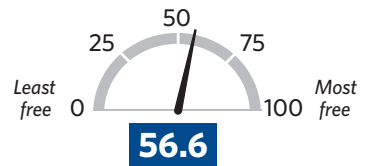


VANUATU

Economic Freedom Score



World Rank: **112** Regional Rank: **22**

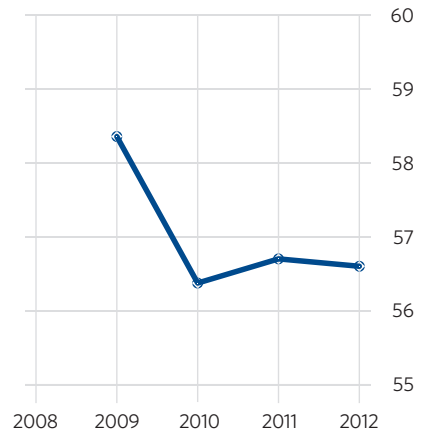
Vanuatu's economic freedom score is 56.6, making its economy the 112th freest in the 2012 *Index*. Its score has decreased by 0.1 point since last year, with improvements in freedom from corruption and monetary freedom offset by a considerable decline in business freedom. Vanuatu is ranked 22nd out of 41 countries in the Asia-Pacific region, and its overall score is below the world average.

Despite progress in sustaining economic growth, improvements in the investment and business climate are needed to generate more broadly based economic expansion. The government's lack of political will to undertake institutional reforms continues to slow the development of a dynamic private sector. Property rights are poorly protected, and inadequate physical and legal infrastructure deters investment. Lingering corruption further undermines economic security and hampers entrepreneurial activity.

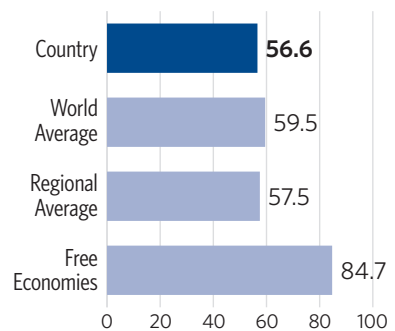
Vanuatu has taken steps to enhance regulatory efficiency and better integrate its economy into the global marketplace. Sixteen years have passed since Vanuatu started its WTO accession process. Negotiations were finally completed in May 2011, with membership expected to follow by the end of the year.

BACKGROUND: The Republic of Vanuatu, 83 islands spread over 4,500 square miles of the South Pacific, achieved independence in 1980. Formerly administered by a British-French condominium, it is today a parliamentary democracy that remains divided between its English-speaking and French-speaking citizens. Vanuatu has largely avoided the political unrest experienced by several of its neighbors in the South Pacific. Lolu Abil was elected president by the electoral college in September 2009. Controversy rocked the country in 2010 and 2011, however, when the election of Prime Minister Sato Kilman was declared unconstitutional. The economy is dominated by tourism and agriculture, and over 80 percent of the population is involved in farming, which accounts for roughly 73 percent of GDP.

Freedom Trend



Country Comparisons



Quick Facts

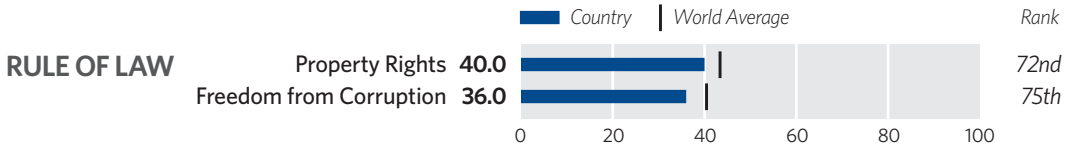
Population: 0.2 million
GDP (PPP): \$1.1 billion
 2.2% growth in 2010
 5-year compound annual growth 5.1%
 \$4,751 per capita
Unemployment: n/a
Inflation (CPI): 2.8%
FDI Inflow: \$38.9 million
Public Debt: 20.0% of GDP

How Do We Measure Economic Freedom?

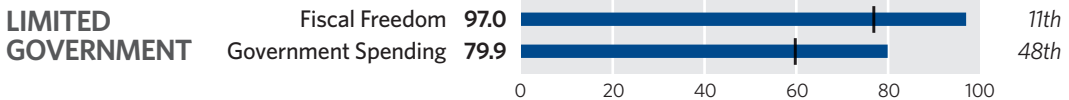
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

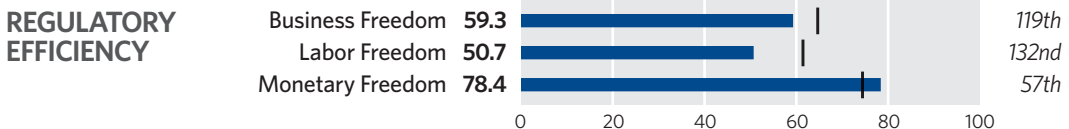
THE TEN ECONOMIC FREEDOMS



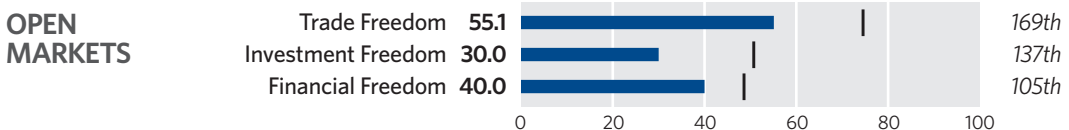
Vanuatu has a fairly efficient legal system based on British common law, but the judicial process is extremely slow. The constitution states that village or island courts presided over by chiefs should be established by parliament to deal with questions of customary law. Land disputes are a constant source of tension. The law provides criminal penalties for official corruption, but enforcement has not been effective.



There is no individual or corporate income tax. Taxes include a value-added tax (VAT) and import duties, with the overall tax burden amounting to 17.2 percent of total domestic income. Government spending has reached a level equivalent to 25.9 percent of GDP. The budget balance has been in small deficit for a number of years, and public debt remains low at 20 percent of total domestic output.



Bureaucratic procedures are complex and non-transparent. Starting a business remains time-consuming; there is no minimum capital requirement, but it takes more than the world average of seven procedures and 30 days. Completing licensing requirements costs over three times the level of average annual income. Labor codes are rigid and outmoded, and the formal labor market is not fully developed. Inflation has been modest.



The trade weighted average tariff rate is high at 15 percent, and myriad non-tariff barriers increase the cost of trade and distort the free flow of goods and services. Inadequate infrastructure and heavy state involvement deter long-term investment. Foreign investors may repatriate capital but may not own land. Access to financing remains poor, with only about 13 percent of rural adults having access to formal banking services.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.9	Business Freedom	-9.5	Trade Freedom	0
Freedom from Corruption	+4.0	Government Spending	+0.8	Labor Freedom	+0.9	Investment Freedom	0
				Monetary Freedom	+1.9	Financial Freedom	0