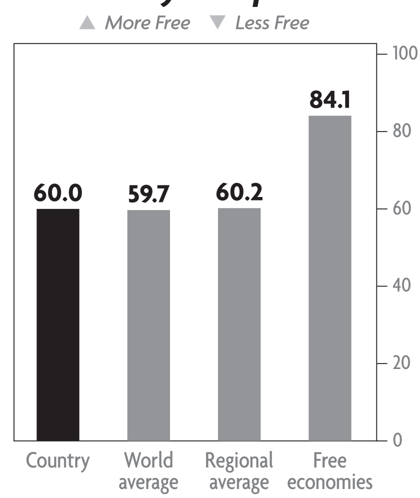
Economic Freedom Score



Country's Score Over Time



Country Comparisons



The Dominican Republic's economic freedom score is 60, making its economy the 90th freest in the 2011 *Index*. Its overall score is 0.3 point lower than last year due to modest declines in business and labor freedom. The Dominican Republic is ranked 18th out of 29 countries in the South and Central America/Caribbean region, and its score is just about average for the region.

The Dominican Republic has implemented significant economic reforms in many parts of its economy over the past decade, and these reforms have resulted in notable gains in income growth and poverty reduction while maintaining macroeconomic stability. Moderate tax rates and efforts to reduce trade barriers have contributed to economic expansion.

However, the country's long-term economic competitiveness has become vulnerable in recent years following the global financial turmoil. Progress on structural reforms and a needed fiscal adjustment have been complicated and slowed by entrenched interests. Corruption and poor enforcement of the rule of law continue, hurting the overall investment and entrepreneurial climate.

BACKGROUND: Leonel Fernández of the Dominican Liberation Party, president from 1996 to 2000 and elected again in 2004, was re-elected to a third term in 2008. A 1990s economic boom led by tourism, telecommunications, and *maquiladora* manufacturing slowed to negative growth by 2003. Because nearly 60 percent of exports go to the U.S., the Central America–Dominican Republic–United States Free Trade Agreement has helped to boost investment and exports and minimize losses to Asian textile manufacturers. However, the global economic downturn in 2008 had a serious impact on tourism and remittances. The Dominican Republic suffers from government corruption, wasteful spending, and high unemployment. Although the country has developed rapidly in the past decade, it is still dogged by unreliable electric service caused by seasonal drought, low collection rates, theft, infrastructure problems, and corruption.

Quick Facts

Population: 9.0 million
GDP (PPP): $80.3 billion
3.5% growth in 2009
6.9% 5-year compound annual growth
$8,896 per capita
Unemployment: 15.0%
Inflation (CPI): 1.5%
FDI Inflow: $2.2 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *56.4* — *6.0*

The entrepreneurial environment is relatively streamlined. Licensing requirements have been reduced, and launching a business has become somewhat less time-consuming. However, progress lags behind progress in other countries, and the inefficient implementation of regulations and the petty corruption it inspires are considerable impediments for businesses.

TRADE FREEDOM: *79.8* — *0.2*

The Dominican Republic's weighted average tariff rate was 5.1 percent in 2008. Import permit requirements, non-transparent and restrictive regulations and standards, non-transparent government procurement, inefficient customs administration, and corruption add to the cost of trade. Ten points were deducted from the Dominican Republic's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *85.3* *no change*

The Dominican Republic has moderate tax rates. The top income tax rate is 25 percent. Corporations are subject to a flat rate of 25 percent. Other taxes include a value-added tax (VAT), an estate tax, and a net wealth tax. In the most recent year, overall tax revenue as a percentage of GDP was 15 percent.

GOVERNMENT SPENDING: *89.1* — *1.1*

Total government expenditures, including consumption and transfer payments, are relatively low. In the most recent year, government spending increased slightly to 19.1 percent of GDP. The Dominican Republic suffers from poor revenue collection and public financial management. Social tensions exist over low public salaries and weak provision of social services including health and electricity. In 2009, in response to lower tax collection and higher energy subsidies in 2008, authorities tightened the fiscal stance, primarily by reducing capital expenditures, but more than reversed the savings with high expenditures in the second half of the year, resulting in a public-sector deficit of about 4.5 percent of GDP and driving total public debt to 39 percent of GDP.

MONETARY FREEDOM: *77.1* + *6.3*

Inflation has moderated, averaging 4.1 percent between 2007 and 2009. Transport and fuel costs weigh heavily on the consumer price index, and monthly inflation levels fluctuate along with changes in international oil prices. The government applies price controls to electricity and fuel and subsidizes some agricultural products and electricity generation. Ten points were deducted from the Dominican Republic's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *55* *no change*

Unlimited foreign investment is permitted in most sectors. Lack of transparency in the legal and regulatory system remains a problem. Complaints have included corruption, requests for bribes, delays in government payments, expropriation of property without adequate compensation, and failure to honor contracts. Eighty percent of the labor force of a foreign or national company, including free trade zone companies, must be composed of Dominican nationals (the management or administrative staff of a foreign company is exempt). Residents and non-residents may hold foreign exchange accounts. Foreign investors and citizens have the same rights to own property.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 131	Investment Freedom	No. 75
Trade Freedom	No. 78	Financial Freedom	No. 106
Fiscal Freedom	No. 38	Property Rights	No. 99
Government Spending	No. 21	Freedom from Corruption	No. 99
Monetary Freedom	No. 66	Labor Freedom	No. 104

FINANCIAL FREEDOM: *40* *no change*

The Dominican Republic's small financial sector has achieved modest liberalization and consolidation. Assets are largely controlled by 14 multiple-service banks, and overall, the banking sector is well capitalized. An attempt to create a new financial regulatory network was circumvented by a government bailout of several banks during a 2003 banking crisis, and confidence in banking has been shaky since then. However, credit to the private sector has bounced back in recent years. Pension funds and insurance companies account for less than 10 percent of financial-sector assets. Distortions in the foreign exchange market have been gradually eliminated.

PROPERTY RIGHTS: *30* *no change*

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 its patent and trademark laws, enforcement of intellectual property rights remains poor. The Dominican Republic has a history of problems resulting from conflicting property titles.

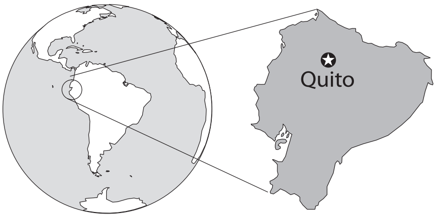
FREEDOM FROM CORRUPTION: *30* *no change*

Corruption is perceived as widespread. The Dominican Republic ranks 99th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption remains endemic in government, the private sector, and the security forces. Despite recent reforms, Dominican and foreign business leaders complain that judicial and administrative corruption affects the settlement of business disputes.

LABOR FREEDOM: *57.1* — *2.5*

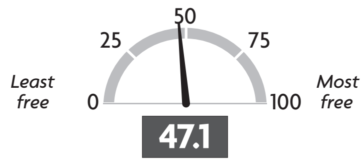
Employment regulations remain burdensome. The non-salary cost of employing a worker is moderate, but dismissing an employee can be difficult and costly. Restrictions on work hours are rigid.

ECUADOR



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

Economic Freedom Score



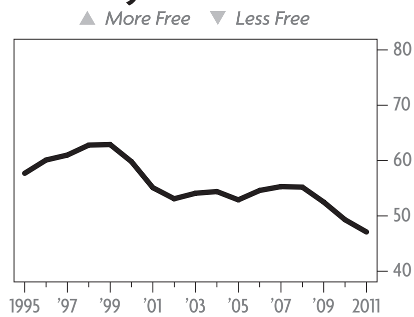
Ecuador's economic freedom score is 47.1, making its economy the 158th freest in the 2011 *Index*. Its overall score is 2.2 points lower than last year, continuing a sharp downward trend driven this year primarily by explosive growth in government spending. Ecuador is ranked 27th out of 29 countries in the South and Central America/Caribbean region, and its overall score is significantly below the world and regional averages.

The reach of Ecuador's government continues to extend to additional economic sectors beyond the petroleum industry. The private sector is struggling to operate and compete with the growing public sector in what has become a restrictive entrepreneurial environment. Private investment has shrunk as a result of costly regulations and uncertainty that has made expansion planning more difficult.

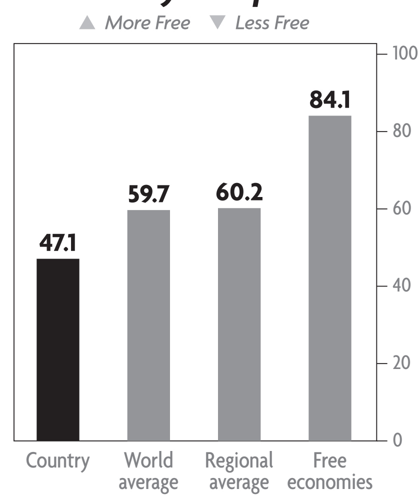
The rule of law is subject to pervasive corruption that weakens property rights. Ecuador's underdeveloped and state-controlled financial sector limits access to credit and adds additional costs to small-business entrepreneurs. Labor regulations are rigid and exacerbate unemployment and the lack of job opportunities.

BACKGROUND: In January 2007, economist Rafael Correa was elected president on a left-wing populist platform of tighter government control of banking and oil production. He also promised to default on foreign debt and to oppose any free trade agreement with the United States. Capital flight has soared, and foreign direct investment has fallen. Aligned with Venezuela's leftist President Hugo Chávez, Correa has consolidated his political power under a new constitution imposed in a climate of government violence. He won re-election to a second term in April 2009. Ecuador is the world's largest banana exporter. It also has ample petroleum reserves, but the government-run oil industry is mismanaged and corrupt, and production is declining. Factions in the legislature fuel political and institutional instability, and there is a lack of respect for the rule of law.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 14.1 million
GDP (PPP): $111.2 billion
0.4% growth in 2009
3.6% 5-year compound annual growth
$7,881 per capita
Unemployment: 8.5%
Inflation (CPI): 5.1%
FDI Inflow: $312 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *53.5* + *0.6*

The inconsistent application of commercial laws increases the cost of conducting business. Despite some progress, Ecuador's production and investment climate has become increasingly uncertain as the government's economic policies evolve with implementation of the new constitution.

TRADE FREEDOM: *76* + *4.2*

Ecuador's weighted average tariff rate was 4.5 percent in 2009. Import restrictions, price bands and variable levies against certain agriculture goods, import taxes against certain products, import licenses, mandatory pre-approval for imports of certain agriculture products, inefficient administration of tariff rate quotas, discriminatory standards and regulations, non-transparent government procurement, and issues involving the enforcement of intellectual property rights add to the cost of trade. Recent changes in Ecuador's tariff system include barriers intended to reduce its balance of payments deficit. Fifteen points were deducted from Ecuador's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *78.9* – *0.4*

Ecuador has an above-average income tax rate and an average corporate tax rate. The top income tax rate is 35 percent, and the corporate tax rate is 25 percent. Profits reinvested toward capital purchases or the acquisition of new technology are subject to a special 15 percent rate. Other taxes include a value-added tax (VAT), a property tax, and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 16 percent.

GOVERNMENT SPENDING: *50.1* – *27.4*

In the most recent year, total government expenditures, including consumption and transfer payments, climbed to 40.8 percent of GDP. State-owned electricity and telecommunications enterprises remain inefficient.

MONETARY FREEDOM: *64.9* + *1.0*

Inflation, restrained somewhat by Ecuador's use of the U.S. dollar as its currency, averaged 5.7 percent between 2007 and 2009. Only public or mixed enterprises (with a public majority stake) may provide public services or control strategic sectors. The government sets domestic prices for bread, noodles, sugar, tuna, vegetable oil, rice, oats, milk, chicken, bananas, coffee, cocoa, fuels, and pharmaceuticals. Twenty points were deducted from Ecuador's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *25* *no change*

Ecuador has been taking steps toward cancelling 13 Bilateral Investment Treaties and has withdrawn from the International Center for Settlement of Investment Disputes. Foreign investment receives national treatment, but investment in petroleum, mining, domestic fishing, electricity, telecommunications, broadcast media, coastal and border real estate, and national security is subject to government approval and additional regulations. Rules are complex and non-transparent, and decision-making is significantly politicized. Profit repatriation and foreign access to the credit market are allowed. There are no restrictions on foreign exchange, direct investment, or transfers. In some cases, the judicial system has failed to provide adequate protection from unlawful expropriation.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 137	Investment Freedom	No. 146
Trade Freedom	No. 93	Financial Freedom	No. 106
Fiscal Freedom	No. 83	Property Rights	No. 146
Government Spending	No. 131	Freedom from Corruption	No. 148
Monetary Freedom	No. 158	Labor Freedom	No. 162

FINANCIAL FREEDOM: *40* *no change*

Ecuador's financial sector remains underdeveloped, and access to credit is costly. Banking has undergone consolidation and restructuring, and the four largest banks account for over 60 percent of deposits. Non-performing loans have been rising, and state interference has expanded. Credit is available on market terms, but limited options for financing hamper entrepreneurial activity. Overall, the financial system lacks efficiency, and capital markets are shallow. There are two stock markets, but little equity has been traded. Foreign takeovers of banks and insurance companies are restricted.

PROPERTY RIGHTS: *20* *no change*

The rule of law is weak, and intellectual property rights are not enforced. Court delays are significant, judgments are unpredictable and inconsistent, and the judicial system is subject to corruption. Expropriation is possible, and agricultural land may be seized by squatters. The new constitution increases the state's role in the economy and enshrines the government's right to control strategic sectors such as natural resources and telecommunications. Ecuador is ranked 104th out of 125 countries in the 2010 International Property Rights Index.

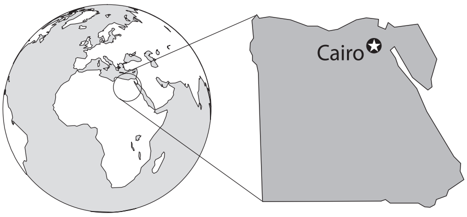
FREEDOM FROM CORRUPTION: *22* + *2.0*

Corruption is perceived as pervasive. Ecuador ranks 146th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Laws and regulations to combat official corruption are inadequately enforced. Illicit payments for official favors and thefts of public funds are common. Dispute settlement is complicated by the judicial system's inefficiency and lack of transparency. Local authorities often demand gratuities to issue necessary permits.

LABOR FREEDOM: *40.1* – *2.1*

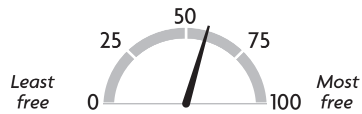
Job-tenure regulations create a disincentive for new hiring, and employers resort to short-term outsourcing contracts. Cumbersome labor regulations inhibit expansion of employment opportunities and have fostered an informal labor market.

EGYPT



World Rank: **96** Regional Rank: **11**

Economic Freedom Score



59.1

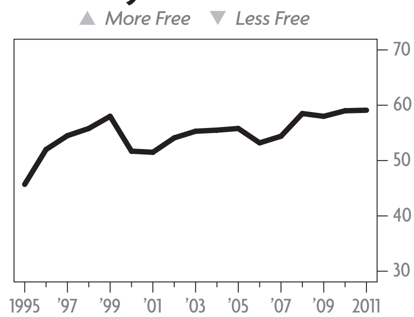
Egypt's economic freedom score is 59.1, making its economy the 96th freest in the 2011 *Index*. Its overall score is virtually unchanged, with significant gains in investment freedom offset by worsened scores for government spending and monetary freedom. Egypt is ranked 11th out of 17 countries in the Middle East/North Africa region, and its overall score is just below the world and regional averages.

Continuing its record of economic transformation, Egypt has centered its recent policy choices on measures that promote job creation. Competitive tax rates and increasingly transparent regulations have supported the development of a vibrant entrepreneurial environment. Egypt's trade freedom has improved considerably over the past few years. In the financial sector, the state's presence has been phased out, and despite the challenging global financial environment, modernization has continued to progress.

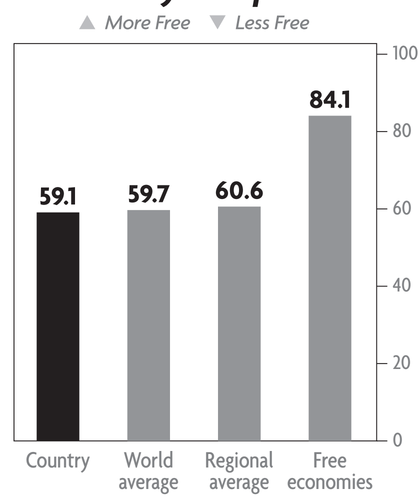
Deeper institutional reforms would be necessary to sustain long-term economic growth and development. Those reforms include strengthening the judicial system, better protecting property rights, and effectively eradicating corruption, which is perceived to be widespread.

BACKGROUND: Egypt is the most populous Arab country and a major force in Middle Eastern affairs. President Hosni Mubarak has held power since 1981 and appears to be grooming his son Gamal as his successor. Despite incremental reforms to liberalize the socialist economy, the government still heavily subsidizes food, energy, and other key commodities. In 2005, under Prime Minister Ahmed Nazif, who took office in 2004 and placed liberal reformers in key positions, the government reduced personal and corporate tax rates, cut energy subsidies, and privatized several enterprises. Since then, the economy has been bolstered by growing foreign investment and revenues from the production and export of oil and natural gas. The global economic downturn has reduced revenues from manufacturing, tourism and the Suez Canal. As a result, Egypt's annual GDP growth rate fell significantly in 2009.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 76.7 million
GDP (PPP): $469.7 billion
4.7% growth in 2009
6.4% 5-year compound annual growth
$6,123 per capita
Unemployment: 9.4%
Inflation (CPI): 16.2%
FDI Inflow: $6.7 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *64.5* — *0.5*

Egypt's entrepreneurial environment continues to benefit from previous regulatory reforms. The government has a "one-stop shop" for business investment. Launching a business has become less time-consuming, although licensing requirements remain cumbersome.

TRADE FREEDOM: *74* *no change*

Egypt's weighted average tariff rate was 8 percent in 2009. Egypt has made progress in opening its market to international trade. Burdensome government bureaucracy, import bans and restrictions, services market access restrictions, non-transparent sanitary and phytosanitary measures, import licensing, domestic preference in government procurement, inconsistent customs valuation, and weak enforcement of intellectual property rights add to the cost of trade. Ten points were deducted from Egypt's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *89.6* — *0.1*

Egypt has below-average personal income and corporate tax rates. The top individual and corporate income tax rates are 20 percent. A special tax of 40.55 percent remains in effect for oil, gas, and exploration companies. Other taxes include a property tax and general sales tax (GST) that functions as a value-added tax (VAT). In the most recent year, overall tax revenue as a percentage of GDP was 15.4 percent.

GOVERNMENT SPENDING: *65.3* — *8.1*

Following the global financial crisis, Egypt adopted a fiscal stimulus package measuring 1.5 percent of GDP. As a result, total government expenditures, including consumption and transfer payments, rose significantly to 34 percent of GDP in the most recent year. The budget deficit is around 7 percent of GDP. Subsidies are widespread in oil, transport, and housing and are poorly targeted in the food sector. Privatization has stalled.

MONETARY FREEDOM: *60.8* — *3.4*

Inflation has been high, averaging 14.7 percent between 2007 and 2009. The government controls prices for some basic foods, energy (including fuel), transport, and medicine and subsidizes basic food items, sugar, pharmaceuticals, and public transportation. Fifteen points were deducted from Egypt's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *65* + *15.0*

Most investment projects must be reviewed to gain legal status and qualify for incentives. Foreigners may own up to 100 percent of a project, but approval is easier for joint ventures with domestic partners, and certain sectors remain restricted. Regulatory transparency has increased and bureaucracy has been reduced, but regulations may be enforced inconsistently, and the judicial system is slow and subject to political influence. Residents and non-residents may hold foreign exchange accounts. There are no restrictions on repatriating capital. Real estate laws are complex, but there are few restrictions on foreign ownership of non-agricultural real estate.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 96**	Investment Freedom	**No. 50**
Trade Freedom	**No. 102**	Financial Freedom	**No. 70**
Fiscal Freedom	**No. 23**	Property Rights	**No. 73**
Government Spending	**No. 99**	Freedom from Corruption	**No. 113**
Monetary Freedom	**No. 170**	Labor Freedom	**No. 118**

FINANCIAL FREEDOM: *50* *no change*

Full private-sector ownership, including foreign ownership, is allowed in banking and insurance, but five public banks dominate the sector. Many large international financial institutions in commercial and investment banking, mutual funds, insurance, and securities trading now operate in Egypt. The government sold a majority stake in the Bank of Alexandria in 2006. Sale of Banque du Caire has been delayed indefinitely following the government's failure to sell its stake in June 2008. Capital markets are developing, and the stock exchange has been expanding as a key source of financing. In recent years, Egypt has undertaken a number of reforms to deepen capital markets and restructure the insurance sector. In 2009, the Egyptian Financial Supervisory Authority was established to facilitate the ongoing progress toward financial market sophistication.

PROPERTY RIGHTS: *40* *no change*

The government sometimes uses fast-track military courts to circumvent the judiciary. On average, it takes six years to decide commercial cases, and appeal procedures can extend cases beyond 15 years. Local contractual arrangements are generally secure. Laws on real estate ownership are complex, and titles to real property may be difficult to establish and trace. Judicial procedures tend to be protracted, costly, and subject to political pressure. Enforcement of intellectual property rights is seriously deficient.

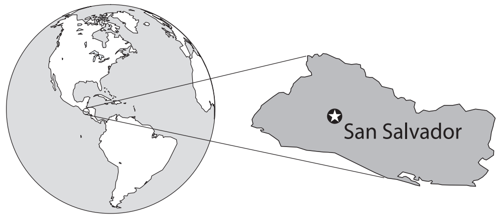
FREEDOM FROM CORRUPTION: *28* *no change*

Corruption is perceived as widespread. Egypt ranks 111th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Bribery of low-level civil servants seems to be a part of daily life, and there are allegations of significant corruption among high-level officials.

LABOR FREEDOM: *53.6* — *2.0*

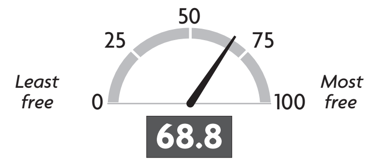
The impact of the government's new labor code has been limited. The labor market remains rigid, with high non-salary costs of employing workers and restrictions on work hours.

EL SALVADOR



World Rank: **39** Regional Rank: **4**

Economic Freedom Score



El Salvador's economic freedom score is 68.8, making its economy the 39th freest in the 2011 *Index*. Its overall score is 1.1 points lower than last year, with significant declines in property rights and freedom from corruption. El Salvador is ranked 4th out of 29 countries in the South and Central America/Caribbean region, and its overall score remains well above the world average.

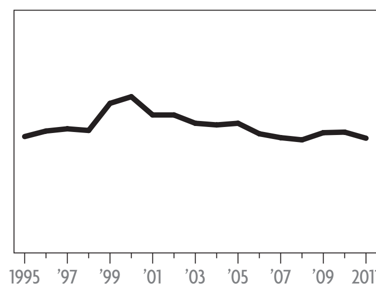
The Salvadoran economy, with its openness to global trade and investment, remains one of the most economically free in the region. Although the global economic slowdown took a heavy toll on economic growth in 2009, economic expansion has gradually resumed since early 2010. The banking sector remains relatively well developed and capitalized, with an array of financial services available.

El Salvador's overall economic freedom continues to be hampered by institutional weaknesses. Property rights are moderately well protected, but the relatively weak and inefficient judicial system needs deeper reform. Freedom from corruption is the only indicator on which El Salvador scores below the world average.

BACKGROUND: Since the end of the 1980–1992 civil war, El Salvador's political parties have cooperated on political and economic reforms, the restoration of civil liberties, and respect for human rights. Steady economic growth and poverty reduction are due in part to the National Republican Alliance (ARENA) party's free-market policies in the mid and late 1990s. Coffee exports remain significant, but much growth has come from *maquila* industries and the services sector. Annual emigrants' remittances of roughly $3 billion are also vital. El Salvador participates in the Central America–Dominican Republic–United States Free Trade Agreement. In March 2009, former television journalist Mauricio Funes, running on the Farabundo Marti Liberation Front ticket as a moderate, became El Salvador's first leftist president. A poor education system, a dysfunctional judicial system, and increasing gang violence are major concerns.

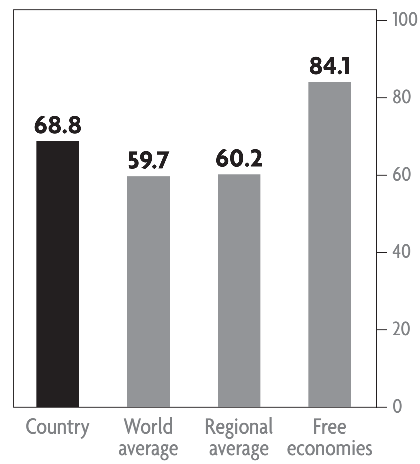
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 5.8 million
GDP (PPP): $42.9 billion
–3.5% growth in 2009
1.8% 5-year compound annual growth
$7,366 per capita
Unemployment: 7.2%
Inflation (CPI): 0.5%
FDI Inflow: $431 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *65.5* — *− 1.9*

El Salvador has taken steps in recent years to improve its entrepreneurial environment. However, regulations are enforced inconsistently.

TRADE FREEDOM: *85* — *+ 1.2*

El Salvador's weighted average tariff rate was 2.5 percent in 2009. El Salvador is relatively open to international trade, but high tariffs remain in certain sectors. Services market access barriers, restrictive sanitary and phytosanitary regulations, export subsidies, and a few other discriminatory applications of standards add to the cost of trade. Ten points were deducted from El Salvador's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *85.8* — *+ 0.1*

El Salvador has average tax rates. The top personal and corporate income tax rates are 25 percent. Other taxes include a value-added tax (VAT), a tax on insurance contracts, and excise taxes. In the most recent year, overall tax revenue as a percentage of GDP was 13 percent. A fiscal package approved in late 2009 includes comprehensive tax reforms to increase revenue. New taxes include increased excise taxes on tobacco, alcohol, and carbonated beverages, a vehicle registration tax, and a tax on individuals' interest income.

GOVERNMENT SPENDING: *88* — *− 1.2*

El Salvador responded to the global recession primarily through expenditure reductions, slowed execution of public investment projects, and loans. In the most recent year, total government expenditures, including consumption and transfer payments, rose slightly to 20 percent of GDP. The economy is largely privatized, but monopolies persist in transportation, banking, and electricity distribution.

MONETARY FREEDOM: *79.9* — *+ 5.8*

Inflation in the fully dollarized economy dropped to an average of 2.5 percent between 2007 and 2009. The government controls the prices of some goods and services, including liquid propane gas, public transport, and electricity. Government ministries directly subsidize water services and set the distribution-service price. The government subsidizes diesel, petroleum, and liquid propane gas. Ten points were deducted from El Salvador's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *75* — *no change*

The law grants equal treatment to foreign and domestic investors. Investors who begin operations with 10 or fewer employees must present plans to increase employment to the Ministry of Economy. Small-business concerns and investments in certain sectors face additional regulation or restriction. Laws and regulations are relatively transparent and generally foster competition, although commercial law enforcement remains inefficient and inconsistent. There are no controls or requirements on current transfers, access to foreign exchange, or most capital transactions. The government may not expropriate property without compensation. No one may own more than 605 acres of land. Rural lands may not be acquired by foreigners from countries where Salvadorans do not enjoy the same right.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 91	Investment Freedom	No. 26
Trade Freedom	No. 48	Financial Freedom	No. 17
Fiscal Freedom	No. 36	Property Rights	No. 73
Government Spending	No. 29	Freedom from Corruption	No. 84
Monetary Freedom	No. 41	Labor Freedom	No. 77

FINANCIAL FREEDOM: *70* — *no change*

Following a decade of liberalization, El Salvador's banking sector, one of Central America's most advanced, is stable, and credit is easily accessible. Banks are now largely foreign-owned, but two of the 12 operating in the country are state-owned. A wide range of financial services are available, and non-performing loans account for nearly 4 percent of the total. Banking regulations are open and transparent. Non-bank financial institutions are limited by the lack of personal savings and low disposable income. In recent years, El Salvador has pursued additional measures to enhance financial-sector resilience and financial intermediation. The Financial Sector Supervision and Regulation Law aims to strengthen supervision by merging the multiple supervisory entities and giving the central bank more regulatory power.

PROPERTY RIGHTS: *40* — *− 10.0*

Private property is only moderately well protected. Lawsuits move very slowly and can be costly and unproductive. Private interests can manipulate the legal system, and final rulings may not be enforced. Judicial inefficiency and crime are among the main constraints on business. El Salvador is ranked 71st out of 125 countries in the 2010 International Property Rights Index.

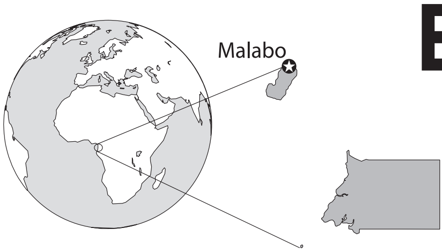
FREEDOM FROM CORRUPTION: *34* — *− 5.0*

Corruption is perceived as significant. El Salvador ranks 84th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a significant drop from 2008. It is against the law to solicit, offer, or accept a bribe. Most government corruption occurs at lower levels of the bureaucracy, but several high-profile cases have involved senior government and judicial officials.

LABOR FREEDOM: *64.9* — *+ 0.4*

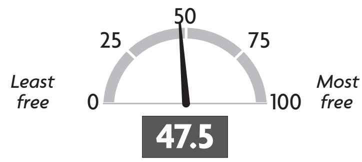
Relatively flexible labor regulations enhance employment opportunities. Restrictions on work hours are not rigid, but dismissing an employee is difficult. There is a shortage of skilled labor.

EQUATORIAL GUINEA



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

Economic Freedom Score



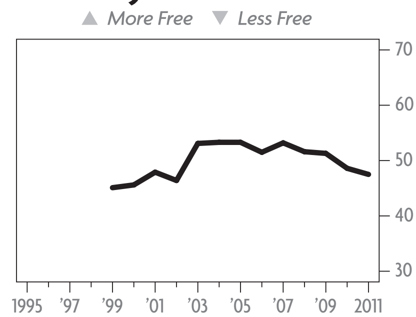
Equatorial Guinea's economic freedom score is 47.5, making its economy the 157th freest in the 2011 *Index*. Its overall score fell 1.1 points, driven by deteriorating scores for monetary freedom, government spending, business freedom, and labor freedom. Equatorial Guinea is ranked 37th out of 46 countries in the Sub-Saharan Africa region, and its score is below the regional and world averages.

Privatization and liberalization half-measures have led to only marginal economic and investment growth. The oil sector has been the major source of high economic growth over the past five years. Overall economic development has been uneven, and poverty remains daunting. Improving the investment and business climate remains an urgent priority.

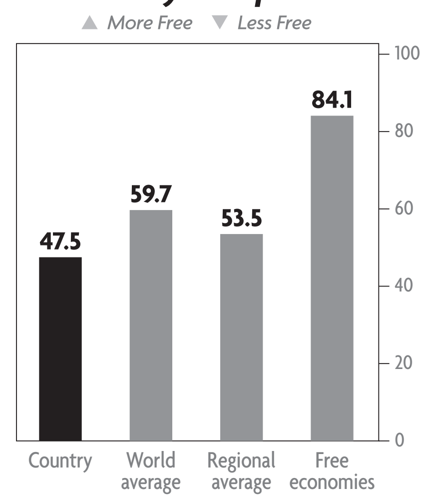
Persistent institutional weaknesses impede creation of a more vibrant private sector. Pervasive corruption and onerous regulations are major hurdles for foreign and domestic investment. The rule of law is weak, and private property is vulnerable to bureaucratic interference and even expropriation. Restrictive labor laws hamper employment and productivity growth. More than half of the workforce is estimated to work in the shadow economy.

BACKGROUND: Equatorial Guinea, though small, is now sub-Saharan Africa's third-largest oil producer and one of Africa's fastest-growing economies. One-party rule ended in 1991, but opposition parties have won few victories. President Teodoro Obiang Nguema Mbasogo seized power in a 1979 coup, won deeply flawed elections in 2002 and 2009, and still tightly controls both the military and the government. Oil accounted for 91 percent of GDP, 91 percent of government revenue, and 99 percent of exports in 2007. Government management of the country's oil wealth, however, is not transparent, and average living standards are low. Most people still rely on subsistence farming, hunting, and fishing.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 0.7 million
GDP (PPP): $23.7 billion
5.3% growth in 2009
9.4% 5-year compound annual growth
$33,873 per capita
Unemployment: n/a
Inflation (CPI): 5.9%
FDI Inflow: $1.3 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *44.2* — 0.6

Equatorial Guinea's burdensome regulatory environment impedes the overall freedom to conduct business. Lingering constraints include cumbersome administrative procedures, relatively high costs of complying with licensing requirements, and other institutional deficiencies such as corruption and a weak judicial system.

TRADE FREEDOM: *58.9* no change

Equatorial Guinea's weighted average tariff rate was 15.5 percent in 2007. Burdensome and corrupt customs, extensive and non-transparent regulations, inadequate infrastructure, export licenses for timber and cocoa, and government subsidies of cocoa and other exports add to the cost of trade. Ten points were deducted from Equatorial Guinea's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *75.5* no change

Equatorial Guinea has relatively high tax rates. The top income and corporate tax rates are 35 percent. Other taxes include a value-added tax (VAT) and a tax on inheritance. In the most recent year, overall tax revenue as a percentage of GDP was only 0.9 percent.

GOVERNMENT SPENDING: *80.5* — 3.4

The government is involved in telecommunications, electricity, and oil. In the most recent year, total government expenditures, including consumption and transfer payments, increased to 25.5 percent of GDP. A major dip in oil revenues dropped the budget surplus significantly from 22 percent of GDP to 6.9 percent of GDP.

MONETARY FREEDOM: *74.4* — 6.5

Inflation has been rising, averaging 6 percent between 2007 and 2009. The regional Banque des Etats de l'Afrique Centrale (BEAC) prioritizes control of inflation and maintenance of the CFA franc's peg to the euro. Nevertheless, inflation has been consistently higher in Equatorial Guinea than in other Franc Zone countries over the past 10 years. The government sets the price of electricity and subsidizes electricity and cocoa production. Ten points were deducted from Equatorial Guinea's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *20* no change

The government welcomes foreign investment, but complex bureaucracy and non-transparent regulations, underdeveloped markets, insufficiently qualified staff, poor data, corruption, and lax or arbitrary enforcement of investment laws are serious impediments. Foreign investment is not screened, and foreign equity ownership is not subject to limitation, although additional advantages can be gained by having a national majority partner. Residents and non-residents may hold foreign exchange accounts, subject to approval. Capital transactions, payments, and transfers to countries other than France, Monaco, and regional partners are subject to restrictions. Foreign investors are allowed to repatriate their profits.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 149	Investment Freedom	No. 152
Trade Freedom	No. 163	Financial Freedom	No. 106
Fiscal Freedom	No. 104	Property Rights	No. 146
Government Spending	No. 52	Freedom from Corruption	No. 170
Monetary Freedom	No. 96	Labor Freedom	No. 152

FINANCIAL FREEDOM: *40* no change

Equatorial Guinea's underdeveloped financial system remains dominated by the banking sector, which has expanded as a result of high economic growth. However, the high costs of finance and limited access to credit instruments hinder entrepreneurial activities. Compliance with banking regulations is mixed, but non-performing loans have declined to around 10 percent of total loans. The insurance sector is very small, consisting of three insurance companies and one reinsurance company. Equatorial Guinea, a member of the Central African Economic and Monetary Community (CEMAC), has no stock exchange or securities market. Capital transfers within the CEMAC region are unrestricted, but there are restrictions on capital accounts transactions with other countries.

PROPERTY RIGHTS: *20* no change

Application of the laws is selective. Some government officials have attempte d to extort money from foreign companies by threatening to take away concessions, and the judicial system is open to political influence. Equatorial Guinea is a member of OHADA (Organisation pour l'Harmonisation en Afrique du Droit des Affaires), a regional organization that trains judges and lawyers to help reform the enforcement of contracts. Enforcement of intellectual property rights is weak.

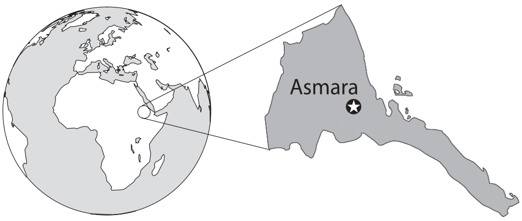
FREEDOM FROM CORRUPTION: *18* + 1.0

Corruption is perceived as rampant. Equatorial Guinea ranks 168th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Cronyism and corruption among officials is pervasive, particularly in connection with the oil sector, and many business deals are concluded under non-transparent circumstances. Transparency International has accused President Obiang of spending public funds on expensive cars and luxury homes for himself while his fellow citizens struggle to feed their families.

LABOR FREEDOM: *43.1* — 1.7

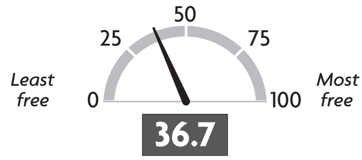
The state remains actively involved in most economic activity and hampers the development of an entrepreneurial private sector. In the absence of private-sector employment opportunities, an efficient labor market has not emerged. Existing labor regulations are outmoded and create challenging hurdles to businesses trying to innovate or raise productivity.

ERITREA

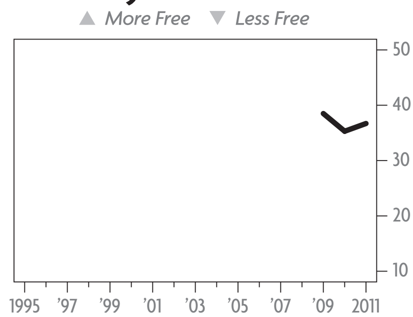


World Rank: **176** Regional Rank: **45**

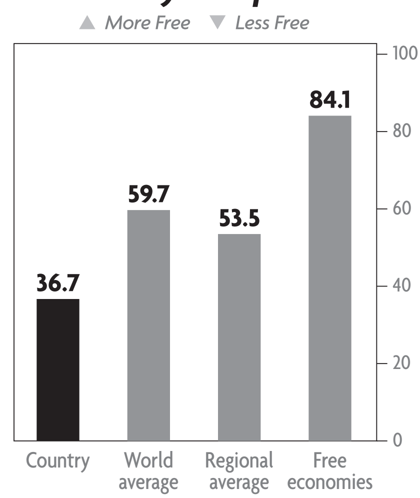
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Eritrea's economic freedom score is 36.7, making its economy one of the least free in the 2011 *Index*. Its overall score is 1.4 points higher than last year, reflecting some improvements in its ratings for government spending, business freedom, and labor freedom. Eritrea is ranked 45th out of the 46 countries in the Sub-Saharan Africa region.

Eritreans have suffered substantial losses of economic freedom in recent years. Afflicted by poor economic management and structural problems that severely undermine private-sector development, the country lags in productivity growth and dynamism and, consequently, in economic growth as well. Long-standing structural problems include poor public finance management and underdeveloped legal and regulatory frameworks.

Poor governance and the lack of commitment to structural reforms continue to hamper economic freedom. Investment freedom, financial freedom, property rights, and freedom from corruption are extraordinarily weak. Monetary stability remains fragile, and inflation is very high, largely reflecting excessive money creation to fund fiscal deficits. Arbitrary taxation, poor infrastructure, marginal enforcement of property rights, and weak rule of law have driven many people and enterprises into the informal sector.

BACKGROUND: Eritrea won its independence from Ethiopia in 1993, but conflict soon resumed. A U.N. peacekeeping mission ended in 2008 because of Eritrean-imposed restrictions, and relations with Ethiopia remain tense. Eritrea has also 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. 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.

Quick Facts

Population: 5.2 million
GDP (PPP): $3.5 billion
3.6% growth in 2009
–1.6% 5-year compound annual growth
$680 per capita
Unemployment: n/a
Inflation (CPI): 34.7%
FDI Inflow: n/a

2009 data unless otherwise noted.
Data compiled as of September 2010.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *18.2* — + 0.2

Existing regulations are severely outdated and not conducive to entrepreneurial activity. Procedures for establishing and running a business are opaque and costly.

TRADE FREEDOM: *69.1* — *no change*

Eritrea's weighted average tariff rate was 5.4 percent in 2006. Import licensing for all private imports, inadequate infrastructure, inefficient and cumbersome customs administration, weak protection and enforcement of intellectual property rights, corruption, and limited export activity delay trade and increase its costs. Twenty points were deducted from Eritrea's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *73* — *no change*

Eritrea's fiscal regime and tax administration lack transparency, and there are no available data on tax revenue collection as a percentage of GDP. Remittances from the diaspora are the main source of income. The top income and corporate tax rates are 30 percent.

GOVERNMENT SPENDING: *31.5* — + 24.6

In the most recent year, total government expenditures, including consumption and transfer payments, fell to 47.8 percent of GDP. The fiscal deficit measures 15.5 percent of GDP, and public debt stands at 141.9 percent of GDP.

MONETARY FREEDOM: *46* — – 13.0

Inflation has been out of control, averaging 28.8 percent between 2007 and 2009. The government uses the military and party-owned businesses to implement its development agenda and strictly controls the use of foreign currency. Few private enterprises remain. The diversion of manpower and government funds away from peacetime economic activities is expected to continue. Twenty points were deducted from Eritrea's monetary freedom score to account for extreme monetary-control measures.

INVESTMENT FREEDOM: *0* — *no change*

Eritrea remains a strict command economy, eliminating most private investment. Large-scale projects must be approved by the appropriate minister or the Office of the President. The government has selectively and narrowly courted foreign investors to explore underexploited resources in mineral extraction, energy, fisheries, and tourism. Regulatory procedures are haphazard and irregularly enforced. Additional impediments to both domestic and foreign private investment include severe limits on the possession and exchange of foreign currency, lack of objective dispute settlement, difficulty in obtaining licenses, large-scale use of conscripted labor, and expropriation of private assets. Government influence makes the courts biased arbiters in legal disputes.

FINANCIAL FREEDOM: *20* — *no change*

Eritrea's financial system remains poorly developed, and government interference is significant. High credit costs and scarce access to financing severely impede private investment and economic growth. All banks are majority-owned by the state, and private-sector involvement in the financial system remains limited. The Commercial Bank of Eritrea, the largest commercial bank, is chartered by the government to provide a range of financial services to the public, but very high collateral requirements for loans prohibit many small entrepreneurs from establishing and expanding their businesses. The government has borrowed heavily from private banks, crowding out private-sector economic activity. Falling interest rates have destabilized banks and led to a further decline in financial intermediation.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 177	Investment Freedom	No. 172
Trade Freedom	No. 131	Financial Freedom	No. 159
Fiscal Freedom	No. 120	Property Rights	No. 166
Government Spending	No. 158	Freedom from Corruption	No. 128
Monetary Freedom	No. 177	Labor Freedom	No. 52

PROPERTY RIGHTS: *10* — *no change*

The government strictly controls the political, social, and economic systems. The independence of the judiciary is limited. The government has a history of expropriating houses, businesses, and other private property without notice, explanation, or compensation. Arbitrary and complex regulatory requirements discourage investment from both foreign and domestic sources, and the government often reclaims successful private enterprises and property. In theory, women have the legal right to equal educational opportunities, equal pay for equal work, and equal property rights; in practice, men retain privileged access to education, employment, and control of economic resources, particularly in rural areas.

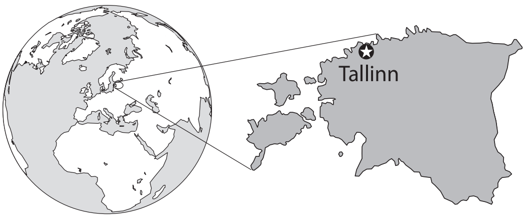
FREEDOM FROM CORRUPTION: *26* — *no change*

Corruption is perceived as pervasive. Eritrea ranks 126th out of 179 countries in Transparency International's Corruption Perceptions Index for 2009. President Isaias Afwerki and the People's Front for Democracy and Justice (PFDJ), Eritrea's sole political party, dominate political affairs. The PFDJ's autocratic style of government harshly suppresses all forms of opposition. The government controls all foreign exchange, making it virtually the only legal source of imports and creating illicit profit opportunities for smugglers, who are often high-ranking Eritrean military officers. Eritrea is not known to be a party to any international anti-corruption agreements. Individuals requesting exit visas or passports reportedly have had to pay bribes.

LABOR FREEDOM: *73.4* — + 2.6

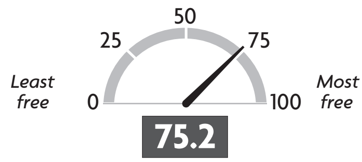
Employment regulations are flexible, but enforcement is not effective. The non-salary cost of employing a worker is moderate, but dismissing an employee can be difficult and costly.

ESTONIA

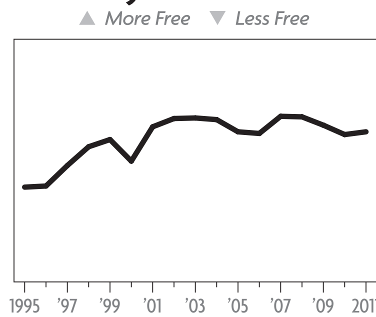


World Rank: **14** Regional Rank: **5**

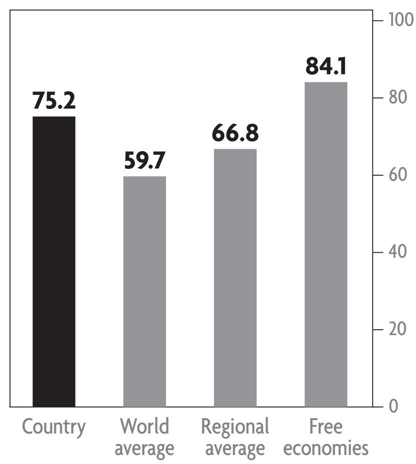
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Estonia's economic freedom score is 75.2, making its economy the 14th freest in the 2011 *Index*. Its overall score is 0.5 point higher than last year as a result of significant improvements in monetary and labor freedom. Estonia is ranked 5th out of 43 countries in the Europe region, and its overall score is well above the regional and world averages.

Flexibility and openness have given Estonia's small economy an impressive capacity to adjust to external shocks. The non-financial private sector reacted quickly to the challenging economic environment in 2009 with wage cuts and swift employment adjustments facilitated by a new labor law. Sound economic policies, grounded in a strong commitment to economic freedom, have ensured high levels of investment and entrepreneurial activity.

Although Estonia scores well in most of the 10 economic freedoms, government spending remains relatively high. Public finance management would benefit from longer-term budget balancing goals, clearer coordination between central and local governments, and better targeting of social benefits. The debt burden is quite low and has not undermined the country's long-term economic competitiveness.

BACKGROUND: A model of stable multi-party democracy, Estonia has experienced seven peaceful changes of coalition or cabinet since regaining its independence in 1991. It became a member of NATO and the European Union in 2004 and aims to join the euro zone in 2011, although Europe's economic difficulties could delay this until 2012 or 2013. Since the fall of the Soviet Union, it 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.

Quick Facts

Population: 1.3 million
GDP (PPP): $24.0 billion
–14.1% growth in 2009
–0.6% 5-year compound annual growth
$17,908 per capita
Unemployment: 13.8%
Inflation (CPI): –0.1%
FDI Inflow: $1.7 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *80.9* — 2.2

Modern regulatory procedures are far more streamlined than those of many other countries in the region. A recent reform facilitates insolvent firms' restructuring and makes overall bankruptcy procedures easier and less costly, but the pace of reform has slowed somewhat.

TRADE FREEDOM: *87.6* + 0.1

Estonia's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Estonian policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from Estonia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *80.7* + 0.5

Estonia has moderate tax rates. The personal income tax rate is a flat 21 percent. The corporate tax is also 21 percent. Undistributed profits are not taxed. Other taxes include a value-added tax (VAT) and excise taxes. In the most recent year, overall tax revenue as a percentage of GDP was 32.3 percent.

GOVERNMENT SPENDING: *52.2* — 10.0

In the most recent year, total government expenditures, including consumption and transfer payments, rose to 39.9 percent of GDP. Estonia weathered the global financial crisis because of its accumulated fiscal reserves and low levels of public debt. General government debt is estimated at 5.7 percent of GDP. The fiscal deficit is around 3 percent of GDP. The private sector generates more than 80 percent of GDP.

MONETARY FREEDOM: *78.7* + 7.6

Inflation has been moderating, averaging 3.2 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. It also subsidizes fuel and rent. Ten points were deducted from Estonia's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM: *90* *no change*

Although foreign and domestic investors have the same legal rights, the commercial community's small size can result in regulatory favoritism. Foreigners may invest in all sectors. Licenses required for investment in banking, mining, gas and water supply, railroads and transport, energy, and communications are allocated in a non-discriminatory manner. The foreign investment code is transparent. Residents and non-residents may hold foreign exchange accounts, and payments, transfers, and most capital transactions are not subject to controls. Property may not be expropriated without full compensation.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 33	Investment Freedom	No. 2
Trade Freedom	No. 12	Financial Freedom	No. 4
Fiscal Freedom	No. 71	Property Rights	No. 20
Government Spending	No. 125	Freedom from Corruption	No. 27
Monetary Freedom	No. 48	Labor Freedom	No. 110

FINANCIAL FREEDOM: *80* *no change*

Estonia's modern financial sector is supported by transparent and efficient regulatory and supervisory frameworks. The banking sector is competitive and provides a wide range of financial services. Four banks still control over 90 percent of assets. The government has no financial stake in any local credit institution. Foreign financial institutions are welcome, and foreign firms dominate the insurance sector. Credit is allocated on market terms and is available to foreign investors. The small but active stock exchange is part of a network of Scandinavian and Baltic exchanges. The financial sector weathered the global financial turmoil relatively well because of sound supervision and support measures. Commercial banks have remained well capitalized, and there has been no extensive state intervention. Non-performing loans have been on the rise.

PROPERTY RIGHTS: *80* *no change*

Estonia's judiciary is insulated from government influence. Property rights and contracts are enforced, and the commercial code is applied consistently. The long and complicated property restitution process is almost complete, including in the area of non-residential real property. Estonian law is in compliance with EU directives protecting intellectual property rights. Estonia is ranked 29th out of 125 countries in the 2010 International Property Rights Index.

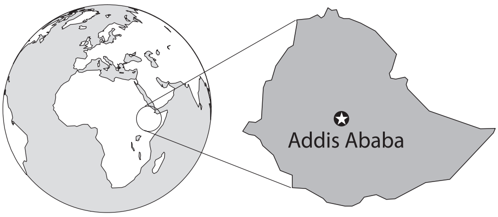
FREEDOM FROM CORRUPTION: *66* *no change*

Corruption is perceived as present. Estonia ranks 27th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Estonia has laws, regulations, and penalties to combat corruption, and the corruption that does exist is generally not targeted at foreign investors.

LABOR FREEDOM: *55.8* + 8.8

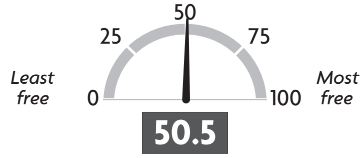
Estonia has pursued measures to upgrade labor regulations and make the labor market more dynamic. Enhancing labor productivity has been a key area, and the recently enacted labor law aims to increase flexibility by reducing layoff costs.

ETHIOPIA



World Rank: **144** Regional Rank: **30**

Economic Freedom Score



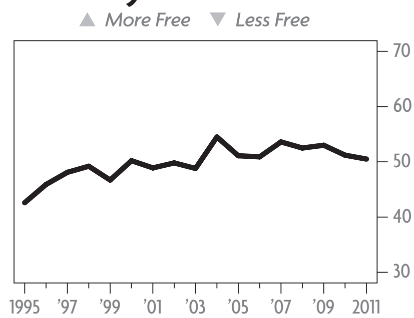
Ethiopia's economic freedom score is 50.5, making its economy the 144th freest in the 2011 *Index*. Its overall score is 0.7 point lower than last year, reflecting declines in four of the 10 economic freedoms that were partially offset by gains elsewhere. Ethiopia is ranked 30th out of 46 countries in the Sub-Saharan Africa region, and its overall score is just below the regional average.

Despite the global economic downturn, Ethiopia's economy has recorded annual economic expansion of around 11 percent over the past five years, facilitated by improved infrastructure and more effective mining and farming techniques. However, growth remains highly vulnerable to external shocks.

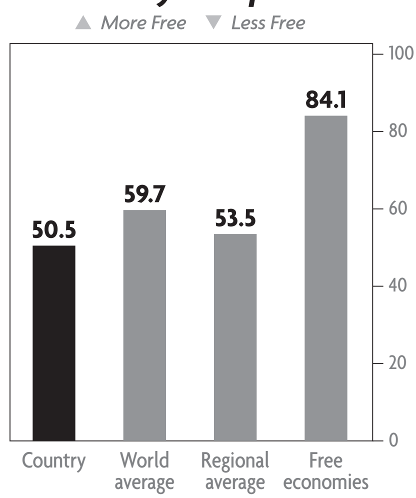
Ethiopia underperforms in many of the 10 economic freedoms. The business and investment regime is burdensome and opaque. The quality and efficiency of government services are poor and made worse by the weak rule of law and pervasive corruption. State distortions in prices and interest rates undermine monetary stability.

BACKGROUND: Ethiopia is Africa's oldest independent country and is moving toward multi-party democracy, but the abundance of obstacles is demonstrated by the 2005 post-election crackdown on protestors. Prime Minister Meles Zenawi, in office since 1991, won a landslide victory in May 2010. 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.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 82.8 million
GDP (PPP): $79.0 billion
9.9% growth in 2009
11.1% 5-year compound annual growth
$954 per capita
Unemployment: n/a
Inflation (CPI): 36.4%
FDI Inflow: $94 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *67.4* ✚ *1.1*

Despite somewhat simpler administrative procedures and increased transparency, the overall regulatory framework needs much more improvement. Obtaining a business license has become less burdensome, but the minimum capital investment to establish a business is high.

TRADE FREEDOM: *65.6* ✚ *3.7*

Ethiopia's weighted average tariff rate was 9.7 percent in 2009. Tariffs are high in the protected textile and leather industries. Import taxes, import restrictions, restrictive foreign exchange controls, services market barriers, non-transparent government procurement, import licensing, cumbersome customs clearance, and inadequate judicial infrastructure add to the cost of trade. All imports must be channeled through Ethiopian nationals registered as official import or distribution agents with the Ministry of Trade and Industry. Fifteen points were deducted from Ethiopia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *74.5* ━ *3.2*

Ethiopia has above-average tax rates. 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. In the most recent year, overall tax revenue as a percentage of GDP was 9.9 percent. Despite some progress in strengthening tax administration, the large informal sector does not pay taxes.

GOVERNMENT SPENDING: *88.7* ✚ *5.8*

In the most recent year, total government spending, including consumption and transfer payments, fell to 19.4 percent of GDP. The deficit measures 1 percent of GDP. Privatization has progressed since 2004, with 16 enterprises transferred out of state hands in 2008 alone. Electricity remains under government monopoly.

MONETARY FREEDOM: *54.3* ━ *6.1*

Inflation has skyrocketed, averaging 31.8 percent between 2007 and 2009, although it began to moderate during the first half of 2010. The government influences prices through its regulation of state-owned enterprises and utilities, subsidizes and controls the prices of petroleum products, and controls the prices of pharmaceuticals and fertilizers. Ten points were deducted from Ethiopia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *20* ━ *5.0*

Foreign participation is prohibited in domestic banking, insurance and microcredit services, and several other activities. All investments must be approved and certified and may be subject to additional restrictions. The judicial system remains poorly staffed and inexperienced. Foreign exchange accounts, payments, and current transfers are subject to tight controls and restrictions. Investors may remit profits and dividends, principal and interest on foreign loans, and other capital transactions with few restrictions. While no assets may be nationalized except when required by public interest and with adequate compensation, property reportedly has been seized without compensation. All land is owned by the state and can be leased for up to 99 years.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 82	Investment Freedom	No. 152
Trade Freedom	No. 141	Financial Freedom	No. 159
Fiscal Freedom	No. 110	Property Rights	No. 99
Government Spending	No. 24	Freedom from Corruption	No. 122
Monetary Freedom	No. 174	Labor Freedom	No. 105

FINANCIAL FREEDOM: *20* *no change*

Ethiopia's financial system remains underdeveloped. 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 and branch operations remain strictly barred. There are three state-owned and 12 private banks. The ratio of domestic credit to GDP remains under 40 percent, and the share of non-performing loans has stabilized at just under 10 percent. About 30 microfinance institutions provide significant levels of service. Capital markets are poorly developed, and there is no stock market.

PROPERTY RIGHTS: *30* *no change*

Enforcement of property rights is weak. The judicial system is underdeveloped, poorly staffed, and inexperienced. Property and contractual rights are recognized, but judges lack an understanding of commercial issues. An international arbitration body's decision may not be fully accepted and implemented. A highly restrictive land-tenure policy makes it very difficult to register property. Land must be leased from the state. Ethiopia is ranked 101st out of 125 countries in the 2010 International Property Rights Index.

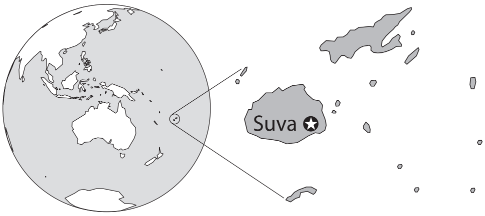
FREEDOM FROM CORRUPTION: *27* ✚ *1.0*

Corruption is perceived as pervasive. Ethiopia ranks 120th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Despite legal restrictions, officials have been accused of manipulating privatization, and state-owned and party-owned businesses receive preferential access to land leases and credit. The Federal Ethics and Anti-Corruption Commission arrested or conducted investigations of 203 suspects from August 2008 to January 2009. In 2009, several businessmen were arrested for alleged tax evasion.

LABOR FREEDOM: *57.1* ━ *4.4*

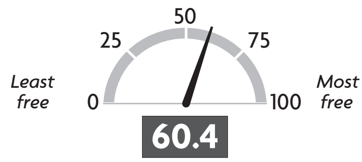
The formal labor market has not been developed. Outmoded employment regulations remain a barrier to business, although enforcement is not stringent.

FIJI

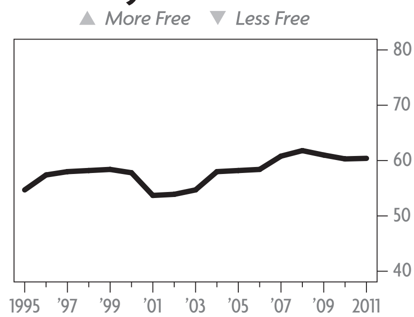


World Rank: **86** Regional Rank: **14**

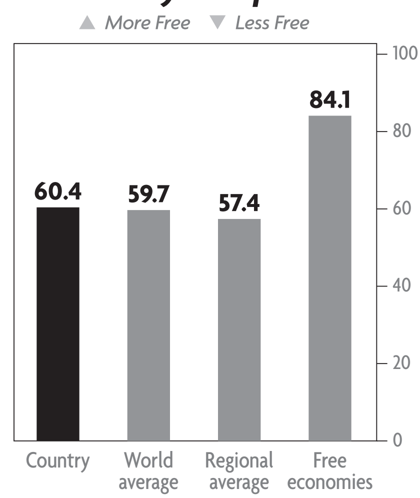
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Quick Facts

Population: 0.9 million
GDP (PPP): $3.9 billion
–2.5% growth in 2009
–0.3% 5-year compound annual growth
$4,359 per capita
Unemployment: n/a
Inflation (CPI): 3.7%
FDI Inflow: $237.8 million

2009 data unless otherwise noted.
Data compiled as of September 2010.

Fiji's economic freedom score is 60.4, making its economy the 86th freest in the 2011 *Index*. Its overall score is virtually unchanged from last year. Fiji is ranked 14th out of 41 countries in the Asia–Pacific region, and its overall score is above the world average.

Fiji performs relatively well in only a few of the 10 economic freedoms. Trade and financial freedoms have been facilitated by sluggish but ongoing modernization and liberalization. However, regulatory uncertainty and the lack of business and investment opportunities continue to cause economic stagnation. Public debt has surpassed 50 percent of GDP and is higher than in most regional neighbors. Civil service, the land-lease system, and public enterprises are major candidates for reform. State-owned enterprises in sugar, electricity, and transportation significantly impede fiscal stability.

Corruption and the weak rule of law undermine productivity, slowing economic development. Financial freedom has deteriorated as a result of continuing state interference, and monetary freedom remains constrained by government price controls.

BACKGROUND: The Pacific island nation of Fiji is ruled by an interim government backed by military forces led by Commodore Frank Bainimarama, who has dominated island politics over the last decade and is currently serving as interim head of government. Former President Ratu Josefa Iloilo abrogated the constitution in 2009 and delayed elections for five years, earning condemnation from the international community. In September 2009, Fiji was suspended from the Commonwealth of Nations. Fiji has long suffered from ethnic tension between the indigenous, mostly Christian population and a large minority of Hindu or Muslim Indo–Fijians. The resultant political convulsions have stunted the crucial tourism industry. Sanctions imposed by Fiji's main trading partners, including the European Union and Australia, have hurt the vital agriculture, clothing, and fishing industries.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *63.2* — 0.3

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 still time-consuming and costly. Bankruptcy is generally straightforward.

TRADE FREEDOM: *69.8* — 1.2

Fiji's weighted average tariff rate was 10.1 percent in 2009. Import restrictions, import and export licensing, weak enforcement of intellectual property rights, corrupt and inefficient customs, state trading, and subsidies for exporters add to the cost of trade. Ten points were deducted from Fiji's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *78.1* + 2.4

Fiji has moderately high tax rates. The top income tax rate is 31 percent, and the corporate tax rate has been reduced to 28 percent. Other taxes include a value-added tax (VAT) and a land sales tax. In the most recent year, overall tax revenue as a percentage of GDP fell to 21.1 percent.

GOVERNMENT SPENDING: *81.3* + 0.7

The government is intricately involved in the economy. In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 25 percent of GDP. Despite spending restraint, the fiscal balance deteriorated to a deficit of 3 percent of GDP because of unexpectedly low revenues.

MONETARY FREEDOM: *76.1* + 2.5

Inflation had been moderating, averaging 4.8 percent between 2007 and 2009, but accelerated again following the 20 percent devaluation of the Fiji dollar in April 2009 and reached 10.5 percent year on year in April 2010. The government influences prices through state-owned utilities and controls the prices of various products, including food. Ten points were deducted from Fiji's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *30* + 5.0

All foreign investment must be approved by the government. Several areas are reserved for Fijian nationals or the state, and investors must meet certain conditions before investing in other restricted industries. Foreign acquisition of controlling interests in or takeovers of established, locally owned enterprises are discouraged. Despite some reforms, a lack of transparency in government procurement, inadequate technical expertise, and regulatory uncertainty persist. Bureaucracy and regulation can be burdensome, and the independence of the judiciary is questionable. Residents may hold foreign exchange accounts subject to government approval and restrictions; non-residents also face certain restrictions. Most payments and transfers (including capital) are subject to government approval and limitations on amounts. Foreign real estate ownership is technically permitted but heavily restricted.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 99	Investment Freedom	No. 134
Trade Freedom	No. 127	Financial Freedom	No. 38
Fiscal Freedom	No. 90	Property Rights	No. 99
Government Spending	No. 50	Freedom from Corruption	No. 68
Monetary Freedom	No. 79	Labor Freedom	No. 46

FINANCIAL FREEDOM: *60* *no change*

Banking accounts for about 35 percent of financial-system assets and is largely private, though the state-owned Fiji Development Bank offers business development loans and some commercial banking services. The government withdrew from commercial banking in 2006. Foreign participation in banking is significant. The two largest banks are Australian and account for 80 percent of the market; three other foreign banks operate freely. Fiji's stock exchange has listed fewer than 20 companies but is developing. Foreign exchange controls imposed in 2009 limit the amount of investment profit and capital that may be repatriated, although some of the controls were eased at the beginning of 2010.

PROPERTY RIGHTS: *30* *no change*

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, and several judges have resigned. Obtaining land titles is difficult, and the enforcement of intellectual property rights is inadequate.

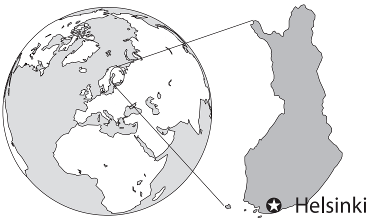
FREEDOM FROM CORRUPTION: *40* *no change*

Corruption is perceived as significant. Fiji was ranked 55th out of 158 countries in Transparency International's Corruption Perceptions Index for 2005. (It has not been ranked since.) Credible allegations regarding misuse of government funds or abuse of public office have been raised repeatedly. Limited accountability for corruption, inefficient government systems, and lack of effective disciplinary processes pose major challenges to entrepreneurs. Because of Fiji's relatively small population and limited circles of power, personal relationships often play a major role in business and government decisions. The military cited government and civil service corruption as a major justification for its overthrow of Fiji's democratically elected government in 2006.

LABOR FREEDOM: *75.7* — 8.3

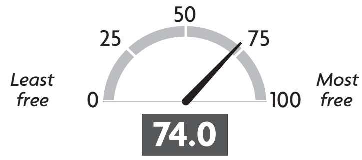
The Employment Relations Act, which consolidated and updated the labor codes, has been in place since 2008. However, labor regulations remain rigid, and an efficient labor market is not fully developed, mainly due to the lack of private-sector dynamism.

FINLAND



World Rank: **17** Regional Rank: **8**

Economic Freedom Score



Finland's economic freedom score is 74, making its economy the 17th freest in the 2011 *Index*. Its score is 0.2 point better than last year, with improvements in monetary and investment freedom undermined by a growth in government spending. Finland is ranked 8th out of 43 countries in the Europe region, and its overall score is well above the world average.

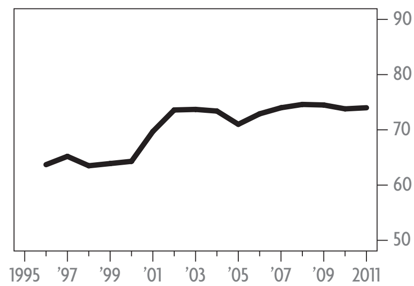
The strong competitiveness of Finland's economy is built on flexibility and openness. The economy is a world leader in several of the 10 economic freedoms, including business freedom, property rights, and freedom from corruption. The regulatory environment encourages entrepreneurial activity and innovation. Commercial operations are handled with transparency and speed, and corruption is perceived as almost nonexistent.

As in many other European social democracies, however, high government spending continues to support an extensive welfare state. In addition, restrictive labor regulations undermine employment and productivity growth.

BACKGROUND: Though culturally and economically inclined toward the West, Finland struggled during much of the post–World War II period to manage its relationship with the Soviet Union. Finland became a member of NATO's Partnership for Peace program in 1994 but has not pursued full NATO membership because of its neutral military status. Finland joined the European Union in 1995 and adopted the euro as its currency in 1999. It 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. Previously robust economic growth slowed in 2009, and Finland was hit particularly hard by the global recession as demand for its mainly capital goods–intensive exports collapsed. Finland, like many other European nations, faces demographic challenges in the form of an aging population and shrinking workforce, which threaten future growth and the ability to maintain generous social spending programs.

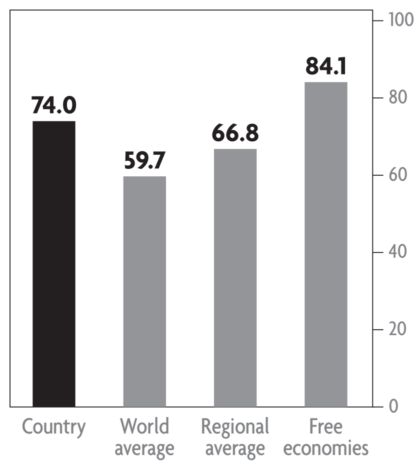
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 5.4 million
GDP (PPP): $179.6 billion
–7.8% growth in 2009
0.6% 5-year compound annual growth
$33,556 per capita
Unemployment: 8.2%
Inflation (CPI): 1.6%
FDI Inflow: $2.6 billion

2009 data unless otherwise noted.
Data compiled as of September 2010.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *95* — *no change*

A modern regulatory environment strongly facilitates business formation, dynamism, and competition. The efficient business framework is conducive to innovation and productivity growth.

TRADE FREEDOM: *87.6* — + *0.1*

Finland's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Finnish policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from Finland's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *65.3* — – *0.1*

Finland has moderate tax rates but a relatively high level of overall taxation. The top income tax rate is 30.5 percent, with municipal rates between 16.5 percent and 20 percent and a church tax between 1 percent and 2 percent. The top corporate tax rate is 26 percent. Other taxes include a value-added tax (VAT) raised in July 2010, an inheritance tax, and a flat 28 percent tax on capital income. In the most recent year, overall tax revenue as a percentage of GDP was 43.2 percent.

GOVERNMENT SPENDING: *26.5* — – *6.4*

Total government expenditures, including consumption and transfer payments, are high. Finland's discretionary stimulus package was one of the region's highest. In the most recent year, government spending increased to 49.5 percent of GDP, driving the fiscal deficit to nearly 4 percent of GDP. State ownership of productive assets is considerable.

MONETARY FREEDOM: *80.7* — + *1.8*

Finland uses the euro as its currency. Between 2007 and 2009, Finland's weighted average annual rate of inflation was 2.2 percent. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. It also imposes artificially low prices on pharmaceutical products. Ten points were deducted from Finland's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *85* — + *10.0*

Finland is open to foreign direct investment. Foreign acquisitions of large companies may require follow-up clearance from the government. Regulation is relatively transparent and efficient. There are no exchange controls and no restrictions on current transfers or repatriation of profits, and residents and non-residents may hold foreign exchange accounts. Property may not be expropriated without compensation. Restrictions on the purchase of land apply only to non-residents purchasing land in the Aaland Islands.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 6	Investment Freedom	No. 9
Trade Freedom	No. 12	Financial Freedom	No. 4
Fiscal Freedom	No. 152	Property Rights	No. 2
Government Spending	No. 164	Freedom from Corruption	No. 6
Monetary Freedom	No. 30	Labor Freedom	No. 158

FINANCIAL FREEDOM: *80* — *no change*

Finland's sophisticated financial system provides a wide range of services, guided by sound regulations and prudent lending practices. Mergers and acquisitions have made banking more international and competitive. Efficiency and capital adequacy remain sound. There are more than 300 domestic banks, but three bank groups (Nordea, OP Pohjola Group, and the Sampo Group) dominate the system. The government retains an ownership share in the Sampo Group. Banking is open to foreign competition, and about 60 percent of assets are foreign-owned. Capital markets determine interest rates, and credit is available to nationals and foreigners. The stock exchange is part of a Baltic–Nordic exchange network. Merger of the Financial Supervision Authority and Insurance Supervisory Authority came into force in January 2009. The impact of the global financial turmoil has been relatively mild.

PROPERTY RIGHTS: *90* — *no change*

Property rights are well protected, and contractual agreements are strictly honored. The quality of the judiciary and civil service is generally high. Expropriation is unlikely. Finland adheres to numerous international agreements concerning the protection of intellectual property.

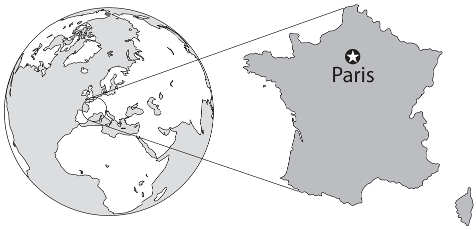
FREEDOM FROM CORRUPTION: *89* — – *1.0*

Corruption is perceived as almost nonexistent. Finland is tied for 6th place out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Finland is a signatory to the OECD Anti-Bribery Convention. The Council of Europe's Group of States Against Corruption has recommended that Finland sharpen its control of political financing and increase the transparency of donations to political parties and election candidates.

LABOR FREEDOM: *41.4* — – *2.4*

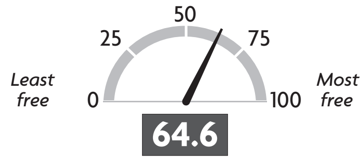
High costs and burdensome regulations characterize the labor market. The non-salary cost of employing a worker is high, and the severance payment system remains costly. Long-term structural unemployment remains significant.

FRANCE



World Rank: 64 **Regional Rank: 28**

Economic Freedom Score



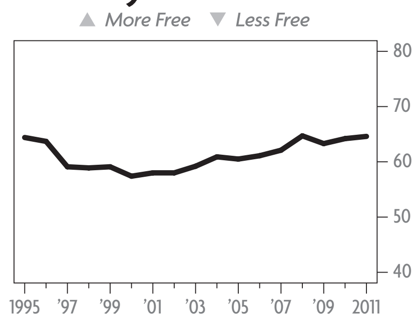
France's economic freedom score is 64.6, making its economy the 64th freest in the 2011 *Index.* Its overall score has improved slightly due to improvements in four of the 10 economic freedoms. France is ranked 28th out of 43 countries in the Europe region, and its overall score is higher than the world average.

Entrepreneurial activity is generally facilitated by such institutional strengths as strong protection of property rights and a relatively efficient regulatory framework. The French economy remains diversified, and the financial sector has demonstrated relative resilience during the recent global financial turmoil. The government has pursued various reform measures to increase the competitiveness and flexibility of the economy, but overall progress has been slow.

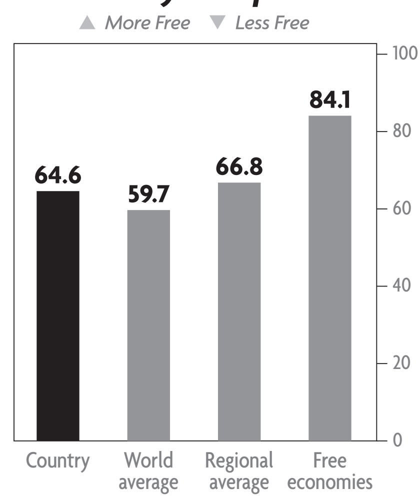
Spending more than half of GDP, the government still dominates major sectors of the economy. It interferes in the market as a large shareholder in many semi-public enterprises. Recent years' various stimulus measures have resulted in a deterioration of public finance. The government budget deficit has increased sharply to over 8 percent of GDP. Despite recent reform efforts, the labor market remains rigid, undermining long-term productivity and employment growth.

BACKGROUND: Under President Nicolas Sarkozy, France's government has made some attempt to deregulate the economy, but significant reforms remain incomplete. In April 2009, France co-hosted NATO's 60th anniversary summit in Strasbourg and was formally reintegrated into NATO's military command structures, but it remains apart from NATO's Nuclear Planning Group. As a founding member of the European Union, France retains significant influence over EU policy. France has a diversified, modern industrial economy but remains the top recipient of market-distorting agricultural subsidies under the EU's Common Agricultural Policy, with no end in sight. France has also been at the forefront in opposing Turkish membership in the EU, arguing instead for a privileged partnership between Ankara and Brussels.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 62.6 million
GDP (PPP): $2.1 trillion
–2.2% growth in 2009
0.7% 5-year compound annual growth
$33,679 per capita
Unemployment: 9.4%
Inflation (CPI): 0.1%
FDI Inflow: $59.6 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *85.6* — 0.7

France's efficient and modern regulatory environment makes business formation and operation relatively easy. The business framework supports dynamism and competitiveness.

TRADE FREEDOM: *82.6* + 0.1

France's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and French policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Fifteen points were deducted from France's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *52.3* + 0.4

France has relatively high tax rates. The top personal income tax rate is 40 percent. The top corporate tax rate is 34.4 percent (33.3 percent plus a 3.3 percent surcharge for companies with turnover exceeding a certain threshold). Other taxes include a value-added tax (VAT); a household wealth tax; and, effective March 2010, a one-time 50 percent tax on bonuses paid to bank traders during 2009. In the most recent year, overall tax revenue as a percentage of GDP was 44.6 percent. The 2010 draft budget eliminates the local business tax in an effort to support small business.

GOVERNMENT SPENDING: *16.4* — 1.5

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 52.8 percent of GDP. State-owned or state-controlled enterprises dominate such industries as postal services, electricity, and rail. Semi-public companies in which the state holds shares employ almost 4 percent of the labor force.

MONETARY FREEDOM: *83.7* + 4.0

France is a member of the euro zone. Between 2007 and 2009, France's weighted average annual rate of inflation was just 1 percent. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. Prices of health care, pharmaceuticals, books, electricity, gas, and rail transportation are regulated. Ten points were deducted from France's monetary policy score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *55* + 5.0

There is no generalized screening of foreign investment, but acquisitions in some sensitive sectors, including public health, defense, agriculture, aircraft production, air transport, audiovisuals, insurance, and maritime transport, require approval. Investments involving large stakes in firms are subject to government review. Regulations are transparent, but officials have wide discretion to impose "unwritten" performance requirements. Attitudes toward foreign investors can be negative. Residents and non-residents may hold foreign exchange accounts. There are no restrictions or controls on payments, transfers, or repatriation of profits, and non-residents may purchase real estate. Property may not be expropriated without compensation.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 24	Investment Freedom	No. 75
Trade Freedom	No. 59	Financial Freedom	No. 17
Fiscal Freedom	No. 168	Property Rights	No. 20
Government Spending	No. 171	Freedom from Corruption	No. 24
Monetary Freedom	No. 12	Labor Freedom	No. 124

FINANCIAL FREEDOM: *70* *no change*

France's financial and accounting systems are bureaucratic but consistent with international norms. The nine largest banks control more than 70 percent of assets. Most loans are provided on market terms. The government still owns the Caisse des Depots et Consignations and holds minority stakes elsewhere. The Credit Establishments Committee must grant permission for foreign branches from countries outside the European Economic Area. Foreign companies hold around 20 percent of the insurance market. The government owns stakes in several insurance companies. Capital markets are well developed, and foreign investors participate freely. There are no foreign exchange controls. The banking sector has been relatively resilient during the global financial turmoil, but the government has established agencies to recapitalize banks and provide government guarantees for bank refinancing.

PROPERTY RIGHTS: *80* *no change*

Contractual agreements are secure, and the judiciary is professional. Any company defined as a national public service or natural monopoly must pass into state ownership. Protection of intellectual property rights is very strong.

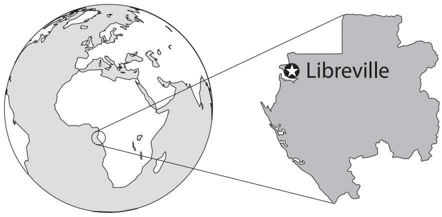
FREEDOM FROM CORRUPTION: *69* *no change*

Corruption is perceived as present. France ranks 24th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. France enforces the OECD Anti-Bribery Convention.

LABOR FREEDOM: *51.4* — 3.3

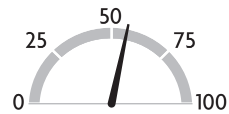
France's labor market is burdened with rigid regulations and lacks the capacity to generate more vibrant employment growth. While ostensibly protecting workers, the current labor codes continue to hurt business competitiveness, exacerbate unemployment, and undermine social stability.

GABON



World Rank: **110** Regional Rank: **17**

Economic Freedom Score



56.7

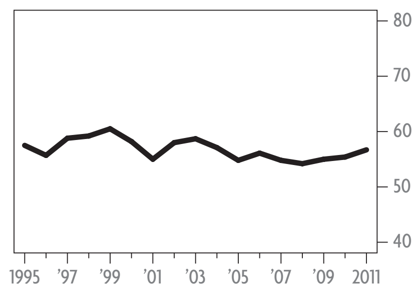
Gabon's economic freedom score is 56.7, making its economy the 110th freest in the 2011 *Index*. Its overall score is 1.3 points higher than last year, with a large improvement in fiscal freedom. Gabon is ranked 17th out of 46 countries in the Sub-Saharan Africa region, and its overall score is lower than the world average.

Gabon's commitment to greater economic freedom is fragile, and more political will is needed to foster an economic environment in which potential entrepreneurs or investors can thrive. Heavy reliance on the oil sector makes the economy highly vulnerable to external shocks and undermines stable economic expansion. The establishment of an agency for private-sector investment and the development of a growth fund for small and medium-size enterprises are small improvements in recent years, but monopolies still persist in many sectors of the economy.

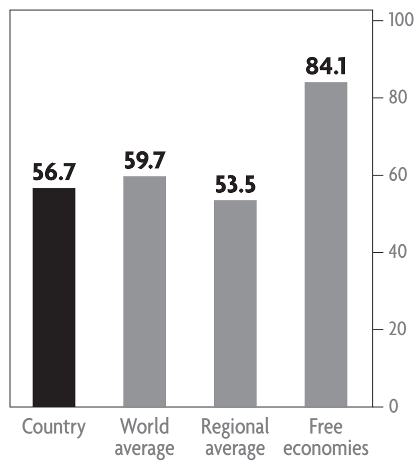
Major systemic reform is needed to encourage sustainable long-term competitiveness and economic development. The state's interference in the small financial system distorts incentives and discourages growth of a job-creating private sector. Efforts to eliminate corruption have been obstructed by a politically influenced judicial system.

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 June 2009, his son, Ali Ben Bongo, was elected 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. Despite relatively high income from oil revenue controlled by the state, most people live in poverty. Oil production is declining as fields are exhausted, and economic diversification is a pressing need.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 1.5 million
GDP (PPP): $21.1 billion
–1.4% growth in 2009
1.9% 5-year compound annual growth
$14,318 per capita
Unemployment: 21.0% (2006)
Inflation (CPI): 2.1%
FDI Inflow: $33 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *57.3* — 1.5

Gabon's regulatory system and practices do not facilitate dynamic private-sector expansion and sustained growth. Despite some progress in recent years, entrepreneurial production and investment are often discouraged by time-consuming administrative procedures for incorporating businesses. Other institutional deficiencies such as corruption and the lack of transparency persist in the regulatory system.

TRADE FREEDOM: *61* — 1.1

Gabon's weighted average tariff rate was 14.5 percent in 2009. Import bans, export taxes, inadequate administrative and trade capacity, and lack of customs transparency add to the cost of trade. Ten points were deducted from Gabon's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *74.5* + 13.0

Gabon has high tax rates. The top income tax rate was lowered from 50 percent to 35 percent as of February 2010. The top corporate tax rate is 35 percent. A value-added tax (VAT) is also levied. In the most recent year, overall tax revenue as a percentage of GDP fell to 9.9 percent.

GOVERNMENT SPENDING: *87.9* + 1.5

Total government expenditures, including consumption and transfer payments, are relatively low, In the most recent year, government spending decreased slightly to 20.1 percent of GDP, though budget allocations for current expenditures and wages and salaries are set to drive total spending up in the near future.

MONETARY FREEDOM: *73.8* + 2.4

Inflation is relatively low, averaging 3.1 percent between 2007 and 2009. The regional Banque des Etats de l'Afrique Centrale (BEAC) maintains the CFA franc's peg to the euro. The government influences prices through subsidies to state-owned enterprises and controls the prices of various products, including fuel, pharmaceuticals, and medical equipment. Fifteen points were deducted from Gabon's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *45* *no change*

Gabon does not discriminate between domestic and foreign investors. There is no requirement that nationals own shares in foreign investments, though many investors find it useful to have a local partner. An unpredictable legal system, political influence, corruption, underdeveloped markets, and inadequate infrastructure impede investment. Residents may hold foreign exchange accounts subject to some restrictions. Capital transactions are subject to reporting requirements. All real estate transactions must be reported. The government may not expropriate property without providing compensation.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 129	Investment Freedom	No. 103
Trade Freedom	No. 158	Financial Freedom	No. 106
Fiscal Freedom	No. 110	Property Rights	No. 73
Government Spending	No. 30	Freedom from Corruption	No. 107
Monetary Freedom	No. 102	Labor Freedom	No. 100

FINANCIAL FREEDOM: *40* *no change*

Gabon's financial system remains under government influence. Credit costs are high, and access to financing is scarce. The government still plays a considerable role in long-term lending through the state-owned development bank. Most banks are at least partly state-owned, and competition is limited. Gabon shares certain financial institutions, such as a common central bank and currency, with other West African countries. The banking sector is open to foreign competition. Three of the five commercial banks have French affiliation, and another is wholly foreign-owned. Domestic credit is limited and expensive, though available without discrimination to foreign investors with prior authorization. Poorly developed capital markets cannot provide alternative financing instruments. A small regional stock exchange headquartered in Gabon has been in operation since 2008.

PROPERTY RIGHTS: *40* *no change*

Private property is moderately well protected. Expropriation is unlikely. The president influences the judiciary and parliament. Foreign investors are largely treated in the same manner as their Gabonese counterparts with regard to the purchase of real estate. As a member of the Central African Economic and Monetary Community and the Economic Community of Central African States, Gabon adheres to the standards of the African Intellectual Property Office.

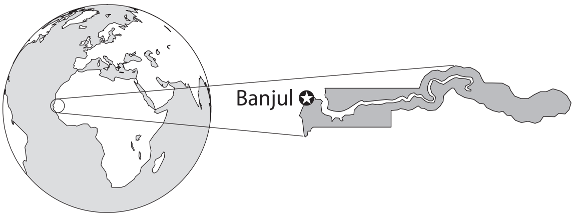
FREEDOM FROM CORRUPTION: *29* — 2.0

Corruption is perceived as widespread. Gabon ranks 106th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The lack of accountability and oversight in the budget process can be seen in other areas of the economy as well. Companies have complained of a lack of transparency in customs and other government activities. Fiscal shortfalls, weak financial management, and corruption have contributed to significant arrears in domestic and external debt payments. During the 2009 electoral period, localized violence occurred, particularly against foreigners, and the results were challenged by the opposition. The new president has promised to make anti-corruption efforts a centerpiece of reform.

LABOR FREEDOM: *58.8* + 1.4

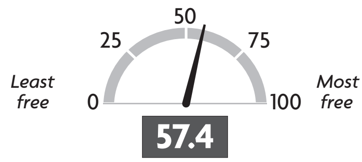
Gabon's labor market is not fully developed in the absence of a vibrant private sector. Current labor regulations are rigid, impeding labor market freedom for both employees and employers and hindering productivity growth.

THE GAMBIA

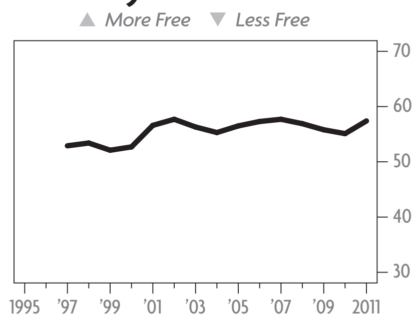


World Rank: **105** Regional Rank: **13**

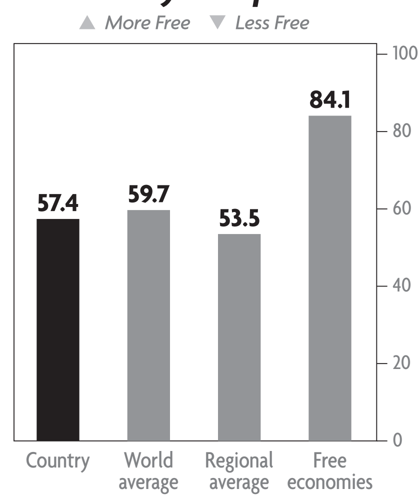
Economic Freedom Score



Country's Score Over Time



Country Comparisons



The Gambia's economic freedom score is 57.4, making its economy the 105th freest in the 2011 *Index*. Its overall score is 2.3 points higher than last year, reflecting significant gains in property rights and freedom from corruption. Although the Gambia's overall score is lower than the world average, the country is one of the 15 most improved economies in the 2011 *Index*.

The Gambia has undertaken much-delayed economic reforms to improve macroeconomic stability and enhance economic growth. These measures include reforming fiscal policies and strengthening management of public finance. There has been little progress in terms of privatization, however, and implementation of the overall reform program has been inconsistent.

Overall, the entrepreneurial environment is hardly encouraging. Although progress has been made in streamlining bankruptcy procedures, establishing and running a business still requires overcoming numerous bureaucratic hurdles. The application of commercial law is non-transparent and not always consistent. The judiciary is subject to pervasive political interference, and there is corruption in many parts of the economy.

BACKGROUND: President Sir Dawda Kairaba Jawara ruled for almost 30 years until 1994, when he was ousted by a military coup led by Lieutenant Yahya Jammeh. Jammeh won flawed multi-party presidential elections in 1996, 2001, and 2006. The next executive elections are scheduled for 2011. The government's restraints on civil liberties and political opponents have included imprisonment of journalists without charge. The Gambia has few natural resources. Agriculture employs 75 percent of the labor force and accounted for 33 percent of GDP in 2007, even though only a sixth of the country is considered arable. 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.

Quick Facts

Population: 1.7 million
GDP (PPP): $2.4 billion
4.6% growth in 2009
5.9% 5-year compound annual growth
$1,438 per capita
Unemployment: n/a
Inflation (CPI): 4.6%
FDI Inflow: $47 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *57.8* — 0.7

Despite some progress, the overall regulatory framework remains hampered by red tape and a lack of transparency. Inconsistent application of existing commercial regulations and petty corruption are considerable impediments to business.

TRADE FREEDOM: *60.4* — 0.2

The Gambia's weighted average tariff rate was 14.8 percent in 2009. Inefficient and sometimes corrupt regulatory administration, restrictive licensing, sanitary and phytosanitary prohibitions, and a large informal trade sector add to the cost of trade. Ten points were deducted from the Gambia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *73.2* + 1.3

The Gambia has relatively high tax rates. The top income tax rate is 35 percent, and the top corporate tax rate was lowered to 33 percent from 35 percent in 2010. Other taxes include a capital gains tax and a sales tax on goods and services. In the most recent year, overall tax revenue as a percentage of GDP was 19.2 percent.

GOVERNMENT SPENDING: *79.7* + 4.4

The Gambia has outperformed most other countries in the West African Monetary Zone but failed to meet the WAMZ convergence criterion with a fiscal deficit exceeding 4 percent of GDP. Domestic public debt measures 24.4 percent of GDP. In the most recent year, total government expenditures, including consumption and transfer payments, equaled 26 percent of GDP.

MONETARY FREEDOM: *71.4* — 0.2

Inflation has been moderate, averaging 4.6 percent between 2007 and 2009. The government influences prices through a large public sector, and most leading companies, including those in agriculture, water, electricity, maritime services, public transportation, and telecommunications, remain in government hands. Fifteen points were deducted from the Gambia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *55* *no change*

Foreign and domestic investments generally receive equal treatment. There are no limits on foreign ownership or control of businesses except in the operations of foreign exchange bureaus and in television broadcasting and defense industries, which are closed to private-sector participation. Joint ventures are encouraged, but foreign investors may invest without a local partner. Political influence in the bureaucracy, government corruption, and limited access to financing are deterrents. Residents and non-residents may hold foreign exchange accounts, and there are few restrictions on foreign exchange and capital transactions. Repatriation of profits is permitted. Expropriation of property is not allowed without compensation.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 127	Investment Freedom	No. 75
Trade Freedom	No. 160	Financial Freedom	No. 70
Fiscal Freedom	No. 119	Property Rights	No. 99
Government Spending	No. 57	Freedom from Corruption	No. 107
Monetary Freedom	No. 128	Labor Freedom	No. 68

FINANCIAL FREEDOM: *50* *no change*

The Gambia's banking sector has expanded because of foreign investments and increased competition. Almost all commercial banks are majority-owned by foreign banks, and two commercial banks have entered the microfinance industry. Credit to the private sector has gradually increased, although supervision and regulation remain deficient. Operation of a Credit Reference Bureau has been delayed. The central bank has established prudential guidelines aimed at reducing barriers to new non-bank financial institutions. Although capital account transactions have been fully liberalized, capital markets consist only of government securities; there is no stock exchange.

PROPERTY RIGHTS: *30* + 5.0

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. Lack of judicial security is one of the main deterrents to doing business. Although the constitution and law provide for protection of most human rights, there are problems in many areas. The government restricts freedom of speech and press through intimidation, detention, and restrictive legislation, and several journalists have been murdered. The law provides adequate protection for intellectual property, patents, copyrights, and trademarks.

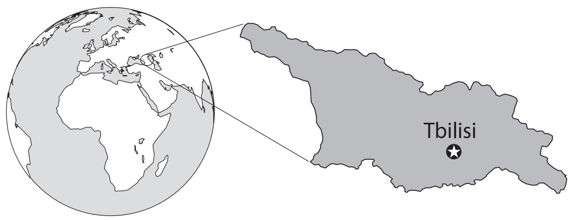
FREEDOM FROM CORRUPTION: *29* + 10.0

Corruption is perceived as widespread. The Gambia ranks 106th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption among senior government officials, however, remains a serious problem. Criminal penalties for official corruption have not been implemented effectively, although some political and administrative officials face harsh sentences on charges of wrongdoing. The Gambia has signed and ratified the African Union Convention on Preventing and Combating Corruption and Related Offences but has not ratified either the U.N. Convention Against Corruption or the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

LABOR FREEDOM: *67.2* + 3.4

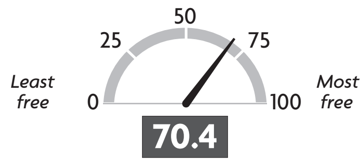
Labor regulations have become more flexible, but the labor market remains stagnant. Although there is a shortage of skilled labor, the economy is burdened with high unemployment as well as underemployment.

GEORGIA

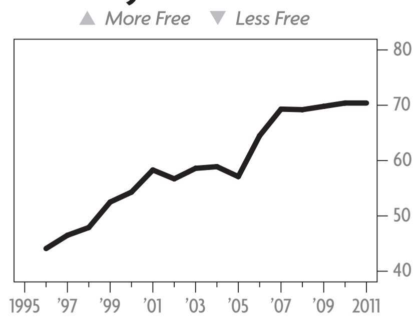


World Rank: **29** Regional Rank: **15**

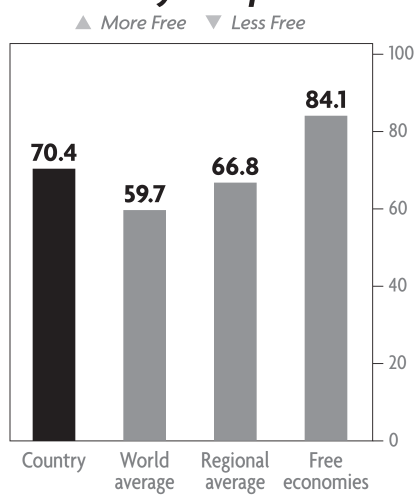
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Georgia's economic freedom score is 70.4, making its economy the 29th freest in the 2011 *Index*. Its overall score is unchanged from last year, with gains in monetary freedom largely cancelled out by increased government spending. Georgia is ranked 15th out of 43 countries in the Europe region, and its overall score is higher than the world average.

The Georgian economy has maintained its status as a "mostly free" economy in the 2011 *Index*. Notable reforms in business freedom, trade freedom, fiscal freedom, and labor freedom have spurred economic development in recent years. Despite a sharp contraction due to the Russian invasion and the global recession, the economy has averaged 4.8 percent annual growth over the last five years.

Georgia is well positioned to resume economic expansion. The business environment is supported by a competitive tax regime and an efficient regulatory framework. Reforms in public financial management are ongoing. Corruption weighs heavily on overall economic freedom, but anti-corruption measures since 2003 have made some progress.

BACKGROUND: Since the collapse of the Soviet Union in 1991, independent Georgia has survived civil wars and the instability generated by the secession of Abkhazia and South Ossetia. President Mikheil Saakashvili and his center-right United National Movement took power in the Rose Revolution of 2003 and 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, as does Russia's continued military presence in Abkhazia and South Ossetia. Georgia left the Commonwealth of Independent States in August 2009. Despite significant international assistance, the economy contracted by 4.5 percent in 2009. Completion of the Baku–Tbilisi–Ceyhan oil pipeline from Azerbaijan to Turkey in 2005 has been a plus, but Russian economic sanctions imposed in 2006 remain in force.

Quick Facts

Population: 4.4 million
GDP (PPP): $20.9 billion
–4.0% growth in 2009
4.8% 5-year compound annual growth
$4,757 per capita
Unemployment: 16.4%
Inflation (CPI): 1.7%
FDI Inflow: $764 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *87.3* — *0.6*

The overall efficiency of Georgia's entrepreneurial environment has been greatly enhanced over the years, but the pace of reform has slowed. The process for launching a business is relatively streamlined, and licensing requirements have been reduced.

TRADE FREEDOM: *89.2* + *0.1*

Georgia's weighted average tariff rate was 0.4 percent in 2009. Georgia has made progress in liberalizing trade. Almost 86 percent of imports enter Georgia duty-free. Judicial resources to deal with intellectual property issues are limited, and inadequate infrastructure and trade capacity add to the cost of trade. Some border trade goes unreported. Ten points were deducted from Georgia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *87.5* — *1.6*

Georgia has low taxes. The income tax rate is a flat 20 percent, and plans to reduce it to 15 percent are on hold. The corporate tax rate is 15 percent. Other taxes include a value-added tax (VAT), a tax on interest, and a tax on dividends. In the most recent year, overall tax revenue as a percentage of GDP was 24.9 percent.

GOVERNMENT SPENDING: *60.3* — *5.0*

In the most recent year, total government expenditures, including consumption and transfer payments, rose to 36.4 percent of GDP. The budget deficit peaked at 9.3 percent of GDP, and public debt surpassed 30 percent of GDP. Privatization of state-owned enterprises is winding down.

MONETARY FREEDOM: *76.7* + *6.5*

After accelerating in 2008 because of temporary disruptions to economic activity from the conflict with Russia and the lagged effect of several quarters of strong economic growth, inflation fell in 2009 due to domestic economic weakness and lower raw materials prices. Between 2007 and 2009, the average rate was 4.4 percent. Prices are generally set in the market, but the government may impose controls through state-owned enterprises. It also subsidizes agricultural products and energy. Ten points were deducted from Georgia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *70* *no change*

Foreign and domestic investments receive equal treatment. Exceptions may be made for certain sectors, including maritime fisheries, air and maritime transport, and broadcasting. Foreign firms may participate freely in privatizations, though transparency has been an issue. Residents and non-residents may hold foreign exchange accounts. There are few limits on international payments and current transfers; capital transactions are not restricted but must be registered. Foreign individuals and companies may buy non-agricultural land. Agricultural land can be purchased by forming a Georgian corporation that may be up to 100 percent foreign-owned.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 18	Investment Freedom	No. 38
Trade Freedom	No. 6	Financial Freedom	No. 38
Fiscal Freedom	No. 29	Property Rights	No. 73
Government Spending	No. 113	Freedom from Corruption	No. 65
Monetary Freedom	No. 69	Labor Freedom	No. 6

FINANCIAL FREEDOM: *60* *no change*

Georgia's financial sector has undergone substantial liberalization. In March 2008, the Georgian Parliament approved the Global Competitiveness of the Financial Services Sector Act to enhance the sector's efficiency. Despite some ups and downs in recent years, loans to the private sector have been on the rise. There are no formal barriers to foreign bank branches and subsidiaries. The government does not have a financial stake in any bank. Significant informal transactions undermine the banking sector to some degree, and the stock exchange is small and underdeveloped. Although the financial system has shown a considerable degree of resilience to external shocks, its overall strength is impaired by the country's limited economic diversification.

PROPERTY RIGHTS: *40* *no change*

Judges now have to pass tests before appointment, but foreigners and Georgians continue to doubt the judicial system's ability to protect private property and contracts. Enforcement of laws protecting intellectual property rights is weak.

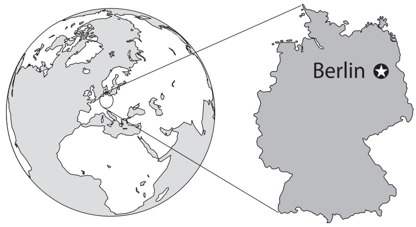
FREEDOM FROM CORRUPTION: *41* + *2.0*

Corruption is perceived as significant. Georgia ranks 66th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The government has improved its performance in fighting corruption; it has fired thousands of civil servants and police, and several high-level officials have been prosecuted for corruption-related offenses. The law provides criminal penalties for official corruption. While the government implemented these laws effectively against low-level corruption, some non-governmental organizations alleged that senior-level officials engaged in corruption with impunity.

LABOR FREEDOM: *92.1* — *1.6*

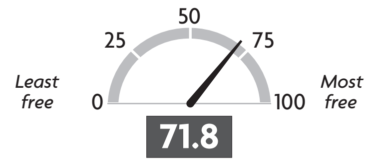
Labor regulations are very flexible. The non-salary cost of employing a worker can be moderate, and dismissing an employee is not burdensome. Rules on work hours are very flexible.

GERMANY

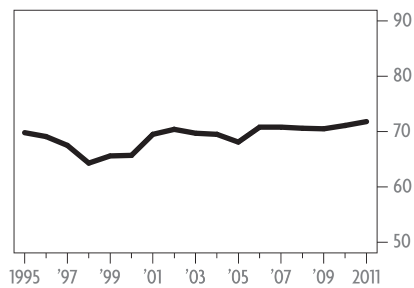


World Rank: **23** Regional Rank: **12**

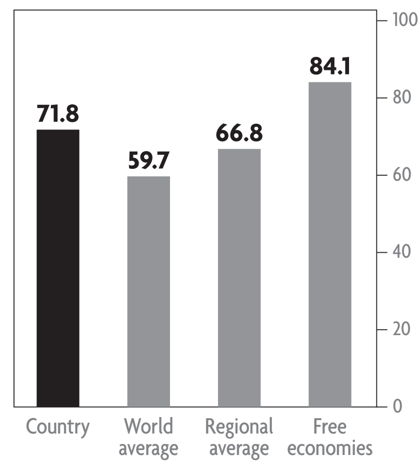
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Germany's economic freedom score is 71.8, making its economy the 23rd freest in the 2011 *Index*. Its overall score has improved slightly due to modest improvements in six of the 10 economic freedoms. Germany is ranked 12th out of 43 countries in the Europe region, and its overall score is significantly higher than the world average.

Despite the challenging global economic environment, Germany continues to be one of the world's most powerful and dynamic economies. Business freedom and investment freedom are strong. Long-term competitiveness and entrepreneurial growth are supported by openness to global commerce, well-protected property rights, and a sound business regulatory environment.

The German economy has gradually emerged from the effects of the global financial crisis, which had a significant negative impact on public finances and economic growth. The downward trend in government spending since 2003 has slowed in light of spending measures responding to the economic downturn. Stimulus spending has pushed the budget deficit to over 3 percent of GDP. Germany has begun an austerity program to rein in its increased fiscal deficits.

BACKGROUND: The election of conservative Angela Merkel to the chancellorship in 2006 led to some economic reforms, but inclusion of the Social Democrats in a grand coalition seriously limited the government's ability to carry out structural reforms. A new government was formed with the economically liberal Free Democratic Party in 2010. Debate is largely centered on Germany's enormous rescue package for fellow euro zone member Greece, adopted along with belt-tightening measures intended to balance the German budget. Germany is Europe's largest economy. Reintegration of the East and West German economies has been difficult, and unemployment, particularly in the East, remains high. Germany is home to many world-class companies and has an enormous export industry and one of the world's highest incomes per capita.

Quick Facts

Population: 82.0 million
GDP (PPP): $2.8 trillion
–5.0% growth in 2009
0.4% 5-year compound annual growth
$34,212 per capita
Unemployment: 7.5%
Inflation (CPI): 0.1%
FDI Inflow: $35.6 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *89.6* — *no change*

Overall business freedom is well protected. The efficient regulatory framework allows dynamic and innovative processes for business formation and operation.

TRADE FREEDOM: *87.6* — ✚ *0.1*

Germany's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and German policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from Germany's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *58.5* — ✚ *0.2*

Germany has a high income tax rate and a moderate corporate tax rate. The top income tax rate is 47.5 percent (45 percent plus a 5.5 percent solidarity surcharge). The federal corporate tax rate is 15.8 percent (15 percent plus a 5.5 percent solidarity tax), but a 7 percent to 17 percent trade tax raises the effective top rate to roughly 33 percent. Other taxes include a value-added tax (VAT), a flat tax of 25 percent on capital gains income, and a church tax of 8 percent to 9 percent. In the most recent year, overall tax revenue as a percentage of GDP was 40.6 percent.

GOVERNMENT SPENDING: *42.7* — ✚ *1.3*

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 43.7 percent of GDP. Privatization of the railway company has stalled, and the state remains the largest employer.

MONETARY FREEDOM: *83.9* — ✚ *4.0*

Germany is a member of the euro zone. Between 2007 and 2009, its weighted average annual rate of inflation was just 0.9 percent. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. It also regulates prices for pharmaceuticals, electricity, telecommunications, and other public services. Ten points were deducted from Germany's monetary freedom score to adjust for measures that distort domestic prices.

INVESTMENT FREEDOM: *85* — *no change*

Foreign and domestic investors are treated equally. Certain financial institutions, passenger transport businesses, and real estate agencies require licenses. There are no permanent currency controls on foreign investments and no serious limitations on new projects, except for the sale of defense companies. The legal and regulatory environment is complex but transparent. There are no restrictions on capital transactions or current transfers, real estate purchases, repatriation of profits, or access to foreign exchange.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 16**	Investment Freedom	**No. 9**
Trade Freedom	**No. 12**	Financial Freedom	**No. 38**
Fiscal Freedom	**No. 166**	Property Rights	**No. 2**
Government Spending	**No. 148**	Freedom from Corruption	**No. 14**
Monetary Freedom	**No. 10**	Labor Freedom	**No. 160**

FINANCIAL FREEDOM: *60* — *no change*

Germany's banking sector has been weakened in recent years. The traditional three-tiered system of private, public, and co-operative banks remains intact. Most of the roughly 2,000 banks are local savings banks and cooperative institutions. The foreign presence is not strong. Regulations are generally transparent and consistent with international norms. All types of capital are available to foreign and domestic businesses, and banks offer a full range of services. Interest rates are market-determined, and foreign investors can access credit freely. The insurance sector and capital markets are open to foreign participation. In response to the global financial turmoil, several financial institutions have received debt guarantees and capital injections from the Financial Market Stabilisation Fund since late 2008. Hypo Real Estate was nationalized in late 2009, as the mortgage bank was considered too economically important to fail.

PROPERTY RIGHTS: *90* — *no change*

Contractual arrangements are secure, and commercial law and private contracts are respected. All property is protected, and the judiciary and civil service are highly professional. Separate supreme courts deal with commercial, tax, labor, and constitutional cases.

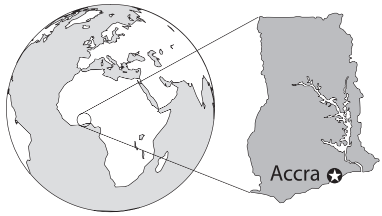
FREEDOM FROM CORRUPTION: *80* — ✚ *1.0*

Corruption is perceived as minimal. Germany ranks 14th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Strict anti-corruption laws are enforced, and Germany has ratified the OECD Anti-Bribery Convention.

LABOR FREEDOM: *40.6* — ✚ *0.7*

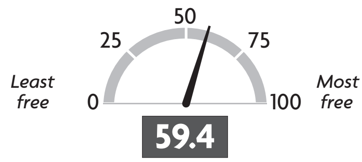
Labor regulations are burdensome and costly. The non-salary cost of employing a worker is high, and the severance payment system is expensive. Wages and fringe benefits remain among the world's highest.

GHANA



World Rank: **95** Regional Rank: **11**

Economic Freedom Score



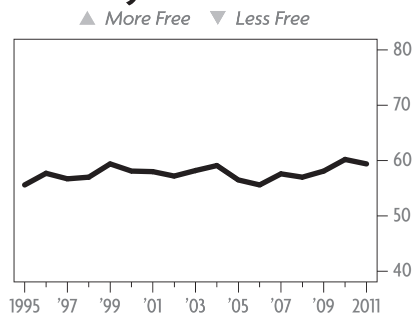
Ghana's economic freedom score is 59.4, making its economy the 95th freest in the 2011 *Index*. Its overall score is 0.8 point worse than last year, with high levels of government spending offsetting gains in business and trade freedom. Ghana is ranked 11th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

Over the past five years, despite the challenging global economic environment, Ghana's economy has grown at a pace close to 6 percent on average. An expanding private sector, macroeconomic stability, and financial-sector reform have all contributed to the expansion. Continuing the reform momentum is vital to improving the country's overall entrepreneurial framework and sustaining economic growth and the reduction in poverty.

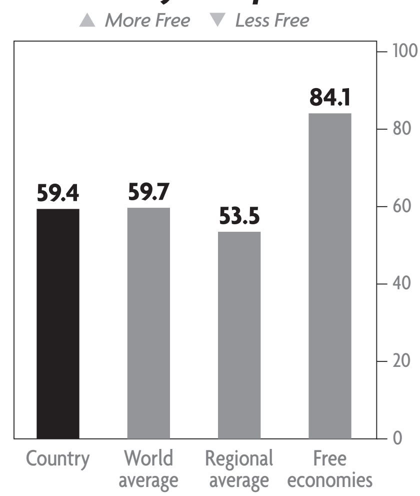
Lingering institutional impediments to advancing economic freedom include the inefficient protection of property rights and weak rule of law. Corruption remains a serious deterrent to translating economic growth into sustained and broad-based economic development throughout the country.

BACKGROUND: In 1957, Ghana became the first Sub-Saharan African nation to achieve independence from a colonial power. It has been a stable democracy since 1992. Longtime opposition party candidate John Atta Mills was elected president in December 2008 by the narrowest margin in African history. Considered a regional model for political and economic reform, Ghana is rich in natural resources, including gold, diamonds, manganese ore, and bauxite. 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, 43 percent of GDP, and 39 percent of exports (predominantly cocoa, cocoa products, and timber). Ghana is the world's second-largest producer of cocoa. Significant oil reserves discovered in 2007 increase the potential for future growth.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 23.1 million
GDP (PPP): $35.8 billion
3.5% growth in 2009
5.7% 5-year compound annual growth
$1,551 per capita
Unemployment: n/a
Inflation (CPI): 19.3%
FDI Inflow: $1.7 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *63.4* **+** *6.6*

The overall process of establishing and running a business is cumbersome. However, recent years' reforms have yielded reductions in the number of bureaucratic procedures and increases in transparency.

TRADE FREEDOM: *67.8* **+** *2.5*

Ghana's weighted average tariff rate was 8.6 percent in 2009. Import bans and restrictions, services market barriers, import fees and taxes, cumbersome and non-transparent standards and regulations, weak enforcement of intellectual property rights, non-transparent government procurement, export promotion subsidies, and complex customs procedures add to the cost of trade. Fifteen points were deducted from Ghana's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *83.3* **–** *0.2*

Ghana has moderate tax rates. The top personal 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 tax on mining royalties is set to increase from 3 percent to 5 percent in 2010. In the most recent year, overall tax revenue as a percentage of GDP was 20.6 percent.

GOVERNMENT SPENDING: *46.1* **–** *12.8*

In the most recent year, total government expenditures, including consumption and transfer payments, rose significantly to 42.4 percent of GDP. Expenditure management is generally sound, but high food and fuel prices, election-year spending, and bloated wage and salary costs drove spending to unprecedented levels. Recent fiscal discipline has reduced the deficit from 14.5 percent of GDP to 9.4 percent of GDP.

MONETARY FREEDOM: *63.3* **–** *2.6*

Inflation has been very high, averaging 17.8 percent between 2007 and 2009. The government influences prices through its regulation of state-owned utilities and controls the prices of petroleum products. Ten points were deducted from Ghana's trade freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *65* *no change*

The government generally does not discriminate against foreign investors except in banking, fishing, mining, and real estate. Non-transparent and burdensome bureaucracy, political influence, and corruption are deterrents. Foreign investors must register with the government and satisfy minimum capital requirements. Residents and non-residents may hold foreign exchange accounts, and payments and current transfers are subject to few restrictions. Foreign investors may lease but not own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 98**	Investment Freedom	**No. 50**
Trade Freedom	**No. 135**	Financial Freedom	**No. 38**
Fiscal Freedom	**No. 55**	Property Rights	**No. 52**
Government Spending	**No. 140**	Freedom from Corruption	**No. 69**
Monetary Freedom	**No. 162**	Labor Freedom	**No. 109**

FINANCIAL FREEDOM: *60* *no change*

Ghana's financial system has undergone restructuring and transformation. There are 26 banks, and the government has a majority share in the largest bank and full ownership in two others. Bank credit to the private sector has increased. Rapid growth in the banking sector, increased competition, and high funding costs, have encouraged risk taking, despite a strong supervisory framework. Since the introduction in 2003 of a Universal Banking Business License intended to create more banking competition, the financial sector has continued to deepen its operations. Legislation passed in 2008 strengthened regulation and supervision of non-bank and microfinance institutions. Capital markets are developing, and the stock exchange, with over 30 listed companies, has achieved a 45 percent increase in market capitalization. Foreigners may invest in securities listed on the stock exchange without exchange-control restrictions. In recent years, the financial system's efficiency has improved due to institutional changes that include the establishment of a common National Payment System Platform and full automation of the stock exchange.

PROPERTY RIGHTS: *50* *no change*

Ghana's 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. The legal system recognizes and enforces secured interests in property, but getting clear title to land is often difficult, complicated, and lengthy. Despite laws to protect intellectual property rights, very few cases have been filed. Ghana is ranked 59th out of 125 countries in the 2010 International Property Rights Index.

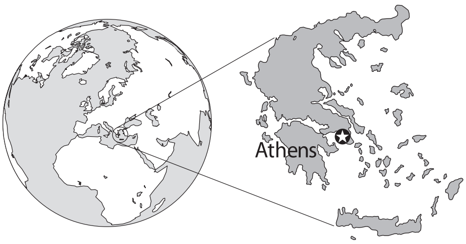
FREEDOM FROM CORRUPTION: *39* *no change*

Corruption is perceived as significant. Ghana ranks 69th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Foreign businessmen report being asked for "favors" from contacts in Ghana in return for facilitating business transactions. A poll measuring public trust in the government found that the courts were one of the least trusted institutions, second only to the police.

LABOR FREEDOM: *56.1* **–** *1.3*

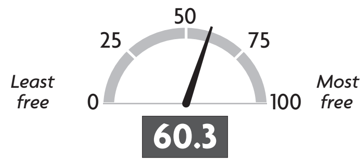
Labor regulations remain restrictive and outmoded. The non-salary cost of employing a worker is moderate, but dismissing an employee is costly and difficult.

GREECE

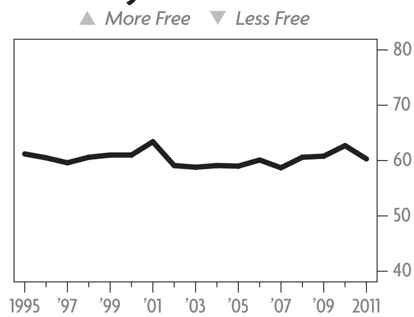


World Rank: 88 **Regional Rank: 37**

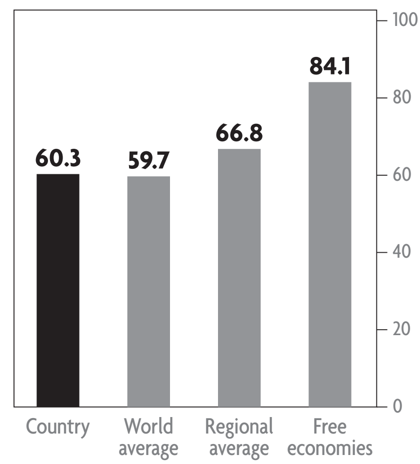
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Greece's economic freedom score is 60.3, making its economy the 88th freest in the 2011 *Index*. Its score is 2.4 points lower than last year, reflecting declines in four of the 10 economic freedoms, including freedom from corruption. Greece is ranked 37th out of 43 countries in the Europe region and recorded one of the largest declines in the 2011 *Index*.

Greece's 2010 sovereign debt crisis was sparked by decades of overspending and mismanagement of public finance. With the public sector accounting for more than 40 percent of GDP, Greece continues to confront the dual challenges of a daunting debt burden and severe erosion of competitiveness.

Serious challenges remain in such areas as government spending and labor freedom. The fiscal deficit is over 13 percent of GDP, while public debt exceeds 115 percent of GDP. The lack of competitiveness and fading business confidence are serious impediments to economic revival. The Greek economy, stifled by powerful public unions, does not support entrepreneurship. The rigid labor market impedes productivity and job growth. Corruption continues to be a problem.

BACKGROUND: Greece has been a member of NATO since 1952 but has enjoyed uninterrupted democratic rule only since 1974. Greece 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 and is focused on agriculture, tourism, construction, and shipping. Following years of profligate government spending and inaccurate reporting to the European Central Bank, the Greek economy faced imminent collapse in early 2010 when confronted with an enormous sovereign debt crisis. Unable to devalue its currency, Greece was rescued with a package of emergency loans from the EU, the European Central Bank, and the International Monetary Fund in exchange for the introduction of severe austerity measures.

Quick Facts

Population: 11.2 million
GDP (PPP): $333.5 billion
–2.0% growth in 2009
2.2% 5-year compound annual growth
$29,882 per capita
Unemployment: 9.5%
Inflation (CPI): 1.4%
FDI Inflow: $3.4 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: 76.2 — 1.2

The overall regulatory framework is inefficient and hampered by government bureaucracy. Sporadic efforts to enhance the business environment have been undermined by red tape and insufficient political commitment. The bloated public sector is a drag on productivity growth.

TRADE FREEDOM: 82.6 + 0.1

Greece's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Greek policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Subsidies, regulations, and services market access restrictions exceed EU policy, and the enforcement of intellectual property rights is problematic. Fifteen points were deducted from Greece's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: 65.9 no change

Greece has a relatively high income tax rate and a moderate corporate tax rate. The top income tax rate is 40 percent, and the top corporate tax rate is 24 percent, down from 25 percent as of 2010. Other taxes include a value-added tax (VAT), an inheritance tax, and a tax on interest. In the most recent year, overall tax revenue as a percentage of GDP was 35.1 percent.

GOVERNMENT SPENDING: 34.3 — 7.6

Government spending is high. In the most recent year, total government expenditures, including consumption and transfer payments, increased to 46.8 percent of GDP.

MONETARY FREEDOM: 80.6 + 3.0

Greece is a member of the euro zone. Between 2007 and 2009, Greece's weighted average annual rate of inflation was 2.2 percent. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. It also can set a ceiling on retail prices and regulates prices for pharmaceuticals, transportation, and energy while setting margins for wholesalers and retailers. Ten points were deducted from Greece's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: 60 no change

Greece officially welcomes foreign investment but restricts investment in some utilities. Non-EU investors in banking, mining, broadcasting, maritime, and air transport must obtain licenses. Government regulations are complex, and enforcement is inconsistent. Private investment in companies of "strategic importance" is capped at 20 percent without approval from the government. Residents and non-residents may hold foreign exchange accounts. There are no restrictions or controls on payments, real estate transactions, transfers, or repatriation of profits. Restrictions exist on land purchases in border regions and on certain islands due to national security considerations.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 46	Investment Freedom	No. 62
Trade Freedom	No. 59	Financial Freedom	No. 38
Fiscal Freedom	No. 149	Property Rights	No. 52
Government Spending	No. 154	Freedom from Corruption	No. 69
Monetary Freedom	No. 31	Labor Freedom	No. 114

FINANCIAL FREEDOM: 60 no change

Private banks account for 70 percent of assets. There are more than 60 domestic and foreign banks along with other special credit institutions. Foreign-owned banks are around 11 percent of the market. Five large commercial groups operate as private universal banks. The state directly controls one bank, indirectly controls another, and holds an approximately 30 percent stake in the Postal Savings Bank. Capital markets provide a wide range of financial instruments. A combination of state guarantees and participation in share capital has increased flows in financial markets.

PROPERTY RIGHTS: 50 — 10.0

The judiciary is nominally nonpartisan but tends to reflect government sensibilities. Expropriation is unlikely. The lack of a land registry and the multiple layers of authority concerning land use and zoning permits are among the most significant disincentives to green-field investments. Enforcement of intellectual property rights is not rigorous.

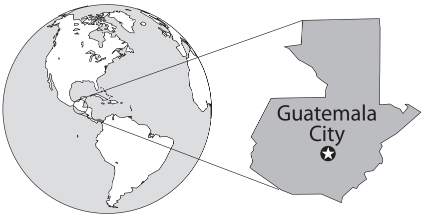
FREEDOM FROM CORRUPTION: 38 — 9.0

Corruption is perceived as significant. Greece ranks 71st out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a significant drop from 2008. Bribery is considered a criminal act, and the law provides severe penalties for infractions, but implementation and enforcement remain lax. The problem is most acute in government procurement, where political influence and cronyism are widely believed to play a significant role in the evaluation of bids.

LABOR FREEDOM: 55.2 + 0.1

Labor regulations are restrictive, and the Greek economy lacks labor mobility. The non-salary cost of employing a worker is high, and regulations on work hours remain rigid.

GUATEMALA



World Rank: **79** Regional Rank: **17**

Guatemala's economic freedom score is 61.9, making its economy the 79th freest in the 2011 *Index*. Its score has increased by 0.9 point, reflecting gains in five of the 10 economic freedoms. Guatemala is ranked 17th out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world average.

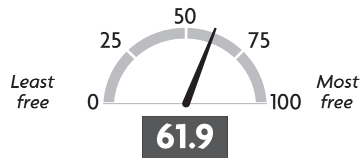
Guatemala has achieved steady economic growth over the past five years, and economic freedom has continued to advance. The economy performs relatively well in trade freedom and fiscal freedom. With tariff barriers dropping, Guatemala's trade freedom has improved. Personal and corporate tax rates are moderate, and the overall tax burden is relatively low. Effective management of government expenditures was maintained during the recent global financial crisis.

Ongoing challenges to overall economic freedom in Guatemala include a relative lack of business freedom, weak respect for property rights, and widespread corruption. Business licensing procedures are burdensome, and bureaucratic impediments persist. Judicial inefficiency undermines the rule of law.

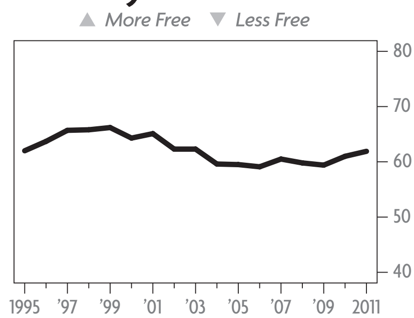
BACKGROUND: Leftist President Alvaro Colom was elected in 2007, promising social democracy, accelerated rural development, improved education, and access to health care, but the problems of crime, rising youth gang membership, judicial weakness, weak law enforcement, drug trafficking and corruption have not improved during his tenure. Guatemala participates in Petrocaribe, Venezuela's long-term oil loans and subsidies program, but also values its strong ties with Mexico and the U.S. About 80 percent of Guatemalans live below the poverty line, less than half of all age-appropriate youth are enrolled in secondary schools, and nearly half of the labor force works in agriculture. The most advanced sector, telecommunications, is fully deregulated. The Central America–Dominican Republic–United States Free Trade Agreement has boosted trade flows and employment. Leading exports include coffee, sugar, bananas, winter vegetables, cut flowers, and textiles.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

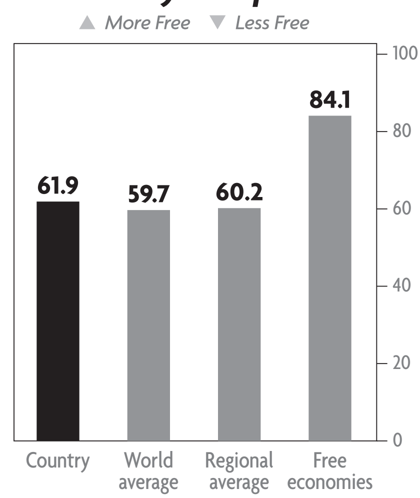
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Quick Facts

Population: 14.0 million
GDP (PPP): $67.8 billion
0.6% growth in 2009
3.9% 5-year compound annual growth
$4,840 per capita
Unemployment: 1.8% (2005)
Inflation (CPI): 1.9%
FDI Inflow: $566 million

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *52.1* — 0.4

Guatemala has continued to improve its regulatory framework, but progress has been uneven. Bureaucratic hurdles remain common, including the lengthy processes for launching a business and obtaining necessary permits.

TRADE FREEDOM: *84.6* + 0.6

Guatemala's weighted average tariff rate was 2.7 percent in 2009. Import licensing, non-transparent sanitary and phytosanitary regulations, services market access restrictions, inconsistent customs valuation and administration, bureaucratic delays, and inadequate infrastructure add to the cost of trade. Ten points were deducted from Guatemala's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *79.5* + 0.2

Guatemala's tax rates are moderately high. The top income and corporate tax rates are 31 percent. Other taxes include a value-added tax (VAT) and a tax on real estate. In the most recent year, overall tax revenue as a percentage of GDP fell to 11.3 percent.

GOVERNMENT SPENDING: *94.4* + 0.5

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 13.7 percent of GDP. Supportive fiscal stimulus peaked at 0.3 percent of GDP in 2009, but authorities have begun to wind down some spending measures. The fiscal deficit reached 1.6 percent of GDP, and public debt hovers around 20 percent of GDP. State ownership of enterprises, though not extensive, persists in telecommunications and port control.

MONETARY FREEDOM: *76.4* + 6.2

Inflation has been moderating, averaging 4.6 percent between 2007 and 2009. The government maintains few price controls but subsidizes numerous economic activities and products, such as fuel and housing construction. Ten points were deducted from Guatemala's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *60* *no change*

Foreign investors technically receive national treatment, but a variety of regulatory hurdles can serve as a barrier to investment. Some professional services may be supplied only by those with locally recognized academic credentials, and mining activities face additional restrictions as minerals and petroleum are the property of the state. Complex and non-transparent laws and regulations, inconsistent judicial decisions, burdensome bureaucracy, and corruption continue to deter investment. Residents and non-residents may hold foreign exchange accounts. There are no restrictions or controls on payments, transactions, and transfers. Foreign investors may not own land immediately adjacent to rivers, oceans, or international borders. The government must provide compensation if it expropriates private property.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 138	Investment Freedom	No. 62
Trade Freedom	No. 51	Financial Freedom	No. 70
Fiscal Freedom	No. 80	Property Rights	No. 94
Government Spending	No. 3	Freedom from Corruption	No. 84
Monetary Freedom	No. 75	Labor Freedom	No. 120

FINANCIAL FREEDOM: *50* *no change*

Guatemala's small financial system is dominated by bank-centered financial conglomerates. The banking sector has undergone reorganization and is well capitalized, and the number of non-performing loans is relatively low. The five largest banks account for almost 80 percent of total assets. A number of non-bank financial institutions carry out investment banking and medium-term and long-term lending. Foreign banks' presence is small, and their market share accounts for about 8 percent of deposits. Bank supervision and transparency have been strengthened under a legal and regulatory framework adopted in 2002 and legislation passed in 2005 and 2006, which also makes government intervention easier. Capital markets are weak and not fully developed. Two commercial exchanges deal almost exclusively in commercial paper and government bonds. The 2008 Stock Market Law was intended to improve mechanisms to make information concerning issuing institutions more readily available. Amendments to the Banking Law were submitted to Congress in June 2009 but have not been implemented yet.

PROPERTY RIGHTS: *35* *no change*

Judicial resolution of disputes is time-consuming and often unreliable. Civil cases can take as long as a decade. Judicial corruption is not uncommon. Inadequately documented titles and gaps in the public record can lead to conflicting claims of land ownership. Land invasions by squatters are increasingly common in rural areas, and evicting squatters can be difficult. Successful prosecution of intellectual property rights cases is rare. Guatemala is ranked 88th out of 125 countries in the 2010 International Property Rights Index.

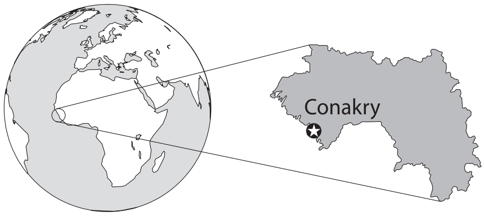
FREEDOM FROM CORRUPTION: *34* + 3.0

Corruption is perceived as widespread. Guatemala ranks 84th out of 179 countries in Transparency International's Corruption Perceptions Index for 2009. Bribery is illegal, but corruption remains a serious problem that companies may encounter at many levels. Guatemala has ratified the U.N. Convention Against Corruption.

LABOR FREEDOM: *53.4* — 0.9

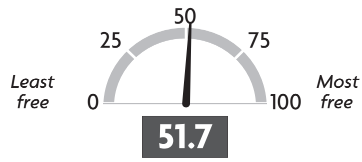
Labor regulations are rigid. The non-salary cost of employing a worker is moderate, but dismissing an employee is relatively costly. A large portion of the workforce is employed in the informal sector.

GUINEA

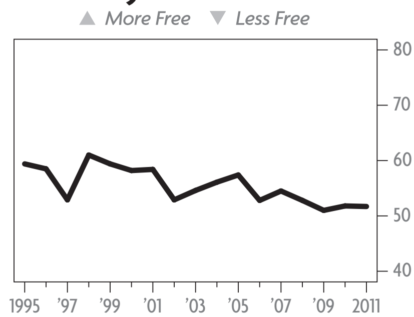


World Rank: **137** Regional Rank: **28**

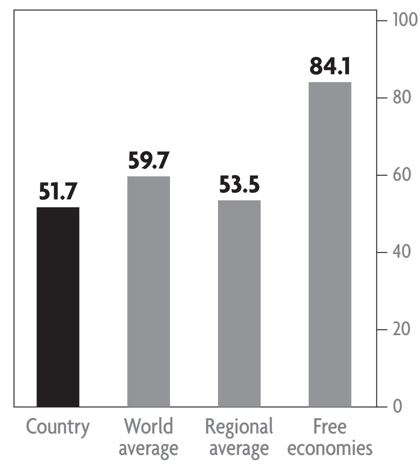
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Guinea's economic freedom score is 51.7, making its economy the 137th freest in the 2011 *Index*. Its overall score is virtually unchanged from last year, with a large gain in monetary freedom almost entirely offset by a drop in labor freedom. Guinea is ranked 28th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world and regional averages.

Economic activity in Guinea is highly concentrated in agriculture. Economic growth remains fragile in the absence of a vibrant private sector. Although the public sector has undergone restructuring over the past several years, progress toward transparent management of public finance has been marginal. The government's presence in the economy is pervasive, and state-controlled enterprises dominate key sectors.

Other lingering institutional impediments include inefficient protection of property rights and weak rule of law. Pervasive corruption is a serious deterrent to translating economic growth into sustained private-sector development and the effective reduction of poverty.

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. A National Council for Democracy and Development was set up, and Camara was declared president. Under international and domestic pressure, the junta agreed to hold legislative elections in October 2009 and presidential elections in December 2009. General Sékouba Konaté replaced Camara, and Jean Marie Dore became Prime Minister of the Transitional Government in January 2010. Because of fighting and instability in Côte d'Ivoire, Sierra Leone, and Liberia, Guinea is host to hundreds of thousands of refugees. Rich mineral resources, including iron, gold, diamonds, and perhaps half of the world's bauxite reserves, account for 70 percent of exports. Infrastructure is poor, electricity and water shortages are common, and much of the population is engaged in subsistence agriculture.

Quick Facts

Population: 10.6 million
GDP (PPP): $10.5 billion
–0.3% growth in 2009
2.2% 5-year compound annual growth
$991 per capita
Unemployment: n/a
Inflation (CPI): 4.7%
FDI Inflow: $141 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *40.8* — *− 2.9*

The poor and often delayed implementation of structural reforms in Guinea's regulatory environment hinders private-sector development. Private enterprises face numerous hurdles to incorporating and running businesses.

TRADE FREEDOM: *61.2* — *+ 1.2*

Guinea's weighted average tariff rate was 11.9 percent in 2009. High import taxes, pre-import and export authorization requirements, non-transparent and corrupt customs administration, a lack of foreign currency for transacting formal trade, state-owned import and export monopolies, subsidies, and inadequate infrastructure add to the cost of trade. Fifteen points were deducted from Guinea's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *69.6* — *− 0.3*

Guinea has high tax rates. 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. In the most recent year, overall tax revenue as a percentage of GDP was 14.7 percent.

GOVERNMENT SPENDING: *90.9* — *− 2.2*

Guinea has been hard hit by successive crises in oil, food, finance and politics. Total government expenditures, including consumption and transfer payments, have nonetheless remained low. In the most recent year, government spending increased to 17.4 percent of GDP. Poor spending management and excessive reliance on the declining mining sector have contributed to fiscal deficits. The absence of external aid, owing to the financial and political crises, has pushed the fiscal deficit to 1.5 percent of GDP.

MONETARY FREEDOM: *70.3* — *+ 12.9*

Inflation has moderated, averaging 9.7 percent between 2007 and 2009, after surging to nearly 23 percent in 2007 due to political instability and the printing of money to finance the fiscal deficit. The government influences prices through regulation of state-owned enterprises and administrative price controls for cement, petroleum products, water, and electricity. It also subsidizes rice importers. Ten points were deducted from Guinea's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *40* — *no change*

Foreign investment and domestic investment generally receive equal treatment, but foreign majority ownership in media and mining is subject to government approval. Investment is deterred by political unrest, bureaucratic inefficiency, inadequate infrastructure and regulatory capacity, a weak and corrupt judiciary, opaque procedures, and corruption. Residents and non-residents may hold foreign exchange accounts, and payments and transfers are allowed with some restrictions. Foreigners and nationals may own property, though individuals have found it difficult on occasion to exercise this right.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 159	Investment Freedom	No. 117
Trade Freedom	No. 155	Financial Freedom	No. 106
Fiscal Freedom	No. 132	Property Rights	No. 146
Government Spending	No. 12	Freedom from Corruption	No. 170
Monetary Freedom	No. 140	Labor Freedom	No. 74

FINANCIAL FREEDOM: *40* — *no change*

Guinea's financial system is dominated by banking. Financial regulation is inefficient and poorly enforced. With fewer than 10 commercial banks, services are largely concentrated in the capital. Branches and subsidiaries of foreign or regional banks play a relatively important role in financial intermediation. Considerable economic activity remains outside the formal banking sector, and bank lending to the private sector remains, on average, under 10 percent of GDP. About 30 percent of total loans are non-performing. The banking sector, supervised by the Central Bank of Guinea, has some foreign ownership, particularly by French financial institutions. Microfinance has expanded rapidly, and a few microfinance institutions are in operation. Commercial banks are the main source of financing for private businesses, and capital markets are underdeveloped, reflecting the financial system's lack of efficiency and depth. There have been no corporate issuances in the debt market.

PROPERTY RIGHTS: *20* — *no change*

Enforcement of property rights depends on a corrupt and inefficient legal and administrative system. Poorly trained magistrates, corruption, and nepotism reportedly plague the administration of justice. The government has expressed its intention to reform the judiciary with the help of international donor agencies, but there are few cases to demonstrate that the system can provide effective protection of real or intellectual property rights.

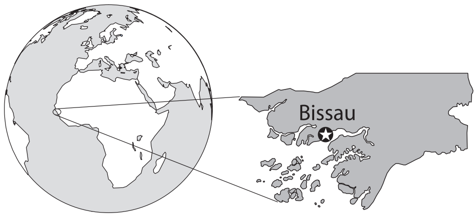
FREEDOM FROM CORRUPTION: *18* — *+ 2.0*

Corruption is perceived as pervasive. Guinea ranks 168th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The business and political cultures, poor formal salaries, and a very large informal economy encourage corruption. Business is routinely conducted through the payment of bribes; government officials commonly demand everything from money to gasoline to perform routine duties. Corruption is a serious barrier to investment.

LABOR FREEDOM: *66.6* — *− 11.4*

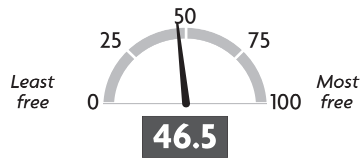
Employment regulations are flexible, although enforcement is not effective. The non-salary cost of employing a worker is moderate, but dismissing an employee can be difficult and costly. The formal labor market remains underdeveloped.

GUINEA–BISSAU



World Rank: 159 **Regional Rank: 38**

Economic Freedom Score



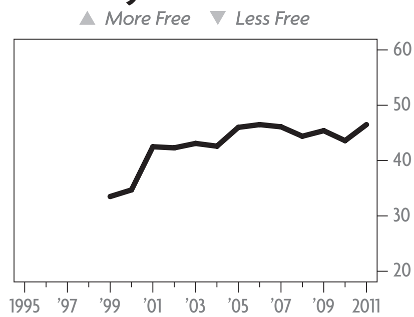
Guinea–Bissau's economic freedom score is 46.5, making its economy the 159th freest in the 2011 *Index*. Its score has increased by 2.9 points, largely due to significant gains in trade, monetary, and labor freedom. Although its overall score is well below the world and regional averages, Guinea–Bissau is the fifth most improved economy in the 2011 *Index*.

Guinea–Bissau's progress toward greater economic freedom has been ongoing, but its overall transition to a modern economy remains hampered by institutional instability and poor policy choices. The high costs of conducting business, lack of regulatory transparency, poor access to credit, and unsustainably high public debt all limit development.

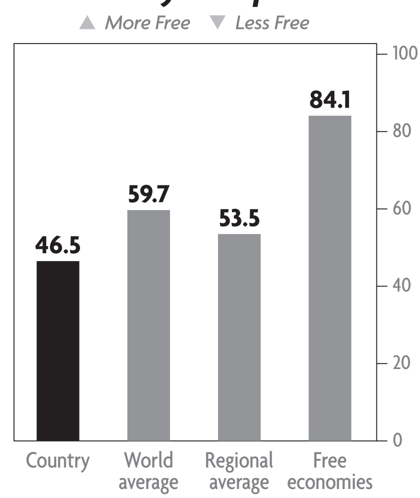
The economy scores well below the world average in business freedom, investment freedom, property rights, and freedom from corruption. State involvement is widespread and inefficient. Domestic regulations and restrictions on foreign investment perpetuate a business environment that is not friendly to private enterprise. The weak rule of law jeopardizes property rights, and corruption is pervasive. The informal market dwarfs the legitimate market.

BACKGROUND: Guinea–Bissau is one of the world's poorest countries. Joao Vieira overthrew post-independence leader Luis Cabral in 1980, won the first multi-party elections in 1994, and was ousted in 1998. Kumba Yala, elected in 2000, was ousted by the military in 2003. Vieira 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. Agriculture accounts for over 60 percent of GDP, employs over 80 percent of the labor force, and comprises about 90 percent of exports. Cashew nuts are the most important commercial crop. Guinea–Bissau has become a major center for the transshipment of drugs and light arms by international criminal gangs.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 1.6 million
GDP (PPP): $1.7 billion
3.0% growth in 2009
2.2% 5-year compound annual growth
$1,068 per capita
Unemployment: n/a
Inflation (CPI): –1.7%
FDI Inflow: $14 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *25.5* ✚ *2.1*

Despite some progress, Guinea–Bissau's opaque regulatory environment discourages entrepreneurial activity. Time-consuming and costly commercial regulations virtually preclude any significant private-sector development.

TRADE FREEDOM: *63.6* ✚ *5.4*

Guinea–Bissau's weighted average tariff rate was 10.7 percent in 2009. Irregularities in import valuation, difficulty tracking and monitoring goods, inadequate infrastructure and trade capacity, and customs corruption add to the cost of trade. The government intervenes in the export of cashews, the principal crop. Fifteen points were deducted from Guinea–Bissau's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *88.7* ✚ *0.1*

Guinea–Bissau has a relatively low income tax rate and a moderate corporate tax rate. The top income tax rate is 20 percent (12 percent for salaried workers), 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. In the most recent year, overall tax revenue as a percentage of GDP was 10.2 percent.

GOVERNMENT SPENDING: *54.8* ✚ *7.5*

Total government expenditures, including consumption and transfer payments, have declined to 38.8 percent of GDP. Fiscal management has historically been shaky and focused on meeting current-year expenditure demands without increasing domestic arrears. Donor assistance is critical to financing budget deficits. A new public financial management system is being implemented in an effort to improve budget preparation, execution, and monitoring. State-owned water and electricity enterprises struggle to maintain stability.

MONETARY FREEDOM: *72.2* ✚ *5.2*

Inflation has dropped, averaging 4.1 percent between 2007 and 2009. The regional Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) maintains the CFA franc's peg to the euro. Its monetary policies and the agriculture sector's improving performance will help to control inflation. However, food prices, which depend on the annual harvest, are the main component of the consumer price index and have the largest impact. The government influences prices through state-owned utilities and controls prices for cashew nuts, the source of roughly 30 percent of GDP. Fifteen points were deducted from Guinea–Bissau's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *30* *no change*

The investment code provides for national treatment of foreign investors and protects investment from nationalization and expropriation. Political and economic instability, inadequate regulatory capacity and infrastructure, corruption, and an unskilled workforce discourage foreign investment. Non-residents may hold foreign exchange accounts with permission of the BCEAO, and residents may hold them with Ministry of Finance and BCEAO permission. Capital transfers to most foreign countries are restricted. The government must approve most personal capital movements between residents and non-residents.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 173	Investment Freedom	No. 134
Trade Freedom	No. 145	Financial Freedom	No. 133
Fiscal Freedom	No. 26	Property Rights	No. 146
Government Spending	No. 121	Freedom from Corruption	No. 164
Monetary Freedom	No. 118	Labor Freedom	No. 86

FINANCIAL FREEDOM: *30* *no change*

Guinea–Bissau's underdeveloped financial system remains hampered by economic and institutional instability. The banking sector has not been revitalized since the end of the civil war in the late 1990s. Guinea–Bissau is one of eight members of the West African Economic and Monetary Union, which governs banking and other financial institutions. 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, although bank credits to the private sector have increased. In 2009, the first bank branch opened outside of the capital of Bissau. Development of the capital market has been very poor, and there is no stock exchange.

PROPERTY RIGHTS: *20* *no change*

Protection of property rights is extremely weak. 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. The police often resolve disputes without recourse to the courts.

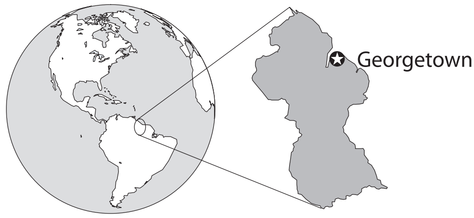
FREEDOM FROM CORRUPTION: *19* *no change*

Corruption is perceived as pervasive. Guinea–Bissau ranks 162nd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The informal sector eclipses the formal economy. Trade in smuggled diamonds, food, and fishing products is significant. Corruption and lack of transparency pervade all levels of government. Customs officers reportedly accept bribes.

LABOR FREEDOM: *61.4* ✚ *8.9*

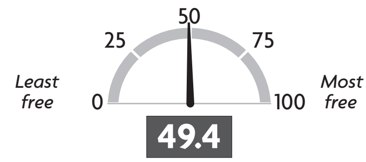
Despite some modernization, Guinea–Bissau's burdensome labor regulations have little impact in the absence of a normally functioning labor market. Much of the labor force is employed in the public sector or the informal economy.

GUYANA



World Rank: **151** Regional Rank: **26**

Economic Freedom Score



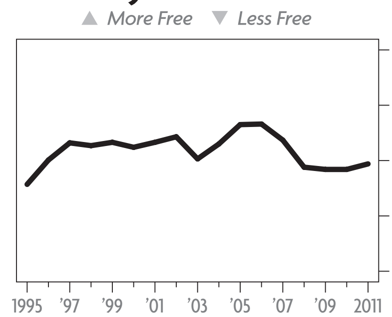
Guyana's economic freedom score is 49.4, making its economy the 151st freest in the 2011 *Index*. Its overall score is one point higher than last year, mainly as a result of improvements in fiscal and monetary freedom. Guyana is ranked 26th out of 29 countries in the South and Central America/Caribbean region, and its overall score is well below the world and regional averages.

Broad-based economic growth in Guyana is held back by structural weaknesses in the economy. Long-standing constraints on economic freedom include widespread corruption in many areas of government, fragile protection of property rights, and weak rule of law. Guyana's oversized government is a serious impediment to private-sector development and the achievement of sustained economic growth. Significant restrictions on foreign investment and inefficient bureaucracy continue to undermine the entrepreneurial environment.

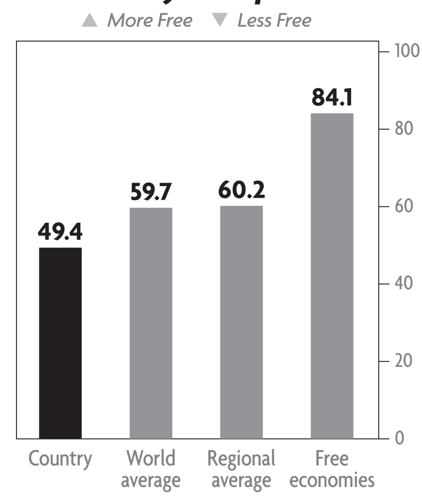
The government has acted to improve the transparency and quality of its management of public finances, but results have been mixed. The average tariff rate has gradually decreased, but non-tariff barriers continue to limit overall trade freedom.

BACKGROUND: Guyana gained its independence in 1966. 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 August 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 at its lowest since the early 1990s, relations between the PPP–Civic and the People's National Congress–Reform remain hostile. Guyana is one of the poorest countries in the Western Hemisphere, and its state-dominated economy, dependent mainly on agriculture and mining, has been stagnant for many years. Violent crime and drug trafficking are serious concerns.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 0.8 million
GDP (PPP): $5.1 billion
3.3% growth in 2009
4.3% 5-year compound annual growth
$6,688 per capita
Unemployment: 11.0% (2007)
Inflation (CPI): 2.9%
FDI Inflow: $144 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *66.8* + *3.4*

Despite some progress, the overall freedom to conduct a business remains restricted by Guyana's burdensome regulatory environment. The major constraints stem from lingering government interference and a lack of political will to promote development of a dynamic private sector. Enforcement of existing regulations is not always consistent, and a lack of regulatory certainty often increases the cost of doing business.

TRADE FREEDOM: *71.3* *no change*

Guyana's weighted average tariff rate was 6.9 percent in 2008. Import restrictions, high import taxes on agricultural goods, import-licensing requirements for a relatively large number of products, burdensome standards and regulations, inefficient customs administration, weak enforcement of intellectual property rights, inadequate infrastructure, and corruption add to the cost of trade. Fifteen points were deducted from Guyana's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *64.6* + *8.7*

Guyana has relatively high tax rates. 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). Excise taxes on fuel, temporarily suspended in 2008 in an effort to protect domestic consumers from high international prices, were reinstated in 2009. In the most recent year, overall tax revenue as a percentage of GDP was 20.2 percent.

GOVERNMENT SPENDING: *29.1* + *2.9*

Total government expenditures, including consumption and transfer payments, remain chronically high. In the most recent year, government spending equaled 48.6 percent of GDP. Privatization of state-owned enterprises has achieved mixed results. Poor management of public expenditures has led to persistent fiscal deficits. Public debt has fallen below 60 percent of GDP, in part because of debt relief and fiscal consolidation efforts.

MONETARY FREEDOM: *75.8* + *4.8*

Inflation has been moderating, averaging 5 percent between 2007 and 2009. Guyana has made progress in removing price controls and privatizing the large public sector, but the government still influences prices through the regulation of state-owned utilities and enterprises. Ten points were deducted from Guyana's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *30* *no change*

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. Investment is hindered by crime, corruption, inefficient and burdensome government bureaucracy, non-transparent regulations, a weak and burdensome judiciary, and an inadequately educated workforce. Foreign exchange, credit, and capital transactions face some restrictions. The constitution guarantees the right of foreigners to own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 87	Investment Freedom	No. 134
Trade Freedom	No. 120	Financial Freedom	No. 106
Fiscal Freedom	No. 157	Property Rights	No. 99
Government Spending	No. 159	Freedom from Corruption	No. 128
Monetary Freedom	No. 87	Labor Freedom	No. 92

FINANCIAL FREEDOM: *40* *no change*

Guyana's underdeveloped financial sector continues to be plagued by inefficiency and a poor institutional framework. There have been no major reforms in the sector. High credit costs and scarce access to financing remain barriers to more dynamic entrepreneurial activity. The percentage of loans that are considered non-performing is relatively high. Six commercial banks operate in Guyana, and the two largest are foreign-owned. There are restrictions on financial transactions with non-residents. Guyana has six insurance companies and a small stock exchange.

PROPERTY RIGHTS: *30* − *5.0*

Guyana's judicial system is often slow and inefficient. It is also subject to corruption. Law enforcement officials and prominent lawyers have questioned the independence of the judiciary and accused the government of intervening in some cases. A shortage of trained court personnel and magistrates, poor resources, and persistent bribery prolong the resolution of court cases unreasonably. There is no enforcement mechanism for the protection of intellectual property rights. Guyana is ranked 104th out of 125 countries in the 2010 International Property Rights Index.

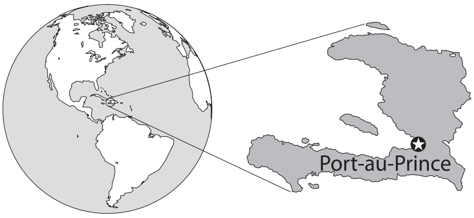
FREEDOM FROM CORRUPTION: *26* *no change*

Corruption is perceived as widespread. Guyana ranks 126th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. There is extensive corruption at every level of law enforcement and government. The ruling party's reputation has been tarnished by allegations of collaboration with criminal elements. Widespread corruption undermines poverty-reduction efforts by international aid donors and discourages foreign investors.

LABOR FREEDOM: *60.3* − *4.9*

Labor regulations are relatively flexible, but because the public sector is so large, an efficient labor market has not yet emerged. The non-salary cost of employing a worker is low, but dismissing an employee can be costly.

HAITI



World Rank: **133** Regional Rank: **23**

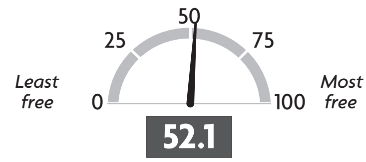
Haiti's economic freedom score is 52.1, making its economy the 133rd freest in the 2011 *Index*. Improvements in freedom from corruption and monetary freedom have driven its overall score 1.3 points higher than last year. Haiti is ranked 23rd out of 29 countries in the South and Central America/Caribbean region, and its overall score is lower than the world and regional averages.

Haiti is currently focused on recovering from a devastating earthquake in 2010. Much of the basic economic infrastructure has been destroyed, and government documents, including those that guarantee property rights, have been lost. The international community has stepped in to assist in recovery and rebuilding efforts.

Even before the earthquake, progress in reform had been only marginal. The effectiveness of public finance had been severely undermined by political volatility that further weakens an already weak rule of law. Reforms to improve the business and investment climates have had little effect in light of Haiti's corruption and inefficient judicial system.

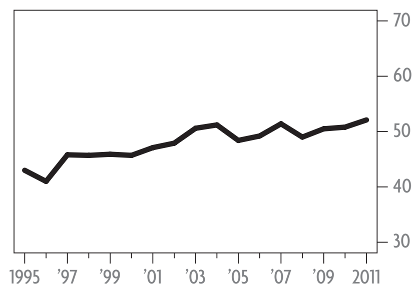
BACKGROUND: Haiti is the Western Hemisphere's poorest country and one of the world's least-developed nations. Its infrastructure, already in shambles, was devastated by an earthquake in January 2010. Corruption, gang violence, drug trafficking, and organized crime are pervasive; the justice system does not function. A democratic constitution was adopted in 1986, but the 1990 election of President Jean-Bertrand Aristide ushered in 13 years of political instability. Rene Préval, who won a U.N.-supervised election in 2006 and has maintained close ties to Cuba and Venezuela, was constitutionally barred from running in the scheduled November 2010 presidential election. 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 declined in the global economic downturn.

Economic Freedom Score



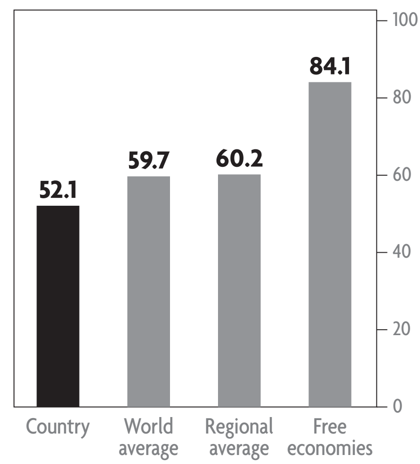
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 8.9 million
GDP (PPP): $12.0 billion
2.9% growth in 2009
2.3% 5-year compound annual growth
$1,339 per capita
Unemployment: n/a
Inflation (CPI): 3.4%
FDI Inflow: $38 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *37.5* — ✚ *1.5*

Inadequate regulatory and legal frameworks hamper private-sector development. The business environment has been hurt further by the uncertainty caused by political instability and the earthquake.

TRADE FREEDOM: *74.8* — ━ *4.3*

Haiti's weighted average tariff rate was 5.1 percent in 2009. Import controls, import licensing requirements on agricultural products, inadequate trade capacity and infrastructure, inefficient administration at state-run seaports, and customs corruption add to the cost of trade. Fifteen points were deducted from Haiti's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *80.9* — ━ *0.6*

Haiti has moderate tax rates. The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. In the most recent year, overall tax revenue as a percentage of GDP was 10.3 percent.

GOVERNMENT SPENDING: *90.1* — ━ *1.2*

Haiti's economy depends heavily on remittances from Haitians living in the United States and on international aid. Political instability has made government economic and financial management weak and inconsistent. In the most recent year, total government expenditures, including consumption and transfer payments, rose slightly to 18.2 percent of GDP. Natural disasters have necessitated more short-term, disaster-related spending. Restructuring of state-enterprises has been put on hold indefinitely.

MONETARY FREEDOM: *73.7* — ✚ *6.6*

Inflation has been moderating, averaging 6.6 percent between 2007 and 2009. Prices have risen in the aftermath of the earthquake, although less than originally expected, despite the scarcity of food, water, and fuel and an influx of foreign aid workers and cash. Prices are generally determined by the market, but the government restricts markups of some products (retailers, for example, may not mark up pharmaceutical products by more than 40 percent) and strictly controls the prices of petroleum products. Ten points were deducted from Haiti's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *30* — *no change*

Foreign investors are granted national treatment. Investment in sensitive sectors such as public health, agriculture, electricity, water, and telecommunications requires special authorization. In general, natural resources are considered to be the property of the state, and mining activities require concessions and permits. Laws are transparent but not consistently enforced. Bureaucracy and red tape are burdensome. Inadequate institutional capacity, corruption, and political instability deter investment. There are no restrictions on payments, transfers, or capital transactions. Foreign ownership of land is restricted.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 163	Investment Freedom	No. 134
Trade Freedom	No. 99	Financial Freedom	No. 133
Fiscal Freedom	No. 69	Property Rights	No. 166
Government Spending	No. 15	Freedom from Corruption	No. 170
Monetary Freedom	No. 104	Labor Freedom	No. 43

FINANCIAL FREEDOM: *30* — *no change*

Haiti's already strained financial infrastructure has become even more fragile since the earthquake. Many economic transactions are conducted outside the formal banking sector, and scarce access to financing severely hinders entrepreneurial activity and meaningful economic expansion. Supervision and regulation of the financial system remain poor and inconsistent with international norms. The legal and institutional framework is not conducive to deepening financial intermediation. Banking is highly concentrated, with around 80 percent of assets held by the three largest banks. The two state-owned banks, privatization of which has been delayed repeatedly by political and economic crises, account for slightly less than 10 percent of assets. Capital markets are poorly developed.

PROPERTY RIGHTS: *10* — *no change*

Protection of investors and property is severely compromised by weak enforcement, a paucity of updated laws to handle modern commercial practices, and a dysfunctional and resource-poor legal system. Most commercial disputes are settled out of court if at all. Widespread corruption allows disputing parties to purchase favorable outcomes. Real property interests are handicapped by the absence of a comprehensive civil registry. Bona fide property titles, when they exist, often conflict with other titles for the same property. Despite statutes protecting intellectual property, the weak judiciary and a lack of political will hinder enforcement.

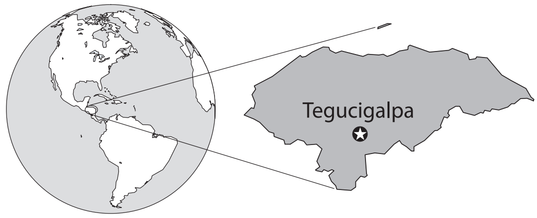
FREEDOM FROM CORRUPTION: *18* — ✚ *4.0*

Corruption is perceived as rampant. Haiti ranks 168th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Customs officers often demand bribes to clear shipments. Smuggling is a major problem, and contraband accounts for a large percentage of the manufactured consumables market. International donors have pushed the government to take a few steps to develop public accountability and transparency, but substantive institutional reforms are still needed.

LABOR FREEDOM: *76.4* — ✚ *7.2*

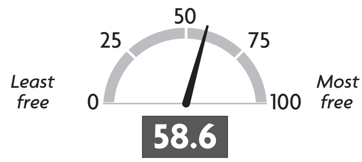
Despite the presence of flexible labor regulations, Haiti's formal labor market is not fully developed. Particularly since the earthquake in early 2010, a large portion of the workforce has been unemployed or dependent on the informal sector.

HONDURAS

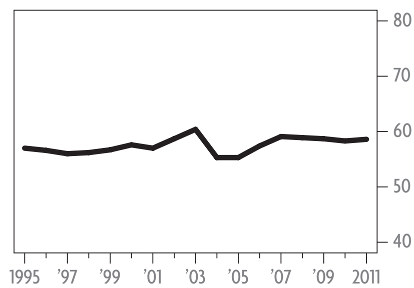


World Rank: **99** Regional Rank: **20**

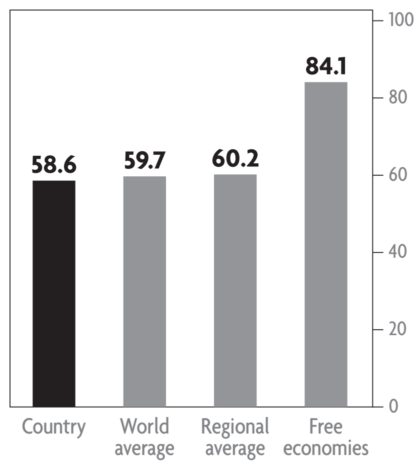
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Honduras's economic freedom score is 58.6, making its economy the 99th freest in the 2011 *Index*. Its overall score is 0.3 point better than last year, with considerable gains in government spending and monetary freedom scores offset by declines in five other economic freedoms. Honduras is ranked 20th out of 29 countries in the South and Central America/Caribbean region, and its overall score is lower than the world and regional averages.

Honduras performs relatively well in trade freedom and fiscal freedom. The Central America–Dominican Republic–United States Free Trade Agreement and other free trade agreements have enhanced the investment environment and facilitated economic diversification.

However, the overall entrepreneurial environment continues to be hurt by pervasive corruption and weak protection of property rights, as well as judicial inefficiency and political instability. Expenditure management is weak, and fiscal consolidation will require better control of the mushrooming public-sector wage bill, which, in conjunction with lower tax revenues due to the economic slowdown, has worsened the public-sector deficit.

BACKGROUND: President Jose Manuel Zelaya Rosales was removed from office in June 2009 by a congressional vote led by his own party following a constitutional dispute related to lifting the prohibition on presidential re-election. Porfirio Lobo won the November 2009 election with a substantial majority, but political polarization continues. Honduras is one of Central America's poorest countries; two-thirds of its people live below the poverty line, and official unemployment is about 28 percent. Political instability, drug trafficking, violent crime, and youth gangs are ongoing concerns. The economy has diversified beyond traditional exports of coffee and bananas to include shrimp, melons, tourism, and textiles, but more than one-third of the labor force works in agriculture. The government has met targeted macroeconomic objectives and is shedding debt under World Bank and International Monetary Fund initiatives.

Quick Facts

Population: 7.8 million
GDP (PPP): $32.5 billion
–1.9% growth in 2009
3.7% 5-year compound annual growth
$4,151 per capita
Unemployment: 3.0%; a substantial level of underemployment exists
Inflation (CPI): 5.5%
FDI Inflow: $500 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *62.1* — *– 0.9*

The inefficient regulatory environment does not encourage dynamic entrepreneurship. The entry cost of forming a business is burdensome.

TRADE FREEDOM: *77* — *– 6.7*

Honduras's weighted average tariff rate was 6.5 percent in 2009. Import restrictions; limitations on market access in service-sector industries such as tourism, engineering, accounting, and banking; non-transparent government procurement; restrictive sanitary and phytosanitary regulations; government corruption; and subsidies add to the cost of trade. Ten points were deducted from Honduras's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *83.5* — *– 1.2*

Honduras has moderate tax rates. The top income and corporate tax rates are 25 percent, though the corporate rate is raised to 27.5 percent when a social contribution tax (raised from 5 percent to 10 percent as of May 2010) is considered. Other taxes include a capital gains tax and a general sales tax (not applicable to food staples). In the most recent year, overall tax revenue as a percentage of GDP was 16.3 percent.

GOVERNMENT SPENDING: *85.7* — *+ 12.2*

In the most recent year, total government expenditures, including consumption and transfer payments, declined to 21.8 percent of GDP. Privatization of state-owned enterprises has been stagnant since 2000. The government holds monopolies in many sectors including electricity, railways, and telecommunications.

MONETARY FREEDOM: *73.2* — *+ 3.0*

Inflation has been relatively high, averaging 7.1 percent between 2007 and 2009. The government regulates the prices of petroleum products, steel, pharmaceuticals, and services from state-owned utilities, and can impose price controls on other goods and services as desired. Ten points were deducted from Honduras's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *60* — *no change*

Foreign investment is generally accorded the same rights as domestic investment. Investments in basic health services, telecommunications, electricity, air transport, fishing, hunting and aquaculture, forestry, mining, large-scale agriculture, insurance and financial services, and private education services require authorization. For all investments, at least 90 percent of a company's labor force must be Honduran, and at least 85 percent of the payroll must be paid to Hondurans. Corruption, crime, red tape, inadequate infrastructure, and the lack of judicial security are deterrents. Residents and non-residents may hold foreign exchange accounts. Payments and transfers are not restricted, but a few capital transactions require approval. There are some limits on foreign ownership of land within 40 kilometers of international borders and shorelines.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 107	Investment Freedom	No. 62
Trade Freedom	No. 91	Financial Freedom	No. 38
Fiscal Freedom	No. 52	Property Rights	No. 99
Government Spending	No. 38	Freedom from Corruption	No. 132
Monetary Freedom	No. 111	Labor Freedom	No. 173

FINANCIAL FREEDOM: *60* — *no change*

Honduras's financial sector has withstood the global financial crisis relatively well, and efforts to enhance supervision have been made. Banking has undergone consolidation. There are two state-owned banks and 17 commercial banks, 10 of which are majority foreign-owned. There are few legal and regulatory barriers to entry, but most foreign banks' participation has been at a regional rather than national level. In recent years, the government has passed five banking reform laws aimed at strengthening the financial system. Capital markets are not fully developed, and only a limited number of financial instruments are available.

PROPERTY RIGHTS: *30* — *no change*

Protection of property is weak. Endemic corruption and the lack of judicial security make it difficult to resolve business disputes. Expropriation of property is possible, and compensation, when awarded, is in 20-year government bonds. Laws and practices regarding real estate differ substantially from those in more developed countries, and fraudulent deeds and titles are common. There is no title insurance, and the judicial system is weak and inefficient, often prolonging disputed cases for many years. Approximately 80 percent of the privately held land is untitled. The law allows the government to award certain agricultural lands that have been under dispute for more than two years to illegal occupants with only nominal compensation to legal titleholders.

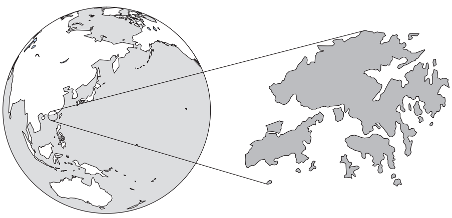
FREEDOM FROM CORRUPTION: *25* — *– 1.0*

Corruption is perceived as pervasive. Honduras ranks 130th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption appears to be most pervasive in government procurement, government permits, and land titling. Decades of cronyism, nepotism, secrecy, and prevarication have removed the stigma that once attached to corruption.

LABOR FREEDOM: *29.7* — *– 1.9*

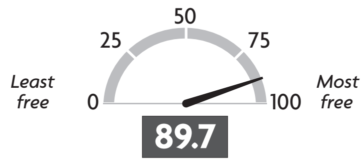
Honduras's labor regulations are burdensome and outmoded. A large proportion of the labor force is employed in the informal sector. The non-salary cost of employing a worker can be low, but dismissing an employee is costly. Regulations on work hours are not flexible.

HONG KONG

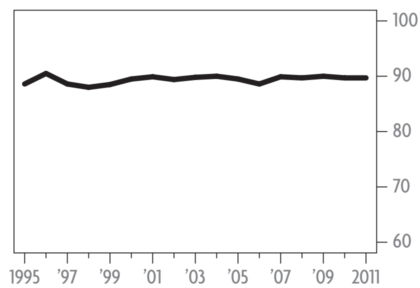


World Rank: **1** Regional Rank: **1**

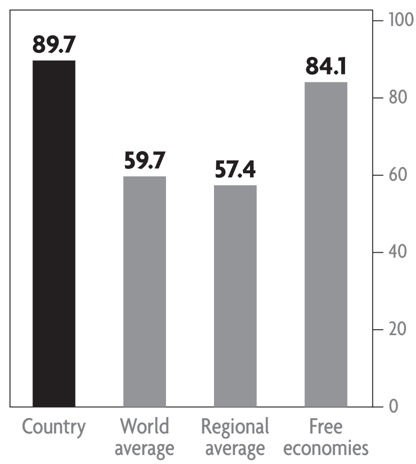
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Hong Kong's economic freedom score is 89.7, making its economy the freest in the 2011 *Index*. Its overall score is unchanged from last year, with small declines in the government spending score and labor freedom offsetting improvements in fiscal freedom, monetary freedom, and freedom from corruption. Hong Kong is ranked 1st out of 41 countries in the Asia–Pacific region.

Hong Kong, one of the world's most competitive financial and business centers, demonstrated a high degree of resilience during the global financial crisis. Effective legal and regulatory frameworks and openness to global commerce strongly support entrepreneurial dynamism, while overall macroeconomic stability minimizes uncertainty. For the 12th consecutive year, Hong Kong has been Asia's second largest destination for foreign direct investment, trailing only mainland China. Hong Kong's economic interaction with China has become more intense and sophisticated, chiefly through strengthened financial linkages.

Hong Kong's economy has taken some populist policy turns in 2010. Vagueness lingers concerning potential applications of the competition law that was introduced in July 2010, and the introduction of a statutory minimum wage aimed at reducing inequality runs the risk of becoming a drag on business activity and employment, particularly for small-scale enterprises.

BACKGROUND: The Special Administrative Region of Hong Kong is part of the People's Republic of China, but it governs its own affairs on a day-to-day basis and enjoys a wide range of freedoms under the territory's mini-constitution, the Basic Law. The government has promised democratic reforms, but implementation has been 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 migrated largely to the mainland. Ongoing concerns include cronyism in government policymaking, government control of land, and restrictions on the free flow of information.

Quick Facts

Population: 7.1 million
GDP (PPP): $302.0 billion
–2.7% growth in 2009
3.1% 5-year compound annual growth
$42,748 per capita
Unemployment: 5.3%
Inflation (CPI): 0.5%
FDI Inflow: $48.4 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *98.7* — *no change*

Business freedom in Hong Kong is well protected within an efficient regulatory framework. Transparency encourages entrepreneurship, and the overall environment is conducive to the formation and operation of start-up businesses in various sectors of the economy.

TRADE FREEDOM: *90* — *no change*

Hong Kong's weighted average tariff rate was 0 percent in 2009. Restrictive pharmaceuticals regulation, market access restrictions for some services, and food and energy labeling regulations add to the cost of trade. Ten points were deducted from Hong Kong's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *93.3* — *+ 0.3*

Hong Kong's effective tax rates are among the lowest in the world. Individuals are taxed either progressively, between 2 percent and 17 percent on income adjusted by deductions and allowances, or at a flat 15 percent of gross income, depending on which liability is lower. The top corporate income tax rate is 16.5 percent. Unincorporated businesses enjoy a lower rate of 15 percent. Excise duties on beer and wine were removed in 2008. In the most recent year, overall tax revenue as a percentage of GDP was 13 percent.

GOVERNMENT SPENDING: *89.6* — *− 4.1*

In the most recent year, total government expenditures, including consumption and transfer payments, amounted to 18.6 percent of GDP. Sound fiscal management has helped Hong Kong to weather the global downturn. Altogether, discretionary stimulus measures taken since 2008 total an estimated 5 percent of GDP. The government has tried to maintain a balanced budget.

MONETARY FREEDOM: *87.1* — *+ 4.0*

Inflation has been low, averaging 1.6 percent between 2007 and 2009. Since the Hong Kong dollar maintains a fixed exchange rate with the U.S. dollar, interest rates and currency movements follow trends in the United States. Hong Kong has efficient clearing and settlement systems. The government regulates the prices of public transport and electricity and some residential rents. Five points were deducted from Hong Kong's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *90* — *no change*

Foreign capital receives domestic treatment, and foreign investment is strongly encouraged. There are no limits on foreign ownership and no screening or special approval procedures to set up a foreign firm except for certain legal services and in broadcasting, where foreign entities may own no more than 49 percent of local stations. There are no controls or requirements on current transfers, access to foreign exchange, or repatriation of profits. Bureaucracy is efficient and transparent.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 3	Investment Freedom	No. 2
Trade Freedom	No. 1	Financial Freedom	No. 1
Fiscal Freedom	No. 13	Property Rights	No. 2
Government Spending	No. 20	Freedom from Corruption	No. 12
Monetary Freedom	No. 3	Labor Freedom	No. 17

FINANCIAL FREEDOM: *90* — *no change*

Hong Kong's financial regulatory and legal environment focuses on ensuring transparency and enforcing prudent minimum standards. Overall, the system has weathered the global financial turmoil quite well, and the banking sector remains well capitalized. Hong Kong has further solidified its competitive status as a dynamic international financial center. In terms of initial public offerings, it topped other competing global financial hubs for the second year in a row in 2010. Banks are overseen by the independent Hong Kong Monetary Authority. Credit is allocated on market terms. There are no restrictions on foreign banks, which are treated the same as domestic institutions. The Hong Kong Stock Exchange remains one of the world's most capitalized and vibrant.

PROPERTY RIGHTS: *90* — *no change*

Contracts are strongly protected. Hong Kong's legal system is based on common law, and its constitution strongly supports private property and freedom of exchange. Despite government public awareness campaigns, pirated and counterfeit products such as CDs, DVDs, software, and designer apparel are sold openly, and pressure has been building for changes in the Copyright Ordinance. The government controls all land and, through public auctions, grants renewable leases that are valid up to 2047.

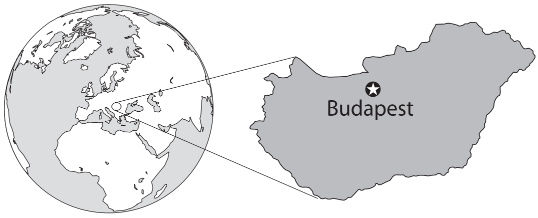
FREEDOM FROM CORRUPTION: *82* — *+ 1.0*

Corruption is perceived as minimal. Hong Kong ranks 12th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Giving or accepting a bribe is a criminal act.

LABOR FREEDOM: *86.2* — *− 1.2*

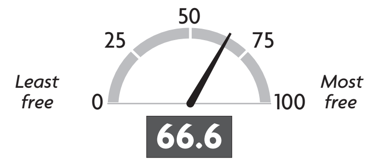
The labor market is supported by flexible labor regulations and a highly motivated workforce. The labor code is strictly enforced but not burdensome. The non-salary cost of employing a worker is low, and regulations on work hours are flexible. Hong Kong's first minimum wage law was passed in July 2010 and is expected to come into effect in 2011.

HUNGARY

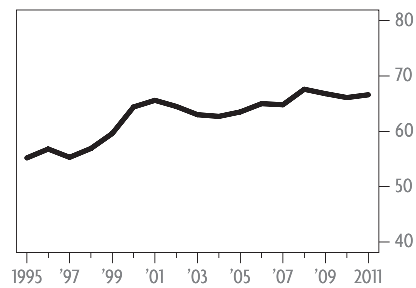


World Rank: **51** Regional Rank: **22**

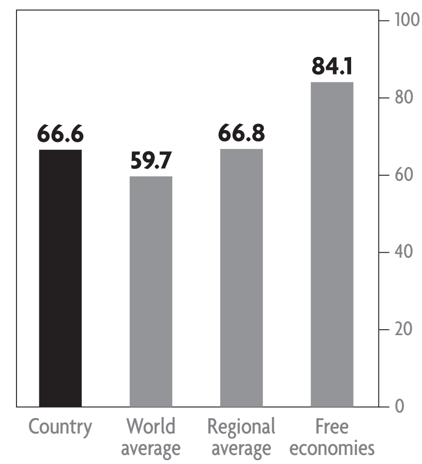
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Hungary's economic freedom score is 66.6, making its economy the 51st freest in the 2011 *Index*. Its score has increased by 0.4 point, with modest improvements in half of the 10 economic freedoms. Hungary is ranked 22nd out of 43 countries in the Europe region, and its overall score is well above the world average.

Hungary has implemented critical reforms in all facets of its economy. The private sector accounts for about 80 percent of GDP. Licensing procedures have been streamlined, and the overall business environment is further aided by strong trade freedom, business freedom, property rights, and investment freedom. The rule of law and consistent protection of private property have contributed to Hungary's long-term competitiveness and growth. The introduction of a flat 16 percent personal income tax rate is scheduled for 2011.

Hungary's economy is slowly recovering from the effects of the global financial crisis, which hurt economic growth and increased public debt. Fiscal consolidation and better management of public finance are needed, and the high level of government spending is holding back private-sector growth. Steps have been taken to improve fiscal transparency. Transfers to local governments and social spending are key targets for expenditure constraint.

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. Since 1989, Hungary has successfully transformed itself into a market economy, and in 2004 it joined the European Union. The country was seriously hurt by the global financial crisis, and its economy contracted significantly in 2009.

Quick Facts

Population: 10.0 million
GDP (PPP): $185.9 billion
–6.3% growth in 2009
–0.3% 5-year compound annual growth
$18,567 per capita
Unemployment: 10%
Inflation (CPI): 4.2%
FDI Inflow: –$5.6 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *76.5* — 0.3

Hungary's transparent regulatory framework allows business formation and operation to be efficient and dynamic. Bankruptcy proceedings are relatively easy.

TRADE FREEDOM: *87.6* + 0.1

Hungary's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Hungarian policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Restrictive biotechnology regulations, non-transparent government procurement, and weak enforcement of intellectual property rights add to the cost of trade. Ten points were deducted from Hungary's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *69.7* + 1.1

Hungary has a relatively high income tax rate but a relatively low corporate tax rate. The top income tax rate is 32 percent, down from 36 percent, and the top corporate tax rate is 19 percent, up from 16 percent. Other taxes include a value-added tax (VAT), a property tax, and a gift tax. In the most recent year, overall tax revenue as a percentage of GDP was 40.5 percent. A 16 percent flat tax on personal income is supposed to become effective as of January 1, 2011.

GOVERNMENT SPENDING: *27.4* + 1.5

In the most recent year, total government expenditures, including consumption and transfer payments, were 49.2 percent of GDP. The government remains directly involved in agriculture, electric power, and railways. The public transport system is highly subsidized, and high levels of government debt persist.

MONETARY FREEDOM: *75.9* + 1.8

Inflation has moderated, averaging 5 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. It also regulates prices for energy, telecommunications services, and subsidized pharmaceutical products, among others. Ten points were deducted from Hungary's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *75* *no change*

Foreign capital receives domestic legal treatment, and foreign companies account for a large share of manufacturing, telecommunications, and energy. The government allows 100 percent foreign ownership with the exception of some defense-related industries. Deterrents include bureaucracy, inadequate judicial capacity, and a non-transparent investment code. Residents and non-residents may hold foreign exchange accounts. There are no restrictions or controls on current transfers or repatriation of profits and no restrictions on sales of capital market instruments; there are some reporting requirements. Restrictions on foreign land ownership are supposed to be removed in the next few years.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 44	Investment Freedom	No. 26
Trade Freedom	No. 12	Financial Freedom	No. 17
Fiscal Freedom	No. 131	Property Rights	No. 38
Government Spending	No. 163	Freedom from Corruption	No. 45
Monetary Freedom	No. 85	Labor Freedom	No. 67

FINANCIAL FREEDOM: *70* *no change*

Hungary's financial sector is dominated by banking. The government has largely withdrawn from banking, and over two-thirds of the sector is foreign-owned. Foreign investors participate freely in capital markets. The Budapest Stock Exchange has low volumes of trading and lists about 60 companies. After years of robust growth, banking expansion has slowed considerably, and profitability is down. In response to the global financial crisis, several new regulations were implemented in 2009 to modify the lending practices of local banks and support indebted retail banking customers.

PROPERTY RIGHTS: *65* *no change*

Secured interests in property are recognized and enforced, but there is no title insurance. The judiciary is constitutionally independent. The threat of expropriation is low. The courts are slow and severely overburdened, and a final ruling on a contract dispute can take more than a year. Protection of intellectual property rights has improved somewhat. Hungary is ranked 32nd out of 125 countries in the 2010 International Property Rights Index.

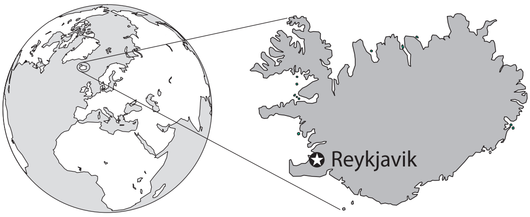
FREEDOM FROM CORRUPTION: *51* *no change*

Corruption is perceived as present. Hungary ranks 46th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. There are persistent reports of corruption in government procurement. Hungary is a party to the OECD Anti-Bribery Convention and has incorporated its provisions, as well as OECD and EU requirements on the prevention of bribery, into the penal code.

LABOR FREEDOM: *67.7* + 0.1

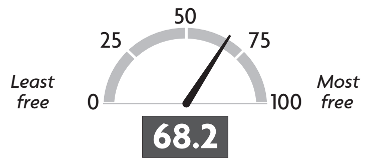
Hungary's labor regulations are relatively inflexible. Regulations on work hours remain rigid. The non-salary cost of employing a worker is burdensome, and dismissing an employee is relatively costly.

ICELAND



World Rank: **44** Regional Rank: **21**

Economic Freedom Score



Iceland's economic freedom score is 68.2, making its economy the 44th freest in the 2011 *Index*. Its overall score is 5.5 points worse than last year due to declines in six of the 10 economic freedoms. Iceland is ranked 21st out of 43 countries in the Europe region and recorded the largest score decline in the 2011 *Index*.

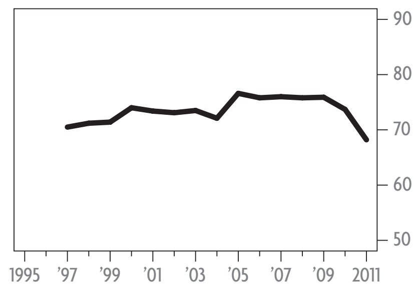
Iceland's financial sector was severely affected by the global financial turmoil. Aggressive overseas expansion of bank lending, unchecked by the domestic regulatory environment, caused the buildup of considerable systemic risk for such a small economy. The resulting collapse of the banking sector has led to a sharp surge in the budget deficit and a rising government debt of over 100 percent of GDP.

The strong rule of law, low levels of corruption, efficient business regulations, and competitive tax rates remain solid foundations on which to build recovery and restore economic stability. However, they need to be reinforced by further reforms in financial management and the labor market.

BACKGROUND: Iceland, a centuries-old democracy, traditionally has enjoyed low unemployment and a growing economy. However, in October 2008, the banking sector collapsed, sparking a currency crisis. Independence Party Prime Minister Geir Haarde and his cabinet were forced to resign, and Social Democrat Johanna Sigurðardóttir became prime minister in February 2009. A deep recession has taken hold, and unemployment remains high. GDP is not expected to grow until 2011. In 2009, reversing long-held policy, Iceland's parliament voted to apply for membership in the European Union, although public support is by no means assured, since Iceland already has free trade and movement of capital, labor, goods, and services with the EU. It is also a member of the Schengen zone. As Iceland continues to recover, economic priorities include reducing the budget deficit, containing inflation, and restructuring the financial sector.

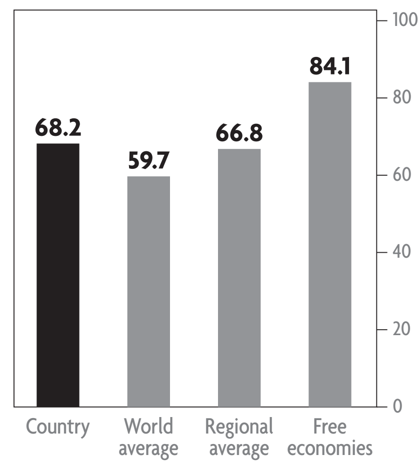
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 0.3 million
GDP (PPP): $12.1 billion
–6.5% growth in 2009
1.1% 5-year compound annual growth
$38,023 per capita
Unemployment: 7.2%
Inflation (CPI): 12.0%
FDI Inflow: –$86 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *92.7* — *0.3*

Iceland's modern and competitive entrepreneurial framework encourages overall business freedom. The transparent regulatory environment supports commercial activity, allowing the processes of business formation and operation to be efficient and dynamic. Bankruptcy proceedings are relatively easy.

TRADE FREEDOM: *88.2* + *0.3*

Iceland's weighted average tariff rate was 0.9 percent in 2009. High agriculture tariffs combined with quotas, import bans and restrictions, strict sanitary and phytosanitary regulations, and government support programs for the agricultural sector add to the cost of trade. Ten points were deducted from Iceland's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *69.8* — *5.6*

Iceland has a implemented a broad range of tax increases. The top income tax rate is 33 percent (with a top municipal tax levied by local government of 13.28 percent). Investment income is subject to a flat 18 percent rate, up from 10 percent. The corporate tax rate is a flat 18 percent, raised from 15 percent as of January 2010. Other taxes include a value-added tax (VAT) and an estate tax. Excise taxes on tobacco, alcohol, and fuel were raised in 2009. In the most recent year, overall tax revenue as a percentage of GDP was 40.1 percent.

GOVERNMENT SPENDING: *0* — *45.8*

Total government expenditures are extremely high. In the most recent year, government spending, including consumption and transfer payments, soared to 57.8 percent of GDP.

MONETARY FREEDOM: *68.6* — *1.3*

Inflation has been high, averaging 11.5 percent between 2007 and 2009. Monetary policy in the near term will be driven by the need to stabilize the economy and rebuild the banking system after the collapse in 2008 of Iceland's three main commercial banks and the currency, the krona. Capital controls were tightened and the three failed banks restructured in 2009. The government subsidizes agricultural production; milk is subject to production-linked direct payments, production quotas, and administered prices; and sheep farmers receive direct payments based on support targets and quality-dependent payments. Ten points were deducted from Iceland's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *65* *no change*

Iceland grants national treatment to foreign investors. Foreign ownership of businesses is generally unrestricted, but there are limitations in fishing, energy, and aviation. Investment regulations are transparent, although bureaucratic delays can occur. Until recently, Icelandic law provided for full convertibility and transferability of dividends, profits, interest on loans, debentures, mortgages, lease payments, and invested capital. Following the financial turmoil in 2008, movements of capital to and from Iceland faced new restrictions, but the central bank has pledged to lift these restrictions. Foreign investors outside the European Economic Area (EEA) need government approval to purchase real estate.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 9	Investment Freedom	No. 50
Trade Freedom	No. 7	Financial Freedom	No. 38
Fiscal Freedom	No. 130	Property Rights	No. 2
Government Spending	No. 172	Freedom from Corruption	No. 8
Monetary Freedom	No. 150	Labor Freedom	No. 91

FINANCIAL FREEDOM: *60* *no change*

Iceland's financial sector, which remains dominated by banking, has been under considerable strain. Undergoing rapid transformation and restructuring over the past decade, the banking sector grew to about eight times GDP by 2007, mostly through aggressive expansion of overseas lending. Regulatory oversight proved insufficient to deal with such an anomalous situation. Macroeconomic imbalances and private-sector borrowers' high indebtedness added to the instability, rendering banks highly vulnerable to any external shock. The three main banks, which accounted for over 80 percent of the banking system, collapsed in late 2008 and have been brought under the government's management. Three new banks were established to take over the collapsed banks' domestic assets. The government holds majority shares in one of the new banks. Other efforts to shore up stability and confidence in the financial sector have been ongoing, but vulnerabilities linger.

PROPERTY RIGHTS: *90* *no change*

Private property is well protected. The constitution provides for an independent judiciary. Trials are generally public and conducted fairly. Iceland is one of the few countries with efficient, property rights–based fisheries management.

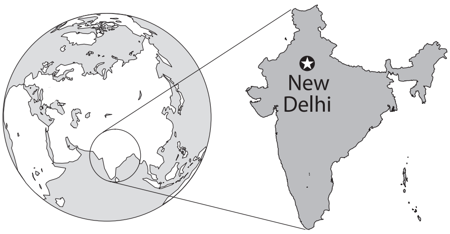
FREEDOM FROM CORRUPTION: *87* — *2.0*

Corruption is perceived as minimal. Iceland ranks 8th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. 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.

LABOR FREEDOM: *60.7* — *0.1*

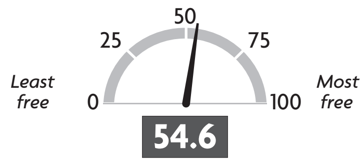
The labor market remains highly centralized, with broad wage settlements and over 80 percent unionization. Labor regulations are relatively rigid. The non-salary cost of employing a worker is moderate, but dismissing an employee remains burdensome.

INDIA



World Rank: **124** Regional Rank: **25**

Economic Freedom Score



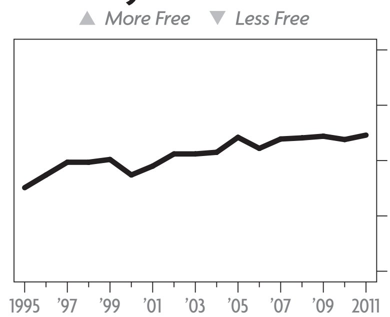
India's economic freedom score is 54.6, making its economy the 124th freest in the 2011 *Index*. Its score is 0.8 point better than last year, with improved scores in four of the 10 economic freedoms, including a large gain in labor freedom. India is ranked 25th out of 41 countries in the Asia–Pacific region, and its overall score is below the world average.

Despite the challenging global economic environment, the Indian economy has recorded average annual growth of around 8 percent over the past five years, propelled by domestic demand and continuing strength in services and manufacturing.

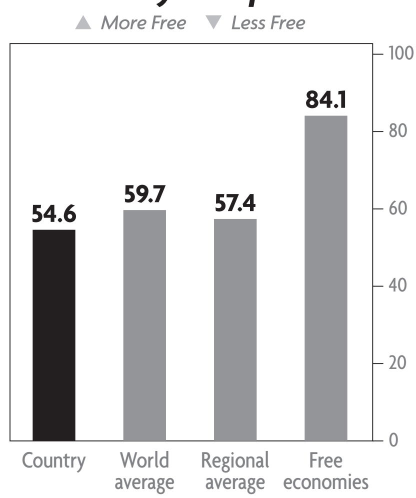
However, growth is not deeply rooted in policies that support economic freedom. Progress with market-oriented reforms has been uneven. The state maintains an extensive presence in many areas, playing a major role through many public-sector enterprises. India's restrictive and burdensome regulatory environment discourages broader private-sector growth and hampers realization of the economy's full potential. Corruption remains significant, and the judicial system remains inefficient. Increasing inflationary pressure poses a major risk to overall macroeconomic stability.

BACKGROUND: India is the world's most populous democracy. Though over 80 percent of the population is Hindu, the country also has one of the world's largest Muslim populations. The Congress Party government was re-elected to another five-year term 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 that killed nearly 170. Improvement in relations between the U.S. and India is evidenced by the launching of a Strategic Dialogue aimed at fostering cooperation in defense, energy, trade, education, and counterterrorism. Since its 1991 "big bang" liberalization, the economy has grown rapidly, first in services and more recently in manufacturing.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 1.2 billion
GDP (PPP): $3.5 trillion
5.7% growth in 2009
8.0% 5-year compound annual growth
$2,941 per capita
Unemployment: 10.7%
Inflation (CPI): 10.9%
FDI Inflow: $34.6 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *36.9* — + *0.6*

Potential entrepreneurs face severe challenges. The regulatory framework is burdensome, and the legal framework is weak. It can take almost 200 days to obtain a construction permit.

TRADE FREEDOM: *64.2* — − *3.7*

India's weighted average tariff rate was 7.9 percent in 2009. Significant differences between bound and applied tariff rates, import and export restrictions, services market access restrictions, complex and non-transparent regulation, onerous standards and certifications, discriminatory sanitary and phytosanitary measures, restrictive import licensing, domestic bias in government procurement, problematic enforcement of intellectual property rights, export subsidies, inadequate infrastructure, anti-dumping restrictions, and complex and non-transparent customs add to the cost of trade. Twenty points were deducted from India's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *75.4* — + *2.0*

India's tax rates are relatively high. The top income tax is now 30.9 percent (30 percent plus an educational assessment of up to 3 percent). The top corporate tax rate is 33.99 percent (30 percent plus a 10 percent surcharge and a 3 percent education tax on that total). Other taxes include a dividend distribution tax, a tax on interest, and a value-added tax (VAT). A general sales tax (GST) was recently approved to replace the VAT. In the most recent year, overall tax revenue as a percentage of GDP was 18.6 percent.

GOVERNMENT SPENDING: *77.8* — + *1.7*

The government still plays a central role in the economy. In the most recent year, total government expenditures, including consumption and transfer payments, fell slightly to 27.2 percent of GDP. Public debt is 78 percent of GDP.

MONETARY FREEDOM: *65.1* — − *2.4*

Inflation has been relatively high, averaging 9.9 percent between 2007 and 2009, and was running above 11 percent in 2010. The government subsidizes agricultural, gas, and kerosene production; applies factory, wholesale, and retail price controls on "essential" commodities, 25 crops, services, electricity, water, some petroleum products, and certain types of coal; and controls the prices of 74 bulk drugs that cover 40 percent of the market. Domestic price and marketing arrangements apply to commodities like sugar and certain cereals. Fifteen points were deducted from India's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *35* — *no change*

Foreign investors generally receive national treatment. Licensing procedures do not discriminate against foreign companies, although export obligations and local content requirements are imposed in some industries. Foreign investment is prohibited in some industries and capped in others. Foreign investment in real estate is limited to company property used to do business and the development of some types of new commercial and residential properties. Bureaucracy is non-transparent and burdensome, and contract enforcement can be difficult. Foreign exchange, capital transactions, and some credit operations are subject to approvals, restrictions, and additional requirements.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 164	Investment Freedom	No. 123
Trade Freedom	No. 144	Financial Freedom	No. 106
Fiscal Freedom	No. 105	Property Rights	No. 52
Government Spending	No. 67	Freedom from Corruption	No. 84
Monetary Freedom	No. 157	Labor Freedom	No. 69

FINANCIAL FREEDOM: *40* — *no change*

Despite some liberalization and modernization, state-owned institutions dominate the banking sector and capital markets; 28 state-owned banks control about 70 percent of commercial banking assets. Access to financial services varies sharply around the country. High credit costs and scarce access to financing impede private-sector development. Foreign banks account for less than 10 percent of total assets and may not retain more than a 5 percent equity stake in a domestic private bank. Insurance is partially liberalized. Capital markets remain illiquid, with foreign participation limited. The government has introduced new financial instruments including derivatives.

PROPERTY RIGHTS: *50* — *no change*

Transfers of land are restricted, and there is no reliable system for recording secured interests in property. Courts take years to reach decisions, and foreign corporations often resort to international arbitration. Protection of intellectual property rights is problematic. Proprietary test results and other data about patented products submitted to the government by foreign pharmaceutical companies have been used by domestic companies without legal penalties. Amendments to the Copyright Act submitted to Parliament in December 2009 implement WIPO Internet treaties, extend copyright periods, and strengthen enforcement of copyright protection in the digital environment.

FREEDOM FROM CORRUPTION: *34* — *no change*

Corruption is perceived as significant, especially in government procurement of telecommunications, power, and defense contracts. India ranks 84th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption is viewed as an obstacle to foreign direct investment.

LABOR FREEDOM: *67.2* — + *9.5*

India's labor regulatory framework is evolving. The non-salary cost of employing a worker is moderate, but dismissing an employee is costly. The informal economy is an important source of employment.

INDONESIA

World Rank: **116** Regional Rank: **22**

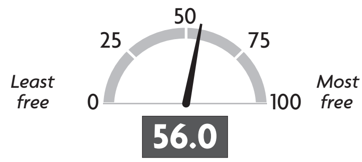
Indonesia's economic freedom score is 56, making its economy the 116th freest in the 2011 *Index*. Its score is 0.5 point better than last year and is improved in half of the measured economic freedoms. Indonesia is ranked 22nd out of 41 countries in the Asia–Pacific region, and its overall score is below the world average.

Indonesia has undertaken wide-ranging reforms to address various structural weaknesses in the economy and to make it more competitive. Recording an annual average growth rate of over 5 percent during the past five years, the economy has shown a considerable degree of resilience, weathering the global economic slowdown relatively well. Recent reform measures have put greater emphasis on improving the entrepreneurial environment, enhancing regional competitiveness, and creating a more vibrant private sector through decentralization. Management of public finance has been stable, and tariff barriers have been lowered.

Despite the progress toward economic restructuring, Indonesia's growth potential remains curtailed by inefficient regulatory and investment regimes. Lingering political interference in the private economy, exacerbated by pervasive corruption and the weak judicial system, further hampers the investment dynamism that would generate more economic opportunities.

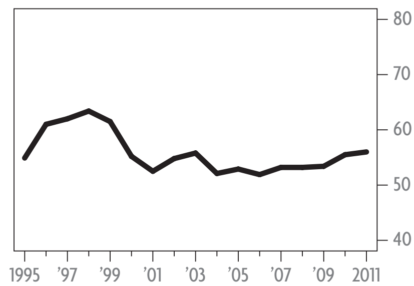
BACKGROUND: Indonesia is the world's most populous Muslim-majority democracy. In the years since 1998, when long-standing authoritarian ruler General Suharto stepped down, Indonesia's nearly 250 million people have enjoyed the blossoming of a wide range of political freedoms, and the level of participation in the political process is high. President Susilo Bambang Yudhoyono has cracked down on corruption and tried to encourage much-needed foreign investment, but the weak rule of law remains a major impediment to attracting capital. As a member of the G-20, Indonesia is playing an increasingly important role in international economic policy discussions.

Economic Freedom Score



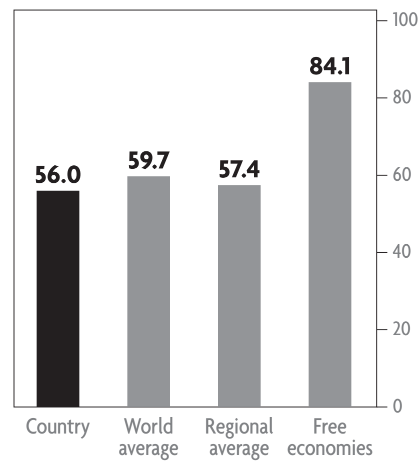
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 231.5 million
GDP (PPP): $962.5 billion
4.5% growth in 2009
5.6% 5-year compound annual growth
$4,157 per capita
Unemployment: 7.7%
Inflation (CPI): 4.8%
FDI Inflow: $4.9 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *54.9* — + *1.8*

Indonesia's regulatory environment has improved, but procedures for establishing and running a private enterprise are still time-consuming and costly.

TRADE FREEDOM: *73.8* — − *4.1*

Indonesia's weighted average tariff rate was 3.1 percent in 2009. Import and export bans and restrictions, services market access barriers, non-transparent and arbitrary regulations, import and export licensing requirements, restrictive sanitary and phytosanitary regulations, state trading, weak enforcement of intellectual property rights, and inconsistent and corruption-prone customs valuation add to the cost of trade. Twenty points were deducted from Indonesia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *83* — + *1.1*

Indonesia has reduced taxes to moderate levels as part of broader fiscal reform. The top individual income tax rate is 30 percent. The top corporate tax rate has been reduced from 28 percent to 25 percent. Other taxes include a value-added tax (VAT) and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 13.3 percent.

GOVERNMENT SPENDING: *88.9* — − *0.2*

In the most recent year, total government expenditures, including consumption and transfer payments, amounted to 19.2 percent of GDP. In 2009, the government announced a fiscal stimulus package measuring 1.5 percent of GDP. Despite a slight widening of the fiscal deficit to 2.6 percent of GDP, public debt declined to 30 percent of GDP. Structural reforms are being focused on broadening the tax base, reducing costly subsidies, and improving budget execution.

MONETARY FREEDOM: *74.3* — + *3.5*

Inflation has moderated, averaging 6.1 percent between 2007 and 2009. The relatively autonomous central bank cut its policy rate from 9.5 percent in November 2008 to 6.5 percent by July 2009 to help businesses and consumers weather the global downturn. Fuel, housing, and health care are subsidized, and prices of gasoline, electricity, liquefied petroleum gas, rice, cigarettes, cement, hospital services, potable/piped water, city transport, air transport, telephone charges, trains, salt, toll-road tariffs, and postage are set by the government. Ten points were deducted from Indonesia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *35* — *no change*

Foreign investors face significant restrictions. Industries on a "Negative List" are closed to foreign investment or subject to conditions. Corruption; unpredictable, inconsistent, and non-transparent regulations; weak contract enforcement; labor market rigidities; and inadequate infrastructure add to the cost of investment. Subject to approvals and restrictions, residents and non-residents may engage in foreign exchange and capital transactions. Non-residents may not purchase real estate.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 133	Investment Freedom	No. 123
Trade Freedom	No. 103	Financial Freedom	No. 106
Fiscal Freedom	No. 58	Property Rights	No. 99
Government Spending	No. 22	Freedom from Corruption	No. 113
Monetary Freedom	No. 98	Labor Freedom	No. 123

FINANCIAL FREEDOM: *40* — *no change*

Indonesia's financial sector, which has undergone restructuring and consolidation, is dominated by commercial banks, four of which are state-owned. Supervision has been strengthened, and efficiency has increased. The largest banks in terms of assets are state-owned. In late 2009, an IPO offering of one of the state-owned banks raised capital equivalent to 27 percent of holdings. The government has allowed more foreign involvement, but significant limits remain. Non-performing loans now account for less than 4 percent of total loans. Capital markets are developing, and the previous two stock exchanges were merged into a single exchange in 2007. The global financial turmoil's impact on banking has been relatively minor; smaller banks have been more affected. The government has taken steps to establish a Financial Services Authority to monitor and regulate the financial system.

PROPERTY RIGHTS: *30* — *no change*

Court rulings can be arbitrary and inconsistent, and corruption is substantial. Judges have been known to ignore contracts and rule against foreigners in commercial disputes. It is difficult to get the courts to enforce international arbitration awards. Lack of clear land titles and the inability to own land in "fee simple" are also problems. Enforcement of intellectual property rights is weak.

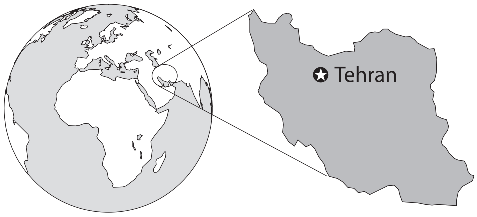
FREEDOM FROM CORRUPTION: *28* — + *2.0*

Corruption is perceived as pervasive. Indonesia ranks 111th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, an improvement over 2008. Companies cite demands for irregular fees to obtain required permits or licenses, as well as the awarding of government contracts and concessions based on personal relationships. Far-reaching corruption in the national police has been exposed by a series of recent scandals involving bribery, intimidation, and the fabrication of evidence.

LABOR FREEDOM: *51.8* — + *1.0*

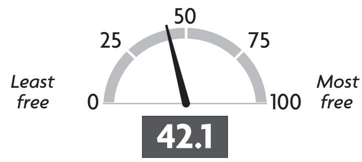
Compared with other economies in the region, Indonesia's rigid labor market imposes more regulatory costs on the creation and termination of employment relationships.

IRAN



World Rank: **171** Regional Rank: **16**

Economic Freedom Score



Iran's economic freedom score is 42.1, making its economy the 171st freest in the 2011 *Index*. Its score has decreased by 1.3 points from last year, driven by lower scores in freedom from corruption, trade freedom, and labor freedom. 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 in many aspects of private economic activity has resulted in economic stagnation in Iran's non-oil sector and a serious lack of overall economic dynamism. A restrictive business and investment environment continues to hamper private-sector development. More than 500 companies remain state-owned, and privatization has been negligible in the past year.

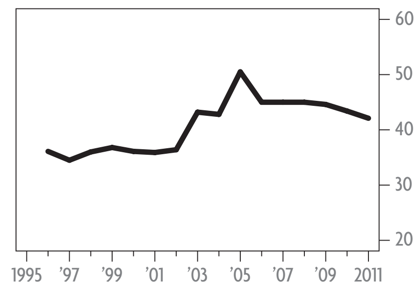
Business licensing and closure are regulated heavily by an intrusive and inefficient bureaucracy. High tariff rates and non-tariff barriers undermine overall economic efficiency. Corruption is rampant, and fair adjudication of property rights cannot be guaranteed. The judicial system is vulnerable to political influence and lacks transparency.

BACKGROUND: Iran's economy, once one of the most advanced in the Middle East, has been crippled by the 1979 Islamic revolution, the Iran–Iraq war, economic mismanagement, and corruption. International concern about Iran's nuclear development and support for terrorism remains high. Mahmoud Ahmadinejad, reinstalled as president after a June 2009 election that sparked widespread political protests, has led a violent crackdown against opposition forces. His regime, which has greatly expanded government spending, now plans to reduce government subsidies, particularly for food and energy, and replace them with cash payments to low-income Iranians. A gradual decline in oil production combined with lower world oil prices has reduced oil export revenues, which provide about 85 percent of government finance. Iran's economy remains burdened by rising inflation, corruption, costly subsidies, and an increasingly bloated and inefficient public sector. Unemployment remains high.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

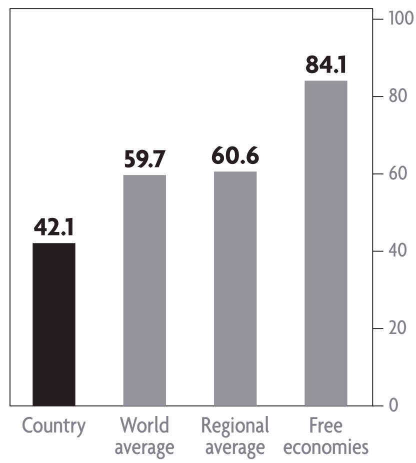
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 74.1 million
GDP (PPP): $827.9 billion
1.8% growth in 2009
4.4% 5-year compound annual growth
$11,172 per capita
Unemployment: 11.8%
Inflation (CPI): 10.3%
FDI Inflow: $3.0 billion

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *69.4* — 0.5

Business formation remains time-consuming, and licensing requirements are burdensome. Private investment and production continue to be hampered by a restrictive and outmoded regulatory environment.

TRADE FREEDOM: *44.8* — 5.4

Iran's weighted average tariff rate was 20.1 percent in 2008. Import bans and restrictions, high tariffs, export licensing requirements, restrictive sanitary and phytosanitary regulations, burdensome customs procedures, state trading, arbitrary changes in tariff and tax schedules, and weak enforcement of intellectual property rights add to the cost of trade. Fifteen points were deducted from Iran's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *81.1* *no change*

Iran has a relatively high income tax rate and a moderate corporate tax rate. The top income tax rate is 35 percent, and the flat corporate tax rate is 25 percent. All property transfers are subject to a standard tax. A value-added tax (VAT), collected intermittently since 2005, was officially re-implemented in 2008. In the most recent year, overall tax revenue as a percentage of GDP was 6.1 percent.

GOVERNMENT SPENDING: *76* — 3.6

In the most recent year, total government expenditures, including consumption and transfer payments, rose slightly to 28.3 percent of GDP. The fiscal deficit measures 0.7 percent of GDP. Energy is highly subsidized.

MONETARY FREEDOM: *60.7* + 6.0

Inflation is very high, averaging 14.7 percent between 2007 and 2009. Although the inflation rate decelerated in 2009, it had picked up by the second half of 2010. The government controls the prices of petroleum products, electricity, water, and wheat; provides economic subsidies; and influences prices through regulation of Iran's many state-owned enterprises. Fifteen points were deducted from Iran's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *0* *no change*

Foreign investment is restricted or banned in many industries, including banking, telecommunications, transport, oil, and gas. Foreign investments require approval, and the process is not straightforward. The method of calculating the maximum share that foreign-owned entities are allowed can be non-transparent. The parliament can veto projects in which foreign investors have a majority stake. Political unrest and uncertainty over international sanctions further deter investment. Most payments, transfers, credit operations, and capital transactions are subject to restrictions or approval requirements. Only legal permanent residents of Iran may purchase land. Foreign companies may own property only if they are registered both in Iran and in their respective countries and make the purchase using their Iranian business identity.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 76	Investment Freedom	No. 172
Trade Freedom	No. 175	Financial Freedom	No. 172
Fiscal Freedom	No. 66	Property Rights	No. 166
Government Spending	No. 75	Freedom from Corruption	No. 170
Monetary Freedom	No. 171	Labor Freedom	No. 126

FINANCIAL FREEDOM: *10* *no change*

The government controls Iran's financial sector. Only six private banks have come into operation since nationalization of all banks following the 1979 revolution, and they operate under strict restrictions regarding de facto interest rates and capital requirements. Stringent government controls limit access to financing for businesses. State-owned commercial banks and specialized financial institutions account for a majority of banking-sector assets. There have been efforts to privatize some state-owned banks in recent years, but progress has been slow. The government directs credit allocation, though credit is often supplied by traditional money lenders in the bazaar in support of small cash-based businesses. The non-banking financial sector remains dominated by state-owned companies. Capital markets are not fully developed.

PROPERTY RIGHTS: *10* *no change*

The constitution allows the government to confiscate property acquired either illicitly or in a manner not in conformance with Islamic law. Resorting to the courts is often counterproductive; finding an influential local business partner with substantial political patronage is a more effective way to protect contracts. Few laws protect intellectual property; computer software piracy is extensive; and infringement of industrial designs, trademarks, and copyrights is widespread.

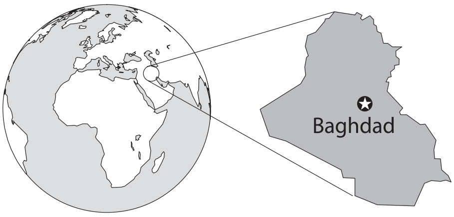
FREEDOM FROM CORRUPTION: *18* — 5.0

Corruption is perceived as pervasive. Iran ranks 168th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a steep decline from 2008. The law provides criminal penalties for official corruption, but it is not implemented effectively, and official corruption is found in all three branches of government. Graft is extensive, and the anti-corruption agency has fewer than 1,000 inspectors to monitor the 2.3 million full-time civil servants and numerous government contractors who control most of Iran's economy.

LABOR FREEDOM: *50.7* — 4.4

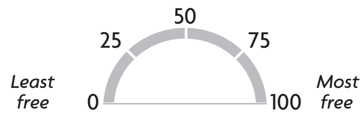
Labor regulations are restrictive, and the labor market remains stagnant. The non-salary cost of employing a worker is high, and firing a worker requires approval of the Islamic Labor Council or the Labor Discretionary Board.

IRAQ



World Rank: Not ranked | Regional Rank: Not ranked

Economic Freedom Score



The economy is not graded

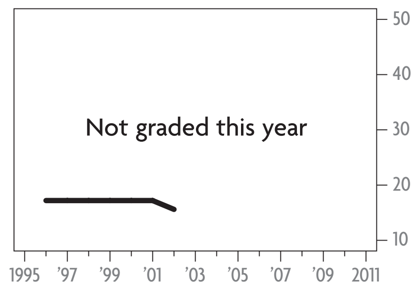
The level of economic freedom in Iraq remains unrated in the 2011 *Index* because of the lack of sufficiently reliable data. The Iraqi economy has slowly recovered from the hostilities that began in 2003, but progress has been uneven, and the country faces continuing tension among different ethnic and 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. Political instability and pervasive corruption continue to undermine the limited progress made over the past years.

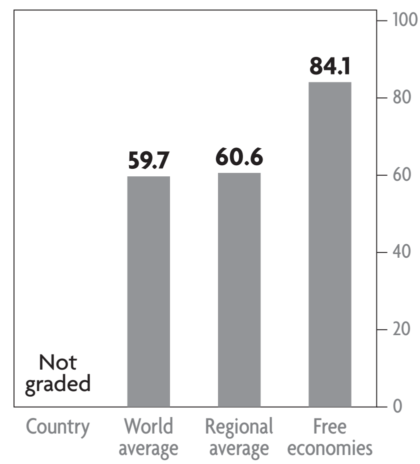
Operating well below potential, the Iraqi economy lacks effective monetary and fiscal policies. The weak state of the financial system, coupled with its limited role within the economy, also makes development of a much-needed dynamic private sector extremely difficult. The country's main challenges are to improve security and restore the rule of law.

BACKGROUND: A U.S.-led coalition removed Iraqi dictator Saddam Hussein in 2003, and an elected government led by Prime Minister Nuri al-Maliki took office in May 2006. Al-Maliki's party was a member of the ruling coalition that emerged after the March 2010 elections. Iraq's oil industry provides more than 90 percent of hard-currency earnings but has been hurt by pipeline sabotage, electricity outages, and years of neglect and postponed maintenance. However, improved security and the gradual restoration of oil exports have increased the prospects for steady economic growth. The oil industry, still in government hands, is both the glue that holds Iraq's disparate factions together and a source of ongoing tension among them. Successful provincial elections in January 2009 weakened extremist political parties and encouraged an atmosphere of political compromise, but persistent sectarian tensions and foreign-directed terrorism cloud an otherwise promising future.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 31.2 million
GDP (PPP): $111.5 billion
4.2% growth in 2009
5.3% 5-year compound annual growth
$3,570 per capita
Unemployment: 15.2% (2008)
Inflation (CPI): –2.8%
FDI Inflow: $1.1 billion

2009 data unless otherwise noted.
Data compiled as of September 2010.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *NOT GRADED*

Despite some progress in establishing an investment-friendly business environment, significant impediments to entrepreneurial activity persist. Hampered by bureaucracy and widespread corruption, enforcement of existing commercial regulations is ineffective and inconsistent.

TRADE FREEDOM: *NOT GRADED*

Iraq is trying to re-establish more broad-based trade. According to the U.S. Department of Commerce, Iraq applied a flat tariff rate of 5 percent in 2004. Non-tariff barriers include inadequate infrastructure and trade capacity, significant customs delays, security concerns, and some import and export bans.

FISCAL FREEDOM: *NOT GRADED*

Individual and corporate income tax rates are capped at 15 percent. Tax revenue as a percentage of GDP is negligible, with estimates at 1.2 percent of GDP or 4.2 percent of non-oil GDP. Further modernization of the tax system and introduction of a sales tax as a precursor to a value-added tax (VAT) are under consideration, but the central government's weakness makes effective reform difficult.

GOVERNMENT SPENDING: *NOT GRADED*

It is estimated that total government expenditures, including consumption and transfer payments, equal about 78 percent of GDP. Oil accounts for over 95 percent of exports and government revenue, and attempts to sell state-owned oil fields in the past year were not successful. If authorities are to meet deficit reduction goals, the wage bill must be contained, social spending better targeted, and transfers to state-owned enterprises reduced.

MONETARY FREEDOM: *NOT GRADED*

Inflation in Iraq has dropped, averaging just 1.6 percent between 2007 and 2009. Consumer price growth has been low since early 2008. Appreciation of the dinar, an improvement in the supply of basic items, and falling global commodity prices have lowered import costs and kept down inflationary expectations. Recovery of global commodity prices, the government's decision to assume control of vegetable imports, and a poor harvest have led to a forecast that inflation will average 5.3 percent in 2010–2011. The government maintains a large public sector, provides a number of subsidies, and imposes a number of price controls.

INVESTMENT FREEDOM: *NOT GRADED*

Iraq is open to foreign capital in principle, but inadequate regulatory capacity, policy uncertainty, security concerns, and corruption deter investment. There are no restrictions on current and capital transactions involving currency exchange as long as underlying transactions are supported by valid documentation. Implementing regulations for Iraq's 2006 National Investment Law were passed in 2009.

COUNTRY'S WORLD RANKINGS

Business Freedom	n/a	Investment Freedom	n/a
Trade Freedom	n/a	Financial Freedom	n/a
Fiscal Freedom	n/a	Property Rights	n/a
Government Spending	n/a	Freedom from Corruption	n/a
Monetary Freedom	n/a	Labor Freedom	n/a

FINANCIAL FREEDOM: *NOT GRADED*

Iraq's cash-based economy lacks the infrastructure of a fully functioning financial system. The legal and institutional framework has not strengthened enough to deepen financial intermediation. A 2004 law liberalized and modernized the banking system, allowing allocation of credit on market terms and making the central bank independent. The two largest state-owned banks (Al-Rafidain and Al-Rasheed) account for over 90 percent of assets. Four specialized state-owned banks serve the agricultural, industrial, real estate, and social sectors. The major activity of private banks is handling financial transfers from the government to local authorities or individuals.

PROPERTY RIGHTS: *NOT GRADED*

There is very little protection of property in Iraq. Foreigners may rent or lease land for up to 50 years, and leases are renewable. Foreign investors may own investment portfolios in shares and securities. The Commission for the Resolution of Real Property Disputes is an independent governmental commission established to resolve claims for real property confiscated, forcibly acquired, or otherwise taken for less than fair value by the former regime between 1968 and 2003 for reasons other than land reform or lawfully applied eminent domain. The legal system remains very weak. U.S. forces, working with Iraqi military and police units, have improved the rule of law but still face daunting challenges. Iraq does not have adequate statutory protection for intellectual property rights.

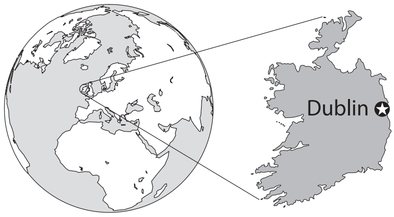
FREEDOM FROM CORRUPTION: *NOT GRADED*

Corruption is perceived as rampant. Iraq ranks 176th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Under Saddam Hussein, corruption reached into almost every economic transaction. Undoing this legacy will take time, and investors still may have to contend with requests for bribes or kickbacks from government officials at all levels.

LABOR FREEDOM: *NOT GRADED*

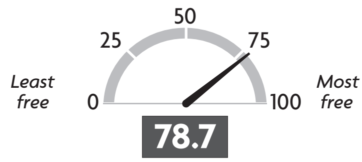
Iraq's formal labor market is not yet fully developed. Most private-sector jobs are short-term and informal. It is estimated that unemployment and underemployment combined affect about half of the labor force.

IRELAND



World Rank: 7 **Regional Rank: 2**

Economic Freedom Score



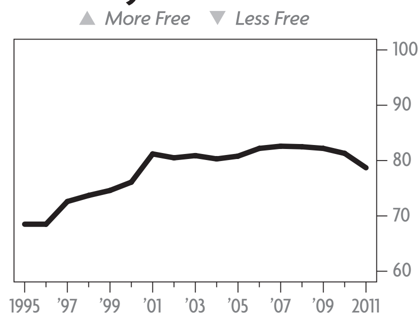
Ireland's economic freedom score is 78.7, making its economy the 7th freest in the 2011 *Index*. Its score has decreased by 2.6 points from last year, reflecting lower scores particularly for government spending and financial freedom. The Irish economy fell to 2nd place in the Europe region behind Switzerland.

The Irish economy has undergone sharp economic adjustments since late 2008 when its banking sector was hit by the global financial turmoil. The government's reaction to the severe economic recession has consisted mainly of fiscal stimulus and bailouts of troubled banks. The budget deficit has been on the rise, and the ballooning cost of bank bailouts has prolonged uncertainty in the financial sector and undermined the credibility of the government's fiscal policies. As a result, a low growth trajectory has become more likely for the future.

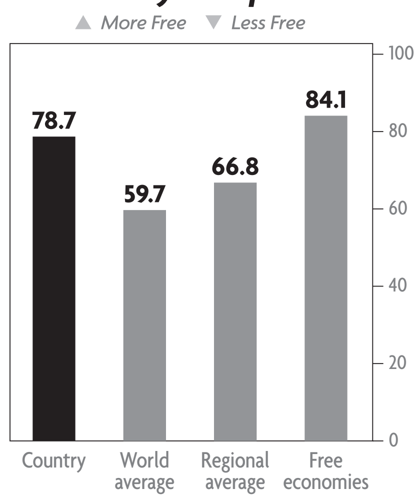
On the positive side and despite the ongoing crisis, Ireland's overall levels of economic freedom remain high, sustained by such institutional strengths as strong protection of property rights, a low level of corruption, efficient business regulations, and competitive tax rates.

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. Ireland's modern, highly industrialized economy performed extraordinarily well throughout the 1990s, but the burst of a speculative housing bubble in 2008 sent the economy into a tailspin. In October 2009, Ireland voted in popular referendum on the EU's Lisbon Treaty for a second time and became the final country to ratify the treaty.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 4.4 million
GDP (PPP): $175.1 billion
–7.1% growth in 2009
0.2% 5-year compound annual growth
$39,468 per capita
Unemployment: 11.9%
Inflation (CPI): –1.7%
FDI Inflow: $25.0 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *92* — *– 0.8*

The overall business environment has benefited from government policies that facilitate entrepreneurial activity. The streamlined regulatory process is very conducive to dynamic investment and supportive of business decisions that enhance productivity.

TRADE FREEDOM: *87.6* — *+ 0.1*

Ireland's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Irish policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Government procurement rules are restrictive. Ten points were deducted from Ireland's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *72.1* — *+ 1.0*

Ireland has a relatively high marginal income tax rate but a low corporate tax rate. 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 tax on interest. In the most recent year, overall tax revenue as a percentage of GDP was 30.8 percent.

GOVERNMENT SPENDING: *47.1* — *– 14.7*

The banking and fiscal crises significantly altered Ireland's fiscal position. In the most recent year, total government expenditures, including consumption and transfer payments, jumped to 42 percent of GDP. At 14.3 percent of GDP, Ireland's deficit is the largest in the EU. Government debt equals nearly 60 percent of GDP. Authorities are committed to budgetary tightening and reductions in the wage bill, welfare benefits, and public services to achieve the desired fiscal adjustment.

MONETARY FREEDOM: *80.7* — *+ 1.7*

Ireland is a member of the euro zone. Inflation has been low, averaging just 2.2 percent between 2007 and 2009. Domestic price pressures have weakened rapidly as private spending has contracted and the unemployment rate has risen. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. It also influences prices through state-owned enterprises. Ten points were deducted from Ireland's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *90* — *– 5.0*

Foreign investment is welcome, and domestic and foreign firms incorporated in Ireland receive equal treatment. Foreign ownership of EU airlines may not exceed 49 percent. There is no approval process for foreign investment or capital inflows unless the company is applying for incentives. Regulation is generally transparent and efficient. There are no restrictions or barriers with respect to current transfers, repatriation of profits, or access to foreign exchange. Residents and non-residents may own land, but non-EU nationals must obtain permission to own agricultural land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 11	Investment Freedom	No. 2
Trade Freedom	No. 12	Financial Freedom	No. 17
Fiscal Freedom	No. 126	Property Rights	No. 2
Government Spending	No. 139	Freedom from Corruption	No. 14
Monetary Freedom	No. 29	Labor Freedom	No. 37

FINANCIAL FREEDOM: *70* — *– 10.0*

Ireland's competitive financial system was compromised by the collapse of a property bubble in which banks were highly exposed. Government action in response to the financial crisis included the establishment of a single fully integrated regulatory institution. The government also restructured the financial sector, creating the National Asset Management Agency to stabilize banking and restore liquidity. Since early 2009, the government has nationalized Anglo Irish Bank, Irish Nationwide, and Allied Irish Bank. The Bank of Ireland has received capital injections and remains partly state-owned.

PROPERTY RIGHTS: *90* — *no change*

Secured interests in property are recognized and enforced. An efficient, non-discriminatory legal system is able to protect and facilitate acquisition and disposition of all property rights. Expropriation is highly unlikely. The courts protect property, and contracts are secure. Ireland has one of Europe's most comprehensive legal frameworks for the protection of intellectual property rights.

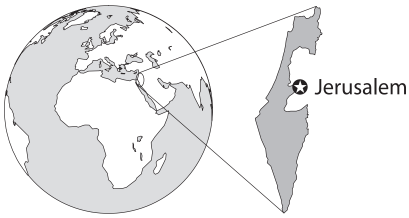
FREEDOM FROM CORRUPTION: *80* — *+ 3.0*

Corruption is perceived as minimal. Ireland ranks 14th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. It is illegal for public servants to accept bribes, and the police investigate allegations of corruption. Ireland has ratified the OECD Anti-Bribery Convention and is a member of the OECD Working Group on Bribery and the Group of States Against Corruption.

LABOR FREEDOM: *77.5* — *– 1.5*

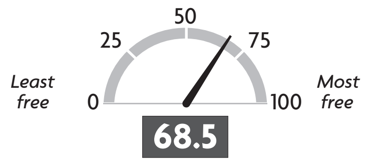
Labor regulations remain relatively flexible. The non-salary cost of employing a worker is low, and the severance payment system is not too burdensome. Restrictions on work hours are flexible.

ISRAEL

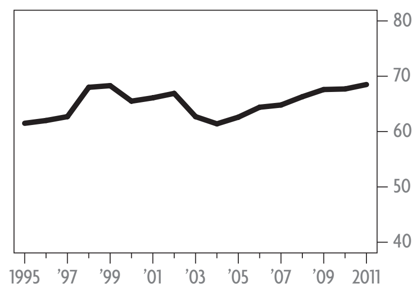


World Rank: **43** Regional Rank: **5**

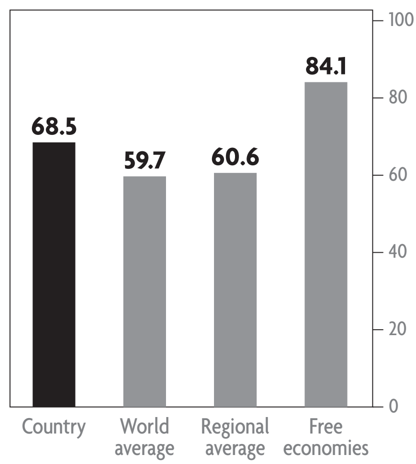
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Quick Facts

Population: 7.3 million
GDP (PPP): $206.4 billion
0.7% growth in 2009
3.8% 5-year compound annual growth
$28,393 per capita
Unemployment: 7.6%
Inflation (CPI): 3.3%
FDI Inflow: $3.9 billion

2009 data unless otherwise noted.
Data compiled as of September 2010.

Israel's economic freedom score is 68.5, making its economy the 43rd freest in the 2011 *Index*. Its overall score has increased by 0.8 point, primarily because of improvements in fiscal freedom and government spending. Israel is ranked 5th out of 17 countries in the Middle East/North Africa region.

Despite the challenging global economic environment, Israel's economy has been on a path of well-balanced recovery. With an increasingly diversified productive base and ongoing structural reforms, growth has been close to 4 percent annually over the past five years. Israel's economic competitiveness is anchored in strong protection of property rights and relatively low levels of corruption and is facilitated by openness to global trade and investment. Israel became a member of the Organisation for Economic Co-operation and Development in 2010.

Though government spending growth caps have been respected, there is still room for improvement in public finance management. Income and corporate tax rates remain relatively burdensome, but further cuts in both individual and corporate income tax rates are scheduled.

BACKGROUND: After more than 60 years, Israel still lives under the threat of war and terrorist violence, and its vibrant democracy remains unique in the region. Having moved away from the socialist economic model of the mid-1980s, Israel made dramatic free-market gains in the 1990s. The collapse of the 1993 Oslo peace agreement and onset of the "Second Intifada" in 2000 depressed tourism, discouraged foreign investment, and contributed to economic recession; by 2004, the economy had rebounded as a result of increased foreign investment, restored tourism, and a greater demand for Israeli exports, especially high-technology goods and services. Despite the 2006 war against Hezbollah in Lebanon, the December 2008 war against Hamas in Gaza, and continued Palestinian terrorism, the economy has grown significantly. Prime Minister Benjamin Netanyahu leads a right-of-center coalition government formed after the February 2009 elections.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *66.1* — *0.3*

Although there is a lack of transparency, Israel's overall regulatory framework promotes enterprise efficiency and entrepreneurial activity. A series of regulatory reforms has been introduced and adopted in recent years, fostering market liberalization and competition.

TRADE FREEDOM: *87.8* *no change*

Israel's weighted average tariff rate was 1.1 percent in 2008. Import bans and restrictions, high agricultural tariffs, import fees, a complex and non-transparent tariff rate quota system, restrictive labeling requirements, import licensing, and non-transparent government procurement add to the cost of trade. Ten points were deducted from Israel's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *62.3* + *3.9*

The top income tax rate has been lowered from 46 percent to 45 percent. The top corporate tax rate has been reduced from 26 percent to 25 percent. Both rates are scheduled to level off at 39 percent and 18 percent, respectively, in 2016. Other taxes include a value-added tax (VAT), temporarily raised through the end of 2010, and a capital gains tax. Gas and tobacco excise taxes have been permanently increased. In the most recent year, overall tax revenue as a percentage of GDP was 33.5 percent.

GOVERNMENT SPENDING: *44.8* + *9.4*

In the most recent year, total government expenditures, including consumption and transfer payments, fell to 42.9 percent of GDP. Privatization has accelerated in recent years. Since 2007, authorities have respected a cap on real spending growth of 1.7 percent. Years of prudent fiscal policy have reduced public debt from 100 percent of GDP in 2003 to 80 percent, but crisis-reaction policies widened the fiscal deficit to 5 percent of GDP.

MONETARY FREEDOM: *78.4* + *0.2*

Inflation has been moderate, averaging 3.4 percent between 2007 and 2009. The government influences prices through the public sector and provides some subsidies, especially for agriculture production. The energy sector remains largely state-owned and heavily regulated, and the government can impose price controls on vital goods and services. Ten points were deducted from Israel's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *80* — *5.0*

Foreign investment in non-regulated industries is not screened. Regulations on acquisitions, mergers, and takeovers apply equally to foreign and domestic investors. Commercial law is consistent and standardized, and international arbitration is binding in dispute settlements with the state. Bureaucracy can be complex and burdensome. Residents and non-residents may hold foreign exchange accounts, and there are no controls or restrictions on current transfers, repatriation of profits, or other transactions. The government owns most land, and leasing to foreign entities is limited.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 89	Investment Freedom	No. 14
Trade Freedom	No. 11	Financial Freedom	No. 17
Fiscal Freedom	No. 159	Property Rights	No. 26
Government Spending	No. 143	Freedom from Corruption	No. 32
Monetary Freedom	No. 51	Labor Freedom	No. 79

FINANCIAL FREEDOM: *70* *no change*

Undergoing rapid modernization and improving efficiency, Israel's financial sector has facilitated a high level of capital liquidity. Banking remains concentrated, and the five principal banking groups together hold more than 95 percent of total assets. Commercial banks provide a full range of financial services that facilitate private-sector development. Credit is available on market terms, and financial institutions offer a wide array of financial instruments. Supervision is prudent, and regulations conform to international norms. Capital markets have been largely liberalized as part of Israel's effort to reinvent itself as a finance hub. The financial market has achieved a sharp recovery since early 2009, offsetting most of the losses triggered by the global financial crisis in 2008.

PROPERTY RIGHTS: *70* *no change*

Israel has a modern legal system based on British common law. Property rights and contracts are enforced effectively. Courts are independent, and commercial law is clear and consistently applied. Expropriation occurs only if property is linked to a terrorist threat and expropriation is deemed to be in the interest of national security. Jurisdiction for the enforcement of intellectual property rights is problematic, especially since responsibility in the West Bank and Gaza rests with the Palestinian Authority.

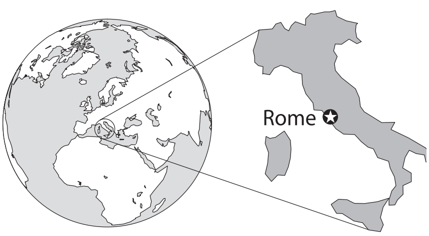
FREEDOM FROM CORRUPTION: *61* + *1.0*

Corruption is perceived as present. Israel ranks 32nd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Bribery and other forms of corruption are illegal. Israel became a signatory to the OECD Bribery Convention in November 2008. Several non-governmental organizations focus on public-sector ethics.

LABOR FREEDOM: *64.3* — *1.1*

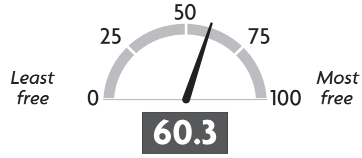
Israel's labor market needs more flexibility to accommodate its rapidly transforming economy. The non-salary cost of employing a worker is low, but dismissing an employee is relatively costly. Restrictions on work hours are not flexible.

ITALY

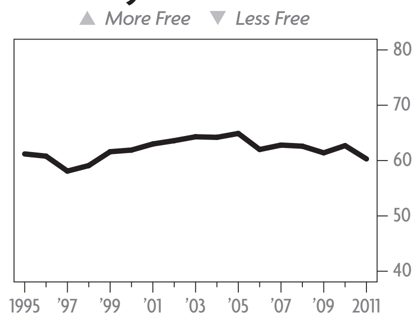


World Rank: **87** Regional Rank: **36**

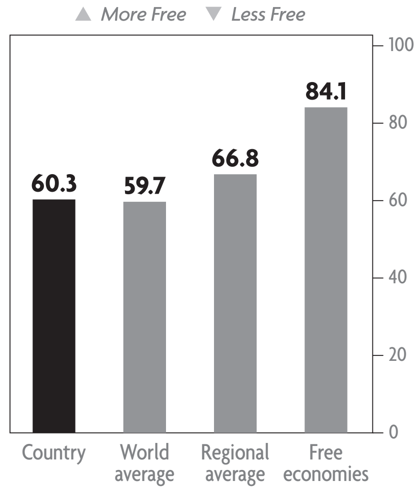
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Italy's economic freedom score is 60.3, making its economy the 87th freest in the 2011 *Index*. Its overall score is 2.4 points lower than last year, with significant declines in labor freedom, property rights, and freedom from corruption. Italy is ranked 36th out of 43 countries in the Europe region, and its score is slightly above the world average.

Although Italy's banking sector has weathered the global financial turmoil relatively well, the crisis has taken a considerable toll on overall macroeconomic stability. The global economic slowdown has also aggravated ongoing structural weaknesses, undermining long-term competitiveness. With public debt around 120 percent of GDP and growing, policy options are increasingly constrained.

Despite repeated reform attempts, Italy's move toward greater economic freedom has been uneven and marginal. Short-term legislative reforms have not been implemented effectively, and the economy remains burdened by political interference, corruption, high levels of taxation, and a rigid labor market. Due to the complexity of the regulatory framework and the high cost of conducting business, a considerable amount of economic activity remains in the informal sector.

BACKGROUND: The volatile but democratic Italian political landscape is dominated currently by a center-right coalition led by Silvio Berlusconi, who was elected prime minister for a third time in 2008. Small and medium-size enterprises dominate key industries such as manufacturing and high-end design. The export market for luxury goods was severely affected by the global economic downturn, and the economy experienced a deep recession. Lack of movement on much-needed structural reforms continues to weaken the economy even though it formally emerged from recession in mid-2009. Persistent problems include organized crime, illegal immigration, high unemployment, and the long-standing imbalance between the prosperous and industrialized North and the less-developed, agricultural South.

Quick Facts

Population: 59.8 million
GDP (PPP): $1.7 trillion
–5.0% growth in 2009
–0.7% 5-year compound annual growth
$29,109 per capita
Unemployment: 7.8%
Inflation (CPI): 0.8%
FDI Inflow: $30.5 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *77.3* — *0.6*

Organizing new investment and production remains a cumbersome and bureaucratic process. Inefficient public administration and legislative complexity continue to delay and increase the cost of entrepreneurial activity.

TRADE FREEDOM: *87.6* + *0.1*

Italy's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Italian policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from Italy's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *55.4* + *0.2*

Italy has a high income tax and a moderate corporate tax. The top income tax rate is 43 percent The top corporate tax rate is 27.5 percent (31.4 when the IRAP, a regional tax of 3.9 percent, is included). Individuals are also subject to small regional and municipal income taxes. Other taxes include a value-added tax (VAT), a tax on interest, a property transfer tax, and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 43.1 percent.

GOVERNMENT SPENDING: *28.6* — *2.6*

In the most recent year, total government expenditures, including consumption and transfer payments, increased slightly to 48.8 percent of GDP, while the deficit widened to 5.3 percent of GDP. Social transfers and public service outlays have comprised much of the crisis spending. The state still controls some strategic enterprises, mainly in transportation and energy.

MONETARY FREEDOM: *82.1* + *3.1*

Italy is a member of the euro zone. Inflation is low, averaging 1.5 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting agricultural prices. Items subject to price controls at the national level include drinking water, electricity, gas, highway tolls, prescription drugs reimbursed by the national health service, telecommunications, and domestic travel. Ten points were deducted from Italy's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *75* *no change*

Italy welcomes foreign investment, but the government can veto acquisitions involving foreign investors. National treatment is provided except in defense, aircraft manufacturing, petroleum exploration and development, domestic airlines, and shipping. The government often retains a controlling interest in privatized companies. An inefficient judicial system, bureaucracy, rigid labor laws, inefficient infrastructure, regulatory non-transparency, the possibility of government intervention, and hostile labor unions are deterrents. There are no barriers to repatriation of profits.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 41	Investment Freedom	No. 26
Trade Freedom	No. 12	Financial Freedom	No. 38
Fiscal Freedom	No. 167	Property Rights	No. 52
Government Spending	No. 160	Freedom from Corruption	No. 62
Monetary Freedom	No. 21	Labor Freedom	No. 147

FINANCIAL FREEDOM: *60* *no change*

The financial sector is relatively well developed and provides a wide range of services. The banking sector has undergone consolidation. Credit is allocated on market terms, and foreign participation is welcome. Only three major financial institutions remain state-controlled. However, banks are not free from political interference. The five largest banks account for over 50 percent of assets. Regulations and prohibitions can be burdensome, and approval is needed to gain control of a financial institution. The government has acted to reform underdeveloped capital markets. The global financial turmoil's impact on the banking sector has been relatively modest, with Italian banks less exposed to troubled financial instruments than banks in some other countries.

PROPERTY RIGHTS: *50* — *5.0*

Property rights and contracts are secure, but judicial procedures are extremely slow, and many companies choose to settle out of court. Many judges are politically oriented. Enforcement of intellectual property rights falls below the standards of other developed Western European countries. Italy is ranked only 44th out of 125 countries in the 2010 International Property Rights Index.

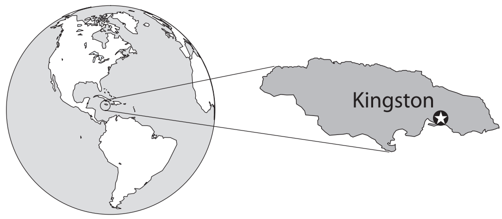
FREEDOM FROM CORRUPTION: *43* — *5.0*

Corruption is perceived as significant. Italy ranks 63rd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a steep drop from 2008. Corruption and organized crime are major impediments to investment and economic growth in southern Italy, and Italians regard investment-related sectors as corrupt.

LABOR FREEDOM: *44.4* — *13.8*

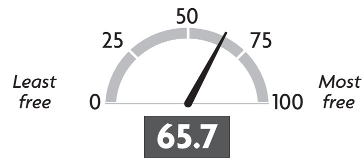
Systemic deficiencies in the labor market continue to hamper job growth. A large informal labor market accounts for a significant proportion of employment.

JAMAICA

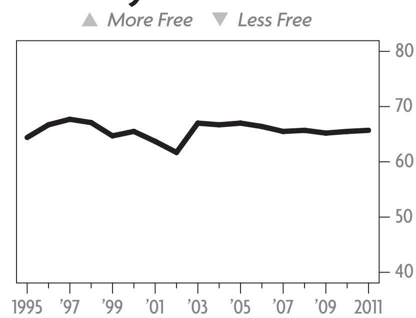


World Rank: **58** Regional Rank: **12**

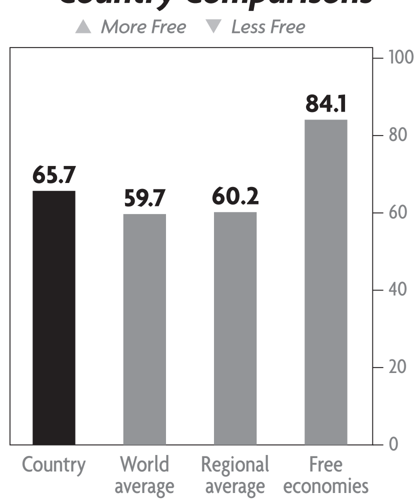
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Jamaica's economic freedom score is 65.7, making its economy the 58th freest in the 2011 *Index*. Its score is virtually unchanged from last year, with gains in four economic freedoms offset by losses in other areas. Jamaica ranks 12th out of 29 countries in the South and Central America/Caribbean region.

Jamaica has taken steps to develop its private sector and is making substantial progress in reducing poverty. The economy performs well in investment freedom and business freedom. Procedures for conducting a business are straightforward and simple. Foreign investment is welcome in many sectors, and steps have been taken to enhance the regulatory environment for the financial sector.

Jamaica's critical development challenges include lingering 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 by a significant backlog of cases.

BACKGROUND: Prime Minister Bruce Golding and his Jamaica Labour Party took office in late 2007. With a slim parliamentary majority, they are struggling to achieve fiscal discipline while attacking serious drug and crime problems. Jamaica is currently negotiating with the International Monetary Fund for economic assistance, but the government will need to introduce major fiscal reforms to secure a deal. The Jamaican economy depends to a great extent on services, which 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 with stubbornly high unemployment and underemployment that has led to increased crime, fueled by the drug trade.

Quick Facts

Population: 2.7 million
GDP (PPP): $23.8 billion
–2.8% growth in 2009
0.1% 5-year compound annual growth
$8,777 per capita
Unemployment: 12.9%
Inflation (CPI): 9.6%
FDI Inflow: $1.1 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *86.3* — 0.7

Jamaica's regulatory framework is efficient. The overall process for obtaining licenses and starting a business has been streamlined, and enforcement of the existing commercial code is relatively strong.

TRADE FREEDOM: *72.2* *no change*

Jamaica's weighted average tariff rate was 8.9 percent in 2006. High tariffs on some agricultural and consumer products, import fees and licenses, import and export bans and restrictions, restrictive pharmaceuticals regulations, inefficient regulatory administration, and weak enforcement of intellectual property rights add to the cost of trade. Ten points were deducted from Jamaica's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *75.9* + 1.1

Jamaica has a moderate income tax rate and a relatively high corporate tax rate. The flat 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 tax on interest. The value-added tax (called a general consumption tax in Jamaica) has been the subject of multiple reforms including a 1 percent rate increase and an end to the electricity exemption. In the most recent year, overall tax revenue as a percentage of GDP was 26 percent. Broader reforms of tax administration have been underway since 2009.

GOVERNMENT SPENDING: *64.7* + 2.9

In the most recent year, total government expenditures, including consumption and transfer payments, declined slightly to 34.3 percent of GDP. The fiscal position is weak and supported largely by external assistance.

MONETARY FREEDOM: *72.5* + 4.1

Inflation has been high, averaging 12.6 percent between 2007 and 2009. Most prices are set by the market, but the government regulates utility services, including electricity, water, and bus fares. The government monitors the pricing of consumer items. Five points were deducted from Jamaica's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *85* *no change*

Jamaica encourages foreign investment in all sectors. Foreign and domestic investors receive equal treatment, and foreign investors can acquire privatized state-owned enterprises. There is no screening, but projects that affect national security, have a negative impact on the environment, or involve such sectors as life insurance, media, or mining are subject to some restrictions. There are no limits on foreign control of companies. The legal system upholds the sanctity of contracts. The government is steadily improving bureaucratic efficiency and transparency. Residents and non-residents may hold foreign exchange accounts. There are no restrictions on international transactions, transfers, or the repatriation of funds, and non-residents may purchase real estate. Property may not be expropriated without compensation.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 20	Investment Freedom	No. 9
Trade Freedom	No. 115	Financial Freedom	No. 38
Fiscal Freedom	No. 102	Property Rights	No. 73
Government Spending	No. 104	Freedom from Corruption	No. 99
Monetary Freedom	No. 117	Labor Freedom	No. 59

FINANCIAL FREEDOM: *60* *no change*

Jamaica's financial sector has undergone major consolidation and restructuring, and efforts to strengthen supervision and regulation are ongoing. Although some financial products 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. The three largest commercial banks account for over 80 percent of commercial bank assets, and five of the seven commercial banks are foreign-owned. Credit is generally allocated on market terms. Capital markets are underdeveloped and centered on the stock exchange. Jamaica has continued to enhance the regulatory framework for the financial sector with a Credit Reporting Bill and reform of the National Payments System.

PROPERTY RIGHTS: *40* — 5.0

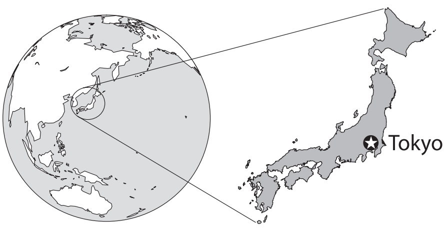
Jamaica's legal system is based on English common law, but the judiciary lacks adequate resources, and trials can be delayed for years. Bureaucracy can cause significant delays in securing land titles. An inadequate police force weakens the security of property rights, and crime threatens foreign investment. Jamaica's patent law is not WTO/TRIPS-compliant. Jamaica is ranked 58th out of 125 countries in the 2010 International Property Rights Index.

FREEDOM FROM CORRUPTION: *30* — 1.0

Corruption is perceived as significant. Jamaica ranks 99th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The executive and legislative branches of government, as well as the Jamaica Constabulary Force, are widely regarded as subject to corruption. Pervasive public corruption undermines efforts against drug-related and other crimes and plays a major role in the passage of drugs and drug proceeds through Jamaica.

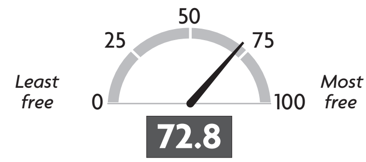
LABOR FREEDOM: *70.2* + 0.2

The labor market remains relatively constraining. The non-salary cost of employing a worker is moderate, but dismissing an employee is costly. Regulations on work hours are flexible.



JAPAN

Economic Freedom Score



World Rank: **20** Regional Rank: **6**

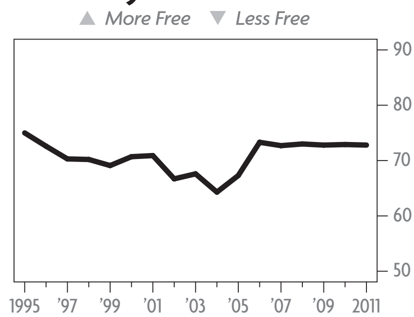
Japan's economic freedom score is 72.8, making its economy the 20th freest in the 2011 *Index*. Its score is almost the same as last year, with gains in freedom from corruption offset by worsened government spending and labor freedom. Japan is ranked 6th out of 41 countries in the Asia–Pacific region.

Japan performs relatively well in a number of the 10 economic freedoms, including business freedom, property rights, and freedom from corruption. However, it faces challenges in trying to revitalize its stagnant economy. A 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 have continued to widen. The financial sector is modern and well developed, but it remains subject to growing political interference, as shown in the delay of reorganization of the state-owned postal savings system. Taxation is fairly burdensome, and Japan's corporate tax rate is becoming increasingly uncompetitive.

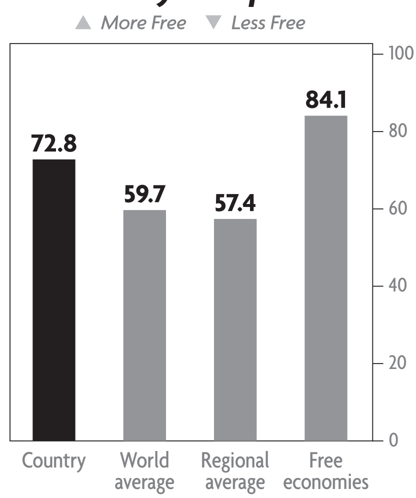
Although the export-oriented Japanese economy has long benefited from global trade, its non-tariff barriers linger, hurting overall trade freedom. Japan has lagged behind other countries in pursuing bilateral trade agreements.

BACKGROUND: Following 55 years of Liberal Democratic Party rule, the Democratic Party of Japan won a historic election victory in August 2009, capturing both houses of parliament and installing Yukio Hatoyama as prime minister. Hatoyama abruptly resigned in June 2010 and was succeeded by Finance Minister Naoto Kan. Japan is one of the world's largest economies, but its "lost decade" of the 1990s has extended well into a second decade, and the economy is smaller now than it was in the first quarter of 1992. Japan's brief period of economic expansion earlier this decade under Prime Minister Junichiro Koizumi was driven primarily by exports. Market reform is now urgently needed to create domestic sources of growth.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 127.6 million
GDP (PPP): $4.2 trillion
–5.2% growth in 2009
–0.5% 5-year compound annual growth
$32,608 per capita
Unemployment: 5.1%
Inflation (CPI): –1.4%
FDI Inflow: $11.9 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *83.8* — *0.7*

The process for establishing and running a business is relatively streamlined. However, bureaucracy is sometimes stifling, and entrepreneurial growth is discouraged by structural problems caused by government interference in the private economy.

TRADE FREEDOM: *82.6* + *0.2*

Japan's weighted average tariff rate was 1.2 percent in 2009. Import and export bans and restrictions, import quotas and licensing, services market access barriers, non-transparent and burdensome regulations and standards, restrictive sanitary and phytosanitary rules, restrictions in government procurement, and subsidies add to the cost of trade. Fifteen points were deducted from Japan's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *67* — *0.2*

Japan has high income tax and corporate tax rates. The top income tax rate is 40 percent, which rises to almost 50 percent when local taxes are included. The standard corporate tax rate is 30 percent, which local taxes and an enterprise tax can raise to around 41 percent. Small and medium-sized enterprises meeting certain capital restrictions are subject to a corporate tax rate of 18 percent. Other taxes include a value-added tax (VAT), a tax on interest, and an estate tax. In the most recent year, overall tax revenue as a percentage of GDP was 28.3 percent.

GOVERNMENT SPENDING: *58.7* — *2.4*

In the most recent year, total government expenditures, including consumption and transfer payments, rose slightly to 37.1 percent of GDP. The fiscal debt widened to 10 percent of GDP. Efforts to reinvigorate the economy and the rising cost of social welfare for an aging population have put government spending on an upward trend.

MONETARY FREEDOM: *87.9* — *0.9*

Inflation is minimal, averaging 0.6 percent between 2007 and 2009. Formal price controls apply to rice, but major producers, backed by regulators, are able to dictate retail and wholesale prices. Five points were deducted from Japan's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *60* *no change*

Japan's government officially welcomes foreign investment, and inward direct investment is subject to few restrictions. However, foreign acquisition of Japanese firms is inhibited by overregulation and a slow court system. Government approval is needed for investments in agriculture, forestry, petroleum, electricity, gas, water, aerospace, telecommunications, and leather manufacturing. There are few controls on the holding of foreign exchange accounts or on current transfers, repatriation of profits, or real estate transactions by residents or non-residents.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 26	Investment Freedom	No. 62
Trade Freedom	No. 59	Financial Freedom	No. 70
Fiscal Freedom	No. 145	Property Rights	No. 20
Government Spending	No. 114	Freedom from Corruption	No. 17
Monetary Freedom	No. 1	Labor Freedom	No. 30

FINANCIAL FREEDOM: *50* *no change*

Japan's modern financial system remains vulnerable to government political influence and interventionist policy choices. Overall transparency is still weak despite gradual improvement. Deregulation and competition have led to consolidation. In 2009, a new law that aims to facilitate financing opportunities for distressed small and medium-sized enterprises was enacted. The government-owned postal savings system remains Japan's biggest financial institution by assets. Reform of the postal system has been derailed since late 2009. Capital markets are relatively well developed. The impact of the global financial turmoil on the Japanese banking sector has been relatively modest. In 2010, in an effort to stop the soaring yen from crippling its fragile economy, the government, for the first time in six years, intervened strongly in the currency market.

PROPERTY RIGHTS: *80* *no change*

Real and intellectual property rights are generally secure, but obtaining and protecting patents and trademarks can be time-consuming and costly. The courts do not discriminate against foreign investors, but they are not well suited to litigation of business disputes. Contracts are highly respected. Japan is ranked 18th out of 125 countries in the 2010 International Property Rights Index.

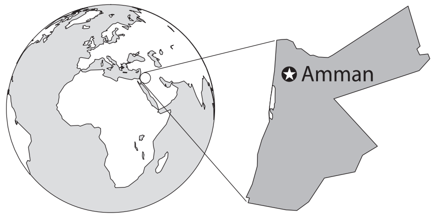
FREEDOM FROM CORRUPTION: *77* + *4.0*

Corruption is perceived as minimal. Japan ranks 17th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Although the direct exchange of cash for favors from government officials in Japan is extremely rare, the web of close relationships among Japanese companies, politicians, government organizations, and universities has been said to foster an inwardly cooperative business climate that is conducive to the awarding of contracts and positions within a tight circle of local players. This phenomenon manifests itself most frequently and most seriously in the rigging of bids on government public works projects.

LABOR FREEDOM: *81.1* — *1.3*

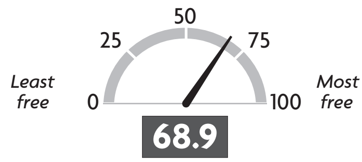
Japan's labor regulations are relatively flexible. A propensity for lifetime employment guarantees and seniority-based wages impedes the development of a dynamic and flexible labor market.

JORDAN

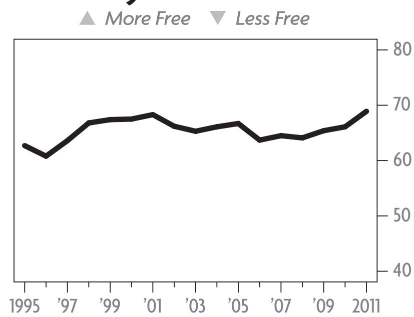


World Rank: **38** Regional Rank: **4**

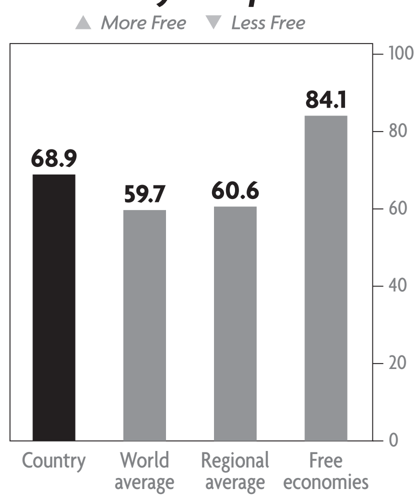
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Jordan's economic freedom score is 68.9, making its economy the 38th freest in the 2011 *Index*. Its score is 2.8 points better than last year, with significant gains in fiscal, monetary, and investment freedom and improved control of government spending. Jordan is ranked 4th out of 17 countries in the Middle East/North Africa region and registered the sixth highest score improvement in the 2011 *Index*.

Progress toward upgrading Jordan's economic infrastructure has aided economic growth despite the challenging global economic environment. Levels of trade, fiscal, and investment freedom are relatively competitive. The financial sector has taken steps to meet international standards.

Public finance management and privatization have been key parts of the reform agenda. Social security and pension reforms are being followed by efforts that include public wage bill containment and capital spending reduction. Future planned adjustments include better-targeted capital spending, water and energy market liberalization, and private-sector development. Overall economic freedom is limited by corruption and the judicial system's vulnerability to political influence.

BACKGROUND: Jordan, which gained its independence from Britain in 1946, is a constitutional monarchy with a relatively well-educated population. The economy is supported to a significant degree by foreign loans, international aid, and remittances from expatriate workers. King Abdullah II has undertaken political, economic, and regulatory reforms since coming to power in 1999. 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, heavy debt, an influx of Iraqi refugees, and the high cost of oil imports. In December 2009, King Abdullah dismissed the government and appointed a new cabinet with Samir al-Rifai as prime minister.

Quick Facts

Population: 6.0 million
GDP (PPP): $33.7 billion
2.8% growth in 2009
6.8% 5-year compound annual growth
$5,620 per capita
Unemployment: 12.9%
Inflation (CPI): –0.7%
FDI Inflow: $2.4 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *65.8* — + *0.2*

Although bureaucratic obstacles and delays persist, reforms have allowed business formation and operation to be more efficient and dynamic. Rules and procedures for bankruptcy are inefficient.

TRADE FREEDOM: *78.8* — *no change*

Jordan's weighted average tariff rate was 5.6 percent in 2008. Import bans and restrictions, import fees, licensing requirements, export subsidies, weak enforcement of intellectual property rights, and inefficient customs administration add to the cost of trade. Ten points were deducted from Jordan's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *92.7* — + *9.7*

Effective January 1, 2010, the top income tax rate is 14 percent, and eligibility criteria for personal concessions have been relaxed. The corporate tax rate was lowered to 14 percent (30 percent for banks and 24 percent for financial institutions, insurance companies, and telecommunications companies). Other taxes include a value-added tax (VAT) and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 18.3 percent.

GOVERNMENT SPENDING: *60.9* — + *5.8*

The economic downturn hurt Jordan's fiscal position. In the most recent year, total government expenditures, including consumption and transfer payments, declined slightly to 36.1 percent of GDP, but weak revenues and external grants widened the deficit to 8.5 percent of GDP and drove the debt-to-GDP ratio to 56 percent.

MONETARY FREEDOM: *81.4* — + *8.2*

Inflation has dropped, averaging 3.7 percent between 2007 and 2009. Consumer prices began to fall in 2009, reflecting lower international oil and food prices as well as the strengthening U.S. dollar, but prices rose in 2010 as commodity trends reversed. Most controls have been eliminated, but the government sets prices for electricity, telecommunications, and water. Five points were deducted from Jordan's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *70* — + *5.0*

Foreign and domestic investments receive equal treatment. There is no formal screening, but there are minimum capital requirements. Foreign investments may not exceed 50 percent in sectors like construction, wholesale and retail trade, transport, import and export services, and advertising. Foreigners may not invest in investigative and security services, sports clubs, stone quarrying, customs clearance services, and land transportation. Bureaucracy, red tape, a judicial system susceptible to political pressure, and inconsistent enforcement of regulations inhibit investment. Residents and non-residents may hold foreign exchange accounts. There are no restrictions or controls on payments, transactions, transfers, or repatriation of profits. Certain real estate purchases require approval, but foreign firms generally may own or lease property for investment purposes.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 90	Investment Freedom	No. 38
Trade Freedom	No. 84	Financial Freedom	No. 38
Fiscal Freedom	No. 14	Property Rights	No. 50
Government Spending	No. 112	Freedom from Corruption	No. 48
Monetary Freedom	No. 25	Labor Freedom	No. 49

FINANCIAL FREEDOM: *60* — *no change*

Jordan's fairly well developed financial sector is dominated by banking. Along with financial-sector policies that are intended to enhance competition and efficiency, banking supervision and regulation generally conform to international standards. There are more than 20 banks, including nine domestic commercial banks and eight foreign banks. The Arab Bank accounts for about 60 percent of total assets. Government-encouraged consolidation among smaller banks has progressed. The government owns no commercial banks but does own five specialized credit institutions focused on agricultural credit, housing, rural and urban development, and industry. The insurance sector is small but open to foreign competition. Capital markets are not fully developed but are fairly robust by regional standards.

PROPERTY RIGHTS: *55* — *no change*

Interest in property is recognized, enforced, and recorded through reliable legal processes and registries. 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 a law passed in 2001 to limit its influence, the Ministry of Justice significantly influences judges' careers. Expropriation is unlikely. Jordan's record in protecting intellectual property rights has improved. Jordan is ranked 41st out of 125 countries in the 2010 International Property Rights Index.

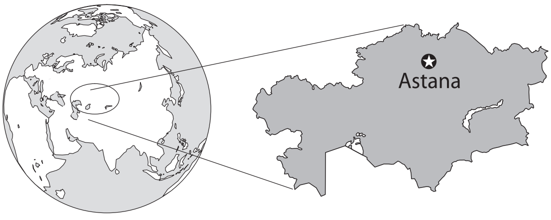
FREEDOM FROM CORRUPTION: *50* — − *1.0*

Corruption is perceived as present. Jordan ranks 49th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Influence peddling and a lack of transparency have been alleged in government procurement and dispute settlement. The use of family, business, and other personal connections to advance personal business interests is seen by many Jordanians as a normal part of doing business.

LABOR FREEDOM: *74.2* — *no change*

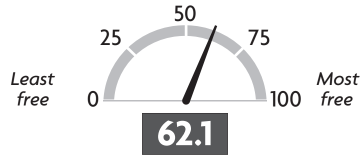
Jordan's labor regulations are relatively flexible. The non-salary cost of employing a worker is moderate and not burdensome. Progress toward reforming bloated public-sector employment has been dismal.

KAZAKHSTAN

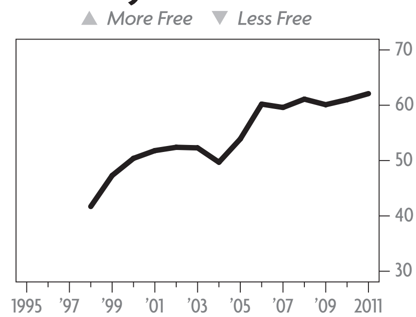


World Rank: **78** Regional Rank: **11**

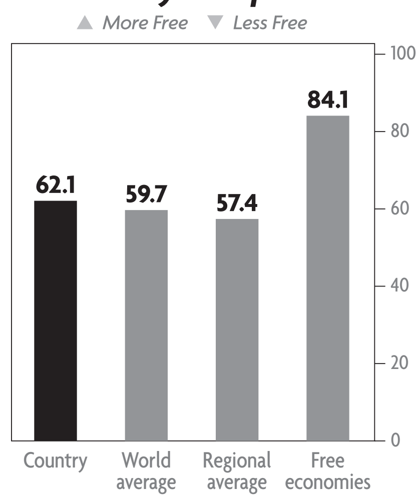
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Kazakhstan's economic freedom score is 62.1, making its economy the 78th freest in the 2011 *Index*. Its score is 1.1 points higher than last year, primarily reflecting improvements in property rights, freedom from corruption, and labor freedom. Kazakhstan ranks 11th out of 41 countries in the Asia–Pacific region, and its overall score is above the world and regional averages.

After nearly a decade of rapid expansion, economic growth plummeted in 2008 under the weight of the global financial crisis and economic slowdown. Kazakhstan became one of the first countries to return to the path of steady economic expansion, partly because of previous policy choices that enhanced competitiveness. Kazakhstan scores relatively well in business freedom, trade freedom, and fiscal freedom. Private-sector activity has broadened, with services expanding rapidly.

Kazakhstan exhibits considerable shortcomings in investment freedom, property rights, and freedom from corruption. Foreign investment is hindered by ad hoc barriers and favoritism toward domestic firms. The weak rule of law allows for pervasive corruption and insecure property rights.

BACKGROUND: Kazakhstan is strategically located in Central Asia between Russia and China. President Nursultan Nazarbayev's Nur Otan party is preparing for the 2012 presidential elections, and presidential term limits have been abolished. The opposition alleges unfair treatment and human rights violations. Kazakhstan was named chairman of the Organization for Security and Co-operation in Europe for 2010, and a customs union with Russia and Belarus was established in January 2010. Oil output is projected to reach 3.5 million barrels a day by 2020. Excessive dependence on raw commodity exports makes the economy particularly vulnerable to global price changes, and the 2009 global recession led to real GDP growth of only 1.2 percent. Kazakhstan possesses an estimated 20 percent of world uranium reserves and has an ambitious economic development program, but resource nationalism and corruption deter investors.

Quick Facts

Population: 15.6 million
GDP (PPP): $182.0 billion
1.2% growth in 2009
5.9% 5-year compound annual growth
$11,693 per capita
Unemployment: 6.3%
Inflation (CPI): 7.3%
FDI Inflow: $12.6 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *74.3* — + 0.8

Kazakhstan's regulatory framework has undergone a series of reforms. Procedures for establishing and running a business have been simplified although they remain costly.

TRADE FREEDOM: *80.9* — − 5.0

Kazakhstan's weighted average tariff rate was 2.1 percent in 2008. A customs union with Russia and Belarus, under which external tariffs have increased for more than 5,000 products, became effective on January 1, 2010. Services market access barriers, import licensing requirements, non-transparent regulations and standards, opaque government procurement, weak enforcement of intellectual property rights, and customs inefficiency and complexity add to the cost of trade. Fifteen points were deducted from Kazakhstan's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *87.3* — − 0.6

Kazakhstan has a low income tax rate and a relatively low corporate tax rate. 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), a property tax, excise taxes, and a minerals extraction tax implemented in 2009. In the most recent year, overall tax revenue as a percentage of GDP was 27.7 percent.

GOVERNMENT SPENDING: *78.5* — − 3.6

In the most recent year, total government expenditures, including consumption and transfer payments, rose to 26.8 percent of GDP. The resulting deficit was financed through domestic debt, external loans, and oil savings.

MONETARY FREEDOM: *69.9* — + 4.3

Inflation, averaging 10 percent between 2007 and 2009, has been high but in decline. The rate fell even further in 2010. The market sets most prices, but the government retains the right to control prices, influences them through state-owned enterprises and manufacturing subsidies, and has made little progress in promoting competition in agriculture. Ten points were deducted from Kazakhstan's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *30* — *no change*

Screening of foreign investment proposals is often non-transparent, arbitrary, and slow, and foreign ownership in some sectors is limited. The use of local content and services is encouraged. An unclear legal code, legislative favoritism toward Kazakh companies, inconsistent application of regulations, and government interference in commercial operations further deter investment. Subject to restrictions, foreign exchange accounts may be held by residents and non-residents. Most capital transactions, payments, and transfers are permitted with few restrictions. Only domestic citizens and companies may own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 52**	Investment Freedom	**No. 134**
Trade Freedom	**No. 74**	Financial Freedom	**No. 70**
Fiscal Freedom	**No. 30**	Property Rights	**No. 94**
Government Spending	**No. 65**	Freedom from Corruption	**No. 122**
Monetary Freedom	**No. 141**	Labor Freedom	**No. 12**

FINANCIAL FREEDOM: *50* — *no change*

The global financial crisis has revealed continuing weaknesses in regulation and supervision. Domestic banks used foreign borrowing to expand rapidly and directed much of their lending to construction and real estate development. Weak risk management and overexposure to the property market have taken a severe toll on banking stability. Non-performing loans reached about 10 percent in early 2009, and the government restructured troubled banks' international debts. It has also provided large-scale liquidity injections to banks, permitting support to key economic sectors through low interest rates. Capital markets remain underdeveloped, though the bond market has been growing. The insurance sector is small, and foreign companies are limited to joint ventures with local companies.

PROPERTY RIGHTS: *35* — + 5.0

Most legal disputes arise from breaches of contract or non-payment by the government. Corruption is widespread, and the judiciary views itself more as an arm of the executive than as an enforcer of contracts or property rights. Some foreign investors encounter serious problems short of expropriation. Piracy of copyrighted products is widespread, and enforcement of intellectual property rights is weak, although amendments to the Customs Code signed in December 2009 give customs officials *ex officio* authority to seize counterfeit products at the border. Kazakhstan is ranked 88th out of 125 countries in the 2010 International Property Rights Index.

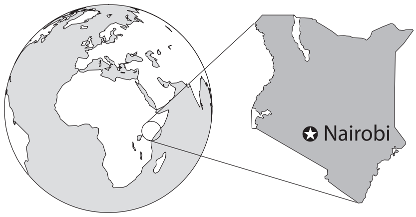
FREEDOM FROM CORRUPTION: *27* — + 5.0

Corruption is perceived as pervasive. Kazakhstan ranks 120th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Law enforcement agencies occasionally pressure foreign investors to cooperate with government demands. Amendments to the anti-corruption law signed in December 2009 increase punishments for corruption, institute mandatory asset forfeitures, broaden the definition of corruption to include fraud by government officials, and criminalize the acceptance of a bribe on behalf of a third party and the acceptance of intangible assets.

LABOR FREEDOM: *88.4* — + 5.3

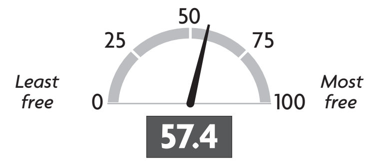
Kazakhstan's labor regulations are flexible. The non-salary cost of employing a worker is moderate, and dismissing an employee is not costly. Regulations on work hours can be rigid.

KENYA



World Rank: **106** Regional Rank: **14**

Economic Freedom Score



Kenya's economic freedom score is 57.4, making its economy the 106th freest in the 2011 *Index*. Its score is virtually unchanged from last year, with gains in trade and investment freedom offsetting a significantly lower government spending score. Kenya is ranked 14th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

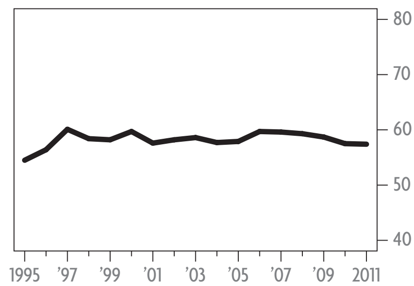
Kenya's economy, one of Africa's most developed, has gradually emerged from political instability and the economic slowdown. Reforms in public finance management have continued, though progress has been sluggish. Domestic debt as a percentage of GDP has been declining incrementally. A special panel was formed to oversee the divestment of 16 state-owned enterprises, and one national power-producing company was privatized in November 2009.

Weak protection of property rights and extensive corruption continue to hold back overall economic freedom. Corruption is perceived as pervasive, and non-transparent trade regulations and customs inefficiency hurt trade freedom. The judicial system remains underdeveloped and vulnerable to political influence.

BACKGROUND: Kenya was a one-party state until 1992. 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. Corruption remains commonplace despite government pledges to combat it. 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. The economy took a turn for the worse in 2007 and 2008 but rebounded with higher growth in 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.

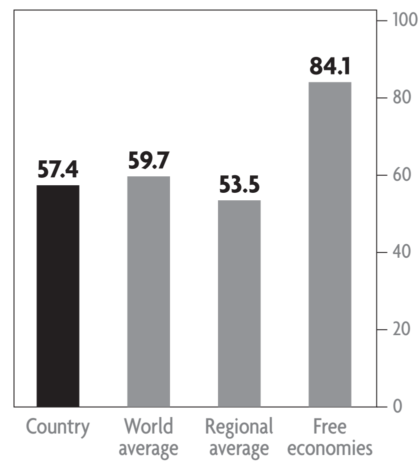
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 35.9 million
GDP (PPP): $62.1 billion
2.1% growth in 2009
4.2% 5-year compound annual growth
$1,730 per capita
Unemployment: 40% (2008)
Inflation (CPI): 11.8%
FDI Inflow: $141 million

2009 data unless otherwise noted.
Data compiled as of September 2010.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *62.2* — 1.2

Despite several reform measures to eliminate bureaucratic hurdles to establishing and registering private enterprises, implementation and enforcement have been uneven.

TRADE FREEDOM: *72.8* + 4.9

Kenya's weighted average tariff rate was 6.1 percent in 2009. Import and export bans and restrictions, import and export taxes, import and export licensing requirements, non-transparent and restrictive regulations, opaque government procurement, subsidies, weak enforcement of intellectual property rights, and customs corruption add to the cost of trade. Fifteen points were deducted from Kenya's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *77.6* — 0.5

Kenya has moderate income and corporate taxes. The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and a tax on interest. In the most recent year, overall tax revenue as a percentage of GDP was 20.9 percent.

GOVERNMENT SPENDING: *72.8* — 10.3

Kenya's fiscal position was negatively affected by the global economic downturn and post-election violence. In the most recent year, total government expenditures, including consumption and transfer payments, rose significantly to 30.1 percent of GDP. The fiscal deficit widened, partly because of higher domestically financed development spending.

MONETARY FREEDOM: *73.2* + 0.5

Inflation has been high, averaging 11.9 percent between 2007 and 2009, but dropped significantly in 2010. Price controls were officially dismantled in 1994, but the government reserves the right to set maximum prices in certain cases and influences prices through agricultural marketing boards and state-owned utilities and enterprises. Five points were deducted from Kenya's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *50* + 5.0

Foreign and local investors generally receive equal treatment. The government screens private-sector projects to determine their viability and implications for national development. Private foreign and domestic investments are constrained in certain sectors, including those where state corporations have a statutory monopoly. The minimum foreign investment threshold is $100,000, and foreign investors must sign an agreement defining training arrangements intended to phase out employment of expatriates. Poor infrastructure, restrictive labor laws, burdensome regulation, inefficient bureaucracy, and crime discourage investment. Residents and non-residents may hold foreign exchange accounts. There are no controls or requirements on payments and transfers. Most capital transactions are permitted, but the sale or issue of capital and money market instruments may require government approval. Foreign purchases of agricultural land are restricted.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 106	Investment Freedom	No. 94
Trade Freedom	No. 110	Financial Freedom	No. 70
Fiscal Freedom	No. 94	Property Rights	No. 99
Government Spending	No. 86	Freedom from Corruption	No. 148
Monetary Freedom	No. 112	Labor Freedom	No. 82

FINANCIAL FREEDOM: *50* *no change*

Kenya's financial system remains vulnerable to government influence and inadequate supervision. The five largest banks account for just over 50 percent of assets. The government owns or holds shares in several domestic financial institutions and continues to influence the allocation of credit. Privatization of the state-owned National Bank of Kenya has been delayed. Non-performing loans, particularly from state-owned banks to state-owned enterprises, have been declining. About 20 percent of the adult population has bank accounts and access to formal financial services. The Microfinance Act took effect in 2008. Capital markets are relatively small, and just over 50 companies are listed on the Nairobi Stock Exchange. In 2009, Kenya launched an automated bond-trading market.

PROPERTY RIGHTS: *30* *no change*

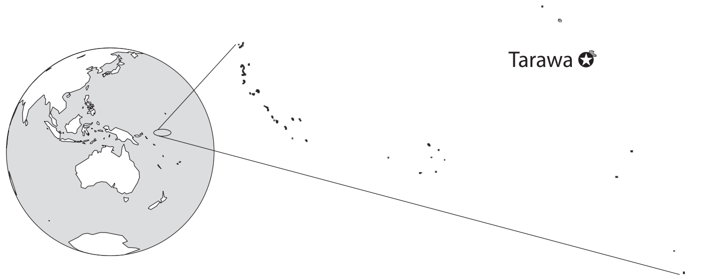
Kenya's judicial system is modeled on the British system. Commercial courts deal with commercial cases. Enforcement of property and contractual rights is subject to long delays. The process for acquiring land titles is often non-transparent and cumbersome. Courts generally do not permit sales of land by mortgage lenders to collect debts. Protection of intellectual property rights is weak. Kenya is ranked 88th out of 125 countries in the 2010 International Property Rights Index.

FREEDOM FROM CORRUPTION: *22* + 1.0

Corruption is perceived as pervasive. Kenya ranks 146th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption has led to foreign disinvestment and has drained resources needed for education, health, and infrastructure. Kenyans view the police as the most corrupt public institution. A former Finance Minister, who resigned in July 2008 in connection with the non-tendered sale of a government-owned property, was exonerated by an investigatory commission and appointed Minister of Trade in January 2009, providing an example of the culture of impunity in Kenya.

LABOR FREEDOM: *62.9* — 0.8

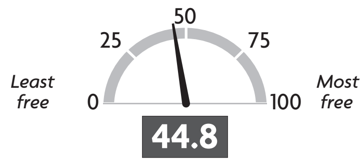
Labor regulations are relatively rigid. The non-salary cost of employing a worker is relatively low, but dismissing an employee can be costly. A large portion of the labor force is employed in the informal economy.



KIRIBATI

World Rank: **166** Regional Rank: **37**

Economic Freedom Score



Kiribati's economic freedom score is 44.8, making its economy the 166th freest in the 2011 *Index*. Its score is 1.1 points better this year due to a sharp reduction in tax collections as a percentage of GDP. Kiribati is ranked 37th out of 41 countries in the Asia–Pacific region, and its overall score is below the world and regional averages.

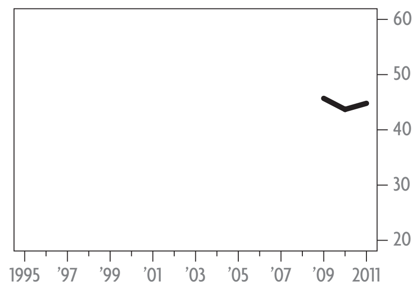
Kiribati's economy is dominated by a public sector that accounts for two-thirds of employment and about half of GDP. Only a small proportion of the labor force is employed on salaries, however; the rest work in subsistence farming or fishing. The economy relies heavily on foreign assistance and remittances. Kiribati has undergone a period of budgetary pressure caused by monetary instability combined with falling external income.

Economic growth continues to be undermined by inefficient state-owned enterprises and regulations that hinder private-sector development. The government has tried to decentralize economic activity from the main islands, but progress has been very limited. The financial sector remains underdeveloped, leaving much of the population without formal access to banking services.

BACKGROUND: An archipelago spread across the equator in the Pacific, 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. 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. A crippling type of algae currently plagues the corals surrounding Kiribati and seriously threatens the fishing industry. As a result, preservation of Kiribati's coral ecosystem, the South Pacific's largest marine reserve, continues to be a top priority.

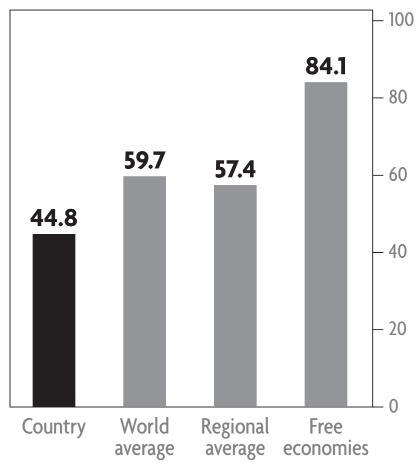
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 0.1 million
GDP (PPP): $0.6 billion
–0.7% growth in 2009
0.1% 5-year compound annual growth
$6,049 per capita
Unemployment: n/a
Inflation (CPI): 8.8%
FDI Inflow: $2.2 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *62.9* — *− 2.7*

Kiribati's regulatory environment is quite rudimentary. Existing commercial regulations, though outmoded and not consistently enforced, may interfere with business operations.

TRADE FREEDOM: *55.4* — *no change*

Kiribati's simple average tariff rate was 17.3 percent in 2007. Weak regulatory capacity, some import and export licensing, limited infrastructure, and significant geographic isolation add to the cost of trade. Ten points were deducted from Kiribati's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *60.3* — *+ 18.1*

Kiribati has relatively high taxes. The top income and corporate tax rates are 35 percent. In the most recent year, overall tax revenue, including revenue from fishing licenses, was equivalent to 39 percent of GDP. The decline in total tax revenue reflects lower customs receipts and fewer fishing licenses.

GOVERNMENT SPENDING: *0* — *no change*

In the most recent year, total government expenditures, including consumption and transfer payments, measured 114.6 percent of GDP. The Revenue Equalization Reserve Fund (an offshore investment fund) returns investment income equal to about 33 percent of GDP and continues to underwrite government recurring expenditures, reducing the incentive to constrain spending. However, savings have dwindled considerably as authorities have relied on drawdowns from the fund to finance the fiscal deficit, currently 13.3 percent of GDP. Government-supported public enterprises continue to operate with losses.

MONETARY FREEDOM: *71.1* — *− 0.8*

Inflation has been relatively high, averaging 8.9 percent between 2007 and 2009. After many years of minimal inflation, partly as a result of use of the Australian dollar as the domestic currency, surging prices for oil and other commodities increased inflationary pressures in 2008, although they eased somewhat in 2009. The government maintains price controls on petroleum products and other basic commodities. Ten points were deducted from Kiribati's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *25* — *no change*

Foreign investment is generally granted national treatment. All foreign investment must be approved by the government. Certain sectors of the economy are reserved for domestic producers. On average, it takes two to three months for a project to be approved, after which the government establishes criteria that the investor must fulfill with regard to employment, technology transfer, local content, and other requirements. Regulatory administration is ad hoc and non-transparent. Investment is limited by Kiribati's geographic isolation, limited infrastructure, and small markets. There are no controls on foreign exchange or capital transactions. Foreign investors may lease but not own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 101**	Investment Freedom	**No. 146**
Trade Freedom	**No. 169**	Financial Freedom	**No. 133**
Fiscal Freedom	**No. 165**	Property Rights	**No. 99**
Government Spending	**No. 172**	Freedom from Corruption	**No. 113**
Monetary Freedom	**No. 131**	Labor Freedom	**No. 18**

FINANCIAL FREEDOM: *30* — *no change*

Kiribati's underdeveloped financial sector remains dominated by banking. High credit costs and constrained access to financing severely impede entrepreneurial activity and development of the private sector. A large proportion of the population remains outside the formal banking system. The economy is burdened by a public sector that accounts for close to half of GDP, and state-directed lending to public enterprises remains considerable. A high level of non-performing loans, estimated at about one-third of total loans, continues to distress the financial system. There are two banks operating in Kiribati. The Bank of Kiribati, in which the government has 25 percent ownership, is the only commercial bank and has only four branches. The Development Bank of Kiribati generally lends to small businesses. Capital markets are underdeveloped and inefficient, offering a very limited range of financing options for the private sector.

PROPERTY RIGHTS: *30* — *no change*

The protection of movable property is secured by law and the courts. Land rights in cases of real property that is not owned by the government can be particularly complex and are subject to traditional land rights constraints. Non-citizens may not own land. The magistrates' courts have original jurisdiction in all cases involving land. Appeals of land cases are heard by the High Court.

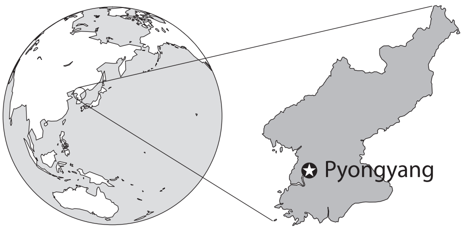
FREEDOM FROM CORRUPTION: *28* — *− 3.0*

Corruption is perceived as significant. Kiribati ranks 111th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a decline from 2008. Laws providing criminal penalties for official corruption have not been implemented effectively, and government officials sometimes engage in corrupt practices with impunity. Nepotism based on tribal, church, and family ties is prevalent.

LABOR FREEDOM: *85.1* — *− 1.0*

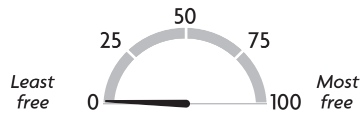
Kiribati's formal labor market is not fully developed, and only a small share of the labor force participates in the formal economy. The government is the major source of employment, providing jobs in public service and state-owned enterprises.

NORTH KOREA



World Rank: **179** Regional Rank: **41**

Economic Freedom Score



1.0

North Korea's isolation and government-imposed secrecy make data collection difficult and unreliable. Based on limited available information, North Korea's economic freedom score is 1, making its economy the least free in the 2011 *Index*. North Korea is ranked last out of 41 countries in the Asia–Pacific region.

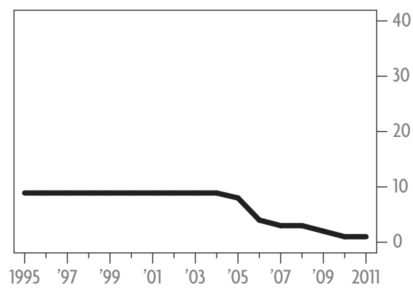
North Korea remains an unreformed Communist state. It has experimented with a few market reforms but mainly adheres to a system of centralized planning and state command and control of the economy. The Communist Party controls every aspect of economic activity. The impoverished population is heavily dependent on food rations and government subsidies in housing, and the state-run rationing system has deteriorated significantly. Deprivation is widespread.

North Korea may be attempting to open its economy by encouraging 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. No courts are independent of political interference, and private property (particularly land) is strictly regulated by the state.

BACKGROUND: The Democratic People's Republic of Korea (DPRK) is an oppressed and closed society. Since the country's founding in 1948, its Communist rulers have denied citizens basic human rights and maintained ownership of all industry. The government's grossly ineffective agricultural and industrial policies keep consumption at subsistence levels. Belligerent foreign policies and actions, including a quest to develop nuclear weapons in violation of U.N. resolutions, have led to international sanctions that reinforce North Korea's political and economic isolation. The DPRK remains heavily reliant on economic support from China. In late 2009, Pyongyang introduced several anti-market reforms in order to regain state control of burgeoning black markets. Though public unrest forced an unusual policy reversal, the attempt reflected North Korea's resistance to implementing even Chinese-style economic reform.

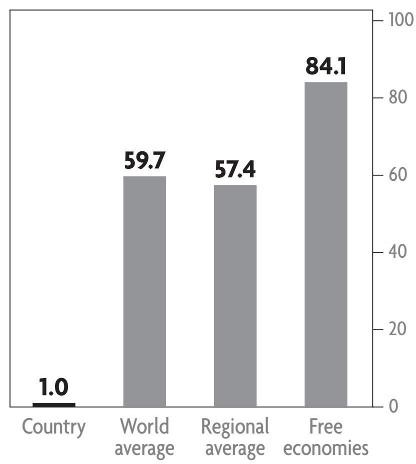
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 22.7 million
GDP (nominal): $13 billion
Growth in 2008 n/a
5-year compound annual growth n/a
Per capita n/a
Unemployment: n/a
Inflation (CPI): n/a
FDI Inflow: $2.0 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *0* — *no change*

The state continues to regulate the economy heavily through central planning and control. Entrepreneurial activity remains virtually impossible.

TRADE FREEDOM: *0* — *no change*

The government controls all imports and exports, and formal trade is minimal. North Korean trade statistics are limited and compiled from trading partners' data. Most trade is de facto aid, mainly from North Korea's two main trading partners, China and South Korea. Non-tariff barriers are significant. Inter-Korean trade remains constrained by North Korea's unwillingness to implement needed reform.

FISCAL FREEDOM: *0* — *no change*

No data on income or corporate tax rates are available because no effective tax system is in place. The government plans and manages almost every part of the economy. Given the absence of published official macroeconomic data, such figures as are available with respect to North Korea's government revenues are suspect and outdated.

GOVERNMENT SPENDING: *0* — *no change*

The government owns virtually all property and 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. The annual budget is devoid of useful information and lacks relevant historical or current figures needed to understand fiscal policy.

MONETARY FREEDOM: *0* — *no change*

North Korea stopped publishing economic statistics as long ago as the 1960s, when its rapid early growth began to slow. The government's tendency to view policies through the lens of Marxist thought, ignoring the crucial role played by the limited (and often illicit) private sector, results in serious errors in monetary policy. In theory, most prices are regulated by the state, but food is the main budget item for most North Koreans, so domestic agricultural production dictates underlying consumer price inflation. Volatility in the size of harvests is likely. Consequently, periods of very high inflation are possible. North Korea imports most of its oil. Global oil prices are expected to remain stable in the next few years, which may help to contain energy costs. However, the cost of imported inputs may vary dramatically, depending on the trade policies adopted by China and South Korea. A recent effort to control inflation, a botched currency redenomination in December 2009, led to runaway inflation.

INVESTMENT FREEDOM: *0* — *no change*

North Korea generally does not welcome foreign investment. China is the largest source of foreign investment. Numerous countries employ sanctions against North Korea, and ongoing political and security concerns make investment extremely hazardous. Internal laws do not allow for international dispute arbitration. North Korea allows limited foreign participation in the economy through special economic zones located at Rajin-Sonbong, Mount Kumgang, and Kaesong, where investment is approved on a case-by-case basis.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 179**	Investment Freedom	**No. 172**
Trade Freedom	**No. 179**	Financial Freedom	**No. 179**
Fiscal Freedom	**No. 179**	Property Rights	**No. 176**
Government Spending	**No. 172**	Freedom from Corruption	**No. 179**
Monetary Freedom	**No. 178**	Labor Freedom	**No. 179**

FINANCIAL FREEDOM: *0* — *no change*

There is virtually no functioning financial sector. Access to financing is very limited and constrained by the failed economy. The central bank also serves as a commercial bank and maintains numerous local branches. The government provides most funding for industries and takes a percentage from enterprises. North Korea's botched currency reform in late 2009 created hyperinflation and triggered rare public protests. In recent years, the government has phased out or clamped down on existing private markets, reducing the already very limited free-market experimentation.

PROPERTY RIGHTS: *5* — *no change*

Property rights are not guaranteed. Almost all property, including nearly all real property, belongs to the state, and the judiciary is not independent. Government control extends even to all chattel property (domestically produced goods as well as all imports and exports).

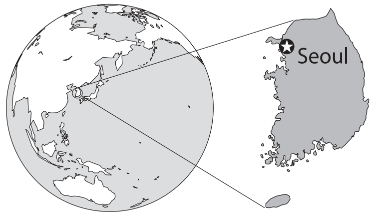
FREEDOM FROM CORRUPTION: *5* — *no change*

After the mid-1990s economic collapse and subsequent famines, North Koreans developed some informal markets, especially in agricultural goods. Informal trading with China in currency and goods is active. There are many indicators of corruption in the government and security forces. Military and government officials reportedly divert food aid from international donors and demand bribes before distributing it. According to Radio Free Asia, hungry railway workers recently stole copper and aluminum parts from 100 locomotives being stored by the military for "wartime needs" and sold them for scrap.

LABOR FREEDOM: *0* — *no change*

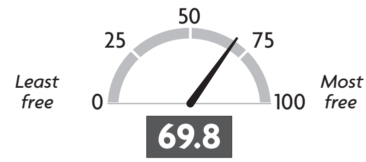
As the main source of employment, the state determines wages. Since the 2002 economic reforms, factory managers have had limited autonomy to set wages and offer incentives, but highly restrictive government regulations hinder any employment and productivity growth.

SOUTH KOREA



World Rank: **35** Regional Rank: **8**

Economic Freedom Score



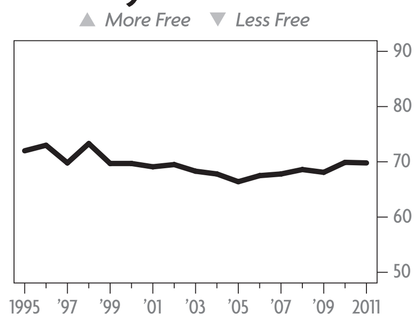
South Korea's economic freedom score is 69.8, making its economy the 35th freest in the 2011 *Index*. Its score remains essentially unchanged, with gains in fiscal freedom and monetary freedom largely offset by a decline in freedom from corruption. South Korea is ranked 8th out of 41 countries in the Asia–Pacific region.

South Korea's dynamic economy successfully weathered the global economic slowdown and demonstrated a considerable level of resilience. In an effort to solidify itself as one of the world's premier trading nations, the country recently signed a free trade agreement with the European Union. South Korea is home to a vibrant private sector. Innovation is supported by the country's openness to global commerce and its sound regulatory framework. The financial sector has also become progressively more open and transparent.

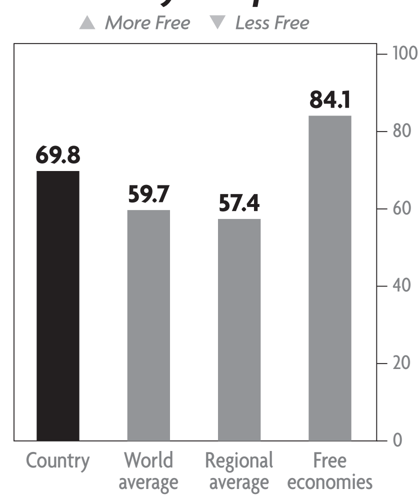
Challenges remain in ensuring South Korea's long-term economic dynamism. The rigidity of the labor market and lingering corruption continue to hold back overall economic freedom. An important part of the government's reform agenda is to improve the efficiency of the tax system and make tax rates more competitive.

BACKGROUND: South Korea is one of Asia's liveliest democracies and the world's 15th largest economy. In the years since South Korea's transition to democracy in 1988, the economy has been dominated to a significant extent by large conglomerates, or *chaebols*. President Lee Myung-bak, who took office in 2008 with a large electoral majority, vowed to liberalize the economy further through freer trade, deregulation, and the privatization of major industries. A poor showing by the ruling Grand National Party in June 2010 local elections reflects increased resistance to further economic reforms. The country has sophisticated electronics, telecommunications, automobile, and shipbuilding industries. Prospects for a Korea–U.S. trade agreement dimmed in 2010 as a result of U.S. insistence on re-opening the previously agreed text.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 48.8 million
GDP (PPP): $1.4 trillion
0.2% growth in 2009
3.2% 5-year compound annual growth
$27,978 per capita
Unemployment: 3.6%
Inflation (CPI): 2.8%
FDI Inflow: $5.8 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *91.6* — *0.3*

South Korea's business freedom remains strong and serves as a source of vibrant economic growth. The competitive regulatory framework facilitates dynamic entrepreneurial activity. Business formation and operating rules are efficient and allow innovation. Bankruptcy proceedings are relatively easy.

TRADE FREEDOM: *70.8* *no change*

South Korea's weighted average tariff rate was 7.7 percent in 2009. Some prohibitive tariffs, import and export restrictions, services market access barriers, import taxes, use of "adjustment" tariffs and taxes, burdensome and non-transparent standards and regulations, and subsidies add to the cost of trade. Fifteen points were deducted from South Korea's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *72.2* + *1.1*

Tax categorization and collection procedures have been changed, but top rates remain the same. The top income tax rate is 38.5 percent (35 percent plus a 10 percent resident surtax), and the top corporate tax rate of 22 percent rises to an effective rate of 24.2 percent when the 10 percent resident surcharge on corporate income tax liability is considered. Other taxes include a value-added tax (VAT), a capital acquisitions tax on certain items, and a property tax. The sales tax on cars was temporarily waived as part of a stimulus package. In the most recent year, overall tax revenue as a percentage of GDP was 26.6 percent.

GOVERNMENT SPENDING: *73* — *1.9*

Korean authorities announced two fiscal packages in 2009, the first amounting to 2 percent of GDP and the second measuring 1.7 percent of GDP. Measures included targeted transfers to social support schemes, public investment in infrastructure, and credit guarantees for small and medium-size enterprises. Total government expenditures, including consumption and transfer payments, increased slightly to 30 percent of GDP.

MONETARY FREEDOM: *78.7* + *1.3*

Inflation has been moderate, averaging 3.2 percent between 2007 and 2009. Korean monetary policy has adjusted quickly to international inflationary and deflationary pressures. The government can control prices on several products by emergency decree; can cap prices on key raw materials; and regulates or controls prices in certain sectors, including agriculture, telecommunications, other utilities, pharmaceuticals and medical services, and some energy products. Ten points were deducted from South Korea's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *70* *no change*

South Korea is increasingly open to foreign investment, but media, electric power, newspapers, fishing, power generation, airline transport, certain agricultural sectors, and a few other sectors remain restricted. Government ministries must approve investments in restricted sectors. Non-transparent and burdensome regulation discourages foreign investment. Legal disputes can be complex, time-consuming, and expensive. Residents and non-residents may hold foreign exchange accounts. The government has the right to limit capital outflows in extreme circumstances. Foreign individuals and corporations may own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 12	Investment Freedom	No. 38
Trade Freedom	No. 122	Financial Freedom	No. 17
Fiscal Freedom	No. 125	Property Rights	No. 26
Government Spending	No. 84	Freedom from Corruption	No. 38
Monetary Freedom	No. 49	Labor Freedom	No. 140

FINANCIAL FREEDOM: *70* *no change*

South Korea's modern financial sector has become more open and competitive, providing positive momentum for reforms in other sectors. Reforms have focused largely on improving transparency and efficiency and ending state-directed lending. Over the past years, the government has succeeded in recapitalizing banks and non-bank financial institutions. Weak institutions have been closed or merged, and non-performing loans have decreased considerably. Foreign banks own majority stakes in major commercial banks, though foreign ownership remains restricted. The government has been selling its shares in private banks but retains some ownership positions. Capital markets are sophisticated and well developed. South Korea has weathered the strain caused by the global financial crisis without a severe downturn. The government's capital injections have been modest compared to other developed nations. The Capital Market Consolidation Act, which removes about one-third of 300 financial regulations, came into force early in 2009.

PROPERTY RIGHTS: *70* *no change*

Private property is secure, and expropriation is highly unlikely, but the justice system can be inefficient and slow. The protection of intellectual property rights needs to be improved, as piracy of copyrighted material is significant.

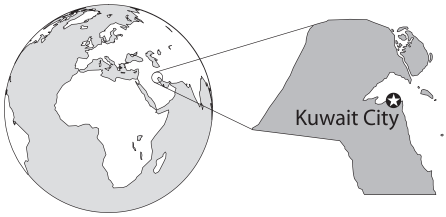
FREEDOM FROM CORRUPTION: *55* — *1.0*

Corruption is perceived as present. South Korea ranks 39th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption is fostered by non-transparent rulemaking; exclusionary social, political, and business structures; and insufficient institutional checks and balances.

LABOR FREEDOM: *46.5* — *0.6*

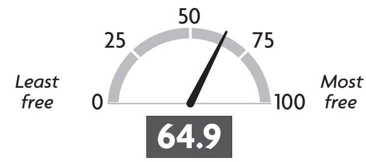
South Korea's labor market is dynamic, but there are lingering regulatory burdens. The non-salary cost of employing a worker is moderate, but dismissing an employee is costly. Regulations on work hours are inflexible.

KUWAIT



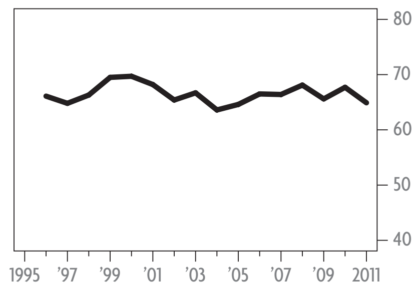
World Rank: **61** Regional Rank: **8**

Economic Freedom Score



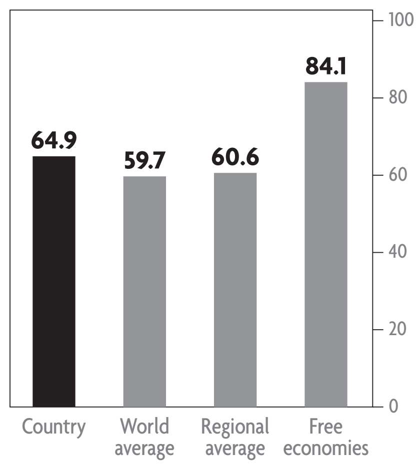
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Kuwait's economic freedom score is 64.9, making its economy the 61st freest in the 2011 *Index*. Its score is 2.8 points lower than last year, with declines in five of the 10 economic freedoms, including a large drop in labor freedom. Kuwait is ranked 8th out of 17 countries in the Middle East/North Africa region, and its overall score is well above the world and regional averages.

Kuwait has been modernizing its economy for several years and performs relatively well in many of the 10 economic freedoms. The economy enjoys high levels of trade freedom and fiscal freedom. There is no income tax, and corporate tax rates have become more competitive since 2008. Its scores for investment freedom and financial freedom are about the world average.

Kuwait's high oil revenues have delayed privatization and other deeper structural reforms that would diversify the economy and help a more vibrant private sector to emerge. The global financial turmoil inspired a liquidity injection into the banking system, which is now stabilized.

BACKGROUND: Kuwait gained its independence from Britain in 1961. Occupied in 1990 by Iraq, it was liberated by a U.S.-led coalition in 1991. 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. The Al-Sabah dynasty has used state-owned oil revenues to build modern infrastructure and a cradle-to-grave welfare system. Amir Sabah al-Ahmad al-Jabr al-Sabah remains committed to cautious economic reform but faces opposition from Islamist and populist members of parliament. The May 2009 elections weakened Sunni Islamist parties and increased Shiite representation. In 2009, the government announced a five-year economic development plan to diversify the economy, reduce dependence on oil revenues, enhance the role of the private sector, and attract foreign investment.

Quick Facts

Population: 3.5 million
GDP (PPP): $135.4 billion
–2.7% growth in 2009
2.8% 5-year compound annual growth
$38,304 per capita
Unemployment: 4.2% (2004)
Inflation (CPI): 4.7%
FDI Inflow: $145 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

COUNTRY'S WORLD RANKINGS			
Business Freedom	No. 97	Investment Freedom	No. 75
Trade Freedom	No. 69	Financial Freedom	No. 70
Fiscal Freedom	No. 1	Property Rights	No. 52
Government Spending	No. 91	Freedom from Corruption	No. 65
Monetary Freedom	No. 146	Labor Freedom	No. 64

BUSINESS FREEDOM: *64.4* — *1.4*

In an effort to enhance the overall competitiveness of the economy, Kuwait has taken steps to improve its regulatory framework, but progress has been gradual and uneven. Bureaucratic hurdles continue to add to the cost of conducting business.

TRADE FREEDOM: *81.6* — *0.9*

Kuwait's weighted average tariff rate was 4.2 percent in 2009. Some prohibitive tariffs, import restrictions, services market access barriers, import licensing requirements, local preference in government procurement, restrictive regulations and standards, and weak enforcement of intellectual property rights add to the cost of trade. Ten points were deducted from Kuwait's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *99.9* *no change*

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 now a flat 15 percent. There is no value-added tax (VAT) or sales tax. Some companies are expected to pay a Zakat social contributions tax of 1 percent on net profits. In the most recent year, overall tax revenue (mainly from duties on international trade and transactions) was 1.5 percent of GDP.

GOVERNMENT SPENDING: *69.7* — *6.9*

In the most recent year, total government expenditures, including consumption and transfer payments, increased slightly to 31.8 percent of GDP. Increases in wages, subsidies, and transfers contributed to this rise. Planned privatizations are unlikely to occur given the level of parliamentary opposition. Authorities resisted implementing fiscal stimulus after the global economic downturn in light of declining revenues and oil market uncertainty.

MONETARY FREEDOM: *69.3* + *2.9*

Inflation has been relatively high, averaging 6.2 percent between 2007 and 2009. The U.S. dollar makes up much of the undisclosed, trade-weighted basket of currencies to which the dinar is pegged. The government provides numerous subsidies and controls prices through state-owned utilities and enterprises, including telecommunications, ports, and transportation. Fifteen points were deducted from Kuwait's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *55* *no change*

All foreign investment proposals are screened and require government approval, and certain sectors are restricted to domestic entities. Licenses, which can be time-consuming to acquire, are required for new companies. Bureaucracy is often inefficient and non-transparent and can be biased in favor of domestic interests. Residents and non-residents may hold foreign exchange accounts, and there are no restrictions on payments, transactions, transfers, or repatriation of profits. Non–Gulf Cooperation Council (GCC) citizens may not own land.

FINANCIAL FREEDOM: *50* *no change*

Kuwait's relatively well-developed financial system offers a wide range of financial services. The government intends to privatize its stakes in several commercial banks. Credit is generally allocated on market terms. The central bank has improved its supervision, ensuring fairer and more efficient credit distribution. Foreign banks may establish operations in Kuwait but are confined to a single branch. The global financial turmoil has led to a considerable increase in non-performing loans. The government doubled public-sector deposits and extended deposit guarantees to stabilize the financial sector. The 2009 Financial Stability Law permits the central bank to guarantee real estate portfolios and financial assets of banks and investment institutions until 2023. Kuwait's five investment companies have been forced to undergo a market-based debt restructuring. In early 2010, the National Assembly passed the Capital Market Law to strengthen supervision of the Kuwait Stock Market and enhance its transparency.

PROPERTY RIGHTS: *50* *no change*

The constitution provides for an independent judiciary, but the amir appoints all judges. Foreign residents frequently claim that the courts favor Kuwaitis. Trials are lengthy. The Council of Ministers is considering patent and copyright legislation, and the government intends to implement proposed GCC-wide standards and trademark legislation, both of which would require parliamentary approval.

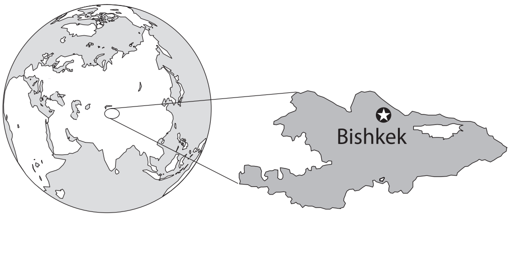
FREEDOM FROM CORRUPTION: *41* — *2.0*

Corruption is perceived as significant. Kuwait ranks 66th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The executive, legislative, and judicial branches are widely perceived as subject to corruption. In 2009, several investigations involved current or former government officials accused of malfeasance.

LABOR FREEDOM: *67.9* — *20.1*

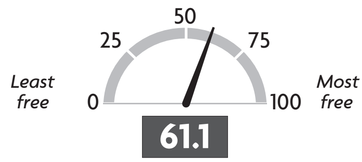
Dismissing an employee has become more burdensome, and overall labor regulations lack flexibility. The non-salary cost of employing a worker is low. In June 2010, the labor law was revised to allow women to work night shifts in various businesses including law, medicine, journalism, and tourism.

KYRGYZ REPUBLIC



World Rank: **83** Regional Rank: **12**

Economic Freedom Score



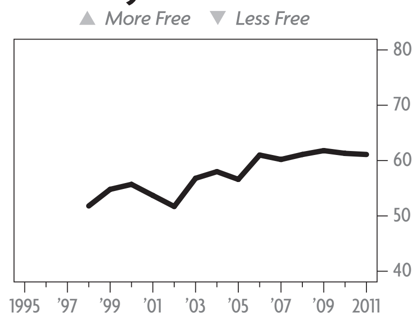
The Kyrgyz Republic's economic freedom score is 61.1, making its economy the 83rd freest in the 2011 *Index*. Its score is 0.2 point worse than last year, with gains in monetary, investment, and labor freedom offset by lower trade freedom and government spending scores. The Kyrgyz Republic is ranked 12th 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 some reform measures, overall improvement in the entrepreneurial environment has been slow and uneven. 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 structural reforms.

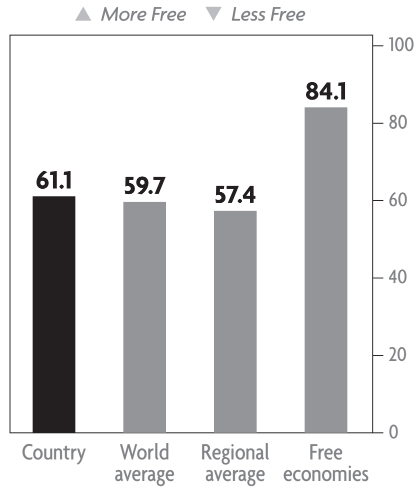
The economy performs relatively well in fiscal freedom and business freedom, with competitive tax rates in place and modest regulatory reforms implemented. However, property rights and freedom from corruption remain weak. The weak rule of law fosters pervasive corruption and ownership insecurity, hurting investment and business growth.

BACKGROUND: Kyrgyzstan is now a parliamentary republic, but President Kurmanbek Bakiyev was ousted in April 2010 following violent unrest caused by a rapid, Russian-orchestrated rise in fuel prices. An interim government was established under Roza Otunbayeva. Ethnic clashes in the South between Uzbeks and Kyrgyz in June 2010 resulted in over 260 people killed, thousands wounded, and more than 250,000 displaced. Ongoing concerns include external debt, heavy dependence on foreign aid, a thriving black market, a high crime rate, Islamist radicalism, and drug smuggling. GDP, buoyed by a strong recovery in gold production, rose in 2009. The Manas air base remains operational for U.S. forces, but French and Spanish military personnel had to leave in late 2009.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 5.4 million
GDP (PPP): $12.1 billion
2.3% growth in 2009
5.5% 5-year compound annual growth
$2,253 per capita
Unemployment: n/a
Inflation (CPI): 6.8%
FDI Inflow: $59.7 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *75.4* — 1.2

The overall regulatory environment is still hampered by bureaucratic impediments to private-sector production and investment. Reforms have not yet resulted in the structural changes that are necessary to foster efficiency. Enforcement of regulations remains inconsistent and non-transparent.

TRADE FREEDOM: *63.2* — 12.7

The Kyrgyz Republic's weighted average tariff rate was 8.4 percent in 2009. Border closures in response to internal political unrest have greatly disrupted the flow of trade. Twenty points were deducted from the Kyrgyz Republic's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *92.6* — 0.3

The Kyrgyz Republic has relatively low tax rates. The income and corporate tax rates are a flat 10 percent. As of January 2009, the value-added tax (VAT) rate was reduced from 20 percent to 12 percent. Electricity tariffs were increased effective January 2010. In the most recent year, overall tax revenue as a percentage of GDP was 23.3 percent.

GOVERNMENT SPENDING: *74.2* — 6.0

In the most recent year, total government expenditures, including consumption and transfer payments, rose to 29.3 percent of GDP. The government is now running a fiscal deficit.

MONETARY FREEDOM: *68.6* + 6.4

Inflation has been high, averaging 11.5 percent between 2007 and 2009, and was aggravated in mid-2010 by the inflationary impact of border closures that prevent trade with Kazakhstan. Many price controls and subsidies have been eliminated, but the government regulates or influences prices through state-owned industries, including electricity, agriculture, telecommunications, water, and energy. Ten points were deducted from the Kyrgyz Republic's monetary freedom score to account for remaining price controls.

INVESTMENT FREEDOM: *55* + 5.0

Most of the economy is open to foreign investment, but rules and regulations are non-transparent and arbitrarily applied. Corruption, red tape, and weak contract enforcement discourage foreign investment. The judicial system is underdeveloped and lacks independence. Foreign investors lack the knowledge needed to operate effectively in the system. Residents and non-residents may hold foreign exchange accounts. There are no restrictions on payments and transfers, but most capital transactions must be registered with the relevant government authority or are subject to controls. Foreign investors may lease but not purchase land.

FINANCIAL FREEDOM: *50* *no change*

Financial intermediation has continued to increase, but credit costs remain high. Banking dominates the financial sector, and domestic credit provided by the banking sector amounts to less than 15 percent of GDP. There are 21 banks, half of which are majority foreign-owned and account for more than 70 percent of total assets. There are no limits on foreign ownership of banks and microcredit institutions. The central bank has improved supervision and established minimum capital requirements, but the sector remains vulnerable to executive and legislative interference. Since the global financial crisis, the central bank has intervened considerably in the foreign-currency market and taken temporary control of seven private banks. Non-performing loans reached about 7 percent in early 2009. Capital markets are not fully developed, but there is a small stock exchange. In 2008, the parliament approved privatization of Aiyl Bank, one of the largest micro-finance institutions. A deposit insurance scheme came into effect in 2009.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 49**	Investment Freedom	**No. 75**
Trade Freedom	**No. 147**	Financial Freedom	**No. 70**
Fiscal Freedom	**No. 15**	Property Rights	**No. 139**
Government Spending	**No. 81**	Freedom from Corruption	**No. 164**
Monetary Freedom	**No. 151**	Labor Freedom	**No. 13**

PROPERTY RIGHTS: *25* *no change*

Property rights protections are slowly emerging, 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. The Kyrgyz Republic is obligated to protect intellectual property rights as a member of the WTO. However, an estimated 98 percent of DVDs, CDs, and other audiovisual products sold are counterfeit. The Kyrgyz Republic is ranked 97th out of 125 countries in the 2010 International Property Rights Index.

FREEDOM FROM CORRUPTION: *19* + 1.0

Corruption is perceived as pervasive. The Kyrgyz Republic ranks 162nd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption is endemic at all levels of society. Tax and customs agencies, law enforcement bodies, courts, and agencies controlling construction and the issuance of business licenses are notably corrupt. Thousands of cases of suspected official bribe-taking, negligence, fraud, embezzlement, and malfeasance have reportedly led to hundreds of arrests but no convictions.

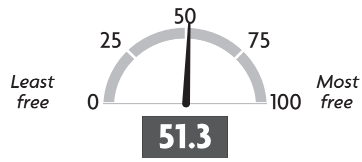
LABOR FREEDOM: *88.1* + 5.5

The government has implemented a new labor code to tailor employment to free-market conditions. The non-salary cost of employing a worker is moderate, but restrictions on work hours remain rigid.

LAOS

World Rank: **141** Regional Rank: **31**

Economic Freedom Score



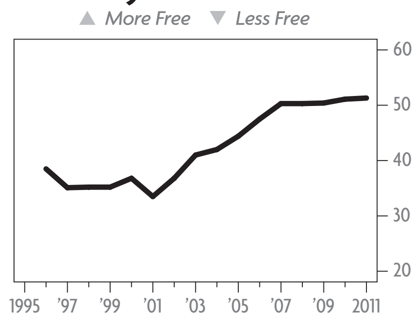
Laos's economic freedom score is 51.3, making its economy the 141st freest in the 2011 *Index*. Its overall score is 0.2 point better than last year, with improvements in monetary freedom and property rights offsetting a large drop in labor freedom. Laos is ranked 31st out of 41 countries in the Asia–Pacific region, and its overall score is below the world and regional averages.

Laos has largely dodged the negative effects of the global financial crisis due to its limited exposure to international trade and investment. The economy is growing quickly, in part because of large inflows of Chinese and Vietnamese investment into its mining sector. Laos is attempting to reform its regulatory and investment regimes in order to join the World Trade Organization, but investment freedom is still constrained. Reforms are ongoing in the underdeveloped financial sector.

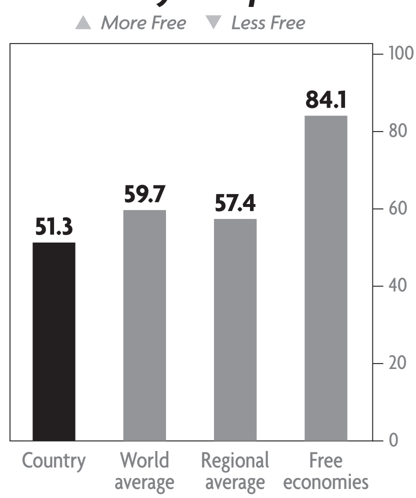
Many aspects of the Laotian economy will require deeper reforms in order to spur broad-based economic development. As reflected in low scores for business freedom and property rights, the economy's overall regulatory and legal framework lacks transparency and remains inefficient. The rule of law is undermined by political influence, and corruption is rampant.

BACKGROUND: Laos, one of Asia's poorest nations, is governed by one of the world's few remaining Communist regimes. Upon coming to power in 1975, the Communist government imposed a rigid socialist model that has devastated the economy. The government began to liberalize slowly in 1991 but with only limited success. The country remains highly dependent on international aid and is burdened by high levels of corruption and weak 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 in the near future.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 6.4 million
GDP (PPP): $14.4 billion
7.6% growth in 2009
8.0% 5-year compound annual growth
$2,266 per capita
Unemployment: 2.5%
Inflation (CPI): 0.0%
FDI Inflow: $157 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *58.8* — *0.6*

The poor regulatory infrastructure continues to impede private-sector development. Procedures for registering a company and completing other regulatory requirements are lengthy and costly.

TRADE FREEDOM: *68.4* *no change*

Laos's weighted average tariff rate was 8.3 percent in 2007. There has been some liberalization, but prohibitive tariffs, import bans and restrictions, restrictions on services market access, import licensing, corrupt and inefficient customs administration, and weak enforcement of intellectual property rights still add to the cost of trade. Fifteen points were deducted from Laos's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *79.9* — *0.2*

Laos has a moderate income tax rate and a relatively high corporate tax rate. The top income tax rate is 25 percent, and the top corporate tax rate is 35 percent (20 percent for companies that fall under the Foreign Investment Law). Other taxes include a vehicle tax and a tax on insurance contracts and excise taxes on petroleum products that were added in May 2009. A value-added tax (VAT) introduced in January 2009 has yet to be fully implemented. In the most recent year, overall tax revenue as a percentage of GDP was 12.5 percent.

GOVERNMENT SPENDING: *90.1* — *0.2*

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 18.2 percent of GDP. The fiscal deficit is beyond 7 percent of GDP, and public debt is still below 60 percent of GDP.

MONETARY FREEDOM: *80.4* + *6.9*

Inflation has moderated, averaging 2.3 percent between 2007 and 2009, but was rising in 2010 as economic growth accelerated and the money supply expanded in response to increased foreign investment. The government influences many prices through state-owned enterprises and utilities and sets the price for fuel products. Ten points were deducted from Laos's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *25* *no change*

Foreign investors may not engage in business activities that are deemed detrimental to national security, have a negative impact on the environment, or are regarded as harmful to health or national traditions. Foreign investors must submit project proposals for screening by various levels of government. Investors must obtain certificates, secure a license, and surmount other bureaucratic hurdles before gaining permission to operate. Arbitrary regulation, weak and inconsistent contract enforcement, and non-transparent bureaucracy inhibit investment. Residents and non-residents may hold foreign exchange accounts subject to restrictions and government approval. Transfers of profits out of Laos require government approval. Foreign investors may lease but not own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 123	Investment Freedom	No. 146
Trade Freedom	No. 133	Financial Freedom	No. 159
Fiscal Freedom	No. 77	Property Rights	No. 146
Government Spending	No. 15	Freedom from Corruption	No. 160
Monetary Freedom	No. 34	Labor Freedom	No. 134

FINANCIAL FREEDOM: *20* *no change*

The financial system is underdeveloped and subject to heavy government involvement. Government attempts to reform banking have been effective only in state-owned banks. High credit costs and scarce access to financing severely impede private-sector development. Much of the population remains outside the formal banking sector. Supervision and regulation are weak. Three state-owned banks account for more than 50 percent of assets. Despite an increasing number of private banks, activities of private and foreign banks are limited. Foreign banks may set up branches in all provinces. The government directs credit allocation, and the central bank is not independent. Capital markets remain underdeveloped.

PROPERTY RIGHTS: *20* + *5.0*

The judiciary is not independent, and judges can be bribed. Foreign investors are generally advised to seek arbitration outside of Laos because the domestic arbitration authority cannot enforce its decisions. An English translation of the 2008 Intellectual Property Law still awaits final National Assembly approval. There is little protection of intellectual property rights.

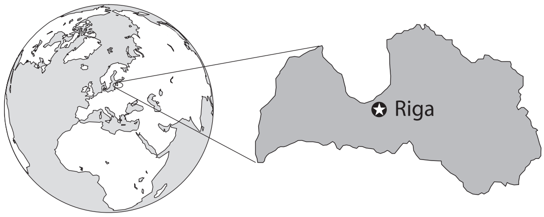
FREEDOM FROM CORRUPTION: *20* *no change*

Corruption is perceived as rampant. Laos ranks 158th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Bribery of low-level officials to expedite business licenses and import permits is common, and there is growing anecdotal evidence of more pervasive corruption among higher-level officials in the executive and judicial branches. In 2005, an anti-corruption law was passed by the National Assembly, and in September 2009, Laos ratified the United Nations Convention Against Corruption. According to the State Inspection Authority, the government has prosecuted some individuals for corruption but has not publicized the information.

LABOR FREEDOM: *49.9* — *9.0*

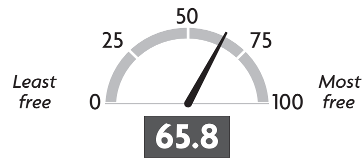
Labor regulations are outmoded. The labor market does not promote flexibility or economic diversification and does not provide dynamic employment opportunities for the growing labor supply.

LATVIA



World Rank: **56** Regional Rank: **24**

Economic Freedom Score



Latvia's economic freedom score is 65.8, making its economy the 56th freest in the 2011 *Index*. Its score is 0.4 point worse than last year as a result of declines in half of the 10 economic freedoms. Latvia is ranked 24th out of 43 countries in the Europe region, and its overall score is above the world average.

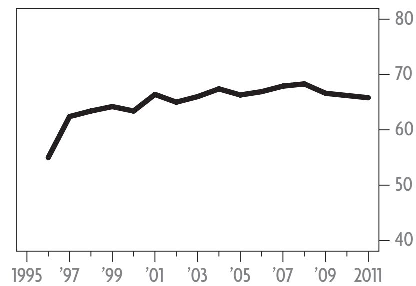
The global financial and economic turmoil took a heavy toll on Latvia, but the economy has gradually been recovering from the severe shock of the crisis since mid-2010. The country, which had to take an International Monetary Fund–led bailout requiring strict budget management and other economic reforms, 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.

Latvia's ongoing transition to a more vibrant economy has been facilitated by its openness to foreign trade and the efficiency of business regulations that promote entrepreneurial dynamism. Nonetheless, a considerable level of perceived corruption, exacerbated by the relatively inefficient judicial system, increases the cost of conducting business, threatening long-term competitiveness.

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 despite regular changes of ruling coalitions. The government fell in February 2009 after the unrest caused by the global financial crisis. Prime Minister Valdis Dombrovskis has led a minority government since April 2010, and elections were slated for October 2010. The economy, which had been developing strongly, particularly in financial and transportation services, banking, electronics manufacturing, and dairy, was hit hard by the financial crisis. GDP contracted by around 18 percent in 2009.

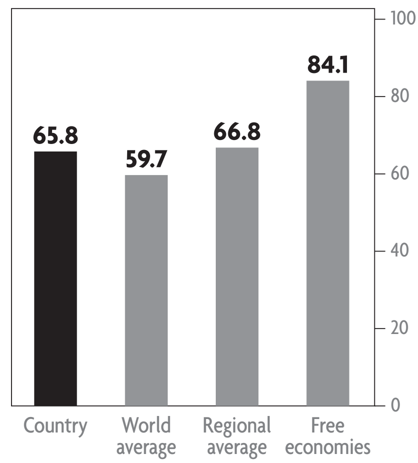
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 2.3 million
GDP (PPP): $32.2 billion
–18.0% growth in 2009
–0.9% 5-year compound annual growth
$14,255 per capita
Unemployment: 17.1%
Inflation (CPI): 3.3%
FDI Inflow: $72 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *72.8* — 0.1

The overall regulatory framework is relatively efficient. Despite bureaucratic bottlenecks, rules regarding the formation and operation of private enterprises are easy and not burdensome.

TRADE FREEDOM: *87.6* + 0.1

Latvia's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Latvian policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from Latvia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *82.5* — 0.2

Latvia has a moderate income tax rate and a relatively low corporate tax rate. The top income tax rate was raised to 26 percent as of January 1, 2010. Self-employed individuals no longer benefit from a lower rate. The corporate tax rate is 15 percent. Interest and dividend income is subject to a 10 percent rate. A value-added tax (VAT), a real estate tax, a car tax, and other excise taxes have all been increased as part of reforms to broaden the tax base. In the most recent year, overall tax revenue as a percentage of GDP was 29.1 percent.

GOVERNMENT SPENDING: *55.5* — 1.9

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 38.5 percent of GDP. Authorities are committed to keeping public debt below the ceiling set at 60 percent of GDP.

MONETARY FREEDOM: *73.5* + 6.5

Inflation has moderated, averaging 6.8 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. It also regulates rents, utility rates, transportation, and energy prices and influences prices through state-owned enterprises. Ten points were deducted from Latvia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *80* *no change*

Foreign investors receive national treatment and may invest in most sectors. Except for acquisitions of former state enterprises through the privatization process, there are no performance requirements to establish, maintain, or expand an investment. Bureaucracy can be non-transparent, and resolution of commercial disputes can be slow. Residents and non-residents may hold foreign exchange accounts. There are no restrictions or controls on payments, transactions, transfers, or repatriation of profits. The government may not expropriate property without providing compensation. Foreign investors may own land, subject to a number of restrictions.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 58	Investment Freedom	No. 14
Trade Freedom	No. 12	Financial Freedom	No. 70
Fiscal Freedom	No. 61	Property Rights	No. 52
Government Spending	No. 120	Freedom from Corruption	No. 55
Monetary Freedom	No. 107	Labor Freedom	No. 87

FINANCIAL FREEDOM: *50* *no change*

Latvia's financial sector has undertaken significant regulatory adjustments since early 2009. Supervision and monitoring are stricter. The government has also provided capital injections. New legislation has accelerated the process of liquidating an ailing bank. The banking sector accounts for more than 80 percent of the financial system's assets. There were 21 commercial banks and four foreign bank branches as of mid-2008. Foreign banks receive domestic treatment. Efforts to combat money laundering have been lax. The largest insurer is majority foreign-owned. Capital markets are not fully developed. The Riga Stock Exchange remains small. Latvia's financial system has been stressed by the global financial crisis. The government nationalized the second largest bank, Parex Banka, at the end of 2008.

PROPERTY RIGHTS: *50* — 5.0

The Latvian constitution guarantees the right to private ownership. The judiciary is constitutionally independent, but court hearings and enforcement of decisions are inefficient and subject to long delays. In an effort to meet EU and World Trade Organization requirements, Latvia has established a legal framework for the protection of intellectual property. Latvia is ranked 55th out of 125 countries in the 2010 International Property Rights Index.

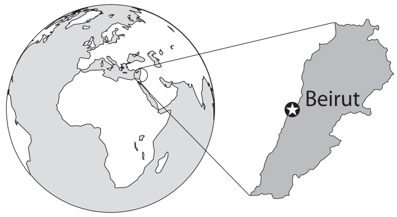
FREEDOM FROM CORRUPTION: *45* — 5.0

Corruption is perceived as significant. Latvia ranks 56th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a decline from 2008. Money laundering has been linked to tax evasion and to the proceeds from Russian organized crime.

LABOR FREEDOM: *61.3* + 2.2

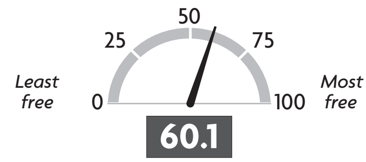
Latvia's labor market regulations discourage innovation and productivity. The non-salary cost of employing a worker is high, and dismissing an employee can be difficult. Restrictions on work hours remain rigid.

LEBANON

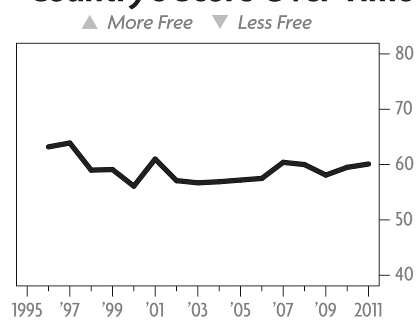


World Rank: **89** Regional Rank: **9**

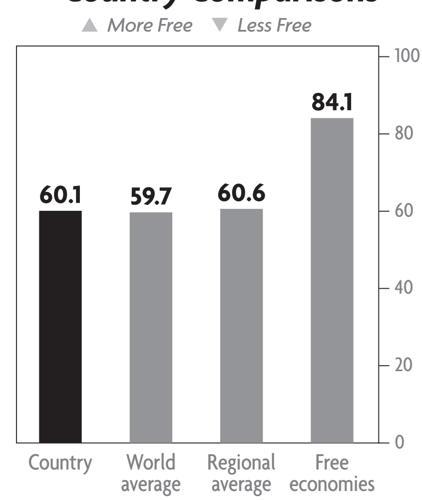
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Lebanon's economic freedom score is 60.1, making its economy the 89th freest in the 2011 *Index*. Its score is 0.6 point higher than last year due to considerable gains in monetary and investment freedom that were somewhat offset by declines in property rights and freedom from corruption. Lebanon is ranked 9th out of 17 countries in the Middle East/North Africa region, and its overall score is about equal to the world average.

The Lebanese economy has weathered the impact of the global economic turmoil and continues to be competitive in trade freedom and fiscal freedom. The financial sector is relatively well developed for the region, with an array of private banks and services. Surpluses from strong growth have helped to reduce the debt burden slightly, but government debt remains around 150 percent of GDP.

Lebanon's overall entrepreneurial environment, hampered by political instability and regulatory inefficiency, remains unfavorable for private investment. Commercial regulations and bureaucratic red tape are burdensome. Property rights are severely undermined by an inefficient judiciary that is vulnerable to corruption.

BACKGROUND: Lebanon gained independence from France in 1943 and was a trading and international banking center until its 1975–1990 civil war. Syria intervened and established hegemony over the country 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. Prime Minister Fuad Siniora's economic reform efforts were set back by the Hezbollah-instigated conflict with Israel in 2006 and subsequently 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 includes Hezbollah.

Quick Facts

Population: 3.9 million
GDP (PPP): $54.9 billion
9.0% growth in 2009
6.5% 5-year compound annual growth
$14,226 per capita
Unemployment: 9.2% (2007)
Inflation (CPI): 1.2%
FDI Inflow: $4.8 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *57.5* **+** *0.9*

Despite some progress, the overall freedom to establish and run a business remains limited by Lebanon's regulatory environment. The cost of starting a business is high. Obtaining a license takes about the same as the world average of 18 procedures and 209 days. The process for closing a business is lengthy and costly.

TRADE FREEDOM: *80.5* *no change*

Lebanon's weighted average tariff rate was 4.8 percent in 2007. Lebanon's trade system is relatively open, and the country is working toward joining the World Trade Organization (WTO). Import bans and restrictions, restrictive licensing rules, subsidies, burdensome sanitary and phytosanitary regulations, corrupt customs administration, and weak enforcement of intellectual property rights add to the cost of trade. Ten points were deducted from Lebanon's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *91* **–** *0.6*

Lebanon has relatively low tax rates. The top income tax rate is 20 percent, and the corporate tax rate is 15 percent. Other taxes include a value-added tax (VAT), a transfer tax on real estate, an inheritance tax of up to 45 percent, and a recently reintroduced gasoline excise tax. In the most recent year, tax revenue as a percentage of GDP was 16.6 percent. Tax compliance is improving.

GOVERNMENT SPENDING: *64.9* **+** *2.1*

In the most recent year, total government expenditures, including consumption and transfer payments, decreased slightly to 34.2 percent of GDP. Changes in the VAT, reductions in high electricity subsidies, and stronger budget execution would aid authorities in reducing deficits.

MONETARY FREEDOM: *77.7* **+** *6.3*

Inflation has diminished, averaging 3.8 percent between 2007 and 2009. The government influences prices through state-owned enterprises and subsidies and controls the prices of bread, petroleum derivatives, pharmaceuticals, and electricity. Ten points were deducted from Lebanon's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *60* **+** *5.0*

Foreign capital and domestic capital are legally equal with a few exceptions. Foreign investors must register with the government, and foreign investment is restricted in the real estate, insurance, media, and banking sectors. Red tape and corruption, arbitrary licensing decisions, dated legislation, an ineffective judicial system, arbitrary and non-transparent interpretation of laws, political instability, and other security concerns continue to serve as impediments to foreign investment. Residents and non-residents may hold foreign exchange accounts, money market instruments, and derivatives. There are no restrictions on payments and transfers. Foreign investors may own land, subject to a number of restrictions.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 128**	Investment Freedom	**No. 62**
Trade Freedom	**No. 75**	Financial Freedom	**No. 38**
Fiscal Freedom	**No. 19**	Property Rights	**No. 139**
Government Spending	**No. 103**	Freedom from Corruption	**No. 132**
Monetary Freedom	**No. 59**	Labor Freedom	**No. 98**

FINANCIAL FREEDOM: *60* *no change*

Lebanon's financial sector has undergone restructuring and has become more competitive. The five largest commercial banks account for roughly 60 percent of total banking assets. The government retains no ownership in any commercial banks, and competition among the private banks contributes to improving efficiency. Regulations are fairly transparent, and credit is allocated on market terms for both domestic and foreign businesses. Lebanon is a regional leader in the financial sector, and its capital markets are relatively well developed. Bank regulations limit banks' exposure to structured financial products. Lebanon's banking sector has weathered the global financial turmoil relatively well and has maintained financial stability.

PROPERTY RIGHTS: *25* **–** *5.0*

The judiciary is significantly influenced by the security services and the police. The government-appointed prosecuting magistrate exerts considerable influence over judges, for example, by recommending verdicts and sentences. Trials, particularly commercial cases, drag on for years. Although Lebanese law provides for some protection of intellectual property rights and the government continued to raid shops and warehouses that were storing or displaying pirated content in 2009, enforcement is generally weak.

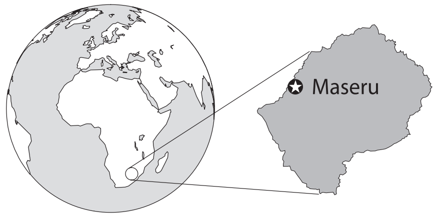
FREEDOM FROM CORRUPTION: *25* **–** *5.0*

Corruption is perceived as widespread and growing. Lebanon ranks 130th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a dramatic worsening from 2008. Corruption is more pervasive in government contracts (primarily in procurement and public works), taxation, and real estate registration than in private-sector deals. It is widely believed that investors routinely pay bribes to win government contracts, which are often awarded to companies that are close to powerful politicians.

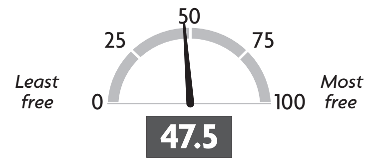
LABOR FREEDOM: *59* **+** *2.0*

Lebanon's labor regulations remain relatively rigid. The non-salary cost of employing a worker remains high, and dismissing an employee is relatively expensive. Restrictions on work hours are moderate.

LESOTHO

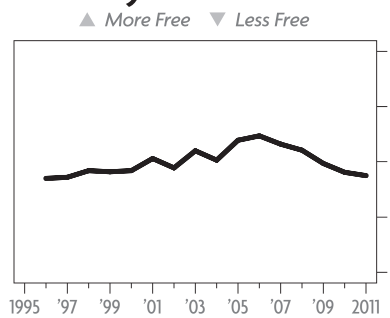


Economic Freedom Score

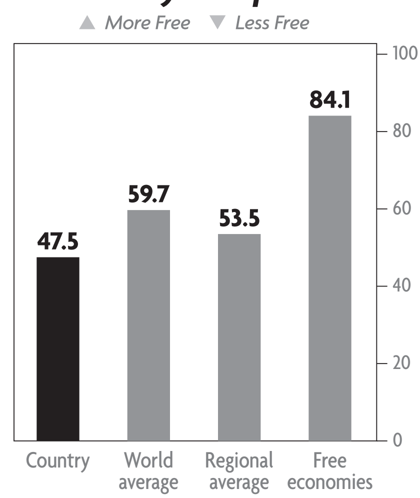


World Rank: 156 **Regional Rank: 36**

Country's Score Over Time



Country Comparisons



Lesotho's economic freedom score is 47.5, making its economy the 156th freest in the 2011 *Index*. Its score is 0.6 point worse than last year, reflecting declines in business, labor, and fiscal freedom. Lesotho is ranked 36th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

Lesotho has made considerable gains in income growth and poverty reduction in the recent past. However, a large portion of its population is still engaged in subsistence farming, and dynamic private-sector activity remains limited. The state is heavily involved in most economic activity, fueling high levels of government spending and preventing 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. Additionally, significant corruption and high tax rates raise the cost of economic activity in Lesotho.

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. Lesotho is a constitutional monarchy. 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. Trade with the United States is important to Lesotho, and its exports of apparel have grown significantly with the help of the African Growth and Opportunity Act.

Quick Facts

Population: 2.5 million
GDP (PPP): $3.0 billion
1.4% growth in 2009
3.7% 5-year compound annual growth
$1,218 per capita
Unemployment: n/a
Inflation (CPI): 7.7%
FDI Inflow: $48 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *58.9* — 3.1

Lesotho has pursued regulatory reform measures, which include various incentives for small-scale enterprises. However, the regulatory system's overall efficiency remains limited by red tape and outmoded commercial laws.

TRADE FREEDOM: *63.6* + 0.1

Lesotho's weighted average tariff rate was 13.2 percent in 2009. Import bans, controls and restrictions, import licensing, domestic preference in government procurement, some subsidies, and corruption add to the cost of trade. Ten points were deducted from Lesotho's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *48.2* — 3.8

Lesotho has a relatively high income tax and a moderate corporate tax. The top income tax rate is 35 percent, and the top corporate tax rate for companies other than those in manufacturing or farming is 25 percent; a 15 percent rate applies to agricultural companies, and a 10 percent rate applies to all manufacturing. Other taxes include a value-added tax (VAT), a property tax, and a tax on dividends. In the most recent year, overall tax revenue as a percentage of GDP was 63.1 percent.

GOVERNMENT SPENDING: *21.4* — 8.6

In the most recent year, total government expenditures, including consumption and transfer payments, increased to 51.2 percent of GDP. The Public Sector Improvement and Reform Program was designed to promote more efficient and flexible public financial management, yet the budgeting process remains rigid.

MONETARY FREEDOM: *71.6* + 1.3

Inflation has been high, averaging 8.5 percent between 2007 and 2009. After falling sharply in 2009, it stabilized in 2010 due to lower inflation in South Africa, source of 85 percent of Lesotho's merchandise imports. Although many prices are freely determined in the market, the government influences prices through state-owned enterprises and utilities, especially in agriculture. Ten points were deducted from Lesotho's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *35* + 10.0

Foreign investors generally receive national treatment. Ownership of small-scale retail and services businesses is restricted to domestic sources. Lesotho's underdeveloped legal system, inadequate regulatory capacity, and non-transparent regulations inhibit investment. Residents and non-residents may hold foreign exchange accounts with some restrictions. Some payments and transfers are subject to prior government approval and limitations. Many capital transactions face restrictions or quantitative limits. The government may not expropriate property without providing compensation. Foreign investors may lease but not own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 122**	Investment Freedom	**No. 123**
Trade Freedom	**No. 145**	Financial Freedom	**No. 106**
Fiscal Freedom	**No. 175**	Property Rights	**No. 73**
Government Spending	**No. 168**	Freedom from Corruption	**No. 89**
Monetary Freedom	**No. 126**	Labor Freedom	**No. 80**

FINANCIAL FREEDOM: *40* *no change*

Lesotho's underdeveloped financial system, lacking dynamic competition, has been closely tied to South Africa through the Common Monetary Area. 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. Lesotho's banking sector has four commercial banks, and South African ownership of commercial banks is extensive. The central bank has promoted competition but with only limited success. In 2009, a new bank was issued a full license to engage in banking operations. Reflecting the lack of efficiency and depth in the financial sector, capital markets remain rudimentary, and there is no stock exchange. In the past couple of years, however, plans to introduce a bond market for long-term investment have been explored.

PROPERTY RIGHTS: *40* *no change*

Private property is protected, and expropriation is unlikely. The judiciary is independent and has generally carried out its role effectively even during the years of military rule, but draconian internal security legislation gives considerable power to the police and restricts the right of assembly and some forms of industrial action. The government has received international praise for enacting a law to ensure the access of married women to property rights.

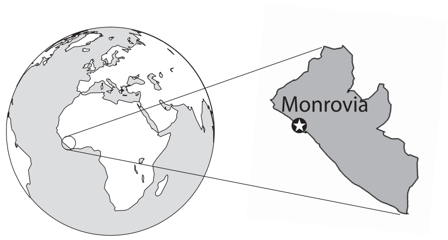
FREEDOM FROM CORRUPTION: *33* + 1.0

Corruption is perceived as significant. Lesotho ranks 89th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption and lack of transparency remain major problems. A scandal that began in the early 1990s and involved corrupt government officials and bribe-paying corporations engaged in constructing the multimillion-dollar, World Bank-funded Lesotho Highlands Water Project (LHWP) to transport water to South Africa has now led to the imprisonment of the former top Lesotho diplomat assigned to the LHWP and his deputy.

LABOR FREEDOM: *63.7* — 2.4

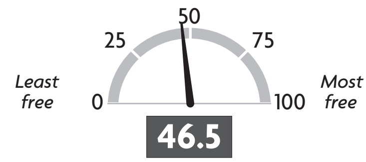
Lesotho's labor regulations are relatively burdensome. The labor market remains rigid and not fully developed, driving a large share of the labor force into the informal economy.

LIBERIA

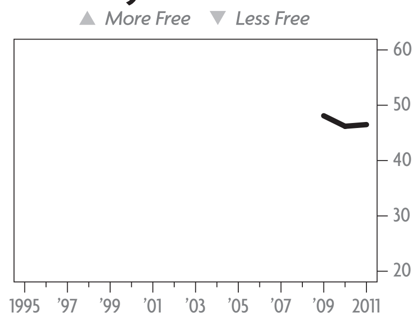


World Rank: **160** Regional Rank: **39**

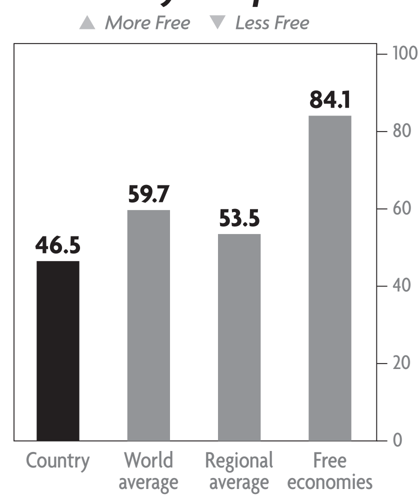
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Liberia's economic freedom score is 46.5, making its economy the 160th freest in the 2011 *Index*. Its score has increased only marginally from last year, with a significantly lower score in government spending largely offsetting gains in fiscal freedom, property rights, and freedom from corruption. Liberia is ranked 39th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world and regional averages.

The Liberian economy is hampered by a huge debt and the absence of a dynamic private sector. Government expenditures are low, but misallocation and inefficiency persist. The New Public Financial Management law passed in August 2009 aims at implementing better budget preparation measures and regular fiscal reporting, but more substantial reforms are needed.

Liberia's entrepreneurial environment remains unfavorable to private investment and productivity growth. Commercial regulations and red tape are burdensome, and the negative business environment keeps unemployment high. Property rights are severely undermined by an inefficient judiciary, and corruption is pervasive. Recent economic expansion was fueled by a substantial infusion of international development assistance.

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. U.N. bans on Liberia's exports of timber and diamonds ended in 2006 and 2007, and a large U.N. peacekeeping operation remains in place. Unemployment and illiteracy are high, and instability, conflict, and international sanctions have destroyed most large businesses and driven out most foreign investors and enterprises. Rubber exports and the world's second-largest maritime registry generate major income, and private and public creditors are forgiving billions of dollars of loans to reduce Liberia's substantial public debt.

Quick Facts

Population: 3.7 million
GDP (PPP): $1.6 billion
4.6% growth in 2009
7.2% 5-year compound annual growth
$424 per capita
Unemployment: n/a
Inflation (CPI): 7.4%
FDI Inflow: $378 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *51.8* — 1.0

Despite some efforts to modernize the regulatory framework, private investment and production remain severely hampered by bureaucratic inefficiency, the high costs of starting a business, petty corruption, and lack of access to financing.

TRADE FREEDOM: *53.8* *no change*

The International Monetary Fund estimates that Liberia's weighted average tariff rate was 15.6 percent in 2007. Import bans and restrictions, inadequate trade capacity and infrastructure, licensing, minimal enforcement of intellectual property rights, and corruption add to the cost of trade. Fifteen points were deducted from Liberia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *73.3* + 5.5

Liberia's tax rates are relatively high. The top income tax rate is 35 percent, though income tax has been completely waived on the lowest tier of income-earners as part of the crisis policy response. The top corporate tax rate was reduced to 25 percent from 35 percent. Other taxes include a property tax and a goods and services tax (GST). In the most recent year, overall tax revenue as a percentage of GDP was 28.6 percent.

GOVERNMENT SPENDING: *66.5* — 15.8

In the most recent year, total government expenditures, including consumption and transfer payments, increased significantly to 33.4 percent of GDP. Revenue shortfalls could have halted current expenditure projects were it not for budget support grants from the African Development Bank. Public debt is 190 percent of GDP and owed mostly to external creditors.

MONETARY FREEDOM: *69.5* + 4.1

High inflation, averaging 10.5 percent between 2007 and 2009, has been moderating, aided by the high level of dollarization, lower world oil prices, and improvements in food production. Ten points were deducted from Liberia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *20* *no change*

As part of Liberia's reconstruction process, much of the investment and commercial code is being reviewed. Older laws permit foreign investment but reserve a number of sectors for Liberian citizens, and investors must register with the government. Inadequate physical and administrative infrastructure, underdeveloped private markets, weak rule of law, and corruption inhibit investment. There are few restrictions on converting or transferring investment funds into foreign exchange. The central bank regulates exchange transfers, and transfers above $10,000 are subject to reporting requirements. Ownership of land is restricted to Liberian citizens.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 139	Investment Freedom	No. 152
Trade Freedom	No. 171	Financial Freedom	No. 159
Fiscal Freedom	No. 117	Property Rights	No. 99
Government Spending	No. 97	Freedom from Corruption	No. 97
Monetary Freedom	No. 145	Labor Freedom	No. 136

FINANCIAL FREEDOM: *20* *no change*

In 2009, two new banks began full banking operations in Liberia, but the country's financial sector remains vulnerable to political influence and institutional instability. The high cost of credit and scarce access to financing continue to impede much-needed entrepreneurial activity and private-sector development. The financial sector is dominated by banking, but a large part of the population remains outside of the formal banking sector. The inefficient legal framework continues to deter financial intermediation across the country. Non-performing loans have been declining, but the overall quality of bank loans is still very poor. Implementation of the 2009 Financial Management Act has led to better accounting standards and the establishment of a debt-management committee. Liberia's capital markets remain poorly developed and unable to provide financing for businesses.

PROPERTY RIGHTS: *30* + 5.0

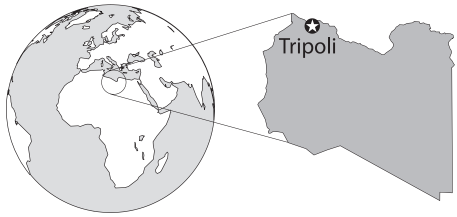
The archive of official records, including property deeds, was looted during the war, and disputes over real estate ownership are difficult to adjudicate. Conflicts between traditional and statutory land-tenure systems have not been reconciled. A lack of adequate facilities and salaries for judicial officers degrades enforcement of property rights. Judges sometimes decide cases in favor of the highest bidder. Holders of intellectual property rights have access to judicial redress, but enforcement is minimal.

FREEDOM FROM CORRUPTION: *31* + 7.0

Corruption is perceived as pervasive. Liberia ranks 97th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a dramatic improvement over 2008. Although corruption has been systemic throughout the government due to a culture of impunity, over the past two years, the president and other high-level government officials have made progress in their efforts to control corruption, reduce violence, and establish political stability. Travelers may encounter officials who solicit bribes (often euphemistically referred to as "cold water" or "my Christmas").

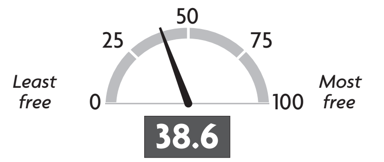
LABOR FREEDOM: *48.9* — 2.4

With Liberia's labor market dysfunctional, about 80 percent of the workforce is engaged in the informal sector. Liberia's labor regulations are rigid. The non-salary cost of employing a worker is high, and dismissing an employee is relatively costly.



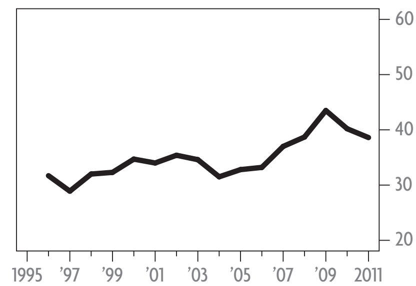
LIBYA

Economic Freedom Score

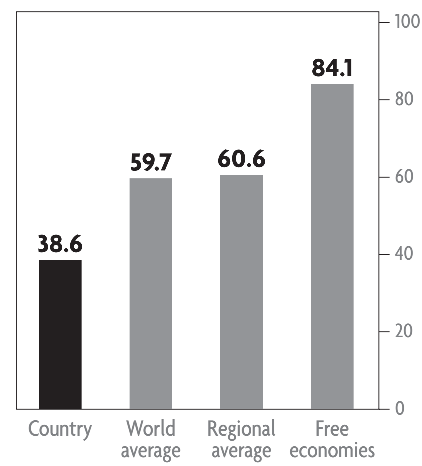


World Rank: **173** Regional Rank: **17**

Country's Score Over Time



Country Comparisons



Libya's economic freedom score is 38.6, making its economy the 173rd freest in the 2011 *Index*. Its score has decreased by 1.6 points, reflecting declines in three of the 10 economic freedoms. Libya is ranked last in the Middle East/North Africa region, and its overall score is well below the world and regional averages.

In an effort to move away from dependence on hydrocarbon production, Libya has undertaken reforms to diversify its economy. The banking sector, though still largely state-owned, has seen some financial liberalization and privatization, and even the introduction of foreign banks. Low tax rates and low tariff rates have also contributed to modest private-sector growth.

There is political resistance, however, to more market-oriented reforms, and substantial structural impediments continue to undermine development of the non-hydrocarbon sector. Opaque and arbitrary regulations and poor protection of property rights prevent dynamic investment and production growth, and widespread corruption and price instability increase the cost of conducting business.

BACKGROUND: Oil and natural gas provide about 95 percent of Libya's export revenues and well over half of its GDP. Despite having one of Africa's highest per capita incomes, Libya's economy has been hurt by more than 30 years of socialist economic policies and sanctions imposed after the 1989 Lockerbie airplane bombing. The United Nations lifted its sanctions in 2003 after Libya consented to a trial for officials involved in the plot and agreed to compensate victims' families. The U.S. lifted most of its sanctions in 2004 after Muammar Qadhafi renounced weapons of mass destruction, and the Department of State removed Libya from its list of state sponsors of terrorism in 2006. In 2008, Libya paid U.S. citizens $1.5 billion as compensation for previous terrorist attacks. In 2009, Libya and the United States exchanged ambassadors for the first time since 1973.

Quick Facts

Population: 6.3 million
GDP (PPP): $90.7 billion
1.8% growth in 2009
4.8% 5-year compound annual growth
$14,328 per capita
Unemployment: n/a
Inflation (CPI): 2.7%
FDI Inflow: $2.7 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *20* — *no change*

The overall freedom to start, operate, and close a business is significantly restricted. Despite modest improvements in the business climate, Libya's bureaucracy remains one of the world's most burdensome.

TRADE FREEDOM: *85* — *no change*

Libya's weighted average tariff rate was 0 percent in 2006. In 2005, the Libyan Customs Administration cancelled duties on more than 3,500 product categories; however, a flat 4 percent "service fee" is levied on most imported products. Additional consumption and production taxes, import bans and restrictions, other import fees, non-transparent and discretionary regulation, aging infrastructure, state trade in petroleum products, subsidies, and customs corruption also add to the cost of trade. Fifteen points were deducted from Libya's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *80.3* — *– 1.4*

The top tax rate on individual income is nominally 15 percent, but for incomes over 200,000 Libyan dinars, other taxes (such as those on commercial and industrial profits) may raise the top rate to 90 percent. 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). Libya has no value-added tax (VAT) or inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP increased to 3.4 percent.

GOVERNMENT SPENDING: *44.5* — *– 18.3*

In the most recent year, total government expenditures, including consumption and transfer payments, jumped to 43 percent of GDP. Hydrocarbons account for 70 percent of GDP and 90 percent of government revenues. Privatization has been slow.

MONETARY FREEDOM: *71* — *+ 4.6*

Inflation has moderated, averaging 4.9 percent between 2007 and 2009. The government still determines most prices, either directly or through state-owned enterprises and utilities. Fifteen points were deducted from Libya's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *10* — *no change*

Foreign investment does not receive national treatment, and new investment is screened by the government. At least 35 percent of a non-Libyan business must be controlled by Libyan individuals or companies. Bureaucracy is non-transparent, complex, inefficient, and subject to political influence. Residents and non-residents may hold foreign currency accounts with prior approval. Repatriation and most capital transactions, including transactions involving capital, credit operations, and direct investment, are subject to controls, including approval requirements. Foreigners may not own land in most cases.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 175	Investment Freedom	No. 166
Trade Freedom	No. 48	Financial Freedom	No. 159
Fiscal Freedom	No. 75	Property Rights	No. 166
Government Spending	No. 146	Freedom from Corruption	No. 132
Monetary Freedom	No. 132	Labor Freedom	No. 176

FINANCIAL FREEDOM: *20* — *no change*

Libya's highly centralized financial system remains subject to considerable state influence. The government, which nationalized all banks decades ago, recently eased banking laws to allow financial liberalization and privatization. The government has recently privatized 15 percent of one of the two largest state-owned banks and two new banks have been granted licenses. However, private banking institutions are unable to compete with state-subsidized companies. The banking sector is still dominated by four banks that are fully or majority-owned by the Central Bank of Libya. These four banks account for more than 90 percent of assets. The high cost of credit and limited access to financing impede private business development. Legislation passed in 2005 permits foreign banks to open branches.

PROPERTY RIGHTS: *10* — *no change*

The Libyan government eliminated all private property rights and most private businesses in 1978. The renting of property was declared illegal, and ownership of property was limited to a single dwelling per family, with all other properties being redistributed. The judiciary is not independent, the private practice of law is illegal, and all lawyers must be members of the Secretariat of Justice. There is little land ownership, and the government has the power to renationalize any property that has been privatized. Foreign companies are especially vulnerable, and the government has a history of expropriation. Trademark violations are widespread. Libya is ranked 113th out of 125 countries in the 2010 International Property Rights Index.

FREEDOM FROM CORRUPTION: *25* — *– 1.0*

Corruption is perceived as widespread. Libya ranks 130th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Government integrity is undermined by favoritism based on personal and family connections. The Qadhafi clan exercises near-total control of major government decisions.

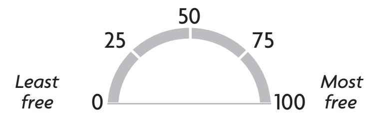
LABOR FREEDOM: *20* — *no change*

Unemployment and underemployment are chronically high. The labor market is tightly regulated and subject to government directives. Labor law specifies minimum wage rates, the number of work hours, night shift rules, and dismissal regulations.

LIECHTENSTEIN

World Rank: Not ranked | Regional Rank: Not ranked

Economic Freedom Score



The economy is not graded

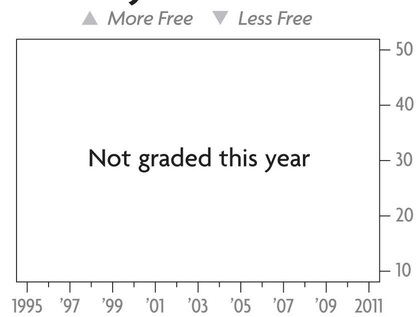
Liechtenstein's economic freedom cannot be fully assessed in this edition of the *Index of Economic Freedom* because of a lack of complete data. The country will receive an economic freedom score and ranking in future editions as sufficient information becomes available.

Flexibility and openness to global commerce have been the cornerstone of Liechtenstein's modern and diversified economy. Minimal barriers to trade and investment foster vibrant economic activity, while a straightforward, transparent, and streamlined regulatory system supports an innovative entrepreneurial sector. Liechtenstein's competitive tax rates and sound labor regulations further promote dynamic business activity.

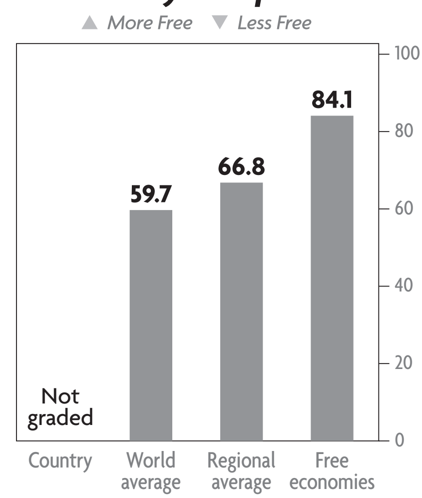
Liechtenstein's steady macroeconomic and regulatory environments have contributed to its position as an attractive place in which to do business. The banking sector has benefited from the country's high political and social stability as well as its sound and transparent judicial system. Liechtenstein's vigorous defense of property rights, even intellectual property rights, and the near total absence of corruption minimize potential drags on its dynamic economy.

BACKGROUND: The tiny German-speaking principality of Liechtenstein occupies about 60 square miles along the Rhine River between Switzerland and Austria. The small population (under 40,000) enjoys high living standards based on a vibrant free-enterprise economy with a stable financial sector. However, the worldwide financial crisis has led to a sharp contraction in banking. In May 2009, the Organisation for Economic Co-operation and Development (OECD) removed all jurisdictions and principalities, including Liechtenstein, from its list of uncooperative tax havens. Liechtenstein's economy is closely linked to Switzerland, whose currency it shares, and the European Union. Liechtenstein is a member of the European Free Trade Association and joined the European Economic Area in 1995 to benefit from the EU's internal market.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 35,500
GDP (current): $4.2 billion
3.1 % growth in 2007
5-year compound annual growth: n/a
$118,040 per capita
Unemployment: 2.3% (2008)
Inflation (CPI): n/a
FDI Inflow: n/a

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *NOT GRADED*

The overall freedom to conduct a business is relatively well protected under Liechtenstein's regulatory environment. Establishing a business is fairly easy. Administrative procedures are straightforward, and regulations affecting business are transparent and consistently applied.

TRADE FREEDOM: *NOT GRADED*

Liechtenstein's weighted average tariff rate was 0 percent in 2008. Import restrictions, services market access barriers, import taxes, import licensing, and restrictive sanitary and phytosanitary regulations add to the cost of trade, and high statutory tariffs or quotas block some agricultural trade altogether. If a score were being assigned, 10 points would have been deducted from Liechtenstein's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *NOT GRADED*

Liechtenstein has a competitive tax system and imposes relatively low taxes on both nationals and non-nationals. Personal tax rates are low, even taking into account high municipality surtaxes. The top corporate tax rate is 15 percent, with an additional surcharge of up to 5 percent, bringing the top effective rate to 20 percent. Other taxes include a property tax, a withholding tax on interest, and a value-added tax (VAT). Liechtenstein has taken public steps to address its reputation as a haven for tax evasion.

GOVERNMENT SPENDING: *NOT GRADED*

Although the fiscal system lacks some transparency, government fiscal management seems to be sound, with minimal administrative bureaucracy. In recent years, the government has focused on reining in high social spending and increasing revenues to work toward a balanced budget.

MONETARY FREEDOM: *NOT GRADED*

Inflation is negligible. Liechtenstein participates in a customs union with Switzerland and uses the Swiss franc as its national currency. Government measures influence the prices of agricultural goods and pharmaceutical products, and the government also influences prices through regulation, subsidies, and state-owned utilities. If Liechtenstein were being graded, 10 points would have been deducted from its monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *NOT GRADED*

Liechtenstein is generally open to foreign investment. Applications to establish a business require government approval. Certain activities are reserved for domestic companies, and certain business structures require resident nationals on their boards. Residents and non-residents may hold foreign exchange accounts. There are no restrictions on repatriation of profits, payments for invisible transactions, or current transfers. Real estate purchases by non-residents must be approved and may face some restrictions.

COUNTRY'S WORLD RANKINGS

Business Freedom	n/a	Investment Freedom	n/a
Trade Freedom	n/a	Financial Freedom	n/a
Fiscal Freedom	n/a	Property Rights	n/a
Government Spending	n/a	Freedom from Corruption	n/a
Monetary Freedom	n/a	Labor Freedom	n/a

FINANCIAL FREEDOM: *NOT GRADED*

Liechtenstein is a major financial center, particularly in private banking. Major financial services include private asset management, international asset structuring, investment funds, insurance, and reinsurance. Resident and non-resident clients enjoy equal access. Financial services account for 30 percent of GDP. Banks, insurance companies, and trust companies are major sources of economic activity, representing around 14 percent of total employment. The Financial Market Authority, an independent and integrated authority, performs supervisory and regulatory functions. In 2009, Liechtenstein agreed to conform to Organisation for Economic Co-operation and Development standards of fiscal transparency. The agreement effectively marked the end of the traditional bank secrecy upon which the country's financial sector was built.

PROPERTY RIGHTS: *NOT GRADED*

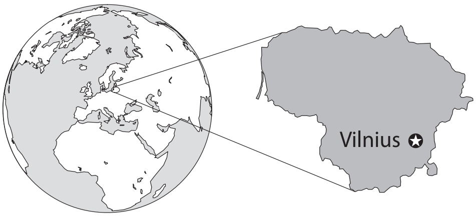
The judiciary is independent, and contracts are secure. The principality has its own civil and penal codes, although courts composed of Liechtenstein, Swiss, and Austrian judges have jurisdiction over Liechtenstein cases in certain instances. Intellectual property laws are based on Switzerland's IPR 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.

FREEDOM FROM CORRUPTION: *NOT GRADED*

Corruption is perceived as minimal. There were no reports of government corruption during the year. The government has made substantial progress in fighting money laundering, and regulations require strict know-your-customer practices.

LABOR FREEDOM: *NOT GRADED*

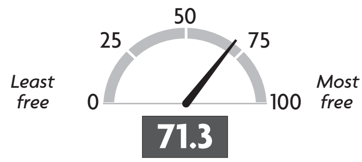
Liechtenstein's labor market is dynamic, and unemployment has traditionally been very low. In recent years, labor market policies have focused on reducing youth unemployment. A Labor Market Service was established in 2007 to facilitate job training programs and more efficient employment placements.



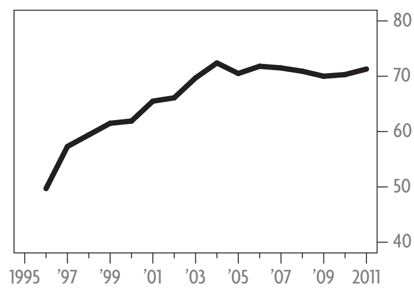
LITHUANIA

World Rank: **24** Regional Rank: **13**

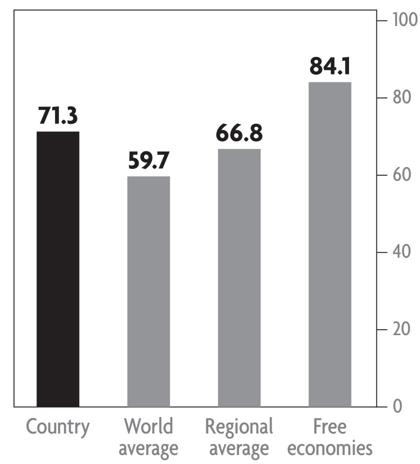
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Lithuania's economic freedom score is 71.3, making its economy the 24th freest in the 2011 *Index*. Its overall score is 1 point higher than last year, reflecting improved scores in 6 of the 10 economic freedoms. Lithuania is ranked 13th out of 43 countries in the Europe region, and its overall score is well above the world and regional averages.

The Lithuanian economy has been gradually recovering from a sharp economic contraction in 2009. The country's overall transition to greater economic freedom has been facilitated by structural reforms and an increasingly vibrant private sector that accounts for about 80 percent of GDP. As reflected in relatively high scores for fiscal and business freedom, competitive taxation and an efficient regulatory system have contributed to a more vibrant economy. The government has pursued reform measures to curb high levels of government spending.

Although the regulatory environment is generally consistent with a market economy, bureaucracy and red tape curtail entrepreneurial dynamism. Corruption is still perceived as significant, and the pace of legislative and judicial reform has been slow. Structural reforms in the labor market would improve flexibility and productivity.

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. She is Lithuania's first female head of state. The Lithuanian economy has been one of the fastest-growing in Europe, with construction, financial services, and retail being particularly strong. More recently, however, the burst of the housing market bubble and the global banking crisis have had negative effects on the economy, and GDP fell by 15 percent in 2009.

Quick Facts

Population: 3.3 million
GDP (PPP): $55.2 billion
–15.0% growth in 2009
0.9% 5-year compound annual growth
$16,542 per capita
Unemployment: 13.7%
Inflation (CPI): 4.2%
FDI Inflow: $348 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *81.7* — *0.3*

The overall entrepreneurial framework has become fairly streamlined and efficient. Business formation and operation take place without bureaucratic interference.

TRADE FREEDOM: *87.6* + *0.1*

Lithuania's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Lithuanian policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from Lithuania's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *86.1* + *1.5*

Lithuania's income tax rate is 15 percent (with a 20 percent tax on redistributed profits), and the corporate tax rate is 15 percent after a temporary rise to 20 percent. The rate for companies with fewer than 10 employees was lowered from 13 percent to 5 percent as of January 1, 2010. Other taxes include an inheritance tax and a value-added tax (VAT) that was increased in 2010. In the most recent year, overall tax revenue as a percentage of GDP was 30.6 percent.

GOVERNMENT SPENDING: *58* — *5.5*

In the most recent year, total government expenditures, including consumption and transfer payments, increased to 37.4 percent of GDP. Though held to 8.9 percent of GDP, the fiscal deficit is high and unlikely to meet the Convergence Program's target of 5.8 percent of GDP. Public debt has reached 33 percent of GDP.

MONETARY FREEDOM: *74.5* + *3.7*

Inflation has been relatively high but falling, averaging 6 percent between 2007 and 2009, and is forecast to continue slowing through 2011. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. The government also regulates rents, electricity rates, and some energy prices and influences other prices through state-owned enterprises. Ten points were deducted from Lithuania's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *80* + *5.0*

Foreign capital and domestic capital are treated equally, and foreign investment is restricted in only a few sectors. Licenses and residency permits can be hard to obtain, and regulation can be non-transparent and subject to corruption. Residents may hold foreign exchange accounts. There are no controls or restrictions on repatriation of profits, current transfers, or payments. Some capital transactions must be registered with the central bank. Foreign ownership of land for agriculture or logging is prohibited, but this restriction is due to be phased out in 2011 in accordance with EU regulations.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 31	Investment Freedom	No. 14
Trade Freedom	No. 12	Financial Freedom	No. 4
Fiscal Freedom	No. 35	Property Rights	No. 42
Government Spending	No. 117	Freedom from Corruption	No. 51
Monetary Freedom	No. 95	Labor Freedom	No. 113

FINANCIAL FREEDOM: *80* *no change*

Lithuania's competitive financial sector offers a full range of financial services. Branch networks of Lithuanian commercial banks provide easy access to services throughout the country. The last state-owned bank was privatized almost a decade ago, and most commercial banks are foreign-owned. With no restrictions on portfolio investment, capital markets are well developed but small. Since late 2008, credit contraction has been triggered by the global financial turmoil. Although the system remains relatively well capitalized and stable, non-performing loans are an increasing burden. The Financial Stability Law, passed in 2009, covers state guarantees for interbank lending, partial and full bank capitalization by the government, and asset acquisition.

PROPERTY RIGHTS: *60* + *5.0*

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. Investors complain of weak enforcement of contracts. Lithuania remains a transshipment point for pirated optical media products. Lithuania is ranked 38th out of 125 countries in the 2010 International Property Rights Index.

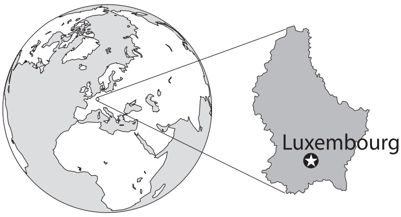
FREEDOM FROM CORRUPTION: *49* + *3.0*

Corruption is perceived as significant. Lithuania ranks 52nd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. More than 50 governmental institutions regulate commerce, creating opportunities for corrupt practices. Lithuania has ratified the U.N. Convention Against Corruption but is not a signatory to the OECD Convention on Combating Bribery.

LABOR FREEDOM: *55.6* — *2.9*

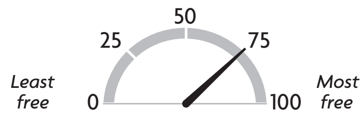
Lithuania's labor regulations are relatively rigid. Non-wage labor costs are higher than elsewhere in the region, and restrictions on work hours are burdensome.

LUXEMBOURG



World Rank: **13** Regional Rank: **4**

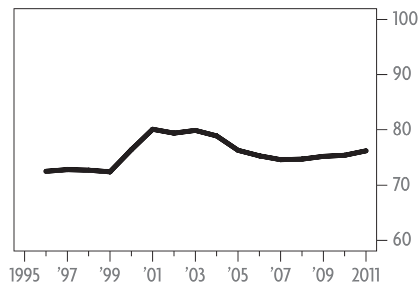
Economic Freedom Score



76.2

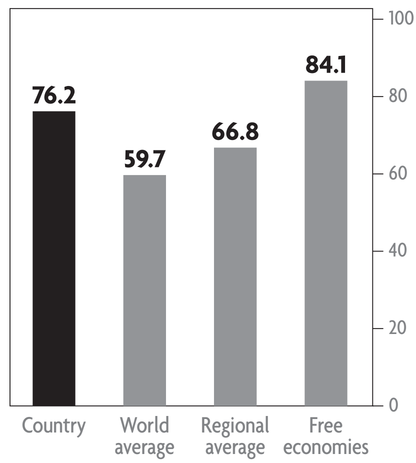
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Luxembourg's economic freedom score is 76.2, making its economy the 13th freest in the 2011 *Index*. Its overall score is 0.8 point better than last year, reflecting improvements in half of the 10 economic freedoms. 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 Luxembourg'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 investment freedom, trade freedom, financial freedom, and business freedom is similarly strong.

The economy performs weakly in such areas as fiscal freedom, government spending, and labor freedom. Personal tax rates remain high, although the corporate rate is relatively low. Government expenditures account for close to 40 percent of GDP. The government is undertaking gradual reforms to improve the management of public finance. Recent stimulus measures and support for the banking sector have resulted in an increased budget deficit. Fiscal reforms are needed to rationalize the large central government deficit, accommodate rising age-related spending, and preserve fiscal sustainability.

BACKGROUND: The Grand Duchy of Luxembourg is small, stable, and wealthy. A founding member of the European Union in 1957, it was also one of the founding members of the single European currency in 1999 and continues to play a primary role in promoting further European integration. Luxembourgers enjoy a high 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. Luxembourg maintains a skilled workforce and well-developed infrastructure.

Quick Facts

Population: 0.5 million
GDP (PPP): $38.8 billion
–4.2% growth in 2009
1.9% 5-year compound annual growth
$78,395 per capita
Unemployment: 5.3%
Inflation (CPI): 0.8%
FDI Inflow: $27.3 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *76.4* — + 1.3

The overall freedom to start, operate, and close a business is relatively well protected under Luxembourg's transparent regulatory environment. Business formation and operation take place without bureaucratic interference.

TRADE FREEDOM: *87.6* — + 0.1

Luxembourg's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Luxembourg policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from Luxembourg's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *66.7* — + 0.8

Luxembourg has a relatively high income tax rate but a relatively low corporate tax rate. The top income tax rate is 39 percent (38 percent plus a 2.5 percent surcharge). The top corporate tax rate is 21.84 percent (21 percent plus a 4 percent employment fund surcharge), but municipal business taxes ranging from 6 percent to 12 percent can raise the effective rate. Other taxes include a value-added tax (VAT) and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 36.5 percent. Increases in the top marginal personal income tax rate and a solidarity tax have been proposed.

GOVERNMENT SPENDING: *58.5* — *no change*

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 37.2 percent of GDP. Past fiscal surpluses and low levels of public debt afforded Luxembourg the fiscal space to engage in stimulus spending without significantly disturbing the fiscal balance. The stimulus package included both subsidies and tax exemptions.

MONETARY FREEDOM: *82.1* — + 3.2

Luxembourg is a member of the euro zone. Inflation has been low, averaging 1.6 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. The government also regulates electricity rates and some fuel prices and influences prices through state-owned enterprises. Ten points were deducted from Luxembourg's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *95* — *no change*

Luxembourg does not discriminate between foreign and domestic investment. Most industries are open to foreign investment without any government restrictions. Bureaucratic procedures, including those for licenses and permits, are streamlined and transparent, and there is far less red tape than in larger European countries. Both residents and non-residents may hold foreign exchange accounts. There are no restrictions or barriers with respect to capital transactions, current transfers, repatriation of profits, purchase of real estate, or access to foreign exchange.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 45	Investment Freedom	No. 1
Trade Freedom	No. 12	Financial Freedom	No. 4
Fiscal Freedom	No. 147	Property Rights	No. 2
Government Spending	No. 115	Freedom from Corruption	No. 12
Monetary Freedom	No. 22	Labor Freedom	No. 150

FINANCIAL FREEDOM: *80* — *no change*

As a global financial hub, Luxembourg's sophisticated banking sector is well capitalized and competitive. Regulations are transparent and effective. Many of the world's leading banks have subsidiaries in Luxembourg. The one state-owned bank offers medium-term and long-term financing of investments by Luxembourg-based companies. The financial sector accounts for almost 30 percent of the country's GDP. The investment fund industry has been expanding rapidly. Capital markets are well developed, and trading on the Luxembourg Stock Exchange is very active. The financial system has been under stress in light of the recent global financial crisis, and the government of Luxembourg joined several other European governments in bailing out prominent banks.

PROPERTY RIGHTS: *90* — *no change*

Private property is well protected, and contracts are secure. Luxembourg adheres to key international agreements on intellectual property rights and protects patents, copyrights, trademarks, and trade secrets.

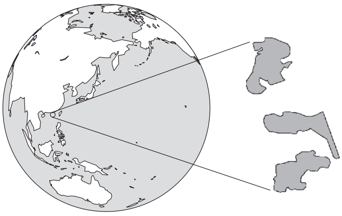
FREEDOM FROM CORRUPTION: *82* — − 1.0

Corruption is perceived as minimal. Luxembourg ranks 12th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Anti-corruption laws, regulations, and penalties are enforced impartially, and efforts to combat money laundering and the financing of terrorism are a priority.

LABOR FREEDOM: *44.1* — + 3.7

Luxembourg's labor regulations are burdensome. Unemployment benefits are almost twice as high as those in neighboring countries. The minimum wage is one of the highest in the Organisation for Economic Co-operation and Development, and labor union membership stands at over 50 percent of all wage earners.

MACAU



World Rank: **19** Regional Rank: **5**

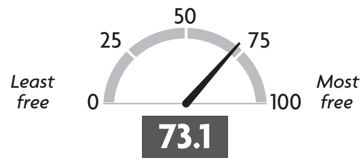
Macau's economic freedom score is 73.1, making its economy the 19th freest in the 2011 *Index*. Its overall score is 0.6 point better than last year, mainly due to improvements in monetary freedom and investment freedom. Macau is ranked 5th out of 41 countries in the Asia–Pacific region, and its overall 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 more foreign investment. Other growth areas include finance, insurance, and real estate. New measures to accelerate the registration processes for trademarks and patents were implemented.

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's small economy into one of the world's leading tourism destinations.

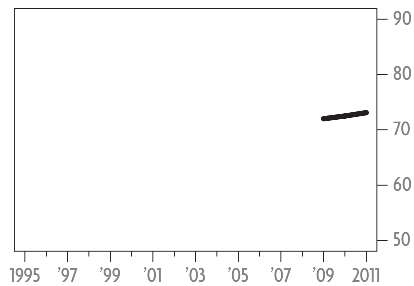
BACKGROUND: Macau became a Special Administrative Region of China in 1999. Like Hong Kong, which is also a Special Administrative Region, it retains much of its historical political governance structure and economic system, although its chief executive is appointed by Beijing. Gambling revenues reportedly amounted to $13.7 billion in 2008, 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 economic fortunes are tied to those of China and Hong Kong, and its currency enjoys full convertibility with the Hong Kong dollar, which in turn is pegged to the U.S. dollar.

Economic Freedom Score



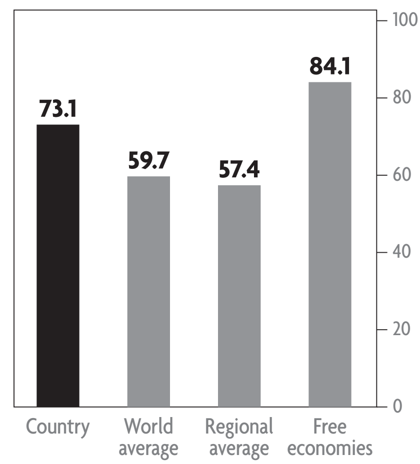
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 0.5 million
GDP (PPP): $31.3 billion
13.2% growth in 2008
15.3% 5-year compound annual growth
$59,571 per capita (2008)
Unemployment: 3.6%
Inflation (CPI): 1.1%
FDI Inflow: $2.3 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *60* — *no change*

Macau's overall regulatory environment is relatively transparent and efficient. License requirements vary by type of economic activity. General business activities such as retail, wholesale, and business consultancies do not require a license. A one-stop shop assists investors with company registrations and other relevant procedures.

TRADE FREEDOM: *90* — *no change*

Macau's weighted average tariff rate was 0 percent in 2009. Some import restrictions, services market access restrictions, restrictive food and energy labeling regulations, and problems with the enforcement of intellectual property rights add to the cost of trade. Ten points were deducted from Macau's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *76.6* — *– 1.2*

Except for the gambling industry, taxes are generally low. The top income and corporate tax rates are 12 percent. Gambling taxes accounted for over 82 percent of government revenue in 2009 and are the primary corporate tax. Gross casino revenues are subject to a 35 percent direct tax and an additional 4 percent social contribution tax, for an effective rate of 39 percent. In the most recent year, overall tax revenue as a percentage of GDP was 29.4 percent.

GOVERNMENT SPENDING: *93.3* — *– 1.9*

In the most recent year, total government expenditures, including consumption and transfer payments, equaled 13.3 percent of GDP. Fiscal surpluses allowed Macau to respond easily to the global financial crisis with some assistance in the form of cash subsidies, tax relief, health care vouchers, and increases in public works investment. Even with the increased spending, gambling revenue has outpaced spending growth.

MONETARY FREEDOM: *83.4* — *+ 5.9*

Inflation has been relatively low, averaging 3.3 percent between 2007 and 2009. Macau's currency is closely tied to the Hong Kong and U.S. dollars and backed by foreign-exchange reserves under the currency board system. No products are subject to price controls, but prices for bus fares, taxi fares, and such public utilities as water, electricity, telephone service, and the postal service are administered or monitored. Five points were deducted from Macau's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *85* — *+ 5.0*

The government does not discriminate between foreign and domestic investors. Foreign investors generally may establish companies, branches, and representative offices but face a few restrictions in services markets. Regulations and bureaucracy are efficient and transparent. Profits, investment capital, earnings, loan repayments, lease payments, and capital gains can be freely converted and remitted. Expropriation of private property is legal, but compensation must be provided.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 116	Investment Freedom	No. 9
Trade Freedom	No. 1	Financial Freedom	No. 17
Fiscal Freedom	No. 100	Property Rights	No. 42
Government Spending	No. 6	Freedom from Corruption	No. 42
Monetary Freedom	No. 13	Labor Freedom	No. 95

FINANCIAL FREEDOM: *70* — *no change*

Macau's small financial system functions without undue government influence. It employs less than 3 percent of the labor force, and banks account for more than 90 percent of total assets. Credit is allocated on market terms, and relatively sound regulation and supervision assure free flows of financial resources. Easy access to financing is available for private-sector activity. The Monetary Authority of Macau supervises the financial system. There are 29 banks, including 18 foreign bank branches. The Postal Savings Bank is the only banking institution wholly owned by the government. The non-bank financial sector has 11 life insurance companies and 13 non–life insurance companies. Macau has no stock exchange, but domestic firms may list in Hong Kong's stock markets.

PROPERTY RIGHTS: *60* — *no change*

The legal system is based largely on Portuguese law. The territory has its own judicial system with a high court. Macau is a member of the World Intellectual Property Organization and has acceded to the Bern Convention for the Protection of Literary and Artistic Works. Patents and trademarks are registered. Copyright laws are TRIPS-compatible, and the government devotes considerable attention to enforcing intellectual property rights. Piracy of television signals is rampant.

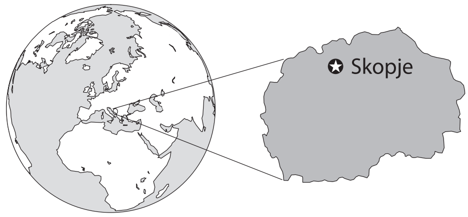
FREEDOM FROM CORRUPTION: *53* — *– 1.0*

Corruption is perceived as significant. Macau ranks 43rd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. 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.

LABOR FREEDOM: *60* — *no change*

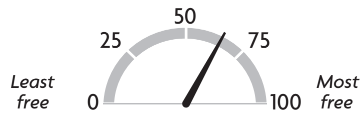
Although labor regulations are relatively flexible, the economy lacks a dynamic and broad-based labor market. The government sets minimum standards for the terms and conditions of employment. Severance payments range from seven to 20 days' salary per year of service. There is a minimum wage for public-sector cleaning and security services.

MACEDONIA



World Rank: **55** Regional Rank: **23**

Economic Freedom Score



66.0

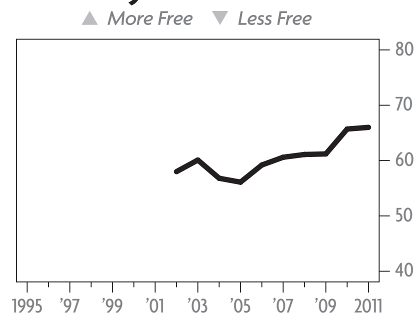
M acedonia's economic freedom score is 66, making its economy the 55th freest in the 2011 *Index*. Its overall score has increased 0.3 point from last year, reflecting improvements in freedom from corruption and monetary freedom. Macedonia is ranked 23rd out of 43 countries in the Europe region, and its overall score is above the world average.

Macedonia has undertaken significant reforms in many aspects of its economy over the past few years, inspiring economic growth and the development of a thriving entrepreneurial sector. Competitive flat tax rates and a growing financial sector that allocates credit on market terms contribute to private-sector dynamism, as does Macedonia's openness to foreign trade and investment. Monetary stability is relatively well maintained, and the banking sector has weathered the global financial crisis relatively well.

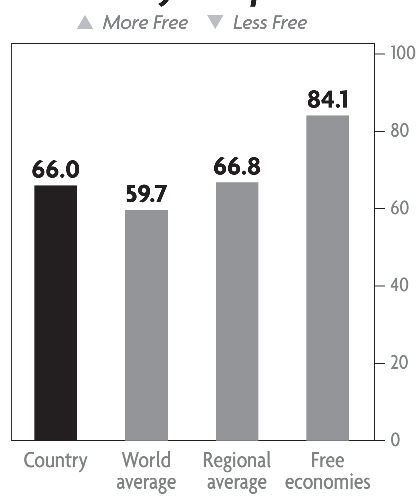
There are lingering structural constraints on the development of a more vibrant private sector. Significant levels of corruption and weak property rights are a substantial drag on innovative business activity. Relatively high levels of government spending also mute dynamic long-term economic growth.

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. While the elections that returned reform-minded Prime Minister Nikola Gruevski to power in June 2008 were criticized by international monitors, the 2009 presidential and municipal elections were viewed as a significant improvement. During NATO's 2008 Bucharest summit, Greece unilaterally blocked an invitation for Macedonia to join the alliance because of a long-standing name dispute. The dispute is expected to delay Macedonia's accession to the European Union as well, and relatively little progress was made during 2010. Macedonia still has a large informal economy, and judicial procedures remain slow.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 2.1 million
GDP (PPP): $18.9 billion
–0.7% growth in 2009
3.4% 5-year compound annual growth
$9,171 per capita
Unemployment: 32.2%
Inflation (CPI): –0.8%
FDI Inflow: $248 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: 64.6 — 0.6

The overall freedom to establish and run a business has improved, but the pace of reform has slowed. Streamlined processes for business formation and operation provide an environment fairly conducive to dynamic private investment and production.

TRADE FREEDOM: 83.6 + 0.3

Macedonia's weighted average tariff rate was 3.2 percent in 2009. Some import restrictions, import licensing, non-transparent regulations and standards, and customs corruption add to the cost of trade. In 2009, tariffs were reduced or eliminated for 498 lines of raw materials and equipment for which there were no domestic competitors. Ten points were deducted from Macedonia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: 90 + 0.7

Macedonia has low taxes. 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. The capital gains tax was abolished effective January 1, 2009. In the most recent year, overall tax revenue as a percentage of GDP was 28.3 percent.

GOVERNMENT SPENDING: 64.3 — 1.6

In the most recent year, total government expenditures, including consumption and transfer payments amounted to 34.5 percent of GDP. Some small and medium-size hydroelectric plants have been privatized, and the electricity sector remains an important target for reform. In response to the recent global crisis, the government cut public spending and froze public-sector wages, but it increased infrastructure investment in an attempt to invigorate the private sector.

MONETARY FREEDOM: 84.5 + 5.5

Inflation has dropped, averaging 1.7 percent between 2007 and 2009. Most prices are determined in the market, but the government subsidizes agriculture and influences certain prices through state-owned enterprises and utilities, such as electricity. Five points were deducted from Macedonia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: 60 *no change*

Foreign and domestic investors receive equal treatment, and non-residents may invest in domestic firms with a few exceptions. Despite reforms in the investment regime, the legal system and investment bureaucracy can be slow, inefficient, lacking in adequate resources, and subject to political pressure and corruption. Contract enforcement can be inconsistent. Residents and non-residents may hold foreign exchange accounts subject to approval and restrictions. Payments and transfers face few controls. Foreign investors are permitted land-use rights but may not own land. The government may not expropriate property without providing compensation.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 95	Investment Freedom	No. 62
Trade Freedom	No. 53	Financial Freedom	No. 38
Fiscal Freedom	No. 22	Property Rights	No. 94
Government Spending	No. 106	Freedom from Corruption	No. 72
Monetary Freedom	No. 9	Labor Freedom	No. 33

FINANCIAL FREEDOM: 60 *no change*

Macedonia's financial sector has become more dynamic. Bank competition has increased, and the foreign presence accounts for more than 80 percent of total bank assets. The three largest banks account for about 70 percent of all deposits and loans. Banking intermediation is relatively low, but credit is allocated on market terms. Macedonia's 2007 Banking Law substantially enhanced the sector's legal and regulatory framework. The financial sector is supported by strong capital and liquidity buffers. The government has also established a regulatory agency for insurance companies. Nonperforming loans have declined in recent years. Capital markets are underdeveloped and unable to provide a full range of credit alternatives for businesses, but activity on the Macedonian Stock Exchange has grown. Macedonia has not been severely affected by the global financial crisis.

PROPERTY RIGHTS: 35 *no change*

Protection of property rights is weak. The judiciary is subject to executive influence. The lack of effective rule of law and the uncertainty of property rights, especially in registering real property and obtaining land titles, undermine investment and development. The government has taken some action to combat piracy of items like CDs, DVDs, and software, but many pirated items remain for sale.

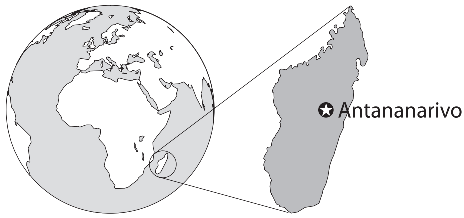
FREEDOM FROM CORRUPTION: 38 + 2.0

Corruption is perceived as significant. Macedonia ranks 71st out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, an improvement for the second consecutive year. The law provides criminal penalties for official corruption, but the government has not implemented the law effectively, and officials engage in corrupt practices with impunity. Corruption is found in all branches of government, especially the police and judicial system. Enforcement of laws against offenses like drug abuse, money laundering, and corrupt practices has been lackluster.

LABOR FREEDOM: 79.7 — 3.4

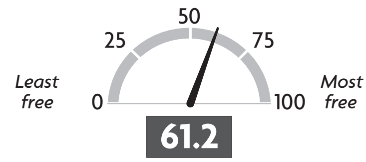
Macedonia's labor regulations are relatively flexible. After years of chronic high unemployment and underemployment, Macedonia has pursued labor market reforms that include the use of fixed-term contracts and the easing of restrictions on work hours.

MADAGASCAR



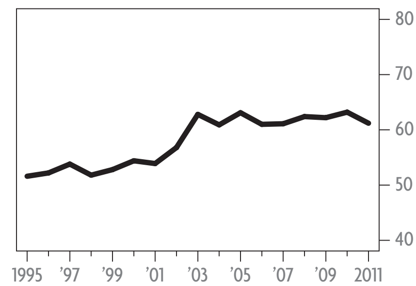
World Rank: **81** Regional Rank: **8**

Economic Freedom Score



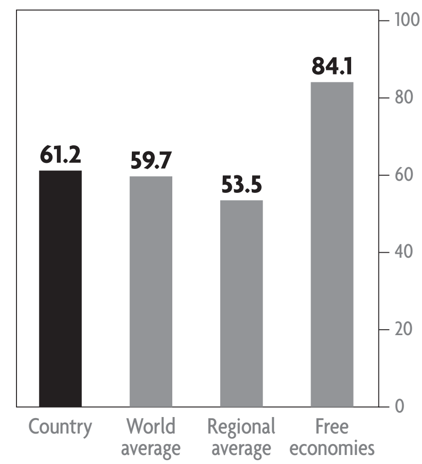
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Madagascar's economic freedom score is 61.2, making its economy the 81st freest in the 2011 *Index*. Its score has decreased by 2.1 points from last year, reflecting significant decreases in business and investment freedom. Madagascar is ranked 8th out of 46 countries in the Sub-Saharan Africa region, and its overall score is above the world average.

Despite some progress toward much-needed economic development, the combined impact of poor economic management and the ongoing risk of political instability has undermined much of the progress made in reducing poverty. The judicial system is underdeveloped, and convoluted administrative procedures facilitate corruption. Privatization has halted due to an unfavorable investment climate that has arisen from the political turmoil.

Nonetheless, there have been some notable reforms to enhance Madagascar's 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.

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, declared himself President of the High Transitional Authority, and pledged to hold parliamentary elections in 2010. 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 in Madagascar. The economy depends heavily on agriculture and produces two-thirds of the world's vanilla exports. Infrastructure is poor, and bureaucracy is onerous.

Quick Facts

Population: 20.8 million
GDP (PPP): $19.4 billion
–5.0% growth in 2009
3.2% 5-year compound annual growth
$932 per capita
Unemployment: 2.8% (2005)
Inflation (CPI): 9.0%
FDI Inflow: $543 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *60* — *− 11.9*

The overall climate for entrepreneurial activity has been held back by a lack of progress with reform in recent years. Procedures for setting up a business have been simplified, but other regulatory requirements are generally costly. Bankruptcy procedures are inefficient.

TRADE FREEDOM: *73.2* — *no change*

Madagascar's weighted average tariff rate was 8.4 percent in 2008. Some import and export bans and restrictions, import licensing, sanitary and phytosanitary regulations, inadequate infrastructure to support trade, some state trade, weak enforcement of intellectual property rights, and a customs process that is susceptible to corruption add to the cost of trade. Ten points were deducted from Madagascar's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *87.8* — *+ 0.5*

Madagascar has moderate tax rates. The top income tax rate and the top corporate tax rate are 23 percent, down from 24 percent as of 2010. Other taxes include a value-added tax (VAT) and a capital gains tax. In the most recent year, overall tax revenue as a percentage of GDP was 12.9 percent. Tax collection has shown modest improvement since the switch to a single-rate income tax system in 2008.

GOVERNMENT SPENDING: *89.7* — *+ 0.9*

Given low domestic revenue, Madagascar's economy depends on external financing. In the most recent year, total government expenditures, including consumption and transfer payments, decreased slightly to 18.5 percent of GDP. Plans to transfer the struggling national water and power utility out of state hands have been put on hold indefinitely.

MONETARY FREEDOM: *75.9* — *+ 0.5*

High inflation, averaging 9.1 percent between 2007 and 2009, declined in 2009 reflecting the downward pressure on prices from the bumper harvest of rice, the country's staple foodstuff, and a sharp reduction in public capital spending. Most prices are determined in the market, but the government influences certain prices through state-owned enterprises and utilities such as electricity, although this influence is diminishing as privatization advances. Five points were deducted from Madagascar's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *55* — *− 5.0*

The government provides national treatment for foreign investment, but poor infrastructure, non-transparent regulation, a slow and complex commercial legal system, limited financing mechanisms, and political interference hinder investment levels overall. Political instability has discouraged foreign investment. Residents and non-residents may open foreign exchange accounts, and there are no restrictions on payments or transfers. Foreign investors may not own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 117	Investment Freedom	No. 75
Trade Freedom	No. 105	Financial Freedom	No. 70
Fiscal Freedom	No. 28	Property Rights	No. 73
Government Spending	No. 17	Freedom from Corruption	No. 99
Monetary Freedom	No. 84	Labor Freedom	No. 127

FINANCIAL FREEDOM: *50* — *no change*

The government has been pursuing banking reform, and all of the major commercial banks are now partially privatized, often with French capital. There are five major commercial banks, and the central bank accounts for over one-third of financial-sector assets. Less than 5 percent of the population has bank accounts or access to comprehensive financial services. The relatively high costs of financing and scarce access to credit are barriers to developing a more dynamic private sector, and small and medium-sized companies still face great difficulty in financing their investments and expanding business. Madagascar's capital markets remain underdeveloped, and there is no stock market.

PROPERTY RIGHTS: *40* — *− 5.0*

Secured interests in property are poorly enforced. Restrictions on land ownership by foreigners impede investment. A system of long-term leases of up to 99 years was established in 2008 to address the issue, but there have been long delays and few successes in the approval of land leases for foreigners. 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. Pirated copies of movie tapes, music CDs, DVDs, and software are sold openly, and TV stations broadcast pirated copies of movies. Madagascar is ranked 88th out of 125 countries in the 2010 International Property Rights Index.

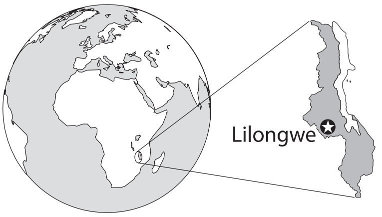
FREEDOM FROM CORRUPTION: *30* — *− 4.0*

Corruption is perceived as widespread. Madagascar ranks 99th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a significant drop from 2008. Complicated administrative procedures introduce delays and uncertainties and multiply the opportunities for corruption. Despite the government's Independent Anti-Corruption Bureau, corruption exists in nearly all sectors.

LABOR FREEDOM: *50.7* — *+ 3.8*

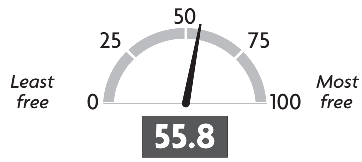
Madagascar's outmoded labor regulations are restrictive and not conducive to development of a dynamic labor market. The non-salary cost of employing a worker is high, and dismissing an employee is not easy. Regulations on work hours remain rigid.

MALAWI



World Rank: **119** Regional Rank: **21**

Economic Freedom Score



Malawi's economic freedom score is 55.8, making its economy the 119th freest in the 2011 *Index*. Its score has increased 1.7 points from last year, primarily reflecting improvements in freedom from corruption and control of government spending. Malawi is ranked 21st out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

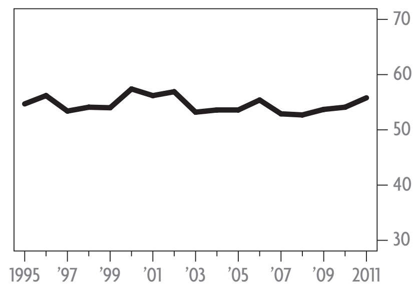
Relatively sound and consistent macroeconomic management has enabled Malawi to achieve annual economic expansion of close to 8 percent over the past five years. However, economic development remains fragile in the absence of a dynamic private sector, and a tradition of direct government involvement in economic activity continues to crowd out private-sector development.

Malawi lags in competitiveness and promotion of the broad-based economic growth that is so essential to the reduction of poverty. The poor quality of much basic infrastructure and the government's inefficiency in delivering public goods have been serious impediments to more vibrant economic development. The overall entrepreneurial environment is hurt by weak property rights, limited access to finance, and bureaucratic red tape.

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.

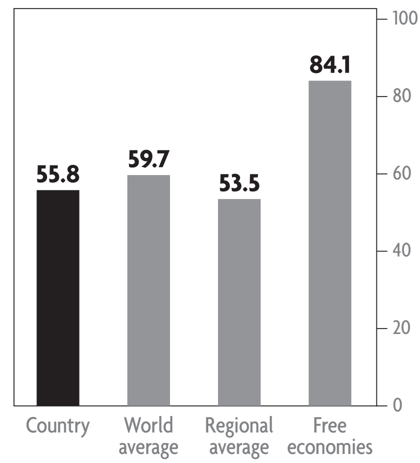
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 13.9 million
GDP (PPP): $12.3 billion
8.0% growth in 2009
7.9% 5-year compound annual growth
$885 per capita
Unemployment: 7.8%
Inflation (CPI): 8.4%
FDI Inflow: $60.4 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *42.4* — 2.4

Progress in improving Malawi's business framework has been slow. Coupled with the poor regulatory system, the lack of equitable access to finance is a major constraint on private-sector development.

TRADE FREEDOM: *71* + 2.4

Malawi's weighted average tariff rate was 7 percent in 2009. Malawi has made some progress in reducing trade barriers. However, import and export restrictions, some services market access restrictions, import and export licensing requirements, some discriminatory regulations, inadequate infrastructure, subsidies, and anti-dumping laws add to the cost of trade. Fifteen points were deducted from Malawi's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *79.3* + 0.4

Malawi has moderate tax rates. The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 16.5 percent.

GOVERNMENT SPENDING: *56.7* + 10.9

In the most recent year, total government expenditures, including consumption and transfer payments, declined to 38 percent of GDP. Authorities plan to support two critical goals through targeted spending: reducing poverty and paying down public-sector debt, currently at 115 percent of GDP.

MONETARY FREEDOM: *71.6* + 0.6

Inflation has been high, averaging 8.4 percent between 2007 and 2009. Although most prices are determined in the market, the government influences certain prices through state-owned enterprises and utilities, such as electricity, transportation, water, and telecommunications; controls the prices of petroleum products and sugar; and uses subsidies to stabilize maize and fertilizer prices. Ten points were deducted from Malawi's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *50* *no change*

Foreign and domestic private investments are generally welcome in most sectors. There is no screening of foreign investment, but foreign and domestic investors are subject to licensing in certain sectors. Government policies generally do not discriminate against foreign investors, although there are some limits on the amount of foreign investment allowed in industries being privatized. While the government has implemented reforms and is moving forward with privatizations, red tape and poor infrastructure continue to impede investment. The legal system is slow, and contract enforcement can be uncertain. Non-residents may hold foreign exchange accounts, subject to restrictions and government approval. Because of shortages of foreign exchange, some payments and transfers face quantitative limits. Most capital transactions by residents require approval. Land ownership is subject to some restrictions.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 156**	Investment Freedom	**No. 94**
Trade Freedom	**No. 121**	Financial Freedom	**No. 70**
Fiscal Freedom	**No. 82**	Property Rights	**No. 70**
Government Spending	**No. 119**	Freedom from Corruption	**No. 89**
Monetary Freedom	**No. 125**	Labor Freedom	**No. 97**

FINANCIAL FREEDOM: *50* *no change*

Malawi's developing financial sector remains dominated by banking. Ten commercial banks offer a variety of services and generally allocate credit on market terms. However, scarce and expensive credit has hindered private-sector development. The government and its subsidiaries borrow heavily from the private sector, though a decline in state borrowing has led to greater competition. Two banks dominate the financial sector: the National Bank of Malawi, which is 50 percent government-owned, and a subsidiary of a South African bank. Capital markets are not fully developed, and activity on the Malawi Stock Exchange remains very limited. The Reserve Bank of Malawi recently introduced amendments to the Banking Act and a Financial Services Bill.

PROPERTY RIGHTS: *45* *no change*

Rights to property, both real and intellectual, are legally protected. There are reports of government intervention in some judicial cases and frequent allegations of bribery in civil and criminal cases. Court administration is weak, and due process can be very slow. Malawi adheres to international IPR treaties and agreements. Malawi is ranked 72nd out of 125 countries in the 2010 International Property Rights Index.

FREEDOM FROM CORRUPTION: *33* + 5.0

Corruption is perceived as widespread. Malawi ranks 89th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a substantial improvement from 2008. Corruption is still seen as a major obstacle to doing business, and there allegedly are serious problems in agencies handling customs, taxes, and procurement. The government says that the fight against corruption is a priority, but investigations and trials continue to move at a slow pace. Former President Bakili Muluzi is currently facing corruption charges in court.

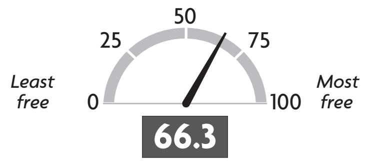
LABOR FREEDOM: *59.1* — 0.2

Although Malawi's burdensome labor regulations are not generally enforced, the labor market remains stagnant and poorly developed. The public sector is a large employer, but most of the population remains employed outside of the formal sector, mostly in agriculture.

MALAYSIA

World Rank: **53** Regional Rank: **9**

Economic Freedom Score



Malaysia's economic freedom score is 66.3, making its economy the 53rd freest in the 2011 *Index*. Its score is 1.5 points higher than last year, reflecting gains in investment and labor freedom. Malaysia is ranked 9th out of 41 countries in the Asia–Pacific region, and its overall score is above the world and regional averages.

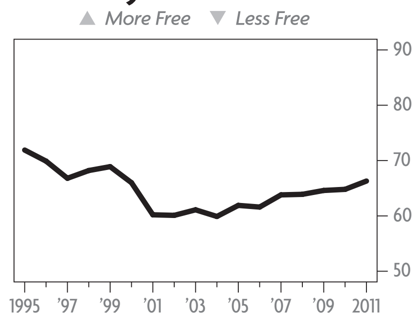
Despite the challenging global economy, Malaysia has continued to pursue liberalization, enhancing the entrepreneurial and investment environments. The economy scores above the world average in many of the 10 economic freedoms. The trade regime is relatively open despite lingering non-tariff barriers. With simple employment procedures and no mandated minimum wage, the labor sector is fairly flexible. Individual and corporate income tax rates are moderate and have been reduced over the past two years.

Weathering the global financial crisis relatively well, Malaysia's financial sector has undergone regulatory adjustments that include the easing of limits on foreign ownership in financial sub-sectors. Numerous domestic equity requirements that used to restrict foreign investment have been eliminated, improving investment freedom. Corruption and a judicial system that remains vulnerable to political influence pose significant challenges to economic freedom.

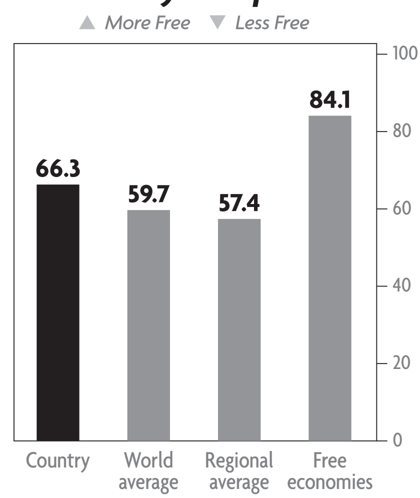
BACKGROUND: Malaysia, an ethnically and religiously diverse constitutional monarchy, became independent in 1957 and has been ruled since then by the United Malays National Organization. Huge electoral inroads made by the People's Justice Party–led opposition coalition in March 2008 were largely the result of popular dissatisfaction with pro-Malay affirmative action programs and corruption. The current government is prosecuting opposition leader Anwar Ibrahim in a process that outside observers see as deeply flawed. 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 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 27.8 million
GDP (PPP): $382.3 billion
–1.7% growth in 2009
3.7% 5-year compound annual growth
$13,769 per capita
Unemployment: 3.7%
Inflation (CPI): 0.6%
FDI Inflow: $1.4 billion

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *69.7* — 0.2

Despite some modernization and greater efficiency, licensing requirements remain time-consuming, and bureaucratic hindrances within the regulatory system impair the emergence of entrepreneurial dynamism.

TRADE FREEDOM: *78.7* *no change*

Malaysia's weighted average tariff rate was 3.1 percent in 2007. Some high tariffs, import restrictions, high services market access barriers, import and export licensing to promote strategic industries, non-transparent regulations and standards, anti-dumping laws, non-transparent government procurement, export subsidies, and weak protection of intellectual property rights add to the cost of trade. Fifteen points were deducted from Malaysia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *84.6* + 0.3

Malaysia has moderate tax rates. The top individual income tax rate has been lowered to 26 percent from 27 percent. Income from skilled workers living in a certain area and working in specified fields (high-tech, green-tech, health care, and education) is assessed at a 15 percent rate. The corporate tax rate is 25 percent, but petroleum profits are subject to a 38 percent tax. Other taxes include a capital gains tax and a vehicle tax. A goods and services tax (GST) has been proposed but not yet implemented. In the most recent year, overall tax revenue as a percentage of GDP was 15.3 percent.

GOVERNMENT SPENDING: *79.2* — 2.1

In the most recent year, total government expenditures, including consumption and transfer payments, held relatively steady at 26.3 percent of GDP. The central government deficit has widened to 7 percent of GDP. Subsidy reform, overhaul of social safety programs, and pursuit of proposed tax reforms are critical for the success of future fiscal consolidation.

MONETARY FREEDOM: *81.3* + 4.6

Inflation has been low, averaging 1.9 percent between 2007 and 2009. Most prices are determined in the market, but the government influences certain prices through state-owned enterprises; controls the prices of petroleum products, steel, cement, wheat flour, sugar, milk, bread, and chicken; and usually sets ceiling prices for a list of essential foods during major holidays. Ten points were deducted from Malaysia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *45* + 15.0

All manufacturing enterprise proposals by foreign and domestic investors are screened by the government. Resolving commercial disputes can be complex and time-consuming. Regulations are burdensome and non-transparent. Residents and non-residents may hold foreign exchange accounts, and there are no limits on the ability of foreign investors to repatriate funds. Only Malaysian citizens may own agricultural land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 74	Investment Freedom	No. 103
Trade Freedom	No. 85	Financial Freedom	No. 70
Fiscal Freedom	No. 39	Property Rights	No. 52
Government Spending	No. 59	Freedom from Corruption	No. 55
Monetary Freedom	No. 27	Labor Freedom	No. 35

FINANCIAL FREEDOM: *50* *no change*

Malaysia's financial sector continues to grow, with efficiency increasing. Supervision of banking has been strengthened, and mergers among local banks have been encouraged to increase overall competitiveness. Islamic banking, which is based on Sharia law, continues to expand. In recent years, more foreign banks have entered the sector. However, foreign firms' overall penetration of the Malaysian financial sector remains restricted. Equity participation is limited to 30 percent for commercial banks, but in 2009, the central bank raised the foreign ownership limit concerning Islamic banks, investment banks, and insurance companies to 70 percent from the previous 49 percent. The financial system has withstood the global financial crisis relatively well, and banks remain generally well capitalized and liquid. Efforts to liberalize capital markets have progressed.

PROPERTY RIGHTS: *50* — 5.0

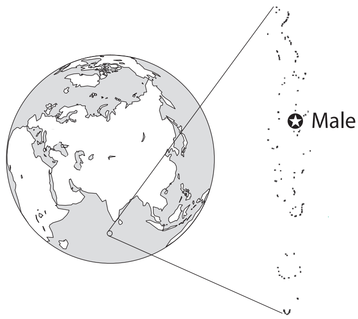
Private property is protected, but the judiciary is subject to political influence. Corporate lawsuits take over a year to file, and many contracts include a mandatory arbitration clause. Despite plans to ratify the World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Performances and Phonograms Treaty, complaints about lax enforcement of intellectual property rights persist, and the manufacture and sale of counterfeit products have led to serious losses for producers of consumer products and pharmaceuticals.

FREEDOM FROM CORRUPTION: *45* — 6.0

Corruption is perceived as present. Malaysia ranks 56th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a drop from 2008. The law provides criminal penalties for official corruption, but it has not been implemented effectively, and officials engage in corrupt practices with impunity. The media have reported numerous cases of alleged official corruption.

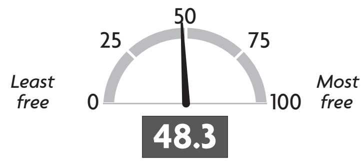
LABOR FREEDOM: *79.2* + 7.8

Labor regulations have become more modern and flexible. The non-salary cost of employing a worker is low, but dismissing an employee remains difficult and costly. There is no national minimum wage, and restrictions on work hours are flexible.



MALDIVES

Economic Freedom Score



World Rank: **154** Regional Rank: **34**

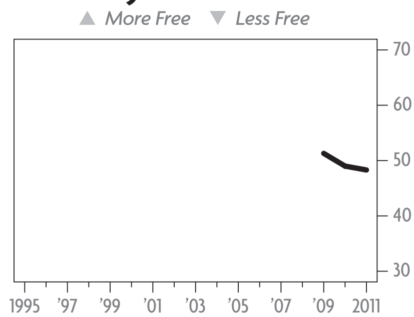
The Maldives' economic freedom score is 48.3, making its economy the 154th freest in the 2010 *Index*. Its score has decreased by 0.7 point from last year, with modest declines in half of the 10 economic freedoms. The Maldives is ranked 34th out of 41 countries in the Asia–Pacific region, and its overall score is below the world and regional averages.

Despite the sharp downturn in 2009, the Maldives has undergone average economic growth of over 6 percent over the past five years. However, continuing measures to enhance competitiveness will be vital. The Maldives scores relatively well in business freedom and fiscal freedom. The overall regulatory environment is streamlined and transparent. With no system of direct taxation, government revenue relies on import taxes, tourism taxes, and income generated by state-owned enterprises.

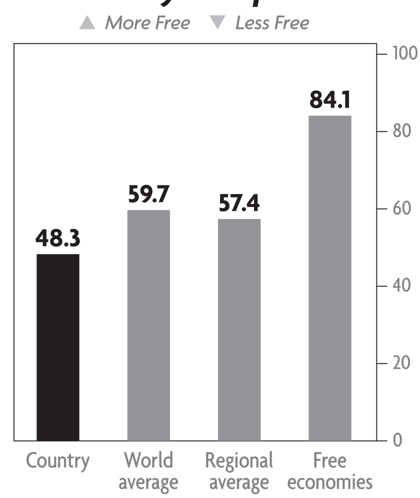
The Maldives' weaknesses include chronically high government spending, inefficiency of the outsized public sector, and widespread corruption. The government still plays a large role in the economy through state-owned enterprises, limiting and crowding out private-sector activity. Public ownership is widespread in every sector except tourism, and the public sector remains the largest source of employment, hiring 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.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 0.3 million
GDP (PPP): $1.7 billion
–3.0% growth in 2009
6.9% 5-year compound annual growth
$4,894 per capita
Unemployment: 14.4% (2006)
Inflation (CPI): 4.0%
FDI Inflow: $9.6 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *81.5* — 0.8

The Maldives' regulatory framework has been streamlined and has become more conducive to entrepreneurial activity. However, impediments to sustained private-sector growth and diversification remain considerable, in large part due to other institutional deficiencies such as corruption and weak protection of property rights.

TRADE FREEDOM: *43.8* — 0.7

The Maldives' weighted average tariff rate was 20.6 percent in 2009. Import restrictions; import quotas on rice, flour, and sugar; import licensing; inefficient customs administration; weak institutional capacity; weak enforcement of intellectual property rights; and corruption add to the cost of trade. Religious publications such as Bibles may not be brought in for commercial use. Fifteen points were deducted from the Maldives' trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *95.6* + 0.1

The Maldives has neither a corporate tax nor a broad-based sales tax. Bank profits are subject to a profits tax. Post-crisis tax reforms included an increase in the airport tax rate and a proposed goods and services tax (GST) on tourism. In the most recent year, overall tax revenue as a percentage of GDP was 21 percent. Most revenues are collected from customs duties.

GOVERNMENT SPENDING: *0* *no change*

In the most recent year, total government expenditures, including consumption and transfer payments, dropped slightly to 63.1 percent of GDP. The fiscal deficit reached an estimated 26 percent of GDP, and public debt levels are high. In an attempt to contain the already high deficit, authorities have undertaken some drastic measures, cutting government workers' pay by 10 percent to 20 percent.

MONETARY FREEDOM: *74.1* + 4.4

Inflation has been high, averaging 6.3 percent between 2007 and 2009. Privatization is progressing slowly, and the government continues to operate state-owned enterprises and to oversee prices through regulatory agencies. Ten points were deducted from the Maldives' monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *35* *no change*

The government reviews all proposed foreign investment. Foreign investors are required to pay annual royalty fees to the government. In many industries, there are no limits on the amount of equity that may be owned by foreign investors. Bureaucracy can be non-transparent and prone to corruption. Dispute resolution can be slow, complicated, and burdensome. There are few restrictions on currency or capital transactions. Foreign investors may lease but not own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 32	Investment Freedom	No. 123
Trade Freedom	No. 176	Financial Freedom	No. 133
Fiscal Freedom	No. 10	Property Rights	No. 139
Government Spending	No. 172	Freedom from Corruption	No. 132
Monetary Freedom	No. 100	Labor Freedom	No. 51

FINANCIAL FREEDOM: *30* *no change*

The Maldives' shallow financial sector is dominated by the banking sector. There is one partially state-owned domestic bank in addition to four branches of foreign banks. The banking sector has expanded rapidly, but growth is due primarily to international bank participation with limited domestic interaction. The Maldives Monetary Authority functions as a central bank and regulates banking activities. Short-term financing is widely available, and credit is generally allocated on market terms. Costly credit and limited access to financial services impede development of a vibrant private sector. As part of the Maldives' ongoing efforts to enhance private-sector development, the government, which owns over half of the largest telecommunications company, has embarked on a mobile phone banking project with support from the World Bank. In a step toward strengthening liquidity management, an amendment to the Maldives Monetary Authority Act has reorganized the governing body of the central bank and separated management of the central bank and finance ministry.

PROPERTY RIGHTS: *25* — 5.0

There is little private ownership of land. Land reform currently under consideration may result in more trade and private ownership of property. The Maldives lacks specific legislation to protect intellectual property rights and has not signed any related international agreements or conventions. The overall respect for and protection of property rights is weak.

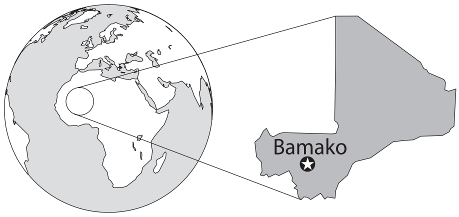
FREEDOM FROM CORRUPTION: *25* — 3.0

Corruption is perceived as widespread. The Maldives ranks 130th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a drop from 2008 and continuing a negative trend. Although the government has vowed to fight corruption, public-sector graft remains a challenge for foreign firms operating in the Maldives.

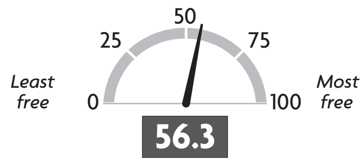
LABOR FREEDOM: *73.4* — 1.9

Labor regulations are flexible, but enforcement is not effective in the absence of a dynamic labor market. Much of the country's labor force is employed in the large public sector.

MALI



Economic Freedom Score



World Rank: **114** Regional Rank: **19**

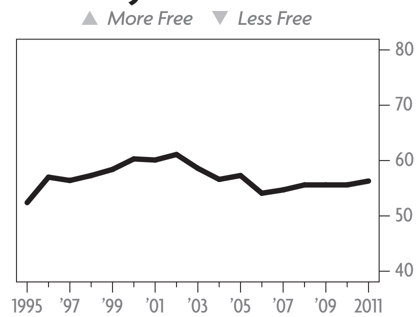
Mali's economic freedom score is 56.3, making its economy the 114th freest in the 2011 *Index*. Its score has increased by 0.7 point from last year, reflecting improvements in half of the 10 economic freedoms. Mali is ranked 19th out of 46 countries in the Sub-Saharan Africa region, and its score is above the regional average.

With the aim of diversifying its economy and reducing rural poverty, Mali is attempting to undertake significant reforms. Tax administration has been improved, and the cotton markets are moving toward privatization. Limited government spending and relatively stable monetary policy have supported a growing entrepreneurial sector.

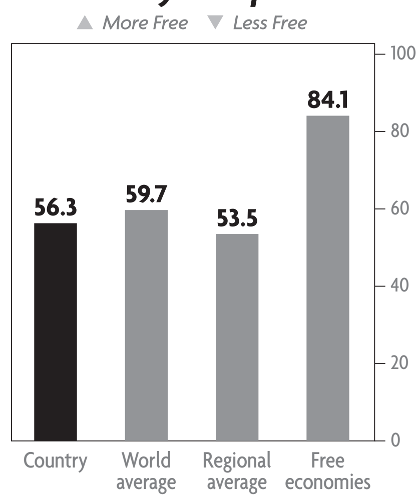
Mali must make substantial strides in other areas in order to ensure significant poverty reduction and long-run economic growth. While Mali encourages foreign and domestic investment in theory, the perception of widespread corruption, poor infrastructure, and regional instability impede the growth of a dynamic private sector. Additionally, rigid labor regulations hurt job growth, while Mali's underdeveloped financial sector limits access to finance, hampering entrepreneurial activity.

BACKGROUND: Mali was a one-party socialist state until a military coup in 1991. Multi-party democratic elections were held in 1992. 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.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 13.7 million
GDP (PPP): $16.0 billion
4.5% growth in 2009
4.9% 5-year compound annual growth
$1,173 per capita
Unemployment: estimated to be over 8.8%
Inflation (CPI): 2.2%
FDI Inflow: $109 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *51.2* ✚ *3.7*

Despite some progress in dismantling bureaucratic barriers, Mali's legal and regulatory framework is not efficient in spurring much-needed economic diversification or private-sector development. Much private-sector activity takes place outside of the formal economy.

TRADE FREEDOM: *73.2* ✚ *3.6*

Mali's weighted average tariff rate was 8.4 percent in 2009. Import and export restrictions, import licensing restrictions, inadequate infrastructure and trade capacity, and inefficient customs implementation add to the cost of trade. Ten points were deducted from Mali's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *60.5* ✚ *0.3*

Mali has high tax rates. 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 an insurance tax. In the most recent year, overall tax revenue as a percentage of GDP was 15 percent.

GOVERNMENT SPENDING: *86.5* ✚ *5.4*

Public financial management in Mali is generally cautious. In the most recent year, total government expenditures, including consumption and transfer payments, dropped to 21.2 percent of GDP. The state telecommunication company, Soltema, was majority-divested in 2009, and privatization proceeds were directed toward a small fiscal stimulus within the supplemental budget. Primary targets for the next wave of privatizations are the national enterprises in banking and cotton. The basic budget deficit shrank to 1.5 percent of GDP. Authorities have pledged to increase transparency in the budget process.

MONETARY FREEDOM: *77.6* ✚ *3.8*

Inflation has been moderating, averaging 3.8 percent between 2007 and 2009. Although most prices are determined in the market, the government influences certain prices through state-owned enterprises and utilities, such as telecommunications, and controls the price of fuel and cotton, which is one of the most important sectors of the economy. Ten points were deducted from Mali's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *50* *no change*

Mali does not discriminate between foreign and domestic investment, but both are screened by the government. Companies may be up to 100 percent foreign-owned, and there are no limits on the ability of foreign investors to repatriate earnings. Inconsistent enforcement of contracts, corruption in the commercial bureaucracy, poor infrastructure, and regional instability are deterrents to investment. Payments and transfers to some countries require government approval. Credit and loan operations and purchases of securities, derivatives, and other instruments may need government authorization. Real estate purchases require special permission.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 141	Investment Freedom	No. 94
Trade Freedom	No. 106	Financial Freedom	No. 106
Fiscal Freedom	No. 164	Property Rights	No. 99
Government Spending	No. 36	Freedom from Corruption	No. 113
Monetary Freedom	No. 60	Labor Freedom	No. 75

FINANCIAL FREEDOM: *40* *no change*

Mali has an underdeveloped financial sector. Financial intermediation remains low, and limited access to financing hampers entrepreneurial activity. The inefficient legal framework is an impediment to enhancing the financial system. Mali is a member of the West African Economic and Monetary Union, and the regional central bank governs financial institutions. There are over 10 commercial banks, including a development bank, an agricultural bank, and a housing bank. Only three commercial banks are fully private. Significant government ownership and government influence in lending decisions have hindered banking growth and limited the range of services offered.

PROPERTY RIGHTS: *30* ━ *5.0*

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. Mali belongs to the African Property Rights Organization and is ranked 72nd out of 125 countries in the 2010 International Property Rights Index.

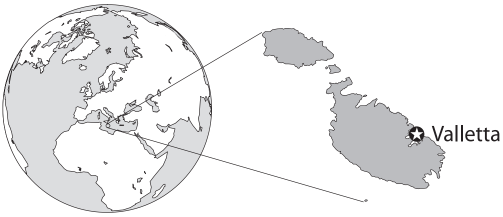
FREEDOM FROM CORRUPTION: *28* ━ *3.0*

Corruption is perceived as widespread. Mali ranks 111th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a significant drop from 2008. Corruption is an obstacle to foreign direct investment. Government officials often solicit bribes to complete routine procedures. There are widely circulated reports of bribery in connection with large contracts and investment projects. Corruption appears to be most prevalent in government procurement and dispute settlement; it is not uncommon for government procurement agents to be paid a commission of 5 percent to 10 percent. Critics allege that senior government officials and major private and parastatal companies have engaged in widespread tax evasion and customs duty fraud.

LABOR FREEDOM: *65.8* ━ *2.1*

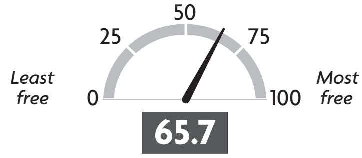
Mali's labor regulations, although not fully enforced, are relatively rigid. The non-salary cost of employing a worker is high, and laying off a worker is difficult. Regulations on the number of work hours are not flexible.

MALTA



World Rank: **57** Regional Rank: **25**

Economic Freedom Score



Malta's economic freedom score is 65.7, making its economy the 57th freest in the 2011 *Index*. Its overall score is 1.5 points lower than last year, reflecting declines in government spending and freedom from corruption. Malta ranks 25th out of 43 countries in the Europe region, and its overall score is below the regional average.

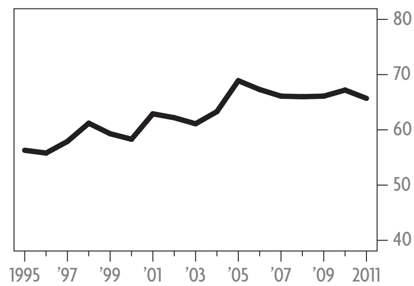
Malta's entrepreneurial environment is conducive to the development of a dynamic private sector. The judiciary is fairly independent and efficient and provides strong protection of property rights. The financial market is small but sound and has become more open to competition. The financial sector has weathered the global financial crisis relatively well.

While its institutional competitiveness is notable, Malta is weak in several areas of economic freedom. Relatively high tax rates and government spending are a drag on economic activity. Lingering corruption and rigid labor regulations add to the cost of conducting business. In the wake of the global crisis, a limited stimulus package, which focused on infrastructure investment, was introduced. Continuation of fiscal consolidation, halted in 2008, will depend on reasonable containment of the wage bill, social transfers, and pension funds.

BACKGROUND: George Abela was elected president on April 4, 2009, and has singled out illegal immigration as the main issue for his government. Malta's 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 entitlements. Malta has made some moves toward liberalization of its economy since joining the EU in 2004 and adopting the euro as its currency in 2008, but its economy remains weak overall. Declines in tourism sent the economy into recession in 2009, prompting the government to distribute grants to affected businesses.

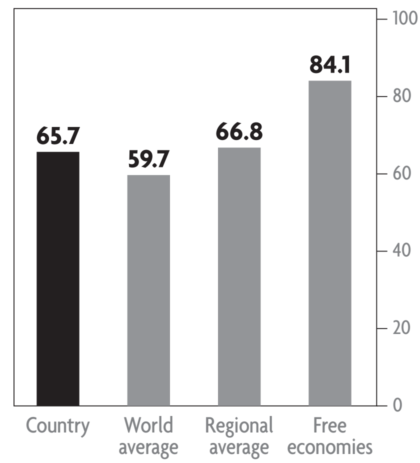
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 416,000
GDP (PPP): $9.8 billion
–1.9% growth in 2009
1.9% 5-year compound annual growth
$23,584 per capita
Unemployment: 7.0%
Inflation (CPI): 1.8%
FDI Inflow: $895 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *70* — *no change*

The overall freedom to launch and operate a private enterprise is relatively well protected under Malta's regulatory environment. Existing regulations are relatively straightforward and applied uniformly most of the time. Malta has adopted transparent and effective policies and regulations to foster competition.

TRADE FREEDOM: *87.6* — *+ 0.1*

Malta's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Maltese policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from Malta's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *62.5* — *no change*

Malta has relatively high tax rates. Both the top income tax rate and the top corporate tax rate are 35 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. In the most recent year, overall tax revenue as a percentage of GDP was 36 percent.

GOVERNMENT SPENDING: *39.8* — *− 5.8*

The Maltese government is significantly involved in the economy through ownership, plentiful subsidy programs, and provision of social services. The level of government spending is high. In the most recent year, total government expenditures, including consumption and transfer payments, rose to 44.8 percent of GDP as a result of the restructuring of state-owned shipyards and spending on energy subsidies and health care. Government financing of the resulting fiscal deficit has pushed public debt to 63 percent of GDP.

MONETARY FREEDOM: *80.1* — *+ 2.0*

Inflation has been low, averaging 2.4 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. The government also influences prices through state-owned enterprises, controls the prices of bread and milk, and heavily subsidizes energy. Ten points were deducted from Malta's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *75* — *+ 5.0*

Malta welcomes foreign investment, but the government screens proposals that are in direct competition with local business. Regulations are generally transparent, efficient, and consistently applied. Residents and non-residents may hold foreign exchange accounts, subject to reporting requirements. Regulations affecting remittances of investment capital and earnings have been improved to conform to EU guidelines. Real estate purchases by non-residents require government approval.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 71	Investment Freedom	No. 26
Trade Freedom	No. 12	Financial Freedom	No. 38
Fiscal Freedom	No. 158	Property Rights	No. 26
Government Spending	No. 151	Freedom from Corruption	No. 44
Monetary Freedom	No. 37	Labor Freedom	No. 96

FINANCIAL FREEDOM: *60* — *no change*

The financial sector has undergone restructuring and rapid expansion. Supervision and regulation have gradually become more transparent and consistent with international norms. A reform package passed in 2000 led to the privatization of many formerly state-owned banks. The reform also resulted in the growing presence of foreign banks and more long-term foreign investment. The stock exchange is small but active. Malta adopted the euro in 2008. The financial sector has withstood the global financial turmoil relatively well due to its limited exposure to structured financial instruments. To support banks, the government extended its deposit guarantee program, but no additional direct measures were taken.

PROPERTY RIGHTS: *70* — *− 10.0*

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 has implemented the pertinent provisions of EU and World Trade Organization Trade-Related Aspects of Intellectual Property Rights (TRIPS) rules, but local laws do not deter copyright pirates.

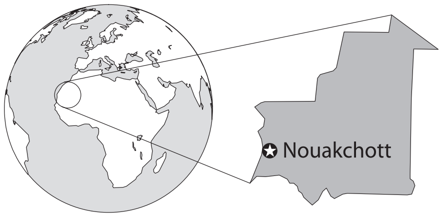
FREEDOM FROM CORRUPTION: *52* — *− 6.0*

Corruption is perceived as present. Malta ranks 45th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a drop from 2008. According to the Council of Europe's Group of States Against Corruption, Malta still lacks a comprehensive anti-corruption strategy as well as appropriate institutions to implement and monitor anti-corruption activities.

LABOR FREEDOM: *60* — *no change*

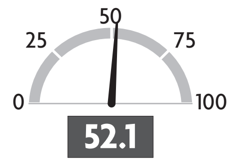
Malta's labor regulations are relatively rigid. Labor relationships can be confrontational, and outdated and inefficient practices are persistent problems. The government mandates a minimum wage.

MAURITANIA



World Rank: **134** Regional Rank: **26**

Economic Freedom Score

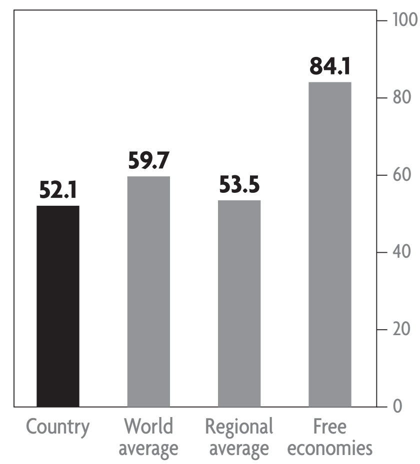


Country's Score Over Time

▲ More Free ▼ Less Free

Country Comparisons

▲ More Free ▼ Less Free



Mauritania's economic freedom score is 52.1, making its economy the 134th freest in the 2011 *Index*. Its score has increased by 0.1 point since last year, with declines in freedom from corruption and labor freedom largely offsetting improved fiscal freedom. 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.

Years of political volatility and mismanagement of the economy have perpetuated a poor and inefficient entrepreneurial environment in Mauritania. Business freedom has declined compared to other economies in the region, and the weighted average tariff has increased, reducing trade freedom. Complex bureaucratic procedures and prescreening processes continue to curtail investment freedom.

Although the Mauritanian economy has expanded from its limited productive base, it suffers from serious institutional weaknesses, and growth remains fragile. Court enforcement of property rights and labor regulations is subject to pervasive political interference. An underdeveloped financial sector hampers any dynamic activity by the private sector. Corruption and a lack of transparency increase uncertainty and risk.

BACKGROUND: A military junta ruled Mauritania from 1978 until 1992, when the first multi-party elections were held. Maaouiya Ould Sid'Ahmed Taya was elected president in 1992 and re-elected in 1997 and 2003. He was ousted in 2005, and a transitional government was appointed. Sidi Ould Cheikh Abdallahi was elected president in 2007 and overthrown in a bloodless coup 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 and regarded by international observers as largely free and fair. The country's mixed population of Moors and Black Africans experiences recurring ethnic tensions. 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 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Quick Facts

Population: 3.1 million
GDP (PPP): $6.3 billion
–1.1% growth in 2009
3.7% 5-year compound annual growth
$2,037 per capita
Unemployment: 30% (2008)
Inflation (CPI): 2.2%
FDI Inflow: $38 million

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *48.3* — *no change*

Mauritania's overall entrepreneurial environment remains burdensome. Bureaucratic procedures are complex and lack transparency. Obtaining necessary business licenses is time-consuming and costly. Closing a business is a cumbersome process.

TRADE FREEDOM: *69.9* — *no change*

Mauritania's weighted average tariff rate was 10.1 percent in 2007. Import restrictions, inadequate infrastructure and trade capacity, and complex and non-transparent customs administration add to the cost of trade. Ten points were deducted from Mauritania's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *81.1* — *+ 6.0*

Mauritania has a relatively high income tax rate and a moderate corporate tax rate. The top income tax rate has been reduced from 40 percent to 33 percent. The income tax rate for non-commercial professionals like lawyers is set at 35 percent. The top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a tax on insurance contracts. The direct tax on microfinance institutions has been reduced, and the government plans to restructure it further. In the most recent year, overall tax revenue as a percentage of GDP was 13.4 percent.

GOVERNMENT SPENDING: *73.9* — *+ 0.5*

Government intervention in the economy is high, though spending levels did not rise in the wake of the political turmoil in 2008 or the global downturn and resulting fall in external demand for Mauritania's mineral resources. In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 29.5 percent of GDP. Expenditures on public investment and subsidies for the food-distribution program are high. Poorly managed state-owned enterprises sustained by government transfers are a drain on the budget. The non-oil fiscal deficit stands at 5.3 percent of GDP.

MONETARY FREEDOM: *77.4* — *– 0.6*

Inflation has been low, averaging 3.9 percent between 2007 and 2009. Most prices are determined in the market, but the government influences certain prices through state-owned enterprises and utilities, such as electricity. Although international prices for cereals and oil fell in 2009, the government has continued to subsidize food, electricity, and water. Ten points were deducted from Mauritania's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *30* — *no change*

Foreign and domestic investments are treated equally, but new foreign investment is screened by the government. Certain financial activity, mining and hydrocarbons, telecommunications, and utilities are subject to additional restrictions.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 145	Investment Freedom	No. 134
Trade Freedom	No. 126	Financial Freedom	No. 106
Fiscal Freedom	No. 67	Property Rights	No. 139
Government Spending	No. 82	Freedom from Corruption	No. 132
Monetary Freedom	No. 61	Labor Freedom	No. 131

Complicated bureaucratic procedures, inadequate infrastructure, political uncertainty, corruption, and non-transparent legal, regulatory, and accounting systems inhibit investment. Residents and non-residents may hold foreign exchange accounts, but non-resident accounts are subject to some restrictions. Foreign investors may own land.

FINANCIAL FREEDOM: *40* — *no change*

Limited access to credit and the high costs of financing continue to impede entrepreneurial activity. Progress in modernizing the financial sector has been sluggish and limited. Accounting for more than 80 percent of total assets, the banking sector dominates the financial system. Foreign banks are new to the system; two French bank subsidiaries opened in 2006 and 2007. The banking sector is hampered by a high level of non-performing loans, which are estimated to be over 40 percent of total loans. A banking law enacted in 2007 has modestly enhanced competition and improved access to credit. Given the lack of depth and efficiency in the financial system, capital markets are virtually nonexistent, and there is no stock market.

PROPERTY RIGHTS: *25* — *no change*

Mauritania's judicial system is chaotic and corrupt. The judiciary is subject to influence from 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.

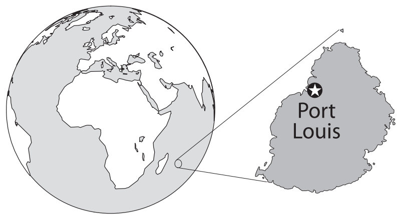
FREEDOM FROM CORRUPTION: *25* — *– 3.0*

Corruption is perceived as widespread. Mauritania ranks 130th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a significant drop from 2008. All levels of government and society are affected by corrupt practices. Affluent business groups and senior government officials reportedly receive favorable treatment with regard to taxes, special grants of land, and government procurement. Tax laws are routinely flouted. Widespread corruption weakens the government's ability to provide needed services.

LABOR FREEDOM: *50.3* — *– 2.2*

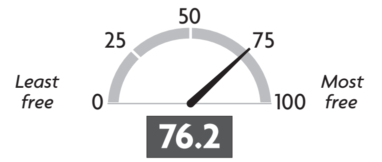
Outmoded employment regulations hinder overall job creation and productivity growth. Restrictions concerning working hours remain rigid. The absence of a well-functioning labor market has resulted in chronically high unemployment and severe underemployment.

MAURITIUS



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

Economic Freedom Score



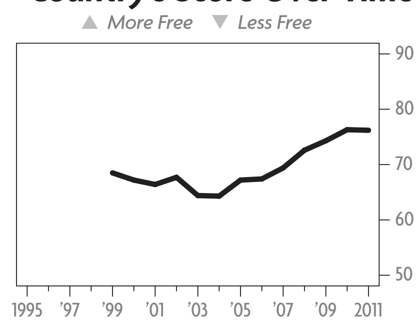
Mauritius's economic freedom score is 76.2, making its economy the 12th freest in the 2011 *Index*. Its overall score is 0.1 point lower than last year, with declines in half of the 10 economic freedoms offsetting gains in trade, monetary, and investment freedom. Mauritius is ranked 1st out of 46 countries in the Sub-Saharan African region, and its overall score is well above the world average.

Mauritius is a regional leader in economic freedom. Efficient and transparent regulations underpin its status as one of the world's 20 freest economies and support broad-based economic development. Competitive tax rates and relatively flexible labor regulations promote innovative private-sector growth. The open trade regime and relatively well protected property rights bolster entrepreneurial activity.

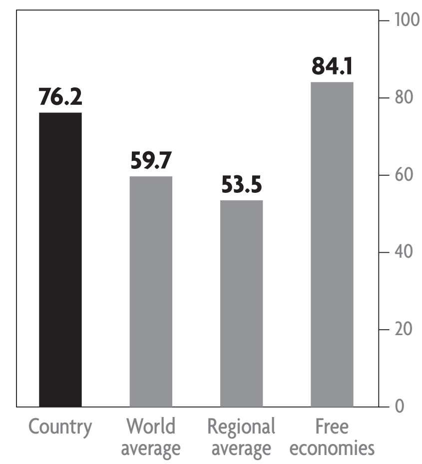
While privatization of state-owned monopolies has stalled, the state does not play an overwhelming role in the economy, minimizing the drag on dynamic business activity. Corruption, the bane of many other countries in the region, is relatively low. Public financial management is generally sound. Public debt, at 60 percent of GDP, is nearly all held by the National Pensions Fund and commercial banks.

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. It is also one of Sub-Saharan Africa's strongest economies and has one of the region's highest levels of per capita income. The government is trying to modernize the sugar and textile industries, which in the past were overly dependent on trade preferences, 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, have become the economic mainstay. The government still owns utilities and controls imports of rice, flour, petroleum products, and cement.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 1.3 million
GDP (PPP): $16.1 billion
1.5% growth in 2009
3.7% 5-year compound annual growth
$12,527 per capita
Unemployment: 7.3%
Inflation (CPI): 2.5%
FDI Inflow: $257 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *82* — *0.2*

The overall regulatory framework has undergone a series of reforms aimed at facilitating entrepreneurial activity in recent years. The private sector now faces fewer constraints, although there is still room for deeper institutional reform. Procedures for establishing and running a business have become efficient and less time-consuming.

TRADE FREEDOM: *88* + *2.4*

Mauritius's weighted average tariff rate was 1 percent in 2009. The government has made considerable progress in liberalizing the trade regime, but some quotas, import restrictions, import and export permits, export-promotion programs, and weak enforcement of intellectual property rights add to the cost of trade. The government also controls imports of what it deems to be strategic products, including rice and wheat flour. Ten points were deducted from Mauritius's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *91.9* — *0.6*

Mauritius has a very competitive tax regime. Both the income tax rate and the corporate tax rate are a flat 15 percent. Other taxes include a value-added tax (VAT) and a property tax. Employers and employees pay social security and pension contributions. In the most recent year, overall tax revenue as a percentage of GDP was 19 percent.

GOVERNMENT SPENDING: *80* — *3.4*

Stimulus spending targeting infrastructure investment and job preservation began in December 2008 and continued through 2010. In the most recent year, total government expenditures, including consumption and transfer payments, showed a modest increase at 25.8 percent of GDP.

MONETARY FREEDOM: *76.1* + *4.9*

Inflation has moderated, averaging 4.8 percent between 2007 and 2009. The government controls prices for a number of goods, including flour, sugar, milk, bread, rice, petroleum products, steel, cement, fertilizers, and pharmaceuticals; influences prices through state-owned enterprises and utilities; and subsidizes some agricultural and industrial production. Ten points were deducted from Mauritius's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *90* + *5.0*

Foreign and domestic investors are treated equally, and foreigners may control 100 percent of companies in most economic sectors. A transparent and well-defined foreign investment code makes Mauritius one of the best places in the region for foreign investment. The domestic legal system is generally non-discriminatory and transparent. Residents and non-residents may hold foreign exchange accounts. There are no controls on payments or transfers. Foreign nationals may acquire property subject to some restrictions. Foreign investments have never been targets of nationalization or expropriation.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 29	Investment Freedom	No. 2
Trade Freedom	No. 9	Financial Freedom	No. 17
Fiscal Freedom	No. 17	Property Rights	No. 42
Government Spending	No. 56	Freedom from Corruption	No. 41
Monetary Freedom	No. 80	Labor Freedom	No. 58

FINANCIAL FREEDOM: *70* *no change*

Mauritius's efficient financial sector remains competitive, and its contribution to GDP has risen steadily. Although several banks are still fully or partially owned by the government, private banks are dominant, and credit is allocated at market terms without state interference. Financial regulation is relatively sound and has become more efficient since passage of the Bank of Mauritius Act, which simplified the bank licensing structure, in 2004. Distinctions between onshore and offshore banks have been eliminated. Capital markets are growing as Mauritius seeks to be a regional financial hub. The Mauritian financial system had few liquidity problems during the financial crisis, but the government has helped to reduce credit risk by providing temporary relief to financial institutions that have credible plans for restructuring.

PROPERTY RIGHTS: *60* *no change*

The judiciary is independent, and trials are fair. The legal system is generally non-discriminatory and transparent. The highest court of appeal is the judicial committee of the Privy Council of England. Expropriation is unlikely. Trademark and patent laws comply with the World Trade Organization's Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement.

FREEDOM FROM CORRUPTION: *54* — *1.0*

Mauritius ranks 42nd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Mauritius is one of Africa's least corrupt countries. In 2002, the government adopted the Prevention of Corruption Act, which led to the setting up of an Independent Commission Against Corruption (ICAC) a few months later. The ICAC has the power to detect and investigate corruption and money-laundering offenses and can also confiscate the proceeds of corruption and money laundering. Corruption is not seen as an obstacle to foreign direct investment.

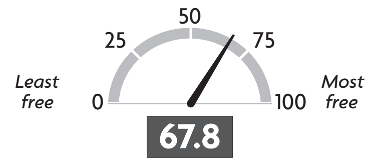
LABOR FREEDOM: *70.4* — *8.1*

Mauritius's labor regulations are relatively flexible. The non-salary cost of employing a worker is low, but dismissing an employee can be relatively costly and difficult.

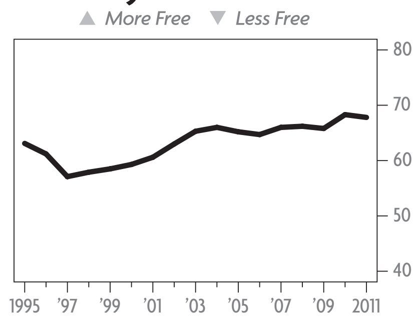
MEXICO

World Rank: **48** Regional Rank: **3**

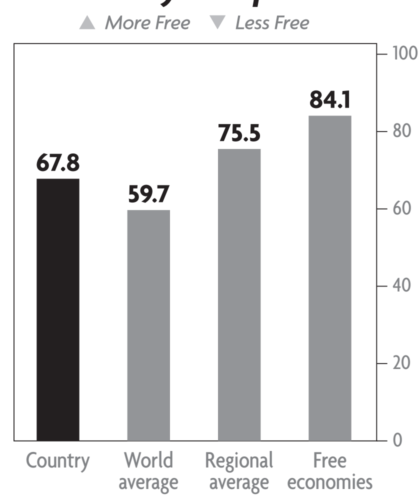
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Mexico's economic freedom score is 67.8, making its economy the 48th freest in the 2011 *Index*. Its score is 0.5 point worse than last year, reflecting declines in freedom from corruption and fiscal freedom. Mexico is ranked 3rd out of three countries in the North America region, but its score is well above the world average.

The Mexican economy performs fairly well in business freedom, trade freedom, and government spending. Mexico conducts over 80 percent of its trade with countries within its web of free trade pacts. Commercial operations are becoming more streamlined, and business formation is relatively efficient. Prudent fiscal management has reduced debt levels and helped Mexico to withstand the global crisis. Tax rates have been adjusted to offset rising pension and social spending.

Continuing institutional weaknesses include corruption and labor market rigidity. The reform agenda has been extensive, but progress has been sluggish. The judicial system is slow to resolve cases and vulnerable to corruption. Drug-gang violence has trimmed an estimated 1.2 percentage points from Mexico's GDP.

BACKGROUND: Mexico is a party to the North American Free Trade Agreement with Canada and the United States 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. Since the election of President Carlos Salinas in 1988, successive governments have adopted limited reforms and have begun to alter Mexico's corporatist economic model. Felipe Calderon, the second president from the National Action Party in as many terms, has achieved key judicial, fiscal, pension, and electoral reforms, but proposals to further liberalize the economy, especially by opening the energy sector to foreign investment, lack legislative support. Calderon faces a major security challenge from illegal drug cartels and a political challenge from a resurgent Institutional Revolutionary Party.

Quick Facts

Population: 107.6 million
GDP (PPP): $1.5 trillion
–6.5% growth in 2009
0.7% 5-year compound annual growth
$13,628 per capita
Unemployment: 5.5%
Inflation (CPI): 5.3%
FDI Inflow: $12.5 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *87.3* + 4.3

Recent regulatory reforms have improved the overall freedom to establish and conduct a business in Mexico. Starting a business takes less than half the world average of 34 days. Licensing requirements are less time-consuming than the world average of 209 days. Bankruptcy proceedings can be lengthy and burdensome.

TRADE FREEDOM: *81.2* – 0.8

Mexico's weighted average tariff rate was 1.9 percent in 2009. Mexico has 43 free trade agreements with other countries, the most in the world. Import restrictions and fees; services market access barriers; import licensing and registration; restrictive standards and labeling rules; burdensome sanitary and phytosanitary regulations; non-transparent, complex, and inconsistent customs administration and valuation; export-promotion programs; anti-dumping laws; and weak enforcement of intellectual property rights add to the cost of trade. Fifteen points were deducted from Mexico's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *81.3* – 2.2

The top income and corporate tax rates have been temporarily raised to 30 percent from 28 percent, beginning January 2010. Rates will be lowered to 29 percent in 2012 and 1 percent every year thereafter until 2014. A 1.5 percent flat-rate business tax (known as the IETU) operates as an alternative to the corporate income tax for some companies. Other taxes include a value-added tax (VAT) and a real estate transfer tax. In the most recent year, overall tax revenue as a percentage of GDP was 8.2 percent.

GOVERNMENT SPENDING: *83.1* – 2.1

In the most recent year, total government expenditures, including consumption and transfer payments, increased slightly to 23.7 percent of GDP. Privatization has progressed, but the energy and electricity industries remain government-controlled.

MONETARY FREEDOM: *75.7* – 0.6

Inflation has been moderately high, averaging 5.1 percent between 2007 and 2009. While most prices are determined in the market, the government maintains suggested retail prices for medicines and influences prices through state-owned enterprises and utilities, including electricity and energy. Ten points were deducted from Mexico's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *65* *no change*

Mexico does not generally discriminate between domestic and foreign investors, but a number of sectors are reserved for domestic or state interests or have restrictions capping the level of foreign ownership. Most foreign investment does not require official approval. Burdensome and non-transparent bureaucracy and a rigid labor code inhibit investment. Residents and non-residents may hold foreign exchange accounts. Most payments, transactions, and transfers are allowed without restriction. Foreign investment in some real estate is restricted.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 19	Investment Freedom	No. 50
Trade Freedom	No. 71	Financial Freedom	No. 38
Fiscal Freedom	No. 65	Property Rights	No. 52
Government Spending	No. 46	Freedom from Corruption	No. 89
Monetary Freedom	No. 88	Labor Freedom	No. 89

FINANCIAL FREEDOM: *60* *no change*

Mexico's financial sector has become more competitive and stable. Government holdings in commercial banking have been significantly reduced, and foreign participation has grown rapidly over the past decade. Foreign institutions are prominent in the financial sector. Four of the five largest banks in terms of assets are foreign-owned and account for over 60 percent of total banking assets. Banks offer a wide range of services, but overall financial intermediation remains relatively low despite some increase in recent years. Six state-owned development banks provide financing to specific areas of the economy and influence credit. Amendments to the Law of Credit Institutions include creating a new limited banking license. The impact of the global financial turmoil on the financial sector has been relatively modest, and the banking system remains well capitalized.

PROPERTY RIGHTS: *50* *no change*

The threat of expropriation is low. Contracts are generally upheld, but the courts are slow to resolve disputes and are subject to corruption. Despite a legal framework for the enforcement of intellectual property rights, the prosecution of infringement cases is ineffective. Foreign real estate investors have found it difficult to secure enforcement of their property interests in state-level courts.

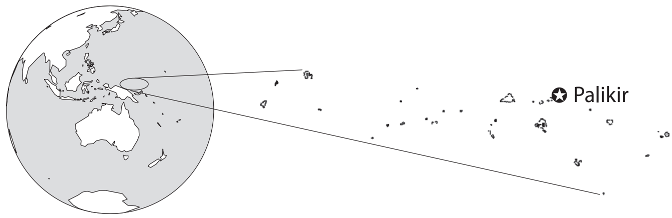
FREEDOM FROM CORRUPTION: *33* – 3.0

Corruption is perceived as significant. Mexico ranks 89th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a drop from 2008. Corruption has been pervasive for years, and most Mexican external audit institutions lack operational and budgetary independence. President Calderon has committed his administration to fight against corruption at all levels of government and in 2008 launched Operación Limpieza, investigating and imprisoning corrupt government officials in enforcement agencies.

LABOR FREEDOM: *60.9* – 1.0

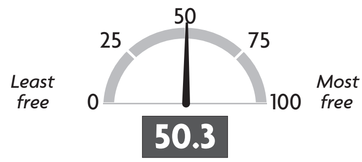
Mexico's labor regulations are rigid, and reforms in the labor market remain stalled. The non-salary cost of employing a worker can be high, and dismissing an employee is burdensome.

MICRONESIA



World Rank: **145** Regional Rank: **32**

Economic Freedom Score



Micronesia's economic freedom score is 50.3, making its economy the 145th freest in the 2011 *Index*. Its score has decreased by 0.3 point since last year, with business and monetary freedom registering small declines. Micronesia is ranked 32nd out of 41 countries in the Asia–Pacific region, and its overall score is lower than the world and regional averages.

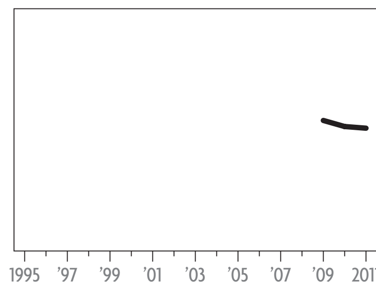
Micronesians face considerable challenges in realizing their economic potential. The economy scores poorly in many of the 10 components of economic freedom, and growth has been erratic. A significant portion of economic activity is still concentrated in the public sector, which is the largest source of employment.

Micronesia's tariff barriers are relatively low, but its overall trade freedom is still limited by non-tariff barriers and poor trade infrastructure. Development of the private sector has been marginal because of a business environment that is not conducive to entrepreneurial activity. As evidenced by low scores in business freedom, investment freedom, financial freedom, and property rights, the overall regulatory and legal framework remains inefficient and lacking in transparency.

BACKGROUND: Micronesia's population of approximately 111,000 is spread across a South Pacific archipelago that contains 607 islands divided among four states: the island groups of Pohnpei, Chuuk, and Yap and the island of Kosrae. Formerly administered by the United States as a U.N. Trust Territory, it became independent in 1986 and in that same year 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. As a result, 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.

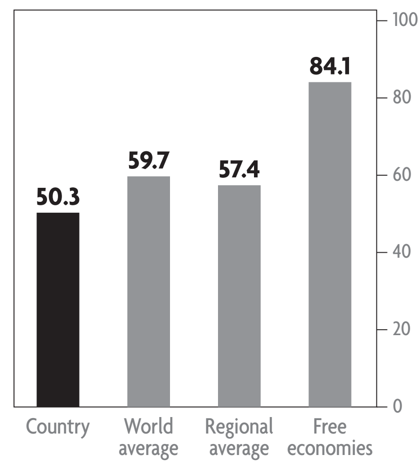
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 0.1 million
GDP (PPP): $0.3 billion
–1.0% growth in 2008
–1.7% 5-year compound annual growth
$2,830 per capita (2008)
Unemployment: n/a
Inflation (CPI): 7.4%
FDI Inflow: n/a

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *58.7* — *0.4*

The formation or operation of private enterprises is not easy. Inconsistent application of commercial regulations and the regulatory framework's lack of transparency discourage entrepreneurial dynamism.

TRADE FREEDOM: *81* *no change*

Micronesia's simple average tariff rate was 4.5 percent in 2007. Micronesia is not a member of the World Trade Organization. Some high tariffs, import restrictions, inadequate infrastructure, and underdeveloped markets add to the cost of trade. Ten points were deducted from Micronesia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *97.6* + *0.1*

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 on alcohol and tobacco products. Sales taxes are set and collected separately at the state level. In the most recent year, overall tax revenue as a percentage of GDP was only 11.5 percent.

GOVERNMENT SPENDING: *0* *no change*

Micronesia's economy is dominated by the public sector. In the most recent year, total government expenditures, including consumption and transfer payments, fell slightly to 62.3 percent of GDP. Government and public enterprises account for nearly 40 percent of GDP and over 50 percent of paid employment. Although grants from China and small reductions in public wages helped shrink the deficit to 3 percent of GDP, fuel subsidies are rising and the wage bill remains high by regional standards.

MONETARY FREEDOM: *73.4* — *3.3*

Inflation has been rising, averaging 6.9 percent between 2007 and 2009. The U.S. dollar is the official currency, and the government has few policy tools with which to affect inflation or interest rates. Ten points were deducted from Micronesia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *20* *no change*

The government generally does not discriminate against foreign investors, but foreign investment is not allowed in some sectors. All foreign investment is prescreened. The states license and regulate all other sectors and may impose additional restrictions. Each of Micronesia's four states has a unique foreign investment regime and can counter national policy. Regulations are non-transparent and applied inconsistently, and enforcement of contracts is weak. There are no limitations on currency or capital transactions. Foreign investors may not own land but may lease it for short periods.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 124	Investment Freedom	No. 152
Trade Freedom	No. 72	Financial Freedom	No. 133
Fiscal Freedom	No. 8	Property Rights	No. 99
Government Spending	No. 172	Freedom from Corruption	No. 99
Monetary Freedom	No. 108	Labor Freedom	No. 23

FINANCIAL FREEDOM: *30* *no change*

Micronesia's small financial sector is not developed enough to generate and support dynamic entrepreneurial activity. Outmoded regulation, 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. The financial sector is dominated by banking, which includes one state-owned development bank and two commercial banks, one of which is majority government-owned. State influence in allocating credit is substantial, and government-controlled or government-owned banks make a majority of all loans.

PROPERTY RIGHTS: *30* *no change*

Foreign ownership of land is not permitted. Lease terms for real property are controlled at the state level and often limited to relatively short periods. Squatters, long-standing and multiple disputes over land ownership, and the absence of property records make leasing land extremely difficult, costly, and uncertain in some locales. Transfer of title sometimes occurs informally, and this causes a lack of accurate public pricing information. Most original land records in Chuuk State were destroyed in a fire; the other three states have functioning land offices. Copyrights are protected by statute, but no trademark, patent, or other intellectual property rights regulations are in effect.

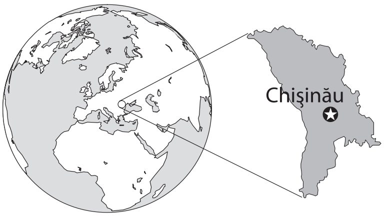
FREEDOM FROM CORRUPTION: *30* *no change*

Corruption in Micronesia is perceived as widespread. The level of corruption varies in each island state, with Chuuk perceived as the worst. Micronesia has laws prohibiting corruption, and there are penalties for corrupt acts. Bribery is punishable by imprisonment for not more than 10 years and disqualification from holding any government position. Micronesia has not signed or ratified the U.N. Convention on Corruption. Many government officials also own businesses.

LABOR FREEDOM: *82.4* + *0.6*

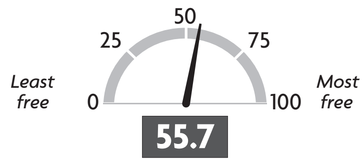
Labor regulations are relatively flexible, but the formal labor market is not well developed, and this renders the labor code ineffective. A large share of the workforce is employed in the informal sector. The non-salary cost of employing a worker is low, and dismissing an employee is fairly easy.

MOLDOVA

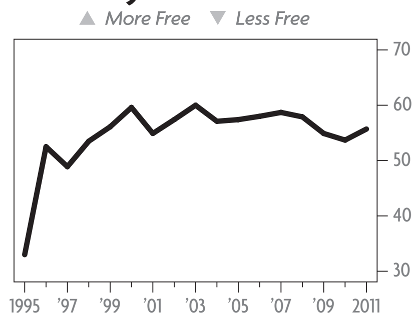


World Rank: **120** Regional Rank: **40**

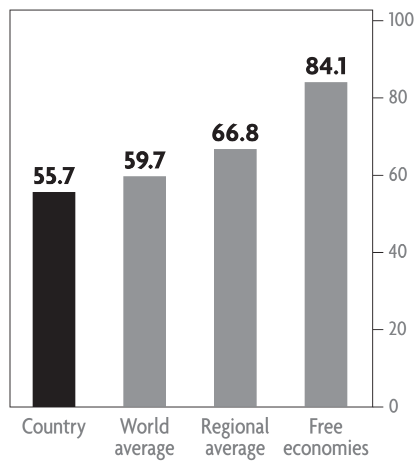
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Moldova's economic freedom score is 55.7, making its economy the 120th freest in the 2011 *Index*. Its score has increased by two points since last year, reflecting higher scores in six of the 10 economic freedoms. Moldova ranks 40th among 43 countries in the Europe region, and its overall score is below the regional and world averages.

Moldova scores relatively well in trade freedom and fiscal freedom. In recent years, the government has implemented measures to improve regulatory transparency and the overall entrepreneurial environment. Recent tax reforms have made the tax regime quite competitive.

However, the country's overall progress toward fostering sound macroeconomic management and enhancing the entrepreneurial climate has been marginal. Realization of growth potential remains constrained by lingering state interference in the private sector, which has left the economy vulnerable in a changing 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 has not reversed market reforms instituted in the early 1990s. The Communist Party lost its parliamentary majority in July 2009, but the ruling coalition did not have enough votes to elect a president. A referendum in September 2010 to provide for direct election of the President failed because of low turnout. 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 Europe and Russia account for one-third of GDP.

Quick Facts

Population: 3.6 million
GDP (PPP): $10.1 billion
–6.5% growth in 2009
2.1% 5-year compound annual growth
$2,843 per capita
Unemployment: 3.1%
Inflation (CPI): 0.0%
FDI Inflow: $86 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *69.5* — *0.7*

Moldova has taken steps to reform its cumbersome regulatory framework and combat petty corruption. However, lingering bureaucracy and a lack of transparency often make formation and operation of private enterprises costly and burdensome.

TRADE FREEDOM: *80.2* + *0.3*

Moldova's weighted average tariff rate was 2.4 percent in 2009. Import and export restrictions, import fees, burdensome regulations, non-transparent government procurement, arbitrary requirements and import quotas, and an inefficient customs process add to the cost of trade. Fifteen points were deducted from Moldova's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *85.6* + *0.5*

Moldova's tax rates have been significantly reduced in recent years. The top income tax rate is 18 percent, and the exemption for individuals working in software development has been extended to 2012. 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 a capital acquisitions tax. In the most recent year, overall tax revenue as a percentage of GDP was 33.4 percent.

GOVERNMENT SPENDING: *48.1* + *5.1*

Moldova has maintained overall expenditure restraint through the economic downturn. In the most recent year, total government expenditures, including consumption and transfer payments, declined slightly to 41.6 percent of GDP. The government is slowly revitalizing privatization and plans divestiture of MoldTelecom and a major state-owned bank. The public debt-to-GDP ratio is a sustainable 31 percent of GDP.

MONETARY FREEDOM: *77* + *9.5*

Inflation has moderated, averaging 4.2 percent between 2007 and 2009, although rising global prices for oil and for natural gas imports from Russia in 2010, a significant depreciation of Moldova's currency, the effect of a cold winter on food prices, and tax rises at the start of 2010 have produced a sharp rebound. The government has phased out most price controls and many subsidies but still influences prices through numerous state-owned enterprises and utilities, including electricity and energy. Ten points were deducted from Moldova's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *35* + *5.0*

Foreign and domestic investors are treated equally, but some sectors are reserved for state enterprises. There is no screening of investment. Regulatory administration can be non-transparent, burdensome, and inconsistent. Poor physical infrastructure, weak contract enforcement, and corruption hinder investment. Legal disputes may not result in impartial rulings. Residents and non-residents may hold foreign exchange accounts. Some payments, capital transactions, and transfers require National Bank of Moldova approval. Non-Moldovans may not buy agricultural or forest land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 75	Investment Freedom	No. 123
Trade Freedom	No. 77	Financial Freedom	No. 70
Fiscal Freedom	No. 37	Property Rights	No. 73
Government Spending	No. 137	Freedom from Corruption	No. 89
Monetary Freedom	No. 67	Labor Freedom	No. 166

FINANCIAL FREEDOM: *50* *no change*

Moldova's financial system has undergone restructuring and consolidation, and bank supervision and regulation are now more in line with international standards. Rapid credit growth has supported private-sector expansion, but long-term financing remains difficult. Overall, the financial sector is stable but shallow as financial intermediation continues to be constrained by structural impediments. Banks are the main source of business financing; non-banking financial sectors are underdeveloped. Banking remains highly concentrated, and the top five of 15 commercial banks account for more than 50 percent of total assets. Foreign capital in banking has been increasing steadily, and the foreign share in Moldovan banks' capital is over 70 percent. Capital markets remain underdeveloped.

PROPERTY RIGHTS: *40* *no change*

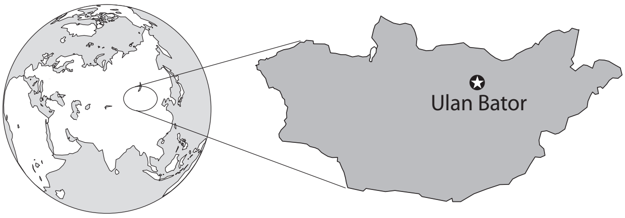
The judiciary has been improved but is subject to executive influence. Delayed salary payments make it difficult for judges to remain independent from outside influence and free from corruption. Moldova adheres to key international agreements on intellectual property rights and has a State Agency for Intellectual Property to protect copyrights, but IPR enforcement is sporadic. Moldova is ranked 121st out of 125 countries in the 2010 International Property Rights Index.

FREEDOM FROM CORRUPTION: *33* + *4.0*

Corruption is perceived as widespread. Moldova ranks 89th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, an improvement over 2008 when the government enacted the Law on Preventing and Combating Corruption, the Law on Conflict of Interests, and the Law on the Code of Conduct for Public Servants. Moldova has ratified the United Nations Convention against Corruption. However, corruption and bribery reportedly remain serious problems for foreign investors.

LABOR FREEDOM: *39* — *3.7*

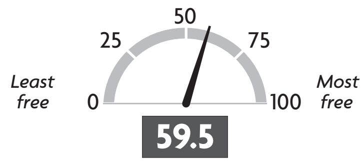
Moldova's labor regulations are rigid. The non-salary cost of employing a worker is high, and dismissing an employee is not easy. Restrictions on work hours remain rigid.



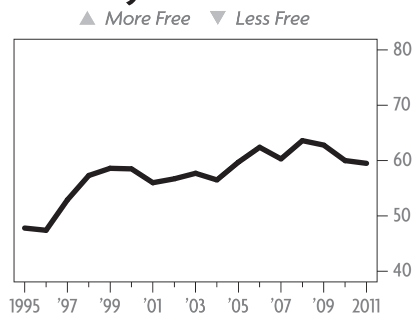
MONGOLIA

World Rank: **94** Regional Rank: **16**

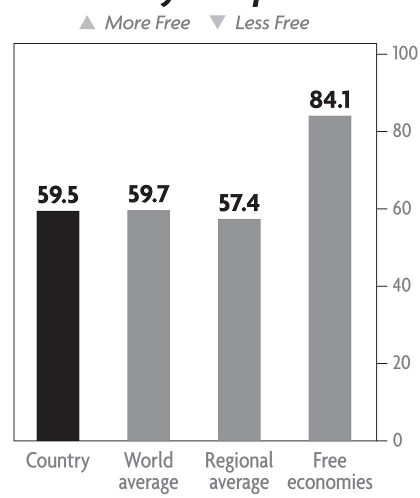
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Mongolia's economic freedom score is 59.5, making its economy the 94th freest in the 2011 *Index*. Its overall score is 0.5 point lower than last year, mainly reflecting reduced scores for government spending and freedom from corruption. Mongolia is ranked 16th out of 41 countries in the Asia–Pacific region, and its overall score is above the regional average.

Economic reforms in recent years have supported economic expansion and poverty reduction. Mongolia's developing entrepreneurial sector has benefited from increased access to financing following banking reforms. Flexible labor regulations, competitive tax rates, and an open trade regime also promote the growth of a vibrant private sector.

Recent years' economic achievements provide valuable momentum, but critical reforms are still necessary for long-term economic development. The regulatory framework governing investment remains opaque and is still evolving, injecting uncertainty into investment decisions. The weak rule of law and lingering corruption are additional drags on dynamic entrepreneurship. Accelerating reforms in these key areas, along with continued efforts to streamline public administration, will help to sustain economic growth and broaden improvement in living standards.

BACKGROUND: Mongolia emerged from the shadow of the former Soviet Union with the adoption of a multi-party system and a new constitution in 1990. The electorate is split fairly evenly between the Communist Mongolian People's Revolutionary Party and the Democratic Party. Democratic Party candidate and former Prime Minister Tsakhiagiin Elbegdorj was elected president in 2009. Mongolia is a primary transportation conduit for trade between Russia and China, which together account for 40 percent of its foreign direct investment. Trade is tilted heavily toward China; two-way trade with China increased by 43 percent in 2007 to $2.08 billion, accounting for 52 percent of Mongolia's total trade. Livestock herding employs a majority of the population, but mining attracts the largest portion of foreign direct investment.

Quick Facts

Population: 2.7 million
GDP (PPP): $9.4 billion
–1.6% growth in 2009
6.4% 5-year compound annual growth
$3,481 per capita
Unemployment: 3.6% (2008)
Inflation (CPI): 6.3%
FDI Inflow: $437.2 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *67.7* — 1.3

The regulatory framework continues to evolve, but the pace of reform has been sluggish. Starting a business takes an average of 13 days, compared to the world average of 34 days. Obtaining a business license takes less than the world average of 209 days. Bankruptcy can be lengthy and burdensome.

TRADE FREEDOM: *79.8* *no change*

Mongolia's weighted average tariff rate was 5.1 percent in 2008. Some import and export restrictions, restrictions in services markets, import and export taxes, underdeveloped infrastructure, and inconsistent, inefficient, and corrupt customs implementation add to the cost of trade. Ten points were deducted from Mongolia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *83.3* + 1.4

Mongolia has a low income tax rate and a moderate corporate tax rate. The individual income tax rate is a flat 10 percent, and the top corporate tax rate is 25 percent. Gambling and lottery activities are taxed at 40 percent. Other taxes include a value-added tax (VAT), an excise tax on alcohol and vehicles, and a dividend tax. In the most recent year, overall tax revenue as a percentage of GDP was 30.8 percent.

GOVERNMENT SPENDING: *49.6* — 7.1

In the most recent year, total government expenditures, including consumption and transfer payments, reached 41 percent of GDP. Despite falling revenues due to lower copper prices, spending remained high. The fiscal deficit widened to 6.5 percent of GDP. A Fiscal Responsibility Law that is meant to codify budget discipline is under consideration.

MONETARY FREEDOM: *73.6* + 7.1

Inflation has been extremely volatile, jumping to 26.8 percent in 2008 as world food and fuel prices soared and then plunging to 6.3 percent the following year, for an average of 11.5 percent between 2007 and 2009. Although most price controls and many subsidies have been phased out, the government influences prices through the public sector or through regulation, sometimes intervenes in the market to stabilize commodity prices, and still controls air fares and fuel prices. Five points were deducted from Mongolia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *50* *no change*

In most cases, the government does not discriminate between foreign and domestic investors. Foreign investment in industries related to the extraction of petroleum and strategic minerals is subject to additional restrictions. The regulatory framework supporting investment is still developing, and regulations and investment-related laws are changed frequently. Rules may be inconsistently applied or misunderstood. Non-transparent bureaucracy can be prone to corruption, and contract enforcement is inconsistent. Residents and non-residents may hold foreign exchange accounts, subject to minimal restrictions. There are no restrictions on payments and transfers. Most credit and loan operations must be registered with the central bank. Foreign investors may lease but not own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 81	Investment Freedom	No. 94
Trade Freedom	No. 78	Financial Freedom	No. 38
Fiscal Freedom	No. 54	Property Rights	No. 99
Government Spending	No. 132	Freedom from Corruption	No. 122
Monetary Freedom	No. 105	Labor Freedom	No. 50

FINANCIAL FREEDOM: *60* *no change*

Restructuring of the banking sector has improved private-sector access to financing. The government imposes few restraints on the flow of capital, and foreign investors tap domestic capital markets freely. State ownership of banks has been reduced, and the presence of foreign banks is considerable. The government is refining insurance regulation. Capital markets are not fully developed. A stock market was set up to facilitate privatization of state-owned enterprises but now functions as a regular exchange. During the recent global financial turmoil, non-performing loans increased, but the banking sector remains relatively well capitalized.

PROPERTY RIGHTS: *30* *no change*

The enforcement of laws protecting private property is weak. Judges generally do not respect contracts and regularly ignore their provisions in their rulings. The legal system does recognize the concept of collateralized assets. There is no mortgage law. Pirated optical media are readily available and subject to spotty enforcement.

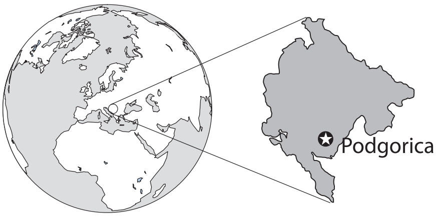
FREEDOM FROM CORRUPTION: *27* — 3.0

Corruption is perceived as widespread. Mongolia ranks 120th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a significant drop from 2008. The law provides criminal penalties for official corruption, which is perceived as serious and continuing at all levels of government, particularly within the police, judiciary, and customs service. Corruption-related arrests and convictions are rare, and allegations of public-sector corruption include cases involving cabinet-level officials.

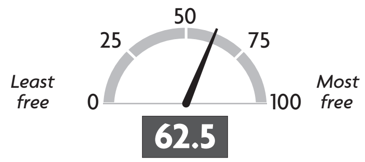
LABOR FREEDOM: *74.1* — 1.8

Mongolia's labor regulations are relatively flexible, but the labor market lacks dynamism. The non-salary cost of employing a worker is moderate, and dismissing an employee is not burdensome.

MONTENEGRO

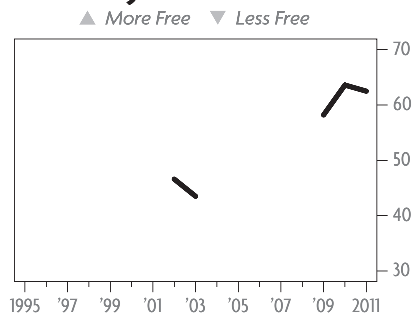


Economic Freedom Score

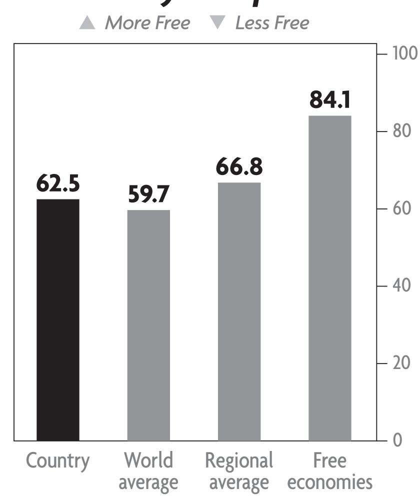


World Rank: **76** Regional Rank: **34**

Country's Score Over Time



Country Comparisons



Montenegro's economic freedom score is 62.5, making its economy the 76th freest in the 2011 *Index*. Its score has decreased by 1.1 points since last year, primarily because of the explosive growth of government spending. Montenegro ranks 34th out of 43 countries in the Europe region, and its overall score is above the world average.

Montenegro has made tremendous gains in its move toward becoming a modern and vibrant economy. The trade regime is increasingly open, and the regulatory and legal frameworks governing investment and production have become more efficient, supporting the development of a growing private sector. Other bold reforms, which include further reduction of the already competitive flat tax rates and implementation of labor market reforms, have also contributed to the emergence of entrepreneurial dynamism.

Despite the great strides made overall, Montenegro's economic freedom is still curtailed by the lack of institutional commitment to the strong protection of property rights or an effective fight against corruption. The court system remains vulnerable to political interference and inefficiency.

BACKGROUND: The Republic of Montenegro officially declared its independence from Serbia on June 3, 2006. Montenegro is pursuing membership in the World Trade Organization, the European Union, and NATO. It formally requested talks to join the EU in December 2008, but widespread corruption and organized crime have generated opposition within EU member countries. Milo Djukanovic has served as prime minister or president almost continuously since 1991, having parted company with his former political backer Slobodan Milosevic. After gradually pulling away from Serbia in the past decade, Montenegro introduced significant privatization and started using the German mark and then (despite not being a member of the euro zone) the euro as its legal tender. Ongoing problems include unemployment and the black market.

Quick Facts

Population: 0.6 million
GDP (PPP): $6.5 billion
–7.0% growth in 2009
4.6% 5-year compound annual growth
$10,393 per capita
Unemployment: 14.7% (2007)
Inflation (CPI): 3.6%
FDI Inflow: $1.3 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *71.3* + *1.2*

Procedures for setting up a business have been streamlined, with the number of licensing requirements reduced. The application of regulations is sometimes inconsistent and non-transparent.

TRADE FREEDOM: *83.6* + *0.4*

Montenegro's weighted average tariff rate was 3.2 percent in 2009. Progress has been made in liberalizing the trade regime as Montenegro has worked toward joining the World Trade Organization, but some high tariffs, import restrictions, non-transparent standards and regulations, and corruption add to the cost of trade. Ten points were deducted from Montenegro's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *89.4* – *0.6*

Montenegro enjoys competitive flat tax rates. The flat individual income tax rate was reduced from 12 percent to 9 percent as of January 2010. The corporate tax rate is a flat 9 percent, levied at the state level. Other taxes include a value-added tax (VAT), an inheritance tax, and a property tax. Excise taxes on cigarettes and oil were increased in 2009. In the most recent year, overall tax revenue as a percentage of GDP was 30 percent.

GOVERNMENT SPENDING: *28.6* – *25.8*

In the most recent year, total government expenditures, including consumption and transfer payments, climbed to 48.8 percent of GDP. Though stalled recently, privatization is advanced. The structural deficit now measures 6 percent of GDP, and public debt has risen to 38.8 percent of GDP.

MONETARY FREEDOM: *76* + *2.8*

Inflation has dropped, averaging 4.9 percent between 2007 and 2009, and declined further in 2010. State subsidies and price supports have been eliminated for most goods, and most prices are determined by market forces. However, the government influences a few prices through state-owned enterprises and regulates utility, energy, and transportation prices. Ten points were deducted from Montenegro's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *55* *no change*

Foreign and domestic investors are treated equally. Montenegro allows profit repatriation and guarantees against expropriation. However, the business, legal, and regulatory environment is still in transition, and bureaucracy can be non-transparent, burdensome, and prone to corruption. Implementation and enforcement of regulations and laws can be problematic. Residents and non-residents may hold foreign exchange accounts, and payments, capital transactions, and transfers are subject to few restrictions. Foreign investors may purchase land, but there are some reciprocity-based restrictions.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 66**	Investment Freedom	**No. 75**
Trade Freedom	**No. 53**	Financial Freedom	**No. 70**
Fiscal Freedom	**No. 24**	Property Rights	**No. 73**
Government Spending	**No. 160**	Freedom from Corruption	**No. 69**
Monetary Freedom	**No. 82**	Labor Freedom	**No. 4**

FINANCIAL FREEDOM: *50* *no change*

Montenegro's financial sector, though small and underdeveloped, is becoming more competitive. The financial system has been using the euro as legal tender since 2002. Access to financing has gradually increased, and banking is completely privatized. There are 11 banks, two of which are locally owned while the other nine are part of international banks. Foreign banks' participation and investment are significant. Despite growing competition, credit prices remain fairly high. The non-banking financial sector, including insurance and reinsurance, remains underdeveloped. The securities sector is small but developing. In response to the global financial turmoil, the government introduced several measures that include a one-year blanket deposit guarantee to slow down deposit withdrawals. Non-performing loans have been on the rise.

PROPERTY RIGHTS: *40* *no change*

The constitution provides for an independent judiciary, but the system is inefficient, and judges are poorly trained. Sales of pirated DVDs, CDs, and software and sales of counterfeit trademarked goods are fairly widespread. Montenegro is ranked 80th out of 125 countries in the 2010 International Property Rights Index.

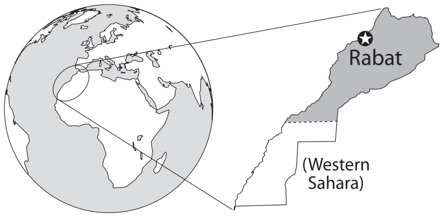
FREEDOM FROM CORRUPTION: *39* + *5.0*

Corruption is perceived as significant. Montenegro ranks 69th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, an improvement from 2008. A widespread perception of government corruption remains, however, particularly in the executive and judicial branches and especially with regard to the privatization of state-owned firms. Conflict-of-interest legislation requiring the disclosure of government officials' salaries and property has not been fully implemented, and many officials refuse to comply. Organized crime, especially the smuggling of gasoline and cigarettes, is well established. In the past two years, legislation on public procurement, the treasury and budget system, and the courts has been enacted to combat corruption. Implementation of these laws is now a priority.

LABOR FREEDOM: *92.3* + *5.9*

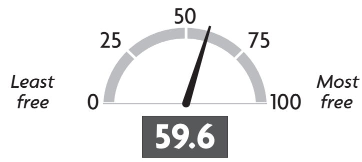
Montenegro has taken steps to enhance labor market flexibility. A labor law passed in mid-2008 still contains employment protections that discourage more dynamic job creation. Severance payments remain too generous to encourage job creation and longer-term employment contracts.

MOROCCO



World Rank: **93** Regional Rank: **10**

Economic Freedom Score



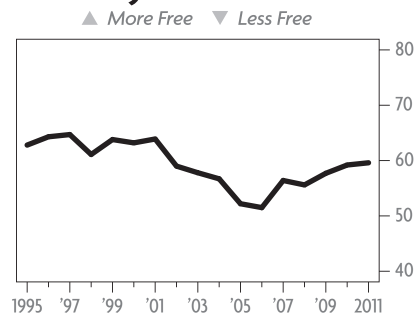
Morocco's economic freedom score is 59.6, making its economy the 93rd freest in the 2011 *Index*. Its score is 0.4 point better than last year as a result of improvements in trade, investment, and labor freedom. Morocco is ranked 10th out of 17 countries in the Middle East/North Africa region, and its overall score is close to the world average.

Morocco's gradual but notable recent economic liberalization has benefited from a stable commitment to economic reform that has encouraged a dynamically evolving private sector. Facilitated by bold reforms focused on competitiveness and diversification of the productive base, and despite the challenging global economic environment, the economy has expanded at an average annual rate of over 5 percent since mid-2000.

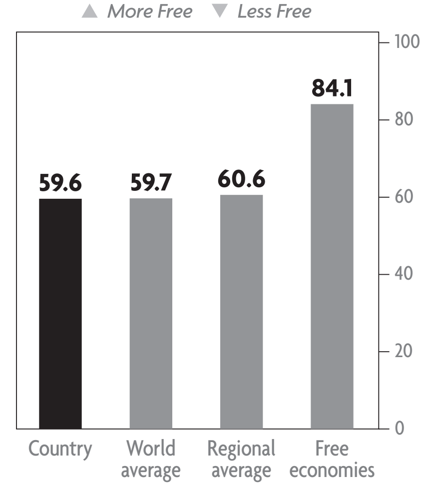
There are lingering challenges that will require deeper reforms to overcome. The labor market is neither flexible nor vibrant, and a large segment of the labor force remains marginalized. The judiciary is inefficient and vulnerable to political interference and corruption.

BACKGROUND: Morocco gained its independence from France in 1956 and evolved into a stable constitutional monarchy that became a key Western ally in the Cold War and more recently in the struggle against Islamist extremism. King Mohammed VI has encouraged political and economic reform, expansion of civil rights, and efforts to reduce corruption. Morocco has the world's largest phosphate reserves, and phosphates are its principal export. It also has a large tourist 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. Economic growth slowed in 2009 as a result of the declining global price for phosphates, diminished tourism revenues, and a reduction in remittances from Moroccans working abroad.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 31.7 million
GDP (PPP): $146.0 billion
5.2% growth in 2009
5.3% 5-year compound annual growth
$4,604 per capita
Unemployment: 9.1%
Inflation (CPI): 1.0%
FDI Inflow: $1.3 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *75.7* — 0.4

Procedures for setting up and registering a private enterprise have been streamlined, but overall progress in dismantling bureaucratic barriers to private investment and production has slowed.

TRADE FREEDOM: *75.8* + 4.6

Morocco's weighted average tariff rate was 7.1 percent in 2009. Morocco has significantly modernized its customs procedures in recent years, but some prohibitive tariffs, import restrictions, services market access barriers, restrictive biotechnology regulations, export incentives, and corruption add to the cost of trade. Ten points were deducted from Morocco's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *67.8* — 0.7

Morocco's taxes are relatively high. The top income tax rate is 40 percent, and the top corporate tax rate is 30 percent. Credit institutions and leasing companies are subject to a 37 percent rate. Other taxes include a value-added tax (VAT), a gift tax, and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 26.9 percent.

GOVERNMENT SPENDING: *74.6* — 6.9

In the most recent year, total government expenditures, including consumption and transfer payments, jumped to 29.1 percent of GDP. Authorities responded to the financial crisis and recession with increased government spending. The fiscal balance shifted from a small surplus to a deficit of 2.5 percent of GDP. After years of decline, public debt is holding steady at 47 percent of GDP.

MONETARY FREEDOM: *76.5* — 1.9

Inflation has been low, averaging 1.8 percent between 2007 and 2009. Government subsidies for energy and food (for example, vegetable oil, sugar, flour, bread, and cereals) continue to keep prices artificially low for consumers. The government also influences prices through state-owned enterprises and utilities, including electricity, and by subsidizing health products and educational supplies. Fifteen points were deducted from Morocco's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *65* + 5.0

Foreign and locally owned investments are treated equally, and 100 percent foreign ownership is allowed in most sectors of the economy. No private foreign or domestic investment is permitted in sectors in which the state has a monopoly, including phosphates, wholesale fruit and vegetable distribution, and water and electricity supplies. The government has set up regional investment centers to decentralize and accelerate investment-related procedures, but red tape persists. Corruption and a non-transparent and inefficient legal system are additional deterrents. Residents and non-residents may hold foreign exchange accounts. Certain payments, transfers, and capital transactions require government approval. Foreign investors may not own agricultural land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 48	Investment Freedom	No. 50
Trade Freedom	No. 96	Financial Freedom	No. 38
Fiscal Freedom	No. 143	Property Rights	No. 73
Government Spending	No. 79	Freedom from Corruption	No. 89
Monetary Freedom	No. 71	Labor Freedom	No. 174

FINANCIAL FREEDOM: *60* *no change*

Morocco's financial system is fairly well developed for the region, but credit costs are relatively high. Financial intermediation has gradually increased; around 40 percent of the population holds bank accounts and has access to financial services. Six major banks account for more than 80 percent of total assets. The government still retains large shares in a number of banks, but private banks dominate the financial market. In 2006, a banking law was enacted to strengthen supervision and improve risk management. Capital markets are relatively well developed, and there is an ongoing campaign to increase modernization and transparency. The Casablanca Stock Exchange is one of the few regional exchanges to impose no restrictions on foreign participation. The global financial turmoil has had a limited impact on Morocco's financial system.

PROPERTY RIGHTS: *40* *no change*

Private ownership is permitted in all but a few sectors 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 slow to deal with cases. It remains to be seen whether new laws protecting intellectual property rights will be enforced effectively. Counterfeit DVDs and CDs remain widely available.

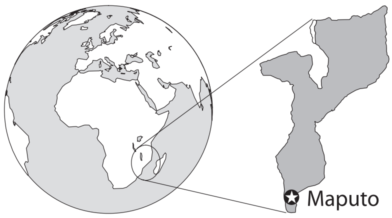
FREEDOM FROM CORRUPTION: *33* — 2.0

Corruption is perceived as significant. Morocco ranks 89th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Despite laws and regulations against it, corruption exists in the executive, legislative, and (especially) judicial branches of government. Comprehensive anti–money laundering legislation was passed in 2007, and a Financial Intelligence Unit was set up in 2009.

LABOR FREEDOM: *27.2* + 5.5

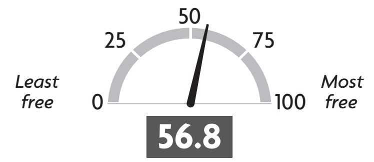
Despite some improvement, labor market rigidity continues to discourage dynamic employment growth. Labor regulations are restrictive. The non-salary cost of employing a worker is high, and laying off an employee is difficult.

MOZAMBIQUE



World Rank: **109** Regional Rank: **16**

Economic Freedom Score



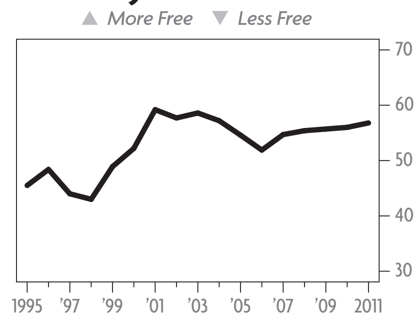
Mozambique's economic freedom score is 58.6, making its economy the 109th freest in the 2011 *Index*. Its score is 0.8 point better than last year, with improvements in trade, monetary, and business freedom offset to some extent by a drop in investment freedom. Mozambique is ranked 16th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average but above the regional average.

Although progress has been very gradual, Mozambique has implemented reforms in trade and public finance management. Private-sector involvement in the economy is substantial, but privatization of state-owned enterprises has slowed. Foreign capital and domestic capital are treated similarly in most cases, and trade liberalization has progressed despite non-tariff barriers.

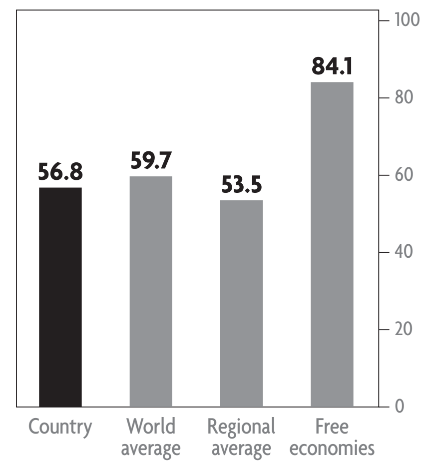
Other institutional problems continue to retard overall economic freedom and long-term economic development. Judicial enforcement is subject to corruption and political influence. The inefficient regulatory environment, despite some progress in recent years, remains a burden on business formation and operation. A dynamic labor market has not been fully developed.

BACKGROUND: After Mozambique became independent in 1975, the Front for the Liberation of Mozambique established a one-party socialist state. The ensuing 16-year civil war claimed an estimated one million lives. The reform process started by President Samora Machel in 1983 continued under Joaquim Chissano, who succeeded Machel in 1986, and continues under Armando Guebuza, who was re-elected in 2009. Mozambique held its first democratic elections in 1994 and since then has been a model for development and post-war recovery. 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.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 21.2 million
GDP (PPP): $19.8 billion
6.3% growth in 2009
6.7% 5-year compound annual growth
$934 per capita
Unemployment: 2.2%
Inflation (CPI): 3.3%
FDI Inflow: $881 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *63.1* + *4.4*

Despite some improvement, the overall business environment continues to restrain economic growth. The large public sector and bureaucratic red tape have slowed progress toward expanding the production base.

TRADE FREEDOM: *81* + *6.5*

Mozambique's weighted average tariff rate was 4.5 percent in 2009. Inefficient and bureaucratic customs clearance procedures, some import restrictions and fees, import licensing and permits for some goods, and corruption add to the cost of trade. Mozambique does not use quotas to restrict imports. Ten points were deducted from Mozambique's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *77.5* − *0.1*

Mozambique has relatively high tax rates. The top income tax and corporate tax rates are both 32 percent. Agriculture and cattle breeding are subject to a 10 percent rate. Other taxes include a value-added tax (VAT) and an inheritance tax. The 2009 General Tax Law raised taxes on mining and petroleum and eliminated a tax exemption for mining profits. In the most recent year, overall tax revenue as a percentage of GDP was 14.2 percent.

GOVERNMENT SPENDING: *76.5* + *0.4*

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 28 percent of GDP. Roughly 20 enterprises remain state-owned. The national telecommunications and electricity companies are slated for the next round of privatizations. Government has begun phasing out a fuel subsidy. The budget deficit is 5.7 percent, and public debt is low.

MONETARY FREEDOM: *80.3* + *5.4*

Inflation that had moderated, averaging 5.4 percent between 2007 and 2009, increased in 2010. The government influences prices through state-owned utilities, including electricity, telecommunications, ports, and transportation, and subsidizes passenger rail services. Five points were deducted from Mozambique's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *45* − *5.0*

Foreign capital and domestic capital are treated equally in most cases, but getting proposed new investments approved by the government can be time-consuming. Although much of the economy is open to foreign investment, certain sectors are subject to specific performance requirements. Bureaucracy can be burdensome, and the legal system is inefficient and antiquated. Regulations can be applied inconsistently, and the system is prone to corruption. The government must approve the employment of foreign labor. Mozambique allows repatriation of profits and retention of earned foreign exchange. Residents and non-residents may hold foreign exchange accounts. Payments and transfers are subject to maximum amounts, above which they must be approved by the central bank. All land is owned by the state.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 100	Investment Freedom	No. 103
Trade Freedom	No. 72	Financial Freedom	No. 70
Fiscal Freedom	No. 95	Property Rights	No. 99
Government Spending	No. 72	Freedom from Corruption	No. 132
Monetary Freedom	No. 35	Labor Freedom	No. 165

FINANCIAL FREEDOM: *50* *no change*

Dominated by banking, the small financial sector has been growing, and overall financial intermediation has deepened as banks' branch networks have expanded beyond the capital area. However, most people and businesses do not have access to financial services. A weak legal and regulatory framework, poor infrastructure, high borrowing costs, and a lack of competition discourage entrepreneurship. Commercial banking is concentrated, and most banks are majority foreign-owned. The state retains shares in the banking sector, and a government-owned investment bank funnels funding to state projects. The small insurance sector is dominated by a state-owned firm. Mozambique's financial sector is poorly integrated into global capital markets. Capital markets are very small, and the stock market mostly trades government debt.

PROPERTY RIGHTS: *30* *no change*

Property rights are weakly protected, and the judiciary is corrupt. There is a severe shortage of qualified legal personnel, and the case backlog is substantial. Enforcement of contracts and legal redress through the courts cannot be assured. Most commercial disputes are settled privately. Pirated and counterfeit copies of audio and videotapes, CDs, DVDs, software, and other goods are sold in Mozambique.

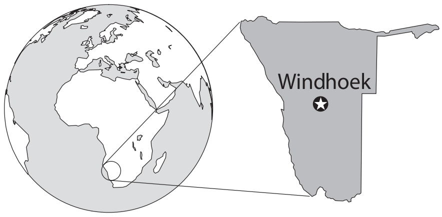
FREEDOM FROM CORRUPTION: *25* − *1.0*

Corruption is perceived as widespread. Mozambique ranks 130th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Bribe-seeking by officials is endemic at every level. Conflicts of interest between senior officials' public roles and their private business interests are common and seldom investigated. Corruption and extortion by police are widespread, and impunity remains a serious problem.

LABOR FREEDOM: *39.2* − *2.8*

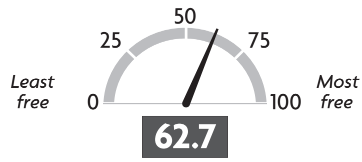
Mozambique's labor regulations are restrictive. The non-salary cost of employing a worker can be low, but the cost of laying off an employee is high. A recently passed labor law was intended to make the labor market more flexible, but it also increased overtime restrictions.

NAMIBIA



World Rank: **73** Regional Rank: **4**

Economic Freedom Score



Namibia's economic freedom score is 62.7, making its economy the 73rd freest in the 2011 *Index*. Its score is 0.5 point better than last year, but declines in five of the 10 categories undermine gains in scores for investment freedom and government spending. Namibia is ranked 4th out of 46 countries in the Sub-Saharan Africa region, and its overall score is above the world and regional averages.

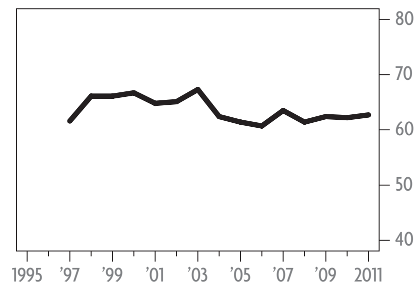
The Namibian economy scores relatively well in business freedom, trade freedom, and labor freedom. The overall regulatory environment is efficient and fairly straightforward. Openness to trade is relatively high, and annual economic growth has averaged close to 4 percent over the past five years.

Namibia's overall economic freedom remains constrained by long-standing institutional weaknesses and lack of commitment to deeper reforms. Protection of property rights is weak, and the government has not been effective in eliminating corruption. The judicial system is inconsistent in contract enforcement and vulnerable to political influence. Corruption is perceived as significant.

BACKGROUND: Namibia became formally independent in 1990 after years of fighting between South African troops and the South West Africa People's Organization. SWAPO leader Sam Nujoma, president from 1990 until 2005, was succeeded by SWAPO candidate Hifikepunye Pohamba, who won a second five-year term in 2009. Namibia is rich in minerals, including uranium, diamonds, copper, gold, lead, and zinc. Parts of the economy are modern and well developed, but between 25 percent and 40 percent of Namibians depend on subsistence agriculture and herding. 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 selective 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.

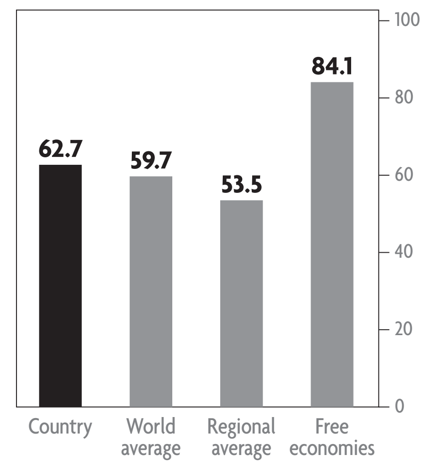
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 2.1 million
GDP (PPP): $13.8 billion
–0.7% growth in 2009
3.8% 5-year compound annual growth
$6,614 per capita
Unemployment: n/a
Inflation (CPI): 9.1%
FDI Inflow: $516 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *72.9* — *0.4*

Namibia's overall regulatory framework has become more efficient and streamlined, but reform has slowed. Rules governing the formation or operation of a private enterprise are not burdensome, and enforcement of commercial regulations is relatively effective and consistent.

TRADE FREEDOM: *86.4* — *1.4*

Namibia's weighted average tariff rate was 1.8 percent in 2009. Namibia is a member of the Southern African Customs Union, and its trade regime is relatively open. Import bans and restrictions, some services market access barriers, import licensing regulations, domestic preference in government procurement, and corruption add to the cost of trade. Ten points were deducted from Namibia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *67.9* — *0.4*

Namibia has relatively high tax rates. The top income tax rate is 35 percent, and the top corporate tax rate has been raised to 37 percent from 35 percent. Mining companies are subject to a special tax scheme of 37.5 percent, and diamond mining profits are subject to a tax of 55 percent. There is also a value-added tax (VAT). In the most recent year, overall tax revenue as a percentage of GDP was 24.8 percent.

GOVERNMENT SPENDING: *74.8* + *5.3*

In the most recent year, total government expenditures, including consumption and transfer payments, dipped slightly to 29 percent of GDP. The global economic downturn hurt demand for Namibian exports and pushed the economy into recession. A fiscal surplus in 2008 was allowed to deteriorate into a fiscal deficit equaling 3 percent of GDP.

MONETARY FREEDOM: *70.9* — *0.1*

Inflation has been high, averaging 9.1 percent between 2007 and 2009. The government sets the prices of fuel products; influences prices through state-owned enterprises and utilities, including electricity, telecommunications, water, and transportation services; determines guideline prices for maize; and subsidizes agricultural production. Ten points were deducted from Namibia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *55* + *5.0*

Namibian law provides for equal treatment of domestic and foreign investors and nondiscriminatory access to all sectors of the economy. There is no requirement for local participation in foreign investments, but the government actively encourages partnerships with historically disadvantaged Namibians. While Namibian companies are generally open to foreign investment, private domestic and foreign investments in state-owned enterprises are limited to joint partnerships. The administratively burdensome process of obtaining work permits for foreign employees is a hindrance to investment. Capital transactions, transfers, and payments are controlled. Residents and non-residents generally may hold foreign exchange accounts. Foreign investors may own non-agricultural land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 56	Investment Freedom	No. 75
Trade Freedom	No. 38	Financial Freedom	No. 106
Fiscal Freedom	No. 142	Property Rights	No. 99
Government Spending	No. 78	Freedom from Corruption	No. 55
Monetary Freedom	No. 135	Labor Freedom	No. 20

FINANCIAL FREEDOM: *40* *no change*

Namibia's financial sector is not fully developed. Financial intermediation remains uneven across the country, and scarce access to credit and banking services discourages entrepreneurial activity. The government owns the Agricultural Bank of Namibia, the Development Bank of Namibia, and the National Housing Enterprise and offers subsidized credits for subsistence farmers. There are four commercial banks, most of which are at least partly foreign-owned. Namibia's non-bank financial sector has undergone modernization and reform. The Financial Institutions and Market bill strengthens the regulatory and supervisory framework. The Financial Intelligence Act came into force in 2009, and the Financial Intelligence Center was established to combat money laundering more effectively.

PROPERTY RIGHTS: *30* *no change*

The transfer of land owned by whites to landless blacks for resettlement is official policy, and the government has voiced concerns about the slow pace of land reform, raising fears that inadequately compensated expropriation could increase. The lack of qualified magistrates, other court officials, and private attorneys causes a serious backlog of property cases. Namibia lacks adequate mechanisms to address piracy and copyright violations.

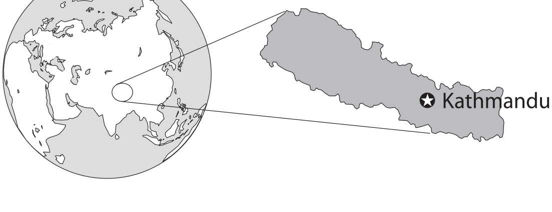
FREEDOM FROM CORRUPTION: *45* *no change*

Corruption is perceived as significant. Namibia ranks 56th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Despite efforts by the Anti-Corruption Commission, Office of the Ombudsman, and Office of the Auditor General, public corruption remains a problem. Critics have charged that the Anti-Corruption Commission interprets its mandate narrowly and focuses on minor cases, few of which are prosecuted.

LABOR FREEDOM: *84.6* — *2.6*

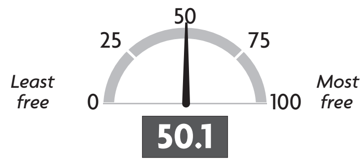
Labor regulations are relatively flexible. The non-salary cost of employing a worker is very low, and dismissing an employee is costless. Restrictions on work hours are moderately flexible.

NEPAL

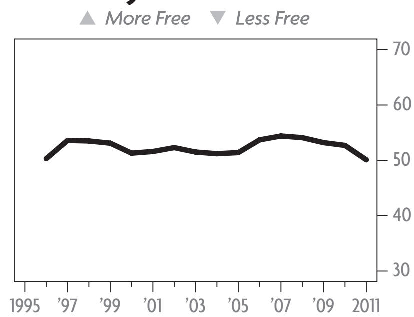


World Rank: **146** Regional Rank: **33**

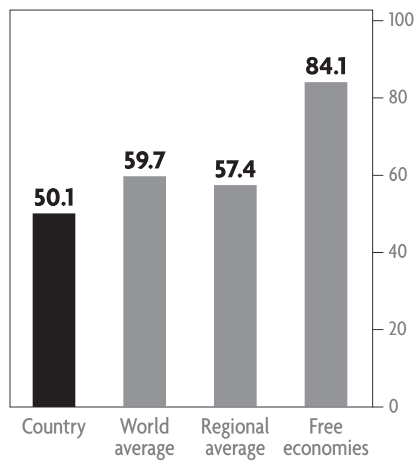
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Nepal's economic freedom score is 50.1, making its economy the 146th freest in the 2011 *Index*. Its score is 2.6 points lower than last year, reflecting declines in eight of the 10 economic freedoms. Nepal is ranked 33rd out of 41 countries in the Asia–Pacific region and recorded the sixth largest score decline in the 2011 *Index*.

Nepal's economy lacks the entrepreneurial dynamism that would propel economic growth and long-term economic development. Overall, weak reform efforts have failed to stimulate broad-based economic growth. The state continues to hamper private-sector development, and political instability further weakens the country's capacity to implement economic reform or create a stable environment for development.

Overall, the statist approach to economic management and development in Nepal has been a serious drag on business activity. A lack of transparency, corruption, and a burdensome approval process impede much-needed expansion of private investment and production. Property rights are undermined by the inefficient judicial system, which is subject to substantial corruption and political influence.

BACKGROUND: Nepal barely averted a political crisis on May 28, 2010, when the major political parties agreed at the last minute to extend the Constituent Assembly, giving it another year to draft a new constitution. The Constituent Assembly was formed as part of a deal with Maoists who agreed to end their 10-year insurgency in 2006 and enter a peace process with the political parties. After Maoist leader Pushpa Kamal Dahal resigned from the premiership in May 2009 following a dispute over leadership of the army and the fate of some 20,000 Maoist insurgents, a 22-party coalition led by Communist Party of Nepal (Unified Marxist Leninist) leader Madhav Kumar Nepal took power. Economic development has largely stalled. Nepal attracts very little foreign direct investment, and its main industries are agriculture and services.

Quick Facts

Population: 27.9 million
GDP (PPP): $33.6 billion
4.7% growth in 2009
4.2% 5-year compound annual growth
$1,205 per capita
Unemployment: n/a
Inflation (CPI): 13.2%
FDI Inflow: $38.6 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *59.2* — *0.2*

Bureaucratic bottlenecks increase the cost of conducting business. Despite some progress in streamlining the process for launching a business, other time-consuming requirements reduce the efficiency of the regulatory system.

TRADE FREEDOM: *61.4* + *2.6*

Nepal's weighted average tariff rate was 14.3 percent in 2009. Nepal is one of South Asia's more open and trade-dependent countries. There is no significant use of import quotas, but services market access barriers, import and export licensing, non-transparent regulations, inadequate infrastructure and trade capacity, and customs corruption add to the cost of trade. Ten points were deducted from Nepal's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *86.4* — *0.2*

Nepal has moderate tax rates. The top income and corporate tax rates are 25 percent. Financial institutions are subject to a 30 percent rate, and profits from public infrastructure and power generation companies are assessed at a special rate of 20 percent. Other taxes include a value-added tax (VAT) and a property tax. In the most recent year, overall tax revenue as a percentage of GDP rose to 10.4 percent.

GOVERNMENT SPENDING: *88.4* — *3.9*

Nepal has reduced its public debt to 40 percent of GDP. In the most recent year, total government expenditures, including consumption and transfer payments, increased to 19.7 percent of GDP. The state oil company is a drain on the economy, and there are no plans for its privatization.

MONETARY FREEDOM: *73.8* — *4.0*

Inflation has been high, averaging 11.3 percent between 2007 and 2009, due in part to high inflation in India (Nepal's major trading partner), the lack of a governmental budget, and political uncertainty. Although most price controls have been eliminated, the government regulates the prices of petroleum products and telecommunications services and subsidizes companies in strategic sectors. Five points were deducted from Nepal's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *5* — *10.0*

Most new foreign investment must be approved by the government. Bureaucracy and regulatory administration are burdensome, non-transparent, inconsistently implemented, and inefficient. Political instability, pervasive corruption, and inadequate infrastructure and administrative capacity also inhibit investment. Residents may hold foreign exchange accounts in specific instances; most non-residents also may hold such accounts. Convertibility is difficult and not guaranteed. Most payments and transfers require prior approval by the government. There are restrictions on most capital transactions, and real estate transactions are subject to controls. Foreign investors may acquire real estate only for business use.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 120	Investment Freedom	No. 170
Trade Freedom	No. 154	Financial Freedom	No. 133
Fiscal Freedom	No. 34	Property Rights	No. 99
Government Spending	No. 27	Freedom from Corruption	No. 145
Monetary Freedom	No. 103	Labor Freedom	No. 148

FINANCIAL FREEDOM: *30* *no change*

Nepal's fragmented financial system remains vulnerable to government influence. Financial supervision is insufficient, and anti-fraud efforts are lacking. Regulations are not transparent and fall short of international standards. The financial sector is dominated by banking, and banks are overextended due to weak monetary policy and poor supervision. The number of other financial intermediaries has increased, but the high cost of credit and limited access to financing still deter entrepreneurial activity. Government-owned banks account for more than 30 percent of total banking assets and more than half of total bank branches. The central bank has phased out "priority sector" financing activities whereby banks must lend a certain amount to government-designated projects. The central bank lacks the institutional capacity to supervise the expanded financial sector effectively.

PROPERTY RIGHTS: *30* — *5.0*

Nepal's judicial system suffers from corruption and inefficiency. Lower-level courts are vulnerable to political pressure, and bribery of judges and court staff is endemic. Weak protection of intellectual property rights has led to substantial levels of optical media copyright piracy. Nepal is ranked 101st out of 125 countries in the 2010 International Property Rights Index.

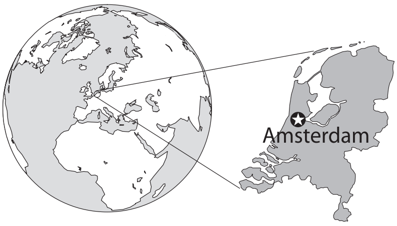
FREEDOM FROM CORRUPTION: *23* — *4.0*

Corruption is perceived as widespread. Nepal ranks 143rd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a sharp decline from 2008. Foreign investors see corruption as an obstacle to direct investment, and there are frequent allegations of official corruption in the distribution of permits and approvals, procurement of goods and services, and awarding of contracts. Most high-profile government ministers charged with corruption by the governmental Commission for the Investigation of the Abuse of Authority have been acquitted by the Supreme Court.

LABOR FREEDOM: *44.3* — *0.4*

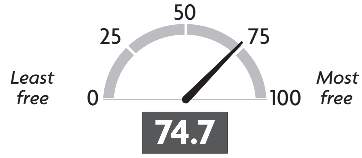
Nepal's labor regulations remain obsolete. Labor–management tension has grown, and underemployment persists. The non-salary cost of employing a worker is low, but laying off an employee is difficult.

THE NETHERLANDS

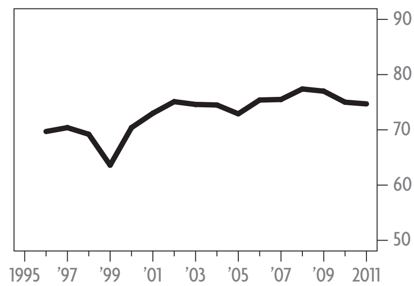


World Rank: **15** Regional Rank: **6**

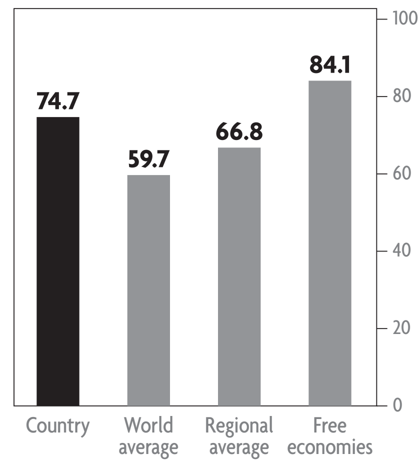
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Quick Facts

Population: 16.5 million
GDP (PPP): $658.2 billion
–4.0% growth in 2009
1.2% 5-year compound annual growth
$39,938 per capita
Unemployment: 3.4%
Inflation (CPI): 1.0%
FDI Inflow: $26.9 billion

The Netherlands' economic freedom score is 74.7, making its economy the 15th freest in the 2011 *Index*. Its score is 0.3 point worse than last year due to small declines in four of the 10 economic freedoms. The Netherlands is ranked 6th out of 43 countries in the Europe region, and its overall score is above the world and regional averages.

With its openness to global trade and investment, the Dutch economy scores well in trade freedom, investment freedom, property rights, and financial freedom. The overall regulatory and legal environment, transparent and efficient, encourages robust entrepreneurial activity. Banking regulations are sensible, and lending practices are prudent. Monetary stability is well maintained, with inflationary pressures under control. The judicial system, independent and free of corruption, provides strong protection for property rights.

Government spending remains high, and the overall tax regime is burdensome and complex. A financial-sector bailout has pushed public debt to around 60 percent of GDP. Spending on subsidies, unemployment support, and social transfers to an aging population has driven the fiscal deficit to 4.5 percent of GDP.

BACKGROUND: Center-right parties collectively won a strong majority in elections held in June 2010, and Mark Rutte of the Peoples Party for Freedom and Democracy was installed as prime minister in October. Assimilation of immigrant communities, especially a large Muslim population, has been problematic, and the right-wing Freedom Party of Geert Wilders showed the strongest gains of any political party in the election. 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.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *81.9* — *0.7*

The overall regulatory framework is transparent and competitive. Compliance with rules regarding the formation and operation of private enterprises is not difficult. The efficient business framework is conducive to innovation and productivity growth.

TRADE FREEDOM: *87.6* + *0.1*

The Netherlands' trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Netherlands policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Supplementary pharmaceuticals rules exceed EU policy, and enforcement of intellectual property rights can be problematic. Ten points were deducted from the Netherlands' trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *50.6* — *1.4*

The Netherlands has high income tax rates and moderate corporate tax rates. The top income tax rate is 52 percent, and the top corporate tax rate is 25.5 percent. Authorities plan to add a middle tax bracket to the two-tiered corporate tax system in 2011. Other taxes include a value-added tax (VAT), a property transfer tax, an inheritance tax, and environmental taxes. Tax incentives for early retirement have been abolished. In the most recent year, overall tax revenue as a percentage of GDP was 39.8 percent.

GOVERNMENT SPENDING: *36.8* — *1.6*

Government spending is high. In the most recent year, total government expenditures, including consumption and transfer payments, increased to 45.9 percent of GDP.

MONETARY FREEDOM: *82.7* + *1.7*

The Netherlands is a member of the euro zone. Inflation has been low, averaging 1.3 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. The government also regulates energy prices, pharmaceutical prices, and housing rents. Ten points were deducted from the Netherlands' monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *90* *no change*

Foreign investors receive national treatment, and 100 percent foreign ownership is allowed in almost every industry. There is no pre-screening of foreign investment, but regulations and restrictions in Dutch and EU policy can add to the cost of investment. There are no barriers to currency transfers, repatriation of profits, purchase of real estate, or access to foreign exchange. Capital transactions are not restricted but are subject to reporting requirements.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 30	Investment Freedom	No. 2
Trade Freedom	No. 12	Financial Freedom	No. 4
Fiscal Freedom	No. 171	Property Rights	No. 2
Government Spending	No. 152	Freedom from Corruption	No. 6
Monetary Freedom	No. 16	Labor Freedom	No. 101

FINANCIAL FREEDOM: *80* *no change*

The Netherlands' financial system provides easy access to financing. Financial firms have an international reach and offer a variety of services. Three conglomerates account for about 75 percent of lending. There are few formal barriers to foreign banks, but foreign participation in retail banking is minimal because of intense competition and market saturation. The government guarantees loans for small to medium-size enterprises that lack sufficient collateral. Well-developed capital markets partner with other international exchanges. Responding to the global financial turmoil, the government nationalized the Dutch parts of ABN Amro and Fortis Bank Netherlands. It has also made capital injections into other large financial institutions.

PROPERTY RIGHTS: *90* *no change*

Private property and contracts are secure, and the judiciary is sound. Citizens and foreigners purchasing real property receive equal treatment. Intellectual property rights are generally protected, but there is piracy of optical disc media by organized criminal organizations. The Netherlands is ranked 4th out of 125 countries in the 2010 International Property Rights Index.

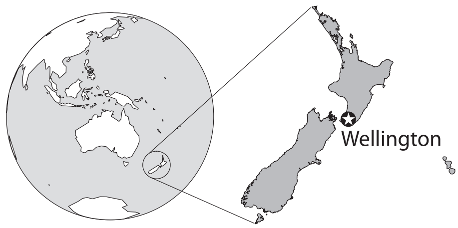
FREEDOM FROM CORRUPTION: *89* *no change*

Corruption is perceived as minimal. The Netherlands ranks 6th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Dutch law implementing the Organisation for Economic Co-operation and Development's 1997 Anti-Bribery Convention makes corruption by Dutch businessmen in landing foreign contracts a penal offense, and bribes are not deductible for corporate tax purposes. Low-level law enforcement corruption is not believed to be widespread or systemic.

LABOR FREEDOM: *58.3* — *0.8*

The Netherlands' labor regulations are relatively rigid. The non-salary cost of employing a worker is high, and dismissing an employee is relatively costly and difficult. Restrictions on work hours are moderately flexible.

NEW ZEALAND



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

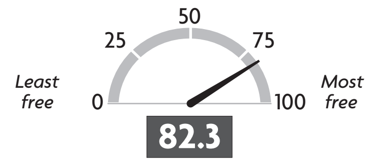
New Zealand's economic freedom score is 82.3, making its economy the 4th freest in the 2011 *Index*. Its score is 0.2 point better than last year, reflecting improvements in half of the 10 economic freedoms. New Zealand is ranked 4th out of 41 countries in the Asia–Pacific region.

New Zealand continues to be a global leader in economic freedom, performing well on most of the components measured in the *Index*. The economy is diversified and modern, with high levels of prosperity and institutional strengths that include strong protection of property rights and an efficient legal framework. Despite some stress in the financial system, New Zealand has emerged from the global economic turmoil relatively unscathed. Public debt, increased by crisis spending and now above 20 percent of GDP, is still moderate compared to other advanced countries.

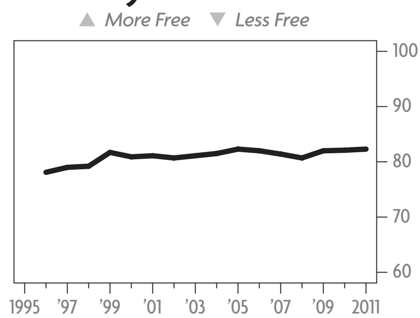
With a transparent and stable business climate, New Zealand has created a dynamic entrepreneurial environment. The average tariff rate is low, and commercial operations are aided by a flexible labor market and efficient regulations. Inflationary pressures are under control, and foreign investment is welcome. The judicial system, independent of political interference and free from corruption, enforces contracts effectively.

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.

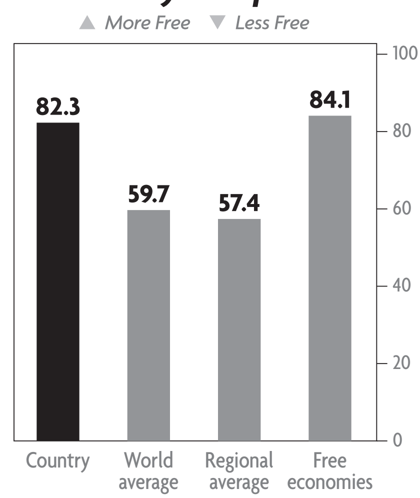
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Quick Facts

Population: 4.3 million
GDP (PPP): $115.4 billion
–1.6% growth in 2009
0.5% 5-year compound annual growth
$26,708 per capita
Unemployment: 6.1%
Inflation (CPI): 2.1%
FDI Inflow: $384 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *99.9* — *no change*

The entrepreneurial environment of New Zealand, reflecting the country's enduring commitment to economic freedom, 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.

TRADE FREEDOM: *86.6* — *+ 0.6*

New Zealand's weighted average tariff rate was 1.7 percent in 2009. The trade regime is relatively open, and the country's highest tariff rates were reduced to 10 percent on July 1, 2009. Some import restrictions, services market access barriers, import fees, and restrictive biotechnology, sanitary, pharmaceutical, and phytosanitary regulations add to the cost of trade. Ten points were deducted from New Zealand's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *64.7* — *+ 1.1*

New Zealand has a relatively high income tax and a moderate corporate tax. The top income tax rate is 38 percent. The flat corporate tax rate is 30 percent. The 2010 Budget Act details reforms effective October 1, 2010, including reduction of the top corporate tax rate to 33 percent, an increase in the goods and services tax (GST), and reduction of the tax on portfolio investment entities. In the most recent year, overall tax revenue as a percentage of GDP was 34.5 percent.

GOVERNMENT SPENDING: *49.3* — *– 2.0*

In the most recent year, total government expenditures, including consumption and transfer payments, increased slightly to 41.1 percent of GDP. The state maintains significant stakes in the transportation, electricity, and telecommunications industries. Past surpluses had reduced net public debt before the global crisis struck, leaving New Zealand room to enact a fiscal package measuring 6 percent of GDP over two years.

MONETARY FREEDOM: *84.8* — *+ 1.7*

Inflation has been low, averaging 2.6 percent between 2007 and 2009. There are no official price controls, but the government regulates the prices of utilities and subsidizes pharmaceuticals. Five points were deducted from New Zealand's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *80* — *no change*

New Zealand does not discriminate against foreign investors, but it does limit foreign ownership in certain state-owned sectors. The government screens foreign investments that exceed NZD100 million and represent 25 percent or more of the equity in a New Zealand enterprise. In general, regulations and bureaucracy are efficient and transparent, and contract enforcement is effective. There are no restrictions on currency transfers, repatriation of profits, or access to foreign exchange. Land purchases are subject to government approval.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 1	Investment Freedom	No. 14
Trade Freedom	No. 12	Financial Freedom	No. 4
Fiscal Freedom	No. 156	Property Rights	No. 1
Government Spending	No. 134	Freedom from Corruption	No. 1
Monetary Freedom	No. 8	Labor Freedom	No. 10

FINANCIAL FREEDOM: *80* — *no change*

New Zealand's financial sector is well developed and competitive, offering a full range of financing instruments for entrepreneurial activity. Regulation is efficient and transparent in accordance with international standards. The banking sector dominates the financial system, accounting for around 80 percent of the system's total assets. The presence of foreign-owned banks is substantial. Non-bank financial institutions may offer banking services, subject to normal restrictions. Capital markets are small but well developed, and stocks are traded actively. Insurance is lightly regulated, and foreign participation is high. Capital markets are open to foreign participation. The financial system has weathered the global financial turmoil relatively well, and the banking sector, with very limited exposure to distressed assets, remains well capitalized.

PROPERTY RIGHTS: *95* — *no change*

Private property is well protected. The judiciary is independent, and contracts are notably secure. Legislation has been proposed to bring the patent law into closer conformity with international standards by tightening the criteria for granting a patent. Manufacturers have expressed concern that parallel imports of "gray market" goods under New Zealand law will result in the importation of dated or unsuitable products.

FREEDOM FROM CORRUPTION: *94* — *+ 1.0*

Corruption is perceived as almost nonexistent. New Zealand is ranked 1st out of 180 countries in Transparency International's Corruption Perceptions Index for 2009; it has received this rank for three consecutive years. New Zealand is renowned for its efforts to ensure transparent, competitive, and corruption-free government procurement. Stiff penalties against bribing government officials or accepting bribes are strictly enforced.

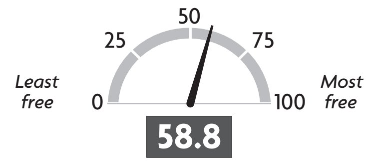
LABOR FREEDOM: *89.2* — *+ 0.4*

New Zealand's flexible labor regulations facilitate its dynamic labor market, increasing the economy's overall productivity. The non-salary cost of employing a worker is low, and dismissing an employee is costless. Regulations on work hours are flexible.

NICARAGUA

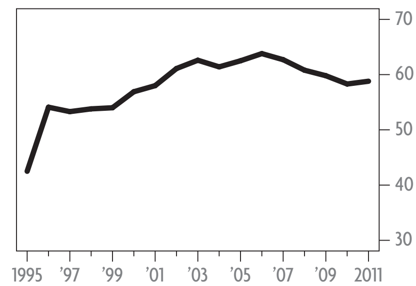
World Rank: **98** Regional Rank: **19**

Economic Freedom Score



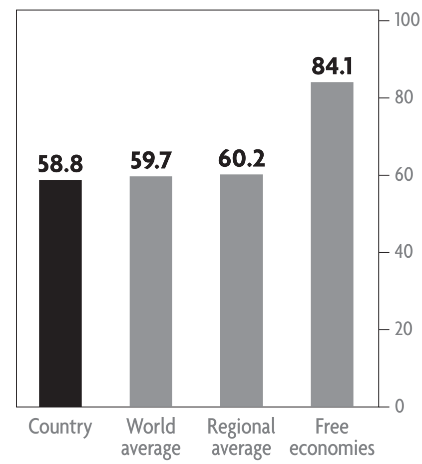
Country's Score Over Time

▲ *More Free* ▼ *Less Free*



Country Comparisons

▲ *More Free* ▼ *Less Free*



Nicaragua's economic freedom score is 58.8, making its economy the 98th freest in the 2011 *Index*. Its score is 0.5 point better than last year, with gains in trade freedom, monetary freedom, and government spending offsetting a decline in property rights. Nicaragua is ranked 19th out of 29 countries in the South and Central America/Caribbean region, and its overall score is below the world average.

Nicaragua's trade liberalization has continued, although non-tariff barriers remain. Tax administration has improved, and reforms to improve public finance management have gradually moved forward. Despite steps to enhance the economy's competitiveness and efficiency, overall structural reform has been sluggish, and privatization has stalled.

There are many lingering constraints on competitiveness. Significant state interference in the economy through state-owned enterprises or inconsistent regulatory administration introduces uncertainty into the market. Institutional weaknesses persist in protection of property rights and combating corruption. The inefficient judicial system is inconsistent in contract enforcement and subject to political interference.

BACKGROUND: After a decade of Sandinista dictatorship, economic and political stability and respect for human rights improved under democratically elected governments from 1990 until 2006, when Sandinista leader Daniel Ortega returned to power with only 38 percent of the vote. Despite claims that he has abandoned Marxism for "fair markets" and democracy, Ortega supports Venezuela's Hugo Chávez and Bolivia's Evo Morales. Electoral 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. When the Nicaraguan Congress refused to lift the constitutional prohibition on his re-election, Ortega illegally manipulated the judiciary to allow himself to run. Nearly half of the workforce is unemployed or underemployed. The Central America–Dominican Republic–United States Free Trade Agreement came into force in 2006, and the economy has diversified to include minerals and textiles.

Quick Facts

Population: 6.3 million
GDP (PPP): $16.6 billion
–1.5% growth in 2009
2.1% 5-year compound annual growth
$2,627 per capita
Unemployment: 8.2%
Inflation (CPI): 3.7%
FDI Inflow: $434 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *54.3* — 1.4

Burdensome regulations continue to hinder the development of a more vibrant private sector. The regulatory system suffers from a lack of transparency and clarity, and regulations are not always consistently enforced, injecting considerable uncertainty into entrepreneurial decision-making.

TRADE FREEDOM: *84.8* + 2.0

Nicaragua's weighted average tariff rate was 2.6 percent in 2009. Import restrictions and fees, import licensing requirements for some goods, restrictive technical standards, weak enforcement of intellectual property rights, corruption, and delays in customs clearance add to the cost of trade. Ten points were deducted from Nicaragua's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *78.8* + 0.4

The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT), a capital gains tax, and a property tax levied at the municipal level. During the most recent year, overall tax revenue as a percentage of GDP was 18 percent.

GOVERNMENT SPENDING: *81.3* + 2.8

In the most recent year, total government expenditures, including consumption and transfer payments, decreased slightly to 25.0 percent of GDP. Privatization has all but stalled.

MONETARY FREEDOM: *71.7* + 7.6

Inflation has been volatile. It fell dramatically to 3.7 percent in 2009 after peaking at 19.8 percent in 2008; the average for 2007 through 2009 was 8.3 percent. Many price controls have been eliminated, but the government sets prices for pharmaceuticals, sugar, domestically produced soft drinks and cigarettes, and liquefied natural gas; regulates the retail price of butane gas and rates for electricity, energy, water, and telecommunications; and has a history of negotiating voluntary price restraints with domestic producers of important consumer goods. Ten points were deducted from Nicaragua's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *55* *no change*

Foreign investment is allowed in most sectors of the economy and generally is guaranteed equal treatment. Investments are not screened and generally face no performance requirements; however, the government has used the administration of regulations to introduce non-commercial concessions in contracts, and the labor code states that 90 percent of all employees (not including management posts) must be Nicaraguan. Dispute resolution is burdensome, contract enforcement is weak, and property rights are poorly protected. Regulatory bureaucracy can be time-consuming and inconsistent. The law grants repatriation of capital and immediate remittance abroad of profits. Investors may hold foreign exchange accounts, but the process is cumbersome.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 135	Investment Freedom	No. 75
Trade Freedom	No. 50	Financial Freedom	No. 70
Fiscal Freedom	No. 85	Property Rights	No. 146
Government Spending	No. 50	Freedom from Corruption	No. 132
Monetary Freedom	No. 123	Labor Freedom	No. 70

FINANCIAL FREEDOM: *50* *no change*

Nicaragua's financial sector is concentrated in urban areas and not fully developed. The small banking sector is highly dollarized and has seven commercial banks that are majority private-owned and provide a limited range of financial services. The three largest banks account for about 70 percent of total assets. A new state-owned commercial bank was created in 2007 and began operations in 2010. Insurance, once a state monopoly, is now open to private investors, although a state-owned firm remains the largest insurer. Capital markets are small, and the stock exchange trades primarily in government bonds, with only a small number of private companies listed.

PROPERTY RIGHTS: *20* — 5.0

Protection of property rights is weak. Contracts are not easily enforced, and the judiciary is politicized and subject to corruption. Protection of intellectual property rights is almost nonexistent. Weak land title registries and the many unresolved land expropriation cases from the 1980s seriously undermine real property interests. During 2009, there was a significant increase in reports of land invasions, and President Ortega declared on numerous occasions that the government will not act to evict those who have illegally taken possession of private property.

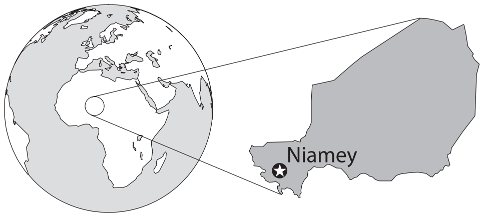
FREEDOM FROM CORRUPTION: *25* *no change*

Corruption is perceived as pervasive. Nicaragua ranks 130th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Influence peddling in the judicial branch puts foreign investors at a sharp disadvantage in any litigation. Corruption and political deal-making, especially within the ruling Sandinista party, the National Police, and the judiciary, are viewed as pervasive. In January 2009, the Supreme Court freed former President Arnoldo Alemán from house arrest and vacated corruption charges against him.

LABOR FREEDOM: *67.1* — 1.2

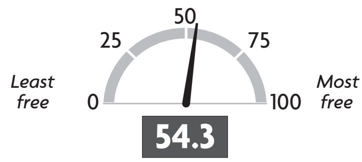
Nicaragua's labor regulations are not conducive to the development of a vibrant labor market. The non-salary cost of employing a worker is moderate, but regulations on work hours are restrictive. The lack of employment opportunities has caused chronic underemployment.

NIGER



World Rank: **126** Regional Rank: **25**

Economic Freedom Score



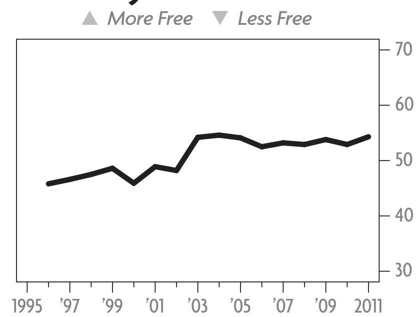
Niger's economic freedom score is 54.3, making its economy the 126th freest in the 2011 *Index*. Its score has increased by 1.4 points since last year, reflecting considerable gains in fiscal and investment freedom. Niger is ranked 25th out of 46 countries in the Sub-Saharan Africa region, and its overall score is above the regional average.

Niger has achieved economic expansion of around 4 percent over the past five years, driven mainly by minerals exports. Sustaining steady growth over the longer term, however, will be difficult because of a lack of economic dynamism. The economy remains highly vulnerable to external shocks. Progress toward greater economic freedom has been uneven and sluggish.

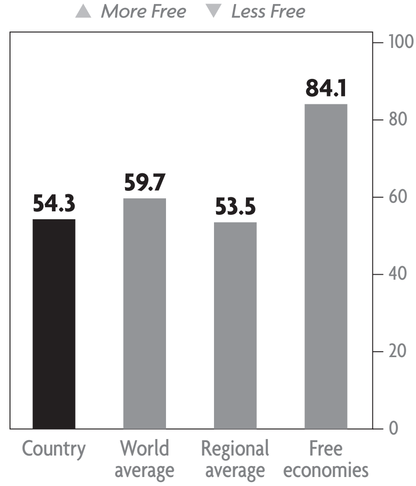
The underdeveloped financial system remains weak and fragmented, reflecting the small size of the formal economy. The inefficient regulatory and legal environment constrains commercial operations and investment. Rigid labor regulations discourage employment growth, and the judicial system remains vulnerable to corruption.

BACKGROUND: Niger has a long history of political instability. Mamadou Tandja, elected president in 1999 and re-elected in 2004, introduced a new constitution in 2009 to extend his term in office but was overthrown in a 2010 coup. Major Salou Djibo was named head of the Supreme Council for the Restoration of Democracy. The African Union and other governments called for the restoration of constitutional government. A Tuareg rebellion in northern Niger remains a potential threat, but there have been no armed attacks since June 2008. 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.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 14.2 million
GDP (PPP): 10.2 billion
–0.9% growth in 2009
4.4% 5-year compound annual growth
$719 per capita
Unemployment: 1.5%
Inflation (CPI): 4.3%
FDI Inflow: $739 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *36.9* — 0.3

Much-needed private-sector development has been hampered by the inadequate regulatory framework. Outmoded and inconsistent regulations impose substantial costs on business operations, and institutional deficiencies such as pervasive corruption and the lack of access to financing curtail opportunities for investment and growth.

TRADE FREEDOM: *71.8* — 3.9

Niger's weighted average tariff rate was 9.1 percent in 2009. Niger belongs to the West African Economic and Monetary Union (WAEMU). Some import restrictions, import and export licensing, inefficient and non-transparent customs implementation and regulation, and widespread corruption add to the cost of trade. Ten points were deducted from Niger's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *77.5* + 12.4

Niger has reduced the income tax and corporate tax rates in an effort to improve the business climate. The top income tax rate was reduced from 45 percent to 35 percent, and the top corporate tax rate dropped from 35 percent to 30 percent in 2010. Other taxes include a tax on interest and an insurance tax. In 2009, the land and property taxes were combined and the value-added tax (VAT) was simplified. In the most recent year, overall tax revenue as a percentage of GDP was 11.4 percent.

GOVERNMENT SPENDING: *83* — 2.1

In the most recent year, total government expenditures, including consumption and transfer payments, increased modestly to 23.8 percent of GDP. Without strong public financial management, authorities struggle to keep spending focused on health, education, and infrastructure development. In general, privatization has been stymied by the global financial downturn and the resulting lack of interested investors. Development aid was suspended in 2009 after internationally criticized elections, and authorities will need to revise budget plans with sharp expenditure cuts if donors continue to freeze aid disbursements.

MONETARY FREEDOM: *80* + 2.4

Inflation has been moderately high, averaging 5.6 percent between 2007 and 2009. With the exception of petroleum products, the market sets prices, but the government does influence prices through state-owned utilities. Five points were deducted from Niger's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *55* + 5.0

Foreign capital and domestic capital are legally equal. Investment is not screened, and most sectors of the economy are open to foreign investment. Deterrents to investment include underdeveloped markets, limited institutional capacity, inadequate infrastructure, corruption, and political instability. Currency conversions above CFA 2 million (about $4,200) must be approved by the government. Land purchases by non-residents require government approval.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 165	Investment Freedom	No. 75
Trade Freedom	No. 117	Financial Freedom	No. 106
Fiscal Freedom	No. 96	Property Rights	No. 99
Government Spending	No. 47	Freedom from Corruption	No. 107
Monetary Freedom	No. 40	Labor Freedom	No. 161

FINANCIAL FREEDOM: *40* *no change*

Some progress has been made toward modernizing the financial sector, but the number of available financial options for starting and expanding private businesses is limited. In general, scarce access to financing hinders dynamic development of the private sector. Bank credit to the private sector has been less than 10 percent of GDP. The Central Bank of West African States governs Niger's banking institutions and sets minimum reserve requirements. Credit is generally allocated on market terms, but the cost is high, and credit is usually extended only to large businesses. Four major commercial banks control about 90 percent of resources. The government holds shares in a number of financial institutions. Most capital market activity centers on the regional stock exchange in Côte d'Ivoire, which also has a very small branch in Niger.

PROPERTY RIGHTS: *30* *no change*

Niger's judicial system is understaffed and subject to pressure from the executive. Corruption is fueled by low salaries and inadequate training programs. Despite a legal regime for the protection of intellectual property rights, the government lacks the capacity and resources to enforce copyright violations, and counterfeit CDs and videocassettes are readily available in most cities.

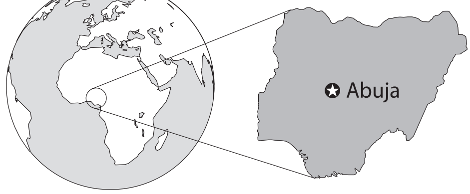
FREEDOM FROM CORRUPTION: *29* + 1.0

Corruption is perceived as pervasive. Niger ranks 106th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption in the executive and legislative branches is compounded by poorly financed and poorly trained law enforcement and weak administrative controls. Other major factors in corruption are low civil service salaries; politicization of the public service; the influence of traditional kinship, ethnic, and family ties in decision-making; and a culture of impunity.

LABOR FREEDOM: *40.3* — 0.4

Niger's labor regulations are outmoded and restrictive. The non-salary cost of employing a worker is high, and laying off an employee is difficult. Regulations on work hours are very rigid.

NIGERIA



World Rank: **111** Regional Rank: **18**

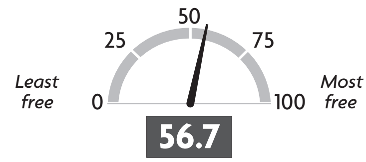
Nigeria's economic freedom score is 56.7, making its economy the 111th freest in the 2011 *Index*. Its score is 0.1 point lower than last year, reflecting declines in half of the 10 economic freedoms. Nigeria is ranked 18th out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

Nigeria has pursued structural reforms centered on enhancing management of public finance, improving the entrepreneurial environment, and expanding access to credit through banking and financial reforms. The economy has posted notable economic expansion, achieving an average annual growth rate of around 6 percent over the past five years.

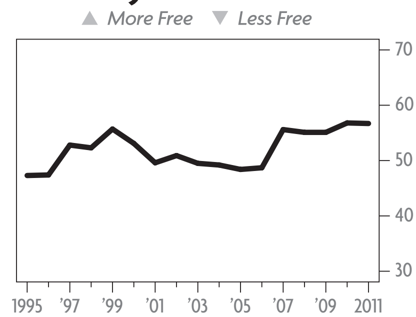
However, Nigeria remains heavily dependent on oil and gas. Arbitrarily applied regulations and pervasive corruption also undermine vibrant business activity outside of the hydrocarbon industry. Other lingering challenges impede private-sector development and hinder poverty reduction. The judiciary is inefficient and vulnerable to corruption, and contract enforcement is weak. The financial system remains relatively weak due to bureaucratic regulations and a cash-based economy.

BACKGROUND: Former General Olusegun Obasanjo, who oversaw a transition to civilian government in 1979, was elected president in 1999 and re-elected in 2003. His chosen successor, Umaru Yar'Adua, won a widely questioned election in 2007. Vice president Goodluck Jonathan was sworn in as president in May 2010 when Yar'Adua died after a long illness. Nigeria is Africa's leading oil producer, although sabotage of oil facilities and pipelines and violent attacks on foreign oil workers in the Niger Delta impede oil production. 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.

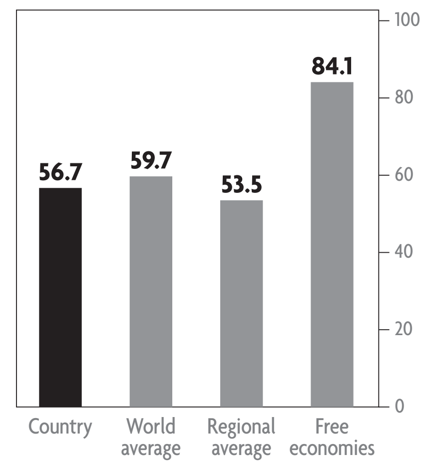
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Quick Facts

Population: 151.9 million
GDP (PPP): $341.6 billion
5.6% growth in 2009
6.2% 5-year compound annual growth
$2,249 per capita
Unemployment: 28.6% (2007)
Inflation (CPI): 12.4%
FDI Inflow: $5.9 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *51.6* — *1.6*

Despite recent reforms, the structural changes that are necessary to develop a more vibrant private sector have not emerged, and the oil sector still dominates overall economic activity. The business environment remains burdened by time-consuming and costly regulatory procedures.

TRADE FREEDOM: *65* — *2.2*

Nigeria's weighted average tariff rate was 10 percent in 2009. Some prohibitive tariffs, import bans and restrictions on products like pork and beef, import fees, arbitrary regulations, some export subsidies, weak enforcement of intellectual property rights, corruption, and inconsistent and non-transparent customs administration add to the cost of trade. Fifteen points were deducted from Nigeria's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *84.4* *no change*

Nigeria has moderate tax rates. The top income tax rate is 25 percent, and the flat corporate tax rate is 30 percent. Oil and gas companies are subject to a special tax scheme. Taxes on small manufacturing companies' profits are assessed at 20 percent for the first five years. Other taxes include a value-added tax (VAT), an education tax, and a technology infrastructure tax. Petroleum companies are subject to a profit tax of 85 percent rather than a corporate tax. In the most recent year, overall tax revenue as a percentage of GDP was 5.9 percent.

GOVERNMENT SPENDING: *73* + *8.3*

In the most recent year, total government expenditures, including consumption and transfer payments, decreased to 30.0 percent of GDP. Government involvement in the economy is considerable. Fiscal policy is determined by oil prices and projected tax revenues.

MONETARY FREEDOM: *73.5* — *1.9*

Inflation has been high, averaging 11.5 percent between 2007 and 2009. Food and fuel prices are expected to ease, but loose monetary policy and election-related spending will cause inflation to fall only slightly. With the exception of petroleum products, prices are set by the market. The government subsidizes agriculture and manufacturing; it also influences prices through state-owned enterprises and utilities. Five points were deducted from Nigeria's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *40* *no change*

Nigerian law treats foreign and domestic investment equally, and most sectors of the economy are open to investment. Investors in manufacturing may have to meet local content requirements, and the use of foreign labor may require government approval. Disincentives to investment include inadequate infrastructure, arbitrary application of regulations, corruption, crime, security concerns, burdensome dispute resolution, and weak contract enforcement. Residents and non-residents may hold foreign exchange accounts. Some capital transactions are subject to documentation requirements and restrictions. Foreign investors generally may lease but not own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 140**	Investment Freedom	**No. 117**
Trade Freedom	**No. 143**	Financial Freedom	**No. 106**
Fiscal Freedom	**No. 42**	Property Rights	**No. 99**
Government Spending	**No. 84**	Freedom from Corruption	**No. 132**
Monetary Freedom	**No. 106**	Labor Freedom	**No. 21**

FINANCIAL FREEDOM: *40* *no change*

Nigeria's financial system remains weak and inefficient, although the system has undergone transformation and consolidation. Twenty-four commercial banks are in operation, and a special audit of banks by the Central Bank of Nigeria has led to some restructuring and a reduction in non-performing loans. However, overall banking development is still hindered by bureaucracy and a cash-based economy. Banks interact with a very limited portion of the population, and limited access to financing hampers entrepreneurial activity. The government owns a number of banks and influences the allocation of credit. Capital markets are not fully developed, but the stock market has been active.

PROPERTY RIGHTS: *30* *no change*

Nigeria's judiciary suffers from corruption, delays, insufficient funding, a severe lack of available court facilities, a lack of computerized systems for document processing, and unscheduled adjournments of court sessions because of power outages. 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 weak.

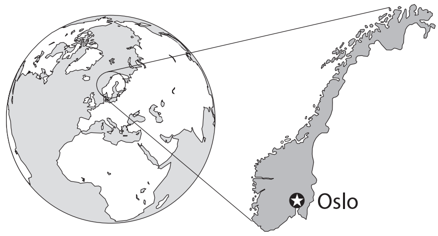
FREEDOM FROM CORRUPTION: *25* — *2.0*

Corruption is perceived as pervasive. Nigeria ranks 130th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a drop from 2008. Corruption is endemic at all levels of government and society, and the president, vice president, governors, and deputy governors are constitutionally immune from civil and criminal prosecution. Domestic and foreign observers recognize corruption as a serious obstacle to economic growth and poverty reduction.

LABOR FREEDOM: *84.5* — *1.2*

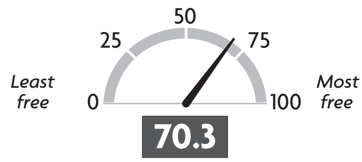
Nigeria's labor regulations are relatively flexible, but much of its labor force is employed in the public or energy sectors. In the absence of dynamic non-energy growth, a more vibrant labor market has not yet emerged.

NORWAY

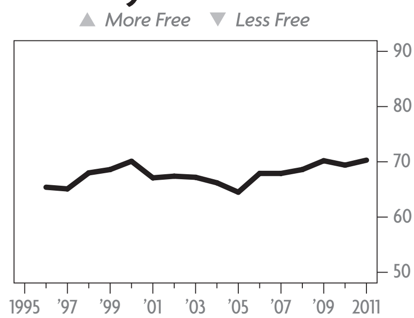


World Rank: **30** Regional Rank: **16**

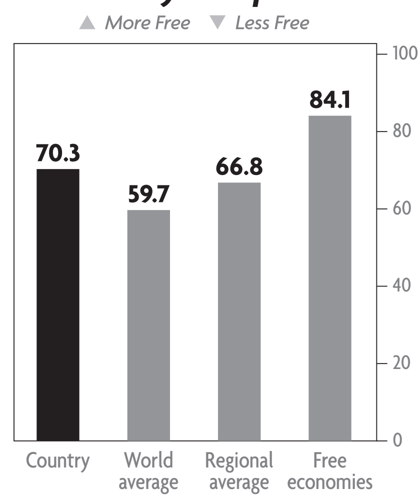
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Norway's economic freedom score is 70.3, making its economy the 30th freest in the 2011 *Index*. Its score has increased by 0.9 point since last year, mainly reflecting a considerable gain in freedom from corruption. Norway is ranked 16th out of 43 countries in the Europe region, and its overall score is well above the world and regional averages.

The modern and competitive Norwegian economy has long benefited from its relatively high levels of economic freedom. Entrepreneurial activity is well supported by prudent and transparent regulations governing investment and the financial sector. Together with openness to global commerce, strong protection of property rights also supports economic dynamism. Norway's high level of business freedom has produced a commercial environment that is both innovative and resilient.

Norway's overall strong record of economic freedom is marred by high levels of government spending. The government has focused on containing expensive welfare programs in recent years, but government spending still remains high. The state maintains substantial ownership in many key industries, including enterprises in manufacturing, telecommunications, hydroelectric power, and transportation. The accumulation of assets from hydrocarbon production in Norway's National Wealth Fund has provided a cushion for fiscal stimulus, but the central government's structural non-oil deficit has widened.

BACKGROUND: Norway has been a member of NATO since 1949, but Norwegian voters have adamantly rejected membership in the European Union in two referenda. 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, and productivity is high. However, the privatization agenda has stalled. Fisheries, metal, and oil are Norway's most important commodities. The government continues to save a large portion of its hugely prosperous oil export revenues in investment funds outside of the country as insurance against depleting reserves.

Quick Facts

Population: 4.8 million
GDP (PPP): $254.5 billion
–1.5% growth in 2009
1.3% 5-year compound annual growth
$52,561 per capita
Unemployment: 3.2%
Inflation (CPI): 2.2%
FDI Inflow: $6.7 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *88.3* — 0.5

The overall freedom to start, operate, and close a business is strongly protected under Norway's regulatory environment. Starting a business takes an average of seven days, compared to the world average of 35 days. Obtaining a business license requires less than the world average of 18 procedures. Bankruptcy proceedings are relatively simple and straightforward.

TRADE FREEDOM: *89.4* + 0.2

Norway's weighted average tariff rate was 0.3 percent in 2009. Norway has reduced many of its tariffs over the past decade. Most non-agricultural imports are no longer subject to tariffs. Import bans and quotas, restrictions in services markets, import licensing requirements, restrictive pharmaceutical and biotechnology policies, agriculture and manufacturing subsidies, and inconsistent enforcement of intellectual property rights add to the cost of trade. Ten points were deducted from Norway's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *51.6* + 1.1

Norway has a high income tax rate and a moderate corporate tax rate. The top income tax rate is 47.8 percent (when federal and municipal taxes, a top surtax, and an employee contribution to social security are considered). The flat corporate tax rate is 28 percent. Other taxes include a value-added tax (VAT), a tax on net wealth, a national insurance contribution, and a number of environmental taxes. Petroleum companies' profits are subject to a different tax scheme. In the most recent year, overall tax revenue as a percentage of GDP was 42.1 percent.

GOVERNMENT SPENDING: *51.5* + 1.7

Government spending is relatively high. In the most recent year, total government expenditures, including consumption and transfer payments, equaled 40.2 percent of GDP. A large discretionary stimulus package measuring 3 percent of GDP was implemented in 2009.

MONETARY FREEDOM: *75.1* + 0.9

Inflation has been low, averaging 2.4 percent between 2007 and 2009. The government regulates prices for agriculture products, sets maximum prices for pharmaceuticals, influences prices through state-owned enterprises and utilities, and subsidizes agriculture and manufacturing. Fifteen points were deducted from Norway's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *65* *no change*

Foreign and domestic investments are treated equally under the law, but regulations, standards, and practices often favor Norwegian, Scandinavian, and European Economic Area investors. The state continues to play a large role in the economy. The government screens new investment and restricts investment in sectors in which it has a monopoly and sectors that are considered politically sensitive, such as fishing and maritime transport. Regulations and bureaucracy are generally transparent and efficient, but regulations can change suddenly. Residents and nonresidents may hold foreign exchange accounts. There are no restrictions on payments, transfers, or repatriation of profits. With a few exceptions, foreign investors may own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 17	Investment Freedom	No. 50
Trade Freedom	No. 5	Financial Freedom	No. 38
Fiscal Freedom	No. 170	Property Rights	No. 2
Government Spending	No. 127	Freedom from Corruption	No. 11
Monetary Freedom	No. 92	Labor Freedom	No. 145

FINANCIAL FREEDOM: *60* *no change*

Supervision of Norway's well-developed financial system is prudent, and regulations are largely consistent with international norms. Credit is allocated on market terms, and banks offer a wide array of services. The government retains ownership of Norway's largest financial institution, which accounts for about 40 percent of assets. The Ministry of Finance has eliminated remaining barriers to the establishment of branches by foreign financial institutions. The banking and insurance markets are highly integrated as a result of mergers between banks and insurance companies. Prudential lending practices and sound regulations made it possible for the banking sector to withstand the global financial turmoil, although there was a temporary liquidity crisis. The government bailed out the Norwegian operations of two Icelandic banks, Kaupthing and Glitnir.

PROPERTY RIGHTS: *90* *no change*

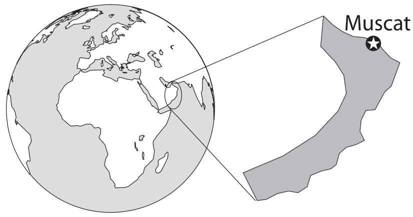
Private property and contracts are secure, and the judiciary is sound. Norway adheres to key international agreements for the protection of intellectual property rights. Internet piracy and cable/satellite decoder and smart-card piracy have risen, and enforcement of IPR protection can be spotty.

FREEDOM FROM CORRUPTION: *86* + 7.0

Corruption is perceived as present. Norway ranks 11th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corrupt activity by Norwegian or foreign officials is a criminal offense, and anti-corruption laws subject Norwegian nationals and companies that bribe officials in foreign countries to criminal penalties.

LABOR FREEDOM: *45.8* — 1.3

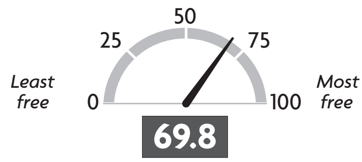
Norway's labor regulations are rigid. The non-salary cost of employing a worker is moderate, but the severance payment system is costly. Regulations on work hours are relatively stringent.



OMAN

World Rank: **34** Regional Rank: **3**

Economic Freedom Score



Oman's economic freedom score is 69.8, making its economy the 34th freest in the 2011 *Index*. Its score is 2.1 points higher than last year, reflecting improvements in business freedom, monetary freedom, and government spending. Oman is ranked 3rd out of 17 countries in the Middle East/North Africa region, and its overall score is above the world and regional averages.

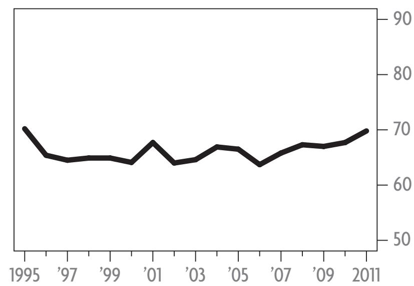
Oil has been the most important engine of growth in Oman's economy. Recognizing the importance of developing a dynamic entrepreneurial class, the government has acted to diversify the productive base and stimulate broader-based economic development. The overall regulatory framework has become more streamlined, and competitive tax rates are in place. Foreign investment is welcome in many sectors, although the approval process can be burdensome. The global financial turmoil's impact on the financial sector and the economy has been relatively slight.

Overall economic freedom in Oman remains constrained by state involvement in the economy through public enterprises. Reliance on a large state-owned energy sector that boosted economic expansion over the past decade has left the country vulnerable to external shocks.

BACKGROUND: Oman, an Arab monarchy, has been trying to modernize its oil-dominated economy without diluting the ruling al-Said family's power. It is a relatively small oil producer, and production declined steadily from 2001 to 2008 before increasing slightly in 2009 as a result of enhanced oil recovery techniques. To promote economic diversification, the government seeks to expand exports of natural gas; to develop gas-based industries; and to encourage foreign investment in petrochemicals, electric power, telecommunications, and other industries. It also places a high priority on its policy of "Omanization" (the replacement of foreign workers with local staff) to reduce chronically high unemployment rates. Oman joined the World Trade Organization in 2000 and signed a free trade agreement with the United States in 2006.

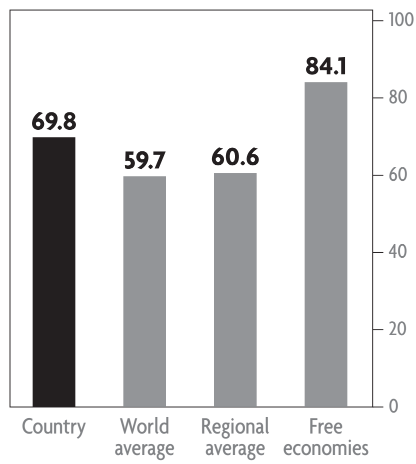
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 3.0 million
GDP (PPP): $74.4 billion
3.4% growth in 2009
7.3% 5-year compound annual growth
$25,110 per capita
Unemployment: 15.0% (2004)
Inflation (CPI): 3.5%
FDI Inflow: $2.2 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *69.4* — ✚ *2.5*

Although improving, the overall freedom to conduct a business is limited by Oman's regulatory environment. Starting a business takes an average of 12 days, compared to the world average of 34 days. Obtaining a business license takes more than the world average of 209 days, and costs are high. Bankruptcy proceedings are lengthy.

TRADE FREEDOM: *83.6* — ✚ *0.2*

Oman's weighted average tariff rate was 3.2 percent in 2009. Oman has strengthened its laws protecting intellectual property rights. Oman is a member of the Gulf Cooperation Council (GCC), and many products are subject to a common 5 percent external tariff. Some prohibitive tariffs, import bans and restrictions, import licensing requirements, non-transparent standards and regulations, local preference in government procurement, and subsidies add to the cost of trade. Ten points were deducted from Oman's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *98.5* — *no change*

Oman has low tax rates. There is no income tax on individuals, and the top corporate tax rate for most enterprises is 12 percent; foreign or unregistered companies are subject to a top corporate tax rate of 30 percent but were scheduled to fall under the 12 percent rate for domestic companies as of January 2010. Oil sales are subject to a special tax scheme. There is no consumption tax or value-added tax (VAT). In the most recent year, overall tax revenue as a percentage of GDP was 3 percent.

GOVERNMENT SPENDING: *68.1* — ✚ *10.7*

In the most recent year, total government expenditures, including consumption and transfer payments, fell to 32.6 percent of GDP. Authorities are looking to increase the role of the private sector in telecommunications, water, and electricity.

MONETARY FREEDOM: *69.5* — ✚ *4.7*

Inflation has been high, averaging 6.0 percent between 2007 and 2009. The government controls the prices of a range of core goods and services through an extensive subsidy system and influences prices through state-owned enterprises and utilities, including electricity and water. Fifteen points were deducted from Oman's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *55* — *no change*

Foreign investment is allowed in most sectors of the economy, subject to government approval, but the level of foreign ownership often is limited. Foreign investors are required to employ a specified amount of Omani labor. Regulations can be non-transparent and contradictory, and bureaucracy can be burdensome and time-consuming.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 77	Investment Freedom	No. 75
Trade Freedom	No. 53	Financial Freedom	No. 38
Fiscal Freedom	No. 6	Property Rights	No. 52
Government Spending	No. 94	Freedom from Corruption	No. 38
Monetary Freedom	No. 144	Labor Freedom	No. 11

Residents may hold foreign exchange accounts. There are no restrictions on capital repatriation, currency exchange, or transfer of dividends. Land ownership for foreigners is generally prohibited except in designated tourist areas and in industrial estates.

FINANCIAL FREEDOM: *60* — *no change*

A 2000 banking law limited investments in foreign securities, raised capital requirements, and granted the central bank the authority to reject candidates for senior positions in commercial banks. Since then, several banks have merged. New regulations focus on ensuring efficient management of banks. There are 17 commercial banks, 10 of which are foreign. The government owns a significant portion of the banking sector; only two of the seven domestic banks are privately owned. Most credit is offered at market rates, but the government uses subsidized loans and interest rate ceilings to promote investment. The Muscat Securities Market is active and open to foreign investors. Government liquidity support and deposit guarantees have helped Oman weather the financial crisis, but implicit guarantees to private banks have weakened incentives for better risk management.

PROPERTY RIGHTS: *50* — *no change*

The threat of expropriation is low, but the judiciary is subject to political influence. Foreigners may hold title to homes inside specified tourism projects. Non-GCC nationals may not own commercial real estate. Intellectual property laws are WTO-consistent, and enforcement has improved.

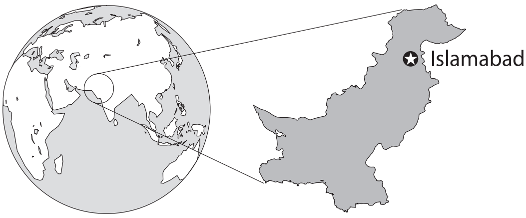
FREEDOM FROM CORRUPTION: *55* — *no change*

Corruption is perceived as present. Oman ranks 39th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Although corruption is not considered a significant problem, several high-ranking government officials have been sentenced to prison terms for bribery, misuse of public office, and breach of trust in recent years.

LABOR FREEDOM: *89.1* — ✚ *2.7*

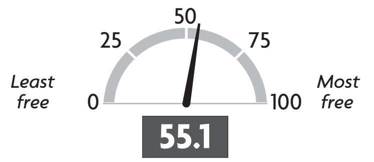
Oman's labor regulations are relatively flexible. The non-salary cost of employing a worker is low, and dismissing an employee is not difficult. The labor laws enforce the "Omanization" policy that requires private-sector firms to meet quotas for hiring native Omani workers.

PAKISTAN



World Rank: **123** Regional Rank: **24**

Economic Freedom Score



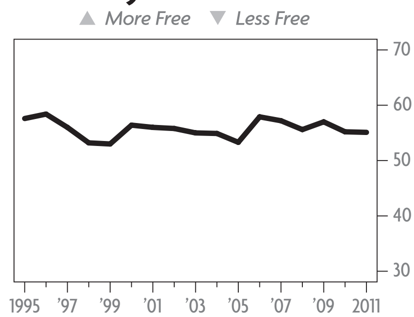
Pakistan's economic freedom score is 55.1, making its economy the 123rd freest in the 2011 *Index*. Its score is 0.1 point lower than last year, with declines in freedom from corruption and labor freedom offsetting a gain in investment freedom. Pakistan is ranked 24th out of 41 countries in the Asia–Pacific region, and its overall score is below the world and regional averages.

Pakistan has pursued reforms to improve its entrepreneurial environment and facilitate private-sector development. The financial sector has undergone modernization and restructuring and has weathered the global financial crisis relatively well.

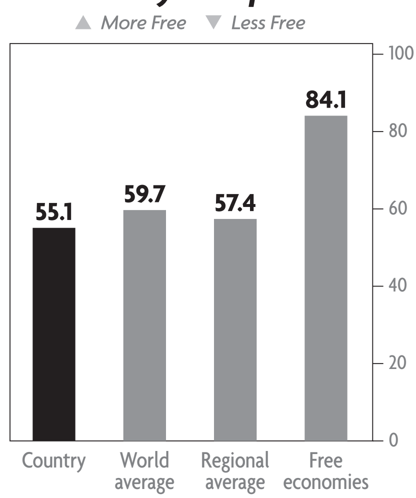
However, progress lags significantly behind other countries in the region. The tax system is complex and inefficient, though reforms to cut tax rates, broaden the tax base, and increase transparency have been undertaken. The judicial system suffers from a serious backlog and poor security. Corruption taints the judiciary and civil service. Restrictions on foreign investment and state involvement in the economy are serious drags on economic dynamism.

BACKGROUND: Pakistan, the world's second-largest Muslim-majority country, has alternated between unstable democratic government and military rule since becoming independent in 1947. It held largely successful democratic elections in February 2008 but 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 resulted in billions of dollars of damages. Under U.S. pressure to step up its fight against terrorists, Pakistan is set to receive nearly $4 billion in U.S. economic and military aid during the next fiscal year, making it one of the largest U.S. aid recipients. 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.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 163.8 million
GDP (PPP): $435.8 billion
2.0% growth in 2009
3.9% 5-year compound annual growth
$2,661 per capita
Unemployment: 14.0%
Inflation (CPI): 20.8%
FDI Inflow: $2.4 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *70.9* — *0.8*

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 35 days. Obtaining a business license takes about the world average of 18 procedures and 209 days, but costs are high.

TRADE FREEDOM: *67* *no change*

Pakistan's weighted average tariff rate was 9 percent in 2008. Import bans and restrictions, services market restrictions, inconsistent and burdensome regulations, non-transparent government procurement, export subsidies, weak enforcement of intellectual property rights, and corruption add to the cost of trade. Fifteen points were deducted from Pakistan's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *80.5* *no change*

Pakistan has moderate income tax rates and relatively high corporate tax rates. The top income tax rate is 25 percent, and the top corporate tax rate is 35 percent (20 percent for small businesses). Other taxes include a general sales tax (GST) and a property tax. A value-added tax (VAT) scheduled for implementation on July 1, 2010, has been held up by parliamentary review. The electricity tariff was raised in January 2010. In the most recent year, overall tax revenue as a percentage of GDP was 10.2 percent.

GOVERNMENT SPENDING: *88.8* *no change*

Government spending is relatively low. In the most recent year, total government expenditures, including consumption and transfer payments, equaled 19.3 percent of GDP. Public debt is estimated at 56 percent of GDP, and the overall deficit has widened to 5 percent. Security spending comprises a growing portion of total expenditure and has forced tightening in other areas.

MONETARY FREEDOM: *63.6* — *5.8*

Inflation has been very high, averaging 17.5 percent between 2007 and 2009. Floods in 2010 destroyed an estimated 10 percent–15 percent of farmland as well as grain-storage facilities, increasing food price inflation. The government controls pharmaceutical and fuel prices, subsidizes agriculture, and influences prices through state-owned enterprises and utilities, including electricity and water. Ten points were deducted from Pakistan's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *40* + *10.0*

Foreign investment receives national treatment, and foreign investors may own 100 percent of most businesses. Minimum initial investments are required in many industries. Deterrents to investment include security threats, political instability, civil unrest, corruption, poor infrastructure, weak contract enforcement, inconsistent and arbitrary regulation, and a lack of coordination between the federal and regional governments. Payments, transfers, and capital transactions may be subject to approval, quantitative limits, and other restrictions. Foreign investors may acquire real property.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 67	Investment Freedom	No. 117
Trade Freedom	No. 137	Financial Freedom	No. 106
Fiscal Freedom	No. 74	Property Rights	No. 99
Government Spending	No. 23	Freedom from Corruption	No. 141
Monetary Freedom	No. 161	Labor Freedom	No. 142

FINANCIAL FREEDOM: *40* *no change*

The banking sector has improved as a result of consolidation, increased transparency, and modernization of the regulatory framework. A majority of the commercial banks are now in private hands, but the sector remains vulnerable to government influence. The government has a majority stake in the largest commercial bank and controls several specialized banks. Restrictions limiting the number of foreign bank branches have been removed, but the central bank must approve all new openings. Foreign investors are now allowed to hold up to 100 percent of the equity share of insurance companies. The impact of the global financial turmoil has been relatively minor. Amendments to the Banking Companies Ordinance passed in May 2010 have given regulators sweeping new powers to deal with troubled banks.

PROPERTY RIGHTS: *30* *no change*

Pakistan's judiciary, separate by law from the executive, remains hampered by poor security for judges and witnesses, sentencing delays, a huge backlog of cases, and corruption. The government has taken steps to close down several pirate optical disc factories and has somewhat improved the enforcement of intellectual property rights.

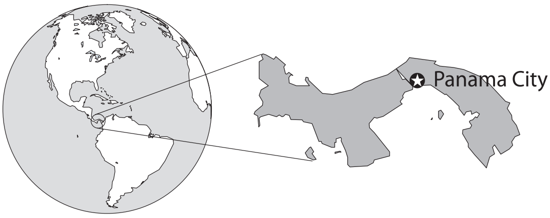
FREEDOM FROM CORRUPTION: *24* — *1.0*

Corruption is perceived as pervasive. Pakistan ranks 139th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The perception of corruption has worsened in the past year, with the police, land administration institutions, the judiciary, education, and local governments regarded as the most corrupt public-sector institutions.

LABOR FREEDOM: *46.3* — *3.5*

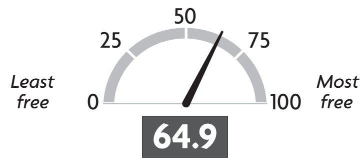
Pakistan's labor regulations are outmoded and rigid, although enforcement is not effective. The labor market continues to be stagnant. The non-salary cost of employing a worker is relatively low, but restrictions on working hours are not flexible. A large portion of the workforce is underemployed and working in the informal sector.

PANAMA

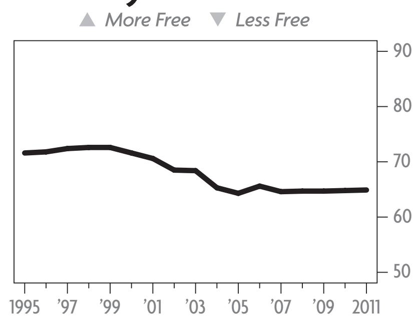


World Rank: **59** Regional Rank: **13**

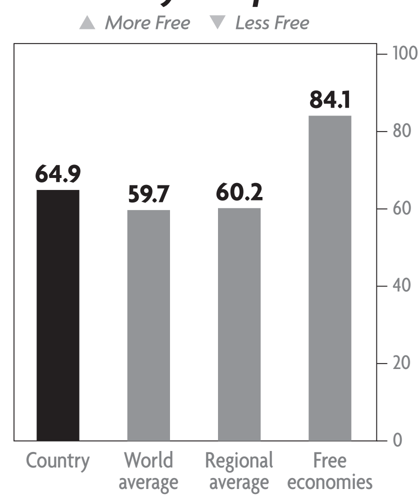
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Panama's economic freedom score is 64.9, making its economy the 59th freest in the 2011 *Index*. Its score remains essentially unchanged from last year, with gains in monetary freedom largely offset by a reduced score for government spending. Panama is ranked 13th out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world and regional averages.

The Panamanian economy has enjoyed robust economic growth in recent years, with GDP expanding at an average rate of around 8 percent over the past five years. Benefitting from its liberal trade and investment regime, Panama's service-oriented economy is a dynamic international business hub for such activities as maritime transport, distribution services, and banking. The Panamanian government has pursued structural reforms to improve the entrepreneurial environment and enhance legal transparency. Public finances have been managed prudently.

Despite progress, Panama's overall economic freedom continues to be restrained by lingering institutional weaknesses. Anti-corruption laws seem to have had little impact, and the judicial system remains vulnerable to political interference.

BACKGROUND: Former businessman Ricardo Martinelli of the center-right Alliance for Change coalition was elected president in May 2009. In addition to fighting money laundering, narcotics trafficking, and the illegal arms trade, Panama needs to revitalize its national education system to prepare young Panamanians for jobs in banking and the services sector, which accounts for 80 percent of the economy. President Martinelli has launched a major campaign to improve infrastructure and public transportation. Since 1999, Panama has been solely responsible for operating the Panama Canal and has converted U.S. bases in the former Canal Zone for 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, if ratified by both governments, could encourage economic growth and development.

Quick Facts

Population: 3.5 million
GDP (PPP): $40.8 billion
2.4% growth in 2009
8.4% 5-year compound annual growth
$11,788 per capita
Unemployment: 7.0%
Inflation (CPI): 2.4%
FDI Inflow: $1.8 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *75.1* — 0.8

The overall freedom to form and operate a business is relatively well protected within Panama's efficient regulatory environment. Starting a business takes only nine days, compared to the world average of 34 days. Obtaining a business license takes less than the world average of 209 days. Closing a business remains time-consuming and costly.

TRADE FREEDOM: *75.8* *no change*

Panama's weighted average tariff rate was 7.1 percent in 2008. Some import restrictions, services markets access restrictions, high tariffs on agriculture products, import licensing or permit requirements, export subsidies, weak enforcement of intellectual property rights, and corruption add to the cost of trade. Ten points were deducted from Panama's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *82.6* *no change*

Panama has moderate income and corporate tax rates. The top income tax rate is 27 percent. The corporate tax rate is 30 percent of net income or 1.401 percent of gross taxable income, whichever is greater. Other taxes include a value-added tax (VAT), a property tax, and a transfer tax. In the most recent year, overall tax revenue as a percentage of GDP was 10.6 percent.

GOVERNMENT SPENDING: *88.6* — 1.4

Government spending is relatively low. In the most recent year, total government expenditures, including consumption and transfer payments, increased slightly to 19.5 percent of GDP. Fiscal surpluses helped to lower total public debt to 39.4 percent of GDP.

MONETARY FREEDOM: *77.1* + 3.9

Inflation has moderated, averaging 4.1 percent between 2007 and 2009. Panama uses the U.S. dollar as its currency. The government controls pharmaceutical and fuel prices, sets prices for a list of basic consumption items, and influences prices through state-owned enterprises and utilities, including electricity and water. Ten points were deducted from Panama's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *65* *no change*

Foreign investment receives national treatment in most sectors, but the government limits foreign ownership in many service sectors including retailing, media, medicine, law, and custom brokering. There is no government approval process, but investments must be registered. Regulations are burdensome and non-transparent, and judicial processes can be cumbersome and arbitrary. Residents and non-residents may hold foreign exchange accounts. There are no restrictions on payments, transactions, transfers, repatriation of profits, or capital transactions. Foreign investors may not purchase land within 10 kilometers of a national border or on an island.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 50	Investment Freedom	No. 50
Trade Freedom	No. 95	Financial Freedom	No. 17
Fiscal Freedom	No. 60	Property Rights	No. 73
Government Spending	No. 25	Freedom from Corruption	No. 84
Monetary Freedom	No. 65	Labor Freedom	No. 159

FINANCIAL FREEDOM: *70* *no change*

Panama is a regional financial hub providing a wide range of financial services, and banking is well developed and stable. Foreign banks account for more than 70 percent of total assets. Foreign and domestic banks are treated equally. There are government incentives for loans to agricultural and industrial enterprises. An independent Banking Superintendence serves as the primary financial regulator in place of a central bank. Legislation passed in 2008 includes stricter rules concerning money laundering, and Panama has been removed from the Organisation for Economic Co-operation and Development's tax haven and money-laundering blacklist. Capital markets are relatively sophisticated, although the stock market trades primarily in government debt.

PROPERTY RIGHTS: *40* *no change*

Panama's judiciary is constitutionally independent but influenced by the executive. Backlogs and corruption are severe. Enforcement of copyrights and trademarks, though still inadequate, is improving. Special intellectual property courts hear commercial cases, but redress is slow. The majority of land in Panama and almost all land outside of Panama City is not titled. The lack of clear title leads to competing claims to property and frequently to lawsuits. The judicial system's capacity to resolve contractual and property disputes is weak.

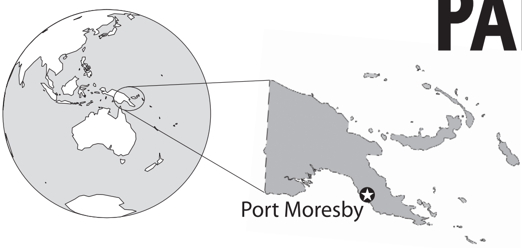
FREEDOM FROM CORRUPTION: *34* *no change*

Corruption is perceived as widespread. Panama ranks 84th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Panama is a major drug-transit and money-laundering country. The general perception is that anti-corruption laws are not applied rigorously and that government enforcement bodies have lacked determination in prosecuting those who are accused of corruption, particularly in high-profile cases. The government has not dismantled dictatorship-era libel and contempt laws that are used to punish whistle-blowers.

LABOR FREEDOM: *41.1* — 0.2

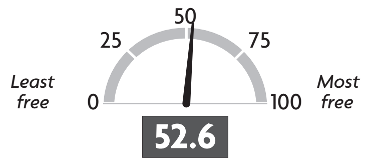
Panama's labor regulations are inflexible. The non-salary cost of employing a worker is high, and dismissing an employee is difficult. Regulations on work hours are rigid.

PAPUA NEW GUINEA

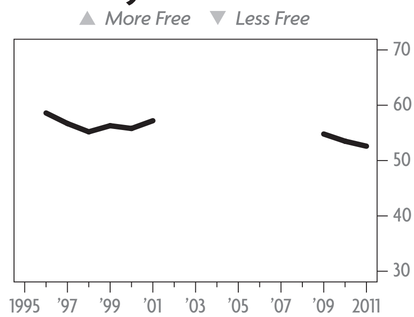


World Rank: **131** Regional Rank: **28**

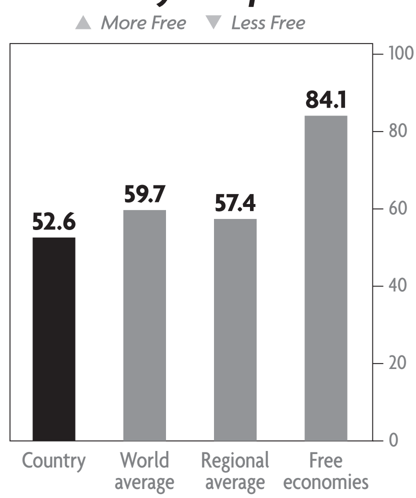
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Papua New Guinea's economic freedom score is 52.6, making its economy the 131st freest in the 2011 *Index*. Its score is 0.9 point worse than last year, primarily because of a significant decrease in labor freedom. Papua New Guinea is ranked 28th out of 41 countries in the Asia–Pacific region, and its overall score is lower than the world and regional averages.

The economy of Papua New Guinea has long been 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 government intrudes in many aspects of the economy through state ownership and regulation, not only raising the costs of conducting entrepreneurial activity, but also discouraging broader-based development of the private sector. The lack of market competition has resulted in a number of highly inefficient state monopolies in key sectors.

Private-sector growth has been minimal because of structural constraints, but the overall entrepreneurial environment has also suffered from macroeconomic instability and low investment. Inconsistent government policies, exacerbated by weak property rights, have contributed to prolonging economic stagnation and poverty across the country.

BACKGROUND: Papua New Guinea is a parliamentary democracy with an extraordinarily diverse population of nearly 7 million people speaking over 860 different languages. 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 300 million U.S. dollars worth of foreign aid to Papua New Guinea, making Australia the country's largest donor. Ongoing problems include political corruption, election irregularities, weak governance, crime, and natural disasters.

Quick Facts

Population: 6.3 million
GDP (PPP): $13.7 billion
4.5% growth in 2009
5.1% 5-year compound annual growth
$2,167 per capita
Unemployment: 1.8%
Inflation (CPI): 6.9%
FDI Inflow: $396 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *60.2* — + *1.1*

The overall regulatory framework remains poor. Despite some reform efforts, progress toward the needed structural changes has been limited. Private enterprises still face numerous bureaucratic hurdles that are often time-consuming.

TRADE FREEDOM: *85.4* — − *0.8*

Papua New Guinea's weighted average tariff rate was 2.3 percent in 2008. Some high tariffs, import and export bans and restrictions, import permits, import and export taxes, inefficient customs administration, limitations on trade infrastructure and capacity, and corruption add to the cost of trade. Ten points were deducted from Papua New Guinea's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *66.3* — + *1.3*

Papua New Guinea has high taxes. The top income tax rate is 42 percent, and the top corporate tax rate is 30 percent (48 percent for non-resident companies). The oil and gas sectors are subject to special tax rates ranging from 45 percent to 50 percent. Other taxes include a value-added tax (VAT), a tax on interest, and an excise tax on fuel. In the most recent year, overall tax revenue as a percentage of GDP was 26.6 percent.

GOVERNMENT SPENDING: *63.3* — *no change*

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 35 percent of GDP. The deficit is 8 percent of GDP.

MONETARY FREEDOM: *72.9* — + *0.3*

Inflation has been high, averaging 7.3 percent between 2007 and 2009, and inflationary pressures remained significant in 2010. Price controls for a number of consumer goods, mainly food products, are scheduled to be phased out. Ten points were deducted from Papua New Guinea's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *35* — *no change*

Foreign investment requires government approval. Only foreign enterprises need to be certified, but all companies must be registered with the government. Certain sectors of the economy are reserved for domestic investors. Investment-related rules and regulations are non-transparent and burdensome. Other deterrents to investment include weak enforcement of contracts, corruption, crime, inadequate infrastructure, and underdeveloped private markets. Foreign exchange and capital transactions face various documentation requirements and government approvals. Investments may not be expropriated without compensation. Ninety-seven percent of land is communally owned, but foreign investors may lease land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 115	Investment Freedom	No. 123
Trade Freedom	No. 44	Financial Freedom	No. 133
Fiscal Freedom	No. 148	Property Rights	No. 146
Government Spending	No. 110	Freedom from Corruption	No. 156
Monetary Freedom	No. 113	Labor Freedom	No. 53

FINANCIAL FREEDOM: *30* — *no change*

The financial system is not conducive to supporting investment and entrepreneurship. Although bank lending has expanded considerably in recent years, the system remains shallow and poorly developed. The extent of financial intermediation varies across the country, and a large portion of the population remains disconnected from the formal banking sector. The high cost of financing and limited access to financial services impede development of the private sector. The commercial banking sector has five major banks that have become more competitive as a result of privatization and mergers. Short-term financing dominates bank lending, and credit to the private sector accounts for about 20 percent of GDP. Capital markets remain underdeveloped. A joint working group of the Treasury and the Bank of Papua New Guinea was formed in March 2010 to explore the idea of establishing a sovereign wealth fund.

PROPERTY RIGHTS: *20* — *no change*

Land is held communally, and traditional communities do not recognize the permanent transfer of ownership when land is sold. The laws include provisions for extensive rights for women in dealing with family, marriage, and property disputes, but women generally are still treated as inferiors. The idea of intellectual property rights is a fairly new concept in Papua New Guinea.

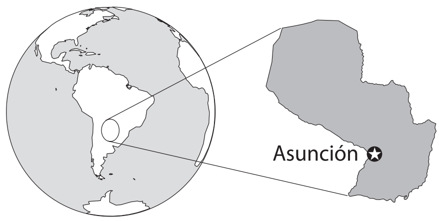
FREEDOM FROM CORRUPTION: *21* — + *1.0*

Corruption is perceived as pervasive. Papua New Guinea ranks 154th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption at all levels of government is a serious problem because of weak public institutions, lack of transparency, a lack of law and order, land tenure concerns that stifle investment, politicization of the bureaucracy, and the use of public resources to meet traditional clan obligations. Charges were filed in several cases of high-level corruption involving senior government officials in 2008 and 2009, but the investigative and judicial process has been very slow, and the cases remain unresolved.

LABOR FREEDOM: *72.4* — − *10.9*

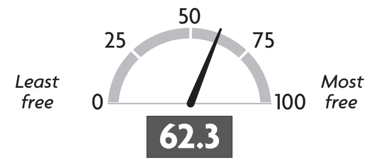
Papua New Guinea's labor regulations are relatively flexible, but the formal labor market is not fully developed. The non-salary cost of employing a worker is low, and dismissing an employee is relatively straightforward.

PARAGUAY



World Rank: **77** Regional Rank: **16**

Economic Freedom Score



Paraguay's economic freedom score is 62.3, making its economy the 77th freest in the 2011 *Index*. Its score is 1 point better than last year, reflecting modest improvements in investment and monetary freedoms. Paraguay is ranked 16th out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world average.

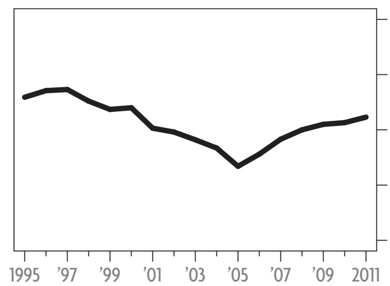
Paraguay scores relatively well in several of the 10 economic freedoms. Trade freedom is facilitated by tariff simplification. The tax system has become more efficient and competitive, and with the introduction of a personal income tax of 10 percent postponed until 2013, Paraguay remains one of the few countries with no individual income tax.

Overall economic freedom remains constrained by institutional weaknesses that badly need reform, but commitment to deeper reforms has been sporadic, and proposals have often met with resistance from vested interests. Property rights are not strongly protected, and the judicial system remains weak and inefficient. Widespread corruption also poses a serious impediment to spurring broader economic development.

BACKGROUND: Since the end of General Alfredo Stroessner's 35-year rule in 1989, Paraguayans have been working to implement durable democratic governance. Former Bishop Fernando Lugo, supported by the leftist Patriotic Alliance for Change coalition, was elected president in April 2008, ending more than 50 years of domination by the conservative Colorado Party. Lugo promised to support the indigenous population, redistribute land to the poor, and secure more revenue from the Itaipu Dam, a joint hydroelectric project with Brazil. Nearly half of all jobs are in agriculture, the major export earner. Unemployment is high, and more than one-third of Paraguayans live below the poverty line. Improved cooperation with neighboring countries and the United States has led to reduced smuggling and closer scrutiny of suspected Middle Eastern terrorist–supported groups in the tri-border area with Brazil and Argentina.

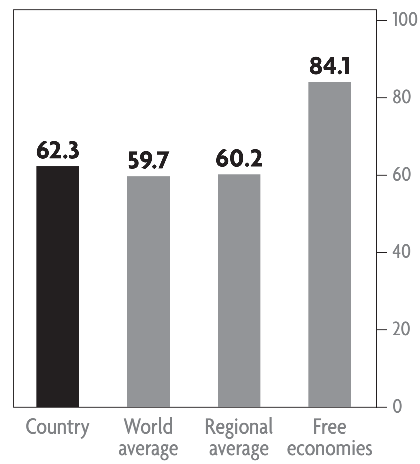
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 6.3 million
GDP (PPP): $28.5 billion
–4.5% growth in 2009
3.0% 5-year compound annual growth
$4,533 per capita
Unemployment: 7.9%
Inflation (CPI): 2.6%
FDI Inflow: $184 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *61.7* + *0.8*

Despite some progress over the past few years, the overall regulatory framework remains less than fully conducive to more dynamic entrepreneurial investment and production. Incorporation procedures are cumbersome, and start-up operations can be unnecessarily expensive and slow.

TRADE FREEDOM: *83* – *0.5*

Paraguay's weighted average tariff rate was 3.5 percent in 2009. Paraguay is a member of the MERCOSUR common market. Some import bans and restrictions, weak enforcement of intellectual property rights, government procurement procedures that give preferential treatment to domestic companies, and cumbersome and non-transparent customs procedures add to the cost of trade. Ten points were deducted from Paraguay's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *97.6* + *1.0*

Paraguay has low tax rates. 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. Agricultural products are exempt from the VAT. In the most recent year, overall tax revenue as a percentage of GDP was 11.8 percent. Tax administration is improving.

GOVERNMENT SPENDING: *93.4* + *1.7*

In the most recent year, total government expenditures, including consumption and transfer payments, dipped to 14.8 percent of GDP, reflecting lower revenues and fiscal restraint during the global downturn. Years of fiscal surplus and debt reduction gave Paraguay fiscal space for stimulus spending in 2009, but structural reforms are needed to strengthen the budgetary framework and improve the quality of public expenditures. Public employment growth has expanded the wage bill.

MONETARY FREEDOM: *80.9* + *5.5*

Inflation has declined, averaging 4.9 percent between 2007 and 2009. Most prices are set in the market, but the government controls the price of fuel and influences prices through state-owned enterprises and utilities, including electricity, telecommunications, transportation, and water. Five points were deducted from Paraguay's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *70* + *5.0*

Paraguay guarantees equal treatment of foreign investors, and most sectors are open to private investment. The government maintains monopolies in oil and gas, cement, electricity, water, and basic and long-distance land-line telephone services. Deterrents to investment include an arbitrary and non-transparent judicial process, weak enforcement of contracts, corruption, and inadequate infrastructure. Residents and non-residents may hold foreign exchange accounts. Most payments, capital transactions, and transfers are permitted and subject to minimal restrictions or reporting requirements. Foreign investors may not purchase land within 50 kilometers of the borders.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 108	Investment Freedom	No. 38
Trade Freedom	No. 56	Financial Freedom	No. 38
Fiscal Freedom	No. 7	Property Rights	No. 99
Government Spending	No. 5	Freedom from Corruption	No. 156
Monetary Freedom	No. 28	Labor Freedom	No. 175

FINANCIAL FREEDOM: *60* *no change*

Paraguay's financial sector has undergone restructuring and modernization. Financial intermediation has been improving as credit to the private sector has grown and non-performing loans have declined. An inefficient legal framework remains a considerable impediment to the creation of a more dynamic financial sector. The banking sector consists of 14 banks, and the two largest banks are foreign-owned. Foreign banks account for around 30 percent of assets. Capital markets remain underdeveloped. The impact of the global financial turmoil on the financial system has been relatively minor.

PROPERTY RIGHTS: *30* *no change*

Protection of property rights is extremely weak. Commercial and civil codes cover bankruptcy and give priority for claims first to employees, then to the state, and finally to private creditors. Acquiring title documents for land can take two years or more. Paraguay is recognized as a regional distribution and manufacturing center for counterfeit merchandise, although the government has increased the seizure and destruction of counterfeit and pirated goods. The government does not have a framework for safeguarding confidential data associated with regulatory approvals. As a result, some companies have decided not to market certain products, such as the latest pharmaceuticals, in Paraguay.

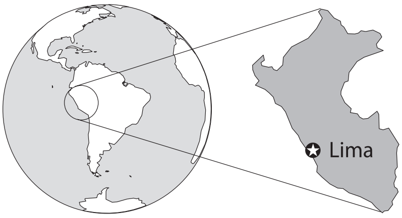
FREEDOM FROM CORRUPTION: *21* – *3.0*

Corruption is perceived as pervasive. Paraguay ranks 154th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a decline from 2008. Paraguay has a legacy of institutional corruption after decades of dictatorship. The multibillion-dollar contraband trade that occurs on the borders with Argentina and Brazil also facilitates money laundering. Weak institutions impede anti-corruption efforts. The slow pace of judicial reform and continued impunity are barriers to development.

LABOR FREEDOM: *24.9* – *1.2*

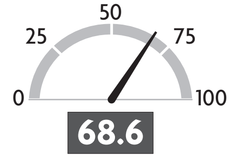
Paraguay's labor regulations are outmoded and restrictive. The non-salary cost of employing a worker is moderate, but laying off an employee is difficult. In the absence of a dynamic private sector, a well-functioning modern labor market has not yet emerged.

PERU



World Rank: **41** Regional Rank: **5**

Economic Freedom Score



Peru's economic freedom score is 68.6, making its economy the 41st freest in the 2011 *Index*. Its score is 1 point better than last year, reflecting improvements that include a notable gain in business freedom. Peru is ranked 5th out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world and regional averages.

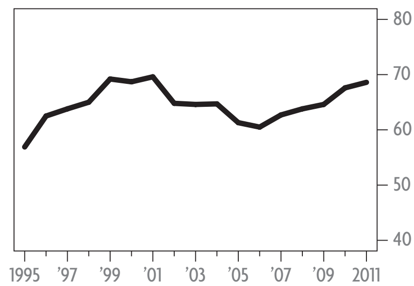
Despite the challenging global economic environment, Peru has achieved average growth of close to 7 percent over the past five years. Business formation has been streamlined, and labor regulations have become more flexible. The government has entered into trade pacts with Canada, Chile, China, Singapore, and the United States since early 2009. Peru also signed trade agreements with the European Free Trade Association in mid-2009 and the European Union in May 2010.

Institutional weaknesses include inadequate protection of property rights, an inefficient judicial system, and a lack of political will to tackle corruption. Freedom from corruption and property rights are the only economic freedom components in which Peru scores considerably below the world average.

BACKGROUND: Peru has emerged from its political instability of the late 20th century. Former President Alberto Fujimori (1990–2000) has been convicted and jailed for offenses during a decade of autocratic rule that included a successful campaign against the Shining Path and other insurgents. President Alan Garcia, who served one term in the 1980s and was re-elected in 2006, has earned a reputation as the market-friendly regional alternative to Venezuela's Hugo Chávez by maintaining the trend toward economic liberalism, trade liberalization, and fiscal and monetary stability. Significant natural resources include gold, copper, and silver. More than 40 percent of Peru's people live below the poverty line, but economic growth is well above the Latin American average.

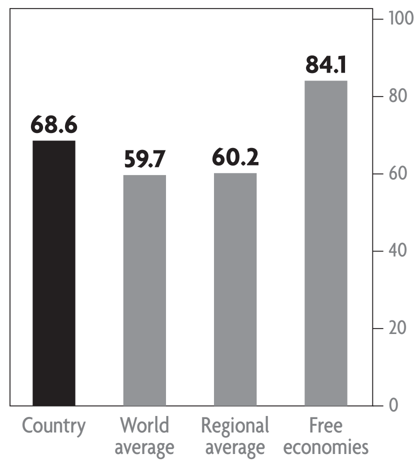
Country's Score Over Time

▲ *More Free* ▼ *Less Free*



Country Comparisons

▲ *More Free* ▼ *Less Free*



Quick Facts

Population: 29.1 million
GDP (PPP): $251.4 billion
0.9% growth in 2009
6.8% 5-year compound annual growth
$8,638 per capita
Unemployment: 8.1%
Inflation (CPI): 2.9%
FDI Inflow: $4.8 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *71.9* — + 6.1

Despite notable progress in enhancing the overall regulatory environment, government inefficiency stemming from bureaucratic red tape persists. Recently legislated reforms have dismantled some barriers to launching private enterprises, but the formation and operation of private businesses can still be cumbersome and costly, with problems exacerbated by petty corruption.

TRADE FREEDOM: *86* — + 1.0

Peru's weighted average tariff rate was 2 percent in 2009. Some import restrictions, services market access restrictions, export taxes, price bands for sensitive agricultural products, restrictive labeling, sanitary and phytosanitary regulations, domestic preference in government procurement, and improving but still weak enforcement of intellectual property rights add to the cost of trade. Ten points were deducted from Peru's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *79.4* — – 0.1

Peru has moderate income tax rates. Both the flat income tax rate and the top corporate tax rate are 30 percent. Other taxes include a value-added tax (VAT), a property transfer tax, and a financial transactions tax. Fuel subsidies have been eliminated, but excise taxes on selected domestic fuel prices have been increased. In the most recent year, overall tax revenue as a percentage of GDP was 16 percent.

GOVERNMENT SPENDING: *91* — – 1.3

In the most recent year, total government expenditures, including consumption and transfer payments, increased slightly to 17.3 percent of GDP. A fiscal stimulus measuring 2.5 percent of GDP provided support for employment, infrastructure, investment, and poverty-reduction spending. Authorities are pursuing fiscal consolidation under the Fiscal Responsibility and Transparency Law. The government has restructured the privatization agency to focus on large enterprises.

MONETARY FREEDOM: *83.1* — + 1.5

Inflation has been relatively low, averaging 3.5 percent between 2007 and 2009. With the economy growing by an annual rate of 8 percent in the first six months of 2010, the government has been challenged to prevent inflationary pressures from erupting. Most prices are set in the market, but the government influences prices through regulation, state-owned enterprises, and utilities, and a special government fund is used to stabilize changes in fuel prices. Five points were deducted from Peru's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *70* — *no change*

Peru provides national treatment to foreign investors. For most sectors of the economy, Peru does not screen new investments. Deterrents to investment include unpredictable and weak enforcement of contracts, non-transparent and burdensome bureaucracy, some restrictive labor regulations, and corruption. Residents and non-residents may hold foreign exchange accounts. There are no restrictions or controls on payments, transfers, or repatriation of profits. Capital transactions face minimal restrictions. Foreign investors generally may not acquire property within 50 kilometers of Peru's borders.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 65	Investment Freedom	No. 38
Trade Freedom	No. 41	Financial Freedom	No. 38
Fiscal Freedom	No. 81	Property Rights	No. 73
Government Spending	No. 10	Freedom from Corruption	No. 75
Monetary Freedom	No. 14	Labor Freedom	No. 66

FINANCIAL FREEDOM: *60* — *no change*

Peru's evolving financial sector provides a wide range of financial services. The banking sector has been transformed through consolidation. Four of the country's large commercial banks account for over 80 percent of total loans. Foreign ownership is substantial, and two of the largest commercial banks are majority foreign-owned. Credit to the private sector has increased steadily. The government has strengthened prudential standards and disclosure requirements. There is a small stock market. The impact of the global financial crisis on the banking sector has been limited. Banks remain well capitalized, and non-performing loans are around 3 percent of total loans.

PROPERTY RIGHTS: *40* — *no change*

The judicial system is slow to hear cases and issue decisions. Allegations of corruption and outside interference are common. Copyright piracy is extensive, and enforcement of intellectual property rights laws is inadequate. Peruvian law does not provide for protection of patents or protection from parallel imports.

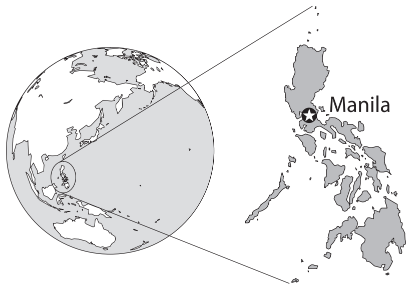
FREEDOM FROM CORRUPTION: *37* — + 1.0

Corruption is perceived as significant. Peru ranks 75th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Government corruption is viewed as widespread. In October 2008, a kickback scandal involving a member of the ruling party and a foreign oil company led to the replacement of the prime minister, although investigators have not established that he was involved in the scandal.

LABOR FREEDOM: *67.7* — + 1.6

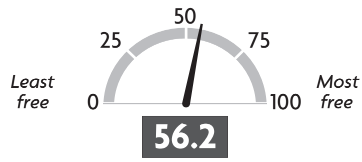
Peru's labor regulations continue to evolve, with more flexibility gradually being introduced into the labor market. The non-salary cost of employing a worker has become less burdensome as mandatory paid annual leave and severance payments have been reduced. Regulations on work hours remain relatively inflexible.

THE PHILIPPINES



World Rank: **115** Regional Rank: **21**

Economic Freedom Score



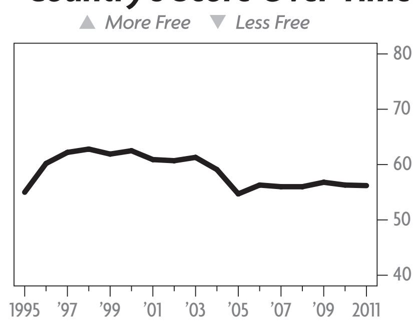
The Philippines' economic freedom score is 56.2, making its economy the 115th freest in the 2011 *Index*. Its score is 0.2 point lower than last year, with small reductions in business and labor freedom offsetting modest gains in monetary freedom and freedom from corruption. The Philippines ranks 21st 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 Philippines has made a notable recovery since mid-2009, driven mainly by strong export performance. The absence of entrepreneurial dynamism, however, still makes long-term economic development a difficult task.

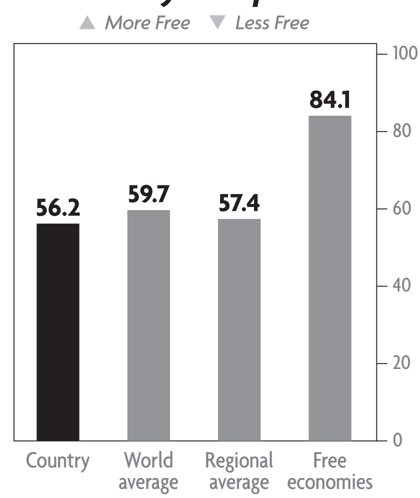
The Philippines has pursued a series of legislative reforms to enhance the entrepreneurial environment and develop a stronger private sector to generate broader-based job growth. Progress has been mixed, although some fiscal reforms have been accomplished. Deeper institutional reforms are required in four interrelated areas: business freedom, investment freedom, property rights, and freedom from corruption. The government imposes formal and non-formal barriers to foreign investment, and foreign remittances do little to promote sustainable growth. The judicial system remains weak and vulnerable to political influence and corruption.

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 rampant government corruption. The previous government's failure to do anything substantial to liberalize the economy set back efforts to attract much-needed foreign investment in basic industries and infrastructure, and the Philippines has continued its long slide from being one of Asia's richest economies to being one of its poorest. The economy relies heavily on emigrants' remittances, which are equivalent to more than 10 percent of GDP.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 92.2 million
GDP (PPP): $324.7 billion
0.9% growth in 2009
4.3% 5-year compound annual growth
$3,521 per capita
Unemployment: 7.5%
Inflation (CPI): 3.2%
FDI Inflow: $1.9 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *43.4* — *4.7*

Potential entrepreneurs face severe challenges. The overall regulatory framework is burdensome, and the legal framework is ineffective, holding back more dynamic and broad-based expansion of the private sector.

TRADE FREEDOM: *77.8* *no change*

The Philippines' weighted average tariff rate was 3.6 percent in 2007. Some high tariffs, import and export restrictions, quotas and tariff rate quotas, services market access barriers, import licensing requirements, restrictive and non-transparent standards, labeling and other regulations, domestic bias in government procurement, inconsistent and non-transparent customs valuation and administration, export subsidies, widespread corruption, and weak protection of intellectual property rights add to the cost of trade. Fifteen points were deducted from the Philippines' trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *78.8* *no change*

The Philippines has relatively high tax rates. The top income tax rate is 32 percent. The top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT), a real property tax, and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 14.1 percent.

GOVERNMENT SPENDING: *91* — *0.2*

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 17.3 percent of GDP. Fiscal stimulus and restructuring of public enterprises have widened the fiscal deficit, which had almost reached balance in 2007.

MONETARY FREEDOM: *76.3* + *3.6*

Inflation has been moderate, averaging 4.7 percent between 2007 and 2009, and was holding steady in 2010. The government influences prices through state-owned enterprises and utilities and controls the prices of electricity distribution, water, telecommunications, and most transportation services. Price ceilings are usually imposed on basic commodities only in emergencies, and presidential authority to impose controls to check inflation or ease social tension is rarely exercised. Ten points were deducted from the Philippines' monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *40* *no change*

Foreign investment is restricted in several sectors of the economy. In many industries where foreign investment is allowed, the level of foreign ownership is capped. All foreign investments are screened and must be registered with the government. Regulatory inconsistency and lack of transparency, corruption, and inadequate infrastructure hinder investment. Dispute resolution can be cumbersome and complex, and enforcement of contracts is weak. Residents and non-residents may hold foreign exchange accounts. Payments, capital transactions, and transfers are subject to some restrictions, controls, quantitative limits, and authorizations. Foreign investors may lease but not own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 152**	Investment Freedom	**No. 117**
Trade Freedom	**No. 86**	Financial Freedom	**No. 70**
Fiscal Freedom	**No. 84**	Property Rights	**No. 99**
Government Spending	**No. 10**	Freedom from Corruption	**No. 141**
Monetary Freedom	**No. 77**	Labor Freedom	**No. 128**

FINANCIAL FREEDOM: *50* *no change*

The Philippines' small financial sector is dominated by banking. In general, the financial system welcomes foreign competition, and capital standards and oversight have improved. Consolidation has progressed, and non-performing loans have gradually declined. The banking sector is dominated by five large commercial banks. Two large state-owned banks account for about 15 percent of total assets. Credit is generally available at market terms, but banks are required to lend specified portions of their funds to preferred sectors. The non-bank financial sector remains small. Capital markets are centered on the Philippine Stock Exchange. The impact of the global financial crisis on banking has been relatively small because of the sector's very limited exposure to distressed international financial institutions.

PROPERTY RIGHTS: *30* *no change*

Although the Philippines has procedures and systems for registering claims on property, including intellectual property and chattel/mortgages, delays and uncertainty associated with a cumbersome court system continue to concern investors. Questions regarding the general sanctity of contracts and the property rights they support have also clouded the investment climate. The judicial system is weak. Judges are nominally independent, but some are corrupt or have been appointed strictly for political reasons. Organized crime is a serious problem. Despite some progress, enforcement of intellectual property rights remains problematic.

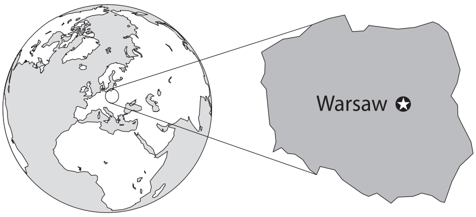
FREEDOM FROM CORRUPTION: *24* + *1.0*

Corruption is perceived as pervasive. The Philippines ranks 139th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. A culture of corruption is long-standing. The government has worked to reinvigorate its anti-corruption drive, but these efforts have been inconsistent. Reforms have not improved public perception and are overshadowed by high-profile cases frequently reported in the Philippine media.

LABOR FREEDOM: *50.7* — *1.2*

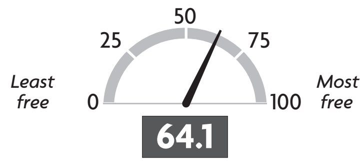
The labor market remains structurally rigid, although existing labor regulations are not particularly burdensome. Many of the country's skilled workers have migrated to other advanced economies.

POLAND



World Rank: **68** Regional Rank: **31**

Economic Freedom Score



Poland's economic freedom score is 64.1, making its economy the 68th freest in the 2011 *Index*. Its score is 0.9 point better than last year, reflecting notable improvements in investment freedom, property rights, and freedom from corruption. Poland is ranked 31st out of 43 countries in the Europe region, and its overall score is above the world average.

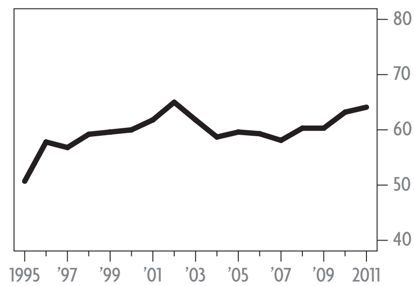
Confirming its transformation into a fast-growing, dynamic economy, Poland escaped the global economic downturn largely unscathed and was the only country in Europe to escape recession in 2009. An openness to trade and foreign investment has fueled a developing entrepreneurial sector. Poland's increasingly competitive financial system and low corporate tax rates have spurred private-sector dynamism.

The accumulation of large fiscal deficits in recent years runs the risk of undermining Poland's long-term competitiveness and highlights the need for more disciplined management of public finance. Excessive administrative red tape constrains innovative economic activity, as do the effects of corruption. Unreformed and rigid labor regulations contribute to significant structural unemployment as well as underemployment.

BACKGROUND: Soviet control of Poland ended with the Solidarity 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 was killed when the presidential plane crashed in Russia. Bronislaw Komorowski of the pro-business, center-right Civic Platform party was subsequently elected president.

Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

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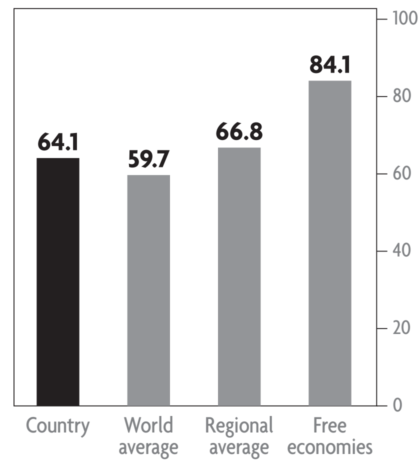


Quick Facts

Population: 38.1 million
GDP (PPP): $688.8 billion
1.7% growth in 2009
4.9% 5-year compound annual growth
$18,072 per capita
Unemployment: 8.2%
Inflation (CPI): 3.5%
FDI Inflow: $11.4 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *61.4* — *0.8*

Bureaucracy still hinders entrepreneurial activity. Inconsistent application of the commercial code increases the cost of business formation and operation.

TRADE FREEDOM: *87.6* + *0.1*

Poland's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Polish policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Pharmaceuticals regulations that may penalize imports exceed general EU policy, but the enforcement of intellectual property rights has improved. Ten points were deducted from Poland's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *74* — *0.9*

Poland has a relatively high income tax rate and a relatively low corporate tax rate. The top income tax rate is 32 percent (though individuals may opt for a special scheme whereby income is taxed at 19 percent without any allowances). The flat corporate tax rate is 19 percent. Other taxes include a value-added tax (VAT), an inheritance tax, and a transfer tax on items not subject to the VAT. In the most recent year, overall tax revenue as a percentage of GDP was 34.9 percent.

GOVERNMENT SPENDING: *43.8* — *3.0*

In the most recent year, total government expenditures, including consumption and transfer payments, increased slightly to 43.3 percent of GDP. Privatization has stalled.

MONETARY FREEDOM: *78.1* *no change*

Inflation has been relatively low, averaging 3.6 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. The government monitors utility rates and sets official prices for pharmaceutical and medical materials, taxi services, and any other goods or services deemed necessary for the proper functioning of the economy. Ten points were deducted from Poland's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *65* + *5.0*

Foreign capital and domestic capital are generally treated equally. The government does not screen investment and allows 100 percent foreign ownership in most sectors of the economy. All investors need government approval to operate in the broadcasting, aviation, energy, weapons, mining, and private security sectors. Deterrents include regulatory unpredictability, red tape, a slow court system, and numerous labor, health, safety, and environmental regulations. Residents and non-residents may hold foreign exchange accounts, subject to certain restrictions. Payments, transactions, and transfers over a specified amount must be conducted through a domestic bank. Capital transactions with non-EU nations may be subject to restrictions and government approval. Foreign ownership of land is subject to numerous restrictions.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 112	Investment Freedom	No. 50
Trade Freedom	No. 12	Financial Freedom	No. 38
Fiscal Freedom	No. 114	Property Rights	No. 42
Government Spending	No. 147	Freedom from Corruption	No. 48
Monetary Freedom	No. 56	Labor Freedom	No. 88

FINANCIAL FREEDOM: *60* *no change*

Poland's financial sector continues to expand. Credit is available on market terms, and foreign investors can access domestic financial markets. Commercial banks control nearly 90 percent of assets, and majority foreign-owned banks account for two-thirds of that amount. The government sold its minority shares in several banks in 2009 and maintains majority control in two banks. Restrictions on capital flows have been removed, and capital markets have become more sophisticated, with the Warsaw Stock Exchange rapidly expanding. The impact of the global financial turmoil has been relatively mild.

PROPERTY RIGHTS: *60* + *5.0*

Property rights are moderately well protected. Outstanding residential mortgage debt grew rapidly from 2005–2008, but the mortgage market is still a relatively small 15 percent of GDP. The legal system protects the acquisition and disposition of property. The judicial system is slow to resolve cases, and there can be unexpected changes in laws and regulations. Piracy of intellectual property continues despite government efforts to improve protection.

FREEDOM FROM CORRUPTION: *50* + *4.0*

Corruption is perceived as significant. Poland ranks 49th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, an improvement from 2008. The Central Anticorruption Office has increased the number of its investigations, and a country-wide anticorruption strategy is planned.

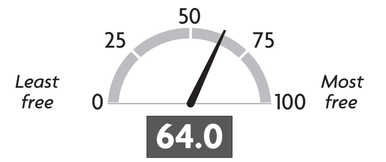
LABOR FREEDOM: *61.2* — *0.3*

Poland's labor code is relatively stringent. The non-salary cost of employing a worker is high, and dismissing an employee is difficult. Unions exercise considerable influence on contract termination and other labor issues.

PORTUGAL

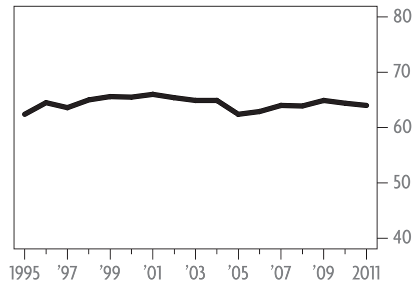
World Rank: **69** Regional Rank: **32**

Economic Freedom Score



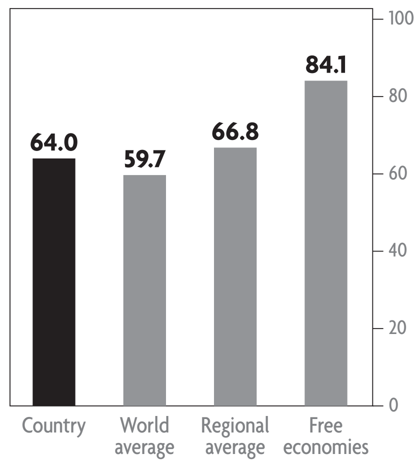
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 10.6 million
GDP (PPP): $232.7 billion
–2.7% growth in 2009
0.1% 5-year compound annual growth
$21,859 per capita
Unemployment: 9.6%
Inflation (CPI): –0.9%
FDI Inflow: $2.9 billion

2009 data unless otherwise noted.
Data compiled as of September 2010.

Portugal's economic freedom score is 64, making its economy the 69th freest in the 2011 *Index*. Its score is 0.4 point worse than last year, with reductions in four of the 10 economic freedoms. Portugal is ranked 32nd out of 43 countries in the Europe region, and its overall score is above the world average.

Previous reforms that helped Portugal modernize its economy and diversify its productive base have lost their momentum. Despite sound institutional settings such as an efficient business framework and an independent judicial system, the indebted and inefficient public sector has worn away the private sector's dynamism and the economy's overall competitiveness.

Portugal's economic adjustment needs to be accompanied by public-sector reforms, changes in labor market regulations, and improved tax policy to revitalize competitiveness and increase productivity. Although reforms in public finance administration are ongoing, the burden of the deficit is rising.

BACKGROUND: Following dictator Antonio de Oliveira Salazar's removal from power in 1968, his Estado Novo regime eventually fell from power by 1974 and a parliamentary democracy was established. Portugal joined the European Union in 1986, liberalizing many parts of its economy and improving its infrastructure with the help of EU funds. Increasing competitiveness remains a major objective for Socialist Party Prime Minister Jose Socrates, who came to power in 2005 and won re-election in 2009, though without his former parliamentary majority. President Anibal Cavaco Silva is eligible to run for a second term in early 2011. Portugal joined the euro zone in 2002. Some state enterprises have been privatized, but the country 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 growth lags behind that of the EU as a whole. Unemployment is high and growing.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *80.1* — 0.4

The overall regulatory framework is efficient. Rules regarding the formation and operation of private enterprises are relatively straightforward, although bureaucratic bottlenecks remain a problem.

TRADE FREEDOM: *87.6* + 0.1

Portugal's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Portuguese policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Non-transparent government procurement procedures that may favor EU firms add to the cost of trade. Ten points were deducted from Portugal's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *61.1* + 0.1

Portugal has a high income tax rate and a moderate corporate tax rate. The top income tax rate is 42 percent. 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) and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 37.7 percent.

GOVERNMENT SPENDING: *36.2* — 0.9

In the most recent year, total government expenditures, including consumption and transfer payments, increased slightly to 46.1 percent of GDP. Portugal's economy remains one of the most indebted in Europe.

MONETARY FREEDOM: *82.3* + 2.6

Portugal is a member of the euro zone. Inflation has been low, averaging 1.5 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. The government also influences prices through state-owned enterprises and utilities. Ten points were deducted from Portugal's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *70* *no change*

Foreigners may invest in almost all sectors that are open to private enterprise. Investments in defense, water management, telecommunications, railways, maritime transportation, and air transport, whether foreign or domestic, require government approval. Private ownership in basic sanitation, international air transport, railways, ports, arms and weapons manufacture, and airports is limited to 49 percent. Dispute resolution can be cumbersome. Residents and non-residents may hold foreign exchange accounts. There are no restrictions on repatriation of profits, current transfers, payments for invisible transactions, or real estate transactions.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 37	Investment Freedom	No. 38
Trade Freedom	No. 12	Financial Freedom	No. 38
Fiscal Freedom	No. 162	Property Rights	No. 26
Government Spending	No. 153	Freedom from Corruption	No. 35
Monetary Freedom	No. 19	Labor Freedom	No. 169

FINANCIAL FREEDOM: *60* *no change*

Overall, the financial regulatory system is transparent, consistent with international norms, and characterized by prudent financial practice. After years of consolidation, the largest five bank groups account for about 80 percent of the banking sector's total assets. The largest bank, Caixa Geral de Depositos (CGD), is the only remaining government-controlled financial institution. Credit is available on market terms, and the private sector enjoys access to a wide variety of credit instruments. The government influences the allocation of credit through a program designed to assist small and medium-size enterprises. Capital markets are small. Due to the absence of a property bubble and limited exposure to risky assets, the banking sector has weathered the global financial turmoil relatively well.

PROPERTY RIGHTS: *70* *no change*

The judiciary is independent. The court system is slow and deliberate, and the number of years that it takes to resolve cases is well above the EU average. Portugal implements the World Trade Organization's Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement and European intellectual property protection standards and has increased the penalties for violators.

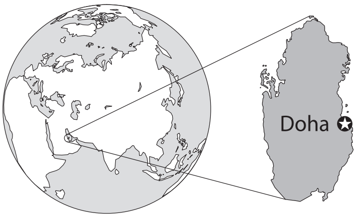
FREEDOM FROM CORRUPTION: *58* — 3.0

Corruption is perceived as present. Portugal ranks 35th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Foreign firms do not identify corruption as an obstacle to investment. Portugal has ratified the OECD Anti-Bribery Convention and has passed legislation to bring its criminal code into compliance with it. Tax evasion remains a problem, and the government has implemented several initiatives to improve collection rates.

LABOR FREEDOM: *34.7* — 2.3

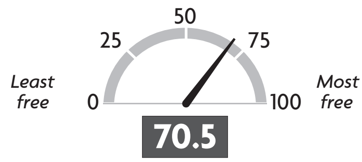
Portugal's labor regulations are inflexible. Regulations on dismissals and the use of temporary contracts are very burdensome and costly. The non-salary cost of employing a worker is high, and dismissing an employee is difficult. Regulations on work hours are rigid.

QATAR



World Rank: **27** Regional Rank: **2**

Economic Freedom Score



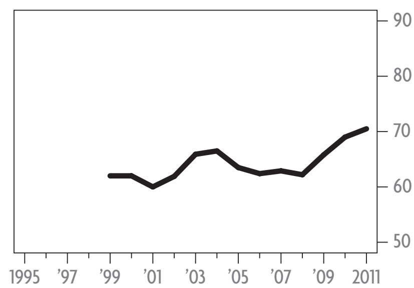
Qatar's economic freedom score is 70.5, making its economy the 27th freest in the 2011 *Index*. Its score is 1.5 points better than last year, reflecting notable improvements in five of the 10 economic freedoms. Qatar is ranked 2nd out of 17 countries in the Middle East/North Africa region, and its overall score is above the world and regional averages.

Qatar scores well in many of the 10 economic freedoms. Moving away from its dependence on the hydrocarbon sector, Qatar has promoted a sound entrepreneurial framework and a flexible regulatory process for business ventures. The country's 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.

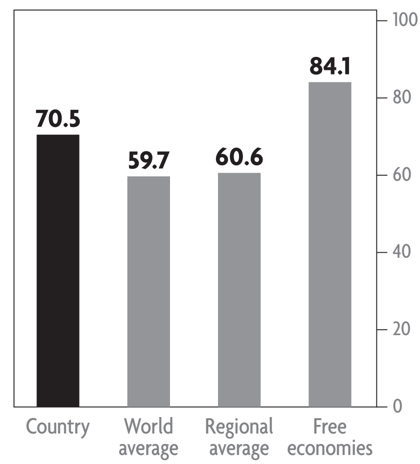
While Qatar has made significant progress in laying the institutional groundwork for sustained and diversified economic growth, the volatility of prices continues to undermine macroeconomic stability and entrepreneurial activity. Restrictions on foreign investment and considerable state involvement in the economy are serious drags on 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 has 15 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 its immense energy reserves and small population, Qatar has the world's second-highest per capita income and has become one of the world's fastest-growing economies.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 1.2 million
GDP (PPP): $102.1 billion
9.0% growth in 2009
13.4% 5-year compound annual growth
$83,841 per capita
Unemployment: 0.5%
Inflation (CPI): –4.9%
FDI Inflow: $8.7 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *70.3* — 3.4

The process for launching a business and completing licensing requirements has become more streamlined, but the overall pace of regulatory reform has slowed. Efficient bankruptcy procedures are not fully developed.

TRADE FREEDOM: *82.4* + 0.2

Qatar's weighted average tariff rate was 3.8 percent in 2009. Qatar is a member of the Gulf Cooperation Council customs union. Some prohibitive tariffs, import restrictions and bans, services market access barriers, import licensing requirements, restrictive sanitary and phytosanitary regulations, and domestic preference in government procurement add to the cost of trade. Ten points were deducted from Qatar's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *99.8* — 0.1

Qatar imposes no income tax on individuals and no income tax on wholly owned Qatari businesses. Under a new corporate tax law effective January 1, 2010, a flat 10 percent corporate tax rate replaces the top progressive rate of 35 percent and applies to foreign corporations operating in Qatar. Companies engaged in natural resource exploitation are still subject to a minimum 35 percent rate, or whatever specific rate they negotiate with the government. Aside from customs duties, there are no other major taxes. In the most recent year, overall tax revenue as a percentage of GDP was 4.9 percent.

GOVERNMENT SPENDING: *78.1* + 4.4

In the most recent year, total government expenditures, including consumption and transfer payments, dipped slightly to 27.0 percent of GDP. State involvement in the economy is still considerable despite some progress in privatization. In general, hydrocarbon revenues provide the fiscal space for necessary spending.

MONETARY FREEDOM: *71.9* + 6.0

Inflation has been volatile, averaging 8.2 percent between 2007 and 2009. A record high of 15 percent annual average inflation in 2008 was followed by a sharp deflation in the consumer price index of negative 4.9 percent in 2009. The government influences prices through regulation, subsidies, and numerous state-owned enterprises and utilities. Ten points were deducted from Qatar's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *45* *no change*

Foreign investment is limited to no more than 49 percent of capital for most activities; however, upon special government approval, up to 100 percent ownership by foreign investors may be allowed in certain sectors of the economy. Some sectors are reserved for domestic investors or as a government monopoly. Foreign businesses must employ a local agent, and investment projects are screened by the government. Regulations are not fully transparent. Residents and non-residents may hold foreign exchange accounts. There are no controls or restrictions on payments and transfers. Foreign ownership of land is limited.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 70	Investment Freedom	No. 103
Trade Freedom	No. 65	Financial Freedom	No. 70
Fiscal Freedom	No. 4	Property Rights	No. 26
Government Spending	No. 66	Freedom from Corruption	No. 22
Monetary Freedom	No. 119	Labor Freedom	No. 72

FINANCIAL FREEDOM: *50* *no change*

The Qatar Financial Center has attracted major financial firms and is intended to rival other regional financial hubs. The government has a 50 percent ownership in Qatar National Bank, which holds about 40 percent of all commercial bank assets and handles most of the government's business. The government has shares in two prominent insurers, and foreign investment in banking requires government approval. Foreign banks hold less than 10 percent of total banking assets. The Doha Securities Market has been opened to foreign investors, but foreign holdings are restricted to 25 percent of the issued capital of nearly all listed companies.

PROPERTY RIGHTS: *70* + 5.0

Expropriation is unlikely, but the judiciary is subject to executive influence and can be inefficient. The court system is slow, bureaucratic, and biased in favor of Qataris and the government. Foreigners may own residential property in select projects. Successful prosecutions of violators of intellectual property rights have increased substantially.

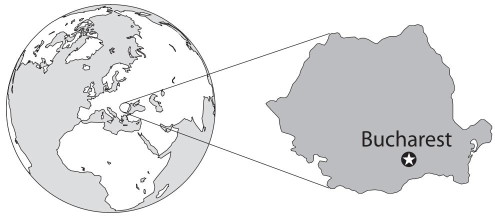
FREEDOM FROM CORRUPTION: *70* + 5.0

Corruption is perceived as present. Qatar ranks 22nd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, the second improvement in a row and the highest ranking of any country in the Middle East. The law imposes penalties for bribery on public officials and those who attempt to influence them illegally. Officials are working to make government procurement more open and transparent. Qatar has ratified the U.N. Convention Against Corruption and has established a National Committee for Integrity and Transparency. There is no independent auditing body outside of the executive.

LABOR FREEDOM: *67* — 2.1

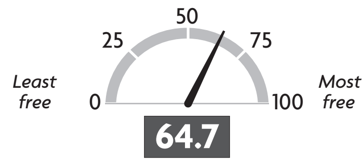
The labor force consists primarily of expatriate workers, and immigration and employment rules are relatively flexible. The government does not mandate a minimum wage.

ROMANIA



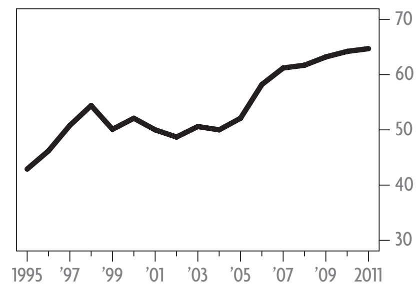
World Rank: **63** Regional Rank: **27**

Economic Freedom Score



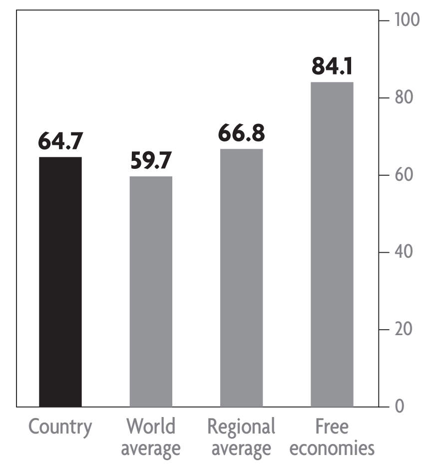
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Romania's economic freedom score is 64.7, making its economy the 63rd freest in the 2011 *Index*. Its score is 0.5 point better than last year, reflecting improvements in five of the 10 economic freedoms. Romania is ranked 27th out of 43 countries in the Europe region, and its overall score is higher than the world average.

Though Romania's evolving economy has benefited substantially from its openness and flexibility over the past decade, economic dynamism was slowed by the global financial turmoil. The economy has suffered sharp economic adjustments since late 2008. The budget deficit has been on the rise, putting greater pressure on the government for fiscal restraint.

Previous structural reforms have included privatization in the banking sector, a reduction in the public-sector wage bill, and tax administration reform. However, deeper reforms in areas such as public finance management and the labor market are now required. Institutional challenges that persist include widespread corruption and a rigid labor market. The judiciary remains inefficient and vulnerable to political interference.

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 was strongly opposed by trade unions and opposition parties, and strikes were threatened. In February 2009, Romania announced its willingness to host a U.S. ballistic missile defense interceptor site. 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, although GDP contracted in 2009.

Quick Facts

Population: 21.4 million
GDP (PPP): $255.2 billion
–7.1% growth in 2009
3.4% 5-year compound annual growth
$11,917 per capita
Unemployment: 7.8%
Inflation (CPI): 5.6%
FDI Inflow: $6.3 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *72* — *0.5*

The process for business registration and operation has been streamlined in recent years. However, the enforcement of commercial regulations is not always consistent, and efficient procedures and rules for bankruptcy have not been fully implemented.

TRADE FREEDOM: *87.6* + *0.1*

Romania's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Romanian policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. The enforcement of intellectual property rights remains problematic. Ten points were deducted from Romania's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *86.8* + *1.0*

Romania has relatively low flat tax rates. Both the income tax rate and the corporate tax rate are 16 percent. Some small businesses are taxed on turnover at 3 percent. Other taxes include a value-added tax (VAT) and a real property tax. In the most recent year, overall tax revenue as a percentage of GDP was 28.5 percent.

GOVERNMENT SPENDING: *57.6* — *2.2*

In the most recent year, total government expenditures, including consumption and transfer payments, rose slightly to 37.6 percent of GDP. Privatization of large-scale companies has been sluggish.

MONETARY FREEDOM: *74.4* + *1.1*

Inflation has been moderately high, averaging 6.1 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. It also influences prices through regulation, subsidies, and state-owned enterprises and utilities. Ten points were deducted from Romania's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *80* + *5.0*

Foreign and domestic investments receive equal treatment under the law. Deterrents to investment include judicial and legislative unpredictability, frequent changes in the regulatory environment, and cumbersome and non-transparent bureaucracy. Residents and non-residents may hold foreign exchange accounts. Payments, capital transactions, and transfers face some reporting requirements. EU citizens may own land, subject to reciprocity in their home countries; in general, foreign investors may not purchase agricultural or forestry land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 63	Investment Freedom	No. 14
Trade Freedom	No. 12	Financial Freedom	No. 70
Fiscal Freedom	No. 33	Property Rights	No. 73
Government Spending	No. 118	Freedom from Corruption	No. 72
Monetary Freedom	No. 97	Labor Freedom	No. 90

FINANCIAL FREEDOM: *50* *no change*

Romania's financial supervision and regulation are largely consistent with international standards. Many state-owned banks have been privatized, but the government still owns the National Savings Bank and Eximbank. Banking is relatively sound and stable, with a high degree of capitalization. Foreign-owned banks account for close to 90 percent of total assets. Regulations for the financial sector have been modernized and improved in recent years. However, the weak judicial system lacks the capacity to enforce laws efficiently or impartially. Perceptions of implicit state guarantees for municipal bonds and poor market infrastructure undermine the soundness of capital markets, which remain underdeveloped. Despite the relatively stable and open banking environment, Romania's financial intermediation rate remains one of the lowest in the region.

PROPERTY RIGHTS: *40* *no change*

Investors have expressed concern about unpredictable changes in legislation and weak enforcement of contracts and laws. The judicial system suffers from corruption, inefficiency, and excessive workloads. The mortgage market is now almost entirely private, although the state-owned National Savings Bank also offers mortgage loans. Romania is a signatory to international conventions concerning intellectual property rights, but enforcement of legislation protecting patents, trademarks, and copyrights is very weak.

FREEDOM FROM CORRUPTION: *38* *no change*

Corruption is perceived as widespread. Romania ranks 71st out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Despite some improvements, corruption remains a serious problem. The government's Anticorruption Strategy, which includes enforcement of laws and procedures to combat money laundering and tax evasion, has had some success. Accession to the EU also spurred gains against corruption. Nevertheless, foreign investors complain of corruption in the customs service, in municipal zoning offices, and among local financial authorities.

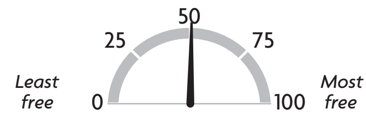
LABOR FREEDOM: *60.8* + *0.4*

Romania's labor regulations remain rigid, although several amendments to improve the flexibility of the labor code have been made. The non-salary cost of employing a worker is very high, and dismissing an employee is difficult. Regulations on work hours are not flexible.

RUSSIA

World Rank: **143** Regional Rank: **41**

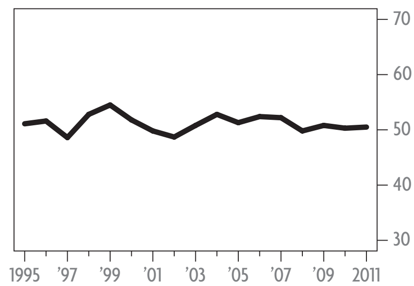
Economic Freedom Score



50.5

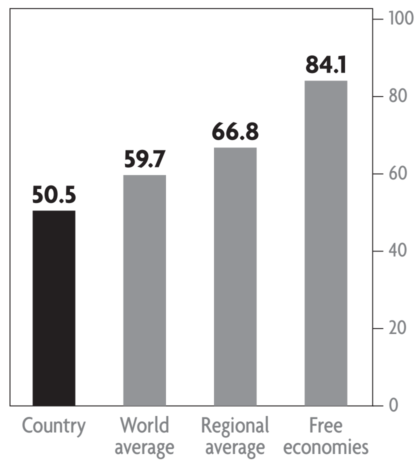
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Russia's economic freedom score is 50.5, making its economy the 143rd freest in the 2011 *Index*. Its score is 0.2 point better than last year, reflecting minor improvements in four of the 10 economic freedoms. Russia is ranked 41st out of 43 countries in the Europe region, and its overall score is below the world and regional averages.

Economic freedom is severely challenged in Russia. While strong returns from hydrocarbons have buoyed its economy, prospects for sustained long-term diversification and growth remain dim. An increasingly statist approach to economic management adds to the cost of investment and mutes private-sector dynamism. Pervasive corruption and limited respect for property rights hinder the development of economic activity that is free from government control or influence. Macroeconomic instability is a drag on economic growth.

Fiscal freedom is the one area in which Russia is at the forefront. Russia's competitive flat income tax rate and low corporate tax rates support innovation, although private enterprises also must cope with "informal taxes" such as bureaucratic hassling and corruption.

BACKGROUND: The Russian Federation emerged following the dissolution of the Soviet Union in 1991 and adopted a new constitution following violent confrontations in 1993. Russia's increasingly 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. Medvedev's efforts to improve the rule of law have stalled. The state has reasserted its role in the extractive industries and depends heavily on exports of natural resources, especially hydrocarbons. The global financial crisis, overregulation, pervasive corruption, and the war with Georgia sparked capital flight in 2008, and GDP contracted in 2009. Moscow has an agreement with Ukraine to extend basing of the Black Sea Fleet in Crimea for an additional 25 years from 2017.

Quick Facts

Population: 141.4 million
GDP (PPP): $2.1 trillion
–7.9% growth in 2009
3.1% 5-year compound annual growth
$14,920 per capita
Unemployment: 8.4%
Inflation (CPI): 11.7%
FDI Inflow: $38.7 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *50.7* — 1.5

Burdensome regulations continue to hinder private-sector development. The regulatory system suffers from corruption and a lack of transparency. Bureaucratic obstacles and inconsistent enforcement of regulations inject considerable uncertainty into entrepreneurial decision-making and are a particular problem for small businesses.

TRADE FREEDOM: *68.2* — 0.2

Russia's weighted average tariff rate was 5.9 percent in 2009. Prohibitive tariffs, services market barriers, import and export restrictions, non-transparent regulations and standards, discriminatory licensing, complex and non-transparent customs valuation and administration, subsidies, corruption, and weak enforcement of intellectual property rights add to the cost of trade. Twenty points were deducted from Russia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *82.7* + 0.4

Russia has relatively low taxes. The individual 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 a regional property tax. In the most recent year, overall tax revenue as a percentage of GDP was 34.1 percent.

GOVERNMENT SPENDING: *65.1* — 1.4

In the most recent year, total government expenditures, including consumption and transfer payments, increased slightly to 34.1 percent of GDP. The state maintains a strong presence in such key sectors as energy and mining. Public debt is at 11 percent of GDP.

MONETARY FREEDOM: *63.1* + 0.5

Inflation has been high, averaging 12 percent between 2007 and 2009. Inflationary pressures dropped in 2010, but higher food prices due to problems in the agricultural sector remain a factor. The government influences prices through regulation, extensive subsidies, and numerous state-owned enterprises and utilities. Fifteen points were deducted from Russia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *25* *no change*

Russian law provides national treatment for foreign investors, but there are several exceptions. In many industries, the level of foreign ownership is capped or prohibited. In 2008, the government introduced a list of 42 "strategic" sectors in which purchases of controlling interests by foreign investors must be pre-approved by the government. Other deterrents to investment include inconsistent and burdensome government regulation, unreliable contract enforcement, inadequate infrastructure and financial capacity, and corruption. Residents and non-residents may hold foreign exchange accounts, subject to restrictions. Capital payments and transfers are also subject to restrictions. Foreign ownership of non-agricultural land that is not located near international borders is permitted.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 142	Investment Freedom	No. 146
Trade Freedom	No. 134	Financial Freedom	No. 106
Fiscal Freedom	No. 59	Property Rights	No. 139
Government Spending	No. 101	Freedom from Corruption	No. 148
Monetary Freedom	No. 165	Labor Freedom	No. 81

FINANCIAL FREEDOM: *40* *no change*

Russia's small, undeveloped financial sector remains vulnerable to heavy government influence. State-owned banks dominate the banking sector and account for over one-third of total assets. Bank supervision and transparency are insufficient, although regulation was improved in 2006. The more than 1,000 licensed and registered banks are generally small and undercapitalized, but consolidation is underway. Capital markets are relatively small but growing and are dominated by energy companies. The global financial turmoil provided an impetus for bank consolidation. More than 60 banks were eliminated, but the government prevented the closure of large lenders. Tighter capital requirements were established in 2010. The government has channeled large amounts of state funds to prop up failing financial institutions.

PROPERTY RIGHTS: *25* *no change*

Protection of private property is weak. The judicial system is unpredictable, corrupt, and unable to handle technically sophisticated cases. Contracts are difficult to enforce, and an ancient antipathy to them continues to impede Russia's integration into the West. Mortgage lending remains a novelty. Violations of intellectual property rights continue to be a serious problem.

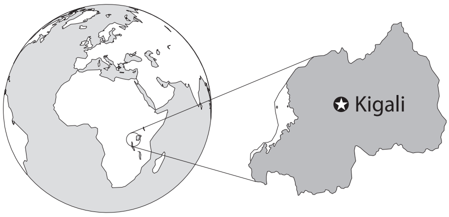
FREEDOM FROM CORRUPTION: *22* + 1.0

Corruption is perceived as pervasive. Russia ranks 146th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption is rampant, both in the number of instances and in the size of bribes sought. Neither President Medvedev's Council for the Fight Against Corruption, which was established in the spring of 2008, nor the anti-corruption legislation of December 2008 has been effective in reducing corruption. In PricewaterhouseCoopers' 2009 Global Economic Crime Survey, Russia was in last place with 71 percent of respondents having reported experiencing economic crime, of which bribery and corruption were a major component.

LABOR FREEDOM: *62.9* + 3.3

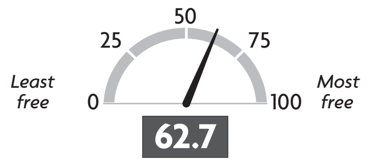
Russia's complicated and outmoded labor code continues to limit employment and productivity growth. The non-salary cost of employing a worker is high, and dismissing an employee is difficult. Regulations on the number of work hours are rigid.

RWANDA



World Rank: **75** Regional Rank: **6**

Economic Freedom Score



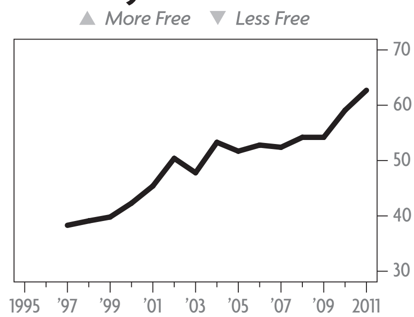
Rwanda's economic freedom score is 62.7, making its economy the 75th freest in the 2011 *Index*. Its score is 3.6 points better than last year, reflecting notable improvements in eight of the 10 economic freedoms. Rwanda is ranked 6th out of 46 countries in the Sub-Saharan Africa region and achieved the largest score improvement in the 2011 *Index*.

Rwanda scores relatively high in business freedom, fiscal freedom, and labor freedom. Personal and corporate tax rates are moderate. With a sound regulatory framework that is conducive to private-sector development, Rwanda has achieved annual economic growth of around 7 percent over the past five years.

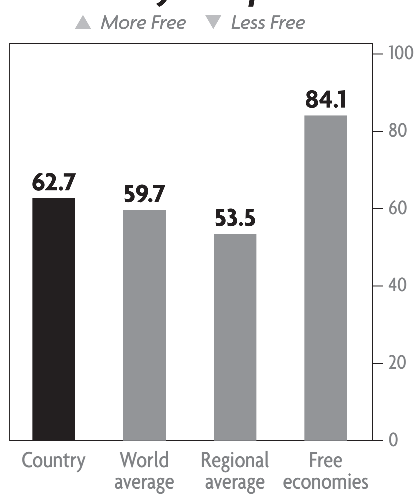
Institutional weaknesses are reflected in low scores for investment freedom, financial freedom, property rights, and freedom from corruption. Although foreign investment is welcome, political instability is a major deterrent. Ongoing efforts to strengthen the financial sector, create infrastructure, and improve expenditure management have shown little tangible progress. The judicial system lacks independence and capacity, and legal procedures are commonly subject to corruption.

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; a January 2009 operation was conducted jointly with Congolese armed forces. Kagame, who won a landslide victory in 2003 in the first presidential election since the genocide, has focused on political reconciliation and rebuilding Rwanda's shattered economy. 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.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 9.8 million
GDP (PPP): $11.3 billion
4.1% growth in 2009
7.3% 5-year compound annual growth
$1,150 per capita
Unemployment: 0.6%
Inflation (CPI): 10.4%
FDI Inflow: $118.7 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: 76.9 + 2.4

Impressive regulatory reforms have been implemented since 2008, eliminating bureaucratic hurdles to entrepreneurial activity and increasing regulatory efficiency. Legislative actions, including passage of the amended Companies Act and Insolvency Law in 2009, have contributed to a more favorable business environment.

TRADE FREEDOM: 77.8 + 10.4

Rwanda's weighted average tariff rate was 6.1 percent in 2009. Rwanda is a member of the East African Community (EAC) customs union. Liberalization of the trade regime has progressed, but some prohibitive tariffs, import restrictions, complex and inefficient customs procedures, and corruption add to the cost of trade. Ten points were deducted from Rwanda's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: 76.9 − 0.2

Rwanda has moderately high tax rates. 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. In the most recent year, overall tax revenue as a percentage of GDP was 13.5 percent.

GOVERNMENT SPENDING: 78.6 + 3.0

In the most recent year, total government expenditures, including consumption and transfer payments, decreased slightly to 26.7 percent of GDP. The fiscal deficit (excluding grants) is 11.5 percent of GDP. Privatization has stalled.

MONETARY FREEDOM: 68.5 + 1.6

Inflation has been high, averaging 11.5 percent between 2007 and 2009. The government controls the prices of cement, electricity, water, telecommunications, petroleum, beer, and soft drinks. It also influences prices through regulation and state-owned enterprises and utilities. Ten points were deducted from Rwanda's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: 50 + 10.0

Foreign investment is not subject to discriminatory treatment, and there are no restrictions on investment in any sector. Investment projects are subject to screening if investors are seeking government incentives. Rwanda's legal investment infrastructure is still being developed. Commercial courts that began operations in 2008 have been effective, but enforcement of contracts remains challenging. Bureaucracy can be cumbersome and prone to corruption. Residents and non-residents may hold foreign exchange accounts if they provide supporting documentation. Payments and transfers are subject to some authorizations, maximum allowances, and limits. Nearly all capital transactions require central bank approval. Land is owned by the state but may be leased by both foreign and local investors.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 43	Investment Freedom	No. 94
Trade Freedom	No. 86	Financial Freedom	No. 106
Fiscal Freedom	No. 99	Property Rights	No. 94
Government Spending	No. 64	Freedom from Corruption	No. 89
Monetary Freedom	No. 153	Labor Freedom	No. 9

FINANCIAL FREEDOM: 40 *no change*

The small but growing financial system remains burdened by shortcomings in supervision, regulation, and oversight. The high costs of financing and limited access to credit continue to be serious challenges for entrepreneurs. Less than 20 percent of the adult population has bank accounts and access to financial services. The government reduced its involvement in banking in 2004 when it sold two majority bank holdings, but it remains extensively involved and controls a significant portion of total assets. The banking sector is dominated by four major banks, and non-performing loans remain a burden. In an effort to expand financial services coverage for more of the population, the Private Credit Bureau has been operating since 2009. Capital markets are at an early stage of development, with a small stock exchange.

PROPERTY RIGHTS: 35 + 5.0

Rwanda's judiciary is influenced by the executive authorities and suffers from inefficiency, a lack of resources, and corruption. A land law passed in 2005 stipulates procedures for property registration, and a land titling campaign that began in 2008 as a pilot project is now underway nationwide. Despite adherence to key international agreements on intellectual property rights, sales of counterfeit goods and violations of pharmaceutical patents continue. A Registration Service Agency has been created to improve intellectual property rights by registering all commercial entities and facilitating business identification and branding.

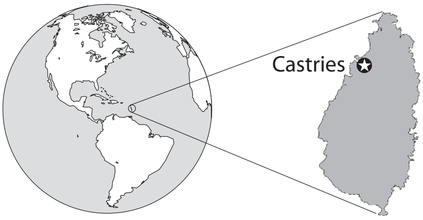
FREEDOM FROM CORRUPTION: 33 + 3.0

Corruption is perceived as significant. Rwanda ranks 89th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, an improvement for the second year in a row. The law provides criminal penalties for official corruption, and the government is implementing these laws with increasing effectiveness. The law does not provide for access to government information, and it remains difficult for citizens and foreigners, including journalists, to obtain access to government documents.

LABOR FREEDOM: 89.9 + 0.7

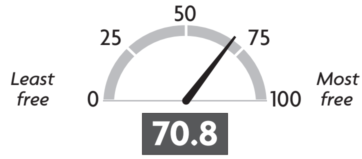
Rwanda's labor regulations have become highly flexible. The non-salary cost of employing a worker is low, and dismissing an employee is now easier. Regulations on the number of work hours are not rigid.

SAINT LUCIA



World Rank: **26** Regional Rank: **2**

Economic Freedom Score



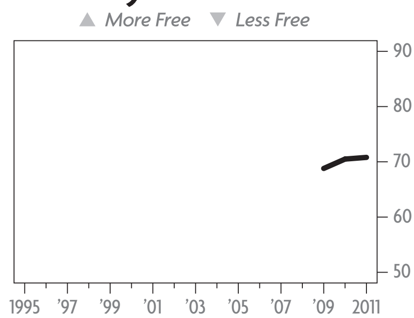
Saint Lucia's economic freedom score is 70.8, making its economy the 26th freest in the 2011 *Index*. Its score is 0.3 point better than last year, with improvements in monetary and fiscal freedom offset somewhat by decreases in other areas. Saint Lucia is ranked 2nd out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world average.

Saint Lucia scores above the world average in business freedom, freedom from corruption, and monetary freedom. The entrepreneurial environment is generally efficient and transparent, and the regulatory framework has become more streamlined. The small financial sector has been isolated from any serious impact of the global financial turmoil, but the recession has hurt the country's tourism sector.

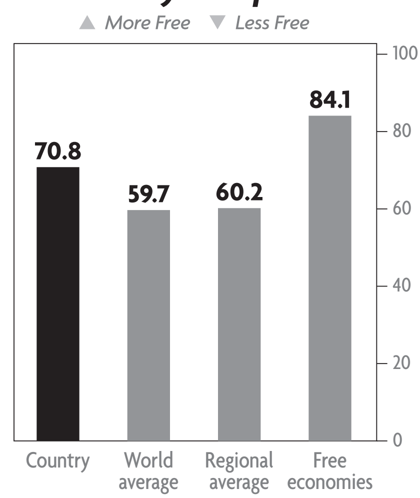
Saint Lucia's trade freedom is limited by tariff and non-tariff barriers. Government spending is pushing public debt to over 70 percent of GDP. Greater access to financing opportunities remains critical to private-sector development in the island's economy, and there is considerable scope for further development and better regulation of the financial sector.

BACKGROUND: Saint Lucia is a two-party parliamentary democracy. Prime Minister Stephenson King of the 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 improvements in roads, communications, water supply, sewerage, and port facilities have attracted foreign investment in tourism and in petroleum storage and transshipment. However, with the U.S., Canada, and Europe in recession, tourism has declined by double digits. Because of fluctuations in banana prices and reduced European Union trade preferences in bananas, the government is encouraging farmers to diversify into such crops as cocoa, mangos, and avocados.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 172,000
GDP (PPP): $1.7 billion
–5.2% growth in 2009
0.4% 5-year compound annual growth
$10,178 per capita
Unemployment: 20%
Inflation (CPI): 0.6%
FDI Inflow: $167 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *86.2* — 2.2

Saint Lucia's regulatory environment fosters private-sector development. Establishing a business is neither time-consuming nor costly and licensing requirements are not burdensome.

TRADE FREEDOM: *71.9* *no change*

Saint Lucia's weighted average tariff rate was 9 percent in 2007. Some high tariffs, import bans and restrictions, import fees, non-automatic import and export licensing, and limitations on trade capacity add to the cost of trade. Ten points were deducted from Saint Lucia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *74.4* + 1.2

Saint Lucia's tax rates are moderately high. The top income tax rate is 30 percent, and the top corporate tax rate is also 30 percent, down from 33.33 percent. Property sales and transfers are also subject to taxation. In the most recent year, overall tax revenue as a percentage of GDP was 27.5 percent. The government introduced a value-added tax (VAT) in 2009 and a vehicle licensing fee in 2010. The tax on mobile phone use was raised as of May 1, 2010.

GOVERNMENT SPENDING: *71.4* *no change*

In the most recent year, total government expenditures, including consumption and transfer payments, equaled 30.9 percent of GDP. Fiscal stimulus, if sustained, could drive up public debt, which now stands at 75 percent of GDP.

MONETARY FREEDOM: *85.3* + 5.2

Inflation has been low, averaging 2.4 percent between 2007 and 2009. The global recession has caused a reduction in tourist revenue and foreign investment, significantly slowing growth rates and dampening inflationary pressures. Saint Lucia's currency is the Eastern Caribbean Dollar (EC$), a regional currency shared among members of the Eastern Caribbean Currency Union. The Eastern Caribbean Central Bank issues the EC$, manages monetary policy, and regulates and supervises commercial banking activities in member countries. Five points were deducted from Saint Lucia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *55* *no change*

In general, foreign and domestic firms are treated equally under the law, and many sectors of Saint Lucia's economy are open to foreign investment. All investors must register with the government, and foreign investors must obtain a license to purchase land or shares in a company. A separate trade license must be obtained if more than 49 percent of the company's shares are held by foreign nationals or if the company is 100 percent foreign-owned. Licenses are required for all foreign companies. National investment laws do not cover all aspects of commercial law, contract enforcement is problematic, and bureaucracy can be cumbersome. Foreign exchange and capital transactions are subject to some restrictions and approvals.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 21	Investment Freedom	No. 75
Trade Freedom	No. 116	Financial Freedom	No. 106
Fiscal Freedom	No. 113	Property Rights	No. 26
Government Spending	No. 87	Freedom from Corruption	No. 22
Monetary Freedom	No. 6	Labor Freedom	No. 22

FINANCIAL FREEDOM: *40* *no change*

Saint Lucia's small financial sector is not fully developed. The global financial turmoil has not severely affected the financial system, but it did reveal weaknesses in the regulation of non-bank financial institutions, which are not subject to the same standards as banks and have engaged in riskier investments. There is a small offshore financial sector, and the banking sector is dominated by commercial banking. Saint Lucia is a member of the Eastern Caribbean Currency Union, which has a common central bank and currency. The financial services sector is also overseen by the government's Committee on Financial Services. A considerable portion of the population remains outside the formal banking sector, and limited access to financing remains a barrier to more dynamic business activity. Nonetheless, credit to the private sector has grown steadily. Non-performing loans have gradually declined since around 2003, although they have edged up over the past two years. The non-financial sector, led by insurance firms, has expanded rapidly.

PROPERTY RIGHTS: *70* *no change*

Saint Lucia has an efficient legal system based on British common law. The judiciary is independent and conducts generally fair public trials. Pirated copyrighted material is sold openly with no fear of arrest or prosecution.

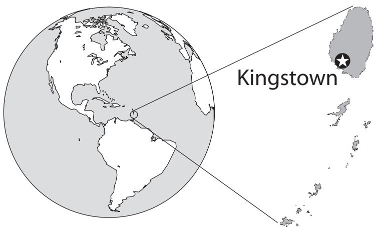
FREEDOM FROM CORRUPTION: *70* — 1.0

Corruption is perceived as present. Saint Lucia ranks 22nd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The law provides criminal penalties for official corruption, and the government generally implements the law effectively.

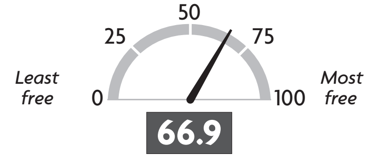
LABOR FREEDOM: *83.4* — 0.8

Saint Lucia's labor regulations are flexible, but an efficient labor market has not fully developed. Application of existing labor codes is uneven. The non-salary cost of employing a worker is low, and dismissing an employee is relatively easy.

SAINT VINCENT AND THE GRENADINES

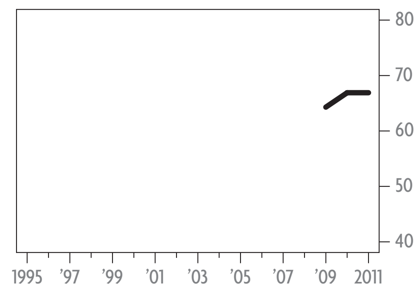


Economic Freedom Score

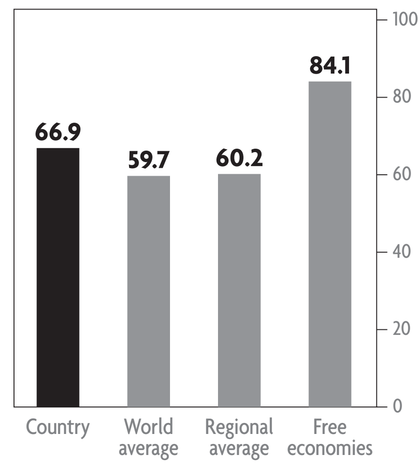


World Rank: 50 **Regional Rank: 10**

Country's Score Over Time



Country Comparisons



Saint Vincent and the Grenadines' economic freedom score is 66.9, making its economy the 50th freest in the 2011 *Index*. Its score is unchanged from last year. Saint Vincent and the Grenadines ranks 10th out of 29 countries in the South and Central America/Caribbean region.

Saint Vincent and the Grenadines scores above the world average in many of the 10 economic freedoms. The tourism industry is the primary driver of the economy and the main draw for foreign investment. The economic system is characterized by flexible labor regulations, an efficient legal system that secures private property, and macroeconomic stability.

More vibrant entrepreneurial activity remains stifled by limited access to financing from an underdeveloped financial sector. Fiscal policy is constrained by high levels of public debt. The challenging global economic environment makes external borrowing for projects like the construction of a new airport more difficult to obtain.

BACKGROUND: Saint Vincent and the Grenadines is part of the British Commonwealth, and its judicial system is rooted in English common law. It is a member of CARICOM and the Organization of Eastern Caribbean States, and many of its goods enter the United States duty-free under the U.S. Caribbean Basin Initiative. Prime Minister Ralph Gonsalves' Unity Labour Party has ruled since 2001. In April 2009, the government joined ALBA, a Venezuelan-led trade alliance; full membership in ALBA could undermine regional economic integration under CARICOM's Single Market and Economy. Banana production and tourism employ most of the workforce, but high unemployment has caused many to emigrate. The economy is vulnerable to price fluctuations, natural disasters, and reduced European Union trade preferences for bananas. The global recession has hurt tourism, and a quarter of all revenue is directed toward debt service.

Quick Facts

Population: 0.1 million
GDP (PPP): $1.1 billion
–2.5% growth in 2009
3.0% 5-year compound annual growth
$9,977 per capita
Unemployment: estimated to be over 15%
Inflation (CPI): 0.6%
FDI Inflow: $126 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *79.3* — *− 0.6*

The formation and operation of a private enterprise is not burdened by excessive government interference, and enforcement of commercial regulations is relatively effective and consistent. Business start-up and investment procedures have become more streamlined and efficient.

TRADE FREEDOM: *73.3* — *no change*

Saint Vincent and the Grenadines' weighted average tariff rate was 8.4 percent in 2007. Some high tariffs, import bans and restrictions, import fees, non-automatic import licensing, export-promotion programs, and limitations on trade capacity add to the cost of trade. Ten points were deducted from Saint Vincent and the Grenadines' trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *72.3* — *− 0.2*

Saint Vincent and the Grenadines has moderately high tax rates. Both the top income tax rate and the top corporate tax rate are 32.5 percent. Other taxes include a property tax and a value-added tax (VAT), which has functioned effectively since its introduction in May 2007. In the most recent year, overall tax revenue as a percentage of GDP was 25.6 percent. Income tax reform is ongoing.

GOVERNMENT SPENDING: *65.1* — *+ 1.0*

In the most recent year, total government expenditures, including consumption and transfer payments, equaled 34.1 percent of GDP. Despite sustained spending on electricity subsidies, food price adjustments, and larger welfare and pension payments, total expenditure is holding steady.

MONETARY FREEDOM: *78.2* — *+ 6.9*

Inflation has moderated, averaging 3.5 percent between 2007 and 2009. Saint Vincent and the Grenadines' currency is the Eastern Caribbean Dollar (EC$), a regional currency shared among members of the Eastern Caribbean Currency Union. The Eastern Caribbean Central Bank issues the EC$, manages monetary policy, and regulates and supervises commercial banking activities in member countries. Ten points were deducted from Saint Vincent and the Grenadines' monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *50* — *− 5.0*

In general, foreign investment is not subject to restrictions, and foreign investors receive national treatment. Foreigners must obtain a license to purchase land or to acquire more than 50 percent of a company. Additional licensing may apply, depending on the activity. Foreign investment is screened if government incentives are being sought. Investment-related regulations and laws are complex and non-transparent. Joint ventures between foreign and national investors may repatriate profits equivalent to the extent of foreign ownership. Foreign firms are allowed to repatriate dividends abroad. Foreign exchange and capital transactions are subject to some restrictions and approvals.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 38	Investment Freedom	No. 94
Trade Freedom	No. 104	Financial Freedom	No. 106
Fiscal Freedom	No. 123	Property Rights	No. 26
Government Spending	No. 101	Freedom from Corruption	No. 31
Monetary Freedom	No. 52	Labor Freedom	No. 41

FINANCIAL FREEDOM: *40* — *no change*

Saint Vincent and the Grenadines' overall banking system remains sound and was not severely affected by the global financial turmoil. The country is a member of the Eastern Caribbean Currency Union, which has a common central bank and currency. All domestic commercial banks in Saint Vincent and the Grenadines are regulated by the Eastern Caribbean Central Bank. The financial sector is small and dominated by banking. Government influence in allocating credit is not substantial. There are six commercial banks, and the foreign presence (mainly subsidiaries of Canadian banks) is significant. Non-performing loans stand at less than 5 percent of total loans. The financial-services sector plays an important role in the country's overall economic development strategy. The offshore financial sector is relatively small and concentrated. Capital markets are underdeveloped, and local entrepreneurs lack adequate access to a wide variety of financing instruments.

PROPERTY RIGHTS: *70* — *no change*

Saint Vincent and the Grenadines' efficient judicial system is based on British common law. The judiciary is independent and conducts generally fair public trials. Pirated copyrighted material is sold openly with no fear of arrest or prosecution.

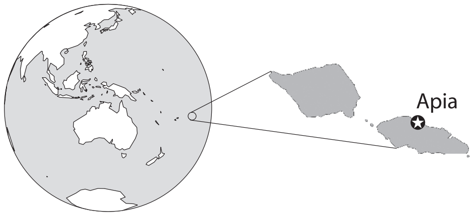
FREEDOM FROM CORRUPTION: *64* — *− 1.0*

Corruption is perceived as present. Saint Vincent and the Grenadines ranks 31st out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The law provides criminal penalties for official corruption, but enforcement is not always effective. There is anecdotal evidence of corruption and nepotism in government contracting.

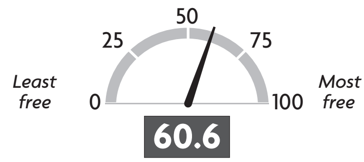
LABOR FREEDOM: *76.8* — *− 0.8*

Saint Vincent and the Grenadines' labor regulations are relatively flexible, but a well-functioning labor market has not been fully developed. Much of the labor force is employed in the agricultural and tourism sectors. The non-salary cost of employing a worker is moderate, and dismissing an employee is not costly.

SAMOA

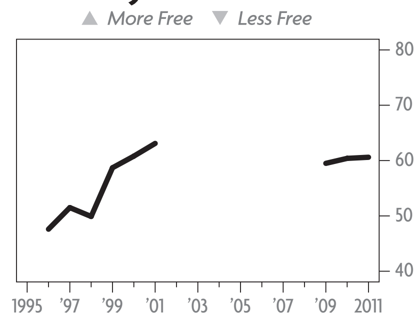


Economic Freedom Score

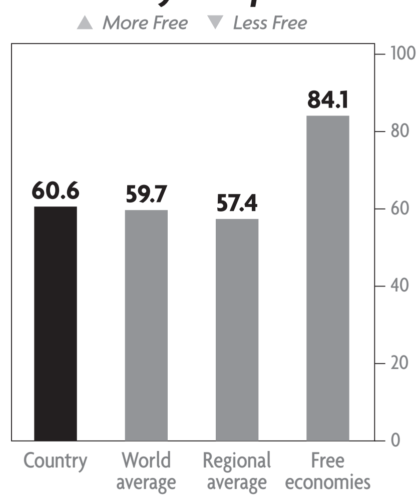


World Rank: **84** Regional Rank: **13**

Country's Score Over Time



Country Comparisons



Samoa's economic freedom score is 60.6, making its economy the 84th freest in the 2011 *Index*. Its score is 0.2 point better than last year, reflecting small gains in five of the 10 economic freedoms. Samoa ranks 13th out of 41 countries in the Asia–Pacific region, and its overall score is above the world and regional averages.

Samoa is still grappling with the effects of the global financial crisis and a tsunami that struck the country in September 2009. The fragile economy has become more heavily dependent on foreign aid and remittances. However, relatively streamlined regulations governing business formation and the flexible labor code have encouraged recovery by supporting Samoa's developing entrepreneurial sector. Well-protected property rights, strongly defended by an efficient legal system based on British Common Law, also encourage dynamic business activity.

Samoa's weaknesses include a small, underdeveloped financial sector, which does not supply adequate financing for entrepreneurial activity, and significant barriers to foreign investment. Recent large deficits threaten the health of public finances, and restoring fiscal discipline in the midst of the ongoing recession and recovery from the tsunami is likely to be challenging.

BACKGROUND: Samoa is a small South Pacific archipelago with a population of less than 200,000. Independent from New Zealand administration since 1962, Samoa is now an electoral democracy but historically has been dominated politically by the Human Rights Protection Party. A political crisis over changing traffic laws to mandate driving on the left rather than the right, which had affected the makeup of parliament and risen to the Supreme Court, was resolved in September 2009 when the switch was made. 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 destroyed countless resources.

Quick Facts

Population: 0.2 million
GDP (PPP): $1.0 billion
–4.9% growth in 2009
1.1% 5-year compound annual growth
$5,782 per capita
Unemployment: n/a
Inflation (CPI): 14.4%
FDI Inflow: $1.4 million

2009 data unless otherwise noted.
Data compiled as of September 2010.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *72.8* — 0.4

Samoa's regulatory framework, improved by recent years' reforms, supports entrepreneurial activity. In practice, however, the application of commercial codes is not always straightforward, and bureaucratic uncertainty, coupled with other institutional weaknesses such as a lack of access to credit, continues to hamper the emergence of a more vibrant private sector.

TRADE FREEDOM: *70* *no change*

Samoa's weighted average tariff rate was 10 percent in 2007. Some high tariffs, import restrictions, import licensing and permit requirements, restrictive sanitary and phytosanitary measures, export-promotion schemes, and limitations in regulatory and trade capacity add to the cost of trade. Ten points were deducted from Samoa's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *80.1* + 0.5

Samoa's taxes are moderate. Both the top income tax rate and the top corporate tax rate are 27 percent. Other taxes include a value-added tax (VAT) and excise taxes. In the most recent year, overall tax revenue as a percentage of GDP was 23 percent.

GOVERNMENT SPENDING: *67.9* + 0.4

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 32.7 percent of GDP. Weak revenues and increased public spending have resulted in a poor fiscal position, and the government is grappling with spending prioritization as the deficit widens. Samoa is heavily reliant on development assistance. Authorities have prioritized post-tsunami reconstruction and spending to counter effects of the global crisis over debt consolidation goals.

MONETARY FREEDOM: *68.5* — 5.3

Inflation has been high, averaging 11.5 percent between 2007 and 2009. The central bank maintains an exchange rate peg based on a basket of the currencies of Samoa's six main trading partners. The basket peg has kept the inflation rate relatively stable. Ten points were deducted from Samoa's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *30* *no change*

Samoa's government reserves certain sectors of the economy for Samoan citizens and limits foreign investment in "restricted" business activities. Investment is screened and subject to government approval. Underdeveloped private markets, non-transparent regulation, cumbersome and burdensome bureaucracy, difficulty in obtaining work permits for foreign labor, and inadequate infrastructure deter investment. Foreign exchange and capital transactions are subject to some restrictions and controls. Ownership of land is restricted, and leases can be difficult to obtain.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 60	Investment Freedom	No. 134
Trade Freedom	No. 125	Financial Freedom	No. 133
Fiscal Freedom	No. 76	Property Rights	No. 42
Government Spending	No. 95	Freedom from Corruption	No. 55
Monetary Freedom	No. 152	Labor Freedom	No. 25

FINANCIAL FREEDOM: *30* *no change*

Samoa's small and underdeveloped financial sector is dominated by banking. Although bank lending to the private sector has increased rapidly in recent years, a significant portion of the population remains outside the formal banking sector, and limited access to banking and financial services is a barrier to entrepreneurial activity. Four commercial banks, two of which are foreign-owned, account for about 50 percent of total banking-sector assets. The offshore financial sector, first launched about two decades ago, plays an increasingly important role as a source of foreign exchange earnings, though it is still a minor contributor compared to remittances and tourism. Reflecting the lack of financial efficiency and depth in Samoa, capital markets are poorly developed.

PROPERTY RIGHTS: *60* + 5.0

More than 80 percent of the land in Samoa is owned by extended families represented by their chiefs. Such land cannot be sold, and leases, even though legally possible, are difficult and expensive to arrange. These customary practices are seen as a major impediment to further tourism development and intensive commercialized agriculture. Samoa's efficient legal system is based on British common law. The judiciary is independent and conducts generally fair public trials.

FREEDOM FROM CORRUPTION: *45* + 1.0

Corruption is perceived as present. Samoa ranks 56th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The law provides criminal penalties for official corruption, and the government generally implements the law effectively. Penalties range from several months to several years of imprisonment if convicted. There have been isolated reports of government corruption, and the government bans reporting by the media on corruption cases.

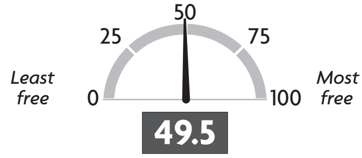
LABOR FREEDOM: *82.1* + 1.3

Samoa's labor regulations are relatively flexible. The non-salary cost of employing a worker is moderate, and dismissing an employee is relatively easy. However, the formal labor market is not fully developed.

SÃO TOMÉ AND PRÍNCIPE

World Rank: **150** Regional Rank: **33**

Economic Freedom Score



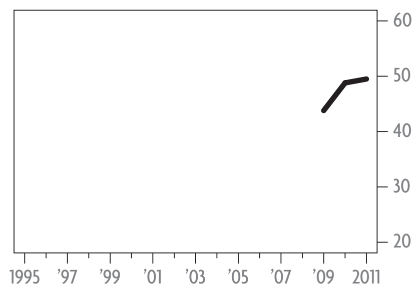
São Tomé and Príncipe's economic freedom score is 49.5, making its economy the 150th freest in the 2011 *Index*. Its score has increased by 0.7 point from last year, with a large drop in business freedom somewhat offsetting improvements in freedom from corruption, government spending, and monetary freedom. São Tomé and Príncipe is ranked 33rd out of 46 countries in the Sub-Saharan Africa region.

A number of reforms have been implemented in recent years. The corporate tax rate has been significantly reduced, and some progress has been made in achieving sounder management of public finance. The country's trade and investment regimes have become more open and liberal, albeit at a slow pace.

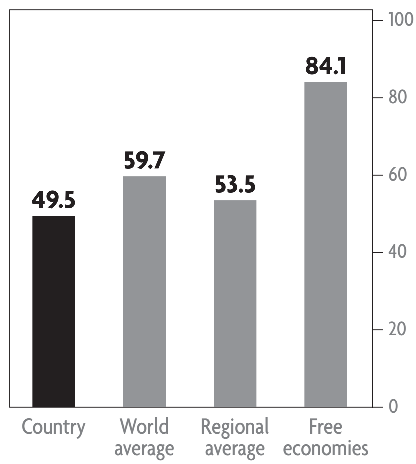
However, institutional weaknesses that require deeper reforms continue to strain São Tomé and Príncipe's economic freedom. A burdensome and inefficient bureaucracy, operating in a poor regulatory framework, hampers the emergence of entrepreneurial dynamism, and the judicial system is not strong enough to defend property rights effectively. Corruption is widespread, increasing the cost of conducting business and undermining long-term economic development.

BACKGROUND: The population of São Tomé and Príncipe, a two-island republic in the Gulf of Guinea, is heavily concentrated on São Tomé. Nigeria intervened in 2003 to prevent a coup, and international mediation restored democratic governance. President Fradique de Menezes, first elected in 2001, was re-elected in 2006. Plantation agriculture, particularly cocoa and coffee, dominates the economy. Cocoa represented about 90 percent of exports in 2005. Offshore oil fields that São Tomé and Príncipe shares with Nigeria are thought to hold billions of barrels of oil but have not been exploited.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 0.2 million
GDP (PPP): $0.3 billion
4.0% growth in 2008
5.6% 5-year compound annual growth
$1,814 per capita
Unemployment: 16.7%
Inflation (CPI): 17.0%
FDI Inflow: $36 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *32* — *− 11.5*

São Tomé and Príncipe's efforts to streamline business rules have produced uneven results. Launching a business is time-consuming, and regulatory requirements increase the overall cost of entrepreneurial activity. There is no bankruptcy law.

TRADE FREEDOM: *66.6* — *no change*

São Tomé and Príncipe's weighted average tariff rate was 11.7 percent in 2007. Some high tariffs, services market access barriers, import restrictions, import fees, and limitations on regulatory and trade capacity add to the cost of trade. Ten points were deducted from São Tomé and Príncipe's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *87.2* — *+ 0.1*

São Tomé and Príncipe has implemented a significant tax reform package. A new tiered income tax scheme has five income brackets with rates ranging from 0 percent to 20 percent. The top corporate tax rate was lowered to a flat 25 percent from 45 percent. In the most recent year, overall tax revenue as a percentage of GDP was 16.1 percent.

GOVERNMENT SPENDING: *67.5* — *+ 15.0*

In the most recent year, total government expenditures, including consumption and transfer payments, decreased to 32.9 percent of GDP. Transportation and telecommunications infrastructure is partially privatized (jointly held by the state and private entities). The government sold its controlling stake in fuel distributor ENCO in 2008. Privatization receipts along with external grants have financed the primary deficit.

MONETARY FREEDOM: *62.2* — *+ 3.2*

Inflation has been extremely high, averaging 19.3 percent between 2007 and 2009. A recently established currency peg will stop the secular depreciation of the dobra against the euro, the currency in which the overwhelming majority of the country's imports are denominated. However, the exchange rate has been provisionally set nearly 10 percent weaker than the average for 2009. The new peg is therefore in effect a one-off depreciation, which will raise the cost of euro-denominated imports in 2010. Ten points were deducted from São Tomé and Príncipe's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *45* — *no change*

Foreign and domestic firms are treated equally under the law, and nearly all sectors of the economy are open to some degree to foreign investment. Investment-related laws and regulations can be burdensome, and bureaucracy can be cumbersome and prone to corruption. Other deterrents to investment include lax regulatory enforcement, inadequate infrastructure, underdeveloped markets, security concerns, and political unrest. Foreign exchange and capital transactions are subject to some restrictions, approvals, and controls. The government may not expropriate property without providing compensation.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 171	Investment Freedom	No. 103
Trade Freedom	No. 138	Financial Freedom	No. 133
Fiscal Freedom	No. 31	Property Rights	No. 99
Government Spending	No. 96	Freedom from Corruption	No. 113
Monetary Freedom	No. 166	Labor Freedom	No. 141

FINANCIAL FREEDOM: *30* — *no change*

São Tomé and Príncipe's small financial system remains underdeveloped. Heavy external debt amounting to over 100 percent of GDP puts considerable pressure on the system. A large portion of the population still lacks access to formal banking services, and financial instruments for business expansion are very limited. Banking has undergone some expansion in recent years as more private commercial banks have entered the sector. There are seven commercial banks, and the foreign presence in their ownership and management is considerable. Most of these banks have little activity. Overall, domestic credit to the private sector remains limited and expensive, although it is available to both foreign and local investors without discrimination. In an effort to improve credit access, the government launched the consolidated Central Credit Register in 2010.

PROPERTY RIGHTS: *30* — *no change*

São Tomé and Príncipe's legal system is weak and subject to corruption. There is no separate commercial court system, and backlogs of civil cases cause long delays. International donor assistance projects aim to improve the judiciary by training staff and expanding physical capacity.

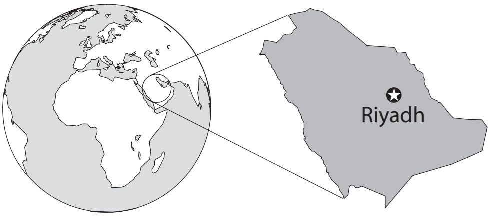
FREEDOM FROM CORRUPTION: *28* — *+ 1.0*

Corruption is perceived as widespread. São Tomé and Príncipe ranks 111th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption has been increasing and can involve bribery, embezzlement, and mismanagement of public funds. Analysts attribute the recent rise in corruption to low wages for government workers and officials, the absence of appropriate regulations, and the lack of strong leadership. Signs of corruption are particularly obvious during election campaigns, when voters receive money to favor certain candidates or political parties.

LABOR FREEDOM: *46.4* — *− 1.2*

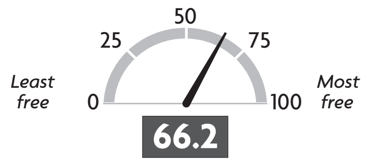
São Tomé and Príncipe's labor market is not fully developed. Existing labor regulations are not enforced effectively. The non-salary cost of employing a worker is high, and dismissing an employee is relatively costly.

SAUDI ARABIA

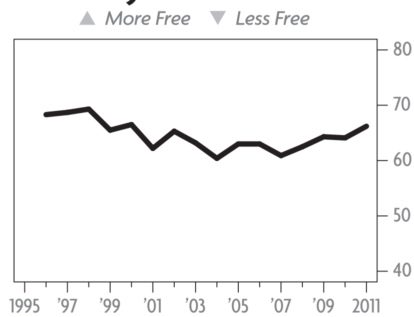


World Rank: **54** Regional Rank: **7**

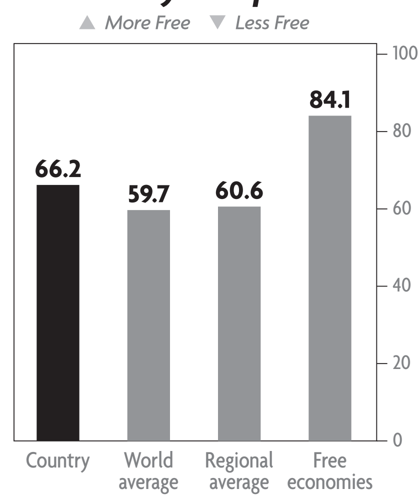
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Saudi Arabia's economic freedom score is 66.2, making its economy the 54th freest in the 2011 *Index*. Its score is 2 points better than last year, with strong gains in freedom from corruption, property rights, and business freedom and better control of government spending. Saudi Arabia is ranked 7th out of 17 countries in the Middle East/North Africa region, and its overall score is above the world average.

The global financial turmoil has slowed economic growth in Saudi Arabia. Levels of taxation are minimal. Efforts to diversify the economy beyond hydrocarbons are helped by prudent and streamlined regulations governing business registration. There has been notable progress in tackling corruption in recent years.

Saudi Arabia's overall economic freedom remains constrained by inadequate levels of monetary freedom, investment freedom, and property rights. The legal system is vulnerable to political influence. Investment freedom remains hampered by bureaucracy and a lack of transparency. Monetary stability is weak and continues to be adversely affected by price controls.

BACKGROUND: Saudi Arabia, the largest Persian Gulf oil kingdom, controls almost one-quarter 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. Accession to the World Trade Organization in 2005 has led to gradual economic reform, and the government has sought to attract foreign investment and promote diversification. Efforts to integrate Saudi Arabia more fully into the world economy are opposed by Islamist extremists who have targeted Saudi oil facilities, foreign workers, and the government for terrorist attacks. In February 2009, King Abdullah reshuffled his cabinet, appointing several moderates to important posts. Five years of high oil prices from 2004 to 2008 helped the economy, but falling oil prices and the global economic slowdown since then have severely reduced economic growth.

Quick Facts

Population: 25.5 million
GDP (PPP): $592.6 billion
0.1% growth in 2009
2.4% 5-year compound annual growth
$23,221 per capita
Unemployment: 11.7%
Inflation (CPI): 5.1%
FDI Inflow: $35.5 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *86.1* ✚ *1.5*

Saudi Arabia's regulatory framework has been streamlined. Launching a business has become less time-consuming, and licensing requirements have been eased.

TRADE FREEDOM: *82.2* ━ *0.3*

Saudi Arabia's weighted average tariff rate was 3.9 percent in 2009. Import bans and restrictions, export controls, services market access barriers, non-transparent and inconsistent standards implementation, domestic bias in government procurement, and regulatory barriers add to the cost of trade. Protection of intellectual property rights has been significantly improved. Ten points were deducted from Saudi Arabia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *99.4* ━ *0.2*

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. Foreign citizens are subject to a flat 20 percent income tax. Tax liability for a joint venture depends on the foreign partner's share. Special tax rates for natural gas and oil production are as high as 85 percent. In the most recent year, overall tax revenue as a percentage of GDP was 6.6 percent.

GOVERNMENT SPENDING: *74.6* ✚ *6.5*

In the most recent year, total government expenditures, including consumption and transfer payments, declined to 29.1 percent of GDP. State participation in the economy remains substantial. The state-owned mining company was privatized in 2008, and authorities are working to prepare the national airline for partial privatization.

MONETARY FREEDOM: *64.3* ✚ *2.0*

Inflation has been moderately high, averaging 6.1 percent between 2007 and 2009. The riyal is expected to remain pegged to the U.S. dollar. The government influences prices through regulation, extensive subsidies, and state-owned enterprises and utilities. Twenty points were deducted from Saudi Arabia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *40* ━ *5.0*

All foreign investors must be licensed by the General Investment Authority. Licenses for projects may be required, and foreign investors must take local partners in certain sectors. Foreign investment is prohibited in 16 manufacturing and service sectors and sub-sectors. There are minimum capital requirements for foreign investors to establish a business, and investors must demonstrate a plan to hire Saudi nationals. Dispute resolution is cumbersome, local hiring requirements are burdensome, and the licensing process is time-consuming. There are no controls or restrictions on foreign exchange transactions or capital payments and transfers. Foreign investors may acquire land for business use.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 23	Investment Freedom	No. 117
Trade Freedom	No. 67	Financial Freedom	No. 70
Fiscal Freedom	No. 5	Property Rights	No. 70
Government Spending	No. 79	Freedom from Corruption	No. 62
Monetary Freedom	No. 160	Labor Freedom	No. 39

FINANCIAL FREEDOM: *50* *no change*

Improved regulatory, supervisory, and accounting standards have made the financial system more stable and transparent. The government has eased licensing requirements for foreign investment in financial services and has raised the foreign equity ceiling in financial institutions to 60 percent. The government retains majority shares in the largest bank, the National Commercial Bank; holds minority shares in other domestically incorporated banks; and offers subsidized credit to preferred sectors. All insurance companies must be locally registered and must operate according to the cooperative insurance principle. Insurance has undergone some liberalization to allow greater competition from foreign insurers. Capital markets are relatively well developed, and the stock exchange is the region's largest.

PROPERTY RIGHTS: *45* ✚ *5.0*

Saudi courts do not always enforce contracts efficiently. The court system is slow, non-transparent, and influenced by 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 is weak, and procedures are inconsistent. Copyright piracy levels are the highest in the Gulf region, but the government has revised its Copyright Law, and the Ministry of Culture and Information referred the first-ever copyright violation case to the Board of Grievance in January 2010. Legal and societal barriers constrain women from asserting their limited property rights.

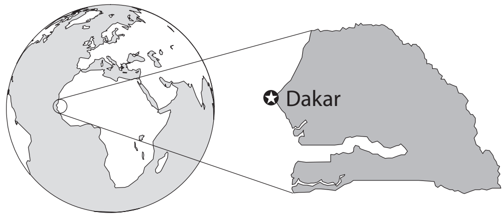
FREEDOM FROM CORRUPTION: *43* ✚ *8.0*

Corruption is perceived as significant. Saudi Arabia ranks 63rd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a significant improvement over 2008. The absence of transparency in government accounts and decision-making encourages a perception of corruption among members of the royal family and in the executive branch. Government procurement is an area of concern. Bribes, often disguised as "commissions," are reportedly commonplace.

LABOR FREEDOM: *77* ✚ *2.6*

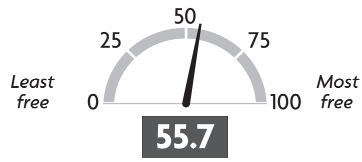
Saudi Arabia's labor regulations are relatively flexible. The non-salary cost of employing a worker is low, and dismissing an employee is not burdensome. Regulations on work hours are fairly flexible.

SENEGAL

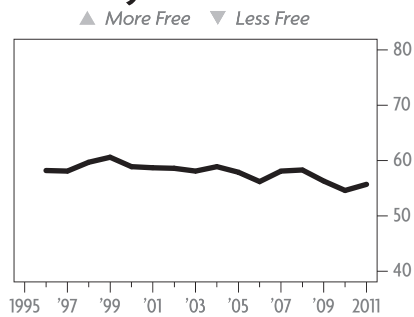


World Rank: **121** Regional Rank: **22**

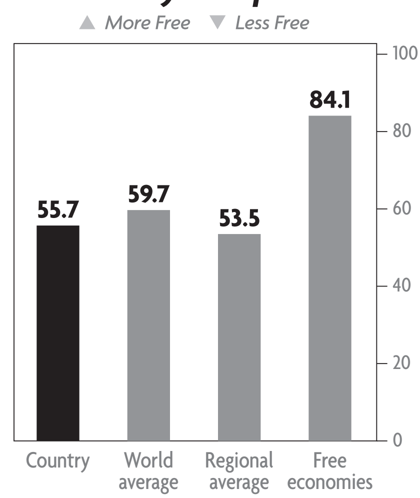
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Senegal's economic freedom score is 55.7, making its economy the 121st freest in the 2011 *Index*. Its score has increased by 1.1 points since last year, reflecting higher scores in six of the 10 economic freedoms. Senegal is ranked 22nd out of 46 countries in the Sub-Saharan Africa region, and its economic freedom score is below the world average.

Overcoming the effects of the global economic downturn, Senegal has resumed its gradual economic expansion with recovery in its agricultural, services, and exports sectors. Relatively high levels of trade freedom and monetary freedom have facilitated growth and development. Senegal's financial system, while underdeveloped, has experienced an influx of microfinance institutions.

The overall regulatory and legal framework remains weak and is not conducive to more dynamic private-sector development. Despite some progress in streamlining business formation in recent years, government bureaucracy and lingering corruption create a poor investment climate and continue to undermine Senegal's overall economic freedom. The lack of formal employment opportunities and dynamic job growth remains a critical issue.

BACKGROUND: Senegal became independent in 1960 and has never experienced a coup. President Abdoulaye Wade, the first non-socialist to govern the country, was elected in 2000 and re-elected in 2007. Wade has slowly pursued privatization and other initiatives to liberalize the economy. Peace in the southern Casamance region has progressed fitfully since a 2004 accord between the government and rebel leaders, but sporadic fighting continues. Senegal serves as a regional gateway and business center. It has an arid climate in the North and a moist, tropical climate in the South. Agriculture and fishing occupy about three-quarters of the population. Informal employment is common in both urban and rural areas. Senegal depends heavily on foreign assistance, which comprised over 20 percent of government spending in 2007.

Quick Facts

Population: 12.8 million
GDP (PPP): $22.3 billion
1.5% growth in 2009
2.8% 5-year compound annual growth
$1,743 per capita
Unemployment: 48.0% (2007)
Inflation (CPI): –1.1%
FDI Inflow: $208 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *62.3* — 0.8

Although the process for establishing a business has become more streamlined, start-up costs can be substantial. The overall regulatory environment still provides numerous opportunities for arbitrary decision-making or corruption.

TRADE FREEDOM: *73.2* + 3.5

Senegal's weighted average tariff rate was 8.4 percent in 2009. Import fees, non-transparent government procurement, inconsistent customs implementation, state import monopolies, and corruption add to the cost of trade. Protection of intellectual property rights has shown improvement. Ten points were deducted from Senegal's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *65.4* + 0.7

Senegal has high income tax rates but moderate corporate tax rates. 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 vehicle tax. In the most recent year, overall tax revenue as a percentage of GDP was 18.3 percent.

GOVERNMENT SPENDING: *78.8* + 1.0

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 26.6 percent of GDP. The government has fully or partially privatized large state-owned enterprises. The overall fiscal deficit stands at 5.1 percent of GDP.

MONETARY FREEDOM: *79.7* + 4.5

Inflation has been low, averaging 2.6 percent between 2007 and 2009. Although higher domestic food production may still help to anchor local food prices, this could be more than offset by sustained weakness of the euro-pegged CFA franc. Many prices are freely determined, but the government controls the prices of pharmaceuticals and medical services and influences prices across the economy through state-owned enterprises and utilities. Ten points were deducted from Senegal's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *45* + 10.0

Senegal does not discriminate against foreign investors and allows 100 percent foreign ownership of businesses except in electricity, telecommunications, mining, and water. The government screens some proposed investments, mostly to verify compatibility with overall development goals. Businesses must be licensed and may need additional government approvals. Investment-related laws and regulations can be burdensome, and bureaucracy is cumbersome, non-transparent, and prone to corruption. Contract enforcement and dispute resolution can be arbitrary and non-transparent. Residents and non-residents may hold foreign exchange accounts. Foreign exchange transactions and capital transfers may be subject to restrictions, controls, and authorization.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 104	Investment Freedom	No. 103
Trade Freedom	No. 106	Financial Freedom	No. 106
Fiscal Freedom	No. 150	Property Rights	No. 73
Government Spending	No. 63	Freedom from Corruption	No. 99
Monetary Freedom	No. 43	Labor Freedom	No. 153

FINANCIAL FREEDOM: *40* *no change*

Senegal's underdeveloped financial system is dominated by the banking sector, which is highly concentrated with three banks holding two-thirds of deposits. In recent years, government ownership of banks has declined, and bank supervision has been strengthened. Financing entrepreneurial activity remains challenging. The government retains its shares in seven banks, including a majority share in the agricultural bank. Senegal is a member of the West African Economic and Monetary Union, and the Central Bank of West African States governs Senegal's financial institutions. The foreign presence is substantial, and branches and subsidiaries of foreign or regional banks play a relatively important role in financial intermediation. However, most lending is carried out with only a few borrowers, and most services are concentrated in the capital. The number of microfinance institutions, which provide financial services to small and medium-size companies, has grown.

PROPERTY RIGHTS: *40* — 5.0

The administration of property title and land registration procedures is uneven outside of urban areas. The government streamlined procedures for registering property and reduced associated costs in 2008 so that property can be registered within 18 days. The housing finance market is underdeveloped, and few long-term mortgage financing vehicles exist. Senegal lacks commercial courts staffed with trained judges, so decisions can be arbitrary and inconsistent. Despite an adequate legal and regulatory framework, enforcement of intellectual property rights is weak.

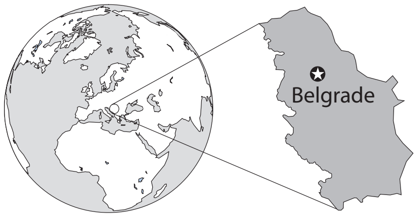
FREEDOM FROM CORRUPTION: *30* — 4.0

Corruption is perceived as significant. Senegal ranks 99th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a drop from 2008. Corruption is an important obstacle to economic development and competitiveness. There are credible allegations of corruption in government procurement, dispute settlement, and regulatory and enforcement agencies. President Wade has made numerous pronouncements against corruption, but a significant gap persists between the rhetoric and its implementation.

LABOR FREEDOM: *42.9* + 1.0

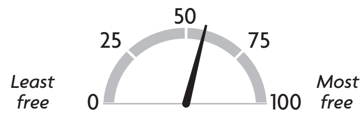
Senegal's labor regulations are not conducive to flexibility. Given the large agricultural sector that employs about 70 percent of the working population, a formal urban labor market has been slow to emerge.

SERBIA



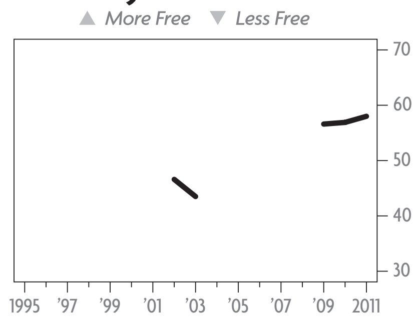
World Rank: **101** Regional Rank: **38**

Economic Freedom Score

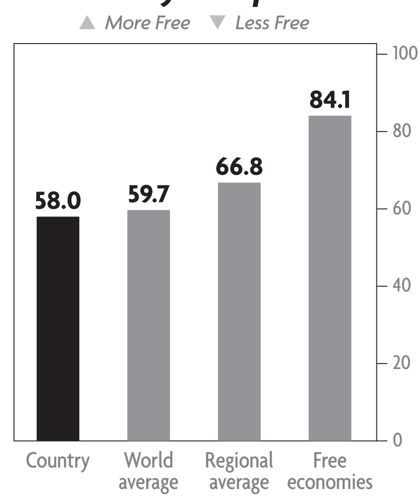


58.0

Country's Score Over Time



Country Comparisons



Serbia's economic freedom score is 58, making its economy the 101st freest in the 2011 *Index*. Its score has increased by 1.1 points since last year, reflecting modest improvements in six of the 10 economic freedoms. Serbia is ranked 38th out of 43 countries in the Europe region, and its overall score is below the world average.

Serbia has implemented significant structural reforms in many parts of its economy over the past decade. Facilitated by a reform process involving privatization and consolidation, the once-defunct banking sector has revived and continues to evolve. Serbia's economic competitiveness is supported by low, flat tax rates and relatively flexible employment regulations that fuel entrepreneurial activity.

Deeper reforms are needed to tackle bureaucracy, reduce corruption, and reform a weak judicial system that is vulnerable to political interference. Overall economic freedom in Serbia suffers from insufficient institutional support or political will for the bold reforms that are required. Government spending is high and poorly managed, holding back Serbia's economic potential.

BACKGROUND: Following Montenegro's secession in May 2006, the National Assembly of Serbia declared Serbia the successor to the State Union of Serbia and Montenegro. Serbia signed the Stability and Association Agreement with the European Union in May 2008 and submitted its formal application for membership in December 2009. However, the fact that wartime leader Ratko Mladic remains at large is a significant roadblock to eventual EU membership. Euro–Atlantic integration is an aim of pro-Western President Boris Tadic's government. Serbia is also seeking membership in the World Trade Organization. Following the failure of U.N.-sponsored talks on the status of Kosovo, the former province formally declared its independence on February 17, 2008. Serbia continues to maintain that this is illegal, and the issue has been referred to the International Court of Justice for a non-binding advisory opinion.

Quick Facts

Population: 7.4 million
GDP (PPP): $78.5 billion
–2.9% growth in 2009
3.6% 5-year compound annual growth
$10,635 per capita
Unemployment: 16.6%
Inflation (CPI): 8.1%
FDI Inflow: $1.9 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *59* — ✚ *0.1*

Bureaucratic bottlenecks increase the cost of conducting business. Despite some progress in streamlining the process for launching a business, other time-consuming requirements reduce the efficiency of the regulatory system.

TRADE FREEDOM: *75.2* — *no change*

Serbia's simple average tariff rate was 7.4 percent in 2007. Some high tariffs, import restrictions and bans, import licensing and permits, non-transparent regulations and government procurement, and corruption add to the cost of trade. Serbia is working to join the World Trade Organization and European Union. Ten points were deducted from Serbia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *83.6* — ✚ *0.4*

Serbia has competitive tax rates for individual and corporate income. The top individual income tax rate is 15 percent. Salaries are taxed at 12 percent, and other personal income (royalties, investment, and rent) can be taxed at up to 20 percent. The corporate tax rate is a flat 10 percent. Other taxes include a value-added tax (VAT), a property tax, and an inheritance tax. Excise taxes on tobacco and alcohol were increased in January 2009. In the most recent year, overall tax revenue as a percentage of GDP was 36.3 percent.

GOVERNMENT SPENDING: *41.9* — ✚ *0.5*

In the most recent year, total government expenditures, including consumption and transfer payments, equaled 44 percent of GDP. The government plans to accelerate privatization of the national airline and telecommunications enterprises. State-owned enterprises operating at a loss are a drag on the fiscal balance. General government debt is now at 35.5 percent of GDP.

MONETARY FREEDOM: *66* — ✚ *1.5*

Inflation has been high, averaging 9 percent between 2007 and 2009. The government can control the prices of certain basic products, including milk, bread, flour, and cooking oil; controls the prices of utilities, public transit, telecommunications services, and petroleum; and influences prices through numerous state-owned enterprises. Fifteen points were deducted from Serbia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *60* — ✚ *10.0*

Serbian law provides for national treatment of foreign capital, and investment is not screened. Most sectors of the economy are open to foreign investment. Reforms have improved the investment environment, but regulatory uncertainty and corruption discourage foreign investment. Residents and non-residents may hold foreign exchange accounts, subject to conditions. Payments, capital transactions, and transfers are subject to restrictions. Foreign and domestic entities may own real estate, and foreign investors may acquire concession rights on natural resources.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 121	Investment Freedom	No. 62
Trade Freedom	No. 97	Financial Freedom	No. 70
Fiscal Freedom	No. 50	Property Rights	No. 73
Government Spending	No. 149	Freedom from Corruption	No. 83
Monetary Freedom	No. 155	Labor Freedom	No. 62

FINANCIAL FREEDOM: *50* — *no change*

Aggressive consolidation and privatization by the central bank over the past decade have helped to revive Serbia's banking sector, which now accounts for about 90 percent of financial-sector assets. There are now 34 banks, with 18 foreign banks accounting for more than 70 percent of the market. A wide range of credit instruments is available to the private sector, but the level of financial intermediation is relatively low. The insurance sector is dominated by state-owned insurers, although the government has announced its intention to privatize in this area. Capital markets remain small and underdeveloped.

PROPERTY RIGHTS: *40* — *no change*

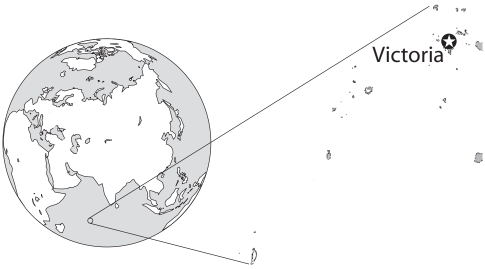
Serbia's constitution creates an independent judiciary, but the system is corrupt and inefficient. Judges are poorly trained, underpaid, and difficult to dismiss for incompetence. A Planning and Construction Law passed in August 2009 focuses on zoning and urban planning, property rights on construction land, construction permitting procedures, and legalization of property titles. It also envisions allowing current leaseholders of construction land to convert their lease and usage rights into ownership rights. As of January 1, 2010, the government had not yet enacted implementing regulations. The legal regime for protection of intellectual property rights has improved substantially, but enforcement is still insufficient.

FREEDOM FROM CORRUPTION: *35* — ✚ *1.0*

Corruption is perceived as widespread. Serbia ranks 83rd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The authorities are inconsistent in condemning official corruption, and investigations are often politically motivated. Demands for bribes may be encountered at all stages of a business transaction. Organized criminal groups engage in money laundering. The government's Anti-Corruption Agency, an independent body accountable to the Serbian Parliament, became fully operational in January 2010.

LABOR FREEDOM: *68.9* — ━ *3.3*

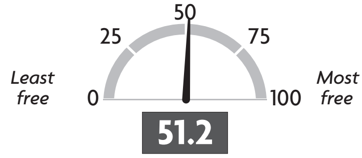
Serbia's labor regulations are relatively flexible, but the labor market lacks dynamism. The non-salary cost of employing a worker is moderate, and dismissing an employee is not costly.



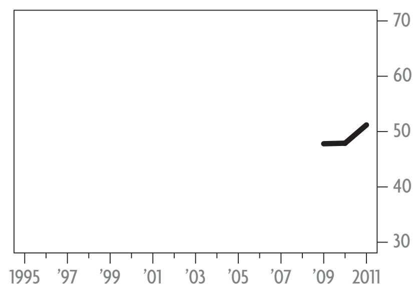
SEYCHELLES

World Rank: **142** Regional Rank: **29**

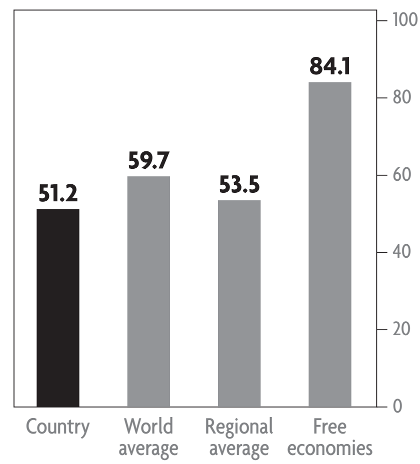
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Seychelles' economic freedom score is 51.2, making its economy the 142nd freest in the 2011 *Index*. Its score is 3.3 points higher than last year, reflecting a dramatically improved rating in government spending as a result of the end of post-tsunami recovery spending and improvements in data reporting. Seychelles is ranked 29th among 46 countries in the Sub-Saharan Africa region.

The Seychelles economy, with services accounting for around 80 percent of GDP, has been seriously affected by the global economic turmoil. The impact was particularly severe on tourism, and the overall economy recorded a sharp contraction in 2009. The entrepreneurial environment remains characterized by an inefficient regulatory framework, poor access to financing, and the pervasive presence of the state in the economy.

Seychelles has implemented major tax reforms, cutting and simplifying personal and corporate tax rates. Privatization has been slow, but efforts to enhance transparency and governance of state-owned enterprises have continued. Progress toward debt sustainability has been made through the restructuring of external debt.

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. Multi-party elections have proceeded smoothly since 1993, and Michel won election in his own right in 2006. The economy of this Indian Ocean archipelago relies heavily on tourism and fishing, which, respectively, account for 22 percent and 15 percent of GDP and 30 percent and 17 percent of employment. 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.

Quick Facts

Population: 85,000
GDP (PPP): $1.7 billion
–7.6% growth in 2009
2.6% 5-year compound annual growth
$20,411 per capita
Unemployment: 1.9% (2006)
Inflation (CPI): 31.8%
FDI Inflow: $243 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *62.4* — 1.8

Seychelles' regulatory framework still presents potential entrepreneurs with considerable bureaucratic and procedural hurdles. Continuing regulatory reform is critical to improving competitiveness and ensuring broader-based economic development.

TRADE FREEDOM: *33.4* *no change*

Seychelles' weighted average tariff rate was 28.3 percent in 2007. Some high tariffs, import restrictions, import and export permit requirements, state import and export monopolies, burdensome and non-transparent regulations and standards, and inefficient and inconsistent customs administration add to the cost of trade. Ten points were deducted from Seychelles' trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *77.7* + 1.3

Seychelles has overhauled its tax system, resulting in major structural reforms. As of January 2010, the corporate tax rate was reduced from 40 percent to 33 percent, and the exemption threshold was abolished. Effective July 2010, an income tax was instituted at a rate of 18.75 percent, replacing the social security contribution. Authorities intend to extend the personal tax to include income from dividends and interest and reduce the rate to 15 percent in 2011. Other taxes include a goods and services tax (GST) and a vehicle tax. Introduction of a value-added tax (VAT) is planned for 2012. In the most recent year, overall tax revenue as a percentage of GDP was 28.1 percent.

GOVERNMENT SPENDING: *52.5* + 43.2

In the most recent year, total government expenditures, including consumption and transfer payments, fell to 39.8 percent of GDP. The dramatic drop in spending reflects completion of post-tsunami recovery and improvements in data reporting. The creation of a Treasury Single Account in 2009 was intended to enhance expenditure monitoring.

MONETARY FREEDOM: *54.9* — 3.0

Inflation was extremely high, averaging 30.7 percent between 2007 and 2009, but the sharp upward price adjustment that followed the steep devaluation of the rupee in late 2008 has worked its way through the system, helped by the currency's subsequent rebound. Inflation came to a virtual halt in 2010, helped by less volatile commodity prices, monetary and fiscal discipline, and conservative bank lending. Ten points were deducted from Seychelles' monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *45* — 5.0

Seychelles' regulatory and bureaucratic environment can be non-transparent and burdensome to investors. Other deterrents to investment include inadequate infrastructure and underdeveloped private markets. Foreign workers may be employed only if no suitably qualified domestic labor is available. Capital transactions are subject to restrictions and controls. Foreign investors may purchase land with approval from the government.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 102	Investment Freedom	No. 103
Trade Freedom	No. 178	Financial Freedom	No. 133
Fiscal Freedom	No. 92	Property Rights	No. 52
Government Spending	No. 124	Freedom from Corruption	No. 53
Monetary Freedom	No. 173	Labor Freedom	No. 102

FINANCIAL FREEDOM: *30* *no change*

Seychelles' underdeveloped financial system remains weak. The banking sector consists of both state-owned and foreign financial institutions. The Seychelles Savings Bank is fully state-owned, and the state also has a majority stake in another commercial bank. The government is the largest shareholder in the Development Bank of Seychelles. There are four other commercial banks in Seychelles, three of which are branches of foreign banks. There has been a delay in the government's plan to privatize the state-owned banks. A large part of the population lacks access to banking services, and limited lending to the private sector retards business development. The government recently implemented the Central Bank of Seychelles Act and the Financial Institutions Act to create a more independent central bank and strengthen the financial regulatory framework.

PROPERTY RIGHTS: *50* *no change*

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.

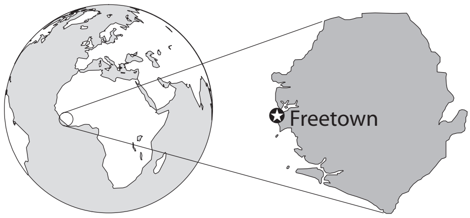
FREEDOM FROM CORRUPTION: *48* *no change*

Corruption is perceived as widespread and as affecting all levels of government. Seychelles ranks 54th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. There are reports of rewards by the government to supporters of the ruling political party in the form of job assistance, land distribution, free building materials, and monetary payments.

LABOR FREEDOM: *58.1* — 1.7

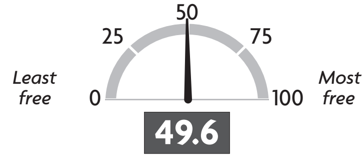
Seychelles' labor regulations are relatively inflexible. The non-salary cost of employing a worker is high, and dismissing an employee is relatively costly. The formal labor market is not fully developed. The inefficient public sector accounts for around 40 percent of total employment.

SIERRA LEONE



World Rank: **149** Regional Rank: **32**

Economic Freedom Score



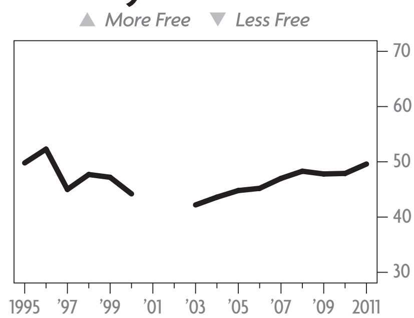
Sierra Leone's economic freedom score is 49.6, making its economy the 149th freest in the 2011 *Index*. Its score is 1.7 points higher than last year, reflecting improvements in freedom from corruption, investment freedom, and monetary freedom. Sierra Leone is ranked 32nd out of 46 countries in the Sub-Saharan Africa region, and its overall score is below the global average.

Economic growth in Sierra Leone is around 6 percent annually, but structural weaknesses continue to strain the economy. Poverty reduction and economic growth are hampered by a restrictive regulatory environment, inadequate infrastructure, and weak contract enforcement. The financial system is still recovering from the civil war and lacks the capacity to provide sufficient credit for vibrant business activity. Nearly nonexistent property rights and pervasive corruption are a significant drag on private-sector dynamism.

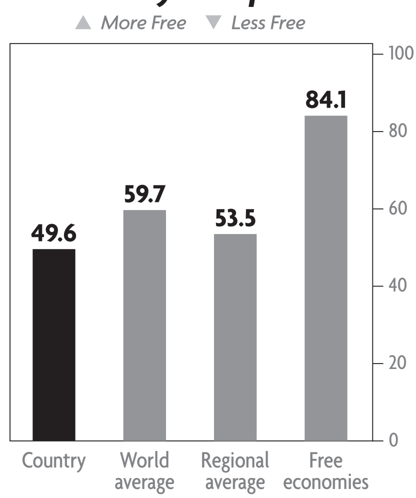
In an effort to move away from dependence on diamond production, Sierra Leone has invested in improving its legal and physical infrastructure. It has also taken steps to improve tax administration and public debt management.

BACKGROUND: Sierra Leone's 10-year civil war ended in 2002 with the help of African, British, and U.N. peacekeepers. A Special Court for Sierra Leone, established by the U.N. and Sierra Leone to try those who "bear the greatest responsibility" for crimes committed during the war, issued 13 indictments including one for former Liberian President Charles Taylor. Recovery has been fragile, the infrastructure remains deficient, and the people are still very poor. Opposition candidate Ernest Bai Koroma was elected president in 2007 in the first peaceful transition of power from one party to another since Sierra Leone achieved independence in 1961. Industry (primarily mining) accounted for about 23 percent of GDP in 2008. Diamonds are the primary export. Two-thirds of the population depends on subsistence agriculture, and agriculture accounted for an estimated 50 percent of the economy in 2008.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 6.0 million
GDP (PPP): $4.6 billion
4.0% growth in 2009
5.8% 5-year compound annual growth
$759 per capita
Unemployment: 2.8%
Inflation (CPI): 9.2%
FDI Inflow: $33 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *54.9* — + 0.3

Despite recent years' reform measures, the overall regulatory environment lacks efficiency and transparency. The procedure for establishing a business has been simplified, but licensing requirements remain burdensome. Bankruptcy proceedings are fairly straightforward but costly.

TRADE FREEDOM: *62.8* — *no change*

Sierra Leone's simple average tariff rate was 13.6 percent in 2007. Import fees, non-transparent regulations, inefficient customs implementation and non-transparent customs valuation, inadequate infrastructure, and corruption add to the cost of trade. Ten points were deducted from Sierra Leone's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *80.8* — – 0.1

Sierra Leone has moderate tax rates. Both the top income tax rate and the top corporate tax rate are 30 percent. A goods and services tax (GST) was introduced on January 1, 2010, replacing seven existing taxes ranging from a domestic sales tax to a restaurant and food tax. In the most recent year, overall tax revenue as a percentage of GDP was 10.8 percent. Weak enforcement of tax law leaves room for tax evasion. Revenue also suffers because agriculture, the economy's largest sector, is not subject to taxation.

GOVERNMENT SPENDING: *86.8* — + 6.3

In the most recent year, total government expenditures, including consumption and transfer payments, equaled 21.0 percent of GDP. The fiscal deficit was reduced to 3.2 percent of GDP, but weak control of public spending management remains a central problem.

MONETARY FREEDOM: *74.2* — + 2.5

Inflation has been high, averaging 10.8 percent between 2007 and 2009. The rapid fall in international oil prices and moderate food prices as global demand slumped in 2009 have been largely offset by the steep depreciation of the leone. Most prices are freely set in the market, but the government influences prices through state-owned enterprises and utilities. Five points were deducted from Sierra Leone's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *45* — + 5.0

Foreign investment receives national treatment. Investment is not screened, but it is restricted in certain sectors of the economy. All investors face licensing requirements and must register with the government. The judicial system is slow and prone to corruption. Weak regulatory enforcement, lack of administrative capacity, restrictive labor rules, licensing, weak contract enforcement, inadequate infrastructure, and corruption also deter investment. Residents and non-residents may hold foreign exchange accounts. Foreign exchange and capital transactions may be subject to some restrictions and certain approval requirements. Foreigners may lease but not own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 134	Investment Freedom	No. 103
Trade Freedom	No. 149	Financial Freedom	No. 159
Fiscal Freedom	No. 70	Property Rights	No. 166
Government Spending	No. 34	Freedom from Corruption	No. 148
Monetary Freedom	No. 99	Labor Freedom	No. 164

FINANCIAL FREEDOM: *20* — *no change*

Sierra Leone's financial system was undermined by prolonged economic and political instability, and the recovery process has been sluggish. The banking sector has gradually expanded, with 13 commercial banks operating in the country. However, government-owned banks still account for a majority of banking assets, and the government's frequent bond auctions tend to crowd out credit to other markets. A considerable portion of the population remains outside the formal banking sector, and scarce access to credit has prevented the emergence of a more vibrant private sector. Poor enforcement of contracts discourages lending, and corruption is endemic. A substantial shadow market in U.S. dollars hinders efforts to combat money laundering. A stock exchange was launched in 2009.

PROPERTY RIGHTS: *10* — *no change*

Property is not secure. There is no land titling system, and judicial corruption is significant. Traditional tribal justice systems continue to serve as a supplement to the central government's judiciary, especially in rural areas. Optical discs and tapes of popular music and films are illegally copied and sold on a substantial scale.

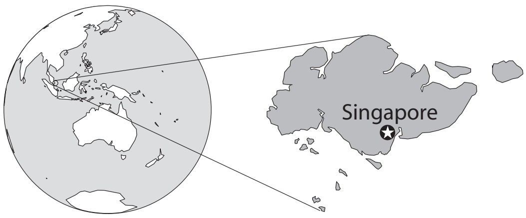
FREEDOM FROM CORRUPTION: *22* — + 3.0

Corruption is perceived as pervasive. Sierra Leone ranks 146th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a slight improvement from 2008. International companies cite corruption in all branches of government as an obstacle to investment. Bribes, kickbacks, extortion, and skimming on contracts and payments are common forms of corruption. Investigations by the government's Anti-Corruption Commission in 2009 resulted in the resignations of the Minister of Health (who was indicted), the head of the National Revenue Authority, and the head of the regulatory body for the gold market.

LABOR FREEDOM: *39.4* — + 0.4

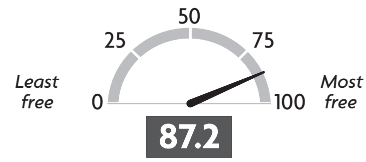
Sierra Leone's labor market lacks the capacity to facilitate dynamic employment growth. Labor regulations, outmoded and inflexible, are rather futile in application, as much of the country's labor force is employed in the informal sector.

SINGAPORE



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

Economic Freedom Score



Singapore's economic freedom score is 87.2, making its economy the 2nd freest in the 2011 *Index*. Its score is 1.1 points higher than last year, reflecting gains in fiscal freedom, monetary freedom, and financial freedom. Singapore is ranked 2nd out of 41 countries in the Asia–Pacific region, and its overall score remains significantly higher than the world average.

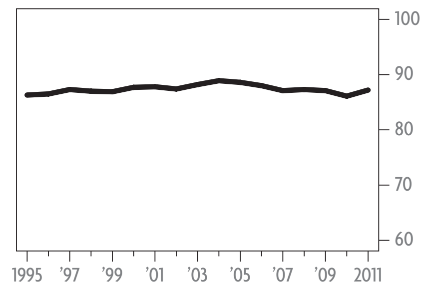
Despite the challenging global economic environment, the Singaporean economy has shown a considerable degree of resilience that stems from strong fundamentals. With an educated and highly motivated workforce in place, the economy's competitive tax regime, strong respect for property rights, and efficient regulations sustain an innovative and vibrant economy. Emerging from the sharp contraction in 2009, the economy has rebounded well and has regained its entrepreneurial dynamism. The government's fiscal stimulus was timely, well-planned, and executed with discipline.

Singapore is one of the world's leading business centers and a major destination for foreign investment. Monetary stability is good, and the legal and regulatory framework for the financial sector is transparent and efficient; government influence in the sector is gradually being reduced. Anti-corruption laws are strong and well enforced. Foreign and domestic investors are treated equally, and openness to global commerce fosters competitiveness. With prudent and sound banking practices, the financial sector has weathered the global financial turbulence relatively well.

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. 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.

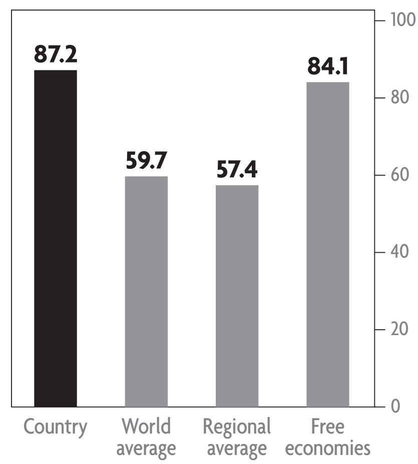
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 4.8 million
GDP (PPP): $240.0 billion
–2.0% growth in 2009
4.0% 5-year compound annual growth
$50,523 per capita
Unemployment: 3.0%
Inflation (CPI): 0.2%
FDI Inflow: $16.8 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *98.2* — *no change*

The overall freedom to conduct a business is well protected under Singapore's regulatory environment. Starting a business takes only three days, compared to the world average of 34 days. Obtaining a business license takes much less than the world average of 18 procedures and 209 days. Bankruptcy procedures are straightforward.

TRADE FREEDOM: *90* — *no change*

Singapore's weighted average tariff rate was 0 percent in 2009. Import and export restrictions, services market barriers, import taxes, import and export licensing, burdensome sanitary and phytosanitary rules, problematic enforcement of intellectual property rights, and export incentive programs add to the cost of trade. The Private Education Bill enacted on September 14, 2009, may make it more difficult for foreign universities to offer classes in Singapore. Ten points were deducted from Singapore's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *91.1* — *+ 0.4*

Singapore has relatively low tax rates. The top income tax rate is 20 percent, and the top corporate tax rate has been reduced to 17 percent from 18 percent. Other taxes include a value-added tax (VAT) and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 14.2 percent.

GOVERNMENT SPENDING: *91.3* — *– 4.0*

Government spending is relatively low. In the most recent year, total government expenditures, including consumption and transfer payments, increased to 17 percent of GDP. The state remains involved in the economy through Singapore's many government-linked companies. Plans to open state-owned energy and telecommunications enterprises to private investment have stalled.

MONETARY FREEDOM: *86.2* — *+ 5.3*

Inflation has been very low, averaging 1.9 percent between 2007 and 2009. The government influences prices through regulation and state-supported enterprises and can impose controls as it deems necessary. Five points were deducted from Singapore's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *75* — *no change*

Foreign and domestic businesses are treated equally under the law, and nearly all sectors of Singapore's economy are open to 100 percent foreign ownership. Exceptions to the general openness to foreign investment include telecommunications, broadcasting, domestic news media, financial services, legal and other professional services, and property ownership. The government screens investments for incentive eligibility. Government-linked corporations play a dominant role in the economy. Residents and non-residents may hold foreign exchange accounts. There are no controls or requirements on current transfers, payments, or repatriation of profits. Foreign ownership of certain landed properties is subject to approval, but there are no restrictions on foreign ownership of industrial and commercial real estate.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 4	Investment Freedom	No. 26
Trade Freedom	No. 1	Financial Freedom	No. 38
Fiscal Freedom	No. 18	Property Rights	No. 2
Government Spending	No. 9	Freedom from Corruption	No. 3
Monetary Freedom	No. 5	Labor Freedom	No. 1

FINANCIAL FREEDOM: *60* — *+ 10.0*

Singapore's modern financial sector remains competitive and sophisticated. Bank consolidations have left three dominant banking groups. The largest is the government-controlled Development Bank of Singapore, which is publicly listed. The other two also have significant government-held minority shares. All three have remained relatively profitable throughout the global financial crisis. Overall, barriers to foreign banks have gradually been lowered, although a majority of bank board members must be Singapore citizens and residents. Foreign firms compete aggressively in insurance, fund management, and venture capital. As of 2010, there were 120 commercial banks, of which 113 are foreign banks. Singapore's capital markets are well developed, and banks are increasingly using complex derivatives for risk management and hedging. During the recent global financial turmoil, the government guaranteed all Singapore-dollar and foreign-currency deposits of individuals and non-bank customers in licensed banking institutions. In recent years, the government has granted several new full bank licenses that allow foreign banks to compete in retail banking.

PROPERTY RIGHTS: *90* — *no change*

The court system is efficient and protects private property. There is no expropriation, and contracts are secure. Singapore has one of Asia's strongest intellectual property rights regimes, though enforcement could be improved.

FREEDOM FROM CORRUPTION: *92* — *no change*

Corruption is perceived as almost nonexistent. Singapore ranks 3rd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The government enforces strong anti-corruption laws. It is a crime for a citizen to bribe a foreign official or any other person, either within or outside of Singapore.

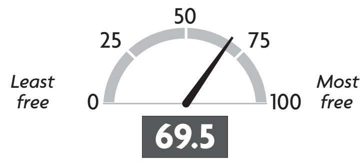
LABOR FREEDOM: *98* — *– 0.9*

Singapore's labor market is highly flexible. The non-salary cost of employing a worker is low, and dismissing an employee is not burdensome. Regulations related to work hours are very flexible.

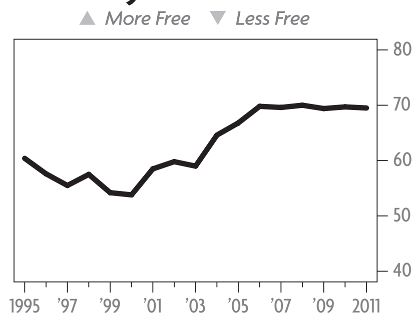
SLOVAKIA

World Rank: **37** Regional Rank: **20**

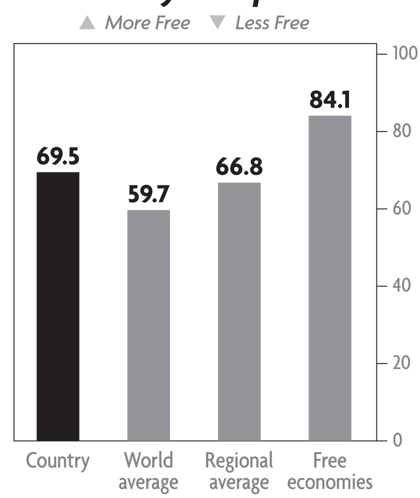
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Slovakia's economic freedom score is 69.5, making its economy the 37th freest in the 2011 *Index*. Its score has decreased by 0.2 point from last year, mainly as a result of declines in freedom from corruption and property rights. Slovakia is ranked 20th out of 43 countries in the Europe region, and its overall score is higher than the world average.

With sound economic fundamentals firmly established, Slovakia has rebounded relatively quickly from the global economic slowdown. The prudent regulatory framework for the financial sector, combined with competitive tax rates, has fueled Slovakia's transition into a flexible and vibrant economy with a considerable degree of resilience. The country's openness to foreign trade and investment has positioned it as one of the most popular destinations for foreign direct investment in Europe. Well-established property rights and monetary stability have also contributed to Slovakia's economic vigor.

Although the regulatory environment is generally consistent with a market economy, corruption and red tape slow entrepreneurial dynamism. Regaining fiscal discipline in light of recent large fiscal deficits also poses a significant challenge.

BACKGROUND: Slovakia became independent following its "velvet divorce" from the former Czechoslovakia in 1993. The 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. However, the pace of reform slowed significantly following the election of Robert Fico as prime minister in 2006. Though Fico's party won a plurality of seats in the 2010 parliamentary elections, a coalition of several smaller parties installed Iveta Radicova as prime minister. Slovakia became a member of the European Union and NATO in 2004 and adopted the euro as its national currency in 2009.

Quick Facts

Population: 5.4 million
GDP (PPP): $115.1 billion
–4.7% growth in 2009
5.0% 5-year compound annual growth
$21,245 per capita
Unemployment: 12%
Inflation (CPI): 0.9%
FDI Inflow: –$50 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *73.4* — + 0.8

The efficiency of the regulatory system has been improved. The process for launching a private enterprise is more streamlined, and licensing requirements are less burdensome.

TRADE FREEDOM: *87.6* — + 0.1

Slovakia's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Slovak policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from Slovakia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *84.2* — + 0.2

Slovakia's tax rates are relatively low. Both the income and corporate tax rates are a flat 19 percent. Other taxes include a value-added tax (VAT) and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 29.3 percent.

GOVERNMENT SPENDING: *63.7* — − 0.8

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 34.8 percent of GDP, though this did not reflect growing crisis-related spending.

MONETARY FREEDOM: *81.6* — + 3.4

Inflation has been low, averaging 1.7 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. It also influences prices through regulations and state-owned enterprises and utilities. Ten points were deducted from Slovakia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *75* — + 5.0

Foreign and domestic investments are treated equally under the law. Foreign investment is not screened, and full foreign ownership is permitted in most sectors. The state owns railroad rights-of-way, postal services, water supplies, and forestry companies. Reforms have improved the transparency of investment rules, but bureaucratic efficiency could be improved. Dispute resolution through the judicial system can be slow, and corruption is a problem. Residents may establish foreign exchange accounts. There are very few controls on capital transactions. Non-residents from EU and Organisation for Economic Co-operation and Development member countries may purchase land for business use.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 55	Investment Freedom	No. 26
Trade Freedom	No. 12	Financial Freedom	No. 17
Fiscal Freedom	No. 44	Property Rights	No. 52
Government Spending	No. 108	Freedom from Corruption	No. 55
Monetary Freedom	No. 24	Labor Freedom	No. 78

FINANCIAL FREEDOM: *70* — *no change*

Most state-owned banks have been sold, and the presence of foreign banks is strong, with three foreign banks accounting for about 60 percent of total assets. Non-performing loans have declined to less than 5 percent of total loans. All financial service operations are regulated by the central bank. Interest rates have been liberalized, and credit limits have been abolished. The financial sector has become increasingly diversified as insurance and securities companies have grown. Capital markets remain relatively small and underdeveloped. With little exposure to the structured financial products that triggered the global financial turmoil, banking remains stable and well capitalized. Adoption of the euro proceeded smoothly in January 2009.

PROPERTY RIGHTS: *50* — − 5.0

The judiciary is independent and comparatively effective, although decisions can take years and corruption remains significant. The courts recognize and enforce foreign judgments, subject to the same delays. Secured interests in property and contractual rights are recognized and enforced. The mortgage market is growing, and the recording system is reliable. Intellectual property rights are protected under Slovak law and in practice except for inadequate storage of proprietary data and improper registration of companies to produce generic drugs that are still under patent protection.

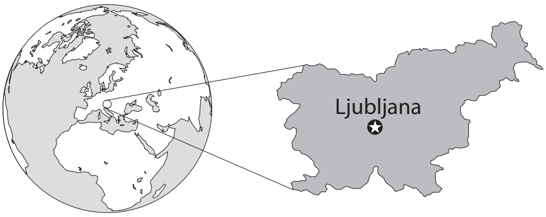
FREEDOM FROM CORRUPTION: *45* — − 5.0

Corruption is perceived as significant. Slovakia ranks 56th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a drop from 2008. Legislative and executive branch corruption especially affects health care, the judiciary, and education. A special court for corruption and organized crime that was established in 2003 was abolished in 2009, and a new Specialized Court, with more limited powers, was established. Slovakia is a signatory to the OECD Convention on Combating Bribery, and it is a criminal act to give or accept a bribe.

LABOR FREEDOM: *64.5* — − 0.6

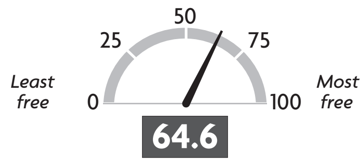
Slovakia's labor regulations are relatively flexible. The non-salary cost of employing a worker is moderate, and the severance payment system is not burdensome. Regulations on work hours remain relatively rigid.

SLOVENIA



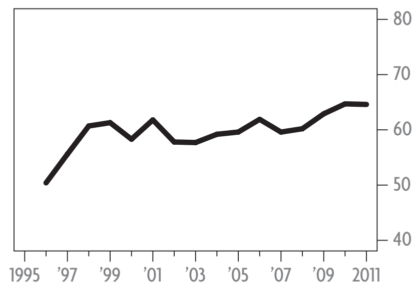
World Rank: **66** Regional Rank: **29**

Economic Freedom Score



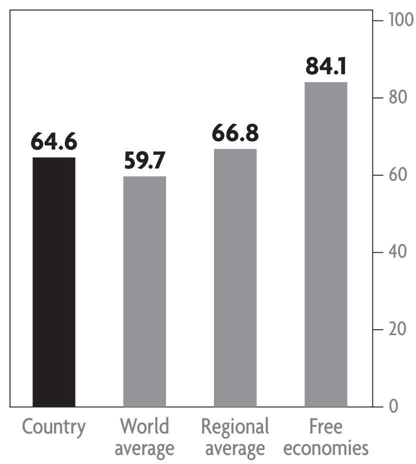
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Slovenia's economic freedom score is 64.6, making its economy the 66th freest in the 2011 *Index*. Its score has decreased by 0.1 point since last year, with reduced ratings in freedom from corruption, labor freedom, and government spending canceling out gains in other categories. Slovenia is ranked 29th out of 43 countries in the Europe region, and its overall score is well above the world average.

Facilitated by ongoing structural reforms and an increasingly vibrant private sector, the Slovenian economy enjoys relatively high levels of business freedom, trade freedom, investment freedom, property rights, and freedom from corruption. Business regulations have become more straightforward and transparent, and recent reductions in the corporate tax rate have increased competitiveness. Public debt remains low, but the fiscal deficit has widened to 5.5 percent of GDP. Containing entitlements is a key priority for fiscal consolidation, especially with the upward trajectory of age-related spending.

Further growth in economic freedom in Slovenia calls for strengthened management of public finance and development of a more dynamic financial sector. Labor market reforms have also been delayed, hampering employment and productivity growth.

BACKGROUND: 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. As a result, Slovenia's relatively strong economic infrastructure remained intact, and its economy became prosperous and stable, experiencing solid growth in the years preceding the 2008 global recession. Slovenia joined both the European Union and NATO in 2004 as part of a broader strategy of integration into the Euro–Atlantic community. It also adopted the euro as its currency on January 1, 2007, and chaired the European Union in 2008 and the Council of Europe in 2009. Slovenia became a member of the Organisation for Economic Co-operation and Development in May 2010.

Quick Facts

Population: 2.0 million
GDP (PPP): $55.7 billion
–7.3% growth in 2009
2.0% 5-year compound annual growth
$27,654 per capita
Unemployment: 5.9%
Inflation (CPI): 0.8%
FDI Inflow: –$67 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *83.6* + *0.3*

Slovenia has made progress toward enhancing business freedom, and the overall regulatory framework has become more efficient and streamlined. Rules governing the formation or operation of a private enterprise are not burdensome, and enforcement of commercial regulations is relatively effective and consistent.

TRADE FREEDOM: *87.6* + *0.1*

Slovenia's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Slovenian policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from Slovenia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *65.1* + *1.1*

Slovenia has implemented another round of tax cuts. The top income tax rate is 41 percent. The corporate tax rate is now a flat 20 percent, down from 21 percent as of 2010. Other taxes include a value-added tax (VAT), a property transfer tax, a special tax on insurance, and a sales tax on vehicles. In the most recent year, overall tax revenue as a percentage of GDP was 37.6 percent.

GOVERNMENT SPENDING: *41.1* – *5.0*

In the most recent year, total government expenditures, including consumption and transfer payments, rose to 44.3 percent of GDP. Wage changes contributed significantly to the increase. More recently, spending has continued to rise as stimulus measures have been implemented to counter effects of the global crisis, support employment, and promote targeted spending on research and education.

MONETARY FREEDOM: *80.5* + *4.5*

Inflation has been low, averaging 2.3 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. It also controls the prices of pharmaceuticals, oil, electricity, natural gas, and railway transport and influences other prices through regulation and state-owned enterprises and utilities. Ten points were deducted from Slovenia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *70* *no change*

Foreign investors receive national treatment, and all sectors of Slovenia's economy are open to foreign investment with some restrictions. Deterrents to investment include an incomplete commercial legal code, slowing privatization efforts, restrictive labor regulations, and burdensome bureaucracy. Residents and non-residents may hold foreign exchange accounts. There are some restrictions on foreign exchange or capital transactions, payments, and transfers. Foreign investors may acquire property.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 27	Investment Freedom	No. 38
Trade Freedom	No. 12	Financial Freedom	No. 70
Fiscal Freedom	No. 153	Property Rights	No. 42
Government Spending	No. 150	Freedom from Corruption	No. 27
Monetary Freedom	No. 33	Labor Freedom	No. 156

FINANCIAL FREEDOM: *50* *no change*

The impact of the global financial crisis on the banking sector has been relatively modest because of the sector's limited exposure to structured financial products and other toxic assets. The financial sector has undergone slow transformation and modernization to become a source of economic dynamism. Despite the government's declared intentions, privatization of Slovenia's state-owned financial institutions has been rather uneven. The three largest banks account for 50 percent of the sector's total assets. Established lending relationships are important in getting credit in Slovenia, and bank lending is biased toward existing big firms. Equity financing remains difficult for start-ups and smaller companies. Capital markets are relatively small and centered on the Ljubljana Stock Exchange.

PROPERTY RIGHTS: *60* *no change*

Private property rights are constitutionally guaranteed, but the courts are inadequately staffed and slow, and there are reports of corruption. Foreigners may own property. Comprehensive legislation to protect intellectual property reflects the World Trade Organization's Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement and various EU directives, but foreign investors complain about enforcement delays. Slovenia is ranked 52nd out of 125 countries in the 2010 International Property Rights Index.

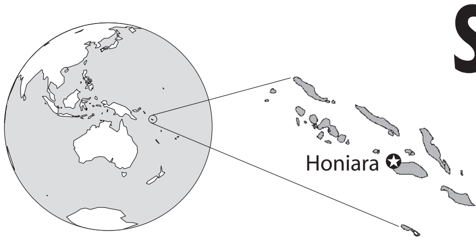
FREEDOM FROM CORRUPTION: *66* – *1.0*

Corruption is perceived as present. Slovenia ranks 27th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The relatively few cases of actual bribery are generally limited to instances involving inspections and tax collection.

LABOR FREEDOM: *41.8* – *1.7*

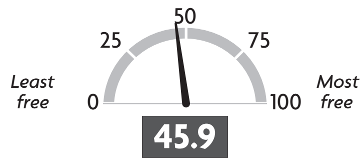
Slovenia's evolving labor market remains saddled with rigid labor regulations that hamper dynamic employment growth. The non-salary cost of employing a worker is relatively high, and dismissing an employee is difficult. Regulations on work hours remain rigid.

SOLOMON ISLANDS



World Rank: **162** Regional Rank: **35**

Economic Freedom Score



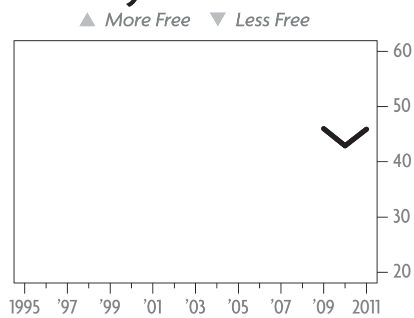
The Solomon Islands' economic freedom score is 45.9, making its economy the 162nd freest in the 2011 *Index*. Its score is 3 points better than last year, with improvements in monetary freedom and government spending. The Solomon Islands is ranked 35th out of 41 countries in the Asia–Pacific region, and its overall score is well 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. Private-sector development is also undercut by the government's outsized role in the economy and its lack of political will to continue reform of the poor regulatory framework. The Solomon Islands' limited protection of property rights is a further drag on entrepreneurial activity.

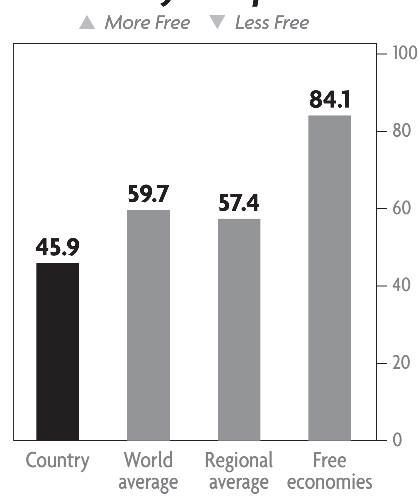
These structural weaknesses limit dynamic business activity, and the agricultural sector remains the primary source of employment. Despite attempts at reform, widespread corruption increases the cost of conducting business, deterring investment.

BACKGROUND: The Solomon Islands is a parliamentary democracy and one of Asia's poorest nations. 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 tsunami.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 0.5 million
GDP (PPP): $1.5 billion
–2.2% growth in 2009
5.5% 5-year compound annual growth
$2,819 per capita
Unemployment: n/a
Inflation (CPI): 7.1%
FDI Inflow: $173 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *59.8* — 3.4

The overall freedom to start, operate, and close a business is limited under the Solomon Islands' poor business environment. The regulatory infrastructure continues to be undermined by bureaucratic bottlenecks and uneven enforcement of existing laws. Policy action toward greater business freedom has been marginal.

TRADE FREEDOM: *62.4* — 2.8

The Solomon Islands' weighted average tariff rate was 13.8 percent in 2009. Some high tariffs, import restrictions, import and export taxes, import licensing, non-transparent sanitary and phytosanitary regulations, inefficient customs implementation and inconsistent customs valuation, and limitations on regulatory and trade capacity add to the cost of trade. Ten points were deducted from the Solomon Islands' trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *69.2* + 1.3

The Solomon Islands has a relatively high income tax and a moderate corporate tax. The top income tax rate is 40 percent, and the top corporate tax rate is 30 percent. Non-resident companies are subject to a 35 percent tax rate. Other taxes include an insurance tax, a property tax, and excise taxes raised in 2009 to offset anticipated revenue shortfalls. In the most recent year, overall tax revenue as a percentage of GDP was 24.1 percent.

GOVERNMENT SPENDING: *32.9* + 32.9

In the most recent year, total government expenditures, including consumption and transfer payments, equaled 47.3 percent of GDP. Increases in 2008 were followed by a civil service hiring freeze and cuts in development spending, and the score change also reflects improvements in data reporting.

MONETARY FREEDOM: *70.4* + 4.9

Inflation has been relatively high, averaging 9.6 percent between 2007 and 2009. The government controls the prices of petroleum products and influences prices through regulation and state-owned enterprises and utilities. Ten points were deducted from the Solomon Islands' monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *10* *no change*

Foreign investment is screened and requires government approval. Several sectors are reserved for small-scale domestic investors. Investment-related laws can be non-transparent, and bureaucracy is burdensome and prone to corruption. Underdeveloped private markets, inadequate infrastructure, and political uncertainty also deter investment. Government approval is required for the importation of capital; repatriation of capital; transfer of profits, dividends, interest and royalties; borrowing of overseas funds; settlement of intercompany accounts; transfers overseas of the proceeds from sales of Solomon Islands assets; and direct investment overseas. Foreign investors may lease but not own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 118**	Investment Freedom	**No. 166**
Trade Freedom	**No. 150**	Financial Freedom	**No. 133**
Fiscal Freedom	**No. 135**	Property Rights	**No. 99**
Government Spending	**No. 156**	Freedom from Corruption	**No. 113**
Monetary Freedom	**No. 139**	Labor Freedom	**No. 73**

FINANCIAL FREEDOM: *30* *no change*

The Solomon Islands' financial system is underdeveloped. Banking dominates the financial sector, and limited access to credit constrains business development. The government has tried to ensure that banking services are available to the rural population. The three commercial banks are the key providers of financial intermediation for domestic and foreign clients. The National Bank of Solomon Islands was sold to the Bank of South Pacific of Papua New Guinea in 2007, and all three commercial banks are now branches of foreign banks. To encourage more Solomon Islanders to participate in entrepreneurial activity, the government reintroduced the Small Business Finance Scheme in 2007. Bank credits to the private sector grew by over 30 percent in 2008.

PROPERTY RIGHTS: *30* *no change*

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. Strengthening property rights is fundamental to improving development prospects. Protection of intellectual property rights is a relatively new concept in the Solomon Islands.

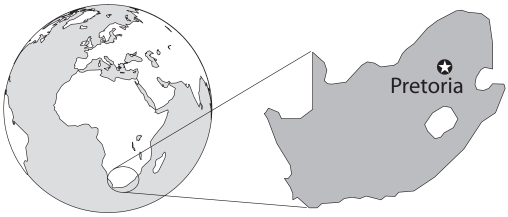
FREEDOM FROM CORRUPTION: *28* — 1.0

Corruption is perceived as widespread. The Solomon Islands ranks 111th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The law provides criminal penalties for official corruption, but implementation has not been effective, and officials often engage in corrupt practices with impunity. The Regional Assistance Mission to the Solomon Islands, a multinational police-centered force organized by Australia, arrived in 2003 at the government's invitation to assist in restoring law and order and rebuilding the country's institutions.

LABOR FREEDOM: *66.6* — 1.8

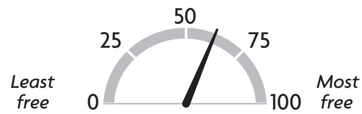
The Solomon Islands' labor regulations are relatively flexible, but enforcement of the labor code is inefficient. The non-salary cost of employing a worker is moderate, and dismissing an employee is not costly. The formal labor market is not fully developed.

SOUTH AFRICA



World Rank: **74** Regional Rank: **5**

Economic Freedom Score



62.7

South Africa's economic freedom score is 62.7, making its economy the 74th freest in the 2011 *Index*. Its score is 0.1 point lower than last year, primarily due to worsened scores in freedom from corruption and labor freedom. 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.

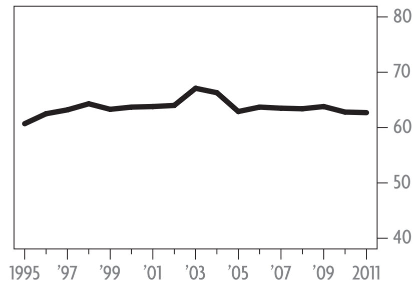
The South African economy benefits from relatively good levels of trade freedom, business freedom, and financial freedom. The regulatory environment encourages competitiveness and flexibility. Continuing integration into global commerce has led to notable increases in productivity.

Monetary stability is relatively good, but the government influences prices through regulation, state-owned enterprises, and other support programs. Public debt is expected to rise beyond its current level of around 27 percent of GDP as public investment expands. The lack of regulatory transparency still hinders investment. The legal environment is inefficient but relatively free from political interference and the threat of expropriation.

BACKGROUND: The transition from white minority rule to democratic, nonracial government culminated in 1994 in the election of Nelson Mandela as South Africa's first post-apartheid president. Thabo Mbeki succeeded Mandela in 1999 and was re-elected in 2004. Jacob Zuma was elected president in May 2009 by the newly elected National Assembly, which continues to be dominated by Mandela's African National Congress. South Africa is the economic hub of Sub-Saharan Africa 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, poverty is widespread, and 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. Crime, HIV/AIDS, and high unemployment are ongoing concerns.

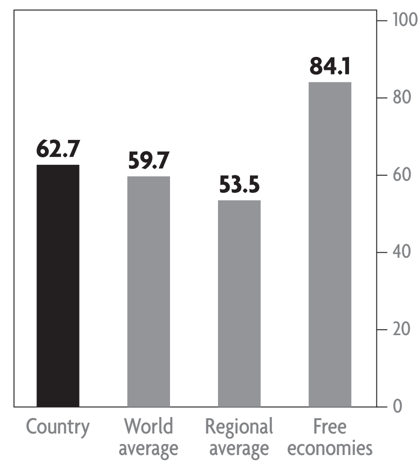
Country's Score Over Time

▲ *More Free* ▼ *Less Free*



Country Comparisons

▲ *More Free* ▼ *Less Free*



Quick Facts

Population: 49.3 million
GDP (PPP): $505.2 billion
–1.8% growth in 2009
3.2% 5-year compound annual growth
$10,244 per capita
Unemployment: 24.0%
Inflation (CPI): 7.1%
FDI Inflow: $5.7 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *72.3* — 0.7

Despite recent years' reform measures, progress in diversification of South Africa's economic base has been limited and uneven, indicating a need for regulatory changes that would encourage more dynamic private-sector development.

TRADE FREEDOM: *77.2* + 1.2

South Africa's weighted average tariff rate was 3.9 percent in 2009. South Africa is a member of the Southern African Customs Union, the world's oldest customs union. Import and export restrictions including tariff rate quotas on agricultural and textile imports, services market barriers, import and export permit requirements, burdensome technical standards, preferential government procurement procedures, burdensome regulations and inefficient bureaucracy, weak enforcement of intellectual property rights, inconsistent customs administration, and the use of anti-dumping laws to limit imports add to the cost of trade. Fifteen points were deducted from South Africa's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *69.6* + 0.5

South Africa has a relatively high income tax rate and a moderate corporate tax rate. 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), a property tax, a securities transfer tax, an inheritance tax, and a capital gains tax. In the most recent year, overall tax revenue as a percentage of GDP was 25.7 percent.

GOVERNMENT SPENDING: *77.5* + 0.7

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 27.4 percent of GDP. The Department of Public Enterprises oversees eight major state-owned enterprises in the government-controlled diamond mining, telecommunications, defense, transportation, and utilities sectors.

MONETARY FREEDOM: *71.9* + 1.7

Inflation was high, averaging 8.2 percent between 2007 and 2009, but subsided to around 6 percent in 2010. Prices are generally set by the market, but the government controls the prices of petroleum products, coal, paraffin, and utilities. Prices are also influenced through regulation, state-owned enterprises, and support programs. Ten points were deducted from South Africa's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *45* *no change*

Foreign and domestic investments are treated equally under the law, and foreign investment is permitted in most sectors of the economy. Foreign equity levels in most industries are not restricted. Non-transparent regulations, rigid labor laws, and crime are disincentives for investors. Residents and non-residents may establish foreign exchange accounts through authorized dealers, subject to government approval and quantity limits. Most purchases of foreign exchange, payments, capital transactions, and transfers are subject to restrictions, controls, and prior approval.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 62	Investment Freedom	No. 103
Trade Freedom	No. 89	Financial Freedom	No. 38
Fiscal Freedom	No. 133	Property Rights	No. 52
Government Spending	No. 70	Freedom from Corruption	No. 54
Monetary Freedom	No. 120	Labor Freedom	No. 106

FINANCIAL FREEDOM: *60* *no change*

South Africa's financial sector accounts for about 20 percent of GDP. Consolidation has reduced the number of domestic banks to less than 40. Five large banks account for over 80 percent of operations. Through development banks, the state dominates financing of medium-term and long-term lending. There are many microfinance institutions, and many credit operations of poorer South Africans are outside of formal banks. Capital markets are well developed and centered around the Johannesburg Securities Exchange, which is one of the world's 20 largest in terms of market capitalization. Due to its limited exposure to the high-risk securities or the complex instruments that triggered the global financial turmoil, the overall banking system has not been severely affected by the crisis.

PROPERTY RIGHTS: *50* *no change*

The threat of expropriation is low. The judiciary is independent, and contracts are generally secure, but the courts are slow, understaffed, underfunded, and overburdened. Optical disc piracy is substantial, and end-use piracy is not a crime. The courts impose undue burdens and costs on rights holders pursuing infringement cases. The Medicines Control Council is notoriously inefficient and tardy with approvals.

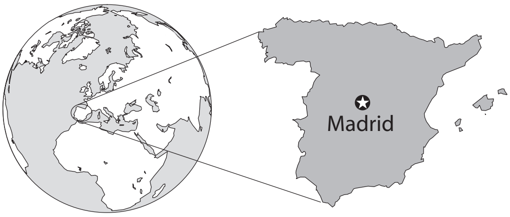
FREEDOM FROM CORRUPTION: *47* — 2.0

Corruption is perceived as significant. South Africa ranks 55th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Official corruption, particularly in the police and the Department of Home Affairs, is viewed as widespread. In 2008, Parliament voted to disband the South African Police Anti-Corruption Unit and the Directorate for Special Operations and fold their jurisdiction into a new high-priority crimes unit, known as the Hawks, under the South African Police Service.

LABOR FREEDOM: *56.7* — 2.3

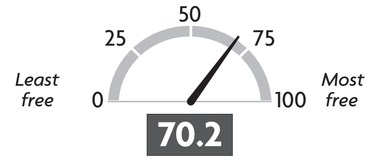
South Africa's labor market is not conducive to dynamic employment growth. Existing labor regulations are not applied effectively, and the rigid labor market has contributed to persistently high unemployment rates.

SPAIN



World Rank: **31** Regional Rank: **17**

Economic Freedom Score



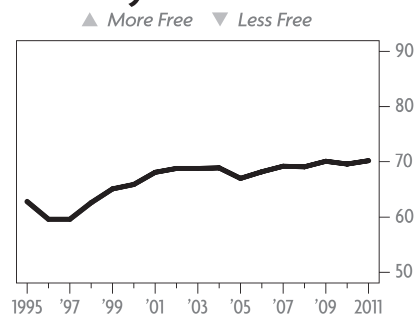
Spain's economic freedom score is 70.2, making its economy the 31st freest in the 2011 *Index*. Its score is 0.6 point higher than last year, reflecting improvements in half of the 10 economic freedoms that offset a decline in freedom from corruption. Spain is ranked 17th out of 43 countries in the Europe region, and its overall score is well above the world average.

Spain's economy performs well in business freedom, trade freedom, and investment freedom. Business formation procedures have become streamlined, and the overall entrepreneurial environment supports private-sector development. Steps taken in 2010 to reform the labor market make it less costly to dismiss a permanent worker and give employers more control of employee organization.

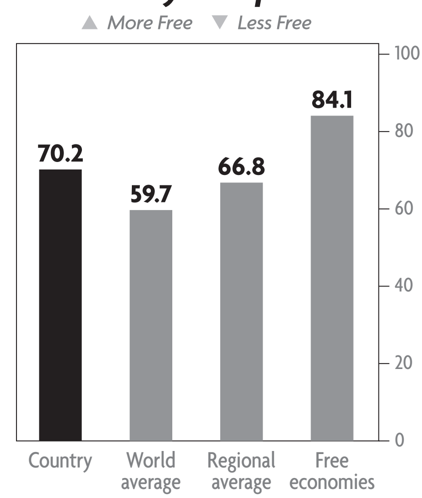
Challenges include fiscal freedom, government spending, and labor freedom. Total government spending is over 40 percent of GDP. Wage growth has outpaced that in other European countries, and home ownership has been heavily subsidized. Recent large fiscal deficits and rising public debt necessitate sound public financial management and a return to a sustainable level of public spending.

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 that has claimed more than 800 lives, including a politically motivated assassination during the 2008 elections. Following years of economic reform and brisk growth under former Prime Minister José María Aznar, current Prime Minister José Luis Rodríguez Zapatero won office in the wake of a series of al-Qaeda bomb attacks in Madrid in 2004 and was re-elected in 2008. The global economic crisis hit Spain hard in 2009, especially the construction industry. Because fiscal restraint consistent with euro zone rules has not been adhered to, Zapatero must implement tough austerity measures even as the country faces high unemployment.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 45.8 million
GDP (PPP): $1.4 trillion
–3.6% growth in 2009
1.2% 5-year compound annual growth
$29,689 per capita
Unemployment: 18.0%
Inflation (CPI): –0.3%
FDI Inflow: $15 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *77.2* **+** *1.4*

Procedures for setting up a business have been streamlined, with the number of licensing requirements reduced. Bankruptcy proceedings are fairly easy and straightforward.

TRADE FREEDOM: *87.6* **+** *0.1*

Spain's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Spanish policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Pharmaceutical and biotechnology regulations and services market access barriers exceed EU policy, and protection of intellectual property rights can be problematic. Ten points were deducted from Spain's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *61* **+** *2.9*

Spain has a high income tax and a moderate corporate tax. The top income tax rate is 43 percent. As of January 2010, savings income is subject to a top rate of 21 percent. The top corporate tax rate is 30 percent. Small and medium-size businesses are subject to a reduced rate. Other taxes include a value-added tax (VAT), a property tax, and a capital acquisitions tax. The wealth tax was abolished in 2009. In the most recent year, overall tax revenue as a percentage of GDP was 33.9 percent.

GOVERNMENT SPENDING: *49.3* **–** *5.5*

In the most recent year, total government expenditures, including consumption and transfer payments, increased to 41.1 percent of GDP. Stimulus spending widened the deficit to 11.2 percent of GDP. Spain has been able to abide by public debt ceilings, but private-sector and external debt has soared.

MONETARY FREEDOM: *82.4* **+** *4.7*

Spain is a member of the euro zone. Inflation has been low, averaging 1.1 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. It also controls the prices of medicines and public transport and influences prices through regulation and state-owned enterprises and utilities. Ten points were deducted from Spain's monetary freedom score to account for measures that distort domestic prices.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 42**	Investment Freedom	**No. 14**
Trade Freedom	**No. 12**	Financial Freedom	**No. 4**
Fiscal Freedom	**No. 163**	Property Rights	**No. 26**
Government Spending	**No. 134**	Freedom from Corruption	**No. 32**
Monetary Freedom	**No. 18**	Labor Freedom	**No. 121**

INVESTMENT FREEDOM: *80* *no change*

In general, foreign and domestic investments are treated equally under the law. Foreign investment of up to 100 percent of equity is permitted in most sectors. Foreign ownership of EU airlines may not exceed 49 percent. Bureaucratic procedures have been streamlined, and much red tape has been eliminated. There are no restrictions or controls on resident or non-resident foreign exchange accounts, capital movements, or repatriation of profits.

FINANCIAL FREEDOM: *80* *no change*

Spain's well-developed financial sector provides a wide range of financing tools for entrepreneurial activity. The regulatory system is transparent and consistent with international norms. All commercial banks are privately owned, and credit is allocated on market terms. Four financial institutions dominate the banking system. The government provides subsidized financing for some activities. The savings bank sector excludes external investors and has limited capacity for raising external capital. The non-bank financial sector remains small. Capital markets are well developed and open to foreign investors. Deterioration in asset quality that began in 2008 has caused a sharp increase in non-performing loans. Bank risks are unevenly distributed among institutions, but capital buffers and a relatively sound framework have prevented a severe liquidity crisis.

PROPERTY RIGHTS: *70* *no change*

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 IPR legal framework have greatly increased criminal and civil actions against intellectual property pirates.

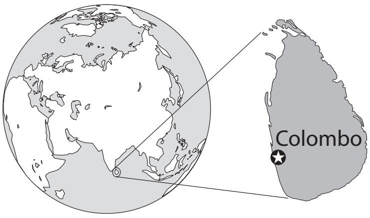
FREEDOM FROM CORRUPTION: *61* **–** *4.0*

Corruption is perceived as moderate, but Spain dropped four places in Transparency International's Corruption Perceptions Index for 2009, to 32nd out of 180 countries. Giving or accepting a bribe is a crime, and bribes are not tax-deductible for corporations or individuals.

LABOR FREEDOM: *53* **+** *5.7*

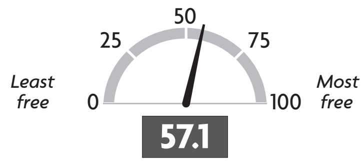
Despite some progress, Spain's labor regulations remain restrictive. The non-salary cost of employing a worker is high, and dismissing an employee is difficult. Regulations on work hours are rigid.

SRI LANKA



World Rank: **107** Regional Rank: **19**

Economic Freedom Score



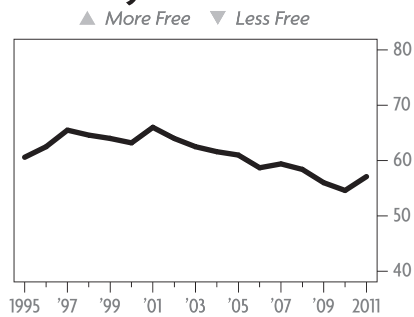
Sri Lanka's economic freedom score is 57.1, making its economy the 107th freest in the 2011 *Index*. Its score is 2.5 points higher than last year, reflecting major gains in trade, monetary, and investment freedom. Sri Lanka is ranked 19th out of 41 countries in the Asia–Pacific region, and its score improvement is one of the 10 largest in the 2011 *Index*.

Sri Lanka's economy is characterized by poor governance, ongoing political instability that undermines credible reform progress, and heavy reliance on foreign assistance. Overall, weak reform efforts have failed to stimulate broad-based economic growth. The heavy presence of the state in the economy continues to hamper private-sector development.

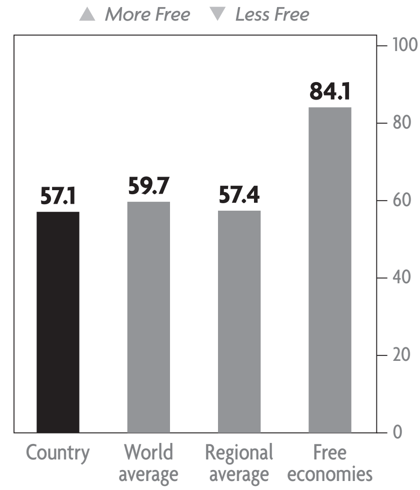
Challenges to economic freedom in Sri Lanka are considerable. The average applied tariff rate has dropped significantly, but the persistence of non-tariff barriers still adds to the costs of trade. A lack of transparency and a burdensome approval process continue to impede much-needed growth in private investment. Property rights are undermined by an inefficient judicial system, which is also subject to substantial corruption and political influence.

BACKGROUND: In April 2010, President Mahinda Rajapakse's ruling coalition won a landslide victory in parliamentary elections. Rajapakse's re-election was attributed to his government's success in defeating the terrorist Liberation Tigers of Tamil Eelam (LTTE) and eliminating its top leadership in 2009, thus ending a three-decade civil war that took the lives of some 70,000 people. More than 200,000 civilians were displaced by the fighting and are currently living in government-controlled camps. 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. Sri Lanka depends heavily on foreign assistance, and China has become a significant lender for infrastructure projects.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 20.2 million
GDP (PPP): $96.5 billion
3.5% growth in 2009
6.0% 5-year compound annual growth
$4,769 per capita
Unemployment: 5.9%
Inflation (CPI): 3.4%
FDI Inflow: $404 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *71.9* + *0.1*

Bureaucratic bottlenecks increase the cost of conducting business. Despite some progress in streamlining the process for launching a business, other time-consuming requirements reduce the efficiency of the overall regulatory system.

TRADE FREEDOM: *72.2* + *10.0*

Sri Lanka's simple average tariff rate was 6.4 percent in 2009. Import bans and restrictions, services market barriers, import fees, import licensing, restrictive standards and regulations, non-transparent government procurement, weak enforcement of intellectual property rights, export subsidies, and corruption add to the cost of trade. Fifteen points were deducted from Sri Lanka's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *73.4* − *0.1*

Sri Lanka has relatively high tax rates. The top income tax rate is 35 percent (33.33 percent for companies listed for less than five years), and the top corporate tax rate is 35.5 percent (when a Social Responsibility Levy amounting to a 1.5 percent surtax is counted). Other taxes include a value-added tax (VAT) and a stamp duty on the transfer of immovable property. In the most recent year, overall tax revenue as a percentage of GDP was 13.3 percent.

GOVERNMENT SPENDING: *84.7* + *0.8*

In the most recent year, total government expenditures, including consumption and transfer payments, held relatively steady at 22.6 percent of GDP. State-owned electricity and oil companies are not on solid financial ground.

MONETARY FREEDOM: *65.8* + *9.0*

Inflation has been high but declining, averaging 9.2 percent between 2007 and 2009. The government influences prices through regulations, state-owned enterprises, and subsidies for a wide array of goods. Fifteen points were deducted from Sri Lanka's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *30* + *15.0*

Sri Lanka allows 100 percent foreign ownership in some sectors of the economy but imposes ownership limits in others. Foreign investment is screened by the government. Security concerns, inconsistent and non-transparent regulation, inadequate infrastructure, and cumbersome bureaucracy are other impediments to investment. Residents and non-residents may hold foreign exchange accounts subject to requirements, including government approval in some cases. Payments, capital transactions, and transfers are subject to reporting requirements, limits, or government approval. Private land ownership is limited to 50 acres per person. Foreign investors can purchase land, but there is a 100 percent tax on such transfers.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 64	Investment Freedom	No. 134
Trade Freedom	No. 113	Financial Freedom	No. 106
Fiscal Freedom	No. 116	Property Rights	No. 73
Government Spending	No. 42	Freedom from Corruption	No. 97
Monetary Freedom	No. 156	Labor Freedom	No. 85

FINANCIAL FREEDOM: *40* *no change*

Sri Lanka's financial system remains vulnerable to government influence. Banking dominates the financial sector, but high credit costs discourage more dynamic business activity. Regulations permit 100 percent foreign control of banks, insurance companies, and stockbrokerages. Regulations are largely consistent with international standards, but supervision and enforcement are insufficient. The banking sector is dominated by two state-owned banks, although the presence of foreign banks is considerable. The two state banks, which have accumulated considerable bad debt, account for around 40 percent of total assets. The central bank is not fully independent. The government influences the allocation of credit and uses domestic financial resources to finance government borrowing. Capital markets are centered on the Colombo Stock Exchange, which is modern but relatively small.

PROPERTY RIGHTS: *40* *no change*

The judiciary is influenced by other branches of government, and extensive delays lead investors most often to pursue out-of-court settlements. A fairly reliable registration system exists for recording private property including land, buildings, and mortgages, but there are problems due to fraud and forged documents. Intellectual property rights come under both criminal and civil jurisdiction. International recording, software development, motion picture, clothing, and consumer product companies claim that lack of IPR protection damages their businesses.

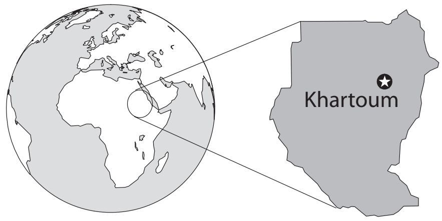
FREEDOM FROM CORRUPTION: *31* − *1.0*

Corruption is perceived as widespread. Sri Lanka ranks 97th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Anti-corruption laws and regulations are unevenly enforced. The police and judiciary are viewed as the most corrupt public institutions. Corruption in customs clearance enables wide-scale smuggling of certain consumer items. In 2008, the Supreme Court removed the Secretary to the Treasury from his position and ruled that he may not hold any public office in the future. In 2009, the Supreme Court, chaired by a new Chief Justice, allowed the former Treasury Secretary to resume his duties.

LABOR FREEDOM: *61.8* − *8.9*

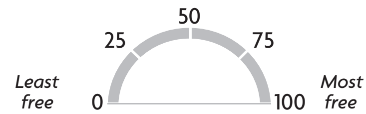
Sri Lanka's labor regulations are rigid, although enforcement of the labor code remains inefficient. The non-salary cost of employing a worker is moderate, but dismissing an employee is difficult.

SUDAN



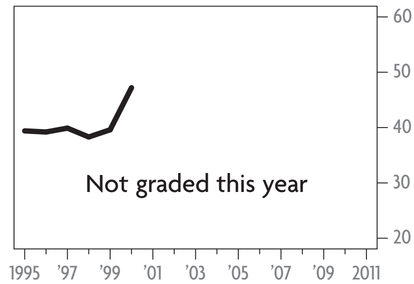
World Rank: Not ranked | Regional Rank: Not ranked

Economic Freedom Score

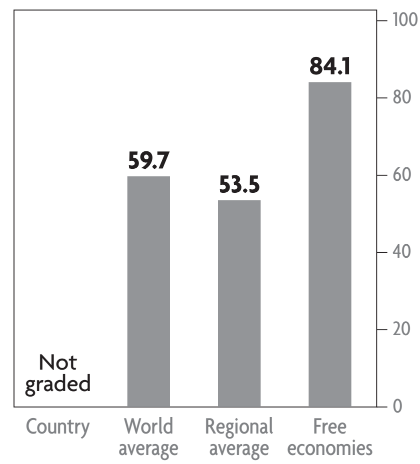


The economy is not graded

Country's Score Over Time



Country Comparisons



Sudan's economic freedom is not graded because of the lack of sufficient data that has been caused by the violence and political instability that have wracked the country in recent years. The last time Sudan was fully graded was in 2000, when it received a score of 47.2.

Outside of the hydrocarbon sector, economic development is limited by the ongoing political instability of the region. Attempts to develop and diversify the economy are constrained by a lack of basic institutional capacity. Regulations governing investment and banking are opaque and subject to frequent change, discouraging entrepreneurial activity. The insufficient respect afforded to property rights and rampant corruption are a serious drag on development of the private sector.

Sudan has taken very limited steps to expand its productive base. It has widened the tax base, and the country's small services sector has been marginally expanding. The large informal economy has been an important source of employment in the fragile economy.

BACKGROUND: A two-decade, bloody civil war between the Khartoum government in the North and the Sudan People's Liberation Movement/Army in the South finally ended in 2005, though the comprehensive peace agreement is still being implemented. 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. The elections were criticized by international observers 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. Tensions are high between Sudan and Chad, with each accusing the other of supporting anti-government rebels. Instability, poor infrastructure, mismanagement, and corruption hinder development. Despite significant oil production, most Sudanese remain engaged in agriculture.

Quick Facts

Population: 39.1 million
GDP (PPP): $93.1 billion
4.5% growth in 2009
8.2% 5-year compound annual growth
$2,380 per capita
Unemployment: 17.3%
Inflation (CPI): 11.3%
FDI Inflow: $3.0 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *NOT GRADED*

Sudan's entrepreneurial environment is not conducive to private-sector development. Inconsistent enforcement of regulations, coupled with other institutional shortcomings including a dysfunctional court system, often impede business activity and prevent sustained economic development.

TRADE FREEDOM: *NOT GRADED*

Sudan's weighted average tariff rate was 7.9 percent in 2009. There has been some progress toward liberalizing the trade regime, but import restrictions, non-transparent regulations, discriminatory taxes, significant delays in customs clearance, inadequate infrastructure, and corruption add to the cost of trade. If Sudan were graded this year, 15 points would be deducted from its trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *NOT GRADED*

Sudan has a low income tax rate but a high corporate tax rate. The top income tax rate is 10 percent, and the top corporate tax rate is 35 percent. In the most recent year, overall tax revenue as a percentage of GDP was 6.3 percent. Oil revenues have dropped during the global crisis.

GOVERNMENT SPENDING: *NOT GRADED*

In the most recent year, total government expenditures, including consumption and transfer payments, equaled 23.2 percent of GDP. Though oil revenues are beginning to rebound, the non-oil sector of the economy needs greater structural support. Improving Sudan's overall economic health and stability will require broadening the tax base and better targeting spending. Transfers to the South, fuel subsidies, and election-related spending have widened the deficit.

MONETARY FREEDOM: *NOT GRADED*

Inflation has been high, averaging 11.7 percent between 2007 and 2009. The government influences prices through regulation, a wide range of subsidies, and state-owned enterprises and utilities, and petroleum products are subsidized and subject to price controls. If Sudan were graded this year, 10 points would be deducted from its monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *NOT GRADED*

Officially, foreign and domestic investments are treated equally under the law. Foreign investment is restricted in certain sectors of the economy and requires government approval. Investment laws are non-transparent, and bureaucracy is cumbersome and prone to corruption. Political instability and inadequate infrastructure also discourage investment. All residents may hold foreign exchange accounts. Non-residents may hold foreign exchange accounts with government approval. Some restrictions and controls apply to all transactions involving capital market securities, money market instruments, credit operations, and outward direct investment.

COUNTRY'S WORLD RANKINGS

Business Freedom	n/a	Investment Freedom	n/a
Trade Freedom	n/a	Financial Freedom	n/a
Fiscal Freedom	n/a	Property Rights	n/a
Government Spending	n/a	Freedom from Corruption	n/a
Monetary Freedom	n/a	Labor Freedom	n/a

FINANCIAL FREEDOM: *NOT GRADED*

Sudan's small financial system is underdeveloped, and overall supervision remains weak. The banking sector is composed of privately owned banks, and more banks have been licensed and have come into operation in recent years. Two major banks were restructured in 2009. However, many banks suffer from the lack of efficient and accountable lending practices as well as from poor monitoring. A large portion of the population remains outside of the formal banking sector, and access to credit remains limited. The government continues to direct the allocation of credit, and non-performing loans are a problem. Capital markets are very small, consisting primarily of trade in bank shares on the Khartoum Stock Exchange.

PROPERTY RIGHTS: *NOT GRADED*

There is little respect for private property in Sudan, and the regime in Khartoum stands accused of genocide in Darfur and southern Sudan. The government influences the judiciary, and the military and civil authorities do not follow due process to protect private property. There have been numerous disputes between the government and various churches involving confiscated church property but no reports of court-ordered property restitution or compensation. Better protection of intellectual property rights would permit increased food production and food security through biotechnology applications.

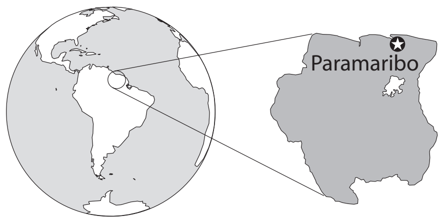
FREEDOM FROM CORRUPTION: *NOT GRADED*

Corruption is perceived as rampant. Sudan ranks 176th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Relatives of high government officials often own companies that do business with the government and usually receive kickbacks for government business. Bribery of police is also a concern. There are no laws providing for public access to government information, and the government does not provide such access.

LABOR FREEDOM: *NOT GRADED*

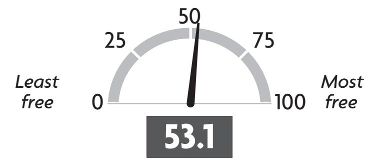
Sudan's labor market remains underdeveloped, mainly because of the country's lack of political stability. Labor codes are not consistently applied as much of the labor force is employed in the informal sector. The non-salary cost of employing a worker is moderate, but dismissing an employee is difficult and costly.

SURINAME



World Rank: **129** Regional Rank: **22**

Economic Freedom Score



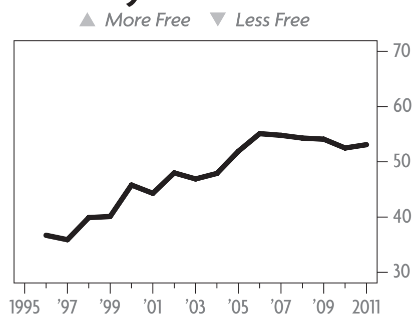
Suriname's economic freedom score is 53.1, making its economy the 129th freest in the 2011 *Index*. Its score is 0.6 point higher than last year, reflecting gains in four of the 10 economic freedoms. Suriname is ranked 22nd out of 29 countries in the South and Central America/Caribbean region, and its overall score is lower than the world and regional averages.

Suriname's entrepreneurial environment is severely constrained by a burdensome and inefficient regulatory framework. Despite recent progress in achieving some macroeconomic stability and market reforms, there has been little overall development of a more dynamic private sector.

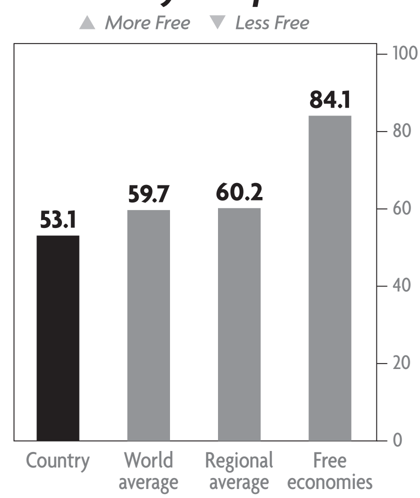
Private-sector growth has been hampered by the state's heavy presence in the economy. Privatization has been slow and uneven. Direct state involvement in the economy through ownership or control remains considerable, and due to a lack of transparency, there is little information about the finances of existing state enterprises. Poor policy choices and the uncertainty generated by weak management of fiscal and monetary policy have increased the risks for entrepreneurs. Pervasive corruption continues to undermine the judicial system and the rule of law. The financial system is underdeveloped and vulnerable to government intervention.

BACKGROUND: Suriname remains one of South America's poorest and least-developed countries. Democracy was re-established in 1991 after more than a decade of military rule. In 2005, incumbent President Ronald Venetiaan of the economic reform–oriented New Front Coalition defeated a strong challenge by former military dictator Desi Bouterse's National Democratic Party. The economy is dominated by exports of natural resources, especially alumina, oil, and gold. This makes the economy highly vulnerable to commodity price fluctuations. Prospects for the onshore oil industry are positive, and bauxite deposits are among the world's richest.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 0.5 million
GDP (PPP): $4.5 billion
2.5% growth in 2009
4.4% 5-year compound annual growth
$8,642 per capita
Unemployment: 9.5%
Inflation (CPI): 0.7%
FDI Inflow: $151 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *40.7* — *− 0.3*

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.

TRADE FREEDOM: *66.4* — *no change*

Suriname's weighted average tariff rate was 11.8 percent in 2007. Suriname is a member of the CARICOM Single Market and Economy. Import and export restrictions, import and export taxes, import fees, import and export licensing for some products, and non-transparent regulations and standards add to the cost of trade. Ten points were deducted from Suriname's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *68.1* — *+ 1.2*

Suriname has relatively high tax rates. 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 on tobacco and alcohol. In the most recent year, overall tax revenue as a percentage of GDP dropped to 21.1 percent.

GOVERNMENT SPENDING: *80.3* — *+ 2.5*

In the most recent year, total government expenditures, including consumption and transfer payments, fell to 25.6 percent of GDP. Public debt is 19 percent of GDP and declining, owing to previous fiscal surpluses.

MONETARY FREEDOM: *76.4* — *+ 8.6*

Inflation has been volatile, averaging 4.6 percent between 2007 and 2009, but ranging from a high of 14.6 in 2008 to a low of 0.7 in 2009. The government influences prices through regulations and state-owned enterprises and utilities, and prices of basic food items are controlled. Ten points were deducted from Suriname's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *10* — *− 5.0*

Foreign investors are not subjected to specifically discriminatory treatment, but investments are screened and approved by the government and may face political opposition. The oil sector is wholly state-owned. In other sectors of the economy, foreign ownership levels are not limited. Investment regulation is conducted on a case-by-case basis. The legal system is time-consuming, and the investment code and bureaucracy are non-transparent, burdensome, and prone to corruption. Residents and non-residents may hold foreign exchange accounts, subject to restrictions and approval. Payments, capital transactions, and transfers may be limited or require approval.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 160	Investment Freedom	No. 166
Trade Freedom	No. 139	Financial Freedom	No. 133
Fiscal Freedom	No. 140	Property Rights	No. 73
Government Spending	No. 54	Freedom from Corruption	No. 75
Monetary Freedom	No. 74	Labor Freedom	No. 27

FINANCIAL FREEDOM: *30* — *no change*

Suriname's financial system remains underdeveloped and vulnerable to government influence. Financial regulations are antiquated, and supervision is poor. There are eight banks, three of which control more than 80 percent of deposits. The state owns a majority stake in two of the three major banks. The extension of credit has grown rapidly. Non-performing loans are a problem for small state-owned banks. Three minor commercial banks owned by the state are to be consolidated, with their bad loans assumed by the government. The non-banking financial sector, including insurance and pension funds, is small and underdeveloped. Capital markets offer only a narrow range of government and other securities.

PROPERTY RIGHTS: *40* — *no change*

Private property rights are not well protected. There is a severe shortage of judges, and dispute settlement can be extremely time-consuming. Although Suriname has signed key international intellectual property rights treaties, IPR protection is nonexistent in practice because it has not been incorporated into domestic law. Suriname is a member of the World Trade Organization but has not ratified the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement.

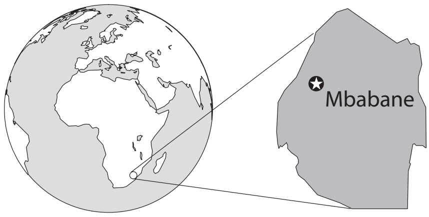
FREEDOM FROM CORRUPTION: *37* — *+ 1.0*

Corruption is perceived as widespread. Suriname ranks 75th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Although senior government officials appear to take anti-corruption efforts seriously, there is a widespread perception of corruption in the executive branch of the government. In 2009, members of both the governing coalition and the opposition continued their allegations that the Minister of Physical Planning, Land and Forest Management and the Speaker of the National Assembly were involved in the illegal issuance of government land titles. A shortage of police personnel hampers investigations of fraud cases.

LABOR FREEDOM: *81.8* — *− 2.7*

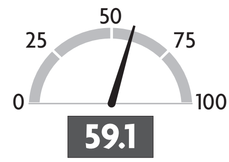
The non-salary cost of employing a worker is low, but dismissing an employee is difficult. There is no minimum wage. Although Suriname's labor code is flexible, enforcement is inefficient. The formal labor market is not fully developed, and the public sector remains a major source of employment.

SWAZILAND



World Rank: **97** Regional Rank: **12**

Economic Freedom Score



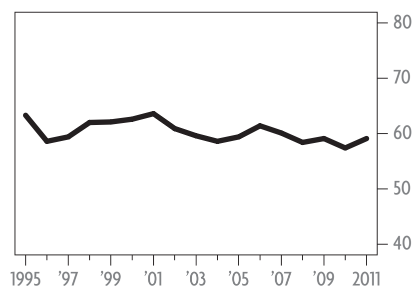
Swaziland's economic freedom score is 59.1, making its economy the 97th freest in the 2011 *Index*. Its score is 1.7 points better than last year, reflecting higher trade freedom, fiscal freedom, and government spending scores. Swaziland is ranked 12th out of 46 countries in the Sub-Saharan Africa region, and its overall score is just below the world average.

Despite a fairly diversified economic base, inefficient regulatory and legal frameworks have deterred the development of more dynamic private investment and production. Privatization has been part of the government's reform agenda, but overall progress has been marginal. Averaging annual growth of only 2.3 percent over the past five years, Swaziland's economic performance has lagged behind other economies in the region.

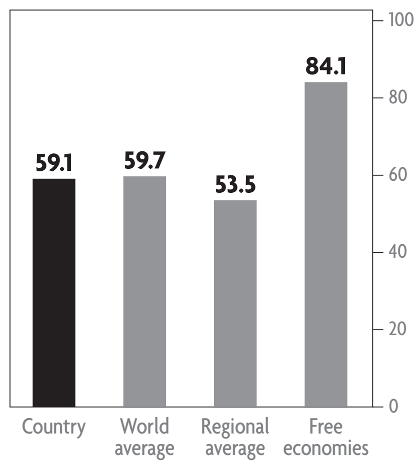
Bureaucratic inefficiency and corruption affect many aspects of the economy, discouraging the development of more vibrant activity. The most visible constraints on the emergence of economic dynamism are related to poor public finance management, administrative complexities, and the lack of respect for contracts. Court enforcement of property rights is vulnerable to political interference.

BACKGROUND: Under Swaziland's constitution, King Mswati III holds supreme executive, legislative, and judicial powers; in practice, authority is generally delegated to the prime minister, his cabinet, and traditional government structures. 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.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 1.0 million
GDP (PPP): $5.9 billion
0.4% growth in 2009
2.3% 5-year compound annual growth
$5,709 per capita
Unemployment: 28.2% (2006)
Inflation (CPI): 7.6%
FDI Inflow: $65.7 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *66.4* — *0.8*

Swaziland has an inefficient regulatory environment. Various regulatory requirements increase the overall cost of entrepreneurial activity. However, a new Companies Act, which aims to streamline the process for establishing and conducting businesses, was implemented in late 2009.

TRADE FREEDOM: *79.8* + *4.9*

Swaziland's weighted average tariff rate was 5.1 percent in 2009. Swaziland is a member of the Southern African Customs Union. Some services market access barriers, select import permit requirements, preferential government procurement practices, and weak enforcement of intellectual property rights add to the cost of trade. Ten points were deducted from Swaziland's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *67.2* + *4.1*

Swaziland has moderately high tax rates. The top income tax rate is 33 percent, and the top corporate tax rate is 30 percent. Other taxes include a real estate tax, a fuel tax, and a sales tax, which the government intends to replace with a value-added tax (VAT) in 2012. In the most recent year, the overall tax burden was 36 percent of GDP.

GOVERNMENT SPENDING: *65.9* + *10.4*

In the most recent year, total government expenditures, including consumption and transfer payments, declined to 33.7 percent of GDP. Implementation of the privatization agenda and meaningful reform of the inefficient civil service are undermined by a lack of political will. The economy is largely dependent on Southern African Customs Union revenues, which have declined during the global downturn.

MONETARY FREEDOM: *71* + *2.2*

Inflation has been high, averaging 9 percent between 2007 and 2009. The government influences prices through regulations and numerous state-owned enterprises and utilities, and government-administered prices account for approximately 16 percent of the consumer price index. Ten points were deducted from Swaziland's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *55* *no change*

Swaziland does not discriminate against foreign investment. Foreign investment faces minimal screening, and 100 percent foreign ownership of companies is allowed in most sectors of the economy. Bureaucratic procedures are cumbersome, implementation of regulations is non-transparent and unpredictable, and obtaining work permits for foreign workers can be burdensome. With some restrictions, residents and non-residents may hold foreign exchange accounts. Payments and transfers are subject to quantitative limits and government approval in some cases. The central bank must approve inward capital transfers. Foreign investors generally may not purchase land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 88	Investment Freedom	No. 75
Trade Freedom	No. 78	Financial Freedom	No. 106
Fiscal Freedom	No. 144	Property Rights	No. 73
Government Spending	No. 98	Freedom from Corruption	No. 79
Monetary Freedom	No. 133	Labor Freedom	No. 61

FINANCIAL FREEDOM: *40* *no change*

Swaziland's financial sector remains underdeveloped, but it has expanded with the increasing number of non-bank financial institutions. Overall supervision of banking is weak, and the sector remains subject to government influence. The financial system, which consists of less than 20 institutions, is dominated by the non-bank financial sector, total assets of which are equivalent to over 50 percent of GDP. The sector has been expanding due to the liquidity surge triggered by the 2005 Retirement Fund Act, as well as insurance-sector liberalization through the Insurance Act in 2005. Capital markets are small and centered on the Swaziland Stock Exchange, which remains largely inactive with a very small number of companies listed.

PROPERTY RIGHTS: *40* — *5.0*

The judiciary suffers from inadequate training, low salaries, and a small budget. Delays are common, and the executive branch significantly influences decisions. Protection of patents, trademarks, and copyrights is inadequate. The government has acceded to the World Trade Organization's Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement but has not signed the World Intellectual Property Organization's Internet agreement.

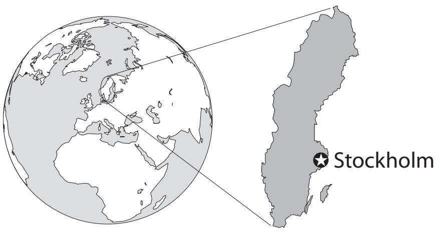
FREEDOM FROM CORRUPTION: *36* *no change*

Corruption is perceived as widespread. Swaziland ranks 79th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption is seen as significant in the executive and legislative branches of government, and efforts to combat it are viewed as insufficient. In 2007, the Prevention of Corruption law came into effect and an Anti-Corruption Commission was established. By the end of 2009, no complaints had been prosecuted, contrary to promises made by Prime Minister Barnabas Sibusiso Dlamini. Foreign and domestic businesses have indicated that corruption and bribery affect their profits, contracts, and investment decisions. Credible reports indicate that unqualified businesses have won contracts because of their owners' relationships with government officials.

LABOR FREEDOM: *69.4* + *1.0*

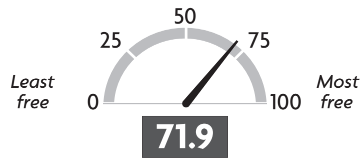
Labor regulations are relatively flexible but not effectively enforced. The non-salary cost of employing a worker is low, but the cost of dismissing a worker can be high.

SWEDEN



World Rank: **22** Regional Rank: **11**

Economic Freedom Score



Sweden's economic freedom score is 71.9, making its economy the 22nd freest in the 2011 *Index*. Its score has decreased by 0.5 point since last year, reflecting small declines in four of the 10 economic freedoms. Sweden is ranked 11th out of 43 countries in the Europe region, and its overall score is above the world and regional averages.

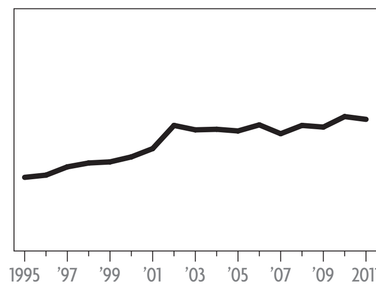
The Swedish economy enjoys high levels of trade freedom, investment freedom, monetary freedom, and financial freedom. The overall regulatory and legal environment, transparent and efficient, encourages robust entrepreneurial activity. Banking regulations and lending practices are prudent and sensible. Monetary stability is well maintained, with inflationary pressures under control. The judicial system, independent and free of corruption, provides strong protection of property rights.

Government spending and taxes are very high. Although the budget balance has swung from a surplus to a deficit, prudent fiscal management in the years prior to the global economic turmoil created fiscal space for some stimulus measures, including labor market support and income and social security tax cuts. Labor regulations are among the most rigid in Europe.

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 assumed the rotating presidency of the EU Council in the latter half of 2009. Sweden enjoyed a buoyant economy after joining the European Union in 1995, but the international financial crisis brought growth to a halt in 2009. The economy relies heavily on international trade, mostly within Europe, and total trade accounts for more than 50 percent of GDP. Principal exports include paper products, machinery and transport equipment, and chemicals. Sweden rejected adoption of the euro in 2003.

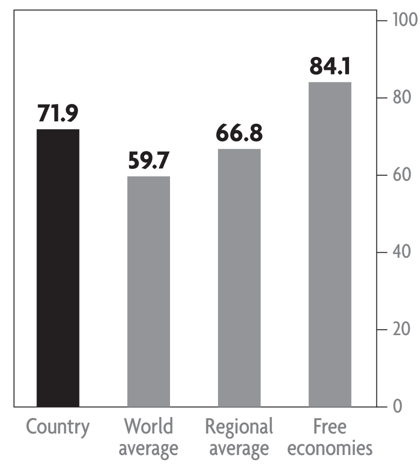
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 9.2 million
GDP (PPP): $331.5 billion
–4.4% growth in 2009
0.5% 5-year compound annual growth
$35,965 per capita
Unemployment: 8.3%
Inflation (CPI): 2.2%
FDI Inflow: $10.9 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

COUNTRY'S WORLD RANKINGS			
Business Freedom	No. 7	Investment Freedom	No. 9
Trade Freedom	No. 12	Financial Freedom	No. 4
Fiscal Freedom	No. 178	Property Rights	No. 2
Government Spending	No. 170	Freedom from Corruption	No. 3
Monetary Freedom	No. 38	Labor Freedom	No. 117

BUSINESS FREEDOM: *95* — *0.5*

The efficient regulatory framework strongly facilitates entrepreneurial activity, allowing business formation and operation in Sweden to be dynamic and innovative. The government generally takes a hands-off approach in sectors dominated by small businesses.

TRADE FREEDOM: *87.6* + *0.1*

Sweden's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Swedish policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from Sweden's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *37.6* + *0.9*

Sweden has a very burdensome income tax rate and a moderate corporate tax rate. The top income tax rate is effectively 57 percent, and the corporate tax rate is 26.3 percent. Other taxes include a value-added tax (VAT), a property tax, and a capital gains tax. The wealth tax has been abolished. In the most recent year, overall tax revenue as a percentage of GDP was 47.9 percent.

GOVERNMENT SPENDING: *17.3* *no change*

Government spending is very high. In the most recent year, total government expenditures, including consumption and transfer payments, equaled 52.5 percent of GDP. In response to the global crisis, Sweden undertook one of the largest fiscal stimulus programs in all of the European Union, estimated at 6.6 percent of GDP.

MONETARY FREEDOM: *80.1* + *0.6*

Inflation has been low, averaging 2.5 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. Prices are generally set by the market, but oligopolies may hinder competition, and the government influences prices through regulations and state-owned enterprises and utilities. Ten points were deducted from Sweden's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *85* *no change*

Foreign companies may invest in most sectors in Sweden without any more restrictions than are applied to domestic firms. The government has made progress in privatizing monopolies in the retail sales of pharmaceuticals and alcoholic beverages, but those efforts were slowed by the global financial crisis. In general, investment laws and the bureaucracy are efficient. A complex network of permits and licenses applies to domestic and foreign firms, and labor and environmental regulations add to the cost of investment. Residents and non-residents may hold foreign exchange accounts. There are no controls on payments and transfers or repatriation of profits. The purchase of real estate by non-residents may require a permit.

FINANCIAL FREEDOM: *80* *no change*

Regulation of the financial system is transparent and largely consistent with international norms. Banks offer a full range of financial services. Nearly all commercial banks are privately owned and operated, and credit is allocated on market terms. Foreign insurers are well represented in the insurance sector. The Stockholm Stock Exchange is modern, active, and open to domestic and foreign investors. Sweden's banking system has weathered the global financial crisis relatively well. No government takeovers of banks have occurred.

PROPERTY RIGHTS: *90* — *5.0*

The judiciary is independent and fair. Contracts are respected, and Swedish law generally provides adequate protection for all property rights, including the right to intellectual property.

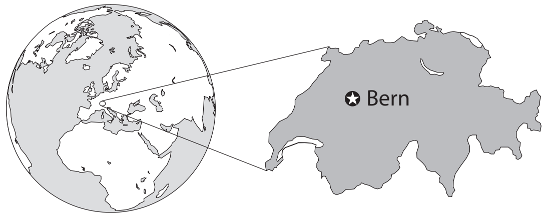
FREEDOM FROM CORRUPTION: *92* — *1.0*

Corruption is perceived as almost nonexistent. Sweden ranks 3rd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Comprehensive laws on corruption are fully implemented, and Sweden has ratified the 1997 Organisation for Economic Co-operation and Development Anti-bribery Convention. The constitution and law provide for public access to government information.

LABOR FREEDOM: *54* — *0.9*

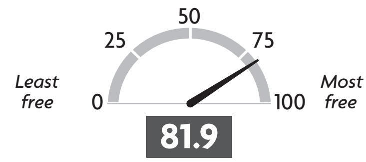
Sweden's labor regulations remain rigid. The non-salary cost of employing a worker is high, and dismissing an employee is costly and burdensome.

SWITZERLAND



World Rank: **5** Regional Rank: **1**

Economic Freedom Score



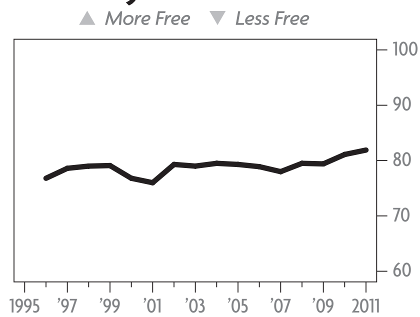
Switzerland's economic freedom score is 81.9, making its economy the 5th freest in the 2011 *Index*. Its score has improved by 0.8 point since last year, with notable improvements in monetary and labor freedom. Switzerland is ranked 1st out of 43 countries in the Europe region, and its overall score is much higher than the world average.

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 the country's 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. Its financial sector has recovered swiftly from the global financial crisis and has withstood a weakening of Switzerland's bank secrecy laws.

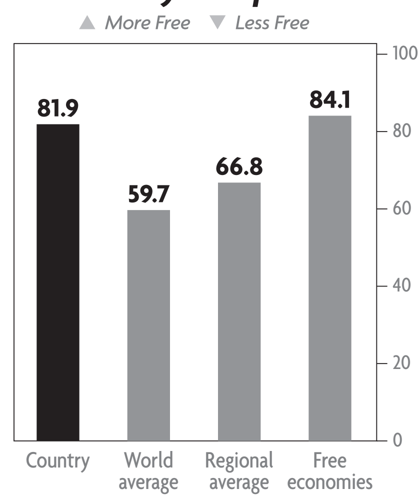
Well-secured property rights, including for intellectual property, promote entrepreneurship and productivity growth. Flexible labor regulations and the absence of corruption also sustain vibrant entrepreneurship. Inflationary pressures are under control. The judicial system, independent of political influence, ensures strong enforcement of contracts.

BACKGROUND: Switzerland, one of the world's richest and most investment-friendly destinations, is a multicultural society with four official languages. It 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 only 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. Swiss–EU relations are based instead on an extensive range of bilateral technical agreements. In addition to banking, the economy relies heavily on precision manufacturing, metals, pharmaceuticals, chemicals, and electronics.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 7.3 million
GDP (PPP): $314.9 billion
–1.5% growth in 2009
1.9% 5-year compound annual growth
$43,007 per capita
Unemployment: 4.4%
Inflation (CPI): –0.4%
FDI Inflow: $9.7 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology
or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *80.2* — *1.0*

Switzerland's competitive and transparent regulatory framework strongly supports commercial activity, allowing business formation and operation to be efficient and dynamic. Bankruptcy proceedings are relatively easy.

TRADE FREEDOM: *90* *no change*

Switzerland's weighted average tariff rate was 0 percent in 2009. However, prohibitive agriculture tariffs and quotas block trade in some products. Services market access barriers and restrictive biotechnology regulations add to the cost of trade. Ten points were deducted from Switzerland's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *68.4* + *0.2*

Taxation is more burdensome at the cantonal levels than it is at the federal level. The top federal income tax rate is 11.5 percent, and the combined top income tax rate (federal and sub-federal) can be as high as 41.5 percent, though it is generally much lower. The federal corporate tax rate on net income is 8.5 percent (7.8 percent since income and capital taxes are deductible) but, in combination with cantonal rates, can be as high as 24 percent. Other taxes include a value-added tax (VAT), a tax on securities and insurance premiums, and cantonal-level property taxes. In the most recent year, overall tax revenue as a percentage of GDP was 29.4 percent.

GOVERNMENT SPENDING: *69.3* + *0.4*

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 32 percent of GDP. Direct government participation in the economy has been confined to such public services as post offices, railways, and defense. Stimulus spending was limited to infrastructure investment and labor support to higher temporary work benefits. The debt-to-GDP ratio has been on the decline and is now below 40 percent.

MONETARY FREEDOM: *83.8* + *2.5*

Inflation has been extremely low, averaging 1 percent between 2007 and 2009. Government measures influence the prices of agricultural goods and pharmaceutical products, and the government influences prices through regulation, subsidies, and state-owned utilities. Ten points were deducted from Switzerland's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *80* *no change*

Foreign investment receives national treatment, and most sectors are open to private investment. Project screening applies in a few sectors. Joint stock companies must have a majority of resident Swiss nationals on their boards. Foreign investments are subject to review by the Competition Commission if the value of the investing firm's sales reaches certain levels. The investment code and its implementation are generally transparent and efficient, but this varies widely across regional cantons. Residents and non-residents may hold foreign exchange accounts. There are no restrictions on repatriation of profits or current transfers.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 35**	Investment Freedom	**No. 14**
Trade Freedom	**No. 1**	Financial Freedom	**No. 4**
Fiscal Freedom	**No. 138**	Property Rights	**No. 2**
Government Spending	**No. 92**	Freedom from Corruption	**No. 5**
Monetary Freedom	**No. 11**	Labor Freedom	**No. 14**

FINANCIAL FREEDOM: *80* *no change*

Switzerland is a leading financial center with highly developed and well-regulated institutions. Foreign and domestic investors have adequate access to capital and a wide variety of credit instruments. Mergers and acquisitions have reduced the number of banks, but there are still over 300. The two largest banking groups account for around 60 percent of the system's total assets. Credit is allocated on market terms. Insurance is well developed, and the state-owned postal service offers a variety of financial services. Banking and finance regulation is strong and effective, but there are weaknesses in the ability to monitor and assess systemic risks and oversee cross-border practices of complex financial institutions. Switzerland's stock exchange is one of Europe's largest, and capital markets are sophisticated and well developed. The global financial crisis hit the two major banks (UBS and Credit Suisse) hard. The government bailed out UBS in 2008 with asset purchases and a capital injection but sold off its stake in 2009.

PROPERTY RIGHTS: *90* *no change*

The judiciary is independent, and contracts are secure. Switzerland has one of the world's best protection regimes for both foreign and domestic holders of intellectual property.

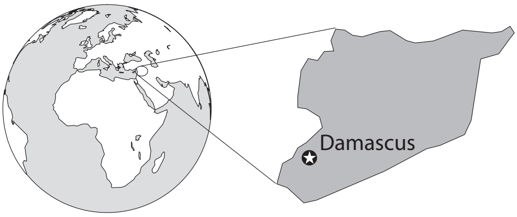
FREEDOM FROM CORRUPTION: *90* *no change*

Corruption is perceived as almost nonexistent. Switzerland ranks 5th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption is not pervasive in any area of the economy, and enforcement against domestic corruption is effective. The Federal Council ratified the U.N. Convention Against Corruption on September 24, 2009.

LABOR FREEDOM: *87.8* + *6.0*

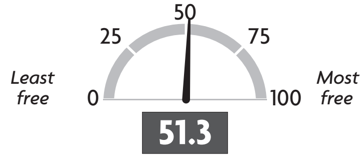
Switzerland's labor regulations are flexible, and provisions concerning work hours have been eased. The non-salary cost of employing a worker is moderate, but dismissing an employee can be costly.

SYRIA



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

Economic Freedom Score



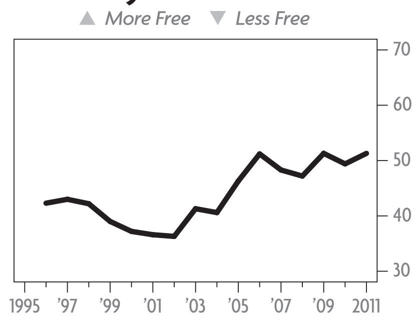
Syria's economic freedom score is 51.3, making its economy the 140th freest in the 2011 *Index*. Its score is 1.9 points higher than last year, with higher scores in five of the 10 economic freedoms, including freedom from corruption and trade freedom. Syria is ranked 15th out of 17 countries in the Middle East/North Africa region, and its overall score is lower than the regional average.

Despite ongoing efforts to diversify its economy, Syria's heavy dependence on hydrocarbons dominates overall activity. In an effort to foster private-sector growth, the government has relaxed some restrictions on foreign exchange and gradually released its grip on the financial sector.

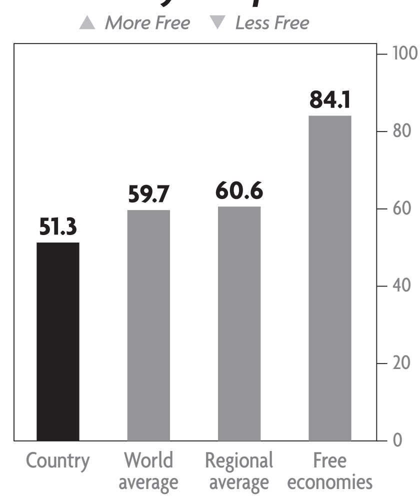
Nonetheless, the state's prominent role remains the most fundamental constant in Syria's economy. Monetary freedom is marred by state price controls and interference. High tariff rates and significant non-tariff barriers add to the cost of trade, while opaque and shifting regulations drive up the cost of investment and production. Private property rights are poorly defended by a corrupt and politically influenced judiciary.

BACKGROUND: Syria has been ruled by the Assad regime since 1970, when Minister of Defense Hafez al-Assad seized power. His son Bashar, who succeeded him in 2000, has failed to deliver on promises to reform Syria's socialist economy. Foreign investment has been constrained by government restrictions, U.S. economic sanctions, and Syria's international isolation as a result of its suspected involvement in the February 2005 assassination of former Lebanese Prime Minister Rafiq Hariri. The economy was helped by higher prices for Syria's declining oil exports in the mid-2000s, but in the latter half of the decade, the Assad regime has been forced to undertake such belt-tightening measures as reducing subsidies on gasoline, cement, and other commodities. Syria's economy remains hobbled by a sluggish state bureaucracy, falling oil production, rising budget deficits, and inflation. Unemployment is high.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 20.4 million
GDP (PPP): $99.5 billion
4.0% growth in 2009
4.6% 5-year compound annual growth
$4,887 per capita
Unemployment: 8.5%
Inflation (CPI): 2.5%
FDI Inflow: $1.4 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: 55.9 — 3.3

Syria's regulatory framework lacks transparency and efficiency. The repressive business environment, burdened with heavy state intervention, continues to hamper entrepreneurial activity and prolong economic stagnation.

TRADE FREEDOM: 65.4 + 11.4

Syria's weighted average tariff rate was 9.8 percent in 2009. Some prohibitive tariffs, import and export bans and restrictions, import licensing, non-transparent trade regulations and government procurement, burdensome standards, inefficient customs administration, and corruption add to the cost of trade. Fifteen points were deducted from Syria's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: 84.6 — 2.4

Syria has a relatively low income tax rate and a moderate corporate tax rate. The top income tax rate is 22 percent, up from 20 percent, and the top corporate tax rate is 30.8 percent (28 percent with a maximum 10 percent surtax). Other taxes include an inheritance tax and a property transfer tax. In the most recent year, overall tax revenue as a percentage of GDP was 10.2 percent. Certain goods and services are subject to a consumption tax. Authorities implemented tax breaks for farmers to help mitigate the impact of a severe drought and high fuel prices on the agricultural sector. Introduction of a value-added tax, originally intended for 2008, is on schedule for implementation in 2011.

GOVERNMENT SPENDING: 85.3 + 5.1

In the most recent year, total government expenditures, including consumption and transfer payments, declined to 22.1 percent of GDP. The state-run economy is gradually opening: a private airline was launched in 2008.

MONETARY FREEDOM: 69.7 + 6.4

Inflation has been relatively high, averaging 5.8 percent between 2007 and 2009. The government controls prices for many goods, particularly in the agriculture sector; influences prices in other sectors through state-owned enterprises and utilities; and constrains private participation in manufacturing with input and output pricing limits. Fifteen points were deducted from Syria's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: 20 *no change*

Arbitrary and non-transparent changes in investment law, burdensome bureaucracy, political instability, corruption, and the lack of an independent judiciary undermine investment in Syria's economy. Officially, foreign investment receives national treatment, and foreigners may own 100 percent of a company in certain sectors. Investment is screened. Most foreign exchange, capital transactions, and payments are subject to controls, government approval, or other restrictions. Repatriation of capital and profits is allowed if tax obligations have been met. Foreign investors may own land in connection with investments.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 132	Investment Freedom	No. 152
Trade Freedom	No. 142	Financial Freedom	No. 159
Fiscal Freedom	No. 40	Property Rights	No. 99
Government Spending	No. 40	Freedom from Corruption	No. 128
Monetary Freedom	No. 142	Labor Freedom	No. 111

FINANCIAL FREEDOM: 20 *no change*

Despite recent changes in Syria's financial sector, government influence remains significant. Though private banks lead financial-sector growth, much private-sector lending is conducted through state-owned banks. Since 2004, when the first private bank was licensed, the number of private banks has grown; 14 are now in operation and private banks have recorded a considerable expansion of assets in recent years. In 2005, the insurance sector was opened to private companies, breaking the monopoly previously enjoyed by the state-owned Syrian Insurance Company. Private insurance companies are allowed 100 percent foreign ownership. Capital markets are negligible and restricted to small amounts of government debt. The Damascus Stock Exchange began operations in 2009.

PROPERTY RIGHTS: 30 + 5.0

Protection of property rights is weak. Political connections and bribery influence court decisions. A law promulgated in 2007 permits foreigners to own or lease real property, but there is practically no legislation that protects intellectual property rights. As of September 2009, the Syrian Trademark Office is no longer asking foreign companies to fill out an application declaring their compliance with the Arab League Boycott of Israel. Previously, all applications were referred to the Boycott Office for clearance.

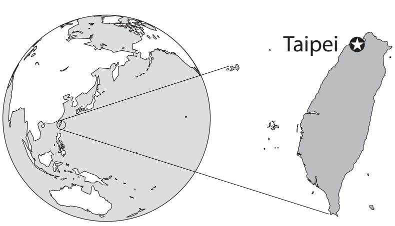
FREEDOM FROM CORRUPTION: 26 + 5.0

Corruption is perceived as widespread. Syria ranks 126th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, an improvement from 2008. Corruption cuts across most sectors of society and affects the legal system as well. Bureaucratic procedures for receiving required documents and obtaining licenses can cause protracted delays and often involve official approval from many levels within the government. Under-the-table payments are commonplace, as corruption is endemic in nearly all levels of government.

LABOR FREEDOM: 55.8 — 8.9

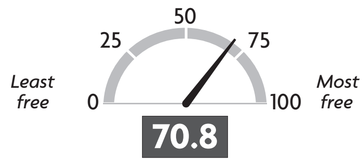
Syria's labor regulations are rigid, and the labor market is not immune from state interference and control. The non-salary cost of employing a worker is moderate, but dismissing an employee is difficult.

TAIWAN

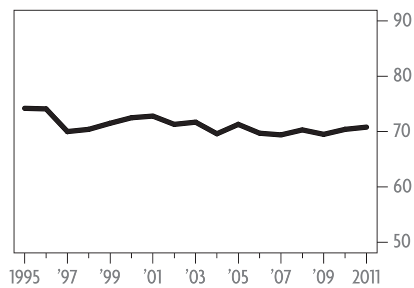


World Rank: **25** Regional Rank: **7**

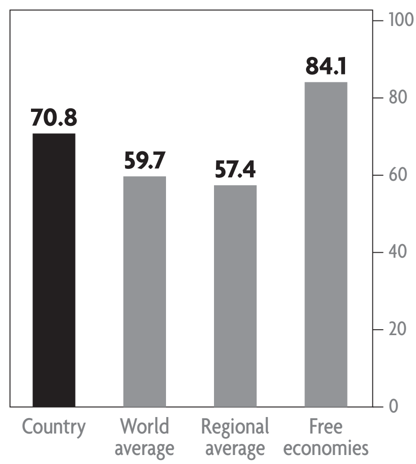
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Taiwan's economic freedom score is 70.8, making its economy the 25th freest in the 2011 *Index*. Its score is 0.4 point higher than last year, primarily because of notable improvements in business freedom and fiscal freedom. Taiwan is ranked 7th out of 41 economies in the Asia–Pacific region, and its overall score is higher than the world average.

The rapid recovery of Taiwan's economy from the global economic downturn has been facilitated by its competitive and open trade regime. The economy has long benefited from a well-developed legal and commercial infrastructure and a tradition of entrepreneurial dynamism in the private sector. Taiwan's corporate tax rate has become more competitive, and small and medium-size enterprises continue to flourish in the country's diversified economy.

Transparent and sound regulations facilitate investment. Implementation of Company Act amendments in early 2009 eliminated minimum capital requirements and eased new business formation. Although the level of state involvement in the economy remains considerable, government spending is under control. Corruption and the rigid labor market continue to hold back Taiwan's overall economic freedom.

BACKGROUND: Taiwan, a dynamic multi-party democracy, is 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. In March 2008, former Taipei Mayor Ma Ying-jeou was elected president on a platform that promised a more open economic relationship with China. He has since moved to relax transportation barriers and has negotiated a formal trade agreement with mainland China. Although internal opposition to closer economic integration remains considerable because of fears that it will lead to ceding Taiwan's "unsettled" sovereignty to China, the trade agreement does seem to have attracted more foreign investment. With a heavy emphasis on services, manufacturing, and high technology, Taiwan's modern, developed economy is one of the richest in Asia.

Quick Facts

Population: 23.1 million
GDP (PPP): $736 billion
–1.9% growth in 2009
2.5% 5-year compound annual growth
$31,834 per capita
Unemployment: 5.9%
Inflation (CPI): –0.9%
FDI Inflow: $2.8 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *84.7* + *1.7*

The overall freedom to conduct business is well protected under Taiwan's regulatory environment. In recent years, the country has continued to simplify registration procedures. Bankruptcy proceedings are fairly easy and straightforward.

TRADE FREEDOM: *86.2* + *0.4*

Taiwan's weighted average tariff rate was 1.9 percent in 2008. The government has been improving the trade regime, but some import and export bans and restrictions, services market access barriers, burdensome standards and certification requirements, tariff rate quotas and safeguards, restrictive pharmaceutical regulations, cumbersome sanitary and phytosanitary rules, and weak enforcement of intellectual property rights add to the cost of trade. Ten points were deducted from Taiwan's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *78.3* + *2.4*

Taiwan has a relatively high income tax rate and a moderate corporate tax rate. The top income tax rate is 40 percent, and the top corporate tax rate was reduced to 20 percent, down from 25 percent, as of January 1, 2010. A 10 percent surtax is applied to undistributed profits. Other taxes include a value-added tax (VAT), a property tax, and a stamp duty on various contracts. Effective January 2010, innovation-related research and development expenses receive an income tax credit. In the most recent year, overall tax revenue as a percentage of GDP was 12.9 percent.

GOVERNMENT SPENDING: *89.7* – *0.8*

In the most recent year, total government expenditures, including consumption and transfer payments, equaled 18.5 percent of GDP. Privatization and deregulation have reduced the government's role in the economy, even in strategic sectors, but the state is still active in economic management.

MONETARY FREEDOM: *82* + *2.7*

Inflation has been very low, averaging 1.6 percent between 2007 and 2009. The government regulates the prices of pharmaceutical and medical products and influences prices through regulation, subsidies, and state-owned utilities. Ten points were deducted from Taiwan's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *65* *no change*

Foreign and domestic investments are treated equally under the law, and private investment is welcome in most sectors. Foreign ownership is limited in certain sectors, including agricultural production, public utilities, and postal services. Investment is screened, but approval time is usually short. Investment laws and bureaucracy are generally transparent and efficient. There are relatively few restrictions on converting or transferring direct investment funds. The remittance of capital invested in Taiwan must be reported to the government. Declared earnings, capital gains, dividends, royalties, management fees, and other returns on investments can be repatriated at any time. Large foreign exchange transactions may have to be conducted over time to prevent market disruptions. There are quantity restrictions on the level of total outbound investment. Investments in China are subject to additional restrictions.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 25**	Investment Freedom	**No. 50**
Trade Freedom	**No. 40**	Financial Freedom	**No. 70**
Fiscal Freedom	**No. 88**	Property Rights	**No. 26**
Government Spending	**No. 17**	Freedom from Corruption	**No. 36**
Monetary Freedom	**No. 23**	Labor Freedom	**No. 144**

FINANCIAL FREEDOM: *50* *no change*

Taiwan's modern financial sector has become more competitive. Many restrictions on financial activities, particularly those of foreign financial institutions, have been reduced. A wide variety of financial instruments are available to foreign and domestic investors on market terms. Government-controlled banks dominate banking and account for about half of total assets. Foreign banks play a relatively small role, although their market share has increased in recent years. Capital markets are sophisticated and developing, and the stock market is generally open to foreign participation. Measures to develop a bond market and promote innovative insurance products have been implemented. Financing opportunities for domestic companies have been affected by the financial crisis and resulting credit contraction.

PROPERTY RIGHTS: *70* *no change*

Property rights are generally protected, and the judiciary enforces contracts, but the court system is very slow. Despite the passage of several laws to improve the enforcement of intellectual property rights, criminals continue to sell pirated optical media, counterfeit pharmaceuticals, and counterfeit luxury goods. An Intellectual Property Court established in 2008 handles civil and administrative IPR litigation as well as appeals on criminal cases.

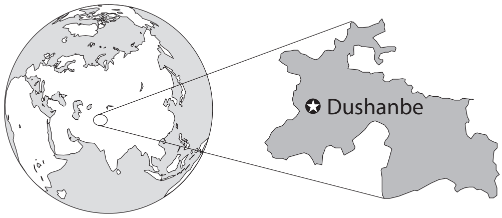
FREEDOM FROM CORRUPTION: *56* – *1.0*

Corruption is perceived as present. Taiwan ranks 37th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Taiwan has implemented laws, regulations, and penalties to combat corruption. The Corruption Punishment Statute and the criminal code contain specific penalties for corrupt activities.

LABOR FREEDOM: *46.1* – *1.6*

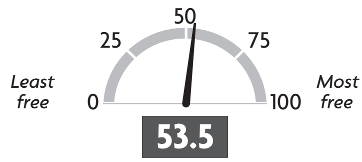
Taiwan's labor regulations remain rigid. The non-salary cost of employing a worker is low, but dismissing an employee is relatively costly and burdensome. Regulations on work hours are not flexible.

TAJIKISTAN



World Rank: **128** Regional Rank: **26**

Economic Freedom Score



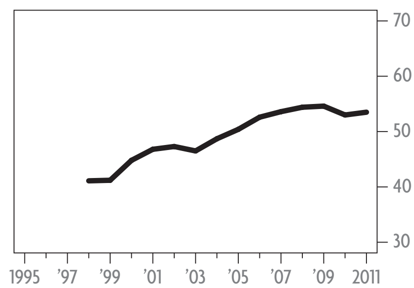
Tajikistan's economic freedom score is 53.5, making its economy the 128th freest in the 2011 *Index*. Its score is 0.5 point higher than last year, reflecting gains in business freedom and monetary freedom. Tajikistan is ranked 26th out of 41 countries in the Asia–Pacific region, and its overall score is lower than the world average.

Tajikistan continues to face many challenges that require rebuilding infrastructure, improving the entrepreneurial environment, and attracting dynamic investment. The economy has pursued reforms to foster sound macroeconomic management and improvement of the business climate, but progress has been marginal. The potential for growth remains constrained by government interference, which has left the economy vulnerable in a changing political environment.

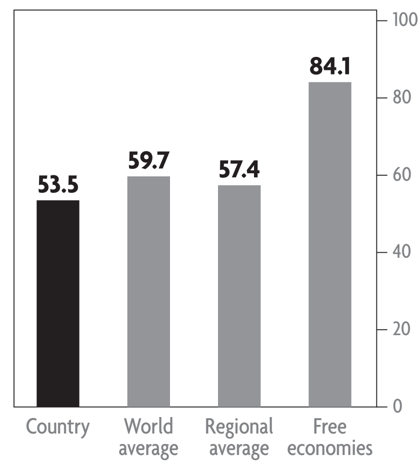
Despite some progress in privatizing small and medium-size public enterprises, private-sector development has been slow. Remittances continue to be an important source of external financing. Foreign investment is deterred by burdensome bureaucratic regulations and inconsistent administration. Tajikistan remains one of the world's most corrupt nations.

BACKGROUND: Strategically located next to Afghanistan and occupying part of the heavily populated Fergana Valley, Tajikistan faces a number of challenges to its stability, including drug trafficking, Islamist terrorists, and poverty. Tajikistan's transition to democracy has been problematic since the 1992–1997 civil war between an Islamist/democratic coalition and the ruling post-Communists. Parliamentary elections in February 2005 and President Imomali Rahmon's November 2006 re-election to a third seven-year term failed to meet international standards. Rahmon controls all three branches of government. Abuses of human rights are widespread, poverty and corruption remain pervasive, and remittances and drug production and trafficking are important sources of income. Major exports are aluminum, cotton, and electricity. Tajikistan is borrowing heavily from China and obtained support from the International Monetary Fund in April 2009.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 6.5 million
GDP (PPP): $13.7 billion
3.4% growth in 2009
6.4% 5-year compound annual growth
$2,104 per capita
Unemployment: 2.2%
Inflation (CPI): 6.5%
FDI Inflow: $7.6 million

2009 data unless otherwise noted.
Data compiled as of September 2010.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *60.7* — + 3.3

Entrepreneurial activity is seriously hampered by state interference that increases regulatory costs and uncertainty through various bureaucratic impediments. The business environment has improved only marginally, with a more simplified business registration process implemented in mid-2009. Other lingering problems include cronyism and a lack of transparency. As a result, the private sector has not been able to generate dynamic growth.

TRADE FREEDOM: *82.5* — *no change*

Tajikistan's weighted average tariff rate was 3.8 percent in 2006. Quotas on alcohol and tobacco products, some import bans and restrictions, non-transparent standards and other regulations, inadequate bureaucratic capacity, non-transparent and corrupt customs implementation, and weak enforcement of intellectual property rights add to the cost of trade. Ten points were deducted from Tajikistan's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *88.6* — − 0.3

Tajikistan has competitive tax rates. The top income tax rate is 13 percent. The statutory corporate tax rate is 15 percent, but the top corporate tax rate for transport, communications, and banking services is 25 percent. Other taxes include a tax on immovable property and a value-added tax (VAT) that was reduced in mid-2009. In the most recent year, overall tax revenue as a percentage of GDP was 18.7 percent.

GOVERNMENT SPENDING: *77.3* — − 0.7

In the most recent year, total government expenditures, including consumption and transfer payments, increased slightly to 27.5 percent of GDP. State ownership persists in cotton and aluminum. Arrears in state-owned enterprises highlight weak management and could jeopardize broader financial stability.

MONETARY FREEDOM: *64.5* — + 6.1

Inflation has been high, averaging 10.5 percent between 2007 and 2009. The government influences prices through regulation, subsidies, and numerous state-owned enterprises and utilities. Farmers are subject to state control of production and harvesting decisions, particularly in the cotton sector. Electricity tariffs were raised in 2009 and 2010 and now cover 80 percent of estimated costs. Fifteen points were deducted from Tajikistan's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *20* — − 5.0

All private investment in Tajikistan is screened and requires government approval. Investment laws are implemented inconsistently, and the bureaucracy is non-transparent, burdensome, and prone to corruption. Contracts are weakly enforced, and infrastructure remains inadequate. Investors face ownership restrictions and cumbersome procedures with regard to tax and business registration. Remittance of profits abroad is allowed. Residents and non-residents may hold foreign exchange accounts. Foreign exchange and capital payments and transfers are subject to documentary requirements. Private ownership of land is not allowed, but foreign investors can lease land-use rights for up to 50 years.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 113	Investment Freedom	No. 152
Trade Freedom	No. 64	Financial Freedom	No. 106
Fiscal Freedom	No. 27	Property Rights	No. 139
Government Spending	No. 71	Freedom from Corruption	No. 160
Monetary Freedom	No. 159	Labor Freedom	No. 107

FINANCIAL FREEDOM: *40* — *no change*

Tajikistan's financial sector has undergone a gradual transformation that has led to improved supervision and regulation. Financial-sector assets have grown very rapidly in recent years, reaching around 40 percent of GDP. However, the government's continuing interference and the sector's limited overall capacity pose serious handicaps to private-sector development. There are 13 banks in operation, and the four largest banks, including one state-owned bank, control 80 percent of deposits. The non-banking financial sector has developed gradually. Capital markets remain rudimentary, reflecting the lack of efficiency and depth in the financial system.

PROPERTY RIGHTS: *25* — *no change*

Protection of private property rights is weak. Judicial corruption is widespread, and the courts are sensitive to pressure from the government and paramilitary groups. Legal proceedings are not transparent, and a lack of respect for due process undermines the freedom of civil society. Tajikistan's weak enforcement regime lacks criminal penalties for violations of intellectual property rights.

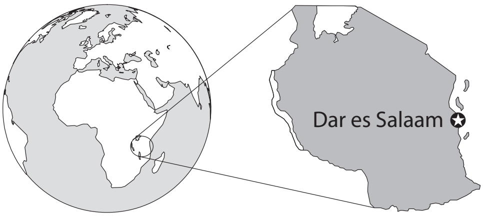
FREEDOM FROM CORRUPTION: *20* — *no change*

Corruption is perceived as pervasive. Tajikistan ranks 158th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Bribery and nepotism are endemic. Numerous observers have noted that power has become consolidated in the hands of a relatively small number of individuals. The Tajik government's anemic anti-corruption efforts have proven to be ineffective, and some anti-corruption units are known to be particularly corrupt.

LABOR FREEDOM: *56.4* — + 2.0

Despite some progress, Tajikistan's labor regulations are not flexible enough to facilitate dynamic employment growth. The non-salary cost of employing a worker is high, and dismissing an employee is difficult. Regulations on the number of work hours are rigid.

TANZANIA



World Rank: **108** Regional Rank: **15**

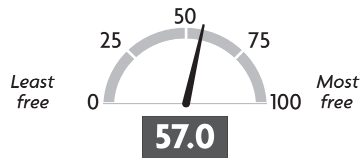
Tanzania's economic freedom score is 57, making its economy the 108th freest in the 2011 *Index*. Its score is 1.3 points lower than last year, reflecting declines in six of the 10 economic freedoms. Tanzania is ranked 15th out of 46 countries in the Sub-Saharan Africa region, and its overall score is slightly lower than the world average.

Tanzania has made considerable gains in income growth and poverty reduction over the past decade. While small in size, Tanzania's financial sector is developing rapidly, and credit is increasingly allocated at market rates, supporting the development of a vibrant entrepreneurial sector. Tanzania's competitive tax rates and openness to foreign investment further promote private-sector dynamism.

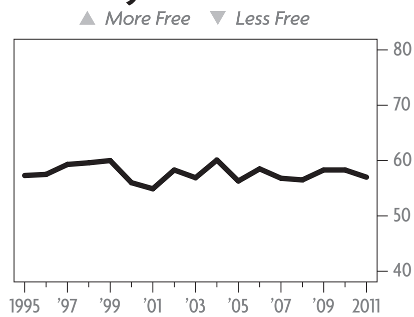
Despite these recent gains, Tanzania lacks the strong commitment to further institutional reforms that are essential to the development of a strong private sector. Private property rights are weakly protected and poorly defined, deterring investment. Tanzania's burdensome regulatory system and restrictive labor regulations constrain economic activity, while widespread corruption and volatile prices add to the daily cost of conducting business.

BACKGROUND: The United Republic of Tanzania was formed in 1964 by the union of Tanganyika and Zanzibar, each of which had recently achieved independence. Zanzibar retains considerable local autonomy, including its own legislature and president. Tanzania's first president, Julius K. Nyerere, pursued socialist economic policies that severely constrained growth and development during his nearly 25 years in office. Under his successors, the historically state-led economy is becoming more market-based, but it remains hindered by poor infrastructure and the country's high HIV/AIDS rate. Jakaya Kikwete, previously Tanzania's foreign minister, has served as president since winning election in December 2005. Tanzania remains very poor. Agriculture employs 80 percent of the population and accounts for about 27 percent of GDP.

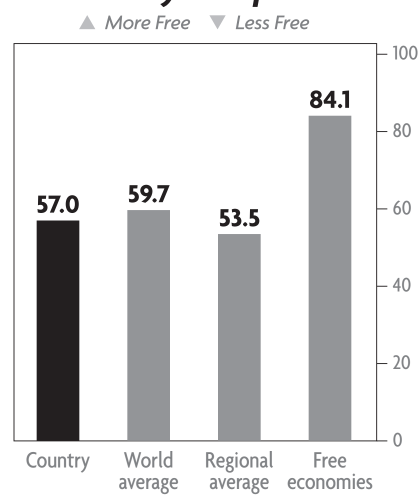
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Quick Facts

Population: 40.5 million
GDP (PPP): $57.4 billion
5.5% growth in 2009
6.7% 5-year compound annual growth
$1,416 per capita
Unemployment: 4.3% (2006)
Inflation (CPI): 12.1%
FDI Inflow: $645 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *46* ✚ *0.5*

Tanzania's business environment remains hampered by continuing problems in the regulatory framework. Although requirements for launching a business are not time-consuming, the licensing process is costly and often causes delays. Bankruptcy proceedings are fairly straightforward but relatively lengthy.

TRADE FREEDOM: *69.6* − *0.9*

Tanzania's weighted average tariff rate was 10.2 percent in 2009. Tanzania is a member of the East African Community Customs Union. Some import and export restrictions, import permit and licensing requirements, inefficient and slow customs administration, weak enforcement of intellectual property rights, and corruption add to the cost of trade. Ten points were deducted from Tanzania's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *79.8* − *0.5*

Tanzania has moderate tax rates. Both the top income tax rate and the top corporate tax rate are 30 percent. As of July 2009, companies that have listed 30 percent of their share capital with the public are subject to a reduced rate of 25 percent. Other taxes include a value-added tax (VAT), a transfer tax on motor vehicles, and a fuel levy on petroleum products. In the most recent year, overall tax revenue as a percentage of GDP was 14.8 percent.

GOVERNMENT SPENDING: *80.5* − *2.1*

In the most recent year, total government expenditures, including consumption and transfer payments, increased slightly to 25.5 percent of GDP. The privatization or restructuring of state-owned enterprises has progressed.

MONETARY FREEDOM: *68.8* − *2.0*

Inflation has been high, averaging 11.2 percent between 2007 and 2009. The government influences prices through regulation, subsidies, and state-owned enterprises and utilities. Ten points were deducted from Tanzania's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *60* − *5.0*

Foreign and domestic investors receive equal treatment under the law in most sectors. There is no limit on foreign ownership in an enterprise, and investment is not screened. Burdensome bureaucracy, inadequate infrastructure, and corruption are ongoing deterrents to investment. Enforcement of commercial law through the courts is difficult. Companies with more than 60 percent foreign ownership may not be listed on the local stock exchange. Foreign exchange and capital transactions are permitted with few restrictions. Profits, dividends, and capital can be repatriated. Foreign investors may lease land for up to 99 years, but all land belongs to the government.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 148	Investment Freedom	No. 62
Trade Freedom	No. 129	Financial Freedom	No. 70
Fiscal Freedom	No. 78	Property Rights	No. 99
Government Spending	No. 52	Freedom from Corruption	No. 128
Monetary Freedom	No. 148	Labor Freedom	No. 99

FINANCIAL FREEDOM: *50* *no change*

Direct government influence on Tanzania's relatively small financial system has gradually diminished. Credit is allocated largely at market rates, and a range of commercial credit instruments are available to the private sector. Restrictions on foreign banks, which account for around 50 percent of banking assets, are minimal. More than 20 commercial banks are licensed and operating, and over 50 percent are foreign-affiliated. The National Microfinance Bank was partially privatized in 2005, and further sales of the state's remaining 51 percent share have been planned. A leasing finance law was implemented in 2008, but its overall impact has been mixed. Pension funds, which remain poorly supervised, have been growing rapidly in recent years. Capital markets are rudimentary, reflecting the lack of efficiency and depth in the financial sector.

PROPERTY RIGHTS: *30* *no change*

The legal system is slow and subject to corruption. A commercial court has been established to improve the resolution of commercial disputes. Recent reforms have been aimed at establishing a reliable system of transferable property rights. Legislation conforms to international intellectual property rights conventions, but violations are not seriously investigated, and courts lack experience and training in IPR issues.

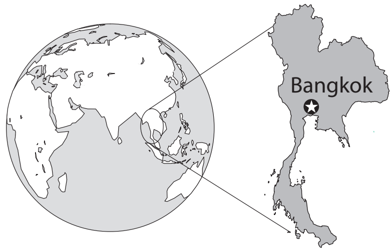
FREEDOM FROM CORRUPTION: *26* − *4.0*

Corruption is perceived as widespread. Tanzania ranks 126th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a steep decline from 2008. Corruption remains a major concern for foreign investors. While giving or receiving a bribe (including bribes to a foreign official) is a criminal offense, the enforcement of laws, regulations, and penalties to combat corruption has largely been ineffective. The government launched a series of high-profile corruption prosecutions in late 2008, but there were no high-level corruption prosecutions in 2009. Corruption is economy-wide, and measures to combat it are applied impartially to foreign and domestic investors.

LABOR FREEDOM: *59* ✚ *0.6*

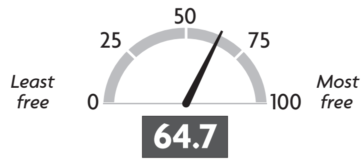
Tanzania's labor regulations are not modern and flexible enough to support a vibrant labor market. The non-salary cost of employing a worker is moderate, but dismissing an employee is difficult and costly.

THAILAND

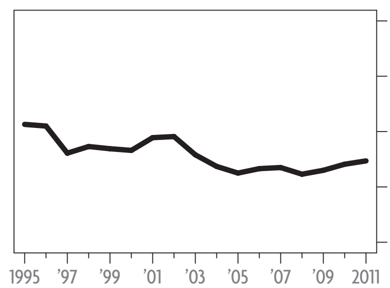


World Rank: **62** Regional Rank: **10**

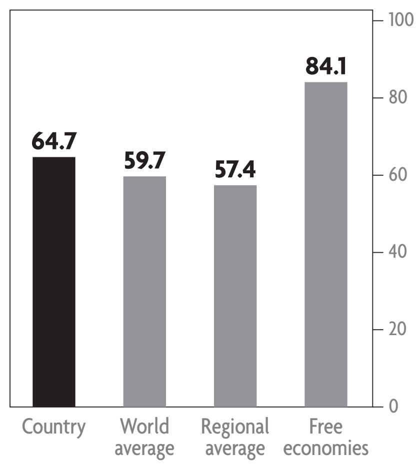
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Thailand's economic freedom score is 64.7, making its economy the 62nd freest in the 2011 *Index*. Its score is 0.6 point better than last year due to gains in four of the 10 economic freedoms, including monetary 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 and steady growth. An initial stimulus package focused on tax measures, but a second wave provided income transfers, subsidies for utilities and transport, and public investment, increasing the deficit. Economic fundamentals remain relatively solid, and the main challenges are to strengthen investor confidence and move forward with structural reforms.

Undermining the country's investment climate and economic potential, lingering political instability remains the major source of setbacks. Corruption remains significant, both in the private and public sectors, and is often encountered in connection with government procurement, customs, and other business transactions.

BACKGROUND: Thailand is a constitutional monarchy with a turbulent political history. Since 1932, it has experienced 18 military coups d'état—the latest in 2006. The government returned to democratic civilian control in December 2007 and after a year of political turmoil experienced a peaceful transfer of power to the political opposition. That government was toppled by military-supported street protests, and a pro-monarchy, pro-elite government headed by Abhisit Vejjajiva was installed. Demonstrations and protests have continued, and political instability is undoubtedly having a negative impact on economic growth. Mr. Abhisit's government violently cracked down on street protesters in May 2010. 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.

Quick Facts

Population: 67.0 million
GDP (PPP): $539.9 billion
–2.3% growth in 2009
2.5% 5-year compound annual growth
$8,060 per capita
Unemployment: 1.5%
Inflation (CPI): –0.8%
FDI Inflow: $5.9 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *69.9* — 0.8

The pace of regulatory reform has been sluggish in recent years. Starting a business takes an average of 32 days, compared to the world average of 34 days. Obtaining a business license takes less than the world average of 18 procedures and 209 days. Bankruptcy proceedings are fairly easy and straightforward.

TRADE FREEDOM: *75.9* *no change*

Thailand's weighted average tariff rate was 4.6 percent in 2006. Prohibitive tariffs, some import bans and restrictions, services market access barriers, burdensome standards and import licensing requirements, restrictive sanitary and phytosanitary rules, preferential treatment for domestic firms in government procurement bids, non-transparent customs valuation, and weak enforcement of intellectual property rights add to the cost of trade. Fifteen points were deducted from Thailand's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *74.8* + 0.1

Thailand has a relatively high income tax and a moderate corporate tax. The top income tax rate is 37 percent, and the top corporate tax rate is 30 percent. Some small enterprises are subject to a different rate on the lowest income band. Other taxes include a value-added tax (VAT) and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 16 percent.

GOVERNMENT SPENDING: *90.6* + 0.8

In the most recent year, total government expenditures, including consumption and transfer payments, held relatively steady at 17.7 percent of GDP. Government intervention persists, and privatization has suffered several setbacks. The deficit is set to widen to 4.5 percent of GDP, though public debt will remain sustainable.

MONETARY FREEDOM: *70.8* + 4.4

Inflation has been low, averaging 1 percent between 2007 and 2009. The government controls the prices of more than 200 products; can set price ceilings for basic goods and services; and influences prices through regulation, subsidies, and state-owned utilities. Twenty points were deducted from Thailand's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *40* *no change*

The government prohibits majority foreign ownership in many sectors and reserves certain professions for Thai nationals. Investment regulations are complex, investment laws are enforced inconsistently, and bureaucracy is non-transparent. Residents and non-residents may hold foreign exchange accounts, subject to some controls. Some foreign exchange transactions, repatriations, outward direct investments, and transactions involving capital market securities, bonds, debt securities, money market instruments, and short-term securities are regulated and face restrictions. Foreign ownership of land is strictly controlled.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 72	Investment Freedom	No. 117
Trade Freedom	No. 94	Financial Freedom	No. 17
Fiscal Freedom	No. 107	Property Rights	No. 70
Government Spending	No. 13	Freedom from Corruption	No. 84
Monetary Freedom	No. 136	Labor Freedom	No. 44

FINANCIAL FREEDOM: *70* *no change*

Thailand's financial system has undergone restructuring in recent years. The regulatory framework has been strengthened. Under the 2008 Financial Institutions Businesses Act, the Bank of Thailand (BOT) and the Finance Ministry have eased restrictions on foreign ownership and control of commercial banks. Foreign shareholders are now permitted to retain a 49 percent stake in financial institutions. Prior approval is still required for foreign ownership between 25 percent and 49 percent. The law also gives the BOT the authority to allow foreign ownership above the 49 percent limit if such action is necessary to support financial stability. Credit is generally allocated on market terms. As of 2009, there were 14 commercial banks, two of which are government-owned. Capital markets are relatively well developed. The stock exchange is active and open to foreign investors.

PROPERTY RIGHTS: *45* *no change*

Private property is generally protected, but the legal process is slow, and judgments can be affected through extralegal means. Despite a Central Intellectual Property and International Trade Court, piracy (especially of optical media) continues. The government can disclose trade secrets to protect any "public interest," and there are concerns that approval-related data might not be protected against unfair commercial use.

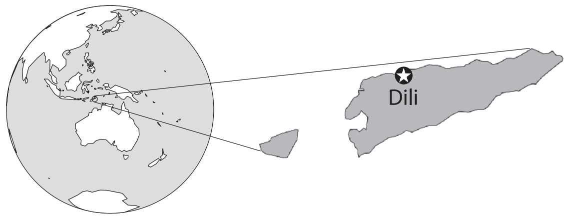
FREEDOM FROM CORRUPTION: *34* — 1.0

Corruption is perceived as significant. Thailand ranks 84th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The Thai press features frequent allegations of irregularities in public contracts, most notably over the use of public lands, procurement favoritism, and police complicity in a variety of illegal activities. In December 2009, the Minister of Public Health and Deputy Minister of Public Health resigned over allegations of corruption in a medical supplies procurement deal.

LABOR FREEDOM: *76.3* + 2.7

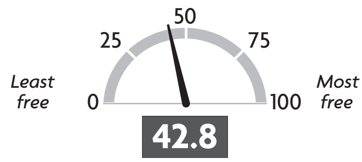
Thailand's labor regulations are relatively flexible. The non-salary cost of employing a worker is low, and dismissing an employee is not burdensome. Regulations on work hours have become less rigid.

TIMOR-LESTE



World Rank: **170** Regional Rank: **39**

Economic Freedom Score



Timor-Leste's economic freedom score is 42.8, making its economy the 170th freest in the 2011 *Index*. Its score has decreased by 3 points from last year, reflecting considerable progress in monetary, labor, and investment freedom, but a much-worsened score for government spending. 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.

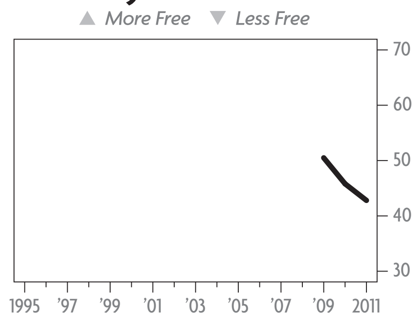
Economic freedom remains severely constrained in Timor-Leste. The economic base is narrow, and continued political instability hampers lasting economic development. The state plays an outsized role in the economy, with public spending accounting for over 50 percent of non-hydrocarbon GDP. Private-sector development is also limited by Timor-Leste's burdensome regulatory environment and underdeveloped financial sector. Widespread corruption unchecked by a weak judicial system has been a considerable drag on economic activity.

Timor-Leste's economy has made some progress, however, since achieving its independence in 2002. Some gains have been made in poverty reduction and income growth, supported by competitive tax rates that promote private-sector activity.

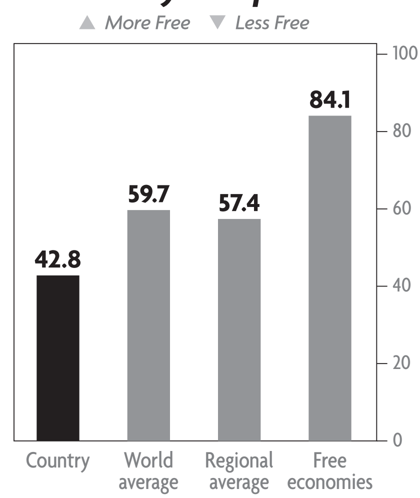
BACKGROUND: The Democratic Republic of Timor-Leste is one of Asia's poorest countries. Since 2002, when Timor-Leste became independent after 25 years of sometimes brutal Indonesian occupation and two and a half years of administration by the United Nations, the government has struggled to pacify the country. Economic liberalization has mostly stalled, and the economy remains heavily dependent on foreign aid. Infrastructure is very poor, and corruption is pervasive. Timor-Leste relies heavily on 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. Timor-Leste's Petroleum Fund, in which the government deposits all income from the oil sector, is not counted as part of GDP but is reflected in government revenue figures.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 1.1 million
GDP (PPP): $2.7 billion
7.4% growth in 2009
5.5% 5-year compound annual growth
$2,522 per capita
Unemployment: 20.0% (2006)
Inflation (CPI): 13.0%
FDI Inflow: $18.3 million

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 150**	Investment Freedom	**No. 134**
Trade Freedom	**No. 109**	Financial Freedom	**No. 159**
Fiscal Freedom	**No. 155**	Property Rights	**No. 146**
Government Spending	**No. 172**	Freedom from Corruption	**No. 148**
Monetary Freedom	**No. 55**	Labor Freedom	**No. 42**

BUSINESS FREEDOM: *44.2* — *2.0*

The overall freedom to launch and operate a business is constrained by Timor-Leste's burdensome regulatory environment. Political instability and the lack of consistency in enforcing regulations continue to discourage much-needed private-sector development. The minimum amount of capital necessary to start a business is quite high.

TRADE FREEDOM: *73* *no change*

According to the International Monetary Fund, Timor-Leste's simple tariff rate was 6 percent in 2007. Import restrictions and fees, some export taxes, import approval and licensing requirements, non-transparent regulations, inadequate infrastructure and trade capacity, and underdeveloped markets limit trade and increase costs. Fifteen points were deducted from Timor-Leste's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *64.7* *no change*

Timor-Leste has low taxes. The top income and corporate tax rates are 10 percent, and most government revenue comes from offshore petroleum projects in the Timor Sea. Non-oil tax revenue as a percentage of non-oil GDP has increased slightly to 7.6 percent.

GOVERNMENT SPENDING: *0* — *54.1*

In the most recent year, reported total government expenditures, including consumption and transfer payments, jumped to 97 percent of GDP, reflecting growing social transfers, income supports including rice subsidies, and improvements in data collection. The non-oil fiscal deficit is estimated at 97 percent of non-oil GDP.

MONETARY FREEDOM: *78.1* + *5.6*

Inflation has moderated, averaging 3.5 percent between 2007 and 2009. The economy operates under a U.S. dollar–based currency regime that, when combined with the monetary authority's lack of legal power to lend, has constrained the scope of monetary and exchange rate policies. Ten points were deducted from Timor-Leste's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *30* + *10.0*

Timor-Leste's Law on Foreign Investment provides equal treatment to foreign and domestic investors. Investment may be vetted by the government in any economic sector, but exploration, research, exploitation of oil and gas, and extraction of mineral resources are governed by separate and additional regulations. Foreign investors may transfer out their profits, and their investments may not be expropriated by the government without compensation. The investment environment is significantly limited by inadequate institutional capacity, complex licensing requirements, weak contract enforcement, underdeveloped markets, and internal instability. Foreign investors may lease but not own land.

FINANCIAL FREEDOM: *20* *no change*

Timor-Leste's financial sector is still at a nascent stage of development. Modest progress has been made in establishing an effective banking system, which consists of the monetary authority, three foreign-owned commercial banks, and a few specialized microfinance institutions. Access to credit remains very limited, and less than 2 percent of the population uses banking services. Bank deposits have increased, as have loans to individuals and construction projects. Overall, demand for credit remains weak, and non-performing loans are rising largely due to poor credit assessment policies and difficulties in contract enforcement. The commercial banking sector remains very small and has not been adversely affected by the global financial crisis. Only a small, state-owned microfinance institution has experienced significant credit growth.

PROPERTY RIGHTS: *20* *no change*

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 currently occupy the land. In some villages where traditional practices hold sway, women may not inherit or own property.

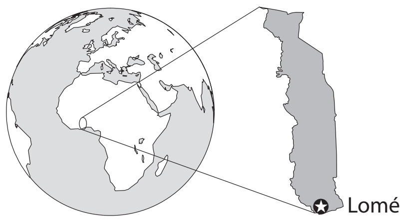
FREEDOM FROM CORRUPTION: *22* *no change*

Corruption is perceived as widespread. Timor-Leste ranks 146th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Official corruption, despite being subject to criminal penalties under the law, remains a serious problem. By law, the ombudsman's office is charged with leading national anti-corruption activities and has the authority to refer cases for prosecution. Cases investigated have included allegations of corruption involving both mid-level and senior government procurement officials. There are credible reports of petty corruption at the nation's port, and customs and border officials are suspected of facilitating the smuggling of gasoline, tobacco, and alcohol across the border from Indonesia.

LABOR FREEDOM: *76.5* + *10.9*

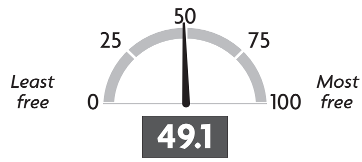
The public sector accounts for around half of employment outside of agriculture, and the formal labor market remains underdeveloped. Timor-Leste's employment regulations are relatively rigid. The non-salary cost of employing a worker is high, and dismissing an employee is relatively costly.

TOGO

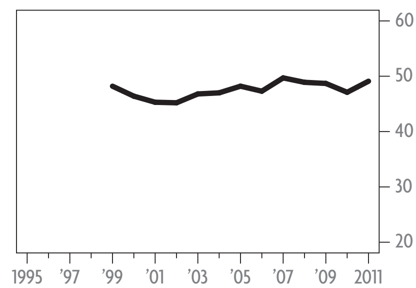


World Rank: **153** Regional Rank: **35**

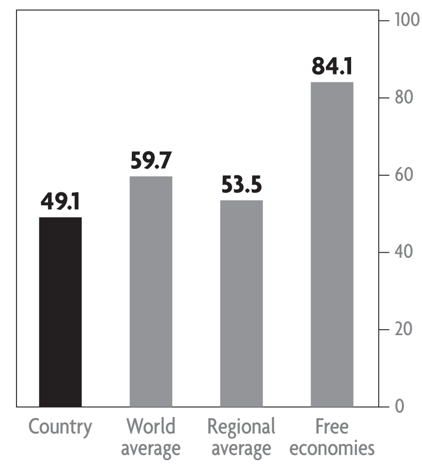
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Togo's economic freedom score is 49.1, making its economy the 153rd freest in the 2011 *Index*. Its score is 2.0 points higher than last year, reflecting gains in five of the 10 economic freedoms. Togo is ranked 35th out of 46 countries in the Sub-Saharan Africa region, and its overall score is well below the world and regional averages.

Togo has undertaken a series of reforms in recent years, restructuring key sectors including banking, electricity, and transportation. The corporate tax rate, formerly one of the region's highest, was lowered. The government has also taken steps to divest public enterprises. The current bank restructuring includes plans to privatize inefficient public banks.

Overall competitiveness has continued to suffer from an inefficient business environment and weak public administration. A significant proportion of economic activity remains in the informal sector. Togo still depends heavily on foreign aid. Foreign direct investment is allowed only in certain sectors, and regulatory and judicial systems are vulnerable to corruption and political interference.

BACKGROUND: In 2005, the military appointed Faure Gnassingbé to serve as president following the death of his father, who had ruled for 38 years. Faced with condemnation and sanctions by the Economic Community of West African States and the African Union, along with pressure from the international community, Gnassingbé stepped down. He won the subsequent 2005 election, which was widely viewed as flawed. The resulting political turmoil ended in 2007 with legislative elections that most observers viewed as free and fair. Gnassingbé was re-elected in March 2010, and observers again concluded that the election was relatively free and fair. Agriculture accounted for over 40 percent of GDP in 2008, and a majority of the population is engaged in subsistence agriculture. Principal exports include cement, cocoa, cotton, and phosphates. Services are also important, especially re-exports from the Lomé port facility.

Quick Facts

Population: 6.8 million
GDP (PPP): $5.6 billion
2.5% growth in 2009
2.5% 5-year compound annual growth
$826 per capita
Unemployment: 13.0%
Inflation (CPI): 2.0%
FDI Inflow: $50 million

2009 data unless otherwise noted.
Data compiled as of September 2010.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *36.8* — *no change*

Measures to improve Togo's entrepreneurial environment were considered during the first half of 2010, but the reforms have not been effectively implemented to create a regulatory framework that is more conducive to private-sector activity.

TRADE FREEDOM: *62.2* — *− 0.6*

Togo's weighted average tariff rate was 13.9 percent in 2009. Togo is a member of the West African Economic and Monetary Union. Some import restrictions and fees, import permit requirements, export-promotion programs, inadequate infrastructure, and weak enforcement of intellectual property rights add to the cost of trade. Ten points were deducted from Togo's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *68.1* — *+ 11.9*

Togo's tax rates continue to undergo substantial reduction in hopes of reducing the informal sector. The top income tax rate was reduced from 55 percent to 45 percent, with further reduction to 40 percent written into the 2010 budget plan. The top corporate tax rate is 30 percent, down from 33 percent with plans for further reduction to 27 percent. Other taxes include a value-added tax (VAT), a property tax, and a vehicle tax. In the most recent year, overall tax revenue as a percentage of GDP was 16.3 percent. Agriculture, a major part of the economy, is not considered taxable activity.

GOVERNMENT SPENDING: *88.6* — *+ 2.6*

In the most recent year, total government expenditures, including consumption and transfer payments, dipped to 19.5 percent of GDP. Togo relies heavily on donor aid, much of which is contingent on improvements in public management and privatization. Project execution is slow, and primary balance surpluses are often the result of underimplementation of investment expenditure. In 2009, Togo began to settle arrears it had accumulated since the 1990s.

MONETARY FREEDOM: *78.1* — *+ 3.6*

Inflation has moderated, averaging 3.5 percent between 2007 and 2009. The government controls the prices of petroleum products and influences prices through regulation and state-owned enterprises and utilities. Ten points were deducted from Togo's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *25* — *no change*

Investment is permitted only in certain sectors and is screened on a case-by-case basis. Among other conditions for approval, at least 60 percent of the payroll must go to Togolese citizens. The lack of transparency and predictability in the regulatory and judicial systems inhibits investment. Residents and non-residents may hold foreign exchange accounts. Payments and transfers to certain countries are subject to authorization and quantitative limits in some cases. Capital transactions are subject to some controls or government approval. Only Togolese citizens, French citizens, and foreign governments may own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 167	Investment Freedom	No. 146
Trade Freedom	No. 152	Financial Freedom	No. 133
Fiscal Freedom	No. 141	Property Rights	No. 99
Government Spending	No. 25	Freedom from Corruption	No. 113
Monetary Freedom	No. 54	Labor Freedom	No. 151

FINANCIAL FREEDOM: *30* — *no change*

Togo's underdeveloped banking system remains subject to strong government influence, with limited foreign participation and weak product diversification. The system suffers from a lack of solvency and liquidity, and management is inadequate in major public financial companies and many banks. A substantial number of loans issued to state-controlled companies are considered to be non-performing. The Central Bank of West African States governs Togo's financial institutions. Although limited, banking-sector reforms in recent years have improved lending and increased deposits. Four of the eight commercial banks are state-controlled. Privatization of financial institutions has begun, but overall progress has been sluggish and uneven.

PROPERTY RIGHTS: *30* — *no change*

The judicial system is subject 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 because of poorly defined inheritance laws. Real and chattel property cases are further complicated by judicial non-transparency, which often favors domestic entities over foreign investors. Togo has a large informal market in pirated optical media, computer software, video and cassette recordings, and counterfeit beauty products.

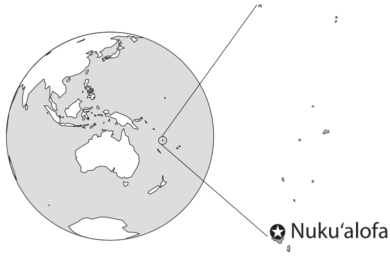
FREEDOM FROM CORRUPTION: *28* — *+ 1.0*

Corruption is perceived as widespread. Togo ranks 111th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, an improvement for the second year in a row. The executive and legislative branches are subject to corruption. Government procurement contracts and dispute settlements are subject to bribery. Bribery of private or government officials, while technically a crime, is generally expected.

LABOR FREEDOM: *43.7* — *+ 0.4*

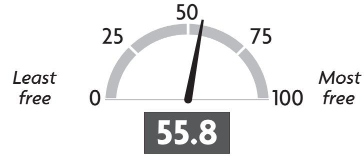
Togo's labor regulations are restrictive. The non-salary cost of employing a worker is high, and dismissing an employee is difficult. Regulations on the number of work hours are rigid.

TONGA



World Rank: **118** Regional Rank: **23**

Economic Freedom Score



Tonga's economic freedom score is 55.8, making its economy the 118th freest in the 2011 *Index*. Its score has increased by 2.4 points from last year, reflecting notable improvements in freedom from corruption, property rights, investment freedom, and monetary freedom. Tonga is ranked 23rd out of 41 countries in the Asia–Pacific region. The country recorded one of the largest score gains in the 2011 *Index.*

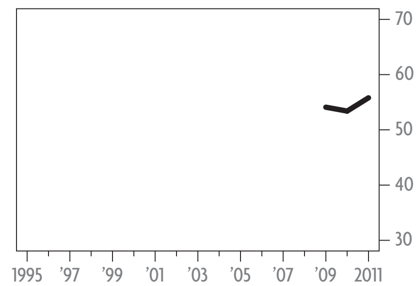
The Tongan economy is heavily dependent on foreign aid and overseas remittances. The state plays a significant role in the economy, crowding out private-sector development. Tonga's underdeveloped financial sector's limited ability to offer affordable credit undermines the development of a dynamic entrepreneurial sector. Restrictions on foreign investment and continued macroeconomic instability are further drags on the development of more vibrant private-sector activity. Despite improved oversight of government expenditures, Tonga's public debt poses a challenge to the sustainability of public spending.

Tongans enjoy some aspects of economic freedom that promote poverty reduction and economic growth. Tonga's regulatory environment is relatively streamlined, promoting entrepreneurial activity, while its flexible labor regulations facilitate job creation.

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. There are no political parties. More than half of Tonga's population lives abroad, mostly in New Zealand. Agriculture is the principal productive sector of the economy.

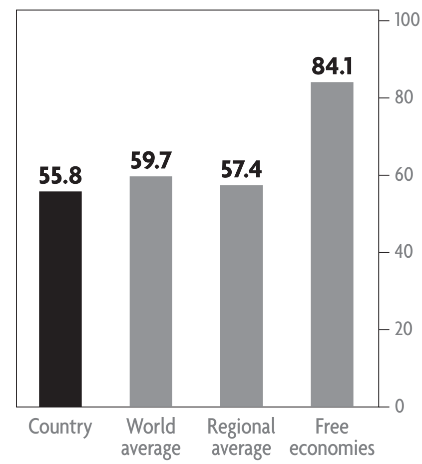
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 0.1 million
GDP (PPP): $0.7 billion
–0.5% growth in 2009
1.0% 5-year compound annual growth
$7,061 per capita
Unemployment: 4.9% (2006)
Inflation (CPI): 3.5%
FDI Inflow: $14.6 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index.*

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSIDNESS FREEDOM: *77.4* — *− 0.8*

Regulatory codes are relatively sound, but implementation of regulations is ineffective. The predominance 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.

TRADE FREEDOM: *56.2* — *no change*

Tonga's weighted average tariff rate was 16.9 percent in 2006. Import restrictions, import certification requirements, and inadequate infrastructure add to the cost of trade. Ten points were deducted from Tonga's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *83.1* — *+ 0.3*

A comprehensive tax reform package implemented in late 2007 was succeeded by a new series of income tax regulations in late 2008. The top income tax rate was raised to 20 percent from 10 percent, and the top corporate tax rate was reduced to 25 percent from 30 percent. Other taxes include a value-added tax (VAT) and a vehicle tax. In the most recent year, overall tax revenue as a percentage of GDP was 25.7 percent.

GOVERNMENT SPENDING: *73.2* — *+ 2.4*

In the most recent year, total government expenditures, including consumption and transfer payments, dipped slightly to 29.9 percent of GDP. Increased civil service wages and infrastructure spending are set to widen the fiscal deficit to 4 percent of GDP.

MONETARY FREEDOM: *71.1* — *+ 7.6*

Inflation has been relatively high, averaging 4.8 percent between 2007 and 2009. The government influences the prices of petroleum products and other commodities through regulations. The ruling family and other nobles control other key prices through their ownership of most enterprises and utilities. Fifteen points were deducted from Tonga's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *30* — *+ 5.0*

Involvement of foreign investors in certain sectors must be approved by the government. The government allows full ownership by a foreign investor in cases where manufacturing activities are using imported raw materials for export or the investments are too large for local investors; joint ventures are encouraged. Bureaucracy is generally transparent. The repatriation of funds, including dividends, profits, capital gains, interest on capital and loan repayment, and salaries, faces some restrictions. Land may be leased but not owned.

FINANCIAL FREEDOM: *20* — *no change*

Tonga's underdeveloped financial sector consists of two foreign-owned commercial banks, a locally incorporated commercial bank, and the government-owned Tonga Development Bank. Financial intermediation is low due to structural problems. Information about creditworthiness is scarce, and the legal framework impedes lending. These weaknesses have led to costly credit and limited access to financing. Much of the population is not served by the formal banking sector. Tonga's complex collateral system is inefficient and makes lending risky, particularly lending to small businesses. The National Reserve Bank of Tonga oversees banking, and the state-owned Tonga Development Bank finances many development projects. There are no capital markets.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 39	Investment Freedom	No. 134
Trade Freedom	No. 167	Financial Freedom	No. 159
Fiscal Freedom	No. 57	Property Rights	No. 139
Government Spending	No. 83	Freedom from Corruption	No. 99
Monetary Freedom	No. 130	Labor Freedom	No. 6

PROPERTY RIGHTS: *25* — *+ 5.0*

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. The constitution mandates that an 8.25-acre plot of communally owned land be given to each male at age 16, but there is not enough land available to fulfill that mandate for the rapidly growing population. Tonga has legislation protecting intellectual property rights, but enforcement is weak. A bill on enforcement and border measures has been endorsed by the cabinet and is under consideration. This legislation aligns Tonga's laws with its World Trade Organization obligations and contains stricter border controls for counterfeit products, which continue to be widely available on the local market.

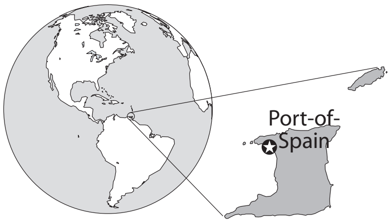
FREEDOM FROM CORRUPTION: *30* — *+ 6.0*

Corruption is perceived as pervasive. Tonga ranks 99th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a second significant improvement in as many years. Although the law provides criminal penalties for official corruption, government officials sometimes engage in corrupt practices with impunity. Government preferences appear to benefit businesses associated with members of the royal family. The office of Anti-corruption Commissioner was established in 2008 to investigate official corruption.

LABOR FREEDOM: *92.1* — *− 1.6*

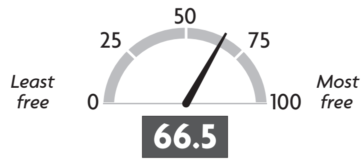
Tonga's labor codes are favorable to a flexible labor market, but the formal labor sector is not fully functioning. Regulations are not enforced effectively, and the non-salary cost of employing a worker is low. Dismissing an employee is not costly.

TRINIDAD AND TOBAGO



World Rank: **52** Regional Rank: **11**

Economic Freedom Score



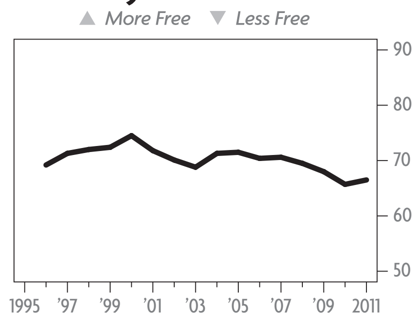
Trinidad and Tobago's economic freedom score is 66.5, making its economy the 52nd freest in the 2011 *Index*. Its score is 0.8 point higher than last year, reflecting improvements in fiscal freedom, monetary freedom, and government spending. Trinidad and Tobago is ranked 11th out of 29 countries in the South and Central America/Caribbean region, and its overall score is higher than the world and regional averages.

Trinidad and Tobago has a sound macroeconomic framework, a tradition of institutional stability, and abundant natural resources. It scores relatively well in many of the 10 economic freedoms, and its economy has grown at an average rate of close to 4 percent over the past five years. Diversification of the economic base has progressed, and the country has become a Caribbean financial center.

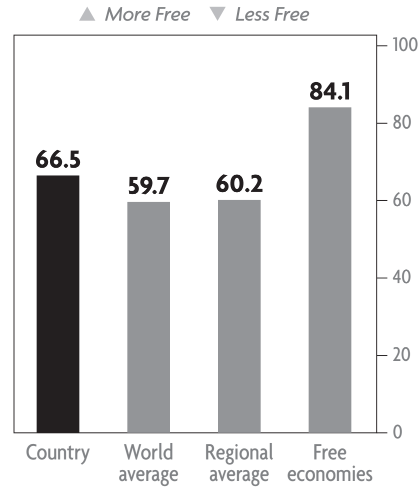
However, overdependence on oil and gas continue to hold back private-sector development. Non-oil productivity and job growth remain stifled by inefficient and non-transparent regulatory and legal frameworks. The judiciary is independent and competent, but enforcement of intellectual property rights is weak. Corruption remains widespread.

BACKGROUND: Trinidad and Tobago, a Caribbean parliamentary democracy and former British colony, became independent in 1962. In May 2010, Kamla Persad-Bissessar and her People's Partnership coalition won 29 of 41 seats in parliament, ousting a government weakened by soaring crime and allegations of public 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. Its economy has doubled in size since 2002, with hydrocarbons accounting for more than 45 percent of GDP in 2008. The rate of growth slowed substantially in 2009–2010. In 2000, in an attempt to introduce countercyclical fiscal policy, the government created the Heritage and Stabilization Fund for revenue during periods when oil prices exceed the long-term average.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 1.3 million
GDP (PPP): $25.9 billion
–3.5% growth in 2009
4.1% 5-year compound annual growth
$19,818 per capita
Unemployment: 5.8%
Inflation (CPI): 7.0%
FDI Inflow: $709 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: 58.4 — − 0.6

The overall freedom to conduct a business is limited by Trinidad and Tobago's regulatory environment. The regulatory system lacks transparency and clarity, and regulations are enforced inconsistently.

TRADE FREEDOM: 81.7 — no change

Trinidad and Tobago's weighted average tariff rate was 4.2 percent in 2008. Trinidad and Tobago is a member of the CARICOM common market. Certain prohibitive tariffs, import restrictions, import fees, import and export licensing requirements, inefficient customs administration, and export-support programs add to the cost of trade. Ten points were deducted from Trinidad and Tobago's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: 83.7 — + 2.9

Trinidad and Tobago has moderate taxes. The top income tax rate and the standard corporate tax rate are 25 percent. Petroleum company profits are taxed at up to 50 percent. Other taxes include a value-added tax (VAT), a motor vehicle tax, a property tax, and a health surcharge. In the most recent year, overall tax revenue as a percentage of GDP declined significantly to 19.4 percent.

GOVERNMENT SPENDING: 75.8 — + 3.5

In the most recent year, total government expenditures, including consumption and transfer payments, decreased slightly to 28.4 percent of GDP. Authorities reduced gas subsidies and have resisted tapping into savings accumulated in the Heritage and Stabilization Fund. The non-energy deficit is about 28 percent of non-energy GDP.

MONETARY FREEDOM: 71.8 — + 2.5

Inflation has been high, averaging 8.3 percent between 2007 and 2009. The government retains price ceilings for a number of goods; controls prices for sugar, schoolbooks, and some pharmaceuticals; and influences prices through regulation, subsidies, and state-owned enterprises and utilities, including oil and gas. Ten points were deducted from Trinidad and Tobago's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: 60 — no change

National treatment is available for foreign investment from numerous countries with which Trinidad and Tobago has negotiated investment agreements. Foreign investment in private business is not subject to limitations, but a license is needed to purchase more than 30 percent of a publicly held business. Residents and non-residents may hold foreign exchange accounts. There are no restrictions or controls on payments, transactions, transfers, or repatriation of profits. Foreign ownership of land for both commercial and residential purposes may require government approval.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 125	Investment Freedom	No. 62
Trade Freedom	No. 68	Financial Freedom	No. 17
Fiscal Freedom	No. 49	Property Rights	No. 52
Government Spending	No. 76	Freedom from Corruption	No. 79
Monetary Freedom	No. 121	Labor Freedom	No. 38

FINANCIAL FREEDOM: 70 — no change

The financial sector is relatively well developed and has become a catalyst for economic growth. Financial services account for 9 percent of total employment, about 12 percent of GDP, and about 70 percent of stock market capitalization. State influence is not substantial, and a wide variety of financing instruments are available. Financial regulations and supervision are generally transparent and improving, and the level of non-performing loans has fallen below 2 percent. The Financial Institutions Act, adopted in 2008, focuses on modernizing the regulatory framework for banks, insurance companies, and other financial institutions. There are no restrictions on foreign banks or foreign borrowers, and all banks offer a wide range of services. There are six commercial banks, including one state-owned bank and several foreign banks. Insurance is dominated by a single large company. Capital markets, relatively well developed but small, are centered on the stock exchange.

PROPERTY RIGHTS: 50 — no change

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, particularly copyright of music CDs and film DVDs. Prosecution for piracy is rare.

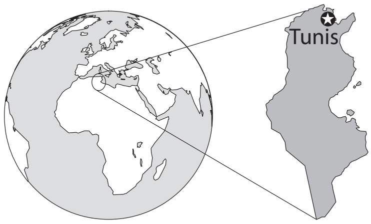
FREEDOM FROM CORRUPTION: 36 — no change

Corruption is perceived as widespread. Trinidad and Tobago ranks 79th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Public perceptions of corruption have increased in each of the past four years. The government insists that its success in unearthing corruption has fueled the perception of corruption, but there has been ongoing public pressure on the government nonetheless to review tender procedures, improve the legal framework, and implement a sustained fight against corruption.

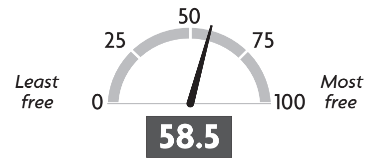
LABOR FREEDOM: 77.1 — − 0.9

Trinidad and Tobago's labor market is relatively flexible, facilitating the matching of supply and demand for the country's highly educated labor force. The non-salary cost of employing a worker is low, but dismissing an employee can be relatively costly. Regulations on the number of work hours are flexible.

TUNISIA

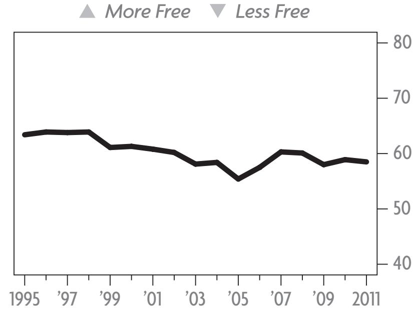


Economic Freedom Score

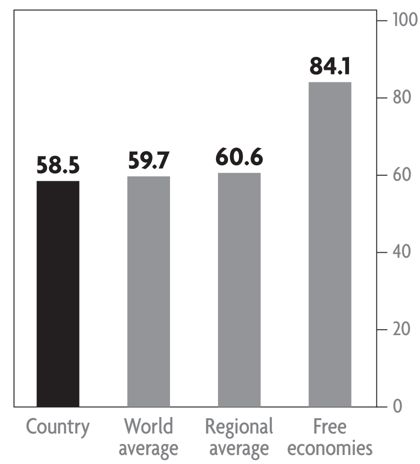


World Rank: **100** Regional Rank: **12**

Country's Score Over Time



Country Comparisons



Tunisia's economic freedom score is 58.5, making its economy the 100th freest in the 2011 *Index*. Its score is 0.5 point lower than last year, reflecting declines in four of the 10 economic freedoms. Tunisia is ranked 12th out of 17 countries in the Middle East/North Africa region, and its overall score is just below the world average.

Tunisia has implemented substantial structural reforms in recent years, boosting competitiveness and reducing poverty. Significant progress has been made in lowering barriers to foreign investment, promoting a growing entrepreneurial sector. Sound supervision and regulation of the financial sector have improved access to credit, while ongoing privatization of state-owned enterprises is increasing competitiveness. Tunisia's sound regulatory environment and macroeconomic stability also contribute to dynamism within the private sector.

Even deeper reforms will be required to maintain Tunisia's long-term growth prospects. Tunisia's closed trade regime and rigid labor markets mute innovative entrepreneurial activity. The judicial system is vulnerable to political interference, which adversely affects economic growth, and significant levels of corruption add costs and uncertainty to transactions.

BACKGROUND: Tunisia has pursued a moderate, non-aligned foreign policy since gaining independence from France in 1956. It has had only two presidents in 50 years, and progress toward genuine democracy and greater civil liberties has been slow. Gradual economic reforms undertaken by President Zine al-Abidine Ben Ali since the early 1990s include privatization of some state-owned firms, simplification of the tax code, and greater fiscal restraint. Ben Ali was elected to a fifth consecutive term in October 2009. Tunisia's economy includes significant agricultural, mining, energy, tourism, and manufacturing sectors. A 1998 association agreement with the European Union has helped to create jobs and modernize the economy, which has also benefited from expanded trade and tourism. A slowdown in the EU has depressed demand for Tunisian-made goods.

Quick Facts

Population: 10.4 million
GDP (PPP): $86.1 billion
3.0% growth in 2009
4.8% 5-year compound annual growth
$8,254 per capita
Unemployment: 14.7%
Inflation (CPI): 3.7%
FDI Inflow: $1.7 billion

2009 data unless otherwise noted.
Data compiled as of September 2010.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *80.2* — *no change*

Along with privatization of more than 200 state-owned enterprises over the past two decades, Tunisia has adopted structural reforms and enhanced its entrepreneurial climate. Procedures for launching and conducting a business are not time-consuming, and bankruptcy proceedings are straightforward.

TRADE FREEDOM: *53.5* — *no change*

Tunisia's weighted average tariff rate was 18.3 percent in 2006. Import restrictions, some prohibitively high tariffs, import fees, import licensing requirements, export-promotion programs, and inconsistent customs administration add to the cost of trade. Ten points were deducted from Tunisia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *73.7* — *− 0.7*

Tunisia has a relatively high income tax and a moderate corporate tax. The top income tax rate is 35 percent, and the top corporate tax rate is 30 percent. A special tax scheme applies to financial institutions and the hydrocarbons sector. Other taxes include a value-added tax (VAT), a property transfer tax, an inheritance tax, and a vehicle tax. In the most recent year, overall tax revenue as a percentage of GDP was 22.4 percent.

GOVERNMENT SPENDING: *77.6* — *− 0.9*

In the most recent year, total government expenditures, including consumption and transfer payments, held steady at 27.3 percent of GDP. The state-owned mobile and fixed-line telephone enterprise is slated for sale to a French telecommunications company.

MONETARY FREEDOM: *77.3* — *+ 0.8*

Inflation has been moderate, averaging 4 percent between 2007 and 2009. The government can set prices for subsidized goods and influences prices through regulation, subsidies, and state-owned utilities and enterprises. Ten points were deducted from Tunisia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *35* — *no change*

Tunisia restricts foreign investment in some sectors to minimize the impact on domestic competitors. Foreign investment is screened, and majority ownership of companies by foreign investors is not allowed without government approval. In general, domestic trading can be carried out only by a company in which the majority of the share capital is held by Tunisians and management is Tunisian. Bureaucratic procedures are cumbersome and inconsistent, the ability to retain foreign labor is restricted, and the courts are susceptible to political pressure. Residents and non-residents may hold foreign exchange accounts, subject to restrictions and approval. There are some restrictions on capital transactions, payments, and transfers. Foreigners may not own agricultural land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 34	Investment Freedom	No. 123
Trade Freedom	No. 172	Financial Freedom	No. 133
Fiscal Freedom	No. 115	Property Rights	No. 52
Government Spending	No. 69	Freedom from Corruption	No. 64
Monetary Freedom	No. 63	Labor Freedom	No. 76

FINANCIAL FREEDOM: *30* — *no change*

Tunisia's financial sector has been relatively unaffected by the global financial crisis, and the stock exchange has continued to grow. Financial supervision and regulation have been brought up to international standards. The government has made progress in privatizing and consolidating a number of banks, although it maintains the controlling shares in half of Tunisia's 20 banks, including the three largest. Getting credit remains relatively expensive due to a fragmented banking sector. Several measures have been taken in an effort to modernize and improve the efficiency of the banking system. Revisions in banking laws included strengthening the rules on bank licensing and increasing the minimum capital requirement. Despite some recent progress, non-performing loans still account for over 15 percent of total loans. Capital markets are small and dominated by government securities. The stock exchange, managed by the government-run Financial Market Council, has become more active with increased foreign participation.

PROPERTY RIGHTS: *50* — *no change*

The executive branch is the supreme arbiter of events in the cabinet, government, judiciary, and military. Commercial cases take a long time to resolve, and legal procedures are complex. Tunisia's intellectual property rights law is designed to meet the World Trade Organization's Trade-Related Aspects of Intellectual Property Rights (TRIPS) minimum standards. Customs agents do not investigate copyright violations without a complaint by the copyright holder. Pirated print, audio, and video media products are sold openly. Illegal copying of software, CDs, and DVDs is widespread.

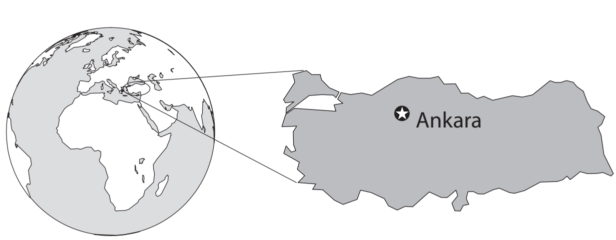
FREEDOM FROM CORRUPTION: *42* — *− 2.0*

Corruption is perceived as significant. Tunisia ranks 65th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption is less pervasive than in neighboring countries. Unfair practices and corruption among prospective local partners reportedly can delay or block specific investment proposals, and cronyism and influence peddling can affect investment decisions.

LABOR FREEDOM: *65.7* — *− 1.7*

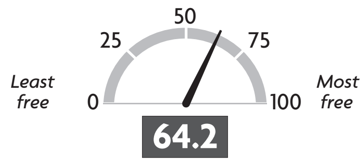
Tunisia's labor market is evolving, but flexibility is undermined by the outmoded and restrictive labor code. The non-salary cost of employing a worker is high, and dismissing an employee is difficult.

TURKEY

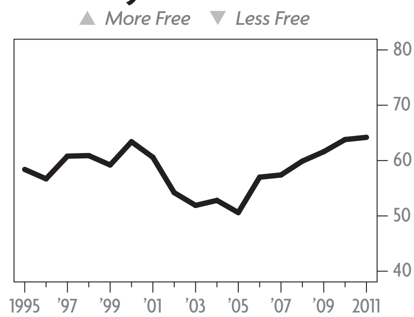


World Rank: **67** Regional Rank: **30**

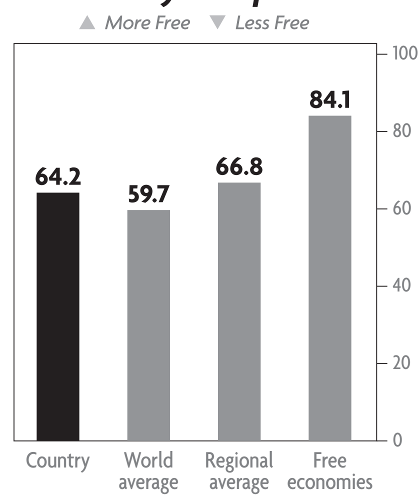
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Turkey's economic freedom score is 64.2, making its economy the 67th freest in the 2011 *Index*. Its score is 0.4 point higher than last year, reflecting improved scores in monetary and investment freedom that offset declines in freedom from corruption and labor freedom. Turkey is ranked 30th out of 43 countries in the Europe region, and its overall score is higher than the world average.

The business environment has gradually become more streamlined and efficient. The private sector is growing, though the state remains heavily involved in the economy. The banking sector, with a prudent regulatory framework put in place following the collapse of several banks in 2001, has weathered the financial turmoil relatively well with no government bailouts. Macroeconomic stability is well maintained, and stimulus measures, which included temporary cuts in indirect taxes, have been largely phased out.

Turkey's regulatory regime, despite some improvements, remains burdensome and deters dynamic entrepreneurial activity. The labor market is rigid. Property rights are usually enforced, but the judiciary lacks efficiency and independence. Corruption is perceived as significant.

BACKGROUND: Turkey is a secular state often viewed as a bridge between East and West. With a constitution adopted in 1982 after a military coup, it is now a successful multiparty democracy. Prime Minister Recep Tayyip Erdogan has held office since 2003. The European Union formally granted Turkey candidate status at the Helsinki summit in 1999. In October 2005, the EU concluded that Turkey had fulfilled the Copenhagen criteria for membership negotiations to begin, and in 2006, Brussels set out 35 chapters of *acquis communautaire* for Ankara to discharge before a final vote on accession could be taken. However, strong opposition from France, Germany, and Austria makes Turkey's accession unlikely. Principal exports include foodstuffs, textiles, clothing, iron, and steel. Significant reforms are still needed to diversify and expand the economy.

Quick Facts

Population: 70.5 million
GDP (PPP): $880.1 billion
–4.7% growth in 2009
1.8% 5-year compound annual growth
$12,476 per capita
Unemployment: 12.5%
Inflation (CPI): 6.3%
FDI Inflow: $7.6 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *68.7* — *0.2*

The process for registering and setting up private enterprises has become less time-consuming and complex. However, bureaucratic red tape and ineffective enforcement of regulations continue to be a substantial drag on entrepreneurship.

TRADE FREEDOM: *85.4* — *1.0*

Turkey's weighted average tariff rate was 2.3 percent in 2009. Turkey has adopted the EU's common external tariff. Some prohibitive tariffs for agriculture, import taxes, services market access barriers, restrictive import certification requirements for food and agriculture products, import licensing requirements, non-transparent and arbitrary standards and regulations, export-promotion programs, weak enforcement of intellectual property rights, and corruption add to the cost of trade. Ten points were deducted from Turkey's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *78.2* + *0.1*

Turkey has a relatively high income tax rate and a relatively low corporate tax rate. The top income tax rate is 35 percent, and the top corporate tax rate is 20 percent. Manufacturing companies are exempt from corporate taxes. In 2010, the top 35 percent tax rate on wages and salaries was replaced with a top rate of 27 percent, effective upon completion of official publishing procedures. Other taxes include a value-added tax (VAT), a property tax, an environmental tax, and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 23.5 percent.

GOVERNMENT SPENDING: *83.6* + *0.7*

In the most recent year, central government spending equaled 23.4 percent of GDP. Deregulation and privatization have increased the role of the private sector, but the energy and transportation sectors remain state-dominated. The initial response to the global downturn was a fiscal relaxation including temporary cuts in indirect taxes. Public debt was pushed to 45.4 percent of GDP.

MONETARY FREEDOM: *72.7* + *2.7*

Inflation has been relatively high, averaging 7.5 percent between 2007 and 2009. The government sets prices for many agricultural products and pharmaceuticals and influences prices through regulation, subsidies, and state-owned utilities and enterprises. Municipalities fix ceilings on the retail price of bread. Ten points were deducted from Turkey's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *70* + *5.0*

Foreign and domestic capital receive equal treatment under the law, but foreign investment is restricted in a number of sectors. All investors face excessive bureaucracy, weaknesses in corporate governance, and frequent changes in the legal and regulatory environment. Residents and non-residents may hold foreign exchange accounts. There are few restrictions on payments and transfers. The amount of real estate that can be owned by foreign investors is restricted.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 80	Investment Freedom	No. 38
Trade Freedom	No. 44	Financial Freedom	No. 70
Fiscal Freedom	No. 89	Property Rights	No. 52
Government Spending	No. 45	Freedom from Corruption	No. 60
Monetary Freedom	No. 115	Labor Freedom	No. 163

FINANCIAL FREEDOM: *50* *no change*

Turkey's financial sector has undergone a rapid transformation. Since the 2000–2001 financial crisis, the government has increased transparency, strengthened regulatory and accounting standards, and improved oversight. The banking sector dominates the financial system, with the five largest banks accounting for about 60 percent of total assets. There are over 30 commercial banks, and three government-owned commercial banks hold about 30 percent of total assets. Two of the 13 development banks are majority foreign-controlled. Reorganization of the state banks has been slow. Foreign companies are not broadly represented in the insurance sector. Capital markets, although evolving, are relatively small and dominated by government securities. The banking sector weathered the financial crisis well due to effective liquidity buffers and limited exposure to foreign currencies.

PROPERTY RIGHTS: *50* *no change*

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 protection of confidential pharmaceutical test data is insufficient, and levels of piracy and counterfeiting of copyrighted and trademarked materials remain high.

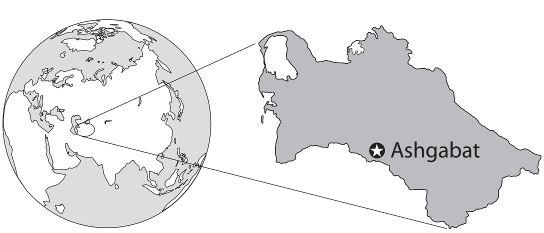
FREEDOM FROM CORRUPTION: *44* — *2.0*

Corruption is perceived as significant. Turkey ranks 61st out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. An independent public procurement board has the power to void contracts. Bribery is outlawed, and some officials have been prosecuted for corruption, but enforcement is uneven. The judicial system is viewed as susceptible to external influence and somewhat biased against foreigners.

LABOR FREEDOM: *39.6* — *1.5*

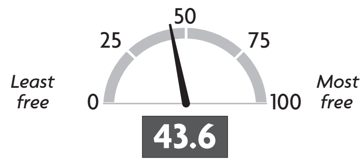
The non-salary cost of employing a worker is high, and dismissing an employee is difficult. The rigid labor market results in high unemployment and has contributed to the formation of a large informal sector.

TURKMENISTAN



World Rank: **169** Regional Rank: **38**

Economic Freedom Score



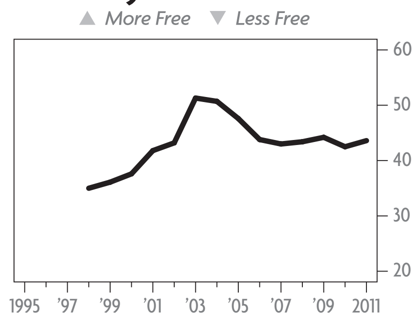
Turkmenistan's economic freedom score is 43.6, making its economy the 169th freest in the 2011 *Index*. Its score is 1.1 points higher than last year, reflecting improved fiscal and monetary freedom. Turkmenistan is ranked 38th out of 41 countries in the Asia–Pacific region, and its overall score is significantly lower than the world and regional averages.

The explosion of the natural gas pipeline linking Turkmenistan to Russia in 2009 highlights the need to broaden Turkmenistan's productive base. While diversification will require the end of state control in several sectors, Turkmenistan's current competitive tax rates and open trade regime provide a solid base for sustainable long-term growth.

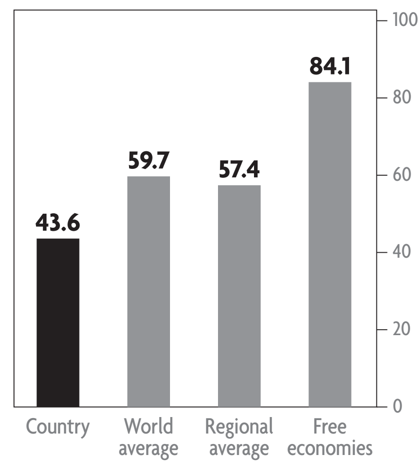
Heavy state involvement in the leading economic sectors has dampened private-sector dynamism and has led to economic stagnation in non-hydrocarbon sectors. The government restricts foreign investment to a few handpicked partners, while the state-controlled financial system limits credit access to political favorites. Burdensome and opaque regulatory systems, the nearly complete absence of property rights, pervasive corruption, and rigid labor regulations further limit private-sector activity.

BACKGROUND: Elected in 2007, President Gurbanguly Berdymukhammedov has pursued policies that are more open than those of his authoritarian predecessor, Saparmurad Niyazov (Turkmenbashi). Still, the president largely controls politics, the economy, civil society, and the media. Turkmenistan exports gas, oil, and petrochemicals, primarily to Russia and Iran. While most of its gas exports are routed through Russia, in December 2009, Turkmenistan inaugurated a gas pipeline that runs through Uzbekistan and Kazakhstan to China. The new president has made overtures to the West, has encouraged foreign investment in hydrocarbons, and is trying to diversify energy transportation routes, launching a pipeline to the Caspian Sea in 2010. Turkmenistan's main agricultural product is cotton, but the government hopes to diversify the economy away from reliance on hydrocarbons and cotton.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 5.4 million
GDP (PPP): $32.0 billion
4.2% growth in 2009
9.4% 5-year compound annual growth
$5,971 per capita
Unemployment: 60%
Inflation (CPI): –2.7%
FDI Inflow: $1.4 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *30* *no change*

The overall freedom to establish and conduct a business is very limited under Turkmenistan's regulatory environment. The system is non-transparent, and enforcement is inconsistent. Regulatory codes remain outmoded, and personal relations with government officials often help to cut through red tape.

TRADE FREEDOM: *79.2* *no change*

Turkmenistan's weighted average tariff rate was 2.9 percent in 2002. Import and export bans and restrictions, some prohibitive duty rates for agricultural and food products, import fees, services market access restrictions, cumbersome import and export contract registration requirements, import licensing, subsidies, and customs procedures that are bureaucratic, slow, and subject to corruption add to the cost of trade. Fifteen points were deducted from Turkmenistan's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *93.6* *+ 3.4*

Turkmenistan has low tax rates. The top income tax rate is 10 percent, and the top corporate tax rate is 8 percent. Foreign entities are subject to a 20 percent corporate tax, and companies involved in oil and gas operations are taxed at rates up to 22 percent. Other taxes include a value-added tax (VAT), a property tax, and a contribution to the Agriculture Development Fund. Important gaps in the available data include figures for government finance. In the most recent year, overall tax revenue as a percentage of GDP was 21.8 percent.

GOVERNMENT SPENDING: *95.5* *+ 0.8*

In the most recent year, total government expenditures, including consumption and transfer payments, equaled 12.3 percent of GDP.

MONETARY FREEDOM: *69.6* *+ 6.8*

Inflation has moderated, averaging 5.9 percent between 2007 and 2009, after exceeding 14 percent in 2008. Subsidies, price controls, and the free provision of utilities distort economic incentives. The government also influences prices through numerous state-owned utilities and enterprises. Fifteen points were deducted from Turkmenistan's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *0* *no change*

The government controls most of the economy and restricts foreign participation to a few sectors. The bureaucracy is non-transparent and politicized, and procedures are confusing and cumbersome. Inconsistent rule of law and high levels of corruption are strong disincentives to investment. Foreign exchange accounts require government approval, as do all payments and transfers. Capital transactions face restrictions and central bank approval in some cases. The state owns all land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 172	Investment Freedom	No. 172
Trade Freedom	No. 82	Financial Freedom	No. 172
Fiscal Freedom	No. 12	Property Rights	No. 166
Government Spending	No. 2	Freedom from Corruption	No. 170
Monetary Freedom	No. 143	Labor Freedom	No. 172

FINANCIAL FREEDOM: *10* *no change*

Turkmenistan's financial system remains heavily government-controlled, and the flow of financial resources is severely restricted. The banking sector is dominated by state-controlled institutions. Each of the government-owned banks specializes in a specific sector such as agriculture, foreign trade, or mortgages. The private sector's access to credit is very limited, with 90 percent of all loans directed at state-owned enterprises. The government directs credit allocation, often at subsidized rates. The central bank is not independent. Under foreign exchange regulations introduced in 2008, the central bank can offer banks ready access to foreign exchange and permit commercial banks to establish correspondent bank accounts to support trade finance. The formal and informal exchange rates have been integrated, but the impact on the economy has been minimal. There are no significant non-bank financial institutions, and no private capital market has been developed.

PROPERTY RIGHTS: *10* *no change*

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 designed to protect intellectual property rights are implemented arbitrarily or not at all. Pirated copies of copyrighted and trademarked materials are widely available.

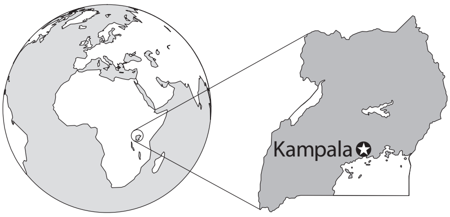
FREEDOM FROM CORRUPTION: *18* *no change*

Corruption is perceived as pervasive. Turkmenistan ranks 168th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. All judges are appointed for five-year terms by the president without legislative review. The anti-corruption laws are ineffective. The non-transparency of the economic system and the existence of patronage networks fuel corruption, especially in government procurement and performance requirements. There is a lack of accountability mechanisms as well as fear of government reprisal.

LABOR FREEDOM: *30* *no change*

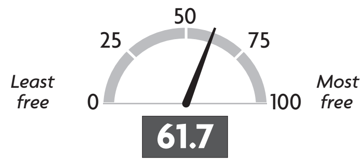
Turkmenistan's labor market is not fully developed, and the informal sector remains an important source of employment. The public sector provides the majority of jobs. Labor regulations are outdated and not enforced effectively.

UGANDA



World Rank: **80** Regional Rank: **7**

Economic Freedom Score



Uganda's economic freedom score is 61.7, making it the 80th freest economy in the 2011 *Index*. Its score is 0.5 point lower than last year due to declines in four of the 10 economic freedoms. Uganda is ranked 7th out of 46 countries in the Sub-Saharan Africa region, and its overall score is above the world average.

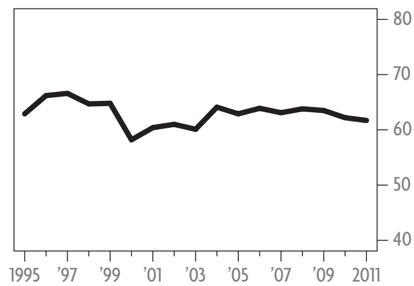
Despite the external economic environment, the Ugandan economy has expanded at an average rate close to 9 percent over the past five years. Tariff barriers have been eased, although non-tariff barriers still constrain overall trade freedom. Uganda continues to attract more foreign direct investment than many other countries in the region. It is diversifying its productive base, and manufacturing has become more substantial. Many state-owned enterprises have been privatized.

Uganda is currently revising a range of laws and regulations to create greater government accountability, develop infrastructure, and build a more vibrant private sector. However, a weak and inefficient judicial system and pervasive corruption are likely to remain serious impediments to sustainable development.

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 being deposed by a military coup. Insurgent leader Yoweri Museveni took power in 1986. A multi-party government was established in 2005. After parliament abolished presidential term limits, Museveni won a third term in 2006. 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, over a decade of relatively strong economic growth, and substantial natural resources, including recently discovered oil reserves, Uganda remains poor. Agriculture employs about 70 percent of the workforce and accounted over 20 percent of GDP in 2009.

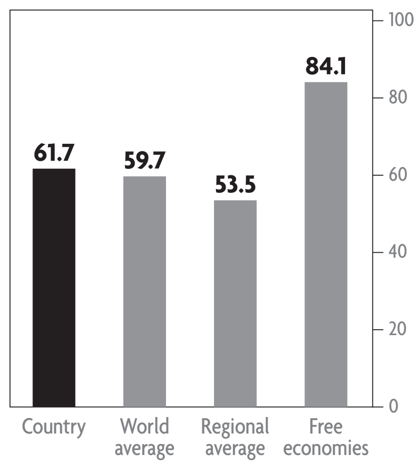
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 33.2 million
GDP (PPP): $39.7 billion
7.1% growth in 2009
8.7% 5-year compound annual growth
$1,196 per capita
Unemployment: n/a
Inflation (CPI): 14.2%
FDI Inflow: $799 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *50.3* — *6.7*

Uganda has attempted to update more than 20 commercial and bankruptcy laws in order to cut down administrative delays and reduce the cost of conducting business, but the overall regulatory framework remains poor.

TRADE FREEDOM: *74.8* + *2.7*

Uganda's weighted average tariff rate was 7.6 percent in 2009. Uganda is a member of the East African Customs Union. Import and export restrictions, some high tariffs, export taxes and fees, inefficient and non-transparent regulation and customs procedures, export-promotion programs, weak enforcement of intellectual property rights, and corruption add to the cost of trade. Ten points were deducted from Uganda's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *80.6* + *0.1*

Uganda has moderately high tax rates. The top income and corporate tax rates are 30 percent. Mining companies are subject to a special corporate tax rate of 45 percent. Other taxes include a value-added tax (VAT) and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 11.9 percent.

GOVERNMENT SPENDING: *90.5* + *5.0*

In the most recent year, total government expenditures, including consumption and transfer payments, declined to 17.8 percent of GDP. Fiscal policy reflects a balance between the development of road and energy infrastructure and the need for stability of public finances. Efforts to reduce dependence on donors have resulted in a declining grants-to-GDP ratio. Benefitting from multilateral debt reductions, public debt as a percentage of GDP has fallen to 14 percent.

MONETARY FREEDOM: *73.2* — *4.9*

Inflation has been high, averaging 11.8 percent between 2007 and 2009. The government influences prices through state-owned utilities and enterprises. Five points were deducted from Uganda's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *45* *no change*

Foreign investors do not receive equal treatment and may face a number of performance obligations as conditions for gaining business licenses. Foreign investment is allowed in all sectors of the economy that are not national security–related, and companies may be 100 percent foreign-owned. Regulation and bureaucracy can be non-transparent, inconsistent, and subject to corruption. Dispute resolution can be lengthy and politicized. Residents and non-residents may hold foreign exchange accounts. There are no restrictions or controls on payments, transactions, or transfers. Foreign investors may lease but not own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 143	Investment Freedom	No. 103
Trade Freedom	No. 99	Financial Freedom	No. 38
Fiscal Freedom	No. 72	Property Rights	No. 99
Government Spending	No. 14	Freedom from Corruption	No. 132
Monetary Freedom	No. 110	Labor Freedom	No. 15

FINANCIAL FREEDOM: *60* *no change*

Uganda's small financial system is dominated by banking, which is relatively open to competition and subject to minimal government influence. Following the removal of the moratorium on new banks, there are now over 20 banks with more than 350 branches. Most banks are foreign-owned, and four account for about three-quarters of total assets. Bank lending to the private sector has gradually increased. Overall, the banking sector is well capitalized and has no serious non-performing loan problems. Access to financial services has expanded across the country, and the government has established a Microfinance Support Centre. The insurance sector is small, and the state-owned National Insurance Company is undergoing privatization. Capital markets are relatively small and underdeveloped, though more private companies are being listed on the stock exchange.

PROPERTY RIGHTS: *30* *no change*

Although Uganda has a commercial court, the shortage of judges and funding drives most commercial cases to outside arbitration or settlement. The judiciary suffers from corruption. Domestic private entities may own and dispose of property and other businesses. Foreign private entities share these rights, but there are restrictions on land ownership. Ugandan laws protect intellectual property in theory but rarely act as a deterrent to counterfeiters and pirates.

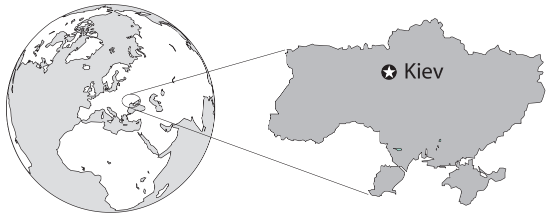
FREEDOM FROM CORRUPTION: *25* — *1.0*

Corruption is perceived as widespread. Uganda ranks 130th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a drop for the second year in a row. The will to combat corruption at the highest levels of government has been questioned, and bureaucratic apathy contributes to perceptions of corruption. Foreign businesses report some difficulties due to lack of transparency and possible collusion between competing business interests and government officials.

LABOR FREEDOM: *87.8* — *0.3*

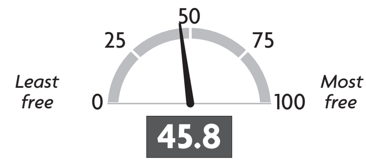
Uganda's labor regulations are flexible. The non-salary cost of employing a worker is low, and dismissing an employee is not difficult. Regulations on the number of work hours are relatively flexible. Enforcement of labor standards and regulations has not been fully effective due to a chronic lack of administrative resources.

UKRAINE



World Rank: **164** Regional Rank: **43**

Economic Freedom Score



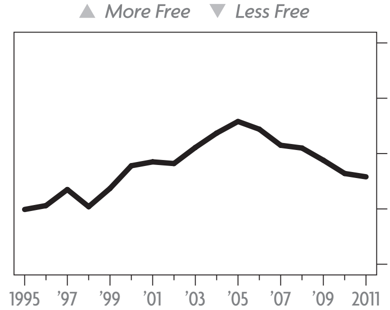
Ukraine's economic freedom score is 45.8, making its economy the 164th freest in the 2011 *Index*. Its score is 0.6 point lower than last year, primarily because of declines in government spending and freedom from corruption. Ukraine is ranked last out of 43 countries in the Europe region, and its overall score is lower than the world average.

The global economic downturn has erased the gains of years of economic growth. Significant structural reforms included competitive tax rates and membership in the World Trade Organization after a 14-year accession process. With export growth facilitated by these earlier reforms, Ukraine has gradually returned to the path of economic growth since mid-2010.

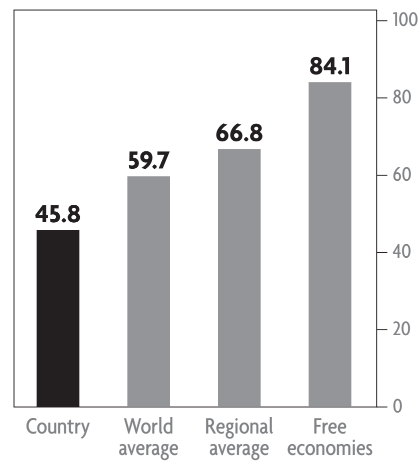
Nonetheless, structural constraints and political instability continue to undermine private-sector development. State intervention and the ongoing threat of expropriation limit dynamic economic activity. Ukraine's underdeveloped financial sector struggles to provide the necessary credit for private-sector development, while 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. In January 2010, Victor Yanukovych of the Party of Regions was elected the country's fifth president. Since gaining power, Yanukovych has fast-tracked rapprochement with Russia. The government has extended Russia's Black Sea Fleet's lease for 25 years from 2017 in exchange for discounted Russian gas, currently worth over $3 billion a year, and parliament has rejected ambitions to join NATO. Ukraine has well-developed industry, rich agricultural lands, and significant natural resources. It is an important route for oil and gas exports from Russia to Western Europe. The recent economic crisis triggered a significant recession, and GDP contracted by 15 percent in 2009. Ukraine has joined the World Trade Organization and the European Union's Eastern Partnership.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 45.7 million
GDP (PPP): $289.7 billion
–15.1% growth in 2009
0.1% 5-year compound annual growth
$6,339 per capita
Unemployment: 8.8%
Inflation (CPI): 15.9%
FDI Inflow: $4,816 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *47.1* — ✚ *8.4*

Despite progress in regulatory reform, lingering complexity often creates uncertainty in commercial transactions. Overall, the inefficient regulatory framework imposes a significant burden on private enterprise.

TRADE FREEDOM: *85.2* — ✚ *2.6*

Ukraine's weighted average tariff rate was 2.4 percent in 2009. Some export restrictions, services market access barriers, import taxes and fees, import licensing requirements, non-transparent government procurement, complex standards and certification regulations, and weak enforcement of intellectual property rights add to the cost of trade. Customs procedures are improved but can still result in questionable customs valuation. Ten points were deducted from Ukraine's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *77.3* — ━ *0.6*

Ukraine has relatively low tax rates. The standard income tax rate is 15 percent (gambling income is subject to a 30 percent rate), and the standard corporate tax rate is 25 percent. Insurance companies and agriculture profits are subject to lower rates. Other taxes include a value-added tax (VAT), a property tax, and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 37.7 percent.

GOVERNMENT SPENDING: *32.9* — ━ *8.2*

In the most recent year, total government expenditures, including consumption and transfer payments, increased to 47.3 percent of GDP. The poorly managed state-owned gas company, Naftogaz, is a drag on the fiscal balance and a threat to overall stability.

MONETARY FREEDOM: *63.2* — ✚ *2.0*

Inflation has been extremely high, averaging 17.9 percent between 2007 and 2009. The executive branch can set minimum prices for goods and services, and the government influences prices through regulation and state-owned enterprises and utilities. Ten points were deducted from Ukraine's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *20* — *no change*

Ukraine's bureaucratic legal and regulatory requirements discourage foreign investment. The law provides equal treatment for foreign and domestic investors in most sectors of the economy. Contracts are not always upheld by the legal system, and privatization has slowed. Resident and non-resident foreign exchange accounts may be subject to restrictions and government approval. Payments and transfers are subject to various requirements and quantitative limits. Some capital transactions are subject to controls and licenses. Foreign investors may not own farmland.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 147**	Investment Freedom	**No. 152**
Trade Freedom	**No. 46**	Financial Freedom	**No. 133**
Fiscal Freedom	**No. 97**	Property Rights	**No. 99**
Government Spending	**No. 155**	Freedom from Corruption	**No. 148**
Monetary Freedom	**No. 163**	Labor Freedom	**No. 132**

FINANCIAL FREEDOM: *30* — *no change*

Ukraine's financial system is underdeveloped, and the country remains primarily a cash-based economy. Restructuring of banking has proceeded slowly, and the more than 150 small banks often suffer from insufficient capital. Foreign banks and insurance companies are permitted to open branch offices. Over 180 banks are currently registered, including 49 with foreign equity participation. Reflecting the lack of efficiency and depth in the financial system, the development of a domestic capital market is still at a rudimentary stage. A liquidity crisis and an increase in non-performing loans related to the global financial crisis have led to a large bailout package from the International Monetary Fund. The government has also taken controlling stakes in three of five banks in financial trouble. Legislative changes in late 2009 have required conversion of foreign currency investments into local currency and undermined the free flow of capital.

PROPERTY RIGHTS: *30* — *no change*

Protection of property rights is weak. The judiciary is subject to executive branch and criminal pressure, and corruption is significant. Contracts are not well enforced, and expropriation is possible. Initiatives to develop a mortgage market have resulted in a strong increase in the number of mortgages and have laid the legislative and administrative groundwork for a functioning real estate market. Ukraine is a major transshipment point, storage location, and market for illegal optical media produced in Russia and elsewhere.

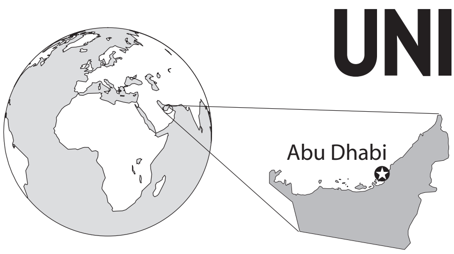
FREEDOM FROM CORRUPTION: *22* — ━ *3.0*

Corruption is perceived as widespread. Ukraine ranks 146th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a sharp drop for the second year in a row. Corruption pervades all levels of society and government and all spheres of economic activity and is a major obstacle to foreign investment. Low public-sector salaries fuel corruption in such local bodies as the highway police and tax administration, as well as in the education system.

LABOR FREEDOM: *50* — ━ *7.7*

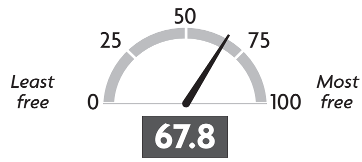
Ukraine's labor codes remain outdated and inadequate. The non-salary cost of employing a worker is very high, and dismissing an employee is difficult. More modern regulations have been under consideration, but they have not been implemented.

UNITED ARAB EMIRATES



World Rank: **47** Regional Rank: **6**

Economic Freedom Score



The United Arab Emirates' economic freedom score is 67.8, making its economy the 47th freest in the 2011 *Index*. Its score is 0.5 point higher than last year, reflecting improvements particularly in freedom from corruption and monetary freedom. The UAE is ranked 6th out of 17 countries in the Middle East/North Africa region, and its overall score is higher than the world and regional averages.

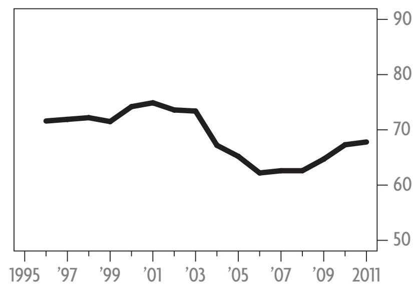
The UAE's broader-based growth in recent years has been underpinned by efforts to strengthen the business climate, boost investment, and foster the emergence of a more vibrant private sector. The generally liberal trade regime has helped to sustain momentum for growth. The UAE aims to be a regional financial hub, and its banking sector has handled the recent financial turmoil well. The level of corruption is relatively low.

The economy was hit hard by the global recession, lower oil prices, tight international credit, and the collapse of real estate prices, particularly in Dubai. Coordinating the fiscal policies of the various emirates, centralizing debt management, improving the transparency of public finances, and installing an efficient and independent legal framework remain critical tasks.

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 UAE oil production and takes a leading role in political and economic decision-making, but rulers of the individual emirates make many of their own economic policy decisions. Dubai is the UAE's foremost center of finance, commerce, transportation, and tourism. Free trade zones that offer opportunities for 100 percent foreign ownership with zero taxation attract substantial foreign investment and help to diversify the economy, but UAE nationals rely heavily on the public sector for employment and subsidized services. Hydrocarbons still account for roughly 80 percent of total government revenues.

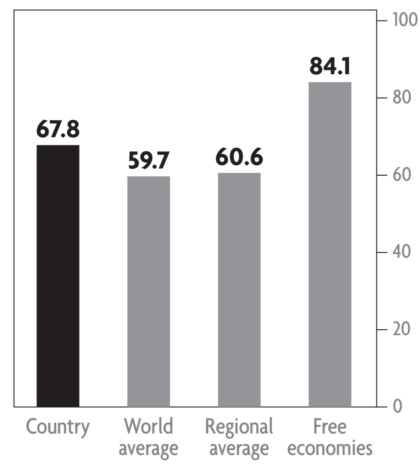
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 4.9 million
GDP (PPP): $179.3 billion
–0.7% growth in 2009
4.8% 5-year compound annual growth
$36,537 per capita
Unemployment: 3.1% (2001)
Inflation (CPI): 1.0%
FDI Inflow: $4.0 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *67.3* — *0.1*

Starting a business takes less than half the world average of 34 days. Licensing requirements are less time-consuming than the world average of 209 days. Bankruptcy proceedings can be lengthy and burdensome.

TRADE FREEDOM: *82.6* — *0.2*

The UAE's weighted average tariff rate was 3.7 percent in 2009. The UAE is a member of the Gulf Cooperation Council (GCC) customs union. Import restrictions, services market access barriers, non-transparent standards, sanitary and phytosanitary regulations, and preferences for domestic companies in government procurement add to the cost of trade. Only firms with a trade license may engage in importation, and only majority-owned UAE firms may obtain such a license (except for goods imported into "free zones"). Ten points were deducted from the UAE's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *99.9* *no change*

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. In general, foreign banks are taxed at 20 percent. Oil companies are taxed at 50 percent in Dubai and 55 percent in Abu Dhabi. There is no general sales tax, although a value-added tax (VAT) is planned. Property transfers are subject to taxation. In the most recent year, overall tax revenue as a percentage of GDP was nearly negligible at 1.8 percent.

GOVERNMENT SPENDING: *79.1* — *1.8*

In the most recent year, total government expenditures, including consumption and transfer payments, increased slightly to 26.4 percent of GDP. The state remains significantly involved in the economy through regulation and state-owned enterprises. Salary increases and development spending are pushing up expenditures.

MONETARY FREEDOM: *76.5* + *7.7*

Inflation has moderated, averaging 4.5 percent between 2007 and 2009, after reaching a high of 11.5 percent in 2008. The government influences prices through regulation, subsidies, and numerous state-owned enterprises and utilities, including oil, gas, electricity, and telecommunications. Ten points were deducted from the UAE's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *35* *no change*

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, and projects must be managed by a UAE national or have a board of directors with a majority of UAE nationals. Regulations are generally transparent. There are few controls or requirements on currency transfers, access to foreign exchange, or repatriation of profits. Foreign investors face numerous restrictions on land ownership.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 83	Investment Freedom	No. 123
Trade Freedom	No. 59	Financial Freedom	No. 70
Fiscal Freedom	No. 2	Property Rights	No. 52
Government Spending	No. 60	Freedom from Corruption	No. 30
Monetary Freedom	No. 73	Labor Freedom	No. 54

FINANCIAL FREEDOM: *50* *no change*

The UAE's modern financial sector is efficient and competitive. Domestic banks, which have a high loan-to-deposit ratio, offer a full range of services. Islamic banking is increasingly prominent. Six major banks account for 70 percent of total assets. Foreign banks have more than 100 branches around the country. State-owned banks have maintained a strong presence in the financial sector. Fifteen state-owned banks account for more than half of the sector's total assets. Capital markets are relatively well developed, and the stock markets have become more open to foreign investment. The late 2009 debt crisis of Dubai World, the state-owned investment company, has highlighted the importance of better supervision and policy coordination among the different emirates at the federal level. Restructuring of Dubai World debt has made considerable progress since early 2010.

PROPERTY RIGHTS: *50* *no change*

The ruling families exercise considerable influence on the judiciary. All land in Abu Dhabi, largest of the seven emirates, is government-owned. Foreigners may buy and hold 99-year freehold interests in property in Dubai, and mortgages are available to them. The UAE leads the region in protecting intellectual property rights.

FREEDOM FROM CORRUPTION: *65* + *6.0*

Corruption is perceived as present. The UAE ranks 30th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, an improvement from 2008. There is no evidence that corruption of public officials is a systemic problem; however, in 2008 and 2009, UAE authorities investigated several high-profile corruption cases.

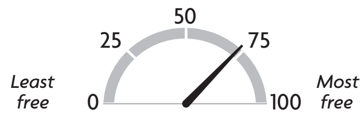
LABOR FREEDOM: *72.4* — *6.9*

The UAE's employment regulations are relatively flexible. The non-salary cost of employing a worker is moderate, but dismissing an employee is relatively costly. A new labor law, which aims to further streamline contracts, has been proposed.

UNITED KINGDOM

World Rank: **16** Regional Rank: **7**

Economic Freedom Score



74.5

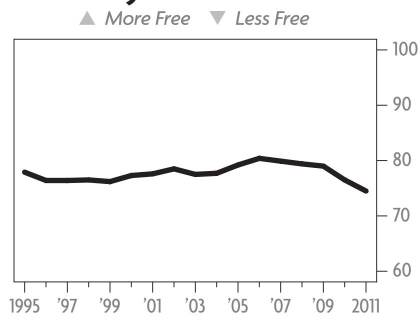
The United Kingdom's economic freedom score is 74.5, making its economy the 16th freest in the 2011 *Index*. Its score is 2 points lower than last year, reflecting declines particularly in fiscal freedom and government spending. The U.K. is ranked 7th out of 43 countries in the Europe region, and its overall score is much higher than the world average.

A dramatic expansion of government intervention has taken place in the U.K. in response to the global financial and economic crisis. The government has nationalized or seized ownership positions in some of the major banks. Public finance has deteriorated markedly. Welfare benefits have become a daunting burden. The government deficit has widened sharply, and gross public debt has climbed to over 70 percent of GDP.

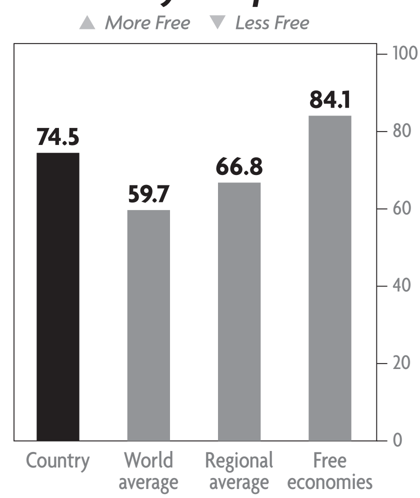
Newly elected Conservative Prime Minister David Cameron's coalition government has unveiled a series of major austerity measures designed to stem the loss of economic freedom. Proposed spending cuts are an encouraging first step toward reforming the bloated public sector and the costly welfare system, but policies conducive to private-sector investment will be critical to reviving vibrant economic expansion and job creation.

BACKGROUND: The May 2010 parliamentary elections resulted in a hung parliament, and a coalition government was formed between the Conservatives and the Liberal Democrats with David Cameron as prime minister. The new government's main priority is to reduce the deficit and restart the British economy, the sixth-largest in the world. Following the market reforms instituted by Prime Minister Margaret Thatcher in the 1980s, Britain experienced steady economic growth, outpacing other large European Union economies throughout the 1990s. However, the government's size and spending have grown significantly under successive Labour governments, damaging Britain's competitive edge. Prime Minister Gordon Brown plunged Britain further into debt at the onset of the recent financial crisis with bank bailouts and stimulus packages.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 61.8 million
GDP (PPP): $2.1 trillion
–4.9% growth in 2009
0.2% 5-year compound annual growth
$34,619 per capita
Unemployment: 7.6%
Inflation (CPI): 2.2%
FDI Inflow: $45.7 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *94.6* — *0.3*

The U.K. has long had an efficient regulatory framework. Business formation is streamlined, and licensing requirements are transparent and not burdensome. Bankruptcy is easy and straightforward.

TRADE FREEDOM: *87.6* + *0.1*

The U.K.'s trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and U.K. policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from the U.K.'s trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *52* — *9.8*

The U.K. has a high income tax rate and a moderate corporate tax rate. The top income tax rate was raised to 50 percent as of April 2010. The top corporate tax rate is 28 percent, to be reduced to 27 percent in April 2011 and then further reduced by 1 percent every year until 2014. Small companies are subject to a reduced rate of 21 percent. Profits from oil and gas extraction remain subject to a rate of 30 percent. Other taxes include a value-added tax (VAT) and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 38.9 percent.

GOVERNMENT SPENDING: *32.9* — *9.0*

Government spending has risen steadily since the 1990s. In the most recent year, total government expenditures, including consumption and transfer payments, climbed to 47.3 percent of GDP. Fiscal stimulus measuring 2 percent of GDP has aggravated the deficit and national debt.

MONETARY FREEDOM: *74.9* + *1.2*

Inflation has been moderate, averaging 2.5 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. Prices are generally set by market forces, but pharmaceutical prices are capped, and the government influences prices through regulation and state-owned utilities. The government controls virtually all prices for health care services. Fifteen points were deducted from the U.K.'s monetary freedom score to account for measures that distort domestic prices.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 8	Investment Freedom	No. 2
Trade Freedom	No. 12	Financial Freedom	No. 4
Fiscal Freedom	No. 169	Property Rights	No. 17
Government Spending	No. 156	Freedom from Corruption	No. 17
Monetary Freedom	No. 93	Labor Freedom	No. 56

INVESTMENT FREEDOM: *90* *no change*

Foreign investors receive the same treatment as domestic businesses in most cases. Registered companies must have at least one U.K.-resident director. Foreign investment in airlines is limited to 49 percent. The investment code and bureaucracy are generally transparent and efficient. Residents and non-residents may hold foreign exchange accounts. Payments and proceeds on invisible transactions and current transfers are not subject to restrictions, and profits can be repatriated freely. Foreign investors may own land.

FINANCIAL FREEDOM: *80* *no change*

The financial system remains efficient and competitive. Regulations are transparent, and oversight is maintained by an independent institution. The insurance market is the world's second largest. Most large foreign insurers are represented, and many account for significant market shares. The London Stock Exchange, one of the world's largest, has strengthened its position after a merger with the Italian exchange. In response to the financial crisis, the Banking Act of 2009 allows the government to take stakes in failing banks and includes a special liquidity scheme and an asset-protection scheme. The government has nationalized Northern Rock Bank and taken stakes in other major banks. The Financial Services Act, enacted during the first half of 2010, gives the Financial Services Authority expanded disciplinary powers.

PROPERTY RIGHTS: *85* *no change*

Property rights are respected and enforced, and contracts are secure. The legal system protects intellectual property rights.

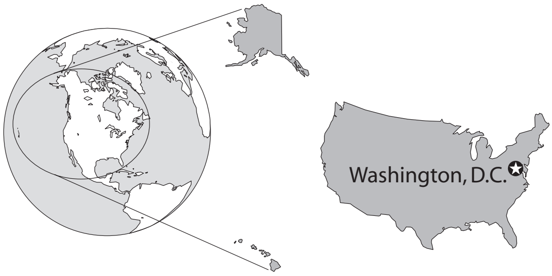
FREEDOM FROM CORRUPTION: *77* *no change*

Corruption is perceived as minimal. The United Kingdom ranks 17th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Bribery of domestic or foreign public officials is a criminal offense, and corrupt payments are not tax-deductible. The Organisation for Economic Co-operation and Development's Working Group on Bribery has criticized the U.K.'s implementation of the OECD Anti-Bribery Convention.

LABOR FREEDOM: *71.2* — *1.6*

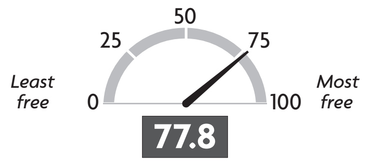
The U.K.'s labor regulations are relatively flexible. The non-salary cost of employing a worker is moderate, and the severance payment is not overly burdensome. Regulations on work hours are flexible.

UNITED STATES



World Rank: **9** Regional Rank: **2**

Economic Freedom Score



The United States' economic freedom score is 77.8, making its economy the 9th freest in the 2011 *Index*. Its score is 0.2 point lower than last year, reflecting deteriorating business freedom, trade freedom, government spending, and monetary freedom. The U.S. is ranked 2nd out of three countries in the North America region, and its overall score is well above the world and regional averages.

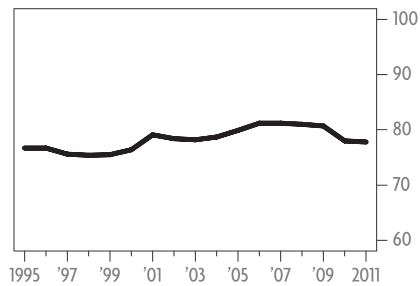
The U.S. economy faces enormous challenges. The government's recent spending spree has led to fragile business confidence and crushing public debt. Interventionist responses to the economic slowdown have eroded economic freedom and long-term competitiveness. Drastic legislative changes in health care and financial regulations have retarded job creation and injected substantial uncertainty into business investment planning.

Ongoing regulatory changes, coupled with fading confidence in the direction of government policies, discourage entrepreneurship and dynamic investment within the private sector. Leadership and credibility in trade have been also undercut by protectionist policy stances and inaction on previously agreed free trade agreements with South Korea, Panama, and Colombia.

BACKGROUND: The U.S. economy is the world's largest. While services account for more than 70 percent of economic activity, the U.S. remains the world's largest producer of manufactured goods. A federal form of government that reserves significant powers to states and localities has encouraged diverse economic policies and strategies. However, the national government's role in the economy has expanded sharply in the past two years, and the federal budget deficit is extremely large, with gross public debt approaching 100 percent of GDP. Passage in March 2010 of a massive health care bill significantly expanded the federal government's control of the health care industry, but a proposed climate change bill that would have imposed federal constraints on energy use has been stalled. Elections in November resulted in a Republican Party takeover of the U.S. House of Representatives.

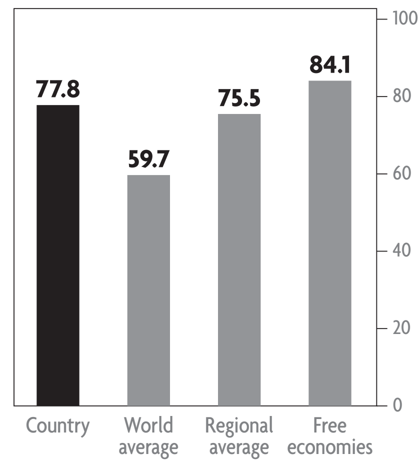
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 307.4 million
GDP (PPP): $14.2 trillion
–2.4% growth in 2009
0.7% 5-year compound annual growth
$46,381 per capita
Unemployment: 9.6%
Inflation (CPI): –0.3%
FDI Inflow: $129.9 billion

2009 data unless otherwise noted.
Data compiled as of September 2010.

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *91* — *− 0.3*

The overall freedom to create and run a private enterprise, regulated primarily at the state level, is strongly protected. However, new regulatory uncertainty hampers business expansion and employment creation.

TRADE FREEDOM: *86.4* — *− 0.5*

The weighted average U.S. tariff rate was 1.8 percent in 2009. Anti-dumping and countervailing duties laws, "buy American" procurement rules, high out-of-quota tariffs, services market access restrictions, import licensing, restrictive labeling and standards, and export-promotion programs and subsidies add to the cost of trade. Ten points were deducted from the U.S. trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *68.3* — *+ 0.8*

U.S. tax rates are burdensome. The top income and corporate tax rates are 35 percent. Other taxes include an estate tax and excise taxes. Additional income, sales, and property taxes are assessed at the state and local levels. In the most recent year, overall tax revenue as a percentage of GDP was 26.9 percent. Should authorities choose not to extend tax cuts enacted in 2001 and 2003, the tax rate on the top individual income bracket will jump to 39.6 percent beginning in 2011, and the top capital gains tax rate will increase from 15 percent to 20 percent.

GOVERNMENT SPENDING: *54.6* — *− 3.4*

In the most recent year, total government expenditures, including consumption and transfer payments, equaled 38.9 percent of GDP. Spending increases totaled well over $1 trillion in 2009 alone, an increase of more than 20 percent over 2008. Stimulus spending has hurt the fiscal balance and placed federal debt on an unsustainable trajectory. Gross government debt exceeded 90 percent of GDP in 2010.

MONETARY FREEDOM: *77.4* — *− 0.7*

Inflation has been low, averaging 1.4 percent between 2007 and 2009. Price controls apply to some regulated monopolies and the health insurance sector; certain states and localities control residential rents; and the government influences prices through subsidies, particularly for the agricultural sector, dairy products, and some forms of transportation. Government interventions in housing, automotive, health, and financial markets have substantially increased price distortions. Fifteen points were deducted from the U.S. monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *75* — *no change*

Foreign and domestic enterprises are legally equal. Foreign investments face screening only if perceived as a potential threat to national security. Foreign investment in banking, mining, defense contracting, certain energy-related industries, fishing, shipping, communications, and aviation is restricted. Regulations are generally transparent; individual states may impose additional restrictions. There are few controls on currency transfers, access to foreign exchange, or repatriation of profits. Foreign investors may own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 13	Investment Freedom	No. 26
Trade Freedom	No. 38	Financial Freedom	No. 17
Fiscal Freedom	No. 139	Property Rights	No. 17
Government Spending	No. 122	Freedom from Corruption	No. 19
Monetary Freedom	No. 62	Labor Freedom	No. 3

FINANCIAL FREEDOM: *70* — *no change*

The U.S. financial sector has undergone far-reaching changes since the sub-prime mortgage crisis in 2008. A number of prominent financial firms or banks failed or were bailed out, and the government has intruded on firms' management in unprecedented ways. The damage caused by mortgage guarantors Fannie Mae and Freddie Mac remains largely unabated. Concerns continue over the intrusive nature and cost of the 2002 Sarbanes–Oxley Act, which increased disclosure and internal control requirements to the detriment of smaller firms. The impact of a sweeping overhaul of financial regulations passed in July 2010 is yet to be measured, though it appears to do little to reduce the chances of future government bailouts.

PROPERTY RIGHTS: *85* — *no change*

Property rights are guaranteed. Contracts are secure, and the judiciary is independent. A well-developed licensing system protects patents, trademarks, and copyrights. Government interventions in financial markets and the automotive sector have raised concerns about expropriation and violation of the contractual rights of shareholders and bondholders. The individual health insurance mandate passed by Congress in 2010 raised serious constitutional questions regarding whether government could require the spending of private funds.

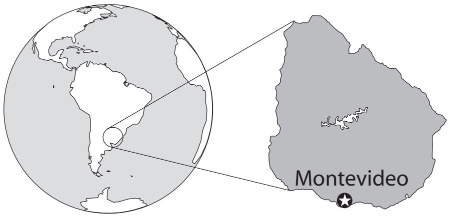
FREEDOM FROM CORRUPTION: *75* — *+ 2.0*

Corruption is perceived as minimal. The U.S. ranks 19th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. The U.S. government has become part owner or effective operator of several "too-big-to-fail" companies, and the impartiality of subsequent regulatory efforts is seen by some as corrupted.

LABOR FREEDOM: *95.7* — *+ 0.9*

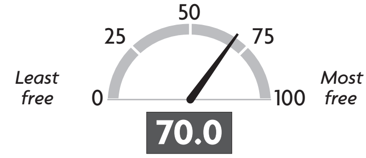
U.S. labor regulations are highly flexible. The non-salary cost of employing a worker is low, and the severance payment system is not burdensome. With private-sector union membership steadily shrinking, more union members currently work for the government than for private businesses.

URUGUAY

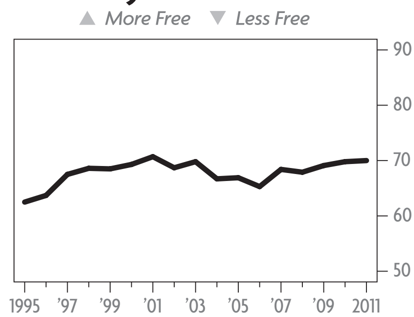


World Rank: **33** Regional Rank: **3**

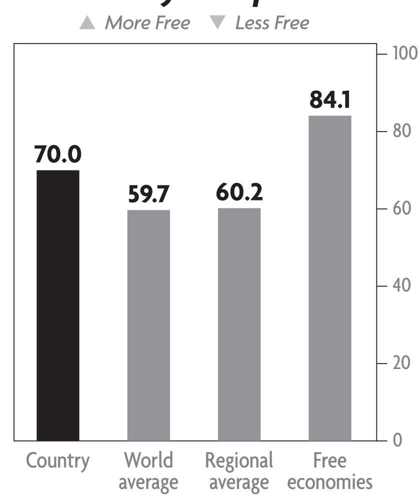
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Uruguay's economic freedom score is 70, making its economy the 33rd freest in the 2011 *Index*. Its score is 0.2 point higher than last year due to modest improvements in five of the 10 economic freedoms. 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.

With its relatively open trade regime and competitive tax rates, Uruguay has managed to improve its entrepreneurial environment. The private sector has become more dynamic, contributing to notable economic growth, despite the challenging external environment. Well-secured property rights and the absence of significant restrictions on foreign investment have promoted a strong and stable investment climate.

Uruguay's overall economic freedom is limited by the state's ongoing influence over economic activity. Government interference in the financial sector constrains private-sector growth by distributing credit on non-market terms. Additionally, relatively high inflation and the state's occasional use of price controls are a drag on long-run economic growth.

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 October 2009 parliamentary elections, and Jose Mujica of the Frente won the presidential election. A founding member of MERCOSUR, Uruguay signed a Trade and Investment Framework Agreement with the United States in January 2007, but opposition from other MERCOSUR members and flagging U.S. support make pursuit of a free trade agreement unlikely. The economy is based largely on beef and wool exports, but wood and software are gaining export market share. Historically, state involvement in the economy has been substantial. Further privatization is needed in telecommunications, energy, and public utilities.

Quick Facts

Population: 3.3 million
GDP (PPP): $44.0 billion
2.9% growth in 2009
5.8% 5-year compound annual growth
$13,163 per capita
Unemployment: 7.6%
Inflation (CPI): 7.1%
FDI Inflow: $1.1 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *61.5* — *1.6*

The Uruguayan regulatory framework generally facilitates private enterprise, but the government remains heavily involved in productive activities. The process for setting up a business remains time-consuming, and licensing requirements are burdensome. Bankruptcy procedures are fairly straightforward.

TRADE FREEDOM: *83* + *0.2*

Uruguay's weighted average tariff rate was 3.5 percent in 2009. Some import bans and restrictions, import fees, import registration requirements, import licensing requirements, and customs delays add to the cost of trade. Ten points were deducted from Uruguay's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *84.3* + *2.6*

Uruguay's tax rates have been moderate since the implementation of major tax reforms in July 2007. Corporate tax schemes were unified, and both the top income tax and top corporate tax rates are 25 percent. Other taxes include a value-added tax (VAT), a capital gains tax, a wealth tax, and a property transfer tax. The VAT has been reduced in recent years. In the most recent year, overall tax revenue as a percentage of GDP fell to 17.9 percent.

GOVERNMENT SPENDING: *76.5* + *3.9*

In the most recent year, total government expenditures, including consumption and transfer payments, decreased slightly to 28 percent of GDP as a result of sound public finance management. The costs of importing energy from more expensive sources when hydroelectric generation is not possible during droughts will be a factor in determining future budgets.

MONETARY FREEDOM: *72.8* + *0.5*

Inflation has been relatively high, averaging 7.4 percent between 2007 and 2009. Uruguay has eliminated most price controls, but the executive branch fixes prices of certain staples such as milk, and the government influences prices through regulation and/or ownership of numerous state-owned enterprises and utilities, including energy, petroleum products, and telecommunications. Ten points were deducted from Uruguay's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *80* + *5.0*

Uruguay does not discriminate between foreign and domestic investors. It also does not subject foreign investment to screening or approval requirements. The bureaucracy is generally transparent but can be cumbersome, especially in government tenders. Residents and non-residents may hold foreign exchange accounts. There are no restrictions or controls on payments, transactions, transfers, or repatriation of profits. Non-residents may purchase real estate.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 110	Investment Freedom	No. 14
Trade Freedom	No. 56	Financial Freedom	No. 133
Fiscal Freedom	No. 43	Property Rights	No. 26
Government Spending	No. 72	Freedom from Corruption	No. 25
Monetary Freedom	No. 114	Labor Freedom	No. 47

FINANCIAL FREEDOM: *30* *no change*

The financial sector has become more stable and modernized. Over the past decade, Uruguay has updated its financial regulatory environment. Recent years' financial-sector reforms included a substantially improved bank resolution framework. Banking accounts for more than 80 percent of the system's assets, and government-owned banks hold about 40 percent of bank assets. The state-owned Banco de la República Oriental del Uruguay is the largest bank, and the state-owned housing bank Banco Hipotecario del Uruguay (BHU) is the leading mortgage lender. Restructuring of the BHU has progressed in recent years. The government-owned Banco de Seguros del Estadoize dominates the insurance sector, accounting for over half of the market. The economy is highly dollarized. Limited bank credit is available for small and medium enterprises. Capital markets are underdeveloped and concentrated in government debt. The two stock exchanges remain largely inactive.

PROPERTY RIGHTS: *70* — *5.0*

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 improve investment relations. Regulations protecting copyrights appear to be working, but protection of confidential test data from unfair commercial use as required by the World Trade Organization's Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement remains inadequate. Aggressive anti-piracy campaigns have led to several successful prosecutions.

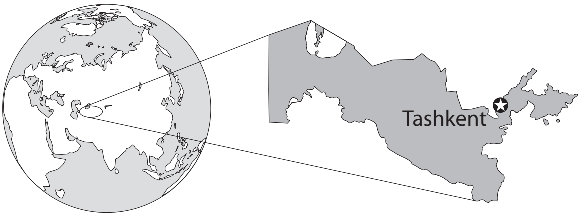
FREEDOM FROM CORRUPTION: *67* — *2.0*

Corruption is perceived as present. Uruguay ranks 25th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Although Uruguay has strong laws to prevent bribery and other corrupt practices, public surveys indicate a widespread perception of public-sector corruption. Foreign firms have not identified corruption as an obstacle to investment.

LABOR FREEDOM: *74.9* — *1.3*

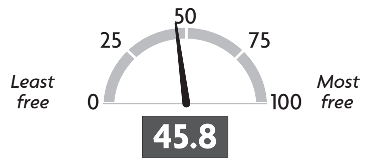
Uruguay's labor regulations remain relatively flexible. The non-salary cost of employing a worker is low, but regulations on the number of work hours are not flexible. One of the key legislative changes in recent years is related to collective bargaining. Although collective bargaining had been used frequently in past decades, no specific laws were in place until ratification of the law in 2009.

UZBEKISTAN

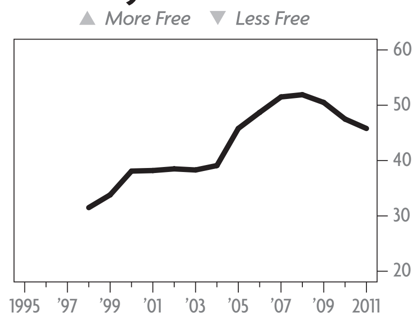


World Rank: **163** Regional Rank: **36**

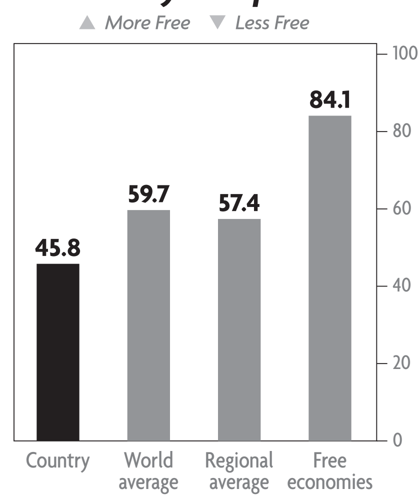
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Uzbekistan's economic freedom score is 45.8, making its economy the 163rd freest in the 2011 *Index*. Its score is 1.7 points lower than last year, reflecting declines in seven of the 10 economic freedoms. Uzbekistan is ranked 36th 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 progress on reform and the continuing reliance on the energy sector as a source of economic expansion have effectively precluded broader-based economic development. The overall business environment is inefficient and burdensome, severely limiting entrepreneurial dynamism in the economy.

State control and interference remain high in many areas of the economy. Weak protection of property rights and widespread corruption are significant drags on Uzbekistan's economic freedom, and the poor investment regime lacks transparency and consistent implementation, discouraging business creation or expansion. The informal economy is quite large and a vital source of employment for the majority of the population.

BACKGROUND: Uzbekistan relies heavily on natural gas, oil, gold, and uranium exports, but cotton remains the main source of export revenues. The government reported strong GDP growth in 2009, but the economy was negatively affected by declines in remittances and falling prices for major export commodities. Strongly authoritarian President Islam Karimov, in power since the late 1980s, evicted the U.S. from the Karashi–Khanabad air base in 2005 after the U.S. criticized his handling of the Andijon uprising. In 2008, the U.S. and Germany gained limited access to the Termez air base for operations in Afghanistan. In the same year, the European Union relaxed the post-Andijon economic sanctions, but human rights violations remain a concern. In April 2009, the U.S. signed an agreement with Uzbekistan allowing shipment of nonlethal supplies to Afghanistan.

Quick Facts

Population: 27.9 million
GDP (PPP): $78.3 billion
8.1% growth in 2009
8.5% 5-year compound annual growth
$2,807 per capita
Unemployment: 1.1%
Inflation (CPI): 14.1%
FDI Inflow: $750 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *66.8* — 1.0

The overall freedom to conduct a business is limited, and the entrepreneurial environment is poor. The regulatory system suffers from a lack of transparency and clarity, and regulations are inconsistently enforced, injecting considerable uncertainty into business decision-making.

TRADE FREEDOM: *66.2* + 1.1

Uzbekistan's weighted average tariff rate was 6.9 percent in 2009. Some high tariffs, services market access barriers, discriminatory import taxes and fees, non-transparent and burdensome standards and certification regulations, non-transparent government procurement, export subsidies, weak enforcement of intellectual property rights, corruption, and inefficient and cumbersome customs implementation add to the cost of trade. The government sometimes closes border posts to restrict trade. Twenty points were deducted from Uzbekistan's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *90.5* + 2.1

Uzbekistan has implemented significant tax reductions. The top income tax rate has been reduced to 22 percent from 25 percent, and the top corporate tax rate has been reduced to 9 percent from 10 percent. Commercial banks are still subject to a 15 percent rate, but small businesses are taxed at a reduced rate of 8 percent. Other taxes include a value-added tax (VAT) and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 20.8 percent.

GOVERNMENT SPENDING: *71* — 1.6

In the most recent year, total government expenditures, including consumption and transfer payments, increased slightly to 31.1 percent of GDP. State intervention in the economy remains pervasive, hindering development of the private sector. High revenues from gas exports have removed any incentive for structural reform. Large state-owned enterprises have not been privatized. Uzbekistan's fiscal system lacks transparency, and there are large discrepancies in official statistics.

MONETARY FREEDOM: *61.7* — 0.7

Inflation has been high, averaging 13.6 percent between 2007 and 2009. The government influences prices through regulation, subsidies, and state-owned enterprises and utilities. It controls prices primarily by declaring companies or certain products national or regional monopolies, which automatically requires official review and approval of prices. Fifteen points were deducted from Uzbekistan's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *0* — 10.0

Officially, foreign and domestic investments face equal treatment under the law. In general, numerous sectors are either reserved for the state or subject to ownership restrictions and minimum capital requirements. In practice, investors face such barriers as cumbersome bureaucracy; the threat of expropriation; inconsistent, burdensome, and arbitrary regulation; weak contract enforcement; corruption; and political unrest and violence. Residents and non-residents may hold foreign exchange accounts, subject to some restrictions. Payments and transfers face quantitative limits and delays. Some capital transactions, including credit operations and real estate transactions, are subject to controls. Foreign investors may not own land. Limited currency convertibility serves as an additional barrier to foreign investment.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 86	Investment Freedom	No. 172
Trade Freedom	No. 140	Financial Freedom	No. 172
Fiscal Freedom	No. 21	Property Rights	No. 164
Government Spending	No. 88	Freedom from Corruption	No. 176
Monetary Freedom	No. 169	Labor Freedom	No. 94

FINANCIAL FREEDOM: *10* *no change*

Uzbekistan's undeveloped financial sector is subject to heavy government intervention. Along with the high costs of financing, the banking sector's limited capacity for financial intermediation remains a key barrier to development of the private sector. Banking is dominated by state-owned banks and lacks competition and transparency. Although the government has reduced the number of state-run banks in recent years, most of their assets have merely been transferred to other government-owned banks. Government-controlled banks support the government's economic priorities through subsidized loans offered to specific sectors. The insurance sector is minimal. Capital markets are virtually nonexistent, and the stock market is very small.

PROPERTY RIGHTS: *15* — 5.0

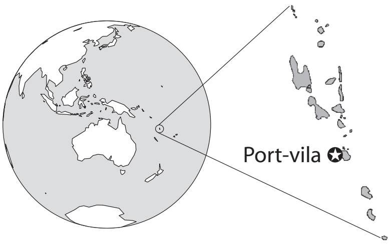
The executive influences Uzbekistan's judiciary. Judicial procedures fall short of international standards, corruption is extensive, and expropriation is possible. There is no general system for registration of liens on chattel property. Pirated audiotapes, compact discs, videotapes, and other optical media are sold freely.

FREEDOM FROM CORRUPTION: *17* — 1.0

Corruption is perceived as rampant. Uzbekistan ranks 174th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a drop from 2008. Foreign-owned businesses view corruption as one of the largest obstacles to foreign direct investment. The law does not forbid government officials from acting as "consultants," a common method of extracting bribes.

LABOR FREEDOM: *60.2* — 0.9

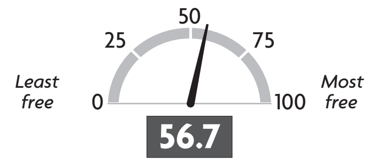
Uzbekistan's labor market lacks flexibility, and regulations undermine dynamic employment growth. The non-salary cost of employing a worker is high, and rules concerning the number of work hours are restrictive.



VANUATU

World Rank: **112** Regional Rank: **20**

Economic Freedom Score



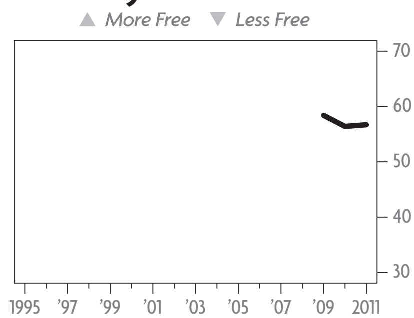
Vanuatu's economic freedom score is 56.7, making its economy the 112th freest in the 2011 *Index*. Its score has increased by 0.3 point since last year, with notable improvements in freedom from corruption and investment freedom. Vanuatu is ranked 20th out of 41 countries in the Asia–Pacific region, and its overall score is below the world average.

Vanuatu has recorded strong economic performance over the past five years, in part because of recent years' reforms. Stronger supervision and regulation of the financial sector have improved access to credit, supporting the emergence of entrepreneurial activity. Low taxes and ongoing macroeconomic stability have increased the economy's international competitiveness, although to a limited extent.

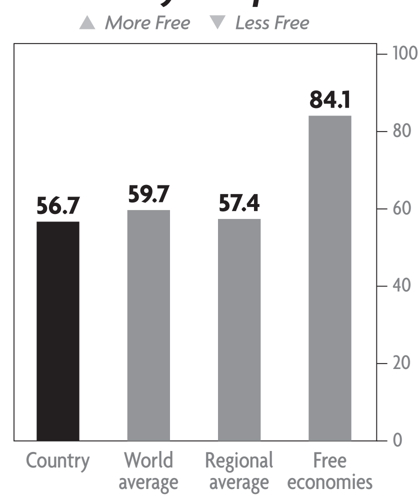
Despite progress in sustaining growth, Vanuatu needs a stronger political commitment to institutional reforms to spark development of a truly dynamic private sector. Property rights are poorly protected, and inadequate physical and legal infrastructure deters investment. High tariffs and non-tariff barriers to trade have held back integration into the global marketplace. Business activity is further limited by rigid labor regulations and widespread corruption.

BACKGROUND: The Republic of Vanuatu is composed of 83 islands spread over 4,500 square miles of the South Pacific. Formerly administered by a British–French condominium, it achieved independence in 1980. Today, it is 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, who has served in the government since independence, was elected president by the electoral college in September 2009. 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. In the years since 2003, Vanuatu has experienced relatively solid economic growth.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 0.2 million
GDP (PPP): $1.1 billion
3.3% growth in 2009
5.9% 5-year compound annual growth
$4,737 per capita
Unemployment: 1.7%
Inflation (CPI): 4.5%
FDI Inflow: $27 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *68.8* — + *0.1*

Despite some progress in recent years, the regulatory environment places heavy burdens on entrepreneurial activity. Bureaucratic procedures are complex and lack transparency. Starting up a business remains time-consuming and costly. In the absence of modern and efficient bankruptcy laws, closing a business is a cumbersome process.

TRADE FREEDOM: *55.1* — *no change*

Vanuatu's weighted average tariff rate was 15 percent in 2008. High tariffs, services market access restrictions, import permit requirements, inadequate infrastructure and trade capacity, subsidies, underdeveloped private markets, and state participation in the marketing board for key agricultural exports add to the cost of trade. Fifteen points were deducted from Vanuatu's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *96.1* — + *1.2*

Vanuatu has low taxes. There is no individual or corporate income tax. Other taxes include a value-added tax (VAT) and import duties. In the most recent year, overall tax revenue as a percentage of GDP was 19.7 percent. Compliance has improved. Tax exemptions in the tourism sector are widespread.

GOVERNMENT SPENDING: *79.1* — – *5.2*

In the most recent year, total government expenditures, including consumption and transfer payments, rose slightly to 26.4 percent of GDP. Vanuatu's 24 state-owned enterprises are inefficient and need to be privatized. Divestment of Air Vanuatu is being considered. Development expenditures rose as donor-financing increased. Prioritization of expenditures is poor: Allocations favor recurrent spending, 50 percent of which goes to wages, and designated emergency funds have been diverted to election-related spending. After years of decline, the debt-to-GDP ratio has reached 14 percent. The fiscal surplus widened to 2.2 percent of GDP in 2008.

MONETARY FREEDOM: *76.5* — – *0.3*

Inflation has been relatively low, averaging 4.5 percent between 2007 and 2009. Many of Vanuatu's state-owned enterprises are heavily subsidized, depleting budget resources and distorting price-setting mechanisms that would encourage private-sector development. Ten points were deducted from Vanuatu's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *30* — + *10.0*

In general, foreign investors receive national treatment. Foreign investments must be screened and approved, and certain sectors are reserved for domestic investment. Barriers to private-sector development are significant and include inadequate infrastructure, a weak legal system, and a large state presence in the economy. Access to and use of foreign exchange may be subject to restrictions and approvals. The government may not expropriate foreign investments without providing compensation. Foreign investors may repatriate capital but are not allowed to own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 79	Investment Freedom	No. 134
Trade Freedom	No. 170	Financial Freedom	No. 106
Fiscal Freedom	No. 11	Property Rights	No. 73
Government Spending	No. 60	Freedom from Corruption	No. 95
Monetary Freedom	No. 72	Labor Freedom	No. 135

FINANCIAL FREEDOM: *40* — *no change*

Vanuatu's small financial sector has undergone gradual transformation. Supervision has been strengthened, facilitating efforts to improve the country's reputation as a sound financial center. A new commercial bank opened in 2007, and Vanuatu now has four commercial banks, three of which are foreign-owned. The state-owned National Bank of Vanuatu has the largest branch network in the country. Bank lending has increased in recent years. Better access to secure and convenient financial services is critical to efforts to expand the entrepreneurial base. Non-resident business activities dominate commercial banks' transaction services. Capital markets remain rudimentary.

PROPERTY RIGHTS: *40* — *no change*

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. All land is supposed to belong to traditional customary owners, except for public land. However, investors have acquired and subdivided large parcels of land, angering locals who have lost not only their control of the land, but also, in some cases, direct access to the sea.

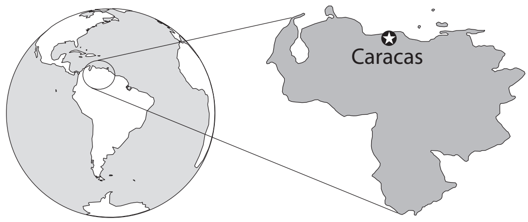
FREEDOM FROM CORRUPTION: *32* — + *3.0*

Corruption is perceived as widespread. Vanuatu ranks 95th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, an improvement from 2008. The law provides criminal penalties for official corruption, but the government has not implemented the law effectively, and officials engage in corrupt practices with impunity.

LABOR FREEDOM: *49.8* — – *5.2*

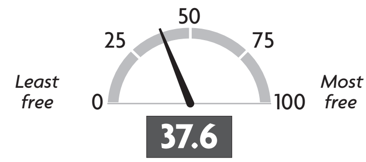
Vanuatu's labor regulations are relatively rigid, although the formal labor market is not fully developed. The non-salary cost of employing a worker is high, and dismissing an employee is burdensome. A new Employment Act is likely to increase labor costs considerably because of its new severance pay scale.

VENEZUELA

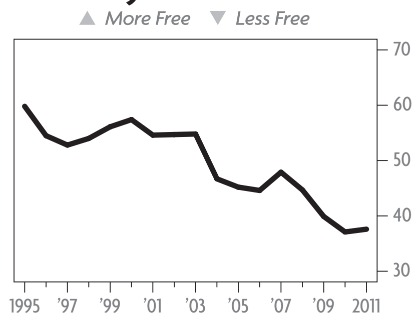


World Rank: **175** Regional Rank: **28**

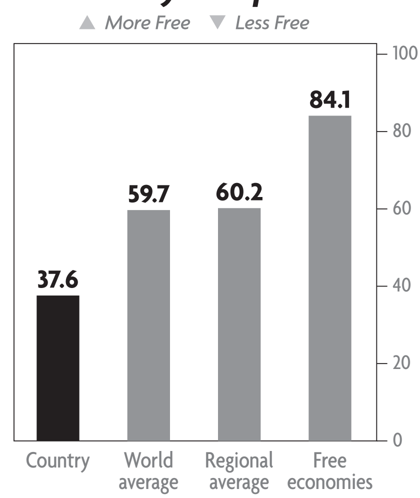
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Venezuela's economic freedom score is 37.6, making its economy the 175th freest in the 2011 *Index*. Its score remains essentially the same as last year, with a modest gain in trade freedom offset by a drop in labor 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.

Economic freedom in Venezuela has been severely hampered by state interference, and the economy is increasingly stagnant. The public sector is bloated and inefficient, and the informal economy is growing. Monetary stability is weak, and there are price controls on almost all goods and services. Corruption is rampant under an inefficient judicial system that is vulnerable to political influence.

The rule of law has been severely undermined in recent years. Contracts and property rights are not well respected, and government expropriations have been on the rise. The government has nationalized a number of private enterprises. Private investment has dropped significantly.

BACKGROUND: Heading a government that has abandoned all but the trappings of democracy, President Hugo Chávez has positioned himself as the leader of Latin America's anti–free market forces and has sought allies in China and Russia, as well as Iran and other rogue states. He has hobbled political opponents, undermined speech and property rights, pursued a military buildup, and imposed foreign exchange controls. In 2009, education "reform" targeted religious educators and parochial school funding and reduced the autonomy of university administrators. A 2009 referendum removed term limits from Venezuela's constitution, likely permitting Chávez to rule as president for life. In 2009–2010, Chávez continued aggressive nationalizations and launched a commercial blockade against Colombia. Venezuela has Latin America's highest inflation rates, a chronic electricity crisis, and the lowest current growth rate in the Americas.

Quick Facts

Population: 28.6 million
GDP (PPP): $349.1 billion
–3.3% growth in 2009
4.8% 5-year compound annual growth
$12,201 per capita
Unemployment: 7.9%
Inflation (CPI): 27.1%
FDI Inflow: –$3.1 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *47.8* — *− 2.5*

The overall freedom to engage in entrepreneurial activities is restricted by heavy government control and inconsistent enforcement of regulations. There is little transparency in decision-making, and most contracts are awarded without competition.

TRADE FREEDOM: *61.2* — *+ 4.0*

Venezuela's weighted average tariff rate was 9.4 percent in 2009. Import bans and restrictions, price bands for certain products, services market access barriers, import fees, import licensing requirements, non-transparent and discriminatory administration of tariff rate quotas, non-transparent government procurement, non-transparent standards and labeling regulations, export subsidies, weak enforcement of intellectual property rights, and burdensome and inefficient customs implementation add to the cost of trade. Twenty points were deducted from Venezuela's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *75* — *+ 1.0*

Venezuela has burdensome tax rates. The top income and corporate tax rates are 34 percent. Certain oil companies, except those determined to be central to the "national interest," are subject to a 50 percent tax on net income. Other taxes include a value-added tax (VAT), a property tax, and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 13.6 percent.

GOVERNMENT SPENDING: *65.3* — *+ 3.5*

In the most recent year, total government expenditures, including consumption and transfer payments, decreased slightly to 34 percent of GDP. Oil wealth accounts for half of the central government's income and leaves the stability of public finances vulnerable to changes in price and output.

MONETARY FREEDOM: *47* — *− 0.7*

Inflation is nearly out of control. Official statistics have it averaging 27.1 percent between 2007 and 2009, but the actual rate is probably much higher. Real interest rates remain negative, giving depositors little incentive to save. The government controls almost all prices through regulation, subsidies, and numerous state-owned enterprises and utilities and uses a non-legislated system of guaranteed minimum prices to protect agricultural producers. Twenty points were deducted from Venezuela's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *5* — *no change*

Although Venezuela's 1999 constitution generally provides equal treatment for foreign and domestic investors, the government restricts investment in certain sectors. Investment laws and bureaucracy are non-transparent and burdensome, the legal system is slow and corrupt, and state domination of the economy continues to increase. In 2008, the government expropriated key companies and assets in the cement, dairy, steel, and banking industries. In 2009, it expropriated investments in the petroleum, tourism, agribusiness, and banking industries. The government controls foreign exchange and fixes the exchange rate. Repatriation of capital, dividends, or profits at the official rate requires authorization.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 146	Investment Freedom	No. 170
Trade Freedom	No. 155	Financial Freedom	No. 159
Fiscal Freedom	No. 106	Property Rights	No. 176
Government Spending	No. 99	Freedom from Corruption	No. 164
Monetary Freedom	No. 175	Labor Freedom	No. 170

FINANCIAL FREEDOM: *20* — *no change*

Venezuela's financial system is subject to growing government control and has suffered recent takeovers and nationalizations. Assets are heavily concentrated in the four largest banks. Financial institutions are increasingly directed to provide credit in accordance with government requirements. The central bank's independence has deteriorated, and decisions are now controlled by the president. Foreign presence in the financial sector has diminished rapidly. Since early 2009, the government has taken control of or shut down a number of banks. Capital markets are small, and the stock market has been further downsized, with more firms delisted due to nationalization. State-owned institutions hold about 30 percent of banking assets.

PROPERTY RIGHTS: *5* — *+ 5.0*

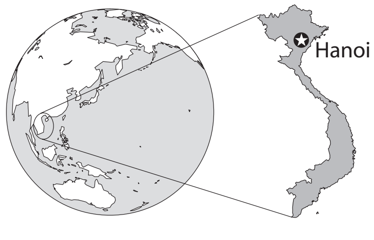
The judiciary is completely controlled by the executive, politically inconvenient contracts are abrogated, and the legal system discriminates against or in favor of investors from certain foreign countries. Land and other private holdings are expropriated by the government arbitrarily and without compensation. Pirated music, movies, and software are readily available. The Chávez administration has enacted laws to centralize control of ports, roads, and airports as well as to nationalize major industries.

FREEDOM FROM CORRUPTION: *19* — *no change*

Corruption is perceived as rampant. Venezuela ranks 162nd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Government tenders are vulnerable because the process frequently lacks transparency. Critics allege that price and exchange controls, government and military officials' involvement in narcotics trafficking, and kickbacks on major weapons purchases are sources of corruption.

LABOR FREEDOM: *31.1* — *− 5.1*

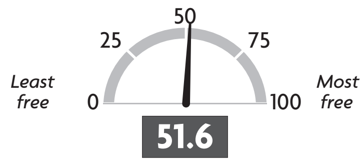
Venezuela's labor market is controlled by the government. Labor regulations are outdated and not applied consistently. The non-salary cost of employing a worker is moderate, but an efficient and flexible labor market has not been developed.



VIETNAM

World Rank: **139** Regional Rank: **30**

Economic Freedom Score



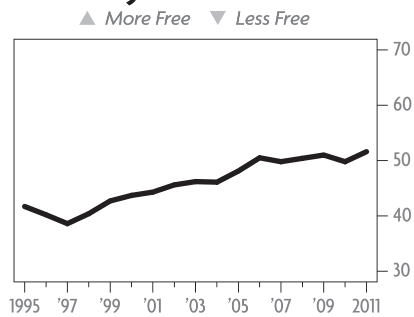
Vietnam's economic freedom score is 51.6, making its economy the 139th freest in the 2011 *Index*. Its score is 1.8 points better than last year, mainly reflecting higher scores in monetary freedom and business freedom. Vietnam is ranked 30th out of 41 countries in the Asia–Pacific region, and its overall score is lower than the world and regional averages.

Capitalizing on its gradual integration into the global trade and investment system, Vietnam 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. Despite the challenging global economic environment, the economy has registered annual growth rates averaging about 7 percent over the past five years.

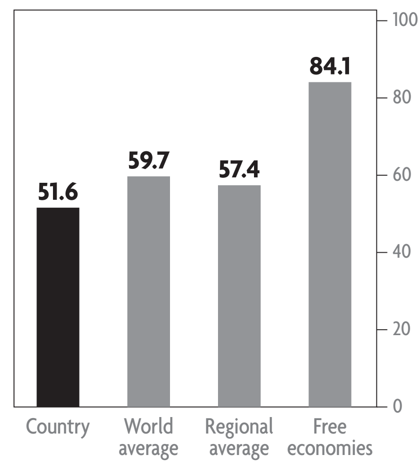
Vietnam's overall economic freedom, however, is limited by several key institutional factors. Despite ongoing reform efforts, the regulatory environment is not particularly efficient or transparent. Investment is hindered by opaque bureaucracy and an unreliable legal system. State owned-enterprises still account for about 40 percent of GDP, hampering the emergence of a more dynamic private sector. The judiciary remains weak and vulnerable to political influence, and corruption is widespread.

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. 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.

Country's Score Over Time



Country Comparisons



Quick Facts

Population: 87.2 million
GDP (PPP): $256.6 billion
5.3% growth in 2009
7.0% 5-year compound annual growth
$2,942 per capita
Unemployment: 6.5%
Inflation (CPI): 6.7%
FDI Inflow: $4.5 billion

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *61.6* — ✚ *0.9*

Vietnam's pursuit of more comprehensive business reform has progressed in recent years. Administrative procedures have been streamlined, and the regulatory framework for smaller businesses has been improved.

TRADE FREEDOM: *68.9* — *no change*

Vietnam's weighted average tariff rate was 10.6 percent in 2007. The government has made progress in liberalizing its trade regime since joining the World Trade Organization in 2007, but some import bans and restrictions, services market access barriers, import licensing requirements, non-transparent regulations, state trade in some commodities, weak enforcement of intellectual property rights, corruption, and customs inconsistencies add to the cost of trade. Ten points were deducted from Vietnam's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *75.9* — ━ *0.2*

Vietnam implemented tax reforms in January 2009. The top income tax rate is now 35 percent, and the top corporate tax rate is 25 percent. Oil and gas are subject to a separate taxation scheme with rates ranging from 32 percent to 50 percent. No taxes are levied at the state or local levels. Other taxes include a value-added tax (VAT), an inheritance tax, and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 23.6 percent.

GOVERNMENT SPENDING: *75.1* — ✚ *1.7*

In the most recent year, total government expenditures, including consumption and transfer payments, dipped slightly to 28.8 percent of GDP. The global crisis exposed some structural vulnerabilities and forced authorities to reconsider their budget plan to hold down the deficit. Progress in the privatization or restructuring of state-owned enterprises is needed to help increase fiscal stability.

MONETARY FREEDOM: *79.1* — ✚ *21.0*

Inflation has been high, averaging 10.9 percent between 2007 and 2009. The government influences prices through regulation, subsidies, state-owned enterprises, banks, and utilities. Fifteen points were deducted from Vietnam's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *15* — ━ *5.0*

Foreign investment in many sectors of the economy is either prohibited or requires government approval. Deterrents to investment include unwieldy bureaucracy, non-transparent regulations, corruption, and an unreliable and cumbersome legal system. Residents and non-residents may hold foreign exchange accounts, subject to restrictions and government approvals. Payments and transfers are subject to restrictions. Most transactions in money market and capital instruments, derivatives, commercial credits, and direct investments require government approval. All land is owned by the state.

COUNTRY'S WORLD RANKINGS

Business Freedom	**No. 109**	Investment Freedom	**No. 164**
Trade Freedom	**No. 132**	Financial Freedom	**No. 133**
Fiscal Freedom	**No. 101**	Property Rights	**No. 164**
Government Spending	**No. 77**	Freedom from Corruption	**No. 122**
Monetary Freedom	**No. 45**	Labor Freedom	**No. 63**

FINANCIAL FREEDOM: *30* — *no change*

The state remains heavily involved in Vietnam's underdeveloped financial sector. Less than 20 percent of the population has a bank account. Lending by state banks is focused on large state-owned enterprises, and interest rates may be subsidized. Despite the large number of small banks, the four primary state-owned banks control most lending. Regulation, supervision, and transparency fall short of international standards, and the share of non-performing loans is estimated to be far higher than the reported rate of about 2 percent. The stock market is gradually expanding. In 2008, four foreign banks were permitted to launch fully owned subsidiaries, and partial privatization of state-owned VietinBank was completed in 2009.

PROPERTY RIGHTS: *15* — *no change*

Only the rudiments of a system to protect property rights have been established. The judiciary is not independent, and corruption is common. Contracts are weakly enforced, and resolution of disputes can take years. All land belongs to the state, but foreigners can conduct real estate transactions. Foreign investors may lease land for periods of 50 years, or up to 70 years in some poor areas. Infringement of intellectual property rights is common.

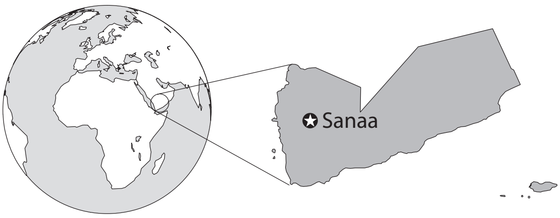
FREEDOM FROM CORRUPTION: *27* — *no change*

Corruption is perceived as widespread. Vietnam ranks 120th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Corruption in Vietnam is due in large part to a lack of transparency, accountability, and media freedom as well as low pay for government officials and inadequate systems for holding officials accountable for their actions. A confused overlapping of regulatory jurisdictions and bureaucratic procedures creates opportunities for corruption.

LABOR FREEDOM: *68.2* — ━ *0.2*

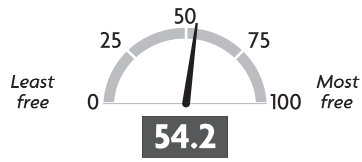
Vietnam's labor market remains relatively rigid. The non-salary cost of employing a worker is moderate, but dismissing an employee is difficult. In recent years, the government has increased the minimum wage in domestic and foreign-invested enterprises, partly to ease labor unrest. Beginning in 2010, a single nationwide minimum wage will be applied for all businesses.

YEMEN



World Rank: **127** Regional Rank: **13**

Economic Freedom Score



Yemen's economic freedom score is 54.2, making its economy the 127th freest in the 2011 *Index*. Its score is 0.2 point lower than last year due to deterioration in four of the 10 economic freedoms, including freedom from corruption. 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.

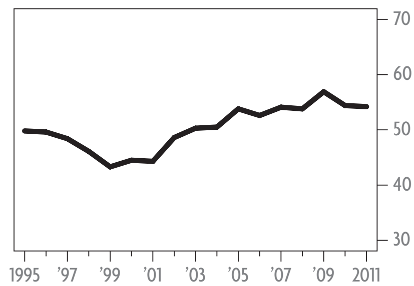
With a rapidly growing population, poor infrastructure, weak institutional capacity, a difficult security situation, and civil unrest, Yemen has one of the region's poorest economies. Although some monetary stability has been restored, the rate of inflation remains volatile.

A series of economic reform measures, including reforms in public finance management and the legal framework, have been introduced, but many have not been fully implemented or face considerable delays. Pervasive government interference in the economy and an underdeveloped financial sector hamper the development of a more vibrant private sector. Corruption, compounded by a weak judicial system that is vulnerable to political influence, remains widespread.

BACKGROUND: Yemen is one of the Arab world's poorest countries. Following the union between North and South Yemen in 1990, the central government's authority was challenged by a southern secessionist movement that was defeated in 1994 but has been revived. The Shia Houthi movement also has violently challenged government authority in the northwestern governorate of Saada. President Ali Abdallah Saleh continues to face intermittent challenges from unruly tribes and Islamist extremists who oppose his government's moderate foreign policy, cooperation with the United States against al-Qaeda, and efforts to modernize and reform Yemen both politically and economically. 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.

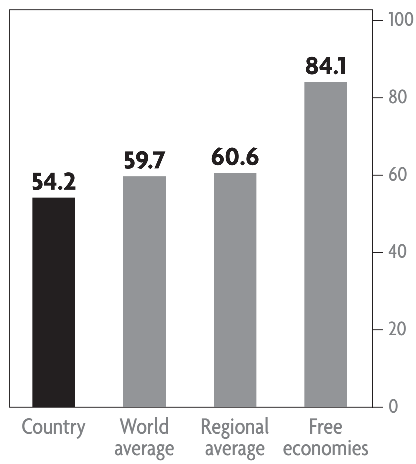
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 23.7 million
GDP (PPP): $58.2 billion
3.9% growth in 2009
3.5% 5-year compound annual growth
$2,458 per capita
Unemployment: n/a
Inflation (CPI): 3.7%
FDI Inflow: $129 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *73.7* — *0.7*

Measures to facilitate an efficient entrepreneurial environment have been implemented in recent years. The regulatory process has become more streamlined, and there is a new procurement law. However, the overall impact of these efforts has been mixed, and little new private activity has been generated.

TRADE FREEDOM: *81.6* + *5.5*

Yemen's weighted average tariff rate was 4.2 percent in 2009. Some import bans and restrictions, import licensing requirements, inefficient customs administration, and corruption add to the cost of trade. Ten points were deducted from Yemen's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *83.2* *no change*

Yemen has a low income tax rate but a burdensome corporate tax rate. The top income tax rate is 20 percent for salaried residents, and the top corporate tax rate is 35 percent. Discussions to reduce the corporate tax to 20 percent are underway. Other taxes include a general sales tax (GST), a property tax, a fuel tax, and a religious Zakat tax on net wealth. In the most recent year, overall tax revenue as a percentage of GDP was 7.3 percent.

GOVERNMENT SPENDING: *44.5* — *6.8*

In the most recent year, total government expenditures, including consumption and transfer payments, increased to 43 percent of GDP. Declining oil prices, falling output, and fuel subsidies, combined with growing social expenditures on wages, pensions, and welfare transfers, have resulted in a widening fiscal deficit that is estimated to be between 8 percent and 9 percent.

MONETARY FREEDOM: *82.3* + *17.2*

Inflation has been high, averaging 7.8 percent between 2007 and 2009. Although average consumer price growth fell steeply from 19 percent in 2008 to just 3.7 percent in 2009, inflation has rebounded in 2010. The government controls the prices of pharmaceuticals and petroleum products and influences prices through regulation, subsidies, and state-owned enterprises and utilities. Ten points were deducted from Yemen's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *45* *no change*

The government officially permits foreign investment in most sectors and grants equal treatment to domestic and foreign investors. While the government has made progress toward improving the investment regime, investment-related laws and regulations can be non-transparent and inconsistently applied. Dispute resolution and contract enforcement are unreliable, and political unrest serves as an additional barrier to investment. Foreign exchange accounts are permitted. There are no restrictions on payments and transfers, and capital transactions are subject to few restrictions. Foreign investors may own land.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 54	Investment Freedom	No. 103
Trade Freedom	No. 69	Financial Freedom	No. 133
Fiscal Freedom	No. 56	Property Rights	No. 99
Government Spending	No. 145	Freedom from Corruption	No. 156
Monetary Freedom	No. 20	Labor Freedom	No. 125

FINANCIAL FREEDOM: *30* *no change*

Yemen's small financial system remains underdeveloped and dominated by the state. The economy is largely cash-based. Credit to the private sector accounts for less than 10 percent of GDP, and the limited availability of financing precludes more vibrant entrepreneurial activity. Yemen's undercapitalized banking sector is open to limited foreign competition. The banking sector is inefficient and burdened with a high level of non-performing loans. The government has total ownership of the National Bank of Yemen and majority ownership of three other specialized banks. Commercial lending is limited to a small circle of clients, partly because of legal inability to collect overdue debts. The non-bank financial sector is small, capital markets are not developed, and there is no stock market. An improved bill to combat money laundering and the financing of terrorism was enacted in late 2009.

PROPERTY RIGHTS: *30* *no change*

The judiciary is subject to government pressure and corruption. Enforcement of contracts is weak. Foreigners may own property, but foreign firms must operate through Yemeni agents. Protection of intellectual property rights is inadequate.

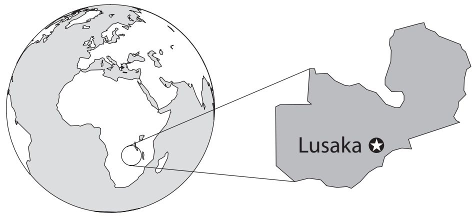
FREEDOM FROM CORRUPTION: *21* — *2.0*

Corruption is perceived as pervasive. Yemen ranks 154th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a decline from 2008. The civil service is overstaffed, underpaid, and highly vulnerable to corruption. Illicit activities include soliciting and paying bribes to facilitate or obstruct projects, leveraging dispute settlements, skewing taxation and customs tariff augmentations, and engaging in family or tribal nepotism.

LABOR FREEDOM: *50.9* — *14.5*

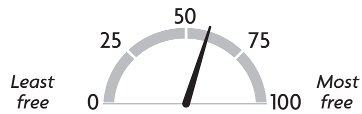
Yemen's employment regulations are rigid, and a formal labor market has not been fully developed. The non-salary cost of employing a worker is low, but the absence of a dynamic private sector results in chronic underemployment and a large informal sector.

ZAMBIA



World Rank: **91** Regional Rank: **10**

Economic Freedom Score



59.7

Zambia's economic freedom score is 59.7, making its economy the 91st freest in the 2011 *Index*. Its score has increased by 1.7 points, reflecting improved scores in four of the 10 economic freedoms, including freedom from corruption. Zambia is ranked 10th out of 46 countries in the Sub-Saharan Africa region, and its overall score is just above the world average.

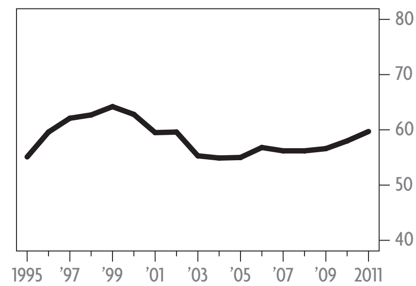
Previous reform measures, coupled with relative political stability, have enabled the Zambian economy to maintain steady economic expansion averaging about 6 percent over the past five years. The financial sector has benefited from reforms, including implementation of the Financial Sector Development Plan. Despite the challenging environment, the sector has weathered the global financial turmoil relatively well. Management of public finance has been sound, although the fiscal deficit has been on the rise recently.

Progress in governance reform, development of a more robust private sector, and diversification of the economy have been sluggish. Lingering institutional shortcomings include inefficient legal and regulatory frameworks, weak protection of property rights, and corruption.

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. Frederick Chiluba was elected president and pursued economic reform, but his administration was dogged by allegations of corruption. Levy Mwanawasa, elected in 2001 and re-elected in 2006, made fighting corruption the centerpiece of his presidency. President Rupiah Banda won a narrow victory in October 2008 following Mwanawasa's death. 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. Copper remains the biggest export, but mining contributes only about 10 percent of GDP, and subsistence agriculture employs about three-quarters of the workforce. HIV/AIDS is a significant problem.

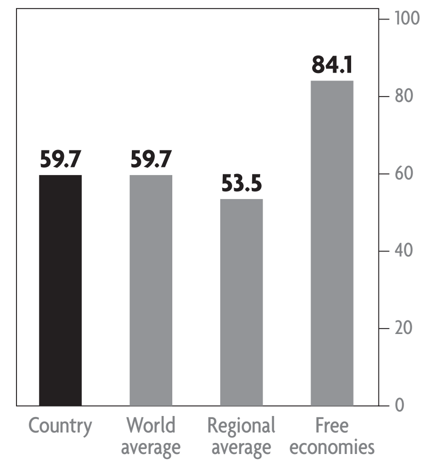
Country's Score Over Time

▲ More Free ▼ Less Free



Country Comparisons

▲ More Free ▼ Less Free



Quick Facts

Population: 12.0 million
GDP (PPP): $18.5 billion
6.3% growth in 2009
6.1% 5-year compound annual growth
$1,542 per capita
Unemployment: n/a
Inflation (CPI): 13.4%
FDI Inflow: $959.4 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *62.2* — *– 4.2*

Despite some reforms in recent years, the regulatory environment does not promote entrepreneurial activity. Requirements for commercial licenses are time-consuming and costly. Enforcement of regulations is inconsistent.

TRADE FREEDOM: *82.4* — *+ 2.5*

Zambia's weighted average tariff rate was 3.8 percent in 2009. Zambia is a member of the Common Market for Eastern and Southern Africa (COMESA). Corruption, import and export bans and restrictions, services market access barriers, import and export permit and certification requirements, non-transparent standards and government procurement procedures, and preferences for government-owned enterprises add to the cost of trade. Ten points were deducted from Zambia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *72.4* — *no change*

Zambia's tax rates are relatively high. Both the top income tax rate and the top corporate tax rate are 35 percent, with an array of special rates for banks, mining companies, and farmers. Personal income tax owed may be elevated if local authorities add an allowable 2 percent levy on a small portion of income. Other taxes include a value-added tax (VAT) and a property transfer tax. In the most recent year, overall tax revenue as a percentage of GDP was 17.5 percent.

GOVERNMENT SPENDING: *81.8* — *– 0.8*

Government spending is relatively low. In the most recent year, total government expenditures, including consumption and transfer payments, equaled 24.6 percent of GDP. Despite ambitious reform plans, progress in improving spending management has been slow.

MONETARY FREEDOM: *77.3* — *+ 14.0*

Inflation has been high, averaging 12.9 percent between 2007 and 2009. The government subsidizes agricultural production inputs and influences prices through state-owned enterprises and utilities. Fifteen points were deducted from Zambia's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *55* — *+ 5.0*

Zambia's government does not discriminate between foreign and domestic investors. An investment board screens investments for which incentives are requested. While the government has made progress on reforming the investment regime, bureaucracy can be slow, competition policy remains inadequate, contract enforcement can be weak, work permits can be difficult to obtain for foreign labor, and the dispute resolution process is burdensome. Corruption remains another important deterrent to investment. Residents and non-residents may hold foreign exchange accounts. There are no controls on payments, transfers, capital transactions, or repatriation of profits.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 105	Investment Freedom	No. 75
Trade Freedom	No. 65	Financial Freedom	No. 70
Fiscal Freedom	No. 122	Property Rights	No. 99
Government Spending	No. 48	Freedom from Corruption	No. 99
Monetary Freedom	No. 64	Labor Freedom	No. 108

FINANCIAL FREEDOM: *50* — *no change*

Zambia has a relatively liberal banking regime, but financial intermediation and credit to the private sector remain low. The financial system is dominated by banking. The number of commercial banks has risen, with more foreign banks starting operation in recent years. Zambia National Commercial Bank, the largest bank, still accounts for over 30 percent of the sector's total assets. Bank supervision and regulation have improved. The insurance market is open to competition. Though participation is increasing, capital markets remain small. As of mid-2010, there were about 20 companies listed in the stock exchange.

PROPERTY RIGHTS: *30* — *no change*

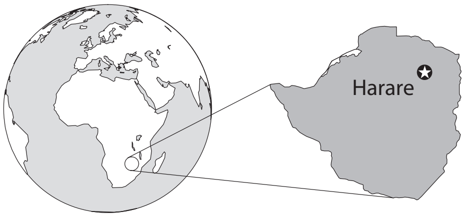
Zambia's judicial system suffers from inefficiency, government influence, and a lack of resources. Contract enforcement is weak, and courts are relatively inexperienced in commercial litigation. Despite constitutional and legal protections, customary law and practice place women in a subordinate status with respect to property, inheritance, and marriage. Trademark protection is adequate, but copyright protection is limited and does not cover computer applications. The government has taken some steps recently toward more effective enforcement against pirated musical and video recordings, cosmetics, and software.

FREEDOM FROM CORRUPTION: *30* — *+ 2.0*

Corruption is perceived as widespread. Zambia ranks 99th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, an improvement for the second year in a row. Controls on government funds and property are weak, investigative units lack authority and personnel, and officials dealing with the public frequently demand illicit payments with impunity. The issuance of land titles has been singled out as particularly susceptible to corruption. A lack of transparency surrounds the liquidation of seized assets. The Anti-Corruption Commission investigates allegations of misconduct.

LABOR FREEDOM: *56.3* — *– 0.7*

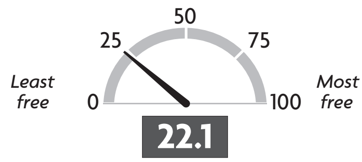
Zambia's labor regulations are outdated and not consistently applied. The non-salary cost of employing a worker is low, but due to requirements for generous severance payments, companies tend to hire workers on an informal or short-term basis. With unskilled labor abundant, an efficient labor market is not fully developed.



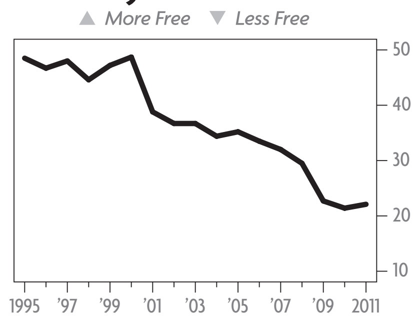
ZIMBABWE

World Rank: 178 **Regional Rank: 46**

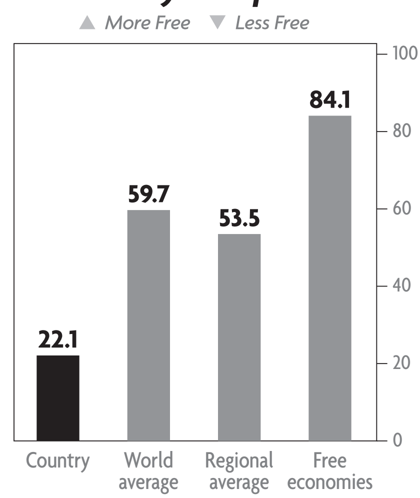
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Zimbabwe's economic freedom score is 22.1, making its economy the 178th freest in the 2011 *Index*. Its score has increased by 0.7 point from last year, reflecting gains in four 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 in the 2011 *Index*.

The Zimbabwean economy is characterized by instability and volatility, both hallmarks of excessive government interference and mismanagement of the economy. The country's fragile economic infrastructure has further crumbled under a tyrannical and oppressive regime.

The financial system, which has suffered from repeated crises, is failing. The lingering impacts of years of hyperinflation have crippled entrepreneurial activity, severely undermining the country's economic potential. The government has used the Reserve Bank of Zimbabwe to finance deficit spending and provide direct loans to state-owned enterprises. 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 (previously known as Rhodesia) had a diversified economy, a well-developed infrastructure, and an advanced financial sector. The white minority eventually agreed to majority government, and Robert Mugabe became prime minister in 1980 and president in 1987. Faced with growing popular dissatisfaction, Mugabe has sought to retain power through political repression and corruption. In 2008, his party lost its majority in parliament, and Mugabe won the runoff election when opposition leader Morgan Tsvangirai withdrew after widespread intimidation directed against his supporters. Under a power-sharing agreement, Mugabe remains head of state, the cabinet, and the armed services. The economy has stabilized a bit, and allowing foreign currencies to be used for all transactions has curtailed inflation. Agriculture has been crippled by expropriation of white-owned commercial farms. Zimbabwe is now one of Africa's poorest countries.

Quick Facts

Population: 11.7 million
GDP (PPP): $4.2 billion
4.0% growth in 2009
–4.7% 5-year compound annual growth
$355 per capita
Unemployment: 95.0%
Inflation (CPI): n/a
FDI Inflow: $60 million

How Do We Measure Economic Freedom?
See page 447 for an explanation of the methodology or visit the *Index* Web site at *heritage.org/index*.

2009 data unless otherwise noted.
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: *32.1* — + 2.1

On average, it is far more time-consuming and burdensome to conduct business in Zimbabwe than elsewhere. The overall regulatory environment is opaque and vulnerable to government intervention. Private entrepreneurial activity is subject to government edicts and rampant corruption.

TRADE FREEDOM: *45* — + 0.2

Zimbabwe's simple average tariff rate was 20 percent in 2008. Import bans and restrictions, services market access restrictions, non-transparent regulations, government controls on exports and domestic trading of major agricultural commodities, and customs inefficiency and corruption add to the cost of trade. Fifteen points were deducted from Zimbabwe's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: *70.3* — + 11.9

Zimbabwe has burdensome tax rates. The top income tax rate is 35 percent, down from 47.5 percent. The top corporate tax rate is 25 percent, down from 30 percent. The respective rates are raised to 36.05 percent and 25.75 percent when a 3 percent AIDS surcharge is considered. Other taxes include a value-added tax (VAT), an inheritance tax, and a capital gains tax. In the most recent year, overall tax revenue as a percentage of GDP was 31.7 percent. Administrative weakness and widespread use of exemptions have rendered effective tax rates much lower than the nominal rates.

GOVERNMENT SPENDING: *0* — *no change*

In the most recent year, total government expenditures, including consumption and transfer payments, equaled 97.8 percent of GDP. Underinvestment has led to inadequate infrastructure. The wage bill is high and climbing.

MONETARY FREEDOM: *0* — *no change*

Inflation averaged over 300 percent between 2007 and 2009. The government sets price ceilings for such essential commodities as agricultural seeds, bread, maize meal, sugar, beef, stock feeds, and fertilizer; controls the prices of basic goods and food staples; influences prices through subsidies and state-owned enterprises and utilities; and has begun to arrest traders for not complying with orders to cut prices on a range of products. If Zimbabwe had a positive monetary freedom score, 15 points would be deducted to account for measures that distort domestic prices.

INVESTMENT FREEDOM: *0* — *no change*

The 2008 Indigenization Act limited foreign investment in any company to a maximum of 49 percent. Several sectors of the economy have an even lower cap for foreign investment. Bureaucracy is non-transparent and corrupt, and the risk of expropriation, which is used to promote "indigenization," is high. The weak rule of law, restrictive labor rules, and inadequate foreign exchange significantly deter investment. Foreign exchange accounts are subject to government approval and restrictions, and all outward capital transactions are controlled. The government has expropriated land without compensating investors.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 170	Investment Freedom	No. 172
Trade Freedom	No. 174	Financial Freedom	No. 172
Fiscal Freedom	No. 128	Property Rights	No. 176
Government Spending	No. 172	Freedom from Corruption	No. 148
Monetary Freedom	No. 178	Labor Freedom	No. 168

FINANCIAL FREEDOM: *10* — *no change*

Government intervention, inadequate supervision, and political instability have severely undermined Zimbabwe's financial system. In recent years, the financial sector has contracted significantly amid continuing uncertainty over economic policies and macroeconomic instability caused by the government. Many banks suffer from a lack of liquidity, and the government has begun to tighten its control. The government has used banking institutions to finance deficit spending and direct loans to state-owned enterprises. In order to raise funds for the state, it has also forced insurance companies and pension funds to invest between 25 percent and 35 percent of their portfolios in prearranged government bonds. The high cost of financing, coupled with scarce access to credit, has virtually destroyed the private sector.

PROPERTY RIGHTS: *5* — *no change*

The government's growing control of the economy puts many investments, particularly in real property, at risk. The U.N. estimates that the government's Operation Restore Order caused more than 700,000 persons to lose their homes, their means of livelihood, or both. Many of the confiscated properties had proper titles. The executive branch strongly influences the judiciary and openly challenges court outcomes. Corruption and expropriation are common.

FREEDOM FROM CORRUPTION: *22* — + 4.0

Corruption is perceived as pervasive. Zimbabwe ranks 146th out of 179 countries in Transparency International's Corruption Perceptions Index for 2009, an improvement from 2008. There is widespread corruption in government. Top officials hand-pick multiple farms and register them in the names of family members to evade the official one-farm policy, and individuals aligned with top officials are allowed to seize land that is not designated for acquisition.

LABOR FREEDOM: *36.8* — − 11.4

The formal labor market is not functioning due to the government's failed economic policies and continuing control. Labor regulations are not enforced effectively.

Appendix

Index of Economic Freedom Scores, 1995–2011

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	n/a	n/a	n/a	n/a
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
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
Angola	27.4	24.4	24.2	24.9	23.7	24.3	n/a	n/a	n/a	n/a	n/a	43.5	44.7	46.9	47.0	48.4	46.2
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
Armenia	n/a	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
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
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
Azerbaijan	n/a	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	59.7
The Bahamas	71.8	74.0	74.5	74.5	74.7	73.9	74.8	74.4	73.5	72.1	72.6	72.3	72.0	71.1	70.3	67.3	68.0
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
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
Barbados	n/a	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
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
Belgium	n/a	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
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
Benin	n/a	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
Bhutan	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	57.7	57.0	57.6
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
Bosnia and Herzegovina	n/a	n/a	n/a	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
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
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
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
Burkina Faso	n/a	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
Burma	n/a	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
Burundi	n/a	n/a	45.4	44.7	41.1	42.6	n/a	n/a	n/a	n/a	n/a	48.7	46.9	46.2	48.8	47.5	49.6
Cambodia	n/a	n/a	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
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

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Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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
Cape Verde	n/a	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
Central African Republic	n/a	n/a	n/a	n/a	n/a	n/a	n/a	59.8	60.0	57.5	56.5	54.2	50.6	48.6	48.3	48.4	49.3
Chad	n/a	n/a	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
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
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
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
Comoros	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	43.3	44.9	43.8
Congo, Demo. Republic of	41.4	39.5	39.5	40.6	34.0	34.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	42.8	41.4	40.7
Congo, Republic of	n/a	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
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
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
Croatia	n/a	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
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
Cyprus	n/a	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
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
Denmark	n/a	67.3	67.5	67.5	68.1	68.3	68.3	71.1	73.2	72.4	75.3	75.4	77.0	79.2	79.6	77.9	78.6
Djibouti	n/a	n/a	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
Dominica	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	62.6	63.2	63.3
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
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
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
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
Equatorial Guinea	n/a	n/a	n/a	n/a	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
Eritrea	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	38.5	35.3	36.7
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
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

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Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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
Finland	n/a	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
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
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
The Gambia	n/a	n/a	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
Georgia	n/a	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
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
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
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
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
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
Guinea–Bissau	n/a	n/a	n/a	n/a	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
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
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
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
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
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
Iceland	n/a	n/a	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
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
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
Iran	n/a	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
Iraq	n/a	17.2	17.2	17.2	17.2	17.2	17.2	15.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
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
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
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
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
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

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Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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
Kazakhstan	n/a	n/a	n/a	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
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
Kiribati	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	45.7	43.7	44.8
Kuwait	n/a	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
Kyrgyz Republic	n/a	n/a	n/a	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
Laos	n/a	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
Latvia	n/a	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
Lebanon	n/a	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
Lesotho	n/a	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
Liberia	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	48.1	46.2	46.5
Libya	n/a	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
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	n/a	n/a	n/a	n/a
Lithuania	n/a	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
Luxembourg	n/a	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
Macau	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	72.0	72.5	73.1
Macedonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	58.0	60.1	56.8	56.1	59.2	60.6	61.1	61.2	65.7	66.0
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
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
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
Maldives	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	51.3	49.0	48.3
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
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
Mauritania	n/a	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
Mauritius	n/a	n/a	n/a	n/a	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
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
Micronesia	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	51.7	50.6	50.3
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

Index of Economic Freedom Scores, 1995–2011

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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
Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	n/a	46.6	43.5	n/a	n/a	n/a	n/a	n/a	58.2	63.6	62.5
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
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
Namibia	n/a	n/a	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
Nepal	n/a	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
The Netherlands	n/a	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
New Zealand	n/a	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
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
Niger	n/a	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
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
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
Norway	n/a	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
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
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
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
Papua New Guinea	n/a	58.6	56.7	55.2	56.3	55.8	57.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	54.8	53.5	52.6
Paraguay	65.9	67.1	67.3	65.2	63.7	64.0	60.3	59.6	58.2	56.7	53.4	55.6	58.3	60.0	61.0	61.3	62.3
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
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
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
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
Qatar	n/a	n/a	n/a	n/a	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
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
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
Rwanda	n/a	n/a	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
Saint Lucia	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	68.8	70.5	70.8

Index of Economic Freedom Scores, 1995–2011

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Saint Vincent and The Grenadines	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	64.3	66.9	66.9
Samoa	n/a	47.6	51.5	49.9	58.7	60.8	63.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	59.5	60.4	60.6
São Tomé and Príncipe	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	43.8	48.8	49.5
Saudi Arabia	n/a	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
Senegal	n/a	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
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	46.6	43.5	n/a	n/a	n/a	n/a	n/a	56.6	56.9	58.0
Seychelles	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	47.8	52.0	51.2
Sierra Leone	49.8	52.3	45.0	47.7	47.2	44.2	n/a	n/a	42.2	43.6	44.8	45.2	47.0	48.3	47.8	47.9	49.6
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
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
Slovenia	n/a	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
Solomon Islands	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	46.0	45.5	45.9
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
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
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
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
Sudan	39.4	39.2	39.9	38.3	39.6	47.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Suriname	n/a	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
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
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
Switzerland	n/a	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
Syria	n/a	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
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
Tajikistan	n/a	n/a	n/a	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
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
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
Timor-Leste	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	50.5	45.8	42.8

Index of Economic Freedom Scores, 1995–2011

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Togo	n/a	n/a	n/a	n/a	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
Tonga	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	54.1	53.4	55.8
Trinidad and Tobago	n/a	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
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
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
Turkmenistan	n/a	n/a	n/a	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
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
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
United Arab Emirates	n/a	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
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
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
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
Uzbekistan	n/a	n/a	n/a	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
Vanuatu	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	58.4	56.4	56.7
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
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
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
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	59.7
Zimbabwe	48.5	46.7	48.0	44.6	47.2	48.7	38.8	36.7	36.7	34.4	35.2	33.5	32.0	29.5	22.7	21.4	22.1

Methodology for the 10 Economic Freedoms

The *Index of Economic Freedom* is constructed through analysis of 10 specific components of economic freedom, some of which 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.

FREEDOM #1: 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* study:

- Starting a business—procedures (number);
- Starting a business—time (days);
- Starting a business—cost (% of income per capita);
- Starting a business—minimum capital (% of income per capita);
- Obtaining a license—procedures (number);[1]
- 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).[2]

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

1. Obtaining a license indicates necessary procedures, time, and cost in getting construction permits.
2. 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.

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 the 10 factors, the exception being the 14 licensing procedures required by the government, which equates to a score of 64.5 for that factor.

Each factor is converted to a scale of 0 to 100 using the following equation:

$$\text{Factor Score}_i = 50 \times \text{factor}_{average} / \text{factor}_i$$

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 18 procedures to get necessary licenses. Canada's 14 licensing procedures is a factor value better than the average, resulting in a ratio of 1.29. That ratio multiplied by 50 equals the final factor score of 64.5.

For the eight countries that are not covered by the World Bank's *Doing Business* study, business freedom is scored by looking into business regulations based on qualitative information from reliable and internationally recognized sources.[3]

Sources. Unless otherwise noted, the Index relies on the following sources in determining business freedom scores, in order of priority: World Bank, *Doing Business 2011*; Economist Intelligence Unit, *Country Report* and *Country Commerce*, 2008–2010; U.S. Department of Commerce, *Country Commercial Guide*, 2008–2010; and official government publications of each country.

FREEDOM #2: 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.

3. Eight countries are not covered by the World Bank's *Doing Business* study: 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.

- **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, India received a trade freedom score of 64.2. By itself, India's weighted average tariff of 7.9 percent would have yielded a score of 84.2, but the existence of significant NTBs in India reduced the score by 20 points.

Gathering data on tariffs 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 1999. 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 produces 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.[4] In the very few cases where data on duties and customs revenues are not available, data on international trade taxes or an estimated effective tariff rate are used instead. In all cases, an effort is made to clarify the type of data used and the different sources for those data in the corresponding write-up for the trade policy component.

Sources. Unless otherwise noted, the *Index* relies on the following sources to determine scores for trade policy, in order of priority: World Bank, *World Development Indicators 2010* and *Data on Trade and Import Barriers: Trends in Average Applied Tariff Rates in Developing and Industrial Countries*,

4. MFN is now referred to as permanent normal trade relations (PNTR).

1981–2009; World Trade Organization, *Trade Policy Review*, 1995–2010; Office of the U.S. Trade Representative, *2010 National Trade Estimate Report on Foreign Trade Barriers*; World Bank, *Doing Business 2010* and *Doing Business 2011*; U.S. Department of Commerce, *Country Commercial Guide*, 2008–2010; Economist Intelligence Unit, *Country Report* and *Country Commerce*, 2008–2010; and official government publications of each country.

FREEDOM #3: 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
- Total tax revenue as a percentage of GDP.

In scoring the fiscal freedom component, each of these numerical variables is weighted equally as one-third of the factor. 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 2011 *Index*, Mauritius has a flat rate of 15 percent for both individual and corporate tax rates, which yields a score of 93.3 for each of the two factors. Mauritius' overall tax revenue as a portion of GDP is 19 percent, yielding a revenue factor score of 89.2. When the three factors are averaged together, Mauritius'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," 2008–2010; PricewaterhouseCoopers, *Worldwide Tax Summaries*, 2008–2010; 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*, 2008–2010.

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 2010*; International Monetary Fund, *Staff Country Report*, "Selected Issues," and *Staff Country Report*, "Article IV Consultation," 2008–2010; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2008–2010*; World Trade Organization, *Trade Policy Reviews*, 2008–2010; official government publications of each country; and individual contacts from government agencies and multinational organizations such as the IMF and World Bank.

FREEDOM #4: 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. 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 governments receive very low scores.

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 2010*; International Monetary Fund, *Staff Country Report*, "Selected Issues and Statistical Appendix," and *Staff Country Report*, "Article IV Consultation," 2008–2010; Asian Development Bank, *Key Indicators 2008–2010*; African Development Bank, *Selected Statistics on African Countries 2009*; official government publications of each country; and Economist Intelligence Unit, *Country Report* and *Country Profile*, 2008–2010.

FREEDOM #5: 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 factor is based on two factors:

- The weighted average inflation rate for the most recent three years and
- Price controls.

The weighted average inflation rate for the most recent three years serves as the primary input into an equation that generates the base score for monetary freedom. The extent of price controls is then assessed as a penalty of up to 20 points subtracted from the base score. The two equations used to convert inflation rates into the monetary freedom score are:

$$\text{Weighted Avg. Inflation}_i = \theta_1\,\text{Inflation}_{it} + \theta_2\text{Inflation}_{it-1} + \theta_3\,\text{Inflation}_{it-2}$$

$$\text{Monetary Freedom}_i = 100 - \alpha\,\sqrt{\text{Weighted Avg. Inflation}_i} - \text{PC penalty}_i$$

where θ_1 through θ_3 (thetas 1–3) represent three numbers that sum to 1 and are exponentially smaller in sequence (in this case, values of 0.665, 0.245, and 0.090, respectively); $Inflation_{it}$ is the absolute value of the annual inflation rate in country *i* during year *t* as measured by the consumer price index; α represents a coefficient that stabilizes the variance of scores; and the price control (PC) penalty is an assigned value of 0–20 points based on the extent of price controls. The convex (square root) functional form was chosen to create separation among countries with low inflation rates. A concave functional form would essentially treat all hyperinflations as equally bad, whether they were 100 percent price increases annually or 100,000 percent, whereas the square root provides much more gradation. The α coefficient is set to equal 6.333, which converts a 10 percent inflation rate into a freedom score of 80.0 and a 2 percent inflation rate into a score of 91.0.

Sources. Unless otherwise noted, the *Index* relies on the following sources for data on monetary policy, in order of priority: International Monetary Fund, *International Financial Statistics Online*; International Monetary Fund, *World Economic Outlook April 2010*; Economist Intelligence Unit, *Country Report*, 2006–2010; and official government publications of each country.

FREEDOM #6: 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. Moreover, 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 are 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*, 2006–2010; Office of the U.S. Trade Representative, 2010 *National Trade Estimate Report on Foreign Trade Barriers*; and U.S. Department of Commerce, *Country Commercial Guide*, 2008–2010.

FREEDOM #7: 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 influence.**
- **90—Minimal government influence.** Regulation of financial institutions is minimal but may extend beyond enforcing contractual obligations and preventing fraud.
- **80—Nominal government influence.** 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 influence.** 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 influence.** 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 influence.** 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 influence.** 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 influence.** 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 influence.** 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*, 2008–2010; International Monetary Fund, *Staff Country Report*, "Selected Issues," and *Staff Country Report*, "Article IV Consultation," 2008–2010; Organisation for Economic Co-operation and Development, *Economic Survey*; official government publications of each country; U.S. Department of Commerce, *Country Commercial Guide*, 2008–2010; Office of the U.S. Trade Representative, *2010 National Trade Estimate Report on Foreign Trade Barriers*; U.S. Department of State, *Investment Climate Statements 2008–2010*; World Bank, *World Development Indicators 2010*; and various news and magazine articles on banking and finance.

FREEDOM #8: 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*, 2008–2010; U.S. Department of Commerce, *Country Commercial Guide*, 2008–2010; U.S.

Department of State, *Country Reports on Human Rights Practices*, 2008–2010; and various news and magazine articles.

FREEDOM #9: 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 2009, which measures the level of corruption in 180 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.[5] This procedure considers the extent to which corruption prevails in a country. The higher the level of corruption, the lower the level of overall economic freedom and the lower a country's score.

Sources. Unless otherwise noted, the *Index* relies on the following sources for information on informal market activities, in order of priority: Transparency International, *Corruption Perceptions Index*, 2009; U.S. Department of Commerce, *Country Commercial Guide*, 2008–2010; Economist Intelligence Unit, *Country Commerce* and *Country Report*, 2008–2010; Office of the U.S. Trade Representative, *2010 National Trade Estimate Report on Foreign Trade Barriers*; and official government publications of each country.

FREEDOM #10: 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.

Six quantitative factors are equally weighted, with each counted as one-sixth of the labor freedom component:[6]

- 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* study, these factors specifically examine labor regulations that affect "the hiring and redundancy of workers and the rigidity of working hours."[7]

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5. Four countries are not covered by the 2009 CPI: the Bahamas, Fiji, Micronesia, and North Korea.

6. 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 the quantitative data before that time.

7. 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 2011 *Index*, the three indices were reconstructed by *Index* authors, according to the methodology used previously by the *Doing Business* study.

In constructing the labor freedom score, each of the six factors is converted to a scale of 0 to100 based on the following equation:

$$\text{Factor Score}_i = 50\ \text{factor}_{average}/\text{factor}_i$$

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 has 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* study, the labor freedom component is scored by looking into labor market flexibility based on qualitative information from other reliable and internationally recognized sources.[8]

Sources. Unless otherwise noted, the *Index* relies on the following sources for data on labor freedom, in order of priority: World Bank, *Doing Business 2010–2011*; Economist Intelligence Unit, *Country Report* and *Country Commerce*, 2008–2010; U.S. Department of Commerce, *Country Commercial Guide*, 2008–2010; and official government publications of each country.

ASSESSING OVERALL ECONOMIC FREEDOM

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.

Period of Study. For the current *Index of Economic Freedom*, scores are generally based on data for the period covering the second half of 2009 through the first half of 2010. To the extent possible, the information considered for each factor was current as of June 30, 2010. 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, 2007, to December 31, 2009.

CONTINUITY AND CHANGE

With more than 15 years of experience measuring economic freedom in over a hundred nations annually, we have found that two issues regularly challenge our methodology.

The first challenge has to do with outdated data. Country data in the most up-to-date sources are often several years old. Also, countries often make policy changes during the year of grading. Sometimes the policy changes are not reflected in official data, and sometimes the changes are proposed but not made law, or made law but not enforced. Additionally, a country can experience a violent conflict or catastrophe that interrupts all efforts to measure the economy.

8. See note 3.

The second challenge is the balance between quality and consistency of the *Index* itself. The benefit, for comparison purposes, of methodological consistency from one year to the next must be balanced against opportunities to incorporate new data and methods that improve the quality of the current year's scores.

Each time a change in methodology is implemented, we also attempt to make the scores continuous back to 1995. In this way, country performance is comparable from one year to the next.

Nevertheless, there are still some cases for which new data are not available going back to the first year, at least not at the same level of detail. There is a natural tension between the quality of the *Index* and the continuity of the *Index*. It would be easy to maintain perfect continuity if no changes were ever made, or *vice versa*, but we are committed to incorporating innovations into the methodology to optimize both the quality and continuity of the *Index* rather than simply maximizing one at the expense of the other.

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, 2010). 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 2010 have not affected the rankings for 2011 but will almost certainly show up in scores for the next edition of the *Index*.

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The 2011 *Index of Economic Freedom* relies on data from multiple sources to provide a picture of economic freedom in each country that is as comprehensive, impartial, and accurate as possible. The following sources provided the primary information for analyzing and scoring the 10 components of economic freedom. In addition, the authors and analysts used supporting documentation and information from various government agencies and sites on the Internet, news reports and journal articles, and official responses to inquiries. All statistical and other information received from government sources was verified with independent, internationally recognized sources.

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