The Heritage Foundation
LEADERSHIP FOR AMERICA

America's Global Agenda for Economic Freedom

The Heritage Foundation Economic Freedom Task Force

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Abstract:
Promoting economic freedom at home and abroad is essential to revitalizing the U.S. economy. In 2010, for the first time ever, the United States fell from the ranks of the economically free in the Index of Economic Freedom*, and economic freedom in the U.S. has continued to decline. The U.S. influence can be decisive in promoting property rights and anti-corruption measures in other countries. In addition, the U.S. should specifically seek out opportunities to negotiate new free trade agreements (FTAs) and promptly implement the FTAs with Colombia, Panama, and South Korea. The U.S. should also expand the Visa Waiver Program to ease tourist and business travel and to assist counterterrorism efforts.*

The greatest threat to U.S. prosperity is the decline in economic freedom in the United States. In 2010, for the first time ever, the United States fell from the ranks of the economically free in the *Index of Economic Freedom*, published annually by The Heritage Foundation and *The Wall Street Journal*. In 2012, the U.S. score dropped again, with the U.S. falling to 10th place.

This reduction in economic freedom has been accompanied by a stagnant economy, persistently high unemployment, and lethargic economic growth. Promoting economic freedom in the United States is essential to growing the economy and creating jobs for Americans. However, promoting economic freedom abroad is also important for revitalizing the U.S. economy. America is a global economic power. Encouraging the free flow of goods, services, people, and ideas around the world contributes to American prosperity. Americans need ambitious policies that promote economic freedom worldwide, policies that create economic dynamism, and the continual innovation that leads to better products, new markets, and greater investment.

This report by the Heritage Foundation Economic Freedom Task Force offers 26 concrete recommendations that the United States should use to promote economic freedom in Asia, South and Central America and the Caribbean, Europe and Russia, the Middle East, and Africa. The task force included a diverse team of economic and regional policy experts at The Heritage Foundation. For each region, the task force made key observations of obstacles to expanding economic freedom and provided specific recommendations for overcoming them.

While the recommendations were crafted for specific regions, some themes emerged repeatedly, particularly the importance of promoting property rights and anti-corruption measures. Furthermore, in virtually every region, the task force identified opportunities for the United States to enter into new free trade agreements (FTAs). The emphasis on free trade is not surprising. Countries with the lowest trade barriers also have the strongest economies, the lowest poverty rates, and the highest average levels of per capita income. Thus, the "free trade tool" is an ideal instrument for expanding economic freedom. In particular, new initiatives, such as the proposed nine-country Trans-Pacific Partnership (TPP), could create new economic opportunities by expanding trade among the United States, Asia, and Latin America.

Finally, the team noted the importance of expanding the Visa Waiver Program (VWP), particularly adding member countries in Europe and Latin America. Most tourist and business travel to the United States occurs under the Visa Wavier Program, and it is therefore an important instrument to promote economic exchange with other like-minded nations.

This report offers Washington a blueprint for a practical and effective strategy for promoting economic freedom around the world, which will also help the economy at home. This agenda can and should be implemented now. The warnings of the *2012 Index of Economic Freedom* about the loss of economic freedom are too stark to ignore. Only by pressing for economic freedom at home and abroad can the U.S. hope to avoid a course of decline.

Asia

The Asia–Pacific region is distinguished by the extraordinary disparity of economic freedom among its economies. Four of the world's 10 freest economies—Hong Kong, Singapore, Australia, and New Zealand—are in this region, yet most of the other countries remain "mostly unfree," as measured in the *2012 Index of Economic Freedom*. North Korea, which continues to reject any form of free market activity, is the least free economy in the world.

The Asia–Pacific scores higher than the world average in four of the 10 economic freedoms: fiscal freedom, government spending, business freedom, and labor freedom. Lower government expenditures result in a regional government spending score that is more than five points better than the world average. The region's labor freedom score is also better than the world average by about four points, although many small Pacific island economies still lack fully developed formal labor markets. The typical Asian country has notably lower scores in investment freedom, financial freedom, property rights, and freedom from corruption.

Observation: Basic property rights, starting with land, should be improved. The most important flaw in most Asian economies is the lack of secure property rights. The fundamental issue is the right of individuals to own land fully. For example, the single biggest problem with the Indian economy is unclear land ownership, which has depressed agricultural productivity, kept hundreds of millions in poverty, and blocked Indian development. Clear private property rights to land would transform India. In China, the granting of minimal, but clear property rights to farmers in 1978 triggered 30 years of rapid growth. However, rural incomes have now fallen far behind urban incomes, and mass ecological destruction has ensued in part because the right to own land is still sharply limited. Nor are land rights problems limited to developing economies. The superb record of Hong Kong and Singapore in increasing economic freedom is marred by government ownership of land.

IN CHINA, THE GRANTING OF MINIMAL, BUT CLEAR PROPERTY RIGHTS TO FARMERS IN 1978 TRIGGERED 30 YEARS OF RAPID GROWTH.

Recommendation #1. The U.S. should offer technical assistance in developing appropriate legal norms and land titling process as well as in mapping property boundaries. Improving property rights should become the top priority for American representatives in bilateral and regional dialogues and summits aimed at advancing development.

Observation: Transparency and the rule of law must be enhanced to fight corruption. Many Asian economies would rank as quite free except for the prevalence of corruption. India, Indonesia, and the Philippines are renowned for corruption problems, but Bangladesh, Cambodia, China, Mongolia, Pakistan, and Vietnam also suffer from high levels of corruption. Even South Korea has suffered from notable corruption. The primary means of fighting corruption are transparency and the rule of law. These are complementary, but either can be enhanced if there are obstacles to the other. Transparency is especially lacking in less developed economies and easier to promote and spread than improving the rule of law.

Overregulation, a widespread response to corruption, has failed in the region. India is a prime example. Overregulation typically reduces respect for the law and often causes confusion that reduces transparency as well as providing opportunities for predatory behavior by the government.

Recommendation #2. The U.S. should work to strengthen the Organisation for Economic Co-operation and Development (OECD) anti-bribery convention to meet the sharp challenges posed in Asia. Transparency and anti-corruption practices in trade and investment should be emphasized in bilateral investment treaties and other economic exchanges.

Observation: The role and privileges of state-owned enterprises should be reduced. Massively subsidized state-owned enterprises (SOEs) in China are a global issue. India also has a large set of poorly performing state firms. In Vietnam, underperforming SOEs are perhaps the main factor restraining long-term development. The ideological commitment of some governments to state ownership in certain sectors precludes complete eradication, but certain internal and external reforms would enhance economic freedom.

Internally, Asian governments should identify the small set of sectors that they insist the state control for strategic reasons. Even in these sectors, limited private participation can create genuine competition and improve SOE performance. In other sectors, state firms should be allowed to go bankrupt if they cannot compete.

Externally, Asian governments should disclose the extent of existing and planned support to SOEs, including the limitations on access to their internal markets and a comprehensive list of subsidies for overseas trade and investment.

Recommendation #3. As part of its competitive neutrality provisions, the Trans-Pacific Partnership should feature the identification and limitation of government support of SOEs. Congress should shift its focus from the yuan–dollar exchange rate to subsidies for Chinese state firms.

Observation: The staggering amount of infrastructure building in the region should be led by the private sector or shrink drastically. Long-standing obsessions with state-directed infrastructure projects in Japan and China deserve the attention, but India has been just as obsessed, and now so is Indonesia. Invariably, the infrastructure is not what the private sector most desires or needs for sustainable growth. Central and local governments tend to choose infrastructure projects that satisfy bureaucratic imperatives, can be milked for political gain, or provide short-term stimulus. This has led to massive waste in India because the federal government is utterly inadequate to the task of national infrastructure development, yet it wants to expand its efforts to the trillion-dollar range. Decades of Japanese infrastructure spending have yielded no growth at all. China's vaunted programs have caused domestic debt to soar and are being rolled back, especially in rail. Indonesia, with a government known for corruption, faces a similar fate unless it encourages commercially viable projects identified and implemented by the private sector.

CENTRAL AND LOCAL GOVERNMENTS TEND TO CHOOSE INFRASTRUCTURE PROJECTS THAT SATISFY BUREAUCRATIC IMPERATIVES, CAN BE MILKED FOR POLITICAL GAIN, OR PROVIDE SHORT-TERM STIMULUS.

Recommendation #4. The U.S. should evaluate whether individual Asian infrastructure programs are primarily commercial or primarily noncommercial and end any assistance to noncommercial programs. The U.S. should coordinate with friendly countries in making this evaluation and in providing any assistance.

Observation: The scale and frequency of government intervention into foreign exchange markets should be reduced. East Asia has a slew of governments that accumulate foreign currency reserves in part by intervening in foreign exchange markets. China is the most notorious example, but Japan was first, and South Korea may be the most active. Singapore, Taiwan, and others also have extremely large reserves measured as a percentage of gross domestic product (GDP), indicating distorted economies. The currency market interventions distort their domestic markets and, when taken as a whole, have distorted the global economy. As single policies, they consistently make national exports cheaper and imports more expensive, artificially altering supply and demand decisions by individuals and firms within East Asian economies. Collectively, they contribute to global financial imbalances by depressing consumption among a large portion of the world's population and incentivizing production in areas where land and other resources are inadequate to sustain that production.

Recommendation #5. The U.S. should cease objecting to the level of bilateral exchange rates in the Treasury's currency report, congressional legislation, the President's speeches, and elsewhere. These are moving targets, and claims about undervaluation are unavoidably ill founded. The U.S. should shift the debate to the frequency and magnitude of government intervention in currency markets, which would be the cause of any undervaluation and is much more clearly observable.

South and Central America and the Caribbean

The countries of the South and Central America and the Caribbean region range from prosperous Chile and the developing economic colossus of Brazil to the small island economies of the Caribbean Sea. About half of the countries in the region have made progress toward greater economic freedom. In general, countries in the region have higher levels of fiscal and investment freedom than the average country in the world, but corruption and a lack of protection for property rights are major problems. Cuba remains the least free country in the region, but a group of countries, including Bolivia, Ecuador, Nicaragua, and even Dominica, have fallen under the influence of Venezuela's charismatic leader Hugo Chavez and are stuck near the bottom of the economic freedom rankings or falling fast.

Observation: The opportunity to see the advantages of economic freedom have never been greater. Latin America has weathered the economic downturn and is entering a cycle of increased economic growth. Policymakers in Washington have often minimized and overlooked Latin America's importance to the U.S. economy, but lowered tariffs and trade liberalization have increased imports of U.S. goods in many Latin American and Caribbean countries. Between 1998 and 2009, total U.S. merchandise trade with the region grew faster than trade with Asia. In 2010, U.S. exports to the region totaled $301.8 billion, 22 percent of U.S. global exports, second only to Europe and more than three times the value of the goods exported to China. Eleven of the 20 U.S. bilateral FTAs are with Latin American countries.

Recommendation #6. While the media and the U.S. State Department have made much about an "Asian pivot" in U.S. foreign, defense, and commercial policy, much needs to be done in the Western Hemisphere with nations that are largely democratic, Western-minded, demographically linked to the U.S., and proximate in terms of geography and market integration. The U.S. should develop a consistent, bipartisan strategy that replaces the discarded proposals to create a Free Trade Area of the Americas with a far more visionary and proactive strategy than the current Pathways to Prosperity initiative. This strategy should target support to expand commerce and reciprocal market access, harmonize existing trade agreements, eliminate double taxation, and build strong public–private partnerships in strong market economies. In addition, the proposed nine-country Trans-Pacific Partnership could create new economic opportunities by expanding trade between the United States and Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, and Vietnam, benefiting U.S. economic ties to both Asia and Latin America.

Observation: Delay in concluding trade agreements with Panama and Colombia has already resulted in significant losses of U.S. market share in those countries. In Panama, large-scale projects—such as the $5.25 billion Panama Canal Expansion, the $1.5 billion Panama City Metro, and hundreds of millions of dollars in highway expansion contracts—were awarded to non-American firms. Panama continues to evolve as a dynamic international banking and financial service center and aspires to a Singapore-like status in the future. Likewise, Colombia has substantially improved its economic freedom score in recent years, remains an important energy partner, and is a strategic ally in the fight against crime and the drug trade. Colombian President Juan Manuel Santos has promised to address ongoing problems of the past, including compensation for victims, and lay the foundation for a durable peace.

Recommendation #7. Delays in FTA implementation—a process that can take months if not years—could further erode the U.S. market share. The U.S. government needs to move swiftly to implement and put into force the FTAs with Colombia and Panama—along with the FTA with South Korea—which Congress approved and President Barack Obama signed in October 2011.

Observation: Ethanol tariffs are damaging. In America's Corn Belt, ethanol is enshrined as a government-backed way to sell more grain. The Energy Policy Act of 2005 established the Renewable Fuel Standard (RFS) or "ethanol mandate." The Energy Independence and Security Act of 2007 revised the RFS to call for annual production of 36 billion gallons of "renewable fuels" by 2022, including 15 billion gallons derived from corn ethanol. The corn ethanol mandate forces Americans to use U.S. corn ethanol rather than Brazil's "more energy-efficient" sugarcane ethanol, driving up gas prices, lowering mileage per gallon, harming automobile engines, and releasing carcinogens into the air. Subsidies for corn ethanol expired at the end of 2011, but subsidies for other types of ethanol remain in place, distorting the energy market and trade.

Recommendation #8. Congress should remove the current tariff on ethanol made from sugar cane and phase out government subsidies for all ethanol production in the U.S. in order to send a clear signal that the U.S. is serious about ending agricultural subsidies and advancing economic freedom in the Americas.

Observation: The U.S. has lagged in promoting free and secure travel. Congress created the Visa Waiver Program in 1986 to facilitate trade and tourism in the United States by citizens of friendly member nations. Presently, 36 countries are included in the program, which allows their citizens to travel to and within the U.S. for up to 90 days without obtaining a visa. Yet among these nations, Latin America is not represented. This fact makes little sense given the vast economic and diplomatic benefits the program offers to the United States. According to most recent estimates, nearly 17 million individuals visited the United States in 2008 under the VWP. These visitors spent money at U.S. restaurants, hotels, and stores, injecting more than $100 billion in the U.S. economy. At the diplomatic level, key allies view VWP membership as a sign of trust and close ties with the United States. In terms of security, the VWP serves as a vital counterterrorism tool by enhancing security cooperation between the U.S. and member countries.

Despite these benefits, congressional mandates hamper expansion of the program. Current law prevents the Department of Homeland Security from granting membership to new countries with a visa refusal rate greater than 3 percent until the department develops and implements a system to biometrically track departure of foreign visitors from U.S. airports.

Recommendation #9. Congress should decouple the Visa Waiver Program from the biometric air exit mandate to allow its continued expansion. In accepting new members, the U.S. must not forget Latin America. Countries such as Chile and Panama have demonstrated themselves to be emerging players in the world's economy, boasting economic growth rates of 5.2 percent and 7.5 percent, respectively. The United States can ill afford to continue to leave friendly, emerging economic partners waiting in frustration.

THE VWP SERVES AS A VITAL COUNTERTERRORISM TOOL BY ENHANCING SECURITY COOPERATION BETWEEN THE U.S. AND MEMBER COUNTRIES.

Observation: The U.S. needs to modernize and update its defense export controls. High-value, high-tech, and defense industry products that contain sensitive technologies constitute a major component of U.S. exports. Nevertheless, U.S. companies that seek to export these items throughout Latin America and the rest of the world are burdened by a myriad of often outdated export controls and regulations. In particular, excessive controls on foreign technology sales cost U.S. businesses billions of dollars each year, impede economic growth at home and abroad, and limit the ability of the U.S. to work with strategic partners.

Recommendation #10. Modernizing export controls could increase the U.S. GDP by $64 billion. A recent study by the U.S. Chamber of Commerce notes that the key is a reformed system that is "efficient, transparent, and predictable." In order to enhance U.S.–Latin American economic ties, the United States should look to foster increased investment and trade by streamlining the U.S. application and approval process for sensitive exports. Congress needs to reduce the number of items on the U.S. Munitions and Commerce Control Lists and provide "one-stop" approval. With China seeking to deepen its investments in the region, such as in Brazil, the United States needs to maintain its economic competitiveness and access to the region, particularly in the defense and aerospace sectors.

Observation: Corruption remains a significant global and regional problem and an impediment to democratic governance and economic freedom. The World Bank estimates that as much as $1 trillion changes hands each year in corrupt transactions globally. Corruption has long been a major obstacle to transparency and economic growth in Latin America. While many nations have improved government oversight procedures, more needs to be done. For example, Brazil was rocked recently by a number of corruption scandals that have forced ministerial resignations. All too often government officials in Latin America resort to crony capitalism to feather their economic nests, advance their political prospects, and reward willing clients at a high cost to the general public. At the same time, in countries such as Venezuela, authoritarian leaders undermine transparency and accountability by removing customary checks and balances to consolidate control over the government and the country.

Recommendation #11. U.S. diplomacy should work to develop stronger anti-corruption, anti-bribery measures among U.S. trade partners through organizations such as the OECD. It should continue to press an anti-corruption agenda in the Organization of American States and work with civil society, which acts as a watchdog against corruption in the Americas. Secondarily, the U.S. executive and legislative branches should carefully review the 1977 Foreign Corrupt Practices Act and its enforcement mechanisms to ensure that the U.S. is not unduly penalizing U.S. firms and unnecessarily restricting the competitiveness of U.S. companies, which fear running afoul of overzealous government regulators and enforcers.

North America

The North America region has long benefited from its openness to international trade and investment. Although it enjoys the highest level of economic freedom of any region in the world, those levels have fallen in recent years, especially in the United States and Mexico. North America scores above the world average in eight areas of economic freedom. It has high levels of business freedom, trade freedom, monetary freedom, and labor freedom. Weaknesses remain in property rights and freedom from corruption. Mexico lags significantly behind its two northern neighbors in these two areas, which are critical to long-term economic development.

Observation: NAFTA has increased income levels, employment, investment, and trade. Since 1994, North America's three countries have been linked by the North American Free Trade Agreement (NAFTA), a regional trade agreement. NAFTA has been a positive force, connecting more than 400 million people in an economic area producing about one-third of the world's total GDP.

Recommendation #12. Parochial concerns about increased competition and economic restructuring in specific sectors, such as long-haul trucking, must not be allowed to obscure the overall benefits to the U.S. economy of NAFTA's trade liberalization. Protectionist measures and excessive enforcement actions reduce the efficiency of the North American economy and hurt prosperity in all three countries. They should be resisted.

Observation: Promoting economic freedom in Mexico is key to addressing joint economic, security, and civil society concerns. Felipe Calderón, who began his single six-year term as president of Mexico in December 2006, has dedicated significant energy to fighting narcotrafficking, but Mexicans still need to see their government successfully challenge the private and public monopolies and duopolies that dominate huge portions of Mexico's economy. These combines in energy, telecommunications, construction, food production, broadcasting, financial services, and transportation have long been a drag on competitiveness and job creation. Notwithstanding Mexico's NAFTA membership, this "roping off" of large sectors of the Mexican economy to benefit politically powerful rent-seekers has the same practical effect as that of traditional protectionist trade barriers.

The health of Mexico's economy directly affects U.S. immigration patterns. The Mexican economy's failure to perform at peak efficiency and realize its full potential over the past half century has produced a flood of unemployed semi-skilled and unskilled Mexican workers seeking employment in the United States.

Recommendation #13. The U.S. government should offer technical assistance to help Mexico liberalize and open its economy. The resulting flood of new private investment would create hundreds of thousands of new jobs that would encourage many would-be economic migrants to remain at home in Mexico. The U.S. Department of Justice should investigate the operations of Mexican monopolies in the United States, especially in telecommunications, transportation, and energy. The Justice Department should produce a report for the President that identifies these monopolies and lays out any actions that the U.S. government can take to encourage viable domestic and foreign competition within these economic sectors in Mexico.

Europe

Nine of the world's 20 freest economies are in Europe, and the region scores above the world average in seven of the 10 economic freedoms, leading the world in trade freedom, investment freedom, and monetary freedom. On the other hand, economic freedom has failed to advance in Russia, and the Ukrainian and Belarusian economies are considered to be repressed. Taken as a whole, the Europe region is undergoing a tumultuous and uncertain period epitomized by the ongoing sovereign debt crisis. Europe's overall economic freedom is seriously undermined by excessive government spending to support elaborate welfare state policies that are hindering productivity growth and job creation, causing economic stagnation, and rapidly increasing levels of public debt.

EUROPE'S OVERALL ECONOMIC FREEDOM IS SERIOUSLY UNDERMINED BY EXCESSIVE GOVERNMENT SPENDING TO SUPPORT ELABORATE WELFARE STATE POLICIES.

Observation: Since late 2009, the 17-country currency union of the Eurozone has been beset by a sovereign debt crisis. Greece, Ireland, and Portugal have received multi-billion-euro aid packages financed by their Eurozone partners and the International Monetary Fund (IMF). European leaders are desperately seeking a way to keep the Eurozone together. Greece, Ireland, and Portugal have adopted stringent austerity measures in exchange for the aid, but their populations are deeply dissatisfied with the harsh austerity measures. GDP growth remains stagnant throughout the Eurozone, and a crisis of confidence is now sweeping the Eurozone, with some members teetering on the brink of sovereign default.

U.S. banks hold some Eurozone debt and would take a hit in the event of a default, but the deepest effects would likely be felt through the interconnected global financial system. U.S. exports to European markets would start to fall off and could decline markedly. The European Union is discussing the possibility of deeper fiscal and political integration, which would concentrate even more power in the hands of the European superstate. In this light, the U.S. should scrutinize the European Commission's proposal to give itself independent taxing authority in the form of an EU financial transaction tax (FTT), a precursor to a global tax on financial trades (a Tobin tax).

Recommendation #14. The United States should be careful not to throw good money after bad through further IMF bailouts of Eurozone countries. The United States should adamantly refuse to participate in a global FTT and should counsel Europe to avoid such a self-destructive move. Instead of calling for deeper political and fiscal integration among Eurozone members, the U.S. should uphold the principles of sovereignty and democracy when framing its recommendations for European economic and fiscal policies.

Observation: The EU spends more than 40 percent of its budget on the Common Agricultural Policy (CAP), which funds direct payments for farmers, rural development initiatives, and food export subsidies. The CAP provides €55 billion ($74 billion) annually in agricultural subsidies. Some of Europe's largest companies receive aid, including Doux, a French conglomerate that is Europe's largest poultry producer, and major sugar producers, including Belgium's Raffinerie Tirlemontoise and France's Saint Louis Sucre. As with the $18 billion in annual U.S. farm subsidies, the CAP has become a byword for corporate welfare. It has also resulted in higher food bills for European consumers and undermined development in poorer countries in Africa. The Common Fisheries Policy is another such program, which has witnessed a dramatic decline in employment in the fishing industry as well as dangerously low fish stocks in the Mediterranean and Atlantic. Yet the EU will spend €3.8 billion ($5.1 billion) in 2007–2013 on the CFP.

Recommendation #15. As part of efforts to successfully conclude the Doha Round, European countries, the EU, and the U.S. should pledge to eradicate all agricultural subsidies by 2015, including the EU fisheries subsidies. Europe and America should announce that they will also fully open their agricultural markets to the world and allow developing nations to use their comparative advantages in this sector.

Observation: The U.S. has lagged in promoting travel with European nations. Many European nations already participate in the Visa Waiver Program, which has become the single most important tool for promoting tourist and business exchange with Europe. The VWP is vital to U.S.–European exchange, and its economic impact is massive. From an economic perspective, boosting international travel ought to be a priority. Inbound travel to the U.S. already supports almost 2 million American jobs. The value of global travel is expected to double over the next 10 years to more than $2 trillion. The VWP is the most effective way to encourage travel.

Despite these benefits, congressional mandates have hampered VWP expansion. Current law prevents the Department of Homeland Security from granting membership to new countries with a visa refusal rate greater than 3 percent until the department develops and implements a system to biometrically track departures of foreign visitors from U.S. airports.

Recommendation #16. Congress should decouple the Visa Waiver program from the biometric air exit mandate to permit its continued expansion, including welcoming new European members. Qualifying European states should be admitted as soon as practical.

Observation: In Russia, pervasive corruption and limited respect for property rights hinder economic activity that is free from government control or influence. Corruption is widespread in Russia and includes senior Russian governmental leaders. The judicial system is corrupt and subject to "telephone justice," in which decisions are made based on executive fiat or bribes, rather than objective legal norms. Protection of property rights is extremely weak. Contracts are difficult to enforce, and Russian businesses often resort to arbitration abroad. Violations of intellectual property rights continue to be a serious problem.

Recommendation #17. To promote democracy, human rights, and the rule of law, the United States should concentrate on defending inalienable property rights, freedom, and justice. European allies and the U.S. should pressure the Kremlin to scale back its corrupt bureaucracy and prosecute corrupt officials. Russian, American, and other foreign companies that bribe Russian officials should be subjected to the long reach of the U.S. Foreign Corrupt Practices Act. The White House needs to pressure Russia to reform policies that disregard democracy, human rights, and good governance. The U.S. Congress should follow through with the intent of the bipartisan Sergei Magnitsky Rule of Law Accountability Act (S. 1039), which would deny visas to corrupt Russian officials, examine their banking practices and property holdings, and target Russian police and prosecutors who torture and fabricate evidence and judges who rubber-stamp convictions.

CORRUPTION IS WIDESPREAD IN RUSSIA AND INCLUDES SENIOR RUSSIAN GOVERNMENTAL LEADERS.

Observation: Russia is expanding its customs union and is preparing to deepen post-Soviet integration by launching a Eurasian Union. Prime Minister Vladimir Putin considers the fall of the Soviet Union the greatest tragedy of the 20th century. The goal of this post-Soviet expansion is to solidify Russia's economic domination of its "zone of privileged interests." Georgia's shift to a free market and democratic state and pursuit of NATO and EU membership show that the former Soviet states can enhance their economic freedom and move closer to the West. However, the Kremlin has demonstrated a willingness to use force if it cannot control countries by other means, as is evident from the Russian–Georgian war in 2008. Russia also uses tools of economic soft power—such as gas price discounts, soft loans, and support of pro-Russia candidates in the neighboring nations—to achieve domination.

Recommendation #18. The United States should develop political and economic ties with and promote the independence of the Commonwealth of Independent States (CIS) nations to loosen Russia's political and economic stranglehold on the region. The U.S. government should expand student exchanges and training programs for civilian and military decision makers, boost international broadcasting, and encourage pipeline projects and development of oil and gas shale in the CIS, which could build energy independence from Russia.

Observation: Turkey is a strategically important link between Europe, the Middle East, and the global markets. Strengthening economic freedom will not only benefit Turkey's economy, but also improve economic and strategic bonds to the United States and Europe. Turkey is unlikely to gain full membership in the European Union. When its application is finally rejected, Turkish leaders will likely react by distancing themselves from the West.

Recommendation #19. Washington should offer to negotiate an FTA with Ankara to benefit both countries and strengthen Turkey's economic ties to the West. Turkey has already become a political and economic model for many Middle Eastern countries and this could influence them to adopt free market economic reforms and free trade policies, which will tie them closer to Western economies.

The Middle East and North Africa

Many of the countries in the Middle East and North Africa have undergone political and economic upheaval in the past year, and the gradual rise in economic freedom in recent years has come to a halt. Structural and institutional problems abound, and the regional unemployment rate, which averages more than 10 percent, is among the highest in the world. Unemployment is most pronounced among younger members of the workforce.

The region's problems are complex, rooted in decades of authoritarian rule, which has kept power and resources in the hands of a few. Simply holding elections with more political parties or allowing freedom of expression will not solve these problems. Difficult institutional reforms that reduce the state's role in the economy and people's lives are required.

Observation: Many Middle East countries are dominated by authoritarian regimes that carve out significant portions of national economies for their own benefit or to provide patronage for their supporters. The catalyst for the "Arab Spring," a young Tunisian food vendor named Mohammed Bouazizi, set himself on fire in December 17, 2010, after police confiscated his fruit and vegetable cart and humiliated him, apparently after he refused to give them a bribe. Many young Tunisians identified with his plight and were inspired to join popular protests that ousted the corrupt authoritarian regime of President Zine El Abidine Ben Ali, who fled on January 14, 2011. Government corruption not only squanders economic resources, but also restricts economic competition and hinders the development of free enterprise. Corruption was a major issue that helped to galvanize opposition to governments in Egypt, Libya, Syria, and Yemen. Entrepreneurs are unlikely to invest their capital or sweat equity unless they have a reasonable chance to earn a fair return for their efforts, free from the threat of government seizure or the interference of corrupt officials.

CORRUPTION WAS A MAJOR ISSUE THAT HELPED TO GALVANIZE OPPOSITION TO GOVERNMENTS IN EGYPT, LIBYA, SYRIA, AND YEMEN.

Recommendation #20. Washington should encourage the development of limited government, independent judiciaries, and commercial legal frameworks that strongly protect property rights and ensure free competition. The U.S. should work to strengthen the OECD anti-bribery convention to address the sharp challenges in the Middle East. Transparency and anti-corruption practices in trade and investment should be emphasized in bilateral investment treaties and other economic exchanges.

Observation: In the 1950s, many Arab countries adopted socialist models for economic development, which curtailed economic growth, encouraged expansion of bureaucracies, and prompted the creation of inefficient state-owned industries. It is no coincidence that Egypt and Tunisia, the first two countries to experience the Arab Spring, had strong socialist legacies that created corrosive corruption and dysfunctional bureaucracies that were perceived to oppress rather than serve citizens.

Recommendation #21. Washington should encourage Middle East governments to liberalize their economies, remove bureaucratic red tape, and encourage domestic and foreign investment to spur the development of vibrant private sectors. Expensive state-owned enterprises should be privatized wherever possible in a transparent and fair process to avoid the rise of crony capitalism. Expanding the private sector will fuel economic growth and help to create a larger middle class, which is an important building block for developing stable democracies.

Observation: Many Middle Eastern economies are too small to provide the range of goods and services that their people demand. In particular, many Middle Eastern countries import food, automobiles, machinery, electronic devices, and high technology from outside the region. Consumers would benefit from lower prices for imported goods, which sometimes are discouraged by protectionist tariffs imposed to prop up uncompetitive local industries.

Recommendation #22. The United States should try to negotiate FTAs with Middle East countries, particularly Egypt and other countries trying to make the difficult transition to stable democracies after Arab Spring revolts. FTAs could not only lower the costs of imported goods, but also expand exports to the U.S. market. For example, Jordanian exports to the United States skyrocketed from $229 million in 2001, when it ratified the FTA with the U.S., to $1.3 billion in 2007.

Sub-Saharan Africa

Africa has the lowest overall level of economic freedom of all of the regions. Some gaps between Sub-Saharan Africa's economic freedom scores and world averages are particularly striking. The region lags by more than 10 points in business freedom and by about 12 points in both property rights and freedom from corruption. That said, no region has made greater strides in economic freedom over the past two years than Sub-Saharan Africa. It is therefore no coincidence that six of the 10 fastest growing economies over the past decade are in Sub-Saharan Africa, and that poverty is declining in the region. In 2012, Mauritius became the first country in the region to score in the top 10 worldwide in economic freedom.

Observation: Africa poses a major economic and development challenge as it seeks to achieve a growth agenda capable of integrating the continent into the global economy and lifting some 400 million individuals out of poverty. As former U.N. Secretary-General Kofi Annan observed more than a decade ago, "open markets offer the only realistic hope of pulling billions of people in developing countries out of abject poverty while sustaining prosperity in the industrialized world." Today, Africa with its immense resources and an expanding middle class is the second-fastest-growing region in the world. It has taken halting steps toward deeper economic integration under the guidance of the African Union, which has proposed formation of an African Economic Community by 2028. At present, 26 countries in eastern and southern Africa are engaged in preliminary discussions to construct a single African free trade area. Nevertheless, accelerating broad-based wealth creation and genuine economic opportunity will require bold efforts.

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The U.S. has attempted to develop a strategic market access approach to Africa. Congress enacted the African Growth and Opportunity Act (AGOA) in May 2000 and has extended it several times. AGOA provides beneficiaries' exports with preferential access to the U.S. One of AGOA's most important textile provisions permits the use of third-country fabrics. This provision will expire in September 2012, and AGOA as a whole is set to expire in 2015.

Recommendation #23. FTAs strengthen and deepen democratic free market institutions in government and civil society in developing countries. Only the private sector can achieve genuine and lasting economic development and growth through trade and investment, strong protection of property rights, and the rule of law. Thus, the U.S. Congress should extend and renew AGOA. Indeed, the U.S. should reinforce its vision for the next 10 years of AGOA to spur the establishment of a region-wide customs arrangement and eventually transform AGOA into an FTA between the U.S. and Sub-Saharan Africa.

Observation: For the foreseeable future, continued economic growth and freedom in Africa will continue to require overseas investment, especially from the U.S. While American investment in Africa has been hindered by a number of historical and economic factors, it has also been slowed by Africa's higher risk profile and investors concerns about potential taxation issues and an absence of investment protections.

Recommendation #24. Africa needs the investment that makes international trade possible. To increase much-needed investment flows, the U.S. government should vigorously pursue an expanded commercial agenda that seeks to establish a broader network of bilateral investment treaties (BITS) or Trade and Investment Framework Agreements (TIFAs) in Africa and negotiates double taxation treaties that remove onerous fiscal burdens from investment-oriented capital flows.

Observation: Few dispute the enormous agricultural potential of many parts of Africa or the role of modern agriculture in driving growth and meeting growing demands for food production and food security. Food security, agricultural development, and economic growth are closely intertwined. Greater investment in agricultural research, development, and production is needed. Emerging agricultural entrepreneurs greatly need access to integrated African markets and larger markets outside Africa. Furthermore, African producers face formidable trade barriers and subsidized and inefficient competition.

Recommendation #25. The U.S. needs to continue to work with African producers and trade partners in the World Trade Organization to further reduce barriers to agricultural trade, including fiscally ruinous farm subsidies, and to make serious progress toward completing the long-stalled Doha Round.

Observation: Lack of property rights is a significant challenge. In Africa, the historical obstacles to protecting property rights and economic freedom in general range from traditions of tribal and communal ownership and land holding to restrictions based on race (e.g., South Africa's apartheid system) to experiments with expropriation and uncompensated redistribution (e.g., Zimbabwe under President Robert Mugabe) and failed collectivization under communist and socialist economic models. Another major hindrance to economic development is the absence of formal titles and documentation to land holding, leading to legal insecurity and economic vulnerability of small and medium producers.

Recommendation #26. The U.S. should work with international financial institutions, cooperative partners, and African nations to expand, legally document, and protect private property holdings. The U.S. should develop a strategy that helps to create new rural and urban stakeholders whose rights are more strongly protected by official respect for individual property rights.

A Call for Action.

There has never been a more important moment in the nation's history to elevate economic freedom to the top of the U.S. foreign policy agenda. These 26 recommendations are more than a "to-do" list. Together, they constitute a real strategy for making a real difference in rebooting the U.S. economy and promoting economic freedom around the world.

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