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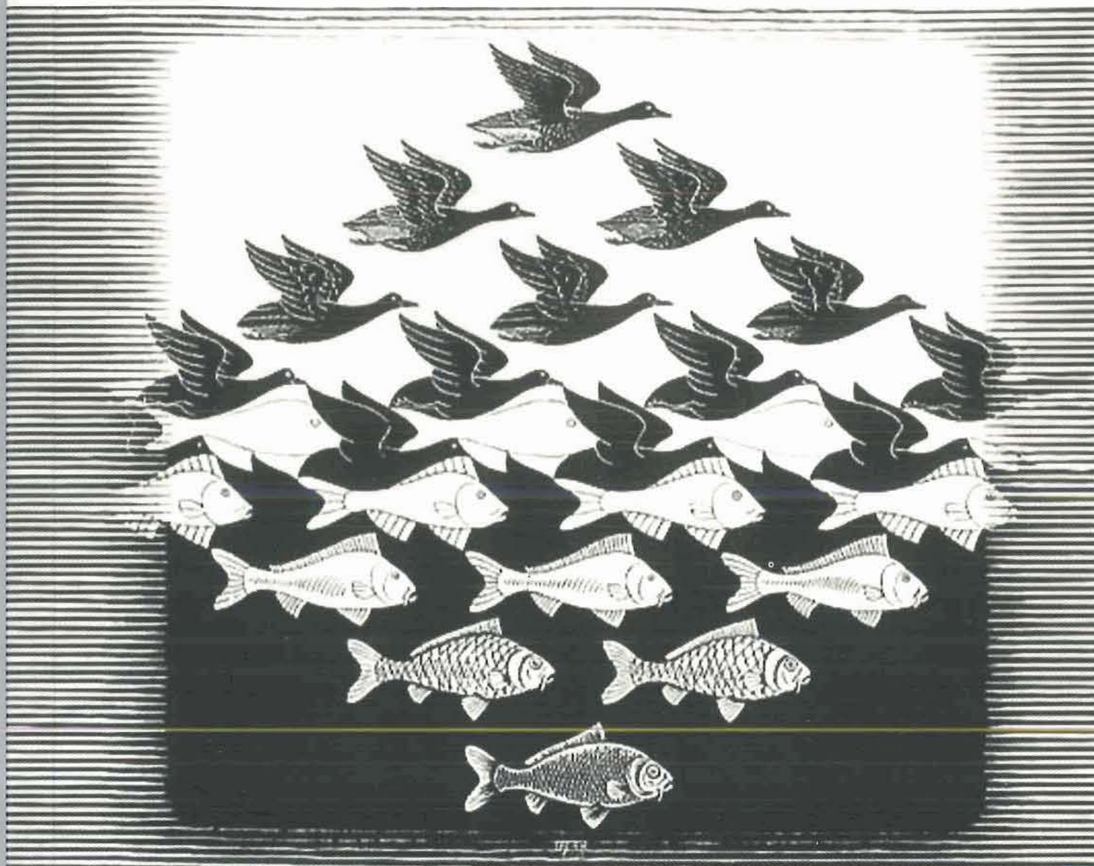

Handbook of Transformation to Market Economy

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Ideas on Liberty

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1. Types of Economies and a Market Economy

Any economic system has mechanisms for taking production, consumption and distribution decisions, of both goods and services. Economic agents (producers and consumers) may take these decisions, in which case, decisions are left to the market. Or these decisions may be taken by an organization like a Planning Commission, acting purportedly on behalf of these consumers and producers. When decisions regarding what is produced (consumption), how it is produced (production), and who gets what is produced (distribution) are taken by a central organization, one gets a planned economy. An extreme form of a planned economy, or centrally planned economy, is a socialist or communist economy. A semantic difference can be drawn between a socialist and a communist economy, but that is not pertinent for present purposes. On the other hand, these resource allocation decisions, and such decisions also concern cross-border trade and investment, can be taken by free economic agents, without intervention from the state. In such instances, one has capitalism or a market economy. A market is not a physical market. It is a notional place where buyers and sellers come together to exchange information and react to information received. As such, the market is governed by certain institutional arrangements. What distinguishes an economy is thus the nature of its institutions.

A market economy is often equated with the expression *laissez-faire*. This expression was first used by French thinkers known as the physiocrats in the 18th century. But *laissez-faire* is an incomplete expression. The complete expression is *laissez-faire, laissez-aller, laissez-passer*. Translated loosely, this means let do, let go, let pass. Allow people to do what they want. Allow people (and things) to go where they want. Allow things to freely pass (across borders and within the country). However, one must be a little careful when describing economies as capitalist or socialist. The world isn't binary and there is actually a continuum extending from pure market economies at one end to pure planned economies at the other. Most real-life economies are neither pure market, nor pure planned. They are placed somewhere along that continuum, the difference is one of degrees. Nor should one forget that there are informal or black segments within national economies also. That is, while the national economy may be planned, because policies, rules and regulations are unrealistic, they will be flouted and a parallel market-based economy may flourish. The more unrealistic the policies, rules and regulations, typically, the larger will be the black or illegal economy. The expressions informal economy and black economy may be used synonymously and interchangeably, but they are distinct. The informal or underground economy is essentially an unregistered or unrecognized segment that doesn't enter into national income accounts. It isn't necessarily illegal. In contrast, the black component is completely illegal. Several years ago, the Fraser Institute attempted to quantify the global magnitude of the underground economy.[1] More recently, there is an excellent paper by Schneider that computes the size of the informal economy in 110 countries of the world.[2] Admittedly, there are problems with measurement. Subject to this problem, the study finds out that informal segments account for 42% of GDP (gross domestic product) in Africa, 26% in Asia, 41% in South and Latin America, 38% in transition economies, 18% in West European OECD countries and 13.5% in North American and Pacific OECD countries. Based on employment, the ILO also has estimated the size of the informal economy.[3] For non-agricultural employment in developing countries, we have figures like 48% in North Africa, 51% in Latin America, 65% in Asia and 72% in sub-Saharan Africa. The black economy is a subset of the informal economy.

1 The Underground Economy: Global Evidence of its Size and Impact, edited by Owen Lippert and Michael Walker, The Fraser Institute, 1997. Although titled global, this study was essentially restricted to Canada, United States, Mexico, Britain, China, and Russia.

2 Size and Measurement of the Informal Economy in 110 Countries around the World, Friedrich Schneider, July 2002, http://rru.worldbank.org/Documents/PapersLinks/informal_economy.pdf. The figures cited in the text are regional averages. The paper actually has individual country figures.

3 Women and Men in the Informal Economy: A statistical picture, ILO, 2002.

However, it is impossible to obtain reliable cross-country estimates on the size of the black economy.

To get back to the point, why is a market economy superior? First, one must not forget the moral point about an individual's right to choose. After all, the father of modern economics, Adam Smith (1723-1790) was not only a political economist, but also a moral philosopher. Second, there is the efficiency argument. Even if producers and consumers pursue their own myopic self-interests, through what Adam Smith called the invisible hand, society gains. In *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), Adam Smith wrote,

> "As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual value of society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it."[4]

This is almost a counter-intuitive proposition. Every individual promotes his/her narrow self-interests, yet that results in the best possible outcome for society. The formal proof for this invisible hand proposition had to wait for many years. Actually, there are two formal proofs, concerning what are called the two fundamental theorems of welfare economics. The first welfare theorem states that a competitive equilibrium resulting from the inter-play of market forces leads to efficient resource allocation.[5] The second welfare theorem states that every efficient allocation can emerge as competitive equilibrium, given a set of prices and a set of initial conditions. Admittedly, assumptions need to be satisfied for both theorems to be true, with more stringent assumptions for the second theorem than for the first. Stated somewhat

4 One must remember the context. Adam Smith was writing against mercantilism, a school that believed while a government should push exports, it should deter imports through protection.

5 This was proved by Kenneth Arrow and Gerard Debreu in the 1950s. Competitive equilibrium and efficiency (strictly speaking, Pareto efficiency) are interpreted in very specific senses.

simply, the theorems result from the role that prices play as signaling devices. No additional information is required for agents to take the best possible decisions. In contrast, where a central planner has to take the same decisions, the informational demands would be stupendous. This was a point built on by Ludwig von Mises and Friedrich Hayek. Third, if one emphasizes dynamic rather than static concepts alone, both Max Weber and Joseph Schumpeter, in their own different ways, stressed the importance of capitalism in promoting entrepreneurship and development. Fourth, and this emerges from some of Milton Friedman's work, even if a market economy has problems, state intervention only makes life worse. Admittedly, the two fundamental theorems of welfare economics require satisfaction of some assumptions. If these are not satisfied, one might have situations of market failure. In these situations, either markets don't exist. Or even if they do, prices don't reflect all social costs and benefits. However, even if there is market failure, and we will come back to this point a little later, it is by no means obvious that state intervention brings benefits commensurate with the costs. Fifth, and this is an important point, economic freedom is invariably correlated with political freedom.

This is not to suggest that the market solves everything. As was mentioned earlier, a market requires existence of institutions. It is the primary task of the government, through the executive, the legislature and the judiciary, to ensure that institutions that foster individual rights, a prerequisite for

market economies to function, exist. Hence, the role of the state is to ensure individual property rights, rule of law, a swift and credible dispute resolution system and national defence. Yet, we know that governments try to do many more things. The World Development Indicators database tells us that in 2004, government expenditure as a share of GDP was 15.5% in Singapore, a relatively free country. However, the figure was 47.1% in France and 63.0% in Madagascar.

If a market economy is superior on so many different counts, why do governments try to intervene and dabble? There are several different reasons. First and foremost, there is concern over equity, since capitalism is equated with unequal distribution of wealth, income and even power. Concerns over equity have indeed been the driving force behind many socialist movements. However, one has to be careful about what one means by equity. For a start, there is a notion of inequality that is a relative concept. And there is a notion of poverty, which is an absolute concept, for example, the idea that people should have a per capita income that is above 1 US $ or 2 US $ per day.[6] One can even extend the poverty line idea and argue that there should be minimum access to education and health, such as the targets set out under the Millennium Development Goals (MDGs).[7] But there is con-

6 These are standard international poverty lines used for cross-country comparisons. The dollar figures are on PPP (purchasing power parity) basis and are expressed in 1985 prices.

7 These are developmental goals that developing countries should try to

fusion on at least four different counts in reacting to concerns over equity. First, there can be an argument that everyone should have equitable access to health, education, information and so on. These are like inputs into the process. But this is not the same as arguing that everyone should have the same levels of income, income being like outputs of the process. Everyone should have the right to join a school, regardless of gender, class, religion or ethnicity. But does that mean that everyone should graduate from school or that everyone should have the same passing-out marks? Second, there is confusion over the absolute target of reducing poverty and the relative one of reducing inequality. It is possible to think of two situations where the level of income inequality is higher in the first than in the second, but the absolute income levels of the poor (and the rich) are higher in the first than in the second. Why should one presume that the second situation (with lower inequality, but also lower incomes) is preferable to the first (with higher inequality, but also higher incomes)? Socialism is sometimes interpreted as public[8] ownership of the means of production, since private ownership of the means of production was believed to lead to inequality. In the process, competition was shackled and efficiency suffered. Growth also suffered.

attain by 2015.

8 Public ownership need not be the same as state ownership. But de facto, it generally became state ownership. And what do means of production mean? One can think of public ownership of land, capital and perhaps even labour. But how does one have public ownership of entrepreneurship, the driving force behind all development?

Stated differently, instead of focusing on increasing the size of the cake, the attempt was to redistribute a smaller cake. How did that benefit the poor? Third, there is confusion between a state's financing role and the state's provisioning role. There can indeed be a case for the state to subsidize the poor, although the form and content of these subsidies, and opportunity costs of resources thus spent, should be debated. But that's not the same as an argument that the state should actually run schools or hospitals. State subsidies are compatible with choice and competition. They need not be equated with state monopolies. Fourth, the equity issue becomes compounded by the phenomenon of globalization, interpreted as free (or freer) cross-border movements of goods, services, labour, capital, technology and information. Competition triggers efficiency and growth, but globalization is only one element of competition. If a country globalizes through opening up its borders, but restricts competition within the country, it is no one's case that globalization will benefit that particular country. There is also a lot of unnecessary debate about what has happened to global poverty and inequality after globalization. The facts speak for themselves. The World Development Indicators database tells us that between 1990 and 2002, the percentage of population below the international poverty line of 1 US $ per day in developing countries declined from 28% to 19%. The decline wasn't that sharp in sub-Saharan Africa or Middle East and North Africa.[9] And because of growth in popu-

9 The transition economies of Europe and Central Asia don't represent

lation, the absolute numbers of the poor went up in Africa. But globally, there was a decline in poverty rates. There was even a decline in rates in Africa, although the absolute numbers of the poor went up. This then leads to the point that the poverty rate declines should have been higher in Africa. And they would have been, had there been growth in Africa. And there would have been growth in Africa, had policy focused on ensuring internal competition. The picture on global income inequality is less clear, since the answer depends a lot on what indicator one uses to measure inequality, separate indicators being possible. Subject to this problem, the data tell us something like the following. Global income inequality has declined because of growth in Western Europe (catching up with the United States), East Asia, China and India. But notwithstanding this general decline, there is a problem in sub-Saharan Africa, Eastern Europe, Latin America and the Arab countries, because growth there has not been fast enough. Plus, there is the problem that inequality within countries (especially the larger ones) has increased.

The second reason behind state intervention in the functioning of market forces has to do with the fact that the world of perfect competition, interpreted as a large number of producers producing homogenous products, is rare. Instead, the world is one of monopolies and oligopolies, of product differentiation and branding. People often mention natural

a large share of global population and also belong to a special category. There, poverty increased in the 1990s, before subsequently declining.

monopolies. The definition of a natural monopoly is a technical one, with two strands (both relating to costs) feeding into the definition. First, there may be very high fixed costs of entering the industry, so that long run average costs decline as output increases and in the long run, only one firm may be able to survive. Second, there may be economies of scale in production. As a result of this, a single firm may be the more efficient producer. Classic examples of natural monopolies are utilities like telecommunications, water services, electricity supply and delivery of mail. However, one must remember that with changes in technology and possibilities of unbundling, natural monopolies also change over time. For example, the natural monopoly in canals in 18th century Britain was completely overtaken by the development of railways. It may also be possible to segment and offer competition in parts of the market, electricity distribution or water services being instances. The more pertinent point is about behaviour of monopolists, natural or otherwise. Do they create entry barriers, through restrictive business practices, so that competition through new entry is stifled? If they do not, and lower costs through increasing returns to scale are passed on to consumers, why is the monopoly bad?[10] Even if there is a monopoly, is that a case

10 There is a standard textbook exposition comparing equilibrium under monopoly with equilibrium under perfect competition. This demonstrates that the monopolist will charge higher prices (or equivalently, produce a lower volume of output) than a perfectly competitive firm. However, this demonstration assumes that cost conditions remain the same in the two cases and this won't be true if there are increasing returns to scale.

for the state to take over the monopoly? How is a public monopoly preferable to a private one? Many countries have competition policies that are in the nature of regulation, to control monopolies and oligopolies. Such policies are based on structure (market share), conduct (restrictive and unfair business practices[11]) or performance (prices, profitability). But if there aren't barriers to entry, including artificial entry barriers created through government licensing, high market shares or high prices[12] or high profitability will be whittled down over a period of time through new entry. If there are regulatory policies, these should then be focused on conduct and there is scope for discussion on the content of such regulation, since regulation can also lead to costs.[13]

The third set of reasons behind state intervention centre around externalities, which can be either positive or negative. Externalities simply mean that private costs don't include all social costs or that private benefits don't include all social benefits. Hence, market-based calculations formed through private costs and benefits may be inappropriate.

11 Restrictive business practices concern dealings between the firm and rival firms, existing or potential. Unfair business practices concern dealings between the firm and consumers.

12 Predatory pricing should be mentioned, predatory pricing implying initial low prices to drive out the competition, followed by high prices after the competition has been driven out. However, although predatory pricing is often mentioned, it is impossible to establish a priori.

13 Information asymmetry, where buyers don't possess the same information as sellers, provides yet another rationale for regulation, such as in financial markets.

But an externality doesn't necessarily mean that markets will fail, since there are ways of internalizing complete costs and benefits. A special case of externalities is public goods, although the technical definition of a public good is slightly different.[14] It is assumed that if there are public goods, there will be market failure and state provisioning is necessary. For our purposes, two points will suffice. First, instances of public goods are rare, even though the term is indiscriminately used. When one uses the expression public good, often one means not a public good, but a collective private good or a merit good, the latter warranting subsidies. Second, to the extent that there are actual public goods, there are ways of handling the problem other than through state provisioning. After all, as was mentioned earlier, state intervention can also lead to state failure.

Winston Churchill once said, "It has been said that democracy is the worst form of government except all the others that have been tried." It is no one's case that a market economy doesn't have warts and blemishes. However, it is far superior to all the other systems that have been tried.

14 A pure public good satisfies two conditions – non-rivalness and non-excludability. The first means that one person's consumption doesn't reduce the amount available for another person's consumption. The second means that a person cannot be prevented from consuming a public good, even if he/she doesn't pay, the so-called free rider problem.

2. Freedom and Economic Freedom

As human beings we ought to be assured of a minimum of core human rights. For example, these rights may cover security (protection against crime), liberty (belief, religion, association, assembling, movement), politics, due process (protection against abuses of the legal system), equality, welfare and so on. The existence of a state implies that some of these individual rights are going to be constrained, in the name of a greater public good. But which of these rights are inalienable or irrevocable, in the sense that they cannot be taken away by the state? Human rights that are called negative rights clearly belong to this category. The use of the expression "negative" implies that the state, or even a private body, cannot take action to remove these rights. Examples are right to life and individual security, freedom from slavery, equality before the law, due process followed by law, freedom of movement, freedom of speech, freedom of religion, freedom of assembly and even the right to bear arms. These core human rights represent the essence of freedom and have been captured in legislation, national as well as international. The Universal Declaration of Human Rights in 1948 is an example of such international legislation, although it is not quite a legally binding instrument. This declaration covers human, civil, economic and social rights. And such notions of negative rights are perfectly in consonance with what one understands by freedom and economic freedom.

The problem arises when one moves from negative rights to positive rights, also set out in the Universal Declaration of Human Rights. These rights are supposedly rights that the state must protect and provide. Examples are right to education, right to health-care and right to a livelihood. In the 30 Articles that constitute the Universal Declaration, these positive or economic rights occur towards the end. For example, Article 22 states, "Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international co-operation and in accordance with the organization and resources of each state, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality." Article 24 adds, "Everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay." Finally, in Article 26(1) we have, "Everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory." Many people wouldn't regard these positive rights as core human rights that should be protected, unlike the negative ones. Indeed, these positive rights go against the notion of economic freedom, since their delivery adversely affects the freedom of others.

Be that as it may, there can be several different facets of freedom – civil, political and economic. In 1944, Friedrich Hayek wrote a very influential book titled "The Road to Serfdom".[15] This book not only represents the essence of what is now called economic freedom, it also makes the important distinction between negative human rights (the core) and positive human rights (the undesirable and the non-core). "'Planning' owes its popularity largely to the fact that everybody desires, of course, that we should handle our common problems with as much foresight as possible. The dispute between the modern planners and the liberals is not on whether we ought to employ systematic thinking in planning our affairs. It is a dispute about what is the best way of doing so. The question is whether we should create conditions under which the knowledge and initiative of individuals are given the best scope so that they can plan most successfully; or whether we should direct and organize all economic activities according to a 'blueprint', that is, 'consciously direct the resources of society to conform to the planners' particular views of who should have what'.[...] The successful use of competition does not preclude some types of government interference. For instance, to limit working hours,

15 The Road to Serfdom, Friedrich Hayek, Routledge Press and University of Chicago, 1944.

to require certain sanitary arrangements, to provide an extensive system of social services is fully compatible with the preservation of competition."[16] Or, "But there are two kinds of security: the certainty of a given minimum of sustenance for all and the security of a given standard of life, of the relative position which one person or group enjoys compared with others. There is no reason why, in a society which has reached the general level of wealth ours has, the first kind of security should not be guaranteed to all without endangering general freedom; that is: some minimum of food, shelter and clothing, sufficient to preserve health. Nor is there any reason why the state should not help to organize a comprehensive system of social insurance in providing for those common hazards of life against which few can make adequate provision. It is planning for security of the second kind which has such an insidious effect on liberty. It is planning designed to protect individuals or groups against diminutions of their incomes."

It is important to draw this distinction, because thanks to the large volume of rights-based economic literature being produced, freedom (even economic freedom) is sometimes interpreted in too broad a fashion. For example, "Development can be seen, it is argued here, as a process of expanding the real freedoms that people enjoy. Focusing on human freedom contrasts with narrower views of development, such as identifying development with the growth of

16 Quotations from the abridged Reader's Digest version, April 1945.

gross national product, or with the rise in personal incomes, or with industrialization, or with technological advance, or with social modernization. Growth of GNP or of individual incomes can, of course, be very important as means to expanding the freedoms enjoyed by the members of the society. But freedoms depend also on other determinants, such as social and economic arrangements (for example, facilities for education and health care) as well as political and civil rights (for example, the liberty to participate in public discussion and scrutiny.) Development requires the removal of major sources of unfreedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or overactivity of repressive states. Despite unprecedented increases in overall opulence, the contemporary world denies elementary freedoms to vast numbers – perhaps even the majority – of people. Sometimes the lack of substantive freedoms relates directly to economic poverty, which robs people of the freedom to satisfy hunger, or to achieve sufficient nutrition, or to obtain remedies for treatable illnesses, or the opportunity to be adequately clothed or sheltered, or to enjoy clean water or sanitary facilities. In other cases, the unfreedom links closely to the lack of public facilities and social care, such as the absence of epidemiological programs, or of organized arrangements for health care or educational facilities, or of effective institutions for the maintenance of local peace and order. In still other cases, the violation of freedom results directly from a denial of political and civil liberties by authoritarian regimes and from imposed

restrictions on the freedom to participate in the social, political and economic life of the community."[17] More specifically, five instrumental freedoms are mentioned in this book – economic facilities, political freedoms, social opportunities, transparency guarantees and protective security. In the subsequent and related rights-based literature, the point is made that development is not only about improvements in outcomes, but also about processes.

As with Hayek in 1944, Milton Friedman's "Capitalism and Freedom"[18], another very influential book, reiterates the core values of economic freedom. The argument is made that economic freedom is not only an end in itself, but is also a vital ingredient in the drive towards political freedom. This doesn't mean that in a market economy, there is no role for the government. The role of the government should be restricted to enforcement of law and order and preservation of property rights, taking regulatory action against monopolies and reduction of externalities.[19] "Economic arrangements play a dual role in the promotion of a free society. On the one hand, freedom in economic arrangements is itself a

17 Development as Freedom, Amartya Sen, Anchor Books reprint 2000, originally published 1999.
18 Capitalism and Freedom, Milton Friedman, University of Chicago Press, 1962. Similar arguments were expressed in the more popular book (and television series) Free to Choose, Milton Friedman and Rose Friedman, Harcourt, 1980. Slightly fewer known is a 1992 pamphlet by Milton Friedman, titled Economic Freedom, Human Freedom, Political Freedom.
19 Friedman used the expression neighbourhood effects.

component of freedom broadly understood, so economic freedom is an end in itself. In the second place, economic freedom is also an indispensable means toward the achievement of political freedom. The first of these roles of economic freedom needs special emphasis because intellectuals in particular have a strong bias against regarding this aspect of freedom as important. They tend to express contempt for what they regard as material aspects of life, and to regard their own pursuit of allegedly higher values as on a different plane of significance and as deserving of special attention. For most citizens of the country, however, if not for the intellectual, the direct importance of economic freedom is at least comparable in significance to the indirect importance of economic freedom as a means to political freedom. Viewed as a means to the end of political freedom, economic arrangements are important because of their effect on the concentration or dispersion of power. The kind of economic organization that provides economic freedom directly, namely, competitive capitalism, also promotes political freedom because it separates economic power from political power and in this way enables the one to offset the other. Historical evidence speaks with a single voice on the relation between political freedom and a free market. I know of no example in time or place of a society that has been marked by a large measure of political freedom, and that has not also used something comparable to a free market to organize the bulk of economic activity. So long as effective freedom of exchange is maintained, the central feature of the market organization of economic activity is that it prevents one person from interfering with another in respect of most of his activities. The consumer is protected from coercion by the seller because of the presence of other sellers with whom he can deal. The seller is protected from coercion by the consumer because of other consumers to whom he can sell. The employee is protected from coercion by the employer because of other employers for whom he can work, and so on. And the market does this impersonally and without centralized authority. Indeed, a major source of objection to a free economy is precisely that it does this task so well. It gives people what they want instead of what a particular group thinks they ought to want. Underlying most arguments against the free market is a lack of belief in freedom itself. The existence of a free market does not of course eliminate the need for government. On the contrary, government is essential both as a forum for determining the "rules of the game" and as an umpire to interpret and enforce the rules decided on. What the market does is to reduce greatly the range of issues that must be decided through political means, and thereby to minimize the extent to which government need participate directly in the game. 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 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 that we refer to when we say that the market provides economic freedom. But this characteristic also has implications that go far beyond the narrowly economic. Political freedom means the absence of coercion of a man by his fellow men. The fundamental threat to freedom is power to coerce, be it in the hands of a monarch, a dictator, an oligarchy, or a momentary majority. The preservation of freedom requires the elimination of such concentration of power to the fullest possible extent and the dispersal and distribution of whatever power cannot be eliminated – a system of checks and balances. By removing the organization of economic activity from the control of political authority, the market eliminates this source of coercive power. It enables economic strength to be a check to political power rather than a reinforcement.

3. A Digression on Governance

Let us digress in this section on the notion of governance, meaning public governance, as opposed to corporate governance. Clearly, governance is more than the formal institutions of government, the executive, the judiciary and the legislature. It is also about decision-making processes and about interactions between civil society and these formal institutions. Good governance will be characterized by predictability, transparency and accountability, while bad governance will be the opposite. Having said this, it is not easy to define governance. Three commonly-used definitions will illustrate the point. To the United Nations Development Programme, "Governance is the system of values, policies and institutions by which a society manages its economic, political and social affairs through interactions within and among the state, civil society and private sector. It is the way a society organizes itself to make and implement decisions – achieving mutual understanding, agreement and action. It comprises the mechanisms and processes for citizens and groups to articulate their interests, mediate their differences and exercise their legal rights and obligations. It is the rules, institutions and practices that set limits and provide incentives for individuals, organizations and firms. Governance, including its social, political and economic dimensions, operates at every level of human enterprise, be it the household, village, municipality, nation, region or globe."[20] For the World Bank, "We define governance as the traditions and institutions by which authority in a country is exercised for the common good. This includes (i) the process by which those in authority are selected, monitored and replaced, (ii) the capacity of the government to effectively manage its resources and implement sound policies, and (iii) the respect of citizens and the state for the institutions that govern economic and social interactions among them."[21] And finally, for the European Commission, "Governance concerns the state's ability to serve the citizens. It refers to the rules, processes, and behaviours by which interests are articulated, resources are managed, and power is exercised in society. The way public functions are carried out, public resources are managed and public regulatory powers are exercised is the major issue to be addressed in this context. In spite of its open and broad character, governance is a meaningful and practical concept relating to the very basic aspects of the functioning of any society and political and social systems. It can be described as a basic measure of stability and performance of a society. As the concepts of human rights, democratisation and democracy, the rule of law, civil society, decentralized power sharing, and sound public administration gain importance and relevance as a society develops into a more sophisticated political system, governance evolves into good governance."[22] These definitions may complement one another and even overlap. But they are not identical.

20 UNDP Strategy Note on Governance for Human Development, 2004.

21 World Bank Institute Website, http://www.worldbank.org/wbi/governance

Defining governance may have been difficult, measuring and quantifying it is virtually impossible.[23] Some of these problems are the following. First, some governance indicators depend on *de jure* international commitments made by countries and these may have no relation with what actually obtains *de facto*. These are indicators based on ratification of standards, codes or treaties, but monitoring implementation is close to impossible. Second, governance measurement should be based on tangible improvements in outcomes or performance. These are indeed the kinds of indicators one uses in measuring and quantifying economic development. However, governance is a process and quite apart from the problem of differing perceptions about what should be included and what should be excluded in governance, objective data are impossible to obtain. Hence, one relies on subjective responses to questionnaires administered to

22 Communication on Governance and Development, October 2003, COM (03) 615.

23 There is a detailed discussion of these problems in Sudders, M. and Nahem, J, Governance Indicators: A Users' Guide, UNDP, Oslo, 2004 and Christiane Arndt and Charles Oman, Uses and Abuses of Governance Indicators, OECD, Development Centre Studies, 2006.

respondents. Each such survey raises questions about sample designs, sample sizes and even the questions themselves, apart from the issue of inherent subjectivity and a perceptional problem. Third, while on these surveys, there is an issue of converting what is fundamentally an ordinal or ranking response to cardinal values. This is typically done through scores. Fourth, the normative assumptions in questions cannot be ignored. For example, voter turnouts are used as a proxy for democracy, the value judgment being that high voter turnouts are better. But in countries where voting is not compulsory, non-voting also represents a choice. Alternatively, questions may be asked about the period between detention and trial, the value judgment being that the shorter the period, the better. However, justice is also about a fair trial, not just a speedy trial. Fifth, once one has obtained the scores, they must be aggregated to arrive at a composite figure and this requires choice of weighting and differing weights can lead to differing overall results. The point is not to denigrate the use of governance surveys. After all, one is trying to capture something that is difficult to measure. However, most governance surveys tend to gloss over these problems and suggest robustness in governance estimation that simply does not exist. To compound matters, such surveys are used not only to track temporal changes in a country over time, but also to make cross-country comparisons.

Despite these problems, governance surveys can be useful. In general, in any governance survey, some indicators are

used. These are then aggregated, using a method of weighting, to obtain the value of an index. Such an index typically has scores, which can then be used to rank various countries. In reacting to surveys, people invariably get obsessed with ranks. What is a country's rank vis-à-vis other countries? How has that rank changed over time? But ranks can be misleading. For example, in one situation, the first country may have an index value or score of 2.02, while the second country may have an index value of 2.01. In another situation, the first country may have an index value of 4.02, while the second country has an index value of 1.01. In both situations, the first country is ranked ahead of the second country, but clearly, the difference is much more in the second situation than in the first. This also becomes important because ranks are dependent on the aggregation and weighting method followed. The underlying scores tend to be more robust, both for cross-country purposes and for tracking temporal changes. If across a range of governance surveys a country doesn't perform well, despite the aforementioned problems with surveys, one can deduce that the country isn't doing all that well. In that sense, governance surveys can be useful. Not by considering only one survey, but a battery of them, because each of them captures some part of governance, like the story about the blind men and the elephant. Although this monograph is about economic freedom, there is a reason for flagging governance surveys. Many governance surveys capture ingredients that are directly or indirectly related to the concept of economic freedom.[24] It is therefore useful to have a sketch of what these surveys show.

3.1 The Bertelsmann Transformation Index (BTI)[25]

The BTI exists since 2004 and the latest (2006) ranking evaluates 119 developing and transition economies. But the BTI is itself divided into two sub-indices, a Status Index (SI) and a Management Index (MI). The MI is more about managing the process of political transition towards a market-based democracy and is less relevant for purposes of economic freedom. The SI, which captures transition towards democracy and a market-based economy, is less about the capacity of political decision makers, is much more relevant. Within the SI, there is a political transformation score and an economic transformation score. There is overlap between what measures of economic freedom seek to capture and what the economic transformation score of SI seeks to quantify and measure. The overall BTI is reproduced in Annexure 1. If one focuses on economic transformation, the success of transition countries like Slovenia, Estonia and the Czech Republic stands out. But there is little improvement in large parts of Africa and even deterioration in countries like Zimbabwe, Eritrea and Cote d'Ivoire. The issue is not just a snapshot of what a country's market economy status is, but the more important one of trends in moving towards a market economy. Is there progression, stagnation or regression?

24 There must be close to 50 cross-country surveys that can be labeled as governance surveys, ignoring those that are internal to countries. But some of these are regional, like Afrobarometer, East Asia Barometer or Latinobarometer. Indeed, some done by multilateral organizations like African Development Bank or Asian Development Bank are also regional. Then there are governance or quasi-governance surveys undertaken by commercial risk rating agencies. Since these are effectively for clients, they are not in the public domain. The ones that are global, so to speak, and are also in the public domain are those that come from what may be called NGOs and think tanks. The ones mentioned in the text are the relevant ones from this category.

25 http://www.bertelsmann-transformation-index.de/atlas.0.html?&L=1

3.2 The Press Freedom Index (PFI)[26]

The freedom of the press is not quite about economic freedom, but it is certainly about freedom in a broader sense. PFI is brought out by Reporters without Borders and covers 168 countries, with a focus on repression against journalists. The 2006 rankings are shown in the table below. (The lower the score, the better it is.) At the bottom of the heap are countries like Iran, China, Burma, Cuba, Eritrea, Turkmenistan and North Korea. Although Northern Europe performs well, what is noteworthy in PFI is that developing countries and transition economies (Bolivia, Bosnia-Herzegovina, Ghana, Benin, Namibia, Mauritius, Panama) often perform better than several European countries or even the United States.

26 http://www.rsf.org/rubrique.php3?id_rubrique=639

The Press Freedom Index

N°	Country	Score
1	Finland	0,50
-	Iceland	0,50
-	Ireland	0,50
-	Netherlands	0,50
5	Czech Republic	0,75
6	Estonia	2,00
-	Norway	2,00
8	Slovakia	2,50
-	Switzerland	2,50
10	Hungary	3,00
-	Latvia	3,00
-	Portugal	3,00
-	Slovenia	3,00
14	Belgium	4,00
-	Sweden	4,00
16	Austria	4,50
-	Bolivia	4,50
-	Canada	4,50
19	Bosnia and Herzegovina	5,00
-	Denmark	5,00
-	New-Zealand	5,00
-	Trinidad and Tobago	5,00
23	Benin	5,50
-	Germany	5,50
-	Jamaica	5,50
26	Namibia	6,00
27	Lithuania	6,50
-	United Kingdom	6,50
29	Costa Rica	6,67
30	Cyprus	7,50
31	South Korea	7,75
32	Greece	8,00
-	Mauritius	8,00
34	Ghana	8,50
35	Australia	9,00
-	Bulgaria	9,00
-	France	9,00
-	Mali	9,00
39	Panama	9,50
40	Italy	9,90
41	El Salvador	10,00
-	Spain	10,00
43	Taiwan	10,50
44	South Africa	11,25
45	Cape Verde	11,50
-	Macedonia	11,50
-	Mozambique	11,50
-	Serbia and Montenegro	11,50
49	Chile	11,63
50	Israel	12,00
51	Japan	12,50
52	Dominican Republic	12,75
53	Botswana	13,00
-	Croatia	13,00
-	Tonga	13,00

-	United States of America	13,00
57	Uruguay	13,75
58	Fiji	14,00
-	Hong-Kong	14,00
-	Poland	14,00
-	Romania	14,00
62	Central African Republic	14,50
-	Cyprus (North)	14,50
-	Guinea-Bissau	14,50
-	Honduras	14,50
66	Madagascar	15,00
-	Togo	15,00
68	Ecuador	15,25
69	Nicaragua	15,50
70	Burkina Faso	16,00
-	Kosovo	16,00
-	Lesotho	16,00
73	Congo	17,00
-	Kuwait	17,00
75	Brazil	17,17
76	Argentina	17,30
77	Mauritania	17,50
-	Senegal	17,50
-	United Arab Emirates	17,50
80	Albania	18,00
-	Qatar	18,00
82	Paraguay	18,25
83	Timor-Leste	18,50
84	Liberia	19,00

85	Moldova	19,17
86	Mongolia	19,25
87	Haiti	19,50
88	Tanzania	19,82
89	Georgia	21,00
90	Guatemala	21,25
91	Angola	21,50
92	Malaysia	22,25
93	Comoros	22,50
-	Zambia	22,50
95	Niger	24,50
-	Seychelles	24,50
97	Morocco	24,83
98	Bhutan	25,00
-	Côte d'Ivoire	25,00
-	Turkey	25,00
101	Armenia	25,50
-	Malawi	25,50
103	Indonesia	26,00
-	Sierra Leone	26,00
105	India	26,50
-	Ukraine	26,50
107	Lebanon	27,00
108	Cambodia	27,25
109	Guinea	27,50
-	Jordan	27,50
111	Bahrein	28,00
112	Cameroon	28,25
-	Peru	28,25

114	Gabon	28,50
115	Venezuela	29,00
116	Uganda	29,83
117	Tajikistan	30,00
118	Kenya	30,25
119	United States of America (extra-territorial)	31,50
120	Nigeria	32,23
121	Djibouti	33,00
122	Thailand	33,50
123	Kyrgyzstan	34,00
124	Chad	35,50
125	Burundi	39,83
126	Algeria	40,00
127	Swaziland	40,50
128	Kazakhstan	41,00
-	Rwanda	41,00
130	Afghanistan	44,25
131	Colombia	44,75
132	Mexico	45,83
133	Egypt	46,25
134	Palestinian Authority	46,75
135	Azerbaijan	47,00
-	Israel (extra-territorial)	47,00
137	Bangladesh	48,00
-	Equatorial Guinea	48,00
139	Sudan	48,13
140	Zimbabwe	50,00
141	Sri Lanka	50,75
142	Democratic Republic of Congo	51,00

-	Philippines	51,00
144	Maldives	51,25
-	Somalia	51,25
146	Singapore	51,50
147	Russia	52,50
148	Tunisia	53,75
149	Gambia	54,00
-	Yemen	54,00
151	Belarus	57,00
152	Libya	62,50
153	Syria	63,00
154	Iraq	66,83
155	Vietnam	67,25
156	Laos	67,50
157	Pakistan	70,33
158	Uzbekistan	71,00
159	Nepal	73,50
160	Ethiopia	75,00
161	Saudi Arabia	76,00
162	Iran	90,88
163	China	94,00
164	Burma	94,75
165	Cuba	95,00
166	Eritrea	97,50
167	Turkmenistan	98,50
168	North Korea	109,00

3.3 Freedom House[27]

Freedom House has several different rankings. There is a *Nations in Transit* ranking, but that's only for a limited number of 27 countries in Central Europe, Eastern Europe and Central Asia. There is a *Countries at the Crossroads* ranking of government performance in 60 countries. There is a *Freedom of the Press* ranking (in existence since 1980) and the more widely-quoted *Freedom in the World* ranking. Since we have just talked about PFI, let's consider Freedom House's *Freedom of the Press* (FP) ranking first. This now covers 194 countries and territories and has a broader sense of media independence than the coverage in PFI, which primarily focuses on freedom of journalists. In FP, a country's media is ranked as "free", "partly free" or "not free". In 1996, the world's ranking looks like the following and there aren't significant dissimilarities in findings between PFI and FP. For example, in FP, Burma, Cuba, Libya, North Korea and Turkmenistan are at the bottom of the league tables. Kyrgyzstan, Ukraine, Liberia and Mauritania may have improved in FP, but Timor-Leste, Nepal, the Philippines, Thailand, Botswana, Ethiopia and Uganda have deteriorated. Subject to the inevitable subjectivity in rankings, what is worrying is that only 17% of the world's population lives in countries that have a free press. 40% lives in countries that have a partly free press and 43% lives in countries that don't have a free press.

27 www.freedomhouse.org

Freedom of the Press (FP)

Rank	Country	Rating	Status
1	Finland	9	Free
	Iceland	9	Free
3	Denmark	10	Free
	Norway	10	Free
	Sweden	10	Free
6	Belguim	11	Free
	Luxembourg	11	Free
	Netherlands	11	Free
	Switzerland	11	Free
10	Liechtenstein	13	Free
	New Zealand	13	Free
12	Andorra	14	Free
	Palau	14	Free
	Portugal	14	Free
15	Ireland	15	Free
	Marshall Islands	15	Free
17	Bahamas	16	Free
	Estonia	16	Free
	Germany	16	Free
	Monaco	16	Free
	St.Vincent & Grenadines	16	Free
	United States	16	Free
23	Barbados	17	Free
	Jamaica	17	Free
	San Marino	17	Free
26	Canada	18	Free
	Costa Rica	18	Free
	Lithuania	18	Free
	Malta	18	Free
	St.Lucia	18	Free

31	Australia	19	Free
	Dominica	19	Free
	Latvia	19	Free
	United Kingdom	19	Free
35	Czech Republic	20	Free
	Japan	20	Free
	Micronesia	20	Free
	Slovakia	20	Free
	Slovenia	20	Free
	Taiwan	20	Free
41	Austria	21	Free
	Belize	21	Free
	France	21	Free
	Hungary	21	Free
	Poland	21	Free
	Spain	21	Free
	St. Kitt and Nevis	21	Free
48	Cyprus	22	Free
49	Grenada	23	Free
	Suriname	23	Free
51	Mali	24	Free
52	Vanuatu	25	Free
53	Chile	26	Free
	Mauritius	26	Free
	Trinidad & Tobago	26	Free
	Tuvalu	26	Free
57	Guyana	27	Free
	South Africa	27	Free

59	Fiji	28	Free
	Ghana	28	Free
	Greece	28	Free
	Israel	28	Free
	Kiribati	28	Free
	Uruguay	28	Free
65	Hong Kong	29	Free
	Papua New Guinea	29	Free
	Samoa	29	Free
	Sao Tome & Principe	29	Free
69	Benin	30	Free
	Namibia	30	Free
	Nauru	30	Free
	Solomon Islands	30	Free
	South Korea	30	Free
74	Cape Verde	32	Partly Free
	Tonga	32	Partly Free
76	Bolivia	33	Partly Free
77	Bulgaria	34	Partly Free
	Mongolia	34	Partly Free
79	Botswana	35	Partly Free
	Italy	35	Partly Free
81	Dominican Republic	37	Partly Free
	India	37	Partly Free

83	Antigua & Barbuda Burkina Faso	38 38	Partly Free Partly Free
85	Brazil Croatia East Timor Peru	39 39 39 39	Partly Free Partly Free Partly Free Partly Free
89	Philippines Serbia & Montenegro	40 40	Partly Free Partly Free
91	Ecuador	41	Partly Free
92	Lesotho	42	Partly Free
93	El Salvador Mozambique Panama	43 43 43	Partly Free Partly Free Partly Free
96	Nicaragua Senegal Romania	44 44 44	Partly Free Partly Free Partly Free

99	Argentina Bosnia-Herzegovina	45 45	Partly Free Partly Free
101	Comoros Guinea-Bissau	47 47	Partly Free Partly Free
103	Mexico Turkey	48 48	Partly Free Partly Free
105	Macedonia Madagascar	49 49	Partly Free Partly Free
107	Albania Tanzania Thailand	50 50 50	Partly Free Partly Free Partly Free
110	Congo (Brazzaville)	51	Partly Free
111	Honduras Uganda	52 52	Partly Free Partly Free
113	Ukraine	53	Partly Free
114	Nigeria	54	Partly Free

115	Malawi	55	Partly Free
116	Kuwait Niger	56 56	Partly Free Partly Free
118	Georgia Mauritania Paraguay	57 57 57	Partly Free Partly Free Partly Free
121	Guatemala Kenya Indonesia Sri Lanka	58 58 58 58	Partly Free Partly Free Partly Free Partly Free
125	Sierra Leone	59	Partly Free
126	Lebanon Seychelles	60 60	Partly Free Partly Free
128	Algeria Cambodia Central African Republic Colombia Egypt Jordan Morocco Pakistan Qatar	61 61 61 61 61 61 61 61 61	Not Free Not Free Not Free Not Free Not Free Not Free Not Free Not Free Not Free

137	Armenia Kyrgyzstan Liberia Zambia	64 64 64 64	Not Free Not Free Not Free Not Free
141	Angola Bhutan Cameroon Cote d'Ivoire Malaysia Moldova United Arab Emirates	65 65 65 65 65 65 65	Not Free Not Free Not Free Not Free Not Free Not Free Not Free
148	Singapore	66	Not Free
149	Gabon Guinea	67 67	Not Free Not Free
151	Bangladesh Haiti	68 68	Not Free Not Free
153	Afghanistan Djibouti	69 69	Not Free Not Free
155	Maldives Oman	70 70	Not Free Not Free
157	Iraq	71	Not Free
158	Bahrain Russia Venezuela	72 72 72	Not Free Not Free Not Free
161	Azerbaijan Chad The Gambia	73 73 73	Not Free Not Free Not Free
164	Burundi	74	Not Free
165	Ethiopia Kazakhstan	75 75	Not Free Not Free

167	Tajikistan	76	Not Free
168	Brunei Nepal Swaziland	77 77 77	Not Free Not Free Not Free
171	Togo	78	Not Free
172	Saudi Arabia Vietnam	79 79	Not Free Not Free
174	Congo (Kinshasa) Laos Yemen	81 81 81	Not Free Not Free Not Free
177	China Somalia Tunisia	83 83 83	Not Free Not Free Not Free
180	Iran Syria	84 84	Not Free Not Free
182	Rwanda Sudan	85 85	Not Free Not Free
184	Israeli Occupied Territories/Palestinian Authority	86	Not Free
185	Belarus Equatorial Guinea	88 88	Not Free Not Free
187	Uzbekistan Zimbabwe	90 90	Not Free Not Free
189	Eritrea	91	Not Free
190	Burma Cuba Libya Turkmenistan	96 96 96 96	Not Free Not Free Not Free Not Free
194	North Korea	97	Not Free

Freedom House's *Freedom in the World* (FW) ranking, which has been in existence since 1978, is much more known. This now covers 192 countries and FW is divided into two sub-categories of political rights and civil liberties. In the 2006 rankings, 45.97% of the world's population lives in countries that are "free", covering both political rights and civil liberties. 36.10% lives in countries that are "partly free" and 17.93% lives in countries that are "not free". But the overall global level of freedom has been increasing, with variations across regions and variations across countries within the same region. There have been gains in countries like Ukraine, Indonesia, Trinidad and Tobago, Afghanistan, Central African Republic, Kyrgyzstan, Lebanon, Mauritania and the Palestinian Authority. But there have been deteriorations in Guyana, the Philippines, Thailand and Nepal. A visual depiction is sometimes more powerful than a dry statement of numbers in a table. Annexure 2 therefore reproduces the map of freedom in the world. The problem areas in Africa, the Middle East, Russia, China, Central Asia, Pakistan and some parts of South-East Asia stand out.

3.4 World Competitiveness Yearbook (WCY)[28]

As the name suggests, Institute of Management Development's *World Competitiveness Yearbook* (WCY) is about a country's competitiveness, not about freedom *per se*. However,

28 http://www.imd.ch/research/publications/wcy

this competitiveness ranking is in turn based on four factors[29] (economic performance, government efficiency, business efficiency and infrastructure) that stress the inherent superiority of a competitive and market-based economy. Hence, indirectly, WCY is also about economic freedom. In existence since 1996, WCY now covers 61 regions, some of these actually being sub-regions of an economy, as in Bavaria (Germany), Catalonia (Spain), Ile-de-France (France), Lombardy (Italy), Maharashtra (India), Scotland (United Kingdom), Sao Paulo (Brazil) and Zhejiang (China). WCY's competitiveness scoreboard for 2006 is given in Annexure 3. It is fairly obvious from the rankings that market economies tend to do better.

3.5 Global Competitiveness Report (GCR)[30]

World Economic Forum's *Global Competitiveness Report* (GCR) is, in many respects, a parallel report to the WCY. Although the origins go back to 1979, in its present form, GCR has existed since 1996 and now covers 125 economies. Within the GCR, the most interesting index is the GCI (global competitiveness index), based on eight pillars that drive productivity and competitiveness – institutions, infrastructure, macroeconomy, health and primary education, higher education and training, market efficiency, technological readiness, business sophistication and innovation. As with

29 Each factor is in turn divided into five sub-factors.

30 http://www.weforum.org/en/initiatives/gcp

WCY, within these pillars, the emphasis is again on competition and market forces. The 2005 and 2006 GCI rankings are shown in Annexure 4. While it is not surprising that market-based economies should do well, improvements in countries like Tunisia, Qatar, Kuwait, Indonesia, Croatia, Turkey, Morocco, Guatemala and Algeria shouldn't be missed out.

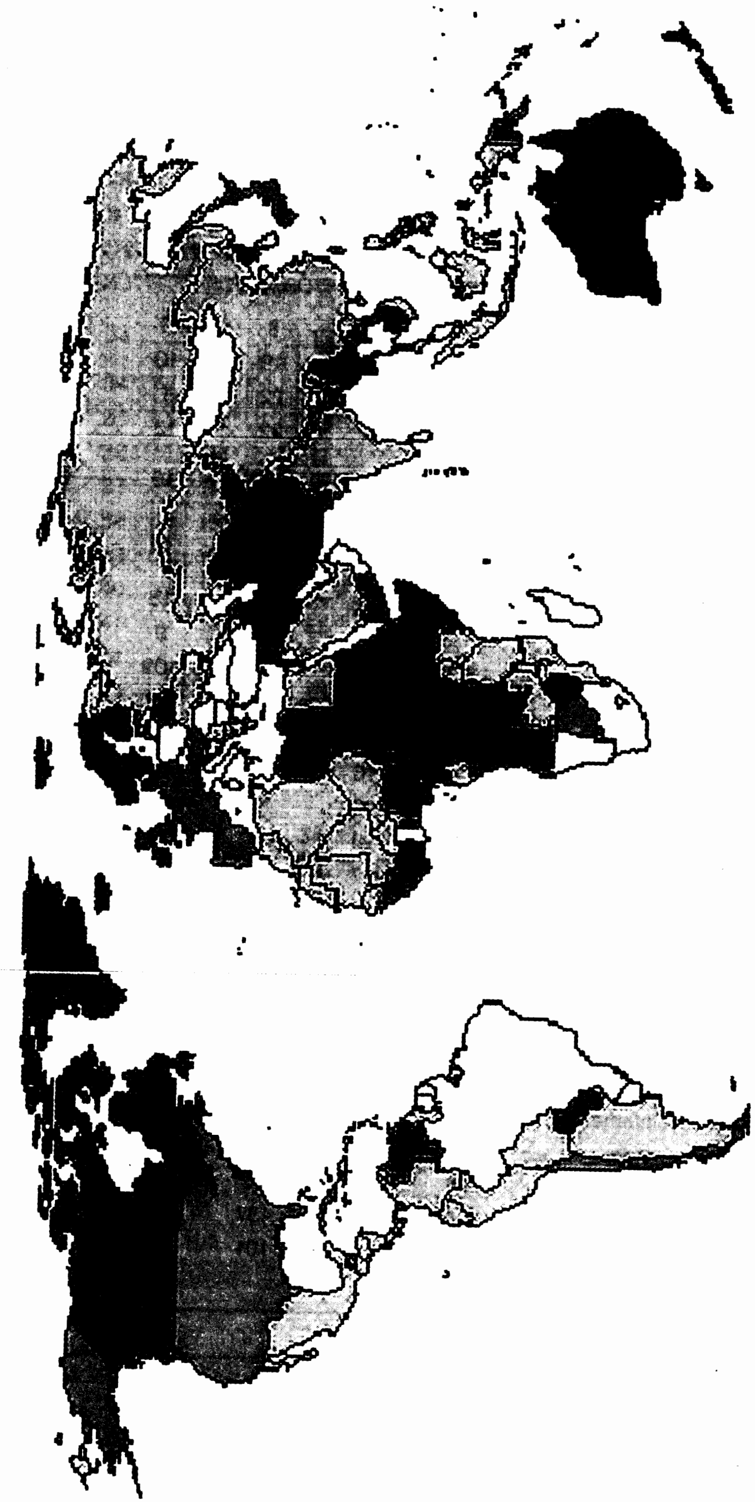
3.6 The World Bank

The World Bank has two sets of indicators that are relevant to our discussion. First, the World Bank Institute has a "Governance Matters" set of indicators[31], with governance measured under six aggregate heads or clusters – voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and corruption. Not all of these heads are immediately identifiable with a market economy, although the correlation is obvious enough. The map that follows is a governance map of the world. Green areas show countries that are in the top quartile (above 75th percentile), yellow shows countries that are in the second best quartile (above 50th percentile), orange shows countries that are in the third quartile (above 25th percentile) and red shows countries that are in the bottom quartile (below 25th percentile). In a regional sense, the problem areas in Africa, the Middle East, Central Asia and South-East Asia are obvious enough.

31 http://info.worldbank.org/governance/kkz2005

The second set of World Bank indicators is the "Doing Business" rankings.[32] 175 economies are ranked across ten indicators (starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business) to obtain an overall ease of doing business rank. The lower is state intervention, the greater will be the dependence on the market and lower compliance and transaction costs of doing business. The tables that follow the map show how these 175 economies perform on this ranking.

32 http://www.doingbusiness.org/EconomyRankings



Ease of Doing Business Ranks – I

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Licenses	Employing Workers	Register-ing Property	Getting Credit
Singapore	1	11	8	3	12	7
New Zealand	2	3	18	10	1	3
United States	3	3	22	1	10	7
Canada	4	1	32	13	22	7
Hong Kong, China	5	5	64	16	60	2
United Kingdom	6	9	46	17	19	1
Denmark	7	14	6	15	36	13
Australia	8	2	29	9	27	3
Norway	9	21	14	109	6	33
Ireland	10	6	20	83	80	7
Japan	11	18	2	36	39	13
Iceland	12	16	30	42	8	13
Sweden	13	20	17	94	7	33
Finland	14	18	35	111	15	21
Switzerland	15	27	38	24	11	21
Lithuania	16	48	23	119	3	33
Estonia	17	51	13	151	23	48
Thailand	18	28	3	46	18	33
Puerto Rico	19	8	91	33	46	21
Belgium	20	37	48	23	158	48
Germany	21	66	21	129	42	3
Netherlands	22	38	80	86	20	13
Korea	23	116	28	110	67	21
Latvia	24	25	65	123	82	13
Malaysia	25	71	137	38	66	3
Israel	26	15	101	82	150	7
St. Lucia	27	43	10	29	51	101
Chile	28	32	40	58	30	33
South Africa	29	57	45	87	69	33
Austria	30	74	50	103	28	21
Fiji	31	55	27	28	71	21
Mauritius	32	30	49	64	156	83
Antigua and Barbuda	33	22	15	40	71	101
Armenia	34	46	36	41	2	65
France	35	12	26	134	160	48
Slovakia	36	63	47	72	5	13
Georgia	37	36	42	6	16	48
Saudi Arabia	38	156	44	21	4	65
Spain	39	102	53	161	33	21
Portugal	40	33	115	155	98	65
Samoa	41	91	51	11	60	83
Namibia	42	86	19	44	127	33
Mexico	43	61	30	108	79	65
St. Vincent and the Grenadines	44	29	1	48	101	83
Mongolia	45	55	34	61	17	65
Kuwait	46	104	109	20	69	83
Taiwan, China	47	94	148	154	24	48
Botswana	48	93	136	62	34	13
Romania	49	7	116	101	114	48
Jamaica	50	10	93	26	107	101
Tonga	51	23	37	4	108	117
Czech Republic	52	74	110	45	58	21
Maldives	53	31	9	5	172	143
Bulgaria	54	85	140	100	65	33
Oman	55	81	127	51	14	143
Belize	56	103	4	14	117	83

Papua New Guinea	57	69	102	19	64	101
Vanuatu	58	65	33	96	91	117
Trinidad and Tobago	59	35	81	27	154	48
Kiribati	60	72	76	18	62	101
Slovenia	61	98	63	146	97	48
Palau	62	45	42	7	13	117
Kazakhstan	63	40	119	22	76	48
Uruguay	64	134	56	58	138	33
Peru	65	92	121	158	32	33
Hungary	66	87	143	90	103	21
Nicaragua	67	62	82	32	127	48
Serbia	68	60	157	73	110	33
Solomon Islands	69	76	40	53	159	143
Montenegro	70	83	154	76	106	83
El Salvador	71	123	90	70	49	33
Dominica	72	24	51	50	78	101
Grenada	73	50	12	34	145	83
Pakistan	74	54	89	126	68	65
Poland	75	114	146	49	86	65
Swaziland	76	112	16	47	140	21
United Arab Emirates	77	155	79	57	8	117
Jordan	78	133	70	30	110	83
Colombia	79	90	60	77	56	83
Tunisia	80	59	110	92	71	101
Panama	81	26	72	139	63	13
Italy	82	52	104	101	53	65
Kenya	83	111	24	68	115	33
Seychelles	84	42	69	84	50	159
St. Kitts and Nevis	85	105	7	35	136	117

Lebanon	86	116	99	43	95	48
Marshall Islands	87	13	5	1	172	117
Bangladesh	88	68	67	75	167	48
Sri Lanka	89	44	71	98	125	101
Kyrgyz Republic	90	41	143	63	31	65
Turkey	91	53	148	146	54	65
Macedonia, FYR	92	76	86	117	87	48
China	93	128	153	78	21	101
Ghana	94	145	83	120	113	117
Bosnia and Herzegovina	95	141	160	95	139	7
Russia	96	33	163	87	44	159
Ethiopia	97	95	59	79	146	83
Yemen	98	171	39	53	43	117
Azerbaijan	99	96	162	66	59	21
Nepal	100	49	127	150	25	101
Argentina	101	106	125	138	74	48
Zambia	102	67	123	80	119	83
Moldova	103	84	119	128	47	101
Vietnam	104	97	25	104	34	83
Costa Rica	105	99	57	65	37	33
Micronesia	106	39	11	12	172	101
Uganda	107	107	110	8	166	159
Nigeria	108	118	129	56	170	83
Greece	109	140	55	166	94	83
Malawi	110	89	117	68	90	65
Honduras	111	138	88	81	89	21
Paraguay	112	135	124	169	48	48
Gambia	113	124	73	25	130	143
Lesotho	114	113	75	91	129	117
Morocco	115	47	133	156	45	143

Algeria	116	120	117	93	152	117
Dominican Republic	117	119	77	127	126	33
Guatemala	118	130	165	105	26	48
Iran	119	64	167	141	143	65
Albania	120	121	161	113	76	48
Brazil	121	115	139	99	124	83
Suriname	122	158	100	39	120	117
Ecuador	123	139	60	161	84	65
Croatia	124	100	170	130	109	117
Cape Verde	125	144	93	137	122	65
Philippines	126	108	113	118	98	101
West Bank and Gaza	127	173	108	97	118	65
Ukraine	128	101	107	107	133	65
Belarus	129	148	84	31	96	117
Syria	130	142	87	89	88	117
Bolivia	131	149	57	174	115	65
Gabon	132	142	54	159	149	101
Tajikistan	133	166	85	52	40	143
India	134	88	155	112	110	65
Indonesia	135	161	131	140	120	83
Guyana	136	78	74	60	52	159
Benin	137	126	133	121	85	117
Bhutan	138	79	145	116	41	159
Haiti	139	167	60	37	135	117
Mozambique	140	153	103	157	105	83
Côte d'Ivoire	141	154	158	133	101	143
Tanzania	142	127	172	143	157	117
Cambodia	143	159	159	124	100	174
Comoros	144	136	68	149	83	159
Iraq	145	150	97	114	37	143
Senegal	146	150	66	152	151	143
Uzbekistan	147	70	138	67	165	159
Mauritania	148	164	105	142	55	101
Madagascar	149	110	152	136	162	159
Equatorial Guinea	150	162	96	172	57	143
Togo	151	169	132	145	155	143
Cameroon	152	152	151	135	131	117
Zimbabwe	153	137	171	122	80	101
Sudan	154	82	92	164	29	143
Mali	155	163	122	131	93	143
Angola	156	170	146	167	161	83
Guinea	157	165	166	85	147	117
Rwanda	158	58	133	106	134	159
Lao PDR	159	73	130	71	148	173
Niger	160	147	126	168	103	143
Djibouti	161	157	106	125	137	117
Afghanistan	162	17	..	74	169	174
Burkina Faso	163	131	168	153	164	117
Venezuela	164	129	98	165	75	143
Egypt	165	125	169	144	141	159
Burundi	166	109	164	132	132	159
Central African Republic	167	132	148	160	92	117
Sierra Leone	168	80	156	171	168	117
São Tomé and Principe	169	122	142	175	144	117
Eritrea	170	168	173	55	153	159
Congo, Rep.	171	146	95	163	163	117
Chad	172	174	114	148	122	117
Guinea-Bissau	173	175	78	173	171	143
Timor-Leste	174	160	173	115	172	159
Congo, Dem. Rep.	175	172	140	170	141	159

Ease of Doing Business Ranks – II

Economy	Ease of Doing Business Rank	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Singapore	1	2	8	4	23	2
New Zealand	2	1	10	12	15	21
United States	3	5	62	11	6	16
Canada	4	5	22	8	16	5
Hong Kong, China	5	3	5	1	10	14
United Kingdom	6	9	12	14	22	10
Denmark	7	19	15	3	1	20
Australia	8	46	35	23	7	12
Norway	9	15	16	5	3	3
Ireland	10	5	2	30	24	7
Japan	11	12	98	19	5	1
Iceland	12	83	13	18	8	13
Sweden	13	46	39	9	2	17
Finland	14	46	75	2	13	6
Switzerland	15	156	7	49	9	33
Lithuania	16	60	40	32	4	30
Estonia	17	33	29	6	20	47
Thailand	18	33	57	103	44	38
Puerto Rico	19	12	26	50	127	27
Belgium	20	12	60	36	21	8
Germany	21	83	73	7	29	28
Netherlands	22	99	82	16	31	9
Korea	23	60	48	28	17	11
Latvia	24	46	52	28	11	62
Malaysia	25	4	49	46	81	51
Israel	26	5	62	13	110	36
St. Lucia	27	19	9	45	160	39
Chile	28	19	37	44	73	107
South Africa	29	9	74	67	43	65
Austria	30	142	102	15	14	19
Fiji	31	19	49	70	86	106
Mauritius	32	11	11	21	109	67
Antigua and Barbuda	33	19	145	47	47	54
Armenia	34	83	148	119	18	40
France	35	60	91	26	19	32
Slovakia	36	118	114	88	59	31
Georgia	37	135	104	95	32	86
Saudi Arabia	38	99	6	33	97	87
Spain	39	83	112	25	42	15
Portugal	40	33	61	27	35	18
Samoa	41	19	42	62	54	125
Namibia	42	60	28	144	64	42
Mexico	43	33	126	86	87	25
St. Vincent and the Grenadines	44	19	32	48	125	151
Mongolia	45	19	56	162	41	115
Kuwait	46	19	41	54	79	63
Taiwan, China	47	60	78	42	62	4
Botswana	48	118	67	89	77	22
Romania	49	33	131	35	45	108
Jamaica	50	60	163	74	46	23
Tonga	51	99	81	17	126	92
Czech Republic	52	83	110	41	57	113
Maldives	53	60	1	91	83	114
Bulgaria	54	33	107	104	52	64

Oman	55	60	3	115	101	60
Belize	56	118	33	111	150	24
Papua New Guinea	57	33	91	52	88	97
Vanuatu	58	60	19	120	88	45
Trinidad and Tobago	59	15	27	22	156	151
Kiribati	60	33	14	31	136	151
Slovenia	61	46	84	108	84	35
Palau	62	162	70	66	151	52
Kazakhstan	63	46	66	172	27	100
Uruguay	64	83	76	59	119	37
Peru	65	15	135	93	95	73
Hungary	66	118	118	76	12	48
Nicaragua	67	83	153	72	49	66
Serbia	68	60	64	51	76	103
Solomon Islands	69	46	23	34	102	101
Montenegro	70	19	97	80	115	43
El Salvador	71	99	85	58	116	79
Dominica	72	19	20	97	159	151
Grenada	73	19	45	84	143	151
Pakistan	74	19	140	98	163	46
Poland	75	33	71	102	112	85
Swaziland	76	168	38	133	132	56
United Arab Emirates	77	118	3	10	112	137
Jordan	78	118	18	78	75	84
Colombia	79	33	172	128	141	26
Tunisia	80	151	139	39	40	29
Panama	81	99	164	57	164	71
Italy	82	83	117	110	141	49
Kenya	83	60	127	145	67	128
Seychelles	84	46	24	81	73	151

St. Kitts and Nevis	85	19	116	37	135	151
Lebanon	86	83	54	82	148	111
Marshall Islands	87	151	69	90	103	117
Bangladesh	88	15	72	134	174	93
Sri Lanka	89	60	157	99	90	59
Kyrgyz Republic	90	33	150	173	38	127
Turkey	91	60	65	79	70	138
Macedonia, FYR	92	83	79	127	72	123
China	93	83	168	38	63	75
Ghana	94	33	77	61	50	94
Bosnia and Herzegovina	95	83	111	56	117	69
Russia	96	60	98	143	25	81
Ethiopia	97	118	31	149	82	55
Yemen	98	118	89	107	37	82
Azerbaijan	99	118	136	158	34	70
Nepal	100	60	88	136	105	95
Argentina	101	99	161	71	68	58
Zambia	102	60	25	170	51	104
Moldova	103	99	119	105	55	78
Vietnam	104	170	120	75	94	116
Costa Rica	105	156	160	100	114	118
Micronesia	106	162	45	40	139	148
Uganda	107	60	43	160	71	44
Nigeria	108	46	105	137	66	72
Greece	109	156	108	123	48	34
Malawi	110	60	90	153	134	132
Honduras	111	151	152	85	124	102
Paraguay	112	46	103	117	147	124
Gambia	113	162	165	24	53	76

Lesotho	114	142	44	121	130	57
Morocco	115	118	128	77	127	61
Algeria	116	60	169	109	61	41
Dominican Republic	117	135	146	55	108	142
Guatemala	118	135	122	122	149	83
Iran	119	156	96	87	33	109
Albania	120	162	125	101	99	89
Brazil	121	60	151	53	120	135
Suriname	122	156	21	43	111	143
Ecuador	123	135	53	126	96	134
Croatia	124	156	58	92	28	80
Cape Verde	125	135	100	20	80	151
Philippines	126	151	106	63	59	147
West Bank and Gaza	127	99	55	65	100	151
Ukraine	128	142	174	106	26	139
Belarus	129	142	175	113	36	91
Syria	130	118	59	147	153	77
Bolivia	131	118	166	135	98	53
Gabon	132	99	94	112	77	130
Tajikistan	133	172	154	163	39	50
India	134	33	158	139	173	133
Indonesia	135	60	133	60	145	136
Guyana	136	151	121	155	122	131
Benin	137	46	162	130	162	98
Bhutan	138	118	68	150	56	151
Haiti	139	142	87	138	107	146
Mozambique	140	83	80	141	168	126
Côte d'Ivoire	141	99	134	132	92	68
Tanzania	142	99	113	67	65	105
Cambodia	143	60	16	114	118	151
Comoros	144	83	34	118	167	151
Iraq	145	99	47	164	131	151
Senegal	146	135	159	94	138	74
Uzbekistan	147	118	155	169	30	112
Mauritania	148	..	173	142	85	141
Madagascar	149	46	86	131	106	151
Equatorial Guinea	150	83	137	96	91	151
Togo	151	135	130	64	123	88
Cameroon	152	60	143	140	170	96
Zimbabwe	153	118	95	168	93	150
Sudan	154	142	93	165	158	151
Mali	155	99	141	167	140	99
Angola	156	46	142	146	133	149
Guinea	157	99	156	129	121	119
Rwanda	158	162	83	175	69	151
Lao PDR	159	170	36	161	146	151
Niger	160	99	115	174	104	129
Djibouti	161	168	51	148	169	122
Afghanistan	162	173	30	152	165	151
Burkina Faso	163	99	129	154	143	90
Venezuela	164	162	167	116	129	144
Egypt	165	118	144	83	157	120
Burundi	166	..	123	171	137	121
Central African Republic	167	46	171	156	161	151
Sierra Leone	168	99	138	124	166	140
São Tomé and Principe	169	118	149	69	152	151
Eritrea	170	99	101	151	58	151
Congo, Rep.	171	83	170	166	155	110
Chad	172	99	132	157	171	151
Guinea-Bissau	173	142	109	125	154	151
Timor-Leste	174	142	124	73	175	151
Congo, Dem. Rep.	175	142	147	159	171	145

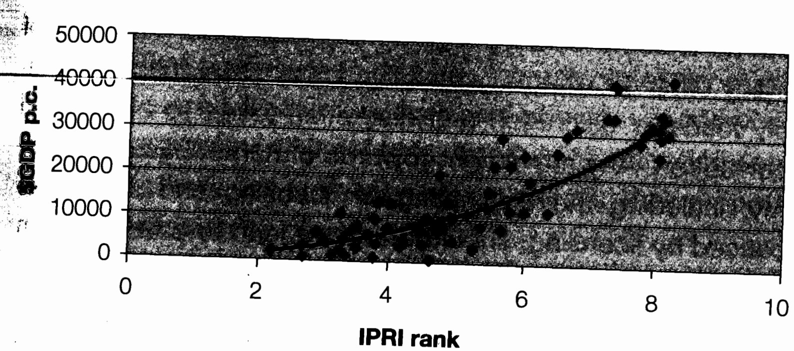
3.7 The International Property Rights Index (IPRI)[33]

The International Property Rights Index (IPRI) is extremely new, 2007 being the first year when the index was constructed for 70 countries. It covers both physical property rights (PPR) and intellectual property rights (IPR) and also includes a third category titled legal and political environment (LP), IPRI being obtained by aggregating across all three categories. The table shows the top five and the bottom five economies in each of the three categories, as well as in the overall index. Protection of property rights is a key element in all market economies. Therefore, it is not surprising that this table should show that known market economies score better than economies with state intervention in all three sub-categories of LP, PPR and IPR, as well as in the overall IPRI. Even more interesting is the chart that depicts correlation between IPRI and the per capita income (GDP) of these 70 countries in the world. The stronger property protection, the higher tends to be per capita income, a surrogate indicator for development. Regionally, Western Europe performs best on the index, followed by North America and Asia/Oceania in that order. Latin America performs the worst, with Africa, Central Europe and Russia just ahead of Latin America.

33 http://internationalpropertyrightsindex.org/index.php?content=home

	IPRI	LP	PPR	IPR
Strongest				
	Norway (rank 1)	New Zealand (rank 3)	Norway (rank 1)	Germany (rank 3)
	Netherlands (rank 3)	Switzerland (rank 9)	Sweden (rank 3)	Finland (rank 11)
	Denmark (rank 3)	Norway (rank 1)	Netherlands (rank 3)	Austria (rank 9)
	Sweden (rank 3)	Denmark (rank 3)	United Kingdom (rank 3)	Australia (rank 3)
	New Zealand (rank 3)	Sweden (rank 3)	Finland (rank 11)	United Kingdom (rank 3)
	Venezuela (rank 65)	Ecuador (rank 58)	Egypt (rank 50)	Bangladesh (rank 69)
	Nicaragua (rank 66)	Pakistan (rank 58)	Bolivia (rank 68)	Paraguay (rank 64)
	Ethiopia (rank 66)	Russia (rank 63)	Poland (rank 48)	Guatemala (rank 58)
	Bolivia (rank 68)	Venezuela (rank 65)	Nicaragua (rank 66)	Ethiopia (rank 66)
Weakest	Bangladesh (rank 69)	Bangladesh (rank 69)	Bangladesh (rank 69)	Bolivia (rank 68)

IPRI and GDP p.c.



3.8 Transparency International[34]

As the last survey in this section, one should mention Transparency International. Transparency International has several cross-country surveys, apart from the ones that are purely national or regional. First, there is a Bribe Payers Index (BPI), but this is only about the propensity of companies in 30 leading exporting countries to bribe abroad. Second, there is a Global Corruption Barometer (GCB), which is a public opinion survey conducted for Transparency International by Gallup International. Third, there is a Corruption Perceptions Index (CPI), which was first started in 1995 and now covers 163 countries. When people think of Transparency International, they usually have the CPI in mind. In the 2006 survey, Finland, Iceland and New Zealand were the least corrupt countries, in that order. And Haiti, Myanmar, Iraq and Guinea were the worst, in that order. There was a clear correlation between corruption and poverty. The poorer the country, the greater was the corruption. While corruption is a complicated phenomenon and is the outcome of many different effects, excessive state intervention invariably leads to discretion and discretion leads to abuse and corruption. Any movement towards a market-based economy, including the eliminating of licensing and shortages caused by licensing, should therefore lead to a reduction in some forms of corruption.

34 http://www.transparency.org

4. The Fraser Institute and Economic Freedom of the World

After the digression on governance surveys, let us return to economic freedom. A series of conferences were held between 1986 and 1994, hosted by Milton Friedman and Michael Walker of the Fraser Institute. The idea behind these conferences was to arrive at a consensus on two issues. First, what would be an objective and unambiguous definition of the concept of economic freedom? Second, how should one quantify, measure and track economic freedom over time? The answers to these questions lead to the publication *Economic Freedom of the World* (EFW) in 1996.[35] As a result of these conferences, the key ingredients of economic freedom were identified as personal choice, voluntary exchange coordinated by markets, freedom to enter and compete in markets and protection of persons and their property from aggression by others.

35 http://www.fraserinstitute.ca

The EFI (Economic Freedom Index) properly measures economic freedom in five key areas: (1) Size of government (expenditures, taxes and enterprises); (2) Legal structure and security of property rights; (3) Access to sound money; (4) Freedom to trade internationally; and (5) Regulation of credit, labour, and business. These heads, and the intention behind EFI, becomes a bit clearer if one looks at the indicators included under each of these five heads. For example, the size of government is measured by government consumption as a percentage of total consumption, transfers and subsidies as percentage of GDP, government enterprises and investment as share of total investment and the top marginal tax rate (income and payroll) and the threshold level above which this top rate applies. The legal structure and security of property rights is measured by judicial independence, impartial courts, protection of intellectual property, military interference in rule of law and the political process and integrity of the legal system. Access to sound money is measured by average annual growth of money supply minus average annual growth in real GDP, the inflation rate, inflation variability and the freedom to own foreign currency bank accounts domestically and abroad. The freedom to trade internationally is measured by revenue from taxes on international trade as percentage of net trade (exports minus imports), mean tariff rate, standard deviation of tariff rates, non-tariff trade barriers, actual size of the trade sector compared to the expected size, difference between the official exchange rate and the black market rate, restrictions on foreign ownership and investment and restrictions on the freedom of citizens to engage in capital market exchanges with foreigners. Finally, regulation of credit, labour and business is measured by the percentage of deposits held in privately owned banks, competition that domestic banks face, percentage of credit extended to the private sector, avoidance of interest rate controls and regulations that lead to negative real interest rates, interest rate controls on bank deposits or loans, the impact of minimum wages, the extent to which hiring and firing practices of companies are determined by private contracts, share of the labour force whose wages are set by centralized collective bargaining, unemployment benefits, use of conscripts to obtain military personnel, price controls, the burden of regulation, the time spent dealing with government bureaucracy, difficulties in starting a new business and irregular payments.

Aggregation across the five heads leads to the index and Annexure 5 shows the economic freedom of the world map, based on the 2006 rankings. The left hand side of the panel shows the pecking order in the world, with blue standing for countries that are free and red connoting countries that are un-free. Hong Kong, Singapore and New Zealand are the most free economies in the world, among the 130 ranked, in that order. And the worst three are Zimbabwe, Myanmar and the Republic of Congo, in that order again. Because the map is only for one point in time, it doesn't reveal something that is extremely important, an improvement in economic freedom throughout the world temporally. While this improvement is almost general, it is particularly obvious for large economies like China and India, and even for an economy like New Zealand. However, the improvement is geographically almost general, it is not invariably true, Zimbabwe providing the obvious counter-point. The bottom panels of Annexure 5 show a number of correlations. First, there is a positive correlation between economic freedom and PPP (purchasing power parity) per capita income. Second, there is a positive correlation between economic freedom and real PPP per capita GDP growth. Third, there is a positive correlation between economic freedom and social indicators like life expectancy at birth. Fourth, there is a positive correlation between economic freedom and political liberties and between economic freedom and civil liberties.

Any exercise like EFI is subject to criticisms of the kind mentioned earlier – subjectivity, choice of indicators, weights and the aggregation process. However, when it comes to correlations, there is another kind of criticism that is advanced. This is best articulated in a quote from Jeffrey Sachs in the context of governance measures.[36] "The point is that virtually all poor countries have governance and corruption indicators that are below those of the high-income countries. Governance and higher incomes go hand in hand not only because good governance raises incomes, but also, and perhaps even more important, because higher income leads to improved governance. As a country's income raises, governance improves for two major reasons. First, a more literate and affluent society is better able to keep the government honest by playing a watchdog role over government processes. Newspapers, television, books, telephones, transport, and now the Internet, all of which are vastly more available in rich countries, enhance this watchdog function and empower civil society. Second, a more affluent society can afford to invest in high-quality governance. When governments are backed by ample tax receipts, the civil service is better educated, extensive computerization improves information flows, and the public administration is professionally managed." There are two kinds of issues that arise. How strong is the correlation between per capita income, or growth in per capita income, and economic freedom? Or, at a different level, how strong is the correlation between economic freedom and social indicators like life expectancy? At a still different level, how strong is the correlation between economic freedom and political liberties or civil liberties? While there is positive correlation, the strength of that correlation does vary. The second issue is an even more important one. Does this correlation establish causation, and if so, in what direction is the causal relationship? Does more economic freedom lead to a benign effect on per capita incomes? Do higher incomes lead to economic freedom improvements? Or is the correlation entirely spurious and are there other factors that lead to improvements in both economic freedom and development indicators? The answers to these questions are often empirical cum econometric and depend on the extent to which one is able to control for other variables. This is not the place to review the large volume of lit-

36 Jeffrey Sachs, The End of Poverty, Economic Possibilities for Our Time, The Penguin Press, New York, 2005.

erature that has sought to do precisely this. However, the findings are robust enough and find a strong positive correlation, and even causation, between economic freedom and assorted indicators of economic development. But one must confess that the relationship is weaker for the link between economic freedom and political liberties or civil liberties. This may partly be because we still have an imperfect handle on measuring political liberties or civil liberties.

There is another kind of criticism against the Economic Freedom Index (EFI) that is more specific and concerns the five different heads that go into the determination of EFI: (1) Size of government (expenditures, taxes and enterprises); (2) Legal structure and security of property rights; (3) Access to sound money; (4) Freedom to trade internationally; and (5) Regulation of credit, labour, and business. The limited argument here is that much of the improvement in economic outcomes is determined by the legal structure and security of property rights head alone. In contrast, the size of the government *per se*, seems to be relatively less important. One should be careful in not driving this point too hard. Much depends on the specifics of the country concerned and in some countries, rule of law and security of property rights may be relatively more important than in others.

This is the right place to mention, for the record, that there are regional and even sub-regional studies of economic freedom also, for example, for North America, the Arab world, China or India. But these need not concern us here.

5. The Heritage Foundation and the Wall Street Journal - the Index of Economic Freedom (IEF)

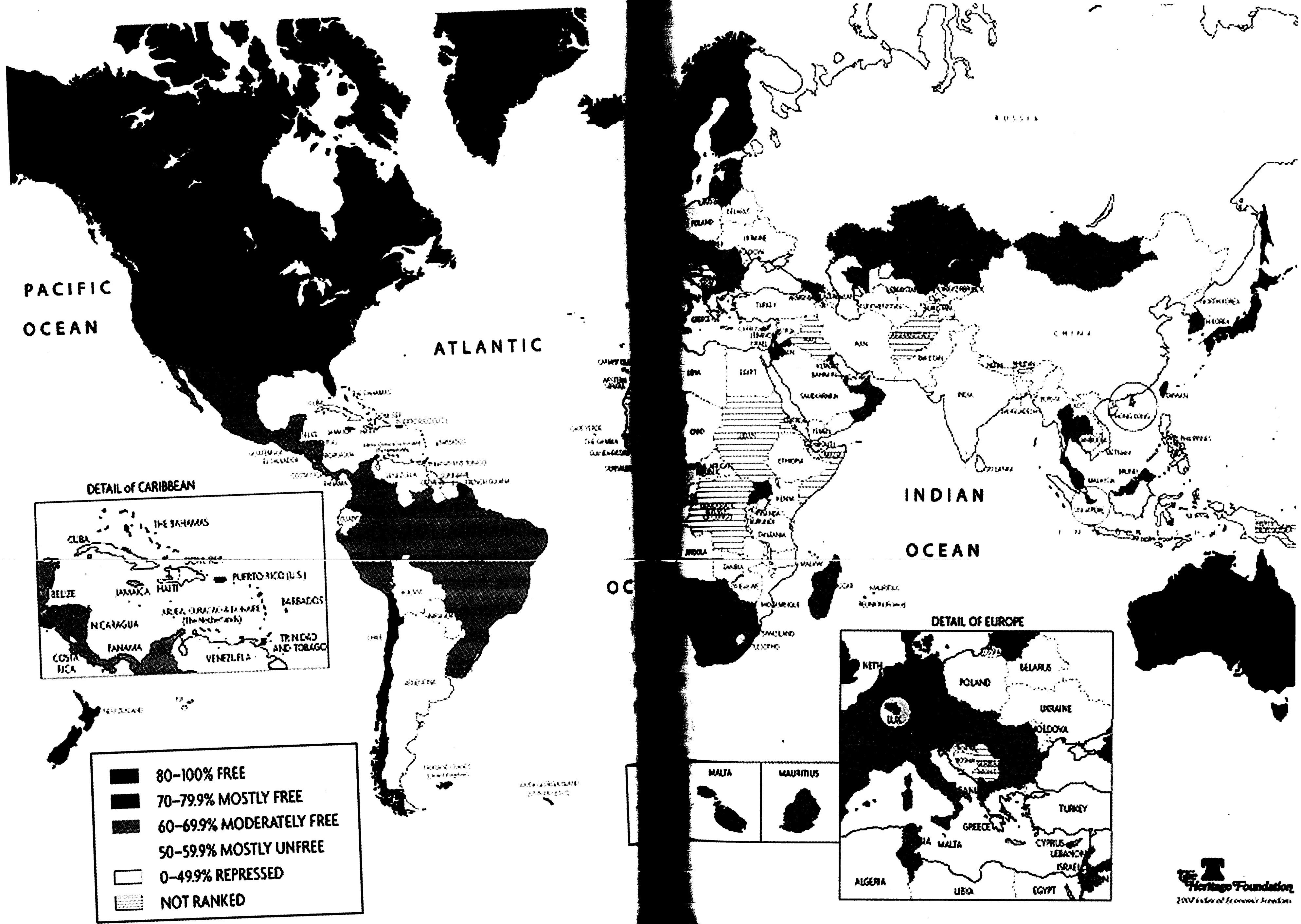
As with governance, when one is trying to quantify and measure a somewhat elusive concept like economic freedom, it shouldn't be surprising that there should be more than one index. The Index of Economic Freedom (IEE) was developed by the Heritage Foundation and the Wall Street Journal and has been in existence since 1995.[37] Understandably, the concept of economic freedom is no different from that in EFI, it is just that one seeks to measure it a little bit differently. "The highest form of economic freedom provides 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 are free to work, produce, consume, and invest in any way they please, and that freedom is both protected by the state and unconstrained by the state."

37 http://www.heritage.org/research

IEE has ten different heads to measure economic freedom and these are – (1) Business freedom; (2) Trade freedom; (3) Fiscal freedom: (4) Freedom from government; (5) Monetary freedom; (6) Investment freedom; (7) Financial freedom: (8) Property rights; (9) Freedom from corruption; and (10) Labour freedom. Although these terms are obvious enough, a quote will serve to illustrate what they precisely mean. "Business freedom is the ability to create, operate, and close an enterprise quickly and easily. Burdensome, redundant regulatory rules are the most harmful barriers to business 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. 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. Freedom from government is defined to include all government expenditures – including consumption and transfers – and state-owned enterprises. Ideally, the state will provide only true public goods, with an absolute minimum of expenditure. Fiscal freedom is a measure of the burden of government from the revenue side. It includes both the tax burden in terms of the top tax rate on income (individual and corporate separately) and the overall amount of tax revenue as portion of GDP. Property rights is an assessment of the ability of individuals to accumulate private property, secured by clear laws that are fully enforced by the state. Investment freedom is an assessment of the free flow of capital, especially foreign capital. Financial freedom is a measure of banking security as well as independence from government control. State ownership of banks and other financial institutions such as insurer and capital markets is an inefficient burden, and political favoritism has no place in a free capital market. Freedom from corruption is based on quantitative data that assess the perception of corruption in the business environment, including levels of governmental legal, judicial, and administrative corruption. Labor freedom is a composite measure of the ability of workers and businesses to interact without restriction by the state." The scores under each of these ten heads are then aggregated, using equal weights, to obtain the IEE, which now (2007) covers 157 countries.

The map shows how economic freedom is distributed throughout the world. Some points need to be noted. First, although the map doesn't show this because it is only a snapshot, over time, economic freedom has been increasing throughout the world. Second, former British colonies in the Asia-Pacific region lead the pack in economic freedom, the first three positions being occupied by Hong Kong, Singapore and Australia. Third, if one considers the top 20 countries in the world, ranked by economic freedom, 12 are in West Europe. Five are from the Asia-Pacific region and the remaining three are the United States, Canada and Chile. Fourth, there is strong positive correlation between economic freedom, average per capita income, employment (an inverse correlation with unemployment rates) and low inflation (an inverse correlation with inflation rates).

DISTRIBUTION OF [illegible]NOMIC FREEDOM



6. The Economics of Development

The expressions developed economy, developing economy and least developed economy (LDC) are loose ones. For a start, within the United Nations system, there is no clear definition of what is a developed economy. However, a developed economy does tend to have high levels of per capita GDP (no economy with a per capita income less than 10,000 US dollars[38] is likely to be counted as developed), large contributions from the tertiary (services) and quaternary (intellectual services) sectors in national income and high levels of human development (measured for instance by the human development index or HDI). Problems do arise in the taxonomy. Should one count Hong Kong, Taiwan, Singapore, South Korea, the Bahamas, Brunei, Malta, Slovenia, the Czech Republic and Slovakia in the developed countries category? Most people will probably have a listing of developed economies, not based on a clear definition, that includes the Americas (Bermuda, Canada, United States), West Europe (Andorra, Austria, Belgium, Cyprus, Denmark, the Faroe Islands,

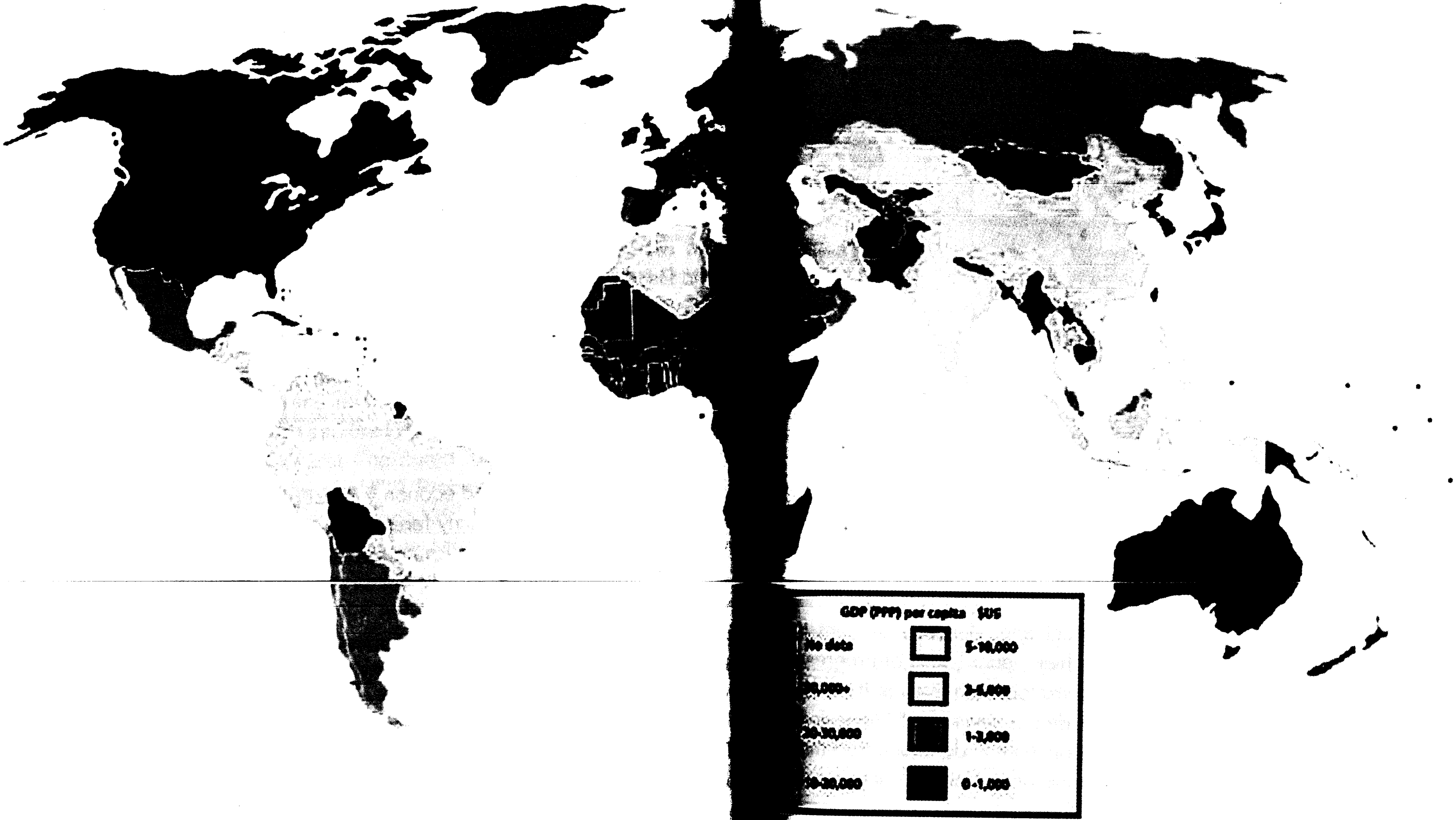
38 Using the official exchange rate or Atlas method and not purchasing power parity.

Finland, France, Germany, Greece, Iceland, Ireland, Italy, Liechtenstein, Luxembourg, Monaco, the Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, United Kingdom, Vatican City), Asia (Hong Kong, Israel, Japan, Macau, Singapore, South Korea, Taiwan) and Oceania (Australia and New Zealand). It is indeed better to have precise definitions like high income countries (as used by the World Bank) or high human development countries (as used by the UNDP) rather than expressions like developed economies.

The two maps that follow show where the wealth of the world is located. The first shows per capita GDP in purchasing power parity (PPP) terms and is from the IMF, while the second is from the UNDP and shows where the human wealth of the world is located. In both maps, blue tinges are good, while red tinges are bad.

If the expression developed economy is not precise, the expression developing economy fares no better. Unlike LDC, which is the worst category among developing countries and has some kind of formal definition, the expression developing country simply means one that has low levels of per capita income and human development, a large dependence on agriculture and even manufacturing and so on.

The more interesting question is, what ensures development and graduation from developing (or LDC) to developed coun-


GDP (PPP) per capita $US
No data
5-10,000
3-5,000
20-30,000
1-3,000
0-1,000

try status? A simplistic, incorrect and Marxist argument is that developed countries owe their higher levels of progress to imperialism, colonialism and exploitation. Even at its best, this hypothesis ignores the evidence since World War II. A succession of developing economies has demonstrated that it is possible to move up the development ladder, without col-

onizing other countries. And there are others that have failed to develop, despite practicing what developmental economics preached. For instance, developmental economics preached that developing economies were backward because they suffered from a shortage of capital. Investment rates needed to be increased. While this was fine, the diagnosis that there were market failures and the state needed to step in, was not. Consequently, several developing economies emphasized infant industry arguments, import-substituting industrialization and state control over resource allocation and simply failed to take off. They increased investment rates, without realizing that the efficiency of capital usage was also important. They failed to pay adequate attention to inputs other than capital, like land, labour and entrepreneurship. At the end of it all, it is efficiency that drives growth and competition that drives efficiency. Thus, one requires institutions that foster this competition through rule of law and preservation of property rights and one also requires reduced state intervention and the fostering of private entrepreneurship. The poor in developing countries have no dearth of entrepreneurial talent or even assets. It is just that the institutions, or their lack, turn these assets into liabilities. It is these institutions, rather than colonialism, that drove development in economies that were developed before World War II. And it is also these institutions that drove development in economies that became developed after World War II. Stated differently, dependence on the market drives economic prosperity. Economic freedom drives prosperity. So does democracy and non-economic aspects of freedom. Unfortunately, this realization is yet to completely sink in everywhere in the world. Humans are born free, but are everywhere in chains, thanks to a predatory state. It is this spectre of continued state intervention that continues to haunt the world.

7. What doesn't work and what does

The developing world is still a long way off from attaining the Millennium Development Goals (MDGs), accepted as goals to be reached by 2015. As we have argued earlier, development requires freedom, of the economic, as well as non-economic varieties. And there are countries in the world that have shown us what can be done in relatively short periods of time. The examples of Chile, New Zealand and India spring to mind. However, while the broad principles of market forces and economic freedom are capable of generalization, these three instances also show us that implementation of reforms is often country-specific and depends on the context. The "what" of reform is easier. It is often the "how" that is the stumbling block.

7.1 Chile

In the five heads used in the Economic Freedom of the World (EFW) ranking, Chile is now ranked 53rd in size of the government, 47th in legal structure and security of property rights, 28th in access to sound money, 9th in freedom to trade internationally and 24th in regulation of credit, labour and business. This is the best record in Latin America. However, ranks are relative and therefore depend on what other countries are doing. Scores are a better indicator of how a country has improved over time and Chile's EFW score went up from 3.6 in 1970 to 5.3 in 1980, 7.5 in 2000 and dipped a bit marginally to 7.4 in 2004. In the Index of Economic Freedom, Chile is ranked 14th in the world today.

Chile's transition towards a market economy intensified in the late 1980s and this encompassed not just free market policies, but also non-economic freedoms. But the antecedents of these reforms go back much further, to the reforms implemented by Augusto Pinochet after the coup d'etat of 1973, the background being a devastated economy ruined by the socialist policies of Salvador Allende. The economic reform blueprint known as "El Ladrillo" was influenced by the Chicago School, in particular by Milton Friedman. This first cycle of reforms, from 1973 to 1982, was built on deregulation, privatization, reduced taxes, foreign investments and elimination of trade barriers, the last facilitated by free trade agreements. Even the pension system was privatized. Public expenditure was slashed, since education, social security and health care were privatized. The only thing left untouched was the nationalized copper company, Codelco, but private companies could explore and develop new mines. The avowed intention was to make Chile a nation of entrepreneurs, rather than a nation of proletarians. Annual average real GDP growth went up to 8%. However, the short-term costs of these reforms were fairly severe, with enterprises closing down as a result of

competition, and poverty and unemployment increasing. Pinochet was successful in insulating economic decision-making from pressure groups and lobbying, so characteristic of the Allende government. But all the economic success could and should not conceal the atrocities and thousands of killed people during the dictatorship.

When the fixed exchange rate regime collapsed in 1982 and there was a debt crisis, Chile went into a recession and the financial sector collapsed. This led to the second cycle of reforms, also introduced under Pinochet from 1985 to 1989. However, the first cycle of reforms had established the institutional foundations and also allowed the economy to recover from the hyper-inflation that had preceded Pinochet. Devaluation propelled an export boom and growth during the second cycle. In contrast to many other economies, Chile's recovery from the 1982 crisis was remarkably fast. Eventually, economic freedom led to political reform and dictatorship was replaced by democracy in 1990. That successive civilian and democratically elected governments have persisted with liberalization and not reversed the trends, is vindication of the proposition that reforms led to gains, notwithstanding short-term costs, and liberalization therefore had popular support. Beyond regulation and intervention in copper, the state's role is limited. A privatized pension system has led to increases in savings and investment rates. In the 1990s, average real GDP growth was around 8% again. Not only has intervention in the external sector been reduced and unilateral reforms introduced, Chile is a signatory to several free trade agreements

(FTAs). This also explains why Chile does so well under the freedom to trade internationally head. Chile also has the highest sovereign bond rating in all of Latin America. The percentage of population below the poverty line dropped from 46% in 1987 to 13.7% in 2006. Had it not been for some rigidity in labour laws, the unemployment rate would also have been lower than the present 7.8%. However, inequality is still high. But despite the warts, Chile is a very good example of how greater economic freedom and reduced state intervention works for development and works for the poor. It may not be a very good example of how to introduce reforms.

7.2 New Zealand

The transformation in New Zealand is no less remarkable. In the current EFW rankings, New Zealand is ranked third in the world, a rank it shares with Switzerland and the United States. Only Hong Kong and Singapore are ahead of New Zealand. New Zealand is now ranked 39th in the world in size of government, 3rd in legal structure and security of property rights, 24th in access to sound money, 16th in freedom to trade internationally and 4th in regulation of credit, labour and business. In 1970, New Zealand's EFW score was already pretty high at 6.0. It went up marginally to 6.1 in 1980, shot up dramatically to 7.3 in 1990 and went up even further to 8.4 in 2000, dropping marginally to 8.2 in 2004. In the Index of Economic Freedom, New Zealand is now ranked 9th in the world, a position it shares with the United States. In UNDP's Human Development Index (HDI), New Zealand is now ranked 20th in the world and in *The Economist's* global quality of life index, it is ranked 15th.

The immediate trigger for New Zealand's economic reforms was Britain's joining the European Community in 1973 (which lead to historical economic links with the United Kingdom weakening) and the oil price shocks. But there were other reasons for the build-up of a crisis. Traditionally, Labour governments have supported state intervention and it was clear in the 1970s that over-regulation, protectionism and high taxes were constraining the economy. The 1984 general elections brought in a Labour government, with Roger Douglas as the Finance Minister. Had the former Prime Minister Robert Muldoon devalued the New Zealand dollar, as he had been advised to do, there might not have been a run on the New Zealand dollar. But this was not to be, and the crisis meant that there was voter disillusionment with economic policies that favoured heavy state intervention. Robert Muldoon headed the National government between 1975 and 1984 and he was also the Finance Minister. One reason for popular disillusionment was a three-year wage and price freeze that he had introduced. Meanwhile, because there was a short time period leading up to the elections, the Labour Party didn't have a fully fleshed out economic reform blueprint as part of its manifesto. This probably made it easier to introduce reforms that came to be known as Rogernomics. These involved floating the New Zealand dollar, removing agricultural subsidies, introducing a goods and services tax (GST), reducing rates of personal and corporate income taxation, removal of foreign exchange controls, abolition and reduction of tariffs, corporatising and privatizing state enterprises in sectors like posts, telecom and airlines, and improving efficiency of public expenditure through a Public Finance Act of 1989. All of this was antithetical to what Labour governments had been identified with earlier. There were perceptions within the Labour government that reforms were going too fast and indeed, the unemployment rate did increase to 10% in the early 1990s. There was also a stock market crash in 1987.

The 1990 general elections brought in a National government and the Finance Minister was Ruth Richardson. This second cycle of reforms, between 1990 and 1993, is known as Ruthanasia and complements the earlier cycle of Rogernomics. Rogernomics had focused on deregulating the industrial, financial, fiscal and agricultural sectors. However, there was a fiscal crisis because the Bank of New Zealand was close to insolvency and the fiscal situation wasn't as good as one had thought it would be. These triggers allowed Ruthanasia to focus on social services and labour relations. The Social Welfare Programme was revamped and an Employment Contracts Act of 1993 replaced collective bargaining and compulsory union membership with individual employment contracts. These two complementary cycles of reforms have transformed New Zealand from a controlled, regulated and protectionist economy to a free market one. Today New Zealand is one of the leading economic locations with a high attractiveness, widely appreciated by German emigrants.

7.3 India

India's transition may not be as remarkable, but is noteworthy nonetheless. In the overall EFW rankings, India is ranked 53rd in the world, not a seemingly impressive position. India is now ranked 7th in the world in size of government, 44th in legal structure and security of property rights, 98th in access to sound money, 82nd in freedom to trade internationally and 117th in regulation of credit, labour and business. What is remarkable in India is the change compared to the base. In 1970, India's EFW score was 4.9. This remained at 4.9 in 1980, dipped a bit to 4.8 in 1990, but then increased to 6.2 in 2000 and 6.7 in 2004. In the Index of Economic Freedom, India is now ranked 121st in the world. Historically, the problem for India wasn't political freedom, which was preserved, apart from a brief aberration in the 1970s, but economic freedom.

Despite halting liberalization since the late 1970s, the economy was tightly controlled and pervasive state intervention existed. A succession of government committee reports since the 1970s had identified excessive state intervention as the problem, since the benefits of state intervention were no longer commensurate with the costs, state failure having become more important than market failure. A similar diagnosis also emanated from economists, since a macroeconomic crisis was building up and would eventually lead to an external sector balance of payments (bop) crisis. Such a crisis did occur in 1990-91, the trigger being the Gulf War, withdrawal of NRI (non-resident Indian) deposits and a slackening of remittances from the Middle Eastern region. The Congress government that came to power in 1991 had Manmohan Singh as the Finance Minister and post-1991 reforms are often identified with him. Apart from industrial de-licensing and financial sector reforms, most of these initial reforms were in the external sector (tariff reduction, elimination of quantitative restrictions on imports, rationalization of export subsidies, transition to a market-determined exchange rate and a convertible rupee, liberal policy on foreign direct investments and opening up to foreign portfolio investments). Most reform successes are also identified with the external sector. This first cycle of reforms is often referred to as first generation reforms. India being a federal country, many areas are state government subjects. While the first generation refers to the external sector, policies that concern the Central government and product markets, the second generation package of reforms pertains mostly to the domestic economy, state governments and factor markets.

In the 1990s, the average real rate of GDP growth increased to 6.5% and in the last three years, it has been 9%. The percentage of population below the poverty line was 50% from roughly 1950 to roughly 1980. In 2004, it had dropped to 22%. The literacy rate increased from 52% in 1991 to 65% in 2001 and the number of out of school children dropped from around 40 million in December 2002 to around 5 million in December 2004. The three governments that followed the Congress government of 1991-96 (the United

Front government of 1996-98, the NDA government of 1998-2004 and the UPA government from 2004) have all followed the reform blueprint, but the emphasis has varied. The pending agenda of reforms in the second generation package includes reform of direct and indirect taxes (removal of exemptions and extending income tax to the rural sector), targeting subsidies to those who need them, improving the efficiency and accountability of public expenditure, offering choice in service delivery, privatization of public sector enterprises, reduction of fiscal deficits, improving infrastructure (especially power), reforming the legal system (including labour laws) and rural sector reforms (credit, insurance, land markets, input subsidies, procurement prices). However, because of the perception that reforms are anti-poor and pro-rich and because agriculture hasn't performed well, actual liberalization has been halting. Among the successes are unification of state-level sales tax (referred to as VAT in India), a Right to Information Act, enactment of a Fiscal Responsibility and Budget Management (FRBM) Act that contemplates a zero revenue deficit in 2009-10 and improvements in telecom and road connectivity.

7.4 Zimbabwe

If Chile, New Zealand and India show us what works, Zimbabwe shows us what does not. Since 1980, economic freedom has generally increased throughout the world. But there are a few countries that have registered losses in economic freedom. Among these are Venezuela, Myanmar, Congo and Zimbabwe. Zimbabwe has the dubious distinction of being the most un-free country in the world today, under the EFW rankings, remembering of course that North Korea and Cuba are not ranked. For the record, Zimbabwe is now ranked 127th in the world in size of government, 110th in legal structure and security of property rights, 130th in access to sound money, 128th in freedom to trade internationally and 128th in regulation of credit, labour and business. From 4.7 in 1980 and 5.0 in 1990, the EFW score has declined to 4.3 in 2000 and 3.0 in 2004. In the Index of Economic Freedom, Zimbabwe is ranked 154th in the world, just ahead of Myanmar, Iran and North Korea. With its large base of natural resources, Zimbabwe should have been a growing economy. But Robert Mugabe's policies, particularly on land reform, have ruined the economy. Real GDP declined by 4.7% in 2006. The inflation rate is 3713.9% annually, the highest in the world. 80% of the population is below the poverty line.

The choice of what kind of country the world and its citizens want should be obvious. Can we always exercise that choice? Are we free to choose?

8. Are there lessons to be learnt?

Since reforms are usually country and context-specific, it is always difficult to generalize. One means the "how". As this Handbook has throughout argued, the "what" is clear enough. Market forces and greater economic freedom are good for development, progress and prosperity. On the "how", for democracies, where debate and consensus are inevitable and even desirable, some messages nonetheless emerge.

First, big bang approaches, unlike steady state incremental changes, work better in certain circumstances, which is why reforms are easier when there is an economic crisis.

Second, it is fallacious to presume that all reforms are positive sum. Even if they are, there is a time dimension involved and since the costs and benefits of reforms are both uncertain, there is a difference between *ex post* gains and *ex ante* fears of losses. This creates a bias in favour of the status quo and contributes to resistance to change.

Third, because reforms are sometimes zero sum, at least in a static sense, it is important to generate demand for reforms, instead of they being supply-driven and top-down. Advocacy and dissemination is critical, as is timing and sequencing.

Fourth, transition to market economy is an integrated package and piecemeal approaches don't work. One must therefore bear in mind institutions and the capacity of the administrative system to deliver.

Fifth, instead of a pre-conceived notion about the "how", reform attempts should be flexible, so that they can be quickly adapted and modified. Pilot programmes with quick pay-offs help generate consensus, because they can be upscaled and replicated, if they are successful.

Annex 1: The Bertelsmann Transformation Index

Annex 2: Freedome House Map

Annex 3: The World Competitiveness Scoreboard

Annex 4: The Global Competitiveness Index

Annex 5: The Economic Freedom of the World Map

Bertelsmann Transformation Index

BTI 2006

www.bertelsmann-transformation-index.de

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■ **Status Index**
The Status Index's overall result represents the mean value of the scores for the dimensions "Political Transformation" and "Economic Transformation".
The mean value was calculated using the exact, unrounded values for both these dimensions, which, in turn, were derived from the ratings for the five political criteria (based on 18 indicators) and the seven economic criteria (based on 14 indicators).
The table shows rounded scores for political and economic transformation as well as for the Status Index's overall result. In some cases, therefore, the overall result differs slightly from the mean value.

■ **Political Transformation**
The score for "Political Transformation" is obtained by calculating the mean value of the ratings for the following criteria:
- Stateness
- Political Participation
- Rule of Law
- Stability of Democratic Institutions
- Political and Social Integration

■ **Economic Transformation**
The score for "Economic Transformation" is obtained by calculating the mean value of the ratings for the following criteria:
- Level of Socioeconomic Development
- Organization of the Market and Competition
- Currency and Price Stability
- Private Property
- Welfare Regime
- Economic Performance
- Sustainability

Trend Indicator (2001 – 2005)
▲ progress being made towards a market-based democracy
• no significant changes
▼ regression from a market-based democracy

■ **Management Index**
This index evaluates management by political decision-makers while taking into consideration the level of difficulty. The Management Index's overall result is calculated by multiplying the intermediate result with a factor derived from the level of difficulty evaluation.

Management Performance
The intermediate result is obtained by calculating the mean value of the ratings for the following criteria (based on 15 indicators):
- Steering Capability
- Resource Efficiency
- Consensus-Building
- International Cooperation

■ **Level of Difficulty**
The level of difficulty evaluation takes into account the structural constraints on political management. It is obtained by calculating six indicators that evaluate a country's structural conditions, traditions of civil society, intensity of conflicts, level of education, economic performance and institutional capacity.

Iraq*
Iraq was not included in the Management Index because of the extremely limited nature of the local political elite's capabilities for independent action and decision-making during the time period examined.

Ukraine**
The Management Index limits its assessment to the political management of the Kuchma government, as Victor Yushchenko only took office at the end of the time period examined (January 23, 2005). Therefore, a meaningful assessment of the new government's political management was not yet possible.

Status Index

Stateness	Political Participation	Rule of Law	Stability of Democratic Institutions	Political and Social Integration	Trend in Democratic Development (2001 – 2005)	Level of Socioeconomic Development	Organization of the Market and Competition	Currency and Price Stability	Private Property	Welfare Regime	Economic Performance	Sustainability	Trend in Economic Development (2001 – 2005)	Status Index		Countries	Ranking 2006	Ranking 2003
9.8	10.0	9.5	9.5	9.0	•	10.0	9.0	10.0	9.5	9.5	8.0	9.5	▲	9.45		Slovenia	1	2
9.3	9.8	9.5	10.0	8.5	•	8.0	9.8	10.0	10.0	8.5	9.0	9.0	▲	9.29		Estonia	2	6
10.0	10.0	9.0	9.5	8.8	▲	9.0	10.0	9.5	9.5	9.0	8.0	8.0	▲	9.23		Czech Republic	3	2
10.0	10.0	9.8	8.5	8.5	•	10.0	9.0	9.5	9.5	8.0	8.0	9.0	▲	9.18		Taiwan	4	8
10.0	10.0	9.0	9.5	8.5	•	9.0	10.0	8.5	10.0	8.5	8.0	8.5	▲	9.16	Market-based democracies, consolidated or in a process of consolidation	Hungary	5	1
10.0	10.0	9.0	9.5	7.5	▲	9.0	9.0	9.5	10.0	8.0	9.0	8.0	▲	9.06		Slovakia	6	2
10.0	10.0	9.3	9.5	7.5	•	8.0	9.5	10.0	10.0	7.5	9.0	7.5	▲	9.02		Lithuania	7	2
10.0	9.3	8.5	8.5	8.3	▲	10.0	8.5	9.5	8.5	9.0	9.0	9.0	▲	8.99		South Korea	8	8
9.8	9.8	9.3	9.5	7.8	•	8.0	9.8	9.5	9.0	8.0	8.0	8.0	▲	8.90		Poland	9	7
9.8	9.0	9.3	9.5	8.0	•	8.0	9.8	10.0	10.0	7.0	9.0	6.5	•	8.85		Chile	10	8
9.5	10.0	8.3	9.5	8.3	▲	8.0	8.8	9.5	8.5	8.0	8.0	7.5	▲	8.71		Croatia	11	15
9.5	10.0	9.3	9.5	8.8	•	8.0	8.0	8.0	8.5	8.0	8.0	7.5	•	8.70		Costa Rica	12	11
10.0	10.0	10.0	10.0	9.5	•	8.0	7.5	7.5	8.0	8.5	6.0	6.5	▲	8.66		Uruguay	13	13
8.8	9.5	8.5	8.5	6.3	•	7.0	9.3	9.0	9.5	7.5	8.0	6.5	▲	8.20		Latvia	14	12
9.0	9.0	7.8	9.5	7.7	•	6.0	7.3	10.0	8.5	6.5	9.0	7.0	•	8.17		Mauritius	15	–
9.0	9.0	8.0	9.0	7.3	•	5.0	8.5	9.0	8.5	7.0	8.0	6.5	•	7.98		Botswana	16	14
9.3	9.3	7.8	9.0	7.0	•	6.0	8.5	9.0	8.5	7.5	7.0	6.0	•	7.98		Bulgaria		18
9.0	9.8	8.0	9.0	7.8	•	5.0	8.8	9.0	8.0	6.0	7.0	7.0	•	7.98		South Africa		16
9.3	9.0	7.3	8.5	7.0	•	6.0	8.0	9.0	8.5	7.5	8.0	6.0	▲	7.89	Good prospects for consolidation of a market-based democracy	Romania	19	21
8.5	9.0	7.0	8.5	6.5	•	6.0	8.0	10.0	9.0	6.5	9.0	6.0	•	7.84		Brazil	20	22
9.3	10.0	7.8	9.5	7.0	•	6.0	6.8	8.0	9.0	5.5	5.0	5.0	•	7.58		Jamaica	21	17
10.0	3.8	6.0	2.0	5.0	•	9.0	9.5	9.5	9.0	8.0	10.0	9.5	•	7.28		Singapore	22	19
7.3	7.3	6.5	7.0	6.3	▼	7.0	7.8	8.5	8.5	6.5	9.0	6.5	▲	7.26		Thailand	23	23
8.8	9.5	6.0	8.0	7.0	•	7.0	6.5	7.0	7.5	6.0	7.0	5.0	•	7.21		Argentina	24	25
8.3	8.8	7.5	8.5	6.8	•	5.0	6.3	7.5	7.0	4.5	9.0	6.0	▲	7.21		India		29
8.8	9.0	7.8	7.5	5.5	•	4.0	7.3	8.0	8.0	6.5	7.0	5.5	•	7.15		Namibia	26	20
8.0	8.5	6.5	8.0	6.8	•	6.0	8.0	8.5	7.0	5.5	7.0	5.0	•	7.13		Mexico	27	24
8.3	8.0	6.0	8.5	7.0	•	6.0	7.5	9.0	6.5	5.5	7.0	5.0	•	7.10		Panama	28	–
8.0	9.0	7.0	8.0	5.8	•	6.0	6.8	9.0	7.0	6.5	6.0	5.0	•	7.08		Macedonia	29	34
8.0	7.8	6.0	8.5	6.5	•	4.0	8.0	9.5	9.0	4.0	8.0	4.0	•	[illegible]		El Salvador	30	25
8.0	8.5	7.5	8.0	7.5	▲	5.0	6.0	7.5	7.5	4.5	7.0	5.0	•	[illegible]		Ghana	31	59
8.0	7.8	7.0	6.5	6.3	▲	6.0	6.8	8.5	6.5	6.5	8.0	5.5	▲	[illegible]		Ukraine	32	44
8.8	8.5	6.8	7.0	6.0	•	6.0	6.0	8.5	6.0	7.0	6.0	5.5	▲	[illegible]		Serbia and Montenegro	33	29
7.8	7.0	6.3	8.0	6.3	▲	5.0	7.0	8.0	8.0	6.0	8.0	5.5	•	[illegible]		Turkey	34	25
8.0	9.0	6.8	8.5	6.5	▲	2.0	5.3	8.5	7.0	5.5	7.0	3.5	•	[illegible]		Senegal	35	35
5.3	6.8	6.0	6.0	6.0	▲	6.0	8.3	7.5	8.0	6.0	9.0	6.0	▲	[illegible]		Sri Lanka	36	37
8.0	8.0	5.5	7.5	7.3	▲	5.0	6.3	8.0	6.0	5.5	7.0	4.0	▲	[illegible]		Albania	37	38
7.0	8.5	6.5	7.0	5.0	▲	6.0	7.0	8.5	6.0	5.5	7.0	5.0	▲	[illegible]		Bosnia-Herzegovina		50
8.0	8.5	6.3	6.5	5.0	▼	4.0	7.5	9.0	7.5	5.0	7.0	4.0	•	[illegible]		Peru	39	38
8.8	9.0	6.8	8.0	5.0	▲	2.0	4.8	6.5	8.0	4.0	7.0	5.5	▲	[illegible]		Madagascar	40	50
6.8	8.0	6.5	7.5	6.0	•	5.0	6.5	7.0	7.0	4.5	6.0	5.0	•	[illegible]		Philippines	41	46
8.3	8.5	[illegible]	7.0	[illegible]	•	[illegible]	[illegible]	[illegible]	7.0	[illegible]	5.0	[illegible]	•	[illegible]		Dominican Republic	[illegible]	[illegible]
8.3	6.3	6.5	6.0	5.5	•	3.0	7.0	7.0	8.5	3.5	6.0	4.5	•	[illegible]	democracy	Zambia		50
7.5	7.8	6.0	7.5	5.3	•	3.0	6.5	7.0	6.0	4.0	7.0	3.5	•	[illegible]		Honduras	53	41
6.5	7.5	5.5	6.5	5.5	•	6.0	5.5	7.0	6.0	5.0	7.0	4.0	▲	[illegible]		Indonesia		46
7.3	7.0	6.3	7.0	5.3	•	4.0	5.8	7.0	6.5	3.5	7.0	4.5	▲	[illegible]		Bangladesh	55	45
8.5	8.0	5.8	7.0	5.5	•	3.0	4.5	8.0	5.5	3.0	6.0	5.5	▲	[illegible]		Mozambique		54
7.8	7.8	5.0	6.5	6.3	•	3.0	5.8	7.5	6.0	4.0	5.0	4.5	•	[illegible]		Nicaragua	57	54
8.3	7.3	5.3	7.0	5.3	•	4.0	4.8	6.5	6.0	4.0	6.0	4.5	•	[illegible]		Paraguay	58	54
6.5	5.0	6.3	5.5	6.0	•	3.0	7.0	8.5	7.0	3.0	7.0	5.0	▲	[illegible]		Uganda	59	61
7.5	7.0	5.5	5.5	6.8	•	2.0	5.8	6.5	6.0	3.5	7.0	5.0	•	[illegible]		Kenya	60	68
5.3	7.5	6.5	7.0	4.3	▲	4.0	4.5	9.0	5.0	4.0	6.0	5.0	▲	[illegible]		Georgia	61	79
5.5	6.0	5.0	5.5	6.0	•	5.0	6.8	7.0	7.0	5.0	6.0	4.0	•	[illegible]		Lebanon	62	61
8.0	7.5	4.8	5.5	5.3	▼	4.0	4.8	5.5	6.0	4.5	7.0	4.0	•	[illegible]		Ecuador	63	38
7.8	7.0	5.8	6.0	5.8	•	4.0	4.0	7.0	7.0	3.0	6.0	3.0	▲	[illegible]		Tanzania		61
8.8	7.5	4.0	5.0	5.8	•	5.0	6.3	3.5	3.5	6.5	5.0	4.5	•	[illegible]		Venezuela	65	59
8.5	2.8	4.0	2.0	3.7	•	6.0	6.5	9.0	7.0	5.0	9.0	5.0	▲	5.48		Kazakhstan	66	61
5.8	6.3	5.3	7.0	6.0	•	2.0	5.0	6.5	5.5	4.0	6.0	4.0	•	5.38		Nigeria	67	90
6.8	7.5	6.3	7.5	4.7	▲	1.0	4.8	7.5	4.5	2.5	7.0	2.0	▲	5.36		Niger	68	74
8.5	6.3	4.0	6.5	5.3	•	1.0	4.5	8.0	5.5	3.5	6.0	3.5	•	5.34		Burkina Faso	69	66
7.0	6.3	5.3	5.5	4.3	•	3.0	5.3	7.0	6.0	3.5	6.0	3.5	•	5.27		Guatemala	70	54
7.5	7.5	4.8	6.0	5.0	▲	1.0	5.8	5.5	5.5	3.5	6.0	3.5	•	5.27		Sierra Leone		105
9.0	2.0	3.5	1.0	3.7	•	5.0	6.0	8.0	6.5	6.0	9.0	5.0	▲	5.17		Tunisia	72	67
6.5	8.0	6.3	4.5	4.8	•	4.0	4.5	3.5	6.0	4.0	4.0	4.0	•	5.14		Papua New Guinea	73	58
6.5	3.8	4.3	2.0	4.0	•	5.0	7.0	7.5	7.0	5.0	7.0	4.5	▲	5.12		Jordan	74	69
6.5	6.8	4.8	4.5	4.5	▼	3.0	5.0	6.5	5.5	4.0	5.0	4.0	•	5.06		Moldova	75	79
7.3	2.0	3.8	1.0	2.0	•	7.0	6.5	8.0	6.0	6.0	9.0	5.5	▲	5.03		United Arab Emirates	76	–
8.0	6.5	6.3	6.5	4.0	•	1.0	3.8	6.0	5.5	2.5	3.0	3.0	•	4.89		Malawi	77	84
7.3	3.8	3.8	2.0	3.7	•	4.0	5.0	8.5	6.5	5.0	5.0	4.0	•	4.76	Unfavorable pre-conditions for a market-based democracy	Kyrgyzstan	78	69
6.8	4.3	4.8	2.0	4.7	•	3.0	5.3	7.0	5.0	4.0	5.0	4.0	•	4.62		Morocco	79	61
8.3	3.3	4.0	2.0	3.7	▼	2.0	5.8	6.0	6.0	4.5	5.0	5.5	▲	4.60		Rwanda	80	85
5.3	3.5	3.8	2.0	4.0	▼	4.0	7.3	7.0	7.5	2.5	6.0	3.5	•	4.55		Nepal	81	79
6.8	3.0	4.3	2.0	3.0	•	5.0	5.0	7.0	5.0	4.5	6.0	4.0	▲	4.51		Azerbaijan	82	72
8.3	3.0	3.3	2.0	3.3	•	7.0	4.8	3.5	2.5	7.0	5.0	5.0	•	4.47		Belarus	83	85
4.8	4.0	4.0	1.5	3.7	▼	4.0	5.5	8.0	6.5	4.0	7.0	2.0	•	4.43		Pakistan	84	69
7.0	4.3	4.3	2.0	3.7	•	4.0	3.3	7.0	4.0	3.5	7.0	3.5	•	4.42		Algeria	85	85
8.5	1.5	2.3	1.0	2.0	•	5.0	5.0	8.0	4.5	4.5	9.0	4.5	▲	4.42		China		77
7.5	5.0	3.0	2.0	3.0	•	4.0	4.5	6.5	7.0	3.0	4.0	3.0	•	4.34		Cambodia	87	74
8.3	1.5	2.3	1.5	2.0	•	5.0	4.5	7.5	4.5	5.0	9.0	3.5	▲	4.34		Vietnam		88
6.5	3.5	3.8	2.0	4.7	•	3.0	4.8	6.0	3.5	4.0	7.0	3.5	•	4.31		Cameroon	89	74
7.3	3.3	3.8	2.0	4.3	•	3.0	4.8	6.5	5.0	4.0	5.0	3.0	•	4.29		Egypt	90	72
7.8	3.5	3.5	2.0	4.7	•	2.0	5.3	5.0	5.0	4.0	4.0	3.5	•	4.20		Guinea	91	91
7.5	3.8	3.3	2.0	4.3	•	3.0	4.0	7.5	4.0	3.0	5.0	3.0	•	4.19		Ethiopia	92	108
7.5	1.3	3.3	1.0	2.0	•	6.0	2.5	5.0	4.0	6.5	7.0	4.0	▲	4.00		Libya	93	88
5.8	1.5	2.3	1.0	2.3	•	4.0	6.0	7.0	6.0	5.0	6.0	4.0	▲	4.00		Saudi Arabia		79
5.5	3.8	3.5	2.0	4.0	▼	4.0	2.5	5.5	3.5	4.5	6.0	3.5	•	3.98		Iran	95	77
9.8	1.5	2.3	1.0	2.3	•	6.0	1.5	4.5	2.0	7.0	5.0	5.5	•	3.93		Cuba	96	91
5.5	3.8	2.8	2.0	3.7	•	1.0	5.3	6.0	4.0	2.5	8.0	2.5	•	3.86		Chad	97	93
8.3	3.5	2.5	2.0	2.3	•	2.0	4.5	6.5	5.0	2.5	5.0	2.0	•	3.82		Togo	98	105
5.8	4.5	3.8	2.0	4.3	•	1.0	4.5	6.5	4.5	2.5	4.0	2.0	•	3.82		Yemen		96
7.0	1.5	2.5	1.0	3.0	•	4.0	2.8	6.5	4.0	4.5	5.0	3.0	•	3.63		Syria	100	96
6.5	3.5	3.5	2.0	2.7	•	1.0	4.3	5.5	3.5	2.5	5.0	3.0	•	3.58		Burundi	101	100
5.8	2.8	3.5	3.0	3.0	•	2.0	3.8	5.0	3.5	3.0	4.0	2.5	▲	3.50	Serious obstacles to a market-based democracy	Tajikistan	102	100
6.8	1.8	2.5	2.0	2.7	▼	4.0	3.0	4.5	3.0	4.0	5.0	3.0	▼	3.46		Uzbekistan	103	93
6.8	2.8	2.8	2.0	2.7	•	1.0	3.0	5.5	4.0	2.0	6.0	2.5	•	3.41		Angola	104	105
7.0	3.3	3.3	2.0	4.3	▼	4.0	3.5	2.0	3.0	2.5	1.0	3.5	▼	3.38		Zimbabwe	105	108
8.3	1.0	2.3	1.0	1.7	•	3.0	3.5	5.5	3.5	3.0	6.0	2.5	•	3.35		Laos	106	111
5.0	3.8	3.0	2.0	3.0	▼	1.0	4.5	4.5	5.0	3.0	2.0	2.5	▼	3.28		Haiti	107	93
4.0	3.3	3.0	3.0	3.3	▼	1.0	4.0	5.5	3.5	3.0	2.0	3.0	•	3.23		Central African Republic	108	103
7.3	1.0	2.0	1.0	1.7	•	4.0	1.8	3.5	2.5	4.0	8.0	3.0	•	3.20		Turkmenistan	109	96
3.0	2.0	2.5	1.0	3.0	•	2.0	3.8	7.0	4.5	2.0	7.0	2.0	•	3.17		Sudan	110	96
3.8	3.3	2.8	1.5	3.0	▼	2.0	4.0	5.5	5.0	3.0	2.0	2.5	▼	3.14		Côte d'Ivoire	111	79
3.0	4.3	2.3	3.0	2.3	▲	1.0	3.5	5.0	6.0	1.0	4.0	1.0	▲	3.02		Afghanistan	112	115
8.8	2.0	2.5	1.0	2.3	▼	2.0	1.5	3.0	3.0	4.0	1.0	3.5	▼	2.94		Eritrea	113	103
2.5	4.5	2.3	1.5	2.7	•	2.0	2.3	6.0	3.0	3.0	3.0	1.0	•	2.79		Iraq	114	108
5.0	3.5	2.8	2.0	2.7	▼	1.0	2.3	3.5	4.0	1.5	3.0	1.5	•	2.79		Liberia		115
9.3	1.0	1.3	1.0	1.0	•	4.0	1.0	2.5	1.0	3.5	4.0	2.5	•	2.67		North Korea	116	100
4.3	2.3	2.0	1.5	3.0	•	1.0	2.5	4.5	3.0	1.0	5.0	1.5	•	2.62		Congo, DR	117	114
4.3	1.0	1.0	1.0	1.0	•	1.0	1.8	1.5	2.5	1.0	6.0	1.0	•	1.88		Myanmar	118	112
2.3	2.0	1.0	1.0	1.7	•	1.0	1.5	1.0	1.5	1.0	1.0	1.0	•	1.36		Somalia	119	113

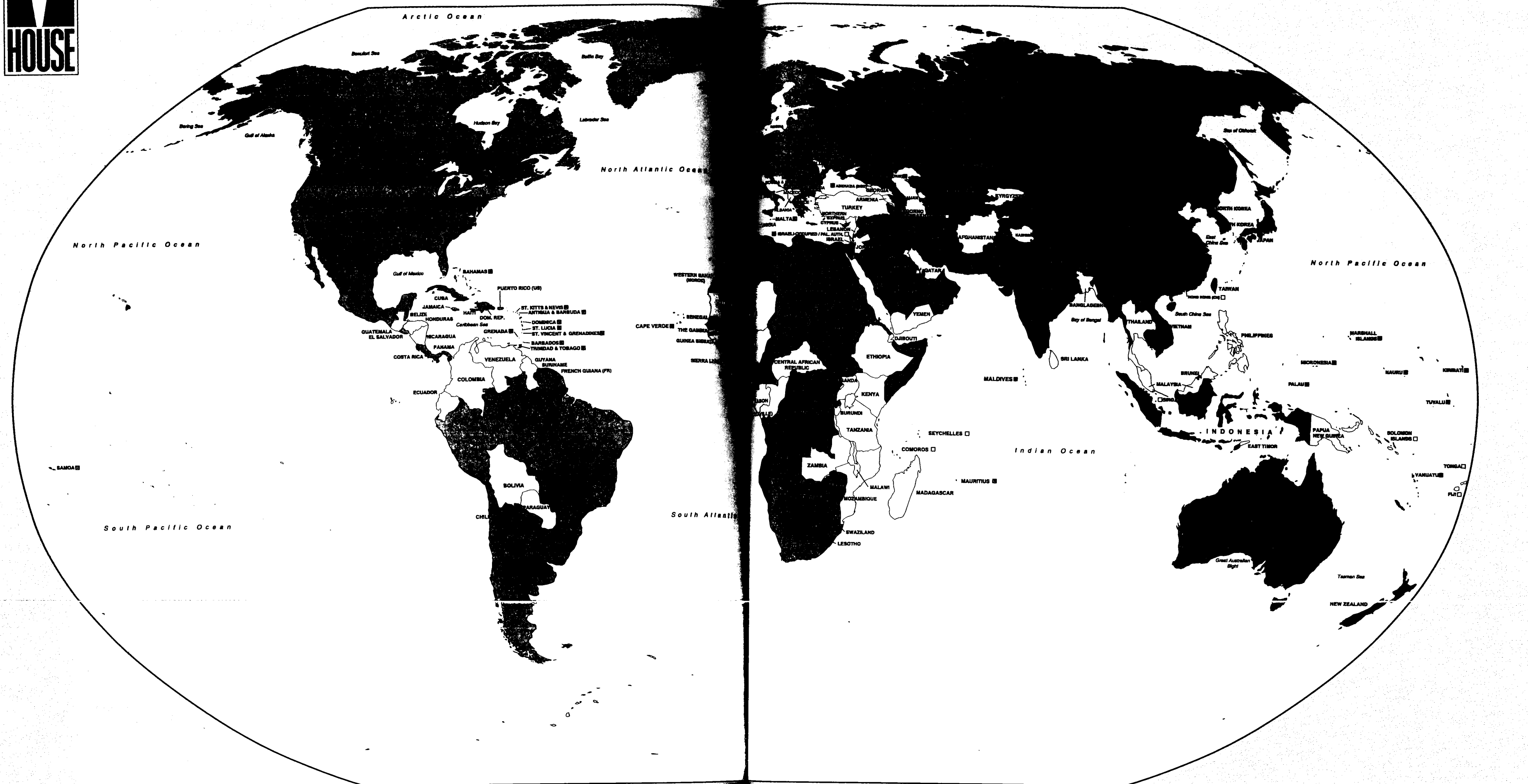
Management Index

Ranking 2003	Ranking 2006	Countries		Management Index	Steering Capability	Resource Efficiency	Consensus-Building	International Cooperation
–	1	Mauritius		[illegible]	10.0	8.0	7.3	9.3
3	2	Chile		[illegible]	9.7	8.2	9.0	8.7
4	3	Botswana		[illegible]	9.0	8.4	8.3	8.7
10	4	Slovenia		[illegible]	9.3	9.5	9.0	9.0
11	5	Taiwan	Successful management	[illegible]	9.3	8.8	8.7	8.7
6	6	Slovakia		[illegible]	10.0	8.8	8.0	9.3
1	7	Estonia		[illegible]	10.0	8.2	8.3	9.0
8	8	South Korea		[illegible]	10.0	8.8	8.0	8.3
2	9	Lithuania		[illegible]	9.7	8.8	7.3	8.3
12	10	Czech Republic		[illegible]	9.7	9.2	7.3	8.3
14	11	South Africa		[illegible]	9.0	8.2	7.0	8.0
14	12	Croatia		[illegible]	9.0	8.0	7.3	8.7
14	13	Brazil		[illegible]	10.0	7.7	6.7	7.7
6	14	Uruguay		[illegible]	10.0	9.5	6.0	7.7
12	15	Hungary		[illegible]	9.3	8.7	7.3	8.3
21	16	Latvia		[illegible]	9.3	8.2	6.7	8.3
31	17	Senegal		[illegible]	9.0	8.2	6.0	6.3
23	18	Ghana		[illegible]	9.0	7.5	5.7	7.3
8	19	Costa Rica		[illegible]	8.7	9.0	7.0	7.3
22	20	Turkey	Successful management with weaknesses	[illegible]	8.3	6.7	6.3	8.0
20	21	Bulgaria		[illegible]	8.7	8.4	6.7	7.0
4	22	Mali		[illegible]	8.7	7.6	5.7	6.0
14	23	Poland		[illegible]	8.7	8.3	6.7	7.3
25	24	Romania		[illegible]	8.0	7.3	6.7	7.3
60	25	Madagascar		[illegible]	9.0	7.7	4.7	6.0
19	25	Mongolia		[illegible]	8.7	7.8	5.3	6.3
37	27	El Salvador		[illegible]	10.0	5.5	6.3	6.3
55	28	Niger		[illegible]	8.7	6.3	4.7	6.0
43	29	Mozambique		[illegible]	9.0	6.7	4.0	6.3
31	30	Mexico		[illegible]	9.7	7.5	4.7	6.0
25	31	Jamaica		[illegible]	9.7	7.4	4.3	6.7
43	32	India		[illegible]	6.0	7.0	6.0	7.3
47	33	Namibia		[illegible]	8.3	7.2	5.7	6.0
30	34	Tanzania		[illegible]	8.7	6.5	4.7	5.7
95	35	Georgia		[illegible]	7.3	6.7	5.7	6.3
37	36	Singapore		[illegible]	8.0	5.2	9.7	5.0
84	37	Sierra Leone		[illegible]	8.0	6.8	4.3	5.0
25	38	Benin		[illegible]	8.0	7.0	5.0	4.7
–	39	Panama		[illegible]	8.0	6.8	4.7	6.3
35	40	Malaysia		[illegible]	8.0	5.2	7.3	5.0
[illegible]	41	Uganda		[illegible]	6.7	5.8	5.7	6.0
[illegible]	[illegible]	Macedonia		[illegible]	[illegible]	6.8	[illegible]	5.7
[illegible]	52	Colombia		[illegible]	[illegible]	4.7	[illegible]	6.0
25	53	Thailand		[illegible]	6.3	4.8	6.7	6.0
48	54	Honduras	Management with moderate success	5.13	7.7	5.8	3.7	5.7
63	55	Nicaragua		5.10	8.7	5.2	4.0	4.7
39	56	Armenia		5.08	7.0	5.5	5.0	5.7
67	57	Guatemala		5.01	7.3	5.0	4.3	5.3
73	58	Paraguay		4.95	7.0	5.7	3.3	6.3
66	59	Bahrain		4.86	6.7	5.0	6.0	5.0
46	60	Indonesia		4.84	7.0	5.3	3.7	5.3
98	61	Afghanistan		4.79	8.0	4.0	2.3	5.0
51	62	Morocco		4.77	6.3	5.3	4.0	5.0
51	63	Bangladesh		4.73	7.0	5.2	2.7	5.3
88	63	Malawi		4.73	6.0	6.5	3.7	4.3
63	65	Bosnia-Herzegovina		4.69	6.0	5.2	4.3	5.7
39	65	Ukraine**		4.69	6.7	5.3	4.3	5.3
60	67	Jordan		4.68	6.7	4.7	5.0	4.7
60	67	Philippines		4.68	7.3	5.3	4.0	4.3
92	69	Kenya		4.53	7.7	5.5	3.3	3.3
55	70	China		4.48	6.3	3.8	4.7	5.0
76	70	Tajikistan		4.48	7.3	4.3	3.3	4.0
79	72	Rwanda		4.44	5.3	4.5	5.0	3.7
67	73	Burkina Faso		4.42	6.3	4.7	3.7	4.3
58	73	Tunisia		4.42	6.7	4.0	4.7	4.7
48	75	Vietnam		4.35	6.3	3.7	4.3	4.7
58	76	Pakistan		4.33	5.3	3.8	4.0	5.0
73	77	Lebanon		4.20	6.0	4.8	3.7	4.3
–	77	United Arab Emirates		4.20	5.7	4.0	5.3	4.0
67	79	Papua New Guinea		4.18	6.7	4.6	3.0	3.7
75	80	Kyrgyzstan		4.17	6.7	4.2	3.3	4.3
67	81	Nepal		4.15	6.0	3.3	4.3	3.3
76	82	Kazakhstan		4.13	5.7	4.5	4.3	4.3
90	83	Ethiopia		4.12	6.0	3.8	3.0	4.3
108	84	Central African Republic		3.90	6.0	4.8	3.0	2.3
67	85	Egypt		3.88	5.7	4.6	3.7	3.0
82	86	Yemen		3.87	6.3	3.5	3.0	3.3
103	87	Guinea		3.84	5.7	4.2	3.7	3.0
31	87	Russia		3.84	4.7	4.3	4.0	4.7
48	89	Ecuador	Management with little success	3.68	6.0	3.8	3.3	3.3
95	90	Saudi Arabia		3.65	5.7	3.6	3.3	3.7
81	91	Algeria		3.63	4.7	4.2	2.7	4.3
110	92	Liberia		3.62	5.0	4.2	2.7	3.0
84	93	Angola		3.57	5.0	3.8	3.3	2.7
67	94	Cambodia		3.53	5.7	3.3	2.7	3.3
79	95	Azerbaijan		3.50	5.7	3.5	3.0	3.3
76	95	Moldova		3.50	5.0	4.3	3.0	3.0
84	97	Laos		3.47	5.0	3.2	3.0	3.7
101	98	Sudan		3.43	5.0	3.0	2.3	3.7
82	99	Cameroon		3.26	4.7	3.2	2.7	3.3
90	100	Chad		3.24	5.3	3.0	2.7	2.3
84	101	Iran		3.17	4.3	4.0	3.0	2.7
100	102	Libya		3.14	4.0	3.2	3.7	3.3
88	103	Venezuela		3.03	4.0	3.6	3.3	3.0
95	104	Syria		2.85	3.7	3.0	3.3	2.3
101	105	Haiti		2.84	4.7	3.5	1.7	2.0
92	106	Burundi		2.77	4.0	3.3	2.3	1.7
98	107	Belarus		2.74	3.3	2.5	4.3	2.3
104	108	Cuba		2.62	3.7	2.3	3.3	2.3
107	109	Congo, DR		2.47	4.7	2.7	1.0	1.7
110	110	Togo	Failed or non-existent management	2.28	3.7	2.2	2.3	1.7
104	111	Eritrea		2.18	2.3	2.7	3.3	1.0
104	112	Uzbekistan		2.17	3.3	1.8	2.3	2.0
108	113	Myanmar		2.04	2.7	2.5	1.0	2.3
110	114	Zimbabwe		2.00	2.7	2.5	2.0	1.7
110	115	North Korea		1.98	2.0	1.2	2.7	2.7
92	116	Côte d'Ivoire		1.83	3.3	1.7	1.7	1.0
110	116	Turkmenistan		1.83	3.0	1.2	2.0	2.0
110	118	Somalia		1.55	2.7	1.7	1.0	1.0
110		Iraq*						

Countries in alphabetical order

Status Index	Countries	Management Index
112	Afghanistan	[illegible]
37	Albania	[illegible]
85	Algeria	[illegible]
104	Angola	[illegible]
24	Argentina	[illegible]
44	Armenia	[illegible]
82	Azerbaijan	[illegible]
46	Bahrain	[illegible]
55	Bangladesh	[illegible]
83	Belarus	[illegible]
41	Benin	[illegible]
51	Bolivia	[illegible]
37	Bosnia-Herzegovina	[illegible]
16	Botswana	[illegible]
20	Brazil	[illegible]
16	Bulgaria	[illegible]
69	Burkina Faso	[illegible]
101	Burundi	[illegible]
87	Cambodia	[illegible]
89	Cameroon	[illegible]
108	Central African Rep.	[illegible]
97	Chad	[illegible]
10	Chile	[illegible]
85	China	[illegible]
48	Colombia	[illegible]
117	Congo, DR	[illegible]
12	Costa Rica	[illegible]
111	Côte d'Ivoire	[illegible]
11	Croatia	[illegible]
96	Cuba	[illegible]
3	Czech Republic	[illegible]
42	Dominican Republic	[illegible]
63	Ecuador	[illegible]
90	Egypt	[illegible]
30	El Salvador	[illegible]
113	Eritrea	[illegible]
2	Estonia	[illegible]
92	Ethiopia	[illegible]
61	Georgia	[illegible]
31	Ghana	[illegible]
70	Guatemala	[illegible]
66	Kazakhstan	[illegible]
60	Kenya	[illegible]
78	Kyrgyzstan	[illegible]
106	Laos	[illegible]
14	Latvia	[illegible]
62	Lebanon	[illegible]
114	Liberia	[illegible]
93	Libya	[illegible]
7	Lithuania	[illegible]
29	Macedonia	[illegible]
40	Madagascar	[illegible]
77	Malawi	[illegible]
50	Malaysia	[illegible]
48	Mali	[illegible]
15	Mauritius	[illegible]
27	Mexico	[illegible]
75	Moldova	[illegible]
43	Mongolia	[illegible]
79	Morocco	[illegible]
55	Mozambique	[illegible]
118	Myanmar	[illegible]
26	Namibia	[illegible]
81	Nepal	[illegible]
57	Nicaragua	[illegible]
68	Niger	[illegible]
67	Nigeria	[illegible]
116	North Korea	[illegible]
84	Pakistan	[illegible]
28	Panama	[illegible]
73	Papua New Guinea	[illegible]
58	Paraguay	[illegible]
39	Peru	[illegible]
41	Philippines	[illegible]
9	Poland	[illegible]
19	Romania	[illegible]
47	Russia	[illegible]
80	Rwanda	[illegible]
93	Saudi Arabia	[illegible]
35	Senegal	[illegible]
33	Serbia a. Montenegro	[illegible]
70	Sierra Leone	[illegible]
22	Singapore	[illegible]
6	Slovakia	[illegible]
1	Slovenia	[illegible]
119	Somalia	[illegible]
16	South Africa	[illegible]
8	South Korea	[illegible]
36	Sri Lanka	[illegible]
110	Sudan	[illegible]
100	Syria	[illegible]
4	Taiwan	[illegible]
102	Tajikistan	[illegible]
63	Tanzania	[illegible]
23	Thailand	[illegible]
98	Togo	[illegible]
72	Tunisia	[illegible]
34	Turkey	[illegible]
109	Turkmenistan	[illegible]
59	Uganda	[illegible]
32	Ukraine**	[illegible]
76	United Arab Emirates	[illegible]
13	Uruguay	[illegible]
103	Uzbekistan	[illegible]
65	Venezuela	[illegible]
87	Vietnam	[illegible]
98	Yemen	[illegible]
51	Zambia	[illegible]
105	Zimbabwe	[illegible]

MAP OF FREEDOM 2006



■	FREE
□	PARTLY FREE
■	NOT FREE

The Map of Freedom reflects the findings of Freedom House's 2006 survey Freedom in the World. Freedom in the World is an annual institutional effort that monitors the gains and losses for political rights and civil liberties in 192 countries and 14 related and disputed territories. For each country, the survey provides a concise report on political and human rights developments, along with ratings of political rights and civil liberties. Based on these ratings, countries are divided into three categories: Free, Partly Free, and Not Free, as reflected in the Map of Freedom.

In Free countries, citizens enjoy a high degr[illegible] freedom. Partly Free countries are characterized by [illegible] political rights and civil liberties, often in a context [illegible]e of law, ethnic strife, or civil war. In Not Free c[illegible] process is tightly controlled and basic freedoms are d[illegible]

In 2005, there were 2.97 billion people li[illegible]esenting 46 percent of the world's population. Th[illegible]le living in Partly Free societies, representing 1[illegible]ulation. There were 2.33 billion people living [illegible]nting 36 percent of the world's population.

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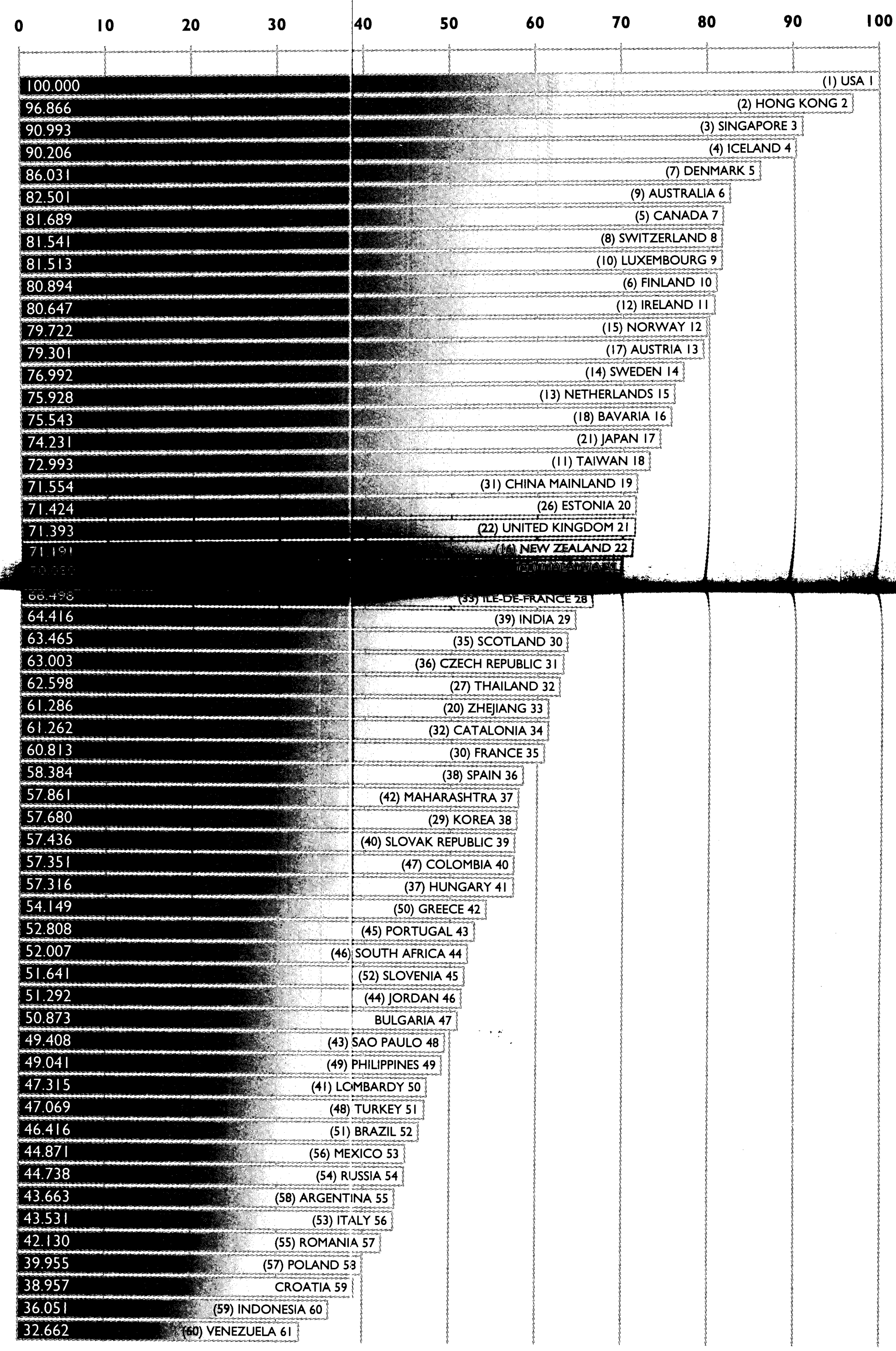
Global Trends in Freedom

Year Under Review	1995	2000	2005
Free	76	86	89
Partly Free	62	58	58
Not Free	53	48	45
Total	191	192	192

THE WORLD COMPETITIVENESS SCOREBOARD 2006



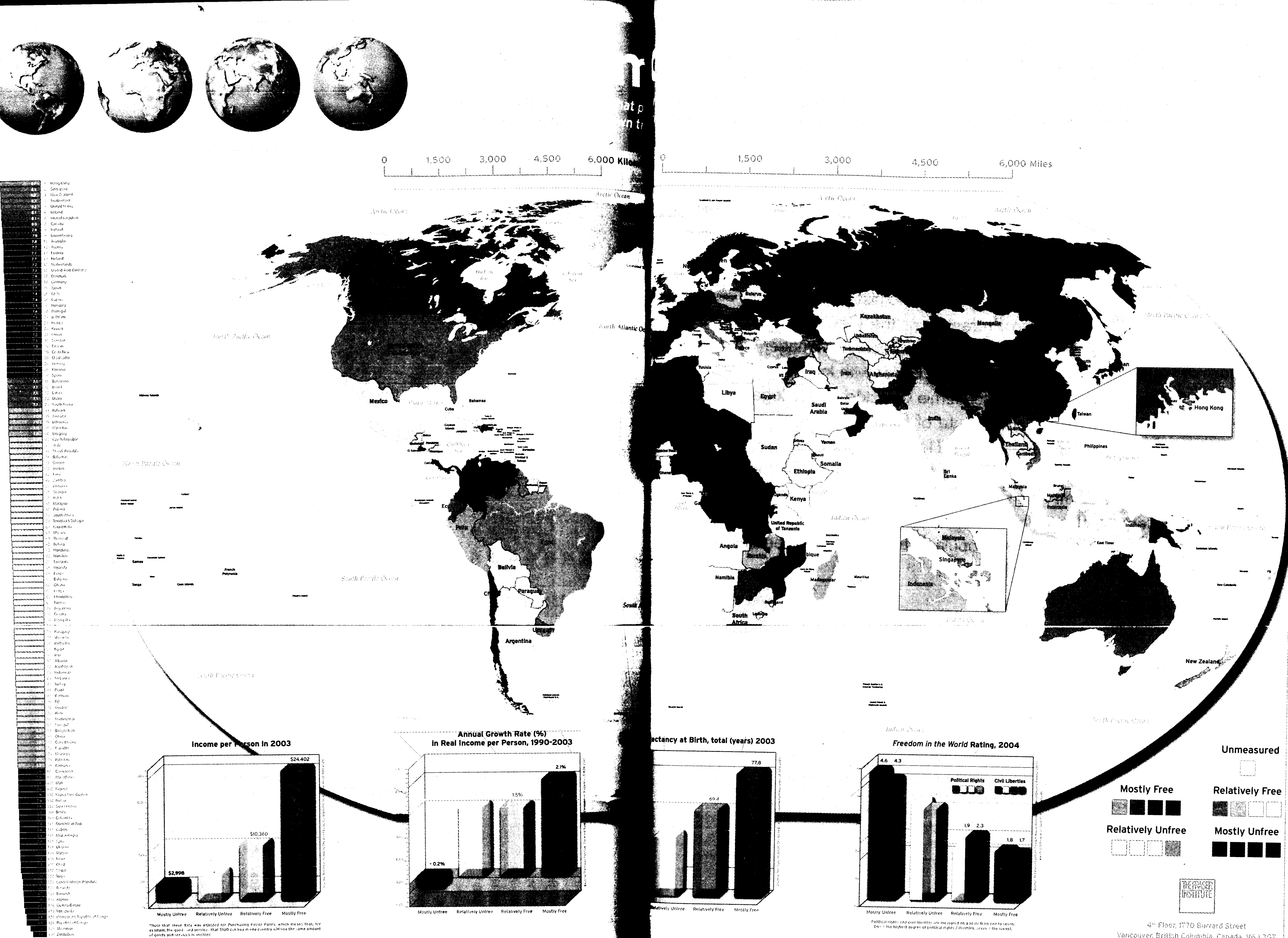
(2005 rankings are in brackets)

Table 1: Global Competitiveness Index rankings and 2005 comparisons

Country/Economy	GCI 2006 Rank	GCI 2006 Score	GCI 2005 Rank
Switzerland	1	5.81	4
Finland	2	5.76	2
Sweden	3	5.74	7
Denmark	4	5.70	3
Singapore	5	5.63	5
United States	6	5.61	1
Japan	7	5.60	10
Germany	8	5.58	6
Netherlands	9	5.56	11
United Kingdom	10	5.54	9
Hong Kong SAR	11	5.46	14
Norway	12	5.42	17
Taiwan, China	13	5.41	8
Iceland	14	5.40	16
Israel	15	5.38	23
Canada	16	5.37	13
Austria	17	5.32	15
France	18	5.31	12
Australia	19	5.29	18
Belgium	20	5.27	20
Ireland	21	5.21	21
Luxembourg	22	5.16	24
New Zealand	23	5.15	22
Korea, Rep.	24	5.13	19
Estonia	25	5.12	26
Malaysia	26	5.11	25
Chile	27	4.85	27
[illegible]	[illegible]	4.77	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Slovenia	33	4.64	30
Portugal	34	4.60	31
Thailand	35	4.58	33
Latvia	36	4.57	39
Slovak Republic	37	4.55	36
Qatar	38	4.55	46
Malta	39	4.54	44
Lithuania	40	4.53	34
Hungary	41	4.52	35
Italy	42	4.46	38
India	43	4.44	45
Kuwait	44	4.41	49
South Africa	45	4.36	40
Cyprus	46	4.36	41
Greece	47	4.33	47
Poland	48	4.30	43
Bahrain	49	4.28	50
Indonesia	50	4.26	69
Croatia	51	4.26	64
Jordan	52	4.25	42
Costa Rica	53	4.25	56
China	54	4.24	48
Mauritius	55	4.20	55
Kazakhstan	56	4.19	51
Panama	57	4.18	65
Mexico	58	4.18	59
Turkey	59	4.14	71
Jamaica	60	4.10	63
El Salvador	61	4.09	60
Russian Federation	62	4.08	53
Egypt	63	4.07	52

Country/Economy	GCI 2006 Rank	GCI 2006 Score	GCI 2005 Rank
Azerbaijan	64	4.06	62
Colombia	65	4.04	58
Brazil	66	4.03	57
Trinidad and Tobago	67	4.03	66
Romania	68	4.02	67
Argentina	69	4.01	54
Morocco	70	4.01	76
Philippines	71	4.00	73
Bulgaria	72	3.96	61
Uruguay	73	3.96	70
Peru	74	3.94	77
Guatemala	75	3.91	95
Algeria	76	3.90	82
Vietnam	77	3.89	74
Ukraine	78	3.89	68
Sri Lanka	79	3.87	80
Macedonia, FYR	80	3.86	75
Botswana	81	3.79	72
Armenia	82	3.75	81
Dominican Republic	83	3.75	91
Namibia	84	3.74	79
Georgia	85	3.73	86
Moldova	86	3.71	89
Serbia and Montenegro	87	3.69	85
Venezuela	88	3.69	84
Bosnia and Herzegovina	89	3.67	88
Ecuador	90	3.67	87
Pakistan	91	3.66	94
Mongolia	92	3.60	90
Tajikistan	96	3.50	92
Bolivia	97	3.46	101
Albania	98	3.46	100
Bangladesh	99	3.46	98
Suriname	100	3.45	—
Nigeria	101	3.45	83
Gambia	102	3.43	109
Cambodia	103	3.39	111
Tanzania	104	3.39	105
Benin	105	3.37	106
Paraguay	106	3.33	102
Kyrgyz Republic	107	3.31	104
Cameroon	108	3.30	99
Madagascar	109	3.27	107
Nepal	110	3.26	—
Guyana	111	3.24	108
Lesotho	112	3.22	—
Uganda	113	3.19	103
Mauritania	114	3.17	—
Zambia	115	3.16	—
Burkina Faso	116	3.07	—
Malawi	117	3.07	114
Mali	118	3.02	115
Zimbabwe	119	3.01	110
Ethiopia	120	2.99	116
Mozambique	121	2.94	112
Timor-Leste	122	2.90	113
Chad	123	2.61	117
Burundi	124	2.59	—
Angola	125	2.50	—

(cont'd.)



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