

Global Trade Freedom Has Declined for the Fourth Straight Year

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KEY TAKEAWAYS

Trade freedom has declined in 98 of the 177 countries ranked in the upcoming 2022 Index of Economic Freedom. Scores improved in only 37 countries.

This year, the United States has its worst nontariff trade-barrier score yet, driven in large part by agricultural subsidies.

The small nation of Kiribati has gained the most trade freedom, lowering its trade-weighted average tariff rate to 0.0.

Government efforts to control the ability of individuals and businesses to exchange goods and services freely across borders have once again intensified during the past year. The Heritage Foundation's forthcoming *2022 Index of Economic Freedom* finds that the global average of countries' trade-freedom scores has declined from 70.9 to 69.5 on the *Index's* 0-to-100 trade-freedom scale. This is the fourth straight year that the global average has dropped.

Trade freedom declined in 98 of the 177 countries ranked in the *Index*. Scores improved in only 37 countries and were unchanged in 42 countries. The U.S. score declined by more than five points to 75.2. China, by contrast, gained two points to achieve a new score of 73.2.

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Basics of Trade Freedom

Trade freedom measures the degree to which individuals and businesses are able to buy from and sell to people and businesses around the world free from government intervention. Governments typically implement trade barriers to control the flow of imports, most often in an attempt to insulate domestic producers from foreign competition. They also occasionally restrict exports. Barriers to trade freedom include tariffs (taxes on imports) as well as nontariff barriers. Nontariff barriers are varied and can range from quotas to trade-distorting subsidies and regulations. In recent years, the ability of governments to achieve their trade policy goals through protectionist measures has eroded as the lines of domestic and foreign-made products are increasingly blurred due to the rapid growth of international supply chains as well as the shift to services and digital trade.

The benefits of greater trade freedom are well documented. For example, countries with greater trade freedom tend to have much higher income per capita, better food security, more political stability, and healthier natural environments. (See Chart 1.) It is abundantly clear that when a country's government gets out of the way and allows individuals to make unimpeded trading decisions that are best for themselves, their families, and their companies, people thrive.

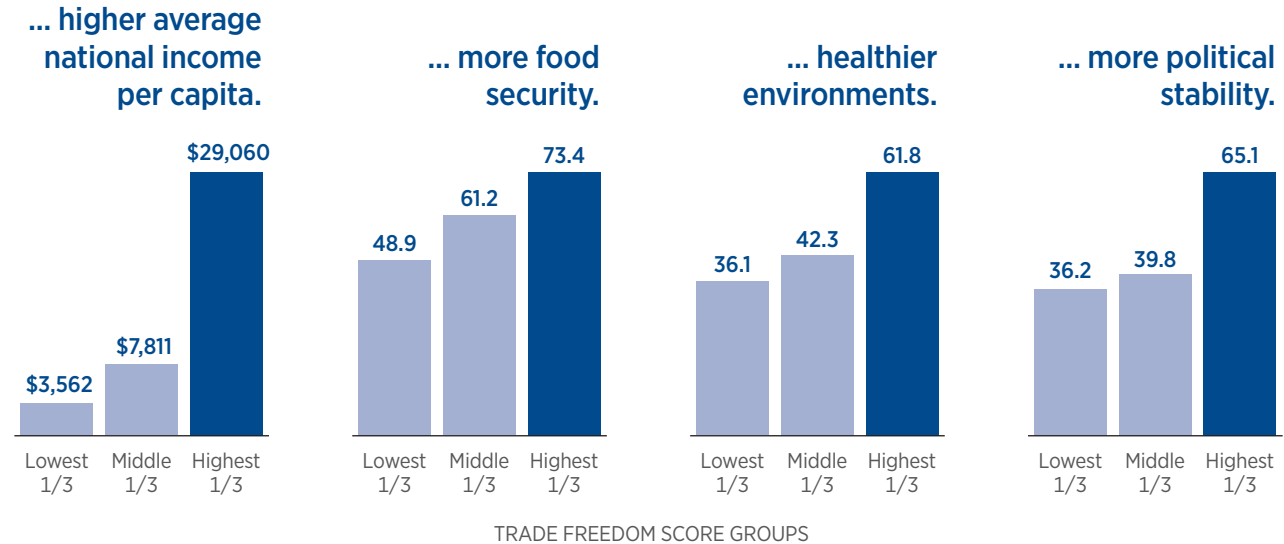
The *Index's* lower trade-freedom scores this year are a reflection of some governments' concerns about trade balances that show more imports than exports. Officials reason that restrictions on imports can boost domestic manufacturing and increase gross domestic product (GDP). There is scant support in economic theory for such reasoning. The empirical evidence from the United States is that higher imports, not exports, correlate most closely with faster growth in GDP. While some of this correlation no doubt reflects higher consumption of imports caused by increases in wealth, it is also true that a significant percentage of imports are so-called intermediate goods used by U.S. firms in their manufacturing processes. Imports are thus an input into higher GDP.

In any case, the measurement of a country's trade balances with other countries says nothing about the quality or value of the individual trades involved, each of which is made by people or firms for their own benefit. Countries, as such, do not trade with one another. It is businesses and individuals that are trading, with thousands of individual transactions every day. Government intervention based on the simple summing of those transactions is misguided, at best, and likely to do far more harm than good. Indeed,

CHART 1

Major Benefits of Free Trade

Nations with higher trade scores in the *2022 Index of Economic Freedom* also have ...



SOURCES: Heritage Foundation calculations from the *2022 Index of Economic Freedom* (forthcoming 2022), and:

- Per Capita Income: World Bank, “GNI per Capita, Atlas Method (Current US\$),” <https://data.worldbank.org/indicator/NY.GNP.PCAP.CD> (accessed October 21, 2021). Figures are based on 175 countries that are in both datasets.
- Food Security: *The Global Food Security Index*, The Economist Group, 2021, <http://foodsecurityindex.eiu.com/> (accessed October 21, 2021). Figures are based on 112 countries that are in both datasets.

- Environment: *2020 Environmental Performance Index*, Yale University, <http://epi.yale.edu/> (accessed October 21, 2021). Figures are based on 175 countries that are in both datasets.
- Political Stability: World Bank, “Worldwide Governance Indicators,” “Political Stability, and Absence of Violence/Terrorism,” 2021 data, <http://info.worldbank.org/governance/wgi/#reports> (accessed October 21, 2021). Figures are based on 177 countries that are in both datasets.

the bar is, or at least should be, very high for governments trying to explain how the sum of myriad individual transactions, each of which is judged to be beneficial by its participants, can result in societal harm justifying some intervention.

The Heritage Foundation’s *Index of Economic Freedom*¹ has demonstrated for more than 27 years that individuals around the world benefit from liberalized trade policies that reduce or do away with protectionist barriers. The benefits of more open trade policies are vast and far-reaching. Government restrictions on trade, if any, should be narrow and carefully targeted.

The Importance of the World Trade Organization in Advancing Trade Freedom

Governments have often found that it is easiest to dismantle trade barriers in the context of international negotiations or as a result of commitments made in multilateral or bilateral trade agreements. The keystone of the international system of such agreements and negotiations is the World Trade Organization (WTO), and it is probably no coincidence that the recent decline in world trade freedom has occurred at a time when the WTO has been in crisis, with its dispute resolution system virtually inoperable.

Many member nations feel that the WTO is lacking in certain areas, especially in its ability to curtail what many regard as abusive or unethical trading or subsidy practices by China. It is vital that such nations and transnational organizations, especially the United States and the European Union, work together strategically and practically to reform the over 25-year-old institution to improve its effectiveness in resolving disputes between members and to ensure that bad actors with anti-free-market trade practices are not supported.

Countries with Notable Trade-Freedom Developments This Year

The United States. This year, the United States has its worst nontariff trade barrier score ever. The poor U.S. showing was driven in large part by agricultural subsidies. As described by *Inside U.S. Trade*:

The United States this week reported that its total aggregate measurement of support—a category of trade-distorting agricultural subsidies—in the 2019–2020 marketing year was the highest ever recorded and just shy of the \$19.1 billion limit set by World Trade Organization rules.

The new high is the result of a spike in farm subsidies provided by the Trump administration to counteract the retaliatory tariffs China imposed on U.S. agricultural products as the U.S. escalated its duties on China to eventually cover \$370 billion worth of goods. The Trump administration provided farmers with \$12 billion in 2018 and a \$16 billion aid package in 2019 to help them bear the brunt of the retaliatory tariffs.²

The situation shows how one form of trade barrier, U.S. tariffs on China in this case, can lead to another trade barrier being raised (retaliatory tariffs by China on the U.S.) to still another (massive subsidies to farmers as the trade

war escalates). It creates stifling costs for businesses and consumers, slowing down the pace of trade, and costing jobs and salaries when businesses must bear the brunt of higher tariffs and nontariff barriers to trade, or customers switch the products they buy based on trade barriers imposed by governments.

China. China implemented a free trade agreement with Mauritius, the economically freest sub-Saharan African nation according to the *2021 Index of Economic Freedom*. The pact is China's 16th preferential trade agreement. China also lowered its trade-weighted average tariff rate by a full point, to 3.4 percent. As a result, its trade-freedom score increased from 71.2 in the *2021 Index* to 73.2 in the upcoming *2022 Index*.

Kiribati. As the U.S. and many other countries have imposed higher tariffs on their people, the coral atolls nation of Kiribati has improved its trade freedom by lowering its trade-weighted average tariff rate to 0.0.³ As a result, Kiribati's trade-freedom score jumped from 23.8 in the *2021 Index of Economic Freedom* to 80.0 in the upcoming *2022 Index*. The previously high import duties (tariffs) in Kiribati have been replaced by value-added taxes and excise taxes, which are thought to be more efficient and less economically debilitating sources of revenue.

In order to further improve its trade-freedom score, Kiribati will have to do away with some of its nontariff trade barriers, while keeping its average weighted tariff rate at zero.

Conclusion

Each year, the *Index of Economic Freedom* shows that economies and people are better off when trade is free and open. The correlations between free and open trade and healthy natural environments, higher gross national income, political tranquility, and greater food security are undeniable. To improve their trade-freedom scores, countries should first and foremost lower their domestic barriers to trade by eliminating tariffs and nontariff barriers. Eliminating tariffs gives the greatest boost to trade freedom, but entering into free trade agreements with other countries can also lower barriers. It is crucial, however, that these agreements truly promote free trade rather than just manage trade flows through burdensome regulations that have little or nothing to do with individual and business freedom. Countries must also remain dedicated to their WTO commitments while they seek reform of the organization.

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Appendix A: Methodology

Trade freedom is a composite measure of the extent of tariff and nontariff barriers that affect imports and exports of goods and services. The *Index of Economic Freedom's* trade-freedom score is based on two inputs:

1. The trade-weighted average tariff rate, and
2. A qualitative evaluation of nontariff barriers (NTBs).

Different imports entering a country can (and often do) face different tariffs. The weighted average tariff uses weights for each tariff based on the share of imports for each good. Weighted average tariffs are a purely quantitative measure and account for the calculation of the base trade-freedom score using the following equation:

$$\text{Trade Freedom}_i = 100(\text{Tariff}_{\max} - \text{Tariff}_i) / (\text{Tariff}_{\max} - \text{Tariff}_{\min}) - \text{NTB}_i$$

where *Trade Freedom_i* represents the trade freedom in country *i*; *Tariff_{max}* and *Tariff_{min}* represent the upper and lower bounds for tariff rates (%); and *Tariff_i* represents the weighted average tariff rate (%) in country *i*. The minimum tariff is naturally zero percent, and the upper bound was set at 50 percent.

The extent of NTBs in a country's trade policy regime is determined using both qualitative and quantitative information. Restrictive rules that hinder trade vary widely, and their overlapping and shifting nature makes their complexity difficult to gauge. The types of NTBs considered in *Index* scoring include:

Quantity restrictions: such as import quotas, export limitations, voluntary export restraints; import–export embargoes and bans, and countertrade measures;

Regulatory restrictions: licensing; domestic-content and mixing requirements; sanitary and phytosanitary standards (SPSs); safety and industrial-standards regulations; packaging, labeling, and trademark regulations; and advertising and media regulations.

Customs restrictions: advance-deposit requirements, customs-valuation procedures, customs-classification procedures, and customs-clearance procedures.

Direct government intervention: subsidies and other aid; government industrial policies; government-financed research and other technology policies; competition policies; government-procurement policies; government monopolies, and exclusive franchises.

In addition, where possible, the *Index* considers and reports the number of nontariff measures in force as calculated by the World Trade Organization (WTO).

As an example, Kiribati received a trade-freedom score of 80.0. By itself, Kiribati's trade-weighted average tariff of 0.0 percent would have yielded a score of 100, but the evaluation of NTBs in Kiribati resulted in a 20-point deduction from that score.

Gathering tariff statistics to make a consistent cross-country comparison is a challenging task. Unlike data on inflation, for instance, some countries do not report their weighted average tariff rate or simple average tariff rate every year.

To preserve consistency in grading the trade freedom component, the *Index* uses the most recently reported most favored nation (MFN) trade-weighted average tariff rate for a country from our primary sources.

The most comprehensive and consistent information on MFN trade-weighted average tariff rates is published by the WTO. When the MFN trade-weighted average applied tariff rate is not available, the *Index* uses the country's simple average of MFN tariff rates; when the country's simple average MFN tariff rate is not available, the weighted average or the simple average of applied tariff rates is used. In the very few cases where tariff rates are not available from the WTO or the World Bank, data on international trade taxes or an estimated effective tariff rate are used instead.

APPENDIX B TABLE 1

2022 Trade Freedom Scores

Country	Score	Country	Score	Country	Score
Albania	82.6	Gabon	56.8	North Macedonia	77.8
Algeria	57.4	Gambia	63.8	Norway	85.4
Angola	70.0	Georgia	86.6	Oman	73.4
Argentina	60.6	Germany	79.2	Pakistan	65.8
Armenia	73.6	Ghana	63.0	Panama	77.2
Australia	90.0	Greece	79.2	Papua New Guinea	80.4
Austria	79.2	Guatemala	75.0	Paraguay	77.0
Azerbaijan	66.6	Guinea	66.4	Peru	81.4
Bahamas	49.0	Guinea-Bissau	55.8	Philippines	73.8
Bahrain	83.0	Guyana	69.4	Poland	79.2
Bangladesh	63.8	Haiti	65.4	Portugal	79.2
Barbados	58.4	Honduras	71.6	Qatar	81.4
Belarus	75.6	Hungary	79.2	Romania	79.2
Belgium	79.2	Iceland	81.0	Russia	69.0
Belize	55.6	India	71.0	Rwanda	58.2
Benin	61.4	Indonesia	78.6	Saint Lucia	56.6
Bhutan	40.8	Iran	59.2	Saint Vincent & Grenadines	59.8
Bolivia	60.8	Ireland	79.2	Samoa	66.4
Bosnia & Herzegovina	68.8	Israel	78.8	Sao Tomé and Príncipe	65.0
Botswana	77.2	Italy	79.2	Saudi Arabia	74.8
Brazil	60.0	Jamaica	69.2	Senegal	65.8
Brunei	84.6	Japan	75.4	Serbia	77.0
Bulgaria	79.2	Jordan	71.8	Seychelles	81.2
Burkina Faso	61.0	Kazakhstan	75.4	Sierra Leone	63.6
Burma	69.4	Kenya	56.0	Singapore	95.0
Burundi	51.0	Kiribati	80.0	Slovakia	79.2
Cabo Verde	66.0	Kosovo	78.6	Slovenia	79.2
Cambodia	64.8	Kuwait	75.6	Solomon Islands	68.6
Cameroon	55.2	Kyrgyzstan	73.2	South Africa	72.2
Canada	83.2	Laos	66.8	South Korea	73.0
Central African Republic	46.2	Latvia	79.2	Spain	84.2
Chad	52.0	Lebanon	74.2	Sri Lanka	47.0
Chile	78.0	Lesotho	62.2	Sudan	48.0
China	73.2	Liberia	60.8	Suriname	60.6
Colombia	76.4	Lithuania	79.2	Sweden	79.2
Comoros	27.0	Luxembourg	79.2	Switzerland	86.6
Congo Dem. Rep.	68.0	Madagascar	64.8	Taiwan	86.0
Congo Rep.	56.4	Malawi	67.4	Tajikistan	69.6
Costa Rica	74.6	Malaysia	82.2	Tanzania	59.8
Côte d'Ivoire	73.6	Maldives	60.0	Thailand	71.6
Croatia	79.2	Mali	64.0	Timor-Leste	75.0
Cuba	64.0	Malta	79.2	Togo	65.6
Cyprus	79.2	Mauritania	60.6	Tonga	73.4
Czech Republic	79.2	Mauritius	87.4	Trinidad & Tobago	68.8
Denmark	79.2	Mexico	76.6	Tunisia	66.2
Djibouti	43.2	Micronesia	74.8	Turkey	75.6
Dominica	55.6	Moldova	76.6	Turkmenistan	74.2
Dominican Republic	69.0	Mongolia	74.4	Uganda	57.8
Ecuador	61.0	Montenegro	78.8	Ukraine	78.6
Egypt	60.2	Morocco	68.6	United Arab Emirates	78.2
El Salvador	69.4	Mozambique	70.6	United Kingdom	84.2
Equatorial Guinea	48.8	Namibia	71.2	United States	75.2
Eritrea	69.2	Nepal	57.6	Uruguay	70.4
Estonia	79.2	Netherlands	79.2	Uzbekistan	75.6
Eswatini	71.8	New Zealand	90.0	Vanuatu	61.6
Ethiopia	61.4	Nicaragua	67.8	Venezuela	54.8
Fiji	55.2	Niger	62.6	Vietnam	78.8
Finland	79.2	Nigeria	68.6	Zambia	68.2
France	79.2	North Korea	0.0	Zimbabwe	0.0

Endnotes

1. Terry Miller, Anthony B. Kim, and James M. Roberts, *Index of Economic Freedom* (Washington, DC: The Heritage Foundation), <https://www.heritage.org/index/>.
2. Inside U.S. Trade, World Trade Online, "U.S. Ag Subsidies Hit All-Time High in 2019, Just Shy of WTO Limit," October 1, 2021, <https://insidetrade.com/daily-news/us-ag-subsidies-hit-all-time-high-2019-just-shy-wto-limit> (accessed November 10, 2021).
3. Kiribati Ministry of Commerce, Industry, and Cooperatives, "Kiribati Trade Policy Framework 2017-2027," <https://mcic.gov.ki/wp-content/uploads/2018/12/Kiribati-Trade-Policy-Framework.pdf> (accessed October 21, 2021).