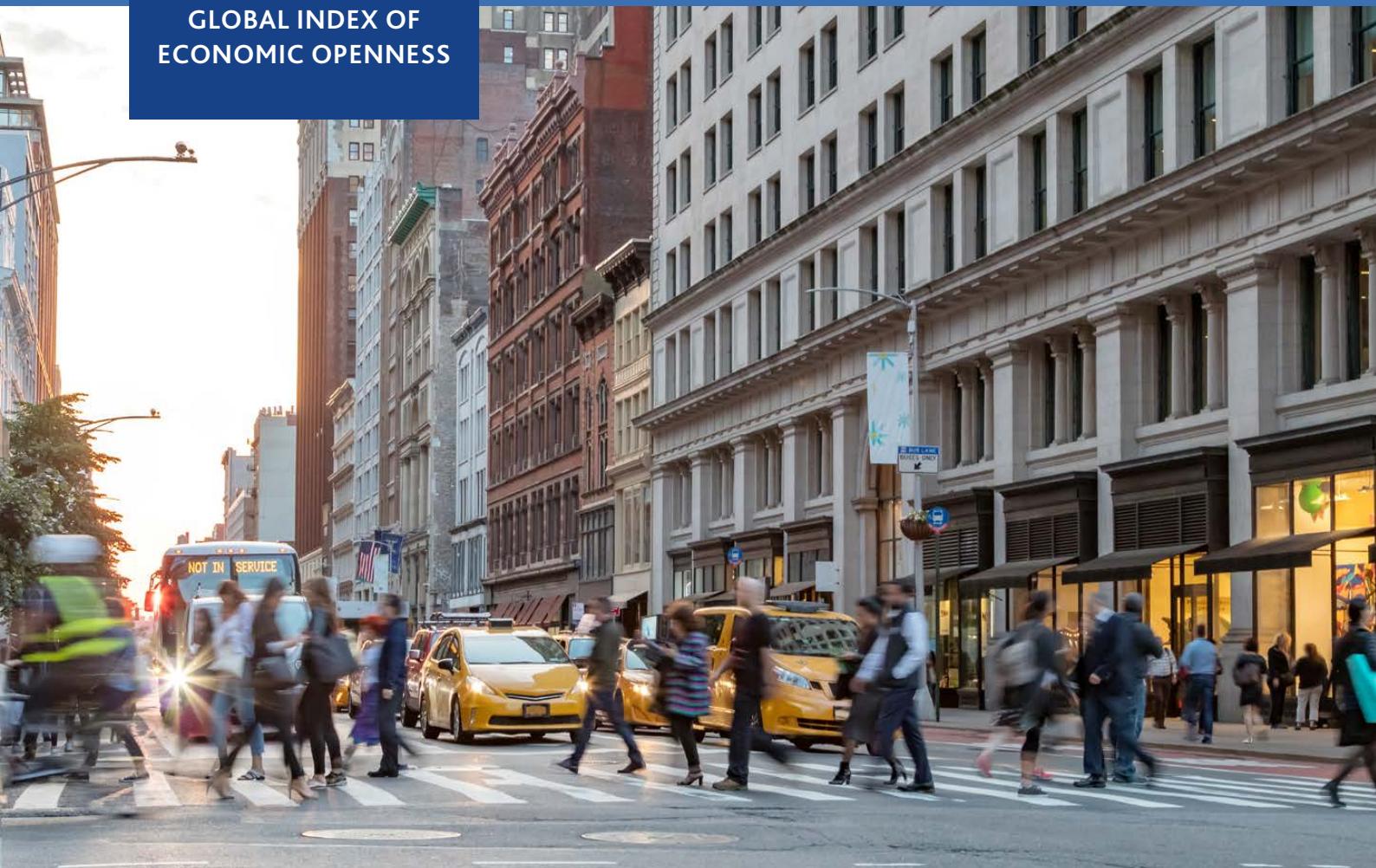


GLOBAL INDEX OF
ECONOMIC OPENNESS



MAY 2019

Global Index of Economic Openness

A report published by the Legatum Institute
in partnership with Templeton World Charity Foundation

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This publication was made possible through the support of a grant from Templeton World Charity Foundation, Inc. The opinions expressed in this publication are those of the Legatum Institute and do not necessarily reflect the views of Templeton World Charity Foundation, Inc.

The Legatum Institute would like to thank the Legatum Foundation for their sponsorship. Learn more about the Legatum Foundation at www.legatum.org

Foreword



Our mission at the Legatum Institute is to create the pathways from poverty to prosperity, by fostering open economies, inclusive societies and empowered people. Our work is focused on understanding how prosperity is created and perpetuated. Prosperity is much more than material wealth; it also encompasses welfare, security, wellbeing, freedom and opportunity.

Without an open, competitive economy, it is very challenging to create lasting social and economic wellbeing, where individuals, communities and businesses are empowered to reach their full potential. That is why we view this work on Economic Openness as so important. With the generous support of the Templeton World Charitable Foundation, we are creating a Global Index of Economic Openness to rank 157 countries' openness to commerce, assessing the environment that enables or hinders their ability to trade both domestically and internationally. Our ambition for this Index is that it becomes a valued tool for leaders and advisers around the world, to help set their agendas for economic growth and development.

Trade between countries, regions, and communities is fundamental to the advance of innovation, knowledge transfer and productivity that creates economic growth and prosperity. Our research shows that economically open countries are more productive, with a clear correlation between increased openness over time and productivity growth. In contrast, in an uncompetitive market, or one that is not designed to maximise welfare, growth stagnates and crony capitalism thrives. Once protected industries become entrenched, it is difficult for governments to unseat them, especially when they lack institutional resilience. Corruption soon follows when incentives arise for officials to prioritise the interests of powerful producers over the welfare of citizens.

The benefits of economic competition are widely understood and the language of openness is easy to use, but we are seeking to define and measure openness in a way that can help political leaders and policy makers to implement strategies which enhance Economic Openness. To that end, we analyse the performance of each country on the key characteristics of openness to trade, investment, ideas, competition and talent using four pillars, comprising 22 different elements, measured by 108 discrete indicators. The first pillar is Market Access and Infrastructure, which facilitates the production and delivery of goods and services. The second is the Investment Environment, and access to domestic and foreign finance. Third is Enterprise Conditions, which ensure markets are contestable and free. The fourth pillar is Governance, which looks at the Rule of Law, Government Integrity and Effectiveness.

While most policy-makers focus on the big fiscal and macroeconomic policy tools at their disposal, the microeconomic factors are sometimes overlooked, and their potential to drive openness and growth is underestimated. A notable feature of this Index is a focus on these microeconomic drivers of productivity. By bringing together in one report the full range of disparate policy choices that impact and drive openness and competition, we are looking to shift the focus of policy makers towards the welfare implications of microeconomic policies by emphasising the relationship between productivity and Economic Openness.

At the global level, there is much to be optimistic about Economic Openness. We can and should celebrate the rise of open and competitive economies around the globe over the last 30 years. Economic Openness has driven and delivered prosperity for millions of people in recent decades, and it has lifted approximately one billion people out of poverty since 1990. Economic Openness is at its highest global level ever, with more economies becoming more open and competitive, in turn spreading ideas, innovation and prosperity. We are seeing an improving environment for business start-ups and scale-ups, more trade deals, upgraded trading infrastructure, better investor protection, more comprehensive property rights, and falling corruption.

Crony capitalism has waned in the last decade, most visibly in former communist countries. Many have transitioned successfully from state-led to market- and enterprise-based economies, enjoying stable economic growth and a new openness, and their move to multi-party democracy has reduced corruption and enhanced productivity. Many economies in Latin America have also become less government-dominated, resulting in

fewer import restrictions and capital controls (with the painful exception of a government-induced crisis in Venezuela). Most significant of all is the dramatic transformation enjoyed by so many Asian economies over the last 20 years, including distinct reforms in China and India that have brought prosperity to millions of people.

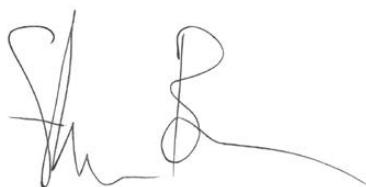
However, our research also reveals a deterioration in the quality of Governance in both developing and developed nations, and this represents a brake on Economic Openness. Failure to implement effective competition policy gave rise to the oligarchs of the former Soviet Union and the cronies of Latin America, who dominated entire industries in their respective domestic markets. Furthermore, in the aftermath of the global financial crisis, when trade flows slowed dramatically, many governments contemplated protecting their domestic industries and producers, or were indeed pushed in this direction. The degree of protectionist policies was not as bad as some had feared, but progress on openness has stalled, and even reversed in some countries, where new barriers to trade and policies have been introduced to stifle competition.

The benefits of Economic Openness are also under increasing scrutiny in Western countries, giving rise to nationalism and populist politics. President Trump's election on an 'America First' platform, the UK's vote to leave the European Union, and the months of protests across France are all consequences of those communities fearing a threat to their livelihoods from global competition, both off-shore and at home from immigration. The rise of populism can also be attributed to many people's perception that the economic system is rigged for the benefit of insiders, enabling huge gains for an elite set of gatekeepers without benefitting ordinary citizens.

Despite the noisy maelstrom of populism, and despite real anxieties about globalisation and discontent with an economic system that many see as not working effectively for ordinary citizens, we should also remember that global prosperity has never been higher – and that we have much to lose by turning inwards. One of the biggest opportunities for policymakers is to resist protectionism and actively reinvigorate an agenda that embraces open and pro-competitive economies, both domestically and internationally, that attracts innovation, ideas, capital and talent. Open economies improve domestic and international welfare, and there are many levers available to leaders that can enhance contestability. Above all, it is domestic political will and accountability that can drive Economic Openness with an effective competition law as a core policy.

While the Index covers 157 countries around the world, we are most ambitious about engaging with the middle 90 countries where the greatest opportunities exist to effect change through insight and closer working relationships. The top 40 most open economies are, by definition, countries that have developed strong economic systems over time, and these can provide lessons for the aspiring middle 90 countries. To this end, we are publishing case studies of the United States and United Kingdom, and will publish studies of several middle-ranked nations over the next two years.

Please do contact us if you are interested in the findings of the Index and our work more broadly.

A handwritten signature in black ink, appearing to read "S Brien".

Dr. Stephen Brien
Director of Policy, Legatum Institute





Executive summary

INTRODUCING THE GLOBAL INDEX OF ECONOMIC OPENNESS

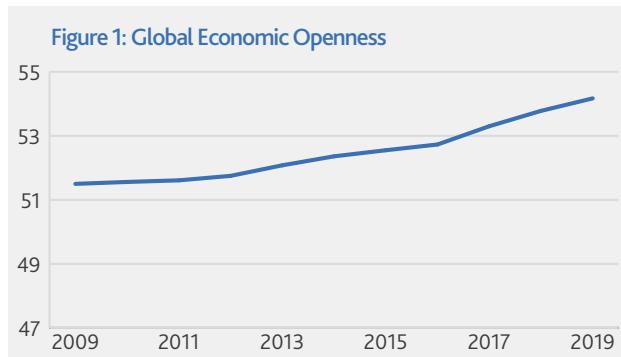
This report marks the inaugural publication of the Legatum Institute's Global Index of Economic Openness. It measures the extent to which the economic systems of 157 countries around the world enable trade, competition and productivity, by measuring four pillars that describe the policy choices for countries: Market Access and Infrastructure, Investment Environment, Enterprise Conditions and Governance. For more details on our definition of Economic Openness, see page 18.

This year there are four key findings:

1. Economic Openness is at its highest ever level, with some of even the lowest-ranked countries improving, and lifting millions of people out of poverty
2. Countries with greater levels of Economic Openness are more productive
3. Economic Openness, and therefore economic growth, can be improved by policy choices
4. Governance is key, yet the quality of Governance is stagnating, acting as a brake on Economic Openness

1. Economic Openness is at its highest ever level

Globally, Economic Openness is at its highest-ever level, improving by 8% over the last 10 years. 130 countries, representing 90% of the world's population, have risen since 2009. Furthermore, the gap between the lowest and highest score has closed, albeit slowly. Over the last 10 years, the bottom fifth of countries have closed 5% of the gap with the top fifth of countries.



The overall rankings of Economic Openness repeat some well-worn patterns among global indices. The two countries that top the rankings, Hong Kong and Singapore, are quite unique in being city-based territories. Of the top 30 ranked countries, 25 are OECD members, with Taiwan (23rd), Malta (26th), and UAE (30th) the only other non-OECD entries in the top 30.

The economies of North America and Western Europe are significantly more open than the other regions of the world, and this is consistent across all four pillars. The countries at the top of the Index have long histories of Economic Openness, spanning generations if not centuries, but also face important choices. In particular, the US and the UK are two countries built on strong legacies of Economic Openness. They both face significant choices in coming years about how to open their markets and encourage their industries to be more competitive. For example, while the US is second for Enterprise Conditions, its high-tech industries are facing stiff competition from China. And while the UK is a strong performer in all pillars, there are opportunities to improve transport and trade. We discuss these challenges more on pages 43 and 47.

The largest risers are in the middle of the Index. The second and third quintiles (representing 40% of countries) are converging with the top of the Index at a rate three times faster than the lowest-ranking countries. Many of these countries are in Asia-Pacific, which is the fastest growing region. In the last year it has overtaken Eastern Europe to become the third-ranked region after North America and Western Europe.

The Middle East and North Africa and sub-Saharan Africa are the weakest performing regions. Twenty-one of the bottom-ranked 30 countries are in sub-Saharan Africa, with five from MENA: Iran (129th), Iraq (133rd), Syria (145th), Libya (150th), and Yemen (155th).

These regions contain hope however. Ghana ranks 91st in our Index (8th in sub-Saharan Africa). It has improving Enterprise Conditions and Market Access and Infrastructure. It also has relatively strong Governance, which should give it the foundations to build economic wellbeing for its people in coming years. For more, see our feature on page 67.

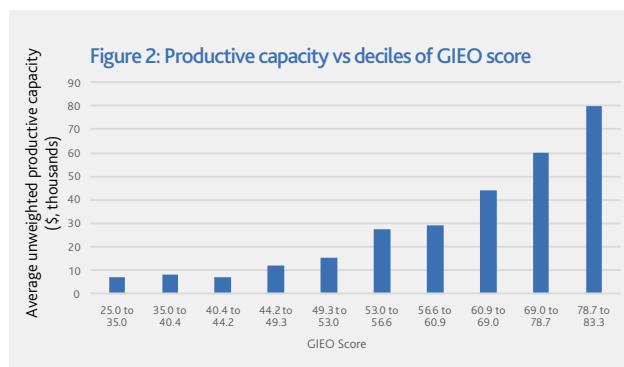
2. Countries with greater levels of Economic Openness are more productive

Countries with greater levels of Economic Openness are more productive. Furthermore, countries that have increased their Economic Openness have increased productivity the most.

In constructing the Index, we wanted to benchmark against a measure that captures the policy-relevant drivers of economic wellbeing. We constructed a measure called 'productive capacity', which is the total GDP of a country without resource rents, divided by its working age population. This removes two distorting effects on a country's GDP that misrepresent the underlying productive capacity: demographics and resource rents.

Our analysis indicates a clear link between the extent to which a country's economy is open and its productive capacity. This link is supported by a long history of academic literature, and can be

seen in the economic histories of those countries that have achieved a high level of economic wellbeing. The following graph shows the relationship between Economic Openness and productive capacity.



The correlation between productive capacity and each of the four pillars is also high. In particular, the correlation between Market Access and Infrastructure and productive capacity is the highest of all. And within this pillar, the measures of infrastructure such as Transport, Communications and Resources are the most highly correlated. Hence, in any given year, the range of productive capacity between the countries with the best and worst infrastructure is even greater than the range across overall Economic Openness scores.

Infrastructure is as much a result of historic investment in support of economic development as it is a driver of current productivity. This means that the timeframe over which these factors have an economic impact is long-term.

What is much more important is how changes in policy can affect the trajectory of productive capacity. In this case, our analysis shows that there is a correlation between the degree of increase of a country's Economic Openness over the last 10 years with their increase in productive capacity.

This relationship also holds for all four of the pillar scores independently; in other words, the correlation between an increase in score of any individual pillar and an increase in productive capacity is statistically significant, with changes in the Investment Environment having the greatest impact. At an element level, improvements in Government Effectiveness have shown to be correlated with the greatest gains in productive capacity. For more details please see our feature on page 76.

Given the importance of developing an Investment Environment as a lever for driving productive capacity, we also have a guest essay on page 78 by Richard Odumodu that explores the Investment Environment in Africa and how this can drive Economic Openness on the continent.

3. Economic Openness, and therefore economic growth, can be improved by policy choices

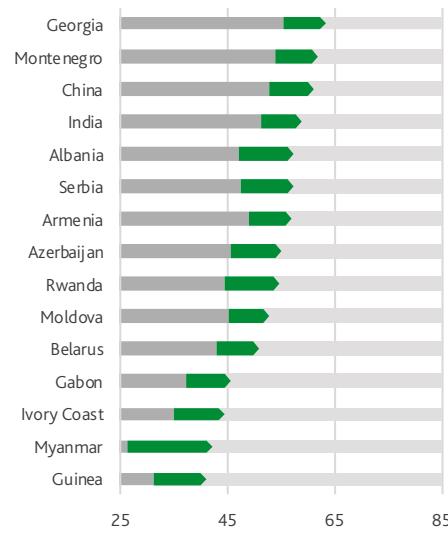
Economic Openness is driven by policy choices. Some elements of Economic Openness, such as Transport and Resources, require a long time and large investment to develop, while most of the other elements, such as Market Contestability or Investor Protections, are dependent on reforms that can be implemented over a

shorter period. All reflect direct policy choices. The Index shows that countries around the world have made different policy choices, resulting in different degrees of Economic Openness and productive capacity.

This can be seen in three major developing regions of the world. There are significant policy differences, and some similarities, between Asia-Pacific, Latin America and the Caribbean, and sub-Saharan Africa. In Asia-Pacific, there are particular strengths in its Financing Ecosystem, and in Communications, Resources and Transport. While it is still behind Asia-Pacific, sub-Saharan Africa's strengths lie in elements that can be easily affected by regulation: Labour Market Flexibility, Burden of Regulation, and Restrictions on Foreign Investment. Latin America and the Caribbean falls behind Asia-Pacific in most elements, but it has strengths in Import Tariff Barriers and Open Market Scale, where a number of South American countries have free trade agreements with both the EU and the US.

Over the last 10 years, many countries have taken significant steps to strengthen their Economic Openness. The most improved contain the expected emerging economic giants, like China and India, but also smaller economies, like Serbia and Rwanda. Over this time, the 30 most improved countries grew their productive capacity by 52%, which is 20 points more than would have been expected, given their starting points.

Figure 3: 10-year Economic Openness change by country (largest risers)

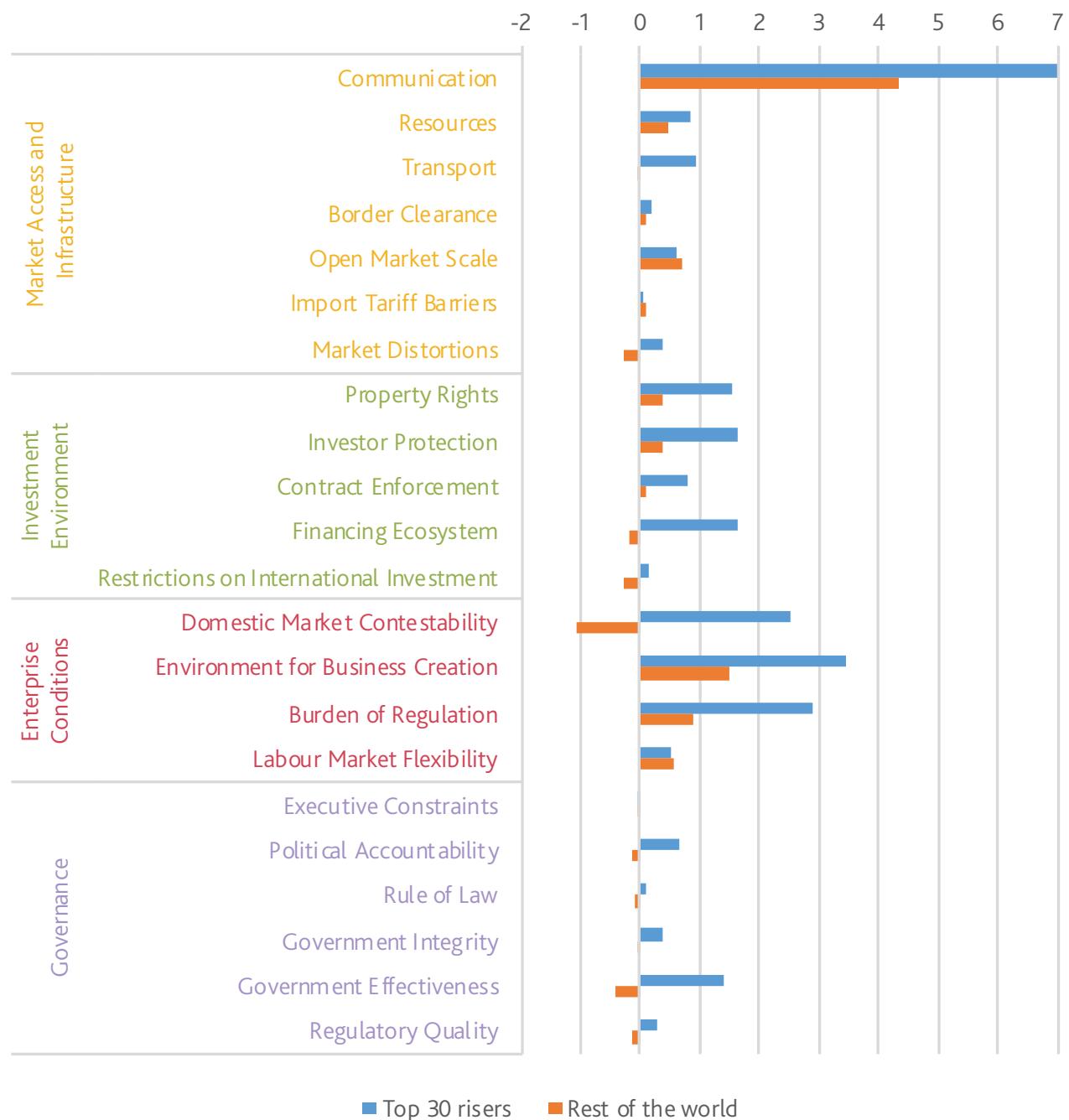


These countries improved their Economic Openness primarily by strengthening their Investment Environment (particularly in the elements of Property Rights, Investor Protection and Contract Enforcement) and their Enterprise Conditions (Market Contestability, Environment for Business Creation, Burden of Regulation).

For example:

- Argentina is the greatest riser in Latin America and the Caribbean – the 27th most improved country over the last 10 years. Much of its rise has come in recent years in Governance and Investment Environment, following the election of Mauricio Macri in 2015.

Figure 4: 10-year change: Top 30 risers vs rest of the world



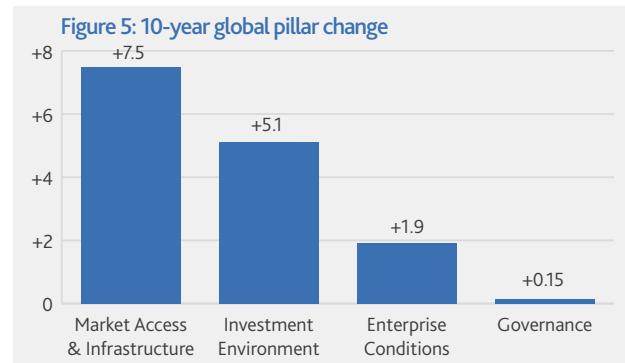
- After an initial decline, Romania's Investment Environment has improved, up five places to 39th. Its most significant rises have come in Investor Protection and Property Rights. As these have improved, inward FDI flows have also increased.
- India has improved 20 places in Enterprise Conditions since 2009. It has undertaken a number of reforms to make starting a business easier and removing the burden of regulation. This is part of a wider set of liberalising reforms continued under Prime Minister Modi. We discuss this in more detail in our feature on India on page 51.
- Serbia is the Eastern European country with the greatest improvement in Enterprise Conditions since 2009. Like other risers, it has seen large improvements in the ease of starting a business, and the number of tax payments have halved. The most recent example of improvement was the reduced time it took to obtain a construction permit, by introducing an online application system.
- Rwanda has also seen important improvements in Enterprise Conditions, rising 26 places since 2009 to 52nd this year. Rwanda is a well-known reformer in reducing the burdens on businesses and making it easier to start a business. In the last 10 years, for example, the time spent filing taxes has almost halved to 94 hours, ranking it now 15th in the world. This complements significant improvements in its Investment Environment – such as removing restrictions on foreign investment, where it is now fourth in the world.
- The United Arab Emirates is the best-known example of business-friendly reform in the MENA region, and it has risen 21 places in the Enterprise Conditions pillar to 26th in 2019. It is particularly strong in the Burden of Regulation, where it comes third. In a survey of business executives, it is second for the complying with government requirements.

4. Quality of Governance is stagnating, acting as a brake on Economic Openness

Economic Openness is dependent on having good quality Governance. A stable and trustworthy state is one of the central and underlying components of economic exchange. However, Governance has seen the least change at a global level, and three out of seven regions have seen a decline. In Latin America and the Caribbean and MENA, there has been a deterioration in Executive Constraints, Rule of Law and Political Accountability. In sub-Saharan Africa, there has been a fall in Government Integrity and Government Effectiveness.

Countries whose score fell often did so because of violence and failures of Governance. While, in comparison to the overall improvements globally, the declines among some countries have

been modest, they are still significant. Notable fallers are Yemen, Venezuela, Mauritania and Hungary, due to increasing authoritarianism or violence. Yemen for example has seen significant conflict, while Hungary's government has become increasingly authoritarian. And while this affects primarily the Governance pillar, there are flow-on effects to other pillars.



Governance is a particular challenge in Egypt (102nd overall), where it comes 137th. Since 2011, it has undergone two turbulent revolutions, which has led to a steep decline in all elements of this pillar. While Egypt has shown some improvement in other areas, it threatens to be undone by poor Governance. For more see page 63.

Colombia is an example of a country facing challenges in Governance, although unlike Egypt there has been positive change. Colombia has seen significant improvement in Market Access and Infrastructure and Enterprise Conditions, but it has also improved in Governance, particularly in Government Effectiveness. In recent years, the most important factor for Economic Openness has been the peace deal with FARC, but even when there was conflict, the government managed to limit the impact of the conflict on the country as a whole. Please see our feature on page 59.

THE FUTURE OF ECONOMIC OPENNESS AND PROSPERITY

Global Economic Openness is at its highest measured point, which is good news for those participating in economies around the world. Yet too many of the world's inhabitants are not enjoying the benefits of this openness. Our broader work on measuring prosperity shows that much needs to change to enable all nations to fulfil their potential, not only in terms of economic systems but also building strong institutions and investing in social wellbeing. Given the different political, cultural and geographic contexts in which nations find themselves, the solutions to realising such potential could scarcely be more wide-ranging. Our hope is that our Index can help all leaders and policy makers to identify the pathways to prosperity for all.



Overview of Economic Openness





Mapping Economic Openness in 2019

The **United States (9th)** is strong across the Index and comes second in Enterprise Conditions, driven by a strong Environment for Business Creation and Domestic Market Contestability.

Switzerland (4th) performs particularly well for Enterprise Conditions, where it ranks third.

Chile (31st) is the highest ranked country in Latin America and the Caribbean, it has the best access to international markets in the world and some of the lowest Import Tariff Barriers.

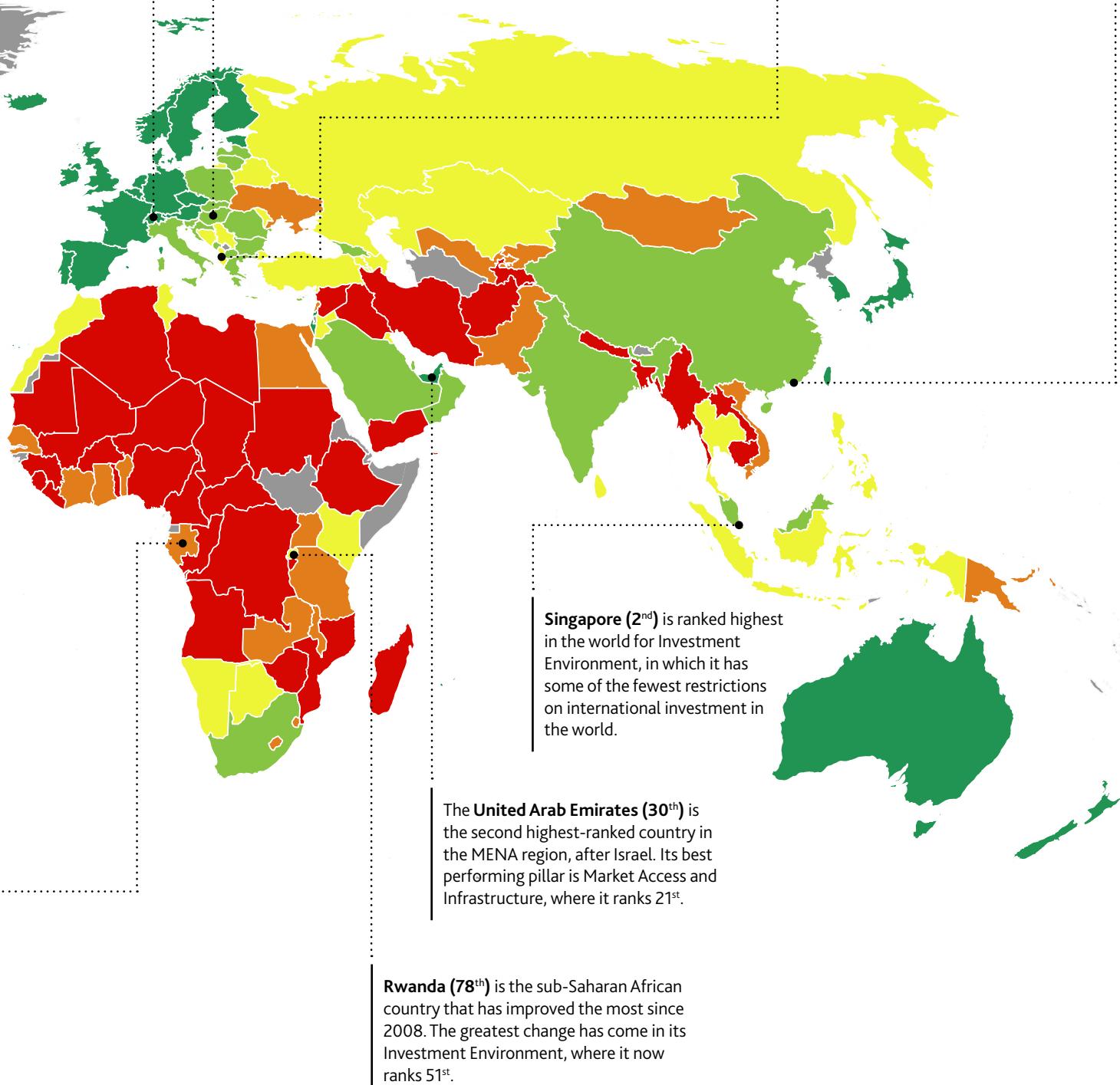
Rank

- 1-30
- 31-60
- 61-90
- 91-120
- 121-157
- Data unavailable

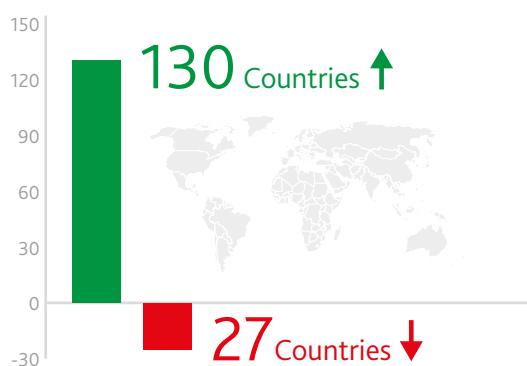
Several countries are not included in the Global Index of Economic Openness because we cannot access the data. In many cases, this is due to conflict or government restrictions preventing the collection or publication of accurate data. These include:

- North Korea
- Cuba
- Turkmenistan
- Somalia
- South Sudan
- Comoros
- Djibouti
- Guinea-Bissau
- Eritrea

In sub-Saharan Africa, **Gabon (108th)** has seen the greatest improvement in Market Access and Infrastructure in the last 10 years, where it now ranks 107th. This has been driven by the improvement in Communications, primarily in 3G and 4G coverage and the number of internet users.

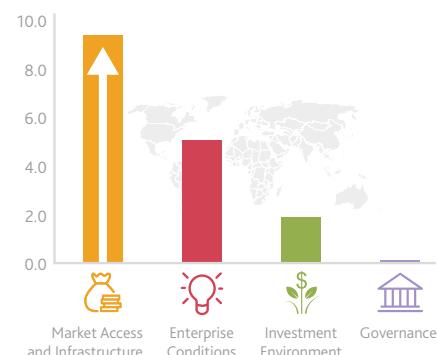


Key findings



Economic Openness is improving

Economic Openness across the world has been improving over the last 10 years, and is currently at its highest level. Since 2013, 130 (out of 157 countries) have improved their Economic Openness. The median score has moved up the equivalent of 17 places since 2008. Since last year, 105 countries have improved.



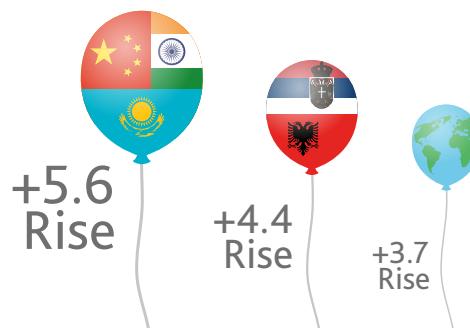
Market Access and Infrastructure has seen the largest gain, driven primarily by growth in access to communications

The improvement in communications infrastructure has been the largest driver of the increase in Economic Openness score. The percentage of internet users globally has doubled in this time frame, and internet bandwidth has increased from an average of 2.8 kb per person to 38 kb. The greatest improvement was seen in Kazakhstan, where the percentage of people using the internet has increased from 4% to 76% in 10 years.



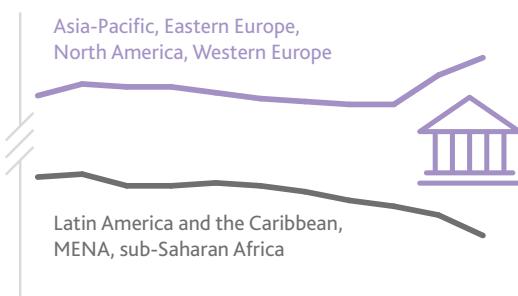
North America is the strongest performing region

North America tops the Index, overall and in each of the four pillars. It particularly outperforms the world in Enterprise Conditions, where the US comes second and Canada comes 15th. It is followed by Western Europe, which contains 7 countries of the top 10 countries. Both regions have improved their Economic Openness over the last 10 years.



Asia-Pacific has seen the largest rise, followed by Eastern Europe

Asia-Pacific is the third ranked region, overtaking Eastern Europe in the last year. Asia-Pacific comes third in Enterprise Conditions, Governance and Market Access and Infrastructure. It has risen more than any other region in Investment Environment and Enterprise Conditions. In particular, it has seen a steady reduction in its Burden of Regulation, where, for example, the number of tax payments has reduced, as have costs for getting a construction permit. Despite being overtaken by the Asia-Pacific region, Eastern Europe is the second-largest riser and is the largest riser in Market Access and Infrastructure.



Governance is worsening in three out of seven regions

Globally, Governance has improved the least of all pillars in the last 10 years. Government Effectiveness, Executive Constraints and the Rule of Law have all declined, while there has been a modest improvement in Government Integrity. Sub-Saharan Africa, MENA, and Latin America and the Caribbean have all seen a decline in Governance. In sub-Saharan Africa, for example, there has been a fall in the level of policy learning across countries, according to the Bertelsmann Stiftung's Transformation Index.



Latin American countries have the largest free trade zones in the world

Latin American countries make up seven of the top 10 countries for having some of the best access to international markets for trading goods. Chile, Peru, and Costa Rica rank at the top of this element. All Latin American countries in the top 10 have trade deals with United States, and three have trade deals with China. This is alongside trade deals with other Southern Common Market (MERCOSUR) countries in Latin America. Outside Latin America, South Korea, Singapore and Canada are also in the top 10.

Highlights of regional giants



Western Europe: Germany (10th)

Germany is 10th in the Index, and the seventh ranked country in Western Europe. It has seen the greatest improvement in Enterprise Conditions, where it has risen seven places to fourth. This has been driven by reduced Burden of Regulation, an improved Environment for Business Creation, and increased Labour Market Flexibility. For example, the cost of redundancy to an employer has fallen from 69 weeks to 22 weeks over the last 10 years.



Asia-Pacific: China (51st)

China, the world's most populous country and the second largest economy, is ranked 51st, improving by 13 ranks since 2009. Its best performing pillar is Enterprise Conditions, where it ranks 41st. China has a strong Environment for Business Creation, because of the availability of skilled labour. It also comes 30th for the state of cluster development. The Chinese government is prioritising the development of city clusters, with the largest being focused on cities in the Pearl River Delta, Yangtze River Delta, and the Beijing-Tianjin-Hebei economic zone.



Latin America and Caribbean: Brazil (80th)

Brazil, despite a modest overall improvement, has fallen 10 ranks since 2009, and one rank in Latin America and the Caribbean (where it currently ranks 10th). Like other Latin American countries, it has poor Enterprise Conditions, where it ranks 97th. Businesses face some of the most burdensome regulations and inflexible labour markets. For example, for the time spent complying with regulations it is ranked 129th in the world.



Eastern Europe: Russia (81st)

Russia is 81st in the world, falling two ranks in the last 10 years. Its best improvement has come in Market Access and Infrastructure. It has, for example, improved the ease that a person can get an electricity connection, from 156th to 14th in the world since 2009. However, its Governance rank is 98th in the world, and fourth worst in Eastern Europe. While it has seen improvement in Regulatory Quality, its performance is particularly weak in Executive Constraints and Political Accountability. On political participation and rights, Russia is ranked at 135th. This is a result of the continual centralisation of power in the hands of the president.



The Middle East and North Africa: Egypt (103rd)

Egypt is ranked 103rd in the world and 13th in the Middle East and North Africa. It has seen strong improvement in Market Access and Infrastructure, driven by improvements in Transport, Communications and Resources. In logistics performance, it has improved from 107th in 2009 to 49th this year. However, it is one of the worst-ranked countries for Governance, ranked 141st, and has witnessed a decline in every element of this pillar since 2009.



Sub-Saharan Africa: Nigeria (130th)

Nigeria has fallen 13 places since 2009, and is now ranked 130th. Its weakest pillar is Market Access and Infrastructure. It is particularly poor on transport infrastructure, where it ranks 149th for the quality of roads and 140th for efficiency of seaport services. It has seen some improvement in its Investment Environment. It has, for example, improved the access to credit information by guaranteeing borrowers the legal right to inspect their credit data from the credit bureau and by starting to provide credit scores to banks, financial institutions and borrowers.

The Global Index of Economic Openness

2018 Rank	2019 Rank	Country	Market Access & Infrastructure	Investment Environment	Enterprise Conditions	Governance
						
3	1	Hong Kong	3	3	1	21
1	2	Singapore	1	1	5	26
5	3	Netherlands	4	17	8	3
4	4	Switzerland	8	14	3	7
8	5	Denmark	7	8	7	4
2	6	Norway	16	2	9	1
6	7	United Kingdom	9	5	6	10
7	8	Sweden	5	9	13	6
11	9	United States	6	6	2	18
12	10	Germany	11	13	4	9
10	11	Finland	10	10	19	2
9	12	New Zealand	20	4	14	5
13	13	Luxembourg	2	22	16	8
14	14	Canada	19	12	15	11
16	15	Japan	12	15	11	16
17	16	Austria	17	16	18	15
15	17	Ireland	24	25	10	13
18	18	Australia	28	7	21	12
22	19	France	14	18	25	20
19	20	Belgium	15	23	17	17
21	21	Estonia	23	20	20	19
20	22	Iceland	13	27	30	14
23	23	Taiwan	27	19	12	25
24	24	Israel	33	11	24	22
26	25	Spain	22	24	27	27
25	26	Malta	34	33	23	23
27	27	Portugal	25	32	28	24
28	28	South Korea	18	21	34	31
30	29	Czechia	35	26	35	28
29	30	United Arab Emirates	21	28	26	45
33	31	Chile	32	34	39	29
32	32	Lithuania	38	31	36	32
34	33	Italy	31	41	22	39
36	34	Slovenia	26	40	38	37
37	35	Latvia	40	36	37	36
31	36	Poland	42	35	32	38
39	37	Cyprus	29	47	40	33
38	38	Malaysia	41	29	29	58
35	39	Qatar	30	49	31	50
40	40	Slovakia	44	30	47	40
41	41	Mauritius	57	37	44	34
44	42	Greece	37	94	33	41
43	43	Costa Rica	58	65	45	35
42	44	Uruguay	59	43	66	30
45	45	Georgia	48	38	50	51
46	46	Bahrain	36	45	46	82
47	47	Romania	47	39	70	47
52	48	Montenegro	49	50	51	52
50	49	Croatia	39	57	86	48
49	50	Hungary	45	42	55	69
57	51	China	54	44	41	88
51	52	Bulgaria	56	52	53	60
60	53	Oman	43	59	48	80
56	54	Seychelles	53	63	54	55
58	55	Saudi Arabia	46	69	43	75
53	56	Panama	50	55	79	59
66	57	India	87	76	42	46
54	58	South Africa	81	71	49	49
48	59	North Macedonia	64	54	56	72
59	60	Jamaica	78	64	64	53
63	61	Jordan	66	60	58	67
62	62	Mexico	51	61	73	81
55	63	Turkey	60	48	59	107
70	64	Albania	63	67	65	71
65	65	Serbia	61	75	62	70
64	66	Thailand	55	46	78	104
61	67	Peru	77	56	67	65
67	68	Indonesia	85	53	61	63
72	69	Armenia	65	62	60	87
71	70	Colombia	69	72	76	68
69	71	Botswana	95	73	74	44
75	72	Kazakhstan	74	58	69	89
73	73	Kuwait	52	77	83	92
74	74	Trinidad and Tobago	70	79	93	57
78	75	Azerbaijan	72	66	57	113

Pillar Definitions

Market Access and Infrastructure



Market Access and Infrastructure measures the quality of the infrastructure that enables trade, such as communications, transport and energy, and the inhibitors of the flow of goods and services to and from a country's trading partners. Where markets have sufficient infrastructure and few barriers to trade and smooth border clearance, commerce can flourish. Such trade leads to more competitive and efficient markets, enabling new products and ideas to be tested, funded, commercialised. This ultimately benefits consumers through a greater variety of goods at more competitive prices.



Investment Environment

Investment Environment measures the extent to which investments are protected adequately through the existence of property rights, investor protections and contract enforcement. Also measured is the extent to which domestic and international capital (both debt and equity) are available for investment. The more a legal system protects investments, for example through property rights, the more that investment can drive economic growth.



Enterprise Conditions

Enterprise Conditions measures how easy it is for businesses to start, compete and expand. Contestable markets with low barriers to entry are important for businesses to innovate and develop new ideas. This is essential for a dynamic and enterprising economy, where regulation enables business and responds to the changing needs of society.



Governance

Governance measures the extent to which there are checks and restraints on power and whether governments operate effectively and without corruption. The nature of a country's governance has a material impact on its prosperity. The rule of law, strong institutions and regulatory quality contribute significantly to economic growth, as do competent governments that enact policy efficiently and design regulations that deliver policy objectives without being overly burdensome.

2018 Rank	2019 Rank	Country	Market Access & Infrastructure	Investment Environment	Enterprise Conditions	Governance
						
77	76	Morocco	62	70	84	93
68	77	Namibia	90	81	87	42
76	78	Rwanda	104	51	52	84
80	79	Philippines	76	83	75	76
79	80	Brazil	88	74	97	66
82	81	Russia	68	78	80	98
84	82	Moldova	67	86	98	86
83	83	Dominican Republic	75	80	92	95
81	84	Sri Lanka	96	100	63	73
88	85	Kenya	105	68	68	90
98	86	Argentina	89	93	119	56
89	87	Tunisia	82	97	102	64
85	88	El Salvador	94	88	90	77
92	89	Belarus	71	91	88	128
91	90	Guatemala	79	82	106	108
90	91	Ghana	112	106	72	54
96	92	Guyana	99	87	105	74
87	93	Bosnia and Herzegovina	80	90	108	105
95	94	Ukraine	86	115	71	83
86	95	Lebanon	83	95	77	124
93	96	Cabo Verde	110	111	99	43
94	97	Vietnam	73	109	103	109
99	98	Mongolia	116	103	91	62
100	99	Paraguay	92	89	138	97
103	100	Ecuador	84	96	137	111
97	101	Honduras	100	92	109	125
107	102	Egypt	91	102	85	137
102	103	Senegal	120	122	89	61
109	104	Kyrgyzstan	114	98	104	100
101	105	Belize	97	125	112	78
106	106	Suriname	93	133	118	79
105	107	Uganda	131	84	81	117
128	108	Gabon	107	110	96	120
104	109	Zambia	133	105	82	94
108	110	Nicaragua	98	99	132	127
112	111	Uzbekistan	102	85	126	143
110	112	Papua New Guinea	126	108	107	101
111	113	Tanzania	124	112	110	96
115	114	Côte d'Ivoire	118	117	114	103
113	115	Malawi	130	120	113	91
121	116	Pakistan	123	107	124	118
116	117	Swaziland	119	101	123	133
117	118	Benin	127	140	100	85
114	119	Lesotho	121	128	121	102
143	120	Myanmar	108	136	101	134
123	121	Bangladesh	117	134	94	129
118	122	Bolivia	115	104	143	122
124	123	The Gambia	128	118	125	115
122	124	Laos	111	126	117	135
119	125	Tajikistan	125	114	120	136
125	126	Algeria	103	131	133	131
126	127	Nepal	138	121	122	106
130	128	Guinea	146	116	95	132
127	129	Iran	106	124	144	126
120	130	Nigeria	136	113	127	121
129	131	Cambodia	101	119	140	149
132	132	Burkina Faso	147	129	116	110
135	133	Iraq	113	145	129	138
131	134	Liberia	155	132	115	99
134	135	Madagascar	137	123	134	123
133	136	Mali	143	138	128	112
141	137	Niger	151	141	130	114
142	138	Togo	142	142	136	119
139	139	Ethiopia	135	130	141	139
136	140	Mozambique	144	139	142	130
137	141	Sierra Leone	149	144	139	116
140	142	Sudan	132	127	135	150
138	143	Cameroon	134	137	131	146
144	144	Burundi	145	149	111	147
146	145	Syria	109	135	149	156
147	146	Congo	139	147	150	144
145	147	Zimbabwe	140	146	146	148
149	148	Afghanistan	152	148	145	142
148	149	Mauritania	150	151	147	140
152	150	Libya	129	150	152	153
150	151	Angola	141	157	151	141
154	152	Haiti	148	153	156	145
153	153	Venezuela	122	143	157	157
155	154	Central African Republic	154	154	154	151
151	155	Yemen	153	155	153	155
156	156	Democratic Republic of Congo	156	156	148	154
157	157	Chad	157	152	155	152

Defining Economic Openness





Measuring Economic Openness

Economic Openness is about more than just trade and regulation; it is about the wider conditions that exist in a country that will either help or hinder that country's economy. The goal of measuring Economic Openness is to identify these broad patterns, which differentiate the economic success of countries as distinct as Australia, Angola and Azerbaijan.

Many global indexes seek to capture individual elements of economic and social success. The World Bank Doing Business Index, the World Economic Forum (WEF) Enabling Trade Report and the World Trade Organisation (WTO) measures of tariff and non-tariff barriers are just a few examples. The aim of this Index, however, is to draw these disparate elements together in order to form a more holistic perspective of an economic system in its entirety.

The use of indexes has grown in the past years. Improvements in the availability and range of data has increased the potential for capturing the differences between countries on a number of levels, not just on outcomes, but also across a range of policy dimensions.

The availability of governance indicators allows policy discussions to move from political debate to technical expertise. Well-defined indexes and indicators can drive political action because policy-makers increasingly look for evidence when making policy decisions. In many regions of the world, comparative benchmarking plays an important role in both setting expectations and aiding the search for policy options.

Over the past year, the Legatum Institute has worked with dozens of experts from around the world to develop a robust Global Index of Economic Openness. Based on the structure of existing global indexes, and the existing literature, we organised the elements of Economic Openness into four broad themes:

Market Access and Infrastructure measures the quality of the infrastructure that enables trade, such as communications, transport and energy, and the inhibitors of the flow of goods and services to and from a country's trading partners. Where markets have sufficient infrastructure and few barriers to trade and smooth border clearance, commerce can flourish. Such trade leads to more competitive and efficient markets, enabling new products and ideas to be tested, funded, and commercialised. This ultimately benefits consumers through a greater variety of goods at more competitive prices.

Investment Environment measures the extent to which investments are protected adequately through the existence of property rights, investor protections and contract enforcement. Also measured is the extent to which domestic and international capital (both debt and equity) are available for investment. The more a legal system protects investments, for example through property rights, the more that investment can drive economic growth.

Enterprise Conditions measures how easy it is for businesses to start, compete and expand. Contestable markets with low barriers to entry are important for businesses to innovate and develop new ideas. This is essential for a dynamic and enterprising economy, where regulation enables business and responds to the changing needs of society.

Governance measures the extent to which there are checks and restraints on power and whether governments operate effectively and without corruption. The nature of a country's governance has a material impact on its prosperity. The rule of law, strong institutions and regulatory quality contribute significantly to economic growth, as do competent governments that enact policy efficiently and design regulations that deliver policy objectives without being overly burdensome.

Our choice of elements reflects a definition of Economic Openness that has been developed from decades of established academic theory, in conjunction with leading thinkers on this issue, and closely follows indexes from the World Bank and the World Economic Forum. By measuring Economic Openness, we acknowledge that the very concept of an open economy as an important factor in improved prosperity is one that some would contest, especially in some developing countries where nascent industries understandably feel the need to protect themselves from international competition. Despite these reservations, we believe that Economic Openness, coupled with effective regulation and governance, is essential for creating the environment for inclusive societies and empowered people. This relationship is analysed further in this report.

The following pages provide a more in-depth definition of what we mean by Economic Openness.



In conversation with Hernando de Soto

Hernando de Soto is a Peruvian economist and President of the Institute for Liberty and Democracy, a Lima-based think tank devoted to the promotion of property rights in developing countries. He has spent much of his career proving the importance of formal property rights to economic growth and opportunity. He has earned global acclaim and recognition for his pioneering work, from advising presidents to advocating on behalf of the poor. Time Magazine chose De Soto as one of the five leading Latin American innovators of the 20th century, while Forbes highlighted him as one of 15 innovators "who will reinvent your future."

Hernando de Soto sat down with the Legatum Institute to discuss how trade, governance, property rights, capital, and entrepreneurship contribute to a nation's prosperity.



Legatum Institute

You have done a lot of work on the importance of trade over the years. Why is trade so important?

Hernando

Alexis de Tocqueville, the French diplomat and author, said that of all the forms of knowledge, the "knowledge of how to combine is the mother of all other forms of knowledge; on its progress depends that of all the others." The countries that are isolated are the ones that aren't able to combine.

What he meant by that is that if you take anything that surrounds us – a book, a lamp, or my watch – you realise that it is the combination of many products. For example, my watch should have about 120 different metals, or different types of alloys, or different types of stones. There's no way that my country, Peru, which produces copper, gold and 16 other metals, could even start to create a watch, because you need another 100 metals to do it.

Just take the things you have around you: your suit, your tie, your watch, your shoes, for example. Whatever it is, there's nothing that requires less than about 20 to 30 combinations of materials, possibly all of which originate from a different country.

Another good example is given by American economist Leonard Read, who wrote the biography of a pencil. A pencil is made out of wood from Oregon and graphite from Sri Lanka. But graphite breaks, and so you need wax from Mexico. Then the eraser requires oil from Saudi Arabia, because it's more pinkish than the other ones. The eraser has to be joined to the pencil, and that requires nickel from Nigeria, zinc from Peru, copper from Chile. What he's essentially saying is that the pencil comes from 17 countries.

Trade is essential because everything around us requires at least 20 to 30 combinations of goods that we could not obtain without trade.

Legatum Institute

So, due to the need for combinations, trade is a vital part of the world we live in. Which of our pillars of Economic Openness is most important for allowing this trade to happen?

Hernando

Governance is crucial because we don't want to make arbitrary decisions, and we especially don't want to make decisions that we can't go back on, in case we made a mistake. This is not just about national governance but also corporate governance, which has to do with how you make economic decisions.

The challenge is how you get out of all those problems that we human beings have. The qualities that give us imagination are the same ones that sometimes make us cheat. So we need to face up to who we really are. The question then is how you make sure that those who govern you don't abuse their role.

The essential thing is, we still don't really know what the best form of governance is because there are significant differences across countries. You have the Swiss with seven presidents. You have the Americans where you've got a popular vote that's second to the electoral colleges. You have the way the British go about deciding who stays in and who stays out. There's a great variety, so to find out what it is that makes for a successful government is an important enquiry.

Trade is essential because everything around us requires at least 20 to 30 combinations of goods that we could not obtain without trade.

Legatum Institute

In addition to your work on Governance, you have also done extensive work on Property Rights. Could you explain why these are so essential for making economic systems function?

Hernando

There are three parts to property rights; firstly, it keeps you honest, secondly it identifies you, and thirdly it entitles you. On those three foundations, you build the rest of the edifice.

The first part about a property right is that they keep you honest. This is because of the document that it's written on. We can have

all sorts of agreements about who owns what, but in the end, as Emmanuel Kant said, the advantage of writing is that it's about really committing. Once you get committed on paper, it lasts. It is a memory. What you know is what you can remember, and therefore what you can remember is what you've written.

The second essential part is that it identifies you. This is about trust. Throughout time, of course, people have not trusted each other. If you went up the Rhine on a boat, you had to pass 68 castles. There are 68 points where you had to pay customs. Why was that permitted? Because people did not trust others who were more than a 24-hour horse ride away. So the question became one of how to begin trusting people on a much wider scale.

The third part is that it entitles you. At the beginning, there wasn't really a right. It was remedial action. You had that property because you were stronger than I was. Respecting this possession was the only way to avoid murder, or violence. And over time, advanced countries like the United Kingdom started recognising that certain things became ingrained and habitual without necessarily being codified. That's a right. And it is a national right that can be validated practically anywhere in the world.

For those of us in developing countries, it's a little bit different, because we're still at the level you were at in the 18th century. What belonged to who, and who got a right to an area was very local. So we're still local. Not in the sense that people don't believe in property rights, but rather that the document that bears what it is doesn't exist. And it is crucial because trade would not be possible if you didn't know whether you had goods that had been stolen or not. A property right says whether they belong to you, or whether they belong to your wife, or whether they belong to your cousin.

Legatum Institute

*In your book, *The Mystery of Capital*, you look at how property rights are fundamental to allowing people to use what they have to create more value, or capital, which can then be used for further investment. Can you tell us a bit more about the relationship between capital and value?*

Hernando

I think a lot of it has to do with understanding what capital is, and maybe going back to the 18th and 19th century.

One of the first things that Adam Smith said is that money is not capital. Capital can be incorporated in the form of money, but it can also be incorporated in the form of a deed, or something that's scarce, like a diamond or gold.

Marx agreed. He said that the word capital is probably associated with the Latin for head, capita, or from capere, which means 'to seize'. The idea is that somehow or other, there is a moment when we can extract value from things and capture that in something so that it can be moved around, consolidated, verified, and certified.

Aristotle, for example, writes that "the potential of something is always bigger than the thing itself". In other words, everything in the world, like Read with his pencil, can be used to create many valuable things. And that would be a response to Marxism, which says that capitalism is theft.

The capitalist response is that capital is the result of seeing potential in something, or in its combination with other things. This actually creates more value.

There are three parts to property rights; firstly, it keeps you honest, secondly it identifies you, and thirdly it entitles you.

Legatum Institute

We are seeing a huge number of new ideas around the world. How do you think that we can encourage more innovation and entrepreneurship here in Europe and in other parts of the world?

Hernando

Well it's a very interesting problem to establish not only what improves entrepreneurialism, but also what level of entrepreneurialism is optimal. We don't really know why, for example, in very advanced countries in Europe or in advanced cities, entrepreneurialism has decreased. When you have a series of small- to medium-sized enterprises, it is understood that there is an entrepreneurial spirit, because if you don't make a living, or organise a living for yourself, you disappear.

But when you start getting large organisations with a large number of employees and a large amount of proletariat, the virtue for people is one of having a disciplined career. That's what then gives less space for the development of entrepreneurialism.

For example, Peru, which is a developing country, has a far higher number of entrepreneurs than any European country. But what does that mean? It means that you've got to cook up your own living one way or another, you've got to combine things, but it doesn't necessarily mean that entrepreneurialism per se is a good idea. You need to have the structure of specialisation – and it's an open question as to how much entrepreneurialism is optimal.

Legatum Institute

Thank you for your time Hernando. We have been hugely influenced by your work and it has been a privilege to speak with you.

Hernando

Thank you. I congratulate you on the work you are doing.



Market Access and Infrastructure

Trade enables the movement of goods, services, ideas, capital, and people across borders. Our Market Access and Infrastructure pillar measures the quality of the infrastructure that enables trade (communications, transport, and energy), and the inhibiting factors that reduce or restrict the flow of commerce. Where markets have sufficient infrastructure and few barriers to trade and smooth border administration, trade can flourish. Such trade leads to more competitive and efficient markets, enabling new products and ideas to be tested, funded, commercialised.^{1,2}

Unencumbered trade is a vital component of Economic Openness, delivering benefits to producers, consumers, and society as a whole.³ Producers with access to good transport and communications infrastructure, and whose products are not subject to

onerous import tariffs or customs procedures, are more likely to succeed than those whose commercial activities are hampered by regulatory or *de facto* barriers. Consumers benefit from the increased competition that freer trade brings, which tends to improve quality, lower prices, and increase the variety of goods and services available. Finally, society itself tends to benefit from the ideas that flow from the free exchange of information across borders, a critical factor of long-run productivity growth.⁴ A study of 16 OECD countries found a robust relationship between a country's degree of openness to trade and its total factor productivity; in those countries, trading links enhanced knowledge flows which were responsible for 93% of total factor productivity growth.⁵

Definition of the elements

The infrastructure that enables trade and commerce to operate can be measured by assessing both the critical enablers of trade and also the inhibitors.

Trade enablers are the things that enhance and make trade in all its forms possible. Chief amongst these is Communications, where information technology, flowing through a modern communications network, has become the very life-blood of industry.⁶ Economic production is impossible without the resources of energy and water. Transport, in all its forms, is obviously the great enabler of physical trade, but for services as well in allowing people to move to seek and build business opportunities. International trade can be enabled by an effective Border Administration system and open markets. We also look at Open Market Scale, which is the access a country has to foreign markets.

In addition to the enablers of trade, we also look at the policies and procedures that inhibit trade: Import Tariff Barriers and

Market Distortions, including subsidies, taxes and price continuity as disrupters of fair competition. Protectionism, for example, stifles new ideas and practices, as policies seek to protect incumbents by putting up barriers to outside competition, and the result is typically inefficiency and stagnation with a downward spiral in innovation, growth and prosperity.

Market Access and Infrastructure elements and weightings:

1. **Communications (25%)**
2. **Resources (20%)**
3. **Transport (25%)**
4. **Border Administration (5%)**
5. **Open Market Scale (5%)**
6. **Import Tariff Barriers (5%)**
7. **Market Distortions (15%)**

For more information on different countries' performance on these elements, see page 84.



New technologies have led to a more reliable supply of energy from green sources, such as solar panels.

1. Communications

The free exchange of information, underpinned by good communications infrastructure, is a vital component of Economic Openness.⁷ Moreover, the advent of communications technology as an end-product has created economic opportunity for innovative companies and countries; see, most famously, India's pioneering expansion into IT support in the 1990s. Whole societies have been transformed by this evolution in communications technology, which has enabled those without access to banks to store and send their money safely, and to provide information on everything from weather to current market prices to farmers and fishermen around the world.

In this sense, the quality of communications infrastructure is directly linked to economic growth. Numerous studies have shown the positive effects of increased use of information and communications technology on productivity growth, and as a result, economic growth. For example, Edquist et al have demonstrated that a 10% increase in mobile broadband adoption will result in a 0.6-2.8% increase in economic growth.⁸ Moreover, UNCTAD has shown that the development of better communications infrastructure can create many new jobs, often for the poorest and least educated people in a society, and that internet usage is directly linked to increased earnings.⁹ Evaluating the means of communication has allowed us to assess this link. We do this by evaluating how widespread access to it is, whether this is through fixed line or mobile connection, and internet penetration.

2. Resources

Material resources are critical inputs into an economy, providing the basis for production of both goods and services. Access to affordable electricity is a basic requirement of almost any business, and reliable electricity services are one of the biggest obstacles for businesses globally. While energy intensity is declining,¹⁰ it is still critical, and there are natural limits to the degree to which energy can be substituted by other factors of production.¹¹ In order to assess the impact of access to resources on an economy, we evaluate the quality, reliability and affordability of the energy network in a country, as well as the access to and use of water resources.

A reliable electricity supply is an essential underpinning of sustainable growth, because it affects firm performance.^{12,13} This is ultimately a hygiene issue; without achieving a basic standard of access, it is difficult to establish a competitive economy. For many countries, an intermittent and expensive power network is debilitating, not only to business development but also domestic life. Unreliable energy supplies can limit the growth of a potential business, as production lines grind to a halt, resulting in serious costs and delays. An unreliable supply in countries often results in a lower share of smaller firms in electricity-intensive industries.¹⁴

The availability of water is also an enabling factor for sectors as diverse as agriculture, tourism, energy, and healthcare.¹⁵ The importance of water for a country's development is expected to increase further during the 21st century.¹⁶

3. Transport

Transport underpins the ability for products and people to move efficiently, easily and reliably between and within countries. Without the ability to move goods, people cannot trade. A lack of transport infrastructure will constrain development.

The growth in the volume of physical trade is testament to both the spread of logistical expertise as well as significant changes to the very nature of modern manufacturing, where drawing on components from a wide range of global sources is commonplace. These intermediate goods now account for over half of trade, as cars in particular (the world's most traded good)¹⁷ draw components from a wide range of international suppliers. All these trends drive up the importance of logistics, transport and trade.

Transport remains critical to development and prosperity.¹⁸ We therefore evaluate the quality, diversity and penetration of all forms of transport, including the quality of physical infrastructure such as roads, railways, ports and aviation, as well as logistical performance, which measures the efficiency of shipping products in and out of a country. In developing countries, where there has been a lower level of investment, establishing basic connectivity rapidly increases economic growth.¹⁹ For example, upgrading road infrastructure in Africa would expand trade by about \$250 billion over 15 years.²⁰ In more developed countries, investments in reducing congestion and improving reliability increase growth. Even in developed economies, it is estimated that if all other drivers of growth were to increase by 10% and transport were to stay constant, then the realised growth would be only 9%.²¹

4. Border Administration

The efficiency of customs procedures (i.e. the cost and time associated with clearing a border) has an important bearing on international trade. For large firms with frequent exports, such procedures are likely to be well-rehearsed, but for smaller firms there is more evidence that procedural barriers can be an impediment.²²

Inefficient, bureaucratic trade barriers limit the effectiveness, efficiency and dynamism of economies, and such barriers are often connected with corruption and cronyism.²³ Delays in trading have been shown to reduce the quantity of goods traded. However, border administration is relatively straightforward to 'fix', provided that certain standards of governance are in place; Botswana, for example, does as well as the United States in terms of hours spent on border clearance procedures.²⁴ Opening up online customs windows and simplifying customs procedures are low-cost measures available to all countries.

Our analysis suggests that the procedural barriers to cross-border trade are more significant than tariff barriers for a country's economic prosperity. This is probably because the financial costs of tariffs can be offset. However, the time, cost and complexity associated with border clearance have a much more damaging impact upon trade, as market players can be effectively strong-armed out of the marketplace, and incumbent firms can feel less urgency to react to new ideas.

Due to the impact of procedural barriers on cross-border trade, we measure border administration. The financial and time cost of the bureaucratic documentation necessary to move goods across a border are also taken into account.

5. Open Market Scale

Producers of goods and services are necessarily constrained by the scale of markets that are easily accessible to them. One of the major predictors of a country's economic performance is the size and health of its neighbours' economies, particularly for countries that are landlocked and resource-constrained (almost all of which are in sub-Saharan Africa).²⁵

Especially for developing countries, which tend to be more dependent on the export of primary goods, the establishment of permanent normalised trading relations under the aegis of an Free Trade Agreement is a critical step towards ensuring market stability for producers. In the absence of this stability, investment in capital goods may be illogical. Further, tariffs on goods produced in low-income countries, such as agricultural products, prevent firms in those low-income countries selling products in markets where they are globally competitive. A lack of open trade is considered to affect developing countries the most.²⁶ The World Bank has estimated that low-income countries face relative trade costs that are three times higher than advanced economies.²⁷

Moreover, the imposition of tariffs can render otherwise competitive producers unable to export into larger and more profitable markets. We therefore measure the scale of economic opportunity available for producers, in terms of their domestic market and their unencumbered access to international markets, with more weight given to the scale of the domestic economy. This includes the extent to which producers have access to domestic and international markets unhindered by tariffs.

6. Import Tariff Barriers

Tariffs represent a tax associated with trading products and services across borders, raising income for government and making foreign goods more expensive (artificially improving the competitiveness of domestic products). Tariffs can make intermediate products less competitive and cost-efficient, raising prices for local consumers. This has been the case in the US, where steel tariffs have made cars more expensive. On the other hand, import tariffs can also create incentives for investment in domestic industries with global markets that, without protection, might not be competitive.

Tariffs typically raise the price of products and reduce the volumes of trade, creating barriers between people and the true market value of goods. During the second half of the 20th century, multilateral trade rounds dramatically reduced tariffs. In 1949, the US charged an average tariff of 33.9%; today it is 3.5%.²⁸ In comparison, China's average tariff is 9.5%, while the EU's average is currently 5.3%.²⁹ It has been estimated that the consumer savings that resulted from the reduction in tariffs at the Uruguay Round were around €60 billion.³⁰

The link between low tariffs and overall growth is a well-established one,³¹ and we therefore assess the extent of liberalisation

of foreign trade and also measure tariff rates (mean and standard deviation). More open economies exhibit greater growth in total factor productivity.³² Countries that have liberalised their trade regimes have been shown to experience average annual growth rates 1.5% higher than before liberalisation.³³ However, there is some debate about whether lowering tariffs is of greatest benefit to developing or developed economies.

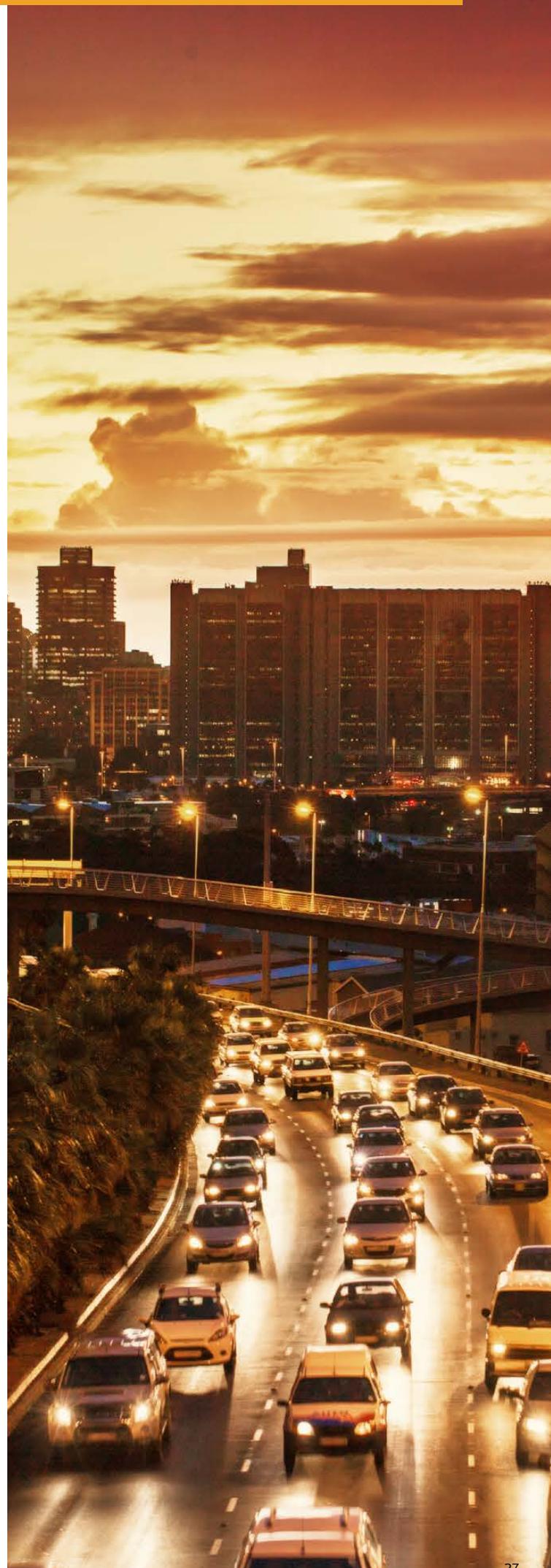
7. Market Distortions

In many countries around the world, markets face a range of distortions extending beyond tariffs and quotas. These include subsidies and price controls on specific products and sectors – often for agricultural products and energy. They also include a wide range of requirements and regulations, ranging from technical rules about sanitary and phytosanitary standards, to rules of origin, and restrictions on distribution.³⁴

While tariff barriers fell in the post-war period with the introduction of the GATT and its system of multilateral trade rounds, non-tariff barriers expanded. For example, in 1956, the United States persuaded Japan to adopt a voluntary export restraint on exports of cotton textiles to the United States. Three factors drove this shift in trade policy.³⁶ The first was the development of more effective income tax systems, which reduced the use of tariffs as a source of government finance; being less dependent upon tariffs for fiscal sustainability, many governments were happy to consider their reduction. The second was successful lobbying on behalf of industries affected by this reduction in tariff protection. The third was the enmeshing of public interest lobbying and corporate interest lobbying; particularly in the case of agricultural goods, it became difficult to tell the difference between measures that were purely protectionist, and those that served to enhance consumer welfare.

The market distorting effect of non-tariff barriers does vary widely by region and product line. Estimates vary, but a WTO study found that, across 90 countries and over 4,000 tariff lines, non-tariff barriers accounted for the equivalent of an average 12% tariff.³⁷ The same study found, for instance, that clothing in the United States is 15% more expensive than it would be without the presence of these non-tariff barriers, and clothing in the European Union is 66% more expensive than it would otherwise be. Similar evaluations have been carried out for products as diverse as paper and leather shoes. In addition to these barriers, we measure the scale of energy and agricultural subsidies present in a given economy; these are highly distortive and tend to depress competition in sectors core to economic functionality.

By their very nature, Market Distortions can be difficult to measure, and often broader conclusions have to be drawn from proxy measures. Two areas where market distortions are particularly prevalent are agriculture and energy. Analysing these gives some idea as to the scale of the potential problem, while non-tariff barriers give some idea of the scope of the challenge.



Investment is critical for both developing and sustaining an economy. A strong Investment Environment will not only ensure that good commercial propositions are investable, but also that adequate capital of the right type is available for such investable propositions.¹

A business proposition is made investable when the assets of the business are protected through Property Rights, the interests of the investors are protected, particularly in the context of insolvency, and commercial arrangements of the business can be upheld through courts of law. These protections are substitutions for trust, without which additional costs will be baked into the cost of doing business (for example, higher interest rates and provisions for the expropriation of capital).

For capital to be available for investable propositions, there needs to be a pool of savings and a range of intermediaries such as banks, stock exchanges, private equity, venture capital etc. In addition, tapping into global markets for international investment is a helpful booster for the access of capital, and in addition, tends to also bring with it management expertise and fresh ideas. Financial depth and complexity is robustly and positively correlated with economic growth.^{2,3}

A well-functioning financial system is highly effective at mobilising savings and investments that support entrepreneurs and innovations that are vetted by their potential to improve productivity.⁴

Definition of the elements

The structural aspects of how to measure an Investment Environment reveal two overriding concerns. The first is whether or not an investment is effectively protected. If investors do not have secure property rights, investment is unlikely to be undertaken.⁵ Thus, the importance of an effective system of investment protection and property rights.^{6,7} Second, it is necessary to have a supporting infrastructure for that investment consisting of effective Financing Ecosystem, Contract Administration and an encouraging environment for international investment.⁸

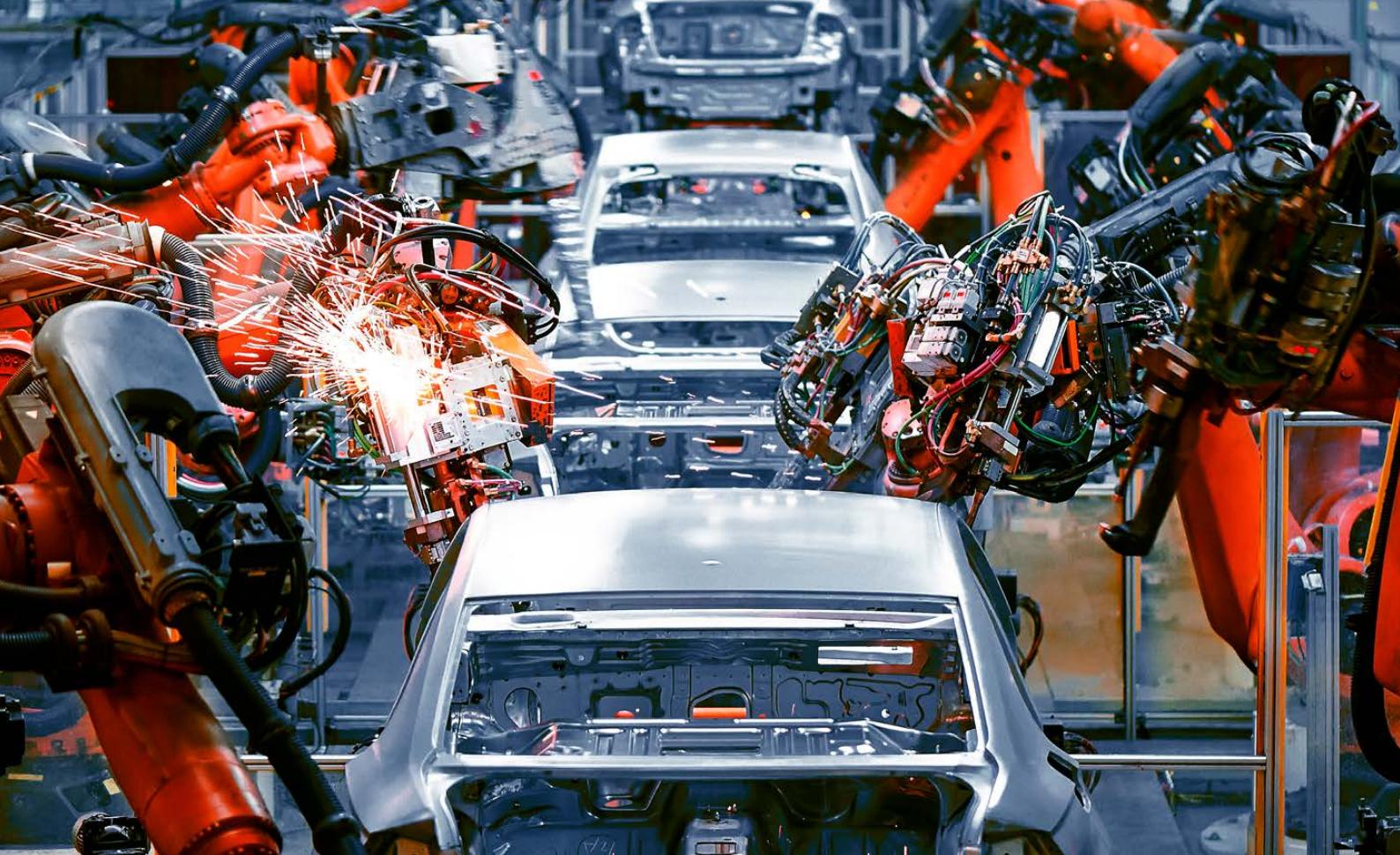
The growth in the sophistication of financial markets over the last four decades has been considerable, and the appreciation of the role of capital in economic growth and prosperity has been growing.^{9,10,11} As evidenced from studies in the United States, financial depth and sophistication have become more important

than ever for the availability of venture capital, which provides critical early-stage funding to new companies.^{12,13}

Investment Environment elements and weightings:

1. **Property Rights (20%)**
2. **Investor Protection (20%)**
3. **Contract Enforcement (20%)**
4. **Financing Ecosystem (30%)**
5. **Restrictions on International Investment (10%)**

For more information on different countries' performance on these elements, see page 88.



1. Property Rights

The existence and enforcement of Property Rights help to ensure that investment is able to flow to good ideas, that productivity is rewarded appropriately, and that material growth of an economy is possible. The seminal importance of Property Rights holds true for both physical and intellectual property rights. Physical property rights are especially relevant in the developing world, where 50-75% of wealth in most economies is attributable to land.¹⁴ Hernando de Soto has documented the link between property rights and poverty alleviation; a lack of property (in any form) will hinder access to credit and potential opportunities for expansion or sale. Norton went so far as to state that "strong property rights tend to reduce the deprivation of the world's poorest people, while weak property rights tend to amplify the deprivation of the world's poorest people."¹⁵

For property to have value it needs to be transferable, and formal registration facilitates transfer. The simple act of registering land to an owner has been shown to increase the value of that land, the size of investment made in the local economy by the landowner, and the likelihood of land being used productively.^{16,17} Registering land provides the added benefit of clarifying needed infrastructure and tax liabilities for the government.¹⁸

Intellectual property rights foster innovation by protecting inventors' interests in their creations. Historians have also noted that every major industrial breakthrough of the last 150 years – from the development of the sewing machine, telephone, automobile, radio, aircraft, medical stent, disposable diapers, semiconductors, to internet-based e-commerce – witnessed a surge in patenting and patent litigation.¹⁹ 12,000 intellectual

property cases are filed each year in the United States alone.²⁰ Worldwide, the number of patents and trademarks granted has nearly doubled from 2002 to 2016.²¹

In determining the level of Property Rights and their contribution to Economic Openness, we measure how well they are protected, whether this be rights over land, assets or intellectual property.

2. Investor Protection

As with Property Rights, Investor Protections are a necessary component of ensuring a business environment which is investable. We evaluate the degree of Investor Protection, from expropriation risk to minority shareholder rights, including the cost of insolvency, time to resolve insolvency, and the extent of director liability.

Countries with good levels of Investor Protection (as measured by the World Bank Doing Business Index) tend to experience the fastest economic growth.²² Firms operating within these countries also tend to grow faster, and undertake more positive risk.²³ Investor Protections include provisions for minority shareholders, which are designed to prevent uncommercial behaviour on the part of the majority shareholder (e.g., selling below cost, purchasing above cost). Legal provisions that prevent this sort of behaviour tend to reduce the concentration of ownership and increase equity investment in a given company.²⁴ In the absence of such protections, minority investors will often either attempt to become majority investors, or withhold their investment altogether.²⁵

The insolvency process is another core component of an investable business environment. The ability to dissolve a failing business

without incurring major cost is a key component of creating the incentive to start a business in the first place, by reducing the cost of failure. Equally, the protection of creditors is essential to ensuring the availability of credit for commercial ventures. Creditor rights are “associated with lower costs of credit, increased access to credit, improved creditor recovery and strengthened job preservation.”²⁵ Bankruptcy laws that encourage rehabilitation rather than liquidation have also been shown to have a positive effect on the failure rate of SMEs and the costs of financing.²⁶ Of course, the efficacy of such laws is dependent upon the enforcement mechanism of the judiciary; without even application of insolvency procedures, borrowing costs are likely to rise.

3. Contract Enforcement

Contract Enforcement captures both the efficacy and efficiency of a country’s ability to enforce the rights of a contract holder. The protection of such rights has become more complicated in an increasingly interdependent world, but is critical to the maintenance of a thriving economy.²⁷ The existence of a reliable judiciary, accessible to all, is strongly associated with higher levels of economic development and higher growth rates for smaller firms.²⁸ Firms operating in a strong judicial environment tend to also be more efficient and have greater access to credit.²⁹ The effectiveness of legal institutions is key; de facto enforcement is much more important to the development of strong financial institutions than de jure statutes.³⁰ Efficient legal institutions are not the sole provision of wealthy nations; Rwanda, Singapore, and New Zealand rank similarly for the amount of time required to enforce a contract through the legal system.

4. Financing Ecosystem

A well-functioning financial system will be highly effective at mobilising savings to invest in entrepreneurial activity.³¹ The element of Financing Ecosystem therefore assesses the availability of funding for investment, from banking and bank debt to corporate debt and more sophisticated financial markets.

The Financing Ecosystem comprises the sources of credit available to an individual or company; this includes commercial banks, venture capital, stock exchanges, private equity, etc. Moreover, a causal link exists between financial depth and overall economic

performance – “financial depth in 1960 is a good predictor of subsequent rates of economic growth, physical capital accumulation, and economic efficiency improvements over the next 30 years, even after controlling for income, education, and measures of monetary, trade, and fiscal policy. Thus, finance does not simply follow growth; financial development predicts long-run growth.”³² One of the most important contributions of a well-functioning financial system is the reduction in information asymmetries, which are particularly severe in the developing world.³³ These asymmetries increase the cost of capital and tend to affect SMEs disproportionately. Simple measures, like the introduction of credit bureaus, can help to tackle these challenges.³⁴ Greater availability of credit information is linked to greater competition in the financial sector as a whole.³⁵ A wide range of financing options are desirable, as each of the basic financing options are better suited for businesses at differing stages of maturity with differing revenue and risk profiles.

5. Restrictions on International Investment

Access to international markets is beneficial for all parties, as ideas and capital can more easily be shared across borders. International investment has been shown to have a positive overall effect on economic growth, though the magnitude of this growth is dependent on available human capital as well as the “absorptive capacity of advanced technologies” of the country.³⁶ FDI also has an indirect impact, as the technologies or management practices in foreign owned firms can be adopted by domestic firms, often through the supply chain of multinationals.³⁷

Inward FDI tends to raise productivity, which increases output and wages.^{38,39} Empirical evidence has also shown that international investment is often more productive than domestic, with the added benefit that it acts as a positive feedback loop, further increasing both forms of investment. Foreign-owned firms in the UK tend to be more productive and pay higher wages compared to their domestic counterparts.⁴⁰

With the benefits of FDI in mind, we evaluate a country’s ability to accept FDI. This includes analysing the constraints on volume and quality, and the type of international investment into a country.





Enterprise Conditions

A healthy economy is a dynamic and competitive one, where regulation supports business, allowing and encouraging it to respond to the changing priorities of society. In contrast, an economy focussed on protecting incumbents will enjoy lacklustre growth and job creation. Entrepreneurial activity is one of the key drivers of long-term prosperity, and its importance will only grow as the pace of technological change increases and the number of people involved in that change rises. Given the pace of change inherent to the information age, a society's ability to react quickly to new firm- and market-level opportunities is critical to its overall Economic Openness. This entrepreneurial behaviour is especially important for the employment market and tax revenues.

A country's regulatory structure underpins its Enterprise Conditions. Areas such as the Domestic Market Contestability, the Environment for Business Creation and the Burden of Regulation need to encourage and support enterprise, if entrepreneurial

activity is to flourish. They are also important in determining how people interact with businesses in any given country.

Where these elements are not in good working order, it is difficult to encourage formal business activity. Taxation, for example, is a critical factor in deciding where and how businesses are structured. If it is not made both simple and reasonable, it will be avoided.¹ The same is true for construction-permitting processes; the majority of buildings in the developing world are constructed without any sort of permit at all, because the relevant regulations are made doubly expensive by corruption.

It is clear that overburdening businesses with tough-to-follow regulations does not necessarily discourage business activity; it discourages formalised business activity that can be monitored and taxed by the state, as people seek ways of circumventing burdensome regulation. Highly restricted labour markets will similarly discourage formal employment, opening workers up to instability and the potential for exploitation.²

Definition of the elements

The enabling conditions of enterprise can broadly be separated into those measures which promote entrepreneurship, and those that limit commercial development. These two groups of elements express the factors which might persuade or dissuade an individual from going into business in his or her country. Domestic Market Contestability, which measures how open the market is to new participants, versus protections in place for incumbents, falls into the former category. So too does Environment for Business Creation, which measures the legislative and policy-driven factors which encourage entrepreneurialism.

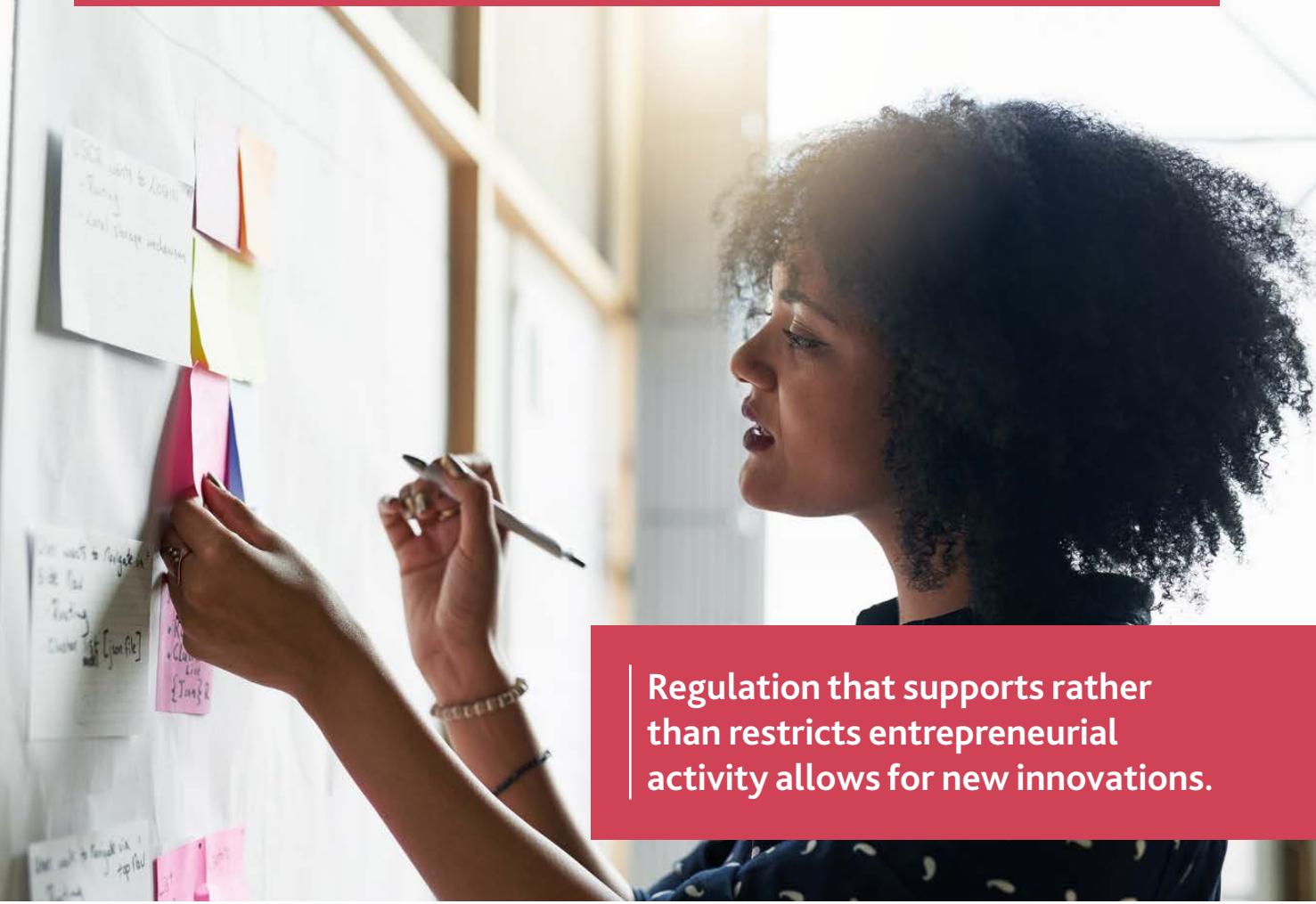
The Burden of Regulation, which captures the amount of time, money, and effort required to comply with government regulation, can limit commercial development.

Labour Market Flexibility, which captures how dynamic the workplace is for both employers and employees, also falls into the latter category.

Enterprise Conditions elements and weightings:

1. **Domestic Market Contestability (35%)**
2. **Environment for Business Creation (30%)**
3. **Burden of Regulation (25%)**
4. **Labour Market Flexibility (10%)**

For more information on different countries' performance on these elements, see page 92.



Regulation that supports rather than restricts entrepreneurial activity allows for new innovations.

1. Domestic Market Contestability

A perfectly contestable market is one in which the costs and barriers to entering and exiting are zero.³ While such a perfectly contestable market does not exist in practice, it has long been understood that some basic measures are of considerable use in maintaining competition by reducing entry costs. Such measures include anti-monopoly policy and measures to limit the market dominance of a single firm or set of firms.⁴ Where open, fair, and competitive markets exist, progress and prosperity are likely to follow. The deleterious effects of the absence of a contestable market are, unfortunately, easy to spot: the brittle oligopolies of the former Soviet Union, which have occasionally resorted to violence to maintain their market dominance, are one of the more extreme examples available.

We measure Domestic Market Contestability in terms of the level of market-based competition and extent of market dominance, as well as the existence of anti-monopoly policy. In order to assess just how contestable a market is we evaluate how open the market is to new participants, versus protection of the incumbents. Countries with a high degree of market contestability have statutes enforcing competition and equal opportunity for all market entrants, a high degree of competition in all sectors of the economy, and a low degree of informal economic activity. Anti-monopoly policy is measured in terms of the enforcement of competition law, while market dominance is measured through an expert survey which asks participants to rank the degree of concentration of corporate activity.

2. Environment for Business Creation

Entrepreneurialism is one of the key attributes of a dynamic economy. An entrepreneurial environment is one in which new ideas, and new approaches to work or challenges in life are welcomed and facilitated. Such an environment will support businesses of all types, not just companies at the start-up or scale-up phase. High rates of formal entrepreneurialism tend to follow from simplified business registration procedures, and are linked to job creation and economic growth; what is good for entrepreneurs is generally good for the rest of a society.^{5,6} Conversely, and unsurprisingly, regulations that make it more difficult to start a new business are correlated with high levels of corruption and informal business activity.⁷ We therefore evaluate the legislative and policy driven factors that encourage entrepreneurialism.

Significant constraints to starting a new business exist around the world. In Germany, to set up a limited liability company, an entrepreneur is required to have a minimum share capital of €25,000 while to start a business in Japan an entrepreneur needs to have the first three months' rent and the ability to pay corporation taxes immediately, all adding to start-up costs. The costs of stifled entrepreneurialism in the developing world are even greater. Countries with burdensome regulations for business registration and administration tend to have smaller tax bases, a chronic problem for the fiscal health of developing states.⁸

3. Burden of Regulation

The Burden of Regulation covers a wide variety of administrative tasks with which businesses must comply. In setting these regulations, it is essential to find a balance between protecting the public interest and preserving a viable business environment. A heavy administrative burden can result in companies focusing resources on complying with these regulations, rather than innovating and creating. With this in mind, in order to assess how much of a burden regulation is in any given country, we evaluate how much effort and time are required to comply with regulation, including tax regulation.

Construction permitting is a good example of the sort of regulation that is essential to public safety, but can act as a drain on economic growth. In OECD countries, the construction industry accounts for, on average, 6.5% of GDP, and is responsible for tens of millions of jobs.⁹ These jobs are most often created by small or medium-sized enterprises.¹⁰ The ease of the permitting process is a major component of the overall cost of construction, and has been shown to impact firm-level decision-making on where to base a business.¹¹ An efficient permitting system is also a bulwark against corruption and deficient building standards. In developing countries, 60-80% of construction work is done without the proper permits; a complicated system will not deter building, it will only deter building under the supervision of inspectors.^{12,13}

The rate of taxation and time requirements of tax administration are also core components of the Burden of Regulation. The design and simplicity of a tax system also matters. Countries with simple administrative procedures tend to enjoy higher rates of investment, employment, and firm entry.¹⁴ For example, a 10% reduction in the administrative costs of paying taxes – regardless of the tax rate itself – has been linked to a 3% annual increase in firm entry rates.¹⁵

4. Labour Market Flexibility

Labour Market Flexibility helps to simultaneously ensure the availability of jobs and the protection of workers. Without a well-functioning labour market, jobs are likely to be scarce, and available jobs may well be unappealing, with little redress available for those who find themselves in a bad employment situation.

In order to facilitate a well-functioning labour market, a fine balance between over- and under-regulation of areas such as redundancy pay, working hours and the quality of jobs available needs to be struck. Over-regulation could lead to businesses being unable to hire the workforce they require and under-regulation could lead to the exploitation of workers; either of these outcomes could result in a breakdown of trust between employers and employees.¹⁶ A society where trust exists between employers and employees will tend towards greater cooperation between the two groups, meaning the labour market could be more resilient in times of hardship. Where this trust breaks down, both employers and employees suffer.

Measures of this flexibility include regulations for hiring and firing employees (measured in the number of weeks of redundancy payment required), mandated working hours, and the quality of jobs available. We also measure, through expert surveys, the flexibility of wage determination, hiring and firing practices, and the level of cooperation between employers and employees. Measuring Labour Market Flexibility in this way allows us to evaluate how dynamic and flexible the workplace is for both employer and employee.





A stable and trustworthy state is one of the central and underlying components of economic exchange. The more culturally embedded the Rule of Law and good Governance becomes, the more effective these measures are in promoting and supporting a healthy economic environment. Governance is at its most robust when it has been established over time through natural evolution and is essentially a codification of cultural expectations and behaviours.¹

The importance of strong governmental institutions to long-run economic growth cannot be overstated; it has been shown that institutional capacity was more important to long-term success than discrete policy choices.² Even when controlling for extraneous factors such as culture, there is evidence that economic institutions are one of the main determinants in differences in economic prosperity across countries, and that these effects can last for centuries.³ Replications of these findings have shown that institutions are more important to long-run growth than either trading or geographic factors.⁴

Economic progress is not possible without the firm foundation of the Rule of Law. The absence of the Rule of Law will result in

depressed domestic and foreign investment, and cronyism in the business environment, leading people to rely primarily on personal networks and patronage rather than the strength of their own ideas. Rule of Law has also been linked to important improvements in personal freedoms.⁵ Improvements in Governance have a dramatic effect on raising overall economic prosperity. Indeed, a recent study has shown that a shift to democracy leads to a 20% increase in GDP per capita in the long run.⁶ However, once an effective base of trustworthy Governance has been achieved, the effects of further improvements to governance are subject to diminishing returns.

The minimisation of corruption is also critical to the functioning of the state. High levels of corruption are associated with higher levels of poverty and income inequality.⁷ Corruption will corrode trust, which is critical to ensuring an environment where frictionless (or near-frictionless) transactions can take place. A culture of trust invariably takes time to become established. These attributes are more valuable if good behaviours, such as trust, respect and diligence are embedded in a culture, as opposed to imposed from some outside force as a part of a treaty or international agreement.

Definition of the elements

Governance can be conceptually split between the structural and operational aspects of how political and administrative power is checked, and how it is applied. The structural aspects capture how a government and political administration adhere to the law, the extent to which there is effective separation of powers, accountability to the public, and the Rule of Law. The operational aspects capture the integrity and effectiveness of a government, as well as the quality of its regulations, examining how power is applied.

Governance elements and weightings:

1. **Executive Constraints (15%)**
2. **Political Accountability (15%)**
3. **Rule of Law (15%)**
4. **Government Integrity (20%)**
5. **Government Effectiveness (20%)**
6. **Regulatory Quality (15%)**

For more information on different countries' performance on these elements, see page 96.



1. Executive Constraints

This element examines the extent of institutionalised constraints on the decision-making powers of the executive, such as through the separation of powers into different bodies, and the degree to which there are checks and balances in place. These checks and balances exist to restrict government power. We also examine the effectiveness of the judiciary and other independent bodies in moderating power and prosecuting abuses of office. We include the reliability and influence of the police and the military in Executive Constraints; it is important to ensure that these undemocratic, yet powerful, institutions do not exercise undue influence. The key question is the form of accountability to which officials are held; can officials be held responsible and sanctioned for misconduct, and is trust preserved in the worst cases by the existence of non-governmental checks? By evaluating these levels of checks and balances, and separation of powers – especially with respect to the executive – we build a picture of the level of Executive Constraints in any given country.

Executive Constraints have an important relationship with economic growth and stability. An examination of long-term panel data stretching from 1850 to 2005 found that the presence of strong executive constraints through the legislature is correlated to lower economic volatility around the time of leadership turnover.⁸ A change in power, in other words, is not as economically impactful if the executive has comparatively

less control over the national economy. Others have found that countries with strong Executive Constraints tend to have lower volatility of growth overall, but roughly the same average growth rates as countries without such constraints, which is preferable in the long run.⁹

2. Political Accountability

Political Accountability measures the extent to which the public can hold public institutions accountable (e.g. elections), ensuring power transitions according to law. It also captures the degree of political pluralism. We aim to include measures beyond the simple holding of elections. These are the measures we evaluate in order to determine the levels of Political Accountability.

Government works best where it is accountable. When decisions that affect society are deferred to government, those making the decisions need to be responsible for their actions. Where these actions are not in society's interests, there must be effective systems in place that can remove those making the decisions from power and punish them, if appropriate. Effective accountability requires more frequent, subtle and gradual controls. Stronger Political Accountability is associated with reduced corruption and more effective government.

Studies have shown that governments are generally held to account for their economic performance through elections.¹⁰ Other studies have also found that, while there may be some

variance in the economic policy choices of governments throughout a given term, closer to election time, they will prioritise the welfare of their citizens to ensure re-election.¹¹ Elections, therefore, are a reasonably effective mechanism for maintaining good economic policies. According to some, democracy (and its accountability mechanisms) does result in better life expectancy in poor countries, and better secondary education outcomes in wealthy countries, even if the link to economic growth is less clear.¹²

3. Rule of Law

Our Rule of Law element captures the degree of restriction of the arbitrary exercise of power, whereby all members of society are equally subject to well-established laws, as well as the fairness, independence and effectiveness of the judiciary in applying both civil and criminal law. Our measure of the Rule of Law, therefore, stretches beyond the degree of the commercial suitability of the legal code.

Judicial quality captures the impartiality, integrity and effectiveness of a country's judiciary. While access to the judicial system is critical, any effective system also needs to have integrity, be independent and free from corruption or improper influence, and have the ability to ensure that justice is effectively enforced, with respected due process and the protection of civil rights. The establishment of an independent judiciary with strong enforcement powers is critical to the maintenance of the Rule of Law, which is in turn a key component of economic growth.¹³ There is a wide literature linking economic growth and prosperity to the Rule of Law.¹⁴ There is also plentiful commentary on the specific nature of legal institutions and the individual interests on which they are built, suggesting that Rule of Law must be home-grown, not imported.^{15,16}

In order to assess the impact of Rule of Law on Economic Openness, we evaluate the fairness, independence and effectiveness of the judiciary (in applying both civil and criminal law), along with the accountability of the public to the law.

4. Government Integrity

We define Government Integrity as the absence of abuse of entrusted power for private gain through dishonest or fraudulent conduct, including the capture of the state by elites and private interests. In this element, we seek to measure the degree to which government fosters citizen participation and engagement, through open information and transparent practices, thereby shedding light on corrupt practices, weak enforcement of rules, or other practices that undermine good governance. It is these aspects of Government Integrity we evaluate in this element.

Corruption is the primary threat to Government Integrity. We delineate between two broad types of corruption. The first is state capture, in which private individuals attempt to influence policy formation by illegally transferring wealth or benefits to public officials.¹⁷ The social costs associated with state capture are high, as all firms will feel an incentive to 'join' in the corrupt behaviour, thereby subverting their key measure of performance

from profits, to time spent with officials. The second type is administrative corruption, in which money actually changes hands. This often involves the delivery of public procurement contracts.¹⁸ Both types of corruption will erode trust in institutions and individual leaders.¹⁹ While corruption will slow overall economic growth, it will increase individual firm performance.²⁰

Greater transparency has been shown to reduce corruption and increase the provision of public goods to the public, rather than for the benefit of a few private actors.²¹ This, in turn, helps to improve economic growth rates.

5. Government Effectiveness

Government Effectiveness is a measure of how effectively a government can implement a strategy while making efficient use of finite resources shared with them by society for the good of society. This includes the quality of public services, the quality of government officials and their independence from government pressures. Government Effectiveness has been empirically linked to economic growth.²²

We measure Government Effectiveness in terms of a government's ability to establish and implement policy, and also measure the soundness of those policies. In order to evaluate the levels of Government Effectiveness, we analyse a combination of the quality of public service provision, the quality of the bureaucracy, and the competence of civil servants.

6. Regulatory Quality

Our Regulatory Quality measure encompasses both the quality of, and burden imposed by, governmental regulation. As the World Bank has acknowledged, measures of Regulatory Quality remain imperfect.²³

In order to build our own picture of the levels of Regulatory Quality we evaluate all aspects of the running of the regulatory state – whether it is burdensome and impedes private sector development, or whether it is smoothly and efficiently run.

In situations where Regulatory Quality is poor, it can be very difficult for many small- and medium-sized enterprises to operate, particularly if such firms are disruptors looking to bring new ideas and approaches to market and potentially upset less innovative, but better politically or bureaucratically connected businesses. It is important to be able to address the influence non-representative members of a state can have on the actions of a government.

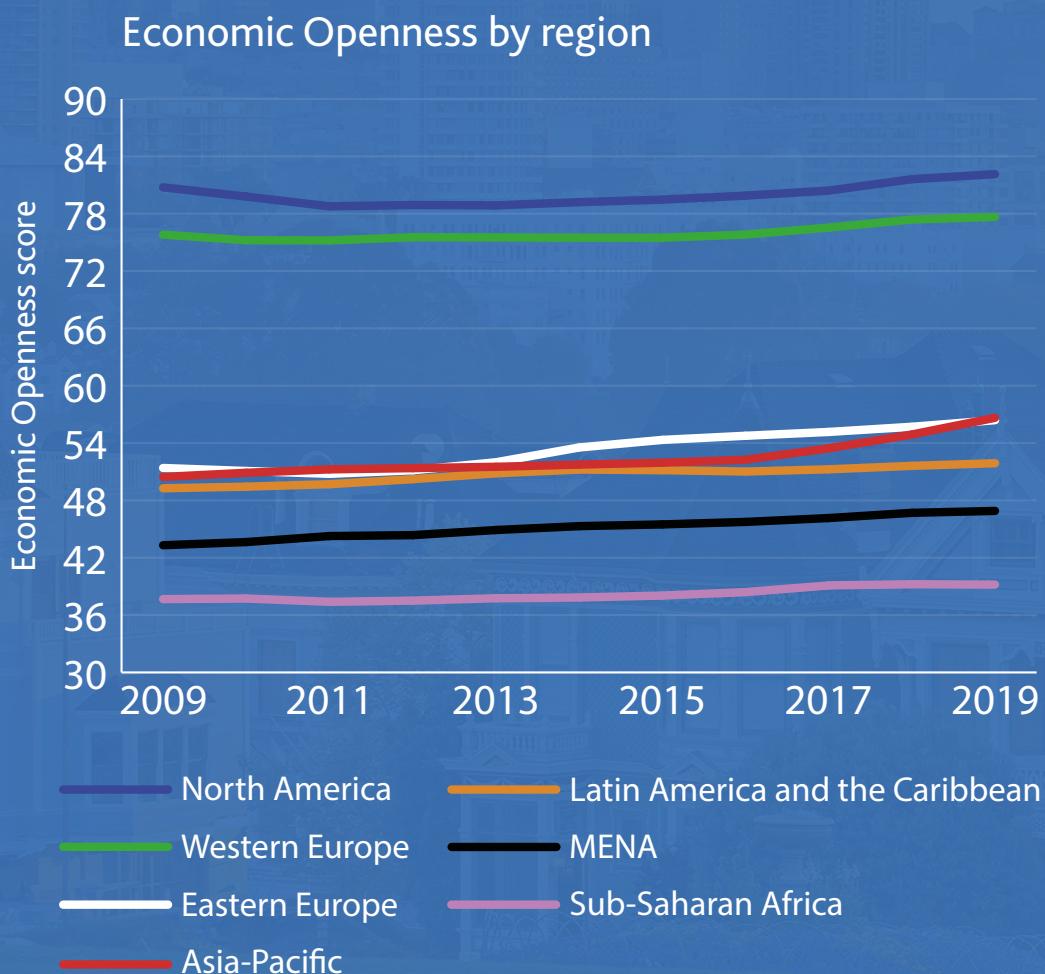
Regulatory promulgation process refers to how laws are created. If the government is allowed to make decisions based on favouritism and the process is not transparent, distortions can be created at will. There will be no need to disguise them as market failures, or if they are disguised, they will be very difficult to recognise. This appears to function somewhat independently of Political Accountability; certain states (e.g., Singapore or the UAE) have managed to create a very high degree of Regulatory Quality without enjoying a high degree of Political Accountability.²⁴



Focus on regions

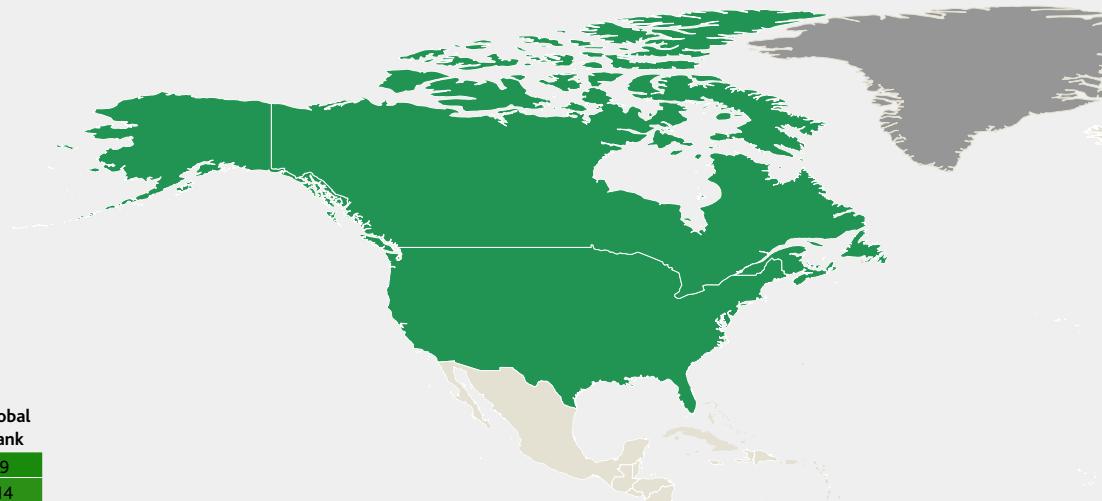
North America is the top-ranking region in the world, leading the rest of the world in all four pillars, followed by Western Europe. These two regions are far ahead of the others. While starting at a similar point four years ago, Eastern Europe and the Asia-Pacific region have increased at a significantly faster rate than Latin America and the Caribbean. In the last year, Asia-Pacific has overtaken Eastern Europe to be in third place. Other than Asia-Pacific and Eastern Europe, the placing of the regions remains static. The Middle East and North Africa and sub-Saharan Africa perform far below other regions, coming second-to-last and last in all four pillars.

The following pages examine the strengths and weaknesses of each region and explore the strengths, challenges and opportunities of a selected country in each region.





North America (1st)



Country	Global Rank
United States	9
Canada	14

OVERALL PICTURE

Both the **United States** (9th) and **Canada** (14th) are strong performers, and the region as a whole leads the world in all four pillars.

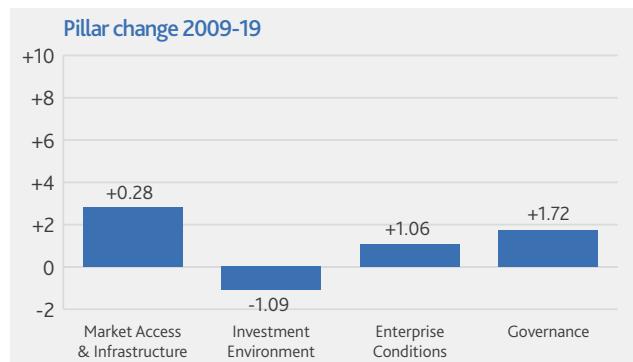
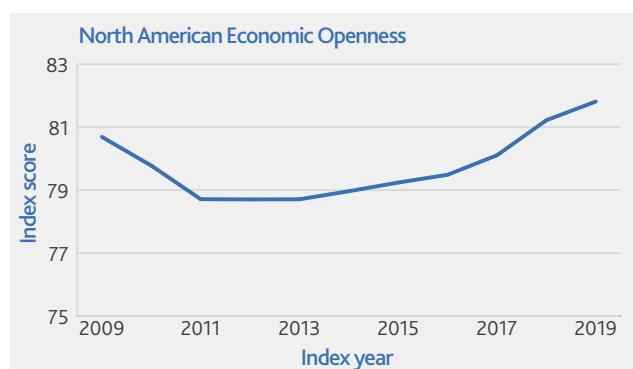
Since the 2008 global financial crisis, the US has by and large recovered to its pre-crisis level of Economic Openness, with only its Investment Environment lower than in 2008. Canada has not fared as well, with two of the four pillars declining over the decade.

A BRIEF LOOK AT ECONOMIC OPENNESS IN CANADA

Canada has seen a moderate improvement in Market Access and Infrastructure over the last decade. One of the biggest drivers of improvements was due to the free trade deal signed with the EU in 2016. Canada now has free trade deals with countries that have two-thirds of world GDP. However, Transport and Border Administration have fallen from 20th and 10th to 27th and 21st respectively over the past decade.

Canada saw its Investment Environment score decline following the global financial crisis. Yet, while the US has been gradually recovering, Canada has not seen the same recovery, and is ranked at an overall low of 12th this year. In Financing Ecosystems, it has seen a decline in the availability of venture capital, while the soundness of banks has also fallen (although it is still second in the world). It also fell in Contract Enforcement, where, for example, the time required to resolve commercial cases in Canada has increased from 190 days on average in 2014 to 303 days on average this year. This places it at 131st for this indicator, behind Belize, Costa Rica, and Cameroon. This highlights the issue Canada faces in balancing the Rule of Law and Contract Enforcement with over burdensome bureaucracy.

Canada lags some way behind the US in Enterprise Conditions, and has fallen 9 places since 2009 to 15th. It performs particularly poorly in Burden of Regulation (26th). For example, Canada has declined from 34th in the burden of obtaining a building permit in 2009 to 85th this year. Furthermore, the time taken to file taxes has increased from 119 hours to 131 hours since 2009. There has



also been a decline in its Domestic Market Contestability. Canada has fallen from 17th to 25th for business executives saying that corporate activity is dominated by many firms.

Governance is the only pillar in which Canada (11th) outperforms the United States (18th), and it does so in five out of six elements. In 2009 Canada ranked at 16th and 19th in Rule of Law and Government Integrity respectively, and has improved in both elements over the decade to 16th and 12th this year. It has also improved from 10th to 3rd in Political Accountability since 2009, driven by an improvement in complaint mechanisms. While Canada has a strong history of accountable governance and liberal democracy, Canada's political system has traditionally been dominated by two parties, the Conservative Party and the Liberal Party. However, in recent years, there has been a rise of new political groups, increasing the diversity in Canada's political system.

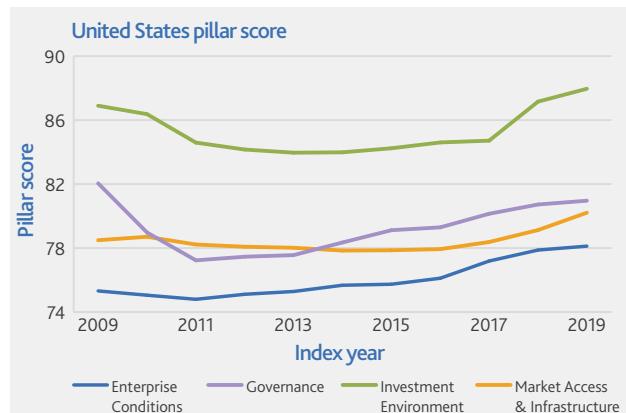
United States: Economic Openness in the world's largest economy

The United States is the ninth most open economy in the world in this year's Index. The sheer size and depth of the United States economy as a single, domestic trading bloc enjoying frictionless interstate trade, confers a significant competitive advantage that brings all the benefits of Economic Openness: a highly contested marketplace that breeds competition and innovation. Trade and business in the United States is enabled by the Rule of Law, effective governing institutions and ample access to capital, highly-skilled workers, and entrepreneurialism.

Yet it is by no means a consistent achievement, with world-leader status in areas such as Enterprise Conditions, but weakened performance in parts of Governance. This paints a picture of a country that, despite its challenges, has many of the fundamentals of an open economy. It allows businesses to start, grow and flourish, with the necessary infrastructure to facilitate these companies' entry into the global marketplace.

Enterprise Conditions is the strongest pillar for the US, coming second globally. It is ranked first for Domestic Market Contestability, first for the Environment for Business Creation and second for Labour Market Flexibility. Between 1996 and 2004, an average of 550,000 small businesses were created every month in the US, and many of those small businesses have grown rapidly.¹ Some of the biggest household names worldwide are a result of these excellent Enterprise Conditions, including Silicon Valley giants such as Google, Facebook, and Apple. Good market-based competition has allowed these companies to grow and challenge incumbents, although it is possible to argue that the former challengers are now the incumbents, and have enough dominance of their markets to make it difficult for others to challenge them.

However, with increased competition from Asian economies, the US will have to improve the Burden of Regulation on



companies if it is to maintain its lead in Enterprise Conditions. SMEs in particular do not have the time nor the resources to deal with complex regulation, meaning the Burden of Regulation is particularly acute for these companies.² In the US, companies spend a significant amount of time filing taxes and complying with regulations; according to the National Taxpayer Advocate Service, small businesses spend 2.5 billion hours complying with IRS rules each year, and company owners spend an average of four hours per week on government compliance.³ This has led to innovations aimed at getting around regulations, with most innovations being in the high tech and shared economy sectors. Companies such as Airbnb and Uber have succeeded by providing flexibility and choice in parallel to highly regulated industries.

The US's high rank of sixth for its Investment Environment has been driven predominantly by its deep capital markets and its strength in providing finance for entrepreneurs (coming first in Financing Ecosystem). Venture capital funding has enjoyed a surge of activity globally, and in the United States, some 5,536 start-up companies raised approximately \$100 billion in 2018.⁴ US companies also raised a record number of 'mega-round' funding with 184 companies closing \$100 million plus funding, and 53 VC-backed US companies became unicorns with valuations exceeding \$1 billion in 2018.



The US has well-developed infrastructure to support the production and distribution of goods and services – a pre-requisite for an open economy. In Communications, while it has high internet bandwidth at 94kb per capita, only 76.2% of the population are using the internet, mostly due to incomplete rural coverage. 11% of all Americans did not use the internet in 2018, and 24 million still do not have access to broadband internet at home.

The US does very well in Transport (6th). According to the World Economic Forum survey, US seaport services are ranked 5th in the world for efficiency and have very good liner shipping connectivity. Given that 69% of US foreign trade was transported by water in 2016 (representing 1.4 billion freight tons valued at \$1.5 trillion), the efficiency of liner shipping is critical. However, the restrictions of the Jones Act mean that domestic sea-borne commerce is more costly than international in many cases.

On the other hand, US policy on international trade is less enabling of commerce than many other OECD countries. A high proportion of its imported goods are subject to tariff barriers, and it has one of the largest overall numbers of non-tariff barriers registered with the World Trade Organization. Furthermore, the current administration appears to be pursuing a more protectionist agenda; President Trump has questioned the value of NAFTA and escalated trade tensions with China. Whilst the United States government seeks to protect American livelihoods in 'old' manufacturing industries that have been hollowed out by globalisation, it must be careful not to miss the new opportunities in the global economy.

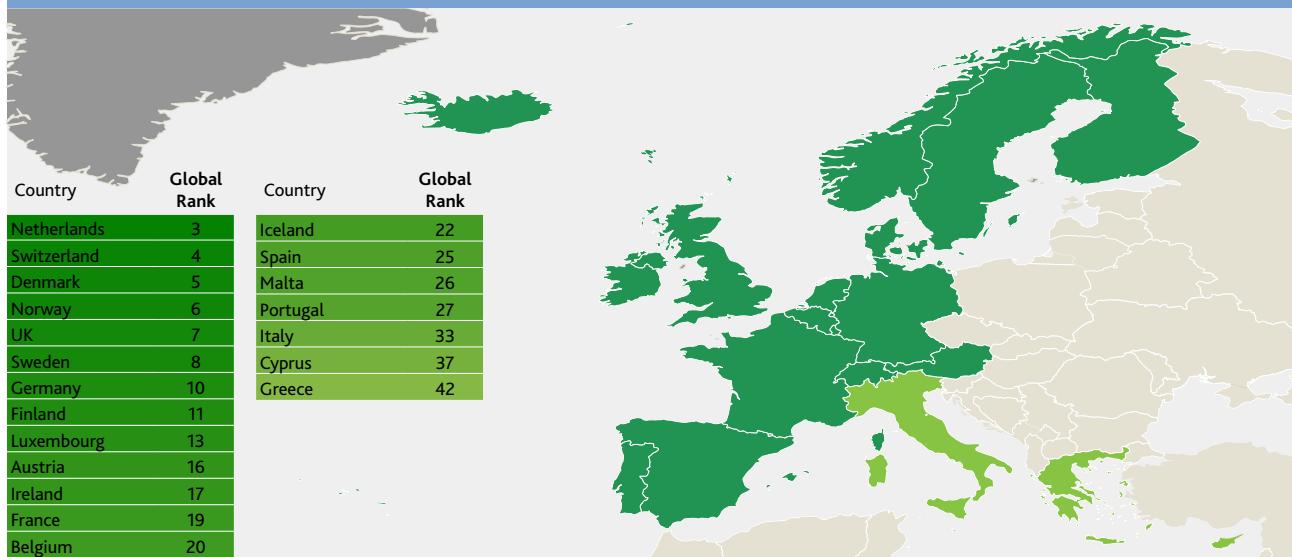
Governance is the US's weakest pillar, ranking outside the top ten at 18th, albeit with some bright spots. The US ranks 10th for Government Effectiveness, yet only 34th for Political Accountability. Existing campaign finance law facilitates greater participation in the policy formation process for larger companies and special interest groups, potentially crowding out the interests and voices of smaller businesses. This runs the risk of increasing levels of cronyism and reducing contestability of markets. Americans are also concerned that these campaign finance laws risk the integrity and independence of government, and represent a threat to political pluralism. There have been increasing calls for proper public disclosure of "who" is lobbying for "what", and for "whom", which would be a constructive first step in controlling this potential source of corruption in the political system.

Despite some challenges, overall, the US performs well across all measures of Economic Openness and remains a world leader in areas such as Enterprise Conditions. The United States has had the world's largest, and one of the most open, economies since the Second World War. Yet most of the issues in which the US's performance is found wanting, including areas such as Import Tariff Barriers, were almost as much of an issue 10 years ago as they are today, according to our data. The same is true for many areas of Governance. This would suggest that these are much longer-term issues that the US will have to deal with if it hopes to remain a world-leading, open economy.





Western Europe (2nd)



OVERALL PICTURE

Western Europe is the second ranked region in the world. In 2019, the Economic Openness of Western Europe has continued to improve. Over the last year, the largest improvement was Market Access and Infrastructure, but Enterprise Conditions and Governance has been a more important driver of the improvement over the last decade.

PILLAR HIGHLIGHTS

The second largest improvements in Western Europe over the last year has been in Governance, driven primarily by an improvement in Government Effectiveness.

Across the European Union, most of the Western European countries have free trade access to many markets in Europe and globally. For example, in 2012, the EU signed a Free Trade Agreement (FTA) with South Korea, followed in 2017 by an FTA with Canada.

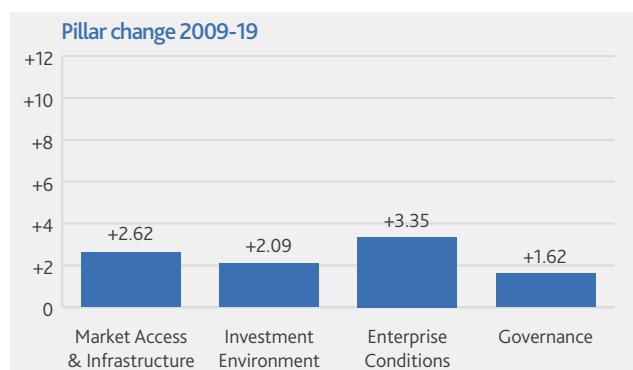
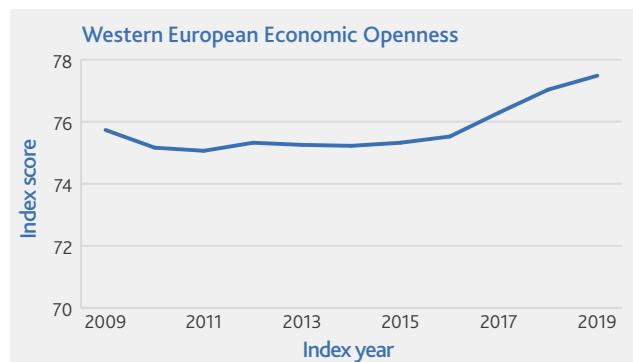
IN THE SPOTLIGHT: RISERS AND FALLERS

The Netherlands (3rd) is the top ranking country in Western Europe. It ranks in the top 10 across all pillars, and comes second in Market Access and Infrastructure.

With improvements in every pillar over the last year, **Cyprus** has seen the greatest improvement in Western Europe, rising from 39th to 37th. Experts in Cyprus reported better intellectual property protection. There is also better 3G and 4G coverage, as well as a more reliable electricity supply. Despite this recent progress, Cyprus still lags behind the majority of the region.

Ireland (17th) has been the greatest faller in the region over the last year, having worsened in three out of the four pillars – especially so in Enterprise Conditions due to increases in the Burden of Regulations and a slowdown in cluster development. As a result, its global rank has decreased two places from 15th last year.

Despite a recent downturn in **Malta's** performance, now ranked 26th globally, it has seen one of the largest long-term improvements in Western Europe. Most of this has been driven by improving Enterprise Conditions. According to the World Bank's



Doing Business measures, Malta has improved the ease of starting a business year-on-year since 2013.

The major challenge in **Greece** (42nd) is the Investment Environment, where it ranks 94th, down 49 places since 2009. Its Financing Ecosystem has worsened significantly, with less venture capital available, less sound banks, and even the number of bank branches per 100,000 people almost halving. Also, worryingly for investors, the recovery rate for insolvency fell from 44 cents in the dollar to 34 cents.

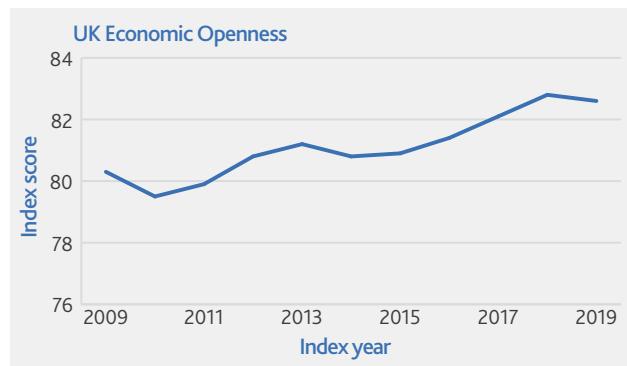


United Kingdom: Building on a legacy of Economic Openness

From the codification of the City of London's special legal status in the Magna Carta to its epithet as the birthplace of the Industrial Revolution, the United Kingdom's history as a champion of free trade and open markets is long and deep. It has contributed to the UK's success as an open economy today, ranking seventh overall in our Index. The UK's strong and trusted institutions have created a stable Investment Environment that has allowed businesses, both established and nascent, to flourish. These strong foundations make the UK resilient (though not immune) to any economic uncertainty. Underpinning the UK's strength as a global financial centre are its strong institutions and the trust placed in them by the population and the international business community.

The UK scores well for Governance, coming 10th globally, with particular strengths in Regulatory Quality and Government Integrity. Trust in individual politicians may have been tested by recent events, but trust in the UK's governing institution remains intact due to the integrity of its systems and the fact that these are largely corruption-free. The UK's commercial legal system is globally accepted, and one of the most adopted legal systems in the world, with 27% of all international contracts stipulating English Common Law.¹ The United Kingdom also scores highly in efficiency of dispute settlement.

These strong institutional foundations have meant that the UK has been able to foster an excellent Investment Environment, ranking fifth in our Index. The City of London remains the foremost global financial centre, attracting both investment and people from all over the world with high quality banks and capital markets. Along with freedom to own foreign currency bank accounts, a low business impact of rules on FDI and few restric-



tions on financial transactions have all served to reinforce this position. Currently, the City of London is home to the highest number of foreign banks of any finance hub and is by far the deepest capital market in Europe; London is also Europe's leader in both private equity and venture capital. The access to capital that the City is able to provide means that both domestic and international businesses can invest and grow.²

This access to capital is supported by robust protections, such as strong Property Rights and an effective system for Investor Protection and Contract Enforcement. The UK ranks highly for all these measures, coming 7th, 6th and 11th respectively. As is essential for any country with a highly developed service and financial services sector, the UK has well-established financial and intellectual property rights and ranks very highly for the quality of judicial administration. In terms of intellectual property protection, the United States Chamber of Commerce ranks the UK second in the world and English Common Law is thought to offer the best Investor Protection. Such protections mean investors have the confidence to finance business's capital expenditure requirements, its research and development, and risk-taking ventures.

In addition to excellent access to capital, the UK also scores well in Enterprise Conditions. Compared to its European peers, the UK is an excellent Environment for Business Creation (6th), providing the necessary support to promote entrepreneurial activity. The number of British “unicorns”, venture-backed firms worth more than \$1 billion, is roughly equal in value to the rest of Europe combined, although the UK still lags far behind the United States and China. According to the European Digital City Index, the United Kingdom is home to 10 of the leading 60 cities in Europe in terms of their ability to support entrepreneurs.

As with many mature economies, the United Kingdom provides a first-rate environment where people can develop, test, incubate and scale creative new ideas. Achieving the highest possible mark for market-based competition and anti-monopoly policy means the UK has an environment primed to allow room for innovation; market incumbents are challenged by new technologies, as has been the case with challenger banks and the growth in e-commerce, which are both taking on traditional high street services. Both are examples of how open and contestable markets can allow technology to bring new applications, innovations and opportunity.

The challenge then is less about start-ups and more about scaling up existing businesses. It has been estimated that a 1% boost to the UK's scale-up rate would create an additional 238,000 jobs.³ In recent years, the Government has paid more attention to the needs of scale-ups, and organisations such as the Scaleup Institute have raised the profile and contributed to the policy debate. Still, with the UK coming 13th globally for scale-ups, according to the OECD, and increased competition from its European peers, the UK will need to devote sufficient resources towards scale-ups if it is to maintain its edge in this area.

Overall, the UK scores well for Market Access and Infrastructure (9th) and in line with global trends, this has been largely driven by improvements in its communications infrastructure, which have enabled its growing technology sector. The UK has improved across all indicators; international internet bandwidth has increased from 39.4 kb per person to 399.9 kb in the last 10 years, the number of fixed broadband subscriptions have increased from 25.4 per 100 people to 39.3, and 94.8% of the population are now internet users.

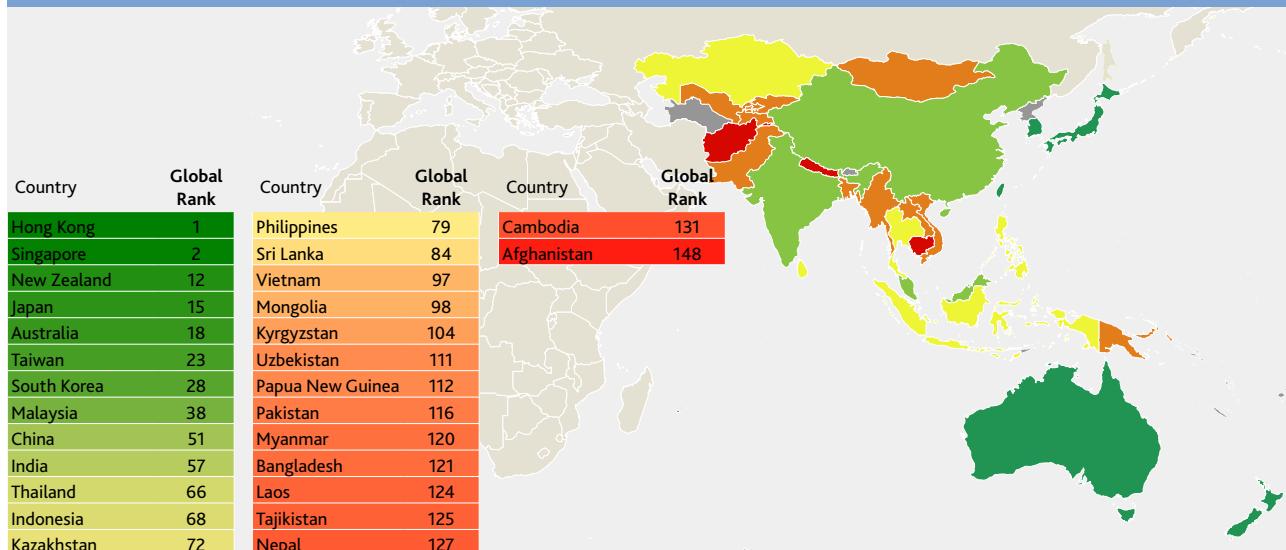
Despite the UK's overall strength, in order for it to remain a champion of Economic Openness, it will need to improve its weaknesses in some areas if it is to capitalise on its strong foundations of its investment and enterprise environments. Transport is an acute weakness for the UK. Large scale infrastructure projects such as Crossrail and HS2 have come to be defined by a slow decision-making process, budget overruns and delays. Efforts made by the Coalition Government to reduce the cost to businesses of regulation have not done enough to address the UK's poor performance in this area compared to its peers. Tackling this issue will also need to be balanced with protecting investors, consumers, and workers.

None of these issues are made easier or less urgent by the current situation. Brexit is not only throwing up questions regarding the UK's identity as an open economy, but it is also revealing tensions in the governing institutions such as its inability to deal with, let alone implement, policy recommendations from referenda. Nonetheless, regardless of the outcome of the Brexit negotiations, our analysis of the UK has revealed that the United Kingdom's fundamentals of Economic Openness are strong. Despite its faults, the UK has an institutional resilience. With these foundations in place, the UK is well-positioned to benefit from Economic Openness.





Asia-Pacific (3rd)



OVERALL PICTURE

Asia-Pacific's Economic Openness has, on average, increased every year for the past decade. This growth has accelerated since 2016, and the region is now ranked 3rd, overtaking Eastern Europe last year. Of the 28 countries in the region, 25 have improved their overall score over the last decade.

PILLAR HIGHLIGHTS

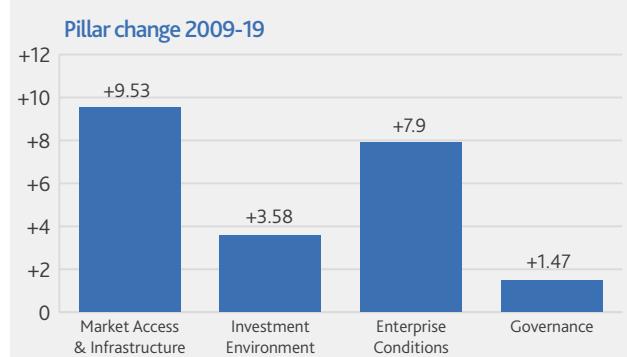
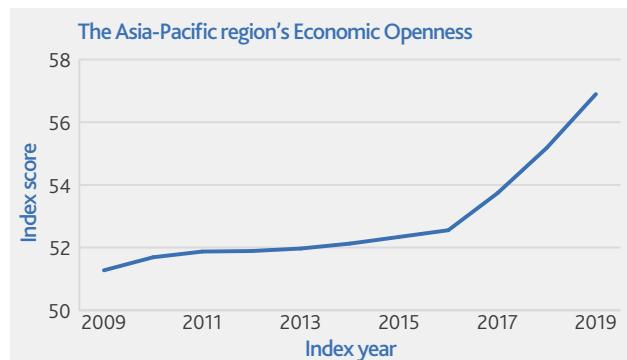
Relative to other regions, Asia-Pacific's most significant improvement has been in Investment Environment; whilst the region was ranked 5th in 2009, it has overtaken both Latin America and the Caribbean and Eastern Europe over the last decade to put it 3rd in this year's index.

Asia-Pacific experienced a decline in Governance between 2009 and 2015, but has since recovered lost ground to be at the highest ever level. Asia-Pacific still ranks 5th for Political Accountability, but scores have been improving within this element since 2009.

IN THE SPOTLIGHT: RISERS AND FALLERS

Myanmar, Indonesia and the **Philippines** are three of the greatest risers globally in Investment Environment over the last decade, rising 19, 27, and 15 places since 2009 to 136th, 53rd and 83rd respectively this year. Indonesia's score has risen in four out of five elements of this pillar, with the strong improvement in Property Rights. Whilst Indonesia was ranked at 117th in 2008 for Property Rights, the country now stands at 72nd in the Index. Indonesia is now ranked 46th in intellectual property rights, up from 117th in 2009, following legal reforms over the last decade.¹

South Korea has dropped four places since 2009, to 28th in 2019. Declines have primarily come from decreases in Government Integrity, Executive Constraints and Political Accountability. South Korea's political participation and rights have declined since 2013, when there were high-profile scandals involving corruption and abuse of authority, including alleged meddling in political affairs by the National Intelligence Service in South Korea.²



Vietnam is the greatest riser globally in Market Access & Infrastructure, moving from 97th in 2009 to 73rd this year. Its rise has been driven primarily by improvements in Communications, Resources and better access to foreign markets through free trade deals. The ease of establishing an electricity connection has improved in the country throughout the decade, as well as the reliability of electricity supply; between 1990 and 2015, Vietnam successfully increased its electrification rate from 54% to 98%.³

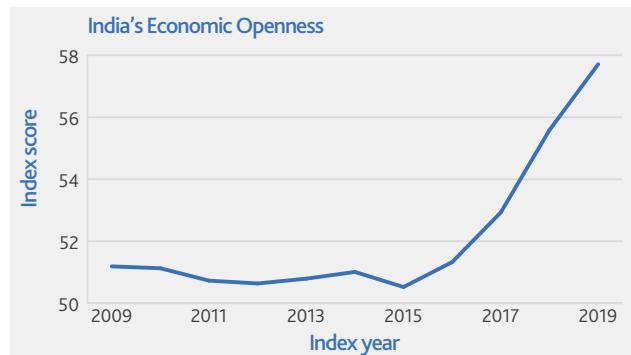


India: Deregulation and business friendly reforms lead to rising Economic Openness

Once labelled the “Permit Raj”, India’s Economic Openness has been frustrated by licences, regulations and red tape that had to be navigated in order to set up and run businesses in India from independence to 1990. Since 2014, Prime Minister Narendra Modi has focussed on liberalising the Indian economy, easing restrictions on FDI in certain industries, cutting regulatory burdens and reducing inefficiency in India’s mammoth bureaucracy.⁴

India has made some impressive gains in its Economic Openness over the last 10 years, rising 15 places from 2009 to 57th. Like many of its Asian peers, much of this has been driven by improvements in Enterprise Conditions, where the receding of the “Permit Raj” culture of India’s planned economy has been the most keenly felt. India has also made progress in every other pillar, with the exception of Investment Environment. Since 1990, first under finance minister, and later Prime Minister, Manmohan Singh, and most recently under Narendra Modi, India has been liberalising its economy. The shift has been most acute since Modi’s election in 2014, when, aided by the first single party majority since 1984, he promoted smaller government and a more open economy. Despite its remarkable growth and progress, India is still hindered by relics from its planned economy era such as costly, inefficient regulatory regimes which affect both domestic and international business. India’s budget in February 2018 raised import duties on more than 40 items, ranging from auto parts and toys to candles and furniture, in order to protect uncompetitive small businesses and create domestic jobs in certain industries.

India’s performance has improved across nearly all areas of Governance within the last 10 years, meaning India now ranks 46th in the world. The most progress can be seen in Government



Integrity and Political Accountability, where the Bharatiya Janata Party’s electoral platform in 2014 of economic liberalism and anti-corruption has seen a large decrease in the diversion of public funds and an increase in the consensus on democracy and market economy as an end goal. Considering India’s historic problems of red tape and bureaucracy, it comes as no surprise that its worst performing area of Governance is Regulatory Quality. Despite the efficiency of its legal framework in challenging regulations, India still suffers from its inability to enforce regulations, due to the presence of large informal market, and delays in administrative proceedings.

Although India still has a long way to go in order to reduce the problems of its stringent regulation, this has not inhibited its growth in Enterprise Conditions. India has risen 22 places in Enterprise Conditions over the last 10 years, now ranking 42nd globally. The biggest improvement has been made by reducing the burden that regulation imposes on businesses. Although the number of tax payments and the hours spent filing taxes still remain relatively high, the burden of government regulation and the time spent complying with it has been greatly reduced, a consequence of Modi’s drive to cut red tape. The introduction of the Goods and Services Tax, which replaced the many indirect taxes with one single indirect tax, has made the process of paying taxes less costly, especially for new businesses, as the registration process is much faster and simpler.⁵ It is also now much

easier to start a business as multiple application forms have been condensed into a general incorporation form.

Domestic Market Contestability remains a concern for India, as recent reforms have failed to end the dominance of public sector undertakings (PSUs). India has made little change in this area over the past 10 years, with markets remaining largely closed to outside competition and dominated by the incumbents, no matter how inefficient. PSUs are responsible for products and services as wide-ranging as fertiliser, broadband, coal, hotels and uranium. As of 2016, there were 244 PSUs in India, one in three of which made a loss.⁶ State companies such as Coal India are unable to keep pace with rising demand for coal for power generation.⁷ The combination of the dominance and inefficiency of the PSUs is holding back further improvement of India's Enterprise Conditions, which could put India at a disadvantage compared to its Asian peers.

This persistent protectionism has also had an impact on Investment Environment, for which India has made few improvements, remaining at 76th globally after 10 years. This is largely due to a worsening of Property Rights and Investor Protections, and only modest gains in areas such as the capital available through its banking systems and Restrictions on International Investment. India ranks modestly in areas such as the business impact of rules of foreign direct investment, where the amount of FDI allowed in some sectors is limited and in others, such as atomic energy and railway operations, it is banned completely.⁸ Modi has pledged to reduce restrictions on FDI, and in 2018 India opened up its e-commerce sector, allowing 100% FDI in the marketplace model. This has been tempered, however, by not allowing FDI in the inventory-driven models of e-commerce; this is aimed at protecting India's retail sector, which does not have the clout to compete with US giants Amazon and Walmart.⁹ Although further reforms have been somewhat stifled by political pressure, in 2018, for the first time in two decades, India received more FDI than China, with deals totalling \$38 billion.¹⁰

Despite a weak performance in areas such as auditing and reporting standards and the strength of its insolvency framework, India has made improvements to Investor Protections within the last three years, although it may be some time before the results are tangible. The Insolvency and Bankruptcy Code in 2016 gave power to creditors to unilaterally initiate the bankruptcy process. Further to this, from February 2018, the Reserve Bank of India

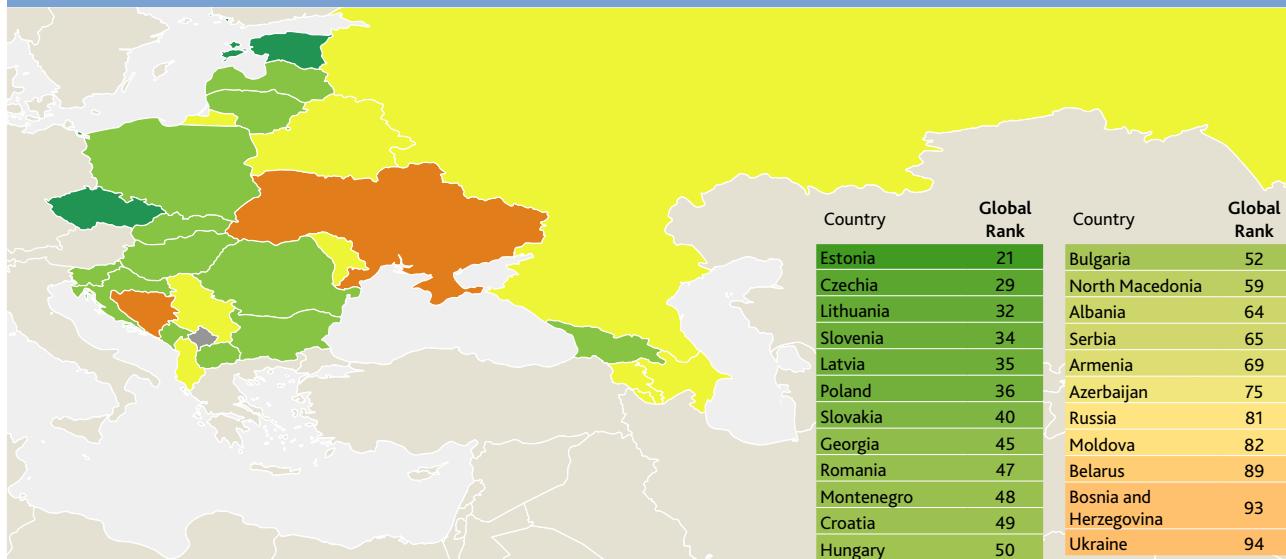
introduced a rule that mandates banks to initiate the bankruptcy process against debtors who are 180 days overdue.¹¹ Progress in bankruptcy processes means banks can write-off non-performing assets more quickly, allowing increased funding for healthy companies and projects.

India has risen eight places in Market Access and Infrastructure over the past decade, up to a global rank of 87. In spite of historic problems with its infrastructure, much of this has been driven by improvements in Transport, a crucial issue for a country 3.29 million km² in size and home to 1.34 billion people. India has strong performances in its liner shipping connectivity, logistics performance, road density and rail density, and it is continuing to invest in its infrastructure. Japan is helping India build the start of its own high-speed rail network, connecting Mumbai to Ahmedabad 508km away at speeds of 320 km/h.¹² Historic issues with a lack of infrastructure led to the rise of the service industry, which now accounts for 61.5% of India's GDP. Now, following Modi's Make in India initiative, which aims to encourage companies to manufacture their products in India, improving transport infrastructure is vital if the country is to have its own manufacturing boom, which has helped its neighbour, Bangladesh. Infrastructure aside, if India is to significantly improve access to its markets, it will need to reduce its Import Tariff Barriers. Currently, only 13.4% of its imports are duty free and, as with other areas, reform in this area has been subject to political pressure in order to protect domestic businesses from international competition.

India has made a considerable amount of progress over the last decade in becoming a global economy; it has opened up to foreign investment, streamlined its arduous regulation and taken steps to make its government more effective. Protectionism and red tape are still prevalent in many industries, and although steps have been made in the right direction, a significant proportion of India's economy remains closed to both international investment and competition. An important factor in India's growth has been the confidence in the direction of Modi's reforms, as much as their tangible results, which have stimulated both domestic and foreign activity, from increased FDI to a surge in new businesses. Under the current administration, India has made some important steps towards Economic Openness and for this reason, the coming elections will be important in determining India's future.



Eastern Europe (4th)



OVERALL PICTURE

Eastern Europe has been improving its Economic Openness steadily since 2010, and was the third most open region in the world until 2018, when it was surpassed by Asia-Pacific. The region's best performer is **Estonia**, which ranks 21st globally, with the **Czechia** coming second in the region at 29th. **Ukraine** and **Bosnia and Herzegovina** are the weakest performers at 94th and 93rd respectively.

PILLAR HIGHLIGHTS

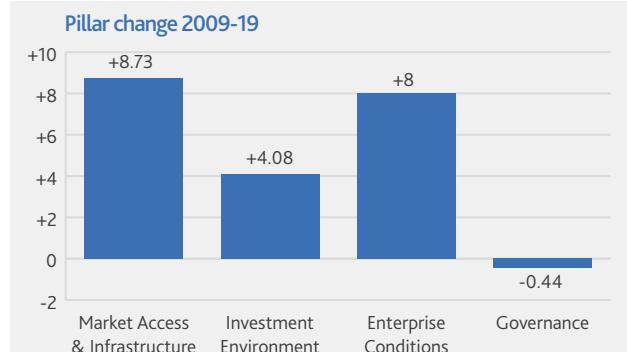
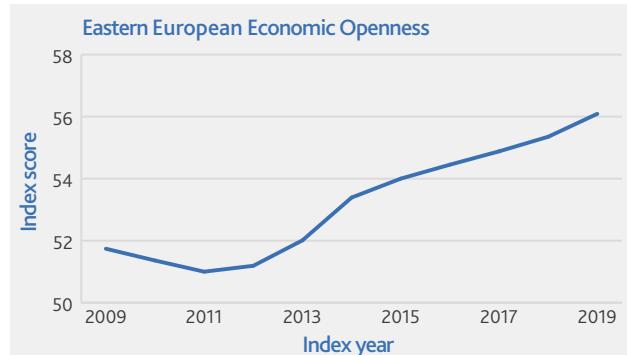
Most of the progress in Eastern Europe is due to improving Market Access and Infrastructure; not a single country saw a decrease in this pillar over the last decade. Central to this has been the development of Communications in the region; the proportion of the population using the internet has more than doubled to 71%.

Governance, on the other hand, has remained stagnant, where Eastern Europe remains the fourth best region. While some elements have improved on average, such as the Government Integrity and the Regulatory Quality, there are significant declines in Political Accountability and Executive Constraints.

IN THE SPOTLIGHT: RISERS AND FALLERS

Albania saw the biggest improvement in performance in Eastern Europe over the last decade, largely thanks to the expansion of its communications infrastructure. From the very start of this period, the Albanian government had made ICT development one of its top priorities; the percentage of households with an internet connection between 2009 and 2011 doubled, and the broadband penetration rate increased 18-fold from 2007 to 2011.¹ This trend continued, and now almost 70% of the population use the internet on a regular basis.

Hungary has seen a 23-rank drop in both the Governance and Enterprise Conditions pillars since 2009, and has seen the greatest drop in Economic Openness in the region. The fall in Governance can be explained by the erosion of democratic norms and a



deterioration in Government Effectiveness, as shown by Freedom House and the World Bank respectively. This is intimately linked with the weakening Enterprise Conditions; the acquisition of companies by the state and its allies consolidates power in the hands of a minority, reducing the contestability of domestic markets

Enterprise Conditions in **Croatia**, which is ranked 49th in the Index overall, have been stagnant for the past decade. A large part of this is the inflexibility of its labour market, which continues to worsen, despite amendments to the Labour Act in 2014.

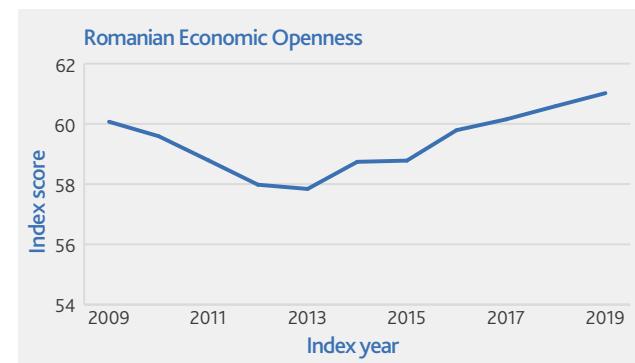


Romania: Becoming more open, but hampered by poor Governance

Since the fall of Communism in 1989, Romania has made significant progress towards Economic Openness, coming 47th overall in our Index. Even though Governance remains a problem for the country, Romania still managed to make some improvement in this area, based on the good foundations of free and fair elections and the separation of powers put in place to ensure accession to the EU. These gains may currently be overshadowed by issues of corruption, but they show that with the right measures in place, Romania could take advantage of its opportunities and make further progress towards Economic Openness.

In the last decade, Romania has made improvements in its Investment Environment, rising five places to 39th overall. This rise has been driven by an improvement in Investor Protection, better Property Rights and fewer Restrictions on International Investment. Better protection for investors has been a result of importing EU legislation, which has resulted in more investors willing to part with their capital. Inward FDI flows, albeit small, are growing steadily year-on-year, with an inward FDI flow of €4.58 billion in 2017, a 32% increase on 2016 (which was again a 30% increase on 2015), and the impact of rules surrounding FDI on business has greatly reduced.² Since 2003, reforms have guaranteed the right to hold private property and, more recently, concerted efforts have been made to systematically register all real estate assets in the country, leading to an improvement in the protection of property rights and the ease of registering property.

If Romania is to continue becoming an attractive Investment Environment, it will need to make steps to improve its Financing Ecosystem. Although gains have been made in the number of commercial bank branches, and the quality of its banking systems and capital markets have improved in the last decade, Romania lags in terms of the money available



to enterprises. The availability of venture capital and SMEs' access to finance are poor, which has significantly arrested the growth of SMEs and entrepreneurship. Between 2017 and 2018, 60% of SMEs had not accessed any finance in the previous 6 months, compared to approximately 28% for large companies.³

Naturally, with little access to finance available, Romania's Enterprise Conditions leave much room for improvement, coming 70th globally, falling 24 places over the past decade. Romania lags behind its peers as a good Environment for Business Creation, and, furthermore, bureaucracy, red tape and corruption have seriously hindered the ease of starting a business. The rate of creation of new firms in Romania has remained flat since 2001, and start-ups face a low survival rate beyond five years; over the period 2009-2014, the survival rate among companies in this segment dropped from around 60% to around 40% on average.⁴ Labour skill shortages, due to high migration levels, is also an issue faced by both nascent and developed enterprises. Due to freedom of movement within the EU, many Romanians, especially among the younger, better-educated cohort, choose to leave in order to seek better-paid positions in Western Europe.

Encouragingly, the government has recognised the economic benefits of entrepreneurship and innovation. It has begun to introduce schemes aimed at encouraging start-ups and research and development, including tax reforms to grant relief on R&D

and investment.⁵ This has led to reduction in tax payments and time spent filing taxes. Although these are significant steps, Romania's persistently bureaucratic system has meant that government regulation is a burden on businesses and, on average, 15.8% of a senior manager's week is spent complying with requirements imposed by such regulation.

Market Access and Infrastructure (47th) presents a hugely varied picture. For example, Romania has good broadband connections, yet has incredibly poor quality roads. Romania's trading conditions benefit from its low import tariffs (94.8% of its imports are duty-free) and the low cost and few time constraints when it comes to complying with border regulation and procedures. Both of these strengths are a result of Romania's access to the common market through its EU membership and the concentration of its trade within the EU. If Romania is to capitalise on these strengths, and its strategic geographic position as a thoroughfare between Asia and Western Europe, it will need to improve its trade infrastructure. A pipeline of investment projects such as the Via Carpathia, which could improve Romania's access to markets in Central and Northern Europe, will help to develop the country's infrastructure.

In terms of infrastructure, there is consistently a disparity between what is available, and what people and businesses can actually access. Electricity supply is relatively stable, but it is far from easy to establish an electricity connection. Along with Tajikistan, Romania has the highest number of procedures required to gain electricity in the world, taking on average 174 days to establish a connection. Romania has one of the fastest broadband connections in the world and good 3G and 4G coverage, yet only 63.7% of the population are internet users and only 24.3% have fixed broadband subscriptions, due to reduced access for rural populations.

Underpinning all these areas, and capping its progress, are Romania's Governance issues, for which it ranks 47th overall. Rather than continuing the significant progress made prior to its accession to the EU in 2007, Romania has actually fallen

three places over the last decade. This has largely been driven by reduced levels of Government Effectiveness. The efficiency of government spending has worsened; Romania has struggled to absorb much needed EU funds since its accession from the Structural and Cohesion Funds. The OECD notes that whilst its Fiscal Responsibility Law is sound, it is "not always applied effectively in practice."⁶

Corruption at all levels of governmental institutions in Romania is an issue. Although Romania has improved the integrity of its government overall, it still does poorly in areas such as transparency of government policy and the diversion of public funds. The cost of corruption in Romania is estimated to be between \$37 billion and \$62 billion, or between 13.5% and 22.5% of Romania's GDP.⁷

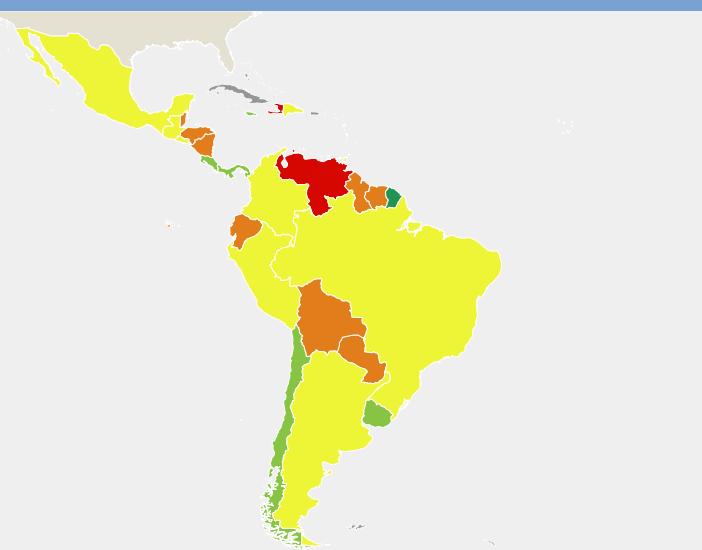
Although Romania has many difficult challenges ahead, it has several opportunities to improve its Economic Openness and many of these foundations have already been laid. In the years prior to EU accession, Romania was able to develop at least a normative framework of government rules. Improvements were made that have meant Romania has developed its infrastructure and its access to investment, and the government is beginning to appreciate the benefits of entrepreneurs, allowing them tax breaks to support their development.

While EU membership allowed for much of this progress, it has also removed the incentive to continue these improvements. Having achieved their goal of accession, politicians have begun to change rules and norms without concern for the wider consequences. Corruption still persists in Romania's political institutions, meaning that any necessary developments that are not necessarily aligned with these interests run the risk of not happening. Still, Romania's improvement in the years leading up to EU accession and in the immediate aftermath shows that it is capable of the change needed to continue on its path towards an open economy.



Latin America and the Caribbean (5th)

Country	Global Rank	Country	Global Rank
Chile	31	El Salvador	88
Costa Rica	43	Guatemala	90
Uruguay	44	Guyana	92
Panama	56	Paraguay	99
Jamaica	60	Ecuador	100
Mexico	62	Honduras	101
Peru	67	Belize	105
Colombia	70	Suriname	106
Trinidad and Tobago	74	Nicaragua	110
Brazil	80	Bolivia	122
Dominican Republic	83	Haiti	152
Argentina	86	Venezuela	153



OVERALL PICTURE

Latin America and the Caribbean is the fifth-ranked region globally. While Economic Openness has improved over the last ten years, this has been driven solely by Market Access & Infrastructure. All three other pillars have deteriorated at some point between 2009 and 2019.

PILLAR HIGHLIGHTS

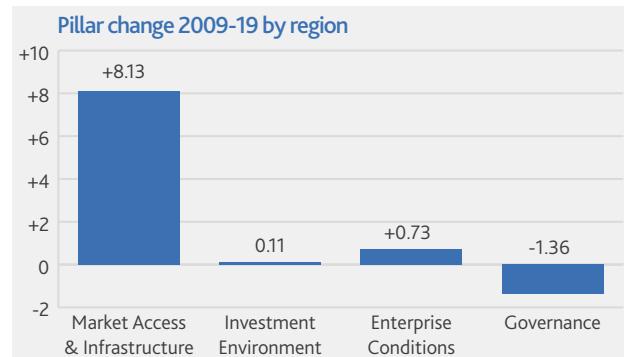
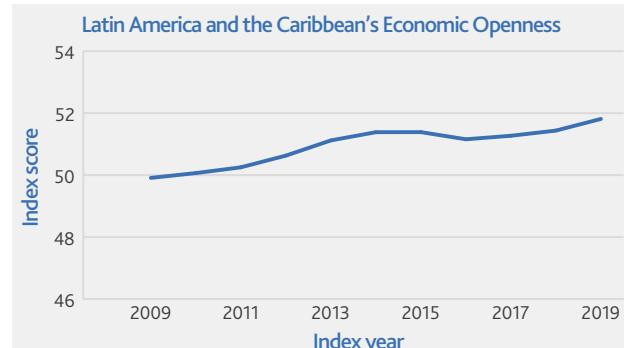
Market Access and Infrastructure has improved every year in the past decade, seeing an increase across all elements. For example, in Communications, the percentage of people using the internet increased from 23.9% in 2009 to 59.1% in 2019. Whilst the region is still ranked fifth for this pillar, it has closed the gap with Asia-Pacific (4th).

The region's Governance is at its lowest of the last decade, having declined since 2013. Latin America and the Caribbean is the worst region in Rule of Law, and registered the second biggest decline in this element over the last decade. Four of the top ten global fallers in this element are in this region.

IN THE SPOTLIGHT: RISERS AND FALLERS

Colombia and **Costa Rica** are two of the largest risers in the region in the Market Access and Infrastructure pillar over the last decade. While they were ranked 87th and 60th respectively in 2009, they sit at 70th and 48th in this year's Index. Both countries have seen significant increases in Open Market Scale, increasing from 83rd and 45th respectively in 2009 to 8th and 3rd globally in this year's Index. These improvements have been driven primarily by an increase in domestic and international market access for goods and services. For example, through free trade deals on services, Chile has access to markets that account for two thirds of global GDP.

Argentina has seen marked improvement across all four pillars in recent years, most significantly in Governance. Within Governance, Argentina is the largest global riser in Executive Constraints of all nations in the Index over the last decade, rising from 98th



in 2009 to 55th in 2019. President Mauricio Macri's government has led efforts to improve transparency, and prosecutions of corrupt executives have led to an increase in de facto Executive Constraints.¹

Haiti is one of the most significant ten fallers globally in Enterprise Conditions over the last decade, falling from 151st in 2009 to 156th this year. Within this pillar, Haiti has declined in all elements and is the worst in the world for Domestic Market Contestability, falling 10 places over the last decade. It has, for example, seen worsening standards for the extent to which safeguards exist to prevent the development of economic monopolies and cartels.



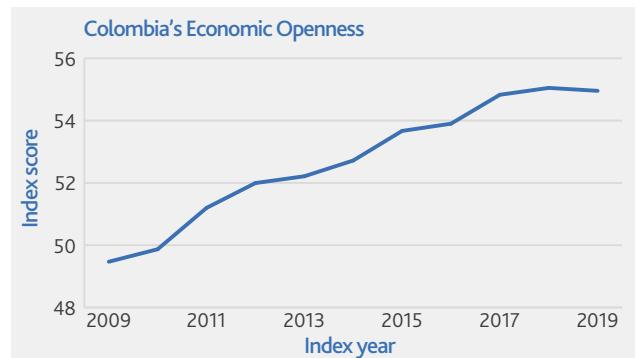
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Colombia: Institutions and Economic Openness

Colombia ranks 70th overall, up five places from 10 years ago, and is ranked 8th in Latin America and the Caribbean. In real terms, Colombia has seen GDP per capita increase from \$4,800 in 2000 to \$7,600 in 2017 (constant 2010 USD). Colombia has become a more safe, open, and prosperous society over the past decade, largely because of its success in combating violent non-state actors, including FARC, paramilitary organisations, and drug traffickers. The recent peace accord with FARC in 2016 has ushered in a period of relative stability, a necessary foundation to enable Colombia to further improve its prosperity.

Colombia's Governance score (68th globally) has improved; this is in contrast to the rest of Latin America and the Caribbean, where Governance is worsening, with the most significant development being the integration of FARC into the democratic system. Within the pillar, there is a mixed picture. Government Effectiveness has improved, up 27 places to 46th in the world. It has improved across several indicators including implementation, efficient use of assets, policy learning, and policy coordination. On Political Accountability, Colombia ranks 70th. The 2016 referendum on the FARC peace deal was a good example of Political Accountability, with the government amending the peace deal after the first version was rejected, although this revised deal was never put back to the public.

However, Rule of Law, where Colombia is 133rd, improved up until 2012 as President Santos implemented reforms that increase the independence of the judiciary, which has been eroded under his predecessor, President Uribe. However, these reforms stalled from 2014, as there became increased suspicion that the executive was influencing the courts and the opposition has claimed that the government has used its influence over the judiciary for political purposes, such as the pursuit of high-ranking followers of the former President.



Some forms of corruption are still present, but have become more sophisticated. The decentralisation of many government functions in the 1990s reduced the incentives for corruption at the national level, by dispersing the funds available for diversion.

Colombia has risen 17 places in Market Access and Infrastructure since 2009. Like other countries, there has been a large rise in the score for Communications, as take-up and penetration of mobile phones and internet have increased. There has also been improvements in Transport, Border Clearance and Open Market Scale. In Transport, there has been an improvement in the efficiency of seaport services and liner connectivity. There has been considerable investment into ports: between 2010 and 2017 \$158 million was invested in port access channels, and in that time capacity of ports have almost doubled (from 286 million tonnes to 444 million tonnes).²

Colombia currently scores poorly on the quality of its roads (109th), but it is seeking to address this. In 2014, it established the 4th Generation Roads Concession, a \$24 billion near-decade long investment plan to create a nationwide toll road network through up to 40 different public-private partnerships.³ It is expected to deliver an extra 6,000 kilometres of roads.

The efficiency of customs clearance has improved, due in part, perhaps, to the introduction of the electronic data interchange system in 2010. Colombia has massively increased its access to

foreign markets for both goods and services, down to the effect of two major free trade deals ratified in the last ten years. The first is with the United States, signed in 2006 but only entering into force in 2012. The second was with the European Union in 2013. These deals alone give Colombian exporters privileged access to almost half of the world's GDP.

Colombia ranks 69th for its Investment Environment, which has improved slightly over the decade. This is driven by improvements in an area of particular weakness, Contract Enforcement, where it has moved up 12 places to a still poor 101st. Colombia made enforcing contracts easier by simplifying and speeding up the proceedings for commercial disputes - the time to resolve commercial cases fell from 448 days to 429 days. Through a World Bank – backed project, productivity in civil, family, and labour courts increased by an average of 389 cases per judge per year.⁴

In terms of Restrictions on Foreign Investment, however, Colombia's performance deteriorated. This is due to the perceived worsening of business impact of rules on FDI, as well as falling foreign ownership. There are also special regimes for financial, hydrocarbon, and mining sectors.⁵ According to the Constitution however, foreign investment in Colombia receives the same treatment as an investment made by Colombian nationals. The Colombian government is generally open to foreign investment, and has been as such since significant economic liberalisation measures were undertaken in the 1990s.

Colombia ranks 84th for Financing Ecosystem. It scores well for the soundness of banks (37th) and the extent to which credit information is provided (35th). The OECD notes that the development of capital markets in Colombia has been "robust", with market capitalisation increasing from 9.83% of GDP in 1992 to 63.16% in 2011.⁶ Further, on the quality of banking and capital markets Colombia scores highly. However, access to capital remains an issue. The percentage of firms identifying access to finance as a severe or very severe obstacle has increased from 22% to 41%.

Enterprise Conditions have also improved, with Colombia moving up six places since 2009. This improvement is driven by improved Domestic Market Contestability, and in particular the improve-

ment in the extent to which the fundamentals of market-based competition have developed. The Bertelsmann Stiftung's Transformation Index (BTI) notes that, despite significant corruption and weak institutions, the government has carried out initiatives to improve market contestability, and the government does not discriminate on the basis of nationality, size or business ownership type.⁷ However, challenges remain. BTI note that the size of the informal sector remains large, reaching 47.6% in 2016. One of the potential drivers of this is the higher-than-average regional minimum wage, which discourages employers from formalising more jobs.⁸

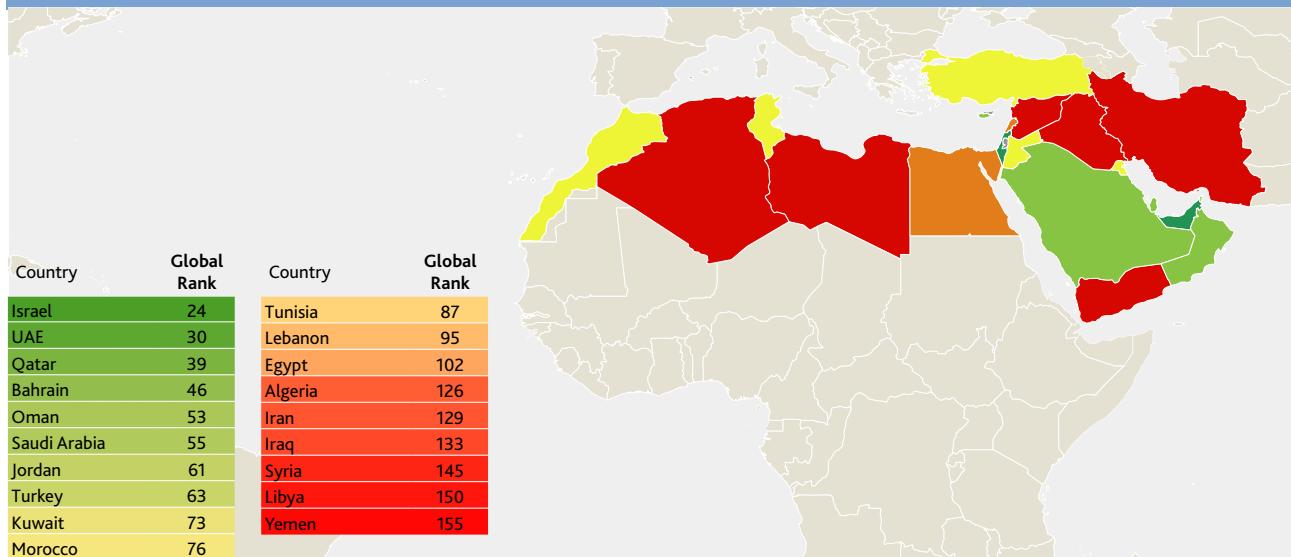
Like much of the region, Labour Market Flexibility is a major constraint. Scores have fallen in four out of five indicators, including the measure of flexibility of wage determination. In contrast, unemployment is down from 20% in 2000 to 9% in 2016 and labour force participation of 15-64 year olds has also been steadily increasing, from 63% in 2000 to 75% now, which is higher than the regional average.

The Burden of Regulation has also improved, and Colombia has moved up 18 places since 2008. The number of tax payments per year has fallen from 70 to 12 since 2009. There have been in other policy initiatives that have attempted to relieve the burden for businesses; for example, Colombia eased the administrative burden of paying taxes for firms by establishing mandatory electronic filing and payment for some of the major taxes.⁹

Despite Colombia's improvements, there are still challenges. The shadow economy, driven by narcotrafficking, remains strong; it is estimated that cocaine production and marijuana are being produced at record levels. There are also ongoing challenges in removing burdens for businesses and making the economy as a whole more productive. Still, Colombia has a long history of stable democracy and strong institutions. Since the 1990s, it has been opening up and attracting more foreign investment, from 1% of GDP in 1990 to 4.5% today. The promotion of free trade and business freedoms, as well as the integration of the FARC into its democratic institutions, has meant that they are well set up to achieve the status of an open economy.



The Middle East and North Africa (6th)



OVERALL PICTURE

The Middle East and North Africa region has seen an overall increase in its Economic Openness over the last decade, but is still the sixth ranked region. All but four countries in the region have improved in that time, with the United Arab Emirates seeing the greatest progress. **Libya, Syria, Tunisia, and Yemen** have weakened over the past decade, with Yemen falling the most in the world.

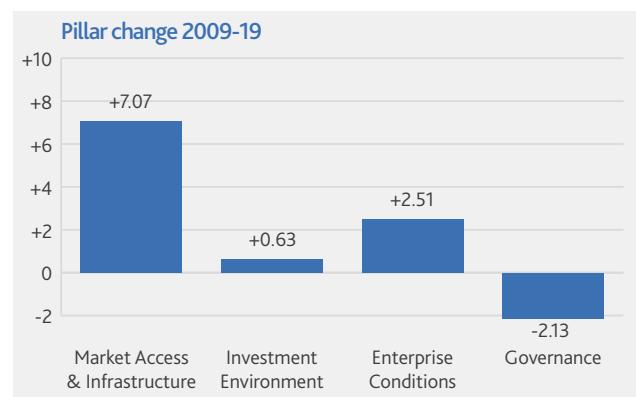
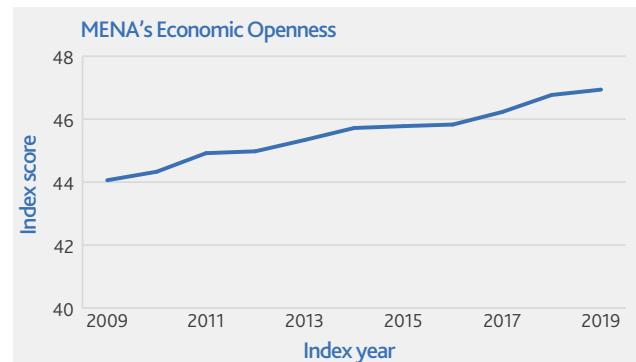
PILLAR HIGHLIGHTS

The improvement in Market Access and Infrastructure has been central to the broader improvement of the region, with Communications being the element driving change in the pillar. Over 55% of the population of MENA now use the internet on a regular basis, up from 17.4% in 2009.

The quality of Governance has been in steady decline over the past decade, with only nine (of 21) countries showing a net improvement. Governance in **Turkey** has declined most in the world, and MENA countries make up five of the ten biggest fallers globally.

IN THE SPOTLIGHT: RISERS AND FALLERS

Governance, as is the trend for most countries in the MENA region, is the weakest pillar in the **UAE**. It has a particularly weak performance with regard to the amount of Political Accountability, which ranks 131st globally – down six ranks from 2009. The level of democracy remains close to “highly autocratic”, according to the Centre for Systemic Peace, and the expert opinions of the complaint mechanisms available and the political participation and rights of the populace have decreased in recent years. Despite this, the Gulf state has gone some way to closing the gap with the region’s top overall performer, Israel, due to a number of reforms. These included easing the process of registering property, by increasing the transparency of its land registry in 2017 and of its land administration system in 2019, and by improving the online registration systems for businesses.¹



The tale of **Yemen** over the past decade has been one of little progress. The onset of the civil war in 2015 marks the beginning of a sharp decline in the Economic Openness of the country, though progress before that point was slow at best. It now sits at 155th in the Index, 10 places below its 2009 rank, and its performance in each pillar of the Index is on the decline.

Despite a number of serious weaknesses in its political system, **Iraq** is one of the few MENA countries that has seen notable improvements in its Governance over the past decade. In particular, its Political Accountability has improved due to a transition from outright autocracy to a democracy, albeit one with challenges to overcome.

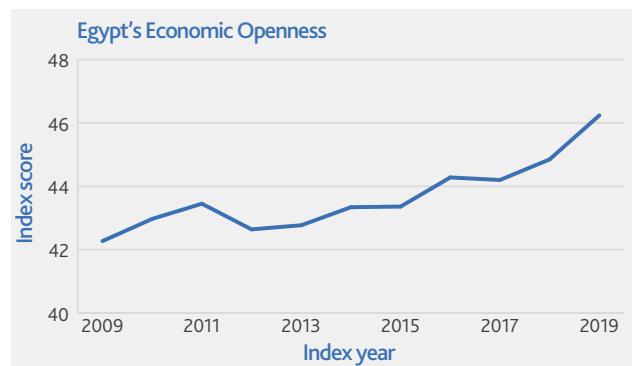


Egypt: Growth despite turmoil

With the largest population in the region, Egypt's Economic Openness is rising modestly, up five places to 102nd in the world. Qualifying its performance, however, is the significant political and economic upheaval that Egypt has faced over the last decade. Since 2011, Egypt has undergone two revolutions, with elections returning former military leader Abdel Fattah el-Sisi to power in 2018.

In this context, the current regime has attempted a number of reforms that have started to translate into modest improvements for the country, particularly across Market Access and Infrastructure and Enterprise Conditions. The country has planned a number of mega-projects, at the same time as developing strategies to transform its large informal sector. The main concern for Egypt continues to be Governance, as the government shows little sign of reforming its political institutions.

Egypt's Market Access and Infrastructure has seen the strongest improvement of any pillar, seemingly undisturbed by domestic instability. Transport (59th) has historically been one of Egypt's strengths, with the country's geostrategic position operating the Suez Canal demanding a modern seaport infrastructure. Facilitating 7.5% of the world's sea trade, the Suez Canal has allowed Egypt to become integrated into global trading networks from both east and west, demonstrated by its high liner shipping connectivity. Nonetheless, the canal is 'not fully exploited'; many giant shipping vessels cannot go through the canal, and the surrounding area lacks port services, storage facilities, and industrial centres.² Development of a New Suez Canal, one of President el-Sisi's key infrastructure projects, may help Egypt further increase the efficiency of its seaport services. Further to Egypt's transport infrastructure, while its road density is relatively low, it is nonetheless adequate for Egypt's high-density urban centres, concentrated as they are around the Nile River. With 92% of roads paved, the quality of its roads is also high.



Egypt is facing a demographic explosion that has the potential to put pressure on its Resources. By 2030, its population is predicted to be 128 million. With increasing domestic demand for energy, this is likely to put pressure on the reliability of electricity supply, in a country where power cuts are already common. In 2015, Egypt became for the first time a net importer of gas and oil, which together make up 84% of Egypt's energy consumption by source.³ The government has also historically provided high energy subsidies, which, in an attempt to reduce demand, the current administration has begun to scale back. The country's position in both African and Middle Eastern trading blocs has led to a strong Open Market Scale (82nd).

Egypt has recently begun clawing back some of its lost momentum on Investment Environment. Ranking 102nd, there has been a renewed commitment from the government to market the country as open for investment, with a growing economy to match. The country's credit rating has improved,⁴ with the soundness of its banks and the quality of its banking and capital markets all showing upward movement, reflecting renewed confidence in the country as a destination for capital. New laws have increased Investor Protection, with Egypt's insolvency framework having been explicitly strengthened.⁵ Additional legislation reducing the Restrictions on International Investment passed in 2017, with the country, having dropped 44 places to 100th, evidently hoping to

arrest a ten-year decline in this element. As a result, the prevalence of foreign ownership has shown a slight recovery.

There is hope that renewed confidence in Egypt will lead to improved Enterprise Conditions. This pillar has shown the strongest gains in terms of ranking over the last decade, up 23 places to 85th. The country has a youthful and flexible labour market (48th), characterised by flexible employment contracts. Egypt continues to benefit from its unified labour law of 2003 that increased its Labour Market Flexibility. This law allowed for greater flexibility in hiring and firing practices, a key bottleneck for Egyptian employers, and has since had a positive impact on formal employment.⁶

In a country where two-thirds of new job entrants are absorbed by the informal economy,⁷ however, Egypt has much to do to formalise its economy. The challenge will be doing so without over-regulating, particularly in a country where the Burden of Regulation, especially concerning taxation, is already high. Thus far, there has been little effort to bring corporate and personal income taxes online.⁸ Because street marketplaces and vendor activity has exploded post-2011 as a form of 'revolutionary entrepreneurship', the state is wary of cracking down on informal activities.⁹ Nonetheless, the country suffers from what is described as a 'missing middle'.¹⁰ With a glut of small firms overshadowed by a dominant few large firms, Egypt's Domestic Market Contestability (88th) is constrained. Historically, credit to the private sector is low at 34% of GDP, with banks concentrating their lending to the government.¹¹

The country's Environment for Business Creation (83rd) is improving, but ease of starting a business is still constrained by the procedural difficulty of accessing land and property registration.¹² There is a low availability of skilled workers in the country, with employers reporting 'skills mismatch' as among the biggest constraints facing the private sector.¹³ Recently, the government has partnered with the private sector in an effort to reform the

country's technical and vocational education system.¹⁴ In addition to strategies for SME financing,¹⁵ there is a belated recognition that, with the right education initiatives, incentives and scale-up strategies, the post-2011 entrepreneurial spirit can transform the economy.

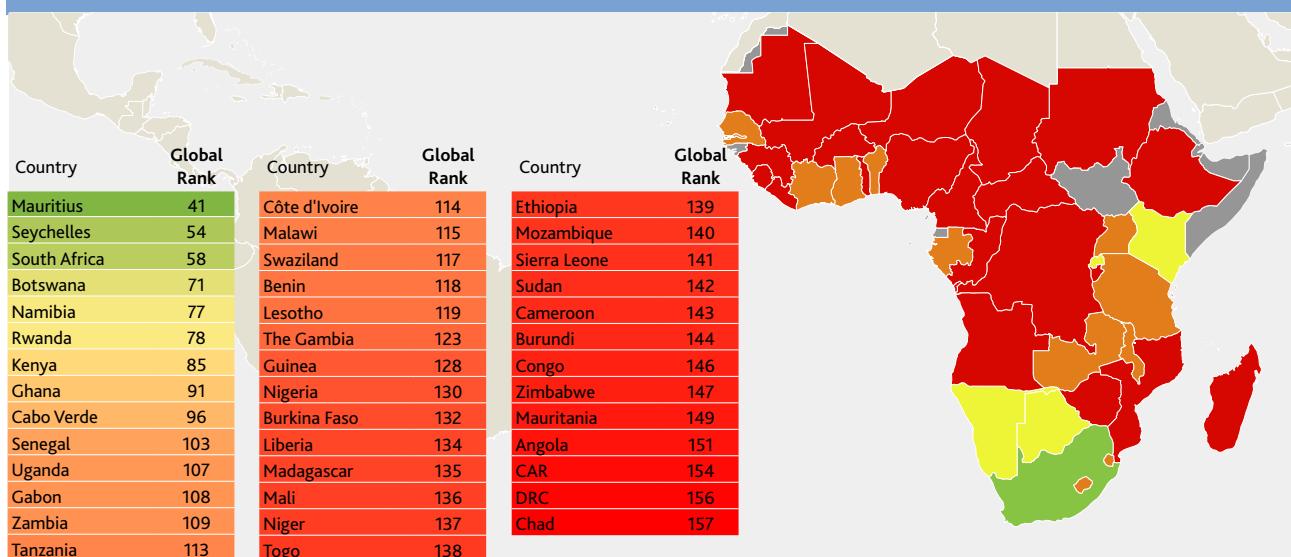
This is all likely to come to little, however, if Egypt cannot get its Governance right. The country has seen a steep decline across all elements since 2011, particularly Executive Constraints (144th), Rule of Law (97th), and Government Integrity (121st). Power in the country is concentrated in the hands of a small political elite, backed by the army, which exercises huge and diverse economic control over the country. Contracting agencies controlled by the military, such as the National Service Products Organization, run an expanding portfolio of business interests, including agriculture and food, services and mining.¹⁶ The country also suffers from tremendous corruption and public officials are wary of broaching the subject.¹⁷ With no right-to-information laws, it is extremely hard for journalists to investigate allegations of corruption. New proposals to expand the constitutional powers of President el-Sisi, potentially keeping him in power until 2030, would weaken political independence and reinforce the country's concerning drift towards authoritarianism.

Egypt is sending mixed signals to the world. Based on its geographic location, and the global importance of the Suez Canal, Egypt has the potential to straddle African, Middle Eastern and European markets. In areas of infrastructure development and investment environment, the country is firmly attempting to integrate itself into the global marketplace, with reforms that are leading to increased investor confidence. While the political upheaval that facilitated these reforms was overdue, the regime runs the risk of alienating potential partners and investors through poor Governance, which may ultimately set the country back economically.





Sub-Saharan Africa (7th)



OVERALL PICTURE

Sub-Saharan Africa is the weakest-performing region in the Index. Nonetheless, the Economic Openness of sub-Saharan Africa has improved steadily and consistently since 2009, albeit at a slow pace. Some of the region's best performers are **Mauritius** (41st), **South Africa** (58th) and **Botswana** (74th).

PILLAR HIGHLIGHTS

The progress in sub-Saharan Africa has largely been driven by improvements in the Market Access and Infrastructure pillar, particularly in Communications. This is exemplified by the six-fold increase in the percentage of the population with access to the internet in just 10 years.

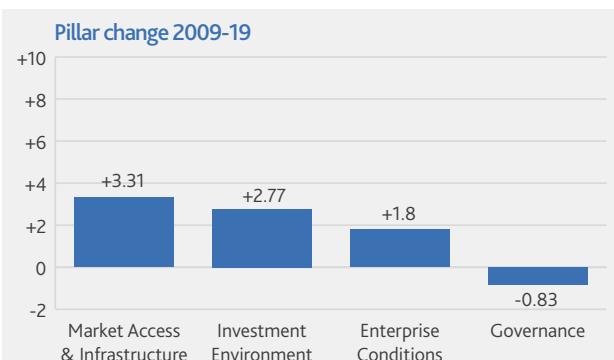
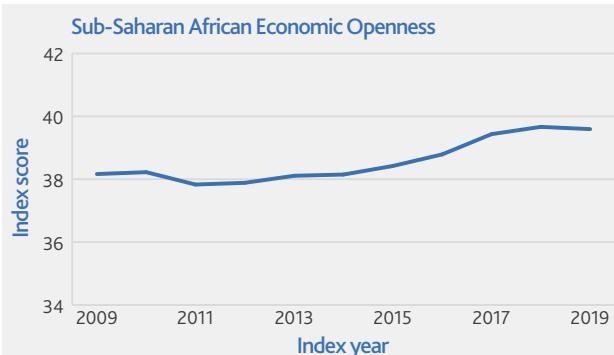
Within the Enterprise Conditions pillar, most of the progress has been due to a better Environment for Business Creation. Across the region, the overall ease of starting a business has improved significantly.

IN THE SPOTLIGHT: RISERS AND FALLERS

Gabon has seen the most improvement in Market Access and Infrastructure in the region, facilitated primarily by improvements in Communications. For example, the percentage of its population connected to the internet increased by more than eight-fold to just under 50% between 2009 and 2019.

Sub-Saharan Africa's highest ranked country is **Mauritius**. It is the regional leader in every pillar bar Market Access and Infrastructure, where it is second. Of particular note is the improvement in Enterprise Conditions, ranked 62nd globally for this element in 2009, it now ranks 44th, due mainly to increased ease of starting a business.

Guinea has improved in all four pillars. The majority of the change occurred after 2014 – the same year that the International Finance Corporation increased its engagement with the country. Among other initiatives, a one stop shop was set up to provide help in setting up a business and has helped to reduce the



time required to set up a company from forty days to just three.¹ In addition, Guinea is starting to invest in its underdeveloped bauxite mining industry.

Tanzania has improved 37 places in the last 10 years in Transport to 97th. Airport connectivity is strong, with three international airports and a competitive market for domestic flights. It is currently 87th in rail density and is home to one of the most significant infrastructure projects in East Africa – the Isaka-Kigali Standard Gauge Railway. Announced in January 2018, it will link the port of Dar es Salaam with neighbouring Rwanda and Burundi.



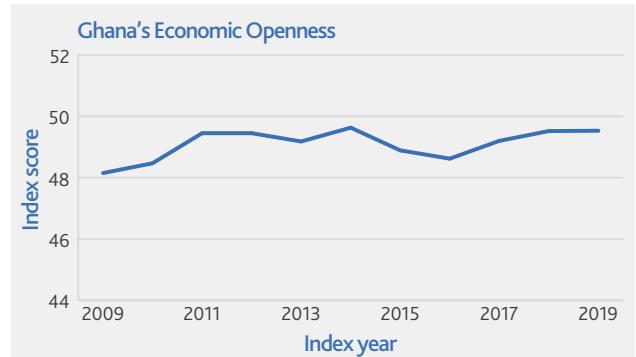
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Ghana: A regional leader with strong Governance

Ghana is one of Africa's strongest performers in our Index. Ranking 95th globally, and 8th in sub-Saharan Africa, Ghana's success is built on strong Governance, which has created a stable and safe environment to foster an open economy. This stability has stimulated an improved business environment, reflected in Ghana's rising scores for Enterprise Conditions and Market Access and Infrastructure. With strong institutional foundations, Ghana can make the most of its latent potential by improving access to finance, building out its transport network, and forging stronger global trade links. In turn, Ghana can hope to attract further foreign investment to bolster its economy.

As one of the continent's most stable democracies, Ghana ranks 6th in sub-Saharan Africa and 54th globally for Governance. Ghana introduced multiparty elections in 1992, and has since had three peaceful transitions of power. Its elections are free and fair, and politicians largely respect the separation of powers and independence of the judiciary. It scores highly for Executive Constraints, Political Accountability and Rule of Law. There is evidence that the state's governing institutions have become strongly embedded into the political consciousness of citizens. Most Ghanaians believe that the President rarely ignores Parliament, and that citizens should obey the government in power, regardless of whom they voted for.² Government Integrity, however, is the country's weakest performing element, ranking 102nd. Diversion of public funds is an issue. Though Ghana has a number of laws that ensure the correct use of public funds, there have been challenges enforcing these laws due to corruption and lack of accountability.³

Over the last 25 years, GDP per capita is up almost tenfold to \$2,046, and the level of gross domestic savings has risen to 20% of GDP. Ghana's stable Governance has allowed Enterprise Conditions to improve, where it ranks 72nd. Strengthened by a



growing economy, Ghana has worked to create its own enterprise culture, including a strong Environment for Business Creation (53rd) and Labour Market Flexibility (57th). Ghana's government has made it easier to register businesses through one stop shops and online registration processes. This has facilitated the growth of SMEs in the country, which make up 92% of businesses and contribute about 70% of Ghana's GDP.⁴ The availability of skilled workers is also high, as Ghana reaps the benefits of a strong education system and high levels of tertiary enrolment. Return migration of highly skilled Ghanaians has also had a positive impact on the country's private sector development.⁵

The Burden of Regulation remains an issue for the country's entrepreneurs. The tax system is complicated, and subject to widespread exemptions and tax evasion. Of six million expected taxpayers, just 1.5 million Ghanaians are registered to pay tax. Aware that this is leading to low government revenue collection, the national revenue authority has launched a national tax campaign to stimulate voluntary tax payments, particularly from the informal sector.⁶ Ghana also scores poorly for burden of obtaining a building permit and building quality control index. Building permits are hard to acquire, leading to an increase in the number of illegal structures and an unfavourable climate for foreign investors.⁷

Another issue entrepreneurs face is a weak Investment Environment which ranks 106th in the world – down nine places in 10

years. Despite this, Ghana has strong Property Rights, which are generally respected. Intellectual property protection is the area in which Ghana has made the strongest gains, up 30 places to 70th globally. Ghana has ratified various international treaties relating to copyright, such as the Patent Cooperation Treaty. It has designed its own national intellectual property policy to strengthen and enforce this area of law.⁸ Though access to judicial proceedings is typically available only to the better off,⁹ in place of court proceedings, Ghana ranks highly in alternative dispute resolution mechanisms. Ghana's investment protection, however, is weak, with proposed new insolvency laws yet to be passed.

As in many developing economies, access to finance is one of the biggest constraints for investors. According to survey data, SMEs report numerous reasons for not applying for credit, including poor interest rates, lack of collateral and bureaucratic procedures.¹⁰ Ghana has a relatively liberalised economy, but Restrictions on International Investment remain. According to the Bertelsmann Stiftung's Transformation Index, there is "a certain degree of discrimination in regard to ownership between local and international investors".¹¹ Ghana's politicised business community, which privileges local interests, often discourages new foreign entrants, and obtaining work permits can be highly unpredictable.¹²

Market Access and Infrastructure has exhibited the largest 10-year gain of any pillar for Ghana, ranking now 118th in the world. Communication has been the big riser, with internet usage and network coverage significantly higher than 2009, in line with global trends. Border Administration has improved dramatically,

as customs procedures and clearances times have been simplified over the last decade. While Ghana's ports are still subject to 'cumbersome procedures', the country's political stability means it is still an attractive investment destination compared to neighbouring West African nations.¹³

Ghana maintains high Import Tariff Barriers (139th). It still relies quite heavily on tariff revenue, and a number of products, including agricultural and industrial goods, are subject to licenses and trade fees. Other Market Distortions, including inspections and clearance letters, apply to imported vehicles, communications equipment and pharmaceutical goods.¹⁴ Ghana's Open Market Scale (95th) is affected by high tariffs to export markets, including up to 60% on refined cocoa in the EU. While this has restricted Ghana's ability to add value to its exports, its volume of trade has increased dramatically recently. Since 2008, Ghana has increased its domestic and international market access for goods from \$450 billion to \$19,450 billion, evidence that the country is trading more readily with global markets. Like many countries in Africa, Transport (115th) is one area where Ghana can improve. Nonetheless, road density is relatively good at 56th. This has allowed Ghana to easily access and develop areas where export commodities (gold, cocoa, timber) are found.¹⁵

Ghana is one of sub-Saharan Africa's biggest success stories, but there are still areas for improvement. Its institutional structures are robust, and a growing economy has supported strong Enterprise Conditions, which have flourished in spite of a falling Investment Environment. Improving its infrastructure and gaining better access to international markets may hold the key to unlocking Ghana's true economic potential.



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The importance of Economic Openness





Assessing economic systems

We have created the Global Index of Economic Openness in order to identify the drivers of the economic wellbeing of nations. Measuring economic wellbeing has, however, proved to be a complex task. The two most commonly used measures of GDP per capita and productivity both fall short for our purposes.

GDP per capita, as a welfare measure, acts as a useful proxy for the average income of the population of a nation. For most states, without atypical demographic trends or significant resource rents, it works as a clean proxy for productive capacity. However, for others, it does not necessarily capture a nation's true economic wellbeing and the quality of its economic structures and policies. In particular, there are two factors worth accounting for: resource rents and demographics.

In normalising for resource rents and demographic patterns, we hope to produce a more accurate picture of what the productive population of nations contribute to the global economy, rather than what they earn. Fundamentally, this is a question of rents vs. productivity; we wish to measure productivity instead of rents, as measuring the latter tends to produce perverse policy objectives, often with poor alignment between short- and long-term goals. And this, ultimately, is the goal of measuring Economic Openness: to help policymakers better understand the underlying strengths and weaknesses of their own economies.

ACCOUNTING FOR RESOURCE RENTS

In order to measure the economic wellbeing of a country, we find that it is more appropriate to consider non-resource rent output (GDP minus resource rents). The quality of an economy should not be measured by the amount of oil or mineral rent it receives. Taking resources out of the ground does not imply comparative advantage, and the presence of profit should not be confused with the creation of value. Contributions of resource rents to GDP figures normally represent the product of a very small proportion of the working-age population, and represent something of an accounting anomaly.

Countries such as Kuwait, the Democratic Republic of the Congo (DRC), and Mauritania have very high resource rents, and hence have GDPs that overstate the underlying productivity of their broader economies (see Table 1). Kuwait looks rich, but its workforce is relatively unproductive, and the DRC is actually, economically speaking, in even worse shape than its GDP per capita figures let on. Given the volatility in world markets for natural resources, heavily resource-dependent economies are likely to see lots of 'false positives' and 'false negatives' for the impact of policy changes. Moreover, given the export focus for many natural resources, these rents can skew reported output per worker, as significant revenues can be generated by a small number of workers. In some countries, oil's share of GDP creeps up to 50%.¹ This is less true for mineral rents, which generally require a larger number of workers to generate a rent.²

Countries such as Azerbaijan and Angola have seen dramatic drops in resource rent over the last ten years. As a result, their respective GDP per capita figures have not grown as much as the underlying economy has. This means, in effect, that although Angola's GDP and GDP per capita appear to be in slight decline, its structural bases are improving, and acute 'remedial' economic reform would be less likely to be helpful for the country's long-term growth prospects. At a national level, what we are discussing here is well understood; many statistics authorities of resource-rich countries will study the non-oil share of their economies. We are more concerned about the availability of similar analysis at the international level, for the purpose of carrying out cross-country comparisons.

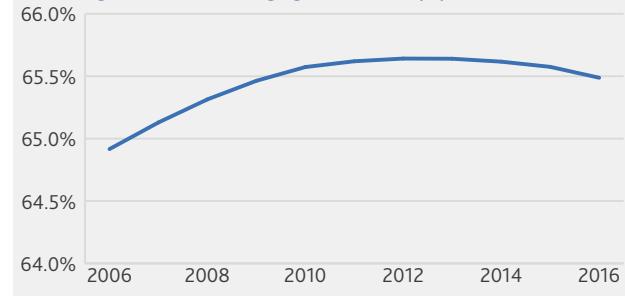
Table 1: Top 10 resource rents, 2016

Country	Resource rent as % of GDP, 2016
Liberia	50%
Kuwait	45%
Iraq	42%
Democratic Republic of the Congo	33%
Suriname	29%
Saudi Arabia	27%
Oman	27%
Mauritania	26%
Republic of the Congo	25%

ACCOUNTING FOR DEMOGRAPHICS

We want to normalise for the size of the working age population, to account for the number of people who could ordinarily be expected to be contributing to the nation's economic wellbeing. All other things being equal, countries with a particularly high proportion of elderly or young people would be expected to produce less than those with a high proportion of working-age people.

Figure 1: Global working-age as % of total population



Globally, the working-age share of the population peaked in 2012, and has been in decline ever since (see Figure 1). We would therefore expect to have seen demographic tailwinds boosting GDP per capita globally until that point, and demographic headwinds constraining GDP per capita growth afterwards, as the output of the available workforce is distributed more thinly across a growing proportion of dependents, both young and old.

Countries with a low dependency ratio – that is to say, with the vast majority of people of working age – would normally be expected to generate a higher GDP per capita than countries with a higher dependency ratio – all other things being equal. The most notable examples of such countries would be those with significant migrant worker populations, including the Gulf states, Singapore, and Hong Kong (see Table 2). The highest working age percentage (85%) is almost twice as large as the lowest (47%).

Table 2: Top 10 working age%, 2016

Country	Working Age %, 2016
United Arab Emirates	85%
Qatar	85%
Bahrain	77%
Kuwait	77%
Oman	76%
Moldova	74%
Hong Kong	73%
South Korea	73%
Singapore	72%
China	72%

It is worth noting that, with the exception of South Korea and China, the high proportion of working-age adults in each of these countries is due largely to immigration. South Korea and China have both already hit the 'peak' of their working age populations in the past few years, and will have, in a few decades' time, roughly the demographic profile of a standard Western European country.

In developed countries such as Japan, France, and Italy, the dependency ratio is high because of an ageing population – and as such, their underlying productivity is higher than GDP per capita would indicate. The same is also true for coun-

tries like Kenya, Niger, Mali, and Pakistan, which all have young populations.

Table 3: Bottom 10 working age %, 2016

Country	Working Age %, 2016
Burkina Faso	52%
The Gambia	52%
Mozambique	52%
Tanzania	52%
Angola	51%
Democratic Republic of the Congo	51%
Chad	50%
Uganda	50%
Mali	50%
Niger	47%

PRODUCTIVE CAPACITY

The measure against which we judge the Index is what we have termed productive capacity, the underlying economic output produced per working-age member of the population. We calculate it as follows:

$$\text{PRODUCTIVE CAPACITY} = \frac{\text{(GDP} - \text{RESOURCE RENTS)}}{\text{WORKING-AGE POPULATION}}$$

The productive capacity of most countries is about 50% higher than GDP per capita. However, for a small number of countries, the differences are more significant. The following graph (Figure 2) illustrates the overall relationship, highlighting selected countries that are outliers, due to a combination of resource rents and atypical demographic profiles.

A country which falls above the line of best fit will be, in effect, less productive than it looks on paper (according to GDP per capita measures), while a country below the line will be more productive than it appears according to its GDP per capita figures.

For example, Kuwait's GDP per capita overestimates its productive capacity by nearly 100%, due to a combination of high resource rents and working age population. Likewise, the GDP



per capita of Qatar, Mongolia, and the DRC is overestimated by 50%, 30% and 20% respectively.

At the other end of the spectrum, Japan's higher dependency ratio results in underestimation by almost 15%. For France and Kenya, this underestimation is 12%, and for Italy it is 10%.

ALTERNATIVE MEASURES OF PRODUCTIVITY

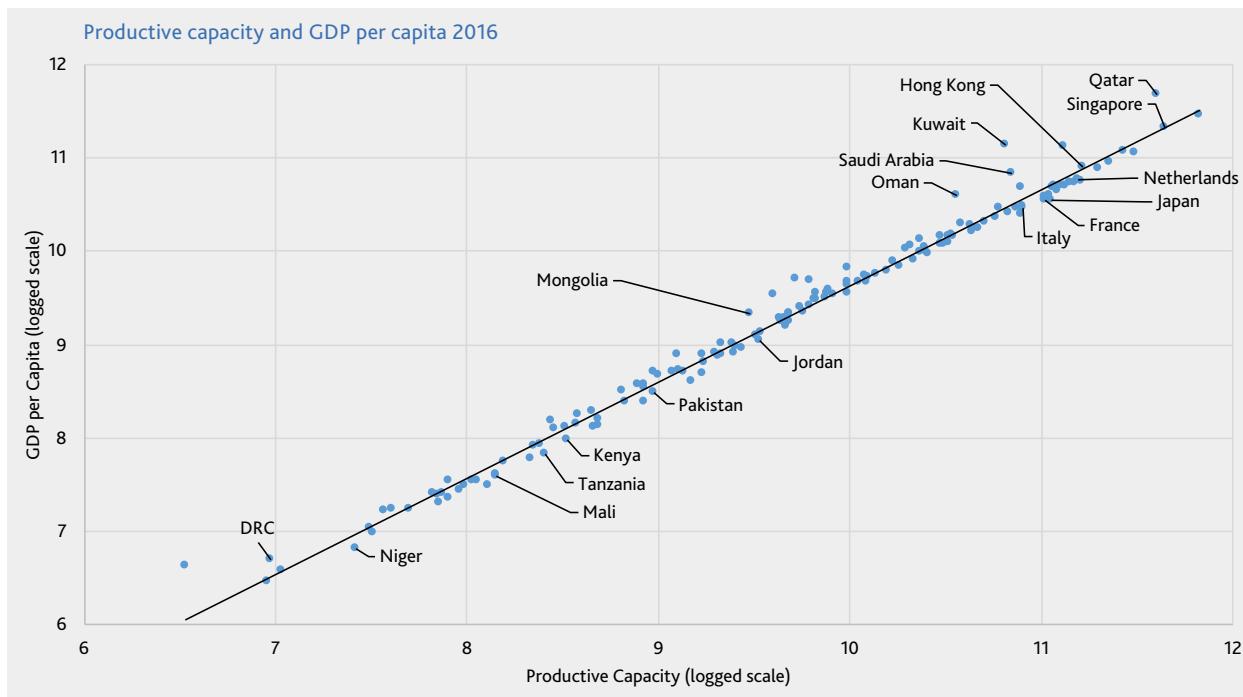
There are many other adjustments to GDP per capita that could also be undertaken to create a sense of productive capacity, these include considering labour productivity, focussing on private-sector output, or including non-market activity.

We have chosen to examine the productive capacity of an economy, rather than its labour productivity rate, for two reasons. Firstly, the nature of employment varies around the world, and secondly from the perspective of a nation, high labour productivity with high levels of unemployment is a false economy. The overall goal of economic wellbeing is to consider the production of all those in society, however they participate – so as not to ignore either those excluded from the labour market, or those who do not participate for family or other reasons.

It is for the same reason that we include the output of the government sector in the measure. Once again, we wish to look beyond the organisational structure of the economy to the overall output. While there are many reasons to argue that the value of government output is inaccurate, we believe that for the purposes of this exercise, it is better to include this as a sufficient approximation rather than ignore it.

On the other hand, as economies develop they tend to become increasingly marketised. For example, as female labour force participation rises, social care and childcare sectors commercialise, as these functions shift from the household to the market. It could be argued that little more has been produced. This is a well-established critique of GDP measurement. However, absent a broadly-recognised form of adjustment, we rely on GDP (minus resource rents) as the best overall measure.

For the purposes of this exercise in measuring productive capacity, we could also consider the capital base of the economy. However, we believe that to be more of an endogenous factor – economies with good policies and commercial opportunity will attract capital – and hence see greater levels of capital accumulation over time.



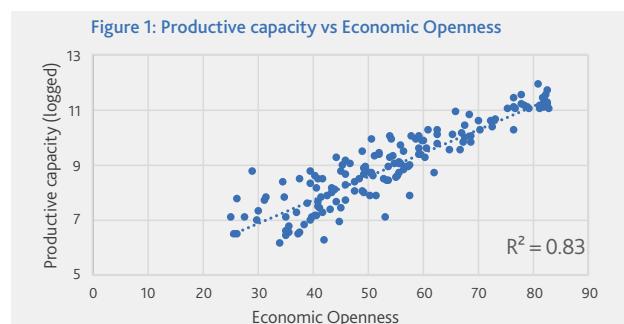


Relationship between Economic Openness and productive capacity

ECONOMIC OPENNESS AND PRODUCTIVE CAPACITY

Our analysis indicates a clear link between the extent to which a country's economy is open and its productive capacity. This link is supported by a long history of academic literature, and can also be seen in the economic histories of those countries that have achieved a high level of economic wellbeing.

A straightforward regression of productive capacity against Economic Openness shows a high correlation (83% R-squared) (Figure 1). The countries in the top decile of Economic Openness have an average productive capacity of \$80k per working age adult, and those in the bottom decile of Economic Openness have an average productive capacity of \$6k per working age adult.

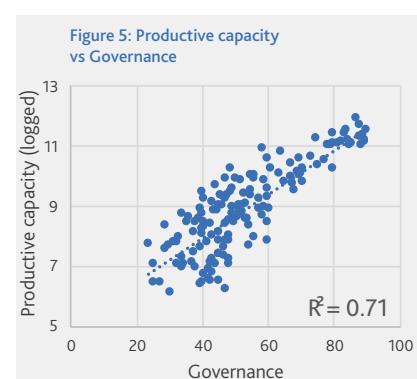
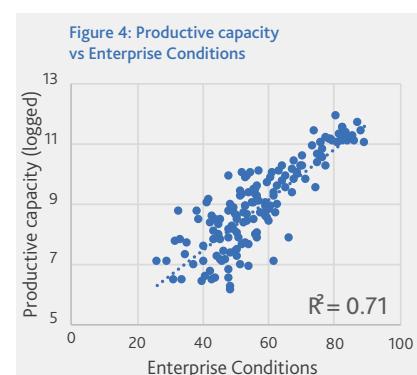
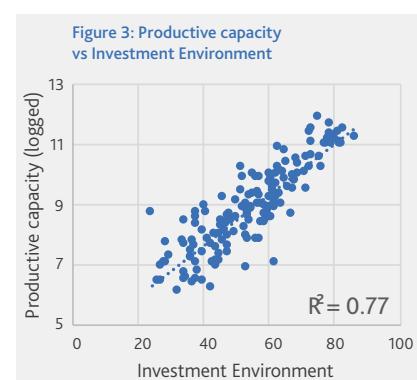
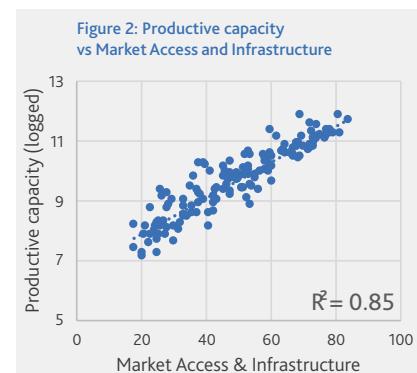


This analysis is not intended to suggest that the Global Index of Economic Openness has been designed to be a model of productive capacity, and has not been deliberately calibrated as such. Rather, it is to illustrate that it has been relatively successful in capturing how the characteristics of productive capacity vary across countries.

PILLAR-BY-PILLAR ANALYSIS

The correlation between each of the four pillars and productive capacity is high, but varied (see Figures 2-5). In particular, the relationship between Market Access and Infrastructure and productive capacity is the highest of all (see Figure 2).

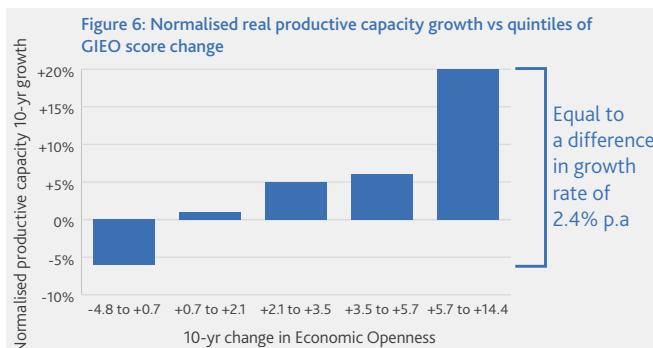
Moreover, within the Market Access and Infrastructure pillar, the measures of infrastructure such as Transport, Communications and Resources are the most highly correlated. Hence, in any given year, the range of productive capacity between the countries with the best and worst infrastructure is even greater than the range across overall Economic Openness scores, primarily because a lack of Market Access and Infrastructure is a particularly strong marker of an unproductive economy. This is as much a reflection of historic investment to support economic development, as it does a driver of current productivity – the timeframe over which these factors have an economic impact is long-term.



CHANGE IN POLICY

What is much more important is how changes in policy can affect the trajectory of productive capacity. In this case, our analysis shows that there is a correlation between the degree of increase of a country's Economic Openness over the last 10 years with their increase in productive capacity over the same time frame.

As shown in Figure 6, we have found that changes in Economic Openness are correlated with normalised productive capacity growth in a statistically significant way ($t\text{-stat} = 4.0$). While this driver leaves much of the variance of growth to be explained by other factors, it does have some impact. Countries that have increased their Economic Openness at the level of the top quintile of improvement have grown their normalised productive capacity 2.4% p.a. faster than those at the bottom end (even after controlling for their lower starting productive capacity). This is the equivalent of the increase doubling, if this difference in improvement in Economic Openness were to be maintained over a 30 year period.



RELATIVE IMPORTANCE OF PILLARS AND ELEMENTS TO GROWTH

This relationship with growth in productive capacity also holds for improvements in all four of the pillar scores independently, i.e. the relationship between an increase in score of any individual pillar and an increase in productive capacity is statistically significant. Changes in the Investment Environment have the greatest impact. At element level, improvements in Government Effectiveness have shown to be correlated with the greatest gains in productive capacity.

The following table shows the relationship between improvement in pillar and element scores and changes in productive capacity over a 10-year timeframe (Table 1).

Table 1: Productive capacity growth by pillar and element

Measure Name	t-stat	Quintile range of PC growth per annum
Market Access & Infrastructure	2.97	1.6%
Transport	2.63	1.6%
Resources	2.52	1.7%
Communication	2.05	0.4%
Market Distortions	2.73	1.5%
Investment Environment	3.09	1.6%
Financing Ecosystem	2.93	1.5%
Investor Protection	3.03	1.7%
Enterprise Conditions	2.20	1.6%
Domestic Market Contestability	2.14	1.7%
Governance	3.05	1.5%
Government Effectiveness	3.60	2.0%
Regulatory Quality	1.94	1.2%

An example of a country that has made significant improvements in both its Investment Environment and Government Effectiveness is Indonesia. Given its position as ranked 87th globally for productive capacity in 2008, it would have been expected to grow at 2.8% p.a., but it grew at 4.9% p.a. over the last 10 years, which can in part be attributed to the improvements it has made in its Economic Openness.

The purpose of this analysis has been to demonstrate the broad power of the Global Index of Economic Openness as an assessment tool. The broad patterns identified here do not necessarily have predictive power. However, the assessment of a country's Economic Openness can help to identify the potential binding constraints to growth. It is only by understanding the country's specific circumstances can the binding constraints and potential interaction effects be truly understood.

NORMALISING GROWTH IN PRODUCTIVE CAPACITY

When considering the impact of changes in Economic Openness to the level of productive capacity over time, it is necessary to ensure that all patterns are analysed with respect to an appropriate counterfactual. In particular, regression to the mean needs to be accounted for. In the case of the 10-year growth in productive capacity of the 157 countries in the Index, some regression to the mean is to be expected. Indeed, growth in productive capacity from 2009-2019 is inversely correlated with the level of productive capacity in 2009. All other things being equal, countries with lower starting productive capacity are seen to have higher 10-year growth rates – even when controlling for changes in Economic Openness. For example, based on the sample of data, we would expect Belgium (ranked 20th in global PC in 2009) to grow at 1.4% p.a., and Bangladesh (ranked 127th) to grow at 3.6% p.a.

Therefore, for each country we have calculated an expected 10-year growth rate, based on its starting productive capacity, and then measured its actual growth rate vs. this expectation. It is against this normalised growth in productive capacity that we have assessed the impact of changes in Economic Openness.

The Investment Environment in Africa

Investment Environment is the pillar where improvement has been most correlated with increases in productive capacity over the last 10 years. Given its importance, we explore the evolution of the Investment Environment, and Financing Ecosystems in particular, across the African continent, with the following guest contribution from Richard Odumodu.

This essay highlights the institutional dimensions behind the rich variation of Financing Ecosystems in Africa, and examines specific developments in domestic public markets of six representative countries: **South Africa, Nigeria, Egypt, Morocco, Kenya and Côte d'Ivoire**. These countries are from the top decile of African financial market development rankings, and are distributed across regional capital market hubs.

Africa trails the world and the rest of the Global South for its Investment Environment. However, Africa's performance has improved over the last five years, following a low between 2012 and 2014, driven by improvements in its Financing Ecosystems. The strength of its banking system and capital markets is on the rise, and accessing finance is less of a barrier to business than before. Nonetheless, Financing Ecosystems remains a weakness overall for the continent.

The Financial Market component of the IMF Index of Financial Development¹ illustrates the relative financial market development of African nations (see Figure 1). It covers 183 countries, to provide a highly instructive global snapshot, as at 2013, of the state of development of these markets (albeit at a low point for the African continent).² The high concentration of African countries whose financial markets score lowest on the index is indicative of the scope of required financial market development on the continent. The key hubs of broader economic growth and activity on the continent are also reflected in countries such as **South Africa, Côte d'Ivoire and Kenya**, which exhibit higher financial development levels than the continent at large.

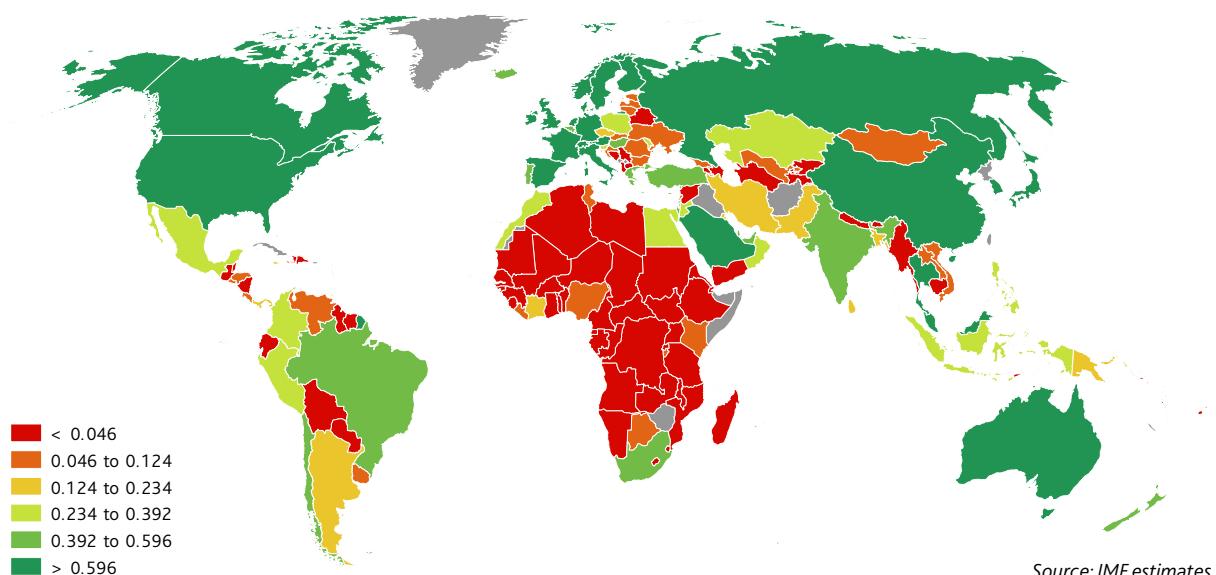
MACROECONOMIC CONTEXT

To better appreciate the development of these different Financing Ecosystems, it is helpful to first capture the macroeconomic context. An interesting frame of reference for the evolution of the past two decades comes from the narrative arc of coverage of Africa by *The Economist*, from references to the 'Hopeless Continent' in 2000, to the 'New Scramble for Africa' most recently.³

At the turn of the century, a significant number of African countries began structural reforms associated with comprehensive debt relief programmes.⁴ Policy credibility increased as they came to grips with persistently high inflation, made tangible improvements in their fiscal positions, and growth prospects vastly improved. By the onset of the global financial crisis, a few African nations had already made sufficient progress to take advantage of the lower interest rate environment, and accessed new hard currency debt from international markets.

The significant lowering of rates following the crisis created financing conditions which allowed a greater number of financial institution issuers and African sovereigns continued favourable access to international debt capital markets.⁵ The sustained investor appetite for higher yielding assets was not limited to hard currency (primarily USD) alone. Although external debt to the region continued to increase, after the financial crisis investors began to consider local currency investments in Africa. However, the size of public equity markets in Africa as a proportion of GDP peaked just-prior to the global financial crisis and has remained relatively stable since.

Figure 1: World map of financial markets in 2013. Adapted from the Financial Development Index (IMF).



Notwithstanding the growth in income levels and the emergence of a consumer class on the continent, domestic stock markets are still dominated by financial institutions (banks), breweries and construction (cement) companies, with telecommunications firms only selectively represented in some markets. Yet, domestic public markets lack significant corporate debt issuance putting international investors in competition with local institutions. The approach of domestic institutional investors to locally-issued government debt remains to buy and hold to maturity, while domestic financial institutions still exhibit a preference for lending to government entities over SMEs.

Five years after the crisis, total debt-to-GDP ratios on the continent began to increase materially.⁶ This reignited concerns about moral hazards in some quarters, just as markets became concerned about the prospect of the withdrawal of global liquidity. A marked change in risk sentiment was perceptible; this episode was followed by a terms-of-trade shock, triggered by sharp falls in commodity prices, with asymmetric impact on commodity-reliant countries. The increased pressure on government revenues and reduction in fiscal space resulted in more

external borrowing. As a result, concern heightened about debt sustainability more broadly in Africa, given the rate of its growth (outstanding issuance ex-SA is currently ~\$100 billion) and refinancing risks (real and perceived). Nonetheless, more than a decade after the financial crisis, global rates seem likely to remain lower for somewhat longer, relieving some of this pressure. However, the global investment environment is challenged by increasingly mercantilist trade dynamics.

With this economic policy uncertainty in the background, inter-regional trade in Africa has come into stark focus. As of 1 April 2019, the ratification process for the African Continental Free Trade Area (AfCFTA) reached a tipping point, when the 22nd of 52 signatories received parliamentary approval allowing the agreement to enter force. Notwithstanding **Nigeria**'s conspicuous absence, even as a signatory, the implications of establishing one of the largest trade areas in the world go even beyond reducing frictions and increasing competitiveness.⁷ General prospects for financing are highly likely to improve from the resulting liberalisation of financial services. The envisioned single market in services will facilitate the expansion of cross-border

Overview of Selected African Financial Markets

Starting at the base of the continent in Southern Africa, **South Africa** is the anchor, responsible for a material share of continental output, and it has the largest, deepest and most developed financial markets. It ranks first in Africa for its Financing Ecosystem, due to its strong capital market and banking system, and access to finance comparatively not being seen as a constraint to business. The current total of domestic institutional investor assets (>\$600 billion) is significant relative to the current total value of domestic bonds outstanding and equity market capitalisation (>\$1.2 trillion).⁸ Notable financial markets at a similar ranking of development include emerging market heavyweights Brazil, Chile and India as well as Greece and Portugal in Southern Europe. However, the overall strength of South Africa's Financing Ecosystem also fell fastest in Africa over the last 10 years. In particular, optimism about the soundness of South African banks has fallen sharply in the last two years, from first to seventh in Africa.

North Africa is a level below in terms of levels of financial market development, with **Egypt** benefiting from interlinkages with the Gulf economies and **Morocco** similarly more functionally integrated with Western Europe, though is actively seeking to increase economic influence with neighbours and the regional economic community (ECOWAS) to the immediate south. The total value of bonds outstanding and equity market capitalisation in these two countries is about 15% of South African markets. Notable financial markets at a similar ranking to Egypt and Morocco include Colombia, Mexico, Peru, Poland, Oman, Indonesia and the Philippines.

A further level below in terms of financial market development runs across sub-Saharan Africa from the most populous region, West Africa, to perhaps the most dynamic, East Africa. These two regions contributed to the entire African contingent six of the ten countries globally forecast to grow fastest in 2018.

The eight countries sharing the West African CFA Franc (XOF) access capital from a genuine regional stock exchange in **Côte d'Ivoire**, BVRM. The recent IPO of Oragroup is the most significant since BVRM's inception, enabling a rare public market exit for private equity on the continent. However, the total value of bonds outstanding and equity market capitalisation is less than 1.5% of South African markets; nonetheless, **Côte d'Ivoire** is one of those forecast to be in the top ten fastest growing economies this year. The notable financial markets at a similar ranking to **Côte d'Ivoire** (and **Mauritius**) include Argentina, Costa Rica, Bangladesh and Pakistan.

While the economic weight of **Nigeria** is not remotely reflected in the size of its financial market, it remains of significant influence, with a large, young population. Its lack of development encapsulates the challenge of commodity reliance. On the other hand, **Kenya** lies at the heart of the East African Community and financial innovation across the continent. Its Financing Ecosystem has seen some of the fastest improvement, and is now ranked fourth on the continent. This has been driven by a growth in the depth of credit information (for which Kenya now ranks first in Africa) and SME finance (second in Africa).

The revolutionary mobile payments system M-Pesa, available to almost anyone with a mobile phone, is used by 93% of Kenyans, and processes 3.6 trillion shillings annually - equivalent to 49% of Kenya's GDP. The service has allowed SMEs a far more streamlined process of accessing credit. Beyond addressing financial inclusion, high mobile payment adoption and fluency has been extended to test retail applications (M-Akiba) for fiscal financing by the government.

The prevalence of the banking and venture funding in both Kenya and Nigeria reflects the industrial opportunity, and may explain why the total value of bonds outstanding and equity market capitalisation in these two countries is only slightly more than 0.75% of the South African market. Notable financial markets at a similar ranking to Nigeria and Kenya include Botswana in Africa, and Croatia, Latvia, Lithuania, Romania, Ukraine, and Vietnam.

banking activity and transaction potential for a wider ecosystem. Regional supervision capacity may be tested, but a coordinated emphasis on financial stability will benefit the mobilisation of resources and support increasing the domestic savings rates on the continent above the 15% of GDP average of the last two decades.

MONETARY INSTITUTIONS

The role of monetary and financial institutions are critical influences that can dynamically shape perceptions of investment environment. The desired effect of these institutions is to provide a credible regulatory framework that facilitates the development and efficient operation of the Financing Ecosystem.

Though the notion of central bank independence currently faces distinct challenges in advanced, emerging and frontier markets, it is important to note **South Africa** not only led the continent in formally granting independence to its central bank, but it was among the early global wave to operationalise and codify that policy consensus. Across the continent, the statutory foundations of monetary stability were strengthened between 2003 and 2016. Making central bank mandates clearer (inflation targeting-lite) or creating resolution vehicles and policy instruments all require regular communications to ensure operations are more transparent. The combination of higher nominal inflation rates and its domestic composition inflation baskets means the pass-through of inflation volatility to macroeconomic volatility can be more evident. They also drive corresponding effects on the cost of capital borne by local firms that can access capital from domestic banking systems. With different institutional responses, **Egypt**, **Kenya** and **Nigeria** have all recently faced policy challenges with episodes of high inflation, local currency depreciation and market liquidity. Whereas, in part due to aspects of financial integration specific to each, **Côte d'Ivoire** and **Morocco** seemingly offer a better record of controlling inflation.

ACCESS TO CAPITAL

Ultimately, the importance of financial markets in the Financing Ecosystem is determined by the level of financial market development and broader composition of the financial sector in a country. The balance between bank-based and market-based finance provision in individual countries on the continent is shaped as much as by capital requirements of dominant industries (e.g. construction vs telecoms vs SMEs), as by critical differences in policy choices and political landscapes. The establishment of domestic securities exchanges and specific measures to encourage domestic equity issuance have often been deployed as a broader policy-signalling tool over the mobilisation of domestic resources to address the persistent challenges African firms and entrepreneurs face in accessing capital.⁹

Evidence of aggregate developments in the supply side of the Financing Ecosystem and Investment Environment must take note of the increase and consistently high African share of certain types of financial flows (remittances, foreign direct investment and portfolio flows). Total private capital raised for Africa across private equity, infrastructure and real assets between 2010 and 2017 has exceeded \$20 billion. Recent estimates of impact investment assets under management exceed \$500 billion. This pool of capital includes a significant amount, increasingly deployed using an evolved blended finance approach across Africa.¹⁰ However, when compared to the rest of the global south, venture capital availability in Africa is still greatly lacking, as is finance for SMEs.

OPENNESS TO INTERNATIONAL FINANCE

In spite of recent gains, Africa's Restrictions on International Investment is lower than 10 years ago. Businesses are more pessimistic about the effect of FDI rules on their success than in 2008, and foreign ownership has decreased. However, Africa does sit above the rest of the Global South in this element, due to a greater freedom of foreigners to visit the continent, and less stringent capital controls.

Speculative opportunities within the extractive industries on the continent have long sought public equity risk-capital internationally from financial markets in Canada and Australia, in competition with the UK. However, the choice of a US listing for the first African unicorn, the e-commerce business Jumia, speaks to a broader outlook and the industry in which it operates. The challenge of African Markets is to be the favoured listing choice for future unicorns.

CONCLUSION

The broader adoption of new technology cannot be ignored when considering the development of Financing Ecosystems. The increasing speed at which information can be and has been transmitted globally over the past decade has been one of the biggest drivers of improvements in Economic Openness around the world. Harnessing financial innovation could be vital to accelerating future African capital market growth, both in scale and composition. Examples such as M-Pesa show how powerful this change has already been.

Looking forward, the current scramble for Africa may well be a genuine function of a diversifying financing ecosystem and improving Investment Environment. However, the productivity of capital remains the link to greater economic prosperity.

Richard Odumodu served as an advisor to the Investment Environment pillar team. For a full list of advisors, please see page 116.



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Pillar profiles

The four pillars of Economic Openness have similar yet distinct profiles. Singapore leads the world in both Market Access and Infrastructure as well as Investment Environment. Hong Kong leads in Enterprise Conditions and Norway in Governance. This section profiles the performance of countries in different elements of each of the four pillars, highlighting in particular strong regional performers and those that have improved the most over the last ten years.







Market Access and Infrastructure

Market Access and Infrastructure measures the quality of the infrastructure that enables trade (Communications, Transport, and Resources), and the inhibitors on the flow of goods and services to and from a country's trading partners. Where markets have sufficient infrastructure and few barriers to trade and smooth border clearance, trade can flourish. Such trade leads to more competitive and efficient markets, enabling new products and ideas to be tested, funded, commercialised and ultimately benefiting consumers, through a greater variety of goods at more competitive prices.

Over the course of the last decade, Market Access and Infrastructure has improved globally, with many countries witnessing a significant increase in scores across all elements. This growth has been driven predominantly by a dramatic improvement in Communications infrastructure worldwide, which has in turn facilitated better access to new ideas and technologies.

Communication assesses the means of communication and how widespread access to communication is.

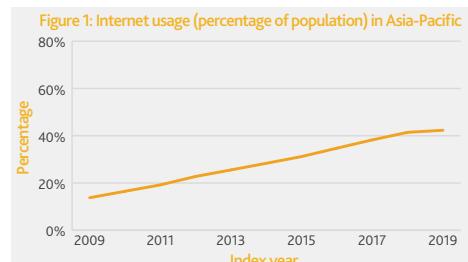
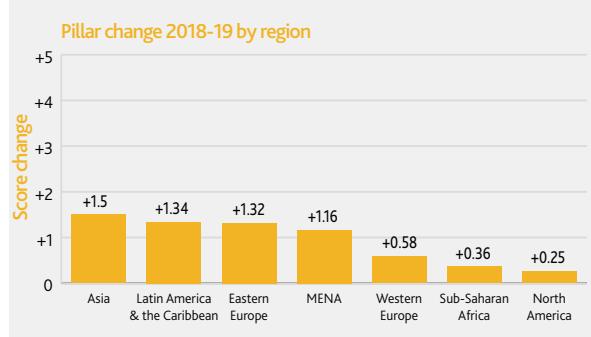
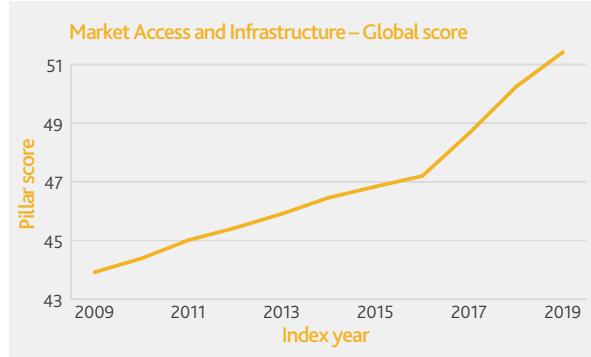
Indicators –

- International internet bandwidth per user (ITU)
- 2G, 3G, and 4G coverage (GSMA)
- Fixed broadband subscriptions (ITU)
- Internet users per capita (ITU)

Communications has improved globally, with every country in the Index improving over the last 10 years. **Eastern Europe** witnessed the greatest improvement; **Estonia** ranks 19th overall for Communications, due to high numbers of internet users, fast broadband and good 3G and 4G coverage. Between 2008 and 2017, the percentage of the population who were internet users increased from 70.6% to 88.1%.¹

The **Asia-Pacific** region now has more individuals using the internet than any other region, with an estimated 1.8 billion users in 2017, up from 505 million users a decade earlier.² In this region, **Kazakhstan** (56th) has seen one of the biggest increases in the number of internet users.

Not only has the prevalence of telecommunication infrastructure increased, with the percentage of the population in developing countries with access to the internet increasing from 7.7% in 2005 to 45.3% at the end of 2018,³ but the range of its application has broadened to include services such as electronic payments. M-Pesa, a mobile banking service that allows users to deposit money into an account stored on their mobile phone and to transfer money using text messages, is now active in 10 countries.⁴ In 2016 in **Kenya** (118th), its country of origin, the equivalent of 43% of the country's GDP flowed through the service.⁵



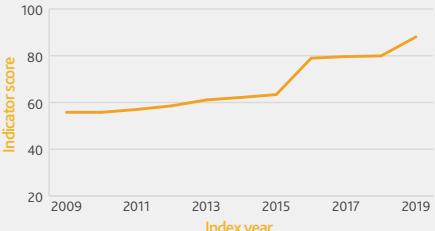
Resources assesses the quality, reliability and affordability of the energy network in a country, as well as the access to and use of water resources.

Indicators –

- Installed electric capacity (UNESD)
- Gross fixed water assets (IBNWS)
- Reliability of electricity supply (WBDB)
- Ease of establishing an electricity connection (WBDB)
- Water production (IBNWS)
- Reliability of water supply (WEF)

Thanks to large-scale infrastructure projects, **Eastern Europe** has seen the most growth in terms of access to affordable and reliable Resources. **Slovenia** ranks 26th and **Estonia** 23rd, with many other Eastern European countries following closely. Projects such as the gas interconnector in Estonia and BRUA pipeline connecting Bulgaria, Romania, Hungary, and Austria have done much to improve the quality, reliability and affordability of the energy network in the region.⁶

Figure 2: Ease of establishing an electricity connection in Vietnam



The most improved countries over the last decade were **Oman** (43rd), **Senegal** (120th), and **Vietnam** (73rd), driven by an improvement in the reliability of the electricity supply. Vietnam's growth was also driven by the improved ease of establishing an electricity connection, increasing its rank from 117th to 23rd. Although this is significant progress, as a production hub for international companies such as Samsung, the World Bank argues that Vietnam needs to raise up to \$150 billion by 2030 to develop its energy sector.⁷

Water scarcity has become a major issue for many developing countries, particularly those in **sub-Saharan Africa** and the **Asia-Pacific** region. Sub-Saharan African countries make up 25 of the bottom 30 countries for water production. In Asia, the most recent Asian Water Development Outlook suggests that infrastructure-centric solutions alone will not cope with the rapidly increasing population, despite overall improvements in the water security of the region since 2013.

Transport assesses the quality, diversity and penetration of all forms of transport, the quality of physical infrastructure including road, rail, ports and air, and logistical performance, which measures the efficiency of shipping products in and out of a country.

Indicators –

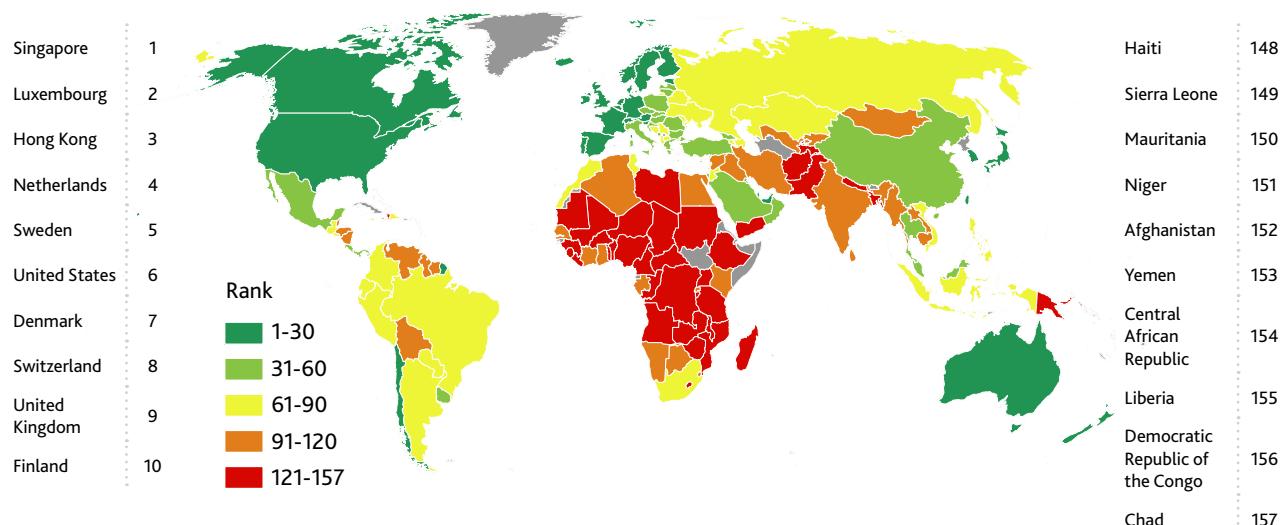
- Logistics Performance Index (WBDI)
- Airport connectivity (WEF)
- Efficiency of port services (WEF)
- Shipping connectivity index (UNCTAD)
- Quality of roads (WEF)
- Road density (FAO)
- Rail density (WBDI)

Eastern Europe has seen the biggest improvement in Transport since 2011. In **Poland**, which climbed 23 ranks over the last ten years, most of the improvement was in the connectivity of its liner shipping and the efficiency of its seaport services. Poland's port city of Gdansk has recently undergone an expansion of its capacity to handle mega-sized shipping vessels. This has been undertaken in concert with large-scale improvements of road infrastructure, such as the Vistula underwater road tunnel, and rail infrastructure. As a result of these upgrades, it is estimated that an extra 60 million tonnes of cargo per year can be handled by the port.⁸

India has seen one of the largest improvement in Transport over the last decade, with significant rises in logistics performance and efficiency of seaport services.

Two initiatives, led by **China**, will have a major impact on transport infrastructure in the twenty-first century. The Belt and Road Initiative and the projects financed by the Asian Infrastructure Investment Bank are set to have significant impacts on the interconnectivity of Central and Southern Asia, China, Eastern Europe, Russia, and the Association of Southeast Asian Nations (ASEAN). Improvements in rail and road infrastructure in particular will allow landlocked countries and regions better access to major ports, as well as being land trade routes in and of themselves.^{9,10}

Market Access and Infrastructure 2019



Border Administration evaluates the financial and time cost of the bureaucratic documentation necessary to move goods across a border.

Indicators –

- Efficiency of customs clearance (WBLPI)
- Time for documentary border compliance (WBDB)
- Cost of documentary border compliance (WBDB)

Open Market Scale measures the size of the market to which providers of goods and services have privileged access.

Indicators –

- Domestic and International market access for goods (WTO)
- Domestic and International market access for services (WTO)
- Destination market tariffs (WEF)
- Margin preference index (WEF)

It should come as no surprise that EU countries top the rankings in Border Administration, with **Sweden**, **Denmark** and **The Netherlands** occupying the top three places. Comprising 26 European countries, the Schengen Area permits the crossing of borders between member countries without the use of passports; only external borders have checks of any kind.¹¹ More countries are set to join the Schengen Area; **Romania** and **Bulgaria** received approval in 2018, increasing the efficiency of cross-border trade through access to a larger number of markets accessible without border control.¹²

Sub-Saharan Africa is the weakest performing region for Border Administration, but it is also these countries that have made the biggest gains, largely due to increased efficiency at customs. **Botswana** now ranks 38th, up from 62nd ten years ago. **Ghana** (118th) and **Senegal** (125th) have improved their World Bank Doing Business rankings and logistics performance, by implementing electronic single windows that enable cross-border traders to submit regulatory documents at a single location or entity. Ghana also enables e-payment, which has led to a reduction in the pecuniary and time costs by \$50 and 400 hours per consignment respectively.¹³

Leaders in Open Market Scale are all from **Latin America and the Caribbean**. **Chile** tops the rankings, followed by **Peru**, **Mexico**, and **Colombia**, due to large numbers of free trade deals and a good performance in domestic and international market access for both goods and services. These countries comprise the Pacific Alliance, which ensures complete freedom in the movement of goods, services, capital, and people. These countries have a combined population of 210 million and 35% of Latin America and the Caribbean's GDP. In 2017, the Pacific Alliance was responsible for 57% of Latin America's foreign trade and 41% of total foreign investment.¹⁴

These countries also have a wide range of trade agreements with other trading blocs and individual countries. Peru alone has free trade agreements with the United States, Canada, Chile, the EU, China, the European Free Trade Association, Honduras, Japan, Mexico, Panama, Singapore, South Korea, and Thailand. It also has Framework Agreements with MERCOSUR, the Andean Community of Nations and a partial preferential agreement with Cuba.

Outside Latin America and the Caribbean, there has also been an increase in the number of regional trade agreements (RTAs), with further RTAs in the process of negotiation, including the African Continental Free Trade Area Agreement (AfCFTA). The AfCFTA will cover a market of more than 1.2 billion people, including a growing middle class, and a combined GDP of more than \$3.4 trillion.

Many of the poorest performers are Commonwealth of Independent States (CIS) members, which occupy a disproportionate number of places in the bottom ranks. **Russia** and **Azerbaijan** have also been the biggest fallers since 2009, now ranking 142nd and 147th respectively. Nine countries from the CIS have ratified a free trade agreement, but the ongoing conflict between Russia and Ukraine has meant that trade has been severely disrupted.



Import Tariff Barriers measures tariff rates (mean and standard deviation).

Indicators –

- *Proportion of imports duty-free (WEF)*
- *Trade-weighted mean tariff rate (WEF)*
- *Tariff complexity index (WEF)*

Eastern Europe, MENA and Latin America and the Caribbean have seen the greatest overall reduction of Import Tariff Barriers.

In Latin America and the Caribbean, the response to increasingly protectionist policies under President Trump in the US has been to form closer commercial ties and expand their trade. In 2018, **Brazil**'s government (currently ranked 125th) issued a blueprint for economic growth that included the suggestion that sustained growth required lower tariffs. **Chile** (11th) has improved across all indicators in this element, and the proportion of duty-free imports has risen from 77.8% in 2009 to 92.5% in 2019. Although gains have been made across the region in the proportion of duty-free imports and trade-weighted mean tariff rates, protectionist policies remain entrenched in both **Argentina** (118th) and **Brazil**.¹⁵

Serbia has improved by 63 places in the last decade, due to the increase in proportion of duty-free imports from 7% to 80%. At the end of 2015, Serbia phased out import duties on all industrial products and some agricultural products in line with the Stabilization and Association Agreement with the EU.¹⁶

Market Distortions evaluates the extent of liberalisation of foreign trade, and non-tariff barriers.

Indicators –

- *Liberalisation of foreign trade (BTI)*
- *Prevalence of non-tariff barriers (WEF)*
- *Number of non-tariff measures (UNCTAD)*
- *Tax and subsidy effects on competition (WEF)*
- *Post-tax energy subsidies (IMF)*

There has been a small but overall decrease in the global average of Market Distortions. Although there has been a considerable reduction in tariffs since the General Agreement on Tariffs and Trade (GATT) and WTO through the latter half of the 20th century, other measures, such as domestic subsidies or import quotas, have been used in an increasingly precautionary manner.

Figure 3: Prevalence of non-tariff barriers global average (expert survey, 1-7)



Yemen (157th), **Mauritania** (155th), and **Botswana** (58th) were the biggest fallers in Market Distortions. **Western Europe** and **North America** are doing worse than a decade ago, but there has been some small recovery since 2015. **Sri Lanka** has also fallen from 87th to 115th in the last year, due to the worsening perception of the prevalence of Market Distortions.

Singapore is the top ranked country, and is first in three out of five indicators. Improvements were seen in the **Asia-Pacific** region following the global crisis, with **Myanmar** (66th) and **Pakistan** (81st) being among the biggest improvers. Myanmar has seen the biggest increase, due to its increase in rank in experts' perceptions on the prevalence of non-tariff barriers from 126th in 2009 to 9th in 2019. In Pakistan, the improvements were mainly due to a complete reduction in post-tax energy subsidies. From 2018 to 2019, government spending on these subsidies reduced from 8.65% of GDP to 0%.

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Investment Environment

Investment Environment measures the extent to which investments are protected adequately through the existence of Property Rights, Investor Protections and Contract Enforcement, and also the extent to which domestic and international capital (both debt and equity) is available for investment. The more a legal system protects investments, for example through Property Rights, the more that investment can drive economic growth.

Globally, there has been a gradual improvement in Investment Environment. The **Asia-Pacific** region has seen the largest overall rise, overtaking **Eastern Europe** in the last two years. **North America** and **Western Europe** are still the strongest regions, but suffered after the financial crisis; the ground lost has not yet been made up.

The main driver of change has been the Financing Ecosystem. The financial crisis of 2008 had a very significant impact on this element for both North America and Western Europe – far more than in other regions. Meanwhile, this was the most improved element for **sub-Saharan Africa** and **MENA**, and the second most improved element in the **Asia-Pacific** region.



Property Rights measures how well property rights over land, assets and intellectual property are protected.

Indicators –

- Protection of property rights (WEF)
- Lawful process/compensation for expropriation (WJP)
- Intellectual property protection (WEF)
- Quality of land administration (WBDB)
- Time, cost, and number of procedures to register property (WBDB)
- Definition of property rights and regulation (BTI)

Property Rights has been improving since 2014. The majority of the improvement has been in the **Asia-Pacific** and **Eastern Europe**, though each of our regions has seen a net improvement since 2009.

Improvements in intellectual property rights have been the driving force behind this improvement, with countries such as **Myanmar**, **Indonesia**, and **Romania** seeing the largest improvements.

In Romania, the protection of intellectual property rights improved from 118th in 2012 to 33rd in 2019. Additionally, from 2009 to 2010 the cost, time and number of procedures required to register property dropped significantly and caused a 26 rank increase. This corresponds with Romania's rises in the International Property Rights Index of 2018, where it saw improvement in both physical property rights and intellectual property rights.¹⁷ There are, however, still improvements to be made: a 2018 report by the US Trade Representative stated that, despite there being some evidence for increased prosecution rates for breaches of intellectual property cases, "Romania does not sufficiently prioritize IP enforcement."¹⁸

In addition to providing greater protection of intellectual property, Indonesia has also posted the strongest 10-year improvement for Property Rights more generally, increasing from 119th globally to 72nd. In recent years there have been a number of reforms, including enshrining the concept of eminent domain through a land acquisition bill in late 2011.¹⁹



Investor protection is the degree of investor protection, from expropriation risk to minority shareholder rights.

Indicators –

- Insolvency framework extent (WBDB)
- Insolvency recovery rate (WBDB)
- Auditing and reporting standards (WEF)
- Shareholder governance index (WBDB)
- Conflict of interest regulation (WBDB)

Investor Protection has seen gradual improvement since 2014. This has been driven primarily by improvements in auditing and reporting standards globally, which declined from 2008 to 2015, but have since improved.

Eastern Europe and the **Asia-Pacific** region have both seen the largest gains over the last 10 years. In Eastern Europe, for example, the recovery rate from insolvency has increased from 34 cents in the dollar to 39 cents. **North America** and **Western Europe** have also seen steady improvements after declining sharply from 2008-2010. This coincides with the start of North America and Western Europe's recovery from the financial crisis.

The largest improvement in auditing reporting standards was seen in **Myanmar**, which rose from 147th to 23rd. This was followed by **Guinea**, which improved from 148th to 48th. Guinea's improvement has been largely due to the reforms and universal acts facilitated by the Organisation for the Harmonisation of Corporate Law in Africa. Of particular note is the Universal Act on Accounting Law and Financial Reporting of 2017,²⁰ which requires International Financial Reporting Standards to be applied to consolidated financial statements.²¹

In **Germany** (16th), a series of reforms from 2012 to 2014 improved the disclosure of fees and commissions and raised the standards for advisors. Similar reforms were enacted in the **UK** (7th) by the Financial Conduct Authority which "raised the minimum level of advisor qualifications [and] improved the transparency of charges."²²

Contract Enforcement assesses the efficacy and efficiency of a country's system to enforce the rights of a contract holder.

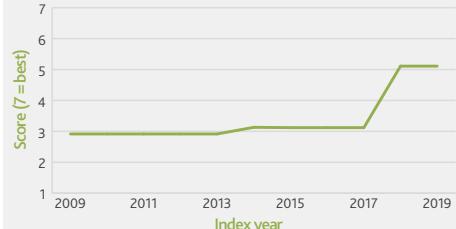
Indicators –

- Quality of judicial administration (WBDB)
- Time to enforce contracts (WBDB)
- Cost of enforcing contracts (WBDB)
- Alternative dispute resolution mechanisms (WJP)

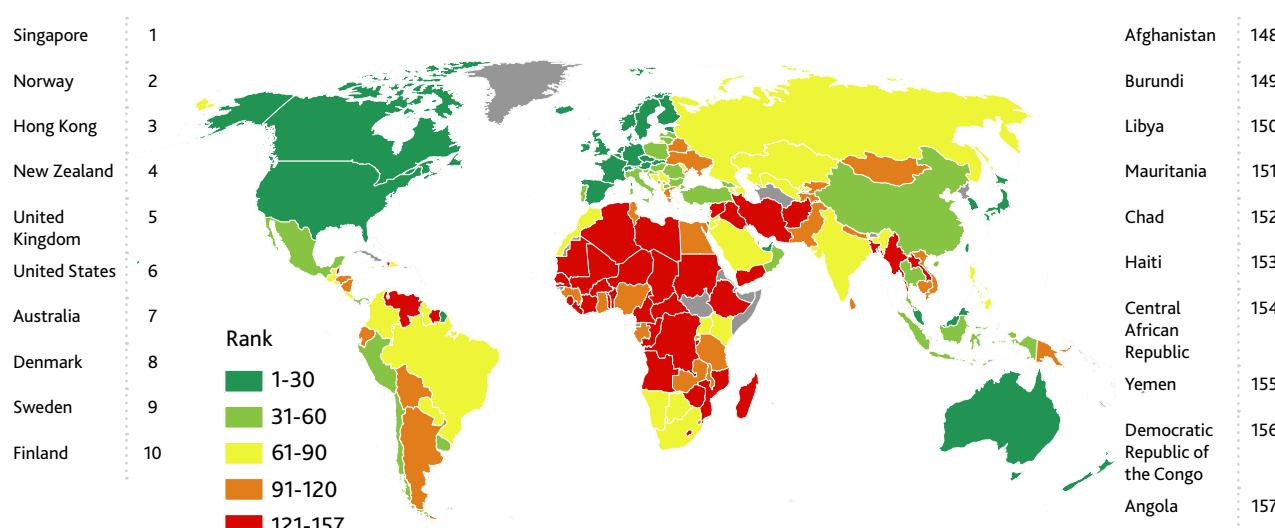
Contract Enforcement has seen improvements in the last two years, driven by better alternative dispute resolution and improved quality of judicial administration. The most change has occurred in the **Asia-Pacific** region. In particular, **India** (98th), **China** (6th), and **Indonesia** (93rd) have seen large improvements, more than compensating for the drops seen in **Malaysia** and **Cambodia**. In **Indonesia** for example, the government made it easier to enforce contracts by introducing a dedicated procedure for small claims that allows for self-representation. China made enforcing contracts easier by introducing an online platform that allows lawyers to manage cases electronically.

Recent improvements have also been seen in **sub-Saharan Africa**, with **Côte d'Ivoire** (64th) seeing the third largest improvement over the last decade. Côte d'Ivoire has rolled out a number of successive improvements to Contract Enforcement in the past seven years, such as establishing a Commercial Court in 2012, introducing provisions on voluntary mediation in 2016 and, most recently, adopting a Uniform Act on Mediation to solidify mediation as an alternative dispute resolution mechanism. This lattermost act was established in all member states of Organisation for the Harmonization of Corporate Law in Africa and is the 10th such uniform act to be enacted.

Figure 2: Auditing reporting standards in Guinea (expert survey, 1-7)



Investment Environment 2019



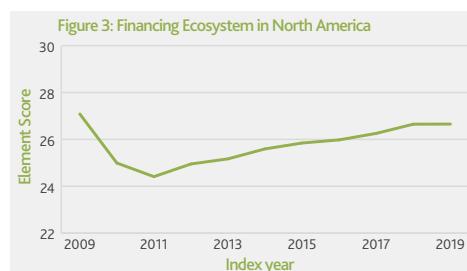
Financing Ecosystem is the availability of money for investment, from sources including banking and bank debt to corporate debt and more sophisticated financial markets.

Indicators –

- % firms obstructed by finance access/cost (WBDI)
- SME access to finance (WEF)
- Venture capital availability (WEF)
- Quality of banking system and capital market (BTI)
- Commercial bank branches per 100,000 people (WBDI)
- Soundness of banks (WEF)
- Depth of credit information (WBDB)

At a global level, there has been overall gradual improvement in Financing Ecosystems. Although it dropped initially, venture capital availability has risen more than any other indicator since 2010, while soundness of banks has dropped more than any other indicator.

Following the financial crisis, **North America**, **Western Europe** and **Eastern Europe** suffered setbacks, but the former has recovered most of the way to its pre-crisis levels. Financing Ecosystems in Europe have stabilized, but are not on a noticeable upward trend. In contrast **Asian**, **sub-Saharan African**, and **MENA** countries largely avoided the 2008 dip and have been on a gradual upward trend.



Guinea, **Myanmar**, and **Turkey** have shown the largest 10-year increase, while the biggest decline over the last decade has been seen in **Greece**, which has fallen from 61st to 115th, with less available venture capital, banks being less sound and fewer bank branches.

For Myanmar, the majority of this improvement has come over the course of the last year, as the number of firms which identify finance as a major restraint halved, the availability of venture capital increased, and the banking system was viewed as more sound. The Myanmar government has also implemented the Myanmar Investment Promotion Plan, with the objective of becoming a middle-income country by 2030.²³

Kenya has seen improvements in the speed with which loans can be processed, and the scale at which they can be delivered. This has been enabled by digital technology. In 2012, just before the Commercial Bank of Africa first released a digital banking product, there were 13,000 open loan accounts. Between 2013 and 2015, on average 27,400 loan accounts were opened per day.

Restrictions on International Investment is the policies that enhance the volume and quality/type of international investment into a country.

Indicators –

- Business impact of FDI rules (WEF)
- Capital controls (FI)
- Freedom to own foreign currency bank accounts (FI)
- Restrictions on financial transactions (CII)
- Prevalence of foreign ownership of companies (WEF)
- Visa-free access for foreigners (FI)

Unlike the other elements of Investment Environment, the global level of Restrictions on International Investment has worsened slightly since 2008. While some indicators have improved, such as the freedom to own foreign-currency bank accounts and the freedom for foreigners to visit, there have been marked deteriorations in the business impact of rules on foreign direct investment (FDI), especially in **Asian** and **MENA** countries.

Global FDI flows fell by 23% in 2017, according to the World Investment Report 2018.²⁴ Changing business impact on rules of FDI have been responsible in part for **Sri Lanka**, **Egypt**, and **Iceland** being the biggest fallers, and they are now ranked 141st, 99th, and 124th respectively. In Sri Lanka, as well as business impact of rules on FDI worsening, the prevalence of foreign ownership also fell.

In Egypt, FDI dropped by 8.8% from 2016, though it remains Africa's largest recipient. In **Algeria**, the downturn was more noticeable – a decrease of 26% to \$1.2 billion. According to the World Economic Forum's Global Competitiveness Index, the business impact of rules on FDI of Iceland was almost exactly average in 2007,²⁵ but dropped rapidly until an inflection point in 2013, at which point it ranked 149th in our index.

In the **United States** and **Canada**, the opposite trend is observed. From 2015 to 2016, each country reduced the freedom of foreigners to visit – from 88th to 136th and from 72nd to 104th respectively. However, the impact of rules on FDI is improving for both and has almost returned to pre-crisis levels.

India has risen to 125th from 140th four years ago. In 2014, the government announced an initiative called Make in India.²⁶ Foreign investment regulations were liberalised in 25 sectors and an immediate corresponding increase in the level of FDI inflow was seen, from \$16.1 billion in 2013-14 to \$36.1 billion in 2015-16.²⁷

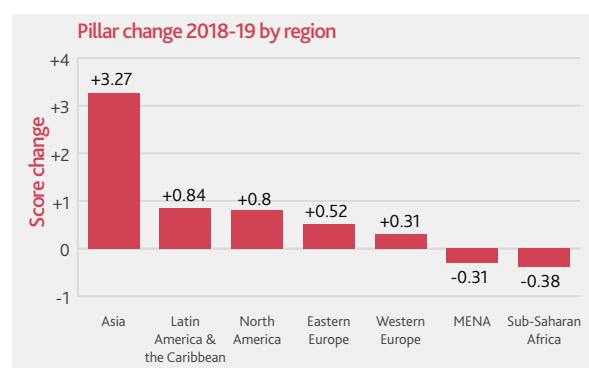
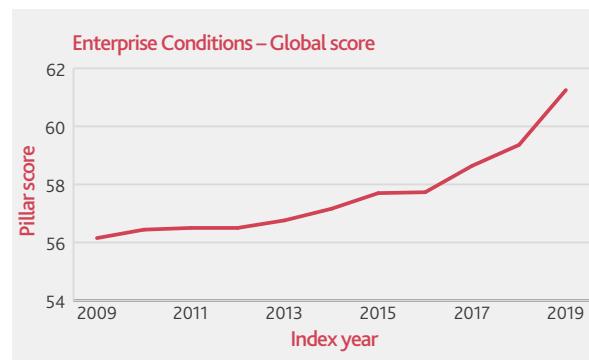


Enterprise Conditions

Enterprise Conditions measures how easy it is for businesses to start, compete and expand. Contestable markets with low barriers to entry are important for businesses to innovate and develop new ideas. This is essential for a dynamic and enterprising economy, where regulation enables business and responds to the changing needs of society.

Enterprise Conditions have improved globally, with each region improving its performance. The **Asia-Pacific** region has been on a steady upward trend and **Eastern Europe** has also been the centre of much of the growth. This growth has been largely facilitated by the reduction of the Burden of Regulation and an improvement in the Environment for Business Creation.

As in other areas, there remains a fundamental divide between **North America** and **Western Europe**, which sit at the top of our Index, and the rest of the world. The gap is not widening, however, as entrepreneurial countries in the Asia-Pacific region and Eastern Europe are making improvements in their Enterprise Conditions.



Domestic Market Contestability examines how open the market is to new participants, versus protection of the incumbents.

Indicators –

- Market-based competition (BTI)
- Anti-monopoly policy (BTI)
- Extent of Market Dominance (WEF)

Since the financial crisis, Domestic Market Contestability has decreased globally. **Eastern Europe** was the biggest riser in this area, albeit marginally, while **Latin America and the Caribbean** has seen the largest fall. Despite **sub-Saharan Africa** experiencing a region-wide decline in Domestic Market Contestability, many sub-Saharan African countries have made large improvements.

Since 2009, **Serbia** has improved its ranking from 119th to 57th, largely due to improvements in its anti-monopoly policy, for which it is now ranked 40th globally. In 2005, Serbia implemented a competition law and created the Serbian Commission for Protection of Competition, which began enforcing the law in mid-2006.²⁸ That said, without having been granted the power to impose sanctions, the prosecution rates for anti-competitive practices have been low; the first major decision to be upheld by the courts was in 2010.

Mauritius' Domestic Market Contestability has improved dramatically, increasing from 103rd in 2009 to 46th in 2019. The Mauritian government founded the Competition Commission of Mauritius (CCM) in 2009 to enforce its Competition Act of 2007. Not only has it seen great success in doing this, with 23 enquiries and five investigations in 2016/17,²⁹ but it also takes on an advisory role to the government, ensuring that proposed policy does not adversely affect competition.³⁰ This has resulted in improvements in the extent of market dominance and Mauritius' market-based competition.

Tunisia has been one of the largest fallers in terms of its Domestic Market Contestability. While in 2009 it ranked 47th, perceived increases in the extent of market dominance, and decreases in market-based competition, have caused a 38-rank drop to 85th. Tunisia's economy is dominated by state-owned enterprises (SOEs); in the gas and electricity sectors, rail and air transport, and fixed line telecommunications, SOEs hold a market share of 50-100%.

Environment for Business

Creation measures the legislative and policy driven factors that encourage entrepreneurialism.

Indicators –

- *Private companies are protected and permitted (BTI)*
- *Ease of starting a business (WBDB)*
- *State of cluster development (WEF)*
- *Labour skill a business constraint (WBES)*
- *Availability of skilled workers (WEF)*

Consistent improvements have been seen in the Environment for Business Creation across all regions, with the majority of this improvement coming from a greater ease of starting a business. This includes aspects such as the time and cost to complete all officially required procedures to start a business.



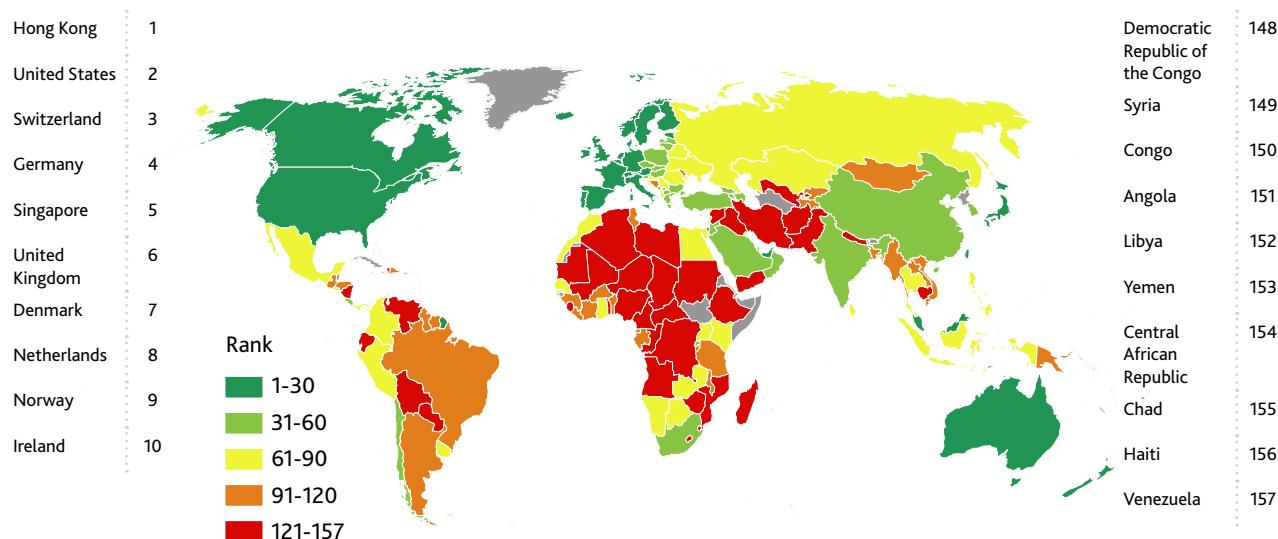
These reforms have been particularly prevalent in **sub-Saharan Africa**, with **Benin** (96th), **Guinea** (82nd), **Togo** (124th), and **Niger** (120th) being four of the top five most improved countries. A succession of reforms made in Niger have eased the process of starting a business. Most recently, the minimum capital requirement required to incorporate a business was reduced, along with a reduction in the time needed to register a company.³¹

In 2005, **Portugal** (52nd) implemented 'On the Spot Firm', dubbed one of "the most dramatic and thorough policies of entry deregulation". From 2005 to 2006, Portugal saw a rank increase in Environment for Business Creation from 73rd to 27th, corresponding with an 80 rank increase in the World Bank's Doing Business Index over the same period.³² The introduction of this one stop shop led to a 17% increase in business registrations. However, since 2009 it has slipped to 52nd for ease of starting a business, after being overtaken by a number of other countries.

Romania has seen a significant deterioration in the quality of the Environment for Business Creation, and has worsened across the board in this area. Romania has a poor Environment for Business Creation, and bureaucracy, red tape and corruption have seriously hindered the ease of starting a business. The creation of new firms in Romania has remained flat since 2001, and start-ups face a low survival rate beyond five years; over the period from 2009 to 2014, the survival rate among companies in this segment dropped, from around 60% to around 40% on average.³³

The **United Arab Emirates** (26th) is the largest riser from the **MENA** region, rising 20 places since 2009. It has improved the ease of starting a business significantly, rising from 91st to 22nd. It is also 11th in the world for the state of its cluster development. This is a result of the government's effort at attracting foreign businesses into its 'free zones', areas which are tax free and allow 100% foreign ownership.

Enterprise Conditions 2019



Burden of Regulation
captures how much effort and time are required to comply with regulations, including tax regulations.

Indicators –

- *Burden of government regulation (WEF)*
- *Time spent complying with regulations (WBES)*
- *Number of tax payments (WBDB)*
- *Time spent filing taxes (WBDB)*
- *Burden of obtaining a building permit (WBDB)*
- *Building quality control index (WBDB)*

The best performers in Burden of Regulation are small Asian and MENA countries: **Hong Kong (1st)**, **Singapore (2nd)**, **UAE (3rd)** and **Qatar (4th)**.

Azerbaijan has seen one of the largest improvements in the last decade, rising from 131st in 2009 to 6th in 2019. In 2008, Azerbaijan launched a single window system for corporate registrations, which reduced the time, cost, and number of procedures required to start a business.³⁴ Further to this, as of 2009 taxpayers were able to file and pay taxes online. Naturally, this has drastically reduced the proportion of time that senior management spends complying with regulations, decreasing from 37% to 6%. The number of tax payments has also fallen.

Belarus has greatly reduced the Burden of Regulation over the past decade, by introducing a one stop shop for combining registration forms in 2008, the reduction of registration fees in 2014, and the expansion of the coverage and depth of online services in 2016.³⁵ This has resulted in a reduction in the number of tax payments per year, from 125 in 2009 (156th) to 7 payments in 2019 (14th), and a reduction in the time required to file the necessary tax forms, which decreased from 986 hours per year in 2009 (152nd) to 184 hours per year in 2019 (61st).

Costa Rica has seen the greatest improvement in Latin America and the Caribbean for this element. It has reduced the time taken to file taxes, as well as the number of tax payments per year – down from 43 to 10. In 2016, for example, it made it easier to pay taxes by promoting the use of its electronic filing and payment system. It has also improved the ease of obtaining a building permit.

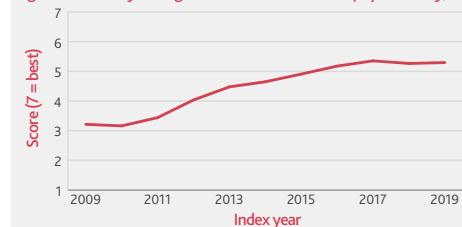
Labour Market Flexibility
measures how dynamic and flexible the workplace is for both employer and employee.

Indicators –

- *Cooperation in labour-employer relations (WEF)*
- *Flexibility of hiring practices (WEF)*
- *Redundancy costs (WEF)*
- *Flexibility of employment contracts (WEF)*
- *Flexibility of wage determination (WEF)*

Western Europe has seen the most improvement over the last decade in Labour Market Flexibility, led by **Germany (21st)** and **Ireland (16th)**. In Germany, this was because hiring and firing regulations became more flexible (from 154th in 2009 to 11th in 2019), but in Ireland the major change was in the flexibility of wage determination – for which it now ranks 40th, compared to 150th in 2009. The 2017 Employment Bill banned zero hour contracts but allowed their use if there was a genuine requirement.³⁶

Figure 2: Flexibility of wage determination in Ireland (expert survey, 1-7)



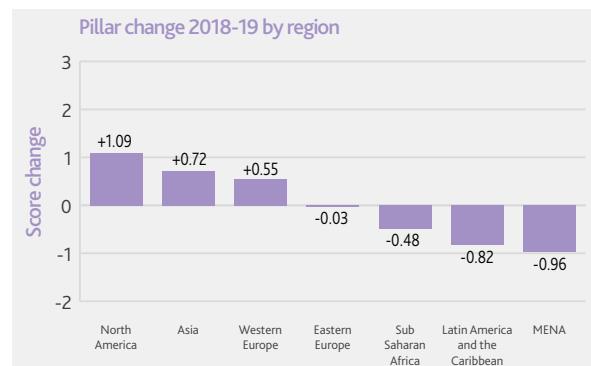
The **Netherlands** has also seen major improvement, rising from 64th in 2015 to 36th in 2019. In 2009, it ranked 148th for the hiring and firing flexibility, but is now ranked 15th, following the introduction of the Flexible Working Hours Act in 2016. The Act gave employees the right to request changes to their working hours, working times, and workplace.³⁷

Not all change has been positive. The **Gambia** fell 34 places to 37th, following the introduction of The Labour Act in 2007; this introduced a statutory six months' wages of compensation for redundancy, causing its ranking for the redundancy costs indicator to drop from 16th globally to 65th.³⁸ From 2017 to 2018, the amount of compensation doubled to a full year's worth of pay, decreasing The Gambia's rank further to 152nd.



Governance measures the extent to which there are checks and restraints on power and whether governments operate effectively and without corruption. The nature of a country's Governance has a material impact on its prosperity. The Rule of Law, strong institutions and Regulatory Quality contribute significantly to economic growth, as do competent governments that enact policy efficiently and design regulations that deliver policy objectives without being overly burdensome.

Relatively stable levels of Governance overall hide a worrying trend; the gap between the best and worst regions is increasing, and there are no signs that this trend is reversing. Governance in the highest scoring regions, **North America** and **Western Europe**, have improved while the bottom three regions, **Latin America and the Caribbean**, **MENA** and **sub-Saharan Africa**, have all deteriorated. The gap between the highest and lowest scoring countries has also widened over the last decade.



Executive Constraints assesses the level of checks and balances, and separation of powers – especially with respect to the executive.

Indicators-

- Executive powers are effectively limited by the judiciary & legislature (WJP)
- Government powers are subject to independent and non-governmental checks (WJP)
- Transition of power is subject to the law (WJP)
- Military involvement in rule of law and politics (FI)
- Government officials are sanctioned for misconduct (WJP)

Globally, there has been an overall deterioration in Executive Constraints. Across the countries in both **Eastern Europe** and **Latin America and the Caribbean** there is a significant variation in the level of Executive Constraints; while the highest-ranking countries in 2019 in both of these regions are in the top twenty globally (**Estonia**, 16th and **Costa Rica**, 19th), the lowest are in the bottom twenty (**Belarus**, 134th and **Venezuela** 150th).

Argentina has seen the greatest improvement, from 96th to 55th. This has been driven by transitions of power becoming increasingly subject to the law, and higher levels of Executive Constraints by the judiciary and legislature. President Mauricio Macri's government has introduced efforts to improve transparency and prosecute corrupt executives. Although there are still issues regarding corruption that will need to be tackled, these measures have led to an increase in de facto executive restraints.

In contrast, **Poland** has been the fastest faller over the last two years, dropping from a rank of 19th in 2016 to 45th this year. Since assuming power in 2015, the populist and socially conservative Law and Justice party has enacted measures that have increased the government's control over the courts and limited the freedom of the press.³⁹ This has resulted in severe restrictions on the judiciary and legislature's ability to limit the power of the executive and the reduced efficacy of independent and non-governmental checks on government powers.

Political Accountability is the degree to which the public can hold public institutions accountable, capturing the degree of political pluralism, and other mechanisms of accountability.

Indicators-

- *Consensus on democracy and a market economy as a goal (BTI)*
- *Political participation and rights (FH)*
- *Democracy level (CSP)*
- *Complaint mechanisms (WJP)*

Political Accountability on the whole has slightly improved globally since 2009, driven by a rise in **Western Europe** and the **Asia-Pacific** region. The **Asia-Pacific** region has seen progress in political participation and rights, and there is a growing consensus that democracy and a market economy are goals for development. Despite this, the other five regions have registered a decline in Political Accountability.

While **Myanmar** has managed to make improvements overall in Political Accountability, rising 46 places from bottom place to 111th this year, its progress has been inconsistent. According to the Center for Systemic Peace, Myanmar now ranks 56th for its democracy level, having successfully held its first free elections in 2015, yet according to the World Justice Project, this has not translated into effective complaint mechanisms for citizens. Indeed, this transition to democracy has largely been de jure, and the country is an example of how true Political Accountability requires more than just free elections.

The **United States** has fallen 19 places since 2009, to 34th in this year's index. Both the measures of the democracy level and political participation and rights used in this element recorded a significant decline over the last two years; the US dropped from 1st to 56th and 1st to 41st respectively in each measure. These expert survey based measures probably do not reflect an institutional change within the US, as democracy remains robust, at least by global standards, but they do attest to a loss of confidence

Rule of Law is the fairness, independence and effectiveness of the judiciary (in applying both civil and criminal law), along with the accountability of the public to the law.

Indicators-

- *Judicial independence (WEF)*
- *Civil justice (WJP)*
- *Integrity of the legal system (FI)*
- *Efficiency of dispute settlement (WEF)*

Over the past 10 years, Rule of Law has decreased globally, despite improvements in individual countries, particularly in the **Asia-Pacific** and **sub-Saharan Africa**.

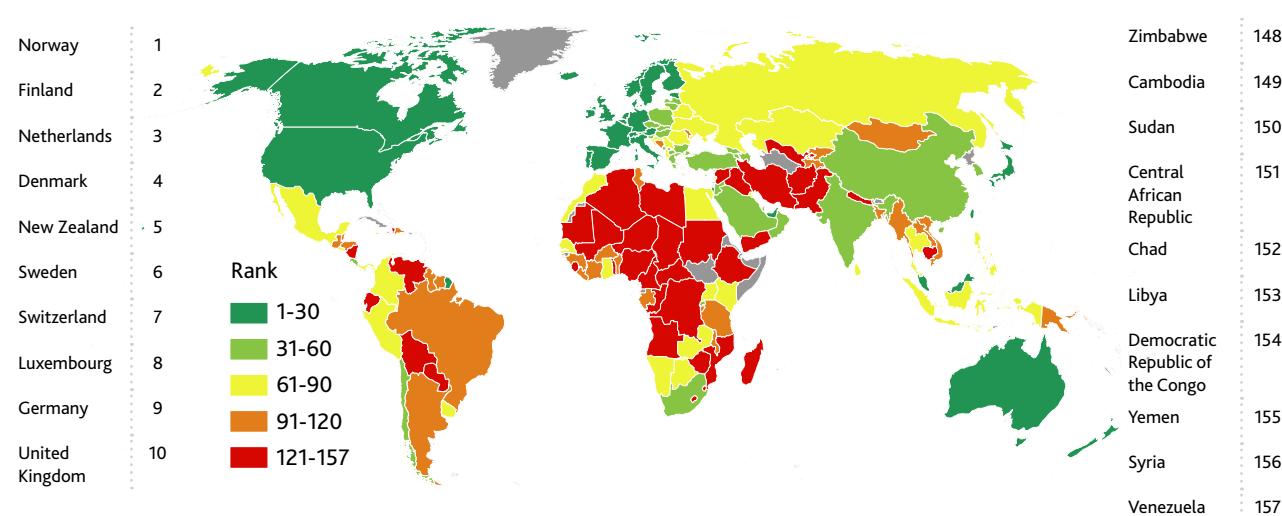


Senegal and Ghana are the two biggest risers in Rule of Law over the last 10 years, rising 30 places to 68th, and 22 places to 55th in this year's index respectively. Ghana's improvements are due to strengthen the enforcing of civil justice, and the efficiency of the country's legal framework in settling disputes. According to Afrobarometer, three-quarters of Ghanaians now believe that the president 'rarely' or 'never' ignores parliament, the courts or the country's laws for his own gain, and 90% are willing to obey the government, even if they did not vote for it.⁴⁰ However, people increasingly believe that the application of the law is inconsistent, and Ghana ranks 114th globally for the integrity of its legal system.

Latin America and the Caribbean and **MENA** have seen the biggest fall in scores for Rule of Law. Of the 10 largest fallers in this element since 2009, all bar **Moldova** are within these two regions. **Turkey** was the biggest faller in the MENA region, its scores having declined across all indicators.

Since the failed July 2016 coup, President Recep Tayyip Erdoğan declared a state of emergency, renewed every three months until July 2018, allowing the government to rule by decree and purge the judicial system. This has led to a loss of the integrity of the legal system and judicial independence.

Governance 2019



Government Integrity assesses the integrity of a government, encompassing both the absence of corruption, and the degree to which government fosters citizen participation and engagement, through open information and transparent practices.

Indicators-

- Use of public office for private gain (WJP)
- Diversion of public funds (WEF)
- Right to information (WJP)
- Publicised laws and government data (WJP)
- Transparency of government policy (WEF)
- Budget transparency (IBP)

Globally, Government Integrity has increased over the last decade, with five out of seven regions making progress in this area. There has been a slight improvement globally in the use of public office for private gain.

The **Asia-Pacific** region, despite historical issues with corruption, has begun to show improvements in Government Integrity over the last decade, especially when it comes to measures of corruption: the use of public office for private gain and diversion of public funds. **Kyrgyzstan** and **Mongolia** have improved the most in the region, rising 35 places to 90th and 26 places to 89th respectively. Despite Kyrgyzstan's improvements over the decade, progress has not been easy. Rampant corruption permeating all levels of society led to the 2005 Tulip revolution overthrowing the President Askar Akayev, and the 2010 Kyrgyz Revolution, ousting President Kurmanbek Bakiyev from office.

Figure 2: Transparency of government policy in Kyrgyzstan (expert survey, 1-7)



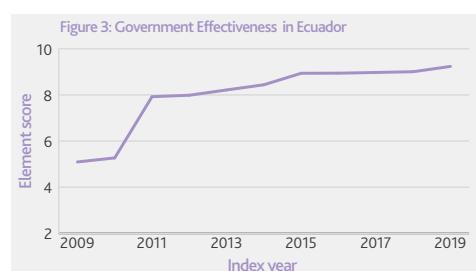
Sub-Saharan Africa and **MENA** are the only regions to have declined in Government Integrity over the last decade; 13 of the bottom 20 ranking countries globally are in sub-Saharan Africa alone. Transparency International estimated that in 2015 alone, more money vanished illegally out of Africa (\$203 billion) than came in as aid, loans and remittances (\$163 billion).

Government Effectiveness is a combination of the quality of public service provision, the quality of the bureaucracy, the competence of civil servants.

Indicators-

- Government quality and credibility (WGI)
- Prioritisation (BTI)
- Efficiency of government spending (WEF)
- Efficient use of assets (BTI)
- Implementation (BTI)
- Policy learning (BTI)
- Policy coordination (BTI)

Several countries in both **Latin America and the Caribbean** and **sub-Saharan Africa** have seen notable gains in Government Effectiveness over the last decade; four of the top five risers since 2009 come from these two regions. **Colombia**, for example, has risen 27 places over the past decade to 46th in this year's rankings. It is now the fourth-ranked country in Latin America and the Caribbean.



Despite this, both regions have significant fallers. For example, **Nigeria** and **Haiti** have fallen 36 and 15 places to 114th and 151st this year respectively. Nigeria has seen less publication of government data and publicized laws. It has also seen a fall in the perceived transparency of government policy.

Haiti fell across all areas of Government Effectiveness, with the exception of the efficiency of government spending, although it still has many issues in this area such as financial mismanagement, which led to the collapse of the Petrocaribe agreement with Venezuela in early 2018.

Estonia is the highest ranked country in **Eastern Europe**, ranking 26th in Government Effectiveness, largely thanks to its innovations in eGovernance. Estonia is saving more than 2.8 million hours of labour every year through a data exchange network that has helped digitise 99% of government services. The International Civil Service Effectiveness Index, compiled by Oxford's Blavatnik School of Government and the Institute for Government, ranked Estonia at seventh of 31 countries, and ranked it top on digital services.

Regulatory Quality encompasses all aspects of the running of the regulatory state – whether it is burdensome and impedes private sector development, and whether it is smoothly and efficiently run.

Indicators-

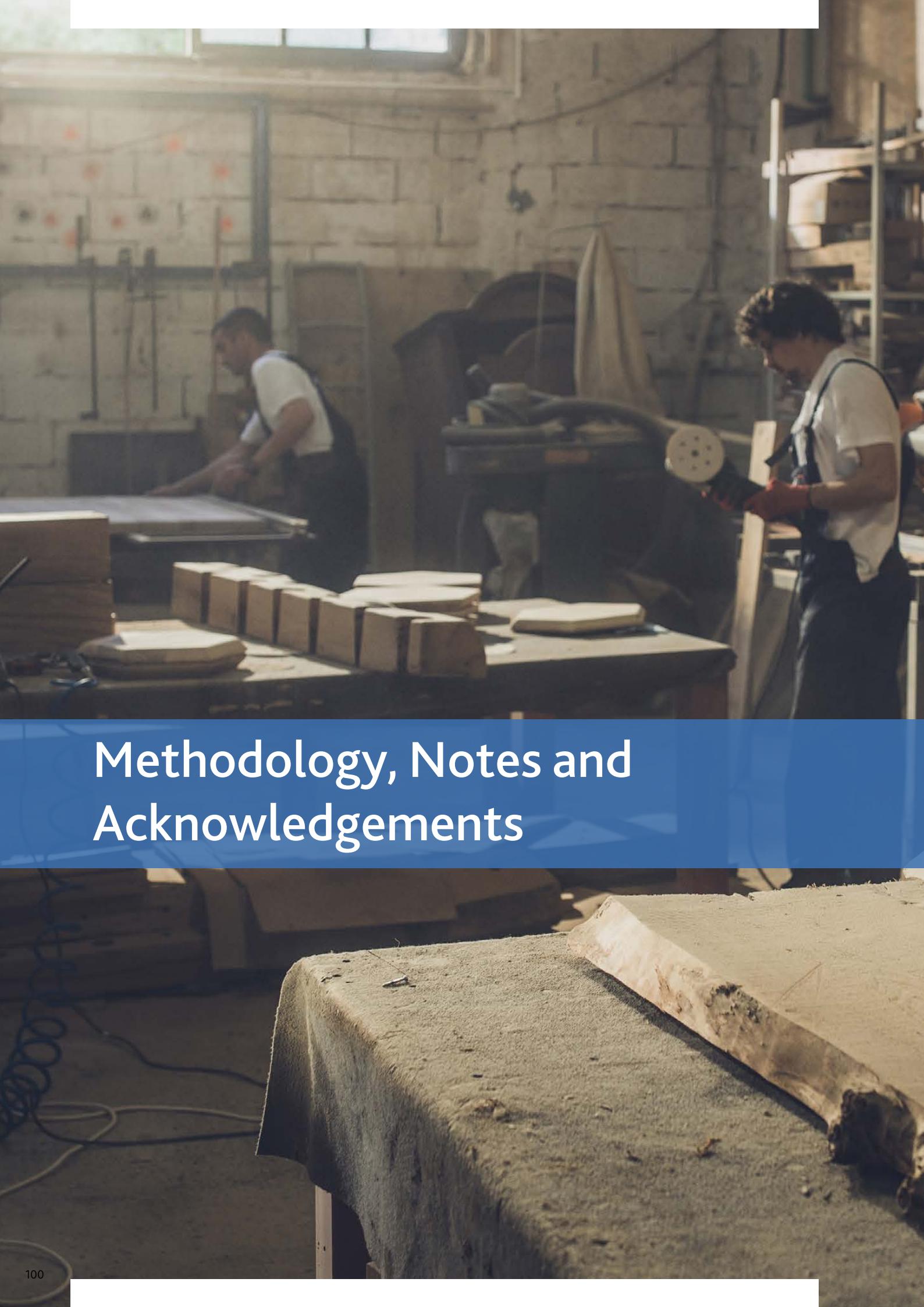
- *Regulatory quality (WGI)*
- *Enforcement of regulations (WJP)*
- *Efficiency of legal framework in challenging regulations (WEF)*
- *Delay in administrative proceedings (WJP)*

Regulatory Quality's rankings in the context of the overall Governance pillar highlight how countries can have effective operational governance, despite shortcomings in the structural aspects such as Political Accountability. While **Saudi Arabia, Oman, Bahrain, Rwanda** and **China** are all ranked below 75th for Governance, they rank above 50th for Regulatory Quality. **Singapore**, despite ranking 26th in Governance, and even as low as 106th in Political Accountability, ranks 2nd in Regulatory Quality.

The **United Kingdom** is the greatest riser in Regulatory Quality over the last year, primarily driven by a decrease in the delay of administrative proceedings. In 2005, the UK government adopted targets for reducing regulatory burdens, later evolving into a 'one-in, one-out' plan. Now, the UK runs a robust 'one-in, three-out' initiative. The commitment to reducing regulatory burden has largely been successful; between 2005 and 2017 UK businesses benefitted from £6.5 billion in annual savings.

Austria is the second-biggest faller this decade, dropping from fifth in 2009 to 20th this year. The nation's decline in Regulatory Quality has been driven primarily by weakening efficiency of the legal framework in challenging regulations, and increasing delays in administrative proceedings.





Methodology, Notes and Acknowledgements



Methodology

The Global Index of Economic Openness is a framework that assesses countries on their promotion of Economic Openness. Like our Global Prosperity Index, we endeavour to create an Index that is methodologically sound. This is something that the Legatum Institute has sought to achieve with academic and analytical rigour over the past decade.

We worked with more than forty academics from around the world, with political economy, trade, finance, and entrepreneurship expertise to develop an appropriate taxonomy of discrete elements that drive economic success within each of those four major pillars. Over multiple iterations in hundreds of hours of meetings, we met with these experts to discuss these concepts and how to measure them.

The goal of building these pillars was to give countries a score for each pillar that reflects the degree to which policy in that area promotes economic wellbeing. To achieve this goal, we had two primary objectives: to define elements in each of the four pillars which both reflect economic theory and provide a

policy-relevant taxonomy, and to use actual policy-based variables rather than outcome-based variables wherever possible.

Throughout the process we reviewed the relationship between each of the indicators and pillars with economic wellbeing (as measured by productive capacity). These elements each had a clear positive correlation with economic performance and a plausible causal impact. While these areas do not cover the entirety of the drivers of economic success, our analysis indicates that together, they can explain 85% of the variation in economic wellbeing across 157 countries in the world. There are, of course, many exceptions to these broad patterns, and our intention with the Index is not to seek to identify specific policy gaps in any individual country as *the binding constraint to growth*. These would be more specific and nuanced than any one index could possibly provide.

For more information on the methodology, please refer to the Methodology Report published at www.li.com.

Pillars



Market Access and Infrastructure

Market Access and Infrastructure measures the quality of the infrastructure that enables trade (communications, transport and energy), and the inhibitors on the flow of goods and services to and from a country's trading partners. Where markets have sufficient infrastructure and few barriers to trade and smooth border clearance, trade can flourish. Such trade leads to more competitive and efficient markets, enabling new products and ideas to be tested, funded, commercialised and ultimately benefiting consumers, through a greater variety of goods at more competitive prices.



Investment Environment

Investment Environment measures the extent to which investments are protected adequately through the existence of property rights, investor protections and contract enforcement, and also the extent to which domestic and international capital (both debt and equity) is available for investment. The more a legal system protects investments, for example through property rights, the more that investment can drive economic growth.



Enterprise Conditions

Enterprise Conditions measures how easy it is for businesses to start, compete and expand. Contestable markets with low barriers to entry are important for businesses to innovate and develop new ideas. This is essential for a dynamic and enterprising economy, where regulation enables business and responds to the changing needs of society.



Governance

Governance measures the extent to which there are checks and restraints on power and whether governments operate effectively and without corruption. The nature of a country's governance has a material impact on its prosperity. The rule of law, strong institutions and regulatory quality contribute significantly to economic growth, as do competent governments that enact policy efficiently and design regulations that deliver policy objectives without being overly burdensome.

List of data sources and acronyms

Code	Organisation
BTI	Bertelsmann Stiftung's Transformation Index
CSP	Center for Systemic Peace
CII	Chinn-Ito Index
FI	Fraser Institute
FH	Freedom House
GSMA	Groupe Spéciale Mobile Association
IBNWS	International Benchmarking Network for Water and Sanitation Utilities
IBP	International Budget Partnership
IMF	International Monetary Fund
ITU	International Telecommunications Union
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WBDI	World Bank Development Indicators
WBDB	World Bank Doing Business
WBES	World Bank Enterprise Survey
WBLPI	World Bank Logistics Performance Index
WGI	World Bank Worldwide Governance Indicators
WEF	World Economic Forum
WJP	World Justice Project
WTO	World Trade Organisation

Step by Step

1

Selecting the indicators

We carried out an extensive literature review for each pillar looking at the academic literature on Economic Openness. We first identified hundreds of indicators that have an effect on economic wellbeing, looking at both empirical evidence and theoretical arguments.

Wherever possible, we aimed to use actual policy variables instead of outcome variables. To use outcome variables in the construction of our index would be to include the result of combinations of policies as a measure of how open economic policy is, when what we want is to construct an index that shows which policies contribute to economic wellbeing. However, there were cases when the relevant policy variables were not readily available, or were available for only a subset of our sample, so outcome variables were used in their place.

We used an extensive variety of publicly available global data sources, including the World Bank, World Trade Organisation, International Telecommunications Union, and the World Economic Forum. This list was refined based on input from academic and policy experts in each pillar area, who advised on the reliability of data sources, alternative measures and the credibility of indicators' measurement.

These indicators were organised into elements and pillars. Each pillar captured a fundamental theme of Economic Openness, and each element helps to capture discrete policy areas measured by the indicators. Within each pillar, there are between 4-7 elements, and each element has between 3-7 indicators.

2

Standardisation

The indicators in the Index are based on many different units of measurement, including numbers of individuals, years, percentages and ordinal scales. These different units need to be normalised for comparison between indicators and countries to be meaningful. We employ a distance to frontier approach for this task. The distance to frontier approach compares a country's performance in an indicator, with the value of the logical best case as well as that of the logical worst case. As a result, the distance to frontier score captures a country's relative position. This approach also enables us to compare Index scores over time.

3

Indicator weights

Each indicator is assigned a weight, indicating the level of importance it has in affecting prosperity. Weights fall into four buckets: 0.5, 1, 1.5, and 2. Each indicator by default is weighted as 1, and, based on its varying significance to prosperity, its weight may be adjusted downwards or upwards accordingly. For example, an indicator with a weight of 2 means that it is twice as important in affecting Economic Openness as other indicators in that element. Weights were determined by two factors, ordered by priority: (1) the relevance and significance of the indicator to Economic Openness, as informed by the academic literature and our experts' opinions, and (2) the statistical significance of the indicator to the productive capacity (see our article) of a country.

4

Element and Pillar scores

In each of the four pillars, indicators' distance to frontier scores are multiplied by their weights and then summed to generate countries' element scores and subsequently pillar scores, according to the weights of the elements, which were determined in the same manner as the indicator weights. The countries are then ranked according to their scores in each Global Index of Economic Openness score.

The Index score is determined by assigning equal weights to all four pillars for each country. The mean of the four pillar scores yields a country's overall score. The overall Economic Openness rankings are based on this score.

While the Index score provides an overall assessment of a country's Economic Openness, each pillar (and element) score serves as a reliable guide to how that country is performing with respect to a particular foundation of Economic Openness.

Note on averages

When calculating scores for regions, we take a population-weighted average score. This is because we want to capture the effect on individuals rather than countries. For example, if two countries improve their score, then the more populous country has a greater effect on the global score than the less populous country.

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Acknowledgements

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The Legatum Institute would like to thank the following advisors who helped with the creation of the Global Index of Economic Openness:

Market Access and Infrastructure

- Cletus C. Coughlin, Federal Reserve Bank of St Louis
- Johannes Fedderke, Penn State University
- Daniel Kammen, University of Berkeley
- Graeme Leach, Chief Economist of Macromonics
- Michael Reed, Kentucky University
- Boopen Seetanah, University of Mauritius
- David Stern, Australian National University
- Mahesh Sugathan, International Centre for Trade and Sustainable Development
- Haakon Vennemo, Oslo Metropolitan University.
- Leonard Waverman, McMaster University

Investment Environment

- Laura Alfaro, Harvard Business School
- Manoel Bittencourt, University of the Witwatersrand, Johannesburg
- Jamal Haidar, The American University in Cairo
- Flora Huang, University of Essex
- Claudia R. Williamson, Mississippi State University
- Richard Jeffrey, former CIO, Cazenove Capital
- Richard Odumodu, Cass Business School
- Horace Yeung, University of Leicester

Enterprise Conditions

- Pam Bateson, Thrive partners
- Georgina Campbell Flatter, MIT Legatum Center for Development and Entrepreneurship
- Saul Estrin, London School of Economics
- Tomasz Mickiewicz, Aston University
- Vicky Pryce, Centre for Economics and Business Research
- Rita Ramalho, World Bank
- Andres Solimano, Universidad Mayor
- Mike Troilo, Tulsa University

Governance

- Francis Fukuyama, Stanford University
- Mark Gibney, University of North Carolina
- Rachel Kleinfeld, Carnegie Endowment for International Peace
- David Landsman, Former UK Ambassador to Greece
- Eguilar Lizundia, International Republican Institute
- Tanja Porčnik, Cato Institute
- Nicole Stremlau, Oxford University
- Richard Youngs, Carnegie Endowment for International Peace
- Yahong Zhang, Rutgers University

Unless otherwise stated, all data is from the 2019 Global Index of Economic Openness.

All original data sources can be found in the Global Index of Economic Openness methodology report and online at www.li.com.

We encourage you to share the contents of this document. In so doing, we request that all data, findings, and analysis be attributed to the 2019 Global Index of Economic Openness.

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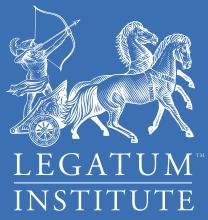
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The Legatum Institute is a London-based think-tank with a global vision: to see all people lifted out of poverty. Our mission is to create the pathways from poverty to prosperity, by fostering Open Economies, Inclusive Societies and Empowered People. We do this in three ways. Our Centre for Metrics creates indexes and datasets to measure and explain how poverty and prosperity are changing. Our Research Programmes analyse the many complex drivers of poverty and prosperity at the local, national and global level. Our Practical Programmes identify the actions required to enable transformational change.

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978-1-911125-43-3

MAY 2019