

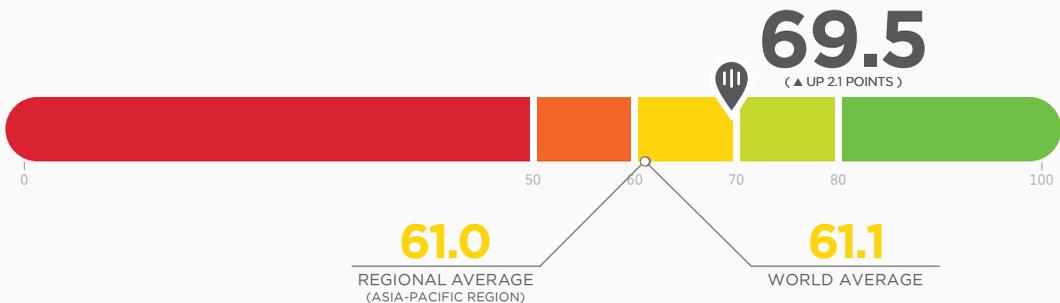
VANUATU

Vanuatu's economic freedom score is 69.5, making its economy the 36th freest in the 2018 *Index*. Its overall score has increased by 2.1 points, with significant improvements in **judicial effectiveness** and **government integrity** outpacing lower scores for the **government spending** and **fiscal health** indicators. Vanuatu is ranked 10th among 43 countries in the Asia-Pacific region, and its overall score is above the regional and world averages.

Economic development in Vanuatu is hindered by dependence on relatively few commodity exports, vulnerability to natural disasters, and long distances to major markets. Strong factionalism continues to undermine policymaking. There is an overall lack of commitment to institutional reforms. Property rights are poorly protected, and investment is deterred by the country's inadequate physical and legal infrastructure. High tariffs and nontariff barriers to trade hold back integration into the global marketplace. Business activity is further limited by rigid labor regulations and widespread corruption.



ECONOMIC FREEDOM SCORE

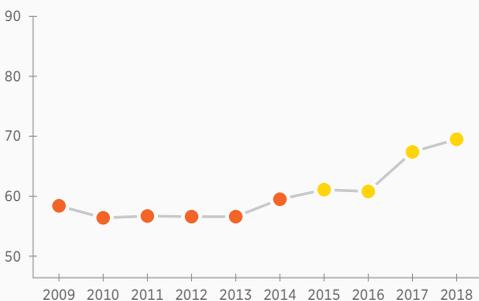


NOTABLE SUCCESSES:
Fiscal Policy and Tax Policy

CONCERNS:
Financial Freedom, Judicial Effectiveness, and Business Freedom

OVERALL SCORE CHANGE SINCE 2014:
+10.0

FREEDOM TREND



QUICK FACTS

POPULATION:
0.3 million

GDP (PPP):
\$0.7 billion
4.0% growth in 2016
5-year compound annual growth 1.9%
\$2,631 per capita

UNEMPLOYMENT:
5.4%

INFLATION (CPI):
2.2%

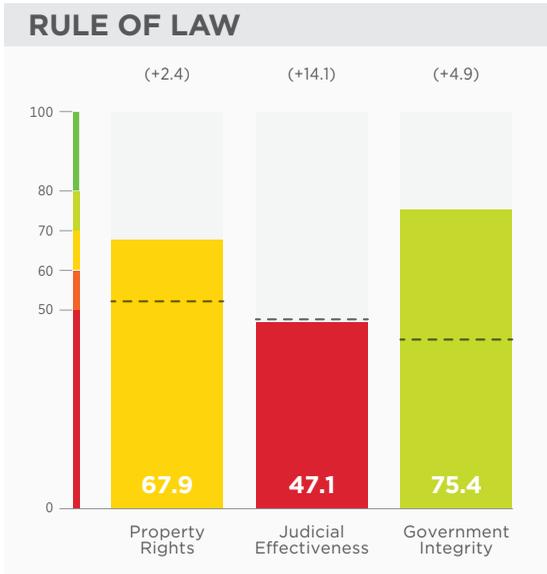
FDI INFLOW:
\$32.4 million

PUBLIC DEBT:
31.3% of GDP

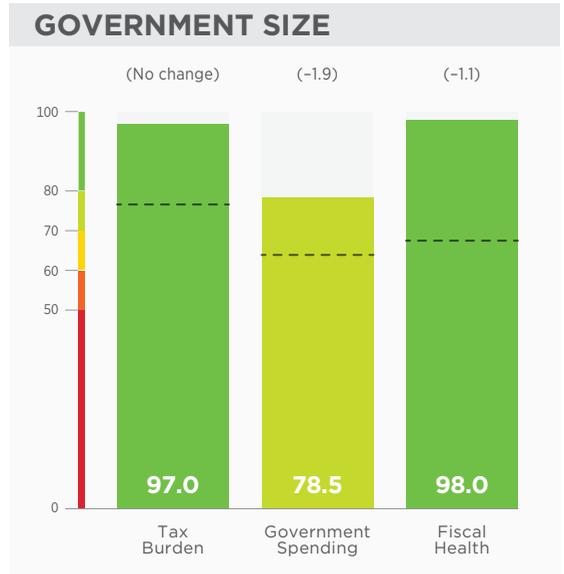
2016 data unless otherwise noted. Data compiled as of September 2017

BACKGROUND: Waves of colonizers migrated to the South Pacific's New Hebrides archipelago in the millennia preceding European colonization in the 18th century. The Republic of Vanuatu achieved independence from joint British-French administration in 1980 and today is a parliamentary democracy divided between its English-speaking and French-speaking citizens. Charlot Salwai of the Reunification of Movements for Change became prime minister in 2016 following snap elections called after 14 members of parliament were convicted of bribery. Vanuatu is heavily dependent on agriculture, particularly subsistence farming, and tourism, which comprises 40 percent of the economy. In March 2015, Cyclone Pam destroyed thousands of homes and other buildings and killed more than a dozen people. The tourism industry is still recovering.

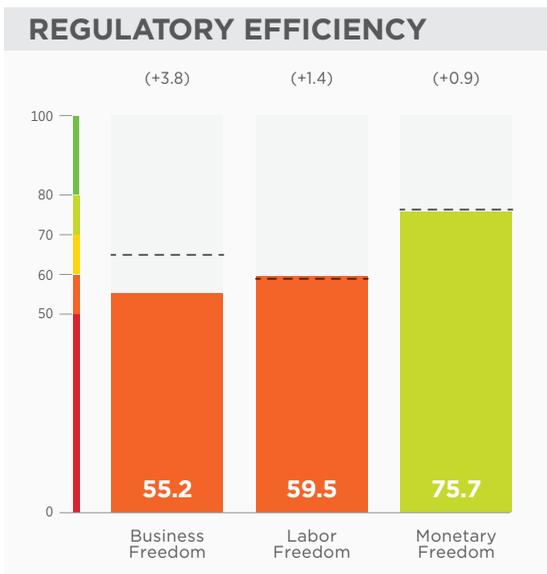
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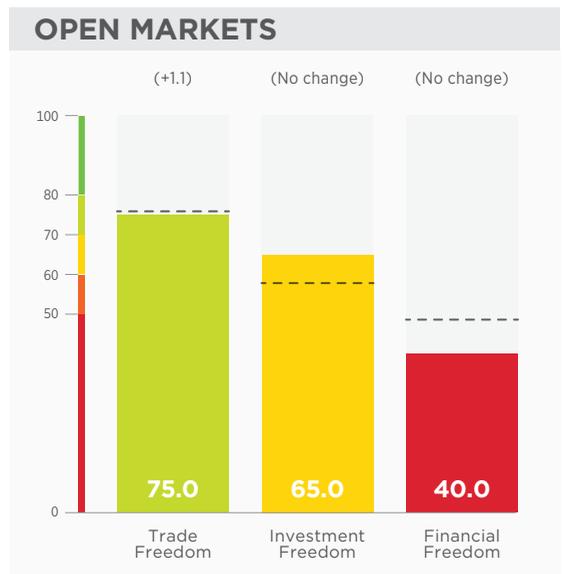
Property rights are not adequately protected, and there have been specific complaints about land registration procedures. The judiciary is largely independent but lacks the resources to retain qualified personnel. The law provides criminal penalties for official corruption, and the government generally implements the law effectively. Officials sometimes engage in corrupt practices with impunity.



Vanuatu imposes no individual or corporate income tax. Taxes include a value-added tax and import duties. The overall tax burden equals 17.4 percent of total domestic income. Over the past three years, government spending has amounted to 26.8 percent of total output (GDP), and budget deficits have averaged 0.2 percent of GDP. Public debt is equivalent to 31.3 percent of GDP.



Vanuatu has recently implemented several business-friendly reforms that make starting a business and resolving insolvency easier, improve access to credit, and strengthen minority investor protections. Small-scale agriculture, fishing, offshore financial services, and tourism provide a living for most of the population. The government subsidizes numerous money-losing and poorly managed state-owned enterprises.



Trade is significant for Vanuatu's economy; the combined value of exports and imports equals 98 percent of GDP. The average applied tariff rate is 5.0 percent. Nontariff barriers impede trade. Government openness to foreign investment is above average. The financial sector remains rudimentary. Access to credit and formal banking services remains low.