LEGATUM INSTITUTE

GLOBAL INDEX OF ECONOMIC OPENNESS

# Economic Openness

## United Kingdom Case Study

2019

## ABOUT THE LEGATUM INSTITUTE

The Legatum Institute is a London-based think tank with a global vision: to see all people lifted out of poverty. Our mission is to create the pathways from poverty to prosperity, by fostering Open Economies, Inclusive Societies and Empowered People.

We do this in three ways:

Our **Centre for Metrics** which creates indexes and datasets to measure and explain how poverty and prosperity are changing.

Our **Research Programmes** which analyse the many complex drivers of poverty and prosperity at the local, national and global level.

Our **Practical Programmes** which identify the actions required to enable transformational change.

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# FOREWORD

**Baroness Stroud**
CEO, Legatum Institute

Who would have predicted twenty years ago that Britain would find itself so preoccupied by a national debate about Economic Openness today? It feels as though we are fighting over old ground. Many assumed that the link between British prosperity and Economic Openness was widely accepted – but the debate around the nature of the UK's withdrawal from the European Union has demonstrated widespread disagreement about the fundamental tenets of British prosperity.

The Legatum Institute's mission is to create the pathways from poverty to prosperity, and our work is focused on understanding how prosperity is created. To that end, with the generous support of the Templeton World Charitable Foundation, we have created a Global Index of Economic Openness to rank 157 countries' openness to commerce, assessing the environment that enables or hinders their ability to trade both domestically and internationally. As part of this programme of work, we will be undertaking a series of in-depth country case studies based on the Index, including this one on the United Kingdom, in which we analyse its performance in the key characteristics of openness to trade, investment, ideas, competition, and talent.

The United Kingdom has a tradition of Economic Openness stretching back centuries, to the original codification of the City of London's special legal status in the Magna Carta. Whatever challenges the United Kingdom faces in the future, this tradition of Economic Openness – the settled way of doing things – provides a firm foundation on which to build. Analysis from our Global Index of Economic Openness shows a strong correlation between a country's institutional strength and its ability to withstand shocks and crises, and to recover quickly. Indeed, this report shows that Britain has great institutional resilience that will enable it to withstand significant disruption and shocks.

We believe that this core institutional strength will serve the United Kingdom well, as the government seeks to address several challenging policy fronts: the rapid pace of technological change, a rise in inequality at both the individual and regional level, and a lag in upgrading critical Transport infrastructure. And at the time of writing, the terms of Britain's withdrawal from the EU are still unresolved. We, like Mark Carney, the Governor of the Bank of England, see Brexit as a litmus test for the first principles of Economic Openness and democratic accountability:

> *"In many respects, Brexit is the first test of a new global order and could prove the acid test of whether a way can be found to broaden the benefits of openness while enhancing democratic accountability. Brexit can lead to a new form of international cooperation and cross-border commerce built on a better balance of local and supranational authorities".*

Regardless of the outcome of the Brexit negotiations, the analysis throughout this report illustrates that the United Kingdom's fundamentals of Economic Openness are strong. However, we have also identified three areas of growth opportunity.

First, Governance in the United Kingdom is strong and stable. The public has high levels of trust in governing institutions, which have world-leading scores for accountability and efficiency. However, it is clear from the current deadlock in Westminster that the British parliamentary system is not designed to handle the result of a referendum on a major constitutional issue.

Second, a growing concern for individuals and investors is Britain's Transport infrastructure, with evidence in this report that it is beginning to lag behind other OECD countries. Whilst the UK has a world-leading Communications infrastructure, and as a result is advanced in areas such as e-commerce, the slow pace of local planning and national policy decisions on large infrastructure projects needs to improve significantly if Britain is to maintain its long-held competitiveness in Transport. Airport connectivity and capacity, high speed and interconnecting rail links, and many other smaller infrastructure improvements are fundamental to the United Kingdom's future economic prosperity. For example, HS2, a £50 billion-plus high-speed rail link to connect the North with London, remains mired in uncertainty with waning support from some government ministers. The debate on expanding Heathrow has been going on for nearly 20 years.

Third, Britain is highly enterprising, and it has done well in creating an environment for start-ups to thrive, thanks to a supportive regulatory environment, a dynamic workforce, and plentiful access to venture capital. But the key challenge is to scale up and create new national champions. Although the UK can claim more unicorn companies (a privately held start-up company valued at over $1 billion) than the rest of Europe combined, the overall number is small, and the UK is a long way behind the United States in this area.

One can find much reason for optimism for the United Kingdom in each of the pillars of the Index. It is in a healthy position, and its tradition of Economic Openness stands it in good stead. Whatever position it reaches in the coming weeks and months as it redefines its relationship with the EU, the one thing we can learn from this report is that it will be able to build on these strengths primarily by being economically open.

# EXECUTIVE SUMMARY

This report is part of a series of case studies examining the links between a nation's Economic Openness and prosperity, informed by the insights generated by our Global Index of Economic Openness. We focus on the United Kingdom, as it is both an example of a generally high performing economy, but also one whose future relationship with other trading partners is very much under scrutiny.

We examine four characteristics of open economies, assessing the extent to which they have:

- **Market Access and Infrastructure**, such that products and services can be easily produced and delivered to customers;
- **Investment Environment**, such that domestic and foreign sources of finance are widely available;
- **Enterprise Conditions** that ensure markets are contestable and free from burdensome regulation;
- **Governance** that is underpinned by the Rule of Law, as well as Government Integrity and Effectiveness.

Our analysis indicates a clear link between the extent to which a country's economy exhibits these characteristics and its productive capacity. This link is supported by a long history of academic literature, and can also be seen in the histories of those countries that have achieved a high level of economic wellbeing.

It is this link that we explore in more detail for the United Kingdom in this case study. The UK performs well on these attributes of Economic Openness, and is a good example for other nations as to what a commitment to these principles can deliver over time. But Britain is also a country whose openness is in the spotlight, with key political and economic questions about its future being highlighted in the Brexit debate. This debate often focusses entirely on the benefits or disadvantages of free trade, but as we will show in this paper, Economic Openness is about much more than trade. The evidence shows that increasing Economic Openness can have many benefits, and we believe that turning away from openness would likely have commensurate costs; as in any area of policy, it is helpful for policy makers and the general public to be aware of these trade-offs.

**Our key findings are as follows:**

— The United Kingdom has long been a free trading nation and a champion of open markets and competition, resulting in greater choice, lower prices, and more innovation that in turn attracts capital and skills. Britain has historically had a culture of enterprise and openness to the world, and is ranked seventh in the world for Economic Openness.

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The United Kingdom has long been a free trading nation and a champion of open markets and competition

- There is a long history of private enterprise. These Enterprise Conditions are hard to replicate quickly, as well as hard to destroy. It is the result of a history of trade, Rule of Law and an entrepreneur-friendly environment, in terms of regulation and access to capital. The United Kingdom is well placed to continue thriving despite threats to its economy, both from uncertainty around the outcome of Brexit and the possibility of an anti-enterprise political agenda.
- Britain is a leader in technology with an advanced Communications infrastructure that supports and enables its Market Access and Infrastructure, Investment Environment and Enterprise Conditions.
- The status of the City of London, a leading global financial centre, rests upon a historically strong institutional base, resulting in deep liquidity and extensive expertise in the provision of capital solutions necessary to launch new ideas and generate growth.

## MARKET ACCESS AND INFRASTRUCTURE (UK RANK: 9TH)

- Based on international benchmarks, the United Kingdom performs well in terms of overall Market Access and Infrastructure. Moreover, matters improved steadily from 2008 to 2016 due to policy decisions that have driven a sustainable long-term rise in the trade intensity of the economy, especially in services exports.
- Effective Communications are the life-blood of a modern economy. The United Kingdom's performance for the quality of its Communications infrastructure is good, behind only the Nordics and city-states, and comparable to the world-leader, Japan, for its advanced information and communication technology. The United Kingdom's government policy since the 1980s has sought to liberalise the Communications market to new competition to improve services in terms of reliability and price. As the pace of technological change has increased, the United Kingdom has embraced the Communications revolution, achieving high degrees of mobile adoption and internet usage.

The United Kingdom is undertaking two of the largest Transport infrastructure projects in Europe

- Facilitating trade with an effective Transport network is vital. The United Kingdom's performance in Transport is good, but comparably low in ranking terms, behind many geographically smaller countries. Improvements to the quality of road, rail and air infrastructure in the United Kingdom are achievable, but remain hampered by an inability to make timely decisions on new projects. The United Kingdom is undertaking two of the largest Transport infrastructure projects in Europe (CrossRail in London and HS2 to provide high-speed connections between the North, Midlands and London), but both projects have seen initial cost estimates and time frames overrun.
- The United Kingdom suffers from fewer Market Distortions than large comparator countries such as the United States and Japan, while also being as open and contestable as benchmark countries. The United Kingdom has been successful in creating clusters where skills and activities are concentrated around specialist industries and activities.

## INVESTMENT ENVIRONMENT (UK RANK: 5TH)

- The United Kingdom performs extremely well in terms of its Investment Environment, as befits the home of one of the world's foremost financial centres. London provides the full range of financial and investment services to domestic and international businesses. The United Kingdom is extremely strong in terms of its Financing Ecosystem, coming third, just behind Singapore and the U.S., and just ahead of Hong Kong.
- The United Kingdom has high degrees of Investor Protection, underpinning its desirability as a destination for investment. Other leaders are the Nordic countries and Singapore. The quality of Property Rights and Investor Protections is on a par with other benchmark countries. The one area where the United Kingdom falls

behind the benchmark is in Contract Enforcement, which is costlier and more time-consuming than other countries.

- The United Kingdom is a popular home for investors, leading Europe in foreign direct investment, and does well at minimising the Restrictions on International Investment.
- The United Kingdom has deep pools of accumulated financial assets, and many financial institutions are willing to accept equity risk, providing businesses with the means to invest and grow.

## ENTERPRISE CONDITIONS (UK RANK: 6TH)

- The United Kingdom performs well in terms of creating good Enterprise Conditions and the necessary support to promote entrepreneurial activity, including minimising impediments and ensuring a flexible workforce. This is an achievement, given that countries enjoying high levels of entrepreneurial activity (other than the United States) are typically small, dynamic city-states such as Singapore and Hong Kong.
- While the United Kingdom is a world leader in creating the conditions for enterprise, it performs only modestly for entrepreneurial activity (actually becoming an entrepreneur). This reflects the fewer opportunities to become an 'efficiency driven' entrepreneur in the United Kingdom. By contrast, the United States' scores significantly better in nascent entrepreneurship than all other comparator countries, statistically reinforcing the perception that the United States economy is highly effective in generating entrepreneurial ideas that grow into substantial businesses.

The United Kingdom performs well in terms of creating good Enterprise Conditions and the necessary support to promote entrepreneurial activity

- The United Kingdom performs relatively poorly in terms of the administrative burden on businesses, due to excessive time dealing with regulation and lengthy corporate tax audits, as well as expenses to do with construction permits.
- Labour flexibility is a notable strength of the United Kingdom, behind only the city-states, the U.S., and Switzerland, and reflects the flexibility of both employers and employees and a culture of collaboration. Britain's employment market is dynamic, with people moving regularly between firms and bringing new ideas and approaches to organisations as they move.

## GOVERNANCE (UK RANK: 10TH)

- The United Kingdom performs well in terms of overall Governance, due to high levels of Government Integrity and a system that is largely free of corruption and abuse of public office. There is a deeply ingrained culture of democracy and sense of the legitimacy of government.
- The United Kingdom has a long history of effective Governance, and trust in its governing institutions. This has remained so, even as trust in individual politicians has been tested in recent years.
- The United Kingdom is the world leader in Government Accountability and Government Efficiency, with effective systems in place that can remove those making poor decisions from power, and resources are generally used efficiently.
- The United Kingdom's attachment to the Rule of Law is an ongoing strength, with a well-developed commercial legal system that is accepted and adopted globally. In the United Kingdom the law is sufficiently understood, accepted and obeyed so that legal dispute resolution is a last resort and uncommon. However, legal services are relatively expensive when they are required.

Our world is full of opportunity, and maintaining the UK's long-standing Economic Openness will be important as the country forges new relationships with the EU and the rest of the world. Grasping these opportunities will require a strategic view of how to best develop Economic Openness in a way that sees the UK prosper. Our hope is that this report contributes some of the answers to these challenging questions.


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## The Global Index of Economic Openness and UK Case Study

This case study of the United Kingdom uses the analytical framework developed in our Global Index of Economic Openness.

Over the past year, the Legatum Institute has worked with dozens of experts from around the world to develop this Global Index of Economic Openness. The intent has been to focus on the broad patterns of success that differentiate the economic success of countries as distinct as the United States of America, Angola, Azerbaijan, and Saudi Arabia.

There are many global indexes that seek to capture individual elements of economic and social success (e.g., the World Bank Doing Business Index, the World Bank Global Governance Index, the World Economic Forum Global Competitiveness Index, the World Economic Forum Enabling Trade Index, and World Trade Organization measures of tariff and non-tariff barriers, etc.). The aim of this Index is to draw these disparate elements into a more holistic perspective across the whole of an economy.

Measurements of economic impact from different aspects of open economies have also been the subject of extensive economic investigation. In constructing the Global Index of Economic Openness, we first reviewed the academic literature on the major drivers of productivity. Based on the existing literature and the structure of established global indices, and, we organised the elements of Economic Openness into four broad themes:

- **Market Access and Infrastructure,** which encompasses how easily products and services can be produced and delivered to customers;
- **Investment Environment,** whichs examines whether domestic and foreign sources of finance are widely available;
- **Enterprise Conditions,** which looks at whether markets are contestable and free from burdensome regulation;
- **Governance,** which comprises the integrity and effectiveness of the government, as well as the strength of the rule of law and constraints on the executive.

We then worked with forty-plus academics from the United Kingdom and around the world, with political economy, trade, finance, and entrepreneurship expertise to develop an appropriate taxonomy of discrete elements that drive economic success within each of those four major pillars. Over multiple iterations in hundreds of hours of meetings, we met with these experts to discuss these concepts and how to measure them. We also benefitted greatly from their feedback on this individual case study.

In order to determine the most reliable proxy measures for each of these elements across 100+ countries, we used an extensive variety of publicly available global data sources, including the World Bank, WTO, ITU, and WEF. For example, in the realm of Communications, we identified twelve different indicators of the quality of Communications at the national level, and through a process of iteration with the advice of our expert panel, narrowed this down to four measures which, between them, provided a reliable assessment of the quality of Communications in a country. Our goal in the selection of indicators, always, was to strike a balance between achieving reliability and conceptual clarity.

The indicators were weighted within each element to create an overall score and ranking, and each element was again weighted to create a pillar score, and the overall ranking of countries is based on the average of the four pillar scores. At each stage in the calibration process, we reviewed the relationship between each of the indicators and pillars with economic wellbeing. These elements each had a clear positive correlation with economic performance and a plausible causal impact. While these areas do not cover the entirety of the drivers of economic success, our analysis indicates that together, they can explain 83% of the variation in economic wellbeing across 150 countries in the world. There are, of course, many exceptions to these broad patterns, and our intention with the Index is not to seek to identify specific policy gaps in any individual country as the binding constraint to growth. These would be more specific and nuanced than any one index could possibly provide.

Across the range of elements that we measure, there are some who would suggest that their relationship with prosperity might not be universally positive. For example, the literature on economic growth includes evaluations that indicate:

- Protective tariff measures can have a positive impact in some circumstances, especially for nascent industries in developing nations;[1]
- Widespread openness to international investment flows can pose as many risks as opportunities for smaller countries as evidenced in the Asian financial crisis in 1998;[2]
- Non-tariff barriers can be important forms of consumer and worker protection.[3] For example, the role of sanitary and phytosanitary measures in protecting human, plant, and animal health;
- Strategic industries need some shelter from international competition,[4] e.g. for national security purposes;
- Labour Market Flexibility needs to be counterbalanced by the requirement to protect workers' interests;[5]
- Some countries have been successful in spite of a lack of Political Accountability, or perhaps even because of it.[6]

While these arguments have been made mostly with respect to specific countries and specific circumstances, our focus has been on broad patterns between aspects of Economic Openness and prosperity, which can be seen around the world—and hence each of the discrete elements measured is both positively correlated with productive capacity, and has academic support for a causal relationship.

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# INTRODUCTION

The Legatum Institute's mission is to create the pathways from poverty to prosperity, by fostering open economies, inclusive societies and empowered people. Our work is focussed on understanding how prosperity is created, and providing the research, ideas and metrics to help leaders make informed choices.

We believe that prosperity is the result of economic and social wellbeing working together. This report is one of a series examining Economic Openness around the world. Our definition of Economic Openness in this report is broad, and has been developed from decades of established academic theory and in conjunction with leading thinkers on this issue.[1]

As we will explore in this report, Economic Openness is about more than just trade and regulation, it is about the wider conditions that exist in a country that can either help – or hinder – that country's economy. This case study focusses on the United Kingdom, as it is both an example of a generally high performing economy, but also one whose future relationships with other trading partners are very much under scrutiny.

This series of case studies is published in the context of our Global Index of Economic Openness, which provides rankings and analysis of the performance of the different nations of the world. We will provide a further ten in-depth case studies of countries at a range of stages of economic development.

Defining Economic Openness and its positive effects on prosperity is now a time-sensitive task. The benefits of globalisation and Economic Openness have been questioned in the wake of the global financial crisis. We continue to see the impacts of the crisis on the public debate ten years on, in the rapid rise of nationalism and populist politics across the western world. Yet globalisation continues apace. The degree of connectivity, the exchange of ideas and the levels of cross-border trade and commerce have fully recovered in the decade since the crisis. Trade between communities, countries and regions continues to spread innovation and transfer knowledge, to boost productivity and ultimately foster economic growth. But there is a question as to whether the level of international trade will outpace overall economic growth in future (thereby enhancing the spread of innovation), or merely keep pace with overall output.

One of the choices for policymakers who are seeking to ensure sustainable prosperity is to resist protectionism and instead reinvigorate the trade liberalisation agenda. In the aftermath of the crisis, when global trade flows slowed dramatically, many governments in both developed and developing countries contemplated, or were pushed into using, trade policy instruments, especially in the form of non-tariff measures, to protect their domestic industries and producers. The danger of "beggar-thy-neighbour" protectionist policies became a realistic possibility again. Happily, initial fears of a mutually damaging protectionist war in response to the economic crisis have not yet materialised, largely thanks to the strength of the rules-based multilateral trading system.

1. We have benefitted from the input of 40+ advisors. Full details can be found on www.li.com.

## MARKET ACCESS AND INFRASTRUCTURE

An environment supportive of trade and commerce will allow new products and ideas to be tested, funded, commercialised, and delivered easily to customers. This Market Access and Infrastructure comprises both the critical enablers of trade (Communications, Resources, and Transport) and also the inhibitors (Border Administration, Open Market Scale, Import Tariff Barriers, and Market Distortions). Trade also empowers individuals and encourages competition. Offering choices to consumers and businesses about which products, services and ideas they can buy domestically and internationally is at the core of free trade. Choice creates competitive and efficient markets, driven by consumers and buyers.

Yet the value of free trade extends beyond the purely economic role of connecting people and ideas, and promoting choice. As we explain in the next sections, the spread of free trade has enabled human advancement, innovation and economic growth, with more and more people participating in trade and commerce in a gradual move from subsistence farming to the factories of the industrial revolution and mass production. More recently, the technological revolution has enabled millions of people to take part in commercial, political, and social discourse thanks to the accessibility and affordability of new technology.

The analysis of the United Kingdom's performance in this report focusses on what we consider to be the key drivers of economic wellbeing across the world

The infrastructure that enables trade and commerce to operate can be measured by both the critical enablers of trade (Communications, Transport and Resources, in order of importance) and also inhibitors (Border Administration, Open Market Scale, Import Tariff Barriers, and Market Distortions). Communications includes fixed line and mobile telecoms as well as internet penetration, and is a major enabler for cross-border trade and mass participation in the formation, ownership and monetisation of ideas.

Lastly, we analyse distortions including subsidies, taxes and price continuity as disrupters of fair competition. Protectionism, for example, stifles new ideas and practices as policies seek to protect incumbents by putting up barriers to outside competition, and the result is typically inefficiency and stagnation with a downward spiral in innovation, growth and prosperity.

## INVESTMENT ENVIRONMENT

A good Investment Environment will ensure that domestic and foreign financing is available for commercial ventures. The impact of a good Investment Environment begins to make a significant difference once a solid base of Governance has been established. When Governance is weak and ownership of property and assets not reliably enforced or protected, then investment is restrained, no matter what the levels of available capital and financial regulations. The more such rights are genuinely protected and enforced in an economy, the more that investment can drive economic growth. Where ideas are welcome and legally protected, they can be backed by investment.

Good ideas need capital to come to market and expand to new markets. While long established businesses and entrepreneurs alike need investment, investors need the protection and confidence to back them. Investor Protection ranges from legal safeguards to the availability and disclosure of a company's financial performance. Prosperous societies need a base of investors and sufficient liquidity to finance business's capital expenditure requirements, its research and development and risk taking.

We measure the quality of a given Investment Environment through analysis of a number of variables indicative of the health of the Financing Ecosystem. These variables include the availability of equity and debt financing, the availability and cost of bank lending, the extent to which investors (and entrepreneurs) are protected and de-risked by protection of Property Rights through Contract Enforcement, and the strength of policies for foreign direct investment.

## ENTERPRISE CONDITIONS

Enterprise can deliver a real boost to economic prosperity, with improvements to Enterprise Conditions having the greatest impact on raising overall Economic Openness. However, this impact is most pronounced once the other pillars are strong. The United Kingdom, for example, is highly enterprising, enjoying open and contestable markets and relatively low regulatory burdens, all of which contribute to an agile, open and dynamic economy well placed to benefit from new opportunities in the information and technological revolution.

Critical to any success is the extent to which an environment of enterprise encourages and enables new ideas, products and services to be readily created, developed and expanded. These factors can, in part, be measured by considering the regulatory and bureaucratic impediments to starting and growing a business and the cultural attitudes of a nation's workforce. We examine the Domestic Market Contestability, the Environment for Business Creation, Regulatory Burdens, and the Labour Market Flexibility.

Market contestability is key, measuring competitiveness and openness as the essential stimulators of innovation and efficiency. In markets where there is sufficient trust and self-regulation to allow industries and services to focus on innovation and production, it is the role of a good government to ensure regulation does not generate unnecessary administration. The burden of taxation is a further potential inhibitor, both in the financial cost associated with high levels of taxation (relative to the tax regimes in other jurisdictions) and also in terms of the management time required to comply with tax regulations. We also measure both the frequency with which new businesses are created, as well as the legislation and policies that encourage start-ups and a flexibile and agile workforce, as a precondition for an enterprising culture where there is mutual trust and alignment between employers and their employees.

## GOVERNANCE

Governance is critical, and has a particular impact in the early stages of development. The lack of an effective Rule of Law results in poor investment from inside a county and from outside, in almost every case. Improvements in Governance have a dramatic effect on raising overall economic prosperity. However, once an effective base of trustworthy Governance has been achieved, the effects of further improvements to Governance are subject to diminishing returns.

A stable and trustworthy state is one of the central and underlying pillars to prosperity, both economically and socially. The more culturally embedded the Rule of Law and good Governance becomes, the more effective these measures are in promoting and supporting prosperity. Governance is the ultimate hygiene issue; unless and until good Governance is established, attracting investment and enterprise is nearly impossible. Thus, improvements in Governance can make a significant difference for many developing economies and societies, but where it is well-established, improvements to Governance deliver diminishing returns.

We consider that the quality of Governance is dependent upon several conditions. The first of these is Executive Constraints; the existence of a separation of powers and the level of checks and balances in a governing system, particularly with respect to the executive. The second is Political Accountability, or the degree to which the public can hold public institutions accountable. The third is the Rule of Law, which encompasses the fairness, independence and effectiveness of the judiciary (in applying both civil and criminal law), along with the accountability of the public to the law. The fourth is Government Integrity (e.g., transparency and the absence of corruption). The fifth is Government Effectiveness, which is the ability of government to set and implement a policy. The final area is Regulatory Quality, which captures the extent to which regulations are administered and enforced in a manner that supports economic activity.

## ANALYSING THE UNITED KINGDOM'S PERFORMANCE

We have structured this case study in terms of the four pillars outlined above: Market Access and Infrastructure, the Investment Environment, Enterprise Conditions, and Governance. We will examine past performance, present conditions, and identify how the government might strengthen opportunities and neutralise potential threats moving forward. We hope that this broad-brush SWOT analysis will be of use to policymakers elsewhere who might seek to draw lessons from the United Kingdom's economic prosperity.

| Market Access and Infrastructure | Investment Environment | Enterprise Conditions | Governance |
|---|---|---|---|
| • Communications<br>• Resources<br>• Transport<br>• Border Administration<br>• Open Market Scale<br>• Import Tariff Barriers<br>• Market Distortions | • Property Rights<br>• Investor Protection<br>• Contract Enforcement<br>• Financing Ecosystem<br>• Restrictions on International Investment | • Domestic Market Contestability<br>• Environment for Business Creation<br>• Burden of Regulation<br>• Labour Market Flexibility | • Executive Constraints<br>• Political Accountability<br>• Rule of Law<br>• Government Integrity<br>• Government Effectiveness<br>• Regulatory Quality |

This following chapters of this case study examine in detail the United Kingdom's performance across the four areas and the discrete elements that constitute our measure of Economic Openness. Our assessment of the UK's performance is based on the UK's rankings in global datasets from sources such as the World Bank, World Economic Forum, IMF and ITU. To contextualise the United Kingdom's score, we include comparisons against five other countries: France, Germany, Japan, The Netherlands and the United States of America. This grouping allows us to compare and contrast the strengths and weaknesses of the United Kingdom, and where possible to uncover realisable improvements that can help further improve prosperity within the United Kingdom.

Summarising the results, we see that the United Kingdom performs consistently well across the elements of Economic Openness, often having more in common with the highly successful Nordic countries and small Asian states such as Hong Kong and Singapore, than many European comparator countries for its ability to be agile and flexible. Furthermore,

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The United Kingdom also uses its relatively large population and market size to scale up businesses

the United Kingdom also uses its relatively large population and market size to scale up businesses and attract the international capital flows and skills to compete globally, which is harder for Nordic states to emulate given their relatively small domestic markets. It is also notable that since 2010 the United Kingdom has seen the largest increase in its overall Economic Openness of any of its close comparator countries. This rapid growth is largely due to improvements in the United Kingdom's Market Access and Infrastructure, where there has been a good deal of catch-up from a middling performance to overtake much of the comparator group.

Through the following sections, we share the strengths and weaknesses we have identified in the United Kingdom. Our aim is that this data and analysis can be used to help guide improvements within the United Kingdom and serve as an example for other countries, to help identify their own paths to prosperity.

# MARKET ACCESS AND INFRASTRUCTURE (UK RANK: 7TH)

Trade is the lifeblood of a national economy, offering the opportunity for expansion beyond one's domestic market and the introduction of new ideas and products, often at a lower cost for consumers. As society has become more prosperous and more advanced through trade, trade has responded, becoming more complex and interconnected,[1] requiring ever more sophisticated infrastructure. Through human development, trade has changed remarkably from the simple exchange of a product at a market stall, to a truly global exchange of culturally changing ideas.

The willingness to trade is directly proportional to the ability to engage in that trade with as little hindrance as possible. To have trade flourish, it must be legally assured and technically easy. With these assurances in place, the physical process of trade becomes inexpensive, goods and services can move significant distances, involve substantial amounts of products, and ultimately have a meaningful impact on people's lives. The benefits of free trade are often explained in terms of Ricardian comparative advantage and enhancing consumer choice. Equally, if not more, important is the role that trade provides in communicating new ideas and raising productivity.[2] Competition from international trade ensures that even when a business does export, it is also forced to respond to new ideas from the increased competition in domestic markets.

UK SWOT Analysis of Market Access and Infrastructure

| STRENGTHS | WEAKNESSES |
|---|---|
| • Good Communications infrastructure | • Difficulty in rapidly building airport infrastructure<br>• Energy infrastructure needs significant investment and is set to become very expensive |
| **OPPORTUNITIES** | **THREATS** |
| • New trends in trade point to increasing importance of emerging markets<br>• Ability to negotiate trading arrangements and tariffs that more directly benefit the UK | • Lack of local strategic planning is hindering infrastructure investment<br>• Border clearance costs may well increase as a result of Brexit |

1. Frankel, Jeffrey A., and David H. Romer. "Does trade cause growth?" *American Economic Review* 89, no. 3 (1999): 379-399.
2. Edwards, Sebastian. "Openness, productivity and growth: What do we really know?" *The Economic Journal* 108, no. 447 (1998): 383-398.

Since the early 1980s, global trade has almost always grown faster than the overall global economy.[3] Not only has trade in traditional goods increased, so too has intermediate goods trading (parts needed to make a final product) and the trade in services. By 2016, as a percentage of GDP, approximately 28% of global goods and services were exported, and the level of international trade conducted by the United Kingdom was near its all-time high at 30.5%.[4] The other significant trend has been the growth in the trade of services; the United Kingdom has been a world leader in expanding services exports, which have moved as a share of exports from 25% to 45% since 1992.

**Evaluating Market Access and Infrastructure**

The infrastructure that enables trade and commerce to operate can be measured by both the critical enablers of trade, predominantly infrastructure, and also inhibitors to access to markets.

The first enabler of trade is **Communications**, including fixed line and mobile telecoms and internet penetration, which facilitate mass participation in the formation, ownership, and monetisation of ideas.

The second enabler of trade is **Resources**, which includes water and energy. We measure both the availability and reliability of these critical elements.

The third enabler of trade is **Transport**, which makes possible both physical trade in goods and trade in services, which often requires the movement of people.

In addition to the enablers of trade, we also assess the policies and procedures that inhibit trade.

The first inhibitor to trade is **Border Administration**, which measures the financial and time cost of the documentation necessary to move goods across a border.

The second inhibitor to trade is **Open Market Scale,** which measures the size of the market to which providers of goods and services have privileged access. Countries with greater access to other markets trade more than those that do not.

The third inhibitor to trade is **Import Tariff Barriers**, which we measure in terms of the trade weighted average tariff goods face when coming into a given country.

The fourth inhibitor to trade is **Market Distortions,** which includes subsidies, taxes, and regulatory barriers.

The United Kingdom has been able to take advantage of increased opportunities for goods and services exports in part because, by the mid- to late-twentieth century, its underlying trade infrastructure was in good condition. In terms of Communications, Transport, energy costs, and tariff- and non-tariff barriers to trade, Britain is consistently in the top 10% of countries in the world. In addition, the United Kingdom has seen its trade intensity improve

3. *World trade statistical review 2018*, (Geneva: World Trade Organisation, 2018).

4. World Bank. "Trade (% of GDP)," *World Development Indicators,* The World Bank Group. https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS. Accessed May 9, 2019.

steadily over the past decade, as the government has taken decisions to shore up the strength of the country's exportable service industries.[5]

When it comes to trade enablers, the United Kingdom performs very well in Communications (comparable to world-leading Japan for its advanced information and communication technology) and Resources, although this is balanced by its poor performance against the comparator group for the quality of its Transport. In a global context, none of the European Union countries, including the United Kingdom, perform particularly well in terms of tariff barriers to trade, which reflects the higher tariff costs for non-European Union countries trading with the European Union. Furthermore, with respect to trade inhibitors, its tariff barriers inhibit trade less than all the other comparator nations, and its procedural barriers to cross-border trade are also low, only behind the Netherlands. For the United Kingdom today, given significant ongoing questions around Brexit, there remain questions as to how Britain's future trading relationships might evolve, how existing trading patterns might be maintained and how to meet the challenges of the information age and grasp the opportunities that it can offer.

In the following sections, we review the performance of the UK in each of the distinct elements of Market Access and Infrastructure, from Communications through to Market Distortions.

## COMMUNICATIONS (UK RANK: 4TH)

The United Kingdom is a global leader for Communications technology, behind only Luxembourg, Hong Kong, and Iceland overall after a six-rank increase since 2009. By December 2017, superfast coverage had been extended to 95% of UK premises. Broadband subscription rates are the 10th highest in the world, and the internet bandwidth has increased 10-fold over the last decade. Mobile coverage has significantly improved over recent years, with 87% of the UK landmass having a 4G signal from at least one operator.[6] However, given the rate of development around the world, the UK's network coverage ranking is only 24th.

Ofcom's research indicates that this investment in broadband has had significant benefits to the UK economy, and that increased connectivity has a positive relationship with economic growth and productivity.[7] Another study undertaken has predicted that the total economic impact of deploying 'full fibre' broadband networks across 100 distinct UK city and towns, could reach £120 billion over a 15-year period.[8] Extending communication networks to less advantaged parts of the country will help increase their economic connectedness. This investment was made possible, in part, by the liberalisation of the Communications sector in the early 1980s, when the state monopoly of the then jointly operated posts and telecoms was split.

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5. UK Office for Budget Responsibility. "Recent trends in UK trade," *Economic and fiscal outlook.* (November 2016): 83 - 85.

6. "Future telecoms infrastructure review," *Department for Digital, Culture, Media & Sport policy paper*, July 23, 2018, https://www.gov.uk/government/publications/future-telecoms-infrastructure-review.

7. Pantelis Koutroumpis. "The economic impact of broadband: Evidence from OECD countries," *Ofcom*, April, 2018, https://www.ofcom.org.uk/research-and-data/telecoms-research/broadband-research/economic-impact-broadband.

8. Regeneris Consulting. "The economic impact of full fibre infrastructure in 100 UK towns and cities," *CityFibre*, March, 2018, https://www.cityfibre.com/wp-content/uploads/2018/03/The-Economic-Impact-of-Full-Fibre-Infrastructure-in-100-UK-Towns-and-Cities-12.03.18.pdf.

IR Stone/Shutterstock.com

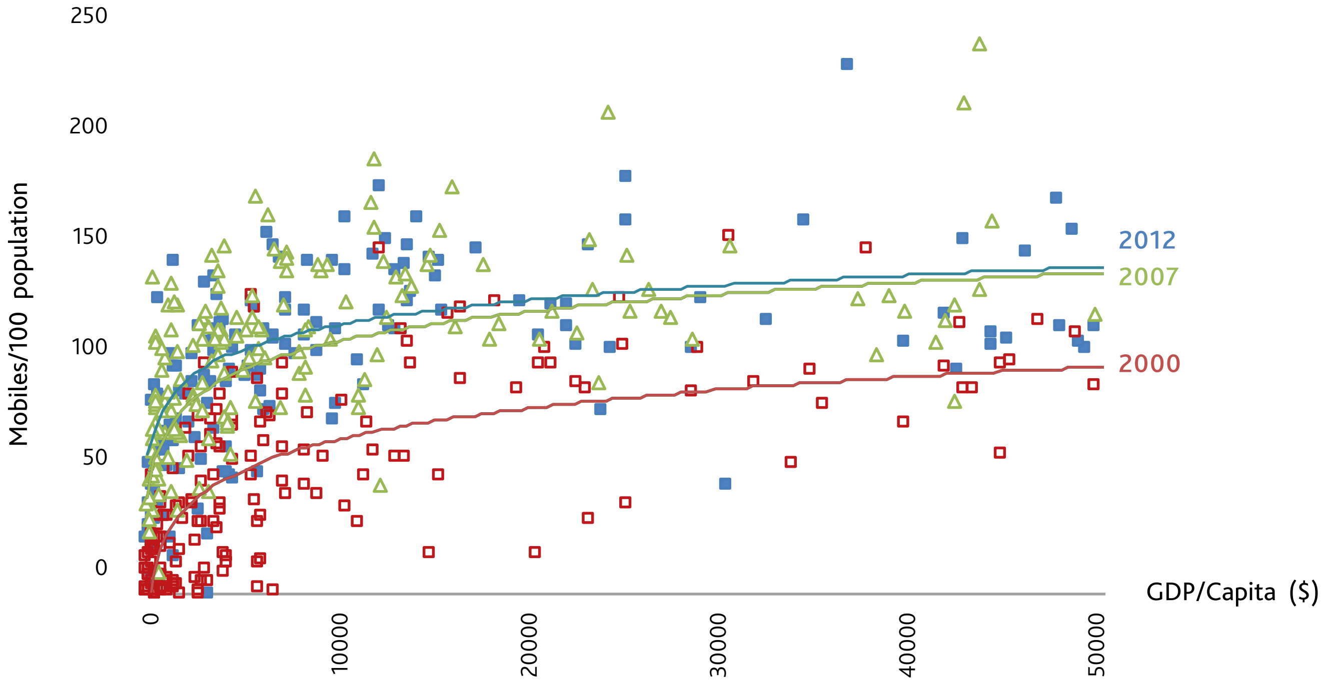
Investment in broadband has had significant benefits to the UK economy

For the United Kingdom, there is an opportunity to be a part of this global revolution, grasping the commercial and social opportunities and embracing new ideas, products and services, fostering new business development and the transfer of knowledge. The scale of the opportunity can be illustrated by noting that there were 1,991 million internet users in 2010 and this rose to 3,385 million users by 2016, or 44% of the world's population. For the moment, our Index tracks only internet and broadband usage and connectivity. As we seek to quantify the pace of change around the world, we will continue to look for additional indicators that track the pace of connectivity-driven change.

Further afield, the path to developing viable Communications infrastructure for the developing world could well be different from that of the United Kingdom. Many nations, particularly in sub-Saharan Africa, have forgone the development of fixed-line telephony for mobile telecoms, as those services have become cheaper. In 2000, a country with a GDP per capita of $20,000 could expect no more than 60% mobile penetration; by 2012, that degree of penetration was being achieved by countries with an average GDP per capita of less than $2 a day. This dynamic has delivered tangible benefits to millions of people around the world, as the affordability and availability of mobile communication allow many more people to connect than ever before, with direct benefits to long term economic growth.[9]

9. Edquist, Harald, Peter Goodridge, Jonathan Haskel, Xuan Li, and Edward Lindquist. "How important are mobile broadband networks for the global economic development?." *Information Economics and Policy* 45 (2018): 16-29.

Global mobile telephone penetration by country




## RESOURCES (UK RANK: 21ST)

The United Kingdom performs very well in terms of the quality and reliability of energy services (ranked 5th) and water services (ranked 15th). The provision of reliable and relatively inexpensive power has historically not been as much of a concern for businesses and consumers. However, a challenge for policymakers moving forward will be balancing the sustainability of energy sources without jeopardising the reliability of the supply or increasing costs. The UK's economy, being more services-dominated than many others, is not particularly resource-intensive, ranking 42nd in per-capita electricity capacity, and 90th for water production.

In the United Kingdom, the mix of power generation is set by government policy and there are numerous challenges. There are firm plans to phase out coal by 2025, while much of the nuclear power generating infrastructure is ageing. Nearly half of the existing fifteen nuclear reactors, producing about 21% of the United Kingdom's electricity, will be retired by 2025.[10] The replacement for at least a portion of this capacity is a new untried nuclear technology at Hinkley point, yet to come on stream, and even when it does it is set to generate some of the most expensive electricity in the world.

Gas generation remains the largest single source of electricity in the United Kingdom, accounting for 42% of generation.[11] The cost competitiveness and relatively low carbon emissions of gas fired generation point to it remaining a key component of the energy mix.

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10. *Nuclear power in the United Kingdom*, World Nuclear Association, November, 2018.

11. *Electricity generation mix by quarter and fuel source (GB)*, Ofgem, last updated April, 2019, https://www.ofgem.gov.uk/data-portal/electricity-generation-mix-quarter-and-fuel-source-gb.

However, given that there has been a slower development of fracking techniques compared to what has been seen in the United States, at least in the short to medium term, Europe is unlikely to be experiencing the falling energy costs and consequential change to industrial market dynamics that has been seen in the United States.[12]

Finally, in the United Kingdom there is the question of renewables. There has been a broad political consensus to significantly increase the contribution from renewable sources. Rather than incentivising through (statistically more quantifiable) subsidies, much of this has been by introducing targets for renewable generation. The result has been a considerable increase in renewable capacity, at times reaching 33% of electricity needs.[13] The difficulty is the intermittency of wind power, which represents over 60% of renewables generation. This intermittency means conventional back-up generation has to be put in place.

The cost of renewable energy has declined significantly in the past few decades, with the cost of wind energy down by 25% and solar photovoltaic down by over 70%,[14] to the point where both are now comparable to fossil fuel costs of generation. Hence there is potential that the trade-off can be avoided, thereby ensuring a secure and cost-competitive supply of power.

## TRANSPORT (UK RANK: 12TH)

Efficient Transport infrastructure is key to moving people and enhancing the flow of trade in both goods and services.

This element comprises two key aspects of Transport: the quality of physical infrastructure including road, rail and air, and logistical performance, which measures the efficiency of shipping products in and out of a country - in which respect the UK ranks 8th. Compared to other nations in the competitor group, the United Kingdom has room to improve the quality of its road, rail and air infrastructure.[15] This analysis is unlikely to be a surprise to anyone living in the United Kingdom, which in recent years has experienced great difficulty in taking rapid decisions on infrastructure and implementing them due to problems accessing finance and/or planning permission.[16]

Having recognised these problems, the government established the National Infrastructure Commission as an independent institution which could engage in longer-term planning. There have also been efforts to channel more public-sector investment into infrastructure, such as the pooling of local authority pension funds.[17] In spite of evidence from the Eddington Review, which found that much of Transport-related economic growth is actually attributable to small-scale, localised developments (like the construction of car parks), the government has chosen to focus on the construction of two of the largest

12. Cooper, Jasmin, Laurence Stamford, and Adisa Azapagic. "Shale gas: a review of the economic, environmental, and social sustainability." Energy Technology 4, no. 7 (2016): 772-792.

13. "Energy trends: renewables," *Department for Business, Energy, and Industrial Strategy*, May 9, 2019, https://www.gov.uk/government/statistics/energy-trends-section-6-renewables.

14. IRENA. *Renewable power generation costs in 2017*, (Abu Dhabi: International Renewable Energy Agency, 2018).

15. The UK's road infrastructure is particularly poorly rated given the general level of development.

16. "UK growth: a new chapter," *LSE Growth Commission*, February, 2017, http://www.lse.ac.uk/News/Latest-news-from-LSE/2017/02-February-2017/LSE-Growth-Commission.

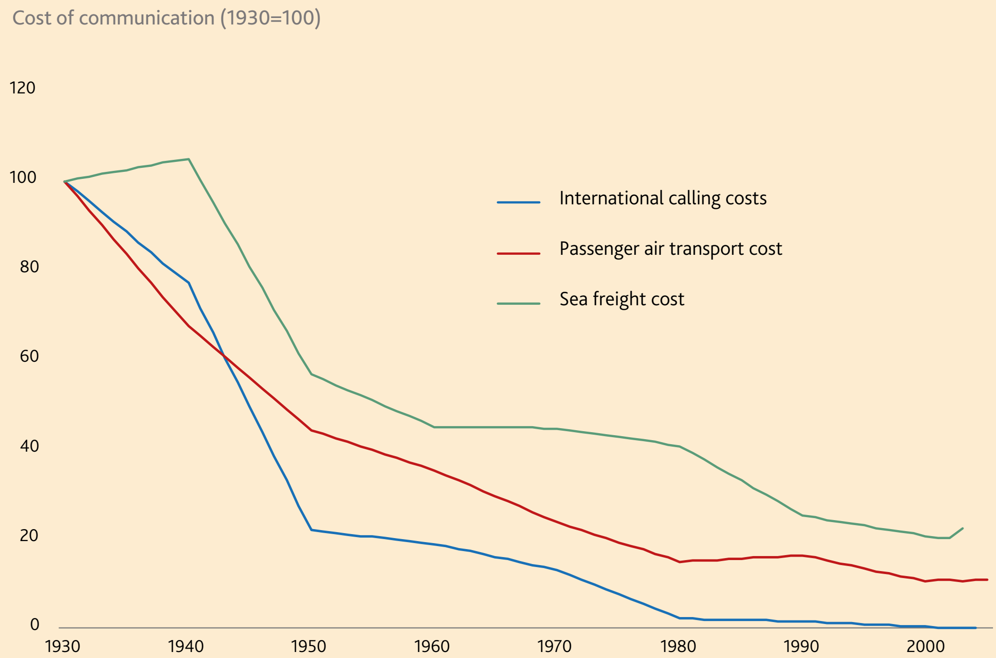
17. Ibid.

## Case study: Observing the pace and impact of technological change on the cost of trade

For centuries, global trade was hampered by the hazards of shipping. Ships were the best and sometimes only means of Transporting goods long distances, but their rudimentary construction resulted in frequent shipwrecks and they lacked security and the means to defend against attack from pirates and warships. The industrial revolution heralded an improvement in ship building technology, but even the Cutty Sark, a 1,700 ton clipper built in 1869 and advanced for its day, would have been recognisable to previous centuries of Atlantic seafarers. Merchants and traders had to wait another 50 years before an average ship increased dramatically in size, rising ten-fold between 1900 and 1970 and becoming faster only as they moved from steam to diesel engines. By the Second World War, 14,000 ton "Liberty Ships" were being built in less than a month, and these wartime vessels created a shipping fleet that subsequently helped increase the flow and volume of world trade after the war. Shipping was further revolutionised by containerisation, a simple but significant innovation that reduced the cost of loading cargo from $5.86 per ton in 1956 to $0.16 today.[1]

By comparison, the rise in demand for air cargo was achieved over just a few decades. In 1970, air cargo amounted to less than 20 billion Revenue Tonne Miles (RTM), by 2005 that has grown to 180 billion RTMs, and Boeing have forecast air freight to grow by 4.3% per annum through to 2035.[2]

1. "The history of ISO shipping containers," *ISBU Association*, http://www.isbu-association.org/history-of-shipping-containers.htm.
2. "World air cargo forecast," *Boeing*. (2018).



infrastructure projects in Europe: Crossrail and HS2.[18] Both projects have exceeded their initial cost and time estimates. It has been suggested that political, rather than economic considerations have influenced those decision-making processes.[19]

The Coalition Government initiated the "Northern Powerhouse" project to improve infrastructure and boost investment in the North. Improving Transport links is an important way for less-developed regions to increase economic opportunities. For example, suggestions for ways to create the critical mass required for an economic hub outside London have included improving the connections between cities, such as Manchester and Leeds. In contrast, recent major rail investments, such as Crossrail, have been concentrated around London, in part because the Treasury's methods for assessing the potential benefits of infrastructure projects suggest that benefits are highest in areas that already have high land values and wages.

Ensuring that airport capacity can keep pace with demand is also proving challenging. Providing extra runway capacity in the South East of England is seen by many businesses and government as being crucial for the United Kingdom's global connectivity, but political considerations delayed the approval of a third runway for Heathrow Airport by several years. These capacity issues have not yet begun to impact passenger figures – the United Kingdom ranks 11th globally (tied with The Netherlands), according to World Bank data.[20] However, over the past few years the UK has slipped down the world rankings (28th in 2019) for airport connectivity, as other countries expand their provision.

Road haulage is a vital part of trade infrastructure, and the ability of road hauliers to facilitate just-in-time delivery, as well as to meet consumer's demands for increasing amounts of home delivery, is crucial to the United Kingdom's prosperity. The high density of the UK's road network is a key enabler. Overall, the amount of road freight, as well as the distances driven, have fallen by 6.5% and 15% respectively from their peak in 2008.[21] Given the general economic expansion over that time period, these reductions in road freight suggest that road hauliers are becoming more efficient. Finally, while the roll out of "smart motorways" with active traffic management continues, how and when they might be able to support autonomous vehicles is open to question.

The United Kingdom's strongest performance in Transport is for the quality of port infrastructure, an area where improvements have typically been less politically controversial, so developments can be driven largely by competing commercial considerations. This measure is based on a survey of executives' judgement of the efficiency of port services. The UK also ranks 9th in the world for shipping connectivity. That said, freight traffic through the United Kingdom's ports peaked in 2005, and has declined by 18% since then, with the multi-decade decline in UK port exports no longer compensated by rises in imports. Much of

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18. Eddington, Rod. *The Eddington transport study. Main report: Transport's role in sustaining the UK's productivity and competitiveness*. 2006.

19. Gemma Tetlow, and Gill Plimmer. "Why the UK is struggling with poor infrastructure," *Financial Times*, August 21, 2017, https://www.ft.com/content/c907081e-80c7-11e7-94e2-c5b903247afd.

20. World Bank. "Air transport, passengers carried" *World Development Indicators,* The World Bank Group. https://data.worldbank.org/indicator/is.air.psgr. Accessed May 9, 2019.

21. "Road freight statistics: 2017," *Department for Transport*, July 26, 2018, https://www.gov.uk/government/statistics/road-freight-statistics-2017.

the decline has occurred in smaller ports less able to invest in infrastructure and efficiency gains.[22]

The key point is that significant efficiencies and innovations do not necessarily come at the outset of a technological revolution. Rather they are borne out of need and circumstance and take time to emerge. When they do, they accelerate growth significantly. New technology breeds innovation beyond the original technology and the impact on trade has been momentous.

## BORDER ADMINISTRATION (UK RANK: 23RD)

Barriers to trade have fallen in recent years and have the potential through automation to fall further, although they are unlikely to disappear.

The administrative burden of customs procedures, in terms of the cost, bureaucracy and time required to clear customs, varies little between comparator countries. The United Kingdom, alongside all European Union member states, has the world's lowest compliance costs for both imports and exports. The United Kingdom still does have a number of documentary requirements to both import and export, which increase overall costs of clearing borders. It is ranked 11th overall for the efficiency of its clearance process.

For relatively large economies, such as Britain (and even more so, the United States), the relative importance of border clearance costs and complexities are lower. For example, only 11% of British small businesses export, and 33% of medium size businesses have some export revenues. Nonetheless, it is important to grease the wheels of commerce, and the costs of clearing borders for both importers and exporters should be kept to a minimum. Across these measures, the United Kingdom does well, although some onerous documentary requirements remain.

What might happen to the United Kingdom's import and export procedures at the border post-Brexit remains an open question. Estimates as to the economic impact of various legal outcomes vary,[23] but they may be less than expected as the majority of the United Kingdom's exports are concentrated among a relatively small number of large firms across the economy. Therefore, with coordination between government and those large firms, the export impediments that might arise from Brexit might be identified and overcome in reasonably short order, with ports in Europe already stepping up in their preparations.[24]

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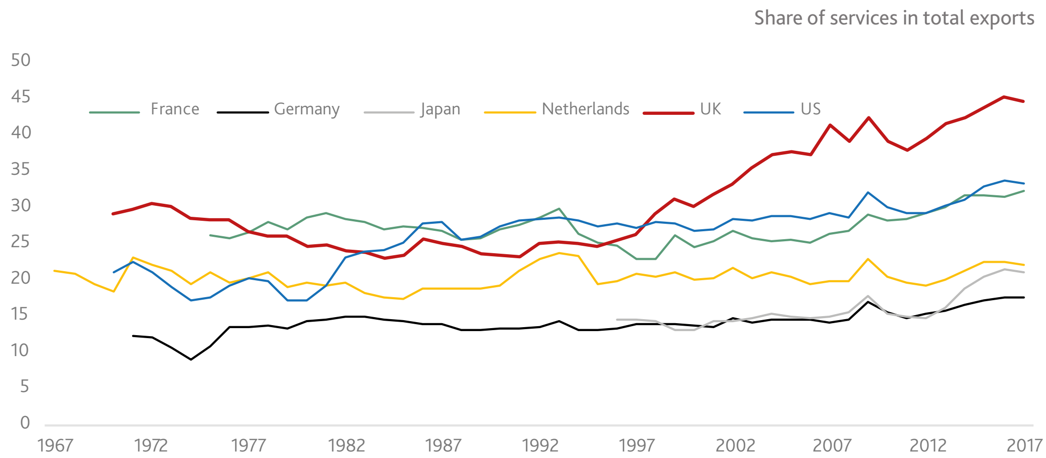
22. "Port freight annual statistics: 2017 final figures," *Department for Transport*, August 22, 2018, https://www.gov.uk/government/statistics/port-freight-statistics-2017-final-figures.

23. Thomas Sampson, and Swati Dhingra. "The economic consequences of the Brexit deal: The case of trade," *LSE Business Review*, Novermber 29, 2018, https://blogs.lse.ac.uk/businessreview/2018/11/29/the-economic-consequences-of-the-brexit-deal-the-case-of-trade/.

24. Jennifer Rankin. "Rotterdam prepared for worst when Britain crashes out of EU," *The Guardian*, September 22, 2018, https://www.theguardian.com/business/2018/sep/22/rotterdam-prepared-for-worst-after-brexit.

## OPEN MARKET SCALE (UK RANK: 22ND)




The size of the economic opportunity for producers is constrained by the scale of the domestic and international markets that are open to them. Tariffs on goods faced by exporters in many countries can prevent those firms from selling goods where they are globally competitive. We measure the extent to which producers have access to domestic and international markets unhindered by tariffs, and the tariffs faced in destination markets. On this measure, the UK performs relatively well on the global index (22nd).

While a member of the EU and a participant in its global trade deals, the size of the UK's combined domestic and international free-trade market for goods is the 24th largest in the world, and 20th largest for services. At 3.5%, the trade-weighted tariff faced by UK exporters is ranked 59th, below many other EU countries, given that the UK's share of trade outside the single market is greater than most EU countries. Although, it is less than the 4.9% faced on average by US exporters.

The extent to which this market access needs to be renegotiated in a post-Brexit scenario is a point of active debate in the UK, and depending on the outcome of the negotiations, the UK's future performance on this element could be quite different.

## IMPORT TARIFF BARRIERS (UK RANK: 35TH)

The United Kingdom, together with the other European Union countries, does not perform particularly well in terms of Import Tariff Barriers. It ranks only 44th in the world for the share of its imports that are free of tariff duties and, like many developed nations, it has a highly complex tariff system (ranked 129th), which itself presents a barrier to trade.


The United Kingdom's strongest performance in Transport is for the quality of port infrastructure

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The distortions arising from tariffs reflect a country's historic and current openness to international trade. In the aftermath of World War II, reducing tariffs was the overriding, and largely successful, mission of the General Agreement on Tariffs and Trade (GATT). During the second half of the 20th century, multilateral trade rounds reduced tariff barriers to negligible levels for most products. In 1949, the US charged an average tariff of 33.9%; today it is 3.5%.[25] In comparison, China's is 9.5%,[26] while the EU's average is currently 5.3%. Depending on the outcome of Brexit negotiations, in the longer term there is potential for significant reform of the British tariff regime.

## MARKET DISTORTIONS (UK RANK: 13TH)

In many countries around the world, markets face a range of distortions extending well beyond overt tariffs. These include subsidies and price controls on specific products and sectors, through to a range of non-tariff barriers. Two areas where Market Distortions are particularly prevalent are agriculture and energy. Analysing these gives some idea as to the scale of the potential problem, while non-tariff barriers give some idea of the scope of the challenge.

Energy subsidies are complex. At times, distortions are overt; the United States and Japan subsidise their energy directly, largely through measures such as tax credits and research grants.[27,28] At times distortions are less overt; Europe[29] and the United Kingdom[30] have put in place a variety of renewable energy incentives, from tradeable certificates, to guarantees of pricing for any energy generated, through to low cost financing. At 1.4% of GDP, the UK's energy subsidies are the 34th lowest in the world. All of these place significant distortions on the market, although the direct financial impact of such policies are more difficult to measure.

Estimates vary, but a World Trade Organization study found that non-tariff barriers were equivalent to a 12% tariff barrier.[31] The difficulty is that non-tariff barriers are far more pervasive. There are broadly 16 different types of non-tariff barrier,[32] ranging from technical rules about manufacturing and labelling, to rules of origin, and restrictions on distribution. The UK has 654 non-tariff measures registered at the WTO, giving it a rank of 92nd – better than the U.S., which has over 1000, by some margin.

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25. Robert Carbaugh, *International Economics*, 15th ed. (Washington: Cengage Learning, 2014).

26. "International trade and market access data," *World Trade Organisation*. Accessed May 9, 2019, https://www.wto.org/english/res_e/statis_e/statis_bis_e.htm.

27. David Coady, Ian Parry, Louis Sears, and Baoping Shang. "How large are global energy subsidies?," *IMF Working Paper* (May, 2015).

28. Ian Mead, Jim Turnure, and Shirley Neff. "Direct federal financial interventions and subsidies in energy in fiscal year 2016," *US Energy Information Administration*, April 24, 2018, https://www.eia.gov/analysis/requests/subsidy/.

29. Primarily through feed in tariffs, where prices are set with reference to the cost of generation rather than through market pricing.

30. Initially through Renewable Obligations Certificates, but now through Renewable Energy Guarantees of Origin.

31. World Trade Organisation. "The trade effects of non-tariff measures and services measures," section D in *The World Trade Report*. (2012): 136.

32. "International classification of non-tariff barriers," UNCTAD (2012).

## CONCLUSION

Overall, Market Access and Infrastructure in the United Kingdom is in a good place. It has a dynamic economy, which has embraced much of the technological revolution, with a well-developed Communications backbone.

There are challenges, particularly around Transport, where infrastructure is aging and proving difficult to renew. The UK's level of infrastructure investment is significantly below the OECD benchmark. Investment in existing infrastructure is not matched by investors' willingness to take the risks on construction.[33] The policy climate in many areas is still uncertain and a deterrent to long-term private investment. For example, there is no clearly articulated strategy joining up housing, transport and energy needs.[34]

Such a lack of local strategic planning is hindering infrastructure investment. This is exemplified by the difficulty in rapidly building airport infrastructure. While the National Infrastructure Commission has gone some way to providing strategic direction, many, including the National Audit Office, have argued that there is more to be done.[35] The other key question is how the long-standing global outlook of the United Kingdom manifests itself post-Brexit. New trends in trade point to increasing importance of emerging markets. The UK's ability to negotiate trading arrangements around the world is still uncertain.

As an island nation, the United Kingdom must ensure its customs procedures and Transport links are highly automated, streamlined, and frictionless to maintain trade competitiveness. As a result of Brexit, Border Administration costs may well increase, and the recent debate has shown how sensitive both producer and consumer interests are to the smooth flow of goods across borders. The nation's reliance on integrated, just-in-time supply chains means that keeping border clearance costs at a minimum delivers significant economic benefits.

Those seeking to emulate the United Kingdom's success in developing a good trade infrastructure would do well to remember that it took quite a long time to achieve, in terms of both physical capacity and reduction to legal barriers to trade. The development of this trade infrastructure required a series of small and constant improvements, rather than big, immediate policy changes. It was the existence of this trade infrastructure which allowed the United Kingdom to take advantage of opportunities further afield as new markets opened and new technologies were developed.

33. Gemma Tetlow, and Gill Plimmer. "Why the UK is struggling with poor infrastructure," *Financial Times*, August 21, 2017, https://www.ft.com/content/c907081e-80c7-11e7-94e2-c5b903247afd.

34. "UK growth: a new chapter," *LSE Growth Commission*, February, 2017, http://www.lse.ac.uk/News/Latest-news-from-LSE/2017/02-February-2017/LSE-Growth-Commission.

35. "Projects leaving the government major projects portfolio," *National Audit Office*, October 19, 2018, https://www.nao.org.uk/wp-content/uploads/2018/10/Projects-leaving-the-Govenment-Major-Projects-Portfolio.pdf.

Ceri Breeze/Shutterstock.com

# INVESTMENT ENVIRONMENT (UK RANK: 5TH)

Ideas and businesses need investment to grow, and the quality of the Investment Environment is a critical factor in achieving business development. While it is difficult to establish an effective Investment Environment before a trustworthy system of Governance is in place, once that does take place the challenge of becoming an attractive home for investment can be considered.

The growth in international financial market sophistication over the last four decades has been considerable. Economists' understanding of the role of capital in economic growth and prosperity has also grown over this period.[1,2] A good Investment Environment will ensure that domestic and foreign financing is available for commercial ventures, allowing micro-enterprises to grow into FTSE 100 companies.

UK SWOT Analysis of Enterprise Conditions

| STRENGTHS | WEAKNESSES |
|---|---|
| • Property Rights are well established<br>• A world class Financing Ecosystem with deep and complex financing options<br>• Levels of Investor Protection are excellent | • Contract administration can be expensive if legal enforcement is pursued<br>• Rates of savings are low, and wealth accumulation is dependent upon equity investment returns |
| **OPPORTUNITIES** | **THREATS** |
| • Strengths of UK financial services are a major export opportunity | • Post-Brexit, supply of international capital may be diminished<br>• The loss of passporting rights when the UK leaves the EU |

1. Anne O. Kreuger. "Financial markets and economic growth," *IMF*, September 28, 2006, https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp092806.

2. Stanley Fisher. "The importance of financial markets in economic growth" (speech, Campos de Jordao, Brazil, August 21, 2003), Citigroup. https://piie.com/fischer/pdf/fischer081103.pdf.

**Evaluating Investment Environment**

The structural aspects of how to measure an Investment Environment reveal two overriding concerns: how effectively investments are protected, and whether the infrastructure to facilitate the flow of investment to opportunities is present.

We measure the extent to which **Property Rights** are protected. The more Property Rights are genuinely protected and enforced in an economy, the more that investment can drive economic growth. Where ideas are welcome and legally protected, they can be backed by investment.

**Investor Protection** is one of the key responsibilities of any government that wishes to attract any sustained investment, either foreign or domestic. Investor Protection ranges from legal safeguards to the availability and disclosure of a company's financial performance.

An investor also needs to be confident that commercial agreements can be upheld. Hence, the quality of **Contract Enforcement** is also a key concern.

We measure the quality of a given Investment Environment through analysis of a number of indicators of the health of the **Financing Ecosystem**, including the availability of equity and debt financing, and the availability and cost of bank lending.

Finally, we assess the **Restrictions on International Investment**. The benefit of international investment goes beyond supporting the accumulation of capital - it also facilitates the transfer of technology, know-how, and skills, while helping local firms access foreign markets.

The United Kingdom is a leading global financial centre, hosting an environment that is as competitive as any global financial centre in the world, including the city-states. It provides a full range of financial and investment services to domestic and international business.[3] The advantage of this is a large and highly liquid market that provides a breadth and depth of competitively priced financial and investment services, built on an effective structure for Investor Protection that represents an extremely strong Financing Ecosystem. The United Kingdom has a long-standing openness towards international investment, supported by investor-friendly regulations. Indeed, the United Kingdom was the second largest recipient of foreign direct investment in the industrial world in 2017.[4]

The cost of Contract Enforcement is the only weakness in the UK Investment Environment. Whilst it does not have a major impact, it does confirm the generally poor performance for bureaucratic process in other areas.

In the following sections, we review the performance of the UK in each of the distinct elements of Investment Environment, from Property Rights through to the Restrictions on International Investment.

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3. Yeandle, Mark, and Mark Wardle. "The global financial centres index," *Long Finance* and *Z/Yen*, March, 2019. https://www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index//.
4. "FDI in figures," *OECD*, April, 2018, http://www.oecd.org/investment/investment-policy/FDI-in-Figures-April-2018.pdf.

## PROPERTY RIGHTS (UK RANK: 7TH)

The importance of Property Rights was highlighted by Hernando de Soto in his book, *The Mystery of Capital*. As he explains, where Property Rights are weak, people avoid taking risks, and this has a substantial impact on investment and levels of effective entrepreneurial activity and wealth accumulation.[5] The risks to Property Rights range from expropriation, to limits on the repatriations of profits and restrictions on the sale or transfer of assets.

The United Kingdom is highly reliable for property registration. This goes beyond just having a clear legal title, but also includes transparency of information, broad geographic coverage of registration and effective land dispute resolution. However, the United Kingdom's legal system, while robust, does have complex transfer procedures. Moreover, property in the United Kingdom is relatively highly taxed (much of the tax being stamp duty land tax levied when transferring property).[6]

In addition to well-established physical Property Rights (ranked 5th), the United Kingdom has high degrees of intellectual and financial Property Rights (ranked 6th), which are essential supports for its highly developed service sector and financial services centre. The United States Chamber of Commerce ranks the United Kingdom second in the world in terms of intellectual property (IP) protection.[7] In May 2016, the British government unveiled plans to step up IP enforcement efforts in its five-year strategic policy paper IP Enforcement 2020. Specifically, the document targets the reduction of online piracy as a top priority up to 2020.

Protecting IP is of growing importance and concern as demonstrated by the 12,000 IP cases filed each year in the United States alone.[8] This number is likely to increase as the number of patents and worldwide trademarks granted has nearly doubled in just 12 years from 2002 to 2016.[9]

## INVESTOR PROTECTION (UK RANK: 6TH)

Investor Protection is one of the key responsibilities of any government wishing to attract sustained investment, either foreign or domestic, and is therefore key for any country that wishes to enjoy sustained economic growth.[10]

In far too many countries, exploitation of minority shareholders and creditors by insider executives, or the controlling shareholders, is extensive. The exact form of these exploitative measures varies from selling assets to subsidiaries at below market prices, to using the assets of a company to produce goods and services with revenues flowing elsewhere, through to the

5. Hernando de Soto. *The mystery of capital: Why capitalism triumphs in the West and fails everywhere else*. (New York: Basic Books, 2000).

6. "Tax on property," *OECD*, https://data.oecd.org/tax/tax-on-property.htm.

7. Thomas J. Donohue. "IP: The roots of innovation," *U.S. Chamber of Commerce*, February 13, 2017, https://www.uschamber.com/series/your-corner/ip-the-roots-innovation.

8. Kimberly Cauthorn. "Global intellectual property (IP) litigation risk research report," *Willis Towers Watson*, July 24, 2018, https://www.willistowerswatson.com/en-GB/insights/2018/07/global-intellectual-property-litigation-risk-research-report

9. WIPO. *World intellectual property indicators 2017* (Geneva: World Intellectual Property Organisation, 2017).

10. Rachisan, Paula Ramona, Cristina Bota-Avram, and Adrian Grosanu. "Investor protection and country-level governance: crosscountry empirical panel data evidence." *Economic research-Ekonomska istraživanja* 30, no. 1 (2017): 806-817.

employment of under-qualified managers. All too often these practices are tolerated, if not technically legal.[11] The UK is ranked 8th for the strength of its conflict of interest regulation.

The United Kingdom performs consistently well across the board for Investor Protection

The development of London as one of the world's preeminent financial centres required a substantial degree of Investor Protection to be incorporated into United Kingdom law. Without this, the City would not have thrived as a global financial centre. The United Kingdom offers some of the highest degrees of Investor Protection alongside the Nordics and Singapore. As a result, it attracts investors and capital flows from around the world. The United Kingdom Investment Association noted that assets managed by its members rose 11% year-on-year to a record £7.7 trillion ($10 trillion) of assets under management in 2017, and the total United Kingdom market rose 12% to hit assets under management of £9.1 trillion.[12]

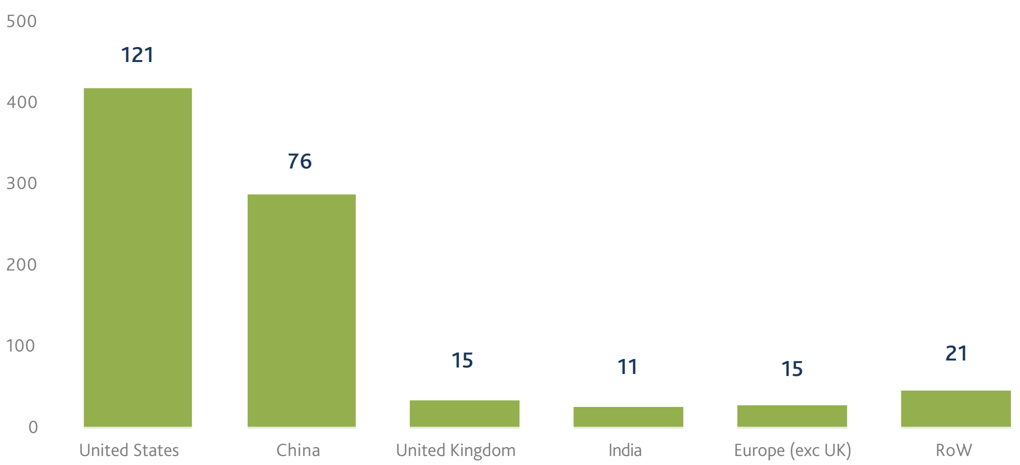
As would be expected from the home of such a liquid and global market, the United Kingdom performs consistently well across the board for Investor Protection, including insolvency resolution (the UK's recovery rate of 85% is ranked 12th), auditing standards and corporate protections for minority shareholders.

## CONTRACT ENFORCEMENT (UK RANK: 11TH)

Contract Enforcement effectively measures compliance with commercial agreements. A clear legal framework for contract administration is extremely desirable. However, relying on legal redress for Contract Enforcement is costly, both in terms of cash and time. It is preferable to have a culture of administrative compliance.

Contract administration in the United Kingdom is relativity straightforward in terms of the number of procedures, fees, and the time taken to enforce a judgement, and it ranks 6th for the quality of its judicial administration. However, in other areas where costs are measured,

Number and value of venture capital backed firms worth more than one billion dollars, "unicorns"




11. La Porta, R., F. Lopez-de Silanes, A. Shleifer, and R. Vishny. *Investor Protection: Origins, Consequences, Reform. The World Bank*. No. 1. Financial Sector Discussion Paper, 2000.

12. Simon Jessop. "UK fund management industry assets hit record in 2017," *Reuters*, September 13, 2018, https://uk.reuters.com/article/uk-britain-funds-ia/uk-fund-management-industry-assets-hit-record-in-2017-idUKKCN1LS3AY.

it performs less well. At 15% of claim value, the cost of UK Contract Enforcement is the 133rd highest in the world. At least a part of this is attributable to the United Kingdom attracting a disproportionate number of contracts to the English legal system. Where international contracts stipulate English law it is likely to be because the contract is complex, and hence any disputes are likely to be legally complex, entailing a lengthy settlement process.

## FINANCING ECOSYSTEM (UK RANK: 11TH)

London has a long history as a financial centre of global importance.[13] It is one of the most internationalised financial centres in the world today, with the most foreign banks of any finance hub.[14] While it lags behind New York in terms of capital depth, it is, by far, the deepest capital market in Europe. In terms of venture capital availability and the financing of new high-risk ventures, the United Kingdom remains home to Europe's largest private equity portfolio companies, with investments totalling 0.77% of GDP.[15] It ranks 11th for the availability of venture capital according to the World Economic Forum. London also has an extensive corporate bond market and liquid derivative markets. The number of British "unicorns", venture-backed firms worth more than one billion dollars, is roughly equal in value to the rest of Europe combined (see chart on previous page). However, Europe's overall performance is poor in comparison to the United States and China.

While the UK's financial services sector has many strengths, this does not always translate into effective investment in UK companies. There are longstanding issues in the provision of finance to innovative firms and for infrastructure projects.[16]

In common with many other parts of the world, firms in the UK have traditionally been dependent on bank lending, which is very concentrated, with the top six banks accounting for 70% of business loans. The level of credit supply by those banks can be an important determinant of firms' ability to grow and invest; in recent years, it has not been a major driver of growth. For example at the end of Q3 2016, lending to the manufacturing sector was 17% below its 1997 level. In recent years, the UK has seen the establishment of several new "challenger" banks, which should ease financial constraints faced by the corporate sector.[17]

Banking itself remains a concern, and the United Kingdom scores poorly for the public perception of the soundness of banks. This is based on a survey that seeks to measure the extent that financial services are meeting business needs and the ease of access to loans. The United Kingdom hit an all-time low on this index in 2010, in the wake of the global financial crisis. While perceptions have since recovered from these lows, there is scope for improvement. What this survey of business perceptions does not capture is that banks around the world must now meet much stricter regulations imposed by the Bank for International Settlements (Basel III). Today, banks are regarded by many as being in a

13. Ranald Michie. *The global securities market: A history*. (Oxford: Oxford University Press, 2006).

14. "UK growth: A new chapter," *LSE Growth Commission*, February, 2017, http://www.lse.ac.uk/News/Latest-news-from-LSE/2017/02-February-2017/LSE-Growth-Commission.

15. Invest Europe. *European private equity activity 2017*, May, 2018, https://www.investeurope.eu/media/711867/invest-europe-2017-european-private-equity-activity.pdf.

16. "UK growth: A new chapter," *LSE Growth Commission*, February, 2017, http://www.lse.ac.uk/News/Latest-news-from-LSE/2017/02-February-2017/LSE-Growth-Commission.

17. "UK growth: A new chapter," *LSE Growth Commission*, February, 2017, http://www.lse.ac.uk/News/Latest-news-from-LSE/2017/02-February-2017/LSE-Growth-Commission.

iStock.com/scottyh

Banks are both in a better financial position and take on fewer apparent risks

better financial position and tend to take on fewer risks than in the past. As a result, banks have substantially increased their minimum total capital, plus a conservation buffer, to from 8% to 10.5%.[18] The larger banks in the United Kingdom have also had to comply with additional regulations to separate their retail banking from investment banking divisions in order to limit the degree of high-risk activities the bank can undertake, including proprietary trading.[19] The result is that today banks are both in a better financial position and take on fewer apparent risks than in the past but risks, as always, remain.[20]

While credit conditions have improved in recent years, both for SMEs and for large firms, some types of firm have not benefited, especially small and riskier firms seeking growth financing.[21] A recent report by the British Business Bank showed that SMEs, which make up the vast majority of firms in the UK, raised only £2.4 billion from equity markets in the first three quarters of 2015, compared to £53 billion from bank lending.[22]

18. "Basel III: international regulatory framework for banks," *Bank for International Settlements*, 2017, https://www.bis.org/bcbs/basel3.htm.

19. Katie Britton et al. "Ring-fencing: What is it and how will it affect banks and their customers?," *Quarterly Bulletin 2016 Q4*, (2016): 164-172.

20. Adair Turner. "After the crisis, the banks are safer but debt is a danger," *Financial Times*, September 11, 2018, https://www.ft.com/content/9f481d3c-b4de-11e8-a1d8-15c2dd1280ff.

21. "Credit conditions review – 2016 Q4," *Bank of England*, January 13, 2017, https://www.bankofengland.co.uk/credit-conditions-review/2016/2016-q4.

22. "Small business finance markets report 2015/16," *British Business Bank*, February, 2016, https://www.british-business-bank.co.uk/research/small-business-finance-markets-report-201516/.

## RESTRICTIONS ON INTERNATIONAL INVESTMENT (UK RANK: 10TH)

The United Kingdom performs well in terms of minimising the Restrictions on International Investment, particularly with regards to foreign direct investment (FDI) regulations (ranked 5th), and the freedom to hold foreign currency accounts (ranked 3rd). The United Kingdom also performs significantly better than all other countries, including the United States, for the regulations around the granting of business visas.

Inward FDI tends to raise productivity, which increases output and wages.[23,24] Foreign-owned firms in the UK tend to be more productive and pay higher wages compared to their domestic counterparts.[25] FDI also has an indirect impact, as the technologies or management practices in foreign-owned firms can be adopted by domestic firms, often through the supply chain of multinationals.[26]

As a consequence of this favourable environment, the United Kingdom has attracted a disproportionately large amount of inward investment compared to the rest of the European Union. It is considered to have the second-highest prevalence of foreign ownership of business in the world. The most recently available figures show inward investment in the United Kingdom reached £1,199.5 billion in 2016,[27] including merger and acquisition activity. UK inward FDI stocks have been consistently high as a share of GDP compared to the UK's main peers, at around 55% since 2012. This stands in contrast to the wider global trend for FDI, which has declined recently, and by 9% in the past year.[28]

Recently there has been some scrutiny of foreign companies raising large amounts of debt in UK-based operations and assets, in the utilities sector for example, and paying dividends overseas. Even this activity is tolerated, as consumers and regulators acknowledge that utilities have benefitted from improvements in service and efficacy as a result of foreign management and investment.

Looking forward, although visa and immigration regulations are being reviewed as part of the Brexit debate, so far as can be discerned, restrictions are likely to focus on limiting lower-skilled immigration, rather than highly skilled people and investors.

23. Bloom, Nicholas, Raffaella Sadun, and John Van Reenen. "Americans do IT better: US multinationals and the productivity miracle." *American Economic Review* 102, no. 1 (2012): 167-201.

24. Haskel, Jonathan E., Sonia C. Pereira, and Matthew J. Slaughter. "Does inward foreign direct investment boost the productivity of domestic firms?." *The Review of Economics and Statistics* 89, no. 3 (2007): 482-496.

25. "UK growth: A new chapter," *LSE Growth Commission*, February, 2017, http://www.lse.ac.uk/News/Latest-news-from-LSE/2017/02-February-2017/LSE-Growth-Commission.

26. Harrison, Ann, and Andrés Rodríguez-Clare. "Trade, foreign investment, and industrial policy for developing countries." In *Handbook of Development Economics*, vol. 5, pp. 4039-4214. Elsevier, 2010.

27. "Foreign direct investment involving UK companies: 2016," *Office for National Statistics*, December 1, 2017, https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/foreigndirectinvestmentinvolvingukcompanies/2016.

28. "Foreign direct investment statistics: Data, analysis and forecasts," *OECD*, http://www.oecd.org/investment/statistics.htm.

## CONCLUSION

The United Kingdom provides an excellent model for effective Property Rights, Investor Protection and Contract Enforcement. It meets all the requirements needed to support a leading Investment Environment, together with the additional friendly regulation to ensure the country is seen as a good home for foreign investment.

As a result of a historically strong Investment Environment, the United Kingdom has also accumulated a substantial pool of savings and wealth, which provides an excellent capital base for businesses investment. The strong financial sector means that the UK has a world-class Financing Ecosystem, with deep and complex financing options for those seeking capital for investment.

There is a good deal of justifiable optimism about the investment opportunities in technology and emerging markets that will require investment capital and investor participation, based on adequate Property Rights and protection. The United Kingdom is well positioned to benefit with the success factors to succeed—international legal and financial standards for Property Rights and international investor standards—that are not only codified, but also cultural. That is an ideal for other nations to emulate.

However, the UK cannot presume that this hard-won capital will continue to be invested in the UK if recent political uncertainty continues. It will need to ensure that there continue to be clear benefits to investment in the UK, not only in terms of strong protections for investors, but also a continued positive economic and commercial outlook that provides confidence in investment returns. To enhance this ecosystem, the LSE Growth Commission has recommended that the UK Government should launch a set of financial reforms based on promoting wider access to finance for businesses and innovation, flexible regulation of challenger banks, increased support for the fintech sector, and improving incentives for equity investment.[29]

29. "UK growth: A new chapter," *LSE Growth Commission*, February, 2017, http://www.lse.ac.uk/News/Latest-news-from-LSE/2017/02-February-2017/LSE-Growth-Commission.

# ENTERPRISE CONDITIONS (UK RANK: 6TH)

A healthy economy is a dynamic and competitive one, where regulation supports business, allowing and encouraging it to respond to the changing priorities of society. A dynamic and enterprising environment is an important aspect of this, as businesses and the leaders and entrepreneurs who run them constantly push the boundaries, develop and test new ideas, deliver greater consumer choice and competition, innovate and develop new products and markets. Along the way, this enterprising behaviour enhances employment prospects and supports the wider state through tax revenues. The entrepreneurial environment and activity of a country are particularly important, given the pace of accelerating change inherent in the information age, where barriers to entry are falling and competition across many parts of the economy are becoming more intense.

UK SWOT Analysis of Enterprise Conditions

| STRENGTHS | WEAKNESSES |
| --- | --- |
| • Markets remain very contestable with high levels of competition<br>• Entrepreneurial environment remains a world leader amongst European countries<br>• A host of highly entrepreneurial cities | • Administrative burden remains high<br>• Tax system remains highly complex and reforms have not delivered results |
| **OPPORTUNITIES** | **THREATS** |
| • There is scope for fostering more start-ups into scale-ups<br>• Tax complexity can be reduced | • The evolving nature of the labour market challenges the current contract between employers and employees, thereby reducing trust and flexibility. |

**Evaluating Enterprise Conditions**

These factors can, in part, be measured by considering the regulatory and bureaucratic impediments to starting and growing a business and the cultural attitudes of a nation's workforce. We examine the Domestic Market Contestability, the Environment for Business Creation, Regulatory Burdens, and Labour Market Flexibility.

The most critical element for Enterprise Conditions is **Domestic Market Contestability**, which measures competitiveness and openness as the essential stimulators of innovation and efficiency. While there is no such thing as a perfectly contestable market, it has long been understood that there are some basics that are of considerable help, from anti-monopoly policy to limitations on market dominance.[1]

The **Environment for Business Creation** captures the legislation and policies that encourage startups. A supportive business environment is critical. If the framework of enterprise is important, so too are the prevailing views and attitudes of a populace. This entails a number of key market freedoms: an entrepreneurial environment with active entrepreneurism.

We also measure the **Burden of Regulation**. In markets where there is sufficient trust and self-regulation to allow industries and services to focus on innovation and production, it is the role of a good government to ensure regulation does not generate unnecessary administration. Taxation is a necessary part of any society, but while the shape of the optimal tax system has long been debated, the manner in which the tax is raised can be critical, ideally being as simple and non-distortive as possible.[2]

Finally, we measure **Labour Market Flexibility**. While the debate over the degree to which labour markets might be liberalized is unlikely to ever be settled definitively, the evidence is that highly restrictive labour markets do entail costs in terms of facilitating enterprise.[3]

The United Kingdom is a global leader among developed nations in creating an enterprising environment, providing the necessary ecosystem and support to promote entrepreneurial activity, whilst minimising impediments and maintaining a flexible labour force.[4] This is an achievement, given that countries enjoying high levels of entrepreneurial activity, other than the United States, are invariably dynamic smaller states such as the city states of Singapore and Hong Kong, bolstered by highly agile and creative workforces. The United Kingdom's markets suffer from fewer distortions than are present in other large comparator countries, such as the United States and Japan, while also being as open and contestable as the typical benchmark comparator country.

In the following sections, we review the performance of the UK in each of the distinct elements of Enterprise Conditions, from Domestic Market Contestability through to Labour Market Flexibility.

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1. Baumol, William J., John C. Panzar, and Robert D. Willig. "On the theory of perfectly-contestable markets," chap. 12 in *New developments in the analysis of market structure*. (London, Palgrave Macmillan, 1986): 339-370.

2. Mankiw, N. Gregory, Matthew Weinzierl, and Danny Yagan. "Optimal taxation in theory and practice." *Journal of Economic Perspectives* 23, no. 4 (2009): 147-74.

3. Radulescu, Roxana, and Martin Robson. "Does labour market flexibility matter for investment? A study of manufacturing in the OECD." *Applied Economics* 45, no. 5 (2013): 581-592.

4. Slavica Singer, Mike Herrington, and Ehud Menipaz. "Global report 2017/18," *Global Entrepreneurship Monitor*, 2018.

## DOMESTIC MARKET CONTESTABILITY (UK RANK: 10TH)

The United Kingdom is one of the world's most open and contestable markets, combining fair competition with effective and enforced regulation to prevent monopolies. It is ranked 13th in the World Economic Forum survey for the extent of market dominance. The key is the development of market-based competition, which includes currency convertibility, no significant entry or exit barriers for products or investments, and no discrimination based on ownership (state/private, foreign/local) or size.[5]

Starting in 1949 with the Monopolies and Restrictive Practices Commission, British regulators have developed strong, market-oriented, anti-monopoly policies, which are well established and effective with public understanding and support. Moreover, while there are increasing concerns to do with security about foreign takeovers of British firms,[6] there is little desire to protect national champions.

Direct government policy actions have been more variable, with the business departments in their various guises pursuing policies (presently entitled: Business, Energy and Industrial Strategy—BEIS) which have ranged from the highly interventionist picking winners in the 1970s to the market orientation of the Thatcher government.[7] However, today, even where the Government pursues an "industrial strategy" as was initiated by BEIS in 2016 and launched in 2018, the aim of the policy is to boost productivity and enhance and encourage competition, rather than to foster or favour national champions.[8]

This governmental and regulatory approach fits well with the wider culture with respect to business, where there is an ethos that businessmen and women should be encouraged to challenge market incumbents. This is clearly evidenced by the government's approach to "challenger banks", where regulators were supportive of increasing competition in retail finance.[9] This desire to see more competition has resulted in open markets, which are attractive to new domestic and foreign firms alike.

A recent example of ongoing and future market contestability is the way in which British consumers have embraced—and been allowed to embrace—online and mobile shopping. The United Kingdom is the world's third largest online business to consumer market, with revenues approaching $200 billion and this new market is disrupting traditional high street retailing simply because it's cheaper and easier to buy online.[10] Notably in sectors like food, the traditional weekly shop at a supermarket has been replaced in many households by online shopping and home delivery, in a one-hour time slot from dedicated warehouses. The rapid rise of e-commerce is an example of how—so long as markets are contestable—technology can open new markets with new applications bringing competition, innovation and opportunity.

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5. "Competition and barriers to entry," *OECD*, January, 2007, https://www.oecd.org/competition/mergers/37921908.pdf.

6. Jim Pickard. "Foreign takeovers of UK companies to face increased scrutiny," *Financial Times*, July 24, 2018, https://www.ft.com/content/edbdc8a0-8e9a-11e8-bb8f-a6a2f7bca546.

7. Richard Howard, and Jonathan Dupont. "Forging a new industrial strategy for Britain," *Policy Exchange*, December 7, 2016, https://policyexchange.org.uk/forging-a-new-industrial-strategy-for-britain/.

8. "Forging our future: Industrial strategy - The story so far," *Department for Business, Energy & Industrial Strategy Policy Paper*, December 6, 2018, https://www.gov.uk/government/publications/forging-our-future-industrial-strategy-the-story-so-far.

9. Christopher Woolard. "The future of competition and regulation in retail banking." (speech, London, November 28, 2017), Financial Conduct Authority, https://www.fca.org.uk/news/speeches/future-competition-and-regulation-retail-banking.

10. "Countries with the largest B2C e-commerce markets in 2015 and 2016 (in billion U.S. dollars)," *Statista*, https://www.statista.com/statistics/274493/worldwide-largest-e-commerce-markets-forecast/.

*Image credit: pixabay*

The United Kingdom has one of the most enabling environments in the world in terms of encouraging and permitting entrepreneurialism

## ENVIRONMENT FOR BUSINESS CREATION (UK RANK: 6TH)

The United Kingdom has one of the most enabling environments in the world in terms of encouraging and permitting entrepreneurialism. The state of cluster development is 10th in the world, and has been rising. One of the most comprehensive reports on digital start-ups and scale-ups has been produced by the European Digital City Index, which describes how well entrepreneurs are supported in different cities. Produced as part of the European Digital Forum, it provides the strengths and weaknesses of local ecosystems for entrepreneurs, and it benchmarks cities to help policy makers decide where they need to devote more Resources. London is seen as the best city for entrepreneurial start-ups and scale-ups in Europe, holding more 'unicorns' than any other European city. The United Kingdom tops the index as home to ten of the leading sixty cities across Europe. It is also judged to provide a sympathetic legal system, with modest bureaucratic and regulatory intrusion that has fostered an eco-system of entrepreneurially supportive and friendly businesses.

People's own positive perceptions of their capabilities to start a business are better in Europe only in the highly entrepreneurial Baltic nations and Poland; they are higher than in France, Germany or Japan. Britain has minimal costs associated with starting a business. It is ranked 17th in the world for the ease of starting a business. However, impediments remain in many other developed nations. In Germany, to set up a limited liability company, an entrepreneur is required to have a minimum share capital of €25k, while to start a business in Japan an entrepreneur needs to have the first three months' rent, initial corporation taxes payable and several other requirements, all adding to start-up costs.

Looking just at the figures for the United Kingdom, the degree of entrepreneurial activity lags behind the global leader, the United States. This is partly a reflection of there being fewer opportunities to become an efficiency-driven entrepreneur in the United Kingdom than in many other countries, even reasonably developed countries.

The United States scores significantly better in entrepreneurship rankings than all other comparator countries, reinforcing the perception that the American economy is highly effective in generating entrepreneurial ideas. The United Kingdom does not score as well on the number of entrepreneurs who are setting out to build substantial businesses; two-thirds of all British firms have four employees or less.[11] Whilst owners of these firms are considered entrepreneurs, it has to be acknowledged that many of these small entrepreneurial firms are one-person consultancies, established for a range of non-entrepreneurial reasons: a life-style choice, tax advantages or simply as an interim step between permanent roles as an employee for a large firm. Most of these small businesses are likely to remain small and unlikely to be the drivers of widespread innovation and growth.

## BURDEN OF REGULATION (UK RANK: 18TH)

The burdens placed upon business in complying with a myriad of government regulations can inhibit enterprise. These burdens range from building regulations applied to offices (both because these regulations matter and they serve as a proxy for a wider degree of administrative burdens), factories and homes, through to VAT compliance, and as such these measures serve as an effective proxy for a wider set of controls and attitudes to how businesses are regulated. We also consider the percentage of senior management time spent dealing with government regulation, seeking to determine the complexity and severity of regulation, as well as its impact as a distraction from managing and growing businesses.

There has been a good deal of research on the costs and benefits of regulation.[12] Views range from regulation is a public good, to generalisations about the benefits deregulation are difficult to quantify,[13] through to concluding that the benefits of deregulation are generally understated, at times significantly so.[14]

The United Kingdom faces a number of particular challenges, and while issues around quality of building are good, construction costs are high and obtaining professional certification for construction—the professional certification requirements for both reviewing architectural plans and technical inspections during construction—is particularly onerous. Overall, the UK ranks 33rd for the Burden of Regulation in a WEF survey, rising from 78th a decade ago.

Another consideration is that the complexity of the broader United Kingdom tax code is a hindrance, with audits being lengthy and VAT refunds being slow. Senior managers in the United Kingdom report spending a significant amount of time dealing with regulation (ranked 31st), more so than in Germany, the United States or the Netherlands. French managers report

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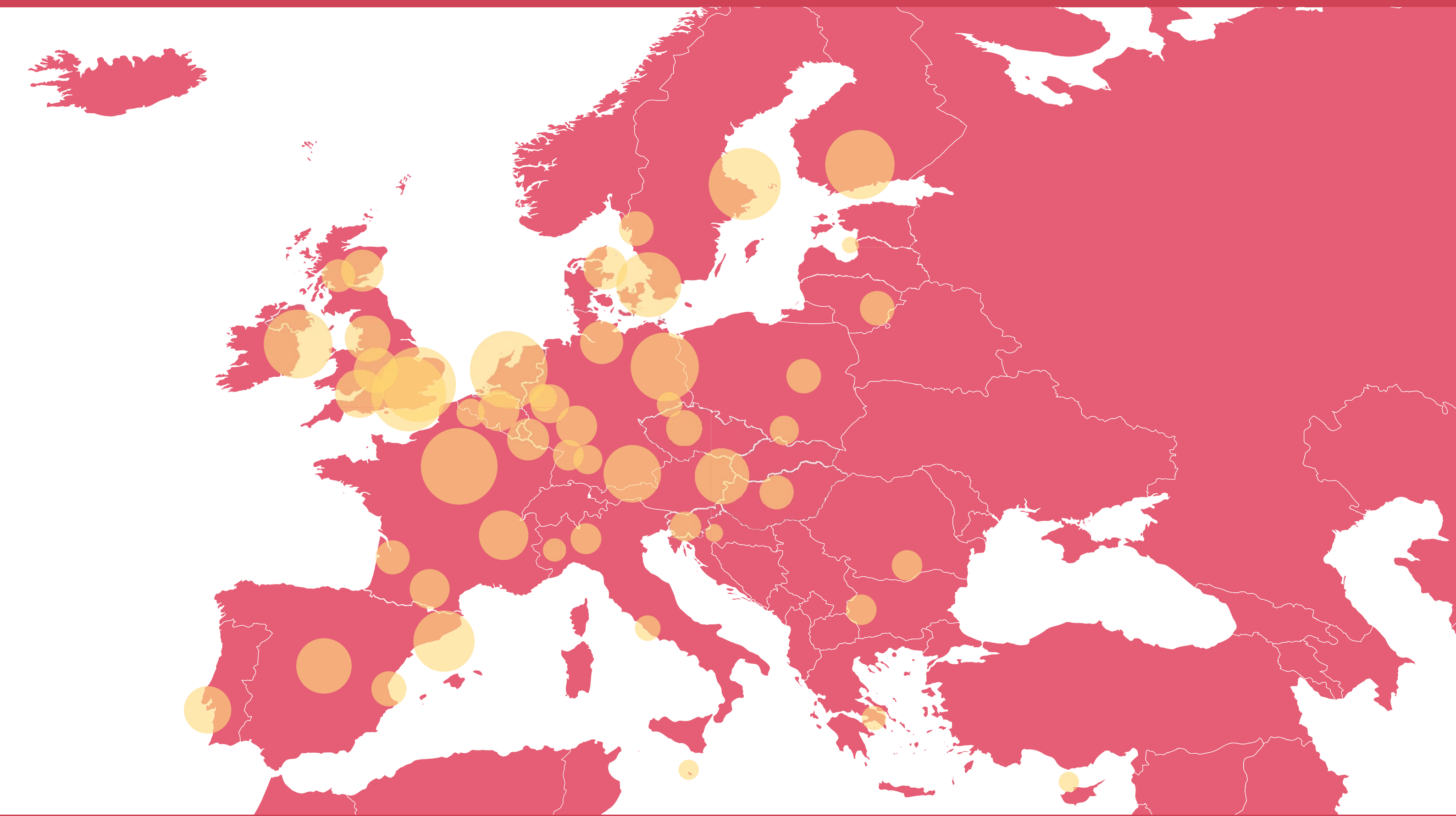
11. "UK business; activity, size and location: 2018," *Office for National Statistics*, October 3, 2018, https://www.ons.gov.uk/releases/ukbusinessactivitysizeandlocation2018.

12. Boardman, Anthony E., David H. Greenberg, Aidan R. Vining, and David L. Weimer. *Cost-benefit analysis: concepts and practice*. (Cambridge: Cambridge University Press, 2017).

13. Helm, Dieter. "Regulatory reform, capture, and the regulatory burden." *Oxford Review of Economic Policy* 22, no. 2 (2006): 169-185.

14. Dieter Helm. "Tariffs benefit few, at cost to all," *Australian Financial Review*, October 11, 2010, https://www.cato.org/publications/commentary/tariffs-benefit-few-cost-all.





even more of a burden than in the United Kingdom, and Japan is the worst scoring comparator country, which can be attributed partially to a culture that encourages strict adherence to rules and hierarchical leadership.[15]

The former British Conservative Chancellor of the Exchequer Nigel Lawson said a good tax is one that is "low, uniform and unavoidable" – a forlorn aspiration. An empirical study in Germany found that increased tax simplicity leads to a reduction in professional tax services, more equal income distributions and an increase in tax revenue.[16] But these lessons are not sufficiently appreciated in the United Kingdom, which ranks relatively poorly for this measure, although its score is comparable to the other comparator countries, except for Japan, which consistently scores poorly across all measures due to a particularly burdensome tax system.

This is an area of weakness for the United Kingdom, which demands excessive time from management to deal with both regulation and lengthy corporate tax audits. The United Kingdom requires the highest number of tax payments each year and the most hours to prepare and file taxes, based on an aggregate measure of the three major types of taxes (corporate, income, and VAT). Tolley's handbook of tax legislation for the United Kingdom, which has doubled in length since 1997, now stands at 11,520 pages, making it one of the

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15. Collinson, Simon, and David C. Wilson. "Inertia in Japanese organizations: Knowledge management routines and failure to innovate." *Organization Studies* 27, no. 9 (2006): 1359-1387.

16. Fuest, Clemens, Andreas Peichl, and Thilo Schaefer. "Does tax simplification yield more equity and efficiency? An empirical analysis for Germany," *Social Science Research Network*. (2006).

longest in the world. The UK's Office of Tax Simplification identified the top three causes of complexity as the volume of change, PAYE/NIC boundary issues, and HMRC administration. The existence of this body is itself evidence that the government has recognised the need to address this area. More positively, the United Kingdom's government has moved tax compliance online, which has had a positive effect, although compared to world leaders such as Estonia, there is still room for improvement.

## LABOUR MARKET FLEXIBILITY (UK RANK: 7TH)

Labour Market Flexibility in the United Kingdom is a notable strength, behind only the United States, Switzerland, and the city-states of Hong Kong and Singapore.

The United Kingdom performs well on a number of the measures that gauge the flexibility of the labour market. These range from relations between employers and workers (ranked 29th), contract flexibility (ranked 1st), and flexibility over workers' employment terms (ranked 6th). Other indictors we consider capture the dynamism that is needed in successful business, such as flexibility in wage determination (where the UK is ranked 12th, having declined in recent years) and the ease of hiring staff on fixed length contracts.

A series of ongoing reforms initiated in the late 1980s has seen the United Kingdom take a more flexible approach to employment. The Royal Society of the Arts "Taylor Review" of 2017 highlighted many of the positive aspects of the United Kingdom's employment market, from the voluntary flexibility of many employment contracts, to the very high rates of employment that have been seen in recent years.

It is often said that culture is more important than regulation in deciding how employers and workers react to situations. Well-established and settled regulations can help create a culture of collaboration and flexibility, as is the case in the United Kingdom. A dynamic employment market is one where people move between firms, helping bring new ideas and approaches with them, benefiting both the companies and the longer-serving employees who become more accepting of new ideas when there is a natural movement between firms by employees. The degree of employment rigidity in continental European employment can be remarkably high: over 50% of Italians and 47% of French workers have worked for the same employer for more than a decade. In the United Kingdom, the comparable figure is only 35%, and for the OECD as a whole, 33%.[17]

The combination of a long-standing regulatory approach for employment and a culture of flexibility can be seen in the way the United Kingdom labour market has taken a new and very positive turn. In the recession that followed the global financial crisis of 2007-08, the severity and length of the recession could have resulted in UK unemployment moving towards 15%, as it had in previous recessions when firms sought to rapidly reduce costs.

17. OECD, "Labour market statistics: Employment by job tenure intervals: Average tenure", *OECD Employment and Labour Market Statistics* (database), https://doi.org/10.1787/data-00294-en.

However, unemployment peaked at just over 8%, because firms valued their workers and sought to retain them for the long term. In exchange, the firms asked employees for understanding and wage flexibility. This degree of co-operation and flexibility requires significant trust and communication between employee and employer, where both parties are aware of the pressures and challenges faced by the other in tough economic times. It stands as an example of a positive culture of collaboration that has influenced business practice, and this bodes well for sustainable labour relations over the long term.

## CONCLUSION

Dynamic and prosperous societies continually renew, but renewal requires a culture of building, rebuilding, and enterprise. New businesses must be able to contest markets, regulations must be effective and fair, and taxes moderate and predictable, if entrepreneurialism is to thrive.

The United Kingdom is one of the most enterprising societies in Europe, with very contestable markets and high levels of competition. Surveys of UK entrepreneurs have identified the importance of digital infrastructure, intellectual property rights and access to finance as being important issues.[18] While the UK performs well in these dimensions, entrepreneurs are particularly sensitive to their quality. Furthermore, the administrative burden of doing business remains high; the UK's tax system remains highly complex.

The United Kingdom has a host of highly entrepreneurial cities, but rival European cities are making themselves increasingly attractive to entrepreneurs. The forward-looking challenge for the UK is less in start-ups, but in scaling up existing businesses. The UK ranks 13th globally for scale-ups, according to the OECD. It has been estimated that a one percent boost to the UK's scale-up rate would create an additional 238,000 jobs. In recent years, the government has paid more attention to the needs of scale-ups, and organisations such as the ScaleUp Institute have raised the profile and contributed to the policy debate. For example, they have recommended that central government should align a significant proportion of its export activities and resources towards scale-ups and create bespoke trade missions for scale-ups.[19]

As a result of this potential, the United Kingdom, along with other top tier scoring countries like the US and Netherlands, is likely to be a long-term winner in fostering sustainable prosperity—given sufficient attention to creating the conditions for start-ups *and* scale-ups.

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18. Kayleigh Bateman. "UK startups facing too many challenges, say entrepreneurs," Computer Weekly, April 20, 2015,

19. "Annual scaleup review 2017," *The ScaleUp Institute*, November, 2017, http://www.scaleupinstitute.org.uk/wp-content/uploads/2017/11/ScaleUpInstitute_Annual_ScaleUp_Review_2017.pdf.

## ANALYSING ENTREPRENEURIAL ACTIVITY

Entrepreneurial activity is already one of the key drivers of long-term prosperity, and its importance is only going to grow as the pace of technological change and the number of people involved in that change continues to grow.

There are three broad differing stages of entrepreneurialism:

- Early stage entrepreneurship is often found in developing economies, especially where there are few career alternatives to becoming an entrepreneur.
- Efficiency stage entrepreneurship. As countries develop, entrepreneurship moves towards being driven by firms seeking to bring greater efficiency and scale to their operations so, for example, street market stalls are moved into more permanent shops, and in time these are consolidated into larger more logistically efficient firms benefitting from economies of scale, and larger, centralised buying power.
- Finally, there is innovation-driven entrepreneurship, typically found in the most mature economies, where people can test, incubate and scale creative new ideas.

Entrepreneurial activity in the United Kingdom is firmly in this most mature innovation driven end of the spectrum, and there are numerous clusters of start-up businesses throughout the country that pool creativity and related support services in a wide range of industries.

The difficulty is in separating out these differing forms and drivers of entrepreneurism when looking at the data. A large number of entrepreneurs could be indicative of a significant amount of creative dynamism, or that there is still a good deal of logistical inefficiency.

Industrial clusters, those hubs of business activity dedicated to a single industry, create huge economic value and are appreciated ever more highly by entrepreneurs and policy makers. Why some clusters have been established is obvious, like wine in Bordeaux; some are long established, like finance in London; and some are fading, like car making in Detroit. The most exciting clusters emerge to serve the new information industries. While modern communication allows for remote working and widespread networks, the ability to communicate over great distances has not supplanted the value of daily personal contact and the informal networks where ideas are shared and developed in a collaborative environment and buoyed by supporting services that are specialists in the industry—expert financiers, lawyers and consultants and the availability of office space on flexible, affordable terms.

The Digital Cities Index also advocates the need for good infrastructure, both digital and traditional, access to capital, and a culture supportive of risk taking.

Based on research in the United States, migrants—who generally settle in larger cities—are twice as likely to be entrepreneurial and have demonstrated risk-taking through their willingness to leave home.[1] They are prime candidates to either start a new business or bring fresh ideas to existing businesses, partly because they do not possess the necessary contacts, skills and experience to secure roles in established firms.

1. Dane Strangler, and Jason Wiens. " The economic case for welcoming immigrant entrepreneurs," *The Kauffman Foundation*, September 8, 2015, https://www.kauffman.org/what-we-do/resources/entrepreneurship-policy-digest/the-economic-case-for-welcoming-immigrant-entrepreneurs.


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# GOVERNANCE (UK RANK: 10TH)

The importance of good Governance to long run economic growth cannot be overstated.[1] Even when controlling for extraneous factors such as culture, there is evidence that economic institutions are one of the main determinants of differences in prosperity across countries.[2] Governance underpins economic activity; unless and until good Governance is established, attracting investment and enterprise is nearly impossible. Investment and prosperity require the effective Rule of Law, which itself is dependent upon trust in a robust set of effective and accountable state institutions.[3,4] Good Governance is most robust when it has been established over time through natural evolution and is essentially a codification of cultural expectations and behaviours.[5]

UK SWOT Analysis of Governance

| STRENGTHS | WEAKNESSES |
|---|---|
| • Historic tradition of upholding the Rule of Law<br>• World's foremost commercial legal system<br>• Government is highly accountable, with little corruption | • Court and legal procedures are expensive<br>• Few checks and balances against the executive<br>• Highly centralised system has weakened local government |
| **OPPORTUNITIES** | **THREATS** |
| • Importance of strong Governance is a positive in attracting investment and as a commercial and trade partner | • The EU withdrawal process could continue to consume much of government bandwidth |

1. Douglass C. North. *Institutions, institutional change, and economic performance*. Cambridge: Cambridge University Press, 1990.

2. Acemoglu, Daron, and James Robinson. "The role of institutions in growth and development." *Leadership and Growth* 135 (2010).

3. O'Donnell, Guillermo A. "Why the rule of law matters." *Journal of Democracy* 15, no. 4 (2004): 32-46.

4. Haggard, Stephan, and Lydia Tiede. "The rule of law and economic growth: Where are we?." *World Development* 39, no. 5 (2011): 673-685.

5. Adkisson, Richard V., and Randy McFerrin. "Culture and good governance: A brief empirical exercise." *Journal of Economic Issues* 48, no. 2 (2014): 441-450.

**Evaluating Governance**

Governance can be conceptually split between the structural and operational aspects of how political and administrative power is checked and how it is applied.

The first of these structural aspects of Governance is **Executive Constraints**, which includes the existence of the separation of powers and the level of checks and balances in a governing system, particularly with respect to the executive. The second is **Political Accountability**, or the degree to which the public can hold public institutions accountable. The third is the **Rule of Law**, which encompasses the fairness, independence, and the effectiveness of the judiciary (in applying both civil and criminal law), along with the accountability of the public to the law.

We assess three different ways in which administrative power is applied. The first is **Government Integrity** (e.g., transparency and the absence of corruption). The second is **Government Effectiveness**, which is the ability of government to set and implement a policy. The final area is **Regulatory Quality**, which captures the extent to which regulations are administered and enforced in a manner that supports economic activity.

The United Kingdom, like many advanced countries, performs well in terms of Governance. This is only to be expected of a country that considers itself to have the "Mother of Parliaments", where trust in the Rule of Law has traditionally been high and well regarded globally.[6] There are challenges in the degree of bureaucracy that at times can affect administrative accountability, but these should be seen in a wider context where all comparator countries perform well.

In the following sections, we review the performance of the UK in each of the distinct elements of Governance, from Executive Constraints through to Regulatory Quality.

## EXECUTIVE CONSTRAINTS (UK RANK: 12TH)

Our measure of Executive Constraints includes the checks and balances that exist to restrict government power. The measure also assesses how power is moderated through the judiciary, independent bodies and legislation, the effectiveness of prosecuting any abuse of office, and the reliability and influence of the police and the military in the Rule of Law to ensure that these undemocratic, yet powerful, institutions do not exercise undue influence. For many developed countries, these measures are so good as to not be a particular concern, but the overall ability of a government to live under the law of the land is an important step in economic development.

The United Kingdom, along with the Netherlands and Germany, has particularly strong Executive Constraints.[7] In expert surveys, the UK ranks 9th for the extent to which executive powers are limited by the legislature and the judiciary, and 14th for the extent to which powers are checked by non-government agencies. There is little to distinguish between the UK and key comparator countries. Ideally, Executive Constraints are a cultural norm and this

6. "English Common Law is the most widespread legal system in the world," *Sweet & Maxwell*, November, 2008, https://www.sweetandmaxwell.co.uk/about-us/press-releases/061108.pdf.

7. The Netherlands is ranked 7th, the UK 10th, and Germany 15th in the world in the Index.

is certainly the case with the United Kingdom, where there is no expectation of the military having political or legal influence. Nor could a government expect to exempt itself from the prosecution of abuse of office or limit the powers of the judiciary. However, the United Kingdom's lack of formal 'checks and balances' in government power stands in contrast to countries such as the United States, where each branch and level of government is constrained by others.

## POLITICAL ACCOUNTABILITY (UK RANK: 12TH)

Our measure of Political Accountability tracks the strength of citizen complaint mechanisms against the government, the appointment of officials and transition of power according to the law, and political pluralism and participation. The United Kingdom is among the best in the world for each of these scores, albeit ranking only 17th for the quality of its complaint mechanisms. The UK performs well across a range of measures for Political Accountability; in terms of legal processes and public perceptions, the government is perceived to be responsive to the needs of its citizens.

However, the Legatum Institute's recent report *All Politics is Local* highlighted that the United Kingdom is one of the most centralised states in the developed world, with only 5% of overall government tax revenue raised locally.[8] While there has been an ongoing process of political devolution over the last 20 years, a failure to devolve financial responsibility remains a hindrance to effective local accountability.

## RULE OF LAW (UK RANK: 15TH)

The Rule of Law takes time to establish in a culture, but is immensely valuable in engendering trust in an economy and society. It also encompasses the impartiality, integrity and effectiveness of a country's judiciary. Whilst access to the judicial system is critical, any effective system also needs to have integrity, be independent and free from corruption or improper influence, as well as having the ability to ensure that justice is effectively enforced, with respected due process and the protection of civil rights.

The United Kingdom is in the top tier for Rule of Law and judicial quality, although that quality comes at a financial cost, with affordability being a concern for Britain's adversarial legal system when compared to Europe's lower cost inquisitorial system.[9] According to an expert survey from the World Justice Project Rule of Law Index, the United Kingdom does well in following administrative proceedings and operating an efficient legal framework for settling disputes through due process and administrative proceedings. Furthermore, the World Economic Forum ranks Britain sixth for judicial independence.

Common law, developed in the United Kingdom, dominates contract law, with 27% of all international contracts stipulating English law and a further 20% stipulating American common law.[10] Other studies confirm English common law accounts for more than twice as many

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8. Gisela Stuart, and Hugh Carveth. *All politics is local: Strengthening communities, transforming people's lives*. (London: The Legatum Institute, 2018)

9. "The WJP rule of law index 2019," *World Justice Project*, 2019, ISBN: 978-0-9964094-1-4.

10. "English Common Law is the most widespread legal system in the world," *Sweet & Maxwell*, November, 2008, https://www.sweetandmaxwell.co.uk/about-us/press-releases/061108.pdf.

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Countries whose legal systems are based on English common law have the strongest protection of outside investors

commercial contracts as German and French law combined, and that Anglo-Saxon common law is used even where neither party has any connection with the United Kingdom or United States.[11] English common law is trusted to deliver speedy and efficient resolution of business and financial disputes and so is arguably the world's most trusted commercial legal system.

According to the National Bureau of Economic Research, countries whose legal systems are based on English common law have "the strongest protection of outside investors", while French civil law countries tend to have the weakest. The common law system allows judges to apply general principles and legal precedents to alleged investor abuse, "even when specific conduct has not been described or prohibited in the statutes." Civil law, by contrast, requires judges to base their rulings more on the specific letter of the law. The comparative flexibility of common law means that it is "more protective of investors than the bright line rules of the civil law, which can often be circumvented by sufficiently imaginative insiders".[12]

However, on several measures, the United Kingdom's court and legal costs appear to be high. In part, this is a result of the higher cost of adversarial as opposed to inquisitorial legal systems. While adversarial legal systems costs may be relatively higher, there are significant advantages as well. Many of the most complex commercial agreements from around the world specify English law, and therefore carry commensurately high costs.

11. Cuniberti, Gilles. "The international market for contracts: the most attractive contract laws." *Nw. J. Int'l L. & Bus.* 34 (2013): 455.

12. Porta, Rafael La, Florencio Lopez-deSilanes, Andrei Shleifer, and Robert W. Vishny. "Investor protection: origins, consequences, and reform." *National Bureau of Economic Research*, No. w7428. (1999).

## GOVERNMENT INTEGRITY (UK RANK: 9TH)

The United Kingdom, as well as the key comparator countries, all have high levels of integrity, are all largely free of corruption and abuse of public office, and all possess a deeply ingrained culture of democracy and sense of legitimacy of government. We also examine the transparency, disclosure, and good use of government-held information.

Despite the high ranking overall, there are concerns about some elements of Government Integrity; at times, government officials have made decisions while in public service, and then rapidly moved into jobs in private sector companies that benefited from those very same decisions.[13] The United Kingdom also needs to address a growing lack of trust in government which remains low at 36%, with a majority of those polled feeling their views are not represented by politicians.[14] This is in part tied to what have become unpopular political decisions, or perceptions of abuse of public office such as the Parliamentary expenses scandal. However, the United Kingdom performs well when these issues are set in the context of Transparency International's corruption surveys, ranking eighth out of 180 countries.[15]

The United Kingdom leads measures for publicising laws and government data, a result of the British government taking significant steps towards creating a world-leading public data infrastructure and services such as data.gov.uk. There are strong economic benefits from making public sector information available with a 2014 report estimating £1.8 billion of direct benefits and £6.8 billion of indirect benefits.[16] There are still areas the British government can improve, with the United Kingdom performing relatively poorly against its core competitors for rights to information held by government and transparency of policymaking for companies in obtaining information.

## GOVERNMENT EFFECTIVENESS (UK RANK: 14TH)

Our measure of Government Effectiveness includes, but extends beyond, the efficient use of Resources and spending to consider the ability of a government to enact its stated strategies, enforce regulation, and to maintain an accessible legal system. One must also consider the size of the state (in terms of public spending, employment, and taxation), as it can negatively impact economic growth. The UK ranks 14th for government quality and credibility in a World Bank survey, and 23rd for the efficiency of government spending – rising from 43rd a decade ago.

The information technology revolution, for those willing to grasp it, is an obvious and cost-effective way to promulgate information, and allow for the streamlining of public services and the way that businesses and consumers interact with government.

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13. "Investigation into government's management of the Business Appointment Rules," *National Audit Office*, July 19, 2017, ISBN: 9781786041388.

14. " 2018 Edelman Trust Barometer," *Edelman*, January 21, 2018, https://www.edelman.com/research/2018-edelman-trust-barometer.

15. "Corruption perceptions index 2017," *Transparency International*, February 21, 2018, https://www.transparency.org/news/feature/corruption_perceptions_index_2017.

16. Deloitte. "Market assessment of public sector information," *Department of Business and Innovation*, May, 2013, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/198905/bis-13-743-market-assessment-of-public-sector-information.pdf.

## REGULATORY QUALITY (UK RANK: 5TH)

Our measure of Regulatory Quality captures a range of procedures, from a framework where regulations can be challenged, to being able to remove and punish those who fail in administering the functions of government. Lord Acton's maxim of "absolute power corrupts absolutely" may be too strong, but it does remain important that officials can be sanctioned for misconduct and that governmental powers are limited by checks which the government itself cannot control.

The United Kingdom performs well for Regulatory Quality, ranking 1st for the efficiency of administrative proceedings, and 9th for the quality of the enforcement of regulations. However, the score for the burden of government regulation has been seen by some as a problem. Seeking to address this latter point, David Cameron's coalition government put in place a "two out one in rule". This ran from 2011 to 2012, and it stated that for any new regulation where there is a cost to business to comply with that regulation, departments were required to remove or modify existing regulation(s) to the value of two pounds of savings for every pound of cost imposed. The government has estimated that departments not only met the target but exceeded it, removing around £963 million more in business burdens than they introduced.[17] In 2016 the United Kingdom's government set out new, more ambitious targets for "cutting red tape" and reducing the Burden of Regulation by a further £10 billion. The key question going forward is whether the government retains the commitment to focus on reducing red tape.

## CONCLUSION

Good Governance matters because it engenders trust. When trust becomes embedded in a society's culture rather than simply codified in law, as is the case in the United Kingdom and many European countries, nations can build sustainable economic success and prosperity. Good government has integrity, is efficient, and has an effective judicial system with politicians and policy makers that are held accountable. Without that bedrock of certainty, prosperity fails to take hold, let alone flourish.

The United Kingdom has a long history of effective Governance, and trust in its governing institutions remains high, even if trust in individual politicians has been tested in recent years. The Governance foundations for commerce are very strong. There is a deep cultural attachment to the Rule of Law, with little corruption and officials generally held to account. As a result, the quality of administration is very high, further underpinned by the world's foremost commercial legal system.

While the administrative state is well governed, political uncertainty has greatly hindered the government's ability to develop and implement policy strategies. This uncertainty has created commercial concern, not least because much of the uncertainty is centred on trade policy. Strong Governance is a positive in attracting investment and as a commercial and trade partner.

17. "2010 to 2015 government policy: business regulation," *Department of Business Innovation & Skills*, May 8, 2015, https://www.gov.uk/government/publications/2010-to-2015-government-policy-business-regulation/2010-to-2015-government-policy-business-regulation.

# CONCLUSIONS

Our thinking at the Legatum Institute is framed by our view that prosperity is created when economic and social wellbeing work together. True prosperity is about much more than economic success and material wealth, but every nation needs a successful economy to build sustainable prosperity. The United Kingdom is one of the world's most prosperous economies and societies, and has long been a champion of free trade and Economic Openness. As such, Britain provides many good lessons for policymakers and leaders around the world about the ultimate potential their people might be able to achieve were they embrace Economic Openness. From competition in areas as diverse as Communications, to accountable and efficient government, to Property Rights and market contestability has been of tremendous to the United Kingdom and its citizens.

The United Kingdom is in a strong position across all four pillars of Economic Openness – Market Access and Infrastructure, Investment Environment, Enterprise Conditions, and Governance – but there are three areas of concern within these strengths that are key to sustainable prosperity.

First, in spite of the United Kingdom's world-leading scores in Government Efficectiveness and Accountability, it has become clear that the political system is not equipped to deal with, let alone implement policy recommendations from, referenda. With Parliament unable to find a consensus on what a 'good' withdrawal from the European Union would look like, negotiations with Brussels have stalled, and the ordinary business of government has fallen by the wayside. This uncertainty has, naturally, inhibited investment in the United Kingdom.

Second, the quality and renewal of Britain's transport infrastructure is beginning to lag. The problem is the slow pace of local and national planning decision-making, which is delaying the development of air and rail connectivity with the loss of potential commercial advantages both domestically and internationally. The delays in delivering new infrastructure projects are likely to be felt in the medium- and long-term, particularly in less advantaged communities where opportunities for growth and development will be hindered.

Third, the UK needs to extend the successes it has created among start-up businesses by scaling up young and innovative companies to ensure they drive employment and exports, and can contribute to increasing levels of prosperity. The conditions and factors that have been central to the expansion of many successful start-up ecosystems and companies – a flexible and enterprising workforce, supportive regulatory regimes, and access to venture capital and private equity – are equally necessary when it comes to scaling up.

To conclude, Britain has built its prosperity on Economic Openness and the strength of its governing institutions. Although much of the Brexit debate has centred around the potential for future trade agreements, trade is not sufficient to drive prosperity by itself. Whatever path Britain takes post-Brexit, the fundamentals of its economic prosperity are strong, having been built and tested over hundreds of years.

The United Kingdom faces many of the challenges confronting many governments. The benefits of Economic Openness may be apparent to many across the political and business spectrum, but they have yet to find a way of effectively selling it to at least some sections of the populace at large. The more that people have a stake in an economy, a real reason to want and work for success, the more secure that support for Economic Openness is going to become.

# APPENDIX

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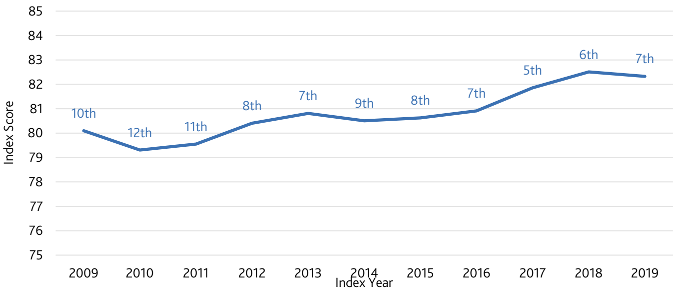
# United Kingdom: Index score 82.3 (7th)

GDP (US$) per Capita: $39,720 (22nd)

GDP (US$): $2,622bn (5th)

## Economic Openness over time




## Pillar Performance

| Pillar | Rank - Global (1 to 157) 2019 | Score 2009 | Score 2019 |
|---|---|---|---|
| Market Access & Infrastructure | 9 | 72.7 | 77.6 |
| Investment Environment | 5 | 83.1 | 81.7 |
| Enterprise Conditions | 6 | 81.2 | 84.4 |
| Governance | 10 | 83.3 | 85.6 |

## Breakdown of performance

| | Score 2009 | Score 2019 | Rank - Global (1 to 157) 2019 | 10-year rank change |
|---|---|---|---|---|
| **Economic Openness** | 80.1 | 82.3 | 7 | ▲ 3 |
| **Market Access & Infrastructure** | 72.7 | 77.6 | 9 | ▲ 5 |
| Communication | 19.2 | 22.5 | 4 | ▲ 5 |
| Resources | 15.0 | 15.6 | 20 | ▲ 3 |
| Transport | 16.3 | 16.3 | 12 | ▲ 2 |
| Border Administration | 3.8 | 3.9 | 23 | ▼ 3 |
| Open Market Scale | 2.2 | 3.3 | 22 | ▼ 10 |
| Import Tariff Barriers | 4.3 | 4.3 | 35 | ▼ 1 |
| Market Distortions | 11.8 | 11.7 | 13 | ▲ 6 |
| **Investment Environment** | 83.1 | 81.7 | 5 | ▼ 2 |
| Property Rights | 16.4 | 17.4 | 7 | ▲ 10 |
| Investor Protection | 16.5 | 16.3 | 6 | - |
| Contract Enforcement | 15.1 | 14.4 | 11 | ▼ 6 |
| Financing Ecosystem | 25.9 | 24.9 | 11 | ▲ 4 |
| Restrictions on International Investment | 9.3 | 8.6 | 10 | ▼ 6 |
| **Enterprise Conditions** | 81.2 | 84.4 | 6 | ▲ 3 |
| Domestic Market Contestability | 34.0 | 32.8 | 10 | ▲ 5 |
| Environment for Business Creation | 24.9 | 26.3 | 6 | ▲ 6 |
| Burden of Regulation | 15.5 | 17.0 | 18 | ▲ 1 |
| Labour Market Flexibility | 6.7 | 8.3 | 7 | ▲ 15 |
| **Governance** | 83.3 | 85.6 | 10 | ▲ 4 |
| Executive Constraints | 12.3 | 12.8 | 12 | ▲ 3 |
| Political Accountability | 14.1 | 14.1 | 13 | - |
| Rule of Law | 12.0 | 11.9 | 15 | - |
| Government Integrity | 15.5 | 16.4 | 9 | ▲ 3 |
| Government Effectiveness | 18.4 | 18.4 | 14 | ▲ 1 |
| Regulatory quality | 11.0 | 11.9 | 5 | ▲ 10 |

## Market Access & Infrastructure (9th)

*Indicator contains imputed values*

| Communication (4th) | Source | Unit | Value 2009 | Value 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| International internet bandwidth | ITU | kilobits per person | 39.4 | | 399.9 | 5 | 6 |
| 2G, 3G and 4G network coverage | GSMA | index score, 0-100 | 93.4 | | 98.6 | 22 | 24 |
| Fixed broadband subscriptions | ITU | number per 100 people | 25.4 | | 39.3 | 15 | 10 |
| Internet Usage | ITU | percentage of population | 75.1 | | 94.8 | 12 | 10 |

| Resources (20th) | Source | Unit | Value 2009 | Value 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| Installed electric capacity | UNESD | kilowatts per capita | 1.4 | | 1.5 | 39 | 42 |
| Gross fixed water assets | IBNWS | USD per population served | 902.4 | | 902.4 | 5 | 5 |
| Reliability of electricity supply | WBDB | index score, 0-7 | 7.0 | | 7.0 | 6 | 5 |
| Ease of establishing an electricity connection | WBDB | index score, 0-100 | 81.1 | | 95.3 | 36 | 9 |
| Water production | IBNWS | litres per person per day | 249.4 | | 249.4 | 90 | 90 |
| Reliability of water supply | WEF | expert survey, 1-7 | 6.7 | | 6.7 | 15 | 15 |

| Transport (12th) | Source | Unit | Value 2009 | Value 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| Logistics performance | WBLPI | index score, 1-5 | 4.1 | | 4.1 | 8 | 8 |
| Airport Connectivity | WEF | index based on seats and size of airport | 16.6 | | 13.7 | 26 | 28 |
| Efficiency of seaport services | WEF | expert survey, 1-7 | 5.1 | | 5.4 | 28 | 15 |
| Liner shipping connectivity | UNCTAD | index score, rebased to 100 in 2004 | 78.0 | | 95.6 | 7 | 9 |
| Quality of roads | WEF | expert survey, 1-7 | 5.2 | | 5.2 | 27 | 27 |
| Road density | FAO | km per 100 sq km of land area | 172.3 | | 172.3 | 14 | 15 |
| Rail density | WBDI | km per sq km of land area | 0.1 | | 0.1 | 7 | 9 |

| Border Administration (23rd) | Source | Unit | Value 2009 | Value 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| Efficiency of customs clearance process | WBLPI | survey, 1-5 | 3.7 | | 3.8 | 13 | 11 |
| Time to comply with border regulations and procedures | WBDB | hours | 8.3 | | 8.3 | 36 | 38 |
| Cost to comply with border regulations and procedures | WBDB | USD (current) | 76.3 | | 76.3 | 28 | 28 |

| Open Market Scale (22nd) | Source | Unit | Value 2009 | Value 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| Domestic and international market access for goods | WTO | constant 2010 USD $bn | 23,503.0 | | 37,783.9 | 13 | 24 |
| Domestic and international market access for services | WTO | constant 2010 USD $bn | 20,617.1 | | 33,755.0 | 8 | 20 |
| Trade-weighted average tariff faced in destination markets | WEF | percentage | 4.0 | | 3.5 | 91 | 59 |
| Index of margin of preference in destination markets | WEF | index score, 1-100 | 31.7 | | 32.4 | 99 | 105 |

| Import Tariff Barriers (35th) | Source | Unit | Value 2009 | Value 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| Share of imports free of tariff duties | WEF | percentage | 83.2 | | 84.2 | 43 | 44 |
| Average applied tariff rate | WEF | percentage | 0.8 | | 1.0 | 4 | 5 |
| Complexity of tariffs | WEF | index score, 1-7 | 3.1 | | 3.0 | 129 | 129 |

| Market Distortions (13th) | Source | Unit | Value 2009 | Value 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| *Extent of liberalisation of foreign trade* | *BTI* | *expert survey, 1-10* | *10.4* | | *10.4* | *1* | |
| Prevalence of non-tariff barriers | WEF | expert survey, 1-7 | 5.3 | | 5.2 | 33 | 13 |
| *Non-tariff measures* | *UNCTAD* | *number* | *654.0* | | *654.0* | *97* | *92* |
| Distortive effect of taxes and subsidies | WEF | expert survey, 1-7 | 4.6 | | 4.6 | 22 | 22 |
| Energy subsidies | IMF | percentage of GDP | 1.5 | | 1.4 | 31 | 34 |

## Investment Environment (5th)

*Indicator contains imputed values*

### Property Rights (7th)

| Property Rights (7th) | Source | Unit | Value 2009 | Value 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| Protection of property rights | WEF | expert survey, 1-7 | 5.5 | | 6.2 | 34 | 5 |
| Lawful process for expropriation | WJP | index score, 0-1 | 0.8 | | 0.8 | 16 | 23 |
| Intellectual property protection | WEF | expert survey, 1-7 | 5.4 | | 6.1 | 21 | 6 |
| Quality of land administration | WBDB | Index score, 0-30 | 8.0 | | 8.0 | 2 | 1 |
| Procedures to register property | WBDB | Index score, 0-100 | 74.8 | | 77.8 | 57 | 59 |
| *Regulation of property possession and exchange* | *BTI* | *expert survey, 1-10* | *10.0* | | *10.0* | *2* | *2* |

### Investor Protection (6th)

| Investor Protection (6th) | Source | Unit | Value 2009 | Value 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| Strength of insolvency framework | WBDB | index score, 0-16 | 11.0 | | 11.0 | 39 | 50 |
| Insolvency recovery rate | WBDB | percentage | 84.2 | | 85.3 | 9 | 12 |
| Auditing and reporting standards | WEF | expert survey, 1-7 | 6.0 | | 5.8 | 17 | 17 |
| Extent of shareholder governance index | WBDB | index score, 0-10 | 6.7 | | 6.7 | 26 | 40 |
| Conflict of interest regulation | WBDB | index score, 0-10 | 8.3 | | 8.3 | 7 | 8 |

### Contract Enforcement (11th)

| Contract Enforcement (11th) | Source | Unit | Value 2009 | Value 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| Quality of judicial administration | WBDB | index score, 0-18 | 15.0 | | 15.0 | 4 | 6 |
| Time to resolve commercial cases | WBDB | days | 133.0 | | 145.7 | 29 | 37 |
| Legal costs | WBDB | percentage | 13.9 | | 15.2 | 125 | 133 |
| Alternative dispute resolution mechanisms | WJP | index score, 0-1 | 0.8 | | 0.8 | 13 | 27 |

### Financing Ecosystem (11th)

| Financing Ecosystem (11th) | Source | Unit | Value 2009 | Value 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| *Access to finance* | *WBES* | *percentage* | *9.7* | | *9.7* | *29* | *35* |
| Financing of SMEs | WEF | expert survey, 1-7 | 4.6 | | 4.6 | 22 | 22 |
| Venture capital availability | WEF | expert survey, 1-7 | 4.8 | | 4.4 | 7 | 11 |
| *Quality of banking system and capital markets* | *BTI* | *expert survey, 1-10* | *10.4* | | *10.4* | *2* | *1* |
| Commercial bank branches | WBDI | branches per per 100,000 adults | 26.4 | | 25.1 | 36 | 33 |
| Soundness of banks | WEF | expert survey, 1-7 | 6.0 | | 5.5 | 44 | 42 |
| Depth of credit information | WBDB | index score, 0-8 | 8.0 | | 8.0 | 2 | 1 |

### Restrictions on International Investment (10th)

| Restrictions on International Investment (10th) | Source | Unit | Value 2009 | Value 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| Business impact of rules on FDI | WEF | expert survey, 1-7 | 6.0 | | 5.8 | 6 | 5 |
| Capital controls | FI | percentage | 84.6 | | 46.2 | 6 | 50 |
| Freedom to own foreign currency bank accounts | FI | expert judgement, 0-10 | 10.0 | | 10.0 | 4 | 3 |
| Restrictions on financial transactions | CII | index score, 0-1 | 1.0 | | 1.0 | 2 | 3 |
| Prevalence of foreign ownership of companies | WEF | expert survey, 1-7 | 6.2 | | 6.1 | 3 | 2 |
| Freedom of foreigners to visit | FI | index score, 0-10 | 9.0 | | 9.1 | 15 | 37 |

## Enterprise Conditions (6th)

*Indicator contains imputed values*

### Domestic Market Contestability (10th)

| Domestic Market Contestability (10th) | Source | Unit | Value 2009 | Value 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| *Market-based competition* | *BTI* | *expert survey, 1-10* | *10.0* | | *10.0* | *1* | *1* |
| *Anti-monopoly policy* | *BTI* | *expert survey, 1-10* | *10.0* | | *10.0* | *1* | *1* |
| Extent of market dominance | WEF | expert survey, 1-7 | 5.2 | | 4.8 | 16 | 13 |

### Environment for Business Creation (6th)

| Environment for Business Creation (6th) | Source | Unit | Value 2009 | Value 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| *Private companies are protected and permitted* | *BTI* | *expert survey, 1-10* | *10.0* | | *10.0* | *1* | *1* |
| Ease of starting a business | WBDB | index score, 0-100 | 90.0 | | 94.6 | 21 | 17 |
| State of cluster development | WEF | expert survey, 1-7 | 4.7 | | 5.2 | 15 | 10 |
| *Labour skill a business constraint* | *WBES* | *percentage* | *17.8* | | *17.8* | *66* | *65* |
| Availability of skilled workers | WEF | expert survey, 1-7 | 5.2 | | 5.2 | 8 | 8 |

### Burden of Regulation (18th)

| Burden of Regulation (18th) | Source | Unit | Value 2009 | Value 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| Burden of government regulation | WEF | expert survey, 1-7 | 3.2 | | 4.0 | 78 | 33 |
| *Time spent complying with regulations* | *WBES* | *percentage* | *3.9* | | *3.9* | *39* | *31* |
| Number of tax payments | WBDB | number per year | 8.0 | | 8.0 | 13 | 27 |
| Time spent filing taxes | WBDB | hours per year | 100.0 | | 105.0 | 15 | 17 |
| Burden of obtaining a building permit | WBDB | index score, 0-100 | 70.5 | | 87.1 | 40 | 4 |
| Building quality control index | WBDB | index score, 0-15 | 9.0 | | 9.0 | 104 | 108 |

### Labour Market Flexibility (7th)

| Labour Market Flexibility (7th) | Source | Unit | Value 2009 | Value 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| Cooperation in labour-employer relations | WEF | expert survey, 1-7 | 4.9 | | 5.1 | 35 | 29 |
| Flexibility of hiring practices | WEF | expert survey, 1-7 | 3.9 | | 5.1 | 70 | 6 |
| Redundancy costs | WEF | weeks | 22.0 | | 9.3 | 50 | 31 |
| Flexibility of employment contracts | WBDB | index score, 0-1 | 0.7 | | 1.0 | 60 | 1 |
| Flexibility of wage determination | WEF | expert survey, 1-7 | 5.7 | | 5.7 | 26 | 12 |

## Governance (10th)

*Indicator contains imputed values*

### Executive Constraints (12th)

| Executive Constraints (12th) | Source | Unit | Value 2009 | 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| Executive powers are effectively limited by the judiciary and legislature | WJP | index, 0-3 | 2.5 | | 2.5 | 15 | 9 |
| Government powers are subject to independent and non-governmental checks | WJP | index, 0-3 | 2.0 | | 2.5 | 34 | 14 |
| Transition of power is subject to the law | WJP | expert survey, 0-1 | 0.9 | | 0.9 | 19 | 17 |
| Military involvement in rule of law and politics | FI | index, 0-10 | 10.0 | | 10.0 | 3 | 1 |
| Government officials are sanctioned for misconduct | WJP | expert survey, 0-1 | 0.8 | | 0.8 | 12 | 15 |

### Political Accountability (13th)

| Political Accountability (13th) | Source | Unit | Value 2009 | 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| *Consensus on democracy and a market economy as a goal* | *BTI* | *expert judgement, 1-10* | *10.0* | | *10.0* | *1* | *1* |
| Political participation and rights | FH | expert judgement, 1-7 | 1.0 | | 1.0 | 1 | 1 |
| Democracy level | CSP | expert judgement, -10-10 | 10.0 | | 10.0 | 1 | 1 |
| Complaint mechanisms | WJP | expert survey, 0-1 | 0.8 | | 0.8 | 15 | 17 |

### Rule of Law (15th)

| Rule of Law (15th) | Source | Unit | Value 2009 | 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| Judicial independence | WEF | expert survey, 1-7 | 6.0 | | 6.3 | 12 | 6 |
| Civil justice | WJP | index, 0-5 | 4.3 | | 4.5 | 17 | 13 |
| Integrity of the legal system | FI | expert judgement, 1-10 | 9.2 | | 8.3 | 13 | 15 |
| Efficiency of dispute settlement | WEF | expert survey, 1-7 | 5.5 | | 5.6 | 10 | 6 |

### Government Integrity (9th)

| Government Integrity (9th) | Source | Unit | Value 2009 | 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| Use of public office for private gain | WJP | index, 0-4 | 2.5 | | 2.5 | 15 | 13 |
| Diversion of public funds | WEF | expert survey, 1-7 | 5.8 | | 5.8 | 15 | 10 |
| Right to information | WJP | expert survey, 0-1 | 0.7 | | 0.7 | 10 | 20 |
| Publicised laws and government data | WJP | expert survey, 0-1 | 0.7 | | 0.9 | 17 | 2 |
| Transparency of government policy | WEF | expert survey, 1-7 | 5.0 | | 5.5 | 24 | 14 |
| Budget transparency | IBP | index, 0-100 | 88.0 | | 74.0 | 2 | 14 |

### Government Effectiveness (14th)

| Government Effectiveness (14th) | Source | Unit | Value 2009 | 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| Government quality and credibility | WGI | index, -2.5-2.5 | 1.7 | | 1.6 | 14 | 14 |
| *Prioritisation* | *BTI* | *expert judgement, 1-10* | *10.0* | | *10.0* | *1* | *1* |
| Efficiency of government spending | WEF | expert survey, 1-7 | 3.8 | | 4.2 | 43 | 25 |
| *Efficient Use Of Assets* | *BTI* | *expert judgement, 1-10* | *10.0* | | *10.0* | *1* | *1* |
| *Implementation* | *BTI* | *expert judgement, 1-10* | *10.0* | | *10.0* | *1* | *1* |
| *Policy Learning* | *BTI* | *expert judgement, 1-10* | *10.0* | | *10.0* | *1* | *1* |
| *Policy Coordination* | *BTI* | *expert judgement, 1-10* | *10.0* | | *10.0* | *1* | *1* |

### Regulatory quality (5th)

| Regulatory quality (5th) | Source | Unit | Value 2009 | 10-yr trend | Value 2019 | Global Rank 2009 | Global Rank 2019 |
|---|---|---|---|---|---|---|---|
| Regulatory quality | WGI | index, -2.5-2.5 | 1.8 | | 1.8 | 2 | 10 |
| Enforcement of regulations | WJP | expert survey, 0-1 | 0.7 | | 0.8 | 18 | 9 |
| Efficiency of legal framework in challenging regulations | WEF | expert survey, 1-7 | 4.9 | | 5.0 | 14 | 10 |
| Delay in administrative proceedings | WJP | expert survey, 0-1 | 0.7 | | 0.9 | 24 | 1 |

## List of data sources and acronyms

| Code | Organisation |
|---|---|
| BTI | Bertelsmann Stiftung's Transformation Index |
| CSP | Center for Systemic Peace |
| CII | Chinn-Ito Index |
| FI | Fraser Institute |
| FH | Freedom House |
| GSMA | Groupe Spéciale Mobile Association |
| IBNWS | International Benchmarking Network for Water and Sanitation Utilities |
| IBP | International Budget Partnership |
| IMF | International Monetary Fund |
| ITU | International TeleCommunications Union |
| UN | United Nations |
| UNCTAD | United Nations Conference on Trade and Development |
| WBDI | World Bank Development Indicators |
| WBDB | World Bank Doing Business |
| WBES | World Bank Enterprise Survey |
| WBLPI | World Bank Logistics Performance Index |
| WGI | World Bank Worldwide Governance Indicators |
| WEF | World Economic Forum |
| WJP | World Justice Project |
| WTO | World Trade Organisation |

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