

# BACKGROUND

No. 3266 | NOVEMBER 21, 2017

## *2018 Index of Economic Freedom:* Freedom to Trade Is a Key to Prosperity

*Bryan Riley and Patrick Tyrrell*

### Abstract

*The latest rankings of trade freedom around the world, laid out in The Heritage Foundation 2018 Index of Economic Freedom, which will be published in January 2018, demonstrate that citizens of countries that embrace free trade are better off than those in countries that do not. The data show a strong correlation between trade freedom and a variety of positive indicators, including economic prosperity, unpolluted environments, food security, gross national income per capita, and the absence of politically motivated violence or unrest. Reducing trade barriers remains a proven recipe for prosperity that a majority of Americans support.*

The latest rankings of trade freedom around the world, developed by The Heritage Foundation for the forthcoming *2018 Index of Economic Freedom*,<sup>1</sup> demonstrate that citizens of countries that embrace free trade are better off than those in countries that do not. The data show a strong link between trade freedom and a variety of positive indicators, including economic prosperity, low poverty rates, and clean environments.

Worldwide, the average trade freedom score, which is based on a country's tariff and non-tariff trade barriers, is unchanged from 2017, as seen in Chart 1.

### Why Trade Freedom Matters

A comparison of economic performance and trade scores in the *2018 Index of Economic Freedom* demonstrates the importance of trade freedom to prosperity and well-being. Countries with the most trade freedom have higher per capita incomes, more secure food supplies, and cleaner environments.

### KEY POINTS

- A comparison of economic performance and trade scores in the forthcoming *2018 Index of Economic Freedom* demonstrates the importance of trade freedom for prosperity and overall well-being.
- Countries with the most trade freedom have much higher per capita incomes, higher food security, cleaner environments, and less politically motivated violence.
- Free trade policies encourage freedom in general—including protection of private property rights and the freedom of average people to buy what they think is best for their families. Indeed, trade freedom is an important part of being able to direct one's own life and be economically free.
- Despite growing anti-trade rhetoric, most Americans are open to the idea of more free trade, and believe its benefits outweigh any disadvantages it might cause.

This paper, in its entirety, can be found at <http://report.heritage.org/bg3266>

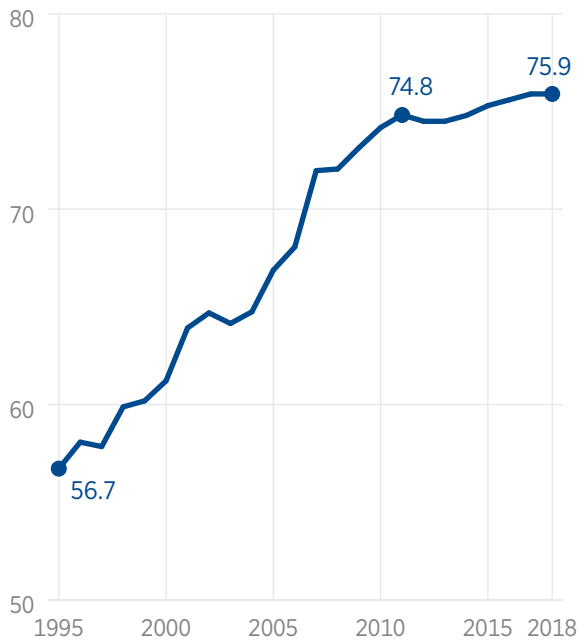
**The Heritage Foundation**  
214 Massachusetts Avenue, NE  
Washington, DC 20002  
(202) 546-4400 | [heritage.org](http://heritage.org)

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

CHART 1

## Average Global Trade Freedom Score Unchanged

AVERAGE TRADE FREEDOM SCORE IN THE INDEX OF ECONOMIC FREEDOM



SOURCE: Heritage Foundation calculations from the 2018 Index of Economic Freedom (forthcoming 2018).

BG3266 heritage.org

In fact, as seen in Chart 2, the top third of nations by trade freedom earn over \$27,000 gross national income per capita on average, compared with the middle third's and lowest third's much lower amounts of \$7,400, and \$3,100, respectively. Moreover, nations with more trade freedom have greater political stability and are less likely to experience politically motivated violence, including terrorism.

Greater freedom to trade makes for a freer, safer, cleaner, and healthier world. The benefits of trade

accrue to citizens on both sides of an international transaction because trade is not a zero-sum activity. Countries that impose significant tariffs and non-tariff barriers hurt themselves and detract from the prosperity and happiness of their citizens.

### Boosting Trade, Economic Freedom, and Prosperity

Since World War II, government barriers to global commerce have been reduced significantly. Today, the average worldwide tariff rate is less than 3 percent. The average world tariff rate has fallen by one-third since the turn of the century alone.<sup>2</sup>

Countries with low tariffs and few non-tariff barriers benefit from stronger economic growth. But free trade policies do not just promote economic growth, they encourage freedom across the board—including protection of property rights and the freedom of average people to buy what they think is best for their families, regardless of attempts by special interest groups to restrict that freedom.

Not all countries have embraced free trade. Double-digit tariff rates are applied in 32 countries, and even countries with low average tariff rates often have high tariff rates for some items. In the U.S., for example, the average tariff rate is just 1.6 percent, but pickup trucks face a prohibitive 25 percent tariff, many types of clothing are subject to double-digit tariffs, and food—a basic necessity—can be subject to tariffs of as much as 35 percent (some canned tuna fish), or 132 percent (certain peanut products).<sup>3</sup>

### Identifying and Neutralizing Threats to Trade

The volume of U.S. and world trade in goods and services plummeted during the global recession, declining by roughly 20 percent between 2008 and 2009. From 2009 to 2014, U.S. and world trade volume increased by around 50 percent, followed by a 10 percent drop in world trade volume in 2015, along with a 4 percent decline in U.S. trade volume.<sup>4</sup> The World Trade Organization (WTO) reported an

1. See Appendix A.

2. The World Bank. "Tariff Rate, Applied, Weighted Mean, All Products (%)," <http://data.worldbank.org/indicator/TM.TAX.MRCH.WM.AR.ZS> (accessed November 2, 2017).

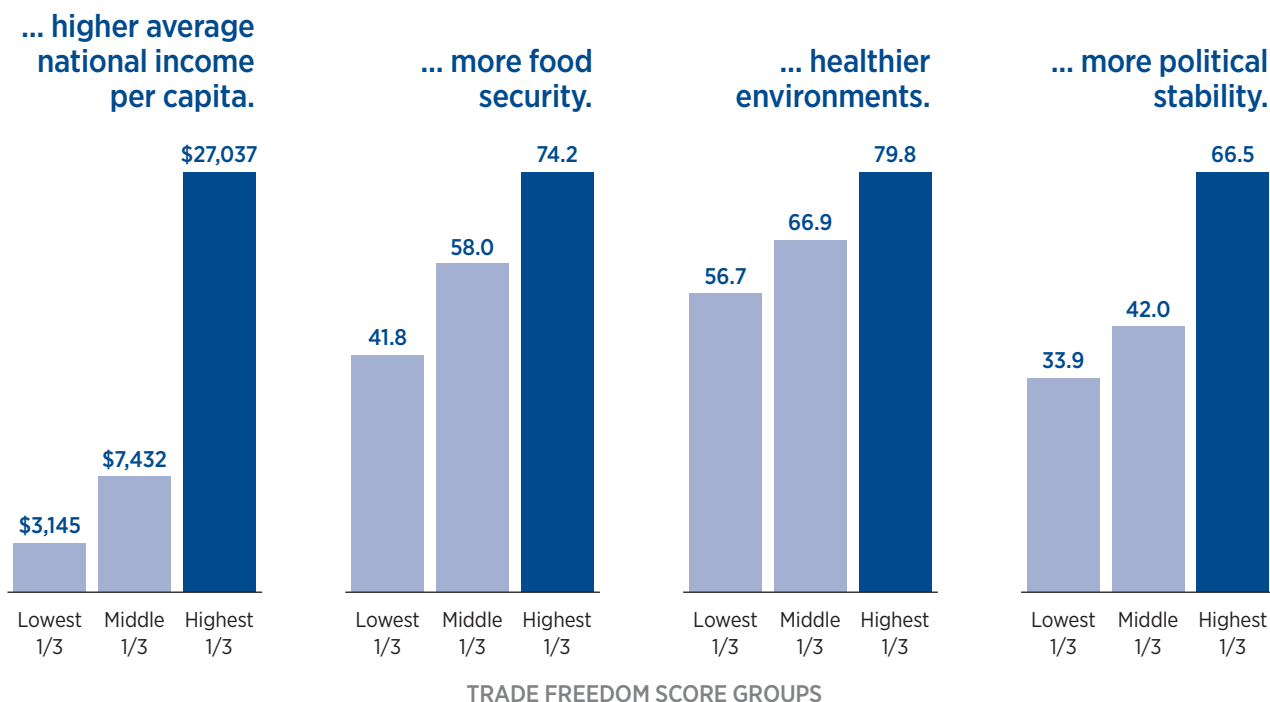
3. U.S. International Trade Commission, "Harmonized Tariff Schedule of the United States (2017 HTSA Revision 1 Edition)," <http://hts.usitc.gov/current> (accessed November 2, 2017).

4. U.S. Department of Commerce, Bureau of Economic Analysis, "International Data," Table 1.1, [http://www.bea.gov/iTable/index\\_ita.cfm](http://www.bea.gov/iTable/index_ita.cfm), and World Trade Organization, "Trade and Tariff Data," [https://www.wto.org/english/res\\_e/statis\\_e/statis\\_e.htm](https://www.wto.org/english/res_e/statis_e/statis_e.htm) (accessed November 2, 2017).

CHART 2

## Major Benefits of Free Trade

Nations with higher trade scores in the *2018 Index of Economic Freedom* also have ... :



**SOURCES:** Heritage Foundation calculations from the *2018 Index of Economic Freedom* (forthcoming 2018), and:

- Income per Capita: World Bank, "GNI per Capita, Atlas Method (Current US\$)," <https://data.worldbank.org/indicator/NY.GNP.PCAP.CD> (accessed October 20, 2017). Data compiled for 163 countries.
- Food Security: *The Economist* Intelligence Unit, "Global Food Security Index 2017," <http://foodsecurityindex.eiu.com/Resources> (accessed October 31, 2017). Data compiled for 110 countries.

- Environment: Yale University, "2016 Environmental Performance Index," <http://epi.yale.edu/> (accessed October 18, 2017). Data compiled for 173 countries.
- Political Stability: World Bank, Worldwide Governance Indicators, "Political Stability, and Absence of Violence/Terrorism," 2016 data, <http://info.worldbank.org/governance/wgi/#reports> (accessed Oct. 23, 2017). Data compiled for 183 countries.

BG3266 heritage.org

increase in global merchandise trade of just 1.6 percent in 2016, but projects a strong rebound to 3.6 percent growth for 2017.<sup>5</sup> U.S. trade in goods and services dropped 6.1 percent from its 2014 peak to 2016.<sup>6</sup>

According to the WTO's July Trade Monitoring Report (October 2016 to May 2017),

74 new trade-restrictive measures were initiated by members during the review period, including new or increased tariffs, customs regulations and quantitative restrictions, amounting to almost 11 new measures per month. This constitutes a significant decrease over the previous review period (mid-October 2015 to mid-October 2016), where an average of 15 measures per month were

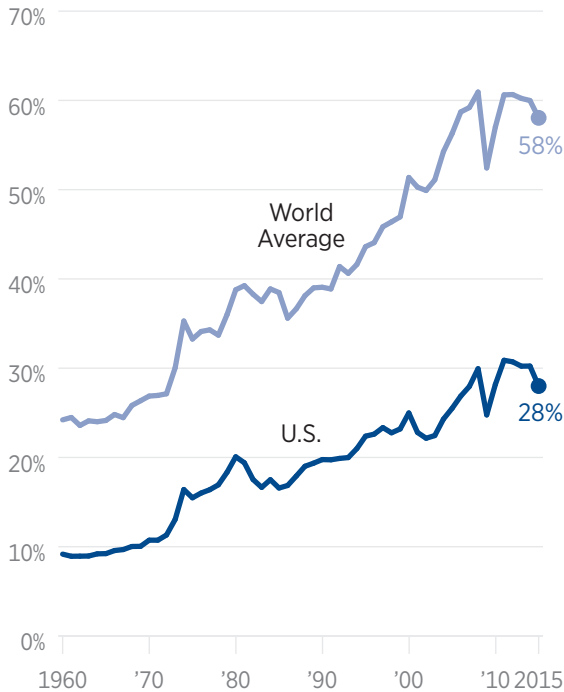
5. News release, "WTO Upgrades Forecast for 2017 as Trade Rebounds Strongly," World Trade Organization, September 21, 2017, [https://www.wto.org/english/news\\_e/pres17\\_e/pr800\\_e.htm](https://www.wto.org/english/news_e/pres17_e/pr800_e.htm) (accessed November 2, 2017).

6. U.S. Department of Commerce, Bureau of Economic Analysis, "International Data," Table 1.1.

CHART 3

### The Rising Importance of Trade

TRADE AS A PERCENTAGE OF GDP



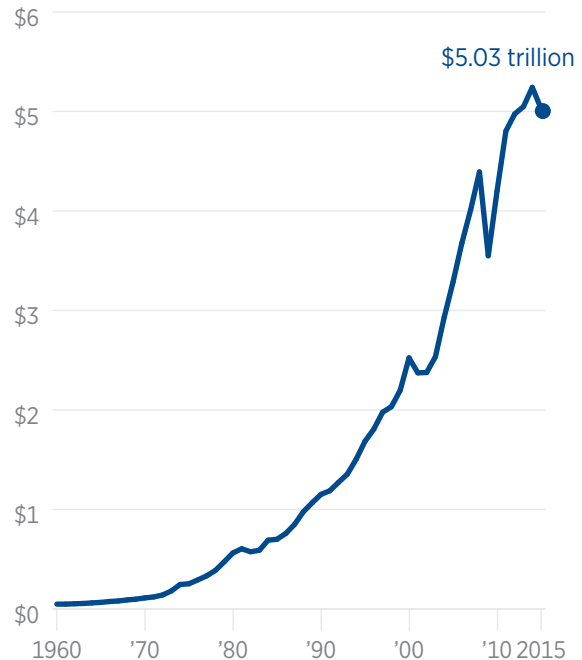
**SOURCE:** The World Bank, “Trade (% of GDP),” <http://data.worldbank.org/indicator/NE.TRD.GNFS.ZS> (accessed October 30, 2017).

BG3266 heritage.org

CHART 4

### U.S. Trade Volume

INTERNATIONAL TRANSACTIONS  
 IN BILLIONS OF DOLLARS



**SOURCE:** U.S. Department of Commerce, Bureau of Economic Analysis, “International Data,” [https://www.bea.gov/iTable/index\\_ita.cfm](https://www.bea.gov/iTable/index_ita.cfm) (accessed October 30, 2017).

BG3266 heritage.org

recorded, and marks the lowest monthly average over the past decade.<sup>7</sup>

Although much progress has been made in identifying and reducing tariffs and many non-tariff barriers, Global Trade Alert identifies government subsidies as a growing impediment to trade: “As far as crisis-era trade distortions are concerned, the action is in state financial support, not import restrictions. G20 policymakers, their advisers, and analysts would do well to recognize where the real threats to

global trade are really coming from and their worrying scale.”<sup>8</sup>

### Support for International Trade in the U.S.

Free trade is undoubtedly popular among American economists. The University of Chicago’s Initiative of Global Markets (IGM) asked a panel of economic experts to respond to the following proposition: “Adding new or higher import duties on products such as air conditioners, cars, and

7. News release, “WTO Members Record Lowest Monthly Average in New Trade Restrictions Since 2008,” World Trade Organization, July 24, 2017, [https://www.wto.org/english/news\\_e/news17\\_e/trdev\\_24jul17\\_e.htm](https://www.wto.org/english/news_e/news17_e/trdev_24jul17_e.htm) (accessed November 2, 2017).  
 8. Simon J. Evenett and Johannes Fritz, *Will Awe Trump Rules? The 21st Global Trade Alert Report* (London: Center for Economic Policy Research Press, 2017), <http://www.globaltradealert.org/reports/download/42> (accessed November 2, 2017).

cookies—to encourage producers to make them in the US—would be a good idea.” One hundred percent of respondents either “disagreed” or “strongly disagreed.”<sup>9</sup>

A 2012 IGM survey found that more than four out of five economists surveyed agreed that “[o]n average, citizens of the U.S. have been better off with the North American Free Trade Agreement (NAFTA) than they would have been if the trade rules for the U.S., Canada and Mexico prior to NAFTA had remained in place.”<sup>10</sup>

But support for trade is not limited to economists. Despite ongoing anti-trade rhetoric, repeated public opinion polls demonstrate that most Americans continue to support international trade. For example:

- According to a poll conducted by The Heritage Foundation, 70 percent of Americans think trade has been a good thing for the U.S., while just 7 percent think it has been bad for the country.<sup>11</sup>
- A Morning Consult poll from September 2017 found that 52 percent of Americans support an expansion of free trade across borders, versus just 25 percent in opposition.<sup>12</sup>
- The Chicago Council on Global Affairs concluded in August 2017: “More Americans than ever are convinced that international trade is generally advantageous to the United States,” based on poll results showing that 72 percent of Americans believe trade is good for the U.S. economy.<sup>13</sup>

- Gallup reported in February 2017 that a “record-high 72 percent of Americans see foreign trade as an opportunity for economic growth. This is up sharply from 58 percent last year, after much debate about trade during the presidential election cycle.”<sup>14</sup>

- A Wall Street Journal/NBC News poll from February 2017 showed “the highest portion of Americans who said free trade helped more than hurt since the Journal/NBC News pollsters started asking that question in 1999.”<sup>15</sup>

- A survey of people who voted for President Trump, from April 2017, found that “stopping the job-killing impacts of foreign trade deals” ranked dead last among choices for what the President’s top priorities should be, far behind strengthening national security, creating jobs, stopping illegal immigration, and repealing Obamacare.<sup>16</sup>

### **What U.S. and World Leaders Can Learn from the *Index of Economic Freedom***

Economic theory suggests that countries with reduced barriers to international trade and investment will prosper compared to countries that restrict trade. The *2018 Index of Economic Freedom* provides evidence that supports this idea.

People who live in countries with low trade barriers are better off than those who live in countries with high trade barriers. Reducing those barriers remains a proven recipe for prosperity. Governments interested in higher economic growth, less hunger,

---

9. IGM Economic Experts Panel, “Import Duties,” October 4, 2016, <http://www.igmchicago.org/igm-economic-experts-panel> (accessed November 2, 2017).

10. IGM Forum, “Free Trade,” March 13, 2012, <http://www.igmchicago.org/surveys/free-trade> (accessed November 2, 2017).

11. Online survey using a national representative sample of 1,012 registered U.S. voters conducted April 19–26, 2017.

12. Morning Consult, “National Tracking Poll #170908: Crosstabulation Results,” September 12–14, 2017, [https://morningconsult.com/wp-content/uploads/2017/09/MC\\_BGBF-Crosstabs.pdf](https://morningconsult.com/wp-content/uploads/2017/09/MC_BGBF-Crosstabs.pdf) (accessed November 2, 2017).

13. Dina Smeltz and Karen Whisler, “Pro-Trade Views on the Rise, Partisan Divisions on NAFTA Widen,” The Chicago Council on Global Affairs, August 14, 2017, <https://www.thechicagocouncil.org/publication/pro-trade-views-rise-partisan-divisions-nafta-widen> (accessed November 2, 2017).

14. News release, “In US, Record-High 72% See Foreign Trade as Opportunity,” Gallup, February 16, 2017, <http://news.gallup.com/poll/204044/record-high-foreign-trade-opportunity.aspx> (accessed November 2, 2017).

15. Jacob Schlesinger, “Growing Support for Free Trade, Thanks to Partisan Split,” MarketWatch, February 26, 2017, <http://www.marketwatch.com/story/growing-support-for-free-trade-thanks-to-partisan-split-2017-02-26> (accessed November 2, 2017).

16. Glen Bolger, “UVA Center for Politics Project: First 100 Days Online Survey & Focus Groups,” University of Virginia Center for Politics, April 2017, [http://www.centerforpolitics.org/crystalball/wp-content/uploads/2017/04/Trump\\_voter\\_poll\\_summary.pdf](http://www.centerforpolitics.org/crystalball/wp-content/uploads/2017/04/Trump_voter_poll_summary.pdf) (accessed November 2, 2017).

better environmental quality, and less risk of political unrest should promote freedom, not pander to vocal minorities who want to restrict it.

—**Bryan Riley** is Jay Van Andel Senior Policy Analyst in Trade Policy, in the Thomas A. Roe Institute for Economic Policy Studies, of the Institute for Economic Freedom, and **Patrick Tyrell** is Research Coordinator, in the Center for International Trade and Economics, of the Kathryn and Shelby Cullom Davis Institute for National Security and Foreign Policy, at The Heritage Foundation.

APPENDIX TABLE 1

## 2018 Trade Freedom Scores

NG — Not Graded

Rank	Country	Score	Rank	Country	Score	Rank	Country	Score
1-t	Hong Kong	90.0	63	Bahrain	83.4	125-t	Egypt	70.9
1-t	Liechtenstein	90.0	64-t	Qatar	83.3	125-t	Burma	70.9
1-t	Macau	90.0	64-t	Namibia	83.3	127-t	Jamaica	70.8
1-t	Singapore	90.0	66	Thailand	83.1	127-t	Kosovo	70.8
1-t	Switzerland	90.0	67	Japan	82.3	129	Rwanda	70.7
6	Georgia	89.4	68	Tunisia	82.1	130	Tajikistan	70.6
7	Brunei	89.1	69	Jordan	82.0	131	Argentina	70.3
8-t	Mauritius	88.7	70-t	France	81.9	132	Samoa	70.2
8-t	Chile	88.7	70-t	Greece	81.9	133	Kenya	69.8
10	Iceland	88.5	72	Colombia	81.6	134	Sierra Leone	69.4
11	Canada	88.1	73	Belarus	81.4	135-t	Burundi	69.2
12	Mexico	88.0	74	Ukraine	81.1	135-t	Eritrea	69.2
13	Norway	87.9	75	Nicaragua	81.0	137	Zimbabwe	69.1
14-t	Bosnia & Herzegovina	87.8	76	The Philippines	80.7	138-t	Fiji	68.8
14-t	Albania	87.8	77	Indonesia	80.5	138-t	Ecuador	68.8
14-t	Macedonia	87.8	78-t	South Korea	80.4	140	Mali	68.7
17-t	Malaysia	87.4	78-t	Uruguay	80.4	141-t	Lesotho	68.5
17-t	Serbia	87.4	80	Cambodia	80.3	141-t	Brazil	68.5
17-t	Croatia	87.4	81-t	Libya	80.0	143	Cabo Verde	68.2
17-t	New Zealand	87.4	81-t	Timor-Leste	80.0	144	Togo	67.2
21	Guatemala	87.2	81-t	Turkmenistan	80.0	145	Senegal	66.7
22	Peru	87.1	81-t	Armenia	80.0	146	Nepal	66.6
23-t	Austria	86.9	85	Swaziland	79.7	147	Afghanistan	66.0
23-t	Belgium	86.9	86-t	Morocco	79.4	148	Pakistan	65.9
23-t	Bulgaria	86.9	86-t	Russia	79.4	149	Burkina Faso	65.8
23-t	Cyprus	86.9	88	Kuwait	79.1	150	Nigeria	65.5
23-t	Czech Republic	86.9	89	Vietnam	78.7	151	Guinea-Bissau	65.2
23-t	Denmark	86.9	90-t	Turkey	78.6	152	Ghana	65.1
23-t	Estonia	86.9	90-t	Tonga	78.6	153	Belize	64.9
23-t	Finland	86.9	92-t	Moldova	78.3	154-t	Cuba	64.7
23-t	Germany	86.9	92-t	Zambia	78.3	154-t	The Gambia	64.7
23-t	Hungary	86.9	94	Saudi Arabia	78.2	156	Dem. Rep. Congo	64.6
23-t	Ireland	86.9	95	Uganda	78.1	157	Algeria	63.5
23-t	Italy	86.9	96	Madagascar	78.0	158	Dominica	62.6
23-t	Latvia	86.9	97	Panama	77.8	159	Uzbekistan	62.5
23-t	Lithuania	86.9	98	Tanzania	76.9	160	Barbados	62.2
23-t	Luxembourg	86.9	99	Mozambique	76.7	161	Republic of Congo	61.9
23-t	Malta	86.9	100	Paraguay	76.1	162-t	Mauritania	61.5
23-t	Netherlands	86.9	101	Mongolia	75.9	162-t	Niger	61.5
23-t	Poland	86.9	102	St. Vincent & Grenadines	75.7	164-t	Bangladesh	61.2
23-t	Portugal	86.9	103	Kazakhstan	75.6	164-t	Guinea	61.2
23-t	Romania	86.9	104	Bolivia	75.5	166	Gabon	60.9
23-t	Slovak Republic	86.9	105	Vanuatu	75.0	167	Ethiopia	60.7
23-t	Slovenia	86.9	106	Comoros	74.9	168	Angola	59.5
23-t	Spain	86.9	107	Suriname	74.8	169	Venezuela	58.7
23-t	Sweden	86.9	108	Solomon Islands	74.7	170	Kiribati	58.2
23-t	United Kingdom	86.9	109	Azerbaijan	74.6	171	Central African Republic	57.2
48-t	Seychelles	86.7	110-t	Kyrgyz Republic	74.5	172-t	Syria	56.6
<b>48-t</b>	<b>United States</b>	<b>86.7</b>	110-t	Sri Lanka	74.5	172-t	Laos	56.6
50	El Salvador	86.4	112	Bhutan	74.4	174	Sudan	56.1
51-t	Australia	86.2	113	St. Lucia	74.3	175	Benin	55.6
51-t	Oman	86.2	114	Côte d'Ivoire	73.7	176	Djibouti	54.9
51-t	Taiwan	86.2	115	Trinidad & Tobago	73.5	177	Iran	54.5
54	Papua New Guinea	85.9	116	China	73.2	178	Equatorial Guinea	53.8
55	Micronesia	85.6	117	Liberia	72.8	179	Cameroon	53.4
56	Israel	85.5	118-t	Dominican Republic	72.4	180	The Bahamas	52.7
57-t	Montenegro	84.7	118-t	India	72.4	181	Chad	52.2
57-t	Costa Rica	84.7	120	Haiti	71.9	182	Maldives	48.4
59	Lebanon	84.5	121	São Tomé & Príncipe	71.8	183	North Korea	0.0
60	Honduras	84.4	122	South Africa	71.6	—	Iraq	NG
61	United Arab Emirates	84.3	123-t	Guyana	71.5	—	Somalia	NG
62	Botswana	83.9	123-t	Malawi	71.5	—	Yemen	NG

SOURCE: Heritage Foundation calculations from the 2018 *Index of Economic Freedom* (forthcoming 2018).

BG3266  heritage.org



## Appendix B: Methodology

The trade freedom scores for 2018 are based on data for the period covering the second half of 2016 through the first half of 2017. To the extent possible, the information is current as of June 30, 2017. Any changes in law effective after that date have no positive or negative impact on the 2018 trade freedom scores.

Unless otherwise noted, the authors use the following sources to determine scores for trade policy, in order of priority:

1. The World Bank, *World Development Indicators 2017*.
2. The World Trade Organization, *Trade Policy Review, 1995–2017*.
3. Office of the U.S. Trade Representative, *2017 National Trade Estimate Report on Foreign Trade Barriers*.
4. The World Bank, *Doing Business 2016* and *Doing Business 2017*.
5. U.S. Department of Commerce and U.S. Department of State, *Country Commercial Guide, 2012–2017*.
6. Economist Intelligence Unit, *Country Commerce, 2017*.
7. World Economic Forum, *The Global Enabling Trade Report 2016*.
8. Official government publications of each country.