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# 2013 Global Agenda for Economic Freedom

*The Heritage Foundation Economic Freedom Task Force*

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# 2013 Global Agenda for Economic Freedom

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# *2013 Global Agenda for Economic Freedom*

## *The Heritage Foundation Economic Freedom Task Force*

**Abstract**
*Promoting economic freedom at home and abroad is essential to revitalizing the U.S. economy. In 2010, the United States fell from the ranks of the economically free countries in the* Index of Economic Freedom *and, in the years since, the U.S. has continued a steady decline. The warnings in the 2013 edition of the* Index *are too stark to ignore. Only by pressing for more freedom everywhere can the U.S. hope to avoid further decline. A road map to put the United States back on the path to more economic freedom has been clearly laid out in The Heritage Foundation's* Saving the American Dream *plan. A plan for promoting economic freedom in the world is laid out in this* Special Report*. It describes many actions that nations around the world need to take and offers Washington a blueprint for a practical and effective global strategy. American leadership can be decisive in promoting property rights and anti-corruption measures in other countries. In addition, the U.S. should pursue more trade agreements around the world and stress the importance for all governments (including the U.S.) to identify and reduce support for state-owned enterprises that are breeding grounds for cronyism. This global agenda can and should be implemented—starting today.*

Declining economic freedom in the United States continues to threaten Americans' prosperity and opportunity. In 2013, the U.S. score in the *Index of Economic Freedom*, published annually by The Heritage Foundation and *The Wall Street Journal*, dropped for the sixth year in a row. The U.S. clings to the ranks of the world's Top 10 most economically free—barely. It remains in 10th place again this year—still just a "mostly free" country.

This reduction in freedom has been accompanied by stagnant growth of the U.S. economy and persistently high unemployment. Promoting adoption of the revitalizing policies of economic freedom in the United States is essential to creating good new jobs for Americans. It is also vital to promote economic freedom abroad since U.S. companies and workers increasingly rely on international trade and finance to improve productivity and build markets. America is a global economic superpower, but to remain so, its government and business community must encourage the free flow of capital, goods, services, people, and ideas around the world that contribute to ongoing U.S. and global prosperity. Implementation of such forward-looking policies will kick-start the economic dynamism and innovation that will lead to better products, new markets, and greater investment.

In this second annual *Special Report*, the Heritage Foundation Economic Freedom Task Force—a diverse team of policy experts—makes key observations about seven global regions: (1) sub-Saharan Africa, (2) North America (Canada and Mexico), (3) Asia, (4) the Middle East and North Africa, (5) Central and South America and the Caribbean, (6) Europe, and (7) Russia, Ukraine, Central Asia and the Caucasus. In each region, the task force identifies obstacles to expanding economic freedom, actions that regional governments should take, and offers more than 30 concrete recommendations on what role the U.S. can play to help.

While these recommendations are crafted for individual regions, some themes appear repeatedly worldwide—particularly the importance of protecting property rights, fighting corruption, and pushing back against a revival of the failed state-owned-enterprise model and creeping crony corporatism. These are summarized in a new "Global Issues" section.

To help nations achieve these goals, the task force also identifies opportunities in virtually every region for the United States government to forge new agreements and initiatives that will promote job-creating, private sector–led trade and investment. 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 ongoing negotiations for an eleven-country Trans-Pacific Partnership (TPP), could create new economic opportunities by expanding trade among the United States, Asia, Latin America, and, possibly, the European Union.

The warnings of the *2013 Index of Economic Freedom* about the loss of economic freedom are too stark to ignore. Only by pressing for it at home and abroad can the U.S. hope to avoid decline. A road map to put the United States back on the path to more economic freedom has been clearly laid out in The Heritage Foundation's *Saving the American Dream* plan. A plan for promoting economic freedom in the world is laid out in this *Special Report*. It offers Washington a blueprint—a global agenda—for a practical and effective strategy to promote economic freedom around the world and re-start growth at home. This global agenda can and should be implemented—now.

## 2013 Economic Freedom Agenda—Global Issues

**A World with More Trade and Investment Freedom.** International trade plays an increasingly significant role in the economies of the United States and other countries. 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 (WTO) to mediate trade disputes. Trade disagreements that could have escalated into trade wars in the past are now moderated by impartial referees. With the U.S.–Canada free trade agreement in the 1980s and then the North American Free Trade Agreement (NAFTA) in the 1990s, the United States initiated a healthy global contest to see which country can sign the most free trade agreements. Today, hundreds of bilateral and regional trade agreements are in force, and many more are being negotiated.

Lack of leadership by the Obama Administration, however, has allowed negotiations for further global trade liberalization through the Doha Round (the successor to Uruguay) to grind to a halt. Furthermore, the long delays during the first Obama Administration in implementing the U.S. free trade agreements (FTA) with Colombia, Panama, and South Korea have effectively destroyed momentum for trade liberalization in the United States.

There is one potential bright spot for global trade freedom: the ongoing Trans-Pacific Partnership talks between Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam (and possibly Japan). The goal of the participants is to make the TPP a "21st century" or "gold standard" trade agreement. To reach this goal, each country must be willing to make beneficial policy changes that will include reductions in tariff and non-tariff barriers, improved protection of legitimate rights with respect to intellectual property and international investment, dismantling agricultural and many other government subsidies, and limiting support of state-owned enterprises. The resulting agreement should include a mechanism to facilitate easy accession by other countries in the future. Unfortunately, TPP negotiations to date have included excessive U.S. posturing on environmental standards and labor regulations. There is a danger of further such posturing as a proposed U.S.–European Union FTA moves forward.

Meanwhile, American trading partners, such as Canada and Chile, have forged ahead with new agreements, leaving the U.S. behind. In the regional sections below, Heritage experts lay out specifics on how the United States can catch up around the world. The United States should encourage other countries' efforts to reduce trade barriers, including African countries' proposed Continental Free Trade Area (CFTA) to boost Africa's intra-regional trade. U.S. programs, such as the U.S. Generalized System of Preferences (GSP) program, the 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. Foot-dragging on trade by the Obama Administration has had a larger cost: the decline of the credibility of the U.S. as an economic model. It was not long ago that people around the world spoke of the "Washington consensus," by which they meant a generally free-market policy mix. Now, foreign governments deride U.S. slow growth and policy failures. Chinese leaders in particular look with disdain on American policy advice, notwithstanding their own rapidly mounting problems and their own need for another wave of economic reforms.

As documented in the *2013 Index of Economic Freedom*, protectionist measures, industry-specific subsidies, as well as excessive (and potentially protectionist) "enforcement" actions such as anti-dumping and countervailing-duty regulatory measures, reduce efficiency and competitiveness and diminish the prosperity of all nations. These counterproductive policies should be resisted by all countries, and the U.S. should take the lead.

In an economically free country, there are no constraints on the flow of investment capital. Individuals and firms are allowed to move their resources to and from specific activities, both internally and across the country's borders, without restriction.

Regarding investment, then, the U.S. government should refocus its development policy on trade and investment and vigorously pursue an expanded commercial agenda that makes investment in developing countries more attractive to the investor—for instance by establishing a broader network of bilateral investment treaties (BITS) or trade and investment framework agreements (TIFAs), and negotiating double-taxation treaties that remove fiscal burdens from investment-oriented capital flows.

**A World with More Freedom for Workers.** Labor freedom and business freedom indicators in the *2013 Index of Economic Freedom* reward countries with laws, regulations, and policies that give workers and employers more flexibility and opportunity. In addition, guest-worker visa programs can help countries meet growing needs for skilled technology workers or seasonal workers. These guest-worker visas can also address politically difficult immigration issues.

In the United States, H1 visas for high-tech workers help American high-tech companies recruit skilled immigrants, such as engineers and computer programmers. Under current law, the government can issue only 85,000 visas each year—65,000 to highly skilled private-sector workers, and 20,000 to those with advanced graduate degrees from U.S. universities. But demand for such skills is much greater—the cap was reached in just 10 weeks in 2012, with a total of 350,000 applications lodged last year.

Another pro–economic freedom measure is making it easier for business travelers to travel between countries. In the United States, expanding the Visa Waiver Program (VWP), particularly by adding member countries in Europe and Latin America, will further reduce transaction costs and increase efficiency for American businesses.

The VWP has also boosted U.S. tourism receipts, since most tourist and business travel to the United States originates in countries enrolled in the Visa Waiver Program, and it is therefore an important instrument to promote economic exchange with like-minded nations.

**A World with Less Corruption and More Property Rights.** Economists from Adam Smith to Milton Friedman have noted the crucial role of property rights as an engine of economic growth, on which the equally important development of a middle class depends. Establishing those property rights is step one for economic freedom.

For nearly every country on the globe, the *Index of Economic Freedom*'s "freedom from corruption" score is nearly always the lowest of the 10 indicators measured. Corruption is a perennial and difficult problem to address throughout the world—yet it must be addressed constantly by governments through unceasing efforts and vigilance if they hope to create conditions favorable to economic growth and prosperity. The degree of corruption in a country is a good barometer of the strength of its judicial institutions and rule of law—both of which are tied strongly to how effectively a country protects private property.

Many countries' economic freedom scores would be substantially higher were it not for the prevalence of government corruption. The solution, however, lies not in passing more anti-corruption laws, which are ignored in practice. In fact, too much regulation can reduce respect for the law and frequently reduces transparency by causing confusion. This creates an environment for predatory behavior by the government or its favored cronies and thereby worsens corruption.

The best means of fighting corruption is transparency. Laws should be clear, logical, and simple to understand. Rather than creating additional statutes, governments should inform their publics about the laws that already exist.

Lack of reliable property rights is a problem worldwide. The starting point for development, especially in lower-income countries, is greater agricultural productivity, which stems first and foremost from secure property rights to land. These are absent in much of the world.

The single biggest problem in the Indian economy, for example, affecting hundreds of millions of people, is uncertainty about land ownership. Most resources associated with land belong to the state, and many attempted land sales conflict with contested ownership and require corrupt and horribly inefficient government involvement to carry out. This system undermines agricultural productivity and obstructs progress in alleviating poverty.

The degree of corruption in a country is a good barometer of the strength of its judicial institutions and rule of law—both of which are tied strongly to how effectively a country protects private property.

In dealing with developing economies, the U.S. needs to expand from focusing almost exclusively on intellectual property rights (IPR) to include land

and other property rights. While in the developed world the information and IPR sectors are vitally important parts of the economy (and certainly should be protected), these areas are not as mature in emerging markets and poorer nations. In developing countries, it is most vital to protect the "real" properties—land, businesses, capital, and buildings—from expropriation and corrupt practices, as they are the primary sources of the commodity exports on which those countries depend.

To protect "real property," developing countries must enhance their rule of law. Transparent judicial systems are vital for the protection of property rights—not just for the wealthy and powerful, but for average citizens. Citizens' incentive to work hard and save for the future depends on their confidence in the political and economic system to protect their earnings and possessions. The rights to acquire, to keep, and to dispose of property at will must be protected through honest, efficient, and transparent judicial institutions so that assets can be expected to be available as needed.

The American Founders generally believed that a strong system based on traditional Western values that enshrined and protected the right to acquire, hold, and dispose of private property would create diffuse sources of wealth, and political and economic checks and balances. This system was, and remains, the best antidote not only to the tyranny that lies at the heart of statist and totalitarian worldviews, but also to the vicissitudes, moral hazard, and even good intentions of politicians and bureaucrats in regulated market-based systems.

Less corruption and better protection of property rights will make for much more prosperous long-term economic partners. The U.S. should offer technical assistance in developing appropriate legal norms and land-titling processes as well as in mapping property boundaries.

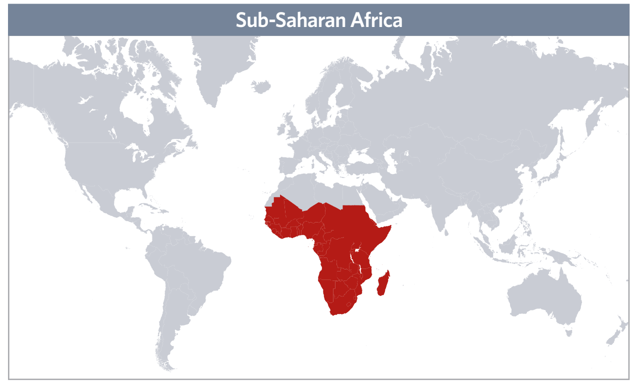
**A World with Less Crony Corporatism and Fewer State-Owned Enterprises.** It is not by accident that the document memorializing the Trans-Pacific Partnership will have a full chapter on state-owned enterprises (SOEs). Massively subsidized SOEs are an international issue steadily growing in importance, not least because of their dominance of the Chinese economy. Brazil has been back sliding in this area for several years. India has a set of poorly performing state firms associated with harmful government intervention in the economy, such as through price controls. In Vietnam, underperforming SOEs are the main factor restraining development. The ideological commitment of some governments to state ownership precludes the complete eradication of SOEs, but internal and external reforms would considerably enhance economic freedom and clear the way for fresh global liberalization.

Governments should publicly identify the smallest possible set of sectors that must be managed by the state for clearly identified strategic reasons. Even in these sectors, limited private participation can create some genuine competition and thus improve SOE performance. In other sectors, state firms should be sold off, or at least forced to compete.

Governments also should disclose the extent of existing and planned support to SOEs, including limitations on access to their internal markets and a comprehensive list of subsidies for overseas trade and investment. The incentive to hide this information should be eliminated by introduction of grandfather clauses in international agreements accepting remaining support of SOEs when it is disclosed and when a comprehensive program to reduce that support is under way.

# 2013 Economic Freedom Global Agenda by Region—Sub-Saharan Africa

Africa has the lowest overall level of economic freedom of any region in the world. Gaps between sub-Saharan Africa's freedom scores and world averages are particularly large. The region scores lower than the world average by more than 10 points in property rights, corruption, and business freedom. Nevertheless, and despite these deficiencies, the African continent showed significant signs of progress in economic freedom in 2011 and 2012. In 2012, Mauritius was the first African country to rank in the top 10 economically free countries. The momentum for the region overall, however, has stalled. For 2013, the *Index* shows that sub-Saharan Africa experienced a slight score decline of 0.1 point, halting its record of steady improvement.




## Foreign Aid to Africa Should Emphasize Fight Against Corruption

Despite having 10 of the 20 fastest-growing economies in 2012, Africa continues to suffer from corruption, limited property rights, and highly restricted business and labor markets. Africa is a diverse continent with diverging challenges and opportunities. The gaps in individual countries' *Index* scores highlight the enormous differences between African countries' governments and economies.

In the 2012 *Index*, Mauritius became the first country in the region to score in the top 10 worldwide in economic freedom. This year, Mauritius maintained its standing and was joined by Botswana in the "mostly free" category. Unfortunately, the vast majority of African countries are still classified as "moderately free," "mostly unfree," or "repressed."

**Action Needed:** African governments must confront and reverse the continuing and endemic problems of corruption and the related issue of lack of rule of law and strong property rights. These governments need to adopt policies and practices in sub-Saharan countries that will enhance economic freedom.

**U.S. Policy Recommendation:** The United States' policy on sub-Saharan Africa must take into account the vast diversity across the continent, particularly regarding economic conditions. Rather than taking a one-size-fits-all approach, the United States must develop a flexible development policy based on trade and investment that addresses the continent's challenges while taking advantage of the many opportunities that sub-Saharan Africa offers.

Specifically regarding the region's crippling levels of corruption, U.S. policy should put primary emphasis on African governments addressing corruption as a sine qua non before any official development assistance can be delivered by the American government. The record of traditional development assistance as a catalyst for long-term sustainable economic growth is abysmal; perhaps the only exception to this poor track record is the Millennium Challenge Corporation (MCC), which requires countries to demonstrate foremost a commitment to good governance, sound economic policies, and the well-being of their citizens.

The MCC model holds recipient governments accountable for results and requires them to make serious, sustained efforts to combat corruption. MCC programs also encourage private sector–led economic growth, strong protection of property rights, and the rule of law. All of these set the table for domestically driven economic growth and development, which can never be replaced by foreign assistance no matter how well intentioned.

Measurements of the positive impact of the MCC approach on corruption have been called the "MCC Effect." It is that effect that the U.S. should be constantly seeking to foment in Africa.

## U.S. Trade Programs Should Encourage African Economic Integration

Africa faces major economic and political development challenges 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.

Former United Nations Secretary-General Kofi Annan observed more than a decade ago that open


MAP 1

## Sub-Saharan Africa

markets are the only realistic way to pull hundreds of millions of people in developing countries out of abject poverty. Today, sub-Saharan Africa, with its immense resources and an expanding middle class, is the second-fastest-growing global region covered by the *Index of Economic Freedom*. It has taken halting steps toward deeper economic integration under the guidance of the African Union, which has proposed the formation of an African Economic Community (AEC) 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.

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 is a trade-preference program structured to promote growth by reducing American barriers (tariffs, for instance) to African exports. More than 30 sub-Saharan African countries benefit from AGOA membership. AGOA was expanded in 2002 under President George W. Bush and was renewed by Congress last September.

**Action Needed:** African countries lag significantly in promoting economic integration. The series of negotiations needed to create the AEC will strengthen democratic free market institutions in governments and private business in developing African countries, thereby promoting civil society. 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. In this context, the 2028 timetable for the formation of the AEC is woefully behind the curve and needs to be advanced by at least a decade.

**U.S. Policy Recommendation:** 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. While AGOA is useful, it is an incomplete approach to increasing U.S.–African trade that ignores the benefits Africans could experience from lower tariffs on U.S. imports. AGOA should be expanded into a free trade agreement to maximize its economic benefits.

## Foreign Investments in Sub-Saharan Africa for Greater Prosperity

Continued economic growth and expansion of freedom in sub-Saharan Africa will require inbound investment. While foreign direct investment in sub-Saharan Africa has been hindered by a number of political and economic factors, it has also been slowed by sub-Saharan Africa's higher risk profile and investors concerns about potential taxation issues and an absence of investment protections.

**Action Needed:** Sub-Saharan Africa needs policies that will increase foreign investment to facilitate international trade.

**U.S. Policy Recommendation:** The U.S. government should refocus its development policy on trade and investment with sub-Saharan African countries and vigorously pursue an expanded commercial agenda that makes investment in sub-Saharan Africa more attractive to the investor—for instance, by establishing a broader network of bilateral investment treaties (BITs) or trade and investment framework agreements (TIFAs), and negotiating double-taxation treaties that remove fiscal burdens from investment-oriented capital flows.

## Property Rights Protection for People in Sub-Saharan Africa

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

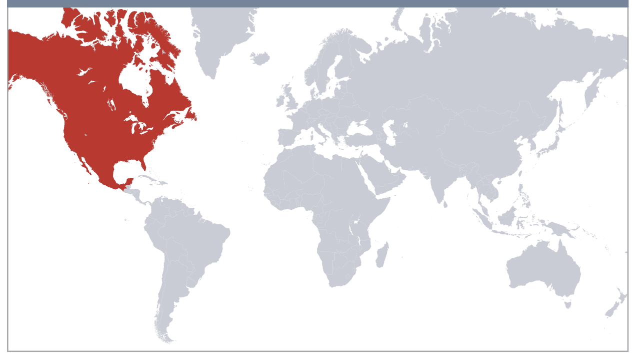
**Action Needed:** Sub-Saharan African nations must pass and enforce laws to expand, document, and protect private property holdings.

**U.S. Policy Recommendation:** The U.S. should work with international financial institutions, such as the International Monetary Fund (IMF) and the International Finance Corporation of the World Bank, international development assistance cooperative partners from other Organization for Economic Co-operation and Development (OECD) countries, and sub-Saharan African nations to prioritize programs that establish stronger judicial institutions and rule of law to protect property rights. The U.S. (through re-prioritizing existing U.S. Agency for International Development and MCC programs) should develop a specific and high-profile strategy to help sub-Saharan African countries encourage more rural and urban private property ownership through more strongly government-protected rights.

# 2013 Economic Freedom Global Agenda by Region—North America

The North American region (home to the three NAFTA partners—the United States, Canada, and Mexico) has long benefited from its relative 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. 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 due to high government spending in the United States and Canada, and improvements are needed in protection of property rights and freedom from corruption in Mexico. Mexico lags significantly behind its two northern neighbors in these two areas, which are critical to long-term economic development.

North America



## Enhancing Economic Cooperation Through NAFTA

North America's three countries have been linked by the regional North American Free Trade Agreement since 1994. NAFTA has increased income levels, employment, investment, and trade. It has been a positive force, connecting more than 400 million people in an economic area producing about one-third of the world's total gross domestic product (GDP). Employment in North America has increased by an average of more than 20—33 percent in Canada, 40 percent in Mexico, and 14 percent in the U.S.—due to the creation of millions of jobs in each country since NAFTA took effect. After adjusting for inflation, per capita income is up in all three countries—an average increase of 30 percent in the U.S., 33 percent in Canada, and 25 percent in Mexico—which translates into an average increase in per capita income of 30 percent per person in North America. Net annual inflows of foreign direct investment have increased by about 450 percent in the United States, 380 percent in Canada, and 85 percent in Mexico. Trade volume for North America measured in constant 2000 dollars has increased by 129 percent, to $4.3 trillion.

Plans are under way to improve U.S.–Canadian trade flows through the joint Beyond the Borders Action Plan. This plan calls for several measures to facilitate trade and economic growth in both the United States and Canada. These include speeding up customs procedures, eliminating duplicative screening, and implementing new technologies to facilitate cross-border shipments of goods. For example, the action plan aims to enhance the benefits of programs that help trusted businesses and travelers move efficiently across the border by strengthening "trusted trader" and "trusted traveler" programs and eliminating supply chain bottlenecks. Similarly, the plan also calls for both countries to speed clearance for cargo through new pre-screening and pre-clearance procedures. These efforts are to include: offering a "single window" for importers to submit information required by various government agencies electronically, expedite clearance for low-value shipments, facilitate trade by improving transparency and accountability for border fees, and improve infrastructure at border crossings.

Despite the existence of NAFTA, barriers to trade remain. For example, the United States recently restricted imports of Mexican tomatoes, and the so-called stimulus bill in 2009 contained "Buy American" provisions that discriminated against Canadian suppliers.

**Action Needed:** Political leaders need to respond effectively to parochial concerns about increased competition and economic restructuring in specific sectors. These concerns must not be allowed to obscure the overall benefits to the U.S. economy of NAFTA's trade liberalization.

**U.S. Policy Recommendations:** Protectionist measures and excessive enforcement actions reduce the efficiency of the North American economy and hurt prosperity in all three countries. Protectionist measures should be resisted. All three North American countries are involved in Trans-Pacific Partnership (TPP) negotiations. These talks should be used as an opportunity to further reduce barriers

MAP 2

## North America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to international commerce and to expand free trade beyond North America. The U.S.–Canadian Beyond the Border Action Plan to facilitate trade while addressing legitimate security concerns should continue to be implemented.

### Mexico Lags Behind Its North American Neighbors

Promoting economic freedom in Mexico is key to addressing joint economic, security, and civil society concerns. Enrique Peña Nieto began his single six-year term as president of Mexico in December 2012. Although Peña Nieto has taken some early positive steps, Mexicans are still waiting 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 (a phenomenon known as "state corporatism") 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.

**Action Needed:** Mexico needs to continue to liberalize and open its economy. Recent moves to reform laws governing the labor market are a step in the right direction. The resulting flood of new private investment from additional reforms would create hundreds of thousands of new jobs that would encourage many would-be economic migrants to remain at home in Mexico.

**U.S. Policy Recommendations:** To the extent that they are subject to its jurisdiction, the U.S.

Department of Justice should investigate the operations of Mexican monopolies and oligopolies, especially in the telecommunications, transportation, and energy sectors. The Justice Department should produce a report for the President that identifies these corporations 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.

For too long America's immigration system has remained flawed and broken. Despite the effects of economic recession in the U.S., it is clear that many individuals from Mexico continue to come to the United States unlawfully to seek work. These unlawful immigrants currently receive government benefits far in excess of any taxes they pay, thereby imposing large costs on over-burdened U.S. taxpayers. There is also the prospect that some unlawful immigrants displace American workers in times of chronic high unemployment.

In response to these problems, the U.S. could experiment with a temporary worker program. A proper temporary worker program must ensure that the workers are truly temporary, are not on a pathway to citizenship, and do not have access to welfare, government entitlements, and costly education benefits. Temporary workers should never impose additional net costs on U.S. taxpayers. Any proposed temporary worker program should not permit unlimited, uncapped immigration into the nation, and must not simply result in a de facto amnesty.

The economic goal of immigration policy and any temporary worker program must be to raise the after-tax incomes of American citizens and legal residents. Any policy which does not fulfill that goal is unacceptable. Temporary worker programs are likely to be most effective if they are targeted to economic areas such as agriculture where temporary workers are clearly appropriate.

## 2013 Economic Freedom Global Agenda by Region—Asia

The size of the Asia–Pacific region leads to exceptional economic diversity, as reflected in the *2013 Index of Economic Freedom*. The world's four freest economies (Hong Kong, Singapore, Australia, and New Zealand) are in the Asia–Pacific, as is the most repressed (North Korea). The largest group of countries in Asia, however, remains stuck in the "mostly unfree" category, showing plenty of scope for improvement.

As a whole, the Asia–Pacific ranks noticeably above the world average in fiscal freedom, government spending, and, perhaps surprisingly, labor freedom. It is near average in business freedom and monetary freedom and close to average in trade freedom. The region does poorly in property rights, freedom from corruption, financial freedom, and, especially, investment freedom.

### Land Rights First

The starting point for development anywhere is greater agricultural productivity, which in turn stems first and foremost from secure and extensive rights to one's own land. Such rights are absent in much of the Asia–Pacific region.

In China, it was the granting of nascent, but clear, property rights to farmers in the late 1970s which enabled sharp increases in food production and permitted the migration to the cities that backed the ensuing manufacturing expansion. Since then, however, advances in rural property rights have been minimal. This is part of the reason for sharp environmental deterioration and for rural incomes falling far behind urban incomes.

The single biggest problem in the Indian economy, affecting hundreds of millions of people, is ill-defined land ownership. Most resources associated with land belong to the state, and many attempted land sales conflict with contested ownership—requiring corrupt and horribly inefficient government involvement to carry out the sales. The uncertainly of land ownership undermines agricultural productivity and hinders advances in reducing poverty.

Land rights are not only an issue in developing economies. Hong Kong and Singapore are the freest economies in the world by some measures; consideration of government land ownership, however, may change that picture.

Asia-Pacific

**Action Needed:** In dealing with developing economies, the U.S. should focus on property rights to land, not on rights to intellectual property. This will make for much more prosperous long-term economic partners.

**U.S. Policy Recommendation:** The U.S. should offer technical assistance—conditional on using local private partners—in order to develop appropriate legal norms and land-titling processes, as well as to map property boundaries.

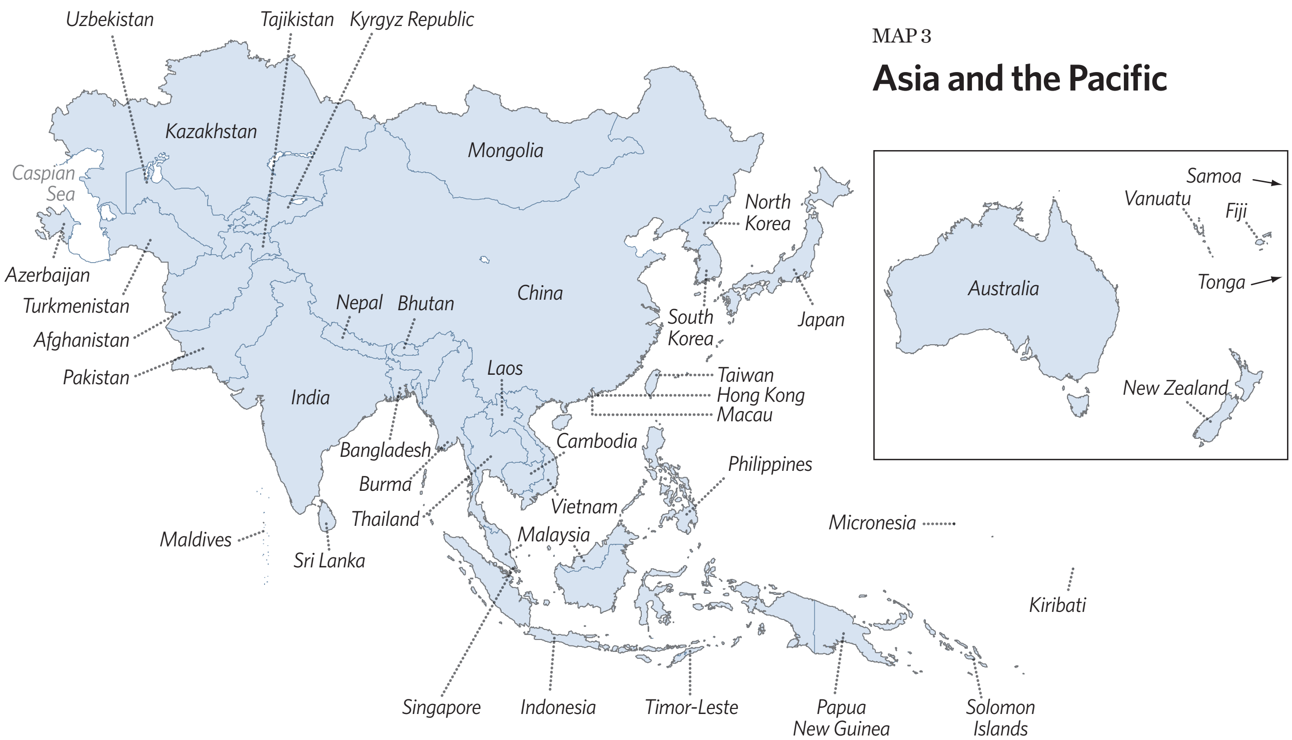
The single biggest problem in the Indian economy, affecting hundreds of millions of people, is ill-defined land ownership.

### Reduced Role and Privileges for SOEs

It is no accident that the Trans-Pacific Partnership will have a full chapter on treatment of state-owned enterprises (SOEs). Massively subsidized Chinese SOEs are an international issue that is growing in importance. India has a set of poorly performing state firms associated with harmful government intervention in the economy, such as through price controls. In Vietnam, underperforming SOEs are the main factor restraining development. The ideological commitment of some governments in the Asia–Pacific to state ownership precludes the complete eradication of SOEs, but internal and external reforms would considerably enhance economic freedom and clear the way for a fresh round of global liberalization.

MAP 3

## Asia and the Pacific

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**Action Needed:** Governments in the Asia–Pacific region should publicly identify the smallest possible set of sectors that must be controlled by the state for ostensibly strategic reasons. Even in these sectors, limited private participation can create some genuine competition and thus improve SOE performance. In other sectors, state firms should be forced to compete and allowed to go bankrupt—permanently—if they fail.

Governments in the Asia–Pacific should also 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. The incentive to disclose this information should be strengthened by obligating governments to detail the programs that reduce support to SOEs while making acceptable the remaining support to SOEs only when the support is disclosed.

**U.S. Policy Recommendation:** Congress should continue to shift its trade focus from exchange rates to elimination of subsidies for state firms. The U.S. government should push to ratify the Trans-Pacific Partnership in 2013, which should feature the identification and limitation of government support of SOEs.

### Transparency: The Single Greatest Enemy of Corruption

Many Asian economies would rank as quite free except for the prevalence of corruption. The list of countries in Asia scoring far below the world average in freedom from corruption is long—Bangladesh, Burma, Cambodia, Indonesia, Laos, Mongolia, Pakistan, the Philippines, Thailand, and Vietnam among them. Even South Korea struggles in this area.

What does not work in fighting corruption is the adoption of more rules for people to ignore. India, which has faced national protests against corruption, is a prime example of a country where there is plenty of written law but far too little rule of law. Too much regulation often reduces respect for the law and frequently reduces transparency by causing confusion. This creates an environment for predatory behavior by the government or favored cronies.

**Action Needed:** The best means of fighting corruption is transparency. Laws should be as simple as possible. Rather than creating additional statutes, governments should work on enforcement and dissemination of information about the laws that already exist.

**U.S. Policy Recommendation:** Greater transparency should replace formal increases in market access as the initial goal for the U.S. and its partners in bilateral economic agreements, for example, if the U.S. chooses to normalize economic relations with Myanmar.

## Expansive Monetary Policy Doing More Harm than Good

The Asia–Pacific as a whole performs well in terms of monetary freedom, but the aftermath of the global financial crisis has seen the trend turn negative. With government borrowing having proved ineffective and destabilizing, monetary authorities in many countries are under increasing pressure to both ensure borrowing costs are low and stimulate growth, without regard for the consequences to savers.

This is a long-standing problem in Japan, but has recently gotten worse with political demands that the central bank reflate and print as much money as necessary to achieve 2 percent inflation (up from deflation in Japan). In India, interest rate cuts are wrongly seen by some parties as a preferable substitute for necessary reform. Chinese money supply measures are wildly high, outstripping even loose money conditions in other large economies.

Through exchange rates, politically driven monetary policy also harms trade. South Korea is justly criticized for its intervention into foreign currency markets. Other countries in the region, however, generate what look like competitive devaluations almost as a by-product of activist monetary policy.

**Action Needed:** Harmful, politically driven Asian monetary policy should be confronted, with the countries' policymakers facing up to the long-term negative consequences of their actions.

**U.S. Policy Recommendation:** As the reserve currency country, the U.S. should lead by example, the Federal Reserve curbing monetary expansion and the Department of the Treasury committing to a stable dollar. In bilateral meetings, the U.S. should publicly encourage central banks in the Asia–Pacific to return their policies to the pre-crisis trajectory. The U.S. government should renounce the use of monetary policy to depreciate exchange rates.

## Private Sector Should Lead Building of Infrastructure

Japan, India, and China continue to be obsessed with infrastructure spending as a macroeconomic tool, rather than a response to growth and development. Indonesia is, unfortunately, following their lead. The infrastructure projects being funded by governments generally are not the kinds that the private sector would choose to develop or even to request from the government; state-funded projects are chosen by central and local governments for short-term political gain.

These same infrastructure policies have failed for 20 years in Japan, yet more of them are apparently on the way. China's vaunted programs caused domestic debt to soar, and bred corruption, especially in the rail sector. India's program lost credibility as a tool to spur growth, then lost credibility with the private sector. Indonesia faces a similar fate unless the private sector is allowed to identify the projects as commercially sensible.

**Action Needed:** Asian countries should stop considering infrastructure spending as a macroeconomic tool and see it rather as a response to the need for private sector–led growth and development.

**U.S. Policy Recommendation:** The U.S. should evaluate whether Asian infrastructure programs are primarily commercial or primarily noncommercial. No assistance should be provided to noncommercial programs, while talks should be offered about American corporate and technical support for commercial programs.

## 2013 Economic Freedom Global Agenda by Region—the Middle East and North Africa

Many of the countries in the Middle East and North Africa have undergone political and economic upheavals during the protests of the "Arab Spring." But long-overdue economic reforms continue to be neglected or postponed due to political instability. As a result, the gradual rise in economic freedom that had been recorded 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. The high unemployment rates, which are most pronounced among younger members of the workforce, have boosted political discontent, undermined many governments, and continue to cast a long shadow on the region's economic prospects.

The region's problems are complex and 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. Elections merely amplify political cleavages if there is no consensus on the rules of the game after the elections. Stable democracies require a supportive civil society, independent judiciary, respect for the rule of law, limited government, freedom of the press, and a decentralization of power. But as long as national economies are dominated by the state sector, political leaders will be reluctant to share power if that diminishes their access to state-controlled wealth. Difficult institutional reforms are required to reduce the state's role in the economy and in peoples' lives.

### Middle East Dominated by Authoritarian and Corrupt Regimes

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 tragic human catalyst that ignited the "Arab Spring" was the young Tunisian food vendor Mohammed Bouazizi, who set himself on fire on December 17, 2010, after police confiscated his fruit and vegetable cart and humiliated him, apparently because he refused to pay 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 the country.

> Stable democracies require a supportive civil society, independent judiciary, respect for the rule of law, limited government, freedom of the press, and a decentralization of power.

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.

**Action Needed:** Ruling elites need to commit to a philosophy of limited government and the development of independent judiciaries and commercial legal frameworks that strongly protect property rights and ensure free competition.

**U.S. Policy Recommendation:** The U.S. should strengthen the OECD's 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. Private enterprise, a vital engine of economic


MAP 4

**Middle East/North Africa**

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growth, cannot flourish unless entrepreneurs are free to expand their businesses without fear of government confiscation.

## Socialism Still Widespread Among Arab Countries

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" uprisings, had strong socialist legacies that created corrosive corruption and dysfunctional bureaucracies that were perceived to oppress, rather than serve, citizens.

**Action Needed:** Arab countries must discard failed socialist ideologies and emphasize market reforms and economic liberalization.

**U.S. Policy Recommendation:** 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 corporatism. 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.

## Many Middle Eastern Economies Too Small to Stand Alone

Many Middle Eastern economies are too small to provide the range of goods and services that their people demand or need. 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 these imported goods, which sometimes are discouraged by protectionist tariffs imposed to prop up uncompetitive local industries.

**Action Needed:** Trade freedom reflects an economy's openness to the flow of goods and services from around the world, and the citizen's ability to interact freely as buyer or seller in the international marketplace. Trade restrictions can manifest themselves in the form of tariffs, export taxes, trade quotas, or outright trade bans. However, trade restrictions also appear in more subtle ways, particularly in the form of regulatory barriers. A reduction of government hindrances to the free flow of foreign commerce would have a direct and positive bearing on the ability of individuals to pursue their economic goals and maximize their productivity and well-being.

**U.S. Policy Recommendation:** The United States should try to negotiate bilateral FTAs with Middle East countries and encourage the formation of a regional free trade zone. FTAs could not only lower the costs of imported goods and help boost imports from the United States, 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. Although an FTA with Egypt may not be politically viable at the moment, Washington should encourage the expansion of the U.S. Department of Commerce's Qualifying Industrial Zone (QIZ) program, which allows goods produced jointly by Israel and Egypt to enter the United States duty free. This also would have the ancillary benefit of encouraging greater cooperation between Egypt and Israel.

## Iraq: More Reforms Needed

Iraq needs systematic economic reform in addition to political reforms to stabilize its political system. The country suffers from high rates of unemployment, heavy subsidies for food, oil, and natural gas products, as well as endemic corruption, which dim its economic and political prospects.

For decades, governments in Iraq have imposed a wide array of constraints on economic activity. Though sometimes imposed in the name of equality or some other noble societal purpose, such constraints are in reality most often imposed for the benefit of elites or special interests, and they come with a high cost to society as a whole. By substituting political judgments for those of the marketplace, government diverts entrepreneurial resources and energy from productive activities to "rent-seeking"—the quest for economically unearned benefits. The result is lower productivity, economic stagnation, and declining prosperity.

**Action Needed:** The Iraqi government must undertake systematic economic reforms to root out corruption in the swollen public sector, privatize government monopolies wherever possible, reduce government subsidies, and create stronger and more effective institutions to improve governance. It is particularly important to create a transparent and effective oil sector, which is the driving force of the Iraqi economy. The central government also needs to create a better business environment for foreign investors, and reach an agreement with the Kurdish Regional Government on oil issues to boost exploration and development of Iraq's huge oil production potential.

**U.S. Policy Recommendation:** The U.S. should encourage the Iraqi government to undertake free-market economic reforms, root out corruption, reduce government subsidies, and create a transparent oil sector. It should also press the Shia-dominated government to reach out to Sunni and Kurdish Iraqi political parties and bring them into the ruling coalition. This will help reduce ethnic and sectarian tensions, undercut the appeal of al-Qaeda and other terrorist groups, and help to forge a national consensus that will enhance political stability and enable economic growth.

# 2013 Economic Freedom Global Agenda by Region—Central and South America and the Caribbean

Beyond the borders of the United States, markets in all the other 28 countries in the Western Hemisphere comprise a total of 600 million people and account for trillions of dollars in international trade. Resource-rich countries in the Americas continue to profit from demand for commodities fueled by fast-paced growth in Asia and other markets, which is supporting sustained economic growth. Most regional economies have weathered the worst effects of the 2008 economic crisis and the recent European crisis. Millions of Latin Americans have risen up out of poverty. In fact, according to the World Bank, extreme poverty in Latin America and the Caribbean has declined by half in the past 15 years and in 2011, for the first time in history, the region had a larger number of people in the middle class than in poverty.

Yet, the economic freedom scores, according to the *2013 Index of Economic Freedom,* range from excellent (Chile) to abysmal (Cuba and Venezuela), with major players such as Brazil, the world's sixth-largest economy, registering comparatively low scores because of its penchant for protecting local industries with high import tariffs and regulations, as well as swollen bureaucracies and over-regulation.


## Supporting Sustainable Growth in Latin America and the Caribbean

Inefficient, costly, and crony-corporatist-promoting state-owned enterprises (for example, in nations such as Argentina, Venezuela, and Bolivia) are harming Latin American countries and should be privatized quickly in as fair and transparent a manner as possible. Greater private sector–fueled economic growth and job creation will help those countries to expand the middle class and thus stabilize their democracies. Too often, rule of law and the protection of private property—the foundations for long-term, sustainable growth—are sacrificed in the pursuit of short-term populist strategies.

**Action Needed:** Governments in the Americas need to institute or continue sound macroeconomic policies that lead to greater economic freedom. They need to liberalize further their economies, dismantle costly and inefficient bureaucracies, and forgo the frequent resort to over-regulation, as well as seeking more job-creating private-sector domestic and foreign investment. Because many of the region's economies are committed to sound macroeconomic policies and eager to improve both integration into the global economy and overall competitiveness, these positive trends need to be continued and the return to protectionist practices avoided.

**U.S. Policy Recommendation:** The U.S. Department of State should promote stronger protections for property rights and urge strenuous, ongoing efforts to fight the age-old problem of official corruption. Private entrepreneurs must be able to make new investments in their businesses without fear of government confiscation. The U.S. should link development-assistance programs and votes in international financial institutions to countries' commitments to the rule of law and respect for private investments and property.

The U.S. must also work to gain advantage in the battle of economic ideas and overcome residual statist and authoritarian traditions in Latin America by directing public diplomacy attention to unsustainable economic policies and persistent failures—for example those associated with Venezuela's "Socialism of the 21st Century" and Cuba's outdated and failed Marxist economic model.

## "The Power of Proximity"

A marked feature of trade relations in the Western Hemisphere has been the emergence of new and powerful players on the economic scene, notably China and India. In key economies such as Brazil, China has surpassed the U.S. as the South American giant's number one trade partner. While these changes are driven by expanding demand, market forces, and other factors, they also are

MAP 5

## South and Central America/Caribbean


**Note:** French Guiana not depicted because it is French territory.

reflections of declining U.S. economic opportunities and dynamism.

**Action Needed:** Owing to the Western Hemisphere's shared commitment to democracy, individual freedom, respect for human rights, and representative government, the leaders in the region should continue to pursue a common agenda aimed at binding the peoples of the Americas more closely together via ties of trade freedom, market-based economics, and economic growth. A very positive step in this direction is currently being taken by the leaders of Chile, Colombia, Peru, and Mexico. They have formed the "Pacific Alliance" to free up the movement of goods and services and remove visa requirements for travel within that bloc. This initiative is a significant step forward to synchronize members' trade commitments and is aimed at enhancing trade with the bloc's most dynamic partners in East Asia.

**U.S. Policy Recommendation:** After years of delay by the Obama Administration in submitting the free trade agreements for congressional approval, implementation of the FTAs with Colombia and Panama has now advanced the U.S. trade agenda. The Administration must move swiftly to complete the Trans-Pacific Partnership, which includes Chile, Peru, and Mexico, to increase growth and job creation for Americans without demanding unrealistically stringent labor rights and environmental standards. The U.S. can also further harmonize trade rules among its other hemispheric FTA partners and continue to develop the Pathways to Prosperity agenda, initiated under President George W. Bush, to promote small businesses and entrepreneurship, trade, workforce development, and environmental cooperation among 15 countries in North and South America. Congress and the Obama Administration should also support the Pacific Alliance—a group that is considerably more pragmatic and less ideological than other, populist groupings in the region (e.g., ALBA, CELAC, and UNASUR—all of them established by the late Hugo Chávez).

The U.S. should work with Brazil, which alone accounts for roughly half of South America's GDP, to develop mutually advantageous agreements aimed at concluding bilateral tax treaties and two-way market access for critical economic sectors. On a smaller scale, the U.S. can also update the 30-year-old Caribbean Basin Initiative and pursue freer trade with receptive partners in South America such as Uruguay and Paraguay. (Launched under President Ronald Reagan, the initiative promotes trade and investment in 17 Caribbean and Central American countries by lowering trade barriers.)

## Day-to-Day Safety in Latin America

An August 2012 Gallup poll found that people living in Latin America and the Caribbean were the least likely in the world to feel safe in their communities, with slightly less than half of residents reporting in 2011 that they felt unsafe walking alone at night in their neighborhoods. A 2011 systematic survey of Latin America showed that 28 percent of the region's citizens considered crime the number one public concern. Homicide rates in Latin America are among the highest in the world. In fact, an estimated 42 percent of all homicides in the world occur in the region. The victims are almost always the poor. Brazil, an emerging economic powerhouse and host of the 2014 World Cup and 2016 Summer Olympics, has a murder rate of 26 per 100,000 inhabitants, five times greater than the U.S. rate. Caracas, Venezuela's capital, had the highest murder rate in the world in 2010. In 2012, Venezuela averaged more than two murders every hour, according to the U.S. Department of State's Overseas Security Advisory Council.

Moreover, while much of the focus of public attention is on the international reach and enormous earnings of transnational organized crime, the daily lives of Latin America citizens are blighted by self-perpetuating cycles of street-crime, gender-based violence, and violence among youth. Crime imposes heavy economic costs in lost lives and property, and in increased public and private security expenditures. Lack of public safety frightens off foreign capital investments and shaves percentage points off potential economic growth.

**Action Needed:** Latin American and Caribbean nations must continue to invest in security to defeat crime, deter violence, and build safer communities. Without these investments in public goods, opportunities for economic growth will be constrained. Government and private-sector attention is needed for intelligent policy responses and strategies that focus on improving the capacity of governments, businesses, and civil society to escape the Hobbesian nightmare of crime and violence and improve the fundamentals of citizen security throughout the region.

**U.S. Policy Recommendation:** The U.S. should continue to support efforts that enhance security and rule of law in the region. As the U.S. moves beyond the "war on drugs" paradigm, toward a broader strategy aimed at building citizen security, it must continue to support multipronged efforts to build law enforcement institutions, courts, and corrective facilities with follow-ons to key programs, such as the Merida Initiative (Mexico) and the Central American Regional Security Initiative (CARSI). The U.S. must work to reduce demand for illicit drugs and spearhead efforts to combat money laundering.

## Creating a Hemispheric Center for Competitiveness

The continued heavy reliance of Latin American nations on the export of commodities puts many nations at risk of succumbing to cyclical price movements and to rapid downturns in foreign markets. Since 2007, the U.S. has organized and often hosted the Americas Competitiveness Forum, which aims to increase innovation, productivity, and competeveness in the Americas. Although this annual event has had large objectives, such as promoting small businesses and trade, there has been limited follow-up.

**Action Needed:** The nations of the Americas should adopt the themes of improved international competitiveness that are included in the platforms and communiqués issued by the Summit of the Americas and meetings of sub-regional organizations, such as the Union of South American Nations (UNASUR).

**U.S. Policy Recommendation:** Drawing on earlier prototype agreements in the Western Hemisphere that created the Inter-American Defense Board and the Inter-American Defense College, the U.S. should propose and advance the establishment of a private sector–funded "Hemispheric Center for Competitiveness" designed to bring together on a more permanent basis the "best and brightest" minds. Such a center would focus its efforts on forward-looking, free-market strategies and public policy studies aimed at discovering new economic opportunities, shedding government impediments to growth, and enhancing the overall strength of the national economies of the Western Hemisphere in a competitive global economy.

## A Free-Market Energy Policy for the Americas

Energy pessimism in 2008 has given way to more optimistic scenarios in 2013. Rising proven reserves in the Americas, new recovery techniques, and the shale gas revolution are fundamentally altering the global energy balance. These developments offer the prospect for a favorable shifting of the axis of energy production toward a United States that is significantly less dependent on imports of oil from the Middle East or Venezuela.

Venezuela has used its substantial energy resources to build a network of client states via concessionary oil sales and financing (PETROCARIBE) and as a supporting prop for Cuban-style socialism and political repression. Venezuela's failure to develop its own potential has also distorted the international oil market and helped to elevate world oil prices.

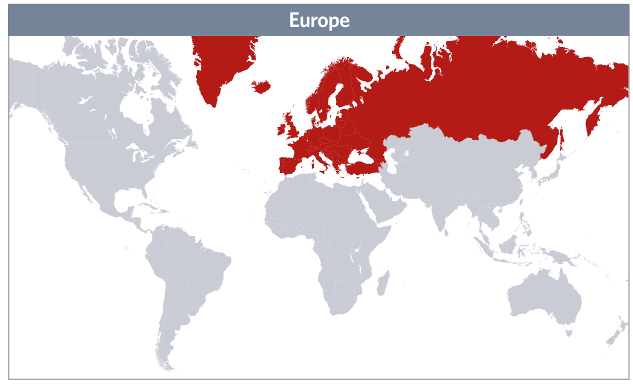
**Action Needed:** The energy-producing nations of the Americas should encourage public and private investments in exploration and development to deliver cleaner, cheaper, more reliable energy and that support growth, domestically and globally. Connected hemispheric energy markets can help to foster economics of scale, more stable supplies, and greater energy efficiency. U.S. regional partners can continue to deliver competitive, market-priced renewables if market opportunities exist in the U.S.

**U.S. Policy Recommendation:** Building on its modest Energy and Climate Partnership of the Americas (designed to promote sustainable energy development throughout the Americas), the Obama Administration needs a dynamic policy process and forum to focus on broad regional energy opportunities. Access to the U.S. market for Brazilian ethanol could bolster ties with Brazil and help end wasteful domestic U.S. subsidies for corn ethanol. The U.S. should advance sustainable, free market–based policies to promote energy investments and cooperation as well as sharing cutting-edge technology. Developing critical infrastructure, such as oil and gas pipelines (notably the proposed U.S.–Canada Keystone XL pipeline), refineries, trans-border electrical grids, and ports are also critical to U.S. and global economic interests and should be pursued when supported by sound economics. The Obama Administration should also clear regulatory obstacles to increase U.S. exports of liquefied natural gas (LNG) to the region.

## 2013 Economic Freedom Global Agenda by Region—Europe

There has been a significant realignment of European countries in terms of economic freedom in recent years. Eight European countries recorded their highest economic freedom scores in the 2013 *Index*, while five others scored equal to or below their rankings from nearly two decades ago. Ten of the world's top 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.

However, not a single eurozone country made it into the top 10 of the world's most economically free economies. 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, encouraging low birth rates, and rapidly increasing levels of public debt. Many European countries have been slow to implement the required austerity measures to reduce public spending. Regrettably, many among Europe's elites appear to believe that more European integration, and not prudent economic policies, is the answer to Europe's problem.




Europe's overall economic freedom is seriously undermined by excessive government spending on elaborate welfare policies that hinder productivity, growth, and job creation, causing economic stagnation, encouraging low birth rates, and rapidly increasing levels of public debt.

### The Continuing Crisis in the Eurozone

Since late 2009, the 17 European Union (EU) members that use the euro (of 27 total EU members) have been beset by sovereign debt crises, and there is no sign of improvement. Germany sees the eurozone crisis as its number one challenge. Greece, Ireland, Spain, Cyprus, and Portugal have received multi-billion-euro aid packages financed by their eurozone partners and the IMF. European leaders are desperately seeking a way to keep the eurozone together without addressing the root causes of the crisis. These countries have adopted stringent austerity measures in exchange for the aid, but their populations are deeply dissatisfied with the harsh austerity measures. The eurozone has slipped back into recession and unemployment across the 17-country bloc stands at 11.8 percent. At nearly 27 percent, Spain has the highest unemployment rate in the European Union, and Spain's youth unemployment is more than twice as high at 56 percent. Cyprus is engulfed in a bank solvency crisis. Some members of the eurozone, such as Greece, are on the verge of a sovereign default while a few, such as Estonia, have bucked the trend and are enjoying vibrant economic growth.

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. Furthermore, the U.S. could be impacted by EU Commission proposals such as an EU financial transaction tax (FTT), a precursor to a global tax on financial trades (amounting to a "Tobin tax"). Arguably, it was the drive for monetary, fiscal, and political integration in the late 1980s and early 1990s that caused today's crisis.

**Action Needed:** The European Union must decide if it will pursue deeper fiscal and political integration, which would concentrate even more power in the hands of the European superstate. EU leaders in Brussels should put the question to voters

MAP 6

## Europe


and not decide this important question unilaterally or undemocratically.

**U.S. Policy Recommendation:** The United States should not participate in bailouts of eurozone countries. The United States should adamantly refuse to participate in a global FTT and should counsel the EU 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 policy towards Europe.

### The EU's Economically Destructive "Common Agricultural Policy"

Although it has recently been scaled back somewhat as governments attempt to impose some "austerity" measures in Europe, the EU still spends more on its Common Agricultural Policy (CAP) than on any other part of its budget. The CAP funds direct payments for farmers, rural development initiatives, and food export subsidies. The CAP was one of the first supra-nationalist policies of the EU and is the organization's single largest expenditure. In 2012, it provided €57 billion ($76 billion) in agricultural subsidies, which accounted for more than 40 percent of the European Union's total budget.

Some of Europe's largest companies receive government aid—such as 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 billions of dollars allocated 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 (CFP) 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 €4.3 billion ($5.7 billion) in 2007–2013 on the CFP.

**Action Needed:** The EU's Common Agricultural Policy must be reformed before it bankrupts EU governments (likewise, expensive and unwarranted U.S. farm subsidies must also be reined in).

**U.S. Policy Recommendation:** As part of efforts to conclude the Doha Round successfully, individual 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. Any efforts by the Obama Administration to begin negotiations with the EU on a free trade agreement should target these wasteful CAP and CFP subsidies as a top priority.

# 2013 Economic Freedom Global Agenda by Region—Russia, Ukraine, Central Asia, and the Caucasus

## Corruption and Authoritarianism Continue to Plague Russia

Russia is the largest country on Earth. It is blessed with tremendous natural resources, including hydrocarbons, minerals, timber, as well as an educated workforce. However, its economic development is stunted by mismanagement and misconception; corruption, abysmal rule of law, poor protection of property rights, and crumbling infrastructure all impede prosperity. Capital flight surpasses foreign investment. The Russian Federation currently ranks 112th in the World Bank's 2013 "Doing Business" survey, and 133rd in Transparency International's 2012 *Corruption Perceptions Index*.

For years, the Kremlin ignored high-level corruption; the authorities' grip on power and graft remained unrelenting—although there are signs that it cannot ignore corruption much longer. On November 6, 2012, Russian President Vladimir Putin sacked his defense minister, Anatoly E. Serdyukov, a loyalist and a reformer, hated by the army brass. The immediate reason for the removal of Serdyukov and his cronies is the investigation of widespread corruption. The lack of substantive punishment for Serdyukov would suggest that a transformative anti-corruption campaign has not started yet.

A small ruling circle controls the Duma (parliament), the law enforcement and security services, the courts, the state-owned companies, and the national television stations. The social feedback loop is clogged. Until such time that Russia undertakes a fight against corruption in earnest, foreigners will pursue mostly the country's mineral riches. Capital flight will continue, and popular support of the government will remain questionable. Such deep reforms are impossible without democratization and liberalization, which the Kremlin desperately resists.

**Action Needed:** Russia must undertake a fight against corruption in earnest.

**U.S. Policy Recommendation:** In 2012, the U.S. Congress took the action that the Russian Duma should have taken, by passing the Sergei Magnitsky Rule of Law Accountability Act. This U.S. law matches the best of America's interests with the best of its ideals. It names the corrupt officials involved in the death of Sergei Magnitsky—a whistleblower who worked as an auditor at a private Russian law firm and made credible allegations of massive corruption by Russian government officials. The Magnitsky Act will prevent the perpetrators of his death (and of other gross and systematic violations of human rights) from investing in and visiting the United States. Many of Russia's leading violators of human rights also travel to Europe to invest there. Therefore, European legal norms against such officials would be even more effective. It is time for the U.S. and its allies to hold these human rights violators accountable. The U.S. government should call upon the European Union to adopt measures similar to the Magnitsky Act, as Canada has already done.

It is time for the U.S. and its allies to hold Russian's human rights violators accountable.

## Russian Monopolies Discourage Foreign Investment and Inhibit Free Markets

Russia's monopolistic state policies in the natural resources sector are a prime example of the pitfalls of foreign investment in that country. Today, the Russian government controls not only oil and gas pipelines, railroads, defense enterprises, shipping and shipbuilding, aerospace, and natural gas production, but has also consolidated ownership of oil production that had been liberalized in the 1990s. When state-controlled Rosneft bought out British Petroleum's shares in TNK-BP, a lucrative Russian private joint venture, it was a clear sign that Putin's government wanted the spoils for itself. When including Gazprom, Moscow will now have two state-owned, partially publicly traded hydrocarbon companies with more energy reserves and production than any global supermajor, including Exxon.

Although energy trade is not covered under WTO rules, Russia's accession to that body last year means that it is now subject to the WTO's higher legal and business standards. However, a Russian top trade official recently went on record to say that Russia "will not be assuming many of the [WTO] commitments to liberalize access to markets for goods and services, but we will be able to take advantage of the obligations of other countries." Such asymmetry in Russia's position in the WTO will hurt the U.S. and its allies.

**Action Needed:** Russia must make structural reforms to end monopolies that discourage foreign investment and inhibit truly free markets.

**U.S. Policy Recommendation:** The U.S. and other WTO member countries ought to hold Russia accountable to all its WTO obligations and oppose monopolistic tactics that undermine sustainable foreign investment. Russian economic practice runs contrary to the WTO's mission statement and may be grounds for complaints. The United States should insist on Russian compliance. With proper engagement and accountability, the United States should strive to turn a potential rival into a partner in market-based development under the rule of law.

## Russia's Punitive Anti-Western Trade Policies

Russia moved to implement a ban on U.S. and Canadian meat imports in retaliation for adoption by the U.S. Congress of the Magnitsky Act. Russia's highly politicized Veterinary and Phytosanitary Surveillance Service implemented the ban due to the presence of a refrigeration additive that Russian officials deem harmful. The additive in question—ractopamine—has not been banned by the WTO or the U.N. The United States has called on Russia to renew American meat imports, but to no avail. The United States now may lose foreign exports to Russia valued at $500 million annually and resulting fluctuations in supply could affect domestic prices.

**Action Needed:** The Russian government should immediately cancel these retaliatory and WTO-illegal measures that were imposed for domestic political purposes.

**U.S. Policy Recommendation:** The U.S. government must hold Russia accountable for this outrageous abuse of its WTO privileges. The WTO does not share Russia's negative view of ractopamine and should intervene favorably in response to any U.S. complaint. The Obama Administration should be proactive and defend American economic interests in response to this violation of market rules.

## Harbingers of Reduced Economic Transparency in Georgia

Since its independence from the Soviet Union, Georgia led the progress toward economic freedom and growth in the Caucasus. Georgia ranks 9th in the World Bank's 2013 "Doing Business" survey (compared to 112th for Russia). The results of the most recent Georgian elections, however, could mean changes in policy and a retreat to pre-existing business practices, including corruption.

Georgia is at a political crossroads, and the October 2012 election of billionaire businessman and Putin friend Bidzina Ivanishvili as prime minister may be a harbinger of less economic transparency. In the future, Georgia can keep attracting foreign investment and improve ties with the West, or fall squarely under the aegis of its authoritarian neighbors, Russia and Iran. Moscow, a quintessential zero-sum game player, would like to draw Georgia into its sphere of influence and away from the West. Russia may apply pressure on the new government in Tbilisi to complicate pipeline development in the Caucasus, and to join the Commonwealth of Independent States, its Common Security Treaty Organization, and the Customs Union headed by Russia. The return to Russian economic practices would be a step backward.

**Action Needed:** The Georgian government must hold fast to its classical-liberal economic policies, resisting Russian pressure to over-regulate, which breeds corruption, and avoid a return to the failed business opacity of the past.

**U.S. Policy Recommendation:** A U.S. free trade agreement with Georgia would deepen American economic ties in one of the world's important strategic regions. Georgia, which today is only the 113th-largest trading partner of the U.S., would be able to expand its development and exports. A U.S.–Georgian FTA would also send an additional signal to Russia that Georgia is considered by Washington to be a friend and partner.

## Kazakhstan: Improved Economic Growth, But Still Facing Corruption

Kazakhstan and its neighbors currently enjoy an economic prosperity that is mostly based on mineral wealth—primarily hydrocarbons, but also uranium and ferrous and non-ferrous metals, as well as a significant potential in agriculture. Extensive and burdensome corruption, however, is widespread.

Across Central Asia, in fact, the great natural resources of Eurasia still attract foreign investment, but corruption and closed markets are inhibiting long-term success. Since its independence in 1991, Kazakhstan's economic performance and development have made it a regional leader, but more needs to be achieved. Although the government has tried to make economic diversification a priority, such an effort has generally been at odds with the reality of a "Dutch disease" and gradually increasing role of the state and of oligarchic conglomerates. Kazakhstan, and especially its neighbors, still lack a full regulatory framework, transparency, efficient judicial institutions, and flexible labor laws. Corruption, inefficient dispute-resolution mechanisms, rigid labor laws, high crime rates, and foreign exchange controls are all obstacles to international foreign direct investment in Eurasia and Central Asia.

Kazakhstan and the surrounding region are poised for economic growth and the United States should take advantage of opportunities there—as Russia and China already are.

**Action Needed:** Developing and implementing a comprehensive program for government reform, including the rule of law and property rights, good governance, and anti-corruption, should be a top priority for Kazakhstan's national leadership in this decade and the next. Its neighbors should take notice and follow suit.

**U.S. Policy Recommendation:** The United States, its allies, and its partners should lead the charge for economic freedom in Kazakhstan and Central Asia. The region is poised for economic growth and the United States should take advantage of opportunities there—as Russia and China already are. The U.S. can also help Central Asia deal with security threats to its economy, namely terrorism. Kazakhstan is aspiring to join the WTO, and the U.S. can assist private Kazakhstani and American companies and investors by facilitating reforms that will clear the way for Kazakhstan's WTO membership.

## Better Economic Governance Needed in Ukraine

Ukraine's developed industrial infrastructure, large size, and large population, as well as its proximity both to the EU and Russia, make it one of the larger European markets. It has some of the best agricultural land, large amounts of hydrocarbons in the Black Sea, and shale gas.

Corruption and poor governance block economic progress in Ukraine. The global economic downturn in 2008 devastated Ukraine's economy. Ukraine's GDP growth has slowed and deficits are rising. Foreign investment and exports have slowed down, too. Critics are saying that President Victor Yanukovich is transforming previously politically free Ukraine into a Russia-style autocracy. Such dynamics further weaken Ukraine's ability to resist corruption, improve governance, and protect private property and foreign investors. Corrupt officials stymie opposition, undermine free media, and enhance de facto privatized state control over business. Ukraine currently ranks 152nd in Transparency International's *Corruption Perceptions Index*.

**Action Needed:** Ukraine must defeat corruption, improve governance, reverse deterioration in its democratic and human rights performance, and improve the rule of law to achieve its economic potential.

**U.S. Policy Recommendation:** The United States has the opportunity to encourage the growth of the Ukrainian economy and lessen its dependence on Russia, as the European Union has done with its Association Agreement. One way to do that would be for the U.S. to demand implementation of a comprehensive anti-corruption program as a condition for any further IMF lending to Ukraine. As a world leader in the oil and gas industry, the U.S. also could help Ukraine develop oil and gas deposits in the Black Sea and shale gas fields. Liquefied natural gas (LNG) could also be on the bilateral agenda, in the wake of a recent failed attempt by Ukraine to secure foreign investment in an LNG plant. The American technical expertise in these areas and others—such as nuclear power safety—would match well with Ukraine's needs.

## Conclusion

There has never been a more important moment in U.S. history than now to elevate economic freedom to the top of the nation's foreign policy agenda. These 30-plus U.S. policy recommendations contained in this paper 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—both of which will enhance U.S. national security.

# Appendix

## Recent Heritage Foundation Publications for Further Reading

- James Phillips, "The Arab Spring Descends into Islamist Winter: Implications for U.S. Policy," *Backgrounder* No. 2754, December 20, 2012, http://www.heritage.org/research/reports/2012/12/the-arab-spring-descends-into-islamist-winter-implications-for-us-policy,

- James Phillips, "Arab Spring Protests Underscore Urgent Need for Economic Reforms," The Foundry, October 24, 2012, http://blog.heritage.org/2012/10/24/arab-spring-protests-underscore-urgent-need-for-economic-reforms/.

- "Unleashing the Market in the India–U.S. Economic Relationship, Part 1," *Special Report* from the Asian Studies Center No. 124, January 7, 2013, http://thf_media.s3.amazonaws.com/2013/pdf/SR124.pdf.

- James M. Roberts, Mark Schreiber, and Derek Scissors, "Brazil: Restoring Economic Growth Through Economic Freedom," *Special Report* No. 118, September 20, 2012, http://www.heritage.org/research/reports/2012/09/brazil-restoring-economic-growth-through-economic-freedom.

- James M. Roberts and Ariel Cohen, "How More Economic Freedom Will Attract Investment to Kazakhstan and Central Asia," *Special Report* No. 113, June 26, 2012, http://www.heritage.org/research/reports/2012/06/how-more-economic-freedom-will-attract-investment-to-kazakhstan-and-central-asia.

- James M. Roberts, "Reducing Corruption Will Increase Economic Freedom in the Philippines," *Special Report* No. 106, April 6, 2012, http://www.heritage.org/research/reports/2012/04/reducing-corruption-will-increase-economic-freedom-in-the-philippines.

- Ronald D. Utt, "Learning from Japan, Infrastructure Spending Won't Boost the Economy," *Backgrounder* No. 2222, December 16, 2008, http://www.heritage.org/research/reports/2008/12/learning-from-japan-infrastructure-spending-wont-boost-the-economy.

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