



ASIA-PACIFIC

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The Asia-Pacific region spans the world's largest surface area, stretching from Japan and New Zealand in the East to Azerbaijan in the West. With 4.1 billion inhabitants, this region contains over half of the world's population, with much of this population concentrated in just two countries: China and India.

Despite the challenging global economic environment, the region has achieved an average annual economic growth rate of close to 6.5 percent over the past five years, driven largely by China, India, and other trade-oriented economies. The region also has one of the lowest average unemployment rates (4.3 percent) and the lowest average inflation rate (3.3 percent).

More notably, what makes the Asia-Pacific region unique from other regions is the extraordinary disparity in its countries' levels of economic freedom. The contrast between North Korea and South Korea, for example, provides a vivid demonstration of the benefits of economic freedom.

Chart 1 shows the distribution within the *Index* of Asia-Pacific countries in terms of economic freedom. Four of the world's five truly

“free” economies (Hong Kong, Singapore, Australia, and New Zealand) are in this region. Another four of the region's 43 countries (Taiwan, South Korea, Malaysia, and Macau) are rated “mostly free.” The majority of the other countries remain “mostly unfree.” Four countries, including Turkmenistan, Timor-Leste and Afghanistan, have economies that are rated “repressed.” North Korea, which continues to reject any form of free-market activity, remains the least free economy in both the region and the world.

Although its overall economic freedom score is below the world average of 60.9 in the 2017 *Index*, the Asia-Pacific region continues to score higher than world averages in five of the 12 economic freedom categories related to government size and regulatory efficiency: tax burden, government spending, fiscal health, business freedom, and labor freedom. (See Table 1.) Typically lower government expenditures result in a regional government spending score that is over five points better than the world average. The region's labor freedom score also beats the world average by about five points, although many small Pacific island economies still lack fully developed formal labor markets. In other critical areas of economic freedom such as protection of property rights, judicial effectiveness, government integrity, investment freedom, and financial freedom, the Asia-Pacific region as a whole lags behind world averages.

As shown in Chart 2, the eight freest Asia-Pacific countries far outpace other countries in the region in per capita income. It is the less free countries in the region, however—notably China and India, both “mostly unfree” and ranked only 111th and 143rd, respectively, in the world—that have the highest growth rates. One of the most interesting findings of the *Index* is that economic growth is more highly correlated with improvements in economic freedom than with its absolute level. It

ASIA-PACIFIC: QUICK FACTS

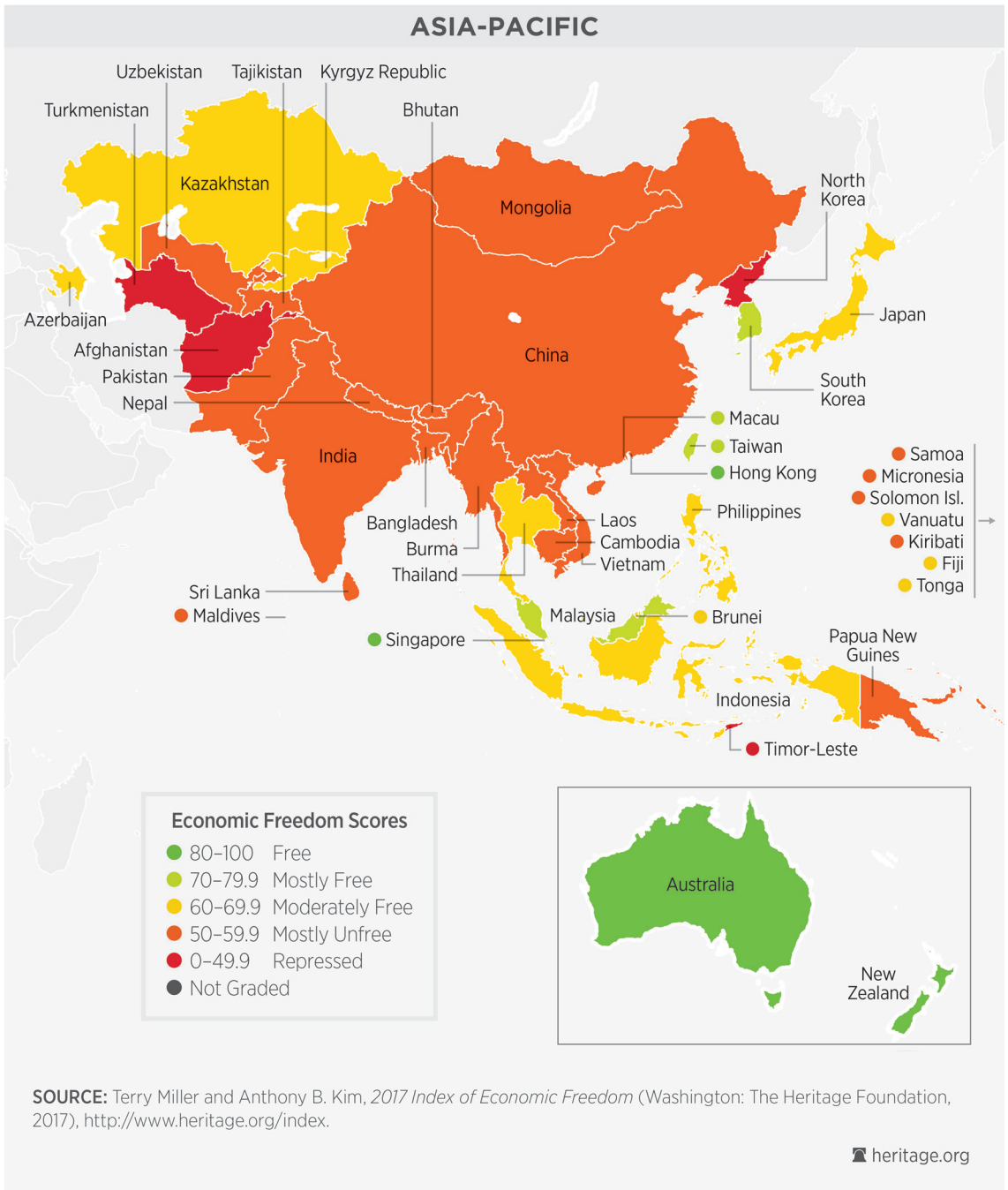
TOTAL POPULATION: 4.1 billion

POPULATION WEIGHTED AVERAGES

GDP PER CAPITA (PPP):	\$11,494
GROWTH:	6.1%
5 YEAR GROWTH:	6.4%
INFLATION:	3.3%
UNEMPLOYMENT:	4.3%
PUBLIC DEBT:	56.2%

SOURCE: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>.

 heritage.org

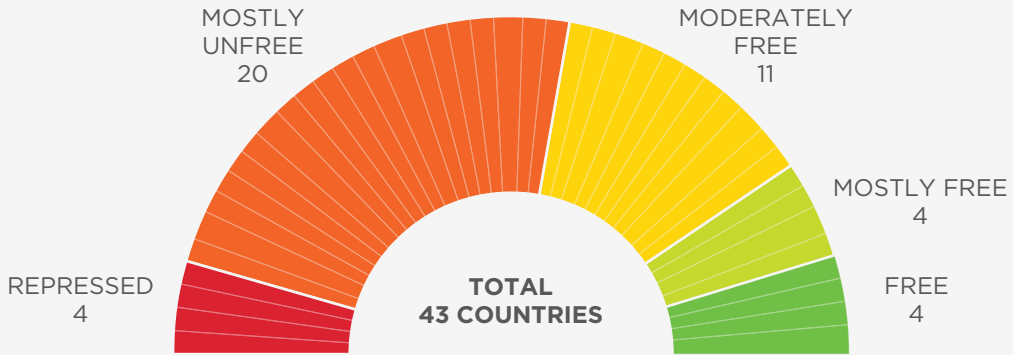


is interesting to note in this context that economic freedom scores in both China and India have improved by over five points over the life of the *Index*. Nevertheless, the foundations of economic freedom continue to be fragile in both countries, with reforms often stymied by those who have a political interest in

maintaining the status quo. There is therefore room for considerable further progress.

As depicted in Chart 3, it is clear that greater economic freedom is also strongly correlated with overall well-being, which takes into account such factors as health, education, security, and personal freedom.

ASIA-PACIFIC: ECONOMIC FREEDOM SUMMARY



SOURCE: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>.

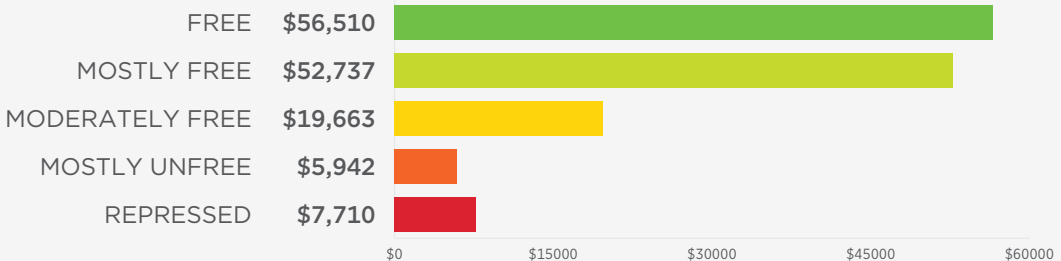
Chart 1 heritage.org

In the 2017 *Index*, the scores of 32 countries in the Asia-Pacific region have improved, and those of 11 have declined.

NOTABLE COUNTRIES

- Burma's economy has undergone significant changes. Economic sanctions have been eased or lifted, and the government has launched reforms to modernize the economic system. A new banking and finance law that lays the foundations for more efficient licensing of financial institutions has been ratified. In 2016, the lower house of parliament also approved a new investment law.
- China, with its low deficits and moderate level of public debt, benefited significantly this year in the rankings from

ASIA-PACIFIC: GDP PER CAPITA, BY ECONOMIC FREEDOM CATEGORY



SOURCES: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>, and International Monetary Fund, World Economic Outlook Database, April 2016, <https://www.imf.org/external/pubs/ft/weo/2016/01/weodata/index.aspx> (accessed December 13, 2016).

Chart 2 heritage.org

ASIA-PACIFIC: COMPONENTS OF ECONOMIC FREEDOM

LOWER THAN WORLD AVERAGE ● | | ● HIGHER THAN WORLD AVERAGE

		AVERAGES			
		Region	World		
OVERALL		60.3	60.9		●
RULE OF LAW	Property Rights	52.8	53.0	●	
	Judicial Effectiveness	41.8	45.0	●	
	Government Integrity	42.1	43.0	●	
GOVERNMENT SIZE	Tax Burden	80.3	77.1		●
	Government Spending	68.9	63.4		●
	Fiscal Health	72.6	68.0		●
REGULATORY EFFICIENCY	Business Freedom	66.2	64.6		●
	Labor Freedom	64.0	59.2		●
	Monetary Freedom	74.4	76.4		●
MARKET OPENNESS	Trade Freedom	74.7	75.9		●
	Investment Freedom	44.2	57.2	●	
	Financial Freedom	41.8	48.2	●	

SOURCE: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>.

Table 1  heritage.org

the incorporation of those two factors in the *Index* methodology. Regrettably, there seems to be little momentum for significant economic reform, and the government, confronting a period of economic slowdown, has increased expansionary fiscal and monetary interventions. Deep-seated structural problems, including a state-controlled financial sector and regulatory inefficiency, remain unaddressed.

- Economic freedom continues to decline in Japan, and the economy remains stagnant. Scores in the economic freedom categories related to the size of government are far below average, but much of the government's political capital has been expended

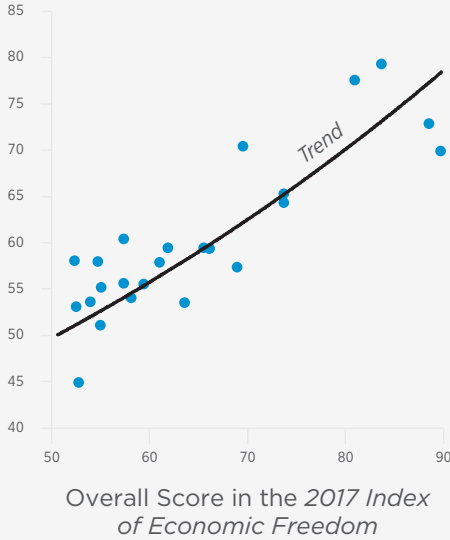
in efforts related to the country's defense and security posture rather than economic reform, which would challenge well-established special interests and traditions.

- Despite the difficult global economic environment, the Philippines has achieved notable economic expansion, driven by the economy's strong export performance and inflows of remittances that have bolstered private consumption. The government has pursued a series of legislative reforms to enhance the overall entrepreneurial environment and develop a stronger private sector, but the country still lags in business freedom, labor freedom, and the rule of law.

ASIA-PACIFIC: ECONOMIC FREEDOM AND OVERALL WELL-BEING

Each circle represents a nation in the
Index of Economic Freedom

Prosperity Index Score



SOURCES: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>, and Legatum Institute Foundation, "The Legatum Prosperity Index 2016," 2016, <http://www.prosperity.com/rankings> (accessed December 13, 2016).

Chart 3  heritage.org

- Capitalizing on its gradual integration into the global trade and investment system, Vietnam is transforming into a more market-oriented economy. Reforms have included partial privatization of state-owned enterprises, liberalization of the trade regime, and increasing recognition of private property rights. The economy has registered annual growth rates averaging about 6 percent over the past five years.