



# 2024 **Atlas**

## **Freedom and Prosperity Around the World**

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**Atlantic Council**

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Central to answering these questions are the Freedom and Prosperity Indexes. The Indexes measure the freedom and prosperity, respectively, of nearly every country in the world.

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# Foreword

Daron Acemoglu

Democracy and freedom are in crisis. Freedom House reports that democracy around the world has been in constant retreat for seventeen consecutive years.<sup>1</sup> In 2021, sixty countries experienced declines in their democracy score, while only twenty-five showed improvement. Today, the world is less democratic than it has been at any time since 1997. Concurrently, there has been a steep decline in support for democracy. In international surveys, 60 percent of respondents reported a positive view of democracy in the mid-1990s; the number now stands at 50 percent.<sup>2</sup>

The erosion of democracy is intertwined with a crisis of freedom. The most common path toward democratic decline is via the election of authoritarian leaders who then clamp down on media, dissent, and opposition forces.<sup>3</sup> Censorship is on the rise and freedom of expression is in decline around the world, led by China, where government surveillance has intensified, aided by controls over media, social media, the Internet, and all kinds of nongovernmental organizations, including businesses.<sup>4</sup> Similar trends are visible not only in countries like Iran and Russia, similarly recognized for their repressive regimes, but also in the Middle East, Hungary, Turkey, India, Pakistan, Mexico, and several countries in Africa. There is growing demand for Chinese technologies for surveillance, exports of which are growing around the world.<sup>5</sup>

The chapters in this handbook summarize these worrying developments in rich detail. While many of them also point in hopeful directions,

there are reasons to worry that even worse times may be ahead for freedom and democracy. Wars in Ukraine and the Middle East have already intensified controls over free expression.<sup>6</sup> The COVID-19 pandemic provided an excuse for many governments to further tighten the screws, and in several cases these controls have remained in place even after the pandemic subsided.<sup>7</sup> All of this could be made worse if, as forecasted, refugee and immigrant flows increase rapidly as a result of global climate change and domestic politics in destination countries shifts further in a nativist-populist direction.

Even more worrying are two major economic and technological developments which will likely continue to push toward more intense authoritarianism. The first is the growing sense that millions (or even billions) of people are being left behind while a global elite are benefiting from economic growth and technological progress.<sup>8</sup> This grievance has been central to the rise of left-wing and right-wing populist regimes in both established and nascent democracies, and this worrisome trend shows no sign of subsiding.<sup>9</sup> The second is the rapid pace of advances in artificial intelligence (AI), which has been used for data collection on a massive scale by many governments and multinational corporations, and which has also enabled large-scale surveillance, as in China, Russia, and Iran. Although AI technology could be developed in less repressive ways, its current trajectory is concerning for democracy and liberty.

## A Simple Framework

There is still much we do not know about the consequences for prosperity, inequality, and the future of democracy and freedom. I argue in the rest of this foreword that a simple framework—building on my 2019 book *The Narrow Corridor*, jointly written with James Robinson—may be useful to shed light on the problems of democracy and freedom, and point to pathways for developing institutions, norms, and practices for democratic rejuvenation.<sup>10</sup>

The main thesis of this framework can be summarized by Figure 1 below, which I borrow from the book.

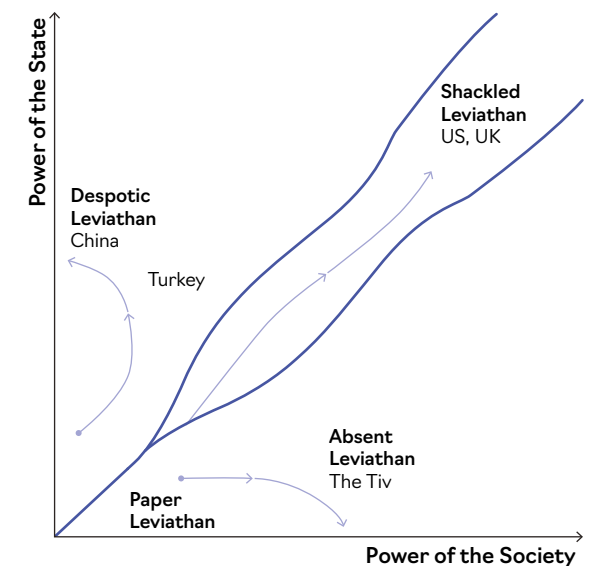
This figure expositis some of the key social and political forces shaping state-society dynamics and their implications for democracy and freedom. The centerpiece of this approach is the relationship between the powers of the state and society. By the “power of the society,” which is depicted on the horizontal axis of Figure 1, we mean the ability of society to organize collective action, act according to its norms and values, and participate in politics, even against opposition and repression from state institutions and elites (by “elites,” we refer to groups that wield disproportionate economic or political power). The vertical axis depicts the power of the state, which represents the relative capacity of state institutions and the power of economic and political elites who control the state and command the key roles in politics and the economy. State power has a repressive element, as it enables state institutions and elites to overwhelm and silence opposition and society at large, but also some positive aspects—because a more powerful state may provide better public services, collect useful information, resolve disputes, and handle societal problems.

In our framework, state-society relations determine the nature of political power. This is summarized by the three regions depicted in the figure. The region on the left is the “basin of attraction” of the “Despotic Leviathan,” which signifies a state that is despotic in the sense that it can

implement policies or impose its wishes without input from society. The implied dynamics, reminiscent of a simplified version of Chinese political history, are inexorably toward lower levels of societal power. This is the reason why the trajectory indicated there moves gradually toward the vertical axis, where society’s power against the state reaches a minimum.

The polar opposite of the despotic path is one where the state and its institutions are weak and society’s traditions and organizational capacity are strong. At first, this might appear as a remedy against state repression. In reality, it is also inim-

Figure 1. The framework from *The Narrow Corridor*



ical to freedom. It impedes the development of political hierarchy, a precondition for the emergence and evolution of state institutions, including a legal system and regulatory rules that are essential for protecting individuals against predation, expropriation, and intimidation. Even when states do appear within this context, they are weak and, in fact, often absent from large parts of the territory they are supposed to control. James Robinson and I thus labeled them as “Absent Leviathans.”

These dynamics lead toward even greater state weakness.

More interesting is the region in the middle: “the narrow corridor.” This corridor is defined by a balance of power between state and society. The trajectories in this region look very different than those outside of it. This, we argue, is the hallmark of a different type of state and different nature of political power. We label it the “Shackled Leviathan” to capture the notion that the state is still strong, but it is monitored, challenged, and controlled by society—and, ultimately, by democratic institutions.

The heart of our theory is that true democratic participation and liberty, as well as economic incentives encouraging innovation and experimentation, can only flourish within the corridor. The corridor itself, though precarious at the best of times, can be bolstered by societal mobilization and participation. Institutions matter, but neither a cleverly designed constitution nor the correct set of institutional guardrails are sufficient by themselves to protect the corridor, nor are they a true bulwark against threats to democracy. Put simply: democracy is seldom given to the people, and it is often taken; thus, democracy is almost always in need of defense by the people.

There is another important aspect to the corridor, emphasized by the direction of trajectories within it, contrasted with those outside. Outside of the corridor, historical dynamics are likely to weaken one party as they strengthen the other. Inside of the corridor, however, the capacities of both state and society can rise in tandem. There are two synergistic reasons for the mutually beneficial dynamics within the corridor. First, state and society are locked in a fairly balanced competition. As state institutions become stronger—for example, because of new exigencies—society strives to increase its own capacity in order to control the emboldened state. Second, when balanced in terms of their capacities, state and society can cooperate. For example, when institutions and

societal mobilization mean that an upstart politician cannot immediately hijack the public budget or misuse information that state agencies collect, people will be more willing to allow greater taxation and information collection. The centerpiece of this state-society cooperation is a degree of trust between state institutions and the population at large.

Both the positive-sum state-society competition and the trust in institutions are fragile, however. Competition can easily spin out of control, and trust is easier to destroy than to build.

This framework also highlights why societal norms are so important. These norms determine the boundaries of what elites and the agents of the state are expected to do, and how much trust they can command. These norms also shape how society mobilizes and resolves its own differences in the service of organizing against elites and impositions from the state.

Norms themselves are shaped by broader cultural trends, and while *The Narrow Corridor* did not study cultural dynamics in detail, our more recent work has proposed a complementary framework for doing so.<sup>11</sup> This framework starts from the observation that no human society possesses an unambiguous and unchanging cultural structure. Rather, different human communities have a reservoir of “attributes,” which gel together in distinct ways to create different underpinnings of political and social behaviors. The importance of this perspective is that we should not think of culture as a hard constraint on democracy or freedom, but rather as the language through which ideas related to democracy, liberty, and inequality can be articulated. Nevertheless, there is persistence in culture. Once freedoms start to be sidelined, it becomes more difficult to build the cultural tools to defend them. Once trust between state and society is destroyed, it also becomes harder to generate the ideas and coalitions needed to rebuild it.

In *The Narrow Corridor*, James Robinson and I trace the history of many historical polities via

these trajectories and explain what sorts of events can place a society inside or outside the corridor and what shapes its boundaries. Most importantly, the historical account reveals how the process of entering and traveling within the corridor is a slow, conflict-ridden process, and how trust between state and society develops gradually and often painfully over time—but also how this trust can be easily destroyed, and how competition can quickly turn zero-sum.

### The Eclipse of Democracy and Freedom

What does this framework imply for the current difficulties and future prospects of democracy and freedom? Two complementary processes can be identified. First, societies inside of the corridor have experienced weakening democracies and intensifying clampdowns on freedoms. Second, Despot Leviathans outside of the corridor have become more adept at defending their nondemocratic regimes against the counterbalancing powers of society, thanks to China’s rise, the use of AI and related technologies, and also because democracies themselves have become weaker. I now focus on the first process, returning to the second process later in this foreword.

The fact that support for democracy among the people has declined—rather than authoritarian leaders merely clamping down on democratic rights and freedoms against the people’s wishes—provides an important clue about the problems of democracy and freedom. The causes of this deteriorating support for democracy are explored in my joint work with Nicolás Ajzenman, Cevat Aksoy, Martin Fiszbein, and Carlos Molina.<sup>12</sup> We find that people who have experience with democratic institutions tend to support them. Hence, a history of democracy should boost people’s willingness to defend the regime. But a more detailed look at the data reveals that the relationship between democratic experience and support for democracy is far from unconditional. It is only people who have experience with *successful* democracies—meaning

democracies that deliver the kinds of economic performance, public services, and outcomes that they desire—that support democracy. In fact, we found that people who live under unsuccessful democracies do not increase their support for these institutions at all.

So, what is it that people want from democracies? Our results suggest several important dimensions of success: economic growth (democracies that get mired in economic crises do not garner support); peace and political stability (wars or instability are of course not what people want); control of corruption; good public services; and low inequality. These last three are particularly important, because they underpin one of the important pillars of trust between state and society, as emphasized by the framework in Figure 1. The cooperative, positive-sum relationship between state and society collapses when trust in democratic institutions is eroded. This becomes much more likely when democratic institutions malfunction, and especially when they enable malfeasance by public officials, fail to deliver basic public services, and cannot (or choose not to) control inequality.

I believe it is these dimensions in which democracies, and more generally societies, in or near the corridor, have failed in recent decades. There are several reasons for this failure. Some of them are technological, some of them economic, and some of them political. New technologies have favored the very well-educated elite both in industrialized and developing nations, and governments have not taken steps to redress these inequities. Economically, the rapid drive toward globalization, transmogrified by the rapid accession of China into the global trading order, has contributed to the same trends.

But even worse for democracy’s reputation has been the policy response to these trends. Neither technology nor globalization are acts of nature. They are choices that societies make about how to use existing scientific know-how, what types of new technologies to develop, and what kind of



globalization to implement. In the case of industrialized nations, led by the United States, these were choices made by political and economic elites. Trust among the people was markedly undermined—especially for people who were not among the winners from these processes—because these decisions were made by an insular technocratic elite who kept claiming (with very vocal support from the mainstream media) that everybody would benefit from unlimited technological growth and expansive globalization. In the United States, nothing of the sort happened. For example, low-education households have seen their real incomes collapse since 1980. In several other industrialized nations, the trends are less clear-cut, but people in the bottom half of the income distribution did not receive much of the promised benefits. At the same time, the technocratic elite became more and more integrated with the business elite, convincing many that corruption was on the rise (whether this was true or not).

This collapse of trust in public institutions and public servants is inimical to life in the corridor, and it has been a major driver of eroding support for democracy. It has also been an important force toward declining respect for democratic rights and broader freedoms.

As democracy's reputation has become tarnished in the West, this has created an opening for authoritarian regimes, led by China and Russia, to solidify control over their populations, with disastrous effects for freedom around the world.

If this account is correct, it is the failure of democratic institutions that is threatening the balance within the corridor. The corresponding declines in trust and support for democracy make the implications for future political regimes and myriad freedoms and rights especially dire.

### Will it Get Worse?

There are at least three reasons to worry that the trends we are seeing could get worse.

First, there is no obvious end to the slide of democratic norms around the world. As democracies

continue to perform poorly on many dimensions that their citizens care about and as powerful autocracies, such as China and Russia, expand their global reach and propaganda, it would be quixotic to hope for an immediate turnaround. Historical evidence is consistent with the idea that, once waves of democracy start, they go on for a while.<sup>13</sup> Likewise, once the decline of democracy is underway, we may see further slides for quite some time.

Second, the key forces that have led to the benefits of prosperity not being shared equally are still present. As Simon Johnson and I argue in *Power and Progress*,<sup>14</sup> the main factor leading to growing inequality and lack of wage growth around the world has been the use of digital technologies to drive workplace automation and worker disempowerment. With recent advances in generative AI, these forces may have gone into overdrive. While there is nothing inherent in the nature of AI that should make it always eliminate labor and increase inequality, our current technological trajectory is toward automation and a reduced role of labor across diverse sectors of the economy.<sup>15</sup> If this technological trend continues, it will exacerbate the failure of democracies to create shared prosperity. Although certain aspects of globalization may have slowed down, the role of multinational corporations and other dimensions of global integration are likely to increase, which could create another set of forces toward unshared prosperity.<sup>16</sup>

Third, AI also has direct impacts on democracy, which will likely exacerbate democratic tensions in the years to come. As mentioned above, this is both because AI is being used increasingly skillfully by autocratic regimes to quell discontent and demand for democratic rights,<sup>17</sup> but even more fundamentally, it is because AI is distorting political communication and discourse in electoral democracies around the world.<sup>18</sup> The role of Facebook and other social media platforms in fostering filter bubbles and polarization and fomenting partisanship and misinformation during the 2010s is now well understood. There are concerns that, with

advances in generative AI, even worse practices will take root in the new social media ecosystem.<sup>19</sup>

While several political, economic, and technological trends may augur hard times for democracy and freedom, there is one small silver lining suggested by the framework in *The Narrow Corridor*: leaving the corridor is not permanent, and countries that have recently lost the balance between state and society will also be the ones where this balance is still partly present. As conditions change, and as pro-democracy forces and measures strengthen the demand for democratic and civil rights, it is possible to reenter the corridor. For example, after the murderous, totalitarian Nazi regime in Germany, the country was able to rebuild a balance between state and society and develop fairly healthy democratic institutions in the post-war era.<sup>20</sup> The same perspective provides some hope that, even as we are witnessing the slide of democratic norms and institutions, rebuilding them is a possibility.

### What to Do?

Almost all of the chapters in this book suggest ideas to rejuvenate freedom. Let me add to these valuable insights by summarizing some perspectives from the framework presented here.

To put it simply, the best way to counter the current pernicious trends is to create another wave of democracy, similar to the one witnessed after the collapse of military dictatorships in Southern Europe in the 1970s. But how?

There is no surefire way of achieving something so ambitious. But I would like to briefly present a couple of ideas.

- **Rebuild support for democracy.** Democracy is nothing without people's support. The first step in improving the future of democracy and freedom is to rebuild support for democracy within democratically governed populations, then hope that these ideas will spread around the world. In my assessment, the only

way this can be achieved is by democracy performing better, at least starting in a number of key places, such as the United States, Western Europe and Latin America. Democracies in these ideological battlegrounds need to show that they deliver in terms of economic growth, shared prosperity, control of corruption, and responsiveness to people's needs and wishes. The role of shared prosperity here cannot be overemphasized. Democracy will continue to lose support if it is seen as the handmaiden of a two-tiered society in which a small group of elites benefits from economic growth and technological change while the rest become increasingly dependent.

- **Trust in institutions.** Concurrently, democratic institutions need to foster people's trust. This again starts with performance. But procedures matter too. One of the reasons why democracies started losing people's trust and support is because of an error of "technocracy." Increasingly, many segments of the population are becoming disillusioned with democracies because they think that, under the veneer of democracy, a small group of technocrats, in cahoots with economic and political elites, runs the show. This state of affairs is not conducive to trust in institutions or support for democracy. To get out of this situation is certainly not easy, especially after democratic norms have become weakened. Sidelining experts and expertise from policy making, or enabling the emergence of a tyranny of the majority that could damage civil rights and minority rights, would certainly be disastrous for broad freedoms. The solution then must be sought in democratizing procedures subject to well-articulated constraints. The alternative to technocracy should thus not be viewed as "mob rule," but as institutions that are truly responsive to people's needs and concerns. These institutions should be built and should

function within well-defined and communicated constraints, set by constitutions, and a firm commitment to minority and human rights.

- **The right kind of empowerment for civil society.** The framework in *The Narrow Corridor* puts special emphasis on the role of civil society. The weakening of democratic norms and freedoms around the world has coincided with civil society becoming either weaker, as in many autocratic regimes, or more polarized, as in the United States and Western Europe.<sup>21</sup> We need the right kind of empowerment for civil society, which means civil society becoming a true bulwark in the defense of freedoms and democracy. This must start with civil society organizations (CSOs) themselves recognizing that they should not be an instrument to suppress rights and freedoms. The tragedy in much of Western Europe and the United States today is that several CSOs have become active participants in banning free speech or silencing alternative voices.<sup>22</sup> The right kind of civil society empowerment must start with a strong commitment to freedom of speech. All other concerns, including the fact that some groups may feel uncomfortable when certain ideas are expressed, must be subservient to this principle. It is only then that CSOs can be a true force against state repression and elite dominance and can help rebuild freedom and democracy.

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# Regaining Trust in Government

Simeon Djankov, Joseph Lemoine, and Dan Negrea

In his treatise *The Road to Serfdom* Friedrich Hayek argues that the abandonment of classical liberalism leads to a loss of freedom, the creation of an oppressive society, and in some cases the tyranny of a dictator. Several contemporary political leaders fit with Hayek's foreboding picture, among them Vladimir Putin of Russia and Xi Jinping of China. In times of crisis, as during the recent COVID-19 pandemic, societies naturally demand new protections from their governments. These protections enhance security at the expense of freedom. The history of previous crises—be they economic, social, or due to wars and natural disasters—teaches us that such limits to freedom tend to remain in place long after the original purpose of regulation or state intervention has abated, and that this sometimes leads to the path Hayek predicted.

The world has experienced a sequence of significant crises in the past dozen years—the Great Recession in 2009–12, the Russian annexation of

Crimea in 2014, the COVID-19 pandemic, and most recently the war in Ukraine and the Israel-Hamas war—and governments have substantially increased their reach in economic and social life during these years. This expansion of the role of government challenges traditional liberal views on the foundations of freedom, and necessitates a new look at basic questions.

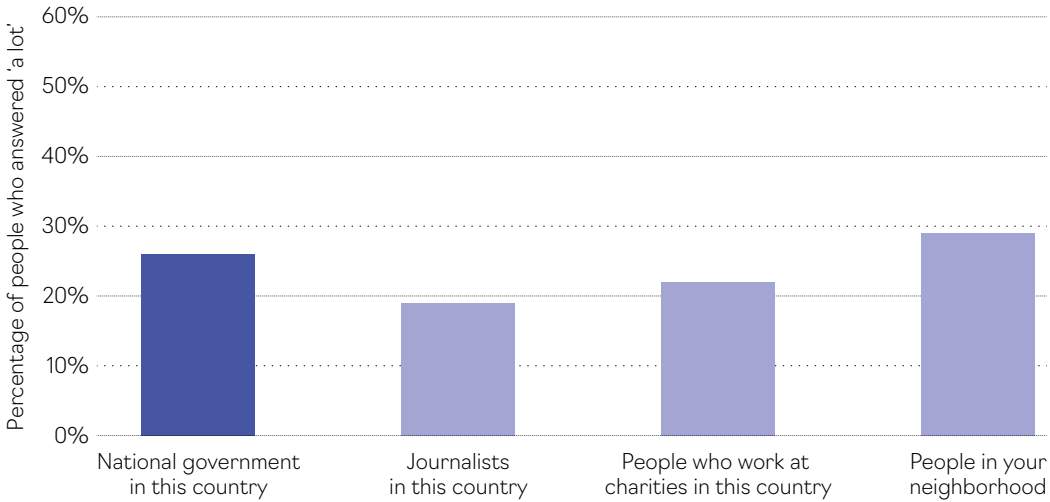
In designing policies to increase prosperity, one must also acknowledge challenges to standard economic theory, which predicts that, as societies become richer, more educated, and economically more developed, they should also experience a particular path of political institutional developments—that is, they become more democratic, increase respect for civil and human rights, and develop several other societal features we commonly associate with Western democracies. China is the most obvious challenge to this theory, but there are others, even in relatively prosperous European

societies like Hungary, Poland, and Slovakia, as well as Latin American countries like Venezuela.

There is another worrying issue, too. The effectiveness of public institutions depends on the trust that citizens and businesses bestow upon them. However, in the last two decades trust in government has continuously fallen around the world, including in the advanced economies (Figure 1).

Civic engagement helps people extend their trust from their familiar circle to include public institutions as well. While there is a long history of civic engagement at the local level in many developing economies, disruptions due to decolonization and war have made it difficult to replicate Europe's results in participatory democracy to these economies.

Figure 1. Trust levels, global results (2020)



Source: Wellcome Global Monitor 2020: COVID-19  
Note: Percentage of people who answered 'a lot' to the question: "How much do you trust each of the following? Do you trust them a lot, some, not much, or not at all?"

The concern that comes out most often in country studies is over personal security. This concern comes through in countries at war like Ukraine or parts of Africa; in countries with high levels of gang violence, as in Brazil or several Central American nations; and in countries where political polarization brings about crimes and discrimination against minority groups, as in China or India. This dichotomy—between declining trust in government while requiring more government to ensure security—is the principal trade-off that has evolved in recent times. New technologies are increasingly used by

governments to analyze individuals' behavior, in the name of enhancing security. Such analyses disrupt the standard concept of personal privacy and can easily become tools in an oppressive society. Examples in China and the Middle East suggest that social protest or dissent, even as benign as views expressed on social media, is identified through the use of spying technologies, and is quickly stifled.

The importance of the Atlantic Council's Freedom and Prosperity Center is in identifying policies that build trust in government institutions while protecting personal freedom. Such policies

are couched in political, economic, and legal reform. The task for governments is to disseminate the reasons for these policies being implemented and their likely impact on prosperity. This analysis helps policymakers and influencers in developing countries, as well as other organizations and individuals who are trying to expand freedoms through incremental or fundamental change towards prosperity.

This volume brings together the insights of some of the world's leading economists and diplomats into how countries and regions pursue steps towards prosperity. Often these steps to prosperity ignore the role of freedom, but there is always an implicit association or algorithm connecting policies to freedoms—or the abandonment of those freedoms—and prosperity. This is precisely the goal of the Atlantic Council's project: to document

this algorithm and derive the success stories associated with it. In doing so, we hope to identify the roads politicians travel to attain prosperity.

This chapter is organized as follows: First, we summarize the views of eminent economic scholars and foreign policy experts on what the future may hold for some large countries and regions. We have chosen case studies where we see interesting dynamics that may affect global prosperity—be it because those countries and regions are large and home to significant portions of the world's population, or because their policies affect neighboring countries and regions. Second, we describe four worrying trends related to raising prosperity. Finally, we suggest some directions for future work to convince politicians and influencers of the link between freedom and prosperity.

## Likely Issues in the Next Decade

In this section we summarize the views of contributors to this volume on the likely direction of change towards freedom and prosperity in the next decade. We list countries and regions alphabetically, though their respective dynamics may be quite diverse. These countries and regions are chosen for analysis as they represent a large share of the world's population. Their policies often affect the global consensus on significant prosperity-related debates too.

### Africa

Economic liberalization across Africa has borne fruit in the past decade and further financial and trade integration with the rest of the world would have continued benefits, argues William Easterly. The big challenge is to strengthen the process of democratization and institution building. The necessary reforms in these areas are harder to accomplish. The recent wave of military coups in

countries like Burkina Faso, Gabon, Niger, Mali, and Sudan is a worrying sign, and there is ongoing conflict associated with Islamic movements in some areas, for example, in Nigeria. The resolution of conflict and the maintenance of peace and security are crucial necessary conditions for further development in Sub-Saharan Africa.

It is unlikely that international institutions and foreign countries will provide as much support for African development as in the past. Things tend to go in cycles: there was a lot of support and attention for African development in the 1990s and 2000s, though foreign support was not all that successful in achieving economic growth; foreign aid did receive some of the credit for the progress on health and education, however. Since then, the focus has shifted to other parts of the world, like Ukraine and Eastern Europe, and the situation in Israel and Gaza is also drawing attention towards the Middle East.

In terms of Sub-Saharan African development, the Belt and Road Initiative, led by China, is having similarly disappointing results to the significant funding received from Western nations during the 1980–2010 period. The same problems of debt repayment and default are likely to be repeated with China's investments. At the end of the day, for foreign investment and aid to successfully affect Africa's economic development, it has to be directed to some productive uses. And this is not usually the case as this kind of financing is heavily politicized.

Finally, within-region trade is unusually low for neighboring countries in Sub-Saharan Africa. But increasing it is certainly not an easy task, as the several unsuccessful attempts to promote free trade areas or common currencies in the region in the last couple of decades attest. This failure may be due to Africa's burden of having so many small states, creating divisiveness. This generates great difficulties in reaching agreements because there is a multitude of strong political interests that do not trust each other.

### Argentina

The economic situation has materially worsened in recent times. Weekly inflation at the end of November 2023 is running at 3.1 percent, which implies an annualized rate of 230 percent. That is, Argentina is experiencing in a week the level of inflation that normal countries see in a year. Related to this, Argentina's poverty rate in 2023 was close to 42 percent of the population.

It is understandable that the Argentinian people are frustrated, and are looking for someone new, outside of the traditional parties, argues Guido Sandleris. It seems like a revival of the mantra “¡Que se vayan todos!” (They all must go!) of 2001. And the new man that Argentinians have chosen as president is Javier Milei, an outsider to the traditional political system of Argentina. His ascent makes the prospects for the next few years highly uncertain.

Like many other politicians, Milei has identified real problems in the country (inflation, high and inefficient public spending, political capture, corruption, and so on), and has proposed a series of easy-sounding solutions. And the Argentinian people have voted for this project. Nonetheless, it is obvious that solutions will be anything but easy, and Milei has already walked back on some of his positions. Dollarization is the obvious example, as there are just not enough dollars in the Argentinian Central Bank to dollarize the economy, at least in the short run. Furthermore, Milei's position in the national congress is weak, so to enact legislation, he needs to build consensus with the traditional parties around more moderate proposals. Cutting public spending is always unpopular, so it is highly uncertain whether President Milei can get enough parliamentary support on that front to push forward proposals.

The touchstone of President Milei's administration is going to be the macroeconomic situation, which is extremely delicate. Argentina is on the verge of hyperinflation, and a situation in which the economy basically stops. It is likely that some of Milei's reforms to tackle inflation in the medium term, like the correction in utility prices and the exchange rate, will actually generate a rise in prices in the short run. He will only be successful if he can offer a fiscal anchor to the economy, and make credible the commitment of the Central Bank to stop printing money to finance the Treasury; this is not an easy task.

### Brazil

The private sector in Brazil faces a huge number of hurdles, according to José Scheinkman. Taxes are high and inefficient. Firms are more worried about paying less tax than producing in a more efficient way, because it does not pay. Regulations in Brazil are especially inefficient and there are important difficulties regarding long-term financing, related to the legal risks and fiscal deficits in the country. The labor market is rigid and President Lula

announced plans to impose new labor regulations in 2024. If adopted, such regulation dims the overall economic prospects for Brazil.

Security is a fundamental challenge for Brazil. In particular, this concern refers to the opening of a new route for drug trafficking—from Latin American producers in Colombia, Peru, and Bolivia into Europe—through Brazil. As a result of this illegal activity, some Brazilian gangs are becoming powerful and fight with each other for control of the routes, increasing crime. For the first time in decades, paramilitary groups are appearing. These groups are more organized than the gangs and they have started to harass legal businesses. Paramilitary groups also control part of the logistics and construction sectors.

Some policies ease the burden on legal businesses, like the tax reform that the government is preparing for 2024. It is hoped that this reform will simplify the tax code and eliminate various exceptions and loopholes that benefit businesses with links to politicians. Brazil has the cleanest energy mix of any large emerging economy, thanks to its abundant water and solar resources. The government is dealing effectively with the illegal deforestation going on in the Amazon. This can make Brazil the biggest exporter of goods that have a positive climate footprint. Finally, the largest corruption scandal in Brazil's history—surrounding the Brazilian multinational Odebrecht, which admitted guilt in a cash-for-contracts corruption scandal in twelve countries—has resulted in more trust in prosecutorial authorities and cleaner public procurement.

### Chile

Chile has two big challenges in the coming decade, one economic and one political, writes Andrés Velasco. The big economic challenge is that Chile is not a fast-growing economy anymore. That is a big structural break. Productivity growth, which was very fast late in the twentieth and early twenty-first century, has gone down. Investment rates have not dropped, but nor have they increased.

Chile was a country with a large diversification of exports, and that diversification process has come to a halt. When it comes to prosperity, the big question is: Why was the fast-growth period in Chile so short-lived?

Economic theory predicts that, as a country becomes richer, its growth slows due to a convergence process. But we would have expected fast growth in Chile until the country's standards of living had reached the level of South Korea, for example. Instead, fast growth seems to have stopped with living standards only at the level of Greece.

Regarding inequality, the country has slowly improved in the last few decades, despite the really poor initial level of this indicator. But there is high uncertainty regarding the potential medium-term effects of the events of recent years. In particular, the very lengthy school closures that Chile imposed during the COVID-19 pandemic seem to be exacerbating inequality of opportunity. Most Latin American countries closed their schools for longer than European countries, but even within the region, Chile's restrictions lasted longer than most. And this decision worsened inequality. If you had a good internet connection and your school could teach online, then the loss of learning was minimal. But if all you had was one bad internet connection via somebody's cell phone, and the school was not well equipped to teach online, then nearly two years of school closure is clearly detrimental for the development of human capital and for equality in the future.

The big political challenges have to do with the sociopolitical climate. Chile was a consensual country in the years between the return of democracy in 1990 and around 2010. Since then, politics has become polarized. Power has become a lot more fragmented. Chile went from having seven parties in Congress to twenty-two. If you look at indices of satisfaction with the performance of democracy, or indices of trust in government, political parties, the judiciary, the police, the media, business

lobbies, unions, and so on. they have all deteriorated. It seems that Chileans do not trust anyone anymore. That is a worldwide trend, but in Chile it might be a little more pronounced. The big question is: How do you restore politics?

Chile's answer has been to try to rewrite the social contract: the Constitution. Politicians have tried twice already and failed, and the third time is not looking good. President Bachelet drafted a new constitution in her second term, but she ran out of time to get it approved. A constitutional convention was chosen in 2021, which wrote a terrible text that was rejected by 62 percent of voters a little over a year ago, and a new convention was elected. Andrés Velasco's prediction was correct. In December 2023, Chileans rejected again the proposed changes to the Constitution.

### China

China is missing the chance to create a more dynamic society—the "Chinese dream." Meanwhile, other East Asian countries have improved their freedoms considerably, despite slower income growth. They seem to do more with fewer resources to enhance their societies' prosperity, argues Johanna Kao.

The primary question the Chinese government needs to address in the next decade is whether the policy choices being made are sustainable. The economic turmoil during the COVID-19 pandemic has reduced public trust in the effectiveness of the Chinese growth model. The most striking aspect of the evidence is the government's commitment to an inherently unequal form of governance, particularly when it comes to individual and subgroup rights. While China is often described as having a collectivist approach, where the well-being of the collective outweighs individual freedoms, the data suggest a more selective approach to collectivism. In Xi Jinping's model of government, certain groups are favored at the expense of others.

This type of inequality is not a new phenomenon in China. Historically, there have always been

winners and losers, with the party elite and affiliated businesses reaping the rewards of extraordinary economic growth while the general population experienced more modest improvements. Yet, in the past, the wealth gap in China was often characterized as urban versus rural. In the past decade there has been a shift towards absolute, rather than relative, inequality. There are clear losers in this system: individuals and groups that have experienced a significant loss of freedoms.

As we look into the next decade, equality seems likely to deteriorate, with the Chinese Communist Party's (CCP's) representation of the collective shrinking. These dynamics put pressure on individuals to conform to a more limited definition of acceptability or face forced assimilation. The trend is exemplified in regions like Xinjiang, where the Uyghurs are subject to extreme reeducation efforts. The rapid expansion of surveillance technology in the name of security, and its use in determining whether people meet the imposed standard of a "good citizen," are likely to make things worse.

### East Asia and the Pacific

The region unveils a narrative deeply intertwined with historical events and ongoing geopolitical shifts writes Amb. (ret.) Kelley E. Currie. Following the collapse of the Soviet Union in 1988–89, a wave of democratization swept through East Asia and the Pacific. However, progress stagnated thereafter, with democratization efforts in countries like Indonesia not significantly altering the overall political landscape at a regional level.

The period from 2012 onward witnessed visible improvements in political and economic freedom, primarily attributed to Myanmar's quasi-democratic transition and increased political dynamism in Malaysia. However, China's economic growth, accompanied by limited political liberalization, took a downturn after 2013 with Xi Jinping's ascension to power, exerting downward pressure on freedom across the region. This pressure is exacerbated by

China's internal policy shifts and its external influence on neighboring countries' democratic and economic development.

Notably, the region saw significant progress in women's economic freedom, driven by efforts to enhance female workforce involvement and dismantle regulatory barriers. This progress, spearheaded by initiatives like the Women's Global Development and Prosperity Initiative, has played a pivotal role in driving economic growth in the region.

Despite economic resilience, challenges persist in areas such as inequality, minority rights, weak political institutions, corruption, and regression in the rule of law. The region's youth population increasingly demands responsive political systems and sustainable growth, highlighting the need for environmental preservation and pragmatic solutions.

In navigating the complex landscape of freedom and prosperity, regional cooperation and support from global allies are paramount. Strengthening institutions and building political and economic resilience remain imperative, ensuring stability and prosperity amidst evolving geopolitical dynamics and internal challenges.

## Egypt

Egypt will have to navigate difficult macroeconomic challenges in the next few years. The country is heavily indebted, and that may tilt the scales of an already worrisome sociopolitical situation, says Rabah Arezki. In the December 2023 elections, President al-Sisi will be reelected and there will be no appetite for political reforms. While his reelection should give him a mandate for reform, it is unlikely that al-Sisi will make any changes that affect crony or military interests. Instead, al-Sisi might have to resort to further devaluation of the currency, which would ignite further inflation and hurt vulnerable households. What is more, this would create a fatal currency mismatch when it comes to Egypt's external debt denominated in foreign currency.

Al-Sisi will have to find external sources of financing outside of capital markets, given the prohibitive spread on external borrowing. Financial aid from Gulf countries, which typically provided a lifeline, is no longer forthcoming. Gulf countries are looking to invest in strategic assets but also want to see reforms before doing more to support the country. Gulf partners are counting on the International Monetary Fund to push for more market-oriented reforms.

While political reforms are unlikely given the current circumstances, deep economic reforms also seem improbable. Indeed, the militarization of politics and of the economy is so entrenched as to make reform of either one unlikely. This stalled situation will likely continue to limit Egypt's potential. It is imperative that the country re-embarks on a balanced economic and political transition, to avoid the youth becoming frustrated and creating domestic instability.

The geopolitical situation is also tense. The renewed escalation of violence between Israel and Gaza is spilling over into Egypt. That could destabilize the country and in turn spill over to the whole Middle East and North Africa region.

## The European Union

The next decade of European Union (EU) freedom and prosperity dynamics will be marked by the war in Ukraine, writes Simeon Djankov. The EU has committed enormous financial resources to supporting Ukraine's fight against the aggressor. It has also imposed sectoral and economy-wide sanctions on Russia. These sanctions have negative implications for some industries in Europe, which have traditionally relied on resources from Russia.

The main influence of Russia's war in Ukraine is the rethinking of the Green Deal that the European Commission has championed for the past decade. Given Russia's threats to Europe's energy security, a decision was taken in 2022 to reduce the dependence on Russian energy products. With only two countries—Bulgaria and Hungary—receiving

postponement of these measures to 2024, Europe has quickly weaned itself off Russian oil and gas. This change, however, has come at an environmental cost: a number of countries have increased the use of coal and other high-polluting sources of energy.

The past decade has shown evidence that Europe cannot multitask—perhaps the hallmark of gradual consensus building among twenty-seven member states—appearing to focus on one item at a time. When it comes to increasing freedoms, the clear task at hand is helping Ukraine win the war.

Europe's prosperity agenda is fourfold: First, there are wide disparities across regions within Europe. This disparity is seen within countries, for example southern versus northern Italy, and across countries, for example Scandinavia versus southeastern Europe. A significant portion of the EU budget is directed to reducing these disparities, through investments in infrastructure, agriculture, and regional economic development. Such financial aid needs to be coupled with policies that increase economic freedom at the regional level. For example, decentralization of some tax policies, combined with explicit subsidy schemes, will keep more resources in underdeveloped regions and thus attract businesses and individuals who would otherwise look for opportunities in more advanced parts of the EU.

Second, increased prosperity in the EU comes from completing the internal markets for energy and financial services. These topics were discussed even before the 2014 annexation of Crimea, which ushered in a series of crisis years for the EU. 2024 is a good moment to go back to the original design and create a single energy market in Europe, as well as a single financial market, with a single set of regulators. Much has been written and discussed about how to achieve these goals; now is the time to act.

Third, migration has been at the forefront of European politics for the past decade. It promises to remain an issue in the decade to come. On

the one hand, Europe's demographics are such that the labor market benefits from human capital coming into European countries and putting their labor and talents to productive use. On the other hand, social tensions have risen in the countries that have received large numbers of migrants. Even in countries with relatively few migrants, the specter of competition for social services and jobs has boosted the fortunes of nationalist parties that have promised to erect barriers to further migration. This issue inflames public opinion in Europe to a degree that no other issue does.

Finally, prosperity in Europe emanates from open markets. While the European market itself is large, many innovations and technologies come from either the American or Asian markets. The two other superpowers—the United States and China—have been on a collision course in asserting their economic dominance, leaving Europe to choose how to align in the global picture. So far this path has meandered, with calls for protecting Europe's own market. Such an isolationist approach is counterproductive. Europe has to remain as open as possible, assimilating leading innovations and creating the space to implement these new ideas into better production processes and products.

## India

The evolution of political freedom in India is worrisome, posits Pratap Bhanu Mehta. There is a high probability that political freedoms might decline even more in the next decade. The way in which the Modi government has empowered hate speech against minorities and co-opted the judiciary is concerning.

It is the first time since 1975 that we must ask the question: Will there be a smooth transition of power? If it looks like this government is struggling and could lose the election, will it accept that transition of power as smoothly as India is used to? There is a catch-22: if this government wins, the majoritarian consolidation will be a continued threat to political freedom. But if it looks

like it could lose, then the chances of it resorting to extra-legal means to either hold on to power or making sure that the successive government is not able to function have risen considerably. There is already evidence of this behavior in state elections which the ruling party has been losing. In many of them, the Bharatiya Janata Party (BJP) is deploying the central government's power to break up the state governments that have been elected.

On the prosperity front, there are reasons to be optimistic. Large sectors of Indian capital and foreign investors have learned to live with limits to political freedom. If they can make money, they will continue operating in India. An open question is whether improving prosperity will be enough to overcome the structural problem of the middle 40 percent of the population in terms of income distribution. This conundrum makes the politicians' jobs harder. The opposition is struggling to align deep economic discontent with voting in elections.

### Kenya

One of the critical issues that Kenya faces in the next decade is how to keep improving productivity, says Robert Mudida. An obvious area for improvement is manufacturing and its share in gross domestic product (GDP), which in 2023 was slightly below 10 percent. Kenya should double that share. There is a big opportunity in Africa with the implementation of the African Continental Free Trade Area. It would create tremendous opportunities for countries like Kenya, which have some manufacturing bases. Bigger markets can generate productivity improvements.

An important challenge for Kenya relates to the large share of informal employment. Moving some of these workers and firms towards formalization will ensure that economic opportunity and development are more stable. Higher levels of formal employment and production generate larger and more stable sources of government revenue. This will buttress the already firm fiscal consolidation path that Kenya has followed in recent years.

The current account deficit has also been declining in the last decade, partly because of reduced imports, but also due to stronger and more competitive exports. This is a very promising path for Kenya, which needs to take advantage not only of regional value chains, but also global value chains in areas like tourism. It helps that Kenya is perceived as peaceful and secure in comparison with some of its neighbors.

### Mexico

Mexico continues to maintain key technical and autonomous institutions, which have made it resilient to affronts to political, legal, and economic freedoms, writes Vanessa Rubio-Márquez. These institutions have helped sustain a basic level of prosperity. However, the negative developments in some of the indicators serve as early warning signs for the country. Some point to the uneven path forward if the country wants to advance towards the next stage in democratic consolidation and progress in well-being standards. These can be summarized in three clear pillars: strong institutions, high sustained growth, and well-articulated redistribution policies.

Mexico remains a bastion of free trade in Latin America and is in a strategic position, being the United States' largest trading partner. Amid US-China decoupling, gains from nearshoring could be significant. This has mostly materialized into expectations, however, and only very recently into actual investment commitments. Expectations cannot materialize into more significant commitments if the institutional framework continues to weaken. In many ways, Mexico has *de jure* maintained the institutions and legal framework to support political, economic, and legal freedoms—including an independent central bank, an autonomous Supreme Court of Justice, and an independent National Electoral Institute. But a *de facto* deterioration is clearly occurring in the form of political appointees to key autonomous institutions, budget and staff cuts, and a centralization of power under

the president, all of which are impacting growth and prosperity.

In this sense, pendular politics remains a significant risk to institutions and continuity of sound evidence-based policy making. The country heads to the polls in June 2024 and the signs of polarization have not wavered. While disagreement and debate are essential components of a healthy democracy, the current discourse in the country is all but constructive, and radical shifts in policy put at risk the possibility of high sustained growth and well-being improvements more broadly.

High sustained growth and strong institutions are therefore prerequisites before considering redistribution policies; if they are not in place, the country is likely to continue on a path of uneven progress. After unlocking high sustained growth, the country can turn to enhancing institutional capacity to deliver and redistribute gains—and the country has a good track record of institutional capacity for infrastructure and redistribution policies. The risk here then is that the country continues on a path of discontinuity, with every incoming administration embarking on pet infrastructure projects and unfocused social policy.

### The Middle East and North Africa

Over the next decade, countries in the Middle East will have to grapple with economic and political transitions in a world in mutation. To achieve freedom and prosperity, countries in the region will have to face risks linked to geopolitics, climate change, and the transformation of energy markets, as well as social polarization, argues Rabah Arezki.

The region is at a tipping point when it comes to conflict escalation. Indeed, the alarming intensity and casualties resulting from the conflict between Israel and Hamas risk engulfing the whole region. This new phase of escalation of violence brings not only tragic loss of lives but also physical destruction, fear, and uncertainty. This renewed violence will have far-reaching economic and social consequences. What is more, the Palestinian issue is an

important fault line between the Global North and the Global South, one that could have global repercussions and pull the region further apart.

The region is most exposed to the existential threat posed by climate change. Climate change is simply making this region unlivable at a faster rate than any other. Specifically, a water crisis is looming in the Middle East, heightening domestic tensions and interstate conflicts. Temperatures have reached record highs. And the crisis is made worse by the inadequate governance of the water and other utilities sectors, which has exacerbated the frustration of the citizenry over poor public services.

The region also needs to transition away from fossil fuels. Oil prices have been persistently high and provided some respite to the many oil-exporting countries in the region. Yet, as the world moves away from fossil fuels, the vast reserves of oil and natural gas with which the Middle East is endowed will become stranded—and so will the capital investment in the sector. Several Middle Eastern countries have embarked on ambitious diversification programs to move away from oil, though as yet there is little to show for these efforts. Saudi Arabia's ambitious economic and social transformation agenda, if successful, could be a game-changer for the region and offer a model for other countries to emulate.

A credible economic and social transformation agenda is long overdue to meet the aspirations of an educated youth and to absorb the millions of young women into the labor market. The abortive political transitions have, however, polarized societies in the region. Two sides stand in opposition, with the people on streets who continue to protest on one side, and the political elites and crony capitalists on the other.

### Pakistan

The defining question for Pakistan's near-term future will be around political stability, comments Ali Cheema. Even though the country has been



involved in a transition towards democracy since 2013, it has been full of political instability. The 2013 election results were not accepted by the opposition, leading to protests in the streets, and the same happened after the 2018 election. This political instability is concomitant with the deterioration of political freedom in the country, making Pakistan a much more repressive society. And political tensions generate policy instability, with politicians' and bureaucrats' incentives to reform and create state capacity being significantly diminished. The ensuing uncertainty around the regulatory framework represents a major constraint on Pakistan's development. Today we observe a breakdown of the consensus over the electoral process, which sometimes means that transitions of power do not take place within the timeframe mandated in the Constitution.

### Russia

The prospects for Russia are determined by the evolution of the war in Ukraine. Putin's regime entered a declining stage even before the beginning of the war, which is typical of authoritarian and personalistic regimes, argues Konstantin Sonin. It is the last stage, after a period of stagnation, where every effort of the regime is devoted to maintaining power. Even before 2020, political repression was very substantial. There were tens of thousands of people leaving the country every year because they feared arrest if they said something "wrong" on social media, for example.

For Russia, there is no easy way out of the war, nor from Putin's authoritarian rule. Change in any personalistic regime is always dramatic and turbulent, and even if a lot of the same people still hold power, it always implies substantial changes. It was the same after the death of Stalin.

There is an upside to dramatic change, because when Putin is gone, the new leadership will be able to do some things that will represent an immediate improvement for Russia. For example, any new leadership can withdraw the Russian troops from

the occupied territories. And talks about lifting economic sanctions and reopening trade will immediately follow. Some companies that left Russia will quickly return, but this return may not generate a huge economic boom, as the loss of growth potential due to the war is substantial. Nonetheless, it will represent an immediate improvement over the status quo. But in the near term, as long as the war continues, Russia will suffer further decreases in every dimension of prosperity.

### Saudi Arabia

The Kingdom's transformation agenda is a form of state-led capitalism. The political structure remains unchanged while the leadership focuses on reforming the economy, writes Rabah Arezki. There is no tolerance for any dissent, including on social media, where users are monitored closely using surveillance technology. The notion that economic transformation can happen independently of political transformation is certainly taking a page out of China's book. This approach may badly backfire.

Despite the absence of political freedom, Mohammed bin Salman (MBS) has managed to rally the population behind him. Unlike many other leaders in the Middle Eastern region, MBS is popular. In fact, he enjoys a level of popularity that was last experienced by leaders immediately following independence. Such cohesiveness could create momentum for the Kingdom to enact further bold reforms. Yet the escalation of violence between Israel and Hamas risks derailing the transformation agenda, as a result of the heightened uncertainty. While MBS has thus far navigated the new geopolitical environment, it is unclear whether Saudi Arabia's situation in the region will remain tenable.

Most if not all investments pertaining to the transformation agenda are financed with public money. That public money will eventually run out, as the world economy moves decisively away from fossil fuels. A true test of the sustainability of the economic transformation agenda is whether reforms will attract (domestic and foreign) private

investments instead of public investments. All in all, the Kingdom's unbalanced transformation, focused on the economic (and social) dimensions, may prove short-lived as more and more educated youth will demand more political freedom.

### South Africa

In South Africa, the response to the COVID-19 pandemic brought about stringent health restrictions, arguably among the strictest worldwide, including severe lockdowns and limitations on movement. The measures, intended to curb the virus's spread, led to a notable decline in civil liberties protection, compounded by proposed legislation aiming to curtail civil society's activities, argues Greg Mills. This decline in legal freedom has been accentuated since 2008, marked by efforts to consolidate power within the criminal justice system, raising concerns about bureaucracy quality and corruption.

South Africa's recent development trajectory has seen a decline in prosperity, particularly evident in the health sector. The initial post-apartheid years were marked by positive economic growth fueled by redistributive policies, but subsequent years witnessed stagnation, exacerbated by political changes and the global financial crisis. The health indicator's dramatic dynamics reflect shifts in government approaches to healthcare, with notable impacts on life expectancy and COVID-19 response effectiveness.

South Africa grapples with significant inequality, driven by a dysfunctional labor market and expansionary policies that failed to address unemployment. While initiatives aimed to expand the middle class, they widened the gap between those with secure employment and those without. The country's environmental progress remains sluggish, attributed to reliance on fossil fuels and slow transition to renewable energy sources. Despite strides in education enrollment, concerns persist regarding declining educational quality, evidenced by global benchmarking tests.

Looking ahead, South Africa's political landscape will shape its future trajectory, with the 2024 election holding crucial significance. A shift towards a coalition system could foster greater accountability but also bring political instability. Addressing fiscal challenges and reevaluating global alignments, particularly with BRICS nations, will be imperative for South Africa's journey towards sustained freedom and prosperity.

### United States of America

The United States formal political and civil institutions remain relatively stable, offering a semblance of continuity amidst escalating public discord, write Edward Glaeser. However, the domain of public discourse has undergone a decline, veering sharply from the norms expected within a stable democracy. This is characterized by heightened polarization and a surge in confrontational rhetoric, exacerbated by erosions in civil liberties and legislative constraints, particularly notable since the year 2016.

On the economic front, the United States is holding up well overall, but it's not without its flaws. Issues like inequality and a growing national debt pose potential challenges for future prosperity. Notably, there are noticeable shifts in how free trade and property rights are perceived, indicating changing attitudes and uncertainties around regulations. However, despite some minor adjustments at the state level, there hasn't been a significant push for widespread reforms.

On the prosperity front, the United States remains relatively stable, thanks to its strong economic foundation. However, problems persist in areas such as healthcare and entrenched inequalities, exacerbated by the impact of the COVID-19 pandemic. While there have been some improvements in environmental and educational sectors, significant hurdles remain, necessitating concerted efforts towards reform and fostering more constructive political discussions.



Looking forward, addressing the mounting national debt and navigating the challenges posed by political polarization are critical priorities. Reforms aimed at simplifying regulations for small businesses, improving procurement processes, and enhancing overall government efficiency are essential for sustaining economic growth. Yet, fostering civil discourse presents a formidable challenge, given the deep divides and identity politics shaping contemporary debates. This underscores the complexity of forging a cohesive national vision amidst evolving challenges.

### Ukraine

The future of Ukraine will be shaped by its accession to the EU and NATO, writes Yuriy Gorodnichenko. Joining the EU implies convergence in terms of the legal structures, economic conditions, and environmental and health standards. The experience of Poland and other former communist countries suggests that Ukraine will see radical improvements after accession—in labor productivity, market access, infrastructure, and other key metrics of economic progress. Joining NATO will be critical for addressing security concerns. NATO can guarantee peace and thus make Ukraine an investable country and bring refugees back to Ukraine.

There is a widespread perception that the Ukrainian judicial system does not adequately protect private property or the individual rights of citizens, and that it does not act as an effective check on executive power. This is a fundamental challenge that needs to be addressed in the next decade if the country is to become a success story.

The war will leave many scars on the country. These will be not only the destroyed factories and homes (although rebuilding these could allow the country to modernize its infrastructure and productive capacity), but also the huge swaths of lands that will need to be de-mined, the many millions of displaced Ukrainians who will return, and the many (likely over a million) war veterans who will need reintegration into civilian lives, including hundreds of thousands who will need medical rehabilitation.

Furthermore, there is a generation of children who will not have received a proper education, during COVID-19 and then the war. The losses of human capital are enormous and hard to reverse. Estimates of Harmonized Learning Outcomes due to this length of school closure show a fall from 481 to about 420 points, well below the lowest-performing countries in Europe: Moldova and Armenia. The long-term effect could be substantial, with future earning losses of more than 20 percent a year per student.

## Four Worrying Trends For Prosperity

Privacy is the first worrying trend for prosperity. Some of the most prominent economists and foreign policy experts contributing to this book highlight the trade-off between strengthening security and increasing freedoms. The topic of security comes up in three-quarters of the country and regional studies: be it security from war and civil unrest or security of property and political freedoms. Enhanced technology tilts this trade-off

heavily towards fewer individual freedoms, as more and more possibilities arise for individuals to be closely monitored in their daily routine. The rise of surveillance technology in curtailing freedom is seen in various locations, for example, China, Russia, and the Middle East.

Do technologies that reduce freedom nevertheless serve the common good? Big technology companies make precisely that claim: the more

information they have, the better data analysis is possible to decipher consumer needs and increase prosperity. The same data can be used, and perhaps are used, to spy on individuals or groups deemed “of public interest.” The EU has taken recent steps to limit the use of facial recognition technology in public spaces. Various other countries are considering similar regulations.

The second worrying trend is the loss of human capital during the pandemic and the lasting effects that this loss has on productivity and equality of opportunity. In Ukraine, approximately two years of education was lost due to the pandemic, followed by Russia’s invasion. Estimates imply that these losses amount to about 20 percent of the future earnings of this generation of children. In Chile, one of the countries that imposed the strictest pandemic measures, the loss could be about 10 percent of long-term earnings. In several Middle Eastern countries, the losses are similar. More worrisome, the lack of access to online education among the poor meant that some children dropped out of school altogether, for example in Egypt.

The third worry is the changing goalposts on the transition to net zero. Prior to the war in Ukraine, the world had, with some effort, approved the Paris Agreement—a legally binding green deal. In this regard, the main impact of Russia’s war in

Ukraine is the rethinking of the Green Deal in Europe. Given Russia’s threats to Europe’s energy security, a decision was taken in 2022 in Brussels to reduce the dependence on Russian energy products. This change, however, has come at an environmental cost: a number of countries have increased the use of coal and other high-polluting sources of energy. Other countries have also rolled back their commitments, for example, the United Kingdom.

The fourth worrying trend for prosperity is declining productivity growth. This comes in two flavors: demographic decline, implying fewer workers in China and Europe over the next decade; and rising social tensions, as we are already witnessing in Argentina, Chile, India, and the Middle East, for example, implying that young adults may not be joining the labor force as quickly as in previous decades. Stagnant productivity directly affects prosperity and is the focus of many government programs. Saudi Arabia’s 2050 program, for example, targets new high-value-added sectors as a response to the likely decline in natural resource sectors. So far, however, the investments in these new sectors are primarily public. To shift sufficient resources towards new industries, the private sector also has to believe that the returns will be there.

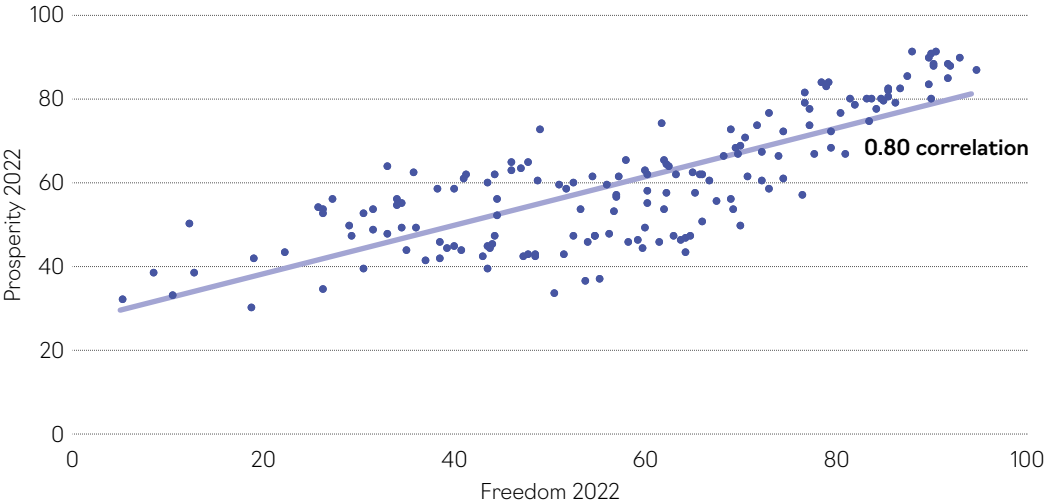
## Open Questions

Throughout the chapters in this volume there is a common underlying belief, supported by evidence, that a higher degree of freedom is consistent with a faster path to prosperity. There are some politicians who do not share this belief, and hence further work is needed to convince them.

### Not a Perfect Fit

The first issue that arises in discussions of the link between freedom and prosperity is that the correlation is not perfect. The  $R^2$  statistic of the univariate regression implies that 63 percent of the variance in prosperity can be explained by differences in freedom across countries (Figure 2).

Figure 2. The correlation between freedom and prosperity in 2022



Source: Freedom and Prosperity Indexes 2022

If we conclude that there exists a close relationship between freedom and prosperity, this raises a methodological question: namely, that we are pooling together countries from all continents, and thus disregarding significant differences among regions. However, a strong positive association between freedom and prosperity scores is also present within regions. The correlation coefficient is above 0.6 for all regions, except South and Central Asia (0.41), which is probably due to the small number of countries (twelve) in that region. So across all regions, we observe that countries with higher freedom scores also have higher levels of prosperity.

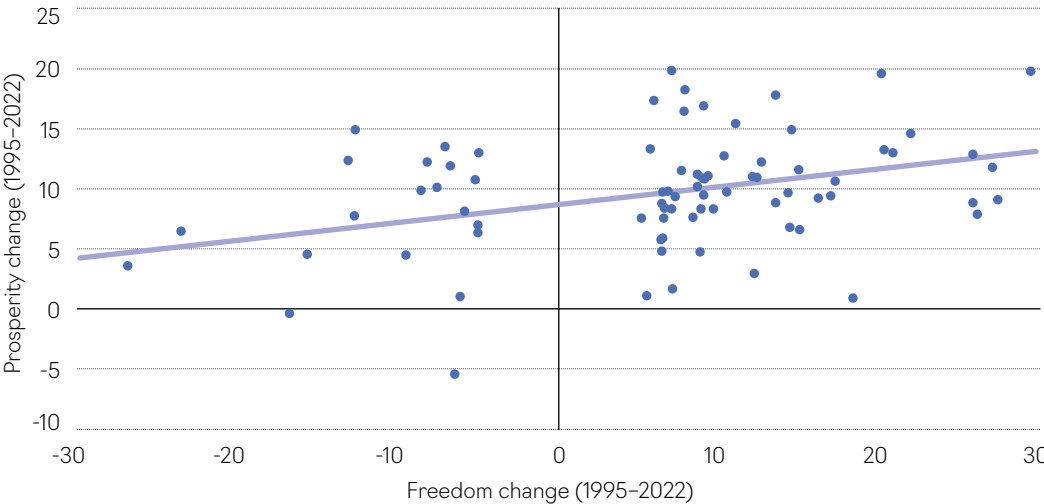
Perhaps Prosperity Explains Freedom

In a nutshell, freedom and prosperity are closely associated, but is there a causal link? And in which direction does it run? Does freedom today lead to prosperity tomorrow, or is the demand for

freedom a consequence of societies becoming more prosperous? To be sure, this is a question that has received extensive attention from economists and political scientists and is still a matter of heated debates.

One can start by noting that freedom in 1995, the start of the sample period, is positively correlated with prosperity in 2022, the end of the sample period. This association is statistically significant at the one percent level. The time lapse between the explanatory variable (freedom) and the dependent variable (prosperity) is sufficiently long to ensure that no feedback loop—from higher prosperity to increased freedom—is responsible for the result (Figure 3). When running the reverse regression (freedom in 2022 on prosperity in 1995), the R<sup>2</sup> statistic is lower, at 0.553, which provides some support for the argument that the direction of causality runs from freedom to prosperity.

Figure 3. The causal relation of freedom level in 1995 and prosperity level in 2022



Source: Freedom and Prosperity Indexes (1995-2022)

We look for outliers in the data to see whether some countries defy this long-term pattern. Yemen is such a country. In recent years, it has become a failed state and regional powers vie for a dominant position at the expense of the prosperity of the population. These dynamics are consistent with Yemen's relative standing: more freedom and less prosperity relative to the sample trend line in Figure 3. In essence, past freedoms were insufficient to lead to prosperity in 2022—as the civil war (engulfing the country since 2014) undermined the country's progress.

The case of Yemen demonstrates a general pattern: countries in civil war or countries involved in other recent conflicts tend to be below the trend line. Examples include Burkina Faso (2015–16 conflict), Chad (2005–10), Mali (2012–present), and South Sudan (2013–17).

At the other end of the spectrum, the United Arab Emirates stands out as having a high level of prosperity in 2022 and fewer freedoms at the start of the sample period. This seeming discrepancy

can be explained by the able management of natural resources.

Time Lags Mask the Relation

To be sure, changes in freedom do not immediately bring about changes in prosperity. The size and scale of the lag depend on various place-specific factors, and also factors related to the condition of the global economy. The relationship between changes in freedom and changes in prosperity can be disrupted by events such as civil conflict or war, a shift toward dictatorship, or closed economic policies. Over time, such shifts will become evident in prosperity measures. The remainder of the explanation lies in sudden shocks such as war and civil conflict, the rise of dictatorships, and the advent of global crises, be they economic, financial, or health related.

One can, for example, speculate that the increased levels of freedom in Taiwan have not yet resulted in a commensurate increase in prosperity due to the effects of the COVID-19 pandemic,

which severely limited global trade and investment. Conversely, the limits to freedoms in Mali may yet reduce prosperity as the effects of the protracted civil war are only now manifesting themselves in reduced social and economic indicators.

Based on the data, one can also speculate that the imperfect relation between a change in freedom and change in prosperity is asymmetric. Losses in freedom result in swift losses in prosperity, as illustrated by Yemen, Venezuela, and Syria. In contrast, improvements in freedom take a longer time to result in improved prosperity. In other words, it takes a longer time to build than to destroy.

The latter finding is particularly relevant for politicians, as their time in office is usually limited and they would like to see results fast enough that they are reelected, or at least so that the ultimate increase in prosperity is attributed to their work. Alas, such attribution is sometimes not possible. This delay likely results in some “good” reforms not taking place.

### Reversals of Fortune

Should political freedom take too long to evolve, the gains from economic and legal reforms may be reversed. Russia in the 1990s and 2000s is a prime example of such a reversal. And China seems to have been following the same path in recent years: economic freedom and legal freedom have remained stable in our sample, but political freedom has declined by 26 percent since Xi Jinping took office in 2013. Prosperity had increased 17 percent from 1995 to 2013, but has since plateaued.

Reversals significantly affect the overall correlation between freedom and prosperity, as the pace of change in the two sets of indicators differ, and hence the relationship appears weakened or even lost. The use of longer-term time series would fix this

disparity, another reason why the Atlantic Council is investing in the construction of these Indexes.

### It's Something Else

The final counterpoint to advancing policies that improve freedoms and, from there, have a positive effect on prosperity is the argument that freedom indicators proxy for some other social dynamic that underlies changes in prosperity. In this narrative, an enlightened central planner, be it the government or political parties or global institutions, designs social change in a way that both increases freedoms and enhances prosperity. Freedom and prosperity are both the result of some other force. As the leading comparative legal scholars Konrad Zweigert and Hein Kötz note, “the style of a legal system may be marked by an ideology, that is, a religious or political conception of how economic or social life should be organized”.<sup>1</sup> In this conception, freedom and prosperity are central to understanding the varieties of capitalism.

Hayek traces the differences between common and civil law to distinct conceptions of freedom. He distinguishes two views of freedom directly traceable to the predominance of an essentially empiricist view of the world in England and a rationalist approach in France: “One finds the essence of freedom in spontaneity and the absence of coercion, the other believes it to be realized only in the pursuit and attainment of an absolute social purpose; one stands for organic, slow, self-conscious growth, the other for doctrinaire deliberateness; one for trial and error procedure, the other for the enforced solely valid pattern”.<sup>2</sup> To Hayek, the differences in legal systems reflect these profound differences in philosophies of freedom.

This hypothesis sounds plausible, until one runs down the list of possible candidates. An enlightened government can simultaneously affect

political, economic, and legal freedoms, as well as impact directly the various components of prosperity like health, education, income, and equality between women and men. Such social revolutions are not present in the data, however. Progress tends to be gradual or cyclical with few discrete jumps. To the extent that such upward jumps are seen in the data, they are present in the former communist countries like Croatia and Georgia. Even there, it takes years for the effects on prosperity to become apparent. Improvements in both freedom and prosperity tend to follow a slow, methodical pattern; evolution rather than revolution. This evidence contradicts the idea of an all-out reformer.

There are many arguments for global convergence, one of which offers a simple explanation: globalization leads to a much faster exchange of ideas, including ideas about laws and regulations, and therefore encourages the transfer of legal knowledge. Globalization also encourages competition among countries for foreign direct investment, for capital, and for business in general, which must also apply some pressure toward the adoption of good legal rules and regulations.

This explanation—of centrifugal global forces at play over large parts of the sample period—fits well the reversal in freedoms that we see towards the end of the sample period. Globalization has stalled and even reversed, and with it the trends in freedom and prosperity have changed too. But even globalization is a proxy for the collective political philosophies in the major world economies. Hayek, as is often the case, could see further than most of us.

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### Dan Negrea

Dan Negrea is the senior director of the Atlantic Council's Freedom and Prosperity Center. He was the State Department's Special Representative for Commercial and Business Affairs between 2019 and 2021. In that capacity, he pioneered and led the Deal Team Initiative, a coordination mechanism between US government agencies. The initiative promotes business relations between US and foreign companies around the world.

<sup>1</sup> Konrad Zweigert and Hein Kötz, *An Introduction to Comparative Law*, third edition (Oxford and New York: Oxford University Press, Clarendon Press, 1998), 72.

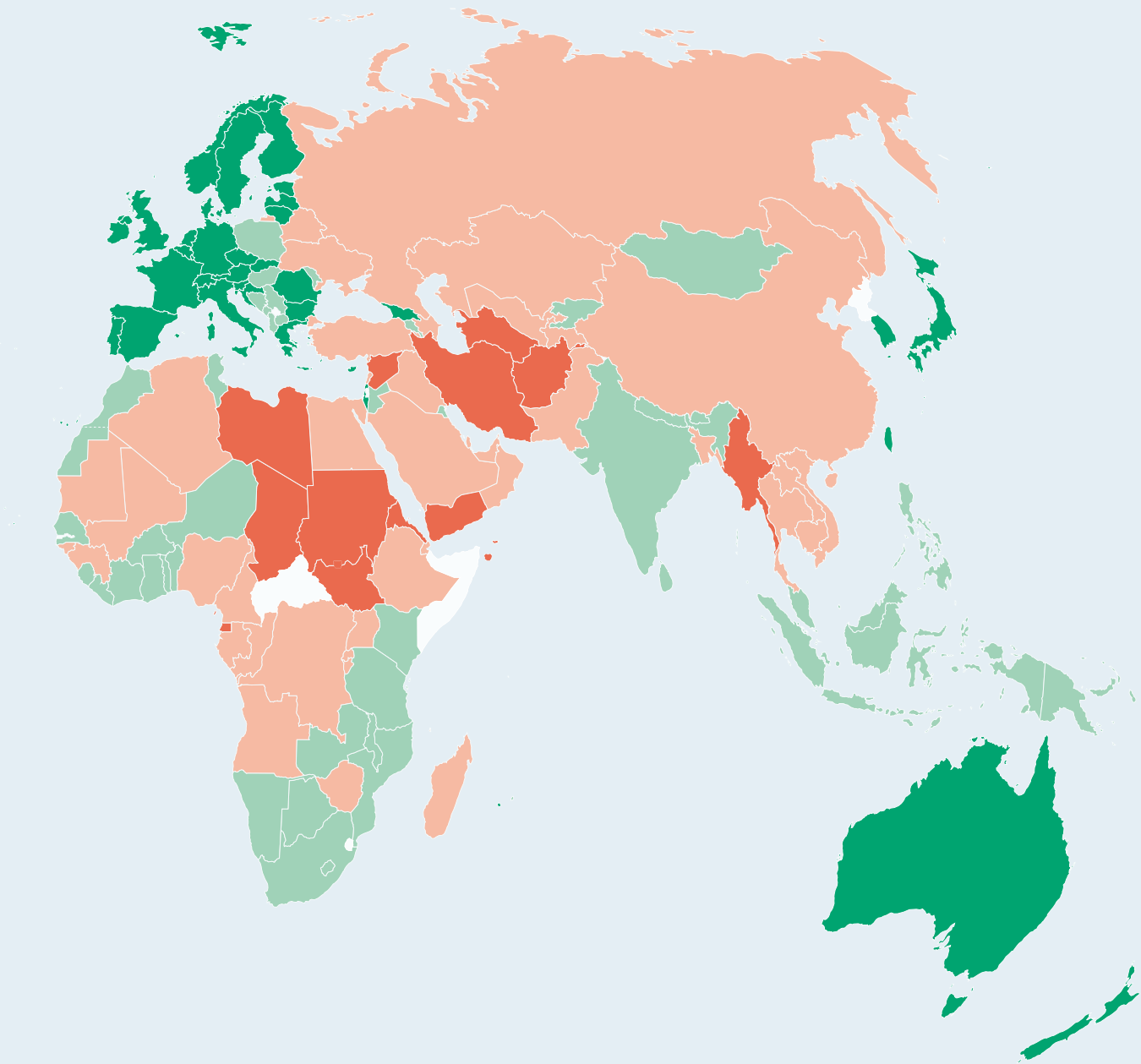
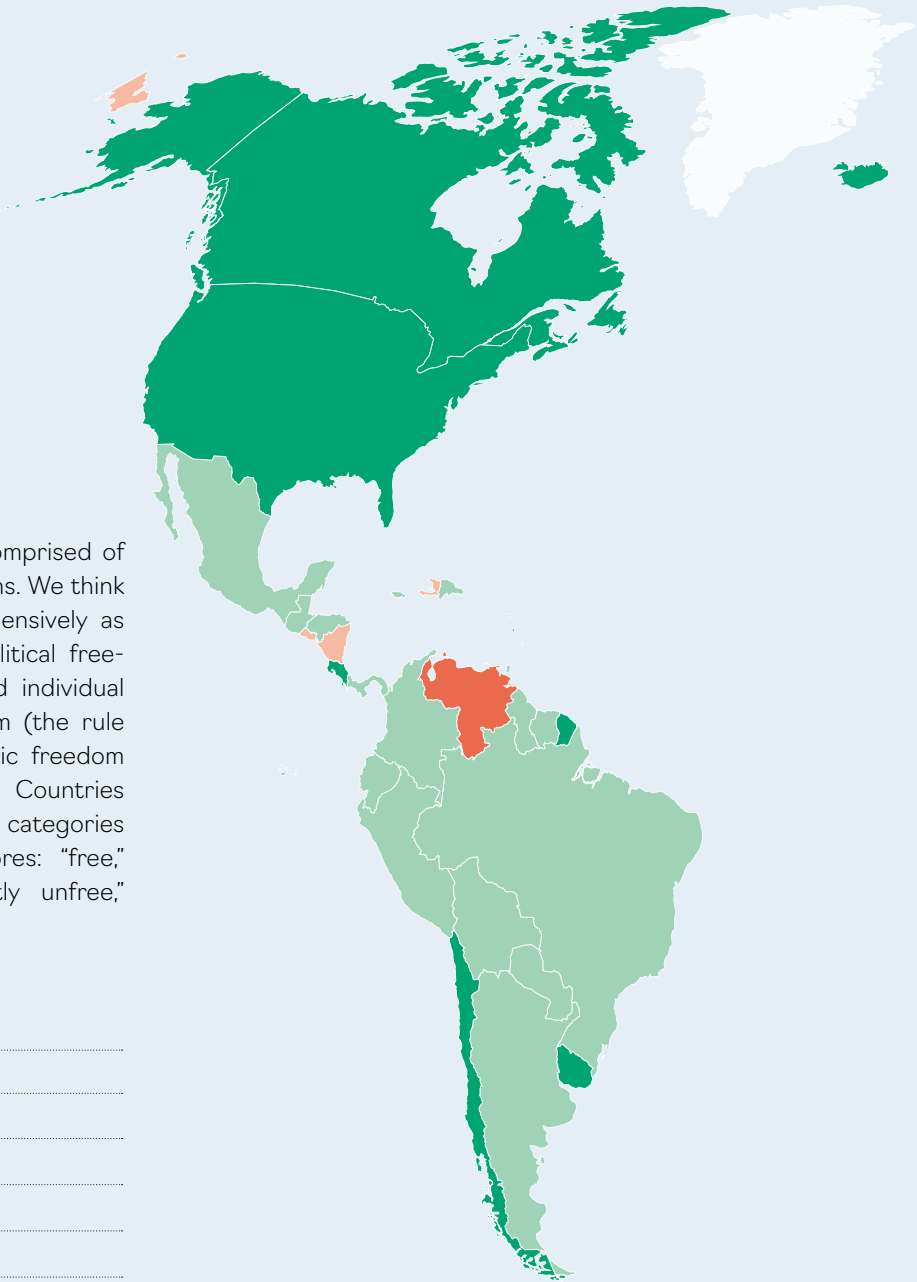
<sup>2</sup> Friedrich A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), 56.

# Freedom Index: World Ranking

Free societies are comprised of a bundle of institutions. We think of freedom comprehensively as a combination of political freedom (democracy and individual rights), legal freedom (the rule of law), and economic freedom (market economy). Countries are placed into four categories based on their scores: "free," "mostly free," "mostly unfree," and "unfree."

How to read this map

Status	
Free	Free
Mostly Free	Mostly Free
Mostly Unfree	Mostly Unfree
Unfree	Unfree
No data	No data

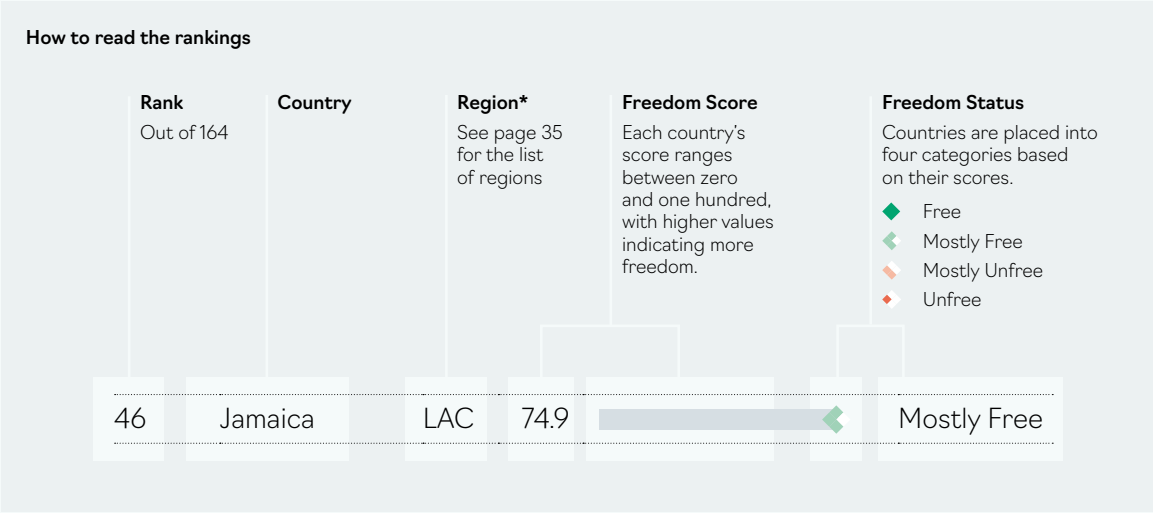
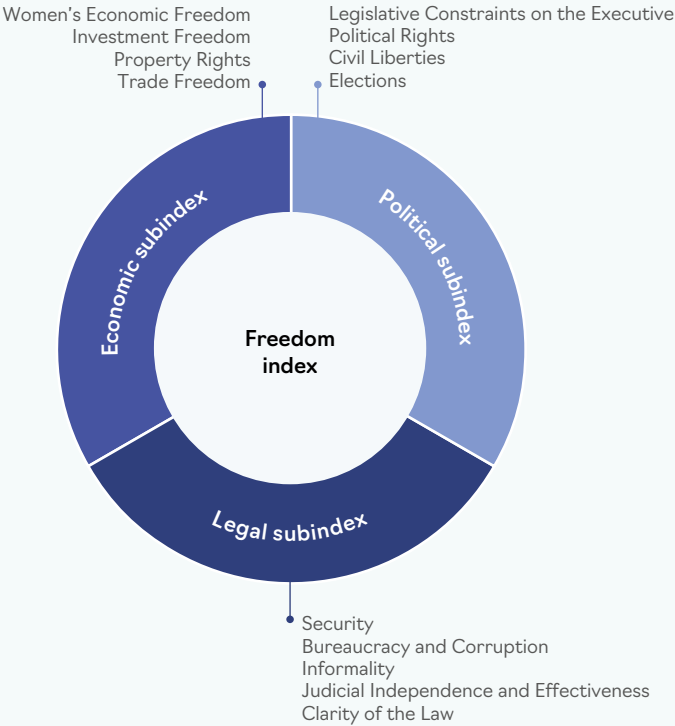


# Freedom Rankings

The Freedom Index evaluates legal, economic, and political freedom. The legal subindex gauges a country's adherence to the rule of law. The political subindex assesses the institutional framework for selecting executive leaders and the imposed limits and controls on their power. The economic subindex measures whether the bulk of economic activity in a country is guided by the principles of free and competitive markets.

Freedom Index structure

The Freedom Index ranks countries according to the equally weighted average of the three subindexes. Each subindex is comprised of multiple indicators. See Methodology for details.



Rank	Country	Region	Freedom Score	Freedom Status
1	Denmark	EUR	95.1	Free
2	Sweden	EUR	93.5	Free
3	Switzerland	EUR	92.8	Free
4	Finland	EUR	92.5	Free
5	Luxembourg	EUR	92.4	Free
6	Norway	EUR	91.2	Free
7	Netherlands	EUR	91.2	Free
8	Ireland	EUR	91.0	Free
9	Estonia	EUR	91.0	Free
10	Australia	EAP	90.8	Free
11	New Zealand	EAP	90.6	Free
12	Germany	EUR	90.6	Free
13	Iceland	EUR	89.1	Free
14	Belgium	EUR	88.5	Free
15	Canada	NA	88.0	Free
16	Austria	EUR	87.4	Free
17	France	EUR	86.8	Free
18	Spain	EUR	86.8	Free
19	United Kingdom	EUR	86.7	Free
20	United States of America	NA	86.3	Free
21	Czech Republic	EUR	86.2	Free
22	Latvia	EUR	85.6	Free
23	Japan	EAP	85.2	Free
24	Lithuania	EUR	84.9	Free
25	Portugal	EUR	84.7	Free
26	Italy	EUR	83.6	Free
27	Taiwan	EAP	83.2	Free
28	Costa Rica	LAC	82.6	Free
29	Slovakia	EUR	82.3	Free
30	Uruguay	LAC	81.5	Free
31	Chile	LAC	81.4	Free
32	Slovenia	EUR	81.2	Free
33	Singapore	EAP	80.9	Free
34	South Korea	EAP	80.6	Free

OVERVIEW					
Rank	Country	Region	Freedom Score		Freedom Status
35	Seychelles	SSA	79.8	<div><div></div></div>	Free
36	Croatia	EUR	79.5	<div><div></div></div>	Free
37	Israel	MENA	79.4	<div><div></div></div>	Free
38	Malta	EUR	78.8	<div><div></div></div>	Free
39	Cyprus	EUR	78.8	<div><div></div></div>	Free
40	Cape Verde	SSA	78.8	<div><div></div></div>	Free
41	Bulgaria	EUR	77.0	<div><div></div></div>	Free
42	Barbados	LAC	76.8	<div><div></div></div>	Free
43	Romania	EUR	76.5	<div><div></div></div>	Free
44	Greece	EUR	75.6	<div><div></div></div>	Free
45	Georgia	EUR	75.4	<div><div></div></div>	Free
46	Jamaica	LAC	74.9	<div><div></div></div>	Mostly Free
47	Mauritius	SSA	74.8	<div><div></div></div>	Mostly Free
48	Poland	EUR	74.5	<div><div></div></div>	Mostly Free
49	Peru	LAC	73.6	<div><div></div></div>	Mostly Free
50	Albania	EUR	73.3	<div><div></div></div>	Mostly Free
51	Namibia	SSA	72.9	<div><div></div></div>	Mostly Free
52	Moldova	EUR	72.8	<div><div></div></div>	Mostly Free
53	Trinidad and Tobago	LAC	72.6	<div><div></div></div>	Mostly Free
54	Panama	LAC	72.5	<div><div></div></div>	Mostly Free
55	Botswana	SSA	72.1	<div><div></div></div>	Mostly Free
56	Hungary	EUR	71.9	<div><div></div></div>	Mostly Free
57	Ghana	SSA	71.9	<div><div></div></div>	Mostly Free
58	Montenegro	EUR	71.2	<div><div></div></div>	Mostly Free
59	South Africa	SSA	70.5	<div><div></div></div>	Mostly Free
60	Mongolia	EAP	69.9	<div><div></div></div>	Mostly Free
61	Bhutan	SCA	69.3	<div><div></div></div>	Mostly Free
62	Suriname	LAC	69.2	<div><div></div></div>	Mostly Free
63	Colombia	LAC	68.9	<div><div></div></div>	Mostly Free
64	São Tomé and Príncipe	SSA	68.6	<div><div></div></div>	Mostly Free
65	Dominican Republic	LAC	68.3	<div><div></div></div>	Mostly Free
66	Gambia	SSA	68.2	<div><div></div></div>	Mostly Free
67	Lesotho	SSA	67.7	<div><div></div></div>	Mostly Free
68	Malawi	SSA	67.6	<div><div></div></div>	Mostly Free

OVERVIEW					
Rank	Country	Region	Freedom Score		Freedom Status
69	Zambia	SSA	67.2	<div><div></div></div>	Mostly Free
70	Paraguay	LAC	66.7	<div><div></div></div>	Mostly Free
71	Senegal	SSA	66.6	<div><div></div></div>	Mostly Free
72	North Macedonia	EUR	66.2	<div><div></div></div>	Mostly Free
73	Serbia	EUR	65.9	<div><div></div></div>	Mostly Free
74	Brazil	LAC	65.9	<div><div></div></div>	Mostly Free
75	Kenya	SSA	65.7	<div><div></div></div>	Mostly Free
76	Ecuador	LAC	65.6	<div><div></div></div>	Mostly Free
77	Argentina	LAC	65.4	<div><div></div></div>	Mostly Free
78	Tanzania	SSA	65.2	<div><div></div></div>	Mostly Free
79	Guyana	LAC	64.1	<div><div></div></div>	Mostly Free
80	Indonesia	EAP	64.1	<div><div></div></div>	Mostly Free
81	Armenia	EUR	64.0	<div><div></div></div>	Mostly Free
82	Bosnia and Herzegovina	EUR	63.9	<div><div></div></div>	Mostly Free
83	Vanuatu	EAP	63.7	<div><div></div></div>	Mostly Free
84	Sierra Leone	SSA	63.6	<div><div></div></div>	Mostly Free
85	Liberia	SSA	63.1	<div><div></div></div>	Mostly Free
86	Nepal	SCA	62.3	<div><div></div></div>	Mostly Free
87	Malaysia	EAP	61.9	<div><div></div></div>	Mostly Free
88	Kuwait	MENA	61.4	<div><div></div></div>	Mostly Free
89	Jordan	MENA	61.2	<div><div></div></div>	Mostly Free
90	Mexico	LAC	61.0	<div><div></div></div>	Mostly Free
91	Honduras	LAC	60.8	<div><div></div></div>	Mostly Free
92	Morocco	MENA	60.4	<div><div></div></div>	Mostly Free
93	Tunisia	MENA	60.1	<div><div></div></div>	Mostly Free
94	Niger	SSA	59.5	<div><div></div></div>	Mostly Free
95	Benin	SSA	59.0	<div><div></div></div>	Mostly Free
96	Papua New Guinea	EAP	59.0	<div><div></div></div>	Mostly Free
97	Sri Lanka	SCA	58.9	<div><div></div></div>	Mostly Free
98	Togo	SSA	58.4	<div><div></div></div>	Mostly Free
99	Burkina Faso	SSA	58.2	<div><div></div></div>	Mostly Free
100	Guatemala	LAC	57.8	<div><div></div></div>	Mostly Free
101	Cote d'Ivoire	SSA	57.1	<div><div></div></div>	Mostly Free
102	Philippines	EAP	57.0	<div><div></div></div>	Mostly Free

OVERVIEW					
Rank	Country	Region	Freedom Score		Freedom Status
103	Kyrgyzstan	SCA	56.3	<div><div></div></div>	Mostly Free
104	India	SCA	56.3	<div><div></div></div>	Mostly Free
105	Bolivia	LAC	55.8	<div><div></div></div>	Mostly Free
106	Mozambique	SSA	55.2	<div><div></div></div>	Mostly Free
107	United Arab Emirates	MENA	54.0	<div><div></div></div>	Mostly Unfree
108	Gabon	SSA	53.7	<div><div></div></div>	Mostly Unfree
109	Rwanda	SSA	53.5	<div><div></div></div>	Mostly Unfree
110	Uganda	SSA	53.4	<div><div></div></div>	Mostly Unfree
111	Madagascar	SSA	52.8	<div><div></div></div>	Mostly Unfree
112	Kazakhstan	SCA	52.8	<div><div></div></div>	Mostly Unfree
113	Pakistan	SCA	52.3	<div><div></div></div>	Mostly Unfree
114	Ukraine	EUR	52.2	<div><div></div></div>	Mostly Unfree
115	El Salvador	LAC	51.1	<div><div></div></div>	Mostly Unfree
116	Thailand	EAP	51.1	<div><div></div></div>	Mostly Unfree
117	Lebanon	MENA	49.8	<div><div></div></div>	Mostly Unfree
118	Vietnam	EAP	49.7	<div><div></div></div>	Mostly Unfree
119	Oman	MENA	49.6	<div><div></div></div>	Mostly Unfree
120	Nigeria	SSA	49.5	<div><div></div></div>	Mostly Unfree
121	Zimbabwe	SSA	49.3	<div><div></div></div>	Mostly Unfree
122	Guinea-Bissau	SSA	49.3	<div><div></div></div>	Mostly Unfree
123	Turkey	MENA	49.0	<div><div></div></div>	Mostly Unfree
124	Mali	SSA	48.9	<div><div></div></div>	Mostly Unfree
125	Angola	SSA	48.8	<div><div></div></div>	Mostly Unfree
126	Mauritania	SSA	48.4	<div><div></div></div>	Mostly Unfree
127	Bahrain	MENA	46.9	<div><div></div></div>	Mostly Unfree
128	Qatar	MENA	46.7	<div><div></div></div>	Mostly Unfree
129	Haiti	LAC	46.4	<div><div></div></div>	Mostly Unfree
130	Djibouti	SSA	45.9	<div><div></div></div>	Mostly Unfree
131	Azerbaijan	EUR	45.7	<div><div></div></div>	Mostly Unfree
132	Laos	EAP	45.2	<div><div></div></div>	Mostly Unfree
133	Ethiopia	SSA	44.5	<div><div></div></div>	Mostly Unfree
134	Comoros	SSA	44.4	<div><div></div></div>	Mostly Unfree
135	Algeria	MENA	44.3	<div><div></div></div>	Mostly Unfree
136	Democratic Republic of the Congo	SSA	43.2	<div><div></div></div>	Mostly Unfree

OVERVIEW					
Rank	Country	Region	Freedom Score		Freedom Status
137	Cameroon	SSA	42.3	<div><div></div></div>	Mostly Unfree
138	Russian Federation	EUR	42.1	<div><div></div></div>	Mostly Unfree
139	Guinea	SSA	41.4	<div><div></div></div>	Mostly Unfree
140	Cambodia	EAP	40.9	<div><div></div></div>	Mostly Unfree
141	Bangladesh	SCA	40.8	<div><div></div></div>	Mostly Unfree
142	Saudi Arabia	MENA	40.4	<div><div></div></div>	Mostly Unfree
143	Uzbekistan	SCA	40.3	<div><div></div></div>	Mostly Unfree
144	China	EAP	39.6	<div><div></div></div>	Mostly Unfree
145	Belarus	EUR	39.4	<div><div></div></div>	Mostly Unfree
146	Tajikistan	SCA	38.2	<div><div></div></div>	Mostly Unfree
147	Egypt	MENA	38.2	<div><div></div></div>	Mostly Unfree
148	Nicaragua	LAC	37.3	<div><div></div></div>	Mostly Unfree
149	Burundi	SSA	37.1	<div><div></div></div>	Mostly Unfree
150	Congo	SSA	36.1	<div><div></div></div>	Mostly Unfree
151	Iraq	MENA	35.9	<div><div></div></div>	Mostly Unfree
152	Venezuela	LAC	34.4	<div><div></div></div>	Unfree
153	Iran	MENA	33.5	<div><div></div></div>	Unfree
154	Chad	SSA	33.4	<div><div></div></div>	Unfree
155	Equatorial Guinea	SSA	33.4	<div><div></div></div>	Unfree
156	Libya	MENA	33.0	<div><div></div></div>	Unfree
157	Sudan	SSA	29.7	<div><div></div></div>	Unfree
158	Myanmar	EAP	26.8	<div><div></div></div>	Unfree
159	Yemen	MENA	26.6	<div><div></div></div>	Unfree
160	Syria	MENA	21.2	<div><div></div></div>	Unfree
161	Turkmenistan	SCA	20.7	<div><div></div></div>	Unfree
162	South Sudan	SSA	19.1	<div><div></div></div>	Unfree
163	Eritrea	SSA	17.5	<div><div></div></div>	Unfree
164	Afghanistan	SCA	14.4	<div><div></div></div>	Unfree

\*Regional Abbreviations:

EAP

East Asia & the Pacific

EUR

Europe

LAC

Latin America & the Caribbean

MENA

Middle East & North Africa

NA

North America

SCA

South & Central Asia

SSA

Sub-Saharan Africa

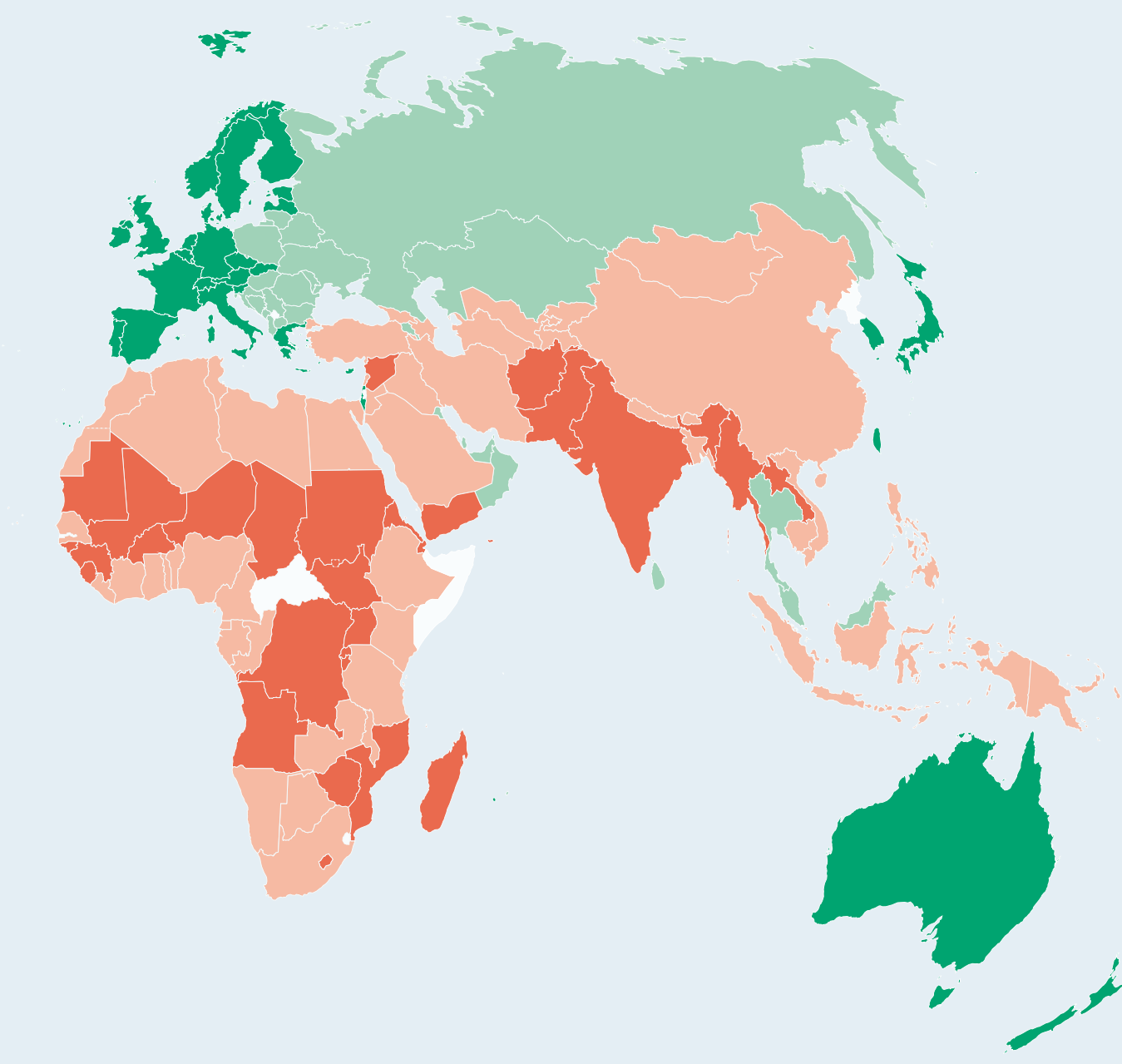
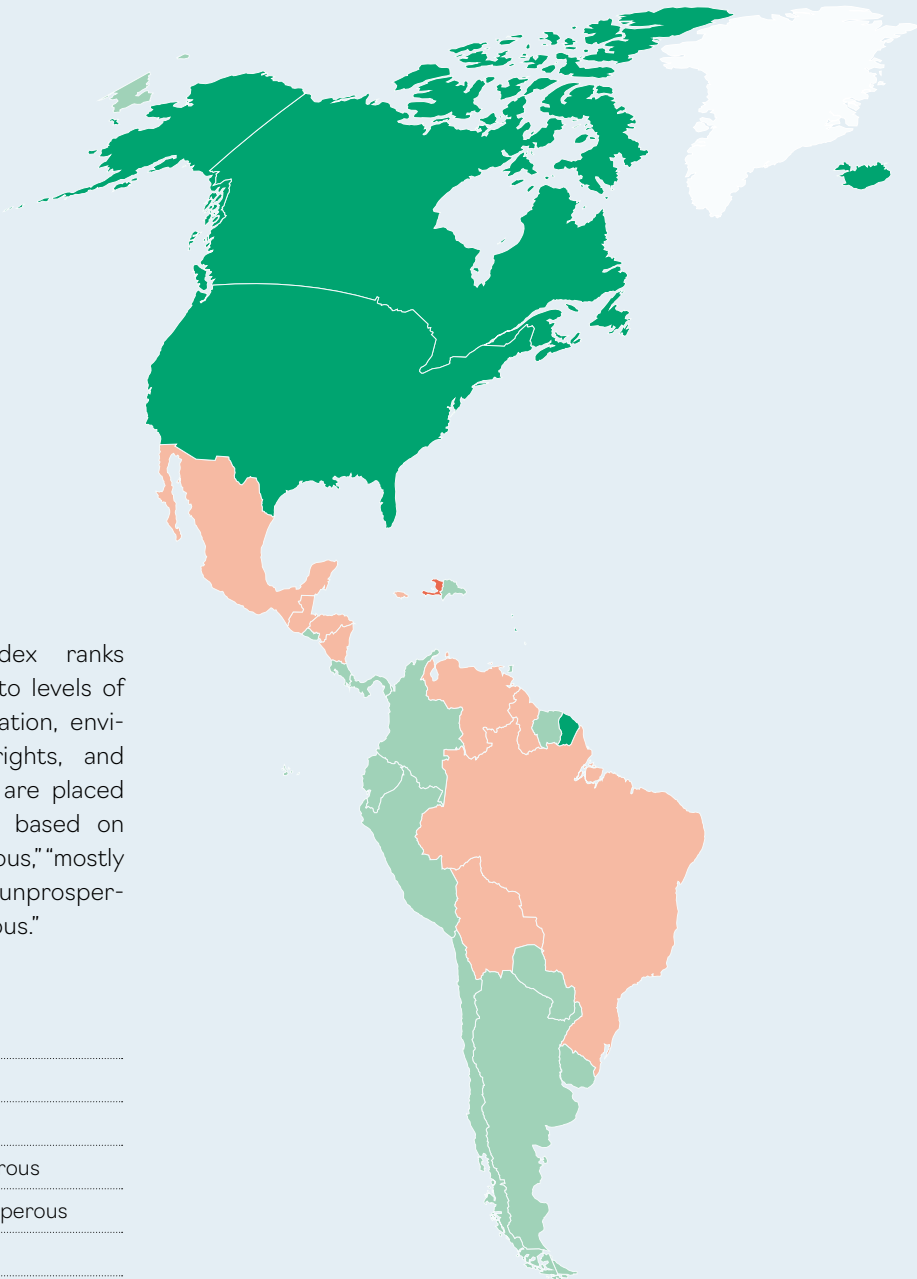


# Prosperity Index: World Ranking

The Prosperity Index ranks countries according to levels of income, health, education, environment, minority rights, and inequality. Countries are placed into four categories based on their scores: "prosperous," "mostly prosperous," "mostly unprosperous," and "unprosperous."

How to read this map

Status	
Prosperous	
Mostly Prosperous	
Mostly Unprosperous	
Unprosperous	
No data	



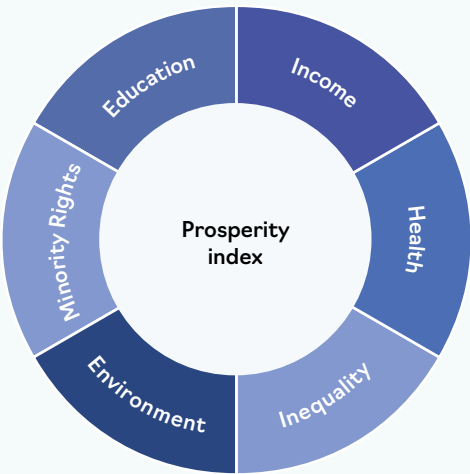


# Prosperity Rankings

The Prosperity Index attempts to capture both the average level of prosperity, through the level of purchasing power and human capital that an average citizen displays, and shared prosperity, through measures of environmental quality, as well as income inequality and the well-being of minority groups.

Prosperity Index structure

Countries are scored and ranked according to the equally weighted average of six indicators. The original sources of data and analyses are listed in the Methodology.



How to read the rankings

Rank

Out of 164

Country

Region\*

See page 43 for the list of regions

Prosperity Score

The Prosperity Index ranks countries according to the equally weighted average of the six indicators.

Prosperity Status

Countries are placed into four categories based on their scores.

Prosperous

Mostly Prosperous

Mostly Unprosperous

Unprosperous

35

Lithuania

EUR

77.2

Mostly Prosperous

Rank	Country	Region	Prosperity Score	Prosperity Status
1	Norway	EUR	92.4	Prosperous
2	Iceland	EUR	92.3	Prosperous
3	Australia	EAP	91.7	Prosperous
4	Sweden	EUR	91.2	Prosperous
5	New Zealand	EAP	91.0	Prosperous
6	Netherlands	EUR	89.7	Prosperous
7	Finland	EUR	89.6	Prosperous
8	Ireland	EUR	89.4	Prosperous
9	Switzerland	EUR	89.0	Prosperous
10	Denmark	EUR	88.2	Prosperous
11	Belgium	EUR	87.0	Prosperous
12	Luxembourg	EUR	86.7	Prosperous
13	South Korea	EAP	85.7	Prosperous
14	Slovenia	EUR	85.6	Prosperous
15	Germany	EUR	85.3	Prosperous
16	Singapore	EAP	84.6	Prosperous
17	Canada	NA	84.3	Prosperous
18	United Kingdom	EUR	84.2	Prosperous
19	France	EUR	83.8	Prosperous
20	Malta	EUR	83.5	Prosperous
21	Spain	EUR	82.8	Prosperous
22	Japan	EAP	82.3	Prosperous
23	Estonia	EUR	82.2	Prosperous
24	Czech Republic	EUR	82.2	Prosperous
25	Portugal	EUR	82.1	Prosperous
26	Taiwan	EAP	82.0	Prosperous
27	United States of America	NA	81.8	Prosperous
28	Austria	EUR	81.2	Prosperous
29	Cyprus	EUR	81.2	Prosperous
30	Italy	EUR	80.9	Prosperous
31	Latvia	EUR	80.1	Prosperous
32	Israel	MENA	80.1	Prosperous
33	Greece	EUR	79.2	Prosperous
34	Slovakia	EUR	78.9	Prosperous

OVERVIEW					
Rank	Country	Region	Prosperity Score		Prosperity Status
35	Lithuania	EUR	77.2	<div><div></div></div>	Mostly Prosperous
36	Argentina	LAC	76.7	<div><div></div></div>	Mostly Prosperous
37	Croatia	EUR	76.5	<div><div></div></div>	Mostly Prosperous
38	Poland	EUR	76.5	<div><div></div></div>	Mostly Prosperous
39	United Arab Emirates	MENA	75.6	<div><div></div></div>	Mostly Prosperous
40	Hungary	EUR	75.4	<div><div></div></div>	Mostly Prosperous
41	Uruguay	LAC	75.2	<div><div></div></div>	Mostly Prosperous
42	Barbados	LAC	75.0	<div><div></div></div>	Mostly Prosperous
43	Albania	EUR	73.7	<div><div></div></div>	Mostly Prosperous
44	Moldova	EUR	72.2	<div><div></div></div>	Mostly Prosperous
45	Panama	LAC	71.7	<div><div></div></div>	Mostly Prosperous
46	Chile	LAC	71.6	<div><div></div></div>	Mostly Prosperous
47	Mauritius	SSA	70.6	<div><div></div></div>	Mostly Prosperous
48	Costa Rica	LAC	70.4	<div><div></div></div>	Mostly Prosperous
49	Seychelles	SSA	70.3	<div><div></div></div>	Mostly Prosperous
50	Trinidad and Tobago	LAC	70.3	<div><div></div></div>	Mostly Prosperous
51	Montenegro	EUR	69.8	<div><div></div></div>	Mostly Prosperous
52	Romania	EUR	69.8	<div><div></div></div>	Mostly Prosperous
53	Malaysia	EAP	69.0	<div><div></div></div>	Mostly Prosperous
54	Ecuador	LAC	68.9	<div><div></div></div>	Mostly Prosperous
55	Thailand	EAP	68.6	<div><div></div></div>	Mostly Prosperous
56	Kazakhstan	SCA	68.4	<div><div></div></div>	Mostly Prosperous
57	Serbia	EUR	67.9	<div><div></div></div>	Mostly Prosperous
58	North Macedonia	EUR	67.8	<div><div></div></div>	Mostly Prosperous
59	Belarus	EUR	67.4	<div><div></div></div>	Mostly Prosperous
60	Ukraine	EUR	67.0	<div><div></div></div>	Mostly Prosperous
61	Bosnia and Herzegovina	EUR	66.8	<div><div></div></div>	Mostly Prosperous
62	El Salvador	LAC	66.6	<div><div></div></div>	Mostly Prosperous
63	Russian Federation	EUR	66.2	<div><div></div></div>	Mostly Prosperous
64	Dominican Republic	LAC	66.1	<div><div></div></div>	Mostly Prosperous
65	Paraguay	LAC	66.0	<div><div></div></div>	Mostly Prosperous
66	Bahrain	MENA	65.9	<div><div></div></div>	Mostly Prosperous
67	Oman	MENA	65.8	<div><div></div></div>	Mostly Prosperous
68	Suriname	LAC	65.8	<div><div></div></div>	Mostly Prosperous

OVERVIEW					
Rank	Country	Region	Prosperity Score		Prosperity Status
69	Armenia	EUR	65.7	<div><div></div></div>	Mostly Prosperous
70	Colombia	LAC	65.6	<div><div></div></div>	Mostly Prosperous
71	Peru	LAC	65.6	<div><div></div></div>	Mostly Prosperous
72	Sri Lanka	SCA	65.5	<div><div></div></div>	Mostly Prosperous
73	Kuwait	MENA	65.5	<div><div></div></div>	Mostly Prosperous
74	Qatar	MENA	65.0	<div><div></div></div>	Mostly Prosperous
75	Bulgaria	EUR	64.9	<div><div></div></div>	Mostly Prosperous
76	Gabon	SSA	64.6	<div><div></div></div>	Mostly Unprosperous
77	Jamaica	LAC	64.6	<div><div></div></div>	Mostly Unprosperous
78	Mongolia	EAP	64.6	<div><div></div></div>	Mostly Unprosperous
79	Turkey	MENA	64.3	<div><div></div></div>	Mostly Unprosperous
80	Philippines	EAP	64.1	<div><div></div></div>	Mostly Unprosperous
81	Bolivia	LAC	63.6	<div><div></div></div>	Mostly Unprosperous
82	Tunisia	MENA	63.5	<div><div></div></div>	Mostly Unprosperous
83	Algeria	MENA	62.9	<div><div></div></div>	Mostly Unprosperous
84	Georgia	EUR	62.7	<div><div></div></div>	Mostly Unprosperous
85	Azerbaijan	EUR	62.7	<div><div></div></div>	Mostly Unprosperous
86	Kyrgyzstan	SCA	62.6	<div><div></div></div>	Mostly Unprosperous
87	Guyana	LAC	62.2	<div><div></div></div>	Mostly Unprosperous
88	São Tomé and Príncipe	SSA	61.9	<div><div></div></div>	Mostly Unprosperous
89	Brazil	LAC	61.8	<div><div></div></div>	Mostly Unprosperous
90	Mexico	LAC	61.4	<div><div></div></div>	Mostly Unprosperous
91	Cape Verde	SSA	61.4	<div><div></div></div>	Mostly Unprosperous
92	Jordan	MENA	60.9	<div><div></div></div>	Mostly Unprosperous
93	Saudi Arabia	MENA	60.7	<div><div></div></div>	Mostly Unprosperous
94	Lebanon	MENA	60.7	<div><div></div></div>	Mostly Unprosperous
95	Ghana	SSA	60.5	<div><div></div></div>	Mostly Unprosperous
96	Venezuela	LAC	60.5	<div><div></div></div>	Mostly Unprosperous
97	South Africa	SSA	60.0	<div><div></div></div>	Mostly Unprosperous
98	Indonesia	EAP	59.8	<div><div></div></div>	Mostly Unprosperous
99	Bangladesh	SCA	59.5	<div><div></div></div>	Mostly Unprosperous
100	Uzbekistan	SCA	59.2	<div><div></div></div>	Mostly Unprosperous
101	Libya	MENA	58.6	<div><div></div></div>	Mostly Unprosperous
102	Iran	MENA	58.4	<div><div></div></div>	Mostly Unprosperous

OVERVIEW					
Rank	Country	Region	Prosperity Score		Prosperity Status
103	Guatemala	LAC	58.3	<div><div></div></div>	Mostly Unprosperous
104	Botswana	SSA	58.2	<div><div></div></div>	Mostly Unprosperous
105	Egypt	MENA	58.2	<div><div></div></div>	Mostly Unprosperous
106	Kenya	SSA	58.2	<div><div></div></div>	Mostly Unprosperous
107	Honduras	LAC	58.0	<div><div></div></div>	Mostly Unprosperous
108	Nicaragua	LAC	57.5	<div><div></div></div>	Mostly Unprosperous
109	Equatorial Guinea	SSA	57.3	<div><div></div></div>	Mostly Unprosperous
110	Vietnam	EAP	57.0	<div><div></div></div>	Mostly Unprosperous
111	Bhutan	SCA	55.9	<div><div></div></div>	Mostly Unprosperous
112	Turkmenistan	SCA	55.1	<div><div></div></div>	Mostly Unprosperous
113	Iraq	MENA	54.9	<div><div></div></div>	Mostly Unprosperous
114	Namibia	SSA	54.8	<div><div></div></div>	Mostly Unprosperous
115	Cameroon	SSA	54.6	<div><div></div></div>	Mostly Unprosperous
116	Vanuatu	EAP	54.5	<div><div></div></div>	Mostly Unprosperous
117	Cambodia	EAP	54.2	<div><div></div></div>	Mostly Unprosperous
118	Tajikistan	SCA	53.7	<div><div></div></div>	Mostly Unprosperous
119	China	EAP	53.3	<div><div></div></div>	Mostly Unprosperous
120	Morocco	MENA	53.1	<div><div></div></div>	Mostly Unprosperous
121	Papua New Guinea	EAP	52.8	<div><div></div></div>	Mostly Unprosperous
122	Cote d'Ivoire	SSA	52.7	<div><div></div></div>	Mostly Unprosperous
123	Senegal	SSA	52.6	<div><div></div></div>	Mostly Unprosperous
124	Congo	SSA	52.5	<div><div></div></div>	Mostly Unprosperous
125	Gambia	SSA	52.5	<div><div></div></div>	Mostly Unprosperous
126	Nigeria	SSA	52.5	<div><div></div></div>	Mostly Unprosperous
127	Benin	SSA	52.4	<div><div></div></div>	Mostly Unprosperous
128	Malawi	SSA	52.0	<div><div></div></div>	Mostly Unprosperous
129	Zambia	SSA	51.9	<div><div></div></div>	Mostly Unprosperous
130	Liberia	SSA	51.6	<div><div></div></div>	Mostly Unprosperous
131	Nepal	SCA	51.4	<div><div></div></div>	Mostly Unprosperous
132	Tanzania	SSA	51.3	<div><div></div></div>	Mostly Unprosperous
133	Togo	SSA	51.2	<div><div></div></div>	Mostly Unprosperous
134	Ethiopia	SSA	51.1	<div><div></div></div>	Mostly Unprosperous
135	Zimbabwe	SSA	50.9	<div><div></div></div>	Unprosperous
136	Djibouti	SSA	50.4	<div><div></div></div>	Unprosperous

OVERVIEW					
Rank	Country	Region	Prosperity Score		Prosperity Status
137	Angola	SSA	50.4	<div><div></div></div>	Unprosperous
138	Laos	EAP	50.1	<div><div></div></div>	Unprosperous
139	Guinea-Bissau	SSA	50.1	<div><div></div></div>	Unprosperous
140	Sierra Leone	SSA	49.9	<div><div></div></div>	Unprosperous
141	Haiti	LAC	49.4	<div><div></div></div>	Unprosperous
142	Guinea	SSA	49.3	<div><div></div></div>	Unprosperous
143	Sudan	SSA	49.2	<div><div></div></div>	Unprosperous
144	Lesotho	SSA	49.2	<div><div></div></div>	Unprosperous
145	Madagascar	SSA	48.8	<div><div></div></div>	Unprosperous
146	India	SCA	48.8	<div><div></div></div>	Unprosperous
147	Rwanda	SSA	48.5	<div><div></div></div>	Unprosperous
148	Mauritania	SSA	48.3	<div><div></div></div>	Unprosperous
149	Uganda	SSA	48.2	<div><div></div></div>	Unprosperous
150	Pakistan	SCA	48.0	<div><div></div></div>	Unprosperous
151	Myanmar	EAP	48.0	<div><div></div></div>	Unprosperous
152	Comoros	SSA	47.9	<div><div></div></div>	Unprosperous
153	Democratic Republic of the Congo	SSA	47.3	<div><div></div></div>	Unprosperous
154	Burundi	SSA	45.6	<div><div></div></div>	Unprosperous
155	Mali	SSA	45.4	<div><div></div></div>	Unprosperous
156	Eritrea	SSA	44.9	<div><div></div></div>	Unprosperous
157	Syria	MENA	44.7	<div><div></div></div>	Unprosperous
158	Niger	SSA	43.1	<div><div></div></div>	Unprosperous
159	Burkina Faso	SSA	42.9	<div><div></div></div>	Unprosperous
160	Chad	SSA	41.2	<div><div></div></div>	Unprosperous
161	Mozambique	SSA	40.4	<div><div></div></div>	Unprosperous
162	South Sudan	SSA	40.0	<div><div></div></div>	Unprosperous
163	Afghanistan	SCA	39.0	<div><div></div></div>	Unprosperous
164	Yemen	MENA	37.3	<div><div></div></div>	Unprosperous

\*Regional Abbreviations:

EAP

East Asia & the Pacific

EUR

Europe

LAC

Latin America & the Caribbean

MENA

Middle East & North Africa

NA

North America

SCA

South & Central Asia

SSA

Sub-Saharan Africa

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# East Asia & the Pacific

Ambassador (retired) Kelley E. Currie

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East Asia & the Pacific: Regional Ranking

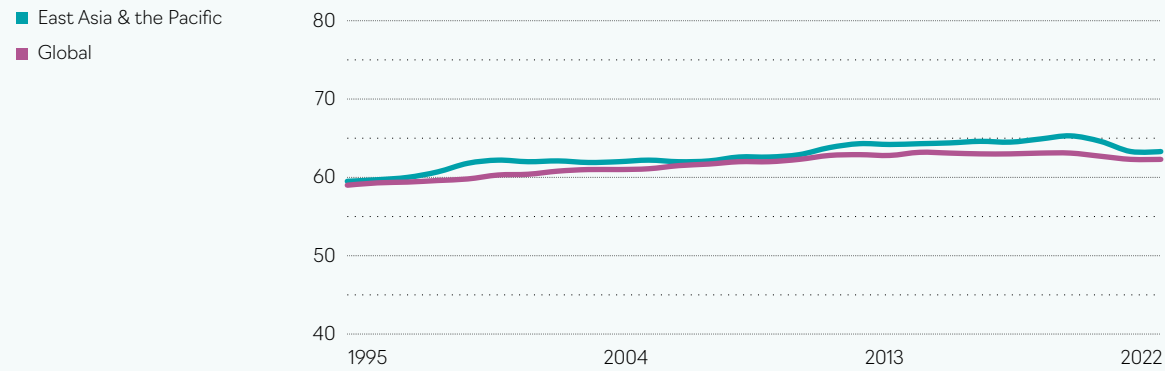
	Freedom			Prosperity		
	Rank	Score	Status	Rank	Score	Status
Australia	10	90.8	Free	3	91.7	Prosperous
New Zealand	11	90.6	Free	5	91.0	Prosperous
Japan	23	85.2	Free	22	82.3	Prosperous
Taiwan	27	83.2	Free	26	82.0	Prosperous
Singapore	33	80.9	Free	16	84.6	Prosperous
South Korea	34	80.6	Free	13	85.7	Prosperous
Mongolia	60	69.9	Mostly Free	78	64.6	Mostly Unprosperous
Indonesia	80	64.1	Mostly Free	98	59.8	Mostly Unprosperous
Vanuatu	83	63.7	Mostly Free	116	54.5	Mostly Unprosperous
Malaysia	87	61.9	Mostly Free	53	69.0	Mostly Prosperous
Papua New Guinea	96	59.0	Mostly Free	121	52.8	Mostly Unprosperous
Philippines	102	57.0	Mostly Free	80	64.1	Mostly Unprosperous
Thailand	116	51.1	Mostly Unfree	55	68.6	Mostly Prosperous
Vietnam	118	49.7	Mostly Unfree	110	57.0	Mostly Unprosperous
Laos	132	45.2	Mostly Unfree	138	50.1	Unprosperous
Cambodia	140	40.9	Mostly Unfree	117	54.2	Mostly Unprosperous
China	144	39.6	Mostly Unfree	119	53.3	Mostly Unprosperous
Myanmar	158	26.8	Unfree	151	48.0	Unprosperous

Countries are organized in descending order based on their Freedom scores, with "Rank" denoting global rankings.



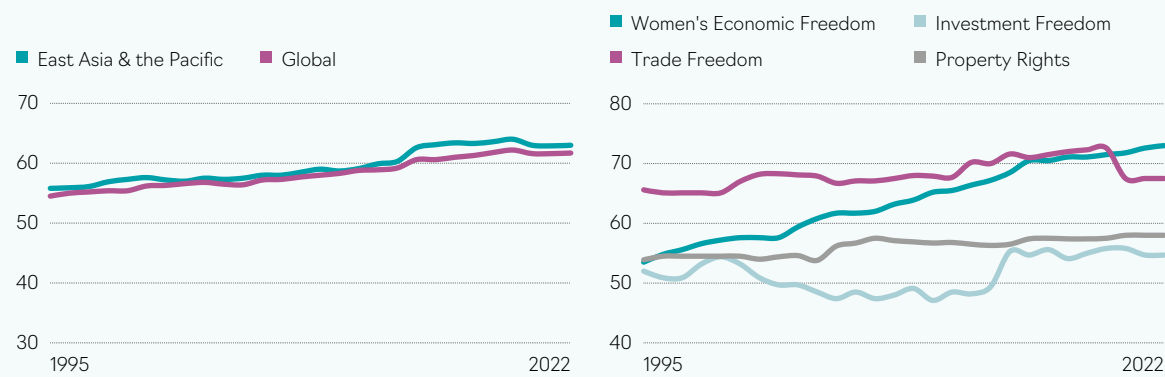
## Freedom Index

1995–2022



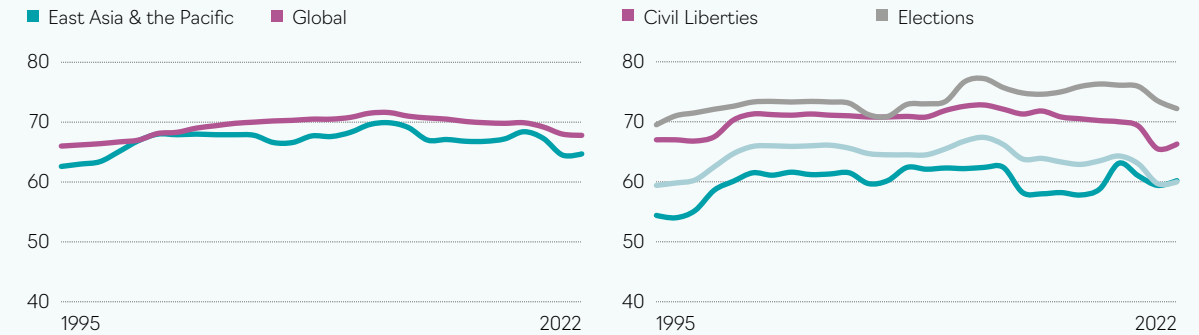
	2022		Change Since 2013	
	Region	Global	Region	Global
Freedom score	63.3	62.3	-1.3%	-0.8%
Economic Subindex	63.0	61.7	4.5%	4.2%
Political Subindex	64.7	67.8	-6.4%	-4.6%
Legal Subindex	62.4	57.3	-1.1%	-1.4%

## Economic Subindex



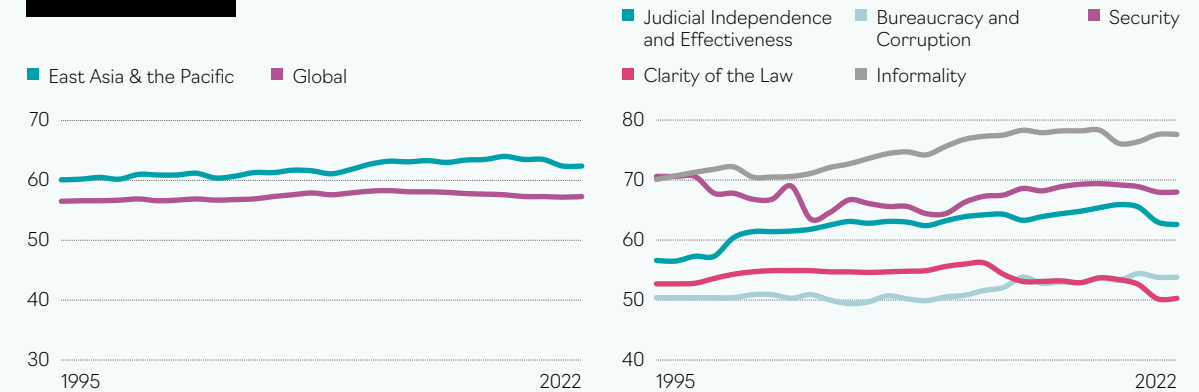
	2022		Change Since 2013	
	Region	Global	Region	Global
Women's Economic Freedom	73.0	72.4	8.6%	10.0%
Investment Freedom	54.7	59.6	10.7%	8.2%
Trade Freedom	67.5	65.2	-3.6%	-5.1%
Property Rights	58.0	51.2	3.0%	4.4%

## Political Subindex



	2022		Change Since 2013	
	Region	Global	Region	Global
Legislative Constraints on the Executive	60.2	58.3	-3.5%	-3.8%
Political Rights	60.0	67.0	-9.4%	-6.9%
Civil Liberties	66.3	69.6	-8.2%	-3.8%
Elections	72.2	76.2	-4.5%	-3.9%

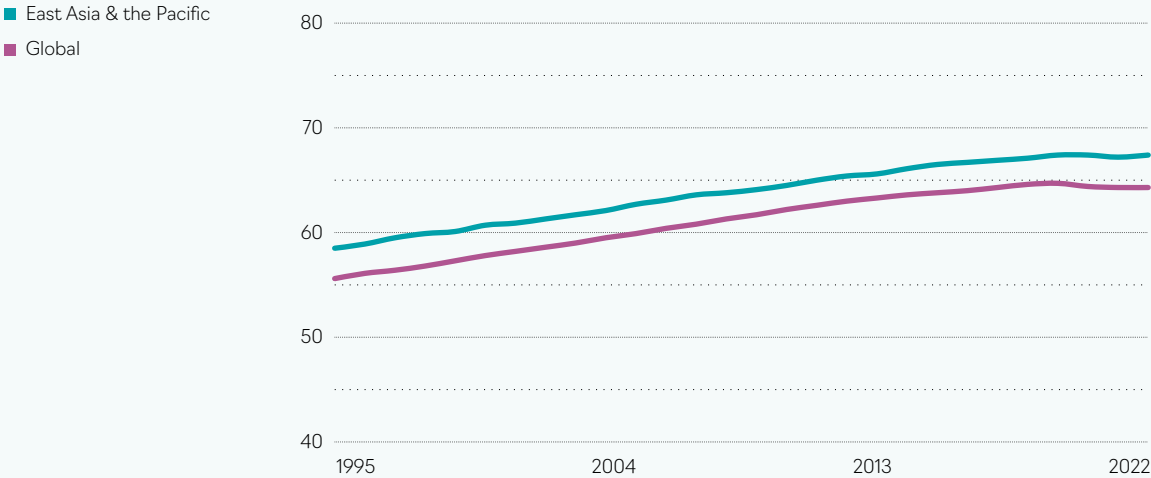
## Legal Subindex



	2022		Change Since 2013	
	Region	Global	Region	Global
Judicial Independence and Effectiveness	62.6	59.4	-2.7%	-1.9%
Bureaucracy and Corruption	53.8	45.3	3.2%	-0.3%
Security	68.0	60.2	0.7%	-1.4%
Clarity of the Law	50.3	52.5	-7.3%	-2.9%
Informality	77.6	70.2	0.1%	-0.2%

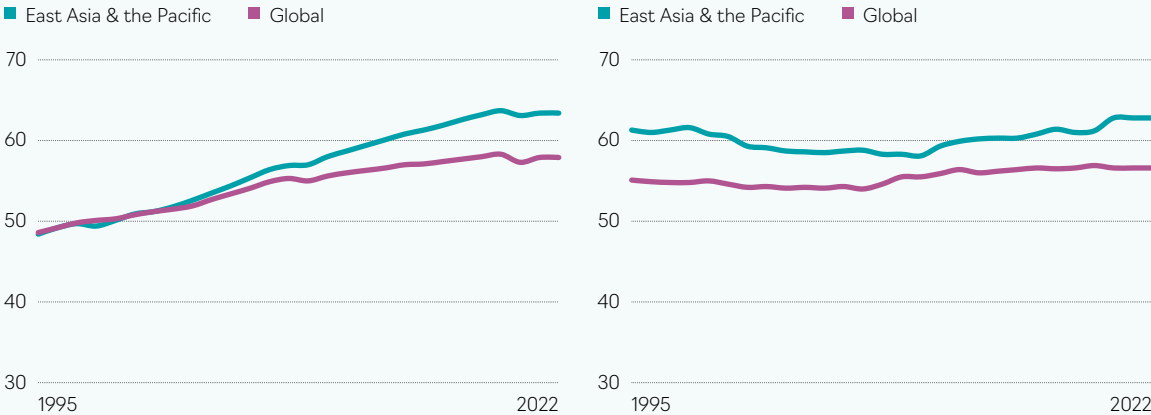
# Prosperity Index

1995-2022



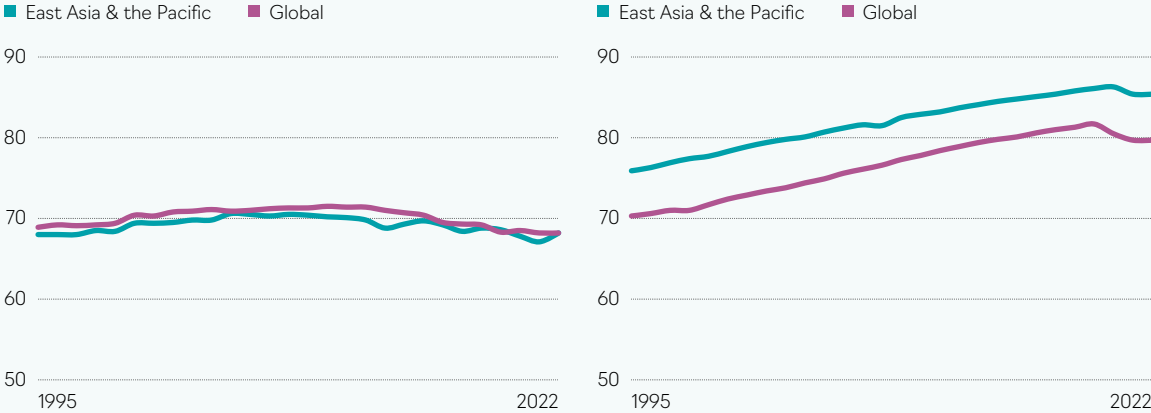
	2022		Change Since 2013	
	Region	Global	Region	Global
Prosperity score	67.4	64.3	2.7%	1.5%

## Income



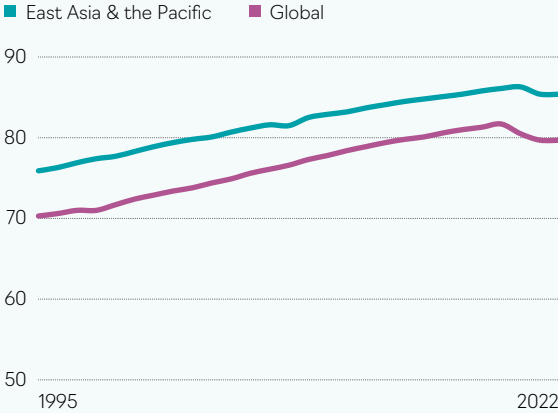
	2022		Change Since 2013	
	Region	Global	Region	Global
Income	63.4	57.9	5.6%	2.3%
Inequality	62.8	56.6	4.4%	0.9%

## Minority Rights

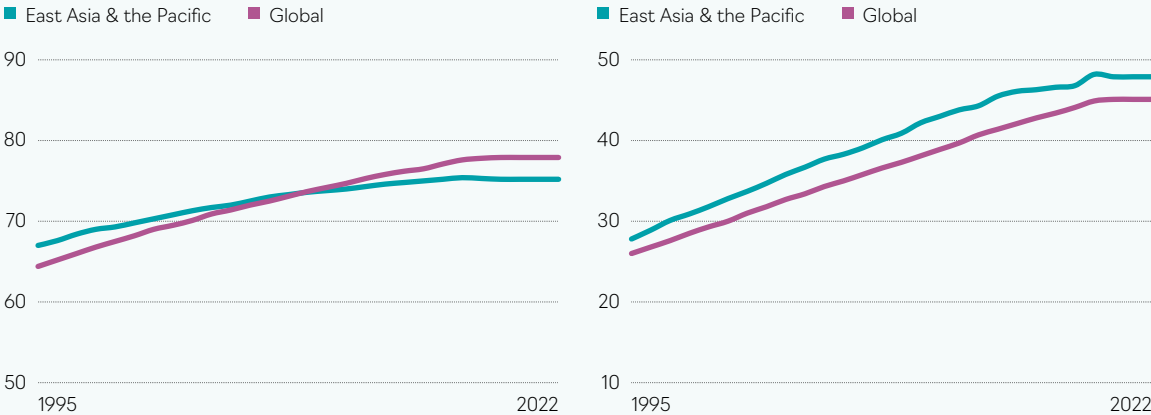


	2022		Change Since 2013	
	Region	Global	Region	Global
Minority Rights	68.2	68.2	-0.9%	-4.0%
Health	85.4	79.7	1.5%	0.4%

## Health

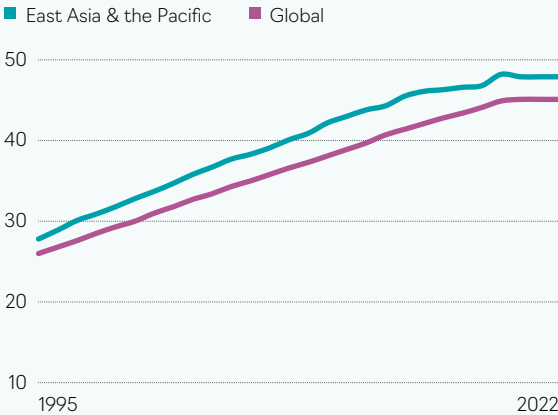


## Environment



	2022		Change Since 2013	
	Region	Global	Region	Global
Environment	75.2	77.9	0.8%	2.8%
Education	47.9	45.1	8.2%	10.8%

## Education



## Evolution of Freedom

The trends shown in the **Freedom Index** match some key historical events that impacted the region's trajectory. The wave of democratization that followed the Soviet Union's fall in 1988–89 peaked during the Asian financial crisis of 1997–98, before stagnating for several years afterwards. Despite, or perhaps because of Indonesia's transition to democracy in the years after 1998, the overall regional political picture remained relatively constant, with democratic nations sustaining their democratic status and authoritarian countries largely doing the same. This relative stasis led to a plateau in the Freedom Index between 2000 and 2010. The visible improvements in political and economic freedom from 2012 onward are attributable to the quasi-democratic transition in Myanmar, a country previously governed by a military junta for seven decades, as well as greater political dynamism in Malaysia and the region's overall continued economic liberalization.

The early 2000s also marked an era of substantial economic growth in China, accompanied by limited political liberalization. This trend toward liberalization has taken a dramatic downturn since 2013, which is associated with the rise of Xi Jinping as the paramount leader of China and his hardline approach to governance. This reversal, together with the 2021 coup in Myanmar, has exerted significant downward pressure on freedom across the region. This downward pressure, if weighted by China's economic and demographic size, would show up even more clearly on the Freedom Index during this period. It is also crucial to acknowledge that the aggregate figures may actually understate the extent to which overall regional freedom was and is under pressure due to China's internal policy shifts and its external influence over the democratic and economic development of neighboring countries.

On **economic freedom**, it is striking to observe the remarkable progress made on women's economic freedom, emerging as a significant positive trend within the broader context. This progress has been led by several countries that recognized the economic potential inherent in women's participation. This was a priority of the White House-led Women's Global Development and Prosperity Initiative—that I was a part of—emphasizing the benefits of enhancing female workforce involvement and dismantling regulatory barriers. Such measures were projected to foster substantial economic growth, and by some metrics nearly all economic growth in the region can be attributed to the dramatic increase in women's economic participation.

Comparatively, other factors like trade freedom, property rights, and investment freedom have shown only marginal improvements over the sample, underlining the pivotal role of women in propelling economic prosperity. This aspect becomes even more profound when considering the exponential economic growth experienced by these countries in the past thirty years. This warrants similar scrutiny to determine if this trend remains consistent on a global scale. There seems to be an undeniable correlation between women's participation in the workforce and the stimulation of economic growth and prosperity worldwide. While this trend is an overall positive one, given the regression of women's rights in China under Xi Jinping—a phenomenon that has accelerated in the past five years—we should expect to see a correlating loss of economic momentum across the region. Again, if these numbers were weighted by population and size of economy, China's regression would wipe out most—if not all—of the recent and projected gains made by other countries in the region.

Overall, recent developments in China reveal a concerning pattern of exerting downward pressure on women's rights, both politically and economically, in response to demographic challenges. This realization underscores the fragile nature of women's economic progress, particularly when subjected to external pressures or anti-freedom regulatory changes. The potential impact of these trends could manifest as a significant downward force, consequently jeopardizing decades of progress. The adverse implications could extend to critical areas such as poverty alleviation, health outcomes, environmental sustainability, and educational attainment for entire economies, given the historically strong correlation between these socioeconomic indicators and the economic advancement of women.

On **legal freedom**, the graph shows periods of marginal improvement followed by stagnation and subsequent regression. Notably, while there appears to be a regional convergence around "legal clarity" and "bureaucracy and corruption" between 2014 and 2018, China sees a sharp divergence on these two issues starting around 2014. These trends coincide with Xi Jinping's far-reaching anti-corruption campaign at home and the launch of the "Belt and Road" initiative abroad. This period also witnessed a simultaneous shift in China's legal landscape, namely the reversal of prior, admittedly modest, efforts to cultivate nominally independent judicial and legal institutions that were somewhat separate from the influence of the Chinese Communist Party (CCP). With China's explicit shift from "rule of law" to Xi's "rule by law" since 2013, law is increasingly utilized as a tool for the CCP to control people and institutions, rather than establishing an independent legal space. This reconsolidation of party control over state institutions wiped out twenty years of progress, with widespread consequences for the rule of law—particularly around the sanctity of contracts and other foundations of economic progress. This increasingly unpredictable legal and policy

environment in China has had economic consequences, including a dramatic decline in foreign direct investment and an increase in capital flight.

In many countries in the region, legal freedom is intricately linked to **political freedom**, particularly in nondemocratic nations. Several of the region's economies have attempted—with varying degrees of success—to disaggregate economic freedom from political freedom while maintaining a stable and predictable business climate. Singapore is by far the most successful example, but its success is generally considered an anomaly attributable to its small size and the highly competent nature of its ruling elite. Singapore's long-ruling People's Action Party (PAP) prizes the country's reputation as a rule-of-law jurisdiction that maintains high standards and predictability in its banking, legal, and other economically important sectors. It is also worth noting that Singapore has benefited from a loss of confidence in Hong Kong as a regional financial hub. Even as the PAP has allowed a greater degree of personal freedoms in recent years—and maintains the formal aspects of democracy, such as multiparty elections and a functioning legislature—the Lee family dynasty continues to wield enormous influence on politics and policy. By contrast, in Myanmar, promising economic reforms that spurred dramatic economic growth during the 2012–21 "hybrid period" were also aimed at undoing decades of mismanagement by successive military regimes that ruled through extraction, corruption, and violence. Since the February 2021 coup however, the combination of political repression and armed conflict in Myanmar, together with the return of extractive military mismanagement of the economy, has wiped out a decade of substantial economic growth and plunged the country backwards across all freedom and prosperity metrics.

On security, the anomalies in certain periods can be attributed to global events such as the "war on terrorism" which drove legal uncertainties in countries like Indonesia and Malaysia. The



period between 1998 and 2002 witnessed particularly intense geopolitical shifts in the region, including the establishment of Timor-Leste and Indonesia's overall positive trajectory. However, while there have not been similarly earth-shaking transitions in recent years, the region has experienced an increased level of volatility from military

coups in Thailand and Myanmar, political disruption in the Philippines and Malaysia, increasing authoritarianism in Cambodia, and China's military adventurism towards Taiwan and grey-zone antagonism in the South China Sea, all of which have negatively influenced the overall political and legal landscape.

## From Freedom to Prosperity

Consistently maintaining a 3-point lead over the global average in terms of overall **prosperity** from 1995 to 2019, the East Asia & the Pacific region has shown a remarkable level of economic resilience despite an often tumultuous political environment. With significant progress since the early 2000s, the average income score in the region has surged, positioning the region 5.5 points ahead of the global average by 2022, when the two had been roughly equal in the year 2000.

But it is also worth noting that, despite the frequent invocation of "the East Asian miracle," the overall prosperity score for the region is parallel to the global trajectory, displaying a proportionate trend rather than a significant disparity. We know that over the past three decades China alone has contributed close to three-quarters of the overall global reduction in the number of people living in extreme poverty, but looking at overall prosperity brings a new light to that progress in the region. As in other regions, there is a complex interplay between economic growth, inequality, educational attainment, and minority rights that defies easy categorization or explanations.

As we see in the data, rapid economic expansion in nondemocratic countries can lead to progress on education and health indicators, but often coincides with growing income inequality. Environmental sustainability also appears to be a critical area for attention, as the region shows much slower progress than the global average

on the environment indicator. This issue deserves a greater focus given the region is home to some of the largest and fastest-growing carbon emitters in the world and some of the planet's most important and vulnerable areas for biodiversity, climate risk, and the blue economy.

The region also features a notable trend in the context of minority rights, where we see a lot of fluctuation. After a significant positive surge in recognition and protection following the end of the Cold War and the dissolution of the Soviet Union, events such as the 9/11 attacks, the war on terrorism, and global financial crises appear to have contributed to periods of stagnation and eventual regression. While international efforts to bolster human rights mechanisms focusing on minority rights intensified, the global trend in terms of actual *impact* remained mostly negative, and we see only minimal and isolated improvements in the region. Yet a closer examination reveals the intrinsic connection between minority rights and inequality. Looking at these two indicators together allows for a more nuanced understanding of the challenges faced by marginalized groups within societies experiencing rapid economic prosperity, and raises a number of interesting questions about sustainability and internal stability for both developing and developed countries in the region.

On education, the fact that the region is in line with the global trend is surprising, and could be considered something of a failure for a region

that has been prioritizing progress on educational attainment for decades. Understanding this phenomenon would require a more nuanced evaluation

of the region's educational policies and practices, as well as the impact of social mobility and other economic factors.

## The Future Ahead

The impact of China's actions within and beyond its borders holds significant sway over the political and economic dynamics of the region. While the unweighted data offers a tantalizing glimpse of this impact, a weighted analysis that reflected China's economic and demographic heft would likely further reveal its profound influence on political and economic freedoms across East Asia & the Pacific. The practices emerging from the People's Republic of China, particularly the establishment of Beijing-facing economic infrastructure along the Belt and Road, contribute to a discouraging feedback loop. China's mercantilist approach, both in its direct relationships with other countries and as articulated in Xi Jinping's Global Development Initiative, is clearly geared towards replicating China's securitization of governance and its state-led model of economic development across China's near abroad. While other regional powers such as Japan, South Korea, and Australia are attempting to push back on this overall trendline—and there are indications that China's economic weakness may inhibit its ability to project both power and ideology going forward—the sheer mass and momentum of the past decade's efforts will continue to impede the expansion of freedom in the region.

One powerful force that could potentially counteract Beijing's authoritarian trend is the persistence and consistency with which the region's youth population has demonstrated its rejection of authoritarian governance models. From the revolution in Myanmar to the uprising in Hong Kong, and the May 2023 electoral results in Thailand, there has been a clear regional demand from young people for more responsive political systems and

more sustainable and equitable growth. This youth wave dovetails with the region's vulnerability to climate-related challenges, notably in Pacific Island states and littoral nations affected by extreme weather events, and many are calling for a concerted focus on environmental preservation and pragmatic solutions. Beyond the existential threats faced by the most vulnerable states, the general pursuit of cleaner air and water, fewer plastics, lower carbon emissions, and protection of biodiversity, has gained momentum across societies in the region as they progress, modernize, and move up the value chain.

Persistent challenges such as inequality, weak protection of minority and women's rights, underdeveloped political institutions, endemic corruption, and regression in the rule of law are likely to continue to impede the region's pursuit of both freedom and prosperity. While China's influence contributes to these challenges, its success is largely derived from taking advantage of long-standing institutional weaknesses within individual countries. The persistence of weak institutions in developing Asian countries, despite substantial aid from various international donors and entities over a period of decades, deserves greater attention. Internal political instability, highly consequential elections, and ongoing armed conflicts within the region add further pressure, creating an environment of uncertainty and turbulence.

The slow growth of prosperous mature economies like Japan, Australia, and South Korea, coupled with the struggles of middle-income and low-income countries, underscores the need for

diversified economic strategies toward this complex region. The persistent downward pressure on political freedom likewise highlights the imperative for stable democracies and allied partners to prioritize reinforcement of effective and pluralistic governing institutions in the region. Acknowledging the time and effort required to build political and economic resilience is crucial, especially in anticipating and effectively managing a potential conflict over Taiwan. The global implications of such a conflict are vast, as are the threats to regional and global stability and prosperity posed by the rogue regime in North Korea.

The more stable Southeast Asian countries continue to struggle with efforts to evade the middle-income trap. Recent trends in supply chain diversification away from China could prove to be an important opportunity for countries like Indonesia, Thailand, Vietnam, and Malaysia. This diversification has opened up new prospects for these countries, leading to an increasing focus on value-added production. Notably, countries such

as Indonesia are actively striving to enhance their domestic production capabilities and move up the value chain, reducing reliance on the export of raw materials and commodities to China. This shift has garnered interest from affluent countries in the region, including South Korea, Japan, and Australia, which are extending support in critical areas such as critical minerals supply chain capabilities.

Amidst these developments, it is evident that positive economic prospects persist, although the sustained pressure on political freedom remains a concern. As such, stable and prosperous democracies in the region, along with their allied regional and global partners like the United States, Europe, and Canada, must continue their concerted efforts to strengthen institutions within these countries. It is crucial to recognize that progress in this domain may not be immediately visible, but the resilience and robustness of these countries' institutions when faced with inevitable pressures and shocks—whether of the “black swan” or “grey rhino” variety—will be the ultimate measure of success.

**Amb. (ret.) Kelley E. Currie**

Kelley E. Currie is a nonresident senior fellow for the Atlantic Council’s Freedom and Prosperity Center and Scowcroft Center for Strategy and Security. She is also a founding partner of Kilo Alpha Strategies, a boutique geopolitical advisory firm. In addition, she currently serves as a senior adviser to the Krach Institute for Tech Diplomacy at Purdue University and as a member of the board of directors of the National Endowment for Democracy, the board of governors of the East-West Center, and the advisory boards of Spirit of America and the Vandenberg Coalition.

# China

Johanna Kao

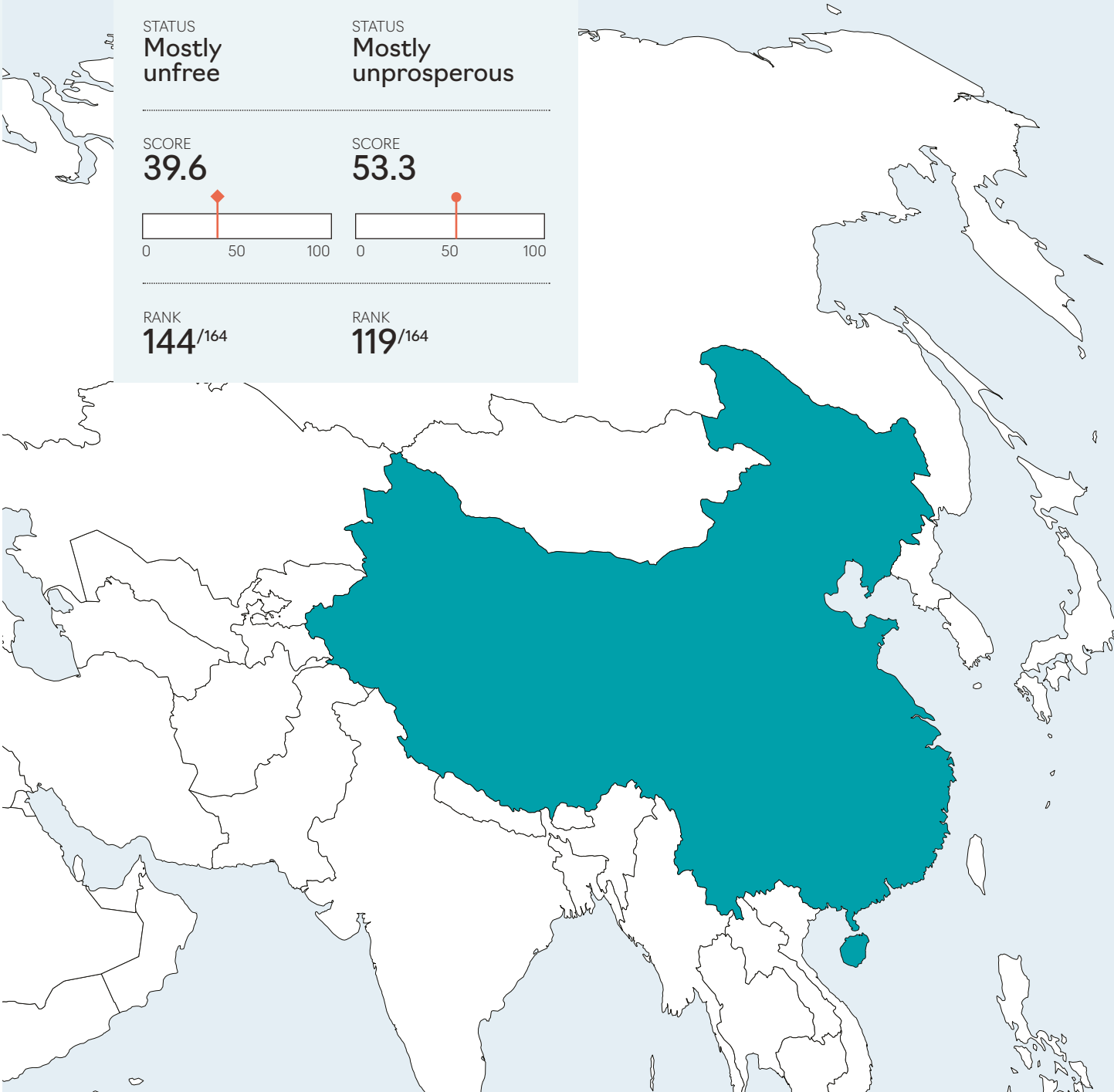
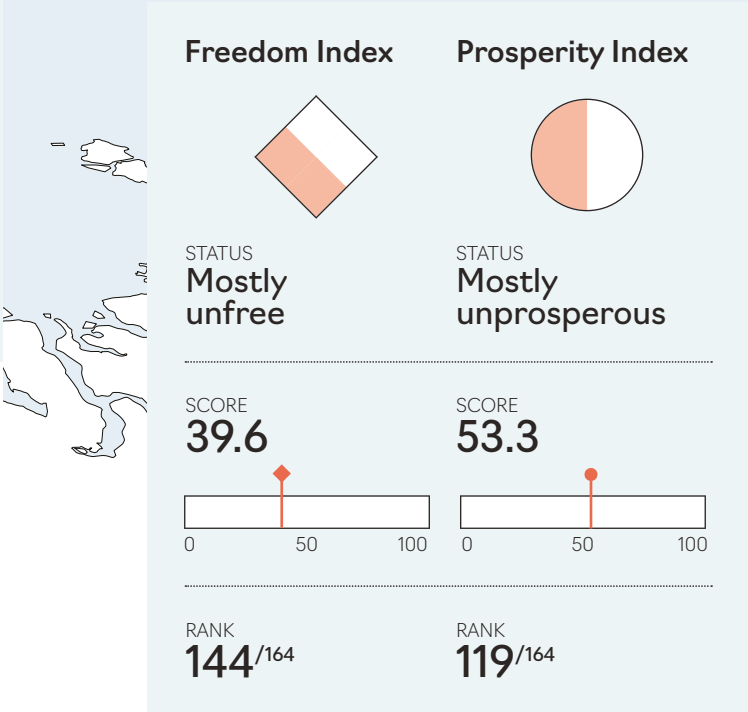
## Socioeconomic Data 2022

### General Information

POPULATION	LIFE EXPECTANCY (2021)
1,412.2 million	78 years
RELIGION (2010)	ETHNIC FRACTIONALIZATION (2013)
Unaffiliated → 52.2%	0.19
Folk → 21.9%	
Buddhist → 18.2%	

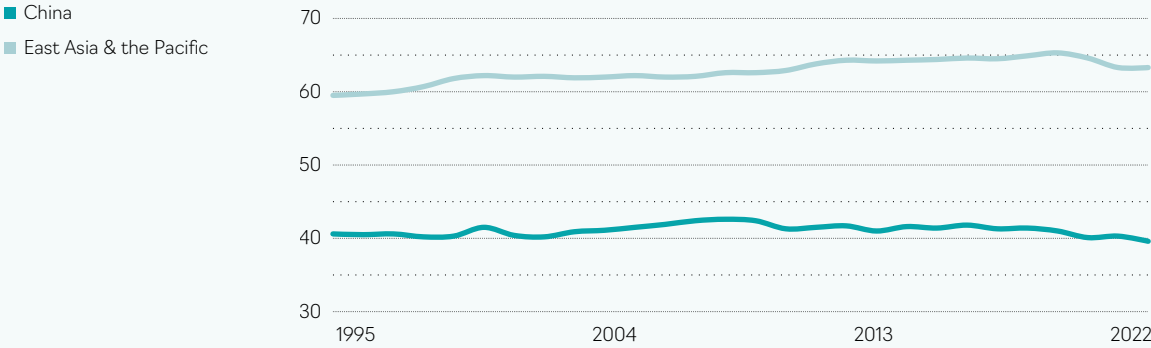
### Economic Data

GDP PER CAPITA	INFLATION (2016)
18,188	2.0%
% of US GDP pc → 28.1%	
GDP pc Growth → 3.0%	
DEPT/GDP (GENERAL 2021)	TRADE/GDP
71.5%	38.1%
UNEMPLOYMENT (2021)	
5.1%	
SECTORAL ALLOCATION	
Agriculture → 7.3%	
Industry → 39.9%	
Services → 52.8%	
GINI COEFFICIENT (2020)	
41.4	



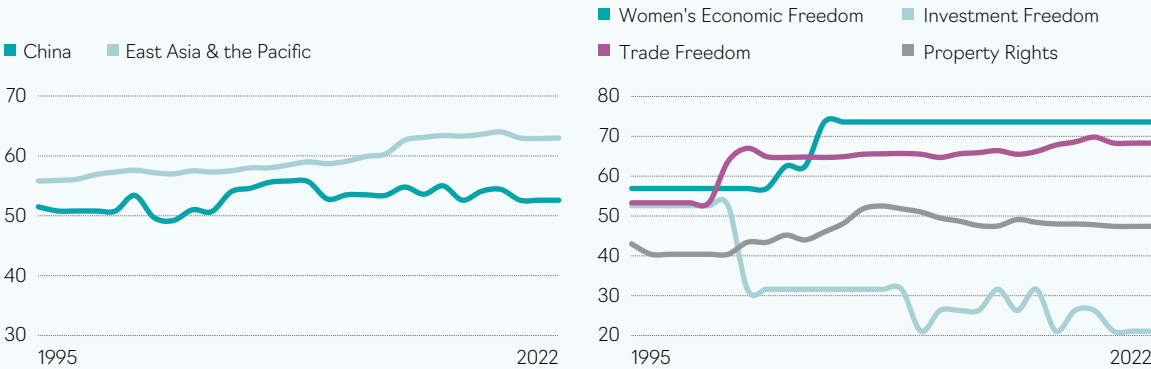
Freedom Index

1995-2022



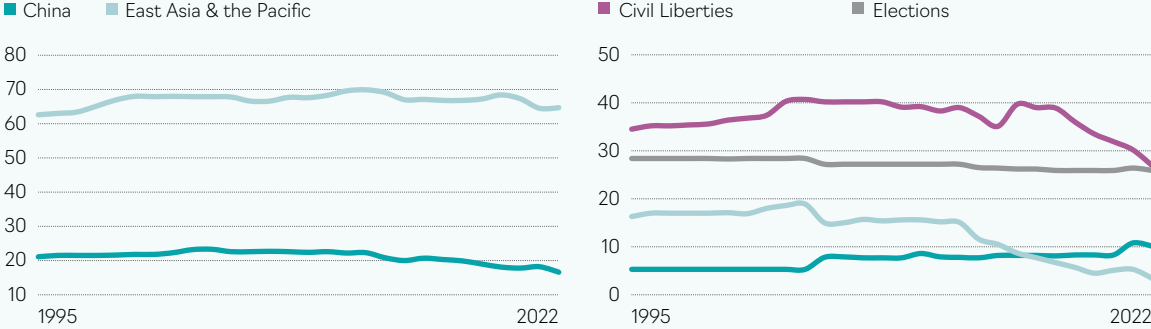
	2022		Change Since 2013	
	China	Region	China	Region
Freedom rank	144	-	-1	-
Freedom score	39.6	63.3	-3.5%	2.7%
Economic Subindex	52.6	63.0	-1.5%	4.5%
Political Subindex	16.6	64.7	-20.0%	-6.4%
Legal Subindex	49.6	62.4	1.2%	-1.1%

Economic Subindex



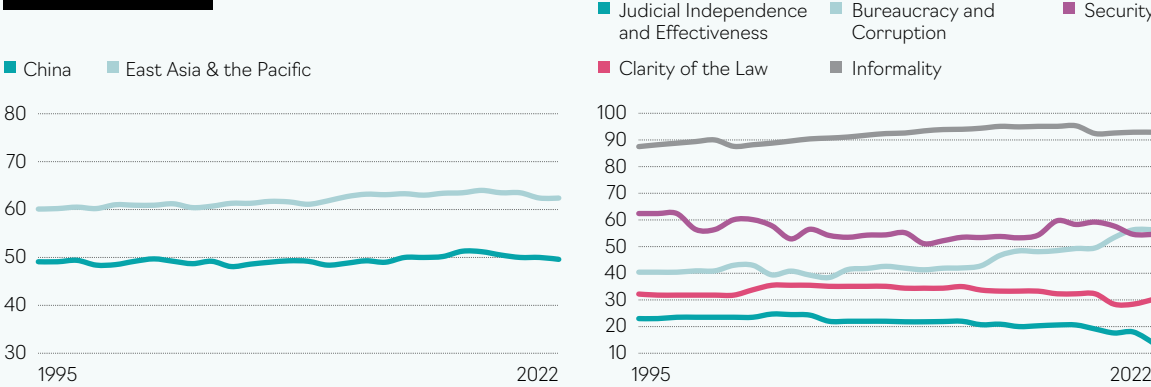
	2022		Change Since 2013	
	China	Region	China	Region
Women's Economic Freedom	73.6	73.0	0.0%	8.6%
Investment Freedom	21.1	54.7	-20.0%	10.7%
Trade Freedom	68.3	67.5	3.6%	-3.6%
Property Rights	47.4	58.0	-0.6%	3.0%

Political Subindex



	2022		Change Since 2013	
	China	Region	China	Region
Legislative Constraints on the Executive	10.1	60.2	32.1%	-3.5%
Political Rights	3.4	60.0	-70.8%	-9.4%
Civil Liberties	26.9	66.3	-27.5%	-8.2%
Elections	25.9	72.2	-2.3%	-4.5%

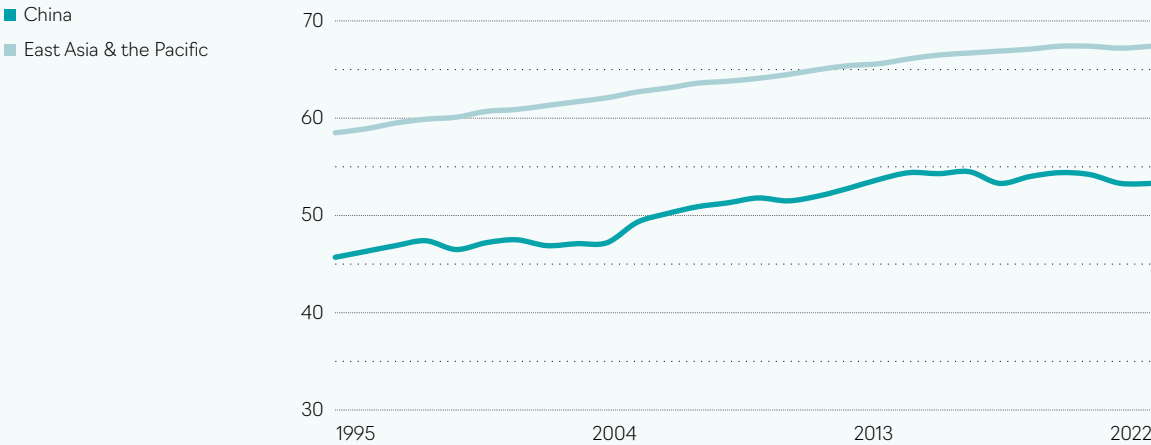
Legal Subindex



	2022		Change Since 2013	
	China	Region	China	Region
Judicial Independence and Effectiveness	14.1	62.6	-32.2%	-2.7%
Bureaucracy and Corruption	56.3	53.8	31.6%	3.2%
Security	54.6	68.0	2.3%	0.7%
Clarity of the Law	30.1	50.3	-10.9%	-7.3%
Informality	92.9	77.6	-1.6%	0.1%

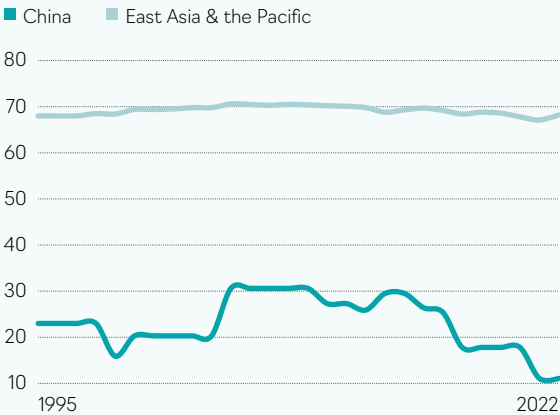
Prosperity Index

1995-2022



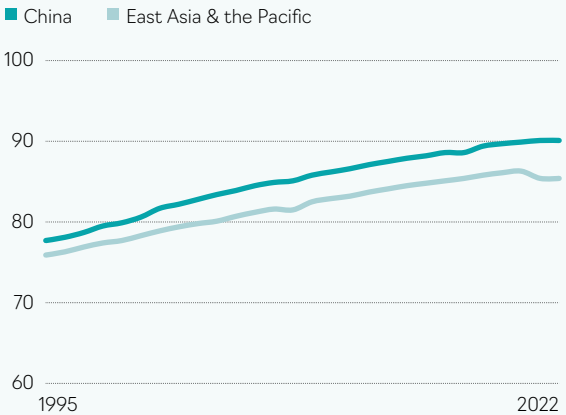
	2022		Change Since 2013	
	China	Region	China	Region
Prosperity rank	119	-	-7	-
Prosperity score	53.3	67.4	-0.8%	2.7%

Minority Rights

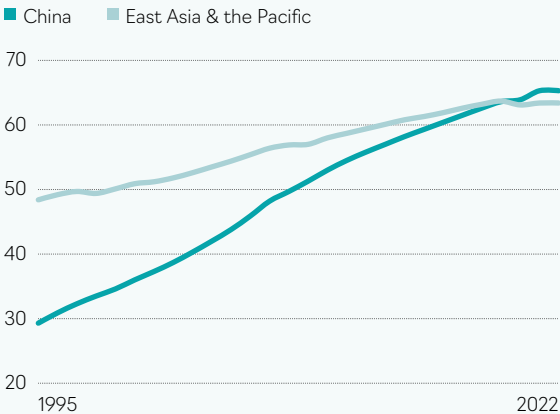


	2022		Change Since 2013	
	China	Region	China	Region
Minority Rights	11.1	68.2	-62.5%	-0.9%
Health	90.1	85.4	3.0%	1.5%

Health

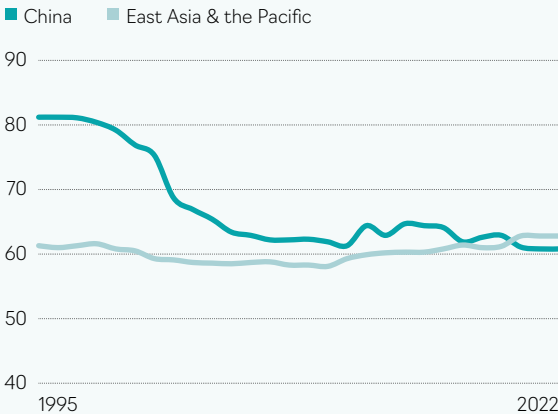


Income

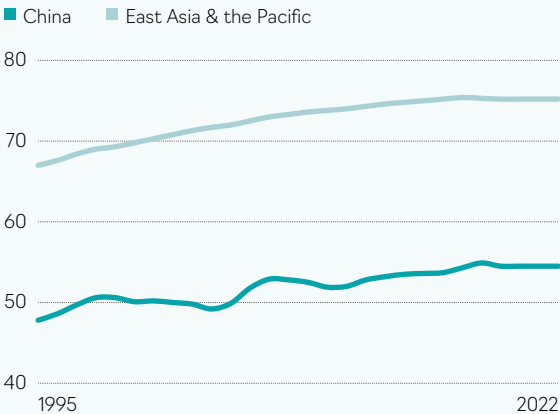


	2022		Change Since 2013	
	China	Region	China	Region
Income	65.3	63.4	14.6%	5.6%
Inequality	60.8	62.8	-3.4%	4.4%

Inequality

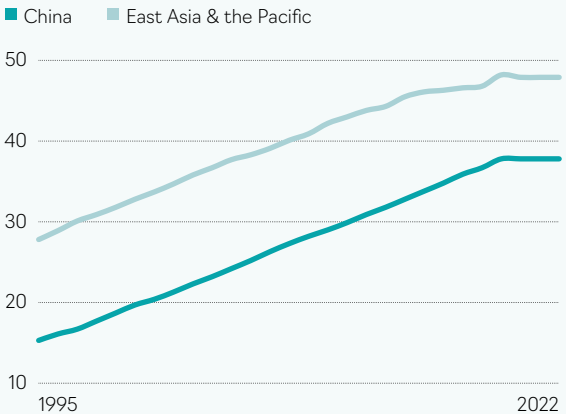


Environment



	2022		Change Since 2013	
	China	Region	China	Region
Environment	54.5	75.2	2.5%	0.8%
Education	37.8	47.9	18.7%	8.2%

Education



## Evolution of Freedom

Examining the **Freedom Index** overall, which combines economic, political, and legal freedom subindexes, the differences between China and the rest of the region are striking: not only does China underperform compared to the regional average (in 1995, the beginning of the Index, China's freedom score was just over 40 compared with just under 60 for the East Asia & the Pacific regional average) but it shows an overall decline in freedom over the Index time span. Overall freedom improved slightly between 2000 and 2009, but since President Xi Jinping took office in 2013, it has been slowly declining.

Consideration of freedoms in China needs to be put in some context, since much of the movement on the Freedom Indexes reflects tensions between the Chinese Communist Party's (CCP's) efforts to promote economic growth and its need to manage social dissent. The first decade of this century saw an intense focus on economic growth in China, in which the government undertook significant and rapid economic reforms to liberalize the economy. For example, prior to these reforms practically all Chinese industries were state-owned. Chinese leaders realized the economic gains to be made from privatizing China's industries and enabling foreign joint ventures. China's admission to the World Trade Organization in 2001 provided another huge economic boost. The country's export-driven economic development flourished because of its preferred trading status with—and then integration into—most of the major world economies.

The first period on the graph, from 1995 to roughly 2010, which shows gradual improvement on the Freedom Index, tracks closely with this period of economic growth. State control over citizens' private lives decreased, while many citizens experienced dramatically improved standards of living. In stark contrast to an earlier era of state-controlled housing assignments and goods allocations,

everything from housing to basic commodities to healthcare became available in commercial markets.

Chinese civil society, which had not really existed before 2000, began to expand during this time as well. From the time of the founding of the People's Republic of China (PRC) in 1947, citizens and government operated under a system of social management known as “the iron rice bowl,” under which the CCP and the government provided for all of the needs of citizens from cradle to grave, and also controlled all aspects of people's lives. As a result, throughout most of the 1990s, there were virtually no nongovernmental organizations operating in China. However, around 2001, China's economic liberalization began to affect the country in multiple ways. Economic success and prosperity empowered Chinese citizens with more access to information. Citizens became more confident in themselves and less reliant on the government as they began to realize that the government either was not taking care of, or could not take care of, all their needs. Chinese civil society organizations (CSOs) emerged in part because the government's promise of the “iron rice bowl” became impossible to fulfill; these CSOs became a channel for people to both voice their discontent and develop solutions to the challenges they faced.

Between 2000 and 2008 was a dynamic period, especially in terms of civil society. People began to voice their needs, priorities, and grievances, pushing back against the party's controls. During this time, though the CCP ostensibly controlled nearly every aspect of life, the system allowed for some experimentation. Local officials, tasked with achieving ambitious economic targets while maintaining social order, and beyond the scrutiny of the center, realized they had considerable room for flexibility. For nearly a decade, local officials experimented with a range of approaches, such as increasing women's participation in politics, participatory

budgeting and other types of local governance reform, and opening limited space for public advocacy on some issues. This was no golden age: restrictions persisted and controls were particularly oppressive for China's ethnic minorities and people living in Tibet and Xinjiang. However, the period marked a gradual increase in overall freedom in China. It corresponded with a time when ordinary Chinese citizens had a greater say in decisions affecting their daily lives. Civil society activity combined with local governments' eagerness to deliver economic targets created space in which people could associate, voice their concerns, and even actively seek redress from the government, such as compensation for losses in land disputes.

Around 2008–09, a number of events were precursors to a significant shift in the CCP's approach that had an impact on political freedoms: the 2008 Sichuan earthquake, the Beijing Olympics, and an impending change in the senior leadership of the party. While the party continued to prioritize economic growth, its actions indicated an intention to limit growth and openness to only that sector, and to reassert party control of the social and political space, particularly at the grassroots level. Post-Olympics, there was a noticeable decline in enthusiasm for direct external influence in China. Avenues for free expression and civil society began to systematically close, and new laws restricting civil society activities emerged.

Overall, it is striking how, despite massive economic advancement, China achieved very little progress in overall freedom during this period. When these data are compared to the East Asia & the Pacific regional average, China's performance is truly underwhelming. The CCP missed the opportunity to leverage China's economic growth to bring substantial improvements in the lives of its people and across various indices.

The Index shows a very modest aggregate increase in **economic freedom** from 1996 to 2022. Economic freedoms increased quite dramatically from about 2002 to 2008. The relatively higher

score on economic freedoms in China, compared to political and legal freedoms, corresponds with the government's focus on economic development during this period, as described above, and the challenge faced by the CCP in maintaining its previous systems of control. As noted earlier, the privatization of state-owned industries, combined with newly opened commercial markets, provided Chinese citizens with a range of choices not previously available to them. Other factors contributing to the positive trend during this period included the protection of property rights and an increase in women's economic freedom. Two things are striking in the data: First, after a sharp decline in overall economic freedom around 2009–10 (corresponding with the global financial crisis), economic freedoms did not reemerge—even as the Chinese economy grew to be the second largest in the world after 2010; Second, three of the four economic freedom trend lines remained quite static for several years after about 2004. Despite astounding economic growth, there was no significant subsequent change in the trajectory of economic freedom. This lack of progress is indeed noteworthy.

In terms of **political freedom**, China starts on a lower score than for economic freedom, then remains relatively static until a sharp and consistent decline after Xi Jinping assumed power in 2013. It is worth noting the trends among the four indicators of the political freedom score; until about 2005, they each remain static or show modest improvements. After 2005, only legislative constraints on the executive improves while the other scores decline, civil liberties and political rights dramatically so. These trends again reflect the CCP's manipulation of citizens' rights to serve the party's broader need for social control. As economic growth accelerated from the mid-1990s, the central government faced challenges in fulfilling the promise of the “iron rice bowl,” and had to delegate authority to local officials who themselves lacked clear solutions. The need for solutions to growing social challenges provided an opening for

the rise of an independent civil society in China. The slight increases in the scores for civil liberties and political rights until 2005 reflect the extent to which ordinary citizens took matters into their own hands, working within their communities and networks to address local issues. This approach served the CCP's needs: People saw solutions being delivered, which reduced discontent. The party could showcase its fulfillment of promises to provide support from cradle to grave. And the whole process served as a release valve for societal pressures, such as increasing inequality.

However, this level of agency by citizens became untenable to the CCP, because it posed a threat to the party's legitimacy and thus its level of control in the broader society. The fate of local elections in China exemplifies how this situation was handled by the center. The CCP had tolerated limited elections at the village level as part of the era of experimentation, but ultimately became concerned that this channel for popular opinion posed a threat to party power. Couching its concerns in nationalism and relying on long-standing suspicion of outside influence, the CCP branded elections as a foreign concept imposed on China with the purpose of destabilizing the country. As it sought to address internal threats to its authority, the CCP closely watched external developments as well, reacting strongly to the "color revolutions" that were altering the political landscape in Eastern Europe. By the mid-2000s, the party determined that the color revolutions stemmed from domestic CSOs manipulated by foreign actors, and determined to block this threat in China. The CCP instructed local authorities to regain control of the activities of CSOs, sharply reducing the civic and political space. Once Xi assumed power in 2013, the antagonism of the CCP to civil society in general, and its anxiety about the influence of "Western liberal ideas," was articulated to party officials in an instruction known as "Document No. 9". The CCP began to redefine the idea of civil society: no longer was it to be independent and separate from government, but instead it became a sector that

was required to meet specific government criteria. The introduction of laws around nongovernmental organizations in 2017 further tightened the space, specifically banning political and religious organizations that did not meet government approval, and creating limitations that left little space for independent civil society to function.

While the practice of rule of law in China has generally improved over the period of review, **legal freedom** has always been harnessed to serve the political goals of the CCP. The Chinese government has been particularly successful in using the legal system to support its political objectives, and will revert to "rule by law" when necessary. There were glimpses of judicial independence and effectiveness in the 1990s, largely as part of broader experiments occurring during that time. In particular, the CCP was aware that trust in the legal system played a crucial role in economic development. China's early legal experiments aimed to address important questions: How could China achieve economic growth? And how could it attract companies and reassure people that China was a favorable place for doing business and supporting economic development? Yet even within the awareness of the need to foster legal trust, the party's interpretation of the law always took precedence.

The tightening of control by the CCP over various aspects of civic and political life from the mid-2000s also affected overall legal freedoms. The modest improvement in the corruption score reflects ongoing efforts by the party to address this issue. Corruption was a significant concern at all levels in China, touching almost all aspects of peoples' daily lives and well-being. The party recognized this as "low-hanging fruit" and made tackling corruption a priority. With ample space to work at the local level, they aimed to bring this under control, resulting in positive outcomes. However, even this social good serves the CCP's political ends, as seen in the most recent anti-corruption campaign targeting entrepreneurs such as Jack Ma, whose wealth and independence posed a threat to the party's authority. Regarding security, it is notable

that, while China devotes significant resources to its domestic security, the overall score on this indicator has remained unchanged. Despite the extensive use of surveillance technology to control the potential for political violence and terrorism, Chinese society remains restive. Official metrics

present the appearance of security and stability, but ignore the underlying discontent, evidenced by the thousands of protests that occur regularly in China. This unrest does not imply complete insecurity, but it underscores the complexity of maintaining social order in the country.

## From Freedom to Prosperity

The data show that overall prosperity in China gradually increased until about 2014, after which it has remained basically static. Unsurprisingly, the most dramatic and sustained improvement has come in economic prosperity, with the data on income reflecting the country's rapid economic growth. This should be recognized as a remarkable achievement by the CCP and the Chinese people. However, the reality is more complex, since this impressive aggregate achievement obscures the stark inequalities within the country that the data manifest in different ways. China's economic growth has been uneven as urban areas were given priority and preferential treatment over rural areas. This has caused great and growing inequality; while gross domestic product (GDP) per capita may average out to an appearance of growth due to the immense scale of the Chinese economy, beyond the major cities and coastal areas China is a nation where many people still face significant poverty. And it is not only on economic metrics that China's population experiences inequalities. The data from other charts underscore how disparities persist across different segments of the population. For an individual who falls outside the party's accepted norms—such as belonging to a religious or ethnic minority group—quality of life is significantly worse than for the average person. While lack of progress on various forms of freedoms might be explainable by the party's instincts to restrict liberties to maintain social controls, the inability of the CCP to deliver more equitable prosperity to all its citizens seems a squandered opportunity.

For minority rights, while the Indexes only use religious discrimination as a proxy, broader classifications of "minority" would likely reflect similar trends. Looking at the trends on religious freedom, the modest improvements seen until about 2008 diminish considerably to the present day. Since the founding of the PRC, the CCP has made concerted efforts to assimilate religious communities, which has had a significant impact on the rights and well-being of religious minority groups. While the Chinese Constitution guarantees freedom of religion, in practice the party implements a "Sinicization" of religion, requiring that religious groups adhere to the prescribed rules and guidelines set by the state. This approach means that the state exerts considerable control over religious practices, limiting the freedoms and rights of religious minorities. The CCP utilizes a range of interventions, primarily using state-controlled religious organizations to redefine how religious practices are conducted, including censorship of religious texts, and managing how religious leaders are chosen. Deviations from the prescribed framework are met with reprisals such as closure of places of worship, harassment, and detention. The systematic detention of one million Uyghurs in "reeducation centers" in the Xinjiang Uyghur Autonomous Region represents the most extreme example of the CCP's efforts to control the cultural and religious identities of minority groups.

The provision of healthcare in China is one of the few measures in which the PRC has outperformed its regional peers. The party included

healthcare as part of the services that the state provided under the concept of the “iron rice bowl.” Starting from a low baseline, the PRC experimented with a variety of approaches to improve the quality of and access to health across the country, including the use of “barefoot doctors” at the rural level. Improving healthcare and access to medical services was a relatively straightforward way for the party to demonstrate its dedication to the well-being of its citizens; reforms introduced in the early 2000s expanded healthcare coverage to almost all Chinese people. However, the PRC’s healthcare system must still serve the party’s interests: the suppression of information and miscommunication about the early phase of the coronavirus outbreak in 2019 revealed ongoing systemic flaws in the country’s health services. Persons with disabilities and those living with mental health disorders remain underserved in most of the country.

China’s environment score reflects another issue on which the country has seen only limited improvement, despite the leadership’s grand commitments in policy and its investment in green technologies. China signed the 2015 Paris Agreement on climate, and the government expressed its intent to address environmental issues, including through pledges to cut emissions. However, the negative effects on citizens of pollution and environmental degradation result in ongoing protests and petitions against the government at all levels. There has been a significant crackdown on environmental activists and against any efforts to highlight environmental problems.

CCP officials also seek to “manage” environmental indicators to suit the party’s needs. One striking example of this occurred during the 2008 Beijing Olympics, when officials in Beijing were concerned that air quality measurements would not meet international standards. A decision was made to suspend the activity of coal plants around Beijing, reduce the number of cars on the roads and shutter factories around the capital. These measures not only showed the seriousness of the pollution but also an utter disregard for the human cost associated with these efforts.

In terms of education, China started from a relatively low base and has made significant investments and progress. Since the founding of the PRC, the government has focused on promoting literacy and access to education, somewhat mirroring its emphasis on health. This focus was a critical factor in the country’s economic success, producing an educated workforce that could drive economic modernization. However, as in other aspects of China’s development, there are significant inequalities in the education system. Disparities follow existing lines of inequality in the country, for example between rural and urban areas, and this affects recruitment of teachers, access to education, and therefore future opportunities. The highly structured and competitive process for educational achievement creates tremendous pressure for students and their families, and leaves little room for independent, creative development. This may pose a challenge for the country as it seeks to move its economy beyond manufacturing to more advanced industries.

## The Future Ahead

As has been noted, the conclusions drawn from the data, overall, are underwhelming: despite phenomenal growth in GDP, Chinese people have seen only modest gains (if any) across a range of freedom

and prosperity indices. Meanwhile, other East Asian and Pacific countries have improved their freedoms considerably, even with slower income growth; overall, they seem to do more with fewer

resources to enhance their societies and systems. When viewed through this lens, it is hard not to lament a significant missed opportunity by the CCP to create a more modern and dynamic society, one that reflects the “Chinese dream” Xi Jinping asserts is within grasp.

Of course, the CCP can argue that prioritizing economic growth over other factors was and remains the right choice for China, and that China’s citizens must continue to follow the party’s lead to ensure continued success in the future. If we accept that position, the question we need to address is whether the choices being made are sustainable. The data clearly point to a broader implication of China’s economic and social development: it has become more socially, economically, and politically complex. As the scores above demonstrate, the party has failed to share the benefits of the country’s upward economic trajectory equally among its citizens. The task of doing so will only become more challenging as the wants and needs of its citizens continue to diversify.

I have major reservations about the viability of the current model, and several factors contribute to my skepticism. The economic turmoil during the COVID-19 pandemic has raised doubts about the effectiveness of the model, even though we lack sufficient data to draw definitive conclusions. But the most striking aspect of the data is the CCP’s commitment to an inherently unequal form of governance, particularly when it comes to individual and subgroup rights. The CCP frequently touts its collectivist approach, where the well-being of the collective outweighs individual freedoms. However, the data suggest a more selective approach: in this model, certain groups are favored at the expense of others.

This type of inequality is not a new phenomenon within the CCP system. Historically, there have always been winners and losers, with the party elite and affiliated businesses reaping the rewards of extraordinary economic growth while the general

population experienced more modest improvements. Yet, in the past, the wealth gap in China was often characterized as urban versus rural. What the data reveal is a shift towards absolute, rather than relative, inequality. There are clear losers in this system, including individuals and groups who have experienced a significant loss of freedoms. These groups include ethnic and religious minorities, the LGBTQ+ community, and those who advocate for more liberal—seen by the CCP as dangerous and foreign—ideals.

This discrimination is not solely identity based; it is also about values and alignment with the CCP’s objectives. As we look forward, the situation appears to be deteriorating. As the CCP sees growing threats to its authority and control, pressure will increase on individuals and groups to conform to a more limited definition of acceptability or face forced assimilation. This trend is exemplified by the genocidal “reeducation” of Uyghurs in Xinjiang, and in calls by party leaders in October 2023 for Chinese women to focus on family and traditional values. This shift towards a more rigid societal framework could lead to individuals being excluded from the benefits of society or, in the worst case, losing their social freedoms. The rapid expansion of surveillance technology and its use in determining the status of a “good citizen” provide the state with powerful tools to enforce its will. While these tactics have succeeded in managing dissent, they are likely only temporary fixes. Without substantial, systemic reform, the diverse wants and needs of Chinese people will continue to drive demands for change.



**Johanna Kao**

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# Europe

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Europe: Regional Ranking

	Freedom				Prosperity			
	Rank	Score	Status		Rank	Score	Status	
Denmark	1	95.1	◆	Free	10	88.2	●	Prosperous
Sweden	2	93.5	◆	Free	4	91.2	●	Prosperous
Switzerland	3	92.8	◆	Free	9	89.0	●	Prosperous
Finland	4	92.5	◆	Free	7	89.6	●	Prosperous
Luxembourg	5	92.4	◆	Free	12	86.7	●	Prosperous
Norway	6	91.2	◆	Free	1	92.4	●	Prosperous
Netherlands	7	91.2	◆	Free	6	89.7	●	Prosperous
Ireland	8	91.0	◆	Free	8	89.4	●	Prosperous
Estonia	9	91.0	◆	Free	23	82.2	●	Prosperous
Germany	12	90.6	◆	Free	15	85.3	●	Prosperous
Iceland	13	89.1	◆	Free	2	92.3	●	Prosperous
Belgium	14	88.5	◆	Free	11	87.0	●	Prosperous
Austria	16	87.4	◆	Free	28	81.2	●	Prosperous
France	17	86.8	◆	Free	19	83.8	●	Prosperous
Spain	18	86.8	◆	Free	21	82.8	●	Prosperous
United Kingdom	19	86.7	◆	Free	18	84.2	●	Prosperous
Czech Republic	21	86.2	◆	Free	24	82.2	●	Prosperous
Latvia	22	85.6	◆	Free	31	80.1	●	Prosperous
Lithuania	24	84.9	◆	Free	35	77.2	◐	Mostly Prosperous
Portugal	25	84.7	◆	Free	25	82.1	●	Prosperous
Italy	26	83.6	◆	Free	30	80.9	●	Prosperous
Slovakia	29	82.3	◆	Free	34	78.9	●	Prosperous
Slovenia	32	81.2	◆	Free	14	85.6	●	Prosperous
Croatia	36	79.5	◆	Free	37	76.5	◐	Mostly Prosperous
Malta	38	78.8	◆	Free	20	83.5	●	Prosperous
Cyprus	39	78.8	◆	Free	29	81.2	●	Prosperous
Bulgaria	41	77.0	◆	Free	75	64.9	◐	Mostly Prosperous
Romania	43	76.5	◆	Free	52	69.8	◐	Mostly Prosperous

Countries are organized in descending order based on their Freedom scores, with "Rank" denoting global rankings.

Europe: Regional Ranking

continued

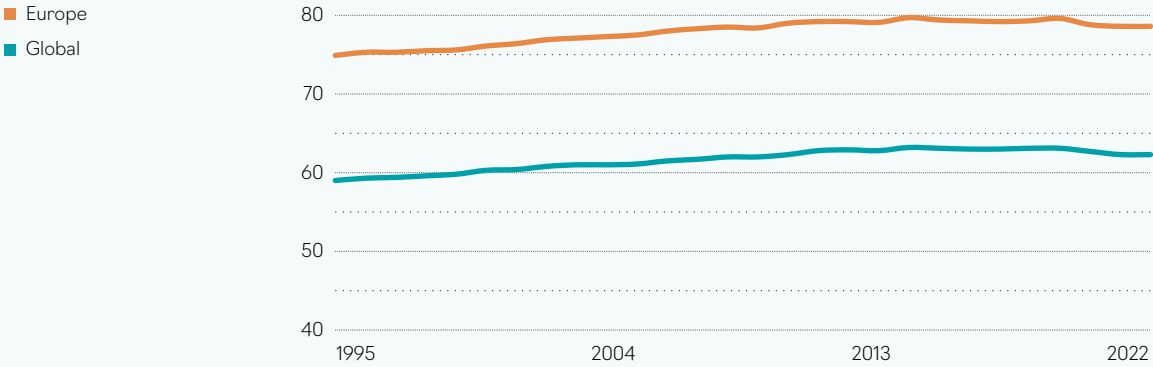
	Freedom				Prosperity			
	Rank	Score	Status		Rank	Score	Status	
Greece	44	75.6	Free	◆	33	79.2	Prosperous	●
Georgia	45	75.4	Free	◆	84	62.7	Mostly Unprosperous	◐
Poland	48	74.5	Mostly Free	◆	38	76.5	Mostly Prosperous	◑
Albania	50	73.3	Mostly Free	◀	43	73.7	Mostly Prosperous	◑
Moldova	52	72.8	Mostly Free	◀	44	72.2	Mostly Prosperous	◑
Hungary	56	71.9	Mostly Free	◀	40	75.4	Mostly Prosperous	◑
Montenegro	58	71.2	Mostly Free	◀	51	69.8	Mostly Prosperous	◑
North Macedonia	72	66.2	Mostly Free	◀	58	67.8	Mostly Prosperous	◑
Serbia	73	65.9	Mostly Free	◀	57	67.9	Mostly Prosperous	◑
Armenia	81	64.0	Mostly Free	◀	69	65.7	Mostly Prosperous	◑
Bosnia and Herzegovina	82	63.9	Mostly Free	◀	61	66.8	Mostly Prosperous	◑
Ukraine	114	52.2	Mostly Unfree	◓	60	67.0	Mostly Prosperous	◑
Azerbaijan	131	45.7	Mostly Unfree	◓	85	62.7	Mostly Unprosperous	◐
Russian Federation	138	42.1	Mostly Unfree	◓	63	66.2	Mostly Prosperous	◑
Belarus	145	39.4	Mostly Unfree	◓	59	67.4	Mostly Prosperous	◑

Countries are organized in descending order based on their Freedom scores, with "Rank" denoting global rankings.



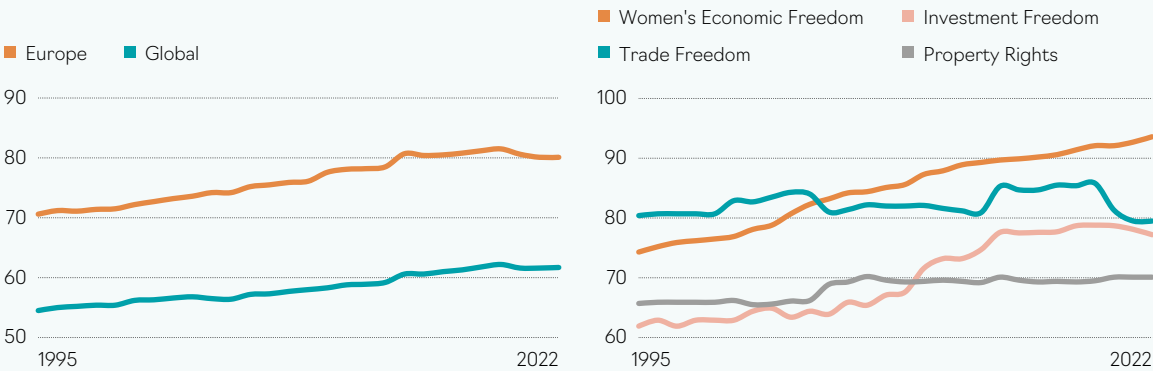
Freedom Index

1995-2022



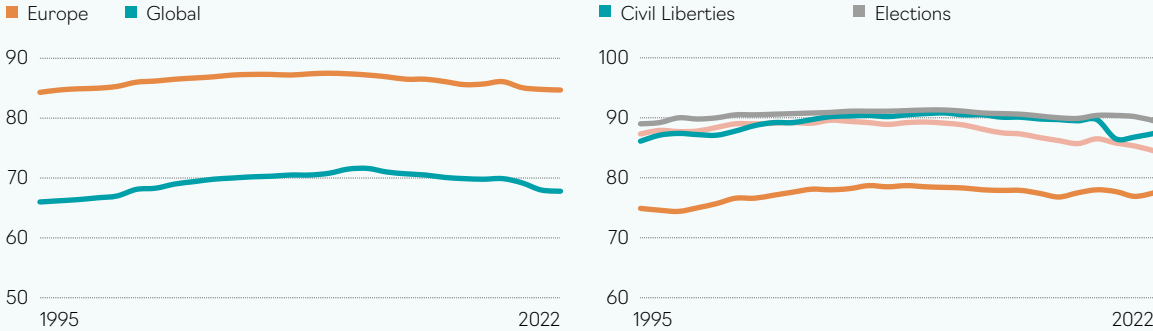
	2022		Change Since 2013	
	Region	Global	Region	Global
Freedom score	78.6	62.3	-0.7%	-0.8%
Economic Subindex	80.1	61.7	2.0%	4.2%
Political Subindex	84.7	67.8	-2.5%	-4.6%
Legal Subindex	71.0	57.3	-1.5%	-1.4%

Economic Subindex



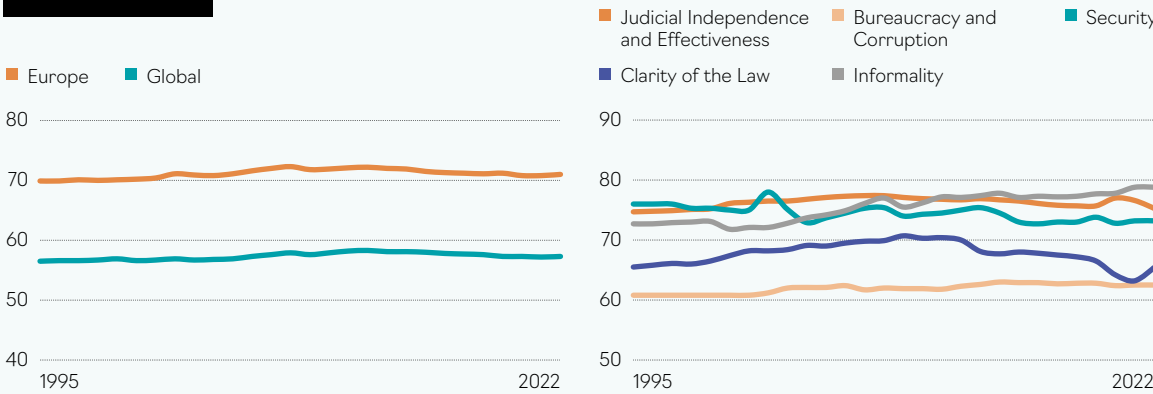
	2022		Change Since 2013	
	Region	Global	Region	Global
Women's Economic Freedom	93.6	72.4	4.8%	10.0%
Investment Freedom	77.2	59.6	3.4%	8.2%
Trade Freedom	79.5	65.2	-1.8%	-5.1%
Property Rights	70.1	51.2	1.2%	4.4%

Political Subindex



	2022		Change Since 2013	
	Region	Global	Region	Global
Legislative Constraints on the Executive	77.5	58.3	-0.6%	-3.8%
Political Rights	84.5	67.0	-4.1%	-6.9%
Civil Liberties	87.4	69.6	-3.5%	-3.8%
Elections	89.5	76.2	-1.4%	-3.9%

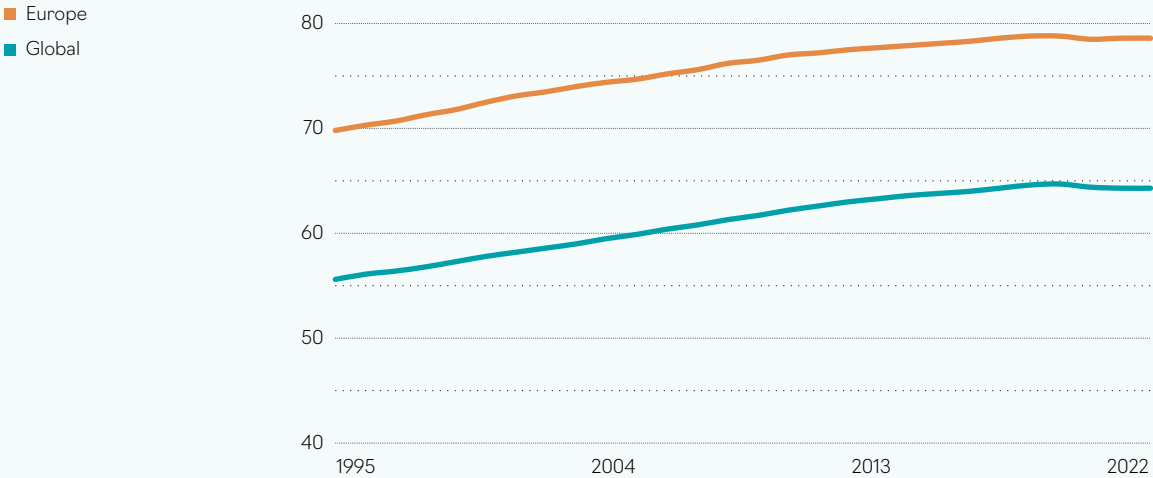
Legal Subindex



	2022		Change Since 2013	
	Region	Global	Region	Global
Judicial Independence and Effectiveness	75.3	59.4	-2.1%	-1.9%
Bureaucracy and Corruption	62.5	45.3	-0.2%	-0.3%
Security	73.2	60.2	-2.8%	-1.4%
Clarity of the Law	65.4	52.5	-4.0%	-2.9%
Informality	78.8	70.2	1.8%	-0.2%

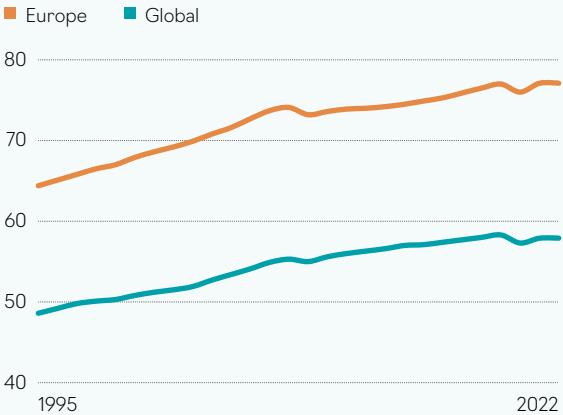
Prosperity Index

1995-2022



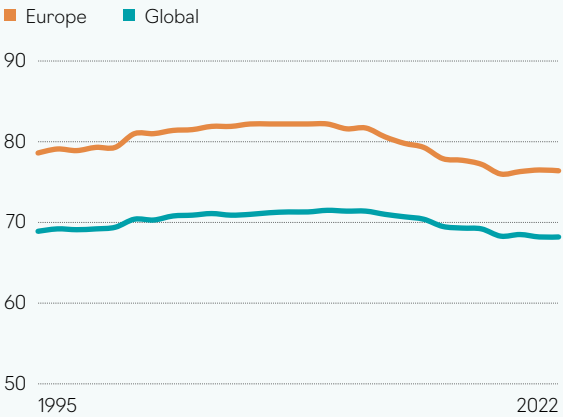
	2022		Change Since 2013	
	Region	Global	Region	Global
Prosperity score	78.6	64.3	1.1%	1.5%

Income



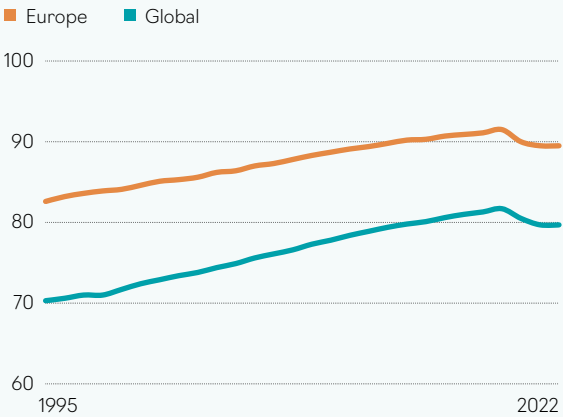
	2022		Change Since 2013	
	Region	Global	Region	Global
Income	77.1	57.9	4.0%	2.3%
Inequality	78.5	56.6	0.2%	0.9%

Minority Rights



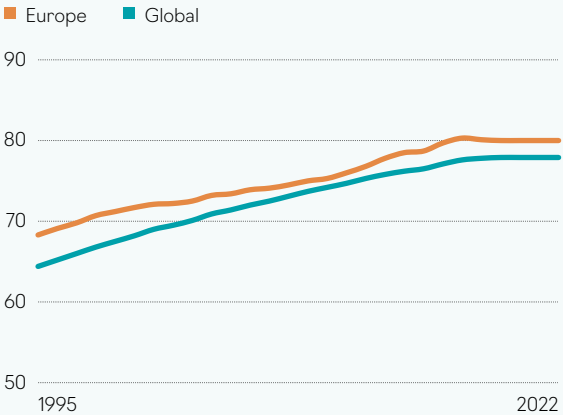
	2022		Change Since 2013	
	Region	Global	Region	Global
Minority Rights	76.4	68.2	-5.3%	-4.0%
Health	89.5	79.7	-0.3%	0.4%

Health



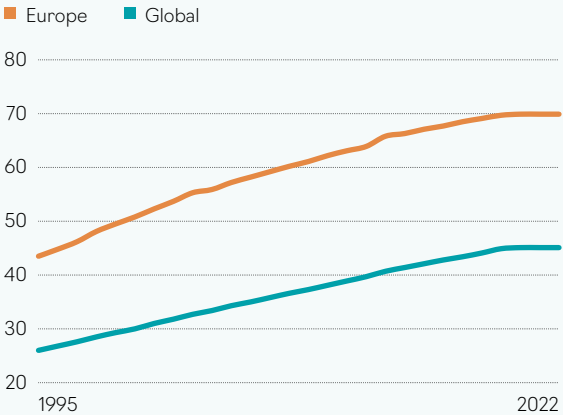
	2022		Change Since 2013	
	Region	Global	Region	Global
Minority Rights	76.4	68.2	-5.3%	-4.0%
Health	89.5	79.7	-0.3%	0.4%

Environment



	2022		Change Since 2013	
	Region	Global	Region	Global
Environment	80.0	77.9	2.9%	2.8%
Education	69.9	45.1	6.3%	10.8%

Education



	2022		Change Since 2013	
	Region	Global	Region	Global
Environment	80.0	77.9	2.9%	2.8%
Education	69.9	45.1	6.3%	10.8%

# European Union

Simeon Djankov



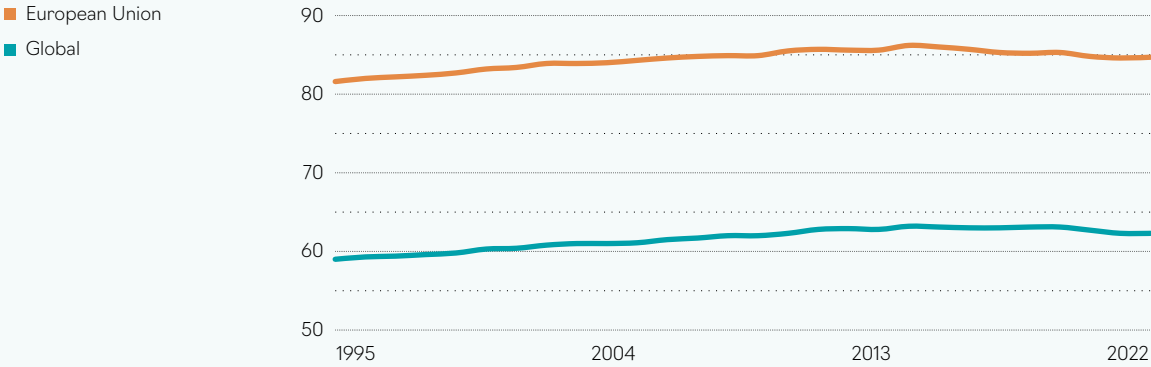
European Union: Ranking							
	Freedom				Prosperity		
	Rank	Score	Status		Rank	Score	Status
Denmark	1	95.1	Free		10	88.2	Prosperous
Sweden	2	93.5	Free		4	91.2	Prosperous
Finland	4	92.5	Free		7	89.6	Prosperous
Luxembourg	5	92.4	Free		12	86.7	Prosperous
Netherlands	7	91.2	Free		6	89.7	Prosperous
Ireland	8	91.0	Free		8	89.4	Prosperous
Estonia	9	91.0	Free		23	82.2	Prosperous
Germany	12	90.6	Free		15	85.3	Prosperous
Belgium	14	88.5	Free		11	87.0	Prosperous
Austria	16	87.4	Free		28	81.2	Prosperous
France	17	86.8	Free		19	83.8	Prosperous
Spain	18	86.8	Free		21	82.8	Prosperous
Czech Republic	21	86.2	Free		24	82.2	Prosperous
Latvia	22	85.6	Free		31	80.1	Prosperous
Lithuania	24	84.9	Free		35	77.2	Mostly Prosperous
Portugal	25	84.7	Free		25	82.1	Prosperous
Italy	26	83.6	Free		30	80.9	Prosperous
Slovakia	29	82.3	Free		34	78.9	Prosperous
Slovenia	32	81.2	Free		14	85.6	Prosperous
Croatia	36	79.5	Free		37	76.5	Mostly Prosperous
Malta	38	78.8	Free		20	83.5	Prosperous
Cyprus	39	78.8	Free		29	81.2	Prosperous
Bulgaria	41	77.0	Free		75	64.9	Mostly Prosperous
Romania	43	76.5	Free		52	69.8	Mostly Prosperous
Greece	44	75.6	Free		33	79.2	Prosperous
Poland	48	74.5	Mostly Free		38	76.5	Mostly Prosperous
Hungary	56	71.9	Mostly Free		40	75.4	Mostly Prosperous

Countries are organized in descending order based on their Freedom scores, with "Rank" denoting global rankings.



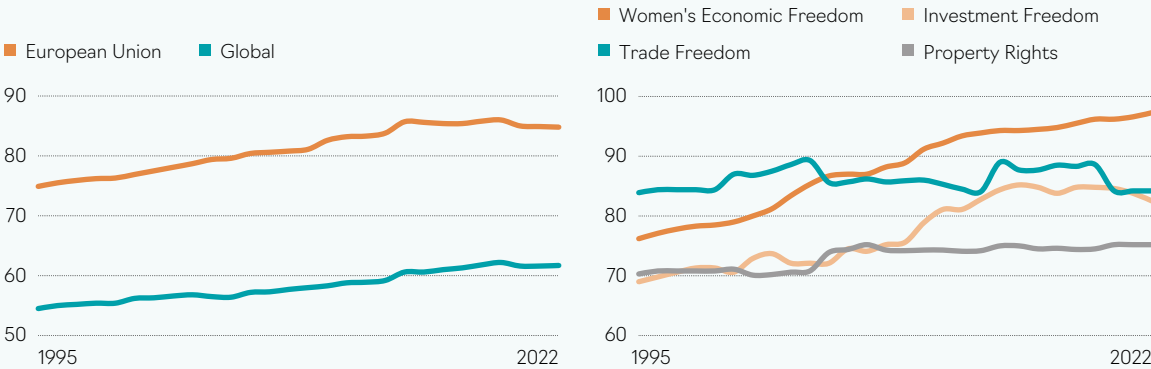
Freedom Index

1995-2022



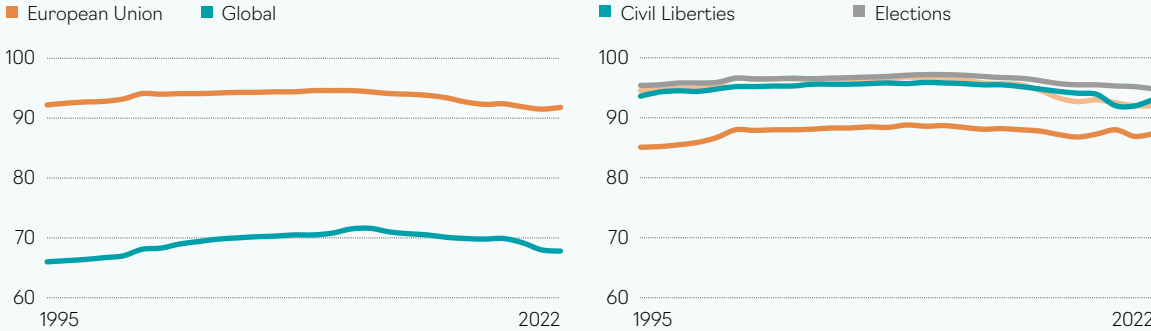
	2022		Change Since 2013	
	European Union	Global	European Union	Global
Freedom score	84.7	62.3	-1.1%	-0.8%
Economic Subindex	84.8	61.7	1.2%	4.2%
Political Subindex	91.8	67.8	-2.4%	-4.6%
Legal Subindex	77.6	57.3	-1.8%	-1.4%

Economic Subindex



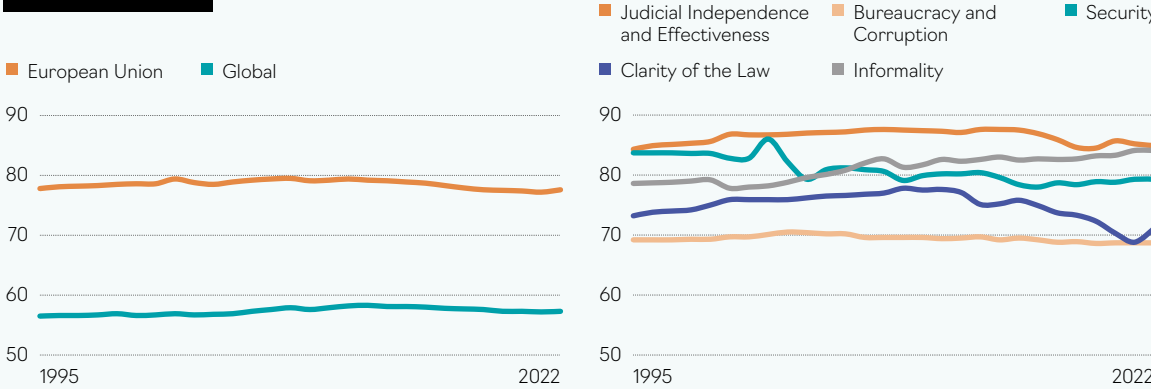
	2022		Change Since 2013	
	European Union	Global	European Union	Global
Women's Economic Freedom	97.3	72.4	3.6%	10.0%
Investment Freedom	82.5	59.6	-0.5%	8.2%
Trade Freedom	84.2	65.2	0.1%	-5.1%
Property Rights	75.2	51.2	1.3%	4.4%

Political Subindex



	2022		Change Since 2013	
	European Union	Global	European Union	Global
Legislative Constraints on the Executive	87.4	58.3	-0.8%	-3.8%
Political Rights	92.0	67.0	-3.9%	-6.9%
Civil Liberties	93.1	69.6	-2.5%	-3.8%
Elections	94.8	76.2	-2.2%	-3.9%

Legal Subindex

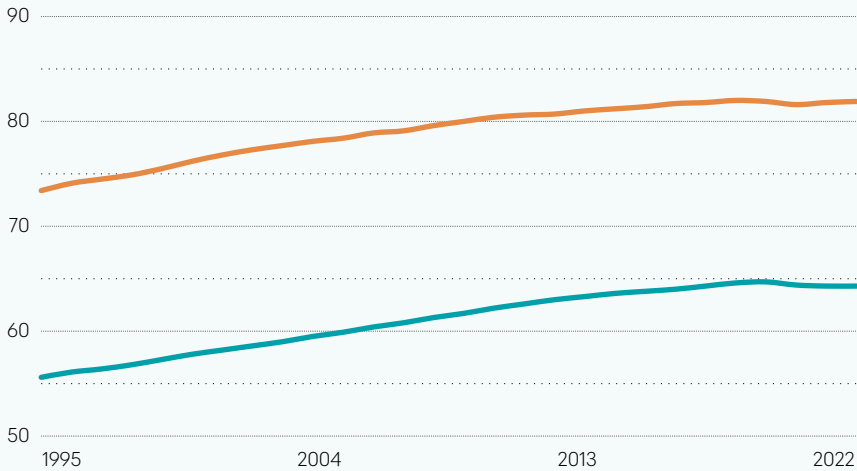


	2022		Change Since 2013	
	European Union	Global	European Union	Global
Judicial Independence and Effectiveness	84.9	59.4	-3.0%	-1.9%
Bureaucracy and Corruption	68.7	45.3	-1.5%	-0.3%
Security	79.3	60.2	-1.4%	-1.4%
Clarity of the Law	71.1	52.5	-5.3%	-2.9%
Informality	84.1	70.2	1.8%	-0.2%

Prosperity Index

1995-2022

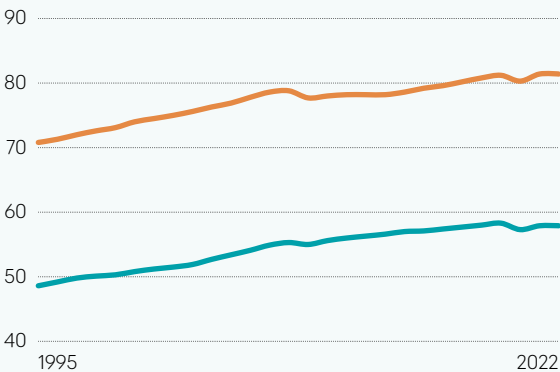
European Union  
Global



	2022		Change Since 2013	
	European Union	Global	European Union	Global
Prosperity score	81.9	64.3	1.0%	1.5%

Income

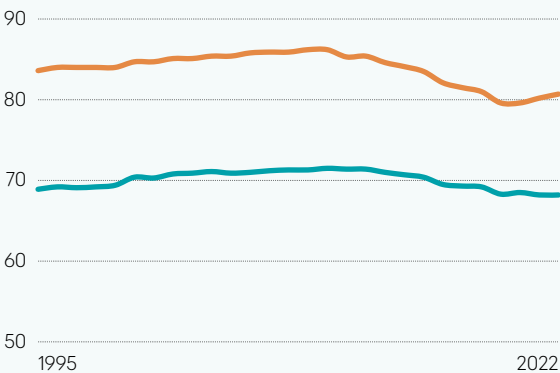
European Union  
Global



	2022		Change Since 2013	
	European Union	Global	European Union	Global
Income	81.4	57.9	4.0%	2.3%
Inequality	79.6	56.6	-0.4%	0.9%

Minority Rights

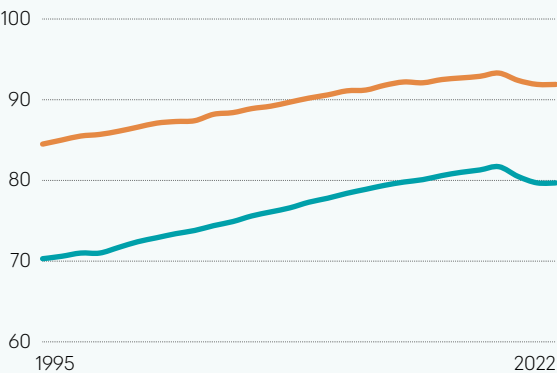
European Union  
Global



	2022		Change Since 2013	
	European Union	Global	European Union	Global
Minority Rights	80.7	68.2	-4.6%	-4.0%
Health	91.9	79.7	0.1%	0.4%

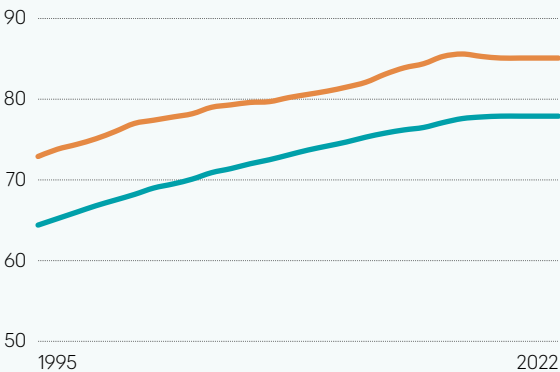
Health

European Union  
Global



Environment

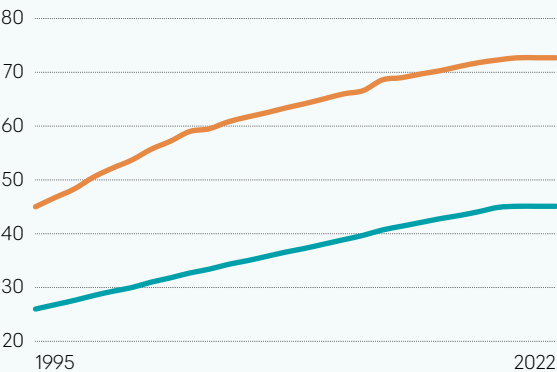
European Union  
Global



	2022		Change Since 2013	
	European Union	Global	European Union	Global
Environment	85.1	77.9	2.4%	2.8%
Education	72.7	45.1	5.8%	10.8%

Education

European Union  
Global



## Evolution of Freedom

International comparisons recognize that Europeans enjoy the highest quality of life in the world. European society benefits from great equality in income, excellent healthcare and basic education, good infrastructure, and eminent rule of law.<sup>1</sup> However, the past decade has presented an array of challenges to European Union (EU) nations. Europe's gross domestic product (GDP) in 2016 had only just returned to its 2008 level—before the eurozone crisis—and it has been losing market share in the global economy. Russia's annexation of Crimea in 2014; the 2015–16 migrant crisis; the UK's secession from the EU; COVID-19; and Russia's full-scale attack on Ukraine, the EU's ensuing sanctions, and complete reorientation of its foreign policy toward helping Ukraine—by any historical standards, the past decade has been trying.

The EU is also the freest region of the world in the Atlantic Council's **Freedom Index**, 20 points above the global average throughout the period of analysis. The increase in aggregate freedom was sustained until 2014 but has stagnated in the past decade. The main reason is the changing priorities in the aftermath of the eurozone crisis, which diverted politicians' attention towards reducing social vulnerabilities.<sup>2</sup> The ensuing decade brought several other challenges, starting in 2015–16 with a wave of migration from northern Africa that divided public opinion and engulfed the EU in heated debates about migration policy. These debates brought about political change in a number of European countries too, shifting the focus further from expanding freedoms and on to defining a narrower European identity. Just as this changing political landscape started to stabilize, the COVID-19 pandemic hit Europe hard, resulting in more demands for government participation in the economy and putting

the emphasis on security rather than freedom. In sum, the past decade in Europe has been one of crisis abatement.

Crisis abatement has brought about new politics in Central Europe in particular, a region which was for a quarter century (1989–2014) at the forefront of increasing political freedom in Europe. The governments of Hungary and Poland, and to some degree Slovakia, have followed a path of what Viktor Orbán calls "illiberal democracy," concentrating powers in the hands of few political leaders. This concentration has come at the expense of media freedom, judicial independence, and institutional development. The European Commission and other European institutions have responded with concerned actions to limit the loss of freedoms, with some success.

**Economic freedom** increased by more than 10 points until 2014, leveling off since then due to the various crises that emerged. However, there are some bright spots. Women's economic freedom has increased continuously during the whole period, up 25 points. Investment freedom increased substantially during the period 2005–15, and has seen another upswing since as governments have tried to keep their economies competitive. This reflects the response of many EU countries to the pandemic, including significant subsidies to particular sectors of the economy, enlarging the role of the state, and crowding out the private sector. This effect continues to evolve, particularly in the energy sector where the war in Ukraine has given a jolt to Europe's desire to be independent from Russian oil and gas.

The level of **political freedom** is very high in the EU, although "legislative constraints on the executive" receives a clearly lower score than the other three components of the political freedom

subindex. All components of political freedom decrease slightly after 2016, coinciding with the reverberations from the migration crisis and the rise of populism in a number of European countries. The most prominent of these have been in Central Europe, where Hungary's Viktor Orbán

has been particularly outspoken on the need to curb political freedoms. The trend, however, runs deeper, with nationalist parties gaining popularity in Austria, Finland, Italy, Germany, and Sweden, among others. Europe is a more closed society now than it was thirty years ago.

## From Freedom to Prosperity

**Prosperity** in the EU is around 17.6 points higher than the global average, and this gap has been stable since 1995. The trend is positive until 2019, but has stagnated since the pandemic struck. This is broadly consistent with the global pattern, suggesting that Europe is finding ways to maintain its edge in prosperity over its competitors.

The superior outlook on prosperity, coupled with geographic proximity, has made Europe a magnet for migrants from Africa, Asia, and the Middle East. The pandemic reduced this inflow, as have various country-level policies to prevent migrants from entering Europe. Still, 2022 saw a significant new wave of migration from Ukraine, reaching a total of 6 million refugees towards the end of the year. And a new wave of non-European migrants has posed challenges for Italy and Greece in 2023.

The effects of the eurozone crisis of 2008–10 and the COVID-19 pandemic of 2020–22 are evident in the income component data. Fortunately, financial assistance to vulnerable groups was quickly dispensed during both episodes, reducing social tensions. Europe's social safety net expanded, increasing budget deficits but allowing the crises to pass with minimal losses in welfare. Reflective of these policies, inequality is relatively low compared to the global average.

Finally, the data show sustained improvements in health and education for the EU, probably driven by countries in Eastern Europe. These countries saw social supports deteriorating at the beginning of the post-communist transition period in the 1990s. Heavy government spending, assisted by EU funding since their accession in the 2000s, has reversed these losses and led to convergence in health and education indicators across the EU.<sup>3</sup>

## The Future Ahead

The next decade of EU freedom and prosperity dynamics will be marked by the war in Ukraine. The EU has committed enormous financial resources, nearly €100 billion across 2022 and 2023, in supporting Ukraine's fight against the aggressor. It has also imposed a dozen rounds of sectoral and

economy-wide sanctions on Russia. These sanctions also have negative implications for some industries in Europe, which have traditionally relied on resources from Russia. The war, in other words, has a slowing effect on Europe's economy.

<sup>1</sup> Anders Aslund and Simeon Djankov, *Europe's Growth Challenge* (Oxford: Oxford University Press, 2017).

<sup>2</sup> Simeon Djankov, *Inside the Euro Crisis: An Eyewitness Account*, (Peterson Institute for International Economics, 2014).

<sup>3</sup> Anders Aslund and Simeon Djankov, *The Great Rebirth: The Victory of Capitalism over Communism* (Peterson Institute for International Economics, 2014).

Another major impact of Russia’s war in Ukraine is that it has forced the EU to rethink the Green Deal, which the European Commission has championed for the past decade. Given Russia’s threats to Europe’s energy security, a decision was taken in 2022 to sever the dependence on Russian energy products. With only two countries—Bulgaria and Hungary—receiving postponement of these measures to 2024, Europe has quickly weaned itself from Russian oil and gas. However, this change has come at a cost: a number of countries have increased their use of coal and other high-polluting sources of energy.

The war has also sped up the process of EU integration for Moldova and Ukraine, and this will occupy the attention of Brussels institutions in the years to come. Such integration provides for a larger European market: a welcome development. The past decade has shown that Europe cannot multitask—perhaps the inevitable result of gradual consensus building among twenty-seven member states—preferring to focus on one issue at a time. The clear task at hand is helping Ukraine win the war.

The two case studies in this volume on Ukraine (by Professor Yuriy Gorodnichenko from the University of California at Berkeley) and Russia (by Professor Konstantin Sonin from the University of Chicago) demonstrate what is at stake for these countries in terms of freedom and prosperity. In this chapter I suggest that, for Europe as a whole, what is at stake in the conflict is the further development of freedoms and the ensuing prosperity of Europe. Only with a free and victorious Ukraine can the EU refocus on its prosperity agenda.

In the face of Ukraine’s resolute response to Russia’s invasion, President Putin has escalated the economic warfare against its citizens by incessantly attacking the country’s energy infrastructure and cutting off vital trade channels. These acts have

severely hampered the prospects for economic recovery in 2024.

A large part of Ukraine’s civilian population, an estimated 6 million refugees, is awaiting a ceasefire that would allow them to return to their homeland, as the frequent bombings and power outages have forced them to take temporary shelter in other European countries.<sup>4</sup> These immigrants look forward to reuniting with their families and continuing with their jobs or finding new economic opportunities. In both cases—whether Ukraine’s refugees stay abroad or return home—massive European help is needed to jump-start the economy. The needs are enormous: rebuild infrastructure, provide financing for entrepreneurial activities as many old enterprises are razed to the ground, open new export opportunities, and invest in the training of workers and in new technologies.

Europe’s Prosperity Agenda

This prosperity agenda is fourfold. First, there are wide disparities across regions within Europe. These are seen within countries, for example southern versus northern Italy, and across countries, for example Scandinavia versus Eastern Europe. A significant portion of the EU budget is directed to reducing these disparities, through investments in infrastructure, agriculture, and regional economic development. Such financial aid needs to be coupled with policies that increase economic freedom at the regional level. For example, decentralization of some tax policies combined with explicit subsidy schemes will keep more resources in underdeveloped regions and thus attract businesses and individuals who would otherwise look for opportunities in more advanced parts of the EU.

Second, increased prosperity in the EU comes from completing the internal markets for energy and financial services. These topics were discussed even prior to the 2014 annexation of

Crimea, which started a series of crisis years for the EU. 2024 is a good year to go back to the original design and create a single energy market in Europe, as well as a single financial market, with a single set of regulators. Much has been written and discussed about how to achieve these goals; now is the time to act.

Third, migration has been at the forefront of European politics in the past decade. It promises to remain an issue in the decade to come. On the one hand, Europe’s demographics are such that the labor market benefits from human capital coming into European countries and putting their labor and talents into productive use. On the other hand, social tensions have risen in the countries that have received large numbers of migrants. Even in countries with few actual migrants, the specter of competition for social services and jobs has boosted the fortunes of nationalist parties that have promised to erect barriers to further migration. This issue, more than any other in Europe, inflames public opinion.

Finally, prosperity in Europe emanates from open markets. While the European market itself is large, many innovations and technologies come from either the American or Asian markets. The two other superpowers—the United States and

China—have been on a collision course in asserting their economic dominance, leaving Europe to choose how to align in the global picture. So far this path has meandered, with some calling for greater protections for Europe’s own market. Such an isolationist approach is counterproductive. Europe has to remain as open as possible, assimilating leading innovations and creating the space to implement these new ideas into better production processes and products.

The Atlantic Council’s Indexes also raise some philosophical questions regarding European identity: Has the golden age of European prosperity passed, weighed down by the heavy fiscal burden of an unwieldy social safety net? Has the energy of European integration through the accession of new member states tapered off? Is federalism, in the shape of the EU, losing momentum? The past decade has not given many indications of a clear reform agenda, as Europe has stumbled from one crisis to another. The existential crisis of a war in Europe has strained the abilities of European institutions to act, yet it has demonstrated a unity that has been largely absent in previous decisions Europe has faced. This unity leads to strength and such strength is needed to overcome the many challenges that lie in Europe’s path.

Simeon Djankov

Simeon Djankov is policy director of the Financial Markets Group at the London School of Economics. He was deputy prime minister and minister of finance of Bulgaria from 2009 to 2013. Prior to his cabinet appointment, he was chief economist of the finance and private sector vice presidency of the World Bank.

<sup>4</sup> Oleksey Blinov and Simeon Djankov, “The all-out aggression requires an all-out response” in *Supporting Ukraine: More critical than ever*, eds. Yuriy Gorodnichenko and Vladyslav Rashkovan (London and Paris: CEPR Press, 2023), <https://cepr.org/publications/books-and-reports/supporting-ukraine-more-critical-ever>.

# Russia

Konstantin Sonin

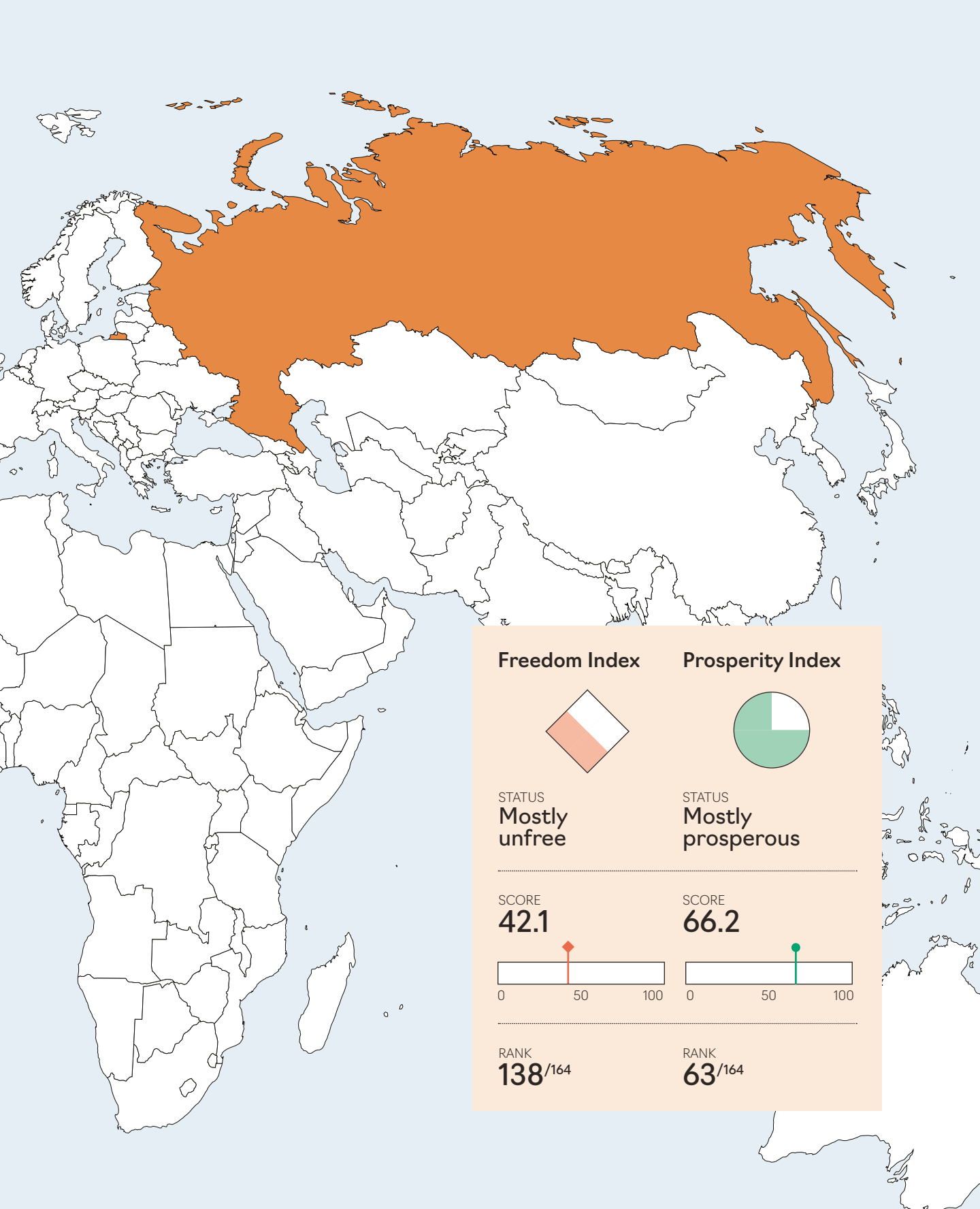
## Socioeconomic Data 2022

### General Information

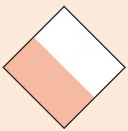
POPULATION	LIFE EXPECTANCY (2021)
143.5 million	69 years
RELIGION (2010)	ETHNIC FRACTIONALIZATION (2013)
Christian → 73.3%	0.38
Unaffiliated → 16.2%	
Muslim → 10.0%	

### Economic Data

GDP PER CAPITA	INFLATION (2021)
27,584	6.7%
% of US GDP pc → 42.6%	
GDP pc Growth → no data	
DEPT/GDP (GENERAL 2021)	TRADE/GDP
17.0%	44.0%
UNEMPLOYMENT (2021)	
4.7%	
SECTORAL ALLOCATION	
Agriculture → 4.3%	
Industry → 36.2%	
Services → 59.5%	
GINI COEFFICIENT (2021)	
33.2	

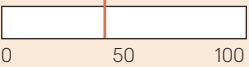


### Freedom Index



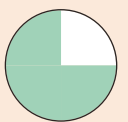
STATUS  
Mostly  
unfree

SCORE  
42.1



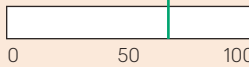
RANK  
138/164

### Prosperity Index



STATUS  
Mostly  
prosperous

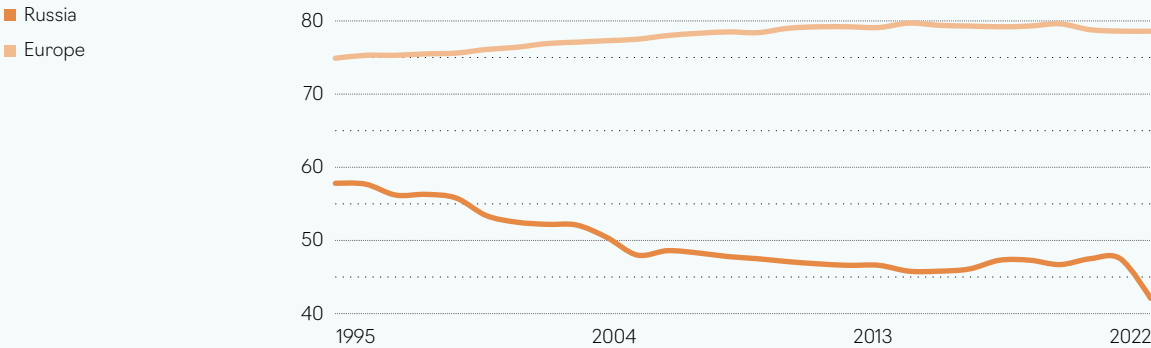
SCORE  
66.2



RANK  
63/164

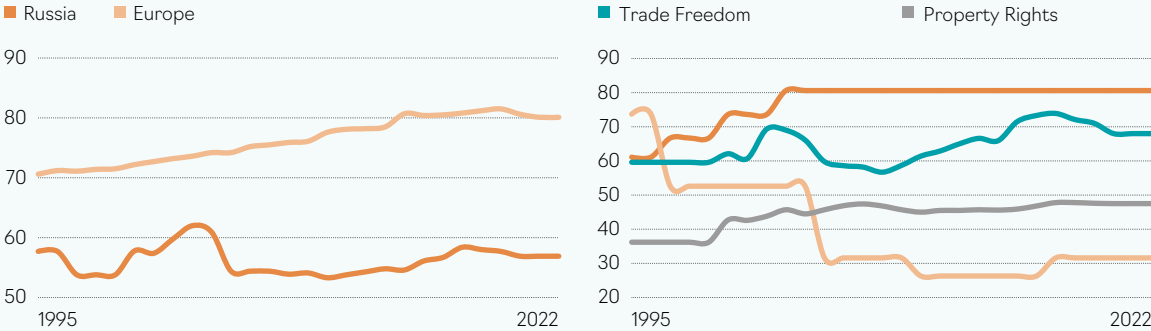
Freedom Index

1995-2022



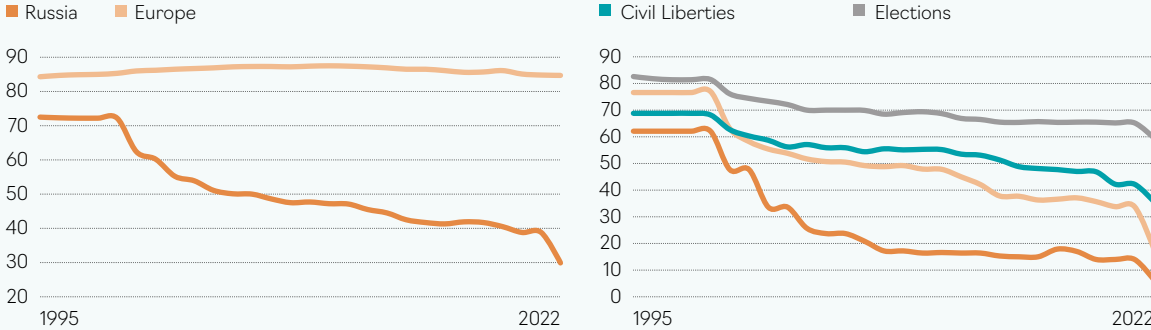
	2022		Change Since 2013	
	Russia	Region	Russia	Region
Freedom rank	138	-	-9	-
Freedom score	42.1	78.6	-9.7%	-0.7%
Economic Subindex	56.9	80.1	3.8%	2.0%
Political Subindex	29.9	84.7	-32.8%	-2.5%
Legal Subindex	39.4	71.0	-2.6%	-1.5%

Economic Subindex



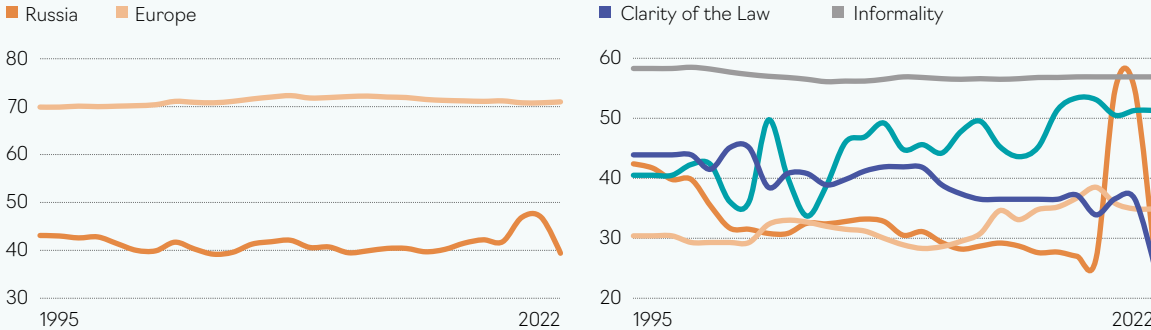
	2022		Change Since 2013	
	Russia	Region	Russia	Region
Women's Economic Freedom	80.6	93.6	0.0%	4.8%
Investment Freedom	31.6	77.2	20.0%	3.4%
Trade Freedom	68.0	79.5	2.0%	-1.8%
Property Rights	47.5	70.1	3.9%	1.2%

Political Subindex



	2022		Change Since 2013	
	Russia	Region	Russia	Region
Legislative Constraints on the Executive	6.4	77.5	-60.9%	-0.6%
Political Rights	18.0	84.5	-57.2%	-4.1%
Civil Liberties	35.7	87.4	-32.7%	-3.5%
Elections	59.6	89.5	-10.5%	-1.4%

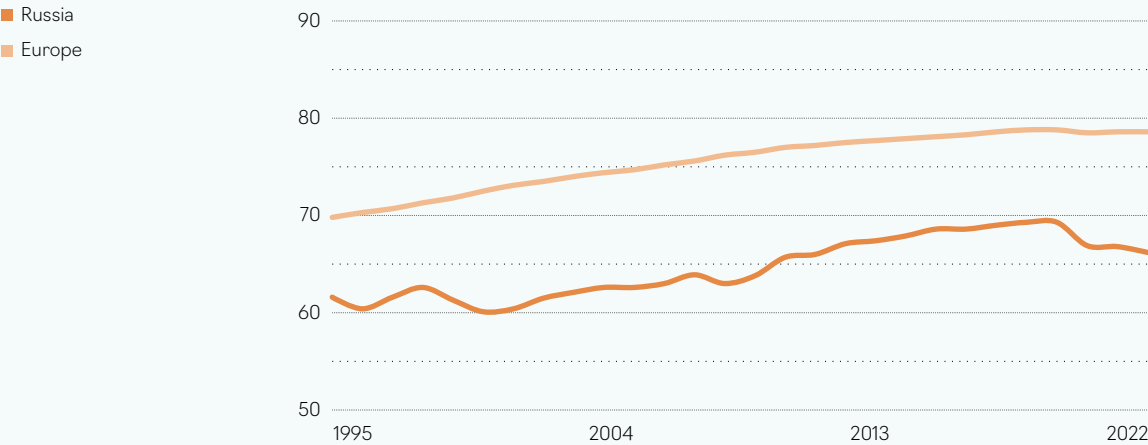
Legal Subindex



	2022		Change Since 2013	
	Russia	Region	Russia	Region
Judicial Independence and Effectiveness	27.9	75.3	-3.0%	-2.1%
Bureaucracy and Corruption	34.9	62.5	13.6%	-0.2%
Security	51.3	73.2	3.7%	-2.8%
Clarity of the Law	25.8	65.4	-29.2%	-4.0%
Informality	56.9	78.8	0.5%	1.8%

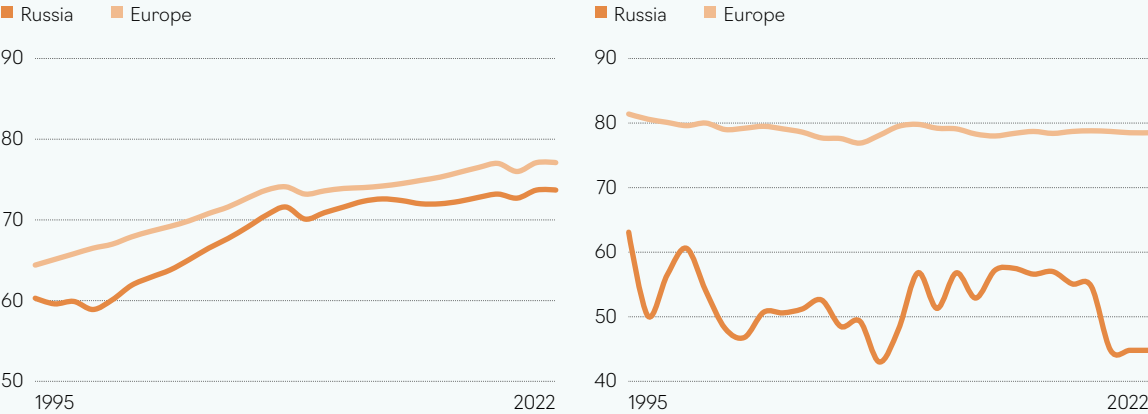
Prosperity Index

1995-2022



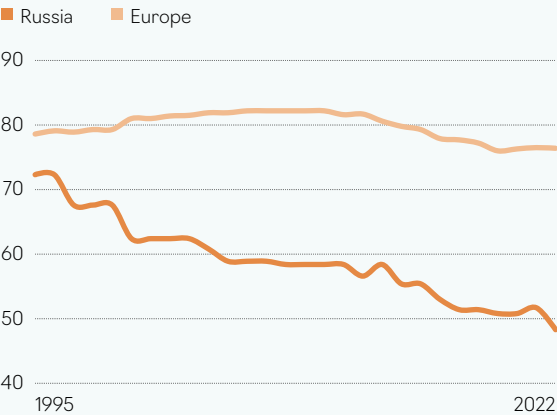
	2022		Change Since 2013	
	Russia	Region	Russia	Region
Prosperity rank	63	-	-6	-
Prosperity score	66.2	78.6	-1.7%	1.1%

Income



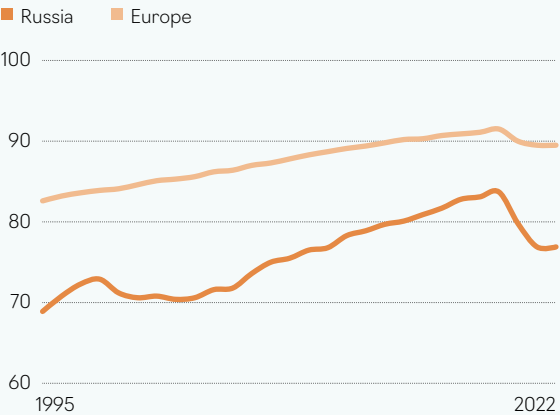
	2022		Change Since 2013	
	Russia	Region	Russia	Region
Income	73.7	77.1	1.5%	4.0%
Inequality	44.8	78.5	-15.4%	0.2%

Minority Rights

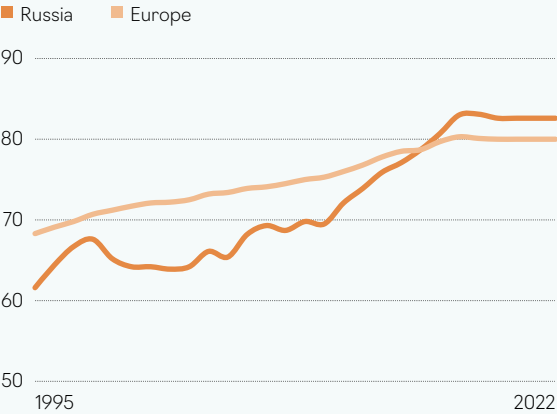


	2022		Change Since 2013	
	Russia	Region	Russia	Region
Minority Rights	48.3	76.4	-17.3%	-5.3%
Health	76.9	89.5	-3.6%	-0.3%

Health

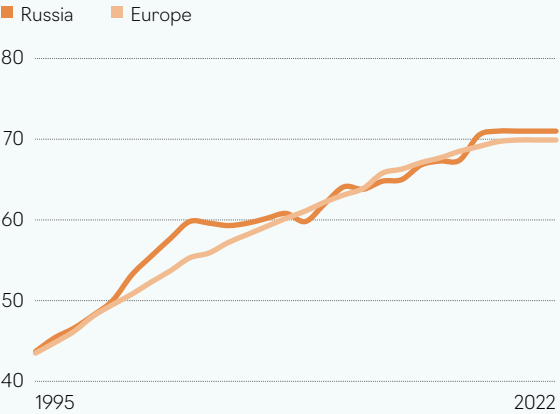


Environment



	2022		Change Since 2013	
	Russia	Region	Russia	Region
Environment	82.6	80.0	8.8%	2.9%
Education	71.0	69.9	9.5%	6.3%

Education



## Evolution of Freedom

For many years, I have had issues with discussing various graphs and indexes illustrating what is going on in Russia, because the picture on the ground was very different from what those indexes showed. But the **Freedom Index** very closely represents what I felt was happening in my country over the last ten years: basically, a gradual deterioration of all dimensions of freedoms, but especially **political freedom**. This process started even before the war in Ukraine, and accelerated after the war started. The deterioration in economic and legal freedoms is not so evident, but this is because the starting points were already low in 1995.

Thirty years ago, Russia was a competitive democracy. Of course, an unstable democracy, as we can see from the way it has unraveled in the twenty-first century, but it was really competitive. Opposition (i.e., those not aligned with the president) controlled the parliament, incumbents would lose elections at the subnational level, and measures of democratic standards would agree that the country could be labeled as a democracy. But the system has gradually deteriorated until today, when there are no longer any competitive elections at any level above small municipalities. Every reasonably sized city or town is already fully controlled from the political center; even in cases where officials are formally elected, they are still appointed.

Civil and political rights are at a minimum. Think of freedom of expression. Nowadays you can get arrested for just mentioning the word “war” when referring to the Russia-Ukraine conflict. I myself am a fugitive of Putin’s “justice,” and by the time this book is published I will probably have been sentenced in absentia to nine years in prison for my social media posts. So, in terms of freedom of the press or individual freedom of expression, Russia today is as close to a perfect score of zero as you can possibly imagine.

The fall into autocracy is also evident in the **legal freedom** subindex, especially in the components of clarity of the law and judicial independence. A clear example that connects both indicators is the passing of several laws by parliament that clearly contradict the Constitution. The criminalization of any comment on the war that contradicts the story told by the Ministry of Defence obviously contravenes the Constitution, which protects freedom of expression. There cannot be any clarity of the law when day-to-day legislation contradicts the Constitution. And citizens cannot try to defend their rights through the judicial system, as it is completely controlled by the executive.

**Economic freedom** has never been high in Russia, and the data confirm this. But economic freedom has further deteriorated in the last few years, especially since the beginning of the war. Future updates of the Indexes will surely reflect this evolution, as they will capture the outright expropriation of western-owned property that has been taking place. Foreign companies’ assets have been seized without compensation, and those who were lucky enough to sell their assets have done so at 80 percent discounts and with a 50 percent tax rate imposed. So, trade and investment freedom are surely lower than reflected in the data right now. Even the score on women’s economic freedom is likely to drop in the short run, as Putin’s government propaganda is already pushing the idea that women should marry and bear children at a very young age, because this is good for the nation, and this directly impacts women’s economic rights.

Overall, the picture portrayed by the Freedom Index and its subindexes is consistent with my view of the situation in Russia, and I believe things may be even worse than is currently captured in the data due to lags in the underlying sources.

## From Freedom to Prosperity

The income component of **prosperity** clearly shows the stagnation of the Russian economy in the last fifteen years. Economic growth was extremely low until 2018, and Russian gross domestic product (GDP) has even contracted in the last few years. Moreover, the Russian economy appears in this graph to perform reasonably well, as it somewhat follows the European trend—but this is misleading. Russia’s income in 1995 was significantly lower than the European average, so the country should have grown faster and caught up with its neighbors, as did Poland and the Baltic countries. This process of convergence is clearly not happening for Russia, and we can even observe a divergence between Russia and the rest of Europe in the last decade.

The inequality indicator is very noisy. There is likely to be significant measurement error at short-term frequencies, but the big-picture situation is clear: Russia was a very unequal country in 1995, and that inequality remains at a similar level. Looking forward, some respectable economists argue that we may see an improvement in the inequality measure. I think there are several forces at play. On the one hand, the government is providing very substantive wartime payments to the families of killed soldiers, and these are disproportionately going to the lower quantiles of the income distribution, which can improve inequality measures. But on the other hand, wartime profits are increasing, and these are captured by the top 1 percent of the distribution. So basically, it is the middle class that is being squeezed. The inequality indicator in the Prosperity Index is the share of income going to the top 20 percent of the distribution, so I think it very likely that this will deteriorate in the coming years as inequality increases.

Regarding minority rights, the worrisome negative trend is obvious in the graph, despite the fact that the indicator only captures religious liberty. The government is now persecuting anyone whose faith

is not compatible with the heightened militarism of the Russian state. Even priests of the Orthodox Church, usually in favor with government officials, are being prosecuted if they utter words against the war. Religious minorities whose faith is incompatible with military service, such as Baptists and other minority Christian denominations, face criminal prosecution and extra-legal harassment.

It is not only religious minorities who are persecuted. Think about LGBTQ+ citizens, who are now criminalized to the point where even holding hands in public may see them prosecuted. The current situation is probably worse than in Iran, in some senses. Legally, there have not been any changes in the status of—or official attitude toward—different ethnicities, but it is evident that ethnic minorities in the poorest regions of the country have been disproportionately recruited for the war. Therefore, deaths among minority ethnic groups are significantly higher than, for example, for Muscovites.

The health indicator is one of only a couple in the Freedom and Prosperity Indexes that I do not think paints a fully accurate picture of reality, especially for the past few years. Russia was one of the worst performing countries during the COVID-19 pandemic, with more than a million deaths. The total number is similar to that of the United States, where the population is 2.5 times larger, so Russia performed significantly worse. Also, the indicator is probably not yet showing the thousands of deaths since the start of the war, and the deterioration in terms of mental health for a large share of the population due to post-traumatic stress disorder and the like. In 2023, the birth rate in Russia dropped to the level of the worst years of the economic crisis that resulted in the collapse of the Soviet Union. We will likely see further drops in health indicators in the short run.

In terms of environmental quality, it has always been the case that whatever is good for Russian



industry is bad for environmental indicators. And vice versa. For many years Russia was one of the best performing countries with respect to the Kyoto protocol, but this was due to a dramatic drop in industrial output. I forecast further decreases in industrial production, so on that side environmental indicators may improve. But at the same time the government is currently removing several regulations and laws that were passed before the war, so this may have an offsetting effect. The effective ban on any public protest and many civil society organizations, including those working on environmental protection, will further erode the existing protections.

Another important process that is probably not fully captured by the data above concerns the educational system. I refer to the exodus of teachers and professors from all levels of the educational system that have left the country in recent years,

and especially since the war in Ukraine began. Many have fled the country, others have relocated, some are looking for a way out. This is a huge blow to the Russian educational system. Moreover, tens of thousands of students who should be increasing their human capital through further education are being mobilized and sent to the battlefield, or have become refugees in neighboring countries due to their fear of being called up to fight. This reality is not yet visible as a fall in years of schooling, but as statistics update it will most likely emerge. Furthermore, this issue is not only about the quantity of schooling as measured by the average years of schooling of Russian pupils, but the quality of the education they receive, which then translates into skills and human capital. If the best professors and teachers are leaving the country, it is clear that the quality of the educational system will suffer significantly.

## The Future Ahead

The short- to medium-term prospects for Russia and Putin's regime are undeniably going to be determined by the evolution of the Russia-Ukraine war. Putin's regime entered a declining stage even before the beginning of the war, which is typical of authoritarian and personalistic regimes: following a period of stagnation, the regime reaches its final stage, in which every effort is devoted to maintaining power. Even before 2022, political repression was very substantial. Tens of thousands of people were leaving the country every year because they feared arrest if they said something wrong on social media, for example. Yet the repression has dramatically increased since the war began.

I do not think there is an easy way out of the war, nor from Putin's authoritarian rule. Change in any personalistic regime is always dramatic and turbulent, and even if a lot of the same people still hold

power, it always engenders substantial changes. It was the same with the death of Stalin. I think there is always an upside to this, because if and when Putin is gone, the new leadership will be able to do some things that will immediately improve Russia's situation. I believe any new leadership would withdraw the Russian troops from the newly occupied territories. Talks about lifting economic sanctions and reopening trade will immediately follow. Some companies that left Russia will quickly return. These steps might not generate sustained economic growth, as the loss of growth potential due to the war is substantial. Nonetheless, they will represent an immediate improvement over the status quo. But for now, until this change in leadership takes place, everything will be defined by the evolution of the war, and, as long as the war continues, Russia will suffer further decreases in every dimension of prosperity.

### Konstantin Sonin

Konstantin Sonin is John Dewey distinguished service professor at the University of Chicago Harris School of Public Policy. He studies political economics. Previously, Sonin has served as faculty and a vice-president of NES and HSE University in Moscow and guest-lectured in dozens of schools across the country. Now he is on the federal wanted list in Russia for posting information about atrocities committed by the Russian occupying forces in Ukraine.

# Ukraine

Yuriy Gorodnichenko

## Socioeconomic Data\* 2022

### General Information

POPULATION	LIFE EXPECTANCY (2021)
38 million	70 years
RELIGION (2010)	ETHNIC FRACTIONALIZATION (2013)
Christian → 83.8%	0.37
Unaffiliated → 14.7%	
Muslim → 1.2%	

### Economic Data

GDP PER CAPITA	INFLATION
10,731	20.2%
% of US GDP pc → 16.6%	
GDP pc Growth → -17.1%	
DEPT/GDP (GENERAL 2021)	TRADE/GDP
47.6%	88.0%
UNEMPLOYMENT (2021)	
9.8%	

SECTORAL ALLOCATION

Agriculture → 9.3%

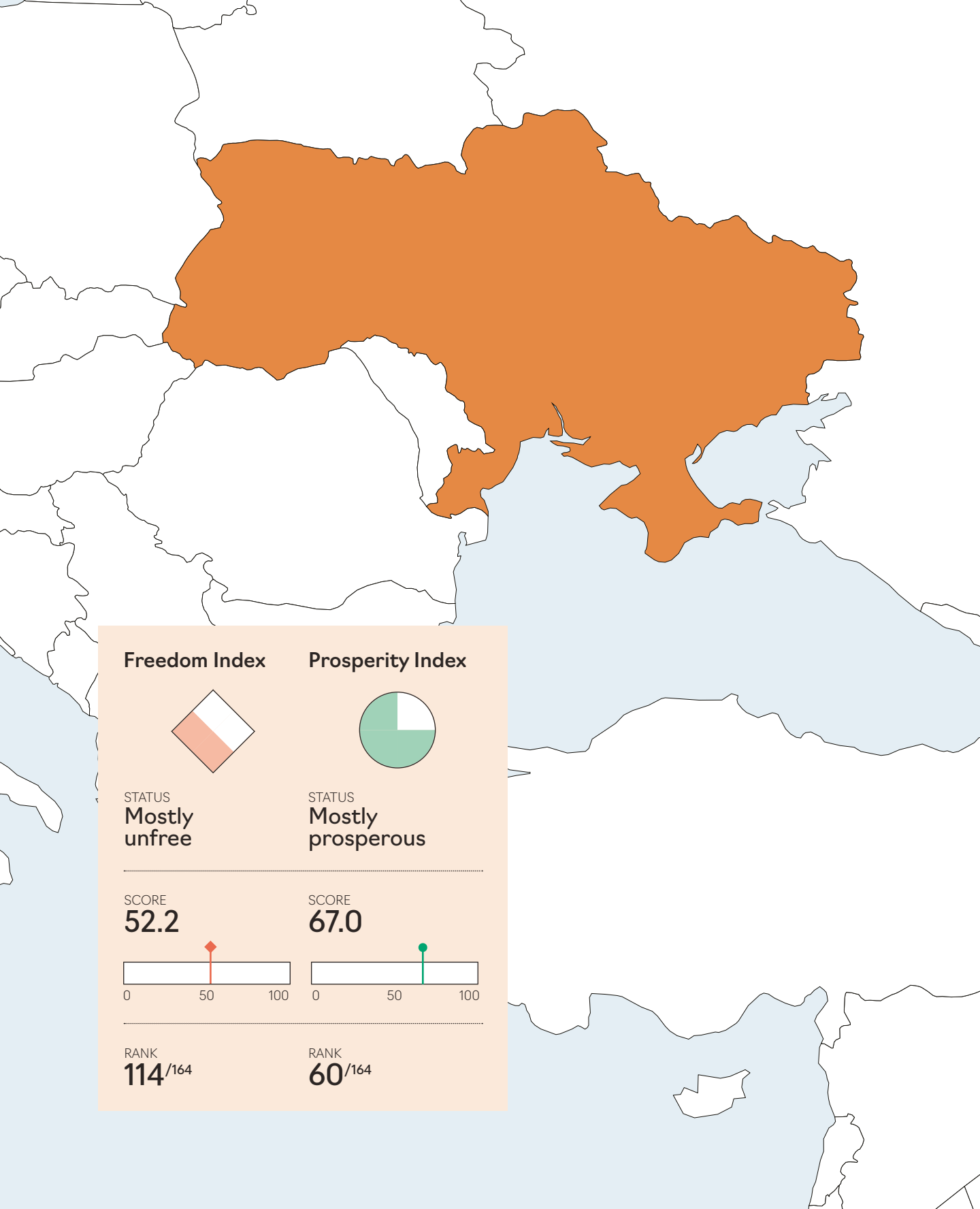
Industry → 21.8%

Services → 68.9%

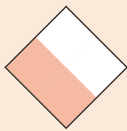
GINI COEFFICIENT (2017)

27.1

\* We use the latest data available from external sources (for the full list, see the Methodology chapter). Because of the full-scale Russian invasion of Ukraine that began in February 2022, the most recent data are likely to be speculative or incomplete.

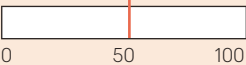


### Freedom Index



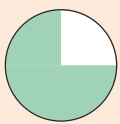
STATUS  
Mostly  
unfree

SCORE  
52.2



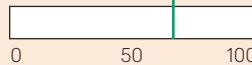
RANK  
114/164

### Prosperity Index



STATUS  
Mostly  
prosperous

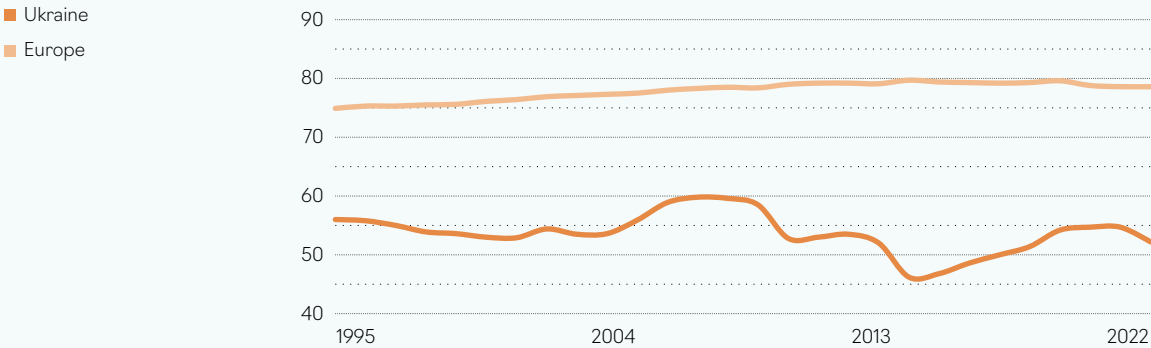
SCORE  
67.0



RANK  
60/164

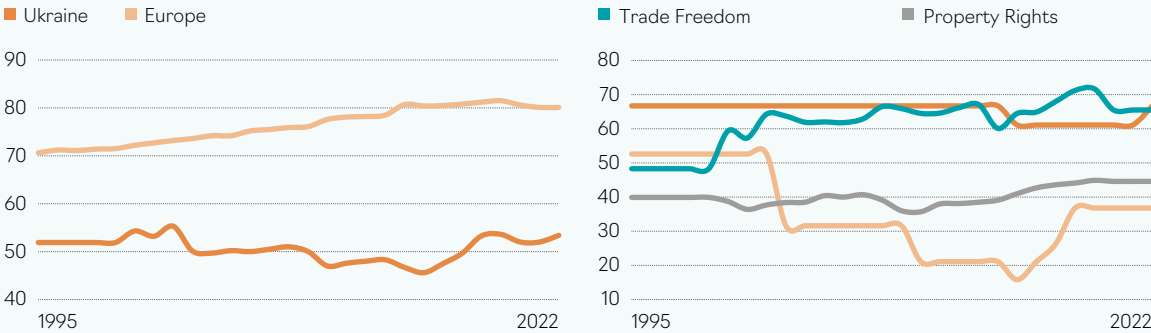
Freedom Index

1995-2022



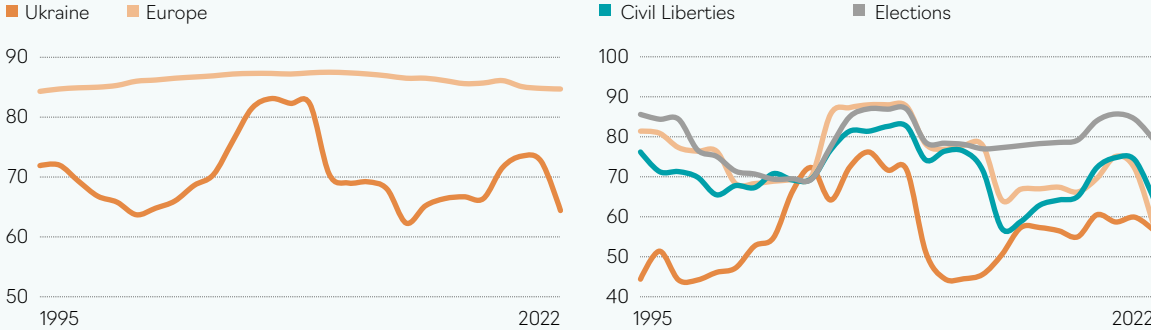
	2022		Change Since 2013	
	Ukraine	Region	Ukraine	Region
Freedom rank	114	-	2	-
Freedom score	52.2	78.6	0.4%	-0.7%
Economic Subindex	53.4	80.1	10.5%	2.0%
Political Subindex	64.4	84.7	-5.3%	-2.5%
Legal Subindex	38.7	71.0	-2.2%	-1.5%

Economic Subindex



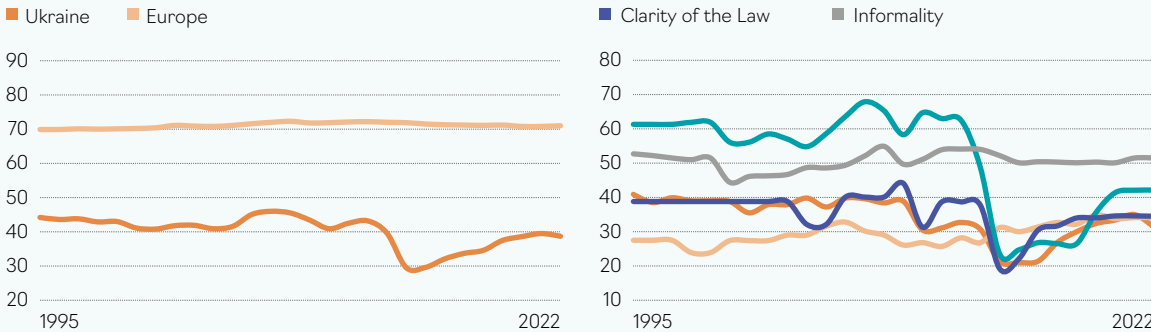
	2022		Change Since 2013	
	Ukraine	Region	Ukraine	Region
Women's Economic Freedom	66.7	93.6	0.0%	4.8%
Investment Freedom	36.8	77.2	75.0%	3.4%
Trade Freedom	65.5	79.5	-2.5%	-1.8%
Property Rights	44.6	70.1	15.8%	1.2%

Political Subindex



	2022		Change Since 2013	
	Ukraine	Region	Ukraine	Region
Legislative Constraints on the Executive	56.6	77.5	24.1%	-0.6%
Political Rights	57.6	84.5	-26.0%	-4.1%
Civil Liberties	64.4	87.4	-10.1%	-3.5%
Elections	79.2	89.5	2.8%	-1.4%

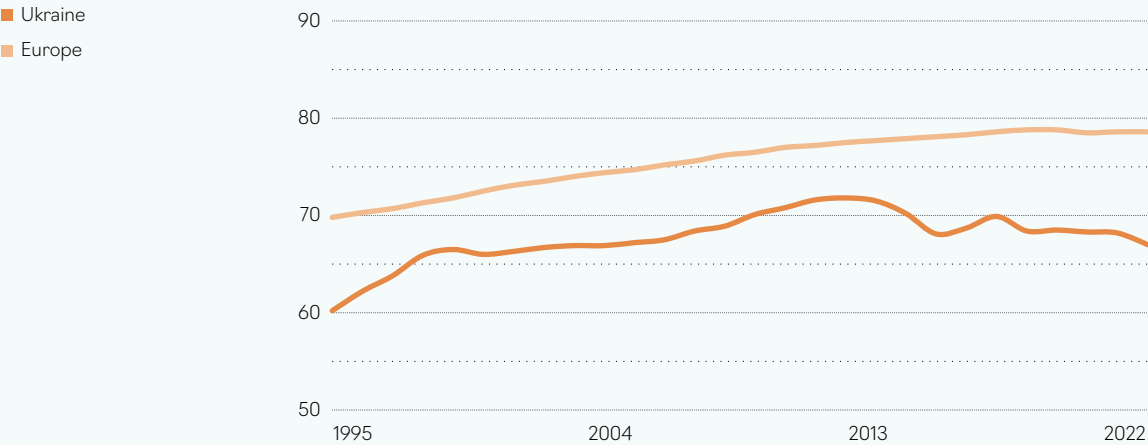
Legal Subindex



	2022		Change Since 2013	
	Ukraine	Region	Ukraine	Region
Judicial Independence and Effectiveness	31.3	75.3	1.9%	-2.1%
Bureaucracy and Corruption	34.1	62.5	27.2%	-0.2%
Security	42.1	73.2	-13.4%	-2.8%
Clarity of the Law	34.5	65.4	-8.6%	-4.0%
Informality	51.5	78.8	-4.6%	1.8%

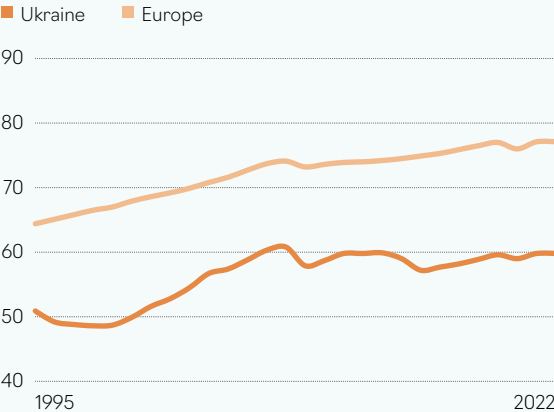
Prosperity Index

1995-2022



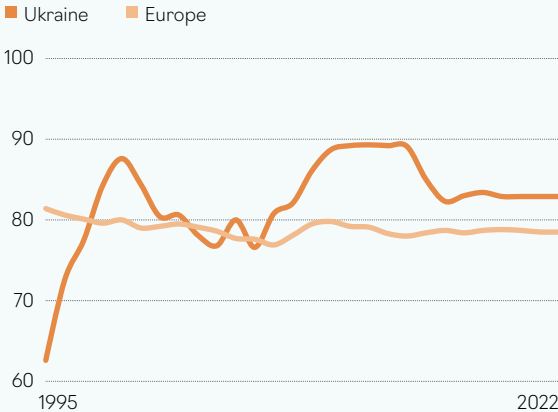
	2022		Change Since 2013	
	Ukraine	Region	Ukraine	Region
Prosperity rank	60	-	-15	-
Prosperity score	67.0	78.6	-6.2%	1.1%

Income

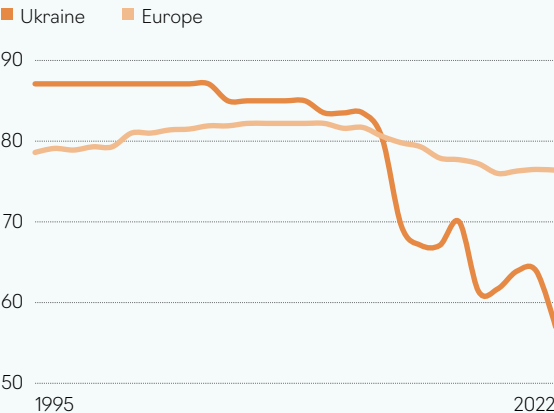


	2022		Change Since 2013	
	Ukraine	Region	Ukraine	Region
Income	59.8	77.1	-0.2%	4.0%
Inequality	82.9	78.5	-7.1%	0.2%

Inequality

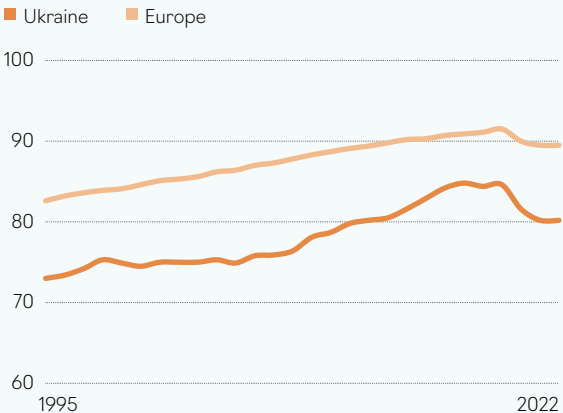


Minority Rights

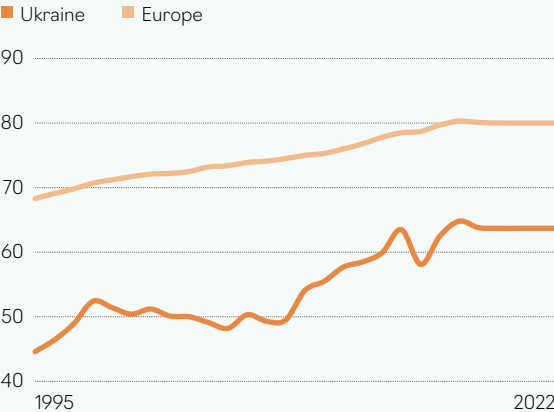


	2022		Change Since 2013	
	Ukraine	Region	Ukraine	Region
Minority Rights	57.0	76.4	-29.1%	-5.3%
Health	80.2	89.5	-0.4%	-0.3%

Health

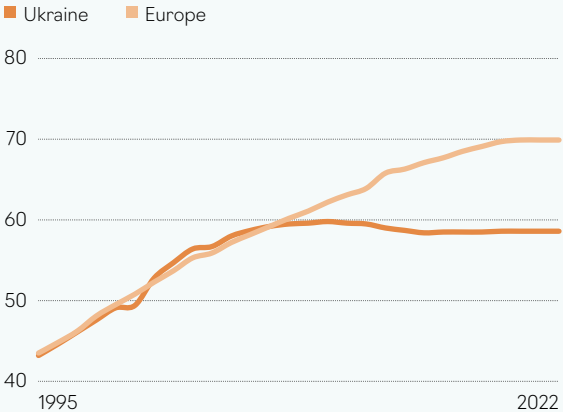


Environment



	2022		Change Since 2013	
	Ukraine	Region	Ukraine	Region
Environment	63.7	80.0	6.4%	2.9%
Education	58.6	69.9	-0.7%	6.3%

Education



# Evolution of Freedom

The flat trend of the **Freedom Index** between 1995 and 2004 mainly reflects the presidency of Leonid Kuchma, a “red” premier with a Soviet mentality who was not particularly interested in building democracy. The Orange Revolution and the new presidency of Viktor Yushchenko, which began in 2005, brought significant change towards democracy, political freedom, and economic liberalization. These reforms are clearly picked up by the **political freedom** subindex. In particular, the indicator concerning legislative constraints on the executive seems to be reflecting the substantial changes in the Constitution introduced during this period, that reduced the power of the president in favor of the parliament.

The Freedom Index, and especially the political freedom subindex, starts declining in 2010 with Viktor Yanukovich as president. This period represents a clear backsliding in terms of democratic reform, which intensified in 2013–14 when the government tightened the screws on civil society and the economy. The subsequent recovery is attributable to the Revolution of Dignity (also known as the Euromaidan), with several positive changes towards liberalization in political and economic terms. For example, the press became much freer and more independent. Nowadays, in the midst of the Russian invasion, it is hard to measure the degree of freedom in Ukraine because martial law imposes many restrictions.

The **economic freedom** subindex reflects the ups and downs of Ukraine’s economy in the last three decades. Generally, the level of investment freedom in Ukraine is significantly lower than in other countries of the former Soviet bloc that introduced much more radical reforms upon independence (e.g., the Baltic states). This low level is consistent with other measures of openness; for example, the Chinn-Ito index of restrictions on capital accounts paints a similar picture. Although

Ukraine tried to open up, various steps toward liberalization were rolled back when the country faced economic and security crises. For instance, the government introduced stricter capital controls during the global financial crisis of 2008–09 to tame the panic. At the same time, Ukraine’s external trade has been a success story. Not only did Ukraine become much more integrated in global markets, but it was also able to redirect trade away from Russia after Russia annexed Crimea and occupied parts of the Donbas in 2014. Ukraine generally has few barriers to cross-border flows of goods and services. These very divergent trajectories for capital openness versus trade openness are also shown in the components of the economic freedom subindex.

The lack of improvement in **legal freedom** from 1995 to 2014 could be explained by the fact that, unlike other Eastern European countries, Ukraine did not institute a radical reform of its legal architecture on independence. Instead, there were small incremental changes from the Soviet system. For example, the labor code was written in the 1970s, and only sporadic, piecemeal changes have been made since then to make it a little more modern. As a result, the Ukrainian legal system is fraught with contradictions and inconsistencies. The history of the Constitution illustrates the complexity and ever-changing nature of the legal system. After being adopted in 1996 (which is a slow start relative to peer countries), the Constitution was amended in 2004 to limit presidential powers. President Yanukovich cancelled these amendments in 2010 before they were reinstated after the Revolution of Dignity in 2013–14. The big drop in legal freedom in 2014 is mainly driven by a plummeting security component, which reflects Russia’s annexation of Crimea and partial occupation of the Donbas.

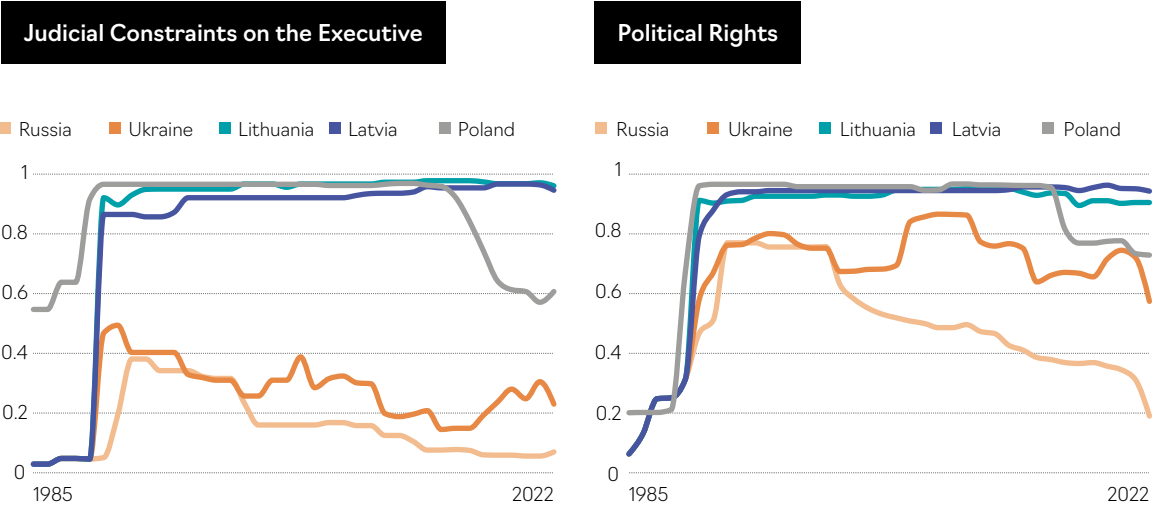
These dynamics are consistent with Figure 1 below, which shows the evolution of two indexes

produced by the V-Dem Project—on judicial constraints on the executive and on political rights—since 1985. Upon the fall of the Berlin Wall in 1989, the path toward free institutions is markedly different for Ukraine than it is for other nations in the orbit of the USSR. While Latvia, Lithuania, and Poland quickly reached very high scores on both indexes, Ukraine followed the much weaker Russian reform path until the year 2000. With the turn of the century, Ukraine departs from the declining trend of Russia, but it still lags behind its more successful neighbors.

One can see how the low level of legal and economic freedom generates inefficiencies

and deters economic development in Ukraine by looking at the sectors and firms that are thriving. For example, the IT sector in Ukraine is very competitive and successful in the global market because it does not require a lot of physical capital. Instead, the IT sector is based on human capital which is much harder to expropriate than physical capital. This means that the sector does not need to rely on the judicial system as much as other sectors. Similarly, the agricultural sector, another highly successful part of the Ukrainian economy, is very decentralized, which creates competition and limits the power of oligarchs or other vested interests.

Figure 1. Institutional reform in selected countries (1985–2022)



Note: For the period 1985–89, the scores of Russia, Ukraine, Latvia, and Lithuania are those of the USSR.  
Source: V-Dem Dataset’s Judicial Constraints on the Executive Index (left), and Political Civil Rights Index (right).

## From Freedom to Prosperity

The evolution of the income component for Ukraine is very positive from 1995 up until the global financial crisis of 2008. During this period, the country experienced a fast recovery from the initial shock of transitioning from the Soviet system. A giant economic boom was fueled by easy credit and inflows of foreign direct investment. This economic expansion was halted by the global financial crisis. The banking sector was hit particularly hard and accumulated a large share of nonperforming loans. With no political will to reform the financial sector, banks became “zombie” institutions, weighing down the broader economy. Weakened by the financial crisis, the economy went through another massive upheaval after the Russian aggression of 2014. Although Ukraine implemented many reforms since 2014, and was thus more prepared to withstand the COVID-19 shock, security concerns weighed heavily on the country, depressing investment and consumption. In short, since 2008 the country has not been an attractive place to invest and produce, leading to the stagnant income we can see over the last fifteen years. The full-scale Russian invasion of Ukraine in 2022 obviously made the economic landscape even more difficult.

Data on inequality are always difficult to analyze, especially so for Ukraine because of its large informal sector. Although this factor distorts the level of inequality, examining changes in this component can still be a revealing exercise. For example, the distribution of income becomes more equal during the 1990s because incomes contracted deeply for nearly everyone due to the collapse of the previous system, hyperinflation, and so on. Inequality rose in the early 2000s as the economic recovery benefited some people more than others. The so-called oligarchs were clear winners, and this was the period in which they consolidated their economic and political power. From 2008 on, it is very hard to unpick the true

evolution of inequality because of the deep crises the country faced: The global financial crisis of 2008–09 affected the population highly unevenly. The Russian annexation of Crimea and partial occupation of the Donbas displaced millions of people. The COVID-19 pandemic had heterogeneous effects on the economy and on different groups within the population. And then the fog of the current war makes any estimates of inequality tentative at best.

The very clear negative evolution of the minority rights component of the **Prosperity Index**, which measures religious freedom, is surprising. There is little indication that any ethnic or religious group is persecuted in Ukraine. Perhaps this dynamic reflects the fact that Ukraine was trying to limit the influence of a Russian “fifth column.” For example, Ukraine established a Ukrainian orthodox church, independent of Moscow, and has encouraged communities to switch from the Moscow patriarch to the Kyiv metropolitan. This may create formal signs of reduced rights of minorities but there have been hardly any objective impediments to citizens practicing their faith, or exercising their religious freedom. Indeed, religious and other minorities are well represented at the highest levels in Ukraine: President Zelenskyy is himself a Jew and Minister of Defense Umerov is a Crimean Tatar.

Regarding education, the divergence from the European average that seems to have started in 2005–06 does not have an obvious explanation. The capacity of universities in Ukraine exceeds the size of the graduating classes from high school. Therefore, anyone who wants to go to college can do so without problems. Surprisingly, this trend was not reversed by the economic crisis of 2008–10, because people delay entering the labor market in recessions and pursue further education in order to wait for better employment prospects. The trend away from the European average is perhaps partly

explained by the fact that many more Ukrainians study abroad (the number more than tripled from 2007 to 2019) and it is possible that their educational attainment is not being properly recorded. Unfortunately, Ukraine has not had a census since 2001 and thus reliable data on socioeconomic outcomes are scarce.

The improvement in the environmental indicator in the 2004–14 period is most likely capturing the fact that Soviet-era heavy industry was clearly declining, and losing ground relative to other sectors of the economy like services. For example, the improvement in the indicator begins in 2007–08. This timing is consistent with the fact that the metals industry, a heavy polluter, was decimated during the global financial crisis (production declined by approximately 60 percent) and even after recovery, production stood at roughly 60 percent of its pre-crisis level. However, some of the improvement in the environment indicator is

in line with a deliberate, but modest government policy to tighten environmental standards.

The initial level of the health indicator was very low. Heavy pollution, high consumption of alcohol, widespread smoking, and the low quality of healthcare services are clear contributors. From its low base, Ukraine could and did improve health outcomes through effective policies, a stronger economy, and a changing culture. For example, successive governments in Ukraine have consistently increased taxes on tobacco and alcohol, and higher incomes have helped to improve diet and access to food. The public healthcare system was largely unreformed until 2014, but after the Revolution of Dignity, the government pushed different measures to make the healthcare system more patient-centric, improve access, and reduce corruption. The system remains largely government run but there has been some entry of private providers in large cities.

## The Future Ahead

The future of Ukraine will be shaped by its accession to the European Union (EU) and NATO. Joining the EU requires a lot of convergence—and hence upgrades—in terms of the legal structures, economic conditions, and environmental/health standards. The experience of Poland and other former communist countries suggests that Ukraine will see radical improvements after accession, in labor productivity, market access, infrastructure and other key metrics of economic progress. Joining NATO will be critical for addressing security concerns. To put it bluntly, if Ukraine were to join NATO, Russia would not be able to attack it again. NATO can guarantee peace and thus make Ukraine an investable country and allow refugees to return.

Obviously, with the ongoing war, any outlook is highly uncertain. However, one should flag two challenges for Ukraine.

First, there is a widespread perception that the Ukrainian judicial system does not adequately protect private property or the individual rights of citizens, and does not act as an effective check on executive power and corruption. This is a fundamental challenge that needs to be addressed in the next five to ten years if the country is to become a success story.

Second, the war will leave many scars on the country. These will be destroyed factories and homes (although rebuilding these could allow the country to modernize its infrastructure and productive capacity), and also huge swaths of land

will have to be de-mined. Millions of Ukrainians are displaced; many (likely more than a million) will be veterans who will need reintegration into civilian lives, and hundreds of thousands will need medical attention (lost limbs, post-traumatic stress, etc.). Furthermore, there will be a whole generation of children who have not received a proper education through the years of COVID-19 and war. The losses of human capital are enormous and hard to reverse. Ukraine will need the help of its allies and deliberate policies to recover from these adversities.

**Yuriy Gorodnichenko**

Yuriy Gorodnichenko is Quantedge Presidential Professor at the Department of Economics, University of California, Berkeley. He received his BA and MA at EERC/Kyiv-Mohyla Academy (Kyiv, Ukraine) and his PhD at the University of Michigan. He is broadly interested in macroeconomics and issues related to transition economies (especially, labour markets and firm performance).

Gorodnichenko serves on many editorial boards, including *Journal of Monetary Economics* and *VoxUkraine*. He is also affiliated with NBER and IZA.

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# Latin America & the Caribbean

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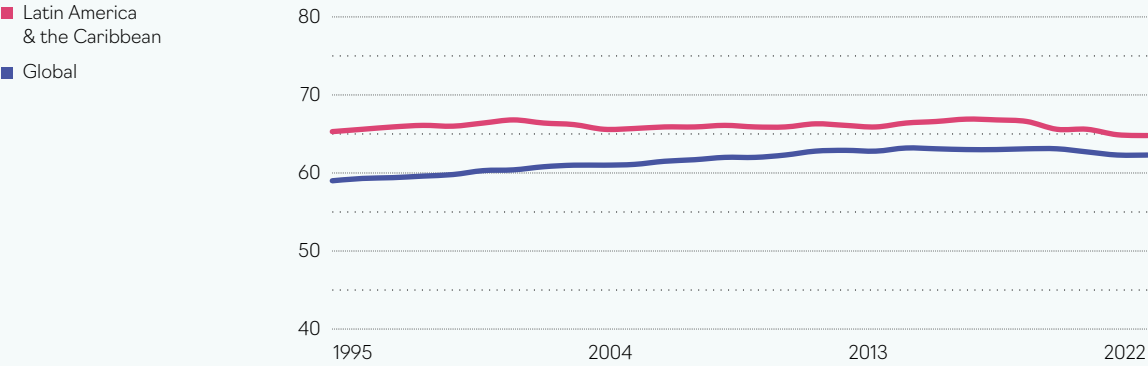
Latin America & the Caribbean: Regional Ranking

	Freedom			Prosperity		
	Rank	Score	Status	Rank	Score	Status
Costa Rica	28	82.6	Free	48	70.4	Mostly Prosperous
Uruguay	30	81.5	Free	41	75.2	Mostly Prosperous
Chile	31	81.4	Free	46	71.6	Mostly Prosperous
Barbados	42	76.8	Free	42	75.0	Mostly Prosperous
Jamaica	46	74.9	Mostly Free	77	64.6	Mostly Unprosperous
Peru	49	73.6	Mostly Free	71	65.6	Mostly Prosperous
Trinidad and Tobago	53	72.6	Mostly Free	50	70.3	Mostly Prosperous
Panama	54	72.5	Mostly Free	45	71.7	Mostly Prosperous
Suriname	62	69.2	Mostly Free	68	65.8	Mostly Prosperous
Colombia	63	68.9	Mostly Free	70	65.6	Mostly Prosperous
Dominican Republic	65	68.3	Mostly Free	64	66.1	Mostly Prosperous
Paraguay	70	66.7	Mostly Free	65	66.0	Mostly Prosperous
Brazil	74	65.9	Mostly Free	89	61.8	Mostly Unprosperous
Ecuador	76	65.6	Mostly Free	54	68.9	Mostly Prosperous
Argentina	77	65.4	Mostly Free	36	76.7	Mostly Prosperous
Guyana	79	64.1	Mostly Free	87	62.2	Mostly Unprosperous
Mexico	90	61.0	Mostly Free	90	61.4	Mostly Unprosperous
Honduras	91	60.8	Mostly Free	107	58.0	Mostly Unprosperous
Guatemala	100	57.8	Mostly Free	103	58.3	Mostly Unprosperous
Bolivia	105	55.8	Mostly Free	81	63.6	Mostly Unprosperous
El Salvador	115	51.1	Mostly Unfree	62	66.6	Mostly Prosperous
Haiti	129	46.4	Mostly Unfree	141	49.4	Unprosperous
Nicaragua	148	37.3	Mostly Unfree	108	57.5	Mostly Unprosperous
Venezuela	152	34.4	Unfree	96	60.5	Mostly Unprosperous

Countries are organized in descending order based on their Freedom scores, with "Rank" denoting global rankings.

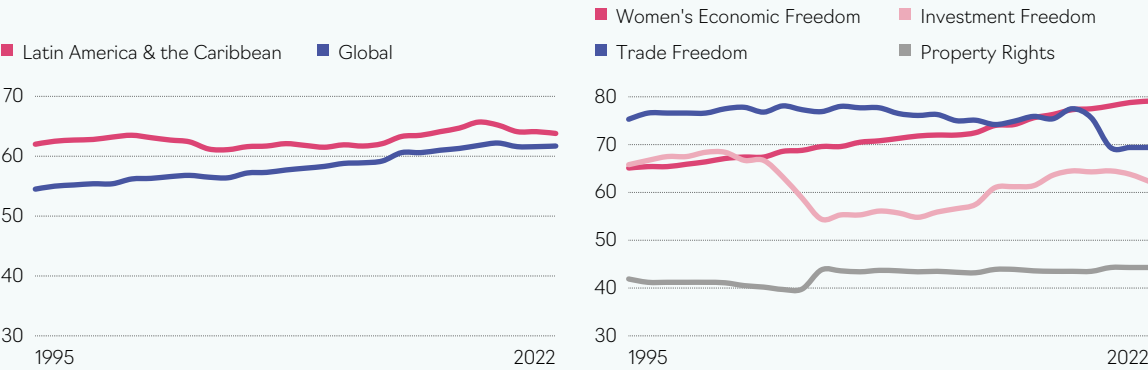
# Freedom Index

1995-2022



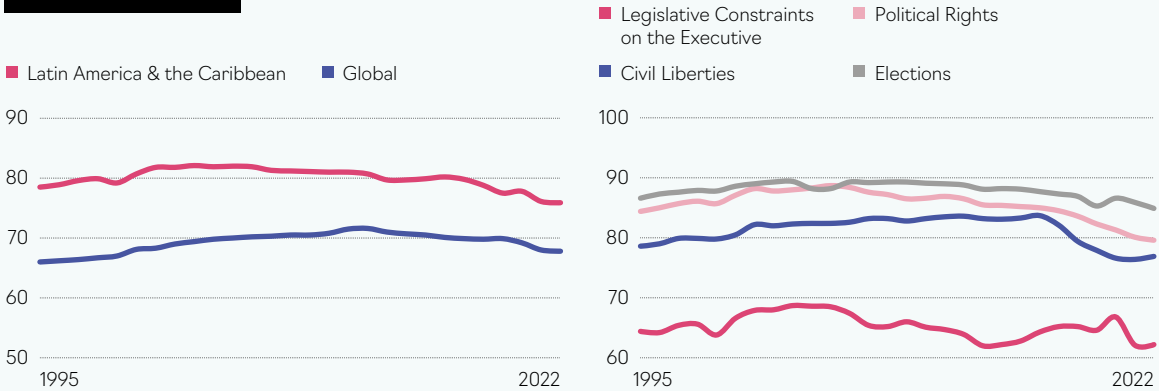
	2022		Change Since 2013	
	Region	Global	Region	Global
Freedom score	64.8	62.3	-1.8%	-0.8%
Economic Subindex	63.8	61.7	2.7%	4.2%
Political Subindex	75.9	67.8	-4.8%	-4.6%
Legal Subindex	54.6	57.3	-2.5%	-1.4%

## Economic Subindex



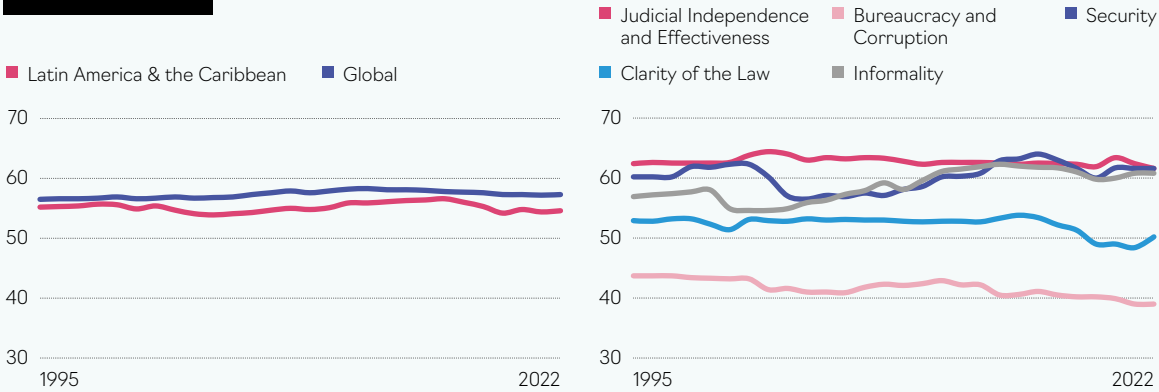
	2022		Change Since 2013	
	Region	Global	Region	Global
Women's Economic Freedom	79.1	72.4	9.0%	10.0%
Investment Freedom	62.3	59.6	8.4%	8.2%
Trade Freedom	69.4	65.2	-7.6%	-5.1%
Property Rights	44.3	51.2	2.5%	4.4%

## Political Subindex



	2022		Change Since 2013	
	Region	Global	Region	Global
Legislative Constraints on the Executive	62.2	58.3	0.4%	-3.8%
Political Rights	79.6	67.0	-6.9%	-6.9%
Civil Liberties	76.9	69.6	-7.6%	-3.8%
Elections	84.9	76.2	-3.6%	-3.9%

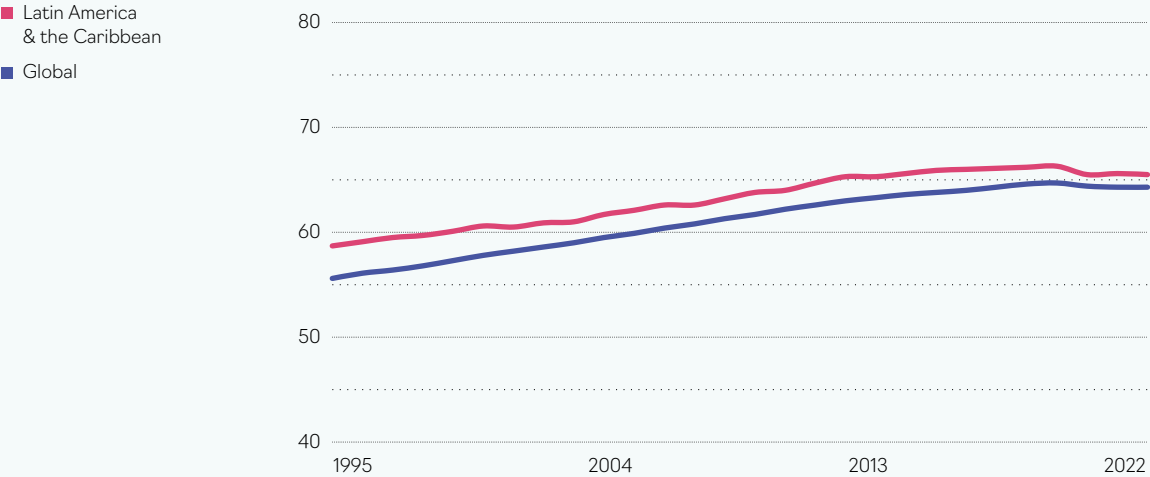
## Legal Subindex



	2022		Change Since 2013	
	Region	Global	Region	Global
Judicial Independence and Effectiveness	61.6	59.4	-1.7%	-1.9%
Bureaucracy and Corruption	39.0	45.3	-7.6%	-0.3%
Security	61.6	60.2	1.3%	-1.4%
Clarity of the Law	50.2	52.5	-4.8%	-2.9%
Informality	60.8	70.2	-1.7%	-0.2%

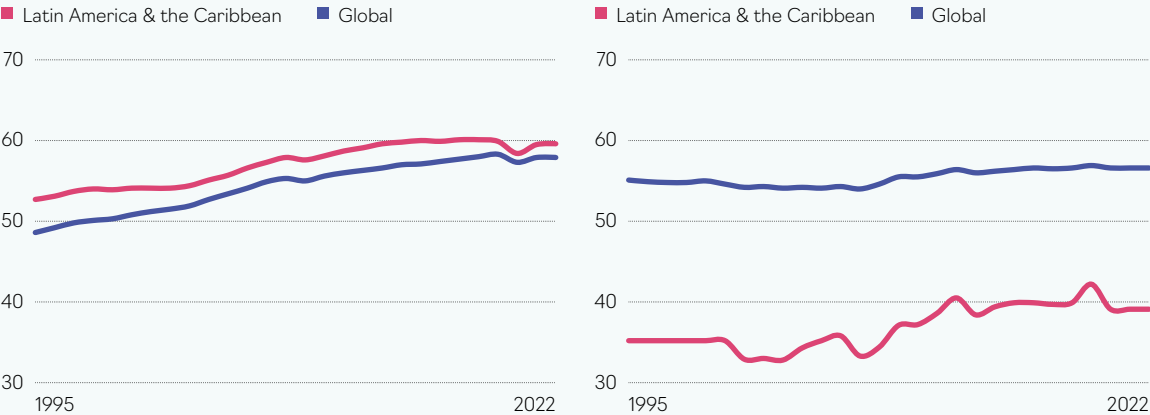
Prosperity Index

1995-2022



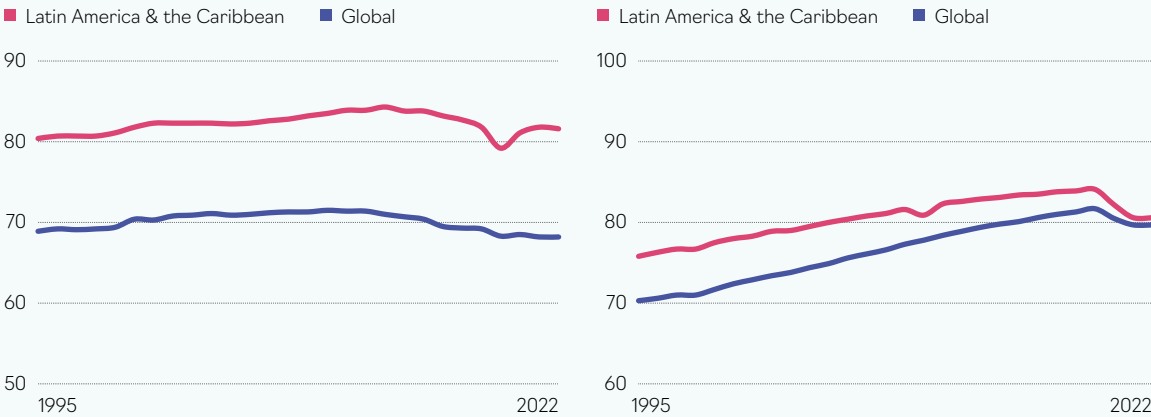
	2022		Change Since 2013	
	Region	Global	Region	Global
Prosperity score	65.5	64.3	0.3%	1.5%

Income



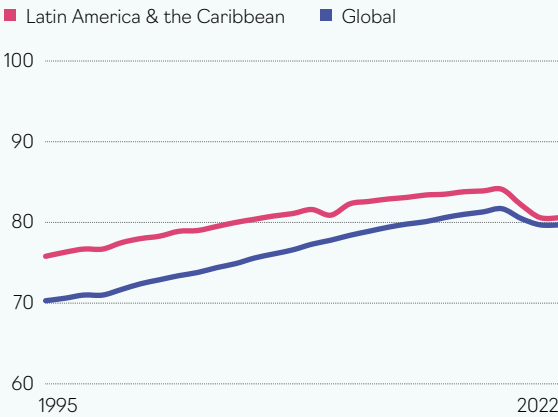
	2022		Change Since 2013	
	Region	Global	Region	Global
Income	59.6	57.9	0.0%	2.3%
Inequality	39.1	56.6	1.7%	0.9%

Minority Rights

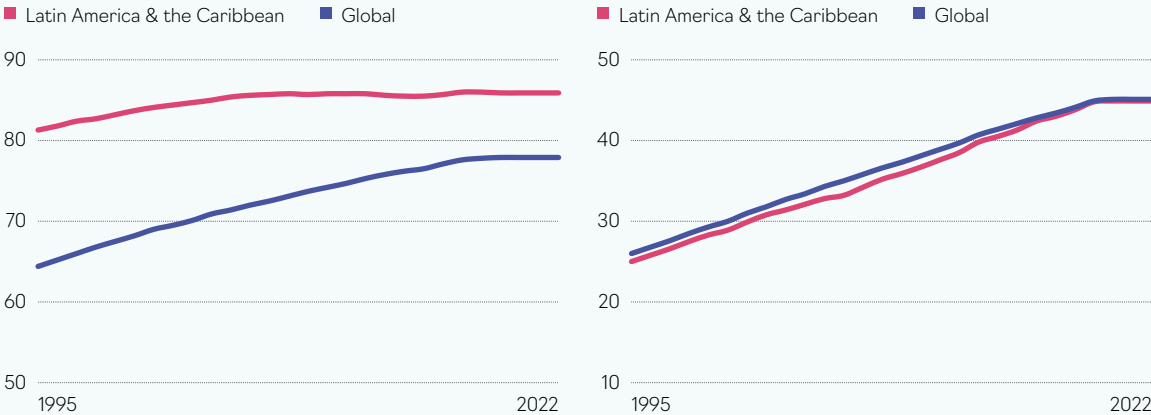


	2022		Change Since 2013	
	Region	Global	Region	Global
Minority Rights	81.6	68.2	-3.2%	-4.0%
Health	80.6	79.7	-2.8%	0.4%

Health

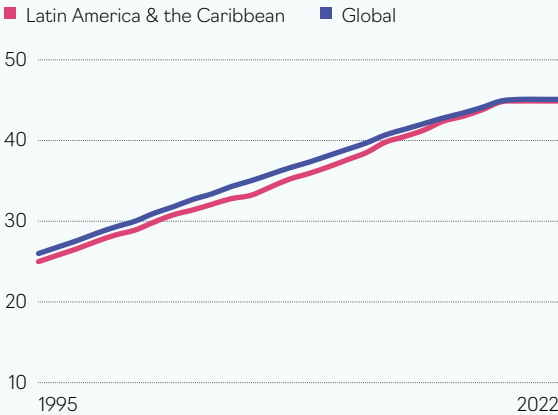


Environment



	2022		Change Since 2013	
	Region	Global	Region	Global
Environment	85.9	77.9	0.3%	2.8%
Education	44.9	45.1	13.0%	10.8%

Education



# Argentina

Guido Sandleris

## Socioeconomic Data 2022

### General Information

POPULATION	LIFE EXPECTANCY (2021)
<b>46.23 million</b>	<b>75 years</b>
RELIGION (2010)	ETHNIC FRACTIONALIZATION (2013)
Christian → 85.2%	
Unaffiliated → 12.2%	<b>0.16</b>

### Economic Data

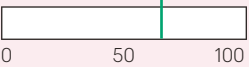
GDP PER CAPITA	INFLATION (2016)
<b>22,447</b>	no data
% of US GDP pc → 34.7%	
GDP pc Growth → 4.3%	
DEPT/GDP (GENERAL 2021)	TRADE/GDP
<b>80.9%</b>	<b>32.0%</b>
UNEMPLOYMENT (2021)	
<b>8.7%</b>	
SECTORAL ALLOCATION	
Agriculture → 7.7%	
Industry → 28.3%	
Services → 64.0%	
GINI COEFFICIENT (2021)	
<b>37.8</b>	

### Freedom Index



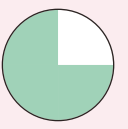
STATUS  
**Mostly free**

SCORE  
**65.4**



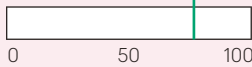
RANK  
**77/164**

### Prosperity Index



STATUS  
**Mostly prosperous**

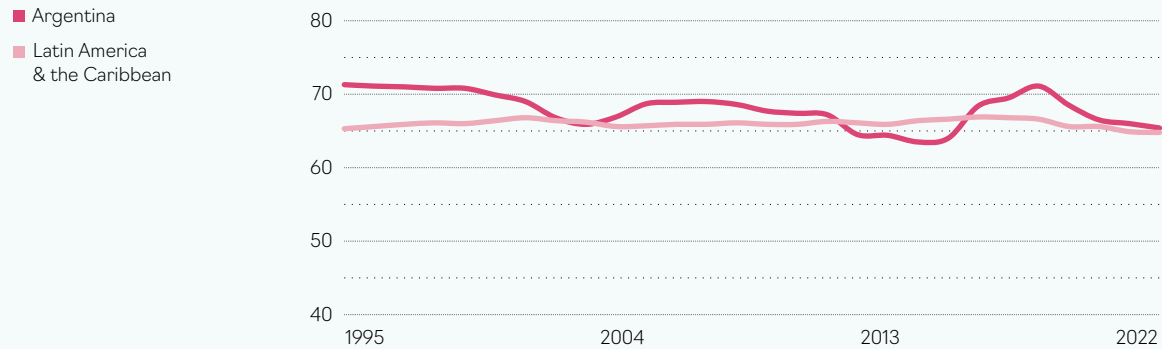
SCORE  
**76.7**



RANK  
**36/164**

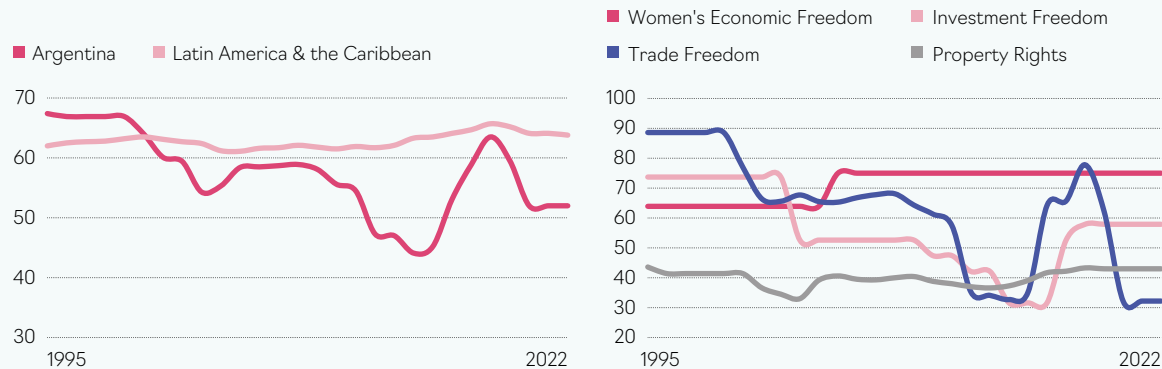
## Freedom Index

1995–2022



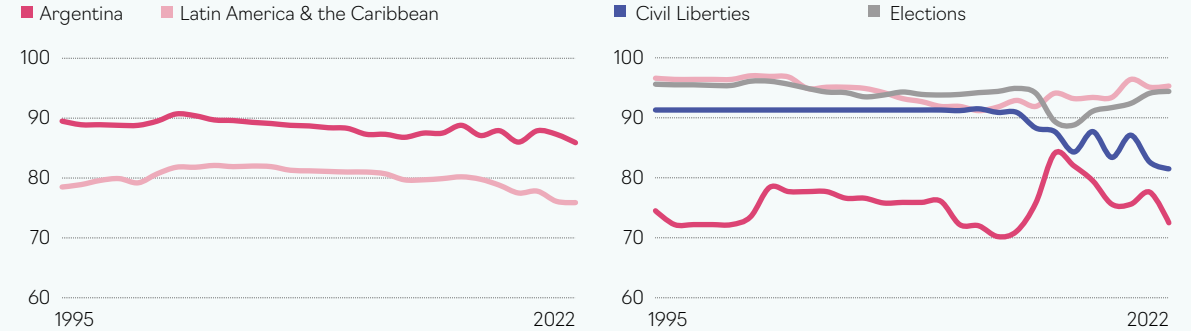
	2022		Change Since 2013	
	Argentina	Region	Argentina	Region
Freedom rank	77	–	-2	–
Freedom score	65.4	64.8	1.6%	-1.8%
Economic Subindex	52.0	63.8	10.7%	2.7%
Political Subindex	85.9	75.9	-1.0%	-4.8%
Legal Subindex	58.3	54.6	-1.8%	-2.5%

## Economic Subindex



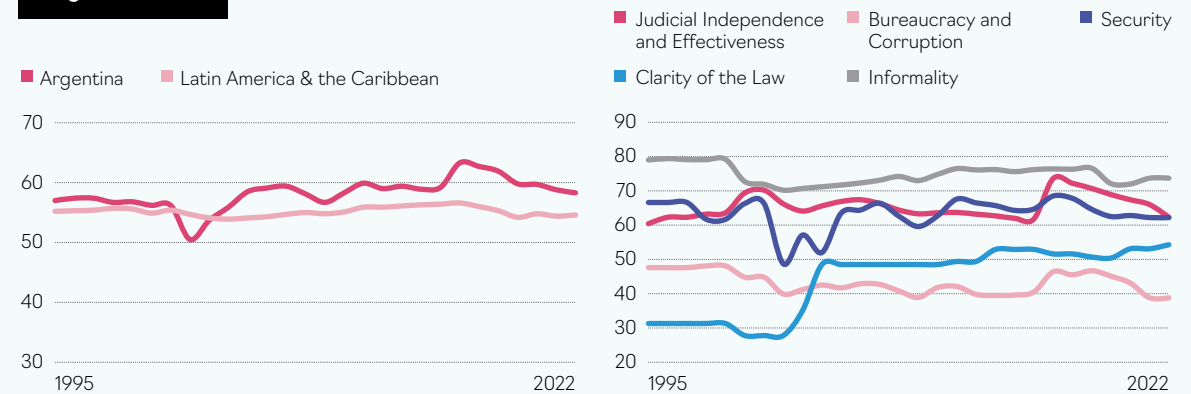
	2022		Change Since 2013	
	Argentina	Region	Argentina	Region
Women's Economic Freedom	75.0	79.1	0.0%	9.0%
Investment Freedom	57.9	62.3	37.5%	8.4%
Trade Freedom	32.2	69.4	-5.8%	-7.6%
Property Rights	43.0	44.3	17.4%	2.5%

## Political Subindex



	2022		Change Since 2013	
	Argentina	Region	Argentina	Region
Legislative Constraints on the Executive	72.5	62.2	3.3%	0.4%
Political Rights	95.3	79.6	3.8%	-6.9%
Civil Liberties	81.5	76.9	-10.4%	-7.6%
Elections	94.4	84.9	0.0%	-3.6%

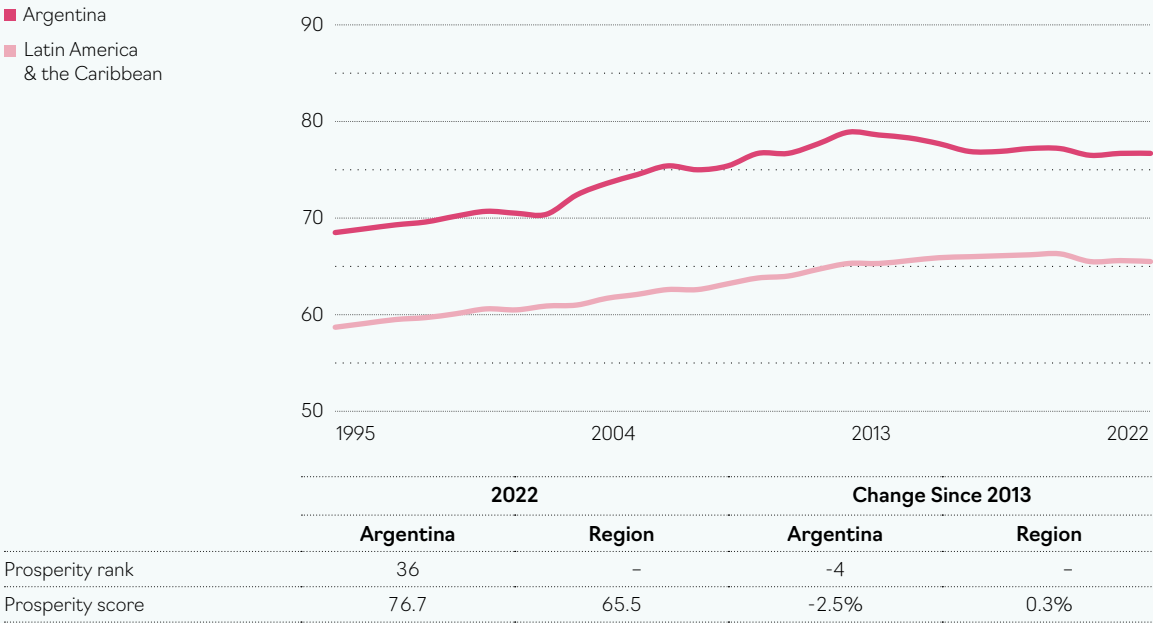
## Legal Subindex



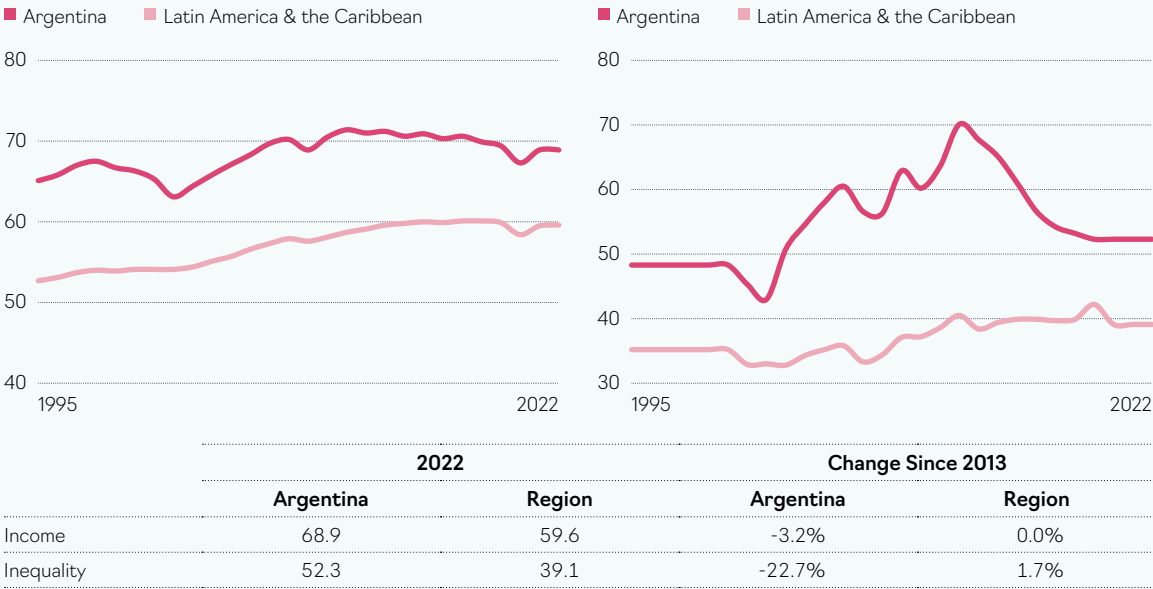
	2022		Change Since 2013	
	Argentina	Region	Argentina	Region
Judicial Independence and Effectiveness	62.3	61.6	-0.5%	-1.7%
Bureaucracy and Corruption	38.8	39.0	-1.7%	-7.6%
Security	62.2	61.6	-5.3%	1.3%
Clarity of the Law	54.3	50.2	2.8%	-4.8%
Informality	73.7	60.8	-3.3%	-1.7%

Prosperity Index

1995-2022



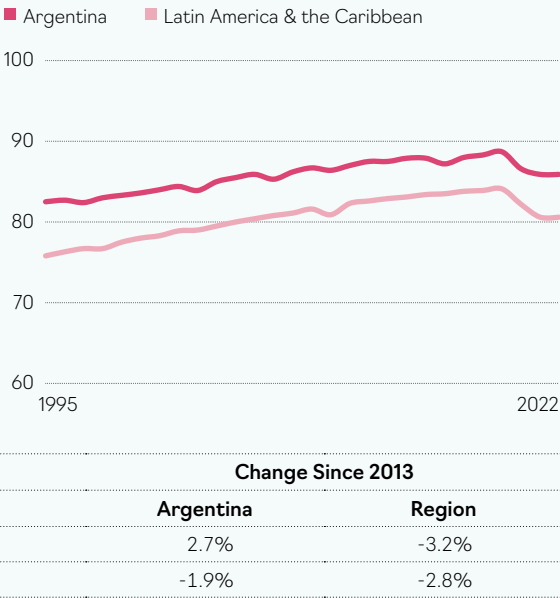
Income



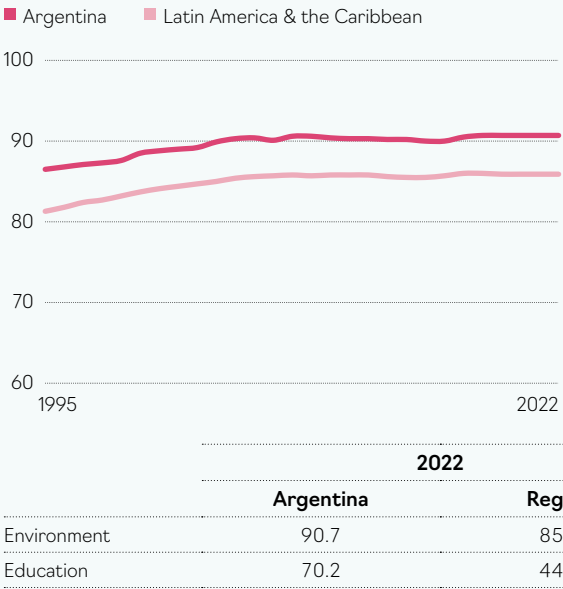
Minority Rights



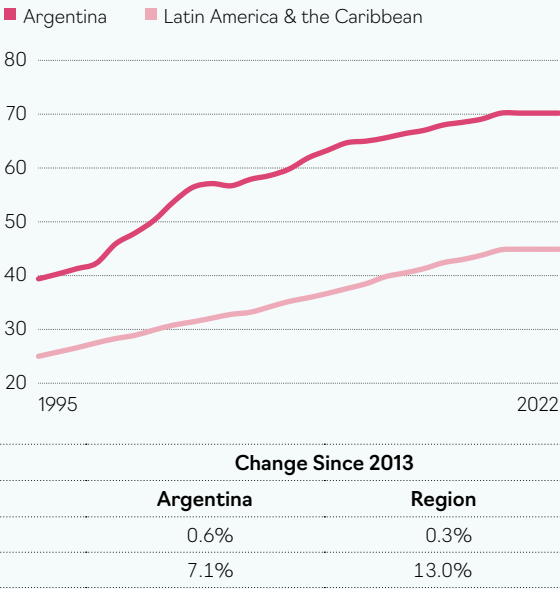
Health



Environment



Education



## Evolution of Freedom

The aggregate **Freedom Index** for Argentina correlates very well with the political events that have taken place in Argentina since the 1990s. Following the hyperinflation of 1989, Carlos Menem, from the right wing of the Peronist Party became president. He introduced significant market-friendly reforms embracing the Washington consensus and, in 1991, a currency board (known as the “convertibility regime”). This policy mix managed to lower inflation and generate almost a decade of growth. However, insufficient fiscal adjustment, the rigidities in the economy, and the overvaluation of the real exchange rate under the currency board pushed unemployment upward. The situation worsened following the Asian crisis in 1997 and the Brazilian Real devaluation in 1998. The convertibility regime, with its fixed exchange rate, made it difficult for Argentine exports to remain competitive. The economy fell into a recession and unemployment continued climbing. In 1999 the opposition, led by Fernando de la Rúa, won the elections but was unable to solve the economic puzzle created by the exchange rate overvaluation under the convertibility regime and an economy in stagnation. The recession turned into a deep crisis by 2001. The 2001–02 crisis was the equivalent of the Great Depression for Argentina, with output falling by around 20 percent. The crisis included a sovereign debt default, bank runs that forced the government to introduce a *corralito* (restrictions on the withdrawal of funds), and deep social unrest. These events led to the resignation of President Fernando de la Rúa in December 2001, and, after a few weeks of political upheaval, a more centrist Peronist government led by Eduardo Duhalde replaced him. The convertibility regime was abandoned and a backlash against the market-friendly reforms of the 1990s ensued.

The left wing of the Peronist party won the 2003 presidential elections under Néstor Kirchner.

He governed from 2003 to 2007, and was succeeded as president by his wife Cristina Fernández de Kirchner who took office until 2015. Néstor Kirchner managed to reestablish the credibility of the political system, which had been severely affected by the 2001/02 crisis. However, he and his wife ran typical left-wing populist administrations that benefited from a very favorable international economic environment with high commodity prices (between 2002 and 2008 the price of soy, Argentina’s main commodity export, went from US\$189 per ton to US\$453 per ton) and low US interest rates. They used the commodity windfall to significantly increase public spending, from 22 percent of gross domestic product (GDP) in 2003 to 41 percent of GDP in 2015. Such a policy, though unsustainable, made Néstor Kirchner and Cristina Fernández’s governments popular, and allowed them to build a new political dynasty. However, in the process, the high public spending seriously damaged the ability of the economy to grow. Between 2012 and 2015, as the commodity boom ended and the effects of the imbalances of the previous years started to show up, the economy stagnated, the fiscal situation worsened, and inflation continued to increase. The government introduced a series of restrictions and distortions, in particular in terms of the ability of citizens and firms to access foreign exchange. We can clearly observe how the deteriorating economic environment is reflected in a decline in the overall **economic freedom** subindex during these years.

President Mauricio Macri, leader of the political coalition Cambiemos, took office in December 2015. He took the reins of an economy that was in default and with a large primary fiscal deficit (around 4 percent of GDP in 2015). In addition, there were a number of significant problems and distortions to address. The real exchange rate was overvalued and, in spite of the presence of import

restrictions, the current-account deficit was significant. Exports had declined in the four previous years and net international reserves at the Central Bank were negative, despite the capital controls. Annual inflation was 30 percent and there was a large excess supply of pesos due to the monetary financing of the fiscal deficit in the previous years. And the prices paid for public utilities prices were severely distorted, covering only a quarter of their cost of production. However, the narrow runoff electoral victory (51 percent to 49 percent) did not provide President Macri with a mandate to overhaul the Argentine economy. Besides, the governing coalition was in the minority in Congress and had little territorial power. In spite of these political weaknesses, Macri’s government immediately implemented a number of market-friendly reforms: restrictions on capital flows were eliminated, policies that increased competition in several sectors of the economy were put in place, and the institutional framework was strengthened. At the same time, the government gradually began to balance the budget, which meant taking unpopular measures. The overall Freedom Index increases sharply over these years, capturing the impact of these reforms.

The slow pace at which the fiscal imbalance was corrected—together with the strict monetary/exchange rate regime adopted—implied that the government had to rely on international credit markets to finance the fiscal deficit. This strategy made the economy vulnerable if external financing were to dry up. This is precisely what happened in early 2018 when the US Federal Reserve increased its interest rates, causing a sudden stop in international lending to emerging economies. At the same time a severe drought hit the country. These external factors, together with the strong resistance of the opposition in Congress to the needed fiscal adjustment reforms, triggered a run on the currency in April 2018 and drove the economy into recession again.

Although Macri’s administration improved the macroeconomic fundamentals and corrected

the imbalances and relative price distortions of the Argentine economy, the results were not felt by the average citizen by 2019. Inflation was still high, around 50 percent, and the economy had been in recession in three out of the four years Macri held office. In the 2019 elections Kirchnerism came back to power. This time former president Cristina Fernández de Kirchner was vice president and Alberto Fernández the president. The new government rolled back most of the economic reforms introduced to favor free and competitive markets, and attempted to curtail the independence of the judicial system. Strong opposition from Juntos por el Cambio (formerly Cambiemos) in Congress prevented this from happening. On the macroeconomic front the situation worsened significantly. Argentina’s response to the COVID-19 pandemic, like that of many other countries, included a sharp increase in the fiscal deficit and lax monetary policy. However, contrary to what happened in the rest of the world, this policy stance was reversed only very slowly once the pandemic ended. Besides, a new debt restructuring in 2020 meant that Argentina lost access to international credit markets, so the large fiscal deficit was financed with a combination of domestic debt and money creation. Capital controls and import restrictions were reintroduced, making access to Forex for firms and individuals a Kafkaesque experience. Both freedom and prosperity have suffered. After recovering from the pandemic, the economy fell back into a recession in the fourth quarter of 2022, and a new drought made things worse. The economy is expected to contract by 2 percent in 2023, the Central Bank has exhausted its international reserves, and inflation is expected to reach 210 percent in 2023. The overall Freedom Index again captures well the events of the last four years.

The sustained decrease in the **political freedom** subindex, starting in the early 2000s, can be explained by the fact that the Peronist governments of the Kirchners also benefited from

a majority in Congress. Between 2002 and 2015, Congress imposed no real restrictions on the executive, hence the very low score on this indicator. Instead, congressional constraints became very relevant for President Macri, because with a minority in Congress, it was hard to pass the legal reforms that his government sought. The fall in civil liberties since 2014 is probably capturing the social unrest of the time, but it is somewhat erratic, so probably it is also influenced by perceptions generated by very extraordinary events, such as the murder of Alberto Nisman, an attorney who had been leading the prosecution of government officials.

## From Freedom to Prosperity

The overall trend of the **Prosperity Index** generally resembles the evolution of income in the country. In the first decade of the century, the country grew thanks to very favorable external conditions (low global interest rates and high commodity prices). The effect of these conditions on growth became stronger as government spending also increased and monetary policy was lax. However, this policy mix proved to be unsustainable and the economy has more or less stagnated since 2011. On the contrary, sustainable economic policies usually involve short-term costs, and require time to exert their positive effects on the economy, but their fruits last longer.

The inequality indicator improved during the first decade of this century as growth and higher public spending reduced poverty. Of course, as argued above, the problem was the unsustainability of the policy mix. As expected, the situation has worsened since 2018, with the economic crisis and then the pandemic. Since 2021, the significant increase in inflation has increased poverty markedly.

The evolution of the health and education indicators clearly reflects the overall economic performance of the country. In emerging economies,

Regarding **legal freedom**, it seems that the component of bureaucracy and corruption captured well the changes in government, and the different approaches to public service. The score worsens in the 2003–15 years, improves slightly during the President Macri years, and again falls with the current government. A similar pattern is clear in the judicial independence indicator.

Overall, the graph of the Freedom Index shows very clearly the changes in economic and institutional policies that the Macri administration tried to implement, but also shows that many of those policies have been short lived.

growth tends to correlate very highly with other social outcomes. Among all Latin American countries for the last thirty years, the worst economic performer has been Venezuela, but Argentina follows closely behind. This poor evolution of GDP affects other measures, such as health. Moreover, while other countries in the region used the windfall of resources of the early 2000s to build a more resilient and sustainable economy, balance the budget, and control inflation, Argentina did just the opposite. The populist government increased government spending significantly, and did not invest in projects with high long-term social or economic returns in the areas of health or education. This is why Argentina now has the same GDP per capita that it had fifteen years ago.

Aside from a small increase in 2016, the environment indicator has remained virtually flat for the past twenty years. Around 2016 the government attempted to alter the country's energy mix in favor of renewable energies, but the effect was negligible.

Finally, although the education indicator shows that Argentina has improved more

rapidly than the regional average, PISA<sup>1</sup> scores for Argentina actually show a deterioration of the country's educational system. This contradiction might be the result of the methodology used to build the Index. The indicator included in

the Prosperity Index only measures average years of education, and this trend may have improved. But the quality of the educational system is most likely worsening, which again may hamper future economic growth.

## The Future Ahead

At the time of writing this commentary, Argentina has just held the runoff of the 2023 presidential elections. In a surprising outcome, Javier Milei, a libertarian economist turned politician just four years ago, has been elected with a clear 11 percentage point gap over Sergio Massa, current finance minister of the incumbent Peronist government.

Milei's election largely reflects the frustration that Argentines feel with the state of the economy. Kirchnerism dominated Argentine politics for sixteen of the last twenty years and the economic results have been disastrous for the country. The Macri administration (2015–19) corrected the fundamental macroeconomic imbalances, but could not generate positive results in terms of growth and inflation. Furthermore, the economic situation has worsened in the last four years. Monthly inflation in November 2023 was 12.8 percent, which implies an annualized rate of more than 300 percent, and in December monthly inflation was expected to be well above 20 percent. To put this in context, Argentina is experiencing each week the level of inflation that most countries would see in a year. Hand in hand with inflation, the poverty rate is now close to 42 percent of the population and the economy is in a recession.

Milei's campaign slogans can be basically summarized in four words: freedom, caste, chainsaw, and dollarization. The reference to freedom seems a reaction to the restrictions imposed during the

COVID-19 pandemic, which were particularly stringent in Argentina. The calls to remove the political "caste" are similar to those made by populist leaders in other countries, as a generalized way of blaming the country's problems on the political elites. The metaphor of the chainsaw was used by Milei to illustrate his aim to severely cut public spending. And finally, he proposed dollarization and the closure of the Central Bank of Argentina as a solution to the unbearable levels of inflation. This strategy allowed Milei to channel people's anger with the economic situation.

Like other political outsiders around the world, Milei has accurately identified many of the country's real problems (inflation, high and inefficient public spending, political capture, corruption, and so on), and has suggested who should be blamed and a series of easy solutions. And the Argentinian people have voted for this project. Nonetheless, just ten days after the elections, it was obvious that the solution is not going to be that easy, and Milei had already walked back on some of his positions. Dollarization was the first to go, as there are just not enough dollars in the Argentinian Central Bank to dollarize the economy, at least in the short run. To some degree, he is also walking back on the issue of the political caste, as he lacks an effective team of his own, forcing him to rely heavily on former officials of Juntos por el Cambio (Macri's coalition) and the moderate wing of the

<sup>1</sup> PISA is the OECD's Programme for International Student Assessment. PISA measures 15-year-olds' ability to use their reading, mathematics, and science knowledge and skills to meet real-life challenges.



Peronist party to advise and form his government. Moreover, Milei's party, La Libertad Avanza, is in a weak position in Congress so he will need to build consensus with the traditional parties in order to pass legislation. Overall, it seems that Milei will be forced by the internal and external situation to moderate his plans.

The litmus test of Milei's administration in the coming months will be the macroeconomic situation, which is extremely delicate. Argentina is on the verge of hyperinflation. To make things even worse, some of the reforms needed to rebuild the international reserves of the Central Bank and correct the fiscal imbalances, like a devaluation of the official exchange rate and an increase in utility prices, will actually generate a rise in prices in the short run. Milei will only be successful if he can swiftly reduce the fiscal deficit, make a credible commitment that the Central Bank will stop printing money to finance the Treasury, and reset people's inflation expectations. A stabilization plan will be needed to achieve these difficult tasks.

If Milei manages to stabilize the macroeconomic situation without going through a major crisis and introduce some market-friendly reforms in Argentina's overregulated economy, he could be a very successful president. This is because some fundamental positive forces and opportunities still exist for Argentina, giving hope that the sustained economic growth of the past can be recovered. The country is rich in some natural resources that

have become increasingly valued in world markets and that are yet to be exploited: The Vaca Muerta region contains one of the largest nonconventional reserves of oil and gas in the world. There are large amounts of lithium in the north of the country. And there are mining opportunities in the mountains, to name a few. If Milei manages to handle the macroeconomic situation, the potential for growth is significant.

Besides the economic front, it seems unlikely that Milei's more extreme positions on social issues and civil liberties will ever be approved by Congress. Although some people have voiced concerns regarding a potential authoritarian vein among Milei and his followers, so far he has been respectful of the democratic process and institutions. It is worth noting that, unlike Jair Bolsonaro and other populist leaders who have been elected elsewhere, Milei does not have a military background. In addition, his weakness in Congress makes it extremely unlikely that he could pass any measures that may weaken the democratic order. Although he may try to govern by issuing executive orders, there is an established process to be followed and Congress can always reject the orders. The initially painful effects of the necessary economic policy changes may encourage Milei to move the political focus to social and cultural issues, and it is not clear how the Argentinian people would respond to such a shift. But, right now, the crucial challenge that he faces is fundamentally economic.

#### Guido Sandleris

Guido Sandleris is a professor of international economics at Johns Hopkins University School of Advanced International Studies (Europe) and at Universidad Torcuato Di Tella (Argentina).

Between September 2018 and December 2019, he was governor of the Central Bank of Argentina. In 2017 he became chief economic adviser and in 2018 secretary of economic policy at the Ministry of the Treasury of Argentina.

# Brazil

José A. Scheinkman

## Socioeconomic Data 2022

### General Information

POPULATION	LIFE EXPECTANCY (2021)
215.3 million	73 years
RELIGION (2010)	ETHNIC FRACTIONALIZATION (2013)
Christian → 88.9%	0.56
Unaffiliated → 7.9%	
Folk → 2.8%	

### Economic Data

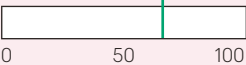
GDP PER CAPITA	INFLATION (2016)
15,093	9.3%
% of US GDP pc → 23.2%	
GDP pc Growth → 2.4%	
DEPT/GDP (GENERAL 2021)	TRADE/GDP
92.3%	39.0%
UNEMPLOYMENT (2021)	
9.2%	
SECTORAL ALLOCATION	
Agriculture → 7.9%	
Industry → 24.0%	
Services → 68.2%	
GINI COEFFICIENT (2020)	
46.6	

### Freedom Index



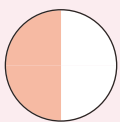
STATUS  
Mostly  
free

SCORE  
65.9



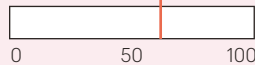
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74/164

### Prosperity Index

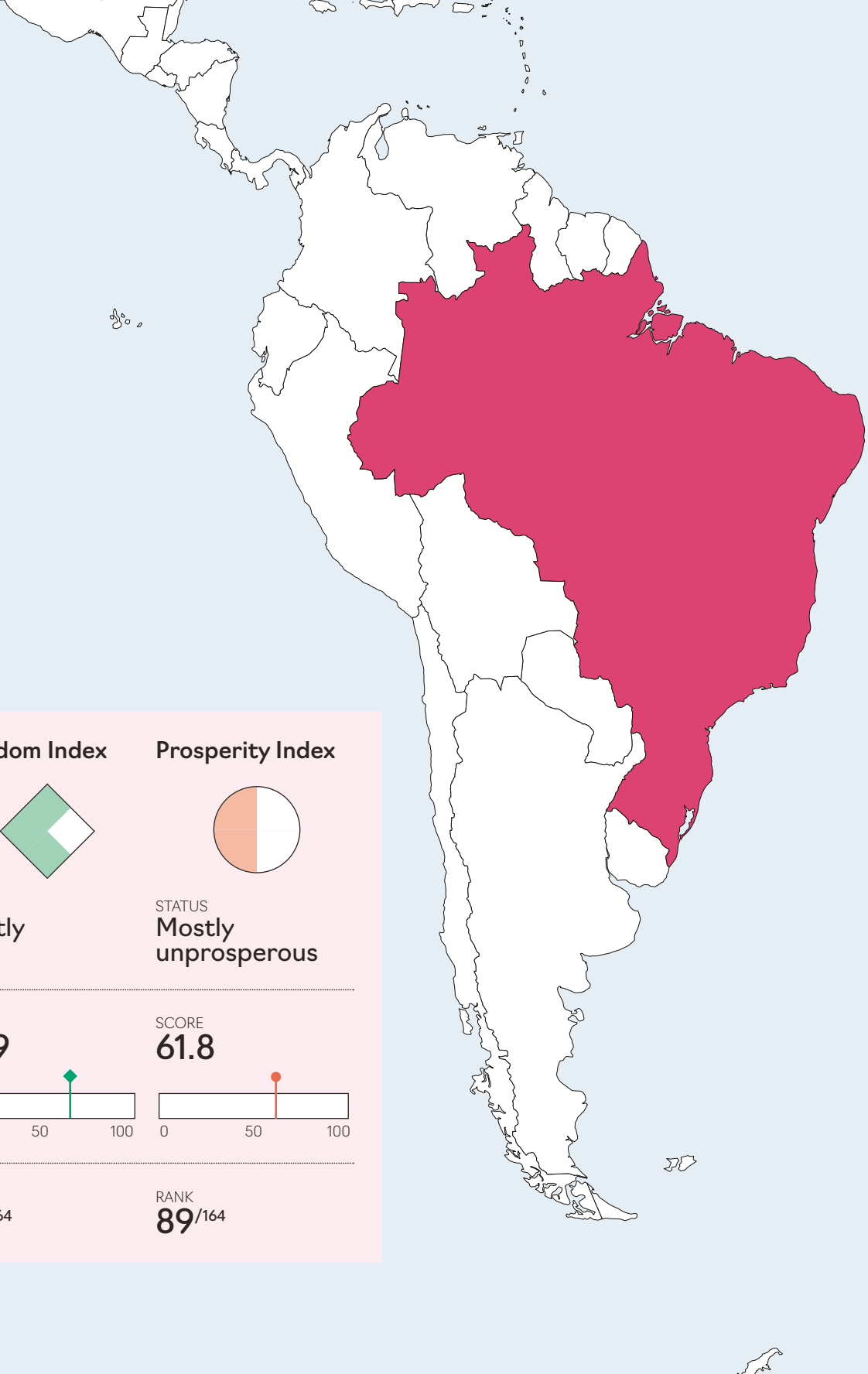


STATUS  
Mostly  
unprosperous

SCORE  
61.8

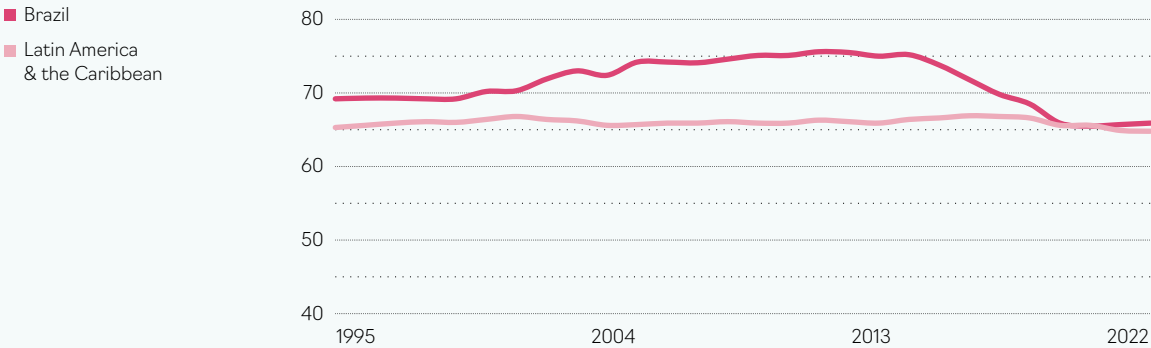


RANK  
89/164



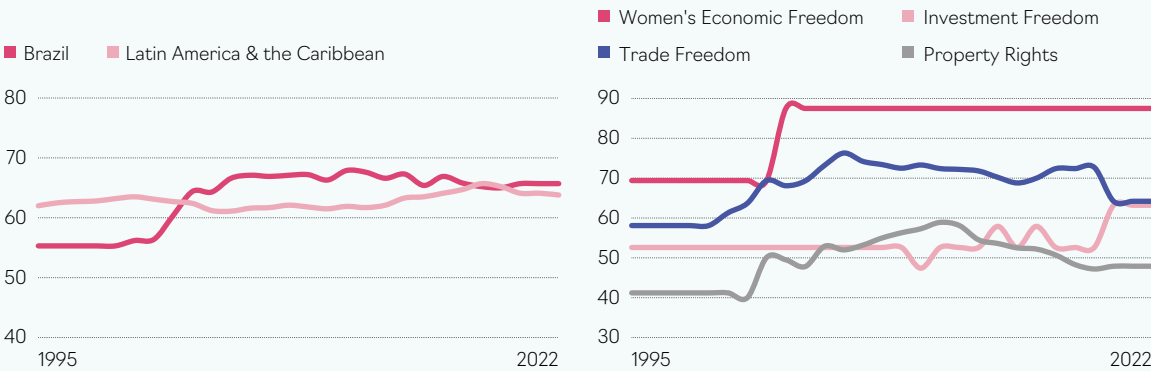
Freedom Index

1995-2022



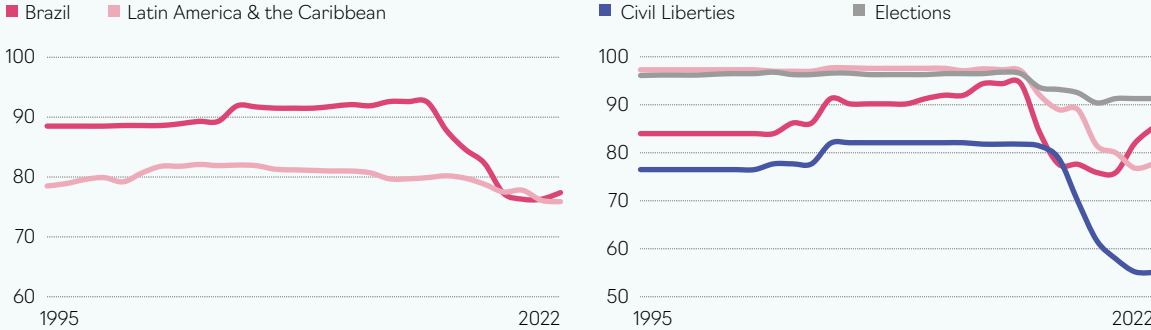
	2022		Change Since 2013	
	Brazil	Region	Brazil	Region
Freedom rank	74	-	-27	-
Freedom score	65.9	64.8	-12.1%	-1.8%
Economic Subindex	65.7	63.8	-1.4%	2.7%
Political Subindex	77.4	75.9	-16.4%	-4.8%
Legal Subindex	54.6	54.6	-17.0%	-2.5%

Economic Subindex



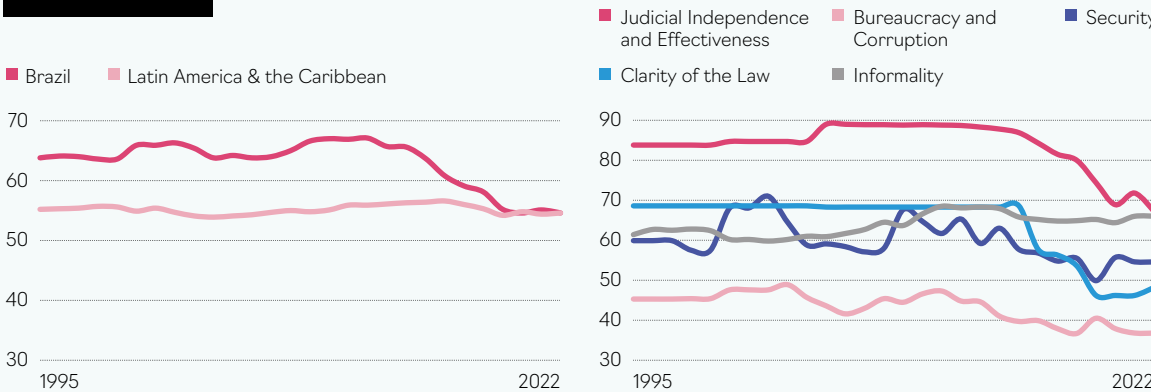
	2022		Change Since 2013	
	Brazil	Region	Brazil	Region
Women's Economic Freedom	87.5	79.1	0.0%	9.0%
Investment Freedom	63.2	62.3	20.0%	8.4%
Trade Freedom	64.2	69.4	-10.6%	-7.6%
Property Rights	47.9	44.3	-12.2%	2.5%

Political Subindex



	2022		Change Since 2013	
	Brazil	Region	Brazil	Region
Legislative Constraints on the Executive	85.3	62.2	-9.6%	0.4%
Political Rights	77.8	79.6	-20.3%	-6.9%
Civil Liberties	55.1	76.9	-32.7%	-7.6%
Elections	91.3	84.9	-5.4%	-3.6%

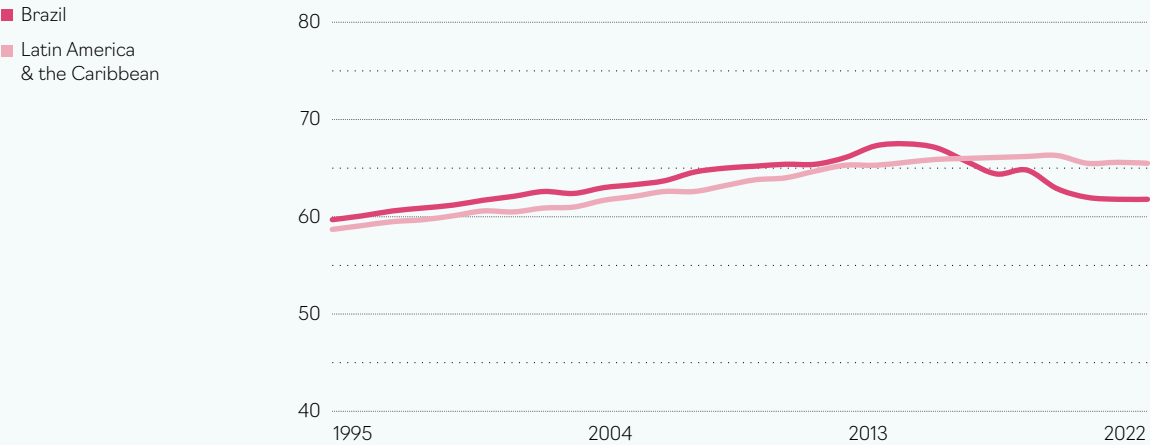
Legal Subindex



	2022		Change Since 2013	
	Brazil	Region	Brazil	Region
Judicial Independence and Effectiveness	67.2	61.6	-23.9%	-1.7%
Bureaucracy and Corruption	36.8	39.0	-17.4%	-7.6%
Security	54.6	61.6	-7.8%	1.3%
Clarity of the Law	48.2	50.2	-29.5%	-4.8%
Informality	66.0	60.8	-3.4%	-1.7%

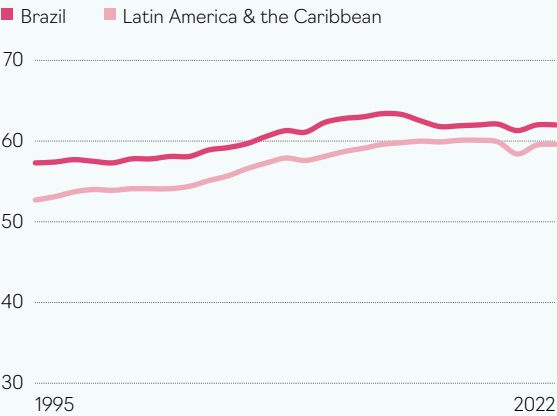
Prosperity Index

1995-2022



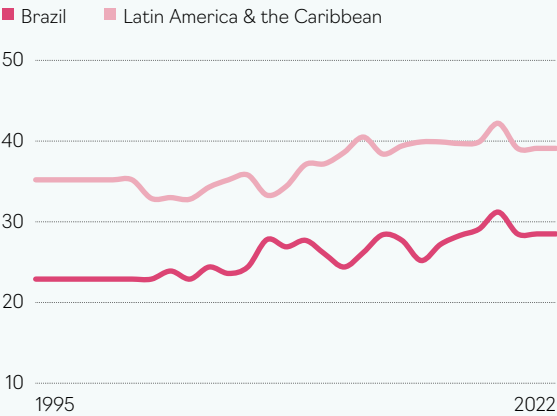
	2022		Change Since 2013	
	Brazil	Region	Brazil	Region
Prosperity rank	89	-	-31	-
Prosperity score	61.8	65.5	-8.2%	0.3%

Income

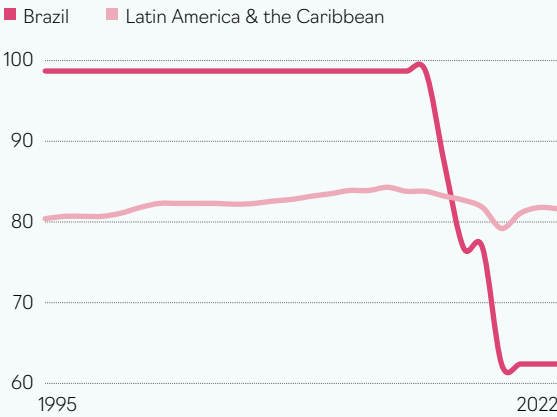


	2022		Change Since 2013	
	Brazil	Region	Brazil	Region
Income	62.0	59.6	-2.2%	0.0%
Inequality	28.5	39.1	0.6%	1.7%

Inequality

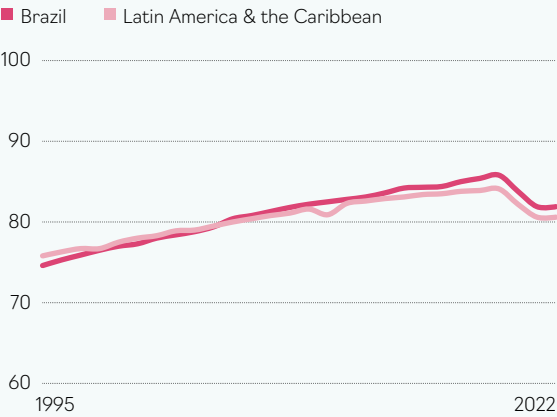


Minority Rights

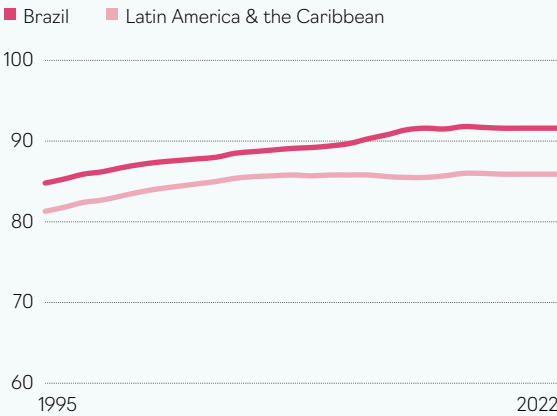


	2022		Change Since 2013	
	Brazil	Region	Brazil	Region
Minority Rights	62.4	81.6	-36.8%	-3.2%
Health	81.9	80.6	-2.1%	-2.8%

Health

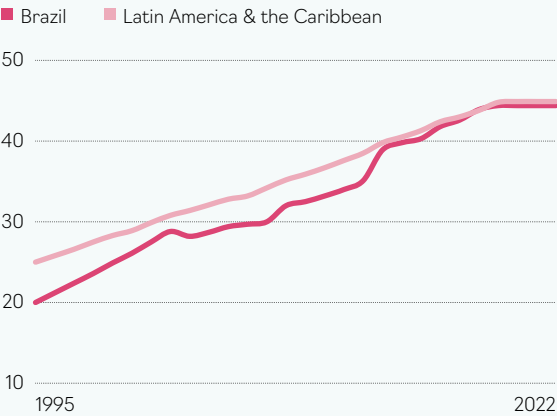


Environment



	2022		Change Since 2013	
	Brazil	Region	Brazil	Region
Environment	91.6	85.9	0.8%	0.3%
Education	44.4	44.9	14.1%	13.0%

Education



## Evolution of Freedom

The evolution of the aggregate **Freedom Index** in Brazil is clearly hump-shaped. During the first half of the period of analysis, from 1995 to 2013, the freedom score either increased or was relatively stable, driven mainly by improvements in just two indicators of the **economic freedom** subindex.

The first of these is the women's economic freedom, which shows a clear step-change in 2002, although the reasons for this are not clear. During that year, there was a change in government, and the Worker's Party (*Partido dos Trabalhadores*) took office. They were very much committed, at least in rhetoric, to increasing women's economic freedom. In 2003, some parts of the civil code were reformed, which did lead to an improvement in women's rights. However, it seems unlikely that this one legislative change can explain the 17-point increase in this indicator. Around the same time though, married women's property rights improved, and punishments for sexual harassment—especially in the workplace—increased.

The second positive trend began in 1996, an important year for the stabilization of the economy. The liberalizing reforms introduced by the government of President Fernando Henrique Cardoso led to significant improvements on the trade freedom indicator. Sectors such as telecommunications and energy were opened to competition. There were also proposals for trade liberalization, even if some of these did not pass into law. Even the early years of Lula's (Luiz Inácio Lula da Silva's) government were very favorable to trade freedom, and the data seem to suggest that trade freedom did not decrease until after 2018, with the election of President Jair Bolsonaro. Bolsonaro did not create any barriers to trade, but very soon it became apparent that European countries did not want to continue negotiations on a trade deal with Bolsonaro.

In terms of **political freedom**, elections in Brazil are superb, and this is well captured by the

elections indicator. They are fast, efficient, transparent, and the system is very secure. Even in locations where the electoral process is computerized, it is completely offline, decreasing the security risk. There is a slight fall on this indicator, starting in 2015, which is possibly attributable to polarization: when society is very politically polarized, you will always hear claims about the "unclean" electoral process. This is something we have seen recently in the United States and other countries.

Similarly, the political rights indicator shows a decline in recent years that is hard to identify in reality. It may be that, when the level of polarization is high, there are always segments of the population that can feel disenfranchised. And perhaps the indicator is capturing the repression of protests against President Dilma Rousseff's government in 2015–16, or President Bolsonaro's rhetoric regarding the Supreme Court, both of which may have caused anxiety about political freedoms. But there has been no obvious objective fall in political rights. The same applies to civil liberties. For example, when President Bolsonaro was elected, he publicly attacked journalists and other groups, but he took no concrete action against them. So, the feeling that political and civil rights have been reduced is understandable, but there have been no substantive changes that would allow us to say that people in Brazil were less free—and certainly not enough to justify a 33-point fall in the score.

Legislative constraints on the executive increased in the last few years, and here the indicator score is an accurate reflection of reality. However, while progress on this indicator is generally intended to be read as a positive shift, in Brazil's case there are reasons to see greater legislative power as problematic. In 2016, President Rousseff was impeached. People connected to the Worker's Party would say it was a "legislative coup,"

a common accusation in many Latin American countries when similar situations arise. I am not of that opinion, but it is clear that a nontrivial share of the population is. During the President Bolsonaro years, a group of legislators, mostly interested in pork-barrel projects, gained a lot of power, to the point that the Supreme Court had to intervene to shut down their "secret budget"—effectively a slush fund for paying off supporters. The same group of legislators has continued to hold power after Lula's election. This situation may have increased the impression that political rights were deteriorating, because presidents elected by the people seem, in reality, to be constrained by Congress.

The evolution of **legal freedom**, especially concerning judicial independence, is easier to agree with. The judicial system has been affected by executive interventions, justifying a deterioration of judicial independence scores. Moreover, the same indicator also measures judicial effectiveness, and here too the worsening situation has been very evident since 2014. Even before this, Brazil's scores—of between 85 and 90—seem unjustifiably

high because the country has long suffered from an ineffective judicial system. Only 10 percent of murders in Rio de Janeiro end up with a trial, and the numbers have been bad since at least the 1990s, when I was looking at crime and social interactions in the city. The fact that the accused do not receive any punishment until the appeals process has been exhausted means that some court decisions are only implemented ten years (or more) after they are handed down.

On top of this structural problem, in the last decade the judicial system in Brazil has become very influenced by politics. As a result, we see the Supreme Court making a decision, only to completely reverse it two or three years later, with essentially the same set of judges. This appears to be captured by the clarity of the law indicator. Laws in Brazil are very badly written—a lawyer's dream. To give just one statistic, the value of all the unresolved tax claims in Brazil's judicial system equates to 75 percent of Brazil's gross domestic product (GDP). The macroeconomic impact of the low level of clarity in the law is serious, but there are always those interested in the obscurity of the law.

## From Freedom to Prosperity

The evolution of the **Prosperity Index**, and in particular the fall in Brazil's score in the last decade, seems to be driven by the minority rights indicator, which is proxied by religious freedom. Brazil has been experiencing fast growth in the percentage of its population identifying as evangelicals and, in particular, neo-Pentecostals. This has created at least two sources of friction. Neo-Pentecostals complain about persecution from the Catholic establishment, liberal legislators, mainstream media, and tax authorities. For example, even though there is no income tax on the profits of religious organizations in Brazil, nonprofit organizations are not exempt from paying social security

or taxes imposed on purchases. Neo-Pentecostals feel they should enjoy full exemption from tax and regulations such as city codes. Second, Catholicism and Afro-Brazilian religions are often thought to be connected to "progressive" politics in Brazil, while evangelicals are usually more right wing, so the increase in political polarization may also partly explain the evolution of this indicator. As evidence of this tension, there have been attacks on followers of African-rooted religions by some neo-Pentecostal groups, occasionally allied to local drug gangs.

There is no question that income in Brazil stagnated in the last decade. But Brazil's economic

performance has been mediocre for the last fifty years. In the early 1980s, labor productivity was around 55 percent of the US rate. Now it is less than 25 percent. An exception is the agricultural sector, which has experienced remarkable productivity growth. Development means catching up with the technology frontier, and that is something Brazil has been unable to do. Japan, South Korea, Spain, and many others were able to do so. India and China are doing it now. But not Brazil; we can say the country is, in fact, un-developing.

President Cardoso's government (1994–98) implemented programs to help the poorest in the country. The effort was amplified during President Lula's administration (2002–06), which explains the overall positive trend in equality. The problem is that Brazil started from a very high initial level of inequality. Short-run fluctuations are likely to be explained by the fact that inequality is counter-cyclical: when the economy goes down, inequality goes up. Since the COVID-19 crisis, there has been some temporary expansion of social programs, which has helped decrease inequality, but the long-run fiscal sustainability of these programs is by no means clear.

There has been an improvement in health in Brazil since 1995, mainly due to programs aimed at ensuring that the very poorest have access to regular check-ups and vaccinations. These efforts bore obvious fruit during the rollout of COVID-19

vaccines, because the whole system was already in place, so the vaccine program was relatively effective and fast. Health often requires a small marginal investment to generate large benefits, as was the case here.

Finally, it is undeniable that there have been some improvement in terms of years of education and enrollment in Brazil, and these are the metrics captured by the education indicator in the Prosperity Index. However, with the exception of very few states, there has been very little improvement in educational achievement—something that is not captured in the indicator. Progress is even lower in terms of preparing youth for the labor market. This explains why labor productivity is falling despite years of schooling increasing, which may otherwise seem a puzzle. It is worth highlighting one state in particular, Ceará, which clearly outperforms all the others in terms of educational spending effectiveness, despite its relative poverty. My advice to everyone involved in education in Brazil would be to simply copy whatever Ceará is doing, because the results are encouraging. The current minister of education was the governor of Ceará, so we may see some improvements across the country. However, there is reason to remain skeptical because education leaders usually prefer to reinvent the wheel instead of just replicating whatever is working in other places. This seems to be a universal law of decentralized public systems of education.

## The Future Ahead

Labor productivity in Brazil is a clear signal of the economic prospects for the country—though I think it is a symptom of those prospects rather than a cause. Businesses in Brazil face a huge number of hurdles: We have very high and inefficient taxes. Firms are more worried about paying less tax than producing in a more efficient way. Regulations in Brazil are also especially inefficient, and there are

important difficulties regarding long-term financing, related to the legal risks and fiscal deficits in the country. The labor market is very rigid, and even if President Temer and President Bolsonaro tried to remove some of these frictions, President Lula has announced plans to impose more labor regulations. These regulations would hurt firms and the overall economic prospects for Brazil.

A second important challenge for Brazil is security. A special concern is the relatively new route for drug trafficking from producers in Colombia, Peru, or Bolivia to Europe, which goes through Brazil. It is similar to a negative technological shock. Gangs fight with each other for control of the new routes, and this increases crime. Some paramilitary groups are also gaining strength, and these are more organized than the gangs and often affect legal businesses. For example, Rio de Janeiro's largest electricity company, Light SA, may go bankrupt due to the amount of electric supply that is stolen and then resold to consumers and firms. These groups also control the transportation and construction sectors in some urban areas. All these things have large economic effects. And many states in Brazil lack an efficient police force. The police in the states of Rio de Janeiro and Bahia are particularly violent and inefficient. Unless the security situation improves, it is hard to foresee improvements in other dimensions.

What is going to happen with Brazil? Well, some things will help, like the proposed tax reform, which hopefully will simplify the tax code and curb exceptions, loopholes, and litigation. The finance minister is also committed to tackling the fiscal deficit. It is not clear how he will do it, but an improvement of the fiscal situation inherited from President Bolsonaro would greatly help the country.

Top firms in Brazil are excellent and, if the cost of doing business in the country was smaller, they could truly contribute to growth. Brazil has the cleanest energy mix of any country, and should be able to deal effectively with the illegal deforestation in the Amazon. Reforestation of the Amazon forest could be a source of cheap carbon capture at scale. This could make Brazil a big exporter of goods that have an excellent climate footprint—an exceptional opportunity for the country. Brazil missed an opportunity in the 1980s, when they could have educated their growing labor force, and now it is presented with a similar opportunity again. But the country needs to deal with all of the challenges discussed here.

### José A. Scheinkman

José A. Scheinkman is Charles and Lynn Zhang Professor of Economics at Columbia, professor of economics (emeritus) at Princeton, and research associate at NBER. Scheinkman is a member of the National Academy of Sciences, recipient of a Guggenheim Fellowship, *docteur honoris causa* from Université Paris-Dauphine, and board member of Cosan S.A. Scheinkman's current research focuses on the economics of forest preservation in the Amazon.

# Chile

Andrés Velasco

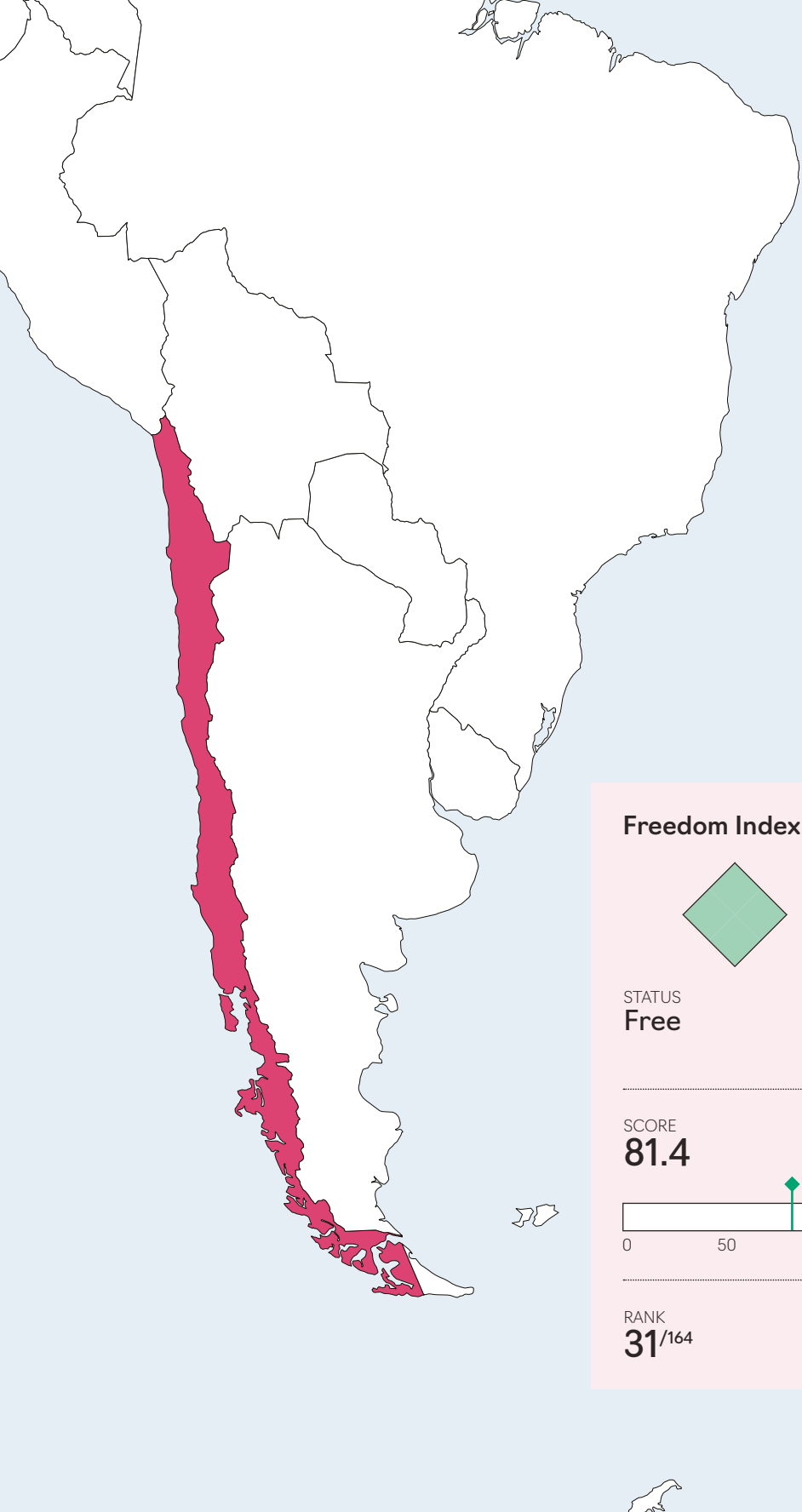
## Socioeconomic Data 2022

### General Information

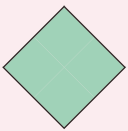
POPULATION	LIFE EXPECTANCY (2021)
19.6 million	79 years
RELIGION (2010)	ETHNIC FRACTIONALIZATION (2013)
Christian → 89.4%	0.44
Unaffiliated → 8.6%	
Folk → 1.5%	

### Economic Data

GDP PER CAPITA	INFLATION
25,886	11.6%
% of US GDP pc → 40.0%	
GDP pc Growth → 1.9%	
DEPT/GDP (GENERAL 2021)	TRADE/GDP
36.3%	75.0%
UNEMPLOYMENT	
8.3%	
SECTORAL ALLOCATION	
Agriculture → 3.9%	
Industry → 35.6%	
Services → 60.5%	
GINI COEFFICIENT (2020)	
45.3	

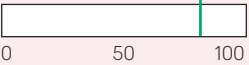


### Freedom Index



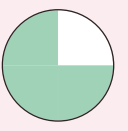
STATUS  
Free

SCORE  
81.4



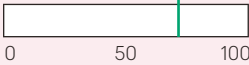
RANK  
31/164

### Prosperity Index



STATUS  
Mostly  
prosperous

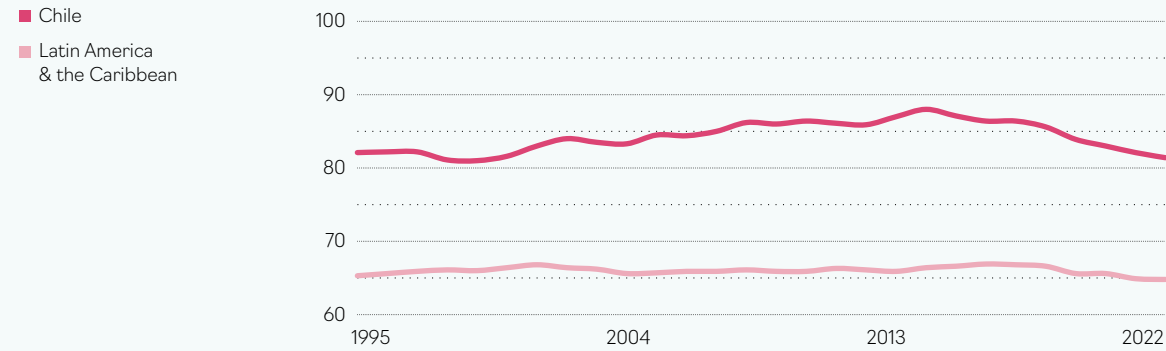
SCORE  
71.6



RANK  
46/164

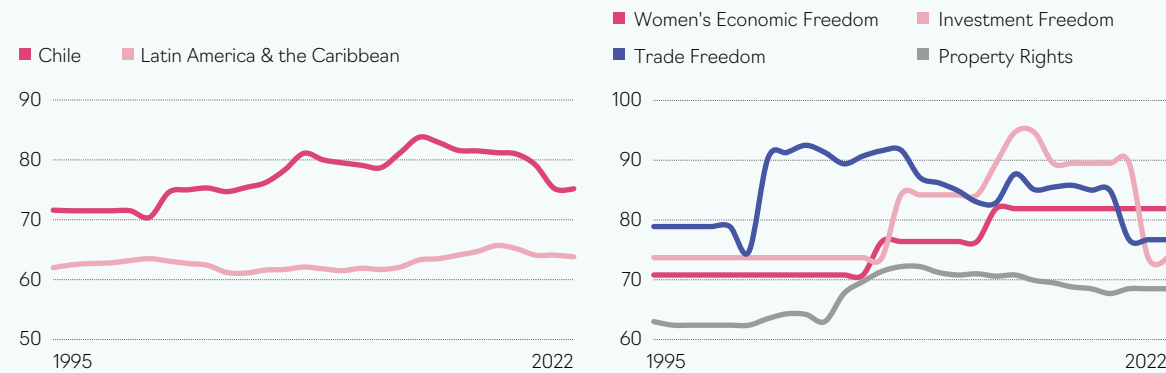
## Freedom Index

1995–2022



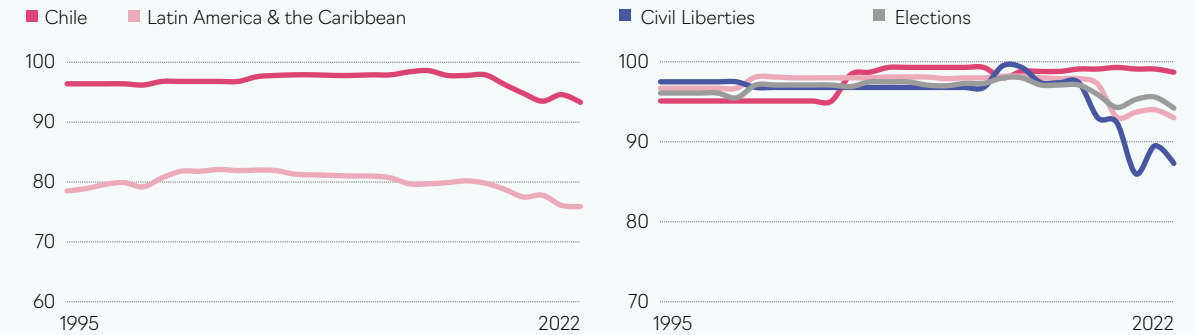
	2022		Change Since 2013	
	Chile	Region	Chile	Region
Freedom rank	31	–	-13	–
Freedom score	81.4	64.8	-6.4%	-1.8%
Economic Subindex	75.2	63.8	-7.4%	2.7%
Political Subindex	93.3	75.9	-5.2%	-4.8%
Legal Subindex	75.7	54.6	-6.9%	-2.5%

## Economic Subindex



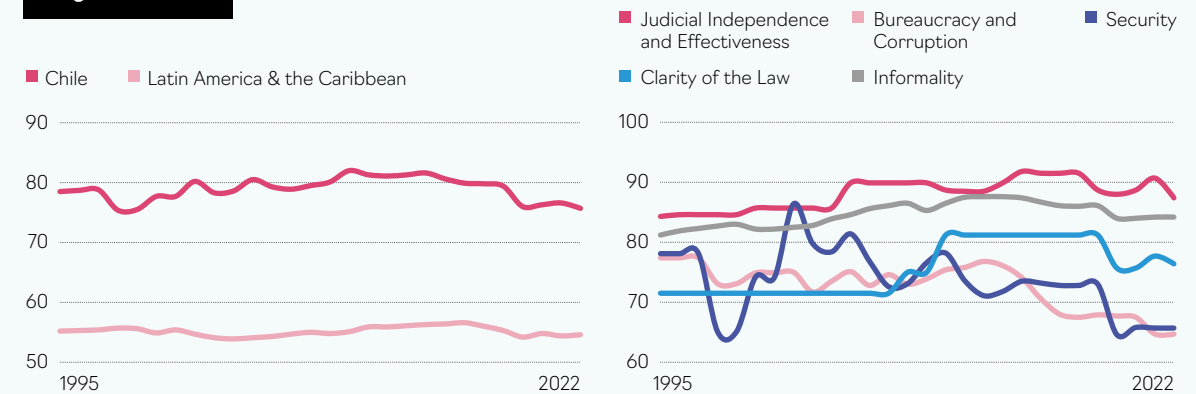
	2022		Change Since 2013	
	Chile	Region	Chile	Region
Women's Economic Freedom	81.9	79.1	0.0%	9.0%
Investment Freedom	73.7	62.3	-17.6%	8.4%
Trade Freedom	76.7	69.4	-7.5%	-7.6%
Property Rights	68.5	44.3	-2.9%	2.5%

## Political Subindex



	2022		Change Since 2013	
	Chile	Region	Chile	Region
Legislative Constraints on the Executive	98.7	62.2	0.6%	0.4%
Political Rights	93.0	79.6	-5.3%	-6.9%
Civil Liberties	87.3	76.9	-12.3%	-7.6%
Elections	94.2	84.9	-3.9%	-3.6%

## Legal Subindex



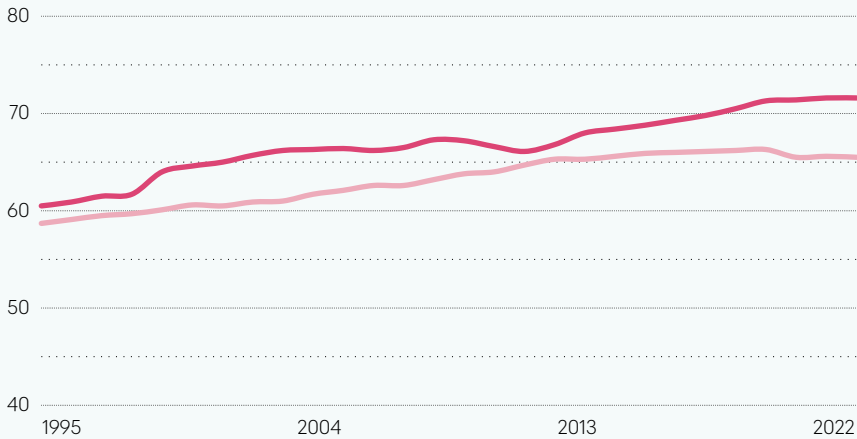
	2022		Change Since 2013	
	Chile	Region	Chile	Region
Judicial Independence and Effectiveness	87.4	61.6	-2.8%	-1.7%
Bureaucracy and Corruption	64.7	39.0	-15.0%	-7.6%
Security	65.7	61.6	-8.5%	1.3%
Clarity of the Law	76.4	50.2	-5.9%	-4.8%
Informality	84.2	60.8	-3.8%	-1.7%



Prosperity Index

1995-2022

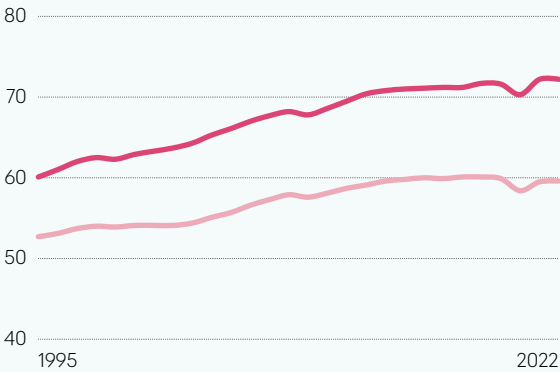
Chile  
Latin America & the Caribbean



	2022		Change Since 2013	
	Chile	Region	Chile	Region
Prosperity rank	46	-	7	-
Prosperity score	71.6	65.5	5.3%	0.3%

Income

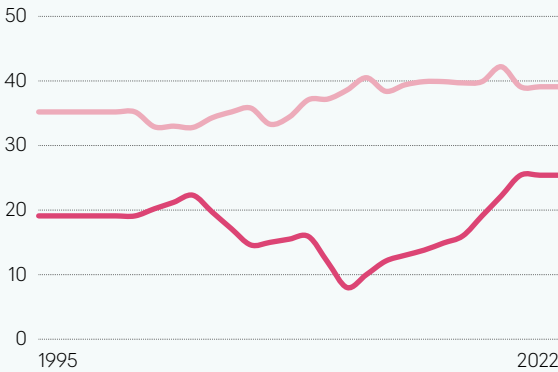
Chile  
Latin America & the Caribbean



	2022		Change Since 2013	
	Chile	Region	Chile	Region
Income	72.2	59.6	1.9%	0.0%
Inequality	25.4	39.1	110.2%	1.7%

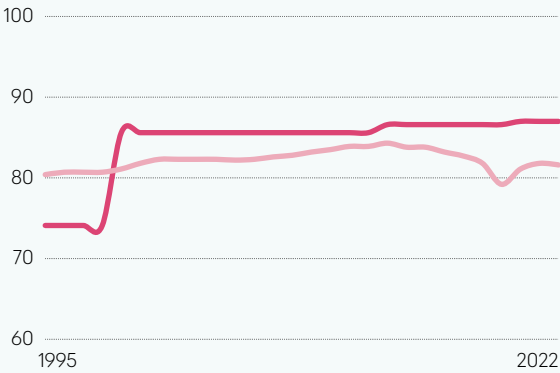
Inequality

Chile  
Latin America & the Caribbean



Minority Rights

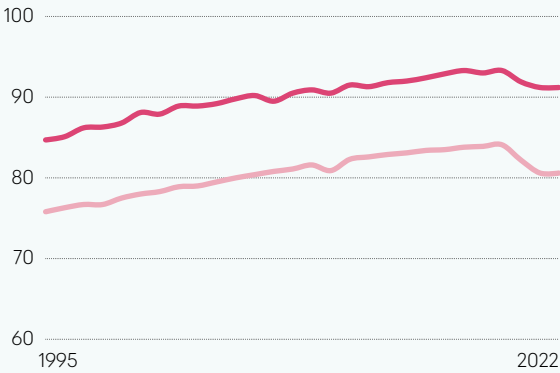
Chile  
Latin America & the Caribbean



	2022		Change Since 2013	
	Chile	Region	Chile	Region
Minority Rights	87.0	81.6	0.4%	-3.2%
Health	91.2	80.6	-0.6%	-2.8%

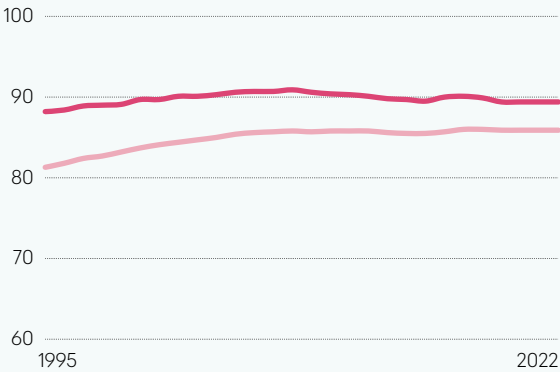
Health

Chile  
Latin America & the Caribbean



Environment

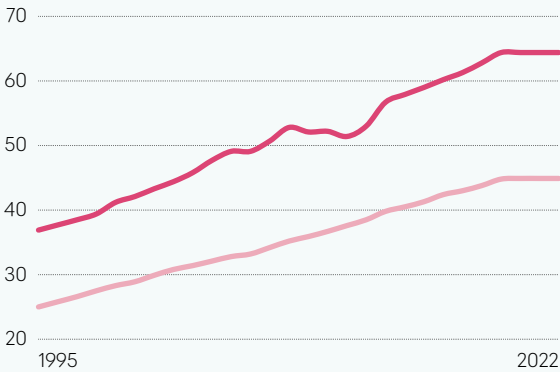
Chile  
Latin America & the Caribbean



	2022		Change Since 2013	
	Chile	Region	Chile	Region
Environment	89.4	85.9	-0.5%	0.3%
Education	64.4	44.9	13.7%	13.0%

Education

Chile  
Latin America & the Caribbean



## Evolution of Freedom

The **economic freedom** subindex suggests that Chile is a country with open markets and a very open economy, but at the margin it has become less so over the last ten years. This decline has mostly been driven by policy decisions that increased government regulation of markets. Greater regulation was mostly welcome, but there may have been areas—like the length of time required to obtain approval for investment projects—where the trend has gone too far.

Most of the decline on the economic freedom subindex is attributable to changes in the trade freedom and investment freedom indicators. But the obvious measures of trade freedom, such as tariffs and nontariff barriers, have all been relatively flat or even improved over the last decade, and the last remaining capital controls were abolished fifteen years ago. Perhaps the explanation for this puzzle can be found in the property rights indicator, which has decreased in a mild but sustained fashion since 2010. Judicial procedures in Chile have become longer and more unpredictable, while processes related to obtaining permits have become maddeningly lengthy. As a result of these and other changes, the investment environment has deteriorated. Perhaps these measures partly explain the change in the trade and investment freedom indicators.

Regarding **political freedom**, the data presented seem like an inaccurate reflection of reality and are very hard to rationalize. Yes, Chile has become more politically fragmented and volatile, but civil liberties have not worsened. Perhaps a mild change in this subindex since 2019 could

follow from the heavy-handed reaction to street unrest late that year, followed by the relatively stringent restrictions introduced in 2020 to fight the COVID-19 pandemic. But the data suggest a decline starting in 2015, which makes very little sense.

On **legal freedom**, the deterioration in the corruption indicator during the last fifteen years is attributable to a series of corruption scandals reported in the country. Here, as ever, it is hard to discern whether corrupt practices are now more prevalent or whether legal changes mean that more cases are being reported. Both could be true: It is possible that certain corrupt practices have indeed become more prevalent. But also keep in mind that the last decade-and-a-half has seen a number of changes in competition law and campaign finance regulations, which do make it easier to detect such practices.

In terms of security, it is clear that Chile has experienced a sustained deterioration regarding crime and safety on the streets. There is an active debate in Chile about the drivers of this trend. Some blame it on immigration, although there is limited evidence to support such a claim. Or, rather, immigration may have changed the nature of certain crimes (an increase in the use of firearms, for instance) but not the overall incidence of crime. Other factors, like a growing drug trade and the presence of foreign drug gangs, may also have had an impact. Whatever the cause, it is likely that security in large cities has worsened, even though Chile remains one of the best performers in the region when it comes to crime and citizen security.

## From Freedom to Prosperity

Chile is a more **prosperous** nation than most others in the region. Its economy grew faster than most of its neighbors between the end of the last century and a decade ago. But recently growth has slowed. It is surprising that the data seem to show a larger decline in prosperity for Chile than for the rest of the region during the 2008–10 financial crisis, when Chile was undoubtedly the country with the smallest recession and experienced the most limited impact on economic activity in the whole of Latin America. This is, once again, a case in which the data presented make very little sense.

There is little doubt that Chile is an unequal country. But again, the data presented in this report tell a story that can scarcely be believed. The data suggest a sharp deterioration in income distribution, while the Gini coefficient computed by the government of Chile (and by the World Bank), shows a steady improvement since 1990, followed by a predictable deterioration during the pandemic and a slight recovery in the last two or three years. The inequality indicator of the Prosperity Index shows a completely different pattern. It may be due to the fact that the indicator measures the share of income of the top 10 percent of the distribution, which is a very partial view of income distribution.

The minority rights indicator has not shown much movement in recent years, though Chile's

score is reasonably high. However it is important to stress that this is largely because the indicator uses religious liberty as a proxy, whereas the real conflict in Chile is not religious but ethnic. If one had some measure of the situation of indigenous minorities, especially that of Mapuches in the south of Chile, the picture might look different.

Regarding the environment, Chile has a serious air pollution problem, both in big cities and smaller ones, but for different reasons. In the former, the number of cars per capita has increased substantially, and the move away from coal in the generation of electricity has been slow. In the smaller cities in the south of the country, by contrast, wood-burning stoves are the principal method of domestic heating. This is very polluting, especially if the wood is not fully dry.

There have been several educational reforms in Chile in the last twenty-five years, some more successful than others, but it seems unlikely that any of these could explain the complete stagnation in years of schooling in the 2007–11 period. There was a reform at the time that generated a movement of pupils among different types of schools, but not a decrease in enrollment. Moreover, spending per student increased significantly around this time, and the share of each cohort going to university reached the 50 percent mark in this period.

## The Future Ahead

Chile faces two big challenges in the coming years, one economic and one political. The big economic challenge is to restore growth, which has slowed substantially in the last decade. Productivity growth, which was very fast late in the twentieth century and in the beginning of this century, has also petered out. Investment rates have not

dropped, but nor have they increased. Chile was once a country experiencing rapid diversification of exports, and that process has also come to a halt.

So, when it comes to prosperity, the big question is: Why was the fast growth period in Chile so short-lived? Standard economic theory predicts that, as a country becomes richer, its growth slows

due to convergence with high-income economies. So one might have expected fast growth in Chile until the country’s standards of living had reached the level of South Korea. Instead, fast growth seems to have stopped with the country still short of the income level of Greece or Portugal.

The big political challenge relates to the quality of politics and of democratic decisionmaking. Since 2010 politics has become more polarized and a great deal more fragmented. Chile went from having seven parties represented in Congress at that time to twenty-two today. Indices of satisfaction with the performance of democracy—and also indices of trust in government, political parties, the judiciary, the police, the media, business lobbies, unions, and so on—have all deteriorated. It seems that Chileans do not trust anyone anymore. That is

a worldwide trend, but in Chile it might be a little more pronounced than elsewhere.

Chile’s answer has been to try to rewrite the Constitution. We have already tried twice, and failed, and the third attempt is also looking like a failure. Former president Michelle Bachelet drafted a new constitution in her second term (2014–18), but ran out of time to get it approved. A constitutional convention, dominated by the far left, was chosen in 2021, and wrote a questionable text that was rejected by 62 percent of voters in a referendum in 2022. A new convention was then elected, this time controlled by the far right, which produced a similarly partisan text that is similarly failing to attract widespread support. Polls suggest that the text will be again rejected by voters when it is put to a referendum in December 2023.

Andrés Velasco

Andrés Velasco is a former finance minister of Chile, and a current professor of Public Policy and dean of the School of Public Policy at the London School of Economics and Political Science.

# Mexico

Vanessa  
Rubio-Márquez

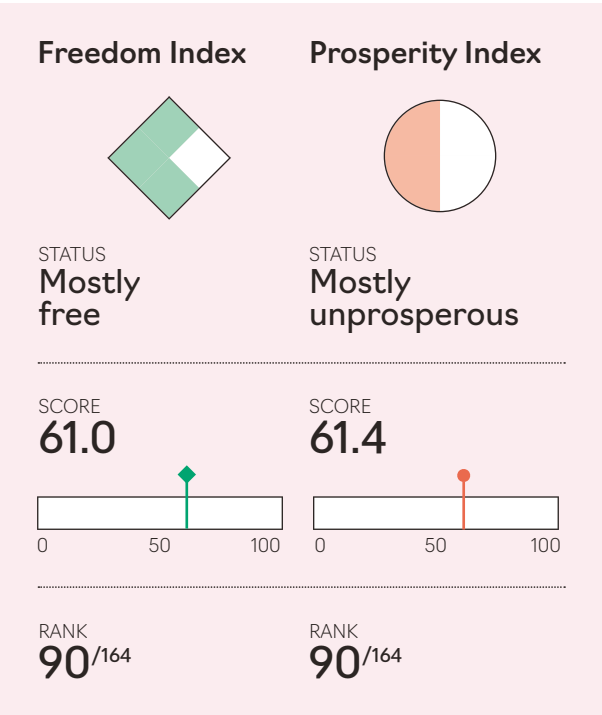
## Socioeconomic Data 2022

### General Information

POPULATION	LIFE EXPECTANCY (2021)
127.5 million	70 years
RELIGION (2010)	ETHNIC FRACTIONALIZATION (2013)
Christian → 95.1%	0.59
Unaffiliated → 4.7%	

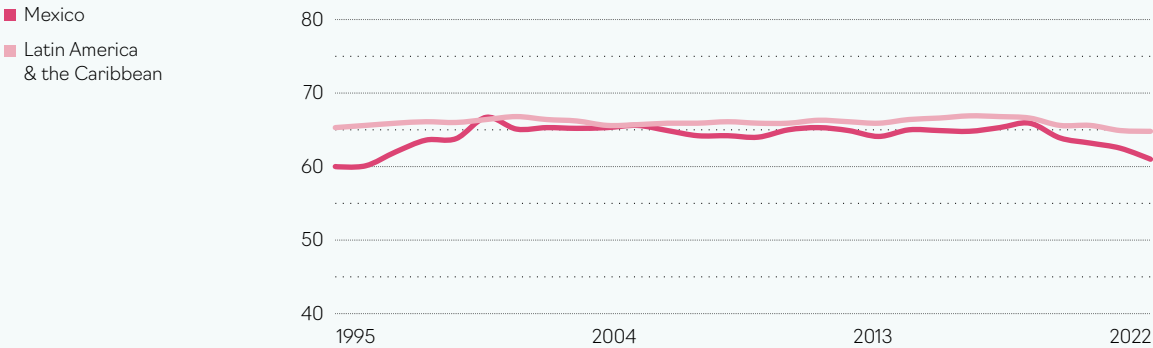
### Economic Data

GDP PER CAPITA	INFLATION (2016)
19,547	7.9%
% of US GDP pc → 30.2%	
GDP pc Growth → 2.4%	
DEPT/GDP (CENTRAL 2021)	TRADE/GDP
40.7%	89.0%
UNEMPLOYMENT	
3.3%	
SECTORAL ALLOCATION	
Agriculture → 4.3%	
Industry → 33.8%	
Services → 61.9%	
GINI COEFFICIENT (2020)	
42.6	



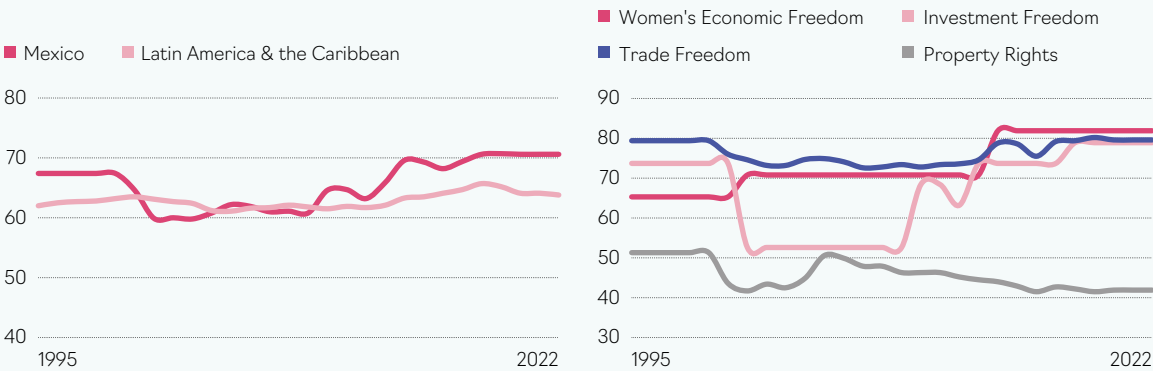
Freedom Index

1995-2022



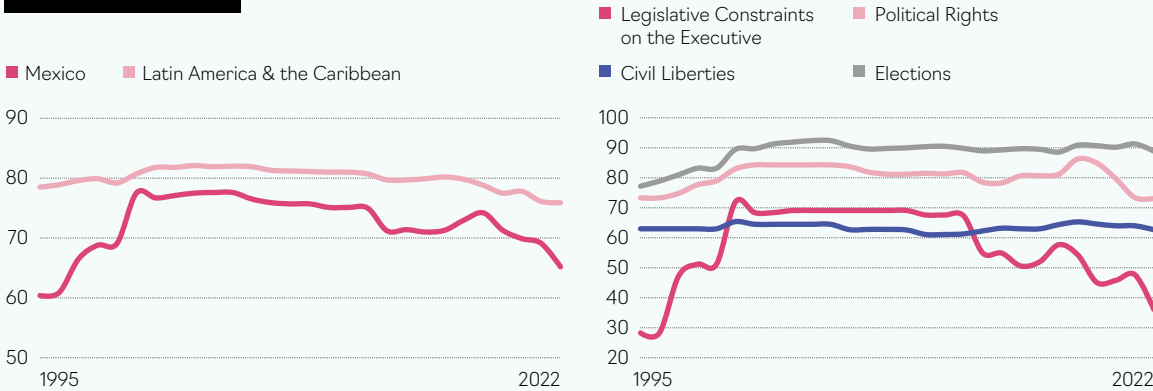
	2022		Change Since 2013	
	Mexico	Region	Mexico	Region
Freedom rank	90	-	-11	-
Freedom score	61.0	64.8	-4.9%	-1.8%
Economic Subindex	70.6	63.8	7.1%	2.7%
Political Subindex	65.2	75.9	-8.4%	-4.8%
Legal Subindex	47.2	54.6	-14.6%	-2.5%

Economic Subindex



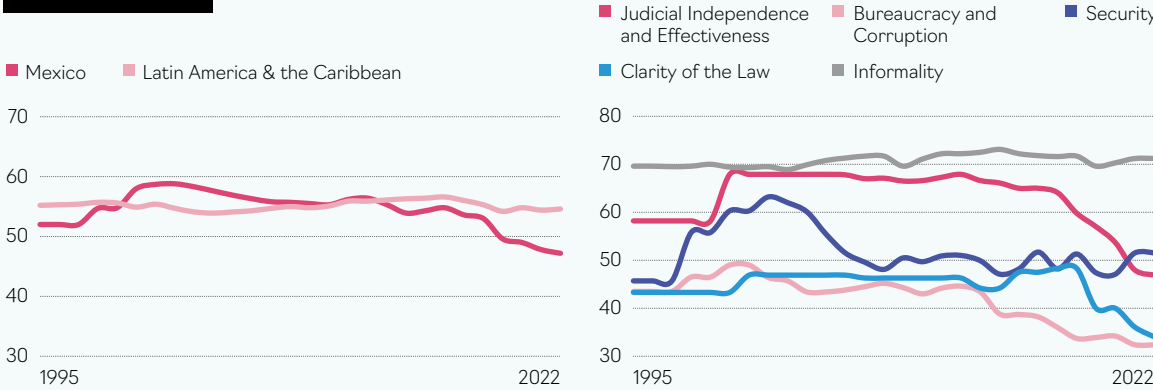
	2022		Change Since 2013	
	Mexico	Region	Mexico	Region
Women's Economic Freedom	81.9	79.1	15.7%	9.0%
Investment Freedom	78.9	62.3	7.1%	8.4%
Trade Freedom	79.6	69.4	6.7%	-7.6%
Property Rights	41.9	44.3	-5.8%	2.5%

Political Subindex



	2022		Change Since 2013	
	Mexico	Region	Mexico	Region
Legislative Constraints on the Executive	36.1	62.2	-34.3%	0.4%
Political Rights	73.1	79.6	-6.8%	-6.9%
Civil Liberties	62.7	76.9	0.6%	-7.6%
Elections	88.9	84.9	-0.1%	-3.6%

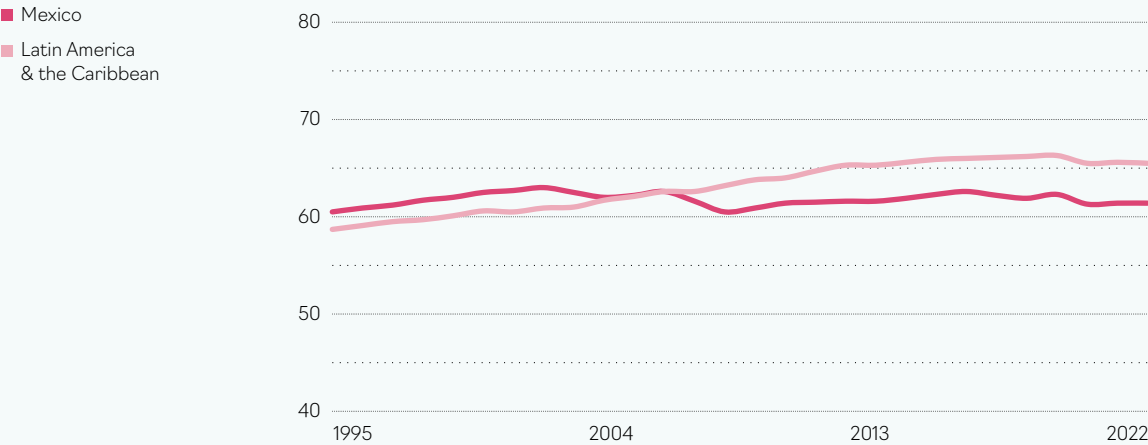
Legal Subindex



	2022		Change Since 2013	
	Mexico	Region	Mexico	Region
Judicial Independence and Effectiveness	47.0	61.6	-29.5%	-1.7%
Bureaucracy and Corruption	32.4	39.0	-25.4%	-7.6%
Security	51.5	61.6	3.1%	1.3%
Clarity of the Law	34.1	50.2	-22.9%	-4.8%
Informality	71.2	60.8	-1.7%	-1.7%

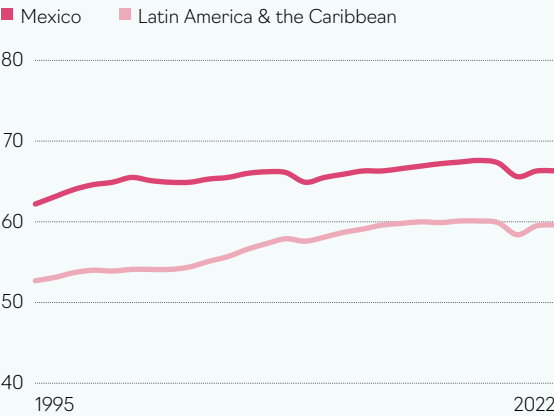
Prosperity Index

1995-2022



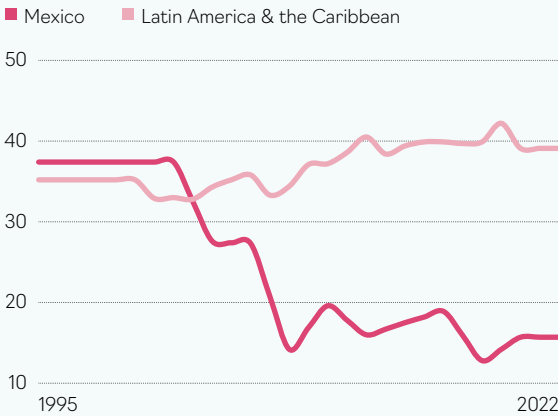
	2022		Change Since 2013	
	Mexico	Region	Mexico	Region
Prosperity rank	90	-	1	-
Prosperity score	61.4	65.5	-0.3%	0.3%

Income

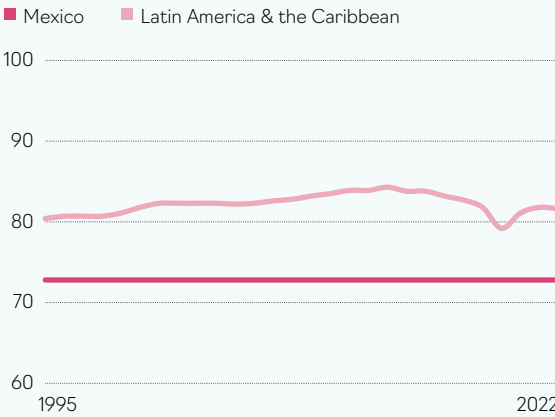


	2022		Change Since 2013	
	Mexico	Region	Mexico	Region
Income	66.3	59.6	-0.1%	0.0%
Inequality	15.7	39.1	-6.4%	1.7%

Inequality

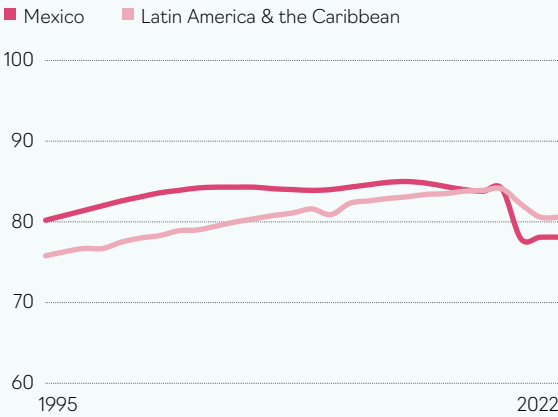


Minority Rights

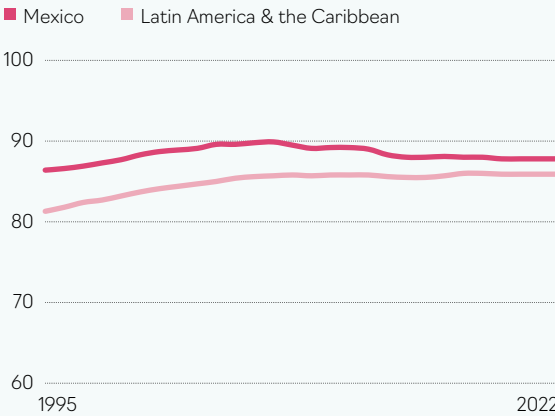


	2022		Change Since 2013	
	Mexico	Region	Mexico	Region
Minority Rights	72.8	81.6	0.0%	-3.2%
Health	78.1	80.6	-8.0%	-2.8%

Health

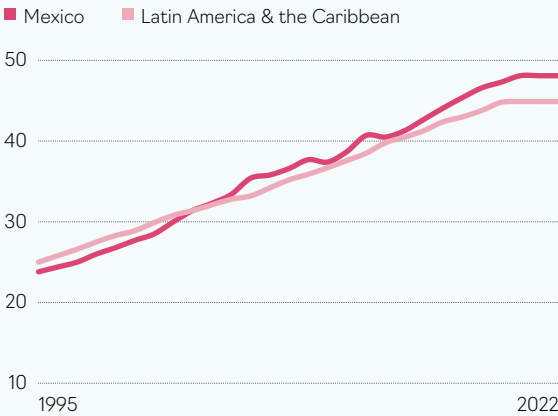


Environment



	2022		Change Since 2013	
	Mexico	Region	Mexico	Region
Environment	87.8	85.9	-0.6%	0.3%
Education	48.1	44.9	18.6%	13.0%

Education



## Evolution of Freedom

The Freedom and Prosperity Indexes have served as a useful tool for observers and policymakers alike to identify trends and historical evolution of countries. In the case of Mexico, the Indexes rank the country as “mostly free” and “mostly prosperous”. However, recent declines in several indicators are early warning signs of an erosion occurring, at least on some fronts. Complementing the findings of the Indexes with qualitative insights can provide a nuanced understanding of the drivers, trends, and challenges that Mexico is facing.

Between 2018 and 2022, Mexico’s overall **freedom score** dropped from 66 to 61, placing it 90th out of 164 countries. This decline in ranking is unique among Latin American nations, which maintained an average aggregate score of 65. During this period, the most significant declines came in Mexico’s legal freedom score, which fell from 53 to 47 (now ranked 117) and its political freedom score, which fell from 74 to 65 (now ranked 102). In contrast, the economic freedom score remained relatively stable at around 70 (ranked 52). While various political and economic factors likely contributed to these trends, it is worth noting that significant changes have occurred since President Andrés Manuel López Obrador (AMLO, by his acronym), assumed office in December 2018, which have had a notable downward impact on these freedoms.

When it comes to **legal freedom**, the subindex records significant declines with respect to judicial independence, clarity of the law, and bureaucracy and corruption that are attributable to previous governments, but which have been exacerbated since 2018. While legal institutions such as the Supreme Court of Justice and regulators remain relatively autonomous overall, a large driver of the declining trends stems from the current government’s direct and tacit attempts to undermine their functioning and independence.

For instance, the decline in judicial independence scores, from 60 to 47 between 2018 and 2022, is largely due to ongoing attempts to influence the Supreme Court and control their key decisions. Since taking office, AMLO has appointed four of the nine Supreme Court Justices. Notably, two of them have aligned with the president’s political agenda, and the other two, in the words of the president himself “turn out to be conservatives,” meaning that they are independent—as they should be—and do not abide by his mandates. Most recently, the president directly appointed a new Justice to a vacant seat on the Supreme Court—a political loyalist and former Morena party activist. The interference in key decisions is overt at times: for example, AMLO said it would be an “act of treason to the country” if the court ruled against the Electric Industry law, despite serious concerns over the law’s constitutionality. Two key rulings regarding this law were expected in September 2023, but have been delayed as the energy ministry introduced a legal complaint regarding potential conflicts of interest of two Justices of the court. The law prioritizes the state-owned utility CFE, undermining private sector participation (among other issues) but it is a key plank in the president’s nationalistic energy agenda.

The government is also attempting to undermine the Supreme Court in other ways, for instance by engaging in confrontational and polarized criticism of the court’s president, including endorsing public protests against her, underscoring and increasing the political pressure on Justices. The government also seeks to exert financial pressures over the court. On October 25, 2023, Congress approved cuts of US\$815 million to the Supreme Court’s budget—granting the court 18 percent less than had been requested for the 2024 budget (and representing a 2.7 percent reduction compared to the 2018 budget, according to México Evalúa). Moreover, the party in government

presented a bill (September 2023), supported by the president, to eliminate the Judicial Power’s trust funds, which was eventually suspended by the Supreme Court itself, proving that the measure would undermine the labor rights of workers, who were the final owners of the resources: the cuts aimed to eliminate fourteen trusts specifically earmarked for employees’ pensions and healthcare, as well as implement recent judicial reforms that have expanded the responsibilities of the High Court.

The decline in the clarity of the law score, from 48 in 2018 to 34 in 2022, is a result of several policy shocks which take a toll on business confidence. The current administration has created persistent uncertainty, especially regarding the enforcement of crucial regulations governing contracts, tariffs, and prices, that are necessary for maintaining a competitive market. This ranges from the cancellation of the Mexico City airport project, despite it being 70 percent complete, to hindering competition in the electricity and renewables market. As a result of this, on July 19, 2022, the United States and Canada initiated a consultation under the United States-Mexico-Canada Agreement (USMCA) to discuss Mexico’s energy policies, in particular claiming a violation of competition and clean energy commitments. The consultations are ongoing, though dispute settlement mechanisms have not been triggered as the parties are expecting the Supreme Court to rule on the constitutionality of the Electric Industry law.

The administration recently delivered yet another significant blow to business confidence. On October 5, 2023, the Federal Civil Aviation Agency unilaterally altered the tariff base regulation for the concessions of nongovernment airport operators—without any previous consultation. Ultimately, this uncertainty makes it difficult to assess the regulatory risks, and results in added costs for companies and cancellation of investments in the country.

Since 2018, there have been budget and staff cuts to key ministries and autonomous institutions,

jeopardizing Mexico’s bureaucratic structure and redirecting resources to the president’s favored projects. In addition to the budget reductions to the Supreme Court, the 2024 budget proposes cuts for the health, economy, and tourism ministries (21 percent, 56 percent, and 77 percent respectively, compared to the 2019 budget, the first of AMLO’s presidency). Instead, resources are being redirected to ministries overseeing the president’s social programs and fiscally unviable pet projects, resulting in significant increases in funding for the energy, well-being, and defense ministries (609 percent, 266 percent, and 176 percent respectively). These shifts in spending reflect a broader trend towards centralized decisionmaking and an enormous role for the military—a tendency that has adversely affected the “bureaucratic effectiveness” indicator of the Index. The centralization of government procurement contracts is one example, which, together with a lack of delivery capacity, led to a severe shortage of medicines in 2021, according to an independent audit by Auditoría Superior de la Federación (ASF).

And while these changes have been justified on the grounds that they would reduce corruption, Mexico has not made much progress on this front, ranking 126 of 180 countries in Transparency International’s Corruption Perceptions Index in 2022, with a score of 31 out of 100, a decline from 35 in 2014. Particularly worrisome has been the involvement of the military in many economic activities, including managing ports and customs, executing the president’s infrastructure projects, and even owning a commercial airline. Citing national security concerns as a justification, these changes have led to opacity in the disclosure of government contracts and an increased practice of direct assignments instead of public and transparent bids—worsening rather than abating corruption concerns.

Most recently, before the year end of 2023, the president has raised the stakes: he has indicated that the autonomous institutions will be disbanded altogether, as (in his own words), “they don’t serve the people and are at the service of minorities.”

Another notable aspect contributing to the decline of legal freedom in Mexico since 2018 is the shifting security landscape, characterized by an increasing reliance on the military for day-to-day law enforcement activities, and the “hugs not bullets” policy, which essentially advocates for a nonconfrontational stance towards organized crime. The traditional presence of civil police has been superseded by the emergence of military police, or in some instances, direct military intervention in street-level security operations throughout the country, creating human rights concerns. And the lack of actions against organized crime has allowed it to become more powerful in certain parts of Mexico, resulting in a rise in violence and insecurity across the country. According to the Executive Secretariat of the National System of Public Security, homicides during the five years of AMLO’s government have reached 156,479 (as of November 2023), more than the whole six years of the previous administration.

On **political freedom**, the executive has sought to undermine the National Electoral Institute (INE), not only by attempting several constitutional and legal reforms, but also by significantly slashing its budget. The INE was established in the 1990s and serves as a crucial pillar of Mexican democracy, organizing elections and ensuring fair electoral processes. Although attempts to reduce the institute’s independence and power have so far faced congressional and wider public rejection, the president plans to present a new bill during his last year in government (2024), arguing—without proof—that the institute shows a “lack of independence and impartiality.”

On yet another metric, the decline in the legislative constraints on the executive score, from 54 in 2018 to 36 in 2022, also contributed to the overall decline in political freedom. AMLO’s landslide victory in 2018 gave his ruling Morena coalition a significant majority in Congress and, although it shrank in the 2021 midterm elections, the coalition still holds 55 percent of the seats in the House and 59 percent in the Senate. The pressure on

ruling coalition legislators to vote as a bloc has, in most instances, allowed the president to capture Congress and enabled major reforms in education, labor, and energy. These reforms have been approved with little or no input from the ruling party, coalition partners, or opposition legislators, undermining the process of checks and balances. The Senate has remained an important counterweight, particularly with regard to constitutional reforms; and Congress too has recovered some of its balance, since the ruling party lost its absolute majority during the 2021 midterm elections.

The active undermining of the legislative processes and political pressure on opposition legislators to vote in line with the president’s priorities have also become more common. For instance, the reform of the electoral system was ruled unconstitutional (June 2023) by the Supreme Court due to violations of the legislative process. These included not giving legislators adequate time to debate and consider the bill, as significant last-minute amendments were submitted less than three hours before the vote, and further changes were unlawfully incorporated after its approval. This and similar incidents highlight the overt sidestepping of procedure that has become more common in this legislature. Overall, this undermines the proper functioning of the legislative body and weakens the separation of powers enshrined in the Constitution.

On **economic freedom**, the transformation of the relationship between the state and the private sector has been a defining characteristic of Mexico’s economic landscape since 2018. Central to this shift is the government’s altered perception, wherein the public sector is not solely viewed as a regulatory entity but as an active participant in economic activities, thereby fostering a growing inclination towards statization. Though property rights are granted in the Constitution as an individual freedom, this ideological shift has put such individual rights on a weaker footing.

In this evolving climate, several endeavors to assert state influence over private enterprises

have been initiated, although not all have materialized into full-fledged nationalizations. Notably, instances have arisen where the government intervened in the decisionmaking of private companies, effectively nudging them to relocate their operations according to the state’s regional development agenda. An example is the relocation of a beer factory from the north to the underdeveloped south of the country. This is a concerning trend, wherein the state’s vision for regional development takes priority over the autonomy of private enterprises. This heavy-handed approach not only undermines the principles of competitiveness and private decisionmaking but also poses a direct threat to the fundamental tenets of property rights. Such coercive tactics, veiled under the guise of state-driven development, demonstrate a fundamental disregard for the traditional mechanisms of incentivization and market forces, creating an environment of uncertainty for private property holders.

Companies in the transportation sector, in particular railway concession holders, have recently been the target of government aims to influence private decision making. In May 2023 an attempt

was made to expropriate rail infrastructure owned by Grupo Mexico’s Ferromex, to be repurposed for the Trans-Isthmic Corridor project; and in October 2023, the president issued a decree to pressurize concession-holders to invest in passenger trains and being obliged to change their business models to offer passenger services. These events are a window into the government’s approach to the private sector, offering some explanation for the deteriorating business climate and challenges to property rights reflected in the Index.

Preceding the recent developments, the challenges to property rights have long been exacerbated by the pervasive influence of organized crime, particularly through extortion and illegal impositions. This unfortunate reality has only been intensified by the implementation of the “hugs, not bullets” policy, inadvertently providing illicit entities with greater leeway to perpetrate their exploitative activities.

The erosion in freedoms is neither linear nor universal, but the examples above clearly point to some worrisome trends that have contributed to an overall decline in freedoms in Mexico, and which present clear warning signs for the way forward.

## From Freedom to Prosperity

Mexico’s **prosperity** score has been stagnant since the start of the Index, oscillating between 61 and 63 since 1996 (ranking 90 out of 164 countries in 2022). Its aggregate score is now 4.1 points below the Latin America & the Caribbean regional average. The income indicator is virtually flat at 66.3, while the inequality score is remarkably low (at 15.7, falling from a high of 37.4 in 2002)—23.4 points below the regional average. This is a result of structural low growth, but also of the fact that Mexico had the worst post-pandemic recovery in North America and among the main economies in Latin America.

Mexico’s growth trajectory has not been volatile but rather the challenge has been stubbornly low growth relative to its potential. Data from the International Monetary Fund show an average 2.08 percent year-over-year (YoY) growth since 1990; this compares to 4.3 percent for Chile, 4.2 percent in Peru, 3.4 percent in Colombia, 2.6 percent in Argentina, and 2.3 percent in Brazil—some of whom have experienced very volatile growth trajectories. Unleashing further growth has come as a challenge, despite a sophisticated export sector, sound macroeconomic policy and a resilient private sector. This can be partly explained by the



fact that investment as a percentage of gross domestic product (GDP) has for many years lagged behind its regional peers, remaining below 25 percent for most years since the 1990s, even dipping below 20 percent in 2019, according to the National Institute of Statistics and Geography (INEGI). However, some positive signs have emerged, with investment reaching 24.9 percent of GDP in the second quarter of 2023, and a more favorable external environment and positive trends such as nearshoring leading to an increase in private sector investment of 18.1 percent YoY in the first half of 2023, the largest increase since 1993.

Productivity is also an issue. Economy-wide labor productivity and overall productivity lag behind other emerging market G20 economies such as South Korea, Turkey, and Thailand.

The economic liberalization of the country in the 1980s and 1990s—which led to North American economic integration, a sound financial sector, and a much more complex economy—has greatly benefited Mexico, but its impact has not been felt by all regions, sectors, and groups. To put this in perspective, the average growth of the northern and central parts of the country reached 3.1 percent YoY between 2010 and 2019 according to Banxico data, and only 0.06 percent in the south, where most of the country’s marginalized population lives. At the same time, the large proportion of informally employed workers—55 percent of the labor force according to the 2023 labor force survey, only a slight decrease from the 2005 figure of 59 percent—is also a key driver of the inequality gap. Regional gaps in growth and informality contribute to drastically different levels of vulnerability and access to services. For example, states in the north like Baja California Sur, Baja California, and Nuevo León had the lowest percentage of multidimensional poverty as a share of their population in 2022 according to the National Council for the Evaluation of Social Development Policy

(CONEVAL) (13.3 percent, 13.4 percent, and 16 percent respectively), while multidimensional poverty rates are significantly higher in the southeast with Chiapas, Guerrero, and Oaxaca (67.4 percent, 60.4 percent, and 58.4 percent respectively) topping the list.

That said, Mexico has made advances with respect to specific social indicators. For instance, the Index highlights significant improvements in education since 2000 (from 27.7 points to 48.1), although health has experienced an enormous decline of more than 5 points since then, dropping back to 78.1 points. Moreover, as the CONEVAL chart in Table 1 shows, the reduction of access to health between 2020 and 2022 happened at the worst possible time: the COVID-19 pandemic.

If we understand prosperity as the absence of social “lacks” (i.e., people’s needs are met), according to the country’s multidimensional measurement of poverty, Mexico has seen relevant improvements for several years, in spite of its low average growth. One of the reasons this has been possible is that there is now an anchor with which to assess the evolution of access to a “sufficient” income, to food and nutrition, health, education, social security, housing and services. Being capable of rigorous measurement helps align institutional aims and policies, which are in turn a prerequisite to effectively address lacks or shortfalls, and promote inclusion and prosperity. The other two vertices of the “prosperity triangle” are strong and sustained economic growth, and sound policies, which have not always been present.

While economic growth over the last five years has averaged just 0.63 percent per year, Mexico has managed to reduce poverty significantly. It has done so by almost quadrupling social program spending from US\$8 billion in 2018 to US\$30 billion in 2024, and increasing the minimum wage across the country (2018–24) by 182 percent—and by 324 percent in the “free border zone.”

Table 1. Change in deprivations in Mexico (2000–2022)

Deprivation	Percentage of people without access							
	2000	2010	2012	2014	2016	2018	2020	2022
1. Health services	58.6%	29.2%	21.5%	18.2%	15.5%	16.2%	28.2%	39.1%
2. Basic housing services	—	22.9%	21.2%	21.2%	19.2%	19.6%	17.9%	17.8%
Sewage	40%	10.7%	9.1%	8.1%	6.8%	6.3%	5.1%	4.9%
Water	24%	9.2%	8.8%	8.2%	7.6%	7.2%	6.7%	7.1%
Electricity	13%	0.9%	0.7%	0.6%	0.4%	0.4%	0.2%	0.3%
3. Quality of spaces and housing	—	15.2%	13.6%	12.3%	12.0%	11.1%	9.3%	9.1%
Overcrowding (>2.5 people)	29%	10.5%	9.7%	8.5%	8.3%	7.6%	6.2%	5.8%
Floors	21%	4.8%	3.6%	3.3%	3.3%	3.1%	2.7%	2.9%
Roofs	12%	2.5%	2.0%	1.7%	1.3%	1.1%	0.8%	1.0%
Walls	7%	1.9%	1.6%	1.7%	1.6%	1.3%	1.2%	1.3%
4. Education	27%	20.7%	19.2%	18.7%	18.5%	19.0%	19.2%	19.4%
5. Social security	65%	60.7%	61.2%	58.5%	54.1%	53.5%	52%	50.2%
6. Food/Nutrition	22%	24.8%	23.3%	23.4%	21.9%	22.2%	22.5%	18.2%

Source: National Council for the Evaluation of Social Development Policy (CONEVAL)

## The Future Ahead

Mexico continues to preserve key technical and autonomous institutions, which have so far made it resilient to various affronts to political, legal, and economic freedoms, and which have helped the country sustain a basic level of prosperity, as reflected by the Index. However, the negative developments in some indicators should serve as early warning signs, while also pointing to the path forward, if the country wants to advance towards the next stage in democratic consolidation and progress in well-being standards.

The insights above suggest there is a clear path toward Mexico’s advancement on both the freedom and prosperity fronts. These can be summarized in three clear pillars: strong institutions,

strong and sustained growth, and well-articulated and effective redistribution policies.

Mexico has a unique opportunity to capitalize on the current favorable external environment and attract investment that can serve as a pull factor for growth. Its sustainability will largely depend on productivity improvements, including to education, reskilling, infrastructure, and energy. The country remains a bastion of free trade in Latin America and holds a strong strategic position, being the United States’ largest trading partner. Amid US-China decoupling, gains from nearshoring could be significant. For the time being, this trend lays more in the expectation than the materialization front. According to Alfaro and Chor, Mexico is sixth in the

list of countries to have derived the most market gains from the decoupling of the United States from China between 2017 and 2022. It should be in the top two.

Enormous expectations cannot cohere into more significant material investment commitments if the institutional framework continues to weaken, and this is one of the key risks that could lead to a further deterioration in Mexico’s Index rankings. In many ways, Mexico has *de jure* maintained the institutions and legal framework to support political, economic, and legal freedoms, including an independent central bank, an autonomous Supreme Court, and an independent National Electoral Institute. But a *de facto* deterioration is clearly occurring—in the form of political loyalists being appointed to key autonomous institutions, budget and staff cuts, a concentration of power, and a militarization of strategic economic activities. This cycle of deterioration is a risk to freedoms and prosperity in the near term.

In this sense, pendular politics also remains a significant risk, both to institutions and to sound evidence-based policymaking. The country will head to the polls in June 2024 and the signs of polarization are increasing. While disagreement and debate are essential components of a healthy democracy, the current discourse in the country is anything but constructive; and uncertain and ad hoc shifts in policy risk squandering the opportunities to attain strong and sustained growth, as well as improvements in prosperity more broadly.

Undermining institutions, pendular policies, militarization, the absence of solid foundations for strong and durable economic growth, and growing fiscal pressures, are a recipe for failure. On the contrary, policies aimed at strengthening and perfecting our institutional scaffolding, delivering good and sustained policies, ensuring the rule of law, improving competitiveness, enhancing productivity, and maintaining a sound fiscal stance, could make Mexico a success story, grounded on improved freedom and increased prosperity.

**Vanessa Rubio-Márquez**

Vanessa Rubio-Márquez is professor in practice and associate dean for extended education, at the School of Public Policy, London School of Economics; associate fellow at Chatham House; consultant and independent board member. She is a member of the Freedom and Prosperity Advisory Council at the Atlantic Council. Vanessa had a twenty-five-year career in Mexico’s public sector, including serving as three-times deputy minister (Finance, Social Development, and Foreign Affairs) and senator.

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# Middle East & North Africa

Rabah Arezki

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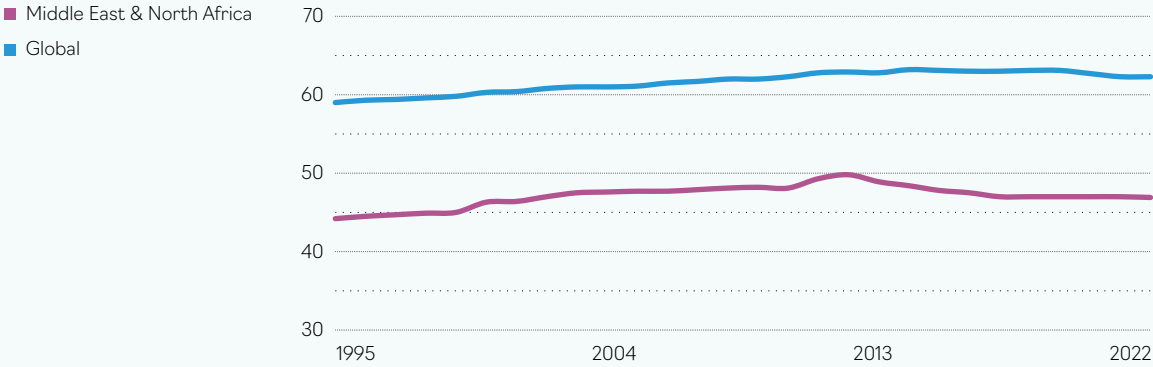
Middle East & North Africa: Regional Ranking							
	Freedom				Prosperity		
	Rank	Score		Status	Rank	Score	Status
Israel	37	79.4	◆	Free	32	80.1	● Prosperous
Kuwait	88	61.4	◀	Mostly Free	73	65.5	◀ Mostly Prosperous
Jordan	89	61.2	◀	Mostly Free	92	60.9	◀ Mostly Unprosperous
Morocco	92	60.4	◀	Mostly Free	120	53.1	◀ Mostly Unprosperous
Tunisia	93	60.1	◀	Mostly Free	82	63.5	◀ Mostly Unprosperous
United Arab Emirates	107	54.0	◀	Mostly Unfree	39	75.6	◀ Mostly Prosperous
Lebanon	117	49.8	◀	Mostly Unfree	94	60.7	◀ Mostly Unprosperous
Oman	119	49.6	◀	Mostly Unfree	67	65.8	◀ Mostly Prosperous
Turkey	123	49.0	◀	Mostly Unfree	79	64.3	◀ Mostly Unprosperous
Bahrain	127	46.9	◀	Mostly Unfree	66	65.9	◀ Mostly Prosperous
Qatar	128	46.7	◀	Mostly Unfree	74	65.0	◀ Mostly Prosperous
Algeria	135	44.3	◀	Mostly Unfree	83	62.9	◀ Mostly Unprosperous
Saudi Arabia	142	40.4	◀	Mostly Unfree	93	60.7	◀ Mostly Unprosperous
Egypt	147	38.2	◀	Mostly Unfree	105	58.2	◀ Mostly Unprosperous
Iraq	151	35.9	◀	Mostly Unfree	113	54.9	◀ Mostly Unprosperous
Iran	153	33.5	◆	Unfree	102	58.4	◀ Mostly Unprosperous
Libya	156	33.0	◆	Unfree	101	58.6	◀ Mostly Unprosperous
Yemen	159	26.6	◆	Unfree	164	37.3	◀ Unprosperous
Syria	160	21.2	◆	Unfree	157	44.7	◀ Unprosperous

Countries are organized in descending order based on their Freedom scores, with "Rank" denoting global rankings.



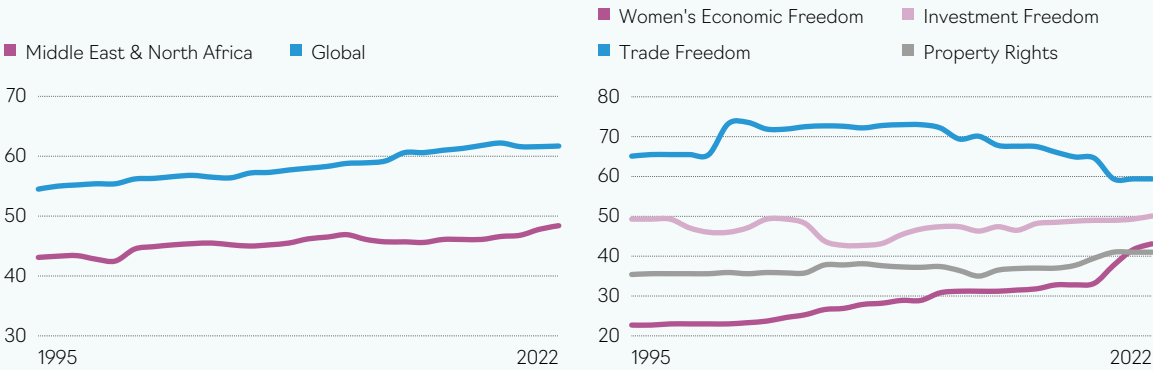
# Freedom Index

1995-2022



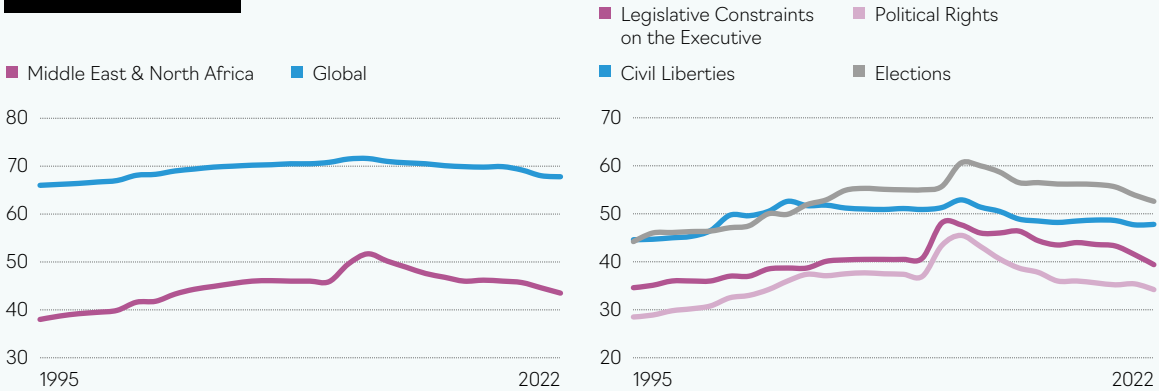
	2022		Change Since 2013	
	Region	Global	Region	Global
Freedom score	46.9	62.3	-4.1%	-0.8%
Economic Subindex	48.4	61.7	6.0%	4.2%
Political Subindex	43.5	67.8	-13.3%	-4.6%
Legal Subindex	48.9	57.3	-4.0%	-1.4%

## Economic Subindex



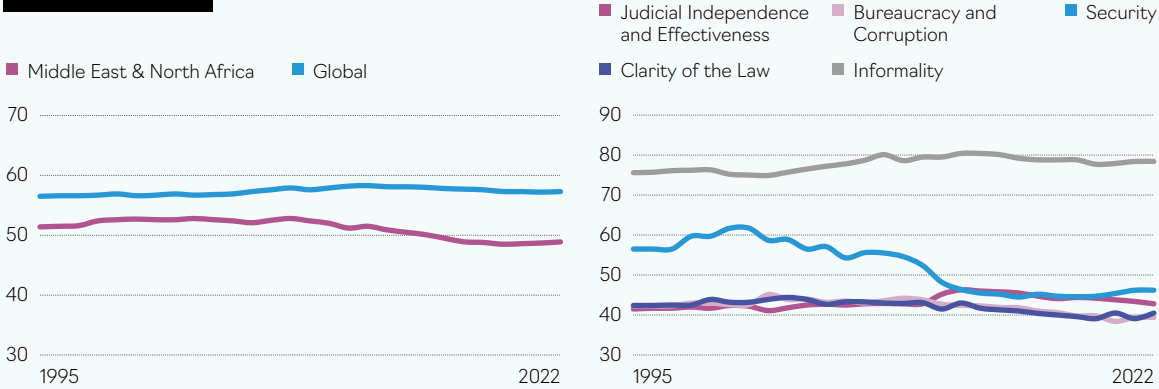
	2022		Change Since 2013	
	Region	Global	Region	Global
Women's Economic Freedom	43.1	72.4	37.9%	10.0%
Investment Freedom	50.1	59.6	8.4%	8.2%
Trade Freedom	59.4	65.2	-15.3%	-5.1%
Property Rights	41.0	51.2	17.0%	4.4%

## Political Subindex



	2022		Change Since 2013	
	Region	Global	Region	Global
Legislative Constraints on the Executive	39.4	58.3	-14.5%	-3.8%
Political Rights	34.2	67.0	-20.9%	-6.9%
Civil Liberties	47.8	69.6	-7.1%	-3.8%
Elections	52.6	76.2	-12.3%	-3.9%

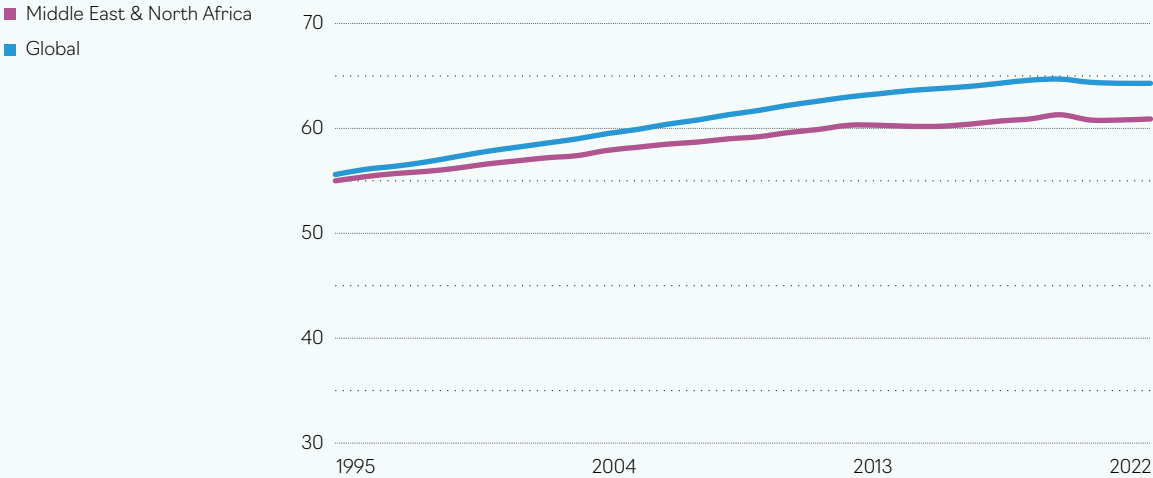
## Legal Subindex



	2022		Change Since 2013	
	Region	Global	Region	Global
Judicial Independence and Effectiveness	42.8	59.4	-7.0%	-1.9%
Bureaucracy and Corruption	39.4	45.3	-6.7%	-0.3%
Security	46.2	60.2	1.7%	-1.4%
Clarity of the Law	40.5	52.5	-2.9%	-2.9%
Informality	78.4	70.2	-2.5%	-0.2%

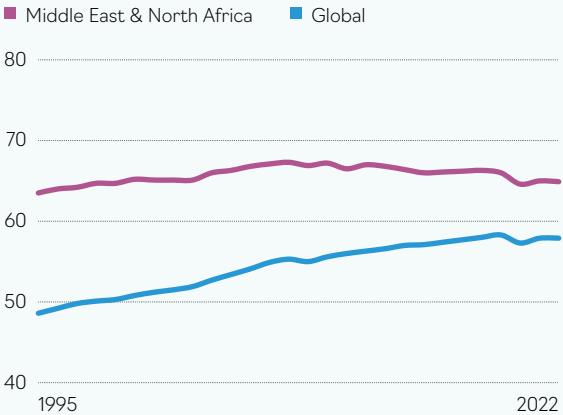
# Prosperity Index

1995-2022



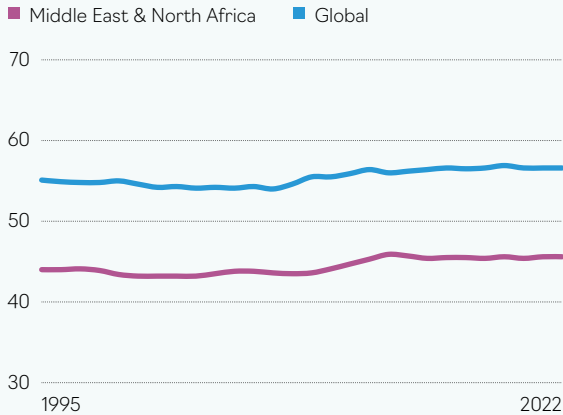
	2022		Change Since 2013	
	Region	Global	Region	Global
Prosperity score	60.9	64.3	1.0%	1.5%

## Income

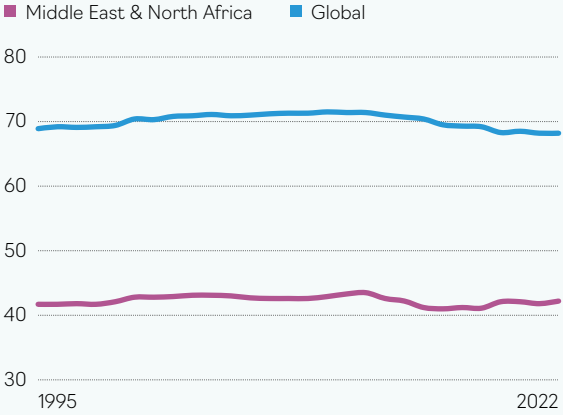


	2022		Change Since 2013	
	Region	Global	Region	Global
Income	64.9	57.9	-2.8%	2.3%
Inequality	45.6	56.6	-0.6%	0.9%

## Inequality

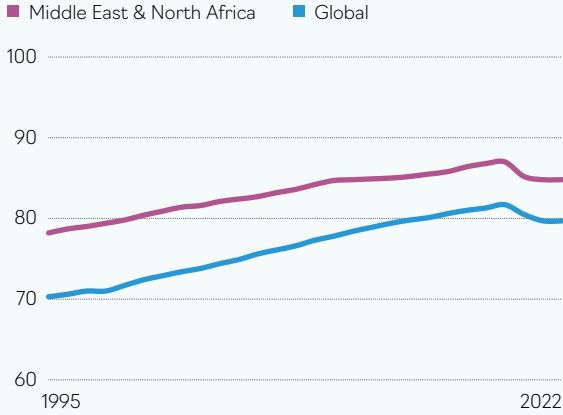


## Minority Rights

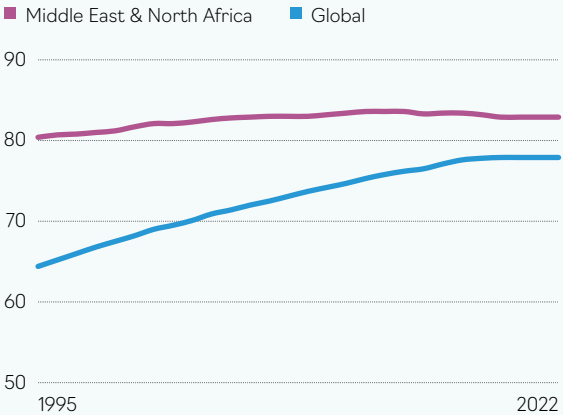


	2022		Change Since 2013	
	Region	Global	Region	Global
Minority Rights	42.2	68.2	-1.0%	-4.0%
Health	84.8	79.7	-0.2%	0.4%

## Health

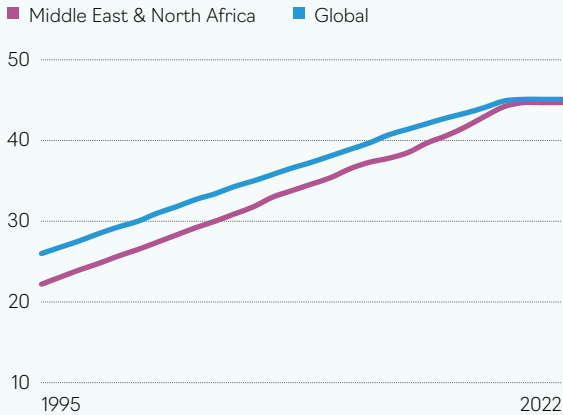


## Environment



	2022		Change Since 2013	
	Region	Global	Region	Global
Environment	82.9	77.9	-0.8%	2.8%
Education	44.7	45.1	18.3%	10.8%

## Education



## Evolution of Freedom

The countries of the Middle East and North Africa (MENA) region are stuck in economic and political transitions toward more open economic and political markets. The lack of economic freedom has long echoed the lack of political freedom in the region. To maintain the status quo, political elites have for many years sought to cultivate an enduring social contract wherein economic and political elites capture economic rents—including from oil revenues—and citizens receiving patronage spending have tended to look the other way.

That is evident from the overall **freedom score** for the region, which has remained considerably lower than the global average. Indeed, the MENA region's freedom score in 2022 is the same as two decades before (around 46.9), 15.4 points below the global average. That said, an increase in the freedom score is evident at the beginning of the period of analysis (from 1995 to 2002) which coincided with a wave of both economic and political reforms.

While there are important cultural and legal similarities among MENA countries, the region is also heterogeneous in many ways. Three distinct groups have progressed at different speeds in their economic transitions: the high-speed group, mostly composed of Gulf Cooperation Council (GCC) countries; moderate-speed, mostly composed of North African countries plus countries like Jordan and Lebanon; and the low-speed group, which includes conflict or post-conflict countries. Indeed, the GCC countries, which are mostly nonpopulous economies with vast wealth, have outperformed the other two groups, increasing their average freedom score by 6.7 points over the sample (1995–2022). The “moderate-speed” group of countries in North Africa, plus Jordan and Lebanon, includes both oil-importing and oil-exporting states, with a mixed record of economic reforms. Most of these countries are populous, with Egypt home to the largest population in the region. The conflict and

post-conflict group includes Iraq, Libya, Syria, and Yemen, each with a complex history of civil wars coupled with foreign invasions.

The diversity of circumstances is evident when considering the evolution of the **economic freedom** score. The regional score has increased by 5 points throughout the period, driven by improvements in women's economic freedom and, recently, investment freedom. This increase is mainly driven by progress in the GCC group of countries, where economic freedom went up by 14.5 points. The GCC is now led by Saudi Arabia, which has embarked on an important economic and social transformation agenda. In the “low-speed” group, we see an overall decline over the period (–3.7 points). Across the region, trade freedom presents a significant negative trend since 2011, losing almost 15 points.

On the **political freedom** front, the region is home to the world's last absolute monarchies, whose transition to constitutional monarchies has been slow, and at times reversed. Military involvement in politics is all too common and has been on the rise. The wave of protests that spread through almost the entire region and which came to be known as the Arab Spring is apparent in the data. The Arab Spring erupted in the early 2010s from the frustration of a young and educated population aspiring to more political and economic freedom and prosperity. The hope raised by the Arab Spring proved, however, to be temporary. Indeed, protests ended up either tamed by autocrats or resulted in internal conflicts, with foreign interventions supporting opposing sides. The political freedom score shows an increase starting in 2010, which has vanished by 2014. All indicators of the political freedom subindex have been affected. This shows that countries in the region are stuck in political transitions toward democracy.

**Legal freedom** is relatively low in the region, with all its indicators except informality scoring

below 50 in 2022. Most indicators of legal freedom have had a flat trend in the last decade, showing no signs of improvement. Here as well, the GCC countries score higher than the other two groups, with

a stable score over the sample. In the other two groups, legal freedom is declining. Just as on the political front, legal reforms toward more fair and inclusive systems have stalled.

## From Freedom to Prosperity

The **prosperity score** of the MENA region has clearly diverged from the global average during the period 1995–2022. Overall scores mask important differences between countries in MENA, especially along economic lines. Indeed, the MENA region has the largest reserves of oil and other hydrocarbons in the world.<sup>1</sup> But not all countries in the region are rich in oil. The region is host to both oil importers and oil exporters, and the impacts of oil shocks far outweigh any policy intervention. Evidently, persistently high oil prices—albeit remaining volatile—have been good news for oil exporters and somewhat bad news for oil importers in the region. However, the reality is not always so straightforward, as high oil prices result in large and positive spillover effects from oil exporters to oil importers, especially in terms of remittances and foreign aid, and these have tended to mitigate the differences between the two groups.

While the consequences of oil market fluctuations continue to play a dominant role in driving prosperity in the region, that situation is clearly not sustainable as the world economy is firmly embarking on a transition away from fossil fuels. The MENA region scores higher than the global average in income, health, and environment, but the gap in the last two decades has been narrowing. Countries in the region should not be complacent and should transform their economies by supporting more

(genuine) private sector development. The success of the economic and social transformation agenda led by Saudi Arabia is vital for the region. Yet the ultimate test of that transformation is whether it would be sustained and financed through (domestic and foreign) private investment instead of state funds, which will eventually run out.

Education is the best performing indicator for the region, with a score that has doubled in the period of analysis. Nonetheless, there is still room for improvement, as the level is still low (close to 45 points), relative to the global average. Educated but unemployed youth have been the drivers of the Arab Spring. That situation is a source of worry for leaders who want to keep the status quo, and has led them to place limits on political freedom and civil liberties.

The region scores significantly below the global average in inequality and minority rights, and the gaps have not been reduced in the last twenty-five years. Persistently high inequality is a source of further tensions. The need to promote equality of opportunity in the region—through free enterprise and curbing cronyism—has never been greater. Failure to address deficiencies in economic but also political freedom will hamper prosperity in the region and lead to further instability.

<sup>1</sup> Hereafter the terms “hydrocarbon” and “oil” are used interchangeably. The region is host to the largest oil and natural gas exporters in the world.

# The Future Ahead

Over the next decade, countries in the MENA region will have to grapple with economic and political transitions in a world in mutation. To achieve freedom and prosperity, countries in the region will have to face up to risks linked to geopolitics, climate change, and the transformation of energy markets, as well as social polarization.

The region is at a tipping point when it comes to conflict escalation. Indeed, the alarming intensity and casualties resulting from the conflict between Israel and the Palestinian territories risk engulfing the whole region. This new phase of escalation of violence brings not only tragic loss of lives but also physical destruction, fear, and uncertainty. That new spread of violence will have far-reaching economic and social consequences. What is more, the Palestinian issue is an important fault line between the Global North and the Global South that could have global repercussions and tear the region further apart.

The region is also extremely exposed to the existential threat posed by climate change. Climate change is simply making the Middle East and North Africa unlivable at a faster rate than any other region. Specifically, temperatures have reached record highs and a water crisis is looming in the region, which could lead to heightened domestic tensions and interstate conflicts. The crisis is made worse by the inadequate governance of the water sector and other utilities, which has exacerbated the frustration of the citizenry over poor public services.

The region also needs to transition away from fossil fuels. Oil prices have been persistently high and this has provided some respite to the many oil-exporting countries in the region. Yet, as the world moves away from fossil fuels, the vast reserves of oil and natural gas with which MENA is endowed will eventually become stranded—and so will the capital investment in the sector. With these considerations in mind, several MENA countries have embarked on ambitious diversification programs to move away from oil, although success has, so far, been elusive. As we have said, Saudi Arabia's ambitious economic and social transformation agenda could be a game changer for the region and perhaps offer a model for other countries to emulate.

A credible economic and social transformation agenda is long overdue, to meet the aspirations of an educated youth and to absorb millions of young people—females and males alike—into the labor market. The aborted political transitions have, however, polarized societies in the region: the people on the streets who continue to protest on the one side, and the political elites and crony capitalists on the other. The political and economic transitions are interlinked and failure to address both could result in further social tensions and instability.

Editors' note: This chapter was written before the start of the 2023 Israel-Hamas war.

## Rabah Arezki

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# Egypt

Rabah Arezki

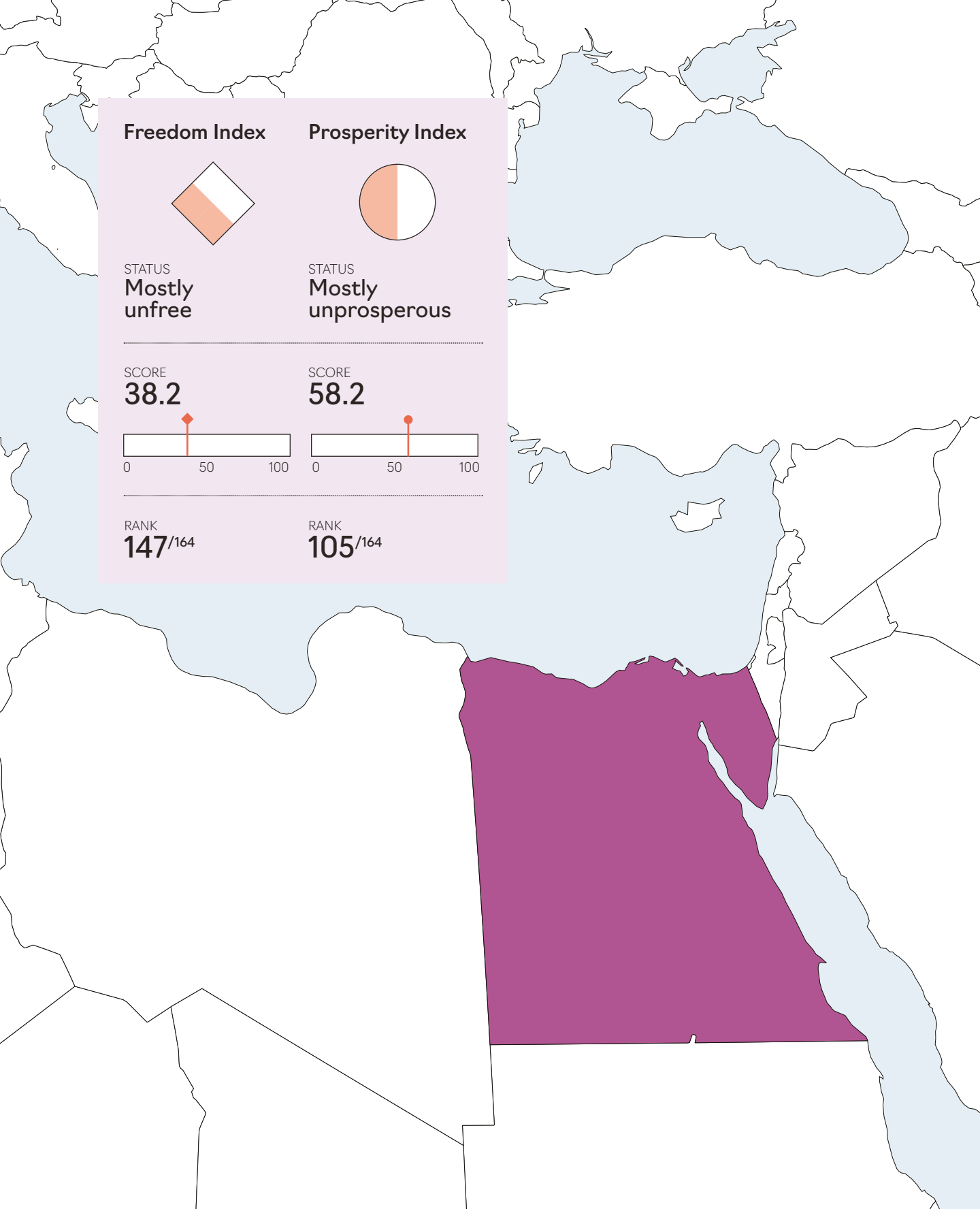
## Socioeconomic Data 2022

### General Information

POPULATION	LIFE EXPECTANCY (2021)
110.9 million	70 years
RELIGION (2010)	ETHNIC FRACTIONALIZATION (2013)
Muslim → 94.9%	0.04
Christian → 5.1%	

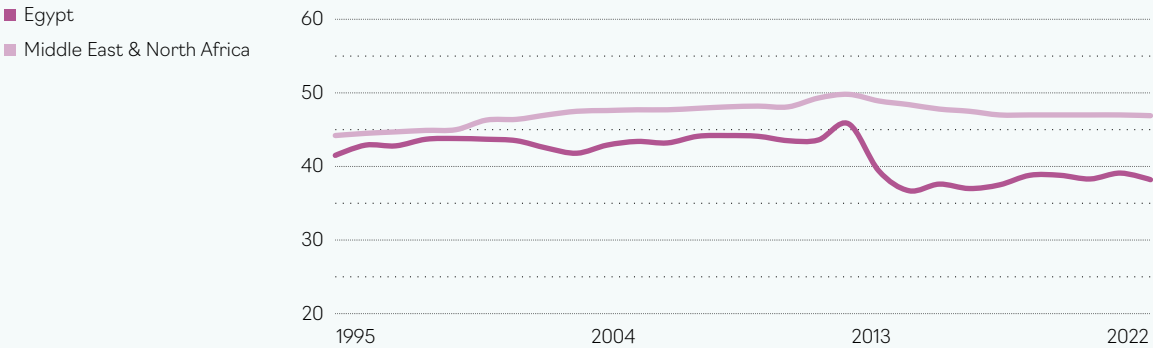
### Economic Data

GDP PER CAPITA	INFLATION (2016)
12,781	13.9%
% of US GDP pc → 19.8%	
GDP pc Growth → 4.9%	
DEPT/GDP (GENERAL 2021)	TRADE/GDP
89.2%	37.0%
UNEMPLOYMENT (2021)	
7.4%	
SECTORAL ALLOCATION	
Agriculture → 11.5%	
Industry → 34.4%	
Services → 54.1%	
GINI COEFFICIENT (2020)	
40.1	



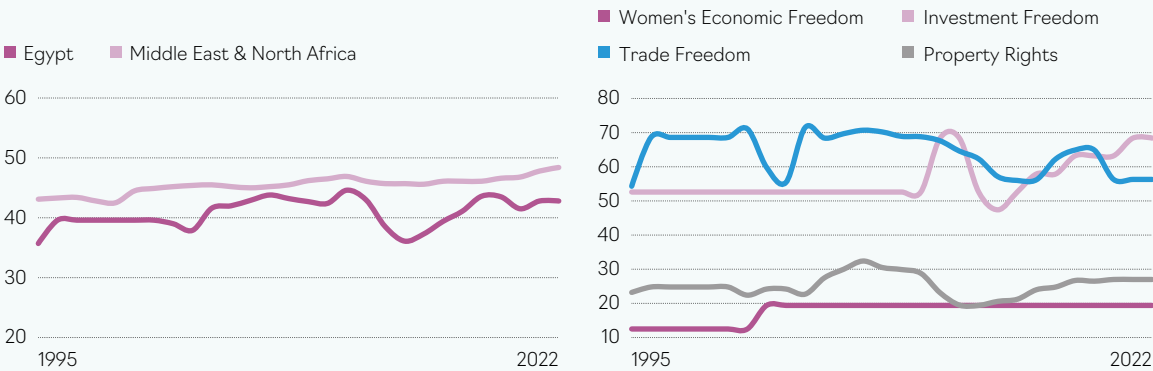
Freedom Index

1995-2022



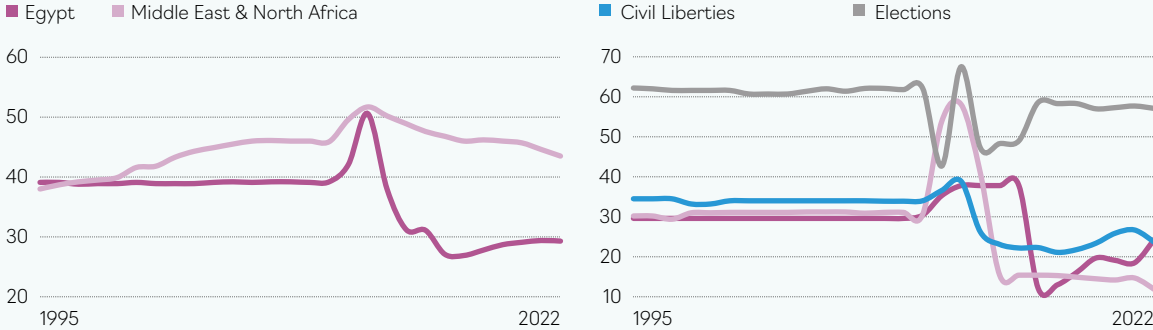
	2022		Change Since 2013	
	Egypt	Region	Egypt	Region
Freedom rank	147	-	3	-
Freedom score	38.2	46.9	-3.2%	-4.1%
Economic Subindex	42.8	48.4	11.3%	6.0%
Political Subindex	29.3	43.5	-23.1%	-13.3%
Legal Subindex	42.5	48.9	1.7%	-4.0%

Economic Subindex



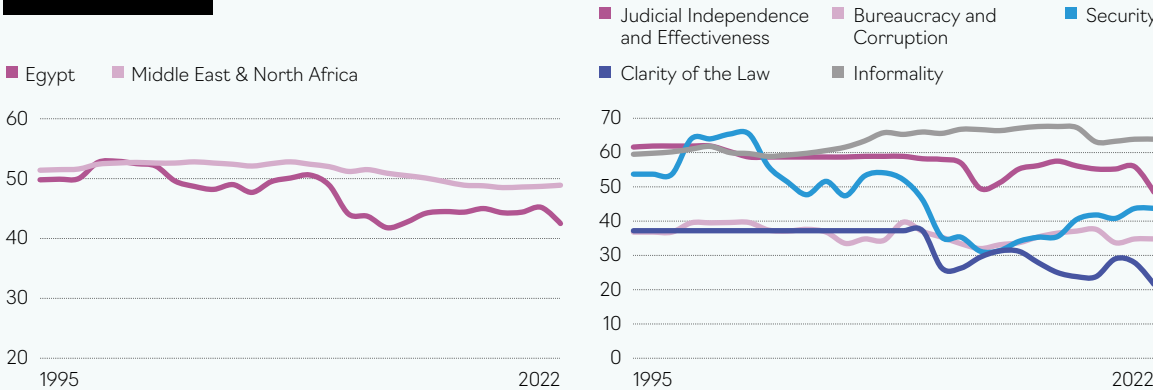
	2022		Change Since 2013	
	Egypt	Region	Egypt	Region
Women's Economic Freedom	19.4	43.1	0.0%	37.9%
Investment Freedom	68.4	50.1	30.0%	8.4%
Trade Freedom	56.3	59.4	-9.7%	-15.3%
Property Rights	27.0	41.0	39.2%	17.0%

Political Subindex



	2022		Change Since 2013	
	Egypt	Region	Egypt	Region
Legislative Constraints on the Executive	24.3	39.4	-35.8%	-14.5%
Political Rights	11.9	34.2	-70.8%	-20.9%
Civil Liberties	23.7	47.8	-9.7%	-7.1%
Elections	57.1	52.6	21.0%	-12.3%

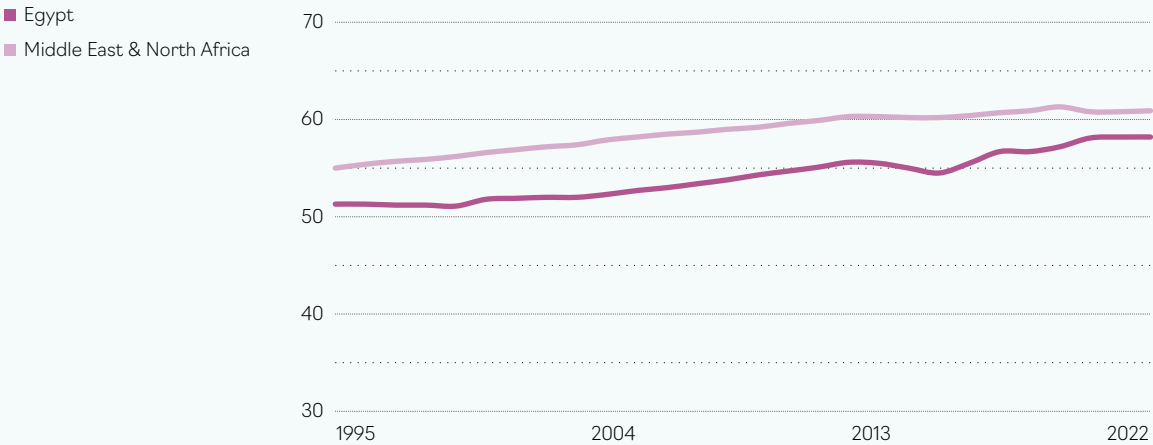
Legal Subindex



	2022		Change Since 2013	
	Egypt	Region	Egypt	Region
Judicial Independence and Effectiveness	48.5	42.8	-2.0%	-7.0%
Bureaucracy and Corruption	34.8	39.4	8.7%	-6.7%
Security	43.7	46.2	39.9%	1.7%
Clarity of the Law	21.6	40.5	-26.9%	-2.9%
Informality	63.9	78.4	-4.2%	-2.5%

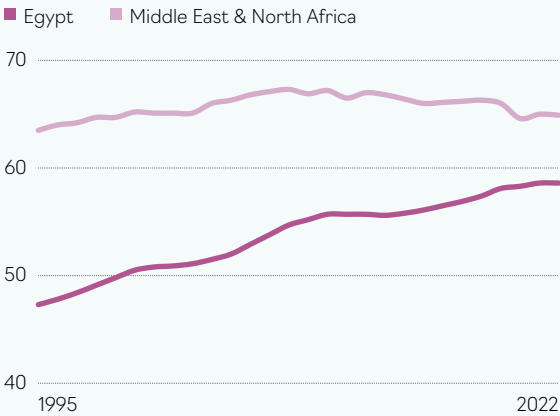
Prosperity Index

1995-2022



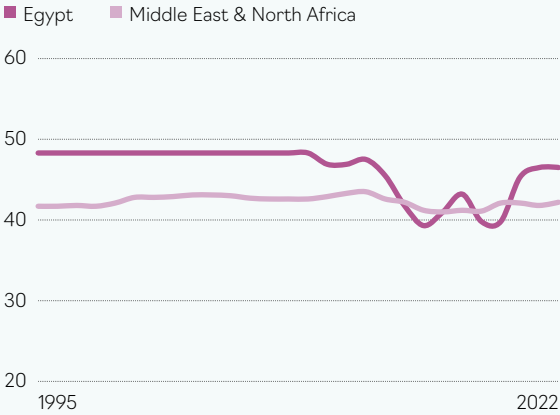
	2022		Change Since 2013	
	Egypt	Region	Egypt	Region
Prosperity rank	105	-	2	-
Prosperity score	58.2	60.9	4.8%	1.0%

Income



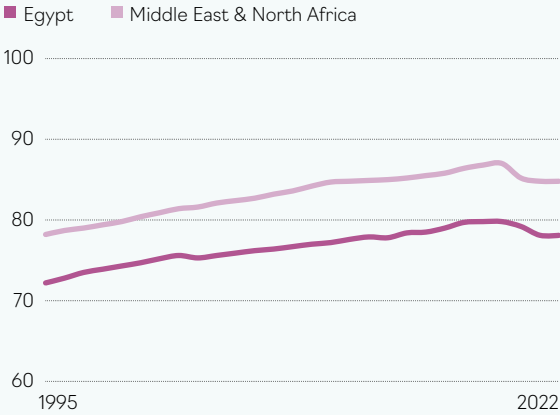
	2022		Change Since 2013	
	Egypt	Region	Egypt	Region
Income	58.6	64.9	5.3%	-2.8%
Inequality	51.6	45.6	2.2%	-0.6%

Minority Rights

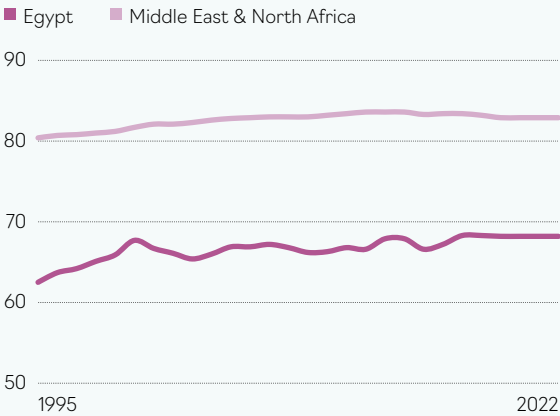


	2022		Change Since 2013	
	Egypt	Region	Egypt	Region
Minority Rights	46.5	42.2	2.3%	-1.0%
Health	78.1	84.8	0.3%	-0.2%

Health



Environment



	2022		Change Since 2013	
	Egypt	Region	Egypt	Region
Environment	68.2	82.9	0.4%	-0.8%
Education	46.3	44.7	28.7%	18.3%

## Evolution of Freedom

Egypt has experienced a political roller-coaster in the decade following the Arab Spring. The militarization of power in politics has been a key feature of contemporary Egypt. At the end of 2010, massive demonstrations broke out against poverty, corruption, and political repression. These led to the ousting of President Mubarak, a former military officer. This was despite the important economic reforms Mubarak had embarked upon in his last few years in office, which had been lauded by the international community. President Morsi of the Muslim Brotherhood movement succeeded Mubarak after free and fair elections in 2012. A year after Morsi's election, Army General al-Sisi took power in a coup and has since ruled Egypt with an iron fist.

The evolution of the **Freedom Index** for Egypt is indeed marked by the events of 2011 and 2012. The Freedom Index experienced a steep increase—reflecting the Arab Spring and the free elections that followed—before falling sharply by almost 10 points, a result of the counterrevolution led by General al-Sisi. The **political freedom** subindex visibly drives the movements in the overall freedom score. The 10-point increase on this subindex in 2011 vanishes, with a subsequent plummeting of almost 15 points, evident in all indicators, but

especially in political rights. Al-Sisi has repressed brutally all political opposition and activism.

**Economic freedom** shows a somewhat erratic evolution, echoing the country's political instability. Economic freedom seems to improve after 2014 as al-Sisi embarked on a series of reforms. Nonetheless, al-Sisi's tenure has seen numerous economic problems: The scores on property rights and women's economic freedom were still extremely low in 2022, and there has been a renewed acceleration toward military control over the economy. Al-Sisi embarked on large infrastructure investments, hoping that these would stimulate durable economic growth. These investments have turned to bad debt. Add to that the fact that the Gulf Cooperation Council countries have significantly reduced their aid to Egypt, making it nearly impossible to repay its ballooning debt and associated interest payments. The country is now at risk of a debt crisis.

**Legal freedom** presents a clear negative trend in Egypt since 2000, with this subindex losing around 10 points in that time. Clarity of the law, one of the most basic elements of the rule of law, receives a very low score throughout this period. The situation is echoed in the degradation of political freedom and the instrumentalization of the judicial system.

## From Freedom to Prosperity

Just as on the freedom front, Egypt's **prosperity** has been a roller-coaster. In what has become a familiar cycle, Egypt typically goes through periods of delayed macroeconomic stabilization followed by a balance-of-payments crisis. The country then calls on the International Monetary Fund (IMF) for a bailout in exchange for drastic reforms. These so-called structural reforms often consist

of cutting consumer subsidies (food and fuel), which helps consolidate budgets in the short run but leaves the structure of the economy—including vested interests and cronyism—unaltered. This, in turn, can lead to social instability and repression. The current episode is no different and does not augur well for addressing the social deficiencies affecting Egypt.

The control of the economy by the army is impeding its rapid and deep transformation. Egypt's prosperity score remains significantly below the regional average, although it has seen a sustained increase over the last twenty years, suffering only a small regress in 2013–15. There is still a 3-point gap between the country's prosperity score and the MENA average.

There has been some limited progress in education, health, and the environment. The evolution of the income and education indicators in Egypt

has been somewhat better than the average for the MENA region. In the latter case, Egypt has overcome a differential of 6.4 points with respect to the regional average in 2006 and is now almost 2 points above it. In terms of the health and environment components, the country scores visibly below the regional average, and the gap has actually widened since 1995. Minority rights protection dropped by almost 8 points after 2012, coinciding with the period of political turmoil, but most of that fall seems to have been recovered in the last three years.

## The Future Ahead

Egypt will have to navigate very difficult macroeconomic challenges in next few years. The country is heavily indebted, adding to the already worrisome sociopolitical situation. Egypt is gearing up for elections in December 2023. It is likely that President al-Sisi will be re-elected, and although this would theoretically hand him a mandate for reform, it is unlikely he will do anything that would affect crony or military interests. Instead, al-Sisi might have to resort to further devaluation of the currency, which will ignite further inflation and hurt vulnerable households. What is more, it would create a damaging currency imbalance, adding to the cost of servicing foreign debts that are held in foreign currency.

Al-Sisi will have to find external sources of financing outside of capital markets, given the prohibitive spread on external borrowing. Financial aid from Gulf countries, which typically provided

a lifeline, is no longer forthcoming. Gulf countries are looking to invest in strategic assets but also want to see reforms before doing more to support the country. Gulf partners are counting on the IMF to push for more market-oriented reforms.

While political reforms are unlikely given the current circumstances, deep economic reforms also seem doubtful. Indeed, they would be difficult as the militarization of politics and of the economy is entrenched. This stalled situation will continue to limit the country's potential. It is imperative to re-embark on a balanced economic and political transition to avoid the domestic instability that could result from a frustrated youth. What is more, the geopolitical situation is also tense. The renewed escalation of the Israeli-Palestinian Conflict risks spilling over into Egypt. That could destabilize the country and spread to the whole region.

**Rabah Arezki**

Rabah Arezki is a former vice president at the African Development Bank, a former chief economist of the World Bank's Middle East and North Africa region, and a former chief of commodities at the the International Monetary Fund's Research Department. He is now a director of research at the French National Centre for Scientific Research and a senior fellow at the Foundation for Studies and Research on International Development and at Harvard Kennedy School.

# Saudi Arabia

Rabah Arezki

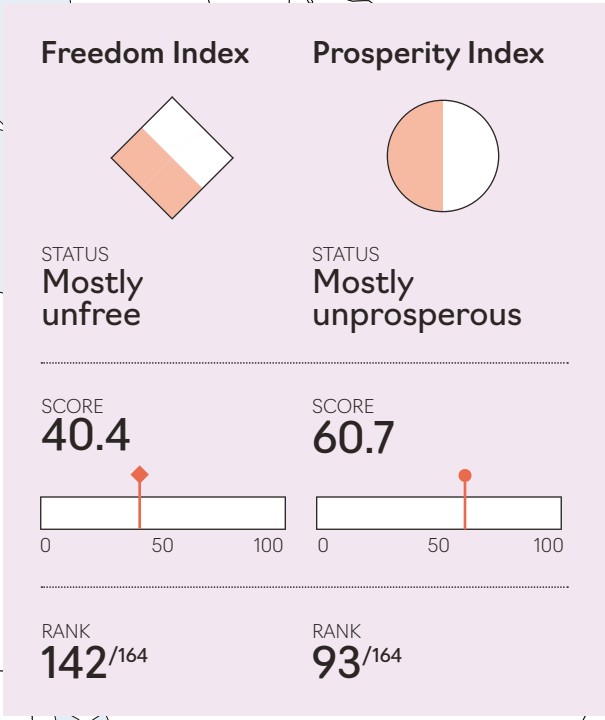
## Socioeconomic Data 2022

### General Information

POPULATION	LIFE EXPECTANCY (2021)
36.4 million	77 years
RELIGION (2010)	ETHNIC FRACTIONALIZATION (2013)
Muslim → 93.0%	0.22
Christian → 4.4%	
Hindu → 1.1%	

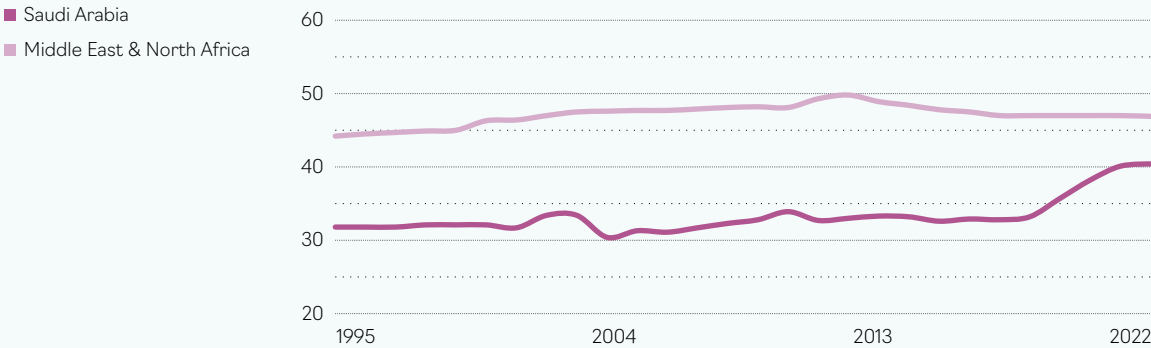
### Economic Data

GDP PER CAPITA	INFLATION (2016)
50,023	2.5%
% of US GDP pc → 77.3%	
GDP pc Growth → 7.4%	
DEPT/GDP (CENTRAL 2021)	TRADE/GDP (2014)
30.0%	63.0%
UNEMPLOYMENT (2021)	
6.6%	
SECTORAL ALLOCATION	
Agriculture → 2.5%	
Industry → 56.2%	
Services → 41.3%	
GINI COEFFICIENT (2020)	
46.7	



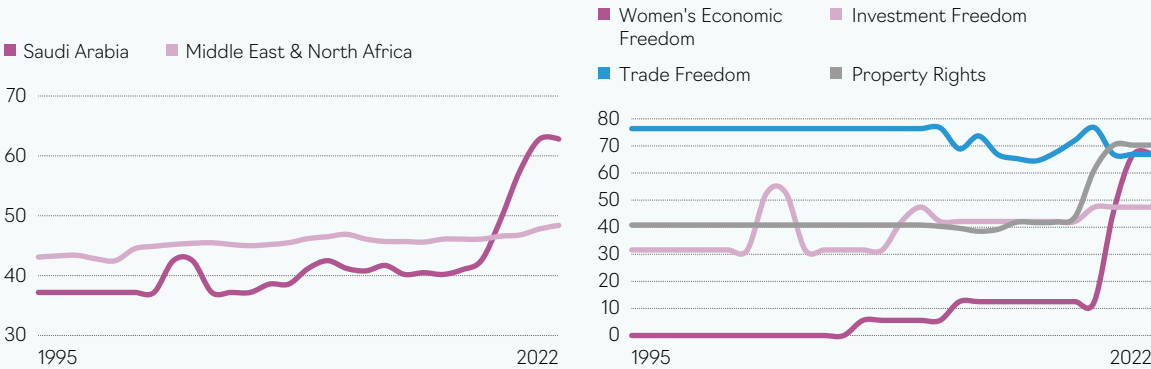
Freedom Index

1995-2022



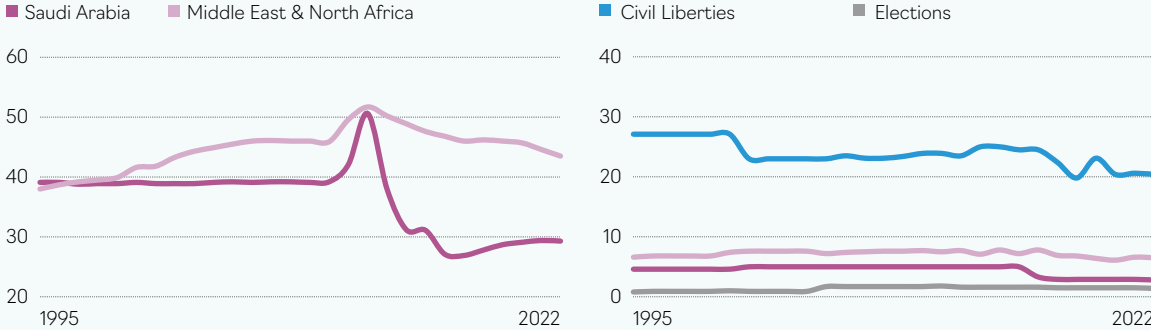
	2022		Change Since 2013	
	Saudi Arabia	Region	Saudi Arabia	Region
Freedom rank	142	-	15	-
Freedom score	40.4	46.9	21.3%	-4.1%
Economic Subindex	62.8	48.4	50.6%	6.0%
Political Subindex	7.8	43.5	-19.5%	-13.3%
Legal Subindex	50.6	48.9	4.3%	-4.0%

Economic Subindex



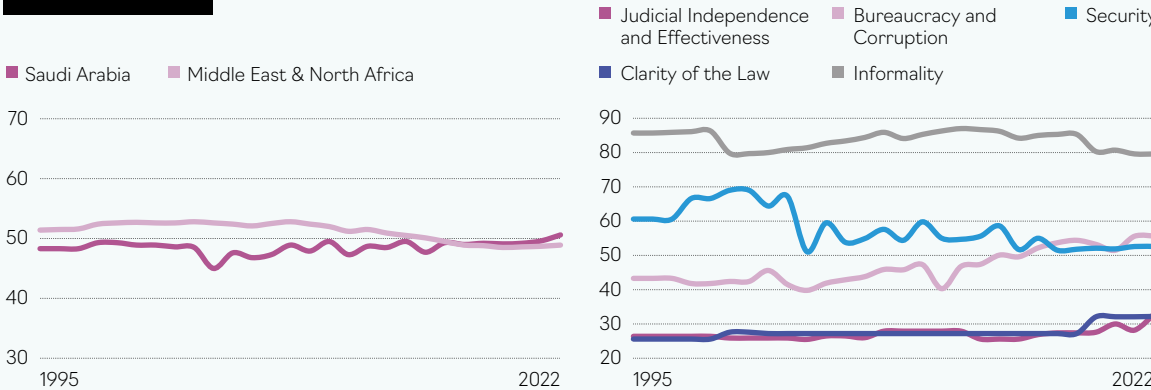
	2022		Change Since 2013	
	Saudi Arabia	Region	Saudi Arabia	Region
Women's Economic Freedom	66.7	43.1	433.3%	37.9%
Investment Freedom	47.4	50.1	12.5%	8.4%
Trade Freedom	66.9	59.4	-9.2%	-15.3%
Property Rights	70.3	41.0	82.4%	17.0%

Political Subindex



	2022		Change Since 2013	
	Saudi Arabia	Region	Saudi Arabia	Region
Legislative Constraints on the Executive	2.8	39.4	-43.9%	-14.5%
Political Rights	6.5	34.2	-8.7%	-20.9%
Civil Liberties	20.4	47.8	-18.4%	-7.1%
Elections	1.4	52.6	-8.3%	-12.3%

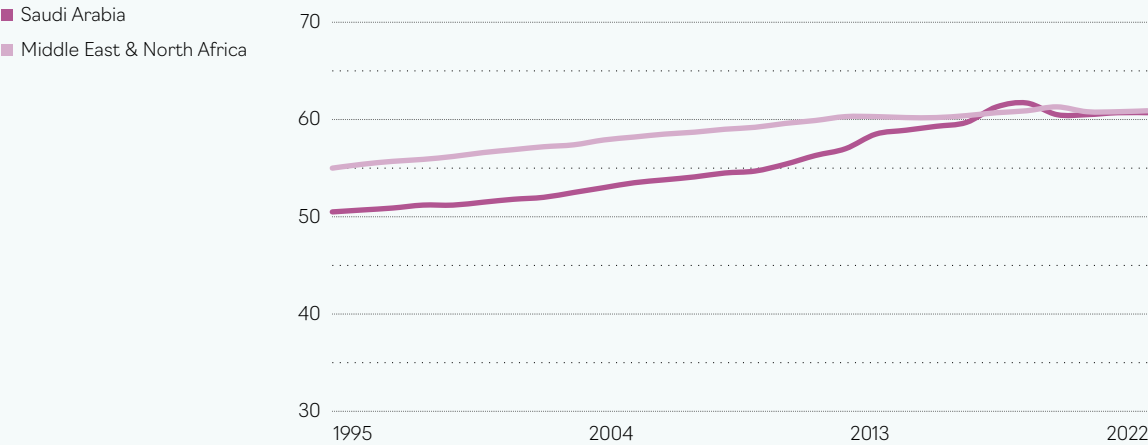
Legal Subindex



	2022		Change Since 2013	
	Saudi Arabia	Region	Saudi Arabia	Region
Judicial Independence and Effectiveness	32.9	42.8	28.4%	-7.0%
Bureaucracy and Corruption	55.6	39.4	17.2%	-6.7%
Security	52.6	46.2	-5.5%	1.7%
Clarity of the Law	32.2	40.5	18.6%	-2.9%
Informality	79.6	78.4	-8.1%	-2.5%

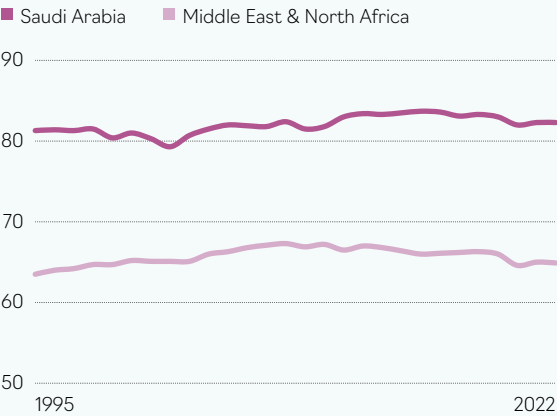
Prosperity Index

1995-2022



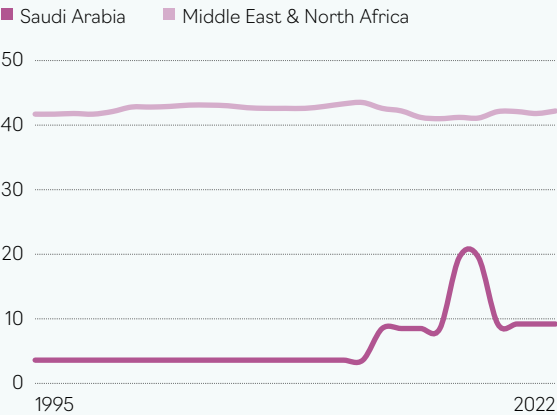
	2022		Change Since 2013	
	Saudi Arabia	Region	Saudi Arabia	Region
Prosperity rank	93	-	7	-
Prosperity score	60.7	60.9	3.8%	1.0%

Income



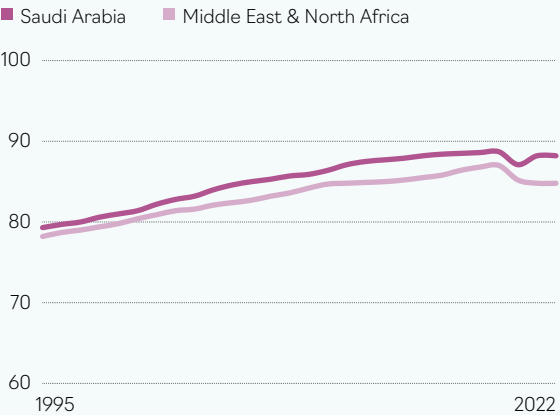
	2022		Change Since 2013	
	Saudi Arabia	Region	Saudi Arabia	Region
Income	82.3	64.9	-1.3%	-2.8%
Inequality	36.9	45.6	-0.3%	-0.6%

Minority Rights

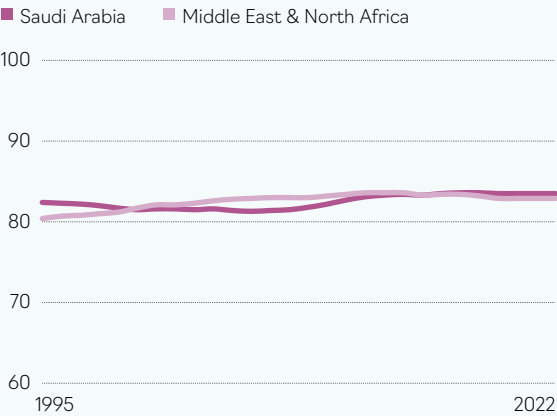


	2022		Change Since 2013	
	Saudi Arabia	Region	Saudi Arabia	Region
Minority Rights	9.2	42.2	7.9%	-1.0%
Health	88.2	84.8	0.5%	-0.2%

Health



Environment



	2022		Change Since 2013	
	Saudi Arabia	Region	Saudi Arabia	Region
Environment	83.5	82.9	0.3%	-0.8%
Education	64.3	44.7	25.8%	18.3%



## Evolution of Freedom

The lack of political freedom in Saudi Arabia has long echoed the lack of social and economic freedom. Saudi Arabia is indeed an absolute monarchy—one endowed with vast oil wealth. Like many other countries in the MENA region, Saudi Arabia is plagued with a concentrated but blurry power structure. Patronage spending and public employment have long been part of a social contract between the ruling elites and the citizenry. But that is changing. Saudi Arabia has embarked on a radical social and economic transformation named Saudi Vision 2030, to move away from its dependence on oil.

The overall **freedom score** for Saudi Arabia is indeed low. It hovered around 32 up until 2018. The last four years have seen an improvement of 7.2 points, but it is still almost 7 points below the regional average. The recent improvement in the freedom score is driven by the **economic freedom** subindex, which has increased by 22.3 points since 2015. Progress in women's economic freedom and property rights protection lag behind this positive trend, although the Kingdom has indeed taken

drastic steps to remove obstacles and empower women socially and economically.

Improvements in economic freedom have been significant but they have not been followed by improvements in **political freedom**. Saudi Arabia's score in political freedom is one of the lowest of the world, below 10, and it scores poorly on all indicators of the political freedom subindex. Political rights and civil liberties have regressed. Indeed, the Saudi Vision 2030 agenda has nothing to say on the subject of political transformation. Progress on social and economic reforms should thus not obscure human rights abuses in the Kingdom.

**Legal freedom** has somewhat improved, with Saudi Arabia's score increasing by 2.3 points in the last two decades. This has been driven mainly by improvements in the bureaucracy and corruption indicator, in line with the transformation agenda. The Kingdom has scored very poorly on clarity of the law and judicial independence, contrasting with a very high score on informality. The low score for judicial independence echoes the lack of political rights and civil liberties in Saudi Arabia.

## From Freedom to Prosperity

Saudi Arabia's vast oil wealth has helped finance important social and infrastructure programs. Since 1995, Saudi Arabia has completely closed the **prosperity score** gap with the MENA regional average, which was initially 4.5 points. This has been driven by the upward trends of the health and education indicators, which have grown at a much faster rate in Saudi Arabia than the regional average. Saudi Arabia's income score is 17.4 points higher than the regional average, yet the country clearly underperforms on the

inequality and minority rights indicators compared to the MENA average, and the trend for both has remained flat.

Saudi Arabia has also invested significantly in education, generating tremendous progress on that indicator, albeit the quality of education is an issue. Despite its high level of education, Saudi Arabia was not faced with the wave of protest movements seen in other MENA countries. Indeed, when the Arab Spring started in neighboring countries in 2010, the Saudi authorities doubled down

on patronage to avoid civil unrest. In addition, the social reforms that were part of the transformation agenda may have helped the Saudi regime to get ahead of any large-scale discontent. So far, the lack of political freedom has not resulted in youth

unrest. Instead, social reforms—coupled with gigantic investments in entertainments and sports—have helped restore the image of the Kingdom and the Crown Prince, Mohammed bin Salman (MBS), the de facto ruler.

## The Future Ahead

The Kingdom's transformation agenda is a form of state-led capitalism. The political structure remains unchanged while the economy is reformed. There is no tolerance for any dissent, including on social media where users are watched closely using surveillance technology. The notion that economic transformation can happen independently of political transformation is certainly taking a page out of China's book; it may prove illusory.

Despite the absence of political freedom, MBS has managed to rally the population behind him. MBS, unlike many leaders in the region, is popular. In fact, he enjoys a level of popularity last experienced by leaders immediately following independence. Such cohesiveness could indeed create momentum for the Kingdom to enact further bold reforms. Yet the escalation of violence between Israel and Palestine risks engulfing the region, and this uncertainty could

derail Saudi Arabia's transformation agenda. While MBS has thus far navigated the new geopolitical environment, it is unclear whether the regional situation—and Saudi Arabia's place within it—will remain tenable.

What is more, most if not all investments pertaining to the transformation agenda are financed with public money. But the world economy is firmly moving away from fossil fuels, which will leave oil reserves stranded and means that the public money on which the agenda relies will eventually run out. A true test of the sustainability of the economic transformation agenda is whether reforms will attract (domestic and foreign) private investments instead of public investments. All in all, the unbalanced transformation—focused on economic (and social) dimensions alone—may prove illusory as more and more educated youth will demand greater political freedom.

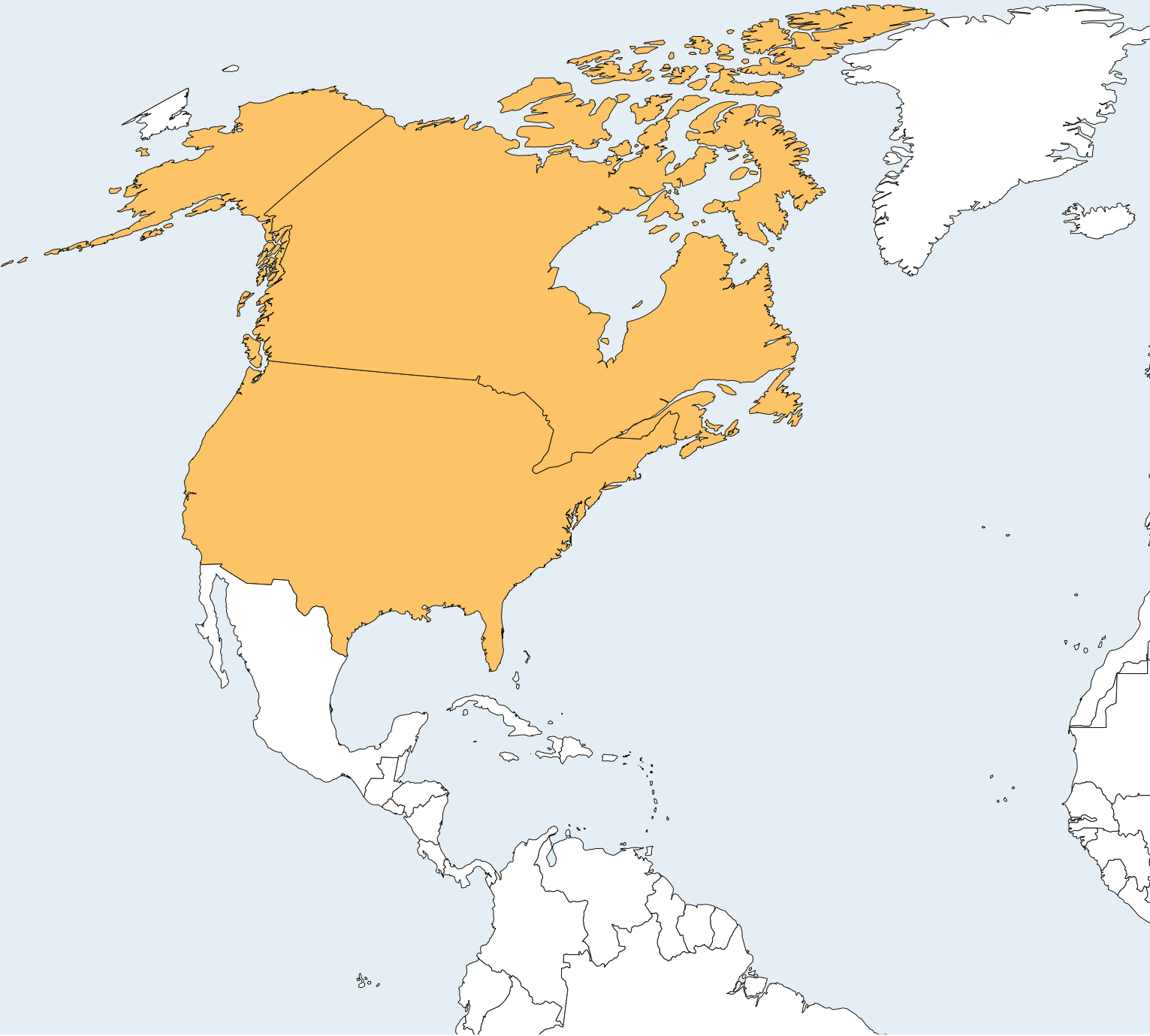
### Rabah Arezki

Rabah Arezki is a former vice president at the African Development Bank, a former chief economist of the World Bank's Middle East and North Africa region, and a former chief of commodities at the the International Monetary Fund's Research Department. He is now a director of research at the French National Centre for Scientific Research and a senior fellow at the Foundation for Studies and Research on International Development and at Harvard Kennedy School.

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# North America

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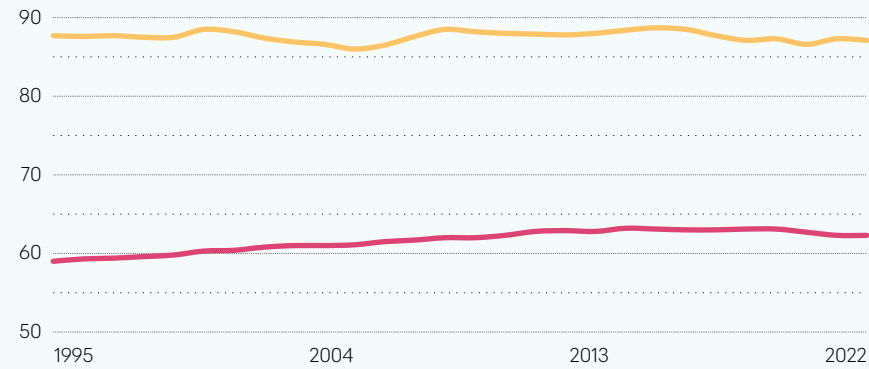
North America: Regional Ranking						
	Freedom				Prosperity	
	Rank	Score	Status		Rank	Score
Canada	15	88.0	◆ Free		17	84.3
United States of America	20	86.3	◆ Free		27	81.8

Countries are organized in descending order based on their Freedom scores, with "Rank" denoting global rankings.



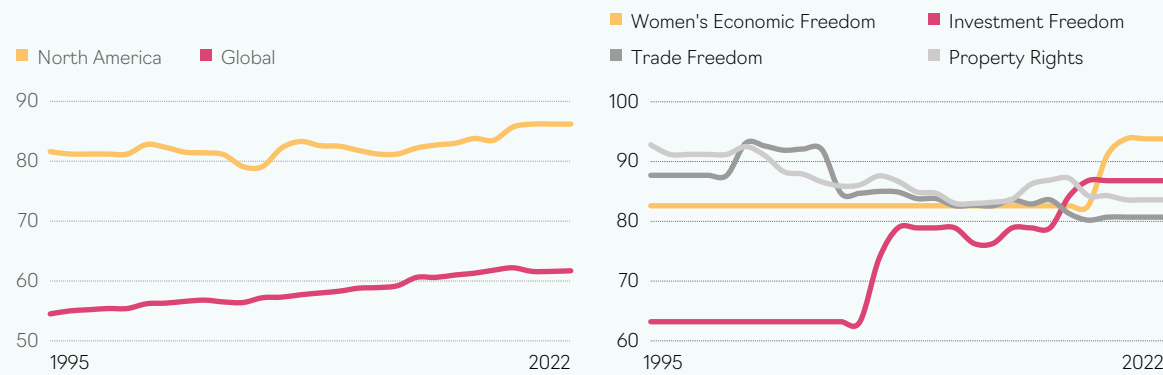
## Freedom Index

1995-2022



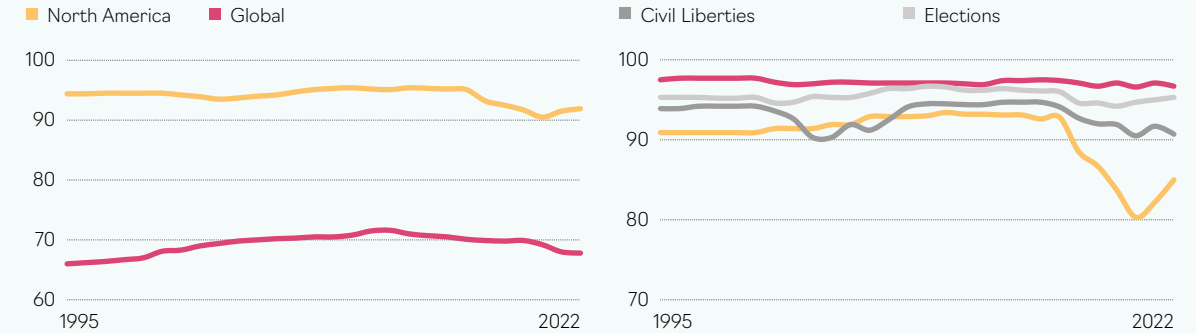
	2022		Change Since 2013	
	Region	Global	Region	Global
Freedom score	87.1	62.3	-1.0%	-0.8%
Economic Subindex	86.2	61.7	6.2%	4.2%
Political Subindex	91.9	67.8	-3.6%	-4.6%
Legal Subindex	83.3	57.3	-4.7%	-1.4%

## Economic Subindex



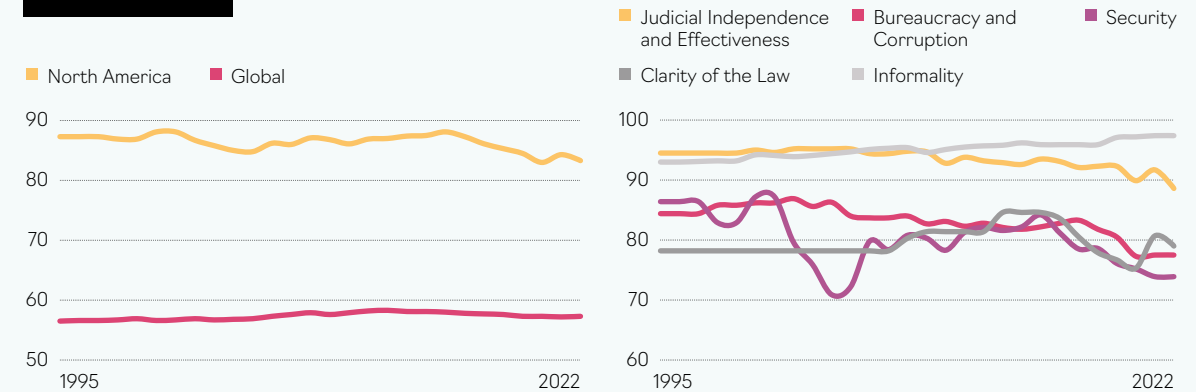
	2022		Change Since 2013	
	Region	Global	Region	Global
Women's Economic Freedom	93.8	72.4	13.4%	10.0%
Investment Freedom	86.8	59.6	13.8%	8.2%
Trade Freedom	80.7	65.2	-2.3%	-5.1%
Property Rights	83.6	51.2	0.4%	4.4%

## Political Subindex



	2022		Change Since 2013	
	Region	Global	Region	Global
Legislative Constraints on the Executive	85.0	58.3	-8.8%	-3.8%
Political Rights	96.7	67.0	-0.7%	-6.9%
Civil Liberties	90.7	69.6	-4.2%	-3.8%
Elections	95.3	76.2	-1.1%	-3.9%

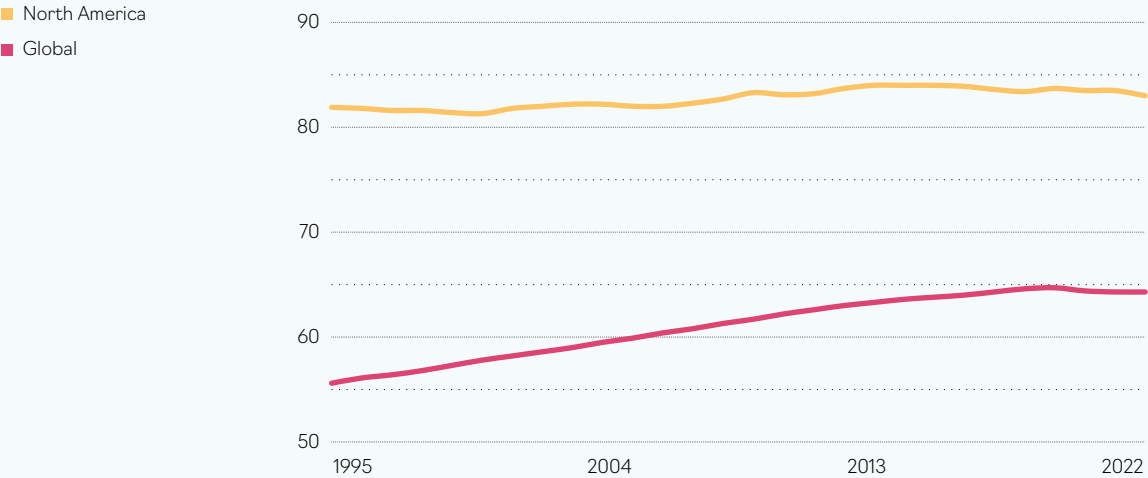
## Legal Subindex



	2022		Change Since 2013	
	Region	Global	Region	Global
Judicial Independence and Effectiveness	88.6	59.4	-4.6%	-1.9%
Bureaucracy and Corruption	77.5	45.3	-5.7%	-0.3%
Security	73.9	60.2	-9.5%	-1.4%
Clarity of the Law	79.0	52.5	-6.7%	-2.9%
Informality	97.4	70.2	1.7%	-0.2%

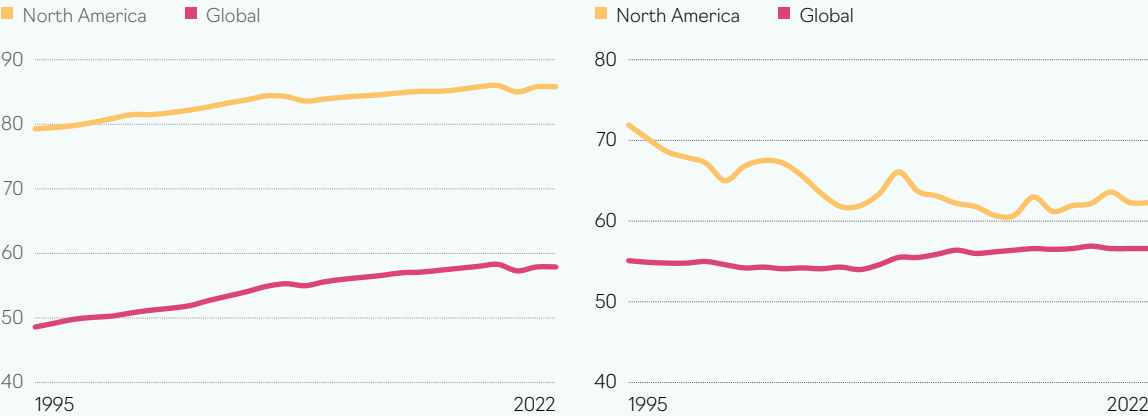
Prosperity Index

1995-2022



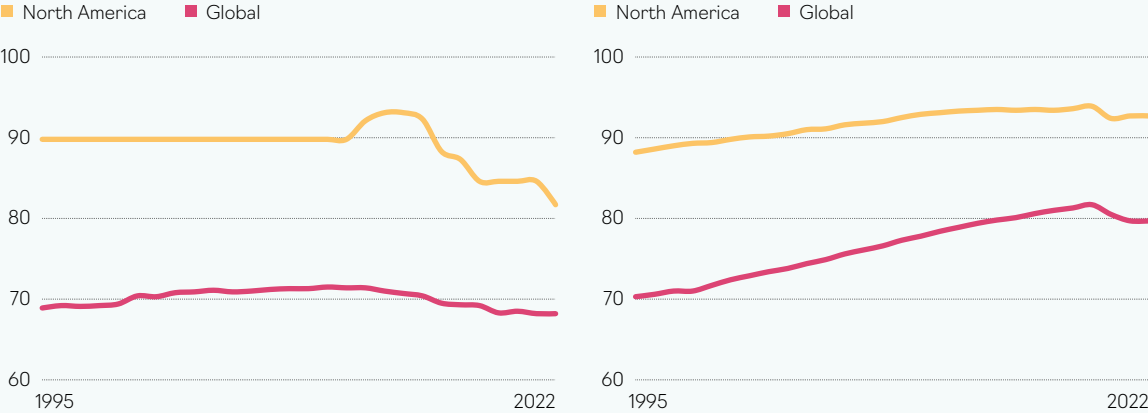
	2022		Change Since 2013	
	Region	Global	Region	Global
Prosperity score	83.0	64.3	-1.2%	1.5%

Income



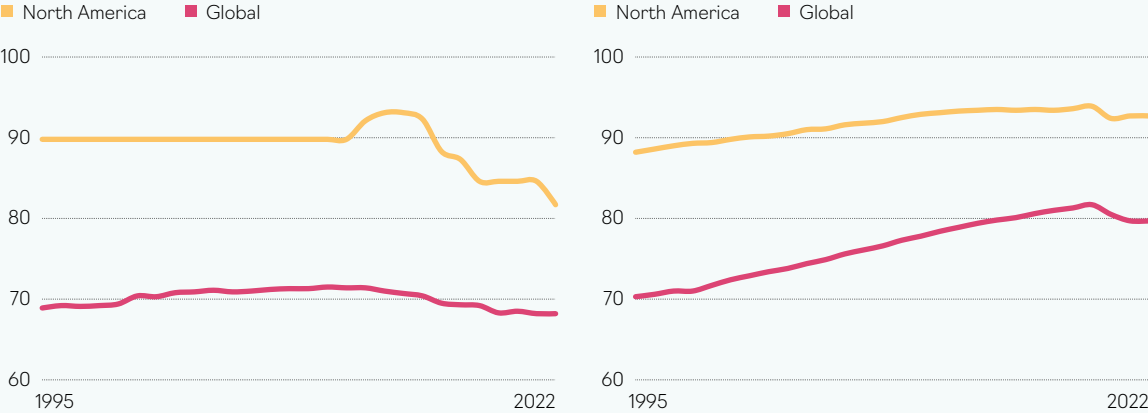
	2022		Change Since 2013	
	Region	Global	Region	Global
Income	85.8	57.9	1.5%	2.3%
Inequality	62.3	56.6	0.7%	0.9%

Minority Rights

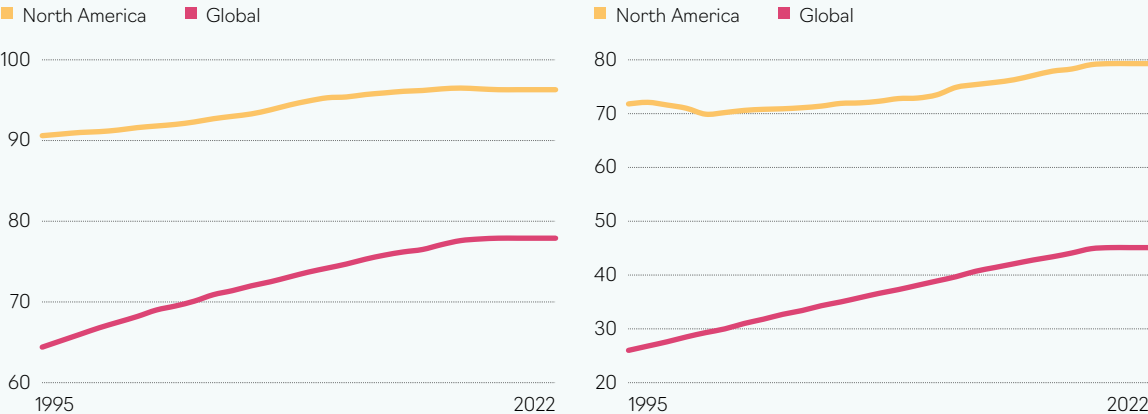


	2022		Change Since 2013	
	Region	Global	Region	Global
Minority Rights	81.7	68.2	-12.3%	-4.0%
Health	92.7	79.7	-0.7%	0.4%

Health

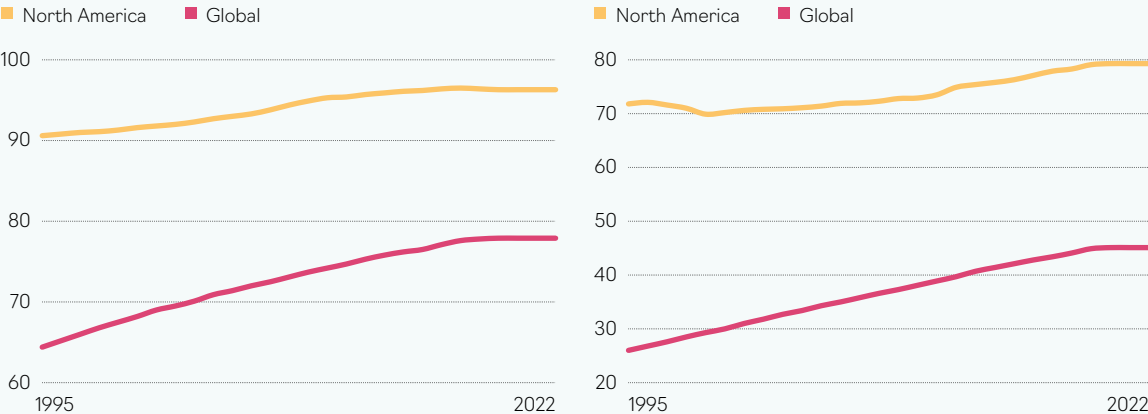


Environment



	2022		Change Since 2013	
	Region	Global	Region	Global
Environment	96.3	77.9	0.5%	2.8%
Education	79.3	45.1	5.2%	10.8%

Education



# United States of America

Edward Glaeser

## Socioeconomic Data 2022

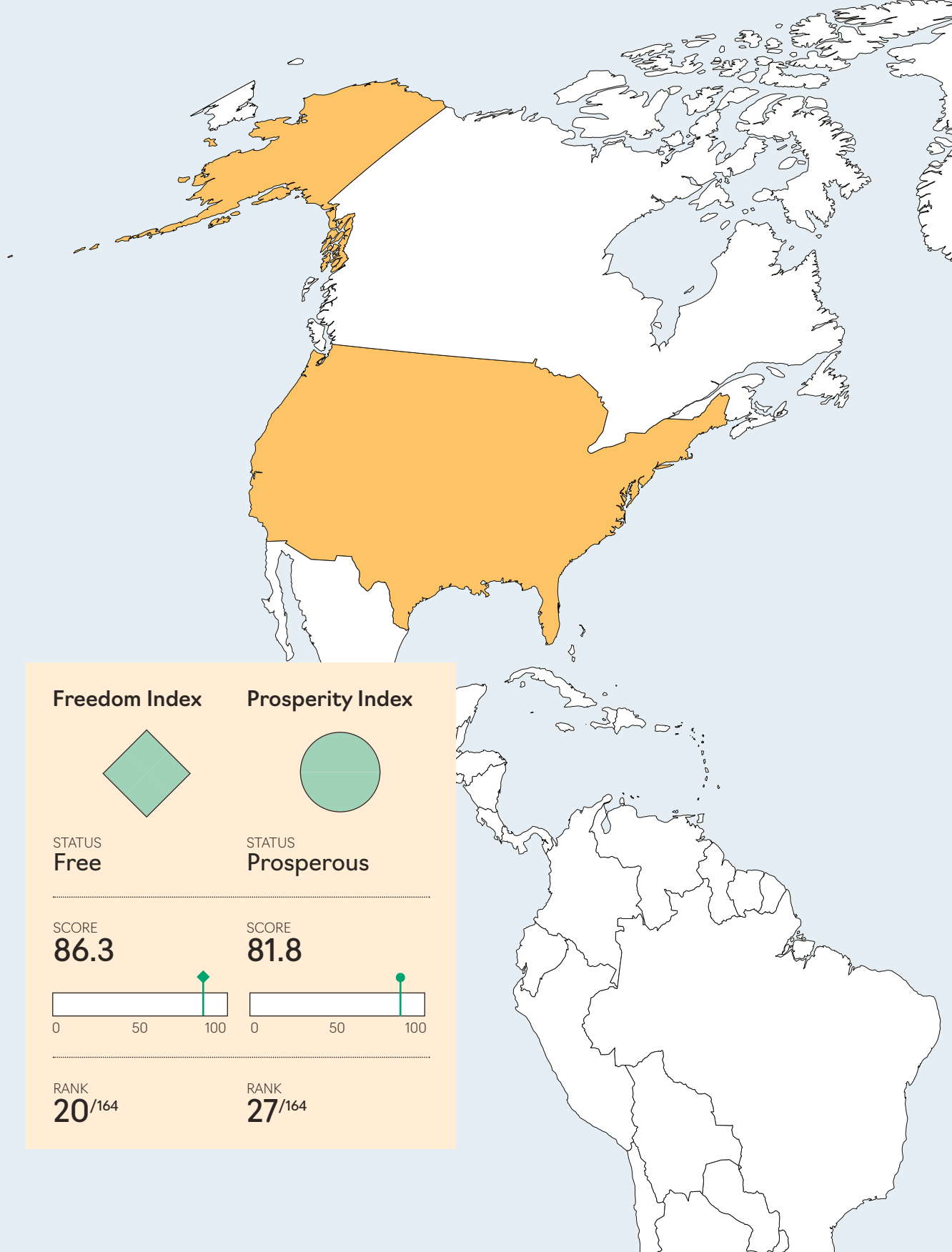
### General Information

POPULATION	LIFE EXPECTANCY (2021)
333.2 million	76 years
RELIGION (2010)	ETHNIC FRACTIONALIZATION (2013)
Christian → 78.3%	0.53
Unaffiliated → 16.4%	
Jewish → 1.8%	

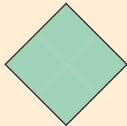
### Economic Data

GDP PER CAPITA	INFLATION
64,703	8.0%
GDP pc Growth → 1.7%	
DEPT/GDP (GENERAL 2021)	TRADE/GDP (2021)
128.1%	25.0%
UNEMPLOYMENT	
3.6%	
SECTORAL ALLOCATION (2021)	
Agriculture → 1.0%	
Industry → 17.9%	
Services → 77.6%	
GINI COEFFICIENT (2020)	
38.7	

NORTH AMERICA



#### Freedom Index



STATUS

Free

SCORE

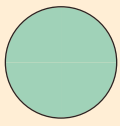
86.3



RANK

20<sup>/164</sup>

#### Prosperity Index

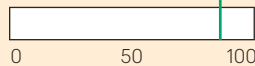


STATUS

Prosperous

SCORE

81.8

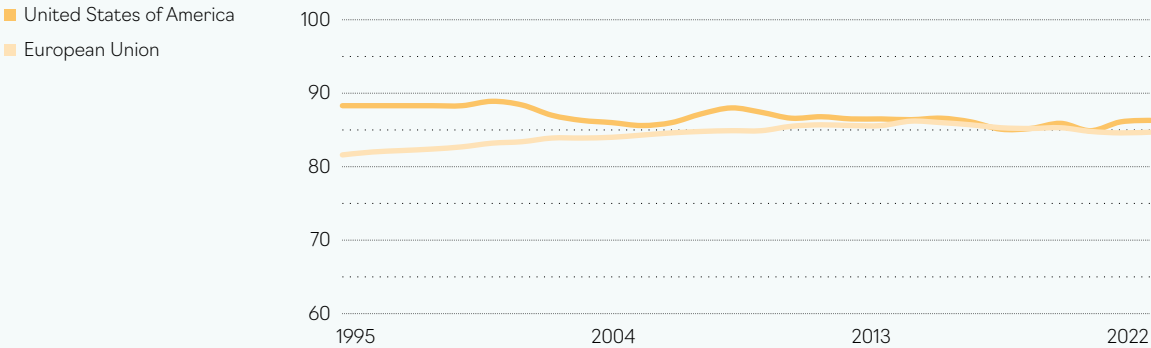


RANK

27<sup>/164</sup>

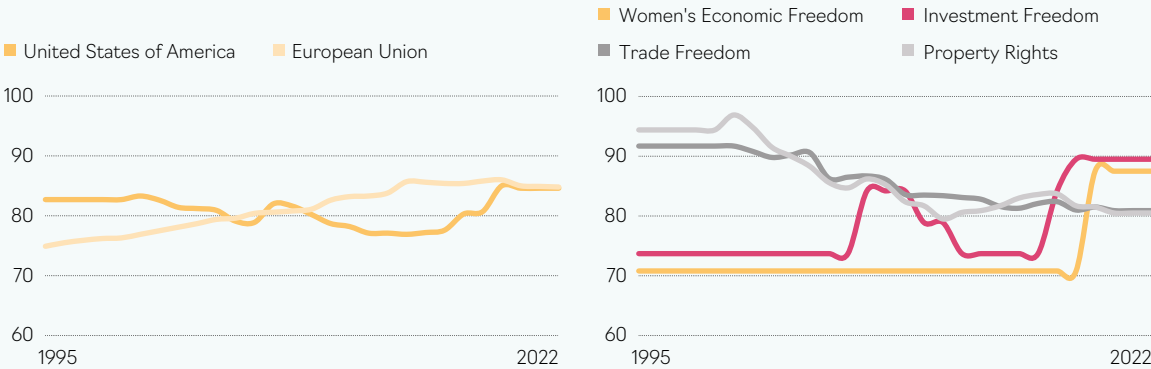
# Freedom Index

1995-2022



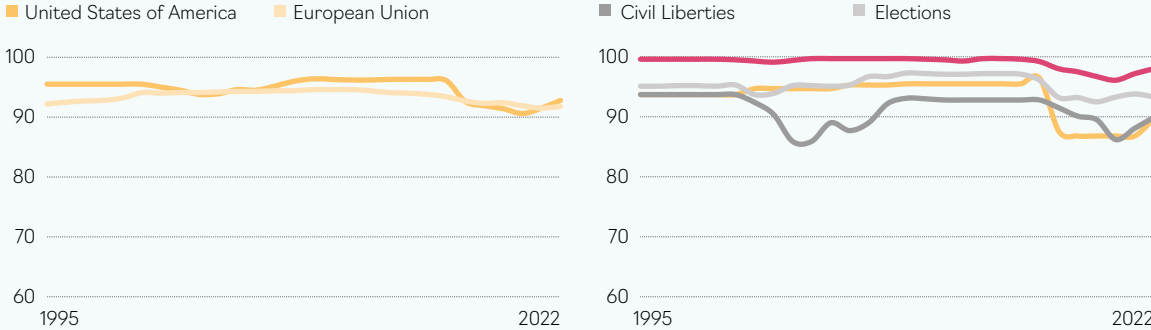
	2022		Change Since 2013	
	USA	European Union	USA	European Union
Freedom rank	20	-	1	-
Freedom score	86.3	84.7	-0.3%	-1.1%
Economic Subindex	84.6	84.8	9.8%	1.2%
Political Subindex	92.8	91.8	-3.7%	-2.4%
Legal Subindex	81.5	77.6	-5.4%	-1.8%

## Economic Subindex



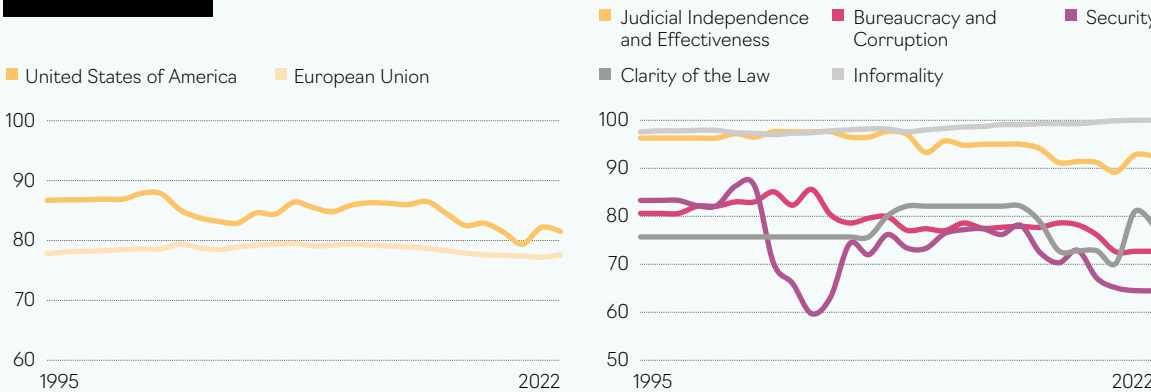
	2022		Change Since 2013	
	USA	European Union	USA	European Union
Women's Economic Freedom	87.5	97.3	23.5%	3.6%
Investment Freedom	89.5	82.5	21.4%	-0.5%
Trade Freedom	80.9	84.2	-2.4%	0.1%
Property Rights	80.5	75.2	-0.5%	1.3%

# Political Subindex



	2022		Change Since 2013	
	USA	European Union	USA	European Union
Legislative Constraints on the Executive	89.8	87.4	-6.1%	-0.8%
Political Rights	98.0	92.0	-1.7%	-3.9%
Civil Liberties	89.9	93.1	-3.1%	-2.5%
Elections	93.3	94.8	-4.0%	-2.2%

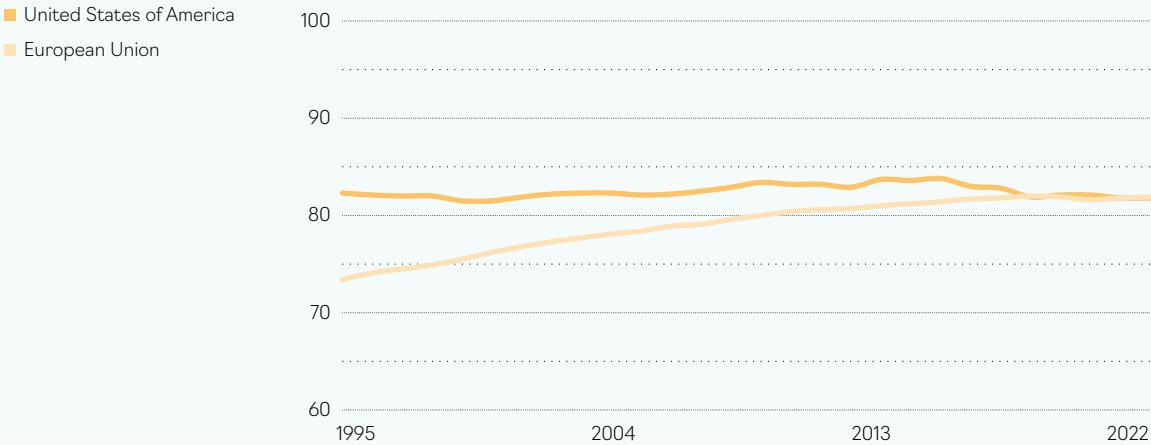
## Legal Subindex



	2022		Change Since 2013	
	USA	European Union	USA	European Union
Judicial Independence and Effectiveness	92.5	84.9	-2.7%	-3.0%
Bureaucracy and Corruption	72.7	68.7	-6.2%	-1.5%
Security	64.5	79.3	-16.7%	-1.4%
Clarity of the Law	77.9	71.1	-5.1%	-5.3%
Informality	100.0	84.1	1.3%	1.8%

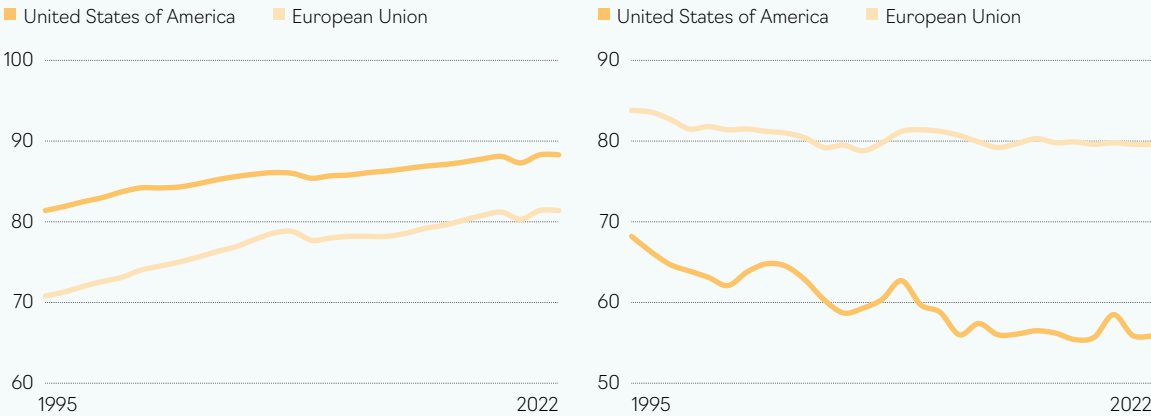
Prosperity Index

1995-2022



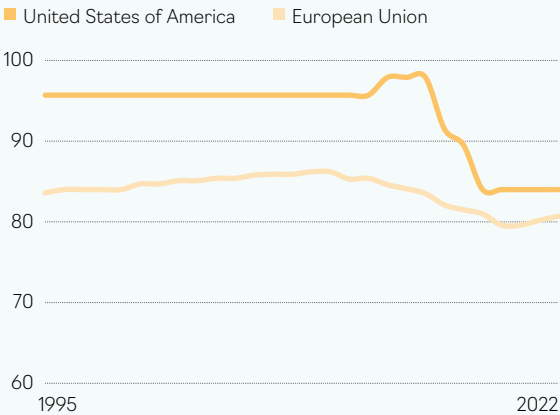
	2022		Change Since 2013	
	USA	European Union	USA	European Union
Prosperity rank	27	-	-8	-
Prosperity score	81.8	81.9	-2.3%	1.0%

Income



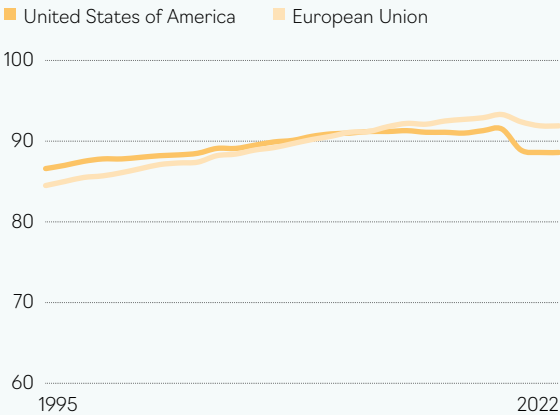
	2022		Change Since 2013	
	USA	European Union	USA	European Union
Income	88.3	81.4	2.3%	4.0%
Inequality	55.9	79.6	-2.6%	-0.4%

Minority Rights

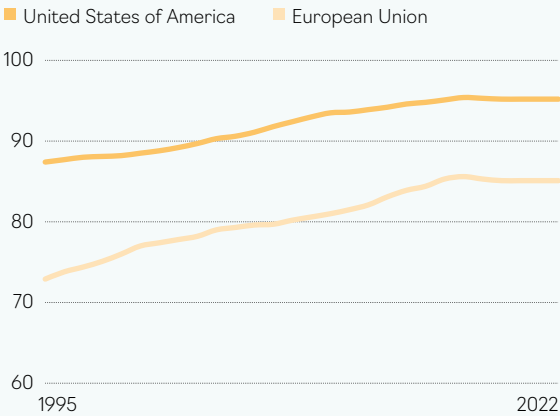


	2022		Change Since 2013	
	USA	European Union	USA	European Union
Minority Rights	84.0	80.7	-14.1%	-4.6%
Health	88.6	91.9	-2.9%	0.1%

Health

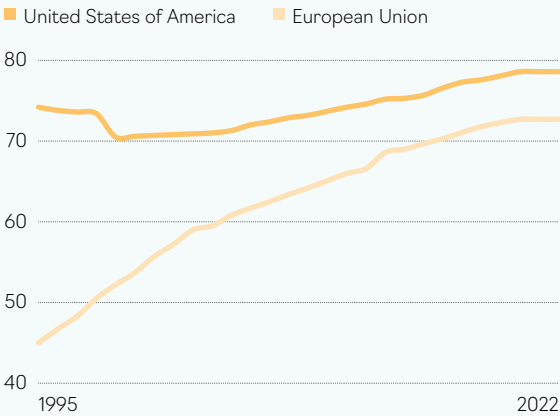


Environment



	2022		Change Since 2013	
	USA	European Union	USA	European Union
Environment	95.2	85.1	1.0%	2.4%
Education	78.6	72.7	4.6%	5.8%

Education





## Evolution of Freedom

How troubled is the United States? The Freedom Index shows modest long-term decline, which sharply contrasts with the growth of freedom in the European Union (EU). The Prosperity Index illustrates stasis, while again the EU shows improvement. But to understand the path of the United States, it is important to differentiate between three aspects of American society: (1) public discourse and debate, (2) formal political and civil institutions, and (3) the state of the economy as a whole. The first element—public discourse—has experienced a terrible downward trend, at least relative to what we would expect in a stable democracy. The second aspect—formal institutions—is more stable; while there is little evidence of improvement, there is also no evidence of catastrophic change. The third element—the economy—is far more robust.

The negative trend in the **Freedom Index**, and especially in the political subindex, is largely driven by the downturn in civil politics. The United States has simply gotten more combative and polarized. For example, consider the significant drops in both civil liberties and legislative constraints on the executive branch since 2016. There have been no significant constitutional changes over this time period, but there has been language used—about political opponents, immigrants, and minorities—that would have been exceptional not too long ago. The institutional framework of the USA has not moved as fast as public discourse, so we can think of it as a second level in which change is much slower and gradual.

There have been small institutional changes in different parts of the country, the direction of which typically depends on whether the state is largely Republican or Democratic, but there is no generalized movement towards reform. This claim seems to be supported by the relative stability of the **legal subindex**. As the graphs above show, clarity of the law, informality, bureaucracy and

corruption have seen little change over the last three decades.

Moreover, the economy has been remarkably robust. The US economic system is highly unequal, and that surely adds to political polarization, but that has not changed substantially over the past twenty years. We are not as confident as we used to be about the benefits of free trade, perhaps because the downsides of such a policy have become more salient. However, the economy has continued to hum, albeit with the help of massive fiscal stimulus.

The **economic freedom** subindices display a series of surprising trends. Trade freedom and property rights protection show a clear negative trend from around the turn of the century. The ratio of trade to gross domestic product (GDP) in the United States increased between 2000 and today, but at the same time the very positive view towards free trade, embodied in the Washington Consensus of the 1990s, has ebbed. Regardless of what specific metrics (like trade-to-GDP ratios) may point to, the decline in the trade freedom indicator accurately reflects the fact that the United States is much less committed to trade than it was twenty-five years ago. Economists, including myself, are at least partly to blame for this shift in attitudes towards free trade. Most of us were once unalloyed boosters of free trade, and we did a poor job of predicting and acknowledging that there would be significant losers from the entry of China into world trade. We did not pay enough attention to the potential for social dislocation of particularly vulnerable communities, or the other costs of trade openness that have now been well documented. This has provided the political backdrop for politicians to move towards protectionism. As both parties have a tepid—at best—commitment to trade freedom, it does not seem that the trend of the last couple of decades will be reversed anytime soon.

The decline in property rights protection is probably not related to an increasing risk of expropriation, which is certainly low in the United States, but rather because it is less clear what you can do with your property, and especially with land. The United States has increasingly become more invasive in its land-use regulations, and there is also more legal uncertainty about the ability to develop land. The fall in property rights protection seems to be capturing a cultural movement away from a sentiment—widespread in the United States before 2001—that property is sacrosanct, to something more nuanced, rather than any objective change in legislation.

Investment freedom is relatively high in the United States, but the indicator also shows some ups and downs. The first bump shown in the graph (2006–12) is somewhat surprising, as it coincides with the increased regulation of financial institutions embodied in the Dodd-Frank Act. It also goes in the complete opposite direction to what I would have expected. At the onset of the great recession (2006–2009), it is not very plausible that investment freedom was improving in the United States. The second shift, starting in 2016, likely reflects the positive view of investment under the Trump administration. There were also laws which may have moved the indicator, such as the introduction of “opportunity zones.” These zones created tax incentives to encourage investment in low-income areas, and while my own research did not find significant links between this policy and housing prices, nevertheless these zones embody the administration’s pro-investment zeitgeist.

Finally, the sharp increase in women’s economic freedom in 2018 is somewhat misleading. This indicator is based on World Bank data that examine legislative changes in a country’s biggest city. For the United States, this is New York City, which introduced paid maternity leave in 2018, driving the large rise in the score. Among Democratic states, there is certainly enthusiasm for moving closer to the EU’s model on these

issues, but this is hardly a universal trend across the country.

Political freedom presents two clear periods of democratic backsliding since 1995. The first occurred right after the 9/11 attacks of 2001, driven by the resulting decline in civil liberties. Certainly, US’s leaders thought that giving up a little bit of freedom was a small price to pay for maintaining the country’s safety. Many, and probably most, Americans agreed with them, although there were certainly civil libertarians who did not. While the indicator recovers during the Obama administration, it again drops after Trump’s 2016 electoral victory. The post-2016 drop seems more likely to reflect the president’s negative rhetoric with respect to immigrants, Muslims, and other minorities, rather than any legal change in civil liberties.

The sharp overall drop in political freedom that starts in 2016 reflects the fact that all four indicators of this subindex fell simultaneously: political rights, legislative constraints on the executive, elections, and civil liberties. The highly confrontational political atmosphere of the Trump years may have had a chilling effect on free speech in some places. Many people—on both sides of the political spectrum—may have feared that politically “incorrect” statements would be penalized, either by peers or by prospective employers. But this perception, even if it is widespread, did not translate in any meaningful way into specific legislative changes that would limit political or civil rights. The significant drop in the legislative constraints on the executive picks up the clear erosion of traditional norms around restraints on the executive, but the system did not break. Despite a small uprising and a modest attempt to overturn the results of an election, power still changed hands.

The legal freedom subindex is steadier than those for economic and political freedom, with the exception of the security indicator. This indicator shows a negative overall trend, which is not only capturing the 9/11 terror attacks, the subsequent “war on terror” and the protests around it, but

continues up until today. This seems to be more reflective of media headlines than of people's actual lives as, from 2001 through 2019, murder rates in the United States were declining. Politically motivated insecurity (i.e., perceptions of the likelihood of political instability or violence driven by political motives, such as terrorism) may be greater than in the past, even if there is no change or an improvement relative to the ordinary insecurity that affects people on a daily basis. We have had more political insecurity, as indicated by the Occupy movement, mass protests of police shootings, and violence in the Capitol Building itself, and it seems likely that this is driving this indicator.

The United States' relatively low score on clarity of the law may partially reflect the ambiguity present in all common law systems that rely on case precedence rather than a civil code, as this empowers sometimes unpredictable juries. The mild but sustained deterioration of the score on judicial independence seems more likely to reflect the increasingly political process of appointing judges rather than of a lack of judicial independence post-appointment. There were certainly loud verbal attacks on the judiciary by the executive during the Trump administration, and that may explain the 5-point decline in this indicator between 2016 and 2020.

## From Freedom to Prosperity

The **Prosperity Index** score starts at a high base for the United States, and does not move a lot over the period of analysis. That stasis, in my view, correctly reflects the relative strength of the American economy. Despite political sturm und drang, our economy has been working for decades without major disturbances. The American economy is not recession-proof, but over the past forty years, despite enormous technological changes, it has been stable, and typically more so than many others—especially other developed economies. The prosperity of the United States is illustrated best by the income indicator, which moves steadily upward, except for transitory drops in 2008 and 2020.

The health indicator shows the United States' shortcomings. First, the long trend of health is worse in the United States than in the EU, despite the fact that we spend a vast amount on healthcare. Second, the plummeting of the score in 2020 fairly reflects the United States' relatively dismal handling of the COVID-19 pandemic. Moreover, recent research has provided evidence that the crisis struck Americans who were not as well educated much more severely than more educated

Americans, reflecting both preexisting conditions and the ability to shift to remote work. In May of 2020, 68.9 percent of Americans with advanced degrees were working remotely, compared to only 5 percent among high school dropouts. This translated into mortality rates that were four times higher in America's least educated metropolitan areas. Instead, in some highly educated metropolitan areas like Seattle, more people died from opioid overdoses during the pandemic than died from COVID-19.

The health indicator should be an alarm bell for the United States. Our healthcare system is significantly led by the public sector through Medicare and Medicaid, yet it is failing to keep Americans healthy and it is costing an extraordinary amount. This seems like an important area for reform.

The worsening trend in the US score on inequality is unsurprising. The United States has never particularly embraced a wholesale fight against inequality. Even Democratic administrations feel constrained in how far they can raise taxes on the rich. Moreover, the significant expansion in the

Federal debt over the past five years will make further attempts to use Federal spending to combat inequality even more difficult.

But the sharpest change within the Prosperity Index is the significant decline in the minority rights indicator, which occurred during the Trump administration. The minority rights indicator uses religious freedom as a proxy, and it is certainly true that President Trump said many combative things about Muslims. But this measurement is based on perceptions, and political statements can clearly shift perceptions. It seems unlikely that there has been a substantial real change in religious freedom in the United States. The Bill of Rights, which

protects religious freedom, continues to be upheld and enforced to this day. The formal political institutions have, at least so far, been relatively robust to the political rhetoric.

The final two indicators – environment and education – show mild improvements, but the United States should take relatively little comfort from these changes. America's public school system continues to terribly fail the most vulnerable children, and these problems are not going away. Major risks to the environment remain, and the environment appears to be causing at least as much damage—through wildfires, floods, and storms—as in the past.

## The Future Ahead

Over the past fifteen years, US public debt has increased massively and that poses significant threats for the future. That adverse change is probably underweighted in the Freedom and Prosperity Indexes. It is a sign of where the government has gone wrong. The United States is spending a great deal, and it is acting as if debt just does not matter at all. I am not a macroeconomist, but there are good reasons to be skeptical about the idea that debt is free. We are likely to pay a significant cost for all of this borrowing, both in terms of economic freedom and for the economy as a whole.

Nonetheless, I continue to expect that, by and large, the American economy will deliver more of the same: little change in inequality, the traditional bumpiness of recessions and recoveries, but also a lot of dynamism mixed into that. Overall, the country is likely to continue on the path of the last fifty years.

Yet there are many things that the United States should be doing to ensure sustained economic growth and prosperity: We should regulate small businesses less. We should improve our procurement processes, especially related to

healthcare and infrastructure. We should improve our urban school systems. Most importantly, we need to recover a rational and policy-oriented political discourse.

I particularly worry about the increasing regulation of occupations, property, and small businesses at the local level. These effects seem to suggest that the United States does more to protect insiders than to empower outsiders. A robust national reform movement for economic freedom would be exciting, but as of now I only see small demands for reform related to property rights and housing. The "Yes, in my backyard" movement can be interpreted as an incipient effort in that direction. There are places like Los Angeles that have modestly liberalized their land-use regulations, especially by increasing the number of units that can be built without a lengthy planning process. Clarifying the rules for building new homes would make it easier to deliver affordable homes in high-cost areas.

Moreover, while the United States is the richest large country in the world, our public sector has great room for improvement. Continual reform of

the public sector should be a national priority, but the need to make government better is frequently ignored because of fractious political fights. There are pressures for local governments to improve, and there are reasons to be cautiously optimistic that at least some of these local governments may figure out how to improve procurement.

Finally, finding a way to fix civil discourse in the United States feels like an enormously hard

task, and it is difficult to be hopeful about that. The disappearance of a small number of contentious individuals from the political arena might move us towards more civilized discourse going forward. But the path towards a less polarized political environment seems unclear to me. As long as identity politics plays an important role, the more that we will argue about “us versus them” rather than how to improve a public sector that serves us all.

**Edward Glaeser**

Edward Glaeser is the Fred and Eleanor Glimp Professor of Economics and the Chairman of the Department of Economics at Harvard University, where he has taught microeconomic theory, and occasionally urban and public economics, since 1992.

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# South & Central Asia

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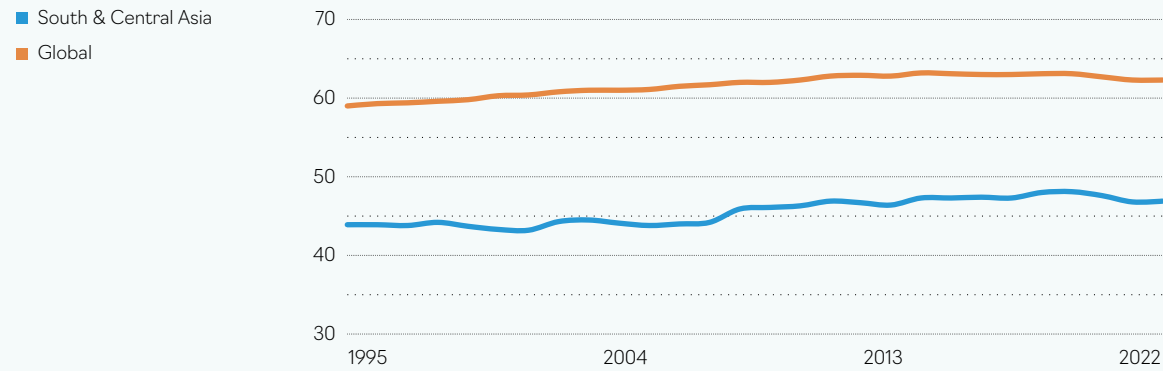


South & Central Asia: Regional Ranking							
	Freedom				Prosperity		
	Rank	Score	Status		Rank	Score	Status
Bhutan	61	69.3	◀ Mostly Free		111	55.9	◻ Mostly Unprosperous
Nepal	86	62.3	◀ Mostly Free		131	51.4	◻ Mostly Unprosperous
Sri Lanka	97	58.9	◀ Mostly Free		72	65.5	◀ Mostly Prosperous
Kyrgyzstan	103	56.3	◀ Mostly Free		86	62.6	◻ Mostly Unprosperous
India	104	56.3	◀ Mostly Free		146	48.8	◻ Unprosperous
Kazakhstan	112	52.8	◻ Mostly Unfree		56	68.4	◀ Mostly Prosperous
Pakistan	113	52.3	◻ Mostly Unfree		150	48.0	◻ Unprosperous
Bangladesh	141	40.8	◻ Mostly Unfree		99	59.5	◻ Mostly Unprosperous
Uzbekistan	143	40.3	◻ Mostly Unfree		100	59.2	◻ Mostly Unprosperous
Tajikistan	146	38.2	◻ Mostly Unfree		118	53.7	◻ Mostly Unprosperous
Turkmenistan	161	20.7	◻ Unfree		112	55.1	◻ Mostly Unprosperous
Afghanistan	164	14.4	◻ Unfree		163	39.0	◻ Unprosperous

Countries are organized in descending order based on their Freedom scores, with "Rank" denoting global rankings.

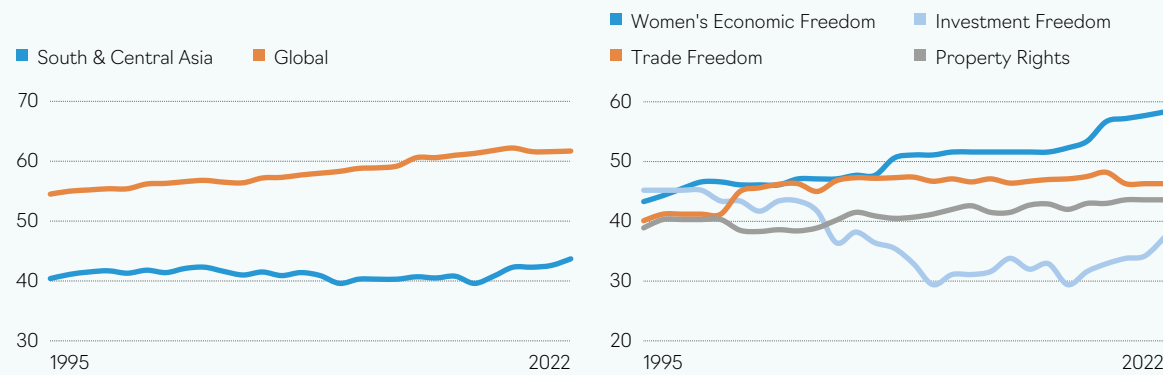
## Freedom Index

1995–2022



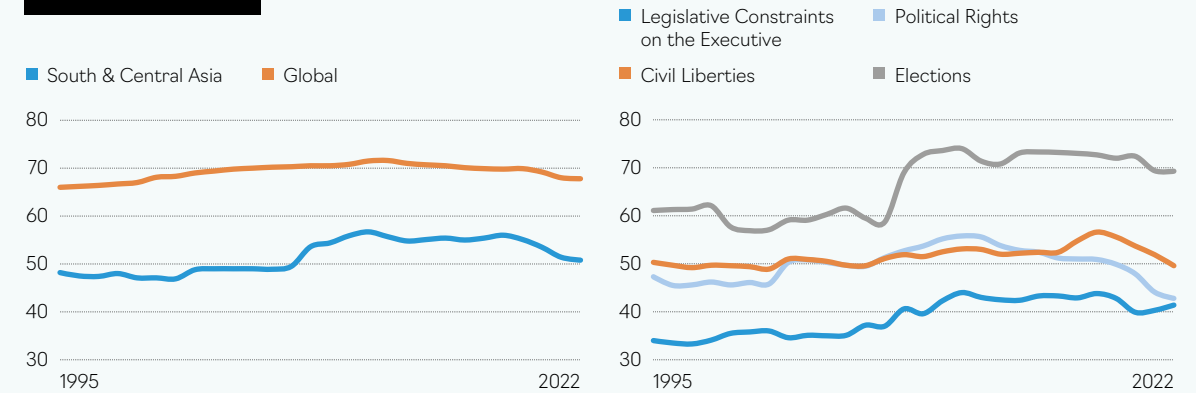
	2022		Change Since 2013	
	Region	Global	Region	Global
Freedom score	46.9	62.3	1.0%	-0.8%
Economic Subindex	43.7	61.7	8.4%	4.2%
Political Subindex	50.8	67.8	-7.3%	-4.6%
Legal Subindex	46.2	57.3	4.7%	-1.4%

## Economic Subindex



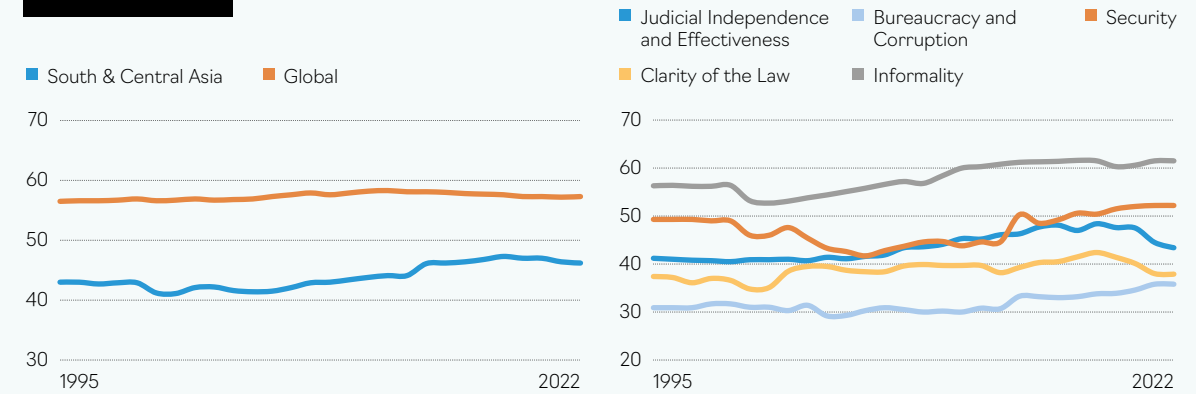
	2022		Change Since 2013	
	Region	Global	Region	Global
Women's Economic Freedom	58.3	72.4	13.0%	10.0%
Investment Freedom	37.3	59.6	18.1%	8.2%
Trade Freedom	46.3	65.2	-1.6%	-5.1%
Property Rights	43.6	51.2	5.0%	4.4%

## Political Subindex



	2022		Change Since 2013	
	Region	Global	Region	Global
Legislative Constraints on the Executive	41.4	58.3	-2.7%	-3.8%
Political Rights	42.8	67.0	-20.6%	-6.9%
Civil Liberties	49.6	69.6	-4.5%	-3.8%
Elections	69.3	76.2	-2.1%	-3.9%

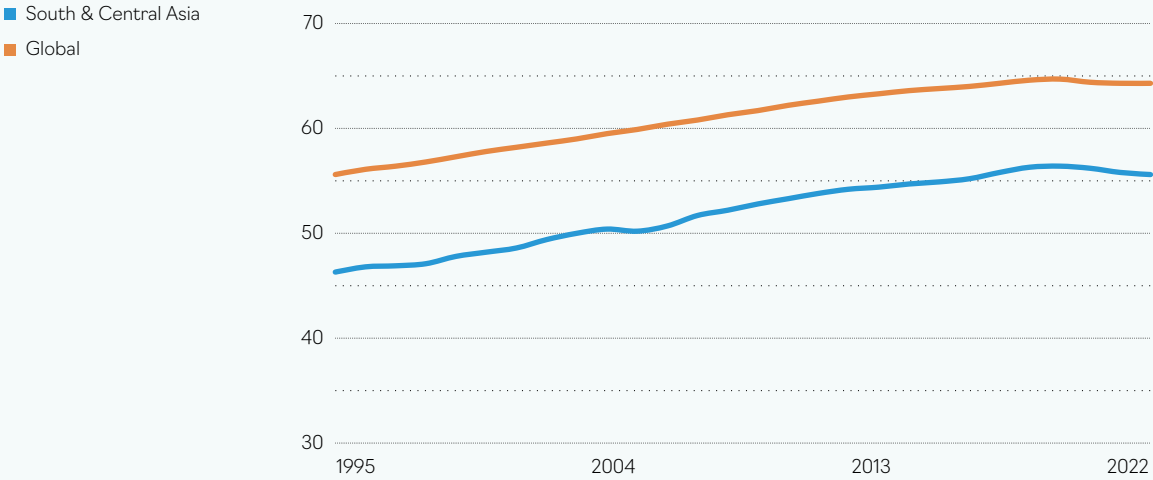
## Legal Subindex



	2022		Change Since 2013	
	Region	Global	Region	Global
Judicial Independence and Effectiveness	43.4	59.4	-5.8%	-1.9%
Bureaucracy and Corruption	35.8	45.3	16.3%	-0.3%
Security	52.2	60.2	17.0%	-1.4%
Clarity of the Law	37.9	52.5	-0.7%	-2.9%
Informality	61.5	70.2	1.1%	-0.2%

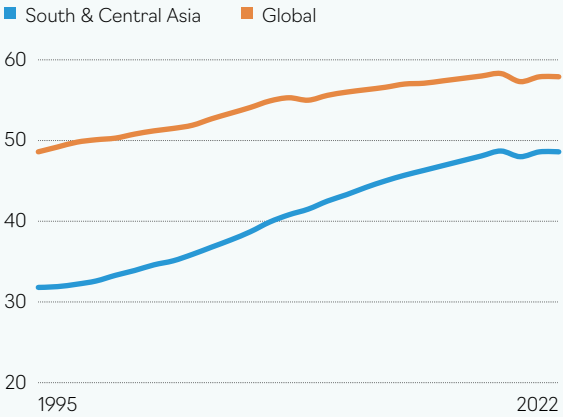
# Prosperity Index

1995-2022



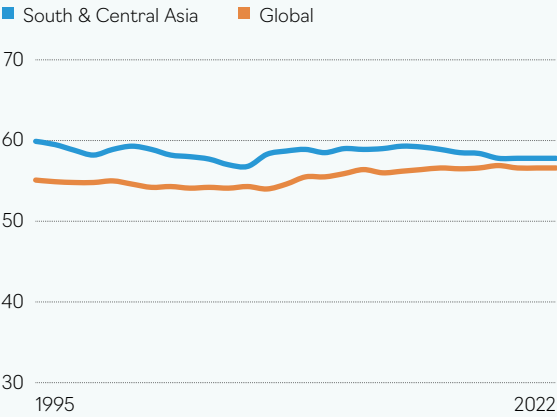
	2022		Change Since 2013	
	Region	Global	Region	Global
Prosperity score	55.6	64.3	2.2%	1.5%

## Income

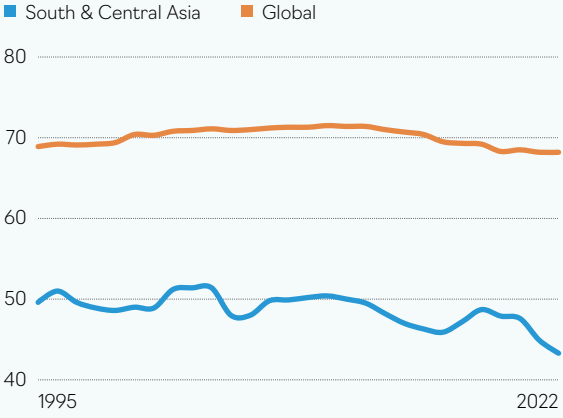


	2022		Change Since 2013	
	Region	Global	Region	Global
Income	48.6	57.9	8.2%	2.3%
Inequality	57.8	56.6	-2.1%	0.9%

## Inequality

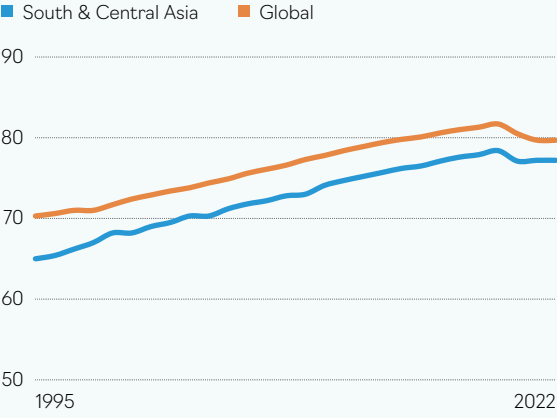


# Minority Rights

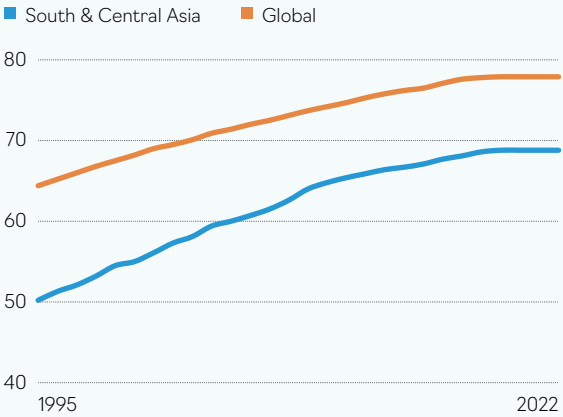


	2022		Change Since 2013	
	Region	Global	Region	Global
Minority Rights	43.3	68.2	-10.1%	-4.0%
Health	77.2	79.7	1.9%	0.4%

# Health

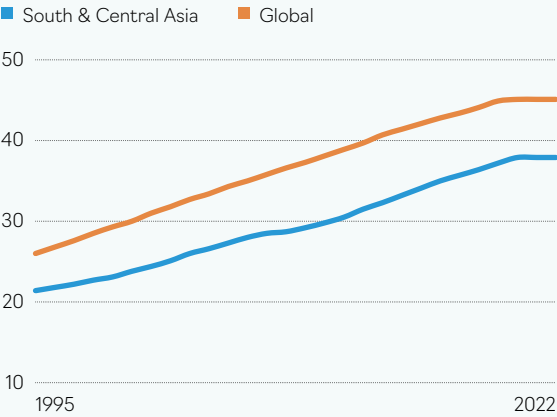


## Environment



	2022		Change Since 2013	
	Region	Global	Region	Global
Environment	68.8	77.9	3.7%	2.8%
Education	37.9	45.1	17.4%	10.8%

## Education



# India

Pratap Bhanu Mehta

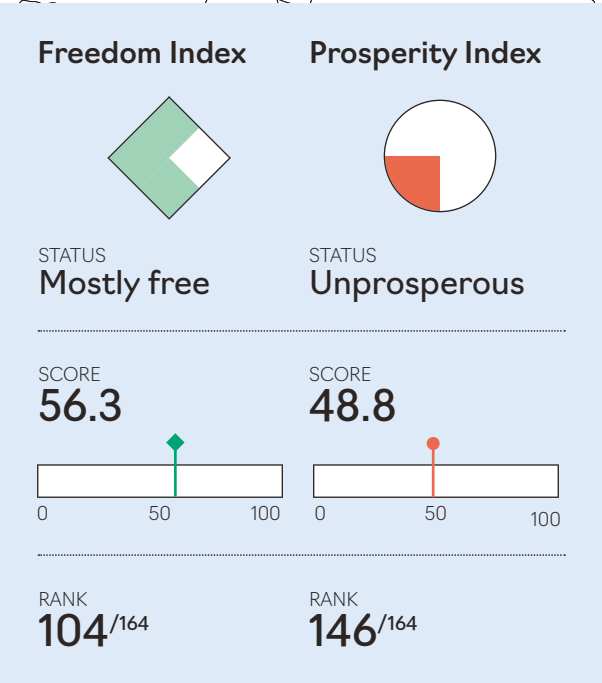
## Socioeconomic Data 2022

### General Information

POPULATION	LIFE EXPECTANCY (2021)
1417.2 million	67 years
RELIGION (2010)	ETHNIC FRACTIONALIZATION
Hindu → 79.5%	no data
Muslim → 14.4%	
Christian → 2.5%	

### Economic Data

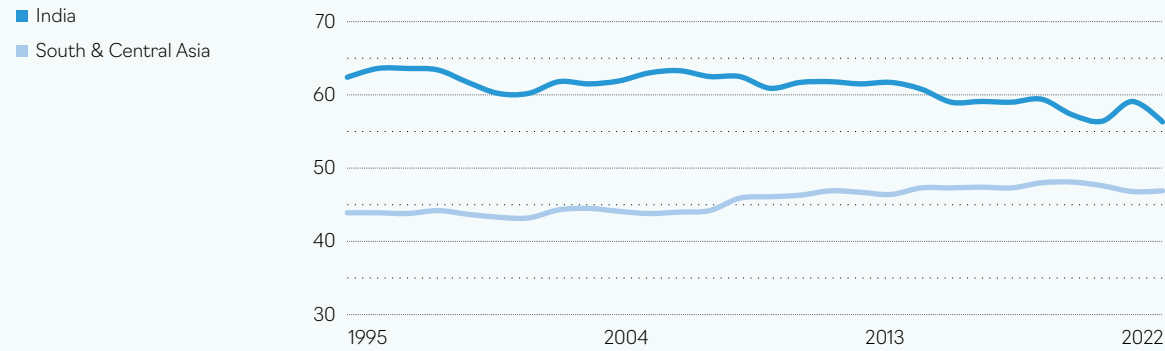
GDP PER CAPITA	INFLATION
7,096	6.7%
% of US GDP pc → 11.0%	
GDP pc Growth → 6.3%	
DEPT/GDP (GENERAL 2021)	TRADE/GDP
84.2%	49.4%
UNEMPLOYMENT	
4.8%	
SECTORAL ALLOCATION	
Agriculture → 18.3%	
Industry → 28.2%	
Services → 53.5%	
GINI COEFFICIENT (2020)	
40.9	





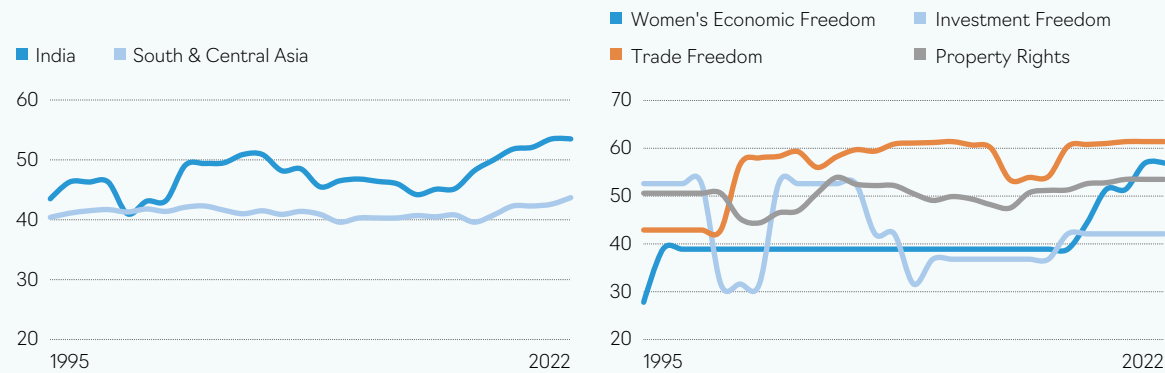
## Freedom Index

1995–2022



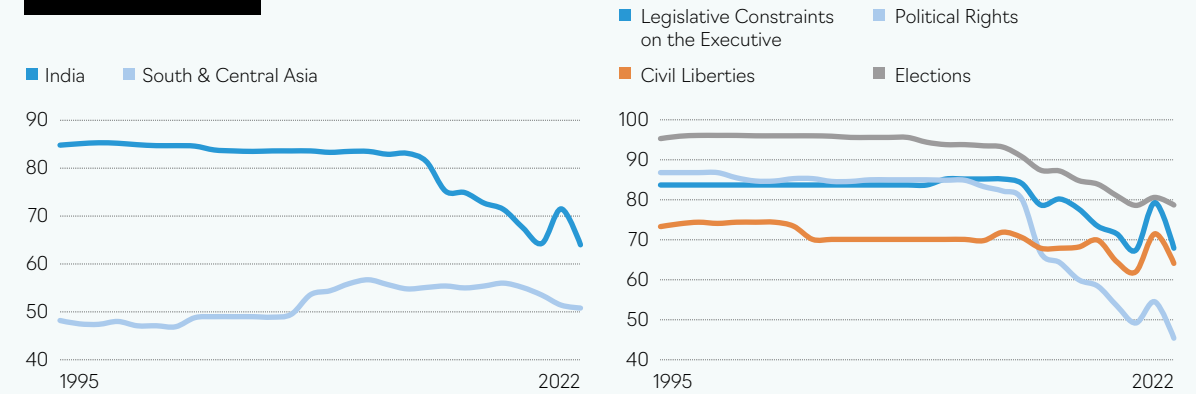
	2022		Change Since 2013	
	India	Region	India	Region
Freedom rank	104	–	-18	–
Freedom score	56.3	46.9	-8.9%	1.0%
Economic Subindex	53.5	43.7	16.2%	8.4%
Political Subindex	64.0	50.8	-23.0%	-7.3%
Legal Subindex	51.3	46.2	-8.5%	4.7%

## Economic Subindex



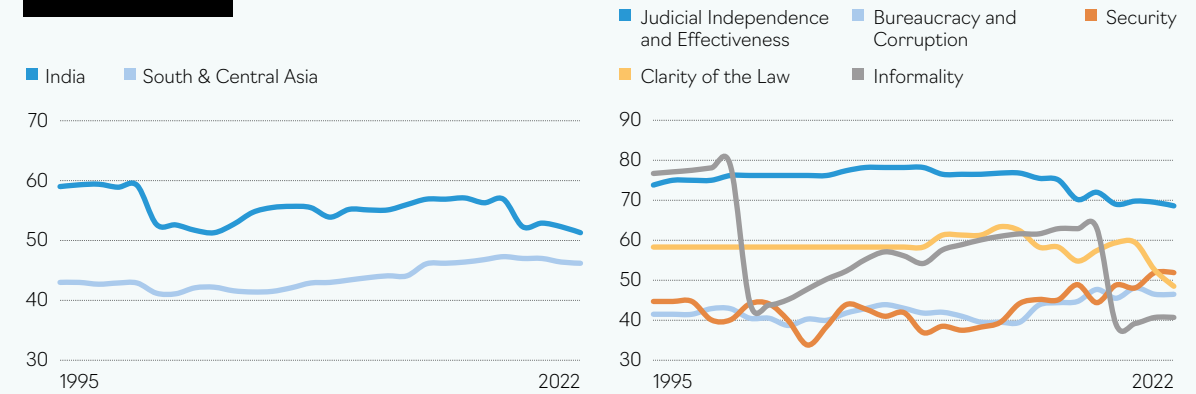
	2022		Change Since 2013	
	India	Region	India	Region
Women's Economic Freedom	56.9	58.3	46.4%	13.0%
Investment Freedom	42.1	37.3	14.3%	18.1%
Trade Freedom	61.4	46.3	2.1%	-1.6%
Property Rights	53.5	43.6	11.0%	5.0%

## Political Subindex



	2022		Change Since 2013	
	India	Region	India	Region
Legislative Constraints on the Executive	67.9	41.4	-20.2%	-2.7%
Political Rights	45.4	42.8	-44.7%	-20.6%
Civil Liberties	64.1	49.6	-10.9%	-4.5%
Elections	78.7	69.3	-15.5%	-2.1%

## Legal Subindex

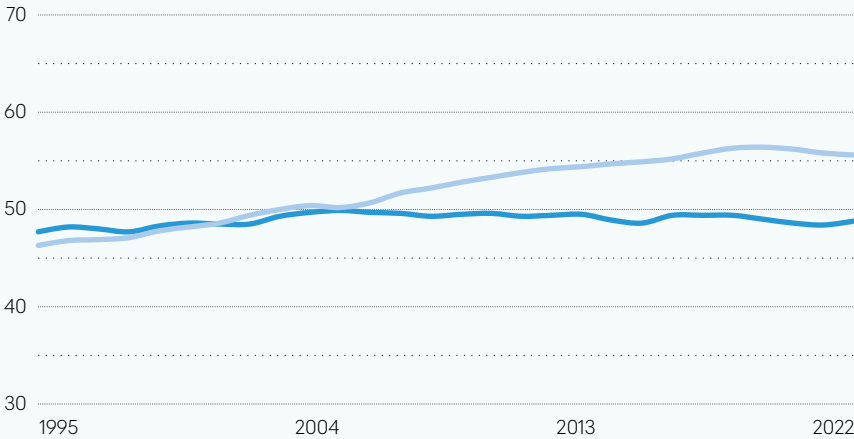


	2022		Change Since 2013	
	India	Region	India	Region
Judicial Independence and Effectiveness	68.6	43.4	-10.7%	-5.8%
Bureaucracy and Corruption	46.5	35.8	17.9%	16.3%
Security	51.9	52.2	31.5%	17.0%
Clarity of the Law	48.5	37.9	-23.6%	-0.7%
Informality	40.7	61.5	-33.3%	1.1%

Prosperity Index

1995-2022

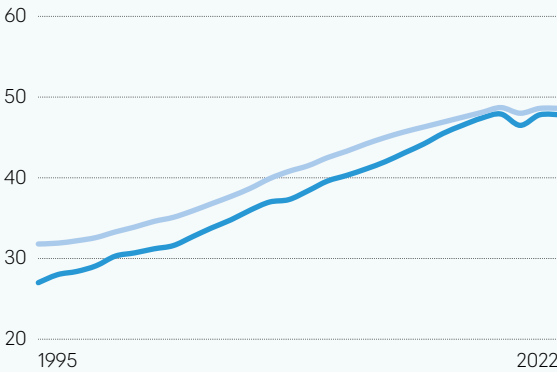
India  
South & Central Asia



	2022		Change Since 2013	
	India	Region	India	Region
Prosperity rank	146	-	-13	-
Prosperity score	48.8	55.6	-1.4%	2.2%

Income

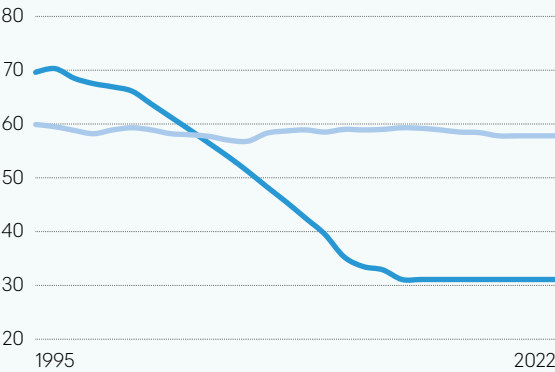
India  
South & Central Asia



	2022		Change Since 2013	
	India	Region	India	Region
Income	47.8	48.6	14.0%	8.2%
Inequality	31.1	57.8	-5.6%	-2.1%

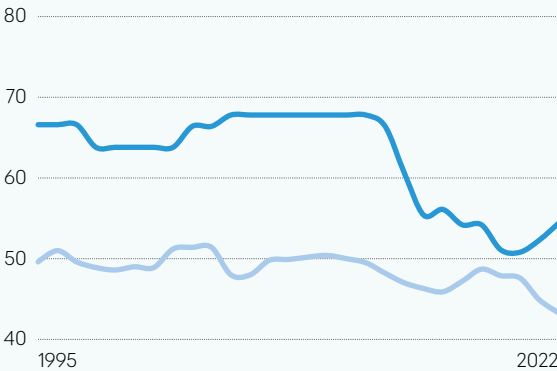
Inequality

India  
South & Central Asia



Minority Rights

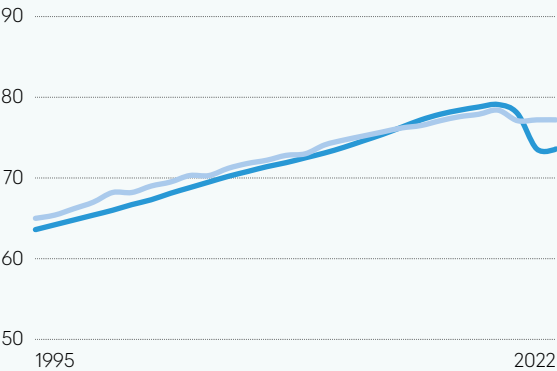
India  
South & Central Asia



	2022		Change Since 2013	
	India	Region	India	Region
Minority Rights	54.4	43.3	-18.1%	-10.1%
Health	73.6	77.2	-2.4%	1.9%

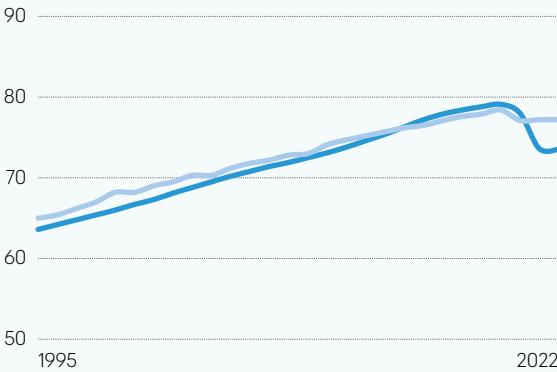
Health

India  
South & Central Asia



Environment

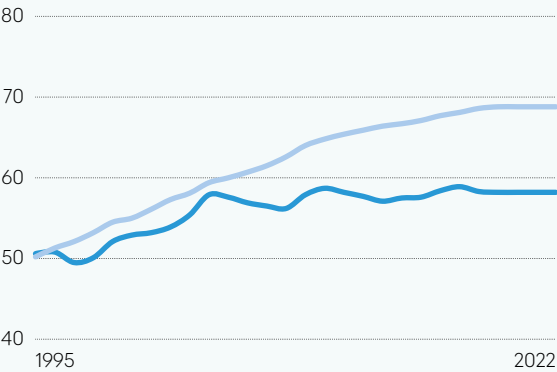
India  
South & Central Asia



	2022		Change Since 2013	
	India	Region	India	Region
Environment	58.2	68.8	2.0%	3.7%
Education	27.4	37.9	19.2%	17.4%

Education

India  
South & Central Asia



## Evolution of Freedom

The evolution of **political freedom** is conceptually the simplest issue in the Indian context. In big-picture terms, the trends shown in the political freedom subindex are very accurate. The graph clearly shows a significant fall in India's performance in the last ten years. This trend could be termed "democracy capture," rather than "democracy backsliding," for a reason that will become apparent below. Looking at the scores on the four indicators of political freedom (elections, political rights, civil rights, and legislative constraints on the executive), India's score has reduced in every dimension.

Nonetheless, the election score, as reflected in this data, seems to show a steeper fall than most people working in India, or most political scientists, would endorse. And this is the paradox of Indian democracy at this moment. In a narrow interpretation of the electoral core of democracy—which mainly captures elements such as peaceful transitions of power, contestability, and the fairness of the process itself (i.e., Robert Dahl's polyarchy)—India still does quite well. In fact, no opposition party in India is questioning the legitimacy of elections, which in itself tells you something. Elections are deeply contested, and India performs well on measures of participation, political contestation, or freedom to form political parties. If we look at state or local elections, the degree of contestation is even higher. The dominant Bharatiya Janata Party (BJP) rules only 15 of 28 states currently. In the electoral indicator, India may even be performing better than is reflected in the Index. However, there are some concerns over the degradation of some aspects that make elections fair. For example, the BJP receives three times more funding from electoral bonds than all other national parties combined.<sup>1</sup>

The Enforcement Directorate, which investigates corruption, typically focuses its efforts more on opposition politicians: about 90 percent of current investigations involve opposition politicians. While this has not yet led to opposition politicians withdrawing from electoral contests, it does seem to place additional burdens on them. But all things considered, the political system does not question the legitimacy of the electoral process.

It is between elections that a decline in civil liberties and political rights for civil society is evident. There is a palpable sense of a decline in freedom in these areas. There is a greater criminalization of dissent. Several political activists, including students, are being held under India's draconian preventive detention laws. The whole "information order," (which includes mass media and social media), particularly media in vernacular languages such as Hindi and most television channels, is tightly controlled. There has been a massive decline in academic freedom. It is harder for many groups to obtain permission to protest. The checks and balances of a constitutional democracy are eroding. There is more open dissemination of hate speech that targets minorities.

It is important to underscore the fact that you can have pretty good elections and institutional machinery and yet produce outcomes that are not as protective of our freedoms as we would like. It also points to the fact that the way in which this BJP government regulates or suppresses political rights and civil liberties is somewhat artful. Unlike previous episodes of backsliding in India (e.g., 1975, when a formal state of emergency was declared), there have been no mass arrests or major changes in the law. The government is very selectively

targeting particular individuals or institutions, using the formal administrative and legal machinery at its disposal. It uses tax laws, administrative law, and informal threats to target institutions or individuals that dissent from the government. This is artful for three reasons: First, there is plausible deniability. Each of these instances of targeting is presented as simply the normal operation of law, rather than what they are: a form of repression. Second, it allows for a form of statistical reassurance. The numbers of individuals or groups being targeted may not be, as a proportion of the population, very large, and so large sections of society are convinced that these attacks on freedom of expression are not going to really affect them. Third, as a consequence, this selective, exemplary targeting multiplies in effectiveness because it also leads to self-censorship—a more efficient way for the government to achieve its aims. It also makes the issue seem less politically urgent, and divides opposition parties, for whom some targets are more salient than others.

Such strategies are in line with how a lot of modern authoritarianism works. This is a crucial paradox to understand: you can have vigorously contested elections by almost all measurable criteria, and yet that can be accompanied by a dramatic decline in political and civil rights in particular, as well as legislative constraints on the executive. Some might be tempted to say that this makes India closer to an illiberal democracy. This term is an oxymoron though, since some of the basic liberal freedoms—like free expression, equality before the law, freedom of association, and a fair information order—are constitutive of both liberalism and democracy. So an attack on liberal values is, inevitably, an attack on democracy. It also raises the specter of whether those who begin by attacking liberal freedoms may not, at some point, also attack electoral processes. But at the moment one cannot deny the fact that the government of Narendra Modi is popular and that it won power through legitimate means.

What are the drivers of this process? The proximate explanation is simply that Indian democracy is electing to power an explicitly majoritarian government. The BJP's stated ideology is to make Hindus a self-conscious political force and consolidate Hindu political and cultural power. It seeks to reclaim India as a Hindu nation and rescue it from what it regards as a thousand years of Hindu subjugation in three phases: first subjugation by Islamic rulers, then by the British, and after independence by a secular elite. It also seeks to reclaim a more authentically Indian idiom of discourse and politics. This involves a massive project of cultural engineering: rewriting history, renaming public spaces, marking more sharply the boundaries between the Western and the Indian, or between Muslim and Hindu. It is important to keep this ideological background in mind because a significant explanation for the decline in India's **freedom scores** has to do with the domination of this ideology. Wherever you have a project that converts a pluralist society into an ethno-nationalist state, minorities will be targeted. The clampdown on civil liberties is justified in the name of nationalism: almost all dissenters from this ideology are marked as anti-national, which licenses their persecution. The political support for the abridgment of individual rights is mobilized in the name of nationalism.

You can ask a deeper question: Why is it succeeding? The standard story in most democracies that experience this kind of backsliding is that the center and the left, or anybody who is not aligned with the autocratic right, is fragmented, which allows for nationalist political strategies to succeed much more easily. In India today, there is no opposition leader even remotely able to match Narendra Modi in terms of individual charisma. Narendra Modi's personal biography, as a leader who did not come from either economic or social privilege, allowed sections of marginalized groups to identify with him in a way that would have been impossible a decade ago. Political strategies and political communication do matter, and Modi's ability to identify with

<sup>1</sup> This is a controversial scheme whereby companies can donate to political parties, but the names of the donors are not revealed to the public. Technically only the Reserve Bank of India knows the donors, but there are allegations that the ruling party has this information and uses it to its advantage. The constitutional validity of this scheme is being challenged in the Supreme Court.

the poor and the lower-middle classes is really quite remarkable. He has been able to construct the argument that most of the opposition represents a kind of corrupt, privileged, ancient regime that for seventy years kept India backward, with low ambitions, and prevented the majority from realizing its full political destiny. We always used to assume that, in India, the natural check on right-wing authoritarianism was the fact that India has lots of cross-cutting divisions (language, region, caste, and so on), which provided a natural distribution of social power. The joke in India used to be that people do not cast their vote, they vote their caste. But if you look at caste voting patterns now, they are much more evenly distributed across parties. One of the interesting things that has happened over the last fifteen or twenty years is that these social groups—that once were assumed to be “natural” checks and balances on Hindu consolidation and majoritarianism—are themselves becoming more strategic in orientation. This is partly a consequence of economic growth and greater political freedom. The dynamics of growth have created inequalities not only among caste groups but also within caste groups. So for example, the interest of different subgroups among the Dalits now diverges, based on their situation in the economy. This has made the relationship between caste and voting a lot more fluid, and has led to a greater individualization of decisions.

Additionally, Mr. Modi, unlike many of his right-wing colleagues across the world (e.g., Erdoğan or Bolsonaro), is actually competent in economic management. We are nowhere near the 10 percent gross domestic product (GDP) growth the government claims, nor in an environmental paradise, nor are we seeing significantly reduced inequality. But the Modi government is a reasonably competent steward of the economy. India still enjoys relative macroeconomic stability, with inflation under control. A growth rate of close to 6 percent provides enough revenue—and political capital—to build a coalition that will support welfare reform.

The **legal freedom** subindex highlights two important stories. First, on bureaucracy quality and corruption, the massive expansion in state capacity in India in the last fifteen years has produced a movement from retail corruption to wholesale corruption. A lot of ordinary Indians now experience the state as being less corrupt. Previously, a large number of public services would be subject to corruption by bureaucrats. In part, this was allowed to continue because these bureaucrats contributed to systems of political corruption—the bottom-up networks created by political actors. One of the interesting results of economic growth has been that politicians have realized that you can easily make money and extract rents from just two or three sectors of the economy, like construction or defense. And you can now do it in a way that is much less inefficient than used to be the case. It also means that political parties have become more centralized, because now they do not have to rely on diffuse networks of patronage across the system. They can rely instead on particular relationships between state and capital to extract all the rents they want. So, in that sense, the corruption story is relatively good news. But this is accompanied by greater concentration of capital at the top, which may pose long-term challenges for small businesses.

Second, the judicial independence score reflects the real bad news story in the area of legal freedom. The Indian Supreme Court used to be considered one of the most independent supreme courts in the world, particularly over the last twenty years. But it has more or less abdicated its function as a custodian of political values. It has consistently delayed hearings on a range of constitutional cases that would have preserved the checks and balances of the current system. Here are just some of the cases in question: the electoral bond case, which has so far failed to improve the transparency of party donations; a range of federalism petitions relating to the status of Kashmir; and the constitutional validity of the government’s use

of “money bills” as a legislative device, allowing it to bypass the upper house, even in nonmoney legislation. The Supreme Court is allowing Hindus to reclaim disputed shrines, the centerpiece of Hindu nationalism. The Supreme Court has more or less subordinated itself to government, going along with the administration’s ideological agenda, even if it puts minority rights at risk. The government’s attack on political freedoms and civil liberties could not happen without the cooperation of the judiciary, and again the way in which they cooperate is very artful. The Supreme Court basically does not hear politically sensitive cases. One example is the situation with a number of students from Jawaharlal Nehru University, imprisoned awaiting trial in connection with the 2020 Delhi riots. The Supreme Court has not heard even the case for bail for three years. The judiciary has improved on things like contracts, contract law, economic disputes, and so on. But on issues where the government’s ideological agenda or power is at stake, the judiciary has, in essence, ceded its authority. The decline in judicial independence is likely to be even more severe in reality than is captured by the indicator.

In terms of **economic freedom**, it is surprising that the score on the investment freedom indicator is not higher because, at least for domestic businesses, further domestic liberalization is generating a great deal of optimism. Two things might explain the data: First, we are at a juncture where

the frameworks for both investment and trade are relatively uncertain. There is an ongoing discussion around the development model that India should follow. The uncertainty around India’s orientation to the global economy makes for domestic regulatory uncertainty. Second (and with more on this below), the current government has been successful in publicly producing some private goods such as roads or sanitation, but it has been unable to enforce other kinds of economic regulations that could sustain economic growth in the long run.

Finally, the overall evolution of the women’s economic freedom indicator is a fair reflection of the real picture, as this is an area that has improved significantly in the last decade in India. However, the drivers of this change are probably not those captured by the Index. The data shown in the figure mainly reflects the legal changes made in terms of working hours flexibility and maternity leave. But these legal reforms apply to a very limited number of firms, and thus cannot explain the significant improvement in women’s economic freedom. Instead, the real improvement in this area seems to come from the increase in access to basic goods such as sanitation, cooking gas, or drinking water, as captured by the progress of India on the Multidimensional Poverty Index. Progress in these areas truly impacts women’s economic freedom and produces a massive expansion of their economic potential.

## From Freedom to Prosperity

India had a remarkable period of growth until 2009, with eight years of almost 8 percent GDP growth. From 2009 to around 2014, the economic situation is hard to assess because India experienced multiple shocks. Dealing with the financial crisis of 2009, the previous government left a remarkably broken financial system. Then the process of de-monetization significantly pulled income growth down. Another

remarkable economic reform was the introduction of a single nationwide goods and services tax. In the long run it is likely to be very beneficial, as it raises government revenue more efficiently and cuts down on tax evasion, but in the short run it imposes severe costs on small businesses that are still struggling in some ways. Finally, we had the COVID-19 crisis. Despite all these events, GDP growth has not

fallen below 5 percent in the last ten years. This is why there is some optimism about Indian growth.

Nonetheless, there are two noteworthy potential constraints on Indian economic development in the near future. The first is reflected in the recent decrease of the legal freedom subindex, as the tax and regulatory environment is still a lot more uncertain than investors would like. This is not because of a legislative desire to suppress legal freedom in these areas. It is more a function of the state's inability to create regulatory clarity. The second has to do with the distribution of the growth dividend. The top 20 percent of India's income distribution has probably done very well lately, as in most countries in the world. The bottom 20 percent has actually not done too badly, because of several welfare measures, as reflected in an improvement in the Multidimensional Poverty Index. It is actually the middle 40 percent that is struggling. India's workforce is moving away from agriculture at a rate that might be expected. But the transition from low-productivity and low-paid work to high-productivity and better-paid jobs is proving elusive for the middle 40 to 60 percent. There are two reasons for this: First, the Indian economy is still very informal. The government has made attempts to bring more of the economy into the formal sector to increase scale, productivity, and access to credit. But the process of doing it, in the short run at least, raises the costs for very small informal businesses. Many of them are struggling. There is greater concentration of capital. Second, the employment elasticity of capital is rising. It takes more capital investment to create jobs. India's growth path is still quite capital intensive. The result is high underemployment.

## The Future Ahead

The evolution of political freedom in India is worrisome. In the next two or three years, there is a very high probability that political freedoms will decline even more. The way in which this government has

Progress on education is slower than it should be. The improvements in the quality of human capital will take eight to ten years to show up. There is considerable reason for optimism regarding the human capital issue, as it is less of a binding constraint in India than it used to be. The evolution of the health indicator in the **Prosperity Index** is an accurate reflection of reality, but again, there is a paradox here. One of the big successes of the Modi government has been to make health insurance available to large numbers of Indians. It is one of his flagship schemes and is quite remarkable. But the investment in public health is still clearly insufficient, and this is reflected in the dramatic drop in the indicator due to the COVID-19 crisis. Similarly, Mr. Modi has done very well on sanitation. More people have toilets and fewer Indians practice open defecation. That is a huge success. But in terms of building systems that can transport that sewage and reprocess it, we are not doing so well.

In terms of environmental regulations, there is again an interesting paradox. India is doing better than many peer countries on creation of renewable energy. Progress on solar, wind, and renewables has been remarkable. Yet, the government is at the same time enabling greater investment in coal. Also, the government is still unwilling to enforce some of the key environmental regulations that are already in place. Therefore, India has one of the most polluted environments in the world. All in all, on both environment and health, and despite progress, this government is unsuccessful at creating systems and processes that can account for market failures.

empowered hate speech against minorities and co-opted the judiciary is very concerning.

We are at a big crossroads. It is the first time since 1975 that we must ask this question: Will

there be a smooth transition of power? If it looks like this government is struggling and could lose the election, will it accept transition of power as smoothly as India has been used to? And here's the catch-22: if this government wins, the majoritarian consolidation will be a continued threat to political freedom. But if it looks like it could lose, then the chances of resorting to extra-legal means to either hold on to power or ensure that its successor is not able to function will rise considerably. We can see evidence of this course of action in state elections which the BJP has been losing. In many of them, the BJP is deploying the central government's power to break up the state governments that have been elected.

On the economic prosperity front, I think there are reasons to be cautiously optimistic. Yet, there is a politically problematic take on the situation: I do not think the harm to political freedoms is going to translate into an economic penalty for India. Large parts of Indian capital and foreign investors may not care. If they can make money, they will come. This has always been the case; it is the blunt truth.

Whether improvements on prosperity will be enough to overcome the structural problem of the middle 40 to 60 percent remains an open question. This group cannot be satiated by welfare expenditure. But nor does it fully participate in the gains of growth. It is also worth remembering that India is a highly diverse federal country. Peninsular states of south India have historically done much better and have per capita incomes 50 percent higher than the rest of the country. North Indian states like Uttar Pradesh and Bihar are still lagging in growth, and that is where most of the poverty is now concentrated. Most of these states present no real challenge to Hindu nationalism as an ideology, but they may resent moves towards greater economic centralization. So India will have to manage the political challenge of a geographically unequal society. This could work for democracy in two opposing ways. On the one hand, federalism can check the centralizing tendencies of Indian democracy. On the other hand, it could exacerbate political conflict and deepen the yearning for authoritarianism.

### Pratap Bhanu Mehta

Pratap Bhanu Mehta is senior fellow and a former president of the Centre for Policy Research, New Delhi and Laurence Rockefeller Visiting Professor for Distinguished Teaching at Princeton University. He was previously vice chancellor of Ashoka University. He is the author of *The Burden of Democracy* (2003), co-editor of *The Oxford Handbook to the Indian Constitution*; *India's Public Institutions*; and *The Oxford Companion to Indian Politics*. He was convenor of the Prime Minister of India's Knowledge Commission (2005–07) and member of India's National Security Advisory Board. He is also editorial consultant to the *Indian Express* and a fellow of the British Academy.

# Pakistan

Ali Cheema

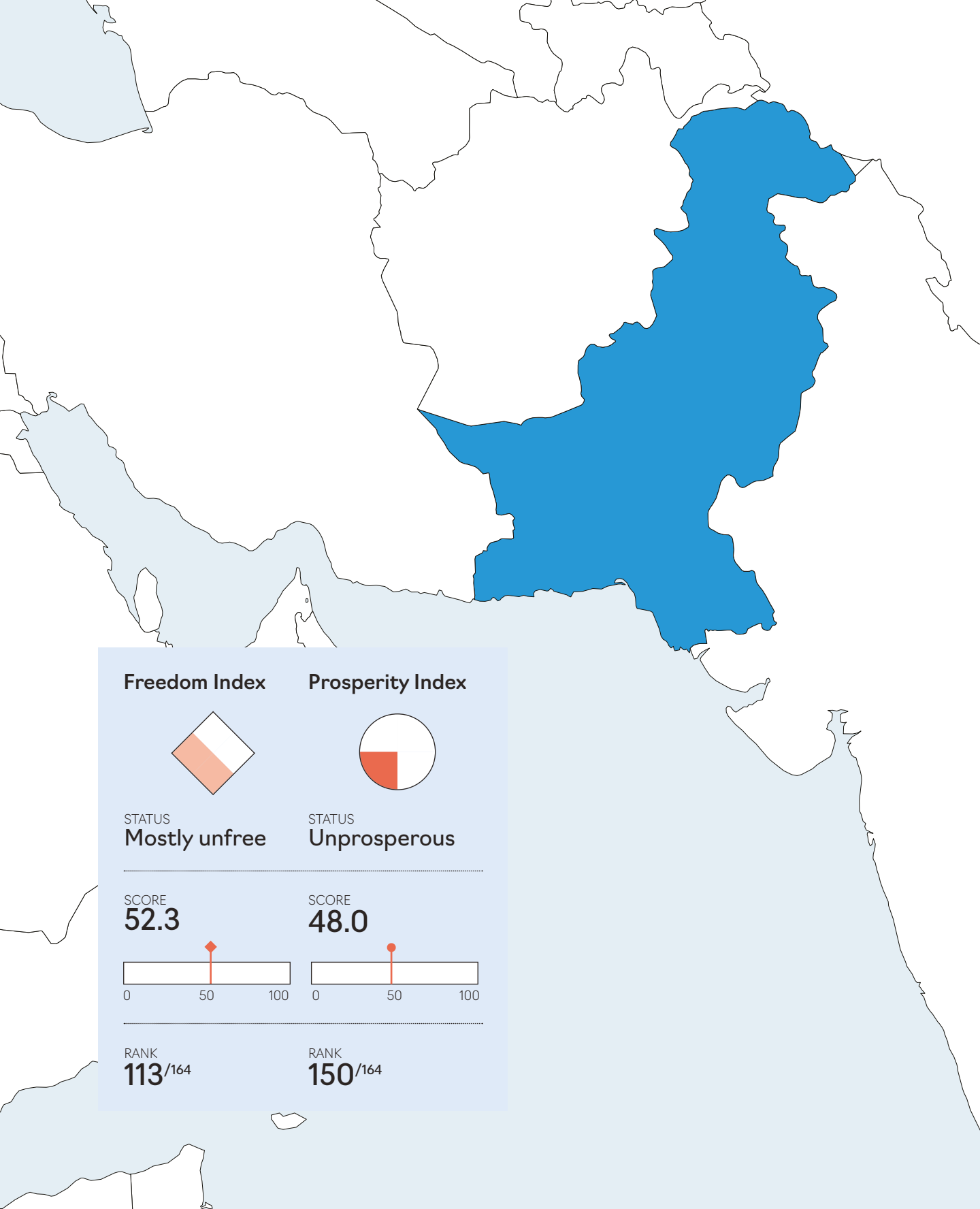
## Socioeconomic Data 2022

### General Information

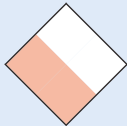
POPULATION	LIFE EXPECTANCY (2021)
235.8 million	66 years
RELIGION (2010)	ETHNIC FRACTIONALIZATION (2013)
Muslim → 96.4%	0.75
Hindu → 1.9%	
Christian → 1.6%	

### Economic Data

GDP PER CAPITA	INFLATION
5,452	19.9%
% of US GDP pc → 8.4%	
GDP pc Growth → 4.2%	
DEPT/GDP (CENTRAL 2021)	TRADE/GDP
74.9%	32.0%
UNEMPLOYMENT (2021)	
6.3%	
SECTORAL ALLOCATION	
Agriculture → 23.8%	
Industry → 21.2%	
Services → 55.0%	
GINI COEFFICIENT (2020)	
34.4	

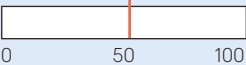


### Freedom Index



STATUS  
Mostly unfree

SCORE  
52.3



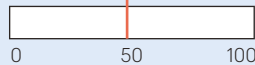
RANK  
113/164

### Prosperity Index



STATUS  
Unprosperous

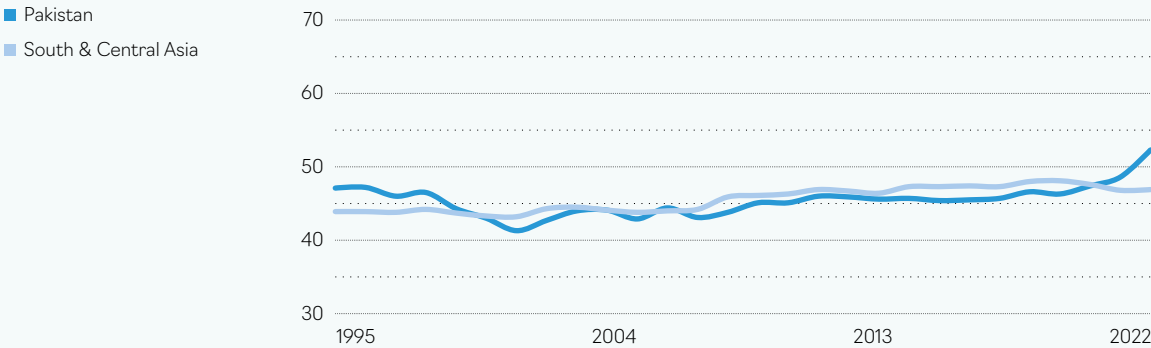
SCORE  
48.0



RANK  
150/164

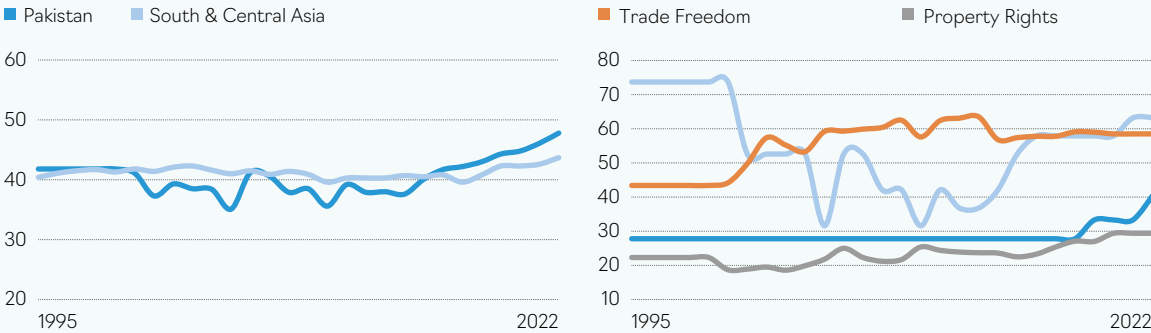
Freedom Index

1995-2022



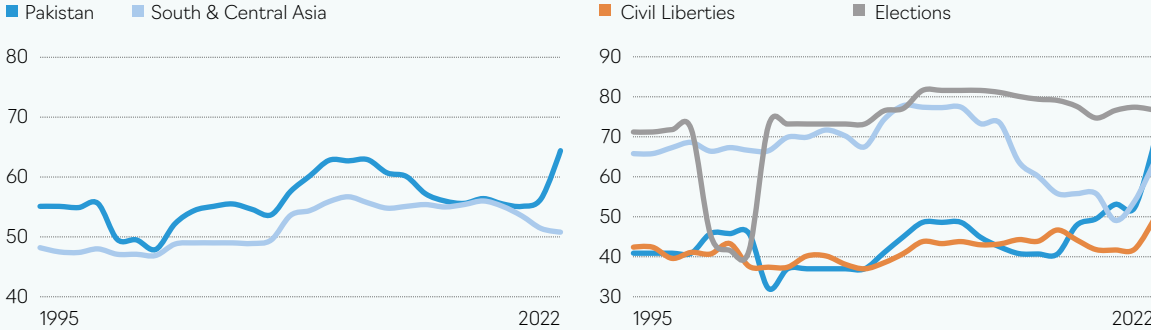
	2022		Change Since 2013	
	Pakistan	Region	Pakistan	Region
Freedom rank	113	-	21	-
Freedom score	52.3	46.9	14.5%	1.0%
Economic Subindex	47.8	43.7	26.0%	8.4%
Political Subindex	64.4	50.8	6.1%	-7.3%
Legal Subindex	44.6	46.2	16.5%	4.7%

Economic Subindex



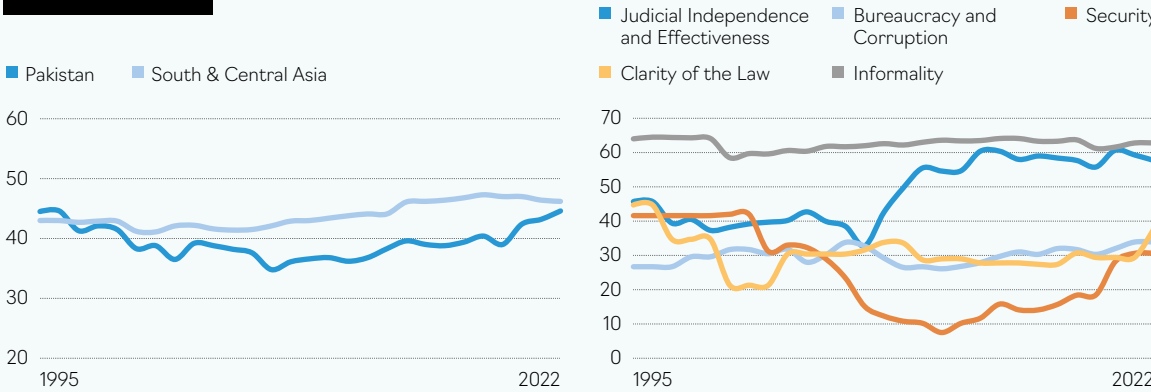
	2022		Change Since 2013	
	Pakistan	Region	Pakistan	Region
Women's Economic Freedom	40.3	58.3	45.0%	13.0%
Investment Freedom	63.2	37.3	71.4%	18.1%
Trade Freedom	58.5	46.3	-7.9%	-1.6%
Property Rights	29.4	43.6	24.0%	5.0%

Political Subindex



	2022		Change Since 2013	
	Pakistan	Region	Pakistan	Region
Legislative Constraints on the Executive	68.1	41.4	51.9%	-2.7%
Political Rights	63.4	42.8	-13.5%	-20.6%
Civil Liberties	49.3	49.6	14.5%	-4.5%
Elections	76.7	69.3	-6.0%	-2.1%

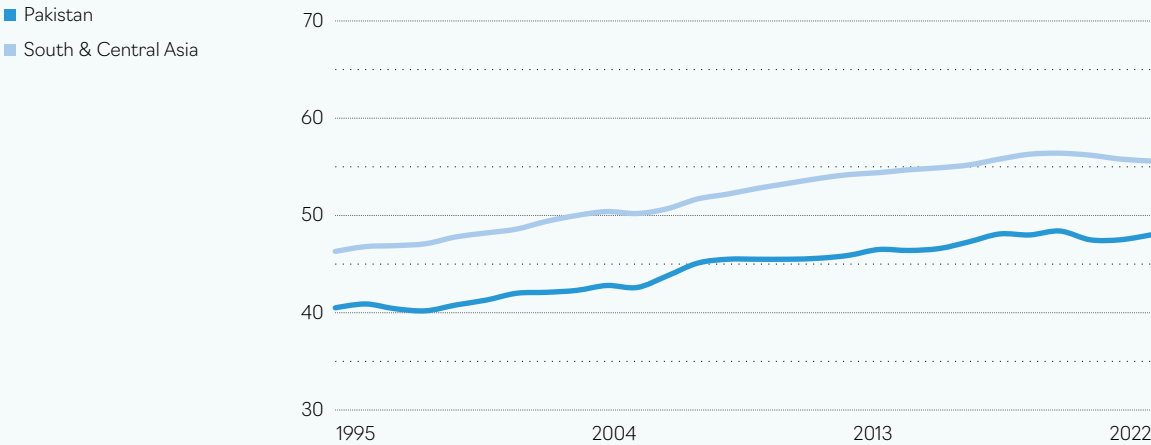
Legal Subindex



	2022		Change Since 2013	
	Pakistan	Region	Pakistan	Region
Judicial Independence and Effectiveness	57.7	43.4	-4.5%	-5.8%
Bureaucracy and Corruption	33.9	35.8	21.6%	16.3%
Security	30.6	52.2	162.3%	17.0%
Clarity of the Law	37.8	37.9	36.0%	-0.7%
Informality	62.8	61.5	-1.0%	1.1%

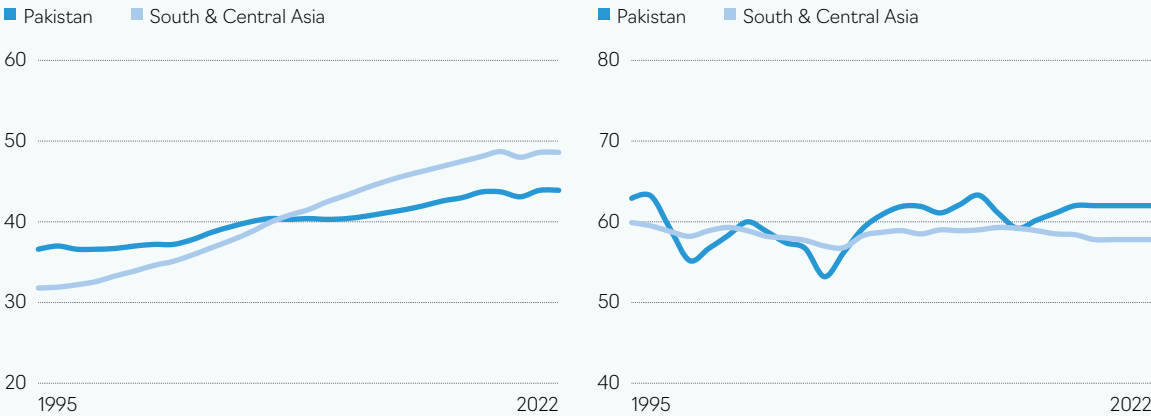
Prosperity Index

1995-2022



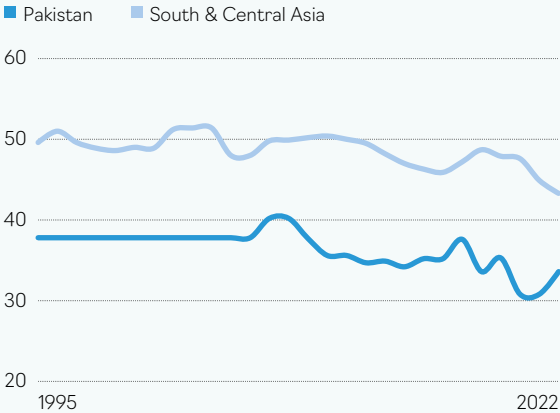
	2022		Change Since 2013	
	Pakistan	Region	Pakistan	Region
Prosperity rank	150	-	-2	-
Prosperity score	48.0	55.6	3.3%	2.2%

Income



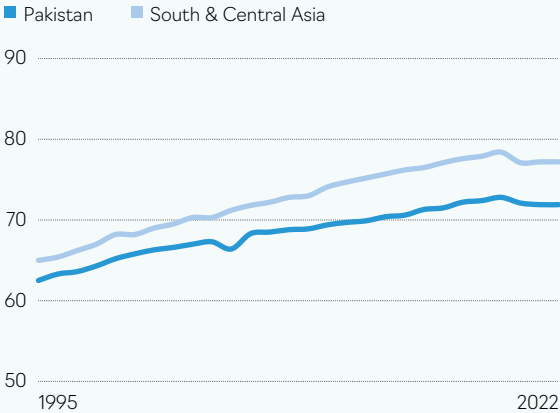
	2022		Change Since 2013	
	Pakistan	Region	Pakistan	Region
Income	43.9	48.6	6.8%	8.2%
Inequality	62.0	57.8	-2.1%	-2.1%

Minority Rights

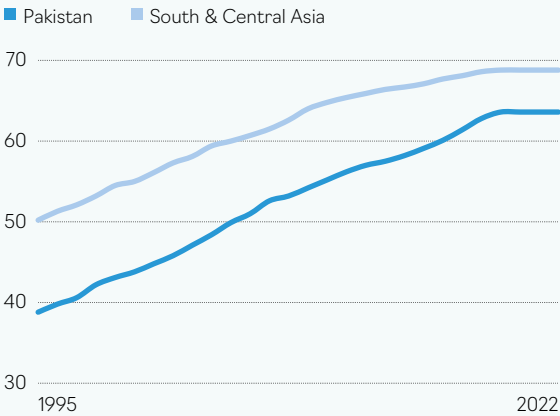


	2022		Change Since 2013	
	Pakistan	Region	Pakistan	Region
Minority Rights	33.6	43.3	-3.9%	-10.1%
Health	71.9	77.2	2.0%	1.9%

Health

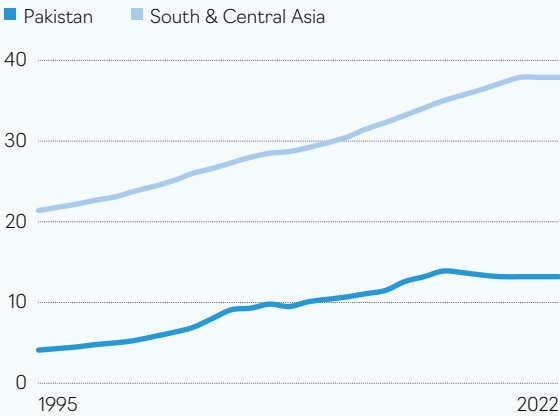


Environment



	2022		Change Since 2013	
	Pakistan	Region	Pakistan	Region
Environment	63.6	68.8	10.5%	3.7%
Education	13.2	37.9	14.4%	17.4%

Education





# Evolution of Freedom

The change in Pakistan's **Freedom Index** during the last twenty-five years suggests a positive association between freedom and civilian democratic rule. The Index was at its lowest level during the period of authoritarian rule between 1999 and 2008. It fell below the South and Central Asian average at the beginning of this period and remained below it for the greater part of this century, recently recovering and rising above the regional average due to a sharp increase in 2021. This steep rise in the Index runs counter to the established narrative among political scientists and journalists, that highlights a deterioration in freedom in the country during this period. This dissonance can be partly reconciled by taking a closer look at the different indicators of the Freedom Index, though it also underscores the need for better measurement.

Pakistan's above-average performance on the Freedom Index relative to its regional comparators is an artifact of the sharp rise in the economic and political freedom subindices in the recent past. The steep rise in the country's Freedom Index is in large part due to a 10-point increase in **economic freedom** since 2014. Although Pakistan's level of trade openness has been high since the turn of the century, its investment freedom deteriorated between 1999 and 2014. The sharp rebound in the country's investment freedom since 2014 appears to capture the introduction of the 2013 Investment Policy, which liberalized the foreign investment regime. This policy increased the freedom to invest by opening sectors and activities for foreign investment, strengthening protection against both indirect and direct forms of expropriation, and by allowing for the full repatriation of profits.

However, a closer analysis of the indicators of the economic freedom subindex shows that the

country is a regional laggard on property rights protection. On this indicator, Pakistan's scores have been among the lowest in the region this century, and remained well below the regional average in 2022. The dearth of property rights protections is manifest in Pakistan's high perceived risk of expropriation in the country risk rankings published by international credit insurance groups.<sup>1</sup> The country does particularly badly on currency convertibility and transfer restriction risks, and has moderate to high expropriation risks. In addition, investor surveys in Pakistan report an environment of weak contract enforcement with long (three- to five-year) delays in the resolution of commercial disputes.<sup>2</sup> Therefore, Pakistan's steady rise in economic freedom is largely due to the liberalization of investment policy, which was, however, underpinned by weak property rights protection and ineffective contract enforcement.

The rise in **political freedom** is the other trend behind the improvement in the country's Freedom Index. The main indicator driving this improvement is legislative constraints on the executive, which appears to be measuring the strength of opposition parties in parliament during the period of civilian rule (2008–22). Within this period, the legislative constraints indicator is higher during periods of coalition government (2008–13 and 2018–22) and lower during 2013–18 when the ruling Pakistan Muslim League-Nawaz (PML-N) had an effective majority in parliament. The steep rise in the constraints on the executive post-2021 appears to be capturing the removal of the Pakistan Tehreek-e-Insaf (PTI) government in 2022 through a parliamentary vote of no confidence. However, a different picture emerges if we use an alternative measure of the constraints on the executive: the executive's ability to bypass

parliamentary scrutiny by enacting laws through presidential ordinances. This measure shows that the coalition governments since 2018 passed almost the same number of ordinances as Musharraf's authoritarian government, which highlights the ease with which minority governments were able to bypass parliament during the period when the constraints on the executive indicator was rising sharply. So it appears that the methodology used by the Freedom Index is overestimating the constraints on the executive: an important component of political freedom. This suggests the need for improved measures of constraints on the executive in contexts where the executive has the ability to use exceptional constitutional measures to bypass parliament at low political cost.

The deterioration of political rights—another indicator of political freedom—on this Index after 2012 and its reversal and sharp rise since 2019 also run counter to political events in Pakistan. The period since 2012 saw the emergence of PTI, a major new federal political party in Pakistan that was able to grow its electoral base and form a provincial government in Khyber Pakhtunkhwa (KPK) in 2013. While the results of the 2013 election were politically and legally contested by PTI, the fact that a major new party was able to grow in Pakistan after twenty years of authoritarian and contested politics suggests that rights to political association and expression were robust, and hence it is difficult to understand the measured deterioration in political rights between 2013 and 2018. Furthermore, the increasing rate of arrests and detentions of opposition politicians in Pakistan since 2018 on the grounds of corruption and creating threats to public order is suggestive of a partisan bias in executive-led accountability, and appears to reflect a weakening of political rights during this period.

Similarly, the sharp improvement in the civil liberties indicator—another part of the political freedom subindex—in the last few years, runs counter to the steady deterioration in Pakistan's World Press Freedom Index during the past five years.<sup>3</sup> These inconsistencies suggest the need for more thorough indicators to measure the strength of political rights and civil liberties.

An important challenge for Pakistan has been its high levels of perceived political risk. This reflects growing political polarization in Pakistan since 2013, with successive opposition parties raising concerns about the fairness of the electoral process. Political polarization is also manifesting itself in an increasing tendency of political parties to use the superior courts to dispute fundamental constitutional precepts, a trend that is having adverse effects on the country's perceived risk of political instability. Hence, the Pakistan experience highlights the need to measure and include political polarization and partisan conflicts as components of the political freedom subindex.

Another challenge for Pakistan is its low score on **legal freedom**. The U-shape evolution of this subindex seems to be mainly driven by the security indicator, which decreased significantly after the 9/11 attacks of 2001, but has recovered since 2011. Another important change identifiable in the data is the improvement in judicial independence in the aftermath of the lawyers' movement of 2007–09, which created greater space for the exercise of independent authority by the judiciary. However, the deterioration in judicial independence scores during the last decade is a concerning trend. Along with this, the indicator scores within the legal freedom subindex show that the level of corruption, bureaucratic quality, and state capacity overall represent important drags on Pakistan's development.

<sup>1</sup> See, for example, the Credendo risk assessments at <https://credendo.com/en/country-risk/asia>.

<sup>2</sup> State Bank of Pakistan, *Annual Report 2018-2019 (The State of the Economy)*, 2019, [www.sbp.org.pk/reports/annual/arFY19/Annual-index-eng-19.htm](http://www.sbp.org.pk/reports/annual/arFY19/Annual-index-eng-19.htm).

<sup>3</sup> Reporters Without Borders, "2023 World Press Freedom Index – journalism threatened by fake content industry," the 2023 World Press Freedom Index, <https://rsf.org/en/2023-world-press-freedom-index-journalism-threatened-fake-content-industry>.

# From Freedom to Prosperity

Pakistan's prosperity score lags well behind other economies in the region. The income indicator of the **Prosperity Index**—which uses gross domestic product (GDP) per capita in constant 2017 US dollars as a measure of income—shows that, after being an above average performer in the region, Pakistan's economy fell behind and began to diverge from its comparators during the earlier part of the century. Worryingly, there does not seem to be any indication of catch-up: the country's economy has been growing at a slower rate than its peers during the past decade. The recent literature attributes poor growth performance to weak productivity and an inability to compete in external markets, low rates of investment, slow rates of structural change, and the country's inability to harness the potential of educated women because of large gender gaps in economic participation.<sup>4</sup>

Pakistan's low score on the Prosperity Index is also underpinned by poor scores on the education, health, and environmental quality indicators, relative to other countries in the region. The gap in Pakistan's education performance is particularly staggering, with an education score that is one-third the regional average. The country's health and environment scores also remained below the regional average in 2022. It is important to note that comparing Pakistan to other countries in the region will underestimate Pakistan's environmental challenges because the University of Chicago's Air Quality Life Index shows that northern South Asia has among the poorest air quality scores globally.

That is to say, Pakistan is not only underperforming regionally, it is underperforming globally.

The inequality indicator shows that Pakistan is doing much better in terms of equality than the regional average. This seems to reflect the distributive dividends that are accruing due to Pakistan's high reliance on foreign remittances. However, inclusive development remains an unfulfilled goal because of Pakistan's poor performance in terms of minority rights and its low score on women's economic freedom.

There are several ways in which weak performance on the indicators of the Freedom Index inhibits prosperity. Investor surveys identify the high perceived risk of expropriation (reflected in Pakistan's low property rights protection scores) as an important cause of Pakistan's low investment rates, which are among the lowest in the region. Challenges of state capacity—captured by the scores on bureaucratic quality and corruption—and relatively low levels of public investment in education, health, and environmental sustainability all contribute to poor environmental and social outcomes. Low levels of public investment are a consequence of a weak fiscal compact, with the country having one of the lowest levels of tax utilization in the East Asia & the Pacific region. Recent studies also show that Pakistan's relatively poor performance on women's economic freedom—a consequence of gender inequalities, labor market frictions, and restrictive gender norms—is adversely impacting prosperity.<sup>5</sup>

<sup>4</sup> World Bank Group, *From Swimming in Sand to High and Sustainable Growth: A roadmap to reduce distortions in the allocation of resources and talent in the Pakistani economy. Pakistan's Country Economic Memorandum 2022*, <https://documents1.worldbank.org/curated/en/099820410112267354/pdf/P1749040fc80a70ca0b6f70f7860c4a1034.pdf>.

<sup>5</sup> World Bank Group, *From Swimming in Sand to High and Sustainable Growth*.

# The Future Ahead

It is difficult to see how long-run growth rates and prosperity will improve in Pakistan without large-scale economic and institutional reforms. If Pakistan hopes to increase investment rates, it will require a radical reform of the country's property rights and contract enforcement regimes to lower the perceived risk of expropriation. Pakistan's path to prosperity also requires higher levels of public investment in education, health, and environment and climate resilience. This will not be possible without strengthening state capacity in the country and introducing radical reforms to improve bureaucratic quality. In addition, Pakistan needs a strong fiscal compact, in which its elites are willing to finance public investments in education, health, and environmental protection through taxation, at levels that bring it in line with its comparators. The country also requires reforms of its tariff, taxation, and subsidy regimes to overcome the bias in the economic structure against the tradeable sectors and high-productivity activities.

Furthermore, inclusive growth will not be possible without stronger protection for minority communities and without introducing interventions that lower women's risk of harassment and violence, reduce their cost of mobility and connectivity, and

incentivize employers to employ women; all of which are important prerequisites for women's increased economic participation.<sup>6</sup>

However, growing political polarization in the country poses a fundamental challenge as it increases the perceived risk of political instability, which, in turn, shortens the time horizons of the governing elite. The only way to address this challenge is to create a new political settlement that develops a consensus within and between the political and the governing elites, over the basic rules of the game and transitions of power. This is critical because large-scale reforms will take time to institutionalize, and this is not possible unless the political system enables the governing elite to develop sufficiently long time horizons. The political settlement must ensure inclusive power sharing, strong federalism, and regular and nondisruptive transitions of power. This is important to engender political stability in a fractured political system like Pakistan, where political party bases are fragmented across regional lines, and to develop sufficiently long time horizons that enable the governing elite to take political risks and introduce structural reforms that can generate increasing levels of income and prosperity.

<sup>6</sup> Ali Cheema, Asim I. Khwaja, M. Farooq Naseer, and Jacob N. Shapiro, *Glass Walls: Experimental Evidence on Constraints Faced by Women in Accessing Valuable Skilling Opportunities*, (Harvard: August 24, 2023), [https://khwaja.scholar.harvard.edu/sites/projects.iq.harvard.edu/files/asimkhwaja/files/glass\\_walls\\_paper\\_o8\\_24\\_2023.pdf](https://khwaja.scholar.harvard.edu/sites/projects.iq.harvard.edu/files/asimkhwaja/files/glass_walls_paper_o8_24_2023.pdf); Erica Field and Kate Vyborny, "Female labor force participation in Asia: Pakistan country study," (summary by Sakiko Tanaka and Maricor Muzones; ADB Briefs no. 70, Asian Development Bank, Economics Working Paper Series, 2016), [www.adb.org/sites/default/files/publication/209661/female-labor-force-participation-pakistan.pdf](http://www.adb.org/sites/default/files/publication/209661/female-labor-force-participation-pakistan.pdf); World Bank Group, *From Swimming in Sand to High and Sustainable Growth*.

**Ali Cheema**

Ali Cheema is an associate professor of economics at the Lahore University of Management Sciences. His recent research combines experimental methods with qualitative analysis to study how political and wealth inequality shape representation, fiscal equity, and development; the determinants of citizen trust; and the role of gender norms and violence as barriers to women's political and civic participation.

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# Sub-Saharan Africa

William Easterly

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Sub-Saharan Africa: Regional Ranking

	Freedom			Prosperity		
	Rank	Score	Status	Rank	Score	Status
Seychelles	35	79.8	Free	49	70.3	Mostly Prosperous
Cape Verde	40	78.8	Free	91	61.4	Mostly Unprosperous
Mauritius	47	74.8	Mostly Free	47	70.6	Mostly Prosperous
Namibia	51	72.9	Mostly Free	114	54.8	Mostly Unprosperous
Botswana	55	72.1	Mostly Free	104	58.2	Mostly Unprosperous
Ghana	57	71.9	Mostly Free	95	60.5	Mostly Unprosperous
South Africa	59	70.5	Mostly Free	97	60.0	Mostly Unprosperous
São Tomé and Príncipe	64	68.6	Mostly Free	88	61.9	Mostly Unprosperous
Gambia	66	68.2	Mostly Free	125	52.5	Mostly Unprosperous
Lesotho	67	67.7	Mostly Free	144	49.2	Unprosperous
Malawi	68	67.6	Mostly Free	128	52.0	Mostly Unprosperous
Zambia	69	67.2	Mostly Free	129	51.9	Mostly Unprosperous
Senegal	71	66.6	Mostly Free	123	52.6	Mostly Unprosperous
Kenya	75	65.7	Mostly Free	106	58.2	Mostly Unprosperous
Tanzania	78	65.2	Mostly Free	132	51.3	Mostly Unprosperous
Sierra Leone	84	63.6	Mostly Free	140	49.9	Unprosperous
Liberia	85	63.1	Mostly Free	130	51.6	Mostly Unprosperous
Niger	94	59.5	Mostly Free	158	43.1	Unprosperous
Benin	95	59.0	Mostly Free	127	52.4	Mostly Unprosperous
Togo	98	58.4	Mostly Free	133	51.2	Mostly Unprosperous
Burkina Faso	99	58.2	Mostly Free	159	42.9	Unprosperous
Cote d'Ivoire	101	57.1	Mostly Free	122	52.7	Mostly Unprosperous
Mozambique	106	55.2	Mostly Free	161	40.4	Unprosperous
Gabon	108	53.7	Mostly Unfree	76	64.6	Mostly Unprosperous
Rwanda	109	53.5	Mostly Unfree	147	48.5	Unprosperous
Uganda	110	53.4	Mostly Unfree	149	48.2	Unprosperous
Madagascar	111	52.8	Mostly Unfree	145	48.8	Unprosperous
Nigeria	120	49.5	Mostly Unfree	126	52.5	Mostly Unprosperous

Countries are organized in descending order based on their Freedom scores, with "Rank" denoting global rankings.

Sub-Saharan Africa: Regional Ranking

continued

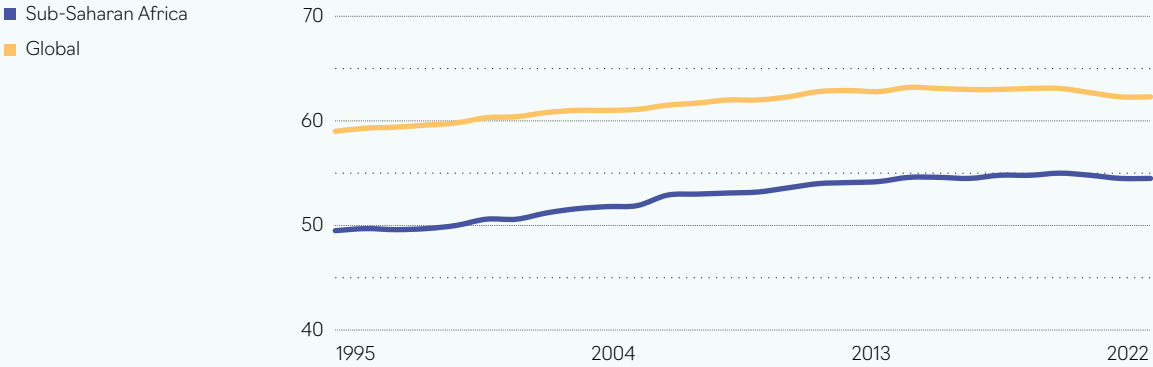
	Freedom			Prosperity		
	Rank	Score	Status	Rank	Score	Status
Zimbabwe	121	49.3	Mostly Unfree	135	50.9	Unprosperous
Guinea-Bissau	122	49.3	Mostly Unfree	139	50.1	Unprosperous
Mali	124	48.9	Mostly Unfree	155	45.4	Unprosperous
Angola	125	48.8	Mostly Unfree	137	50.4	Unprosperous
Mauritania	126	48.4	Mostly Unfree	148	48.3	Unprosperous
Djibouti	130	45.9	Mostly Unfree	136	50.4	Unprosperous
Ethiopia	133	44.5	Mostly Unfree	134	51.1	Mostly Unprosperous
Comoros	134	44.4	Mostly Unfree	152	47.9	Unprosperous
Democratic Republic of the Congo	136	43.2	Mostly Unfree	153	47.3	Unprosperous
Cameroon	137	42.3	Mostly Unfree	115	54.6	Mostly Unprosperous
Guinea	139	41.4	Mostly Unfree	142	49.3	Unprosperous
Burundi	149	37.1	Mostly Unfree	154	45.6	Unprosperous
Congo	150	36.1	Mostly Unfree	124	52.5	Mostly Unprosperous
Chad	154	33.4	Unfree	160	41.2	Unprosperous
Equatorial Guinea	155	33.4	Unfree	109	57.3	Mostly Unprosperous
Sudan	157	29.7	Unfree	143	49.2	Unprosperous
South Sudan	162	19.1	Unfree	142	49.3	Unprosperous
Eritrea	163	17.5	Unfree	154	45.6	Unprosperous

Countries are organized in descending order based on their Freedom scores, with "Rank" denoting global rankings.



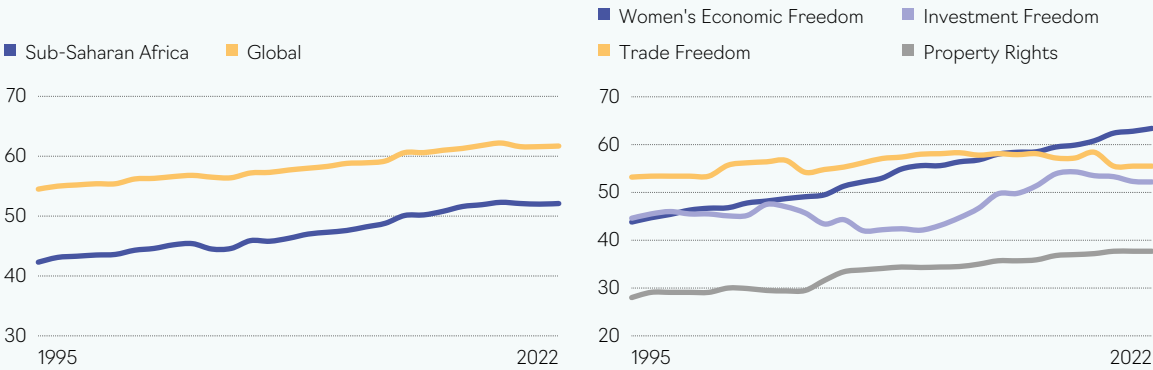
Freedom Index

1995-2022



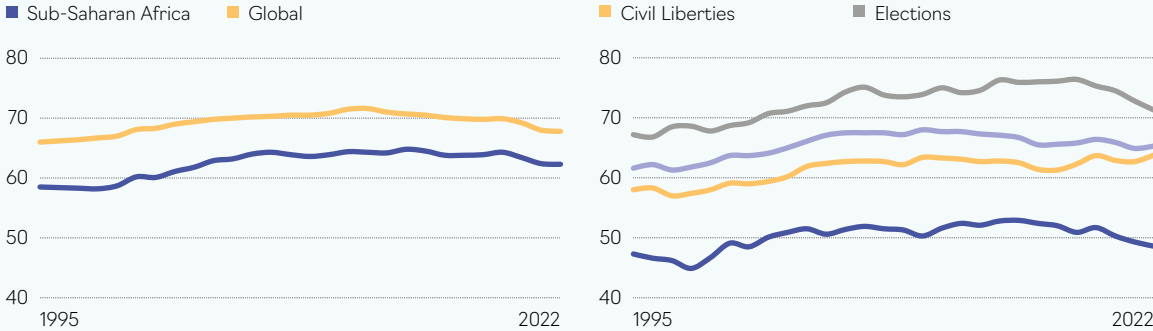
	2022		Change Since 2013	
	Region	Global	Region	Global
Freedom score	54.5	62.3	0.5%	-0.8%
Economic Subindex	52.1	61.7	6.6%	4.2%
Political Subindex	62.3	67.8	-3.0%	-4.6%
Legal Subindex	49.2	57.3	-0.9%	-1.4%

Economic Subindex



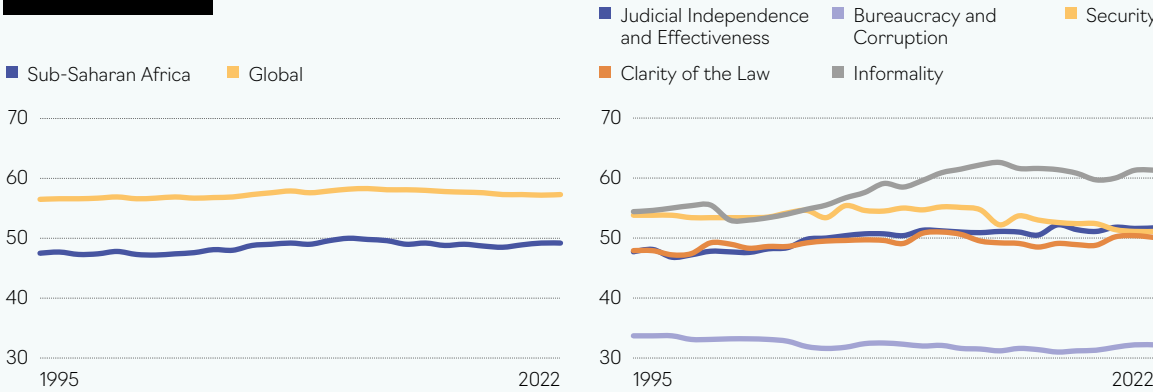
	2022		Change Since 2013	
	Region	Global	Region	Global
Women's Economic Freedom	63.4	72.4	11.6%	10.0%
Investment Freedom	52.2	59.6	11.8%	8.2%
Trade Freedom	55.5	65.2	-4.1%	-5.1%
Property Rights	37.7	51.2	7.7%	4.4%

Political Subindex



	2022		Change Since 2013	
	Region	Global	Region	Global
Legislative Constraints on the Executive	48.6	58.3	-6.7%	-3.8%
Political Rights	65.3	67.0	-3.0%	-6.9%
Civil Liberties	63.8	69.6	1.7%	-3.8%
Elections	71.3	76.2	-4.4%	-3.9%

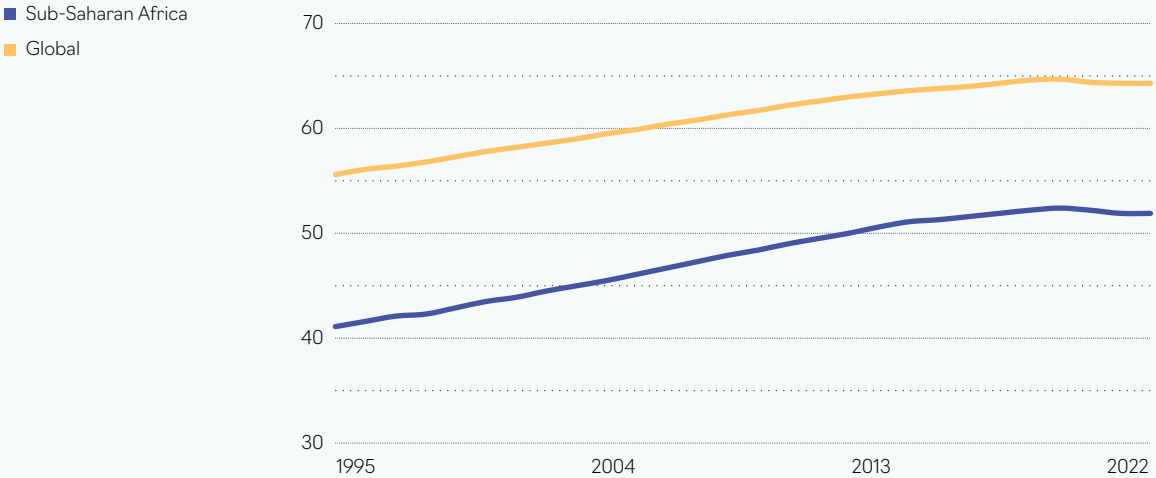
Legal Subindex



	2022		Change Since 2013	
	Region	Global	Region	Global
Judicial Independence and Effectiveness	51.7	59.4	1.6%	-1.9%
Bureaucracy and Corruption	32.2	45.3	2.2%	-0.3%
Security	51.1	60.2	-6.5%	-1.4%
Clarity of the Law	50.1	52.5	1.2%	-2.9%
Informality	61.3	70.2	-1.4%	-0.2%

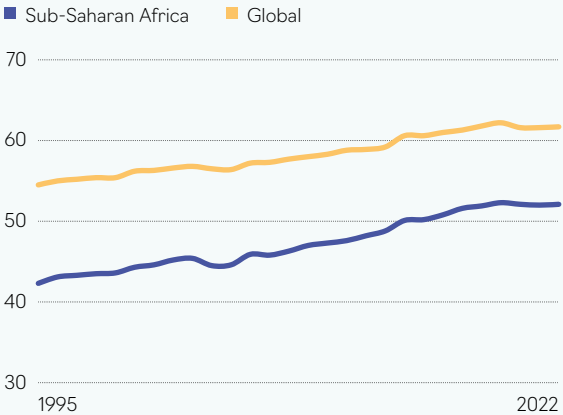
Prosperity Index

1995-2022



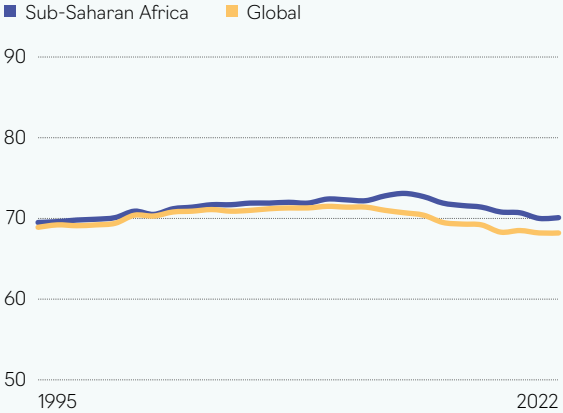
	2022		Change Since 2013	
	Region	Global	Region	Global
Prosperity score	51.9	64.3	2.7%	1.5%

Income



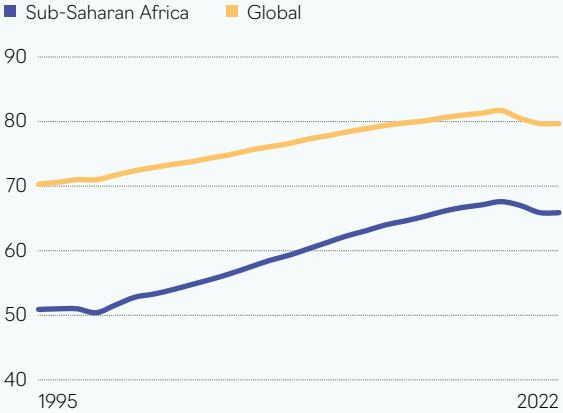
	2022		Change Since 2013	
	Region	Global	Region	Global
Income	35.3	57.9	0.8%	2.3%
Inequality	46.4	56.6	1.6%	0.9%

Minority Rights



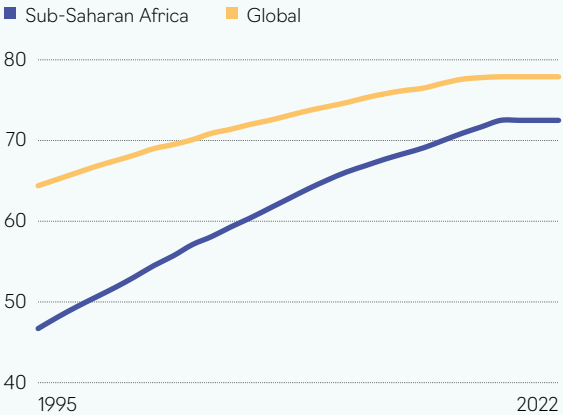
	2022		Change Since 2013	
	Region	Global	Region	Global
Minority Rights	70.1	68.2	-3.7%	-4.0%
Health	65.9	79.7	3.0%	0.4%

Health



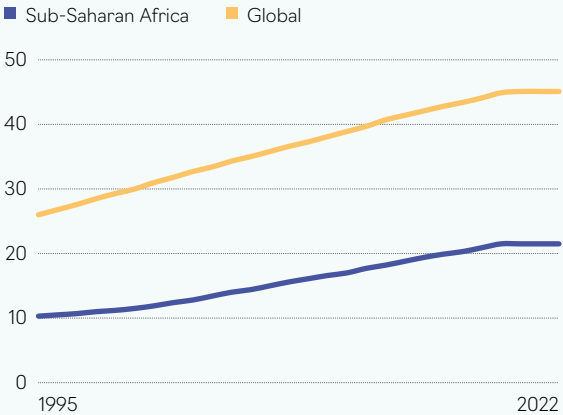
	2022		Change Since 2013	
	Region	Global	Region	Global
Minority Rights	70.1	68.2	-3.7%	-4.0%
Health	65.9	79.7	3.0%	0.4%

Environment



	2022		Change Since 2013	
	Region	Global	Region	Global
Environment	72.5	77.9	7.1%	2.8%
Education	21.5	45.1	17.8%	10.8%

Education



	2022		Change Since 2013	
	Region	Global	Region	Global
Environment	72.5	77.9	7.1%	2.8%
Education	21.5	45.1	17.8%	10.8%



# Evolution of Freedom

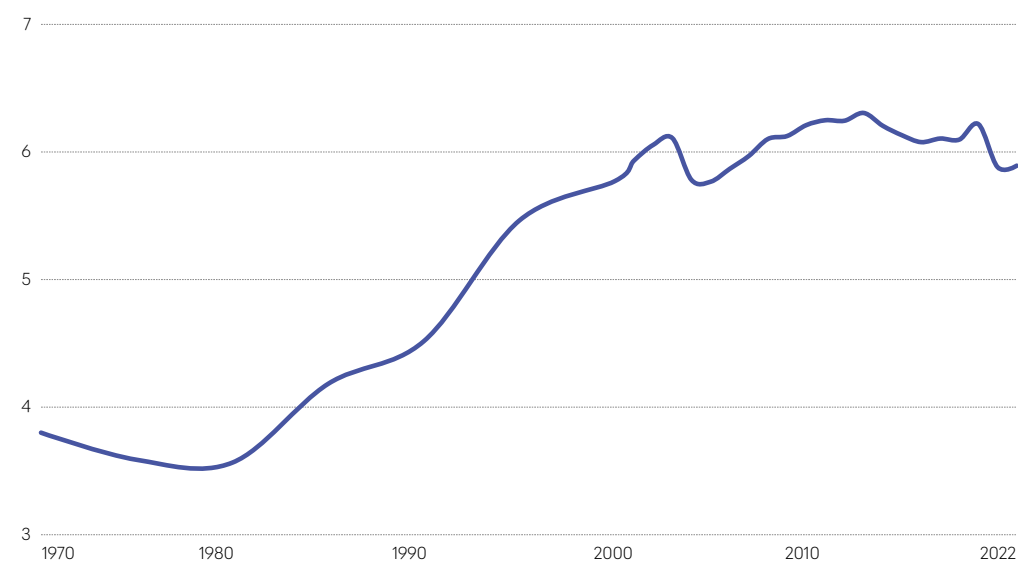
The evolution of the **Freedom Index** for Sub-Saharan Africa closely resembles that of the global average since 1995, with a very mild convergence. The same is also true for the subindexes of economic, political, and legal freedom. This is already good news for the region, as the trends are positive, but this does not capture the full story of freedom development in Africa. This is because the big movement towards liberalization, especially in terms of economic freedom, took place during the 1980–2000 period, so largely before the starting point of the Freedom and Prosperity Indexes data set.

In 1970, all dimensions of **economic freedom** were extremely low in most of the countries of Sub-Saharan Africa. Figure 1 below shows the evolution of trade freedom back to 1970, obtained from the same source used in the Freedom and Prosperity Indexes (the Fraser Institute’s Economic Freedom

of the World index). The average score for the region at the beginning of the period was around 3.8 out of 10, significantly lower than the rest of the world (5.5). In the 1970s, governments were following counterproductive policies such as overvalued exchange rates or quantitative restrictions on trade. These policies were destroying any possibilities to develop an exporting sector because, with an overvalued exchange rate, exports were simply uncompetitive. Exporters would have to turn in their dollar earnings at an artificially low rate and, in many cases, they would have to resort to the black market to buy their imports. The number of countries in Sub-Saharan Africa with a black market premium above 40 percent was very substantial.

A big wave of economic liberalization took place in the 1980–2000 period, with governments correcting the artificial distortions in their exchange

Figure 1. Trade freedom in Sub-Saharan Africa, 1970–2022



Note: Simple average of the scores of all countries in the region with available data in the Fraser Institute’s Economic Freedom of the World index, “Freedom to trade internationally”.

rates and opening trade and financial flows. So, this first dramatic movement towards a more economically free environment is not captured by the economic freedom subindex, which mainly shows what we could call a second wave of liberalization after the year 2000. This has been mainly driven by increasing women’s economic rights, which have clearly improved in some countries of the region, but certainly not all. Investment freedom has also improved in the last ten years, making capital movements more efficient. This is evident when you observe that there are no countries today in Sub-Saharan Africa with black market premiums above 20 percent.

Property rights also show a mild improvement in recent decades, but the weak institutional environment portrayed by the **legal freedom** subindex probably represents the biggest constraint to further improvement nowadays. The very low and stagnant levels of all indicators of legal freedom, especially that of bureaucracy and corruption, impose a significant drag on Sub-Saharan Africa’s development. A critical aspect of legal freedom is security, a very unstable area in Africa. Religious and ethnic conflicts are always a risk in the region, and this generates a high level of uncertainty, which can have negative effects on investment and economic development.

The development of **political freedom** in Sub-Saharan Africa was not so great as economic liberalization, and the democratic institutional framework is rather weak in those places that transitioned to more inclusive political regimes. This is well captured by the fact that legislative constraints on the executive are significantly lower than the rest of the indicators of the political freedom subindex, and judicial independence is also low, suggesting that proper systems of democratic checks and balances are still not fully developed in most countries.

Overall, the story of the development of freedom in Sub-Saharan Africa has so far been very uneven, in two senses: First, there is large variability across countries in the region. Second, there is large variability among dimensions of freedom. Economic freedom really took off after 1980, but legal and political institutions have not really improved. And this situation imposes a constraint on development because there is complementarity among different areas, so reforms in one aspect need supporting reform in others if they are to be successful in the long run. Moreover, further progress in legal and political freedoms are not just means to achieving higher levels of material prosperity, but are in themselves a measure of well-being, which emphasizes the need for continuing liberalization in these areas.

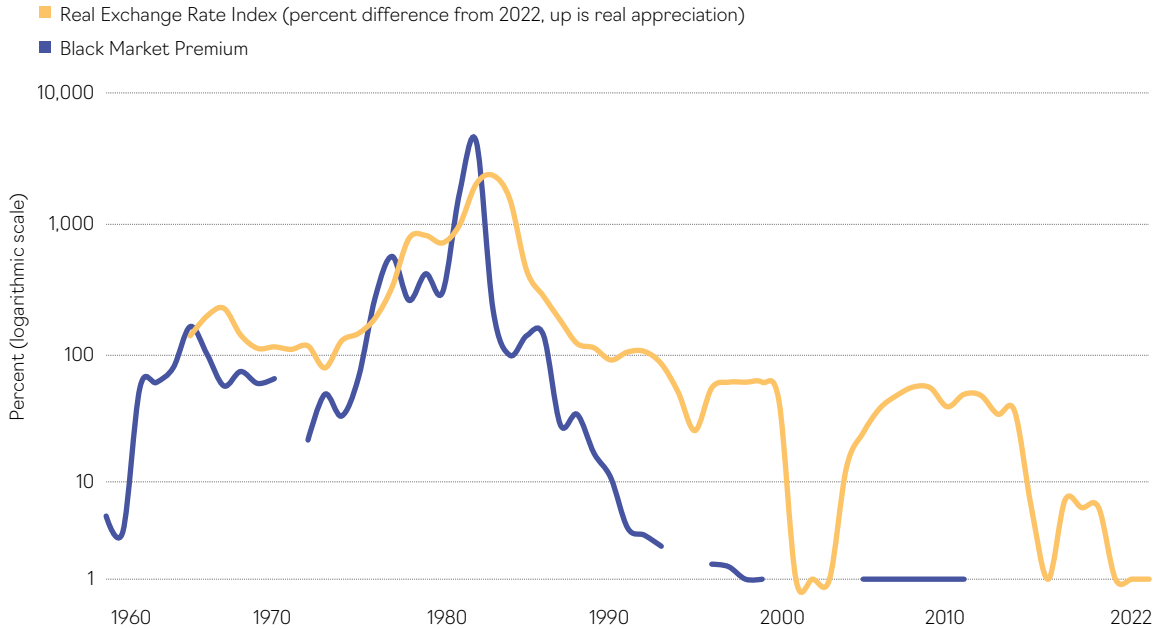
# From Freedom to Prosperity

The **Prosperity Index** shows a parallel evolution of the Sub-Saharan African region and the global average. Even if we would hope to see a stronger process of convergence, so that Sub-Saharan Africa would catch up with the rest of the world, parallel trends are already good news for the region. Compared to the situation before the 1980s, where Africa was significantly falling behind the global average, the fact that, in the last three decades, the region has been able to develop at

a similar pace to other regions is a clear sign that the economic liberalization of the 1980–2000 period has paid off.

An extreme example of the trends of both freedom and prosperity is Ghana. Figure 2 shows what was happening with exchange rates and black market premiums over the last sixty-two years. By 1982, the real exchange rate had appreciated to a level that was more than one thousand percent higher than it is today. The black market

Figure 2. Black market premium and real exchange rate index in Ghana, 1960–2022



Source: Real Exchange Rate Index is the author's calculation based on nominal exchange rates and consumer price inflation from World Bank World Development Indicators for Ghana and the United States. Black Market Premium is from William Easterly, *In Search of Reforms for Growth: Stylized Facts on Policy and Growth Outcomes*, NBER Working Paper, September 2019.

premium on foreign exchange was also above a thousand percent. The consequences were disastrous. Ghana used to dominate the world market for cocoa. By 1982, Ghanaian cocoa growers were receiving only 6 percent of the world price, and cocoa exports had collapsed. Facing famine, Ghanaian leader Jerry Rawlings began reforms in 1984. The government devalued sharply the nominal exchange rate and thereby reduced the black market premium.

The economic liberalization coincided with a turning point for Ghana's economy. As shown in Figure 3, Ghana experienced a sharp decline in per capita income from 1960 to 1983. After the reforms, Ghana registered a steady rate of economic growth that has continued ever since.

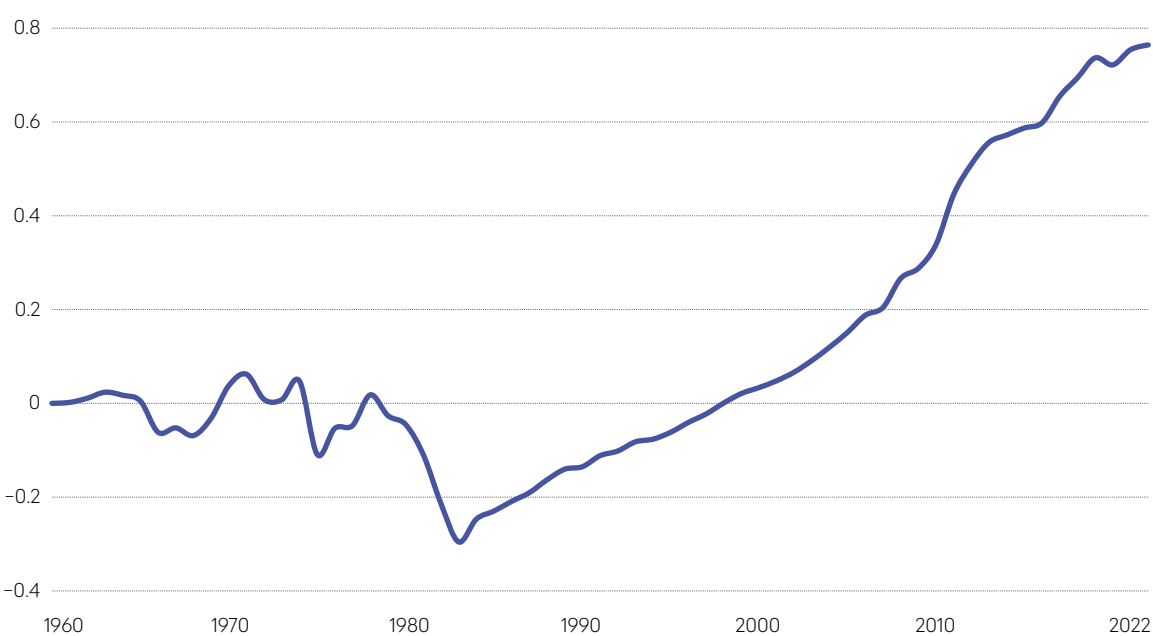
Ghana also undertook some political liberalization in 2000, and since then Ghana has had an unbroken series of competitive elections. This may

also have contributed to Ghana's steady growth in the new millennium.

Getting back to Sub-Saharan Africa as a whole, indicators like health and environment show a very rapid improvement throughout the period of analysis. It is true that the starting point was really low, and thus there remains ample room for improvement in the future. Foreign aid, which has clearly been ineffective in other areas, may have helped improve health and sanitation conditions, especially in rural areas. For example, early life mortality has significantly decreased in recent times, which accounts for an important share of the progress in overall life expectancy.

Some progress has also been occurring in education, in terms of convergence with global averages in primary and secondary school enrollment. However, the education indicator of the Prosperity Index, which measures average years

Figure 3. Cumulative logarithmic growth in per capita income in Ghana since 1960



Source: Author's calculation based on per capita growth from World Bank World Development Indicators.

of education, does not fully show the region's convergence towards the rest of the world. This may be due to faster expansions in college enrollment in other regions like Asia and Latin America compared to Sub-Saharan Africa. But the growth in the number of people enrolled in early levels of

education in Africa is substantial. Nonetheless, another aspect of education not captured by the Prosperity Index is quality, and this is obviously an issue in Sub-Saharan Africa. When you consider quantity and quality, it is clear that there is still a lot of progress to be made.

## The Future Ahead

The different dimensions of the Freedom Index very well identify the constraints and challenges of Sub-Saharan Africa's development in the medium and long term. Economic liberalization has borne fruit lately, although further financial and trade integration of the region with the rest of the world should continue. But today the big challenge is to strengthen the process of democratization and institution building, and the necessary reforms in

these areas are much harder to accomplish. The recent wave of military coups is not a promising sign, and there is ongoing conflict associated with Islamic movements in some areas. So, the situation regarding security and the maintenance of peace is a necessary condition for Sub-Saharan African development.

I think there is probably not going to be as much support for African development from

international institutions and foreign countries as there was in the past (particularly in the 2000s), because there is a shift of focus towards other regions, like Ukraine and Eastern Europe. Also, I assume that the Israel-Hamas War will continue to focus attention towards the Middle East. Usually, things tend to go in cycles. I do not think that foreign support was all that successful in achieving economic growth, but aid probably deserves some of the credit for the progress on health and education, especially.

In relation to foreign influences in the region, I do not think that China's Belt and Road Initiative will have very different results than the significant amounts of funds received by Sub-Saharan African countries from Western nations during the 1980–2010 period. Moreover, I think the same problems of debt repayment and default are likely to be repeated, this time with China's investments. At the end of the day, for foreign investment and

aid to successfully affect Africa's economic development, it has to be directed to some productive uses. And this is not usually the case with this kind of heavily politicized financing.

Finally, the efforts to deepen economic and financial integration within the region are probably a good idea, as within-region trade is unusually low for neighboring countries in Sub-Saharan Africa. But it is certainly not an easy task, as the several unsuccessful attempts to promote free trade areas or common currencies in the region in the last several decades prove. This failure may be due to Africa's burden of having too many countries, some of them very small states. This generates great difficulties in reaching agreements because there are multiple strong political interests. Institutional development and democratic reform may help in this sense, as deeper integration among African nations would probably benefit the majority of the population.

**William Easterly**

William Easterly is professor of economics at New York University. He is the author of *The Tyranny of Experts: Economists, Dictators, and the Forgotten Rights of the Poor* (2014), *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good* (2006), and *The Elusive Quest for Growth* (2001). He has published more than 70 peer-reviewed academic articles.

# Kenya

Robert Mudida

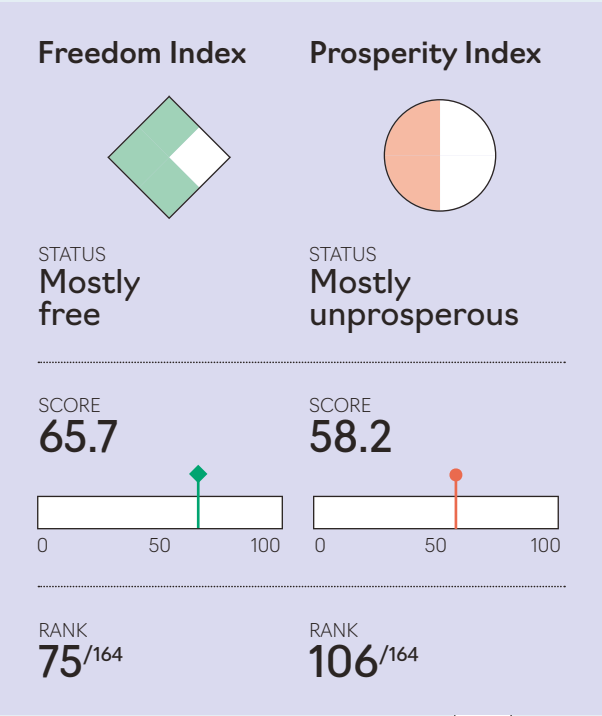
## Socioeconomic Data 2022

### General Information

POPULATION	LIFE EXPECTANCY (2021)
54 million	61 years
RELIGION (2010)	ETHNIC FRACTIONALIZATION (2013)
Christian → 84.8%	0.86
Muslim → 9.7%	
Unaffiliated → 2.5%	

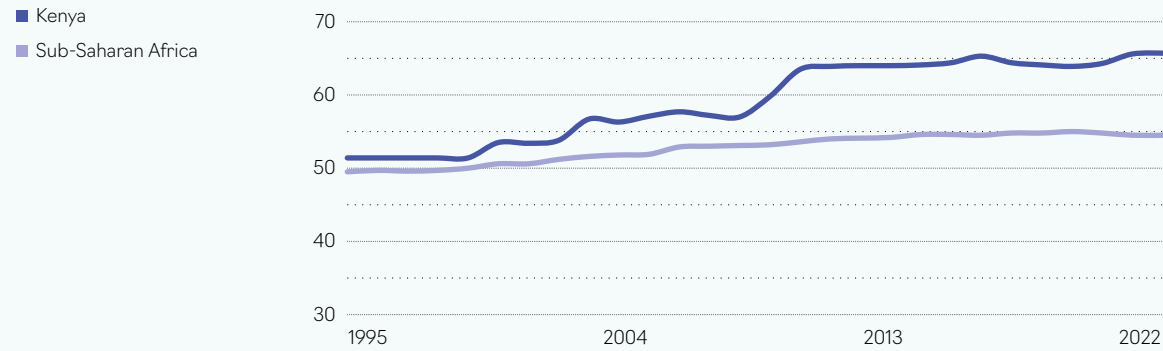
### Economic Data

GDP PER CAPITA	INFLATION
4,882	7.7%
% of US GDP pc → 7.5%	
GDP pc Growth → 2.9%	
DEPT/GDP (CENTRAL 2021)	TRADE/GDP (2014)
67.8%	34.0%
UNEMPLOYMENT (2019)	
5.0%	
SECTORAL ALLOCATION	
Agriculture → 22.6%	
Industry → 18.8%	
Services → 58.6%	
GINI COEFFICIENT (2020)	
45.0	



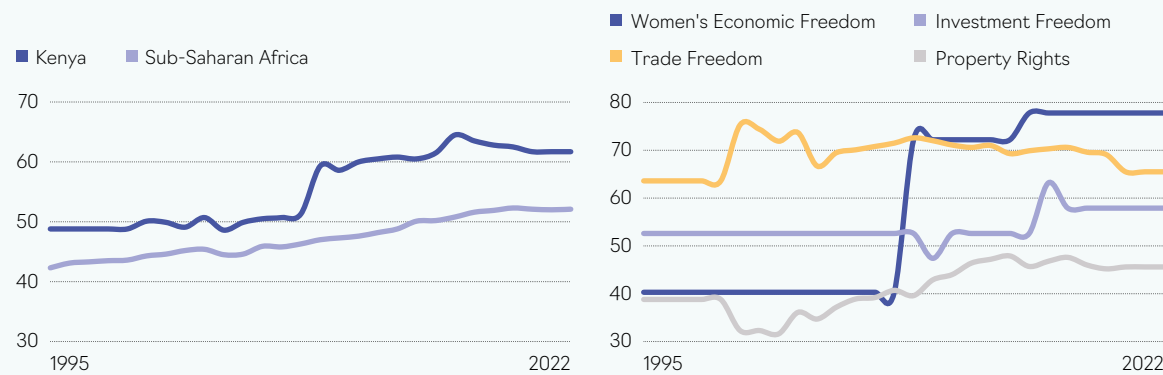
## Freedom Index

1995–2022



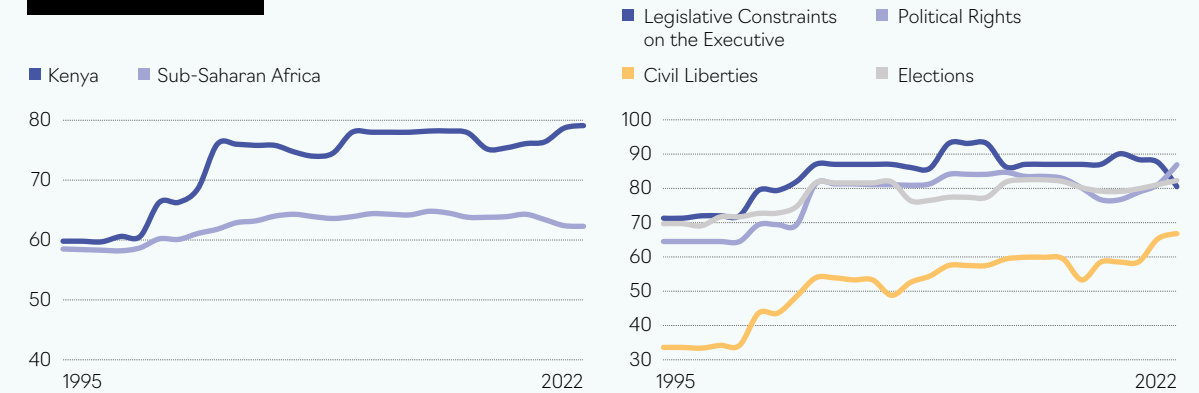
	2022		Change Since 2013	
	Kenya	Region	Kenya	Region
Freedom rank	75	–	7	–
Freedom score	65.7	54.5	2.8%	0.5%
Economic Subindex	61.7	52.1	1.5%	6.6%
Political Subindex	79.1	62.3	1.4%	-3.0%
Legal Subindex	56.4	49.2	6.2%	-0.9%

## Economic Subindex



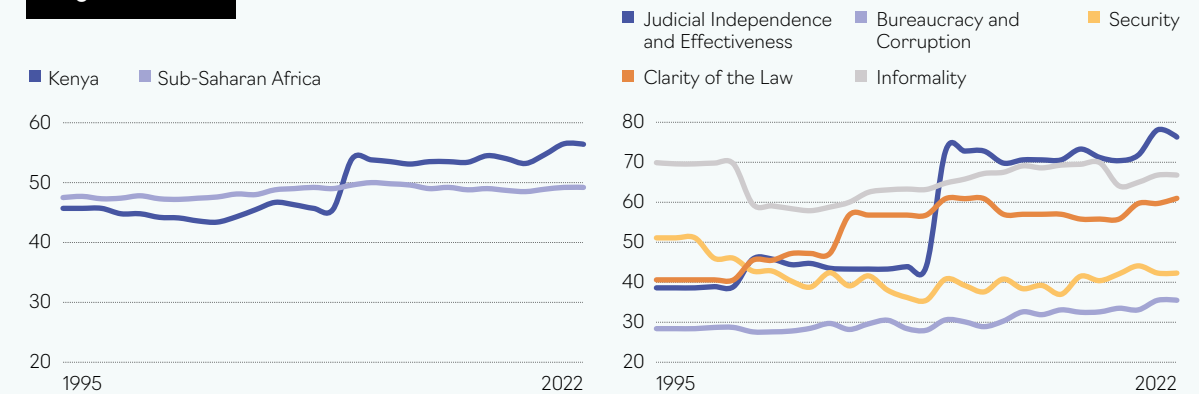
	2022		Change Since 2013	
	Kenya	Region	Kenya	Region
Women's Economic Freedom	77.8	63.4	7.7%	11.6%
Investment Freedom	57.9	52.2	10.0%	11.8%
Trade Freedom	65.5	55.5	-7.8%	-4.1%
Property Rights	45.6	37.7	-3.4%	7.7%

## Political Subindex



	2022		Change Since 2013	
	Kenya	Region	Kenya	Region
Legislative Constraints on the Executive	80.5	48.6	-6.8%	-6.7%
Political Rights	86.9	65.3	2.7%	-3.0%
Civil Liberties	66.8	63.8	12.6%	1.7%
Elections	82.3	71.3	0.6%	-4.4%

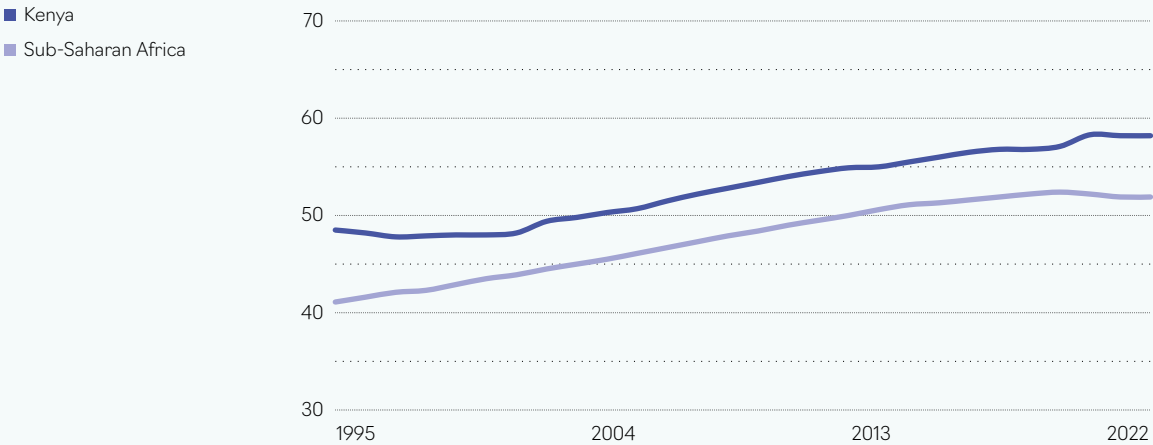
## Legal Subindex



	2022		Change Since 2013	
	Kenya	Region	Kenya	Region
Judicial Independence and Effectiveness	76.3	51.7	9.4%	1.6%
Bureaucracy and Corruption	35.5	32.2	17.1%	2.2%
Security	42.3	51.1	3.8%	-6.5%
Clarity of the Law	61.0	50.1	7.0%	1.2%
Informality	66.8	61.3	-1.2%	-1.4%

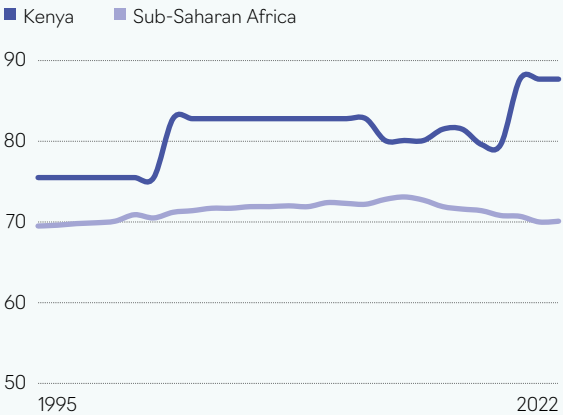
Prosperity Index

1995-2022

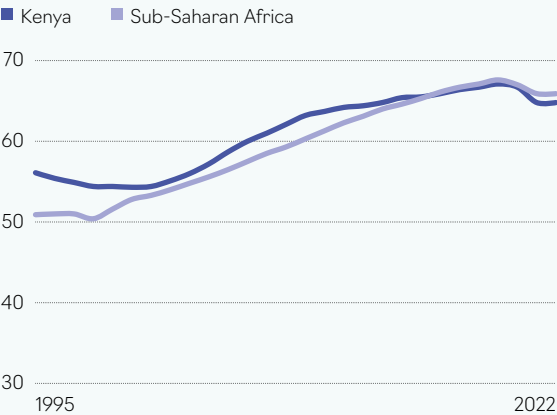


	2022		Change Since 2013	
	Kenya	Region	Kenya	Region
Prosperity rank	106	-	2	-
Prosperity score	58.2	51.9	5.8%	2.7%

Minority Rights

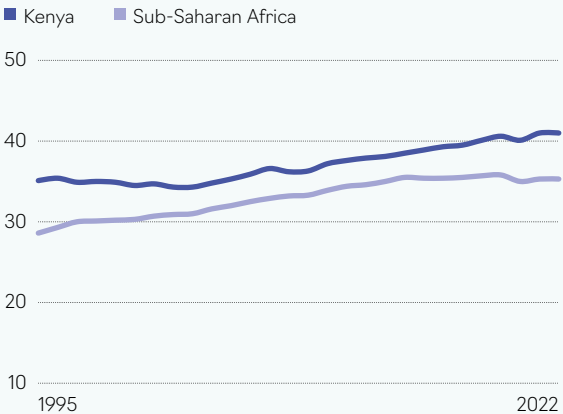


Health

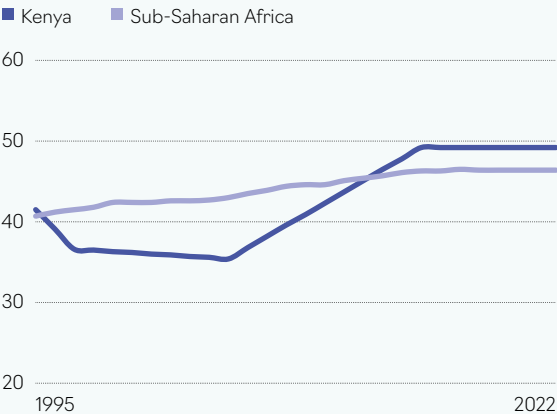


	2022		Change Since 2013	
	Kenya	Region	Kenya	Region
Minority Rights	87.7	70.1	9.4%	-3.7%
Health	64.8	65.9	0.1%	3.0%

Income

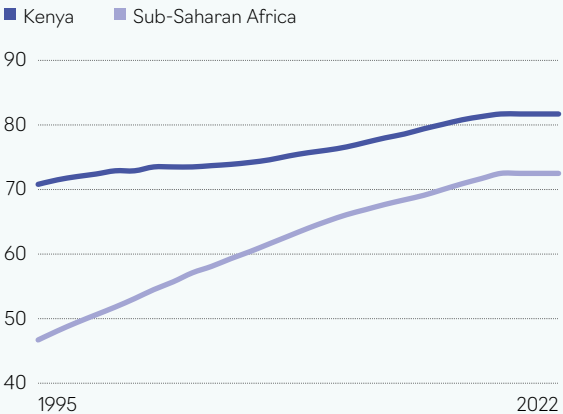


Inequality

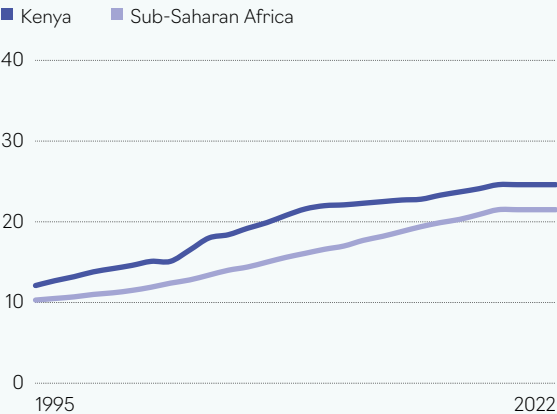


	2022		Change Since 2013	
	Kenya	Region	Kenya	Region
Income	41.0	35.3	7.7%	0.8%
Inequality	49.2	46.4	5.9%	1.6%

Environment



Education



	2022		Change Since 2013	
	Kenya	Region	Kenya	Region
Environment	81.7	72.5	4.8%	7.1%
Education	24.6	21.5	9.3%	17.8%

## Evolution of Freedom

Aggregate freedom in Kenya has increased substantially and constantly since 1995, but the data correctly show a marked structural change in 2010. This was a crucial year in the recent politico-economic history of the country as it marked the inauguration of the new constitution, which has been the driving force behind many of the trends shown in the **Freedom Index** and subindexes. The 2010 Constitution reformed Kenya's highly centralized institutional architecture, creating a devolved and highly decentralized system. This ensured that lower levels of government (regions and counties) receive much higher levels of funding, that can be better allocated according to the needs of local populations.

The **economic freedom** subindex clearly presents a jump around 2010, mainly attributable to a significant increase in women's economic freedom. Legal changes that accompanied the constitutional reform had important effects on women's empowerment and freedom. The endorsement of the 2010 Constitution established vital rights and encouraged additional reforms towards greater legal gender equality, including reserving seats for women's political participation and encouraging nondiscrimination and equality. For example, the constitution outlined new principles relating to land policy, including the elimination of gender discrimination in law, customs, and practices related to land. Financial inclusion of women is an important area of improvement, and the Central Bank data—based on various FinAccess Surveys—clearly show that women are becoming much more economically included and empowered. Also, when you look at the disaggregated data for different regions of the country, you find that the gender gap in financial access is actually declining in many counties in Kenya. The growing economic empowerment of women is also evidenced by increasing employment rates of women and a reduction in the

gender wage gap in many professions. Legislative changes have allowed women to hold and manage property, and placed them on a more equal legal footing with men in matters relating to property. For example, the passage of the Land Act and Land Registration Act in 2012 increased women's rights over marital property. Regarding access to education, the gender gap is closing very fast. For example, in many university courses, the proportion of women and men enrolling is now much more equal than was the case a decade ago. The new decentralized constitutional framework has been crucial in creating the conditions in which women's freedoms can improve. The situation of women is significantly worse in rural areas, but now local and regional governments have the autonomy and resources to provide and generate economic opportunities for women at a devolved level.

The economic freedom subindex also shows a sustained increase in property rights protection, which seems to reflect the judicial reforms that have been introduced since the 1990s. In the last three decades, there has been a significant improvement in the speed of judicial processes, and in the reliability of the guarantees given to domestic and foreign owners. For example, since the inauguration of the new constitution in 2010, parliament has enacted four major land laws aimed at improving land property rights: the Land Act of 2012, the Land Registration Act of 2012, the National Land Commission Act of 2012, and the Community Land Act of 2016. The World Bank's Ease of Doing Business Index also undoubtedly incentivized Kenyan governments in this period to improve the institutional architecture of the country in order to facilitate economic activity. For example, the move towards "e-government"—the myriad reforms aimed at digitalizing interactions between citizens and government agencies—received a big push in order to improve Kenya's

position in the Doing Business ranking. This was, in fact, achieved in several successive years. The recent digitization of land records in Kenya is a means to improving security, by requiring a landowner to approve all applications relating to a specific property. Digitized records will also reduce the cost and time of land transactions. Section 9 of the Land Registration Act of 2012 facilitated the coming wave of digitalization and e-government by providing the Registrar of Lands with the right to maintain relevant documents in a secure and accessible format, including in electronic files.

**Political freedom** shows a substantial increase during the 1990s, which captures the movement from a one-party political system to a multiparty system. This was a generalized change in Sub-Saharan Africa, with levels of political freedom increasing in several countries. But such changes are always complicated, because it is easy to introduce political competition on paper, but always difficult in practice. This was a period of great political agitation in Kenya, reflecting broader political liberalization across Africa, with a very intense push for constitutional reform from civil society, resulting in significant achievements. External pressures to liberalize the political space were also crucial.

Kenya is probably one of the countries in Africa with the highest levels of civil and political liberties. However, the data show a significantly lower score for civil liberties than for the rest of the indicators of political freedom. It is likely that this relates to the protests, campaigning, and activism before and after electoral periods, which reached a peak with the serious electoral violence of 2007–08. But in general, Kenya is a society in which civil and political freedom is high, where citizens can

express freely their political views, with a vibrant opposition in evidence. Electoral results have been challenged various times in recent years, accompanied by judicial reviews of the electoral results after several recent elections.

The large increase in **legal freedom** observed in 2010 is single-handedly driven by improved judicial independence and effectiveness, and this again is a product of the new constitution. The judicial system has proven to be very independent from political pressures; the challenges to—and judicial reviews of—the electoral results are a clear sign of this. The clarity of the law also improved significantly during the constitutional reform discussions that crystalized in 2010, and that is also evident in the data. In 2015, the judiciary adopted a nationwide case-tracking tool which enhanced the level of judicial accountability. There has been an attempt to standardize and speed up the handling of cases.

But the decentralization of power brought about by the new constitution has also had a negative side, at least in the short term. This is because now there is an additional level of government, the regional level, which necessarily increases the bureaucracy in the country. Moreover, three levels of government means a significant effort of coordination is required in order to efficiently provide the public services that were concentrated in the central government. These difficulties explain why bureaucracy quality does not show a significant change after 2010. Also, more bureaucracy opens the door for more corruption, especially with such a large structural change in the institutional framework. In recent years, there has been a clear aim to improve bureaucratic quality—for example, with the push for e-government—but Kenya has still a lot of room for progress.

## From Freedom to Prosperity

The rapid growth in income in Kenya starts in 2002, a critical year for the country. In 2002 the country experienced a major political transition when the president, who had run the country for twenty-five years, stepped down. The new leadership was very keen on detailed government planning. They introduced a long-term development plan, called Vision 2030, with the objective of making Kenya an upper middle-income country by the year 2030. It was based on some crucial pillars, one of them being innovation. Kenya has led the region in some critical sectors thanks to this forward-thinking approach. Today, approximately 54 percent of Kenya's gross domestic product (GDP) is generated by the services sector, parts of which are particularly vibrant and innovative, like tourism and financial services. The latter is a great example. Thanks to the innovative tool of mobile money, financial inclusion increased from 25 percent of the population in 2006 to about 84 percent in 2021, according to the 2021 FinAccess Survey, one of the highest levels in the whole Sub-Saharan Africa region. Mobile money in Kenya, which gained local popularity through the M-PESA application, allows users to deposit, withdraw, transfer money, make payments for goods and services, and access credit through cell phones. Mobile money products have evolved considerably since their introduction to Kenya in 2007, with a considerable range of innovative products and mobile service providers emerging. The agricultural sector, even though it is still very important in terms of employment, has been declining in terms of its contribution to GDP in Kenya and in several Sub-Saharan African countries. For several decades it represented about 30 percent of GDP in Kenya, but this has declined to about 20 percent—a fact reflected in the country's debasing of GDP, which was carried out in 2021. Kenya is also trying to diversify its exporting industries towards nontraditional sectors. Today, 40 percent

of Kenya's exports are within the region, and these are mostly manufactured goods. With a strong base in manufacturing, Kenya is uniquely placed to benefit from the recently launched African Continental Free Trade Area.

Regarding inequality, the country clearly benefited from the constitutional change of 2010, because the devolved system of government significantly reduced regional disparities. Historically, the northern part of the country, for example, has lagged behind in terms of development because of its severe (semi-desert) climatic conditions. With the new system, funds are more easily transferred and more effectively administered by the regional and local governments, and inequality between rural and urban areas has clearly been reduced. The process of financial inclusion mentioned above, which was given major impetus by the introduction of mobile money in 2007, has been a second driver of reduced inequality. Segments of the population at the lower end of the income distribution have benefited most from this process, because it has opened the door to financing opportunities to start businesses, increase human capital, and so on.

Minority rights are also better protected with the decentralized system of government. The 2010 Constitution enables the state to put in place affirmative action programs to protect minorities and marginalized groups. Communities and ethnic groups that were somewhat marginalized before have been empowered in different regions. Even at a political level, it is clear that there is an effort to include previously silenced communities. The work carried out by civil society organizations has also been crucial on this point, in terms of creating an awareness about minority rights and demands in different parts of the country. This was demonstrated by the broad-based civic education carried out during the constitutional review process that culminated in the 2010 Constitution.

One of the primary goals of the political leadership that took power after 2002 was to improve the level and quality of education in the country. The aim was to reach 100 percent enrollment in primary education, and to increase significantly the enrollment levels in secondary and university education. However, the starting point was very low, so there is still a long way to go, particularly in secondary and tertiary enrollment. According to UNICEF, before the COVID-19 pandemic, nationwide enrollment in primary education in Kenya was at 93 percent while secondary school enrollment was only at 53 percent. Another important aspect is that increasing enrollment at a very fast pace requires vast resources to ensure that the quality of the education pupils receive is high. And this is not always the case in Kenya, even though education forms a very large part of the government budget. Some educational indicators, like the number of teachers, have not kept up with the levels of enrollment. The pupil-to-teacher ratio remains very high in some Kenyan counties. For example, in Turkana County in northern Kenya, it is at 77:1 according

to UNICEF. So, the big challenge for the country at present is to improve both quality and quantity.

Once again, the 2010 Constitution will have major effects on life expectancy, and health more generally, but these are probably going to take longer to materialize in the data. Moreover, the slowing of progress on the health indicator in the decade before the COVID-19 pandemic may be explained by the same reason. The implementation of healthcare is now decentralized and run by the regional governments, even though healthcare policy is still in the hands of the central government. It is not easy to start running a regional health service from scratch, and there is obviously a learning period when indicators may even deteriorate. Inadequate resources provided by the national government to the counties and understaffed health facilities in many areas remain critical challenges. But in the medium and long run, once the implementation constraints begin to ease, it seems likely that healthcare services will be delivered more efficiently, and health statistics will show the results.

## The Future Ahead

One of the critical issues that Kenya faces now is how to keep improving productivity. I see manufacturing as an obvious area for improvement, and this should include growing its share of GDP. Today, it is slightly below 10 percent, and Kenya should almost double that. I think we have a big opportunity in Africa with the implementation of the African Continental Free Trade Area. It would create tremendous opportunities for countries like Kenya that have some manufacturing base. Kenya is competing with manufactured goods from Asia and other places that have major cost advantages. Bigger markets, such as those that will become available through the African Continental Free Trade Area, can generate productivity

improvements through export competition and also provide economies of scale benefits.

An important challenge for Kenya relates to the large share of informal employment. Moving part of these workers and firms towards formalization will ensure that economic opportunity and development are more stable. And, obviously, higher levels of formal employment and production generate larger and more stable sources of government revenue, as tax compliance is easier with formal sector firms. This will help the already firm path of fiscal consolidation that Kenya has followed in recent years. The current account deficit has also been declining, partly because of reduced imports, but also due to stronger and



more competitive exports. This is a very promising path for Kenya, and the country now needs to take advantage not only of regional value chains, but also global value chains, particularly in areas like tourism where Kenya has long-standing experience and a diversity of tourist attractions.

But economic reform and development needs to be accompanied by continued institutional reform and transformation. Further pushing the inclusivity of institutions is the only way to ensure that increasing prosperity in Kenya is based on solid foundations and is therefore sustainable in the long run.

<b>Robert Mudida</b>	Robert Mudida is currently the director of the Research Department of the Central Bank of Kenya. He was a full-time academic for seventeen years, having taught and carried out extensive research at two leading universities in Africa: the University of Nairobi and Strathmore University. At Strathmore University he was full professor of political economy. He has published four books and numerous articles in top international peer-reviewed journals in the areas of political economy, financial economics, macro-economics, and industrial organization.
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# South Africa

Greg Mills

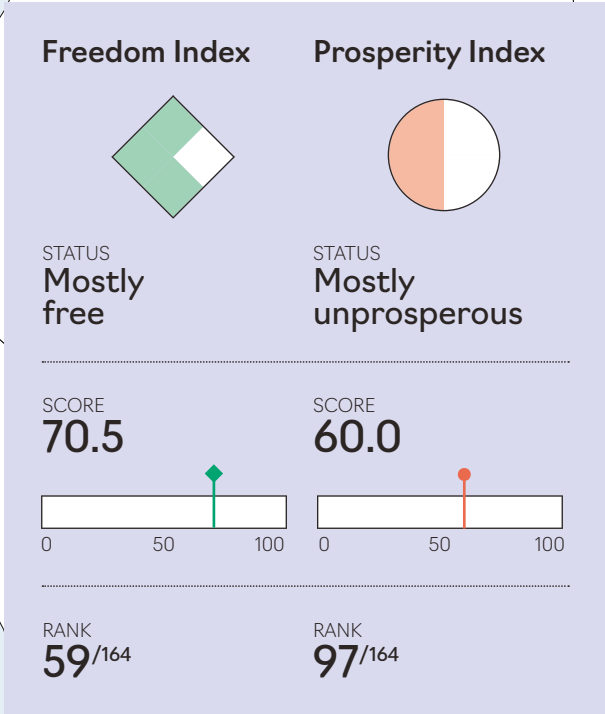
## Socioeconomic Data 2022

### General Information

POPULATION	LIFE EXPECTANCY (2021)
59.8 million	62 years
RELIGION (2010)	ETHNIC FRACTIONALIZATION (2013)
Christian → 81.2%	0.86
Unaffiliated → 14.9%	
Muslim → 1.7%	

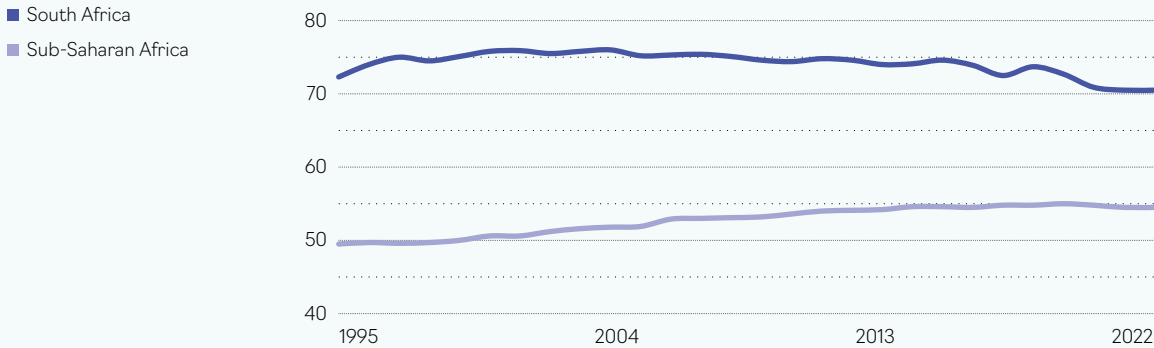
### Economic Data

GDP PER CAPITA	INFLATION (2016)
13,470	7.0%
% of US GDP pc → 20.8%	
GDP pc Growth → 1.2%	
DEPT/GDP (CENTRAL 2021)	TRADE/GDP (2014)
69.0%	65.0%
UNEMPLOYMENT (2021)	
28.8%	
SECTORAL ALLOCATION	
Agriculture → 2.9%	
Industry → 27.2%	
Services → 69.9%	
GINI COEFFICIENT (2020)	
62.4	



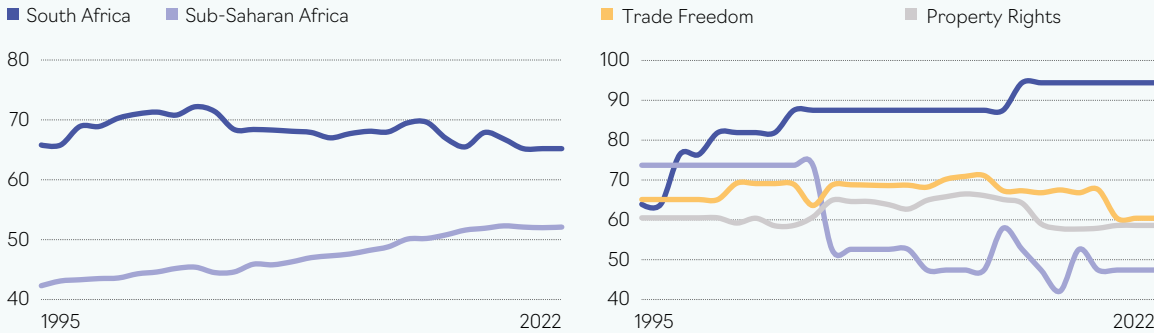
Freedom Index

1995-2022



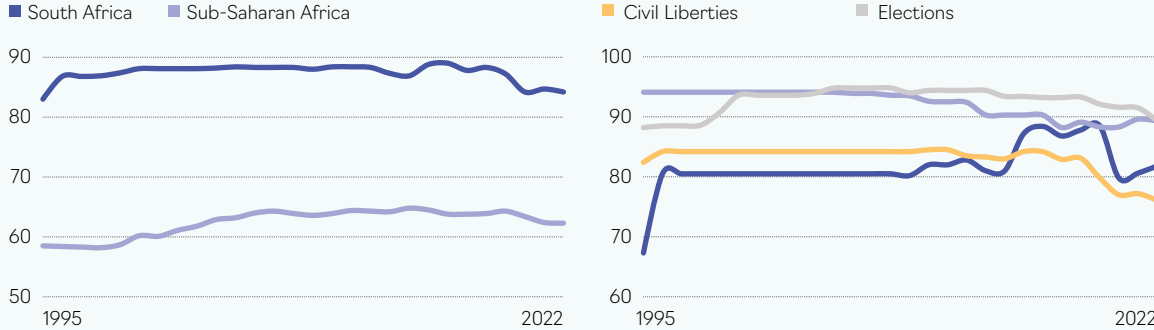
	2022		Change Since 2013	
	South Africa	Region	South Africa	Region
Freedom rank	59	-	-10	-
Freedom score	70.5	54.5	-4.7%	0.5%
Economic Subindex	65.2	52.1	-4.1%	6.6%
Political Subindex	84.2	62.3	-3.6%	-3.0%
Legal Subindex	62.1	49.2	-6.8%	-0.9%

Economic Subindex



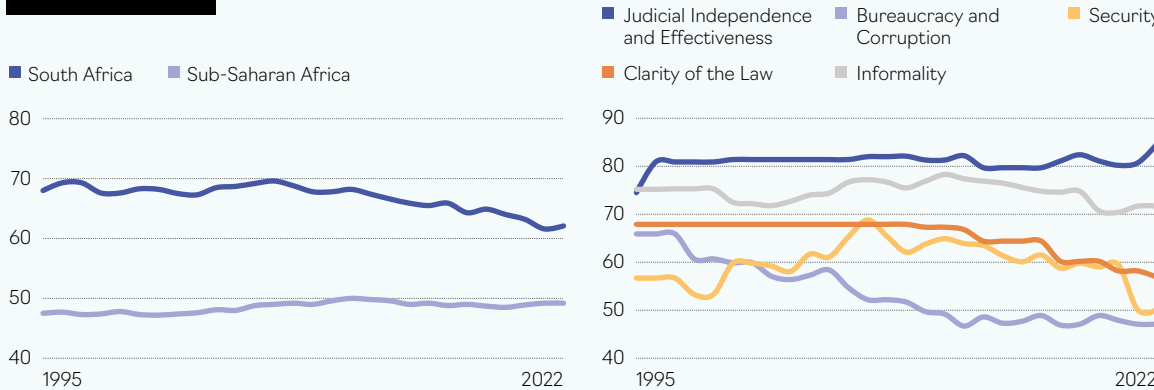
	2022		Change Since 2013	
	South Africa	Region	South Africa	Region
Women's Economic Freedom	94.4	63.4	7.9%	11.6%
Investment Freedom	47.4	52.2	0.0%	11.8%
Trade Freedom	60.4	55.5	-15.1%	-4.1%
Property Rights	58.6	37.7	-11.3%	7.7%

Political Subindex



	2022		Change Since 2013	
	South Africa	Region	South Africa	Region
Legislative Constraints on the Executive	81.8	48.6	0.9%	-6.7%
Political Rights	89.3	65.3	-1.1%	-3.0%
Civil Liberties	76.1	63.8	-8.6%	1.7%
Elections	89.4	71.3	-5.3%	-4.4%

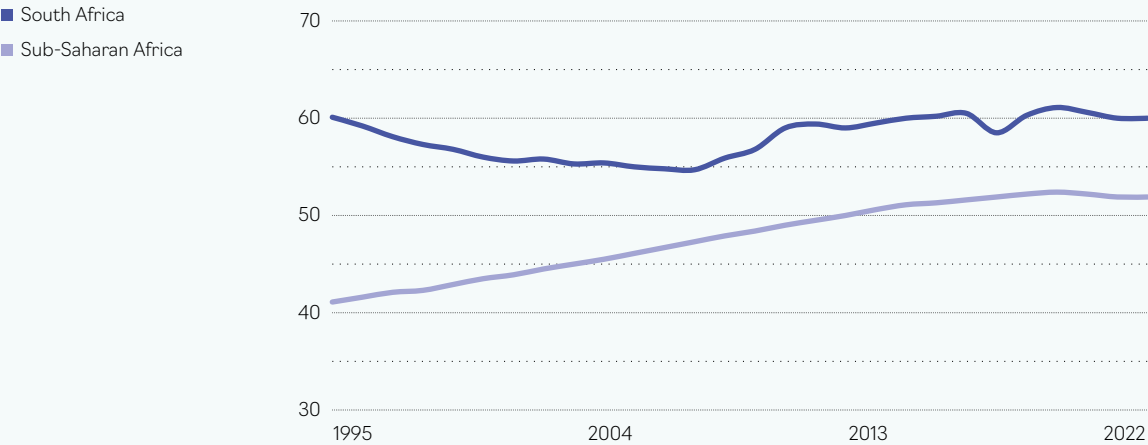
Legal Subindex



	2022		Change Since 2013	
	South Africa	Region	South Africa	Region
Judicial Independence and Effectiveness	84.6	51.7	6.1%	1.6%
Bureaucracy and Corruption	47.1	32.2	-3.1%	2.2%
Security	50.1	51.1	-21.1%	-6.5%
Clarity of the Law	56.9	50.1	-11.8%	1.2%
Informality	71.7	61.3	-6.7%	-1.4%

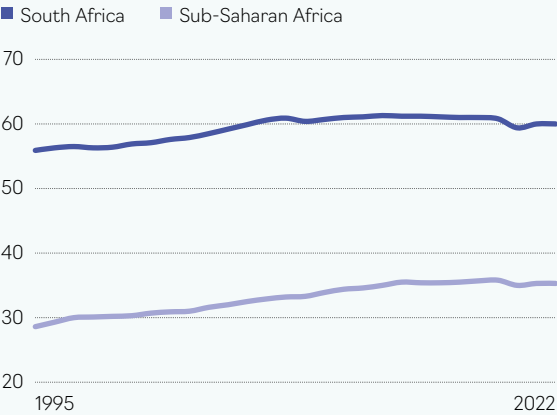
Prosperity Index

1995-2022



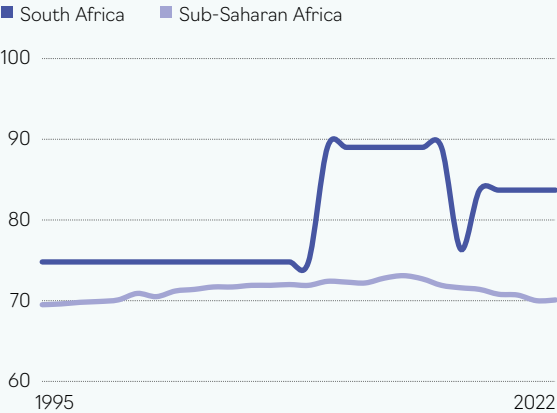
	2022		Change Since 2013	
	South Africa	Region	South Africa	Region
Prosperity rank	97	-	-2	-
Prosperity score	60.0	51.9	0.8%	2.7%

Income



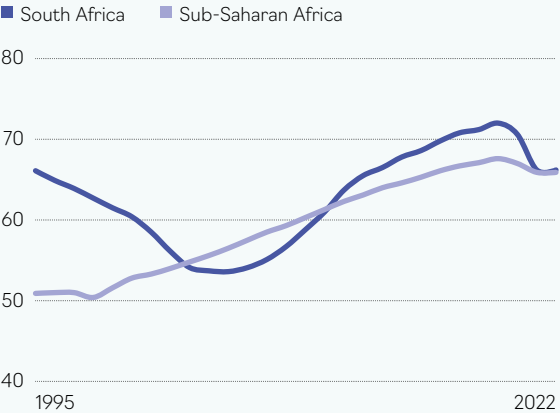
	2022		Change Since 2013	
	South Africa	Region	South Africa	Region
Income	60.0	35.3	-2.0%	0.8%
Inequality	13.3	46.4	0.5%	1.6%

Minority Rights

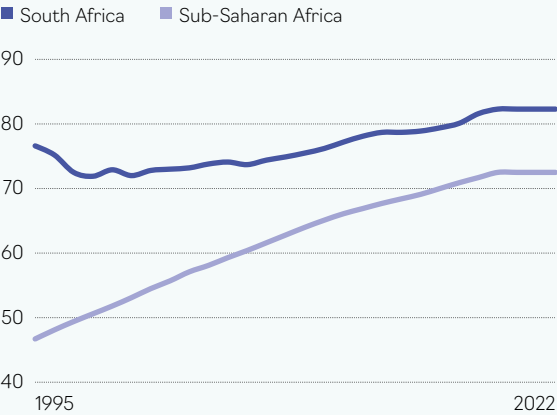


	2022		Change Since 2013	
	South Africa	Region	South Africa	Region
Minority Rights	83.7	70.1	-5.9%	-3.7%
Health	66.2	65.9	-0.4%	3.0%

Health

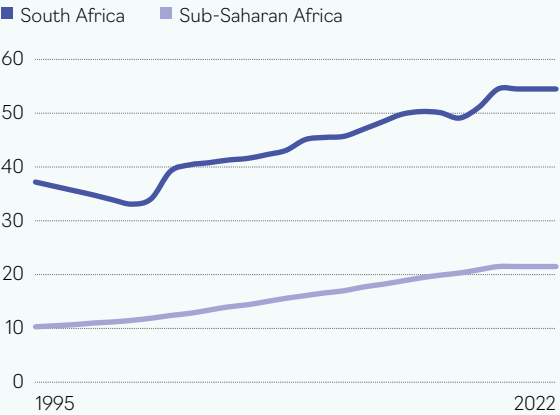


Environment



	2022		Change Since 2013	
	South Africa	Region	South Africa	Region
Environment	82.3	72.5	4.6%	7.1%
Education	54.5	21.5	12.6%	17.8%

Education



## Evolution of Freedom

The gradual deterioration of freedom in South Africa, which started in the early 2000s and is reflected in the **Freedom Index**, encapsulates the evolution of the country. Regarding **economic freedom**, the severe drop in investment freedom is very likely due to the introduction of legislation requiring foreign investors to have local partners, and to give away equity on a large scale. The application of such requirements to more and more sectors explains the continuing erosion of investment freedom up until today.

The ability to move capital in and out of the country has been static or has slightly improved. Similarly, trade freedom has not suffered big changes during the period of analysis, and that is well captured by the flat trend of this indicator. The short-run fluctuations are probably due to the changing trade agreements with the European Union (EU), but these are modest. The slide in property rights protection that started around 2012 is explained by the introduction of efforts to amend the constitution to allow for “expropriation without compensation” of agricultural land. While a strong majority favored the amendment, parties could not agree on the specific way such a policy would be carried out, and it was finally left aside. Nonetheless, it obviously continues to be a major threat in the near future, as the African National Congress (ANC) is likely to lose its majority and may revert to a populist alliance that would raise the issue again.

The significant increase in women’s economic rights, up to an almost perfect score, may be correct at a legislative level. Nonetheless, the real situation may be worse for at least two reasons: First, the levels of criminality, and particularly gender-based violence, are today at an all-time high, which clearly reduces women’s actual freedom. Second, even if there are no legal restrictions on women’s participation in economic affairs, social and traditional norms may still severely limit

their opportunities in some areas of the country. Consequently, the positive push that this indicator gives to the aggregate economic freedom subindex may be somewhat artificial, implying that the real trend in overall economic freedom is probably worse than currently shown.

The **political freedom** subindex shows a very flat trend, but with a mild deterioration apparent in the last few years. The evolution of the indicators in this subindex can shed some light on what is going on. Elections and political rights scores are very high in South Africa, and the slight negative trend may be attributed to political polarization, but overall, the electoral process and its guarantees are not severely affected. The “legislative constraints on the executive” indicator has a clear upward bump in the 2013–19 period, which probably reflects the failure of parliament to act on allegations of state capture during the presidency of Jacob Zuma. The publication of the *State of Capture* report in 2016 resulted in a national scandal, and the rejection of its conclusions by Zuma, who was later chastised by the Constitutional Court, and this may explain the initial increase on this indicator. The establishment of the Zondo Commission in 2018 can account for the additional increase up until 2020. The post-2020 fall can be explained by the failure of the state to take action against the many individuals exposed for corruption before the Commission, and the impunity with which COVID-19 funds were looted by senior officials. Hence, the fall after 2020 is capturing the failure of the government to implement the recommendations of the Commission in any meaningful way. Nonetheless, the very marked upward bump shown in the data, between 2015 and 2019, seems rather unrealistic as no specific legislative changes were introduced on this front.

A second clear fact highlighted in the political freedom data is the significant worsening of civil liberties since 2019. Government actions during the COVID-19 pandemic are surely behind the initial

drop. The empowerment of the army to stop and search individuals as a means of restricting the spread of the disease generated many abuses, and even deaths in some encounters. The health restrictions imposed in South Africa—such as the prohibition on buying certain goods, and the severe lockdowns and limitations on free movement—were probably among the strictest in the world. It is not surprising that, even after lifting the COVID-related restrictions, South Africa’s score on civil liberties protection has not rebounded and has actually worsened. This is because, in recent years, there has been a strong move against civil society in proposed legislation. For example, legislation is planned that would require nongovernmental organizations to apply for state security clearance to prove that they are not acting in favor of foreign powers.

The visible deterioration of **legal freedom** in South Africa since 2008 is notable. In 2009 Jacob

Zuma acceded to the presidency and, very early in his mandate, he started to appoint close collaborators to senior positions across the criminal justice system in an effort to protect himself and his cronies against prosecution. The indicator on bureaucracy quality and corruption adequately shows the erosion and capture of the state apparatus. Judicial independence being relatively high and constant throughout the period of analysis may be faithfully reflecting the fact that the High Court and the higher levels of the judicial system have been able to prevent their capture by the executive. But it is also very true that the judicial system in South Africa is not as efficient for the average citizen, and this fact may not be fully captured by this indicator. It could be that the decline in the clarity of the law since 2010 is picking up the overall uncertainty and opacity of the judicial process in regular cases, due to inefficient and very slow courts.

## From Freedom to Prosperity

The **Prosperity Index** seems to portray a picture that is the complete opposite of my reading of South Africa’s recent development trajectory. The Index shows a fall in prosperity between 1995 and the global financial crisis of 2007–08, followed by a recovery in the last fifteen years. Instead, I believe that the first half of the period of analysis was relatively positive for the country, while the last ten to fifteen years saw a clear deterioration. A closer look at the indicators that make up the Prosperity Index shows that it is mainly the evolution of the health indicator that is shaping overall prosperity. Therefore, it is probably more enlightening to analyze each indicator separately than to rely on the aggregate score.

The evolution of income per capita somewhat vindicates my argument. Gross domestic product (GDP) growth was strong and stable up until 2007, thanks to a substantial reordering of the

public sector budget. On the one hand, there was some fiscal tightening and consolidation through reduced overspends. On the other, President Mandela (in power 1994–99) introduced several social programs that had an important redistributive effect. President Mbeki (1999–2008) continued this policy path and South Africa achieved positive GDP growth rates for several years in the early 2000s. Another crucial factor that fueled South Africa’s economic success in this period was a substantial decline in the cost of borrowing. With the election of Nelson Mandela in 1994 and the transition to a fully democratic system, South Africa’s credit rating was upgraded from close to junk to AAA. The increased borrowing capacity of the South African government helped create a quite substantial movement into the middle class, especially among black South Africans, who gained access to public sector jobs with rising wages.

The resignation of Mbeki and the accession to power of Jacob Zuma, together with the worsening international environment during the 2007–08 financial crisis, halted abruptly the positive economic growth rates of the previous decade, and started a period of stagnation. The rating of South African debt deteriorated again and made further pay increases for public servants and other redistributive policies unsustainable.

The drastic dynamics of the health indicator are driven by the extremely different approaches to AIDS of Thabo Mbeki and Jacob Zuma. The former was a denialist and refused to deal with AIDS for most of his term, relenting only once the courts ruled against him near the end of his presidency. When Zuma took office, the government finally accepted that AIDS was a major problem, and a comprehensive health policy was instituted to begin fighting the disease. This shift—combined with the United States President's Emergency Plan for AIDS Relief (PEPFAR), which began in 2003—played an important role as well in the dramatic increase in life expectancy from 2006. The severe impact of COVID-19 in South Africa, clearly greater than the average for Sub-Saharan Africa, does not necessarily imply a worse handling of the pandemic in the country. This is because COVID-19 disproportionately affected individuals with preexisting conditions, who represent a much greater share of South Africa's population than is the case for the rest of the region. South Africa has a relatively higher cohort with so-called “first-world diseases” like diabetes, heart disease, hypertension, and so on, all of which contributed to higher mortality rates during the pandemic.

South Africa is a very unequal country, and the significant deterioration in terms of inequality during the first half of the period of analysis is very plausible. The main reason for such poor numbers is the dysfunctional labor market, including high levels of unemployment. There is a great divide in South Africa between those with a job and those without one. The expansionary policies of

Mandela and Mbeki were intended to reduce inequality; they succeeded in expanding middle-class wealth but failed to deal with the growing number of people “outside” the labor market. Today South Africa has roughly three million civil servants, which represent close to half of the total number of taxpayers in the country. This somewhat artificial middle class that emerged since 1994 pulled away from those with limited job opportunities, worsening inequality. There were also some cases of incredible wealth creation among a very tiny elite, which widened the distribution even further.

The improvement in environmental quality is not impressive, clearly slower than the rest of the region. This is probably due to the fact that fossil fuels and solid fuels are still heavily used, especially among poorer households with no access to cleaner energy sources, as electricity generation has foundered. South Africa still operates a large fleet of coal-fired power stations and a fleet of carbon-intensive diesel generators, as the country has been unable to effectively transition to renewable sources of energy. So, the rise in this indicator may be more attributable to the fall in large industrial operations in the country than to a comprehensive policy focus towards a cleaner environment.

The important increase in the education indicator, of more than 20 points in the last twenty-five years, captures the massive push to increase enrollment rates at all levels of the educational system. Preschool has been an important policy focus, but also there has been a very substantial increase in fee subsidies for university students, so years of schooling are increasing at the intensive and extensive margins. Nonetheless, when we look at the quality of education, the assessment is not so positive. The standards required to pass to the next grade have been dramatically lowered. The deterioration in the quality of the education received by pupils is evidenced by the scores in global benchmarking tests, which paint a very different picture to the steady rise shown when measuring years of schooling.

## The Future Ahead

The near future for South Africa will be determined by the evolution of the political situation. It is all about getting the politics right. The upcoming election in 2024 is going to be crucial for the country. It is very likely that we are going to see a change from a dominant party system to a coalition system. This may lead to some political instability in formal politics and parliament, but it will also lead to greater accountability and more political competitiveness. The direction the country will take is not obvious and will depend on which party or parties enter into coalition with the ANC, which is likely to remain the single largest party. The risk of the radical left party entering government is clear, with its support for arming Russia with South African weaponry, expropriation of whole sectors of the economy, and so on. If the ANC continues looking to the Communist Party and the trade unions for support, and builds a coalition with the populist left, there is a substantial risk of heading towards a downward political spiral, a rise of populism, and a sharp fall into a situation similar to that of Venezuela. Instead, if the political center is able to hold its electoral territory and becomes a suitable partner for the ANC, it would offer a completely different trajectory for South Africa. There is, for the first time, a serious effort to build a pre-election pact between opposition parties, which may change the overall political calculation in favor of the center. Therefore, the electoral results of 2024, and the coalition outcomes, will be the key determinant of where South Africa will be in ten years.

South Africa's fiscal situation is also a pressing problem that needs to be addressed if we are to avoid a major crisis. We are now on the verge of a fiscal cliff, with rising debt that will soon further constrain government spending. This will likely lead to a deterioration of the social climate, with worsening outcomes in areas like health and education. Again, a sensible government that can introduce structural reforms in the public sector and stabilize the fiscal situation, is of fundamental importance for South Africa.

Finally, South Africa's global alignment will play a crucial role in its evolution in terms of freedom and prosperity. The importance given to being part of the BRICS group (Brazil, Russia, India, China, and South Africa) is not helping South Africa as it weakens the country's standing with other nations with whom it has a more favorable trade balance and to which it exports more finished products. The expansion of the BRICS group to include Iran, Saudi Arabia, the United Arab Emirates, Argentina, and Ethiopia reinforces this negative trend. Moreover, China's economic slowdown is leading to falling external demand for South African goods, especially minerals, threatening foreign exchange earnings. And being close to Russia and China is negatively impacting South Africa's relations with other democracies—in the West and elsewhere—and making it more difficult to develop an exporting sector that is not so heavily dependent on China.

**Greg Mills**

Dr. Greg Mills heads the Johannesburg-based Brenthurst Foundation, a think tank that seeks to strengthen African economic performance. He has directed numerous reform projects with African heads of state across the length and breadth of Africa.

His latest books include *Rich State, Poor State* (2023), *The Ledger: Accounting for Failure in Afghanistan* (2022), and *Expensive Poverty* (2021), as well as a volume on South African scenarios, *The Good, the Bad and the Ugly* (2023).

# Methodology

The Freedom and Prosperity Indexes are a creation of the Atlantic Council’s Freedom and Prosperity Center. The center’s mission is to increase the well-being of people everywhere—and especially of the poor and marginalized in developing countries—through unbiased, data-based research on the relationship between freedom and prosperity.

The center’s work is both theoretical and practical. It aims to produce research regarding the best path to development, but also to apply the conclusions of this research through reform proposals, education, and an active media presence around the world. It is in this spirit that we created the Freedom and Prosperity Indexes.

The Freedom and Prosperity Indexes are two separate indexes that rank 164 countries around the world according to their levels of freedom and prosperity. All index measurements are weighted equally and the score for each index is simply the average of its component parts. Scores range

between zero and one hundred, with higher values indicating more freedom or prosperity. The indexes are constructed using publicly available datasets produced by other prominent organizations and international institutions.

The Freedom Index ranks countries according to the **equally weighted average of three subindexes**: economic subindex, political subindex, and legal subindex. Each country’s score ranges between zero and one hundred, with higher values indicating more freedom.

Countries are placed into four categories based on their scores: “free,” “mostly free,” “mostly unfree,” and “unfree.” For each given year, we use the range of scores for all countries in the sample (maximum score minus minimum score) and divide it into four equal parts. This procedure generates the thresholds used to assign categories for each country. For the year 2022, the cutoff levels of the freedom score dividing the four categories are 74.88, 54.71, and 34.53.

The Prosperity Index ranks countries according to the **equally weighted average of six indicators**: income, health, education, environment, minority rights, and inequality. The index is scaled so that a country’s score ranges between zero and one hundred, with higher values indicating more prosperity.

Countries are placed into four categories based on their scores: “prosperous,” “mostly prosperous,” “mostly unprosperous,” and “unprosperous.” For each given year, we use the range of scores for all countries in the sample (maximum score minus minimum score) and divide it into four equal parts. This procedure generates the thresholds used to assign categories for each country. For the year 2022, the cutoff levels of the prosperity score dividing the four categories are set at 78.62, 64.85, and 51.08.

The Indexes use data produced by the Fraser Institute, the Global Burden of Disease Collaborative Network, the Heritage Foundation, the United Nations, the Varieties of Democracy

(V-Dem) Institute, the World Bank, World Economics, and the World Inequality Database. In the few exceptional cases in which we do not have data for a variable from our preferred source, we use alternative sources of data. These instances are listed in each relevant section.

The Freedom and Prosperity Indexes cover the period of 1995 to 2022. For the most recent year, the indexes use the most recent data available. For the Freedom Index, most of these data are from 2022. For the Prosperity Index, most of these data are from 2021. If a country-year observation is missing for a given variable, we use the value from the closest preceding year.

Besides the necessary scaling to ensure that all components lie in the same range (zero to one hundred), we do not make any additional transformations except for gross domestic product (GDP) per capita, which is linearized before scaling by taking the natural logarithm.

## Freedom Index

The Freedom Index has three subindexes that measure economic freedom, political freedom, and legal freedom, respectively. Each subindex is comprised of multiple indicators. The indicators used to construct each subindex are listed below, along with the original sources of data and analyses.

### Economic subindex

The Economic subindex refers to an economic system that upholds the rights of all businesses and entrepreneurs. The Economic subindex is measured as an **equally weighted average of four indicators**: property rights, trade freedom, investment freedom, and women’s economic freedom.

### Property Rights

The property rights indicator assesses the extent to which a country’s legal framework allows individuals to acquire, hold, and utilize private property, secured by clear laws that the government enforces. It provides a quantifiable measure of the degree to which a country’s laws protect private property rights and the extent to which those laws are respected.

Source of data: Fraser Institute, Component 2C: Protection of Property Rights, Economic Freedom of the World.

### Trade Freedom

The trade freedom indicator covers a diverse range of trade restrictions, encompassing tariffs, quotas, hidden administrative restraints, and regulations



on exchange rates and capital mobility. A high score reflects a nation that maintains low tariffs, enforces streamlined and effective customs clearance processes, has a freely convertible currency, and imposes minimal restrictions on the movement of both physical and human capital.

Source of data: Fraser Institute, Component 4: Freedom to Trade Internationally, Economic Freedom of the World.

Investment Freedom

The investment freedom indicator assesses several regulatory limitations that are usually enforced on investments. Points are subtracted from a country’s investment regime’s perfect score of one hundred for each restriction present. An ideal score indicates a country with unrestricted flow of investment capital, allowing individuals and firms to transfer their resources freely into and out of specific activities, both within the country and across its borders.

Source of data: Heritage Foundation, Index of Economic Freedom.

Women's Economic Freedom

The women’s economic freedom indicator attempts to capture inequality in legislation between men and women throughout the duration of a woman’s working life, from the time she can enter the labor force through retirement. It is the average of four equally weighted components: mobility (including women’s agency and freedom of movement), pay, entrepreneurship, and assets. Each component is measured on a scale of zero to one hundred, with higher values representing more equality.

Source of data: World Bank indicators on mobility, pay, entrepreneurship, and assets, Women Business and the Law.

Political subindex

The Political subindex measures the institutional framework for the selection of those holding executive political power and the limits and controls imposed on exercising this power. It is a concept that closely resembles the ideals of democracy and individual rights. The Political subindex is measured as an **equally weighted average of the following four indicators**: elections, civil liberties, political rights, and legislative constraints on the executive.

Elections

The elections indicator captures the electoral core of democracy, that is, whether political leaders are chosen by the citizenry in open, clean, and fair elections with ample suffrage. It is an equally weighted average of four components: alternative sources of information, share of population with suffrage, clean elections, and elected officials.

Source of data: V-Dem dataset including Alternative Sources of Information Index (v2xme\_altinf), share of population with suffrage indicator (v2x\_suffr), Clean Elections Index (v2xel\_frefair), and Elected Officials Index (v2x\_elecof).

Civil Liberties

The civil liberties indicator includes an array of individual rights in the liberal tradition (i.e., criminal procedural rights, absence of torture, freedom of movement, etc.) that limit the scope of governmental action, guaranteeing an area of individual autonomy and freedom in personal affairs. It is an equally weighted average of two components: private liberties and physical violence.

Sources of data: V-Dem dataset including private liberties indicators (v2xcl\_slave, v2clfmmove, v2xcl\_dmove, v2csr1lgrep) and Physical Violence Index (v2x\_clphy).

Political Rights

The political rights indicator encompasses individual rights directly linked to the democratic political process, such as freedom of expression or association.

Sources of data: V-Dem dataset Political Civil Liberties Index (v2x\_clpol).

Legislative Constraints on the Executive

The legislative constraints on the executive indicator evaluates the level of control the democratically elected legislative branch has on the executive’s exercise of power.

Sources of data: V-Dem dataset Legislative Constraints on the Executive Index (v2xlg\_legcon).

Legal subindex

The Legal subindex measures the degree to which a country abides by the rule of law, has a legal system that fairly protects property and contract rights, and prevents corruption and the arbitrary abuse of power. The Legal subindex is measured as the **equally weighted average of five indicators**: clarity of the law, judicial independence and effectiveness, bureaucracy and corruption, security, and informality.

Clarity of the Law

The clarity of the law indicator measures the basic formal requirements of the legal system, in particular if laws are general, clear, public, non-contradictory, consistent, and are predictably enforced.

Source of data: V-Dem dataset Transparent Laws with Predictable Enforcement Index (v2cltrnslw).

Judicial Independence and Effectiveness

The judicial independence and effectiveness indicator measures the strength of an efficient and fair judicial system, which ensures that laws are fully respected and that any violations are met with appropriate legal action. It is an equally weighted average of two components: the Judicial Constraints on the Executive Index, and independent and accessible justice components.

Sources of data: V-Dem dataset including Judicial Constraints on the Executive Index (v2x\_jucon), and independent and accessible justice data (v2xcl\_acjst, v2juacnt, v2jureview, v2jupurge, v2jupoatck).

Bureaucracy and Corruption

The indicator on bureaucracy and corruption measures the degree to which government officials are subject to and comply with the law. It is an equally weighted average of two components: government effectiveness and control of corruption.

Sources of data: World Bank, Worldwide Governance Indicators for government effectiveness and control of corruption.

Security

The security indicator measures whether the citizenry generally observes the country’s legal norms and regulations. It is based on perceptions of the likelihood of political instability or violence driven by political motives, such as terrorism.

Sources of data: World Bank, Worldwide Governance Indicators for government effectiveness and control of corruption.

Informality

The informality indicator measures informal economic activity. Data for this indicator is expressed as the percentage of GDP made up by the informal economy. To convert to a scale of zero to one hundred, we subtract that value from the perfect score of one hundred. High scores represent less informality.

Sources of data: Equally weighted average of Dynamic General Equilibrium model-based estimates of informal output by the World Bank and Quarterly Informal Economy Survey by World Economics.

# Prosperity Index

The Prosperity Index attempts to capture both the average level of prosperity, through the level of purchasing power and human capital that an average citizen displays, and shared prosperity, through measures of environmental quality, as well as income inequality and the well-being of minority groups. Countries are scored and ranked according to the **equally weighted average of six indicators**. The index scores are indicated on a scale from zero to one hundred, where zero represents the worst performance in the sample and one hundred the best. The indicators are listed below.

## Income

The income indicator is measured according to GDP per capita, expressed in constant 2017 US dollars and adjusted for purchasing power parity (PPP). The original data is linearized before scaling by taking the natural logarithm. Higher scores indicate greater GDP per capita.

Source of data: GDP per capita, PPP, constant 2017 international \$, World Bank. Data for Eritrea, South Sudan, Venezuela, and Yemen: World Economic Outlook Database, International Monetary Fund. Data for Cuba: Federal Reserve Economic Data and the CIA World Factbook. Data for Syria: Penn World Table. Data for Afghanistan and Taiwan: World Economics.

## Environment

The environment indicator is measured through death rates from air pollution. Death rates are measured as the number of deaths per 100,000 people from both outdoor and indoor air pollution. Rates are age-standardized, meaning they assume a constant age structure of the population to allow for comparisons between countries and over time. Higher scores indicate fewer deaths.

Source of data: Institute for Health Metrics and Evaluation, 2019 Global Burden of Disease study.

## Minority Rights

The minority rights indicator is measured through surveys on the acceptance of religious minorities. The level of acceptance of religious minorities is used as a proxy for the acceptance of minorities in general. This indicator specifies the extent to which individuals and groups have the right to choose a religion, change their religion, and practice that religion in private or in public as well as to proselytize peacefully without being subject to restrictions by public authorities.

Source of data: V-Dem dataset, religious rights indicator (v2clrelig).

## Health

The health indicator is measured through life expectancy. The measurement of life expectancy is expressed in years that a newborn infant would be expected to live if the prevailing patterns of mortality at the time of birth were to stay the same throughout the individual's life.

Source of data: United Nations World Population Prospects.

## Education

The education indicator is measured through both expected years of schooling and mean years of schooling. Both values are multiplied, and the result is converted to a scale of zero to one hundred.

Source of data: United Nations Human Development Index.

# Inequality

The inequality indicator measures the equal distribution of income across the population. It is measured through the share of a country's pretax income accrued to the top 10 percent of earners. Higher scores indicate lower inequality.

Source of data: World Inequality Database, Top 10 Percent Share of Pretax National Income.

# Socioeconomic Data Sources

**Population:** total population, from the World Bank.

**Religion:** Pew Research Center, The Global Religious Landscape, 2010.

**Ethnic Fractionalization:** Historical Index of Ethnic Fractionalization Dataset (HIEF).

**Life Expectancy at birth:** total (years), from the World Bank.

**GDP per capita:** PPP, 2017 constant international dollars, from the World Bank.

**Inflation:** consumer prices annual %, from IMF (obtained from the World Bank website).

**Debt/GDP:** Central or general government debt to GDP, from IMF Global Debt Database.

**Trade/GDP:** Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product. From the World Bank national accounts data, and OECD National Accounts data files.

**Unemployment:** From the World Bank. Unemployment refers to the share of the labor force that is without work but available for and seeking employment. Definitions of labor force and unemployment differ by country. Source of data: International Labour Organization. "Labour Force Statistics database (LFS)" ILOSTAT. Unemployment, total (% of total labor force) (national estimate).

**Inequality:** Gini disposable income, from SWIID v9.5.

**Sectoral allocation:** from the World Bank national accounts data, and OECD National Accounts data files.

- Agriculture, forestry, and fishing, (% of total value added).
- Industry (including construction), (% of total value added).
- Services (% of total value added).

# Contributors

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Daron Acemoglu is institute professor at MIT and a fellow of the National Academy of Sciences, British Academy of Sciences, American Philosophical Society, American Academy of Arts and Sciences. He has been a winner of the BBVA Frontiers of Knowledge Award, the Nemmers Prize, the Global Economy Prize, A.SK PRIZE, Carnegie Fellowship, CME Prize, John Bates Clark Medal; and author of the *New York Times* bestseller *Why Nations Fail* and *The Narrow Corridor* (both with James Robinson) and *Power and Progress: Our Thousand-Year Struggle over Technology and Prosperity* (with Simon Johnson).

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Currie was unanimously confirmed in 2017 as the US representative to the UN Economic and Social Council and as the alternative representative to the UN General Assembly. In December 2019, she was appointed the US ambassador-at-large for global women's issues and US representative to the UN Commission on the Status of Women—she served in that position until January 2021. Prior to returning to government service, Currie was a senior fellow at the Project 2049 Institute from 2009 to 2017, where she founded the Burma Transition Initiative and focused on nontraditional security in Asia.

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Velasco was a presidential candidate in Chile in 2013 and minister of finance of Chile between 2006 and 2010. During his tenure he was recognized as Latin American Finance Minister of the Year by several international publications. His work to safeguard Chile's copper windfall and create a rainy-day fund was highlighted in the *Financial Times*, the *Economist*, the *Wall Street Journal* and *Bloomberg*, among many others.

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