A Critical Review of the Economic Freedom of the World Index, with Reference to Thailand and the Freedom to Exchange with Foreigners*

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I. INTRODUCTION

The *Handbook of Freedom* (DFN 2004) defines economic freedom as "the right of man to engage in voluntary economic activities (e.g., trade) for his benefit." There are a number of other definitions and measures of such economic freedom. The Fraser Institute and other institutions annually publish the *Economic Freedom of the World* report, which contains various indices to measure *economic freedom*. This publication forms the basis for our review. Economic freedom is not a new term but an adaptive dimension for rating how residents of a country assess the freedom of their personal choices and voluntary exchanges, their freedom to compete, and the protection of their person and property from incidental shocks.

Representative government is the political corollary of the market economy. The same philosophic movement that created modern capitalism substituted elected officeholders for the authoritarian rule of absolute kings and hereditary aristocracies. It was this much-decried bourgeois liberalism that helped to bring about today's freedom of conscience, of thought, of speech, and of the press, and put an end to the intolerant persecution of dissenters. The governmental as well as political institutions providing the infrastructure and necessary foundations of society therefore protect individuals and their property from violence and coercive forces. In preparing the *Economic Freedom of the World* report, Gwartney and Lawson (2003) found a positive high correlation between the economic freedom index and per capita income and economic growth. In addition, the index is comparable to other leading social indicators, such as the illiteracy rate, the percentage of the population having access to improved sanitation facilities, and the expectation of life.

The *Economic Freedom of the World* index adapts third-party data to measure the degree of economic freedom of countries in five areas: (1) size of government, (2) legal structure and security of property rights, (3) access to sound money, (4) freedom to exchange with foreigners, and (5) regulation of credit, labor, and business. This paper is aimed at analyzing and qualifying the degree of freedom under *Area 4: Freedom to Exchange with Foreigners*, as it relates to the policies of Thailand and their implications.

Area 4 encompasses one of the most important issues of economic freedom in the global context, i.e., the freedom to exchange among a nation's residents and those living outside its national boundaries, a process that contributes to better living standards. The freedom to exchange with foreigners therefore involves the elimination or amelioration of restrictions that would otherwise be an obstacle to international trade, such as tariffs and quotas, non-tariff barriers, hidden administrative costs of exchange, exchange rates and capital controls. These economic freedom indicators are therefore notified and adapted using the current situation of Thailand as well as the current policy implications to support these indices.

Based on the economic freedom indices for Area 4, the evidential and policy implications will be discussed according to the following economic freedom ratings (see Gwartney and Lawson (2003) for details on how the indices are computed):

- A: Taxes and international trade
  - (i) Taxes as a percentage of exports and imports
  - (ii) Mean tariff rates
  - (iii) Variability of tariff rates
- B: Regulatory trade barriers
  - (i) Hidden import barriers
  - (ii) Cost of importing
- C: Actual size of trade sector compared with expected size
- D: Difference between official exchange rate and black market rate
- E: International capital market controls
  - (i) Access to foreign capital
  - (ii) Restrictions on foreign capital transactions

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