

Media Release

Economic freedom found to be a powerful magnet for investment according to new study

For Immediate Release

VANCOUVER, BC, CANADA, 15 JULY 2004— Economically free nations attract nearly \$11,000 of investment per worker, 12 times more than the \$845 investment per worker in unfree economies, according to new research contained in the **Economic Freedom of the World: 2004 Report**. Nations with middling levels of freedom attract \$3,319 (numbers in constant 1995 US\$) of investment per worker. This annual report was released today Canada's Fraser Institute.

"Economic freedom is a powerful magnet for investment," said Dr. Michael Walker, the Fraser Institute's Executive Director. "When people are free to make their own choices, they will invest in the future. So will foreign investors because they understand the opportunities economic freedom creates."

As well as looking at overall investment, the report specifically examines foreign direct investment (FDI), which has been shown to have a particularly powerful effect in promoting growth and technology transfer. Free economies attract \$3,117 of foreign direct investment (FDI) per worker, compared to \$444 for the middling group and only \$68 for the least free nations.

"Remarkably, the foreign direct investment per worker of the persistently free economies was more than 45 times the figure for the persistently unfree group," write the report's authors, James Gwartney, Professor of Economics at Florida State University; Gus A. Stavros, Eminent Scholar at Florida State University, USA; and Robert Lawson, Professor of Economics at Capital University, Ohio, USA.

"Moreover, the productivity of investment is 70 percent greater in economically free nations than in unfree nations," Gwartney and Lawson added.

Economic Freedom of the World is published by Canada's Fraser Institute, in conjunction with independent research and educational institutes in over 60 nations.

Economic freedom boosts prosperity through two routes: by unleashing the drive and ingenuity of individuals and by increased investment. The result is consistent with empirical research in the world's pre-eminent peer reviewed journals -- including *The American Economic Review*, *The European Journal of Political Economy*, and *The Journal of Private Enterprise* -- that shows economic freedom has a powerful and positive effect on growth and prosperity.

Economically free nations experienced 3.4 percent growth a year from 1980 to 2000, compared to 1.7 percent for countries with middling economic freedom and just 0.4 percent for unfree nations. The results are even more startling for poor nations. Economically free poor nations had a growth rate of 5.2 percent compared to 1.7 for the middle group and 0.6 percent for the least free group.

Global Economic Freedom Rankings

Hong Kong retains the highest rating for economic freedom (8.7 of 10) closely followed by Singapore at 8.6. New Zealand, Switzerland, United Kingdom, and United States tied for third with ratings of 8.2 out of 10. The other top 10 nations are Australia, Canada, Ireland, and Luxembourg. The rankings of other large economies are Germany, 22; Japan and Italy, 36; France, 44; Mexico, 58; India, 68; Brazil, 74; China, 90; and Russia, 114.

Most of the lowest-ranking nations are African, Latin American or former communist states. The bottom five nations were Venezuela, Central African Republic, the Democratic Republic of Congo, Zimbabwe, and Myanmar. However, a number of other nations for which data are not available, such as North Korea and Cuba, may have even less economic freedom. Botswana's ranking of 18 is by far the best among continental sub-Saharan African nations. Chile, with the best record in Latin America, was tied with four other nations at 22.

Nations in the top fifth of economic freedom have an average per capita income of \$26,100 compared to \$2,800 in nations in the bottom fifth of economic freedom. Economic freedom benefits the lives of all people including the poor. In nations in the top fifth of economic freedom, the average income of the poorest 10 percent of the population was \$6,877 compared to just \$823 in the least free nations.

“Freedom in all its forms -- whether political, civil or economic -- enhances the lives of all people. This report is yet more proof of that,” said Walker.

About the Economic Freedom Index

The first **Economic Freedom of the World Report** published in 1996, was the result of a decade of research by a team, which included several Nobel Laureates and over 60 other leading scholars, in a broad range of fields, from economics to political science and from law to philosophy.

This, the 8th edition of Economic Freedom of the World, rates and ranks 123 nations for 2002, the most recent year for which data are available. The report also updates data in earlier reports in instances where data have been revised. The index contains 38 variables, including 18 survey-based variables obtained from survey data published in the International Country Risk Guide and the Global Competitiveness Report. While survey data have weaknesses, they provide insight into the important areas of legal structure and regulation and, to a lesser extent, of international trade.

In addition, Global Economic Software has developed a new commercial software package for analysis of Economic Freedom of the World data that can be used in conjunction with other important socio-economic indicators.

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For more information on the Economic Freedom Network, data sets and previous Economic Freedom of the World reports, go to www.freetheworld.com.