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2013 Index of Economic Freedom: No Boost in Trade Freedom

Bryan Riley and Ambassador Terry Miller

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Abstract: *The Heritage Foundation has been tracking and ranking trade freedom around the world since 1995. The rankings have consistently shown a correlation between trade freedom and improved lives for people around the world—and vice versa. The latest rankings, in the forthcoming* 2013 Index of Economic Freedom*, once again confirm that connection. For that reason, it is a matter of concern that the worldwide trade freedom score has not improved over the past year. The United States used to be a free trade leader, serving as an example to other countries. It can, and should, be a leader again. This* Special Report *describes which trade policies are helpful, which are harmful, and what the U.S. Congress can do now to put the U.S. back on a path to free trade leadership.*

The latest rankings of trade freedom around the world,[1] developed by The Heritage Foundation and *The Wall Street Journal* in the forthcoming *2013 Index of Economic Freedom*,[2] once again demonstrate how citizens of countries that embrace free trade are better off than citizens of countries that do not. The case for pending trade agreements, such as the Trans-Pacific Partnership and Africa's Continental Free Trade Area, is bolstered by international statistics showing a strong correlation between trade freedom and a variety of positive indicators, including economic prosperity, low poverty rates, and clean environments.

Worldwide, the average trade freedom score remained unchanged from 2012, at 74.5 of a possible top score of 100. Although trade freedom remains at the second-highest level since The Heritage Foundation began tracking it in 1995, it is troubling that progress has stalled in recent years.

Trade freedom scores have shown significant improvement since 1995, when the inaugural *Index of Economic Freedom* was released, but there is plenty of room for additional improvement.

Trade Volume on the Rise

According to the World Trade Organization (WTO), trade volume has recovered strongly from the global recession. The volume of world trade dropped by $3.6 trillion from 2008 to 2009, but in the next two years rebounded by $5.7 trillion to record-high levels.[3] However, the WTO recently lowered its projections for continued trade growth to a 2.5 percent increase in 2012, and a 4.5 percent increase in 2013. These downgrades were due not to increases in protectionist trade barriers, but to a variety of troubling economic events, including the debt crisis in Europe, slower economic growth in China, and continued weak levels of output and employment in the United States.[4]

Positive Trade Policy Developments

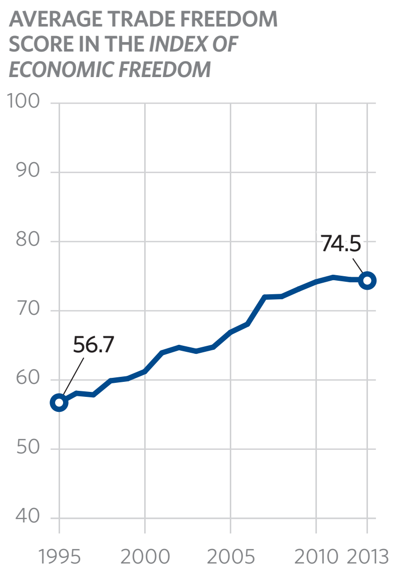
Several positive developments in trade policy are taking place around the globe. Canada is unilaterally phasing out tariffs on more than 1,500 materials used by the country's manufacturers.[5] Cutting tariffs on such inputs will make Canada's manufacturers more competitive, providing a simple example of how countries can strengthen their economies by reducing or eliminating tariffs.

Many African countries are pursuing a Continental Free Trade Area (CFTA) modeled after other successful continental trade deals, such as the North American Free Trade Agreement (NAFTA) and the European Common Market. One study found that such an agreement would boost intra-African trade by as much as 22 percent.[6]

CHART 1

Global Trade Freedom Levels Off

The average trade freedom score in the Index of Economic Freedom *rose steadily for 15 years, but has remained flat since 2011.*



Source: Heritage Foundation calculations from the *2013 Index of Economic Freedom* (forthcoming January 2013).

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The United States and 10 other countries[7] are engaged in Trans-Pacific Partnership (TPP) talks. If successful, the agreement will lower trade barriers between these Pacific Rim nations while allowing additional countries to easily join in the future. The TPP's strategic importance extends beyond the current negotiations because it will set a precedent for global trade rules for years to come. Unfortunately, difficult issues remain, including for the U.S., which is under pressure to liberaize trade in products such as clothing, shoes, and sugar.[8] If the agreement is comprehensive, the talks offer the opportunity for long-term reductions in global trade barriers.

Negative Trade Policy Developments

According to an analysis of trade policy by Global Trade Alert (GTA), an independent trade-monitoring group, there has been a significant increase in protectionist trade measures around the world. GTA found a 36 percent increase in protectionist measures implemented in 2010 and 2011.[9] Since November 2008, the number of trade-restricting discriminatory measures exceeded the number of trade-liberalizing measures by more than three to one.

GTA's conclusion that the number of protectionist measures has increased is consistent with the *Index of Economic Freedom's* conclusion that trade freedom is stuck in neutral. The GTA critique counts items such as the number of antidumping actions initiated, which may also affect the non-tariff barrier penalty assessed in the *Index*. However, the biggest factor in the *Index* trade freedom score is a country's overall weighted average tariff rate, which may not be significantly affected by protectionist anti-dumping measures.

Understanding the Benefits of Trade

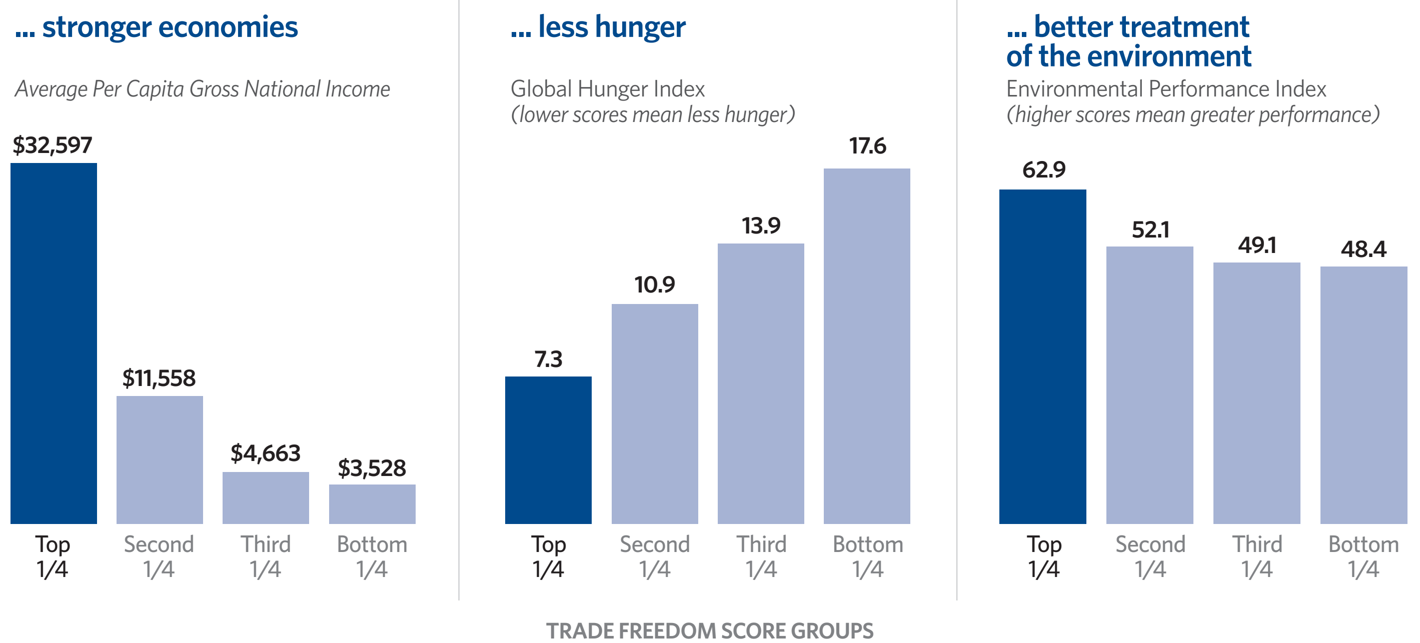
A comparison of the countries with the best trade scores in the *2013 Index of Economic Freedom* with those that have the worst scores demonstrates the importance of trade freedom. Countries with the most trade freedom have higher per

1. See Table 1 at the end of this report.
2. The *2013 Index of Economic Freedom* will be published in January 2013. The trade freedom rankings, which account for 10 percent of a country's overall economic freedom score, were originally released on October 25, 2012 at the request of the Millennium Challenge Corporation, which uses them as part of its criteria for determining countries' eligibility for grants, and were revised on November 2, 2012.
3. Authors' calculation from World Trade Organization, "Short-Term Merchandise Trade Statistics," http://www.wto.org/english/res_e/statis_e/quarterly_world_exp_e.htm (accessed October 16, 2012).
4. News release, "Slow Global Growth to Hit Trade in 2012 and 2013, WTO Says," World Trade Organization, September 21, 2012, http://www.wto.org/english/news_e/pres12_e/pr676_e.htm (accessed October 16, 2012).
5. "Canada to Scrap Tariffs on Manufacturing Inputs," Reuters, March 4, 2010, http://www.reuters.com/article/2010/03/04/idUSCFB00011320100304?type=marketsNews (accessed October 16, 2012).
6. "Stakeholders Reach Consensus on Africa Free Trade Zone," *Ghana Business News*, September 30, 2012, http://www.ghanabusinessnews.com/stakeholders-reach-consensus-on-africa-free-trade-zone/ (accessed October 16, 2012).
7. The other 10 countries are: Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.
8. See, for example, "No Additional Sugar Access for Australia in TPP," American Sugar Alliance, August 8, 2012, http://www.sugaralliance.org/newsroom/no-additional-sugar-access-for-australia-in-tpp.html (accessed October 16, 2012).
9. Global Trade Alert, "Débâcle: The 11th GTA Report on Protectionism," June 2012, http://www.globaltradealert.org/sites/default/files/GTA11_0.pdf (accessed October 16, 2012).

CHART 2

Major Benefits of Free Trade

The nations of the world are divided into four groups based on their trade freedom score in the 2013 Index of Economic Freedom. *The chart below shows that* ***nations with more trade freedom also have ...***



Sources: Heritage Foundation calculations from the *2013 Index of Economic Freedom* (forthcoming January 2013) and:

- Gross national income per capita: The World Bank, "GNI Per Capita, Atlas Method (Current U.S.$)," http://data.worldbank.org/indicator/NY.GNP.PCAP.CD (accessed October 10, 2012). Figures based on 177 countries.
- Global hunger: International Food Policy Research Institute, "2011 Global Hunger Index," http://www.ifpri.org/publication/2011-global-hunger-index (accessed October 10, 2012). Figures based on 124 countries.
- Environmental performance: Yale University, Center for Environmental Law and Policy, and Columbia University, Center for International Earth Science Information Network, Environmental Performance Index 2012, http://epi.yale.edu/ (accessed October 10, 2012). Figures based on 133 countries.

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capita incomes, lower incidences of hunger in their populations, and cleaner environments.

American special interest groups often complain that "unfair" foreign competition destroys jobs at home, but in the United States, the trade deficit and the unemployment rate usually have an inverse relationship: When the trade deficit increases, the unemployment rate decreases, and vice versa. For example, in 2009, the U.S. trade deficit shrank by 46 percent, and the unemployment rate increased by 60 percent.[10]

Many critics of trade deals such as NAFTA and the WTO agreement argue that free trade benefits big multinational corporations and "the rich" at the expense of everyone else. In fact, poverty rates are much lower in countries with low trade barriers than in those where trade is restricted.[11]

U.S. Trade Leadership Needed

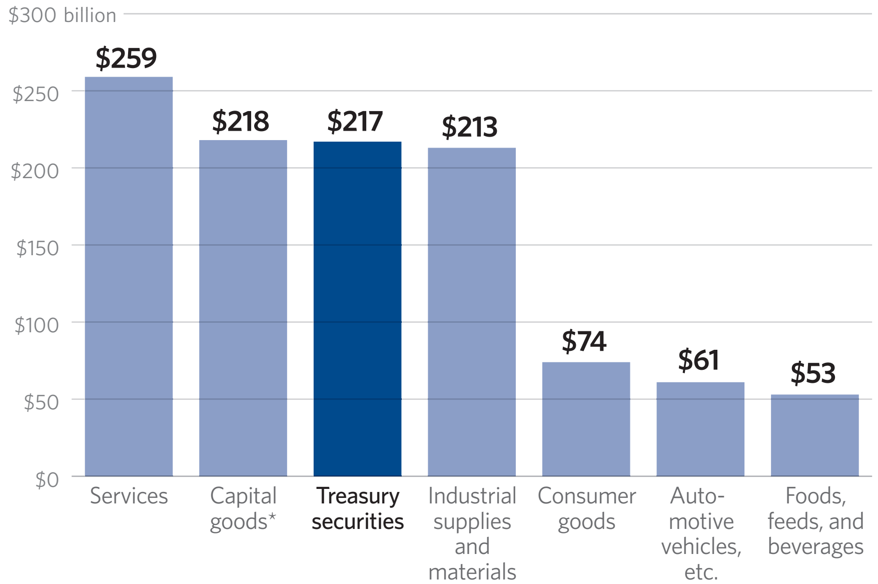
International trade plays an increasingly significant role in the economies of the United States and other countries. Since 1960, trade as

10. Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey: Where Can I Find the Unemployment Rate for Previous Years?" February 3, 2011, http://www.bls.gov/cps/prev_yrs.htm (accessed October 16, 2012), and Bureau of Economic Analysis, "International Data: International Transactions," 2008–2009, Table 1, "U.S. International Transactions," http://www.bea.gov/iTable/iTable.cfm?ReqID=6&step=1 (accessed October 11, 2012).
11. See, for example, The World Bank, "Poverty Headcount Ratio at $2 a Day (PPP) (% of Population)," 2007–2011, http://data.worldbank.org/indicator/SI.POV.2DAY (accessed October 16, 2012).

CHART 3

Foreign Sales of U.S. Treasuries Compared to Exports

Figures are from January to May 2012.



* Excluding automotive.

Sources: U.S. Department of Commerce, "U.S. International Trade in Goods and Services," http://www.bea.gov/newsreleases/news_release_sort_international.htm (accessed October 10, 2012), and U.S. Department of the Treasury, "U.S. Transactions with Foreigners in Long-Term Securities," http://www.treasury.gov/resource-center/data-chart-center/tic/Pages/ticsec.aspx (accessed October 10, 2012).

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a percentage of gross domestic product (GDP) for the world has doubled. Trade as a percentage of U.S. GDP has nearly tripled, but remains lower than the world average due to the large U.S. internal market.[12]

Historically, the United States has led efforts to expand global trade freedom. Since 1980, U.S. tariff rates have dropped by 58 percent, and tariffs in other countries have fallen an average of 50 percent just since 1998.[13] With the U.S.–Canada free trade agreement and then NAFTA, the United States initiated a healthy global contest to see which country can sign the most free trade agreements. Today, 239 regional trade agreements are in force, and dozens more are currently being negotiated.[14]

Thanks to U.S. leadership in the Uruguay Round trade talks, 123 countries collectively implemented the largest global tax cut in history and created the World Trade Organization to mediate trade disputes. Trade disagreements that could have escalated into trade wars in the past can now be moderated by impartial referees.

By eliminating U.S. quotas on textiles and apparel in 2005, the U.S. government allowed America's poorest citizens more access to affordable clothing. And, by offering people in developing countries more opportunities to do business with the U.S., they gained an alternative to dependence on foreign aid.

Unfortunately, the long delays by the Obama Administration in implementing the Colombia, Panama, and South Korea free trade agreements effectively destroyed momentum for trade liberalization in the United States. A much ballyhooed pivot to Asia has only increased attention on excessive U.S. posturing on environmental standards and labor regulations in connection with the negotiations of the Trans-Pacific Partnership, not to mention U.S. foot-dragging on long-standing U.S. protectionism in dairy, sugar, and textiles.

Excessive Federal Spending and Trade Policy

The U.S. trade deficit has led some Members of Congress to call for new trade barriers, but they would better serve their constituents by restraining excessive government spending and the resulting federal budget deficit. The government recently announced that it is expected to run a budget deficit of more than $1 trillion for the fourth straight year. One often-overlooked result of these large budget deficits is their negative impact on U.S. exporters.

12. The World Bank, "Trade (% of GDP)," http://data.worldbank.org/indicator/NE.TRD.GNFS.ZS (accessed October 18, 2012).
13. Authors' calculations from U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," http://dataweb.usitc.gov/ (accessed October 17, 2012), and World Bank, "Weighted Mean Applied Tariff," http://data.worldbank.org/indicator/TM.TAX.MRCH.WM.AR.ZS (accessed October 17, 2012).
14. World Trade Organization, Regional Trade Agreements Integration System, http://rtais.wto.org/UI/PublicAllRTAList.aspx (accessed October 12, 2012).

Sales of U.S. Treasury securities to foreigners are not counted as exports. If they were, Treasury securities would be one of the country's biggest exports.

The government sold $216.5 billion in Treasury bonds to foreigners in the first five months of 2012. That is four times more than the amount exported by U.S. agricultural producers and three-and-a-half times more than the amount exported by carmakers.

Sales of Treasury securities abroad have an impact on exporters because someone who spends a dollar on a U.S. government Treasury bond has less money left to spend on U.S. private-sector goods and services.

That is why, if politicians are serious about boosting U.S. exports, their top priority should be to restrain excessive federal spending.[15] This would reduce the budget deficit, resulting in fewer Treasury bond "exports" and more opportunities for U.S. private-sector producers to sell their goods and services abroad.

How the U.S. Can Show Trade Leadership

Whatever the outcome of the presidential election on November 6, the United States can take several practical steps to encourage trade freedom.

The United States should encourage other countries' efforts to reduce trade barriers, including African countries' proposed CFTA. U.S. programs, such as laid out in the Generalized System of Preferences, African Growth and Opportunity Act, and the Andean Trade Preference Act, promote mutually beneficial trade and growth. These programs should be expanded to include more categories of imports and extended on a long-term basis.

In recent years, the United States has remained on the sidelines while other countries have aggressively moved forward with trade deals modeled on U.S. agreements, such as NAFTA. The Administration should get back in the game by exploring multilateral opportunities to reduce trade barriers in the Pacific, in the Western Hemisphere, across the Atlantic, and anywhere else it can find willing partners. Negotiation of a free trade agreement between the United States and the European Union would be a positive step.[16]

However, the United States need not wait for long and uncertain negotiations to reduce its own self-destructive trade barriers. Congress can take the first steps by:

- **Eliminating tariffs on imported shoes and clothing.** These tariffs, which have been called America's most regressive tax, cost Americans billions of dollars per year.[17]
- **Eliminating restrictions on sugar imports.** Sugar tariffs are the modern version of the Molasses and Sugar Acts, which contributed to the American Revolution. They should be as offensive to lawmakers today as they were to colonists in the 1700s.
- **Eliminating job-killing anti-dumping laws.** These laws reduce competition and increase the price of inputs for U.S. producers.[18] At the very least, the government should conduct a cost–benefit analysis before considering any new anti-dumping duties.
- **Eliminating "Buy American" laws.** Requirements for governments at the state, local, and federal levels to use domestically produced products when lower-priced imports are available increase government spending, leading to higher taxes or larger budget deficits. They also indirectly limit opportunities for competitive U.S. companies to sell their products to other governments.
- **Eliminating the Merchant Marine Act of 1920 (Jones Act) and the Passenger Vessel Services Act of 1886.** These laws require ships moving from one U.S. port to another to be U.S.-made and U.S.-crewed, thereby artificially increasing cargo transportation costs.

Conclusion

The Heritage Foundation's 2013 rankings of trade freedom show that people in the United States and

15. "Runaway Spending, Not Inadequate Tax Revenue, Is Responsible for Future Deficits,"in The Heritage Foundation, *2012 Federal Budget in Pictures*, http://www.heritage.org/federalbudget/runaway-spending-tax-revenue.
16. Reuters, EU, "U.S. to Negotiate Free-Trade Deal from Spring 2013: Officials," October 17, 2012, http://www.reuters.com/article/2012/10/17/us-eu-usa-trade-idUSBRE89G0KT20121017 (accessed October 18, 2012).
17. Edward Gresser, "The Rebirth of Pro-Shopper Populism: Affordable Shoes, Outdoor Apparel, and the Case for Tariff Reform," Progressive Economy, June 2011, http://www.outdoorindustry.org/pdf/Tariffs_Taxation.pdf (accessed October 16, 2012).
18. Daniel Ikenson, "A Tariff Reduction Plan for U.S. Jobs," *The Wall Street Journal*, September 10, 2011, http://online.wsj.com/article/SB10001424053111190471660 4576546910548548544.html (accessed October 17, 2012).

TABLE 1

2013 Trade Freedom Scores

t—tie NG — Not graded

Rank	Country	Score
1-t	Hong Kong	90.0
1-t	Liechtenstein	90.0
1-t	Macau	90.0
1-t	Singapore	90.0
1-t	Switzerland	90.0
6	Norway	89.3
7	Georgia	89.2
8	Canada	88.2
9	Mauritius	87.9
10	Iceland	87.8
11	Croatia	87.5
12-t	Austria	86.8
12-t	Belgium	86.8
12-t	Bulgaria	86.8
12-t	Czech Republic	86.8
12-t	Denmark	86.8
12-t	Estonia	86.8
12-t	Finland	86.8
12-t	Germany	86.8
12-t	Hungary	86.8
12-t	Ireland	86.8
12-t	Italy	86.8
12-t	Latvia	86.8
12-t	Lithuania	86.8
12-t	Luxembourg	86.8
12-t	Malta	86.8
12-t	Netherlands	86.8
12-t	New Zealand	86.8
12-t	Poland	86.8
12-t	Portugal	86.8
12-t	Romania	86.8
12-t	Slovakia	86.8
12-t	Slovenia	86.8
12-t	Spain	86.8
12-t	Sweden	86.8
12-t	United Kingdom	86.8
37-t	Bosnia and Herzegovina	86.4
37-t	United States	86.4
39	Australia	86.2
40-t	Armenia	85.4
40-t	Nicaragua	85.4
42-t	Guatemala	85.2
42-t	Turkey	85.2
44	Costa Rica	85.1
45-t	Libya	85.0
45-t	Papua New Guinea	85.0
45-t	Peru	85.0
45-t	Taiwan	85.0
49	Macedonia	84.6
50	Ukraine	84.4
51-t	Israel	83.0
51-t	Montenegro	83.0
53	Uruguay	82.9
54	Bahrain	82.8
55	Paraguay	82.7
56	United Arab Emirates	82.6
57	Qatar	82.5
58	Zambia	82.3
59	Chile	82.0
60-t	Cyprus	81.8
60-t	France	81.8
60-t	Greece	81.8
60-t	Japan	81.8
64-t	Namibia	81.5
64-t	Yemen	81.5
66	Micronesia	81.0
67	Belarus	80.8
68	Mexico	80.6
69	Lebanon	80.4
70	Moldova	80.0
71-t	Albania	79.8
71-t	Mongolia	79.8
73	Botswana	79.7
74	Jordan	79.6
75	Turkmenistan	79.2
76	El Salvador	79.0
77	Burundi	78.9
78	Oman	78.7
79	Vietnam	78.6
80-t	Kazakhstan	78.2
80-t	Tajikistan	78.2
82	Rwanda	78.0
83	Serbia	77.9
84	Dominican Republic	77.8
85	Russia	77.4
86	Saudi Arabia	77.3
87-t	Azerbaijan	77.2
87-t	Belize	77.2
89	Honduras	77.1
90	Malaysia	77.0
91	Kuwait	76.8
92	South Africa	76.3
93	Sri Lanka	76.2
94	Tonga	75.6
95	Philippines	75.5
96-t	Kyrgyz Republic	75.4
96-t	Mozambique	75.4
98	Thailand	75.2
99-t	Indonesia	75.0
99-t	Jamaica	75.0
101-t	Haiti	74.8
101-t	Panama	74.8
103	Madagascar	74.6
104-t	Bolivia	74.3
104-t	Dominica	74.3
106	Egypt	73.8
107-t	Burma	73.6
107-t	Uganda	73.6
109	Tanzania	73.5
110	St. Vincent and the Grenadines	73.3
111	Mali	73.2
112	Timor-Leste	73.0
113	Syria	72.8
114-t	South Korea	72.6
114-t	Solomon Islands	72.6
116	Burkina Faso	72.5
117-t	Colombia	72.2
117-t	Senegal	72.2
119	China	72.0
120	Saint Lucia	71.9
121	Malawi	71.8
122	Niger	71.7
123	Guyana	71.2
124	Morocco	70.8
125	Cote d'Ivoire	70.3
126-t	Angola	70.2
126-t	Cambodia	70.2
126-t	Sierra Leone	70.2
129	Trinidad and Tobago	69.9
130-t	Brazil	69.7
130-t	Swaziland	69.7
132-t	Eritrea	69.1
132-t	Lesotho	69.1
134	Comoros	68.8
135	Ecuador	68.1
136	Fiji	68.0
137-t	Algeria	67.8
137-t	Ghana	67.8
139	Argentina	67.6
140	Cape Verde	66.9
141	Kenya	66.7
142	Suriname	66.3
143	Uzbekistan	66.1
144-t	Pakistan	66.0
144-t	Samoa	66.0
146	Guinea-Bissau	65.3
147	Mauritania	64.8
148	Ethiopia	64.0
149	Nigeria	63.9
150	India	63.6
151	Democratic Republic of Congo	63.0
152	Cuba	62.7
153	Liberia	61.4
154	Guinea	61.2
155	Gabon	61.1
156	Nepal	60.8
157	Republic of Congo	60.7
158-t	Barbados	60.5
158-t	Gambia	60.5
160	São Tomé and Príncipe	60.0
161	Djibouti	59.6
162	Benin	59.3
163-t	Equatorial Guinea	58.8
163-t	Venezuela	58.8
165	Laos	58.7
166	Tunisia	58.1
167	Central African Republic	57.8
168	Togo	56.7
169	Chad	55.6
170	Kiribati	55.4
171	Sudan	55.4
172	Cameroon	54.9
173	Bangladesh	54.0
174	Zimbabwe	50.4
175	Bhutan	49.5
176	Vanuatu	48.0
177	Bahamas	47.0
178	Iran	45.7
179	Maldives	43.7
180	Seychelles	33.4
181	North Korea	0.0
—	Afghanistan	NG
—	Iraq	NG
—	Kosovo	NG
—	Somalia	NG

Source: Heritage Foundation calculations from the *2013 Index of Economic Freedom* (forthcoming January 2013).

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around the world benefit when their governments allow them to trade freely. Reducing trade barriers in the United States and in other countries would generate beneficial results including less poverty and greater prosperity for the 7 billion people across the globe.

Appendix Methodology

The trade freedom scores reported in this paper are based on 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 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 equation

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

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:

- Penalty of 20: NTBs are used extensively across many goods and services and/or act to impede a significant amount of international trade.
- Penalty of 15: NTBs are widespread across many goods and services and/or act to impede a majority of potential international trade.
- Penalty of 10: NTBs are used to protect certain goods and services and impede some international trade.
- Penalty of 5: NTBs are uncommon, protecting few goods and services, and/or have very limited impact on international trade.
- No penalty: 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 the trade freedom penalty include:

- **Quantity restrictions:** import quotas, export limitations, voluntary export restraints, import/export embargoes and bans, countertrade measures, 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;
- **Customs restrictions:** advance deposit requirements; customs valuation procedures; customs classification procedures; customs clearance procedures; and
- **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.

An example: In 2013, France received a trade freedom score of 81.8, based on the weighted average tariff of 1.6 percent common to all European Union countries. The tariff yields a base score of 96.8, but the existence of significant French NTBs reduces the nation's trade freedom score by 15 points.

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. To preserve consistency in grading trade policy, the authors use the World Bank's most recently reported weighted average tariff rate for a country. If another reliable source reports more updated information on a 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.[19] In the very few cases in which data on duties and customs revenues are not available, the authors use international trade tax data 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 2013 are based on data for the period covering the second half of 2011 through the first half of 2012. To the extent possible, the information considered is current as of June 30, 2012. 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:

- The World Bank, *World Development Indicators 2012 and Data on Trade and Import Barriers: Trends in Average Applied Tariff Rates in Developing and Industrial Countries, 1981–2009;*
- The World Trade Organization, *Trade Policy Review,* 1995–2012;
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19. The most-favored-nation tariff rate is the "normal" non-discriminatory tariff charged on imports. 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).

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