Backgrounder
Published by The Heritage Foundation
No. 2320
September 28, 2009

Global Trade Liberalization Continues, But Risks Abound

Daniella Markheim and Ambassador Terry Miller

Abstract: *The 2010 rankings of trade freedom in countries around the world, developed by The Heritage Foundation as part of its annual* Index of Economic Freedom, *show many countries moving ahead on their own to lower tariffs and cut other barriers to trade. However, multilateral efforts at the World Trade Organization and elsewhere have ground to a halt. Global trade is put at risk today by the growing number of distortions that new protectionist policies are imposing on markets.*

The 2010 rankings of trade freedom in countries around the world, developed by The Heritage Foundation as part of its annual *Index of Economic Freedom* and released to the public today,[1] show many countries moving ahead on their own to lower tariffs and cut other barriers to trade. This is good news for consumers and businesses in those countries, which will enjoy greater access to competitively priced goods from around the world.

Other countries, however, are standing still or moving backward in response to protectionist political pressures. They are likely to find themselves falling behind, with lower growth rates and stagnating economies.

A Protectionist Response to Economic Stress?

It is unfortunate that in times of stress people tend to become less open to others, retreating behind the walls of home or the fence of a national border in a search for safety or predictability. The worldwide

Talking Points

- The trade freedom rankings developed by The Heritage Foundation as part of its annual *Index of Economic Freedom* show continued trade liberalization throughout the world, with 83 countries scoring at least a point higher in trade freedom in 2010 than in 2009.
- On the other hand, 37 countries experienced a decrease in trade freedom of at least one point, and three countries scored at least ten points lower.
- According to data from the *Index of Economic Freedom*, countries with freer trade policies experience higher per-capita economic growth than countries that maintain barriers.
- Despite the modest overall improvement in trade freedom, a rash of new protectionist measures in response to the global economic crisis, including a number by the United States, threatens prosperity, undermines chances for a timely conclusion of the Doha Round, and risks igniting a global trade war.

This paper, in its entirety, can be found at:
www.heritage.org/Research/TradeandEconomicFreedom/bg2320.cfm

Produced by the Center for International Trade and Economics (CITE)

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 • heritage.org

The Heritage Foundation
LEADERSHIP FOR AMERICA

recession of 2008–2009 has provided plenty of stress, and the threats of lost income and lost jobs have led many to search for ways to wall off economic threats, real or imagined, from abroad.

For economists, there is surprising unanimity and little doubt that trade has an overwhelmingly positive impact on economic well-being. Indeed, the concept of trade at the local, national, and international levels is in many respects the cornerstone of the economics discipline, and the gains from trade or commercial exchange are the foundation without which modern economies, nation-states, or cities could not exist.

When individuals specialize and trade, the economic advantages of the resulting increased skills and improved allocation of resources are enormous.

When individuals specialize and trade, the economic advantages of the resulting increased skills and improved allocation of resources are enormous. The baker bakes bread, and the tailor sews shirts; their products are exchanged, and both are better fed and clothed as a result. In a modern economy, specialization extends much further, with the process of producing bread involving dozens or hundreds of specialists in various tasks related to agriculture, construction, energy, accounting, marketing, transportation, and myriad other skills. The trading process is, along with technological advancement that is itself largely spurred by the dynamics of trade, at the root of all productivity gains—truly the basis for the wealth of nations.

For individuals and the politicians who represent them, however, these benefits of trade and commercial exchange, profound as they are, can fade into insignificance compared to the disruption experienced by an individual or community when it is their skill or production process that is overtaken by competition from others who have learned to produce their product, or a substitute, more efficiently. We would not expect them to welcome the increased competition and the change that comes with it even if they recognize, in the abstract, that such economic evolution is the basis—really, the only basis—of economic growth and increased prosperity. In such circumstances, many turn to the government for help.

Government economic intervention in the process of commercial exchange or trade can take many forms. If it consists of transitional assistance and education or retraining for workers whose skills are outmoded, or if it involves the promotion of basic research into better technologies or production processes, there may be benefits both for the individuals directly concerned and for society at large. Such intervention may be thought of as a form of investment that is likely to increase future production and productivity.

If, on the other hand, government intervention takes the form of subsidies or other protectionist measures designed to permit uncompetitive firms or workers to continue their present activities irrespective of technological improvements or competition from elsewhere, that is a recipe for economic stagnation, and the costs to society, both in the short run and over the long term, may far outweigh the costs of the original disruption to the individuals or firms affected by the competition.

The trading process is, along with technological advancement that is itself largely spurred by the dynamics of trade, at the root of all productivity gains—truly the basis for the wealth of nations.

Protectionist measures, whether domestically oriented, like subsidies for auto manufacturers or financial firms, or internationally focused, like tariffs, quotas, trade-related safety or environmental regulations, or "Buy American" provisions, are likely to slow economic adjustment, increase costs to both consumers and producers, lower economic efficiency, and

1. The *2010 Index of Economic Freedom* will be published in January 2010. The trade freedom rankings, which account for 10 percent of a country's overall economic freedom score, were released early at the request of the Millennium Challenge Corporation, which uses them as part of its criteria for determining countries' eligibility for MCC grants.

prolong the recession or even lead to a permanent slowdown of economic growth and prosperity.

The good news is that few governments have adopted major protectionist measures during the recent crisis. Many recognize the risk to their own economies and the world economy as a whole that an increased resort to protectionist measures would entail. Many are holding firm to long-term paths of liberalization on which they embarked in earlier years. The bad news is that other countries have adopted a number of major or minor restrictive measures; that talk of additional restrictions has increased; and that the process of further trade liberalization, at least at the multilateral level or the level of international agreements, has come to a virtual standstill.

Economic Crisis and Rising Protectionism

After more than half a century of trade liberalization, multilateral efforts at the World Trade Organization (WTO) and elsewhere have ground to a halt. So far, negotiations within the Doha Round have failed to result in a comprehensive agreement that is satisfactory to all WTO members. The collapse of negotiations in July 2008 reflects both divergent thinking on the role that trade liberalization plays in advancing economic development and intransigence among some members with respect to upholding their commitment to eliminating trade barriers.

Moreover, the Doha process of multilateral trade negotiations is based on the idea that it is easier for countries to lower their tariffs and other trade barriers if others do so as well. There is some political merit to this idea. The actual negotiations, however, involve a dynamic that runs counter to the goal of freeing trade. Countries hold jealously to protectionist measures that hurt the efficiency of their own economies, offering them up only in exchange for similar "concessions" from others. The psychology of the process could not be worse, because it encourages countries to value things that hurt themselves, like tariffs, import quotas, or domestic subsidies.

With trade negotiations in the WTO stalled, the continued lack of a new, comprehensive multilateral trade pact reduces countries' discipline in keeping a rein on using protectionist measures to prop up domestic companies during the current economic slump. Higher tariffs, quotas, government subsidies and cheap loans to businesses, restrictive domestic-preference requirements in government procurement, and new regulatory barriers to trade are only some of the policy mechanisms that nations are introducing in a misguided attempt to bolster their domestic economies. These measures not only distort and reduce international markets for goods and services, but also have a chilling effect on private investment at home—the very thing needed to help economies get back on track and grow in the longer term.

Protectionist measures, whether domestically or internationally focused, are likely to slow economic adjustment, increase costs to both consumers and producers, lower economic efficiency, and prolong the recession or even lead to a permanent slowdown of economic growth and prosperity.

Moreover, protectionism adds to the economic burden faced by families that are trying to stretch uncertain incomes to pay for more expensive goods and can result in lost jobs when import-using firms either can no longer afford to stay in business or lose customers as the wall protecting foreign markets grows ever higher. Indeed, households in highly trade-dependent countries are hit especially hard when markets contract as a consequence of the global recession and then again when trade partners resort to protectionism.

Recent WTO and World Bank studies, in addition to revealing the impact that the global recession has had on trade, shed some light on the protectionist measures that countries have adopted in response to tougher economic times. The WTO reports that global trade will contract this year by 10 percent.[2] Additionally, the volume of trade from developed countries is expected to fall by an average of 14 percent, and from developing countries by an average of 7 percent.[3]

This forecast contraction in trade is being driven largely by falling global demand, but it could be exacerbated by an increase in the world's use of trade measures to protect domestic special interests from competition. After a few short months, the World Bank reported that 17 G-20 members and other countries had implemented approximately 78 new trade-restrictive measures since the onset of the financial crisis and that 47 of these measures had been adopted since the G-20 pledge against protectionism in November 2008.[4]

The U.S. auto bailout set off a rash of government handouts, cheap loans, and other interventions in the industry in France, Japan, Germany, the United Kingdom, China, Argentina, Brazil, Sweden, and Italy, among other countries.[5] Direct and indirect subsidies for the financial sector, insurance firms, and other sensitive industries can be very costly for both domestic and global markets. Firms receiving government handouts obtain an artificial competitive advantage over firms that do not, which could result in more efficient and productive companies being driven out of business. If those subsidies come with requirements that subsidized firms employ only domestic workers, lend only to domestic businesses, or buy only from domestic suppliers, the economic distortions they introduce are even more pernicious, forcing the inefficient allocation of resources across countries and causing economic harm to businesses and families around the world.

The expanded use of domestic preferences in government procurement dictated in "Buy American" provisions harms the domestic economy as well as the international market.

Export subsidies are particularly trade-distorting and, in the case of agriculture products, an especially sensitive topic within the WTO. Subsidies and many other domestic support programs artificially prop up domestic prices for food and food products. Thus, they raise the cost of living for families buying food that is produced expensively in home markets. In addition, the same trade measures depress world prices for agricultural products, negatively affecting farmers in developing countries and stifling their attempts to weather the economic downturn, rise from poverty, and improve their living standards.

In late May 2009, the U.S. announced export subsidies to bolster international sales of U.S. dairy products. Blaming the role of similar subsidies introduced by the EU in January 2009 for declining U.S. competitiveness in global dairy markets, America has opted to respond in kind instead of trying to persuade the Europeans to eliminate their trade-distorting measures—the very kinds of measures that both the EU and U.S. promised to avoid in their G-20 pledges.

The expanded use of domestic preferences in government procurement dictated in "Buy American" provisions harms the domestic economy as well as the international market. Limiting competition to domestic firms increases the likelihood that government will not get the best value for the taxpayers' dollar. Moreover, while the U.S. promised to adhere to its international commitments of maintaining some openness to foreign sources in government procurement, this promise means less than it might appear. Only national signatories to the Agreement on Government Procurement in the WTO or U.S. free trade agreements have some protection under the new provisions. Many more countries, including such key U.S. trade partners as India, Brazil, and China, could be shut out from U.S. government contracts and retaliate in kind, closing the door on U.S. firms anxious to find cus-

2. "WTO Chief Sees Sharper Drop in Global Trade for 2009; Down 10%," Bureau of National Affairs *Daily Report for Executives*, June 26, 2009.
3. *Ibid.*
4. Elisa Gamberoni and Richard Newfarmer, "Trade Protection: Incipient but Worrisome Trends," World Bank *TradeNotes*, No. 37 (March 2, 2009), at *http://siteresources.worldbank.org/NEWS/Resources/Trade_Note_37.pdf* (September 16, 2009).
5. *Ibid.* and Global Trade Alert at *http://www.globaltradealert.org/* (September 17, 2009).

tomers anywhere they can. Where America walks, others may choose to follow.

Not forgotten are new or higher tariffs, quotas, import and export taxes, and outright bans on trade. Among others, Russia has raised tariffs on automobiles; Brazil, on certain steel products; Vietnam, on semi-finished iron and non-alloy steel; India, on soybean oils; Zambia, on finished petroleum products; and Ecuador, on more than 600 products.[6] China has banned the import of Belgian chocolate, Italian brandy, and other products, and India has closed its market to toys from China.[7]

Action to improve trade freedom overall was broad-based throughout the world, with 83 countries scoring at least a point higher in 2010 than in 2009. By contrast, 37 countries experienced a decrease in trade freedom of at least one point. Three countries scored at least 10 points lower.

Less transparent but with as much potential to undermine international trade are new, excessive trade-licensing rules, tax levies and rebates, sanitary and product safety restrictions, environmental controls, and other regulatory non-tariff barriers to trade that many countries are adopting. Examples include Indonesia restricting port access for certain garments, footwear, toys, electronics, and food and Argentina imposing non-automatic licensing requirements on a host of goods.[8]

Today, more barriers to trade are being considered by countries around the world. Not all of these measures violate international trade commitments made by countries in the WTO or other regional and bilateral trade agreements; but all restrict trade, distort economic incentives, restrain worldwide growth, and ultimately undermine the rules-based spirit of the WTO and the international trade system it monitors.

With many countries taking an incremental approach to adding barriers to trade, many measures may seem trivial when considered in isolation and relative to total trade flows. However, when these measures are aggregated, the concern that the international trading system will eventually drown under a steadily rising tide of protectionism becomes very real.

Global trade is put at risk today by the growing number of distortions that new protectionist policies are imposing on markets. Moreover, global trade is put at risk in the future as the specter of a global trade war looms larger with each new tit-for-tat trade restriction that countries impose on each other, and as the worsening and increasingly confrontational trade environment undermines the chance for a timely conclusion to the Doha Round.

The 2010 Trade Freedom Scores

The *2010 Index of Economic Freedom* trade freedom rankings are based on data covering the period from July 2008 through June 2009. This coincides with the beginning of the worldwide recession in most countries but in general captures only the earliest policy responses by governments. Nonetheless, the rankings reflect the impact of rising protectionism on some countries' scores. However, they also reveal that many countries have continued to remove previously imposed restrictions on trade.

The rankings show that for the world as a whole, average tariffs fell 0.5 percent from 7.3 percent in 2009 to 6.8 percent in 2010. While average tariff rates fell, the average penalty for non-tariff barriers to trade rose 0.2 of a point from 11.7 in 2009 to 11.9 in 2010. The average trade freedom score rose 1.0 point from 73.2 in 2009 to 74.2 in 2010. (See Table 1.)

Action to improve trade freedom overall was broad-based throughout the world, with 83 countries scoring at least a point higher in 2010 than in 2009.[9] Seven countries scored at least 10

6. *Ibid.*
7. *Ibid.*
8. *Ibid.*

2010 Trade Freedom Scores

Rank	Country	Score
1(t)	Hong Kong	90.0
1(t)	Macau	90.0
1(t)	Singapore	90.0
1(t)	Switzerland	90.0
5	Norway	89.2
6	Georgia	89.1
7	Canada	88.1
8	Chile	88.0
9	Iceland	87.9
10(t)	Croatia	87.8
10(t)	Israel	87.8
10(t)	Namibia	87.8
13(t)	Austria	87.5
13(t)	Belgium	87.5
13(t)	Czech Republic	87.5
13(t)	Denmark	87.5
13(t)	Estonia	87.5
13(t)	Finland	87.5
13(t)	Germany	87.5
13(t)	Hungary	87.5
13(t)	Ireland	87.5
13(t)	Italy	87.5
13(t)	Latvia	87.5
13(t)	Lithuania	87.5
13(t)	Luxembourg	87.5
13(t)	Malta	87.5
13(t)	The Netherlands	87.5
13(t)	Poland	87.5
13(t)	Portugal	87.5
13(t)	Romania	87.5
13(t)	Slovakia	87.5
13(t)	Slovenia	87.5
13(t)	Spain	87.5
13(t)	Sweden	87.5
13(t)	United Kingdom	87.5
36	Bulgaria	87.4
37	United States	86.9
38	Turkey	86.4
39	Papua New Guinea	86.2
40	New Zealand	86.0
41	Kazakhstan	85.9
42(t)	Albania	85.8
42(t)	Taiwan	85.8
44	Mauritius	85.6
45	Australia	85.1
46(t)	Libya	85.0
46(t)	Peru	85.0
48	Guatemala	84.0
49	El Salvador	83.8
50	Honduras	83.7
51	Paraguay	83.5
52	Oman	83.4
53	Macedonia	83.3
54	Montenegro	83.2
55	Bahrain	82.9
56(t)	Nicaragua	82.8
56(t)	United Arab Emirates	82.8
56(t)	Uruguay	82.8
59	Ukraine	82.6
60(t)	Costa Rica	82.5
60(t)	Cyprus	82.5
60(t)	France	82.5
60(t)	Greece	82.5
60(t)	Kuwait	82.5
60(t)	Saudi Arabia	82.5
60(t)	Tajikistan	82.5
67	Japan	82.4
68	Qatar	82.2
69	Mexico	82.0
70	Trinidad and Tobago	81.7
71	Micronesia	81.0
72	Bosnia and Herzegovina	80.8
73(t)	Armenia	80.5
73(t)	Lebanon	80.5
75	Belarus	80.3
76	Dominican Republic	80.0
77(t)	Moldova	79.9
77(t)	Zambia	79.9
79	Mongolia	79.8
80	Turkmenistan	79.2
81	Haiti	79.1
82	Jordan	78.8
83	Malaysia	78.7
84	Indonesia	77.9
85	The Philippines	77.8
86	Azerbaijan	77.1
87	Bolivia	76.9
88	Yemen	76.1
89	South Africa	76.0
90(t)	Kyrgyz Republic	75.9
90(t)	Thailand	75.9
92	Panama	75.8
93	Niger	75.7
94	Serbia	75.2
95	Swaziland	74.9
96	Mozambique	74.5
97	Dominica	74.3
98	Egypt	74.0
99	Botswana	73.9
100	Saint Vincent and the Grenadines	73.3
101	Madagascar	73.2
102	Timor-Leste	73.0
103	Colombia	72.5
104	Burma	72.3
105(t)	China	72.2
105(t)	Jamaica	72.2
107	Uganda	72.1
108	Saint Lucia	71.9
109	Ecuador	71.8
110	Belize	71.5
111(t)	Burkina Faso	71.3
111(t)	Guyana	71.3
113	Morocco	71.2
114	Fiji	71.0
115	South Korea	70.8
116	Algeria	70.7
117	Tanzania	70.5
118	Angola	70.4
119(t)	Cambodia	70.0
119(t)	Samoa	70.0
121	Mauritania	69.9
122	Senegal	69.7
123	Mali	69.6
124	Argentina	69.5
125	Brazil	69.2
126	Eritrea	69.1
127	Vietnam	68.9
128(t)	Burundi	68.6
128(t)	Malawi	68.6
130(t)	Laos	68.4
130(t)	Russia	68.4
132(t)	India	67.9
132(t)	Kenya	67.9
134	Rwanda	67.4
135	Nigeria	67.2
136	Pakistan	67.0
137	São Tomé and Príncipe	66.6
138	Suriname	66.4
139	Cape Verde	65.5
140	Ghana	65.3
141	Solomon Islands	65.2
142	Uzbekistan	65.1
143	Côte d'Ivoire	64.3
144	Lesotho	63.5
145(t)	Sierra Leone	62.8
145(t)	Togo	62.8
147	Comoros	62.4
148	Sri Lanka	62.2
149	Gabon	62.1
150	Ethiopia	61.9
151(t)	Democratic Republic of Congo	61.7
151(t)	Cuba	61.7
153	Republic of Congo	61.0
154	The Gambia	60.6
155	Barbados	60.5
156	Guinea	60.0
157	Cameroon	59.7
158	Equatorial Guinea	58.9
159	Nepal	58.8
160	Chad	58.4
161	Guinea–Bissau	58.2
162	Central African Republic	58.1
163	Bangladesh	58.0
164	Venezuela	57.2
165	Benin	57.0
166	Tonga	56.2
167	Kiribati	55.4
168	Vanuatu	55.1
169	Syria	54.0
170	Liberia	53.8
171	Tunisia	53.5
172	Bhutan	52.0
173	Iran	50.2
174	Zimbabwe	44.8
175	Maldives	44.5
176	The Bahamas	42.2
177	Seychelles	33.4
178	Djibouti	31.9
179	North Korea	0.0

Sources: Heritage Foundation calculations.

Table 1 • B 2320 heritage.org

The Heritage Foundation LEADERSHIP FOR AMERICA points higher. By contrast, 37 countries experienced a decrease in trade freedom of at least one point. Three countries scored at least 10 points lower. (See Table 2.)

Fifty-nine countries show little movement at all, with modest increases or decreases of less than one point in their scores. By essentially standing still, these countries fell behind the better performers but improved their standing vis-à-vis those that succumbed to protectionism.

Trade Freedom Scores—Top Ten Winners and Losers

Countries Showing the Ten Highest Gains and Losses in Trade Freedom Scores from 2009 to 2010

Gaining Freedom		Losing Freedom	
Country	Score Change	Country	Score Change
Comoros	+35.2	The Bahamas	–13.8
Bangladesh	+17.8	Kyrgyz Republic	–11.7
India	+16.9	Benin	–10.4
Belarus	+13.1	Sri Lanka	–8.8
Egypt	+10.6	Guinea–Bissau	–8.6
Albania	+10.0	Vanuatu	–7.9
Bhutan	+10.0	Togo	–7.8
Zambia	+8.7	Iran	–7.2
Georgia	+8.5	Ethiopia	–6.7
Central African Republic	+7.7	Côte d'Ivoire	–6.1

Sources: Heritage Foundation calculations.

Table 2 • B 2320 heritage.org

Economic Gains from Trade

The evidence linking economic growth to trade freedom is strong. According to data from the forthcoming edition of the *Index of Economic Freedom*, countries with freer trade policies experience significantly higher per capita economic growth than countries that maintain trade barriers. The top 10 countries in terms of trade freedom had five-year compound per capita GDP growth rates averaging 4.5 percent.[10] By contrast, the bottom 10 countries[11] with the lowest levels of trade freedom had five-year per capita GDP growth averaging 3.0 percent.

Changes in trade freedom were also important to GDP growth. The 10 countries whose trade freedom improved the most over the 16-year history of the *Index of Economic Freedom* enjoyed per capita GDP growth from 1992 to 2007 averaging 3.0 percent. The 10 countries whose trade freedom scores improved the least (or actually fell in a few cases) saw their per capita GDP grow at an average rate of only 1.7 percent.[12]

Because of the vital link between economic prosperity and trade freedom, it is important that countries strive to advance liberal trade rules and dismantle non-tariff barriers to trade. Countries that have already made significant progress in reducing tariff rates receive higher trade freedom scores than are received by nations that still impose high tariffs on trade at the border, but they should not look at these ratings as a reason to rest on their laurels. Instead, these countries should turn their attention to eliminating the non-tariff measures that add to the cost of international trade.

Methodology

The trade freedom scores reported in this paper are based two inputs:

- Trade-weighted average tariff rates and
- Non-tariff barriers (NTBs).

Different imports entering a country can, and often do, face different tariffs. The weighted average tariff uses weights for each tariff based on the

9. Because of data constraints for Afghanistan, Iraq, Sudan, and Liechtenstein, only 179 countries are fully scored and ranked. While these data constraints make it impossible to fully grade Afghanistan and Sudan, we are able to compute trade freedom scores. The trade freedom score for Afghanistan is 69.6, and the trade freedom score for Sudan is 62.1.
10. Compound average growth rate of per capita income, 2003–2007, the most recent years for which data are available.
11. Excluding North Korea, for which income data were not available.
12. Excluding Cuba and North Korea, for which income data were not available.

share of imports for each good. Weighted average tariffs are a purely quantitative measure and account for the basic calculation of the score using the following equation:

$$\textbf{Trade Freedom}_i = (((\text{Tariff}_{max} - \text{Tariff}_i) / (\text{Tariff}_{max} - \text{Tariff}_{min})) * 100) - \text{NTB}_i$$

where Trade Freedom$_i$ represents the trade freedom in country *i*, Tariff$_{max}$ and Tariff$_{min}$ represent the upper and lower bounds for tariff rates, and Tariff$_i$ represents the weighted average tariff rate in country *i*. The minimum tariff is naturally zero, and the upper bound was set as a score of 50. An NTB penalty is then subtracted from the base score. The penalty of 5, 10, 15, or 20 points is assigned according to the following scale:

- **20**—NTBs are used extensively across many goods and services and/or act to impede a significant amount of international trade.
- **15**—NTBs are widespread across many goods and services and/or act to impede a majority of potential international trade.
- **10**—NTBs are used to protect certain goods and services and impede some international trade.
- **5**—NTBs are uncommon, protecting few goods and services, and/or have very limited impact on international trade.
- **0**—NTBs are not used to limit international trade.

Both qualitative and quantitative information is used to determine the extent of NTBs in a country's trade policy regime. Restrictive rules that hinder trade vary widely, and their overlapping and shifting nature makes it difficult to gauge their complexity. The categories of NTBs considered in our penalty include:

- **Quantity restrictions**—import quotas; export limitations; voluntary export restraints; import–export embargoes and bans; countertrade; etc.
- **Price restrictions**—antidumping duties; countervailing duties; border tax adjustments; variable levies/tariff rate quotas.
- **Regulatory restrictions**—licensing; domestic content and mixing requirements; sanitary and phytosanitary standards; safety and industrial standards regulations; packaging, labeling, and trademark regulations; advertising and media regulations.
- **Investment restrictions**—exchange and other financial controls.
- **Customs restrictions**—advance deposit requirements; customs valuation procedures; customs classification procedures; customs clearance procedures.
- **Direct government intervention**—subsidies and other aids; government industrial policy and regional development measures; government-financed research and other technology policies; national taxes and social insurance; competition policies; immigration policies; government procurement policies; state trading, government monopolies, and exclusive franchises.

As an example, in 2010, France received a trade freedom score of 82.5, based on the weighted average tariff of 1.3 percent common to all European Union countries. The tariff yields a base score of 97.5, but the existence of significant French NTBs reduces the nation's trade freedom score by 15 points.

Because of the vital link between economic prosperity and trade freedom, it is important that countries strive to advance liberal trade rules and dismantle non-tariff barriers to trade.

Gathering data on tariffs to make a consistent cross-country comparison can be a challenging task. Unlike data on inflation, for instance, countries do not report their weighted average tariff rate or simple average tariff rate every year; in some cases, the most recently a country reported its tariff data could have been as far back as 1993. To preserve consistency in grading trade policy, the authors have decided to use the most recently reported weighted average tariff rate for a country from our primary source. If another reliable source reports more updated information on the country's tariff rate, the authors note this fact and may review the grading if there is strong evidence that the most recently reported weighted average tariff rate is outdated.

The World Bank produces the most comprehensive and consistent information on weighted average applied tariff rates. When the weighted average applied tariff rate is not available, the authors use the country's average applied tariff rate; and when the country's average applied tariff rate is not available, the authors use the weighted average or the simple average of most favored nation (MFN) tariff rates.[13] In the very few cases where data on duties and customs revenues are not available, the authors use data on international trade taxes instead.

In all cases, the authors clarify the type of data used and the different sources for those data in the corresponding write-up for the trade policy factor. Sometimes, when none of this information is available, the authors simply analyze the overall tariff structure and estimate an effective tariff rate.

The trade freedom scores for 2010 are based on data for the period covering the second half of 2008 through the first half of 2009. To the extent possible, the information considered was current as of June 30, 2009. Any changes in law effective after that date have no positive or negative impact.

Finally, unless otherwise noted, the authors used the following sources to determine scores for trade policy, in order of priority: World Bank, *World Development Indicators 2009* and *Data on Trade and Import Barriers: Trends in Average Applied Tariff Rates in Developing and Industrial Countries, 1981–2007*; World Trade Organization, *Trade Policy Reviews*, 1995–2009; Office of the U.S. Trade Representative, *2009 National Trade Estimate Report on Foreign Trade Barriers*; World Bank, *Doing Business 2009* and *Doing Business 2010*; U.S. Department of Commerce, *Country Commercial Guide*, 2004–2009; Economist Intelligence Unit, *Country Report*, *Country Profile*, and *Country Commerce*, 2004–2009; and official government publications of each country.

—Daniella Markheim is Jay Van Andel Senior Trade Policy Analyst in, and Ambassador Terry Miller is Director of, the Center for International Trade and Economics at The Heritage Foundation.

13. The most favored nation tariff rate is the "normal," non-discriminatory tariff charged on imports of a good. In commercial diplomacy, exporters seek MFN treatment; that is, the promise that they will be treated as well as the most favored exporter. The MFN rule requires that the concession be extended to all other members of the World Trade Organization. MFN is now referred to as permanent normal trade relations (PNTR).