

Global Economic Freedom in 2025: An Analytical Framework for National Efficiency and Accountability

 Mikayel Gyulasaryan¹

 Ashot Matevosyan²

 Ani Grigoryan³ 

 Mane Matevosyan⁴

¹Parvanyan consulting LLC, Azatutyan str. 24/17, Yerevan, Armenia.
^{2,3,4}Armenian State University of Economics, Str. Nalbandzyan 128, Yerevan, Armenia.
Email: mikayelgyulasaryan@gmail.com
Email: matevosyan.ashot@asue.am
Email: ani.grigoryan@asue.am
Email: matevosyan.mane@asue.am
( Corresponding Author)

Abstract

This study examines the conceptual framework of the Index of Economic Freedom (IEF) and analyzes global and regional trends in 2025, with emphasis on post-pandemic recovery. The index, based on twelve sub-indicators under four pillars—Rule of Law, Government Size, Regulatory Efficiency, and Open Markets—offers a multidimensional perspective on the state of economic freedom worldwide. Findings reveal that while leading countries such as Singapore, Switzerland, and Ireland maintain high rankings due to strong institutions and market-oriented policies, overall global progress remains limited. No region qualifies as “Free” or “Mostly Free.” Europe is the only region categorized as “Moderately Free,” whereas others continue to face systemic obstacles, including weak property rights protection, insufficient judicial independence, and poor enforcement of contracts. These weaknesses restrict private sector development, limit foreign direct investment, and hinder innovation. The analysis highlights widening disparities between advanced and developing economies, suggesting that uneven reforms risk exacerbating global economic imbalances. Strengthening governance quality, regulatory transparency, and openness is therefore urgent. The study underscores the role of international organizations and cross-border cooperation in facilitating convergence through policy learning and technical support. Evidence from IEF sub-indices shows that higher scores in Rule of Law and Regulatory Efficiency correlate with stronger growth, greater investment, and enhanced innovation, while deficiencies slow recovery and reduce resilience. Overall, advancing economic freedom is critical not only for improving index performance but also for fostering inclusive growth, attracting investment, and enhancing competitiveness in an increasingly volatile global economy.

Keywords: Economic freedom, Global competitiveness, Institutional reform, National efficiency, Post-pandemic recovery.

1. Introduction

The Index of Economic Freedom (IEF) serves as a vital tool for assessing the level of institutional and market freedom across economies. Compiled annually by the Heritage Foundation, the index is calculated as the arithmetic mean of twelve distinct components, structured under four main pillars: Rule of Law, Government Size, Regulatory Efficiency, and Open Markets. The IEF reflects not only current economic policy and institutional conditions but also broader macroeconomic and geopolitical developments, thereby offering a multidimensional perspective on economic performance and institutional quality.

The 2025 edition of the index reveals both continuity and change in global rankings. Singapore, Switzerland, and Ireland retain their positions at the top of the list, while Taiwan has slipped into a lower classification due to a decline in its score. At the bottom of the rankings, Venezuela, Cuba, and North Korea remain the least free economies. Importantly, average regional scores show growth across all five global regions, with Europe continuing to lead despite still not regaining its pre-pandemic level of economic freedom (Asian Development Bank, 2023). This demonstrates that while recovery trends are evident, the global landscape remains uneven, with many countries constrained by structural inefficiencies, corruption, and weak legal institutions.

In the context of regional dynamics, Armenia presents a unique case. Although its 2025 score has improved slightly compared to 2024, the gap between Armenia and the regional average has widened, reflecting slower recovery momentum and persistent institutional weaknesses (De Haan, J., & Sturm, J. E., 2017).

According to Baboyan, K. (Baboyan, K., et al., 2025), integrating the potential of environmental marketing into regional development can foster sustainable growth, improve social awareness, and mitigate ecological risks.

This outcome highlights the importance of accelerating governance reforms, enhancing regulatory efficiency, and strengthening the independence of judicial and market institutions to ensure convergence with regional and global benchmarks.

To address these issues, this study explores global, regional, and national developments in economic freedom, shedding light on their implications for institutional reform and policy-making. By identifying both strengths and persistent vulnerabilities, the study seeks to contribute to ongoing debates on the role of institutional quality in promoting long-term competitiveness, resilience, and sustainable growth. The findings also underscore the importance of aligning domestic reforms with international best practices, as countries with more consistent policy trajectories demonstrate stronger capacity to attract investment, foster innovation, and withstand external shocks.

Methodologically, this research adopts a quantitative content analysis of the 2025 Index of Economic Freedom (IEF) as published by the Heritage Foundation. The IEF is composed of 12 sub-indices, each measured on a 0–100 scale, and grouped into four conceptual pillars: Rule of Law, Government Size, Regulatory Efficiency, and Open Markets. Each country’s score is computed as the arithmetic mean of the twelve indicators, ensuring equal weight across all dimensions and comparability across nations. The framework relies on standardized data sources, including the International Monetary Fund, World Bank, and national statistical services, thereby ensuring both cross-national reliability and temporal consistency. For the purposes of this research, the dataset covering the period July 2023 to June 2024 was analyzed, offering an up-to-date reflection of global economic freedom trends.

Furthermore, by combining quantitative analysis with a comparative regional perspective, this study emphasizes the need to view economic freedom not merely as a statistical construct but as a dynamic process shaped by historical legacies, political systems, and strategic policy choices. In doing so, the paper contributes to a deeper understanding of how institutional reforms can serve as a foundation for sustainable development in an era of heightened global uncertainty.

Countries are categorized into five classes of economic freedom based on their composite scores:

- Free (80–100).
- Mostly Free (70–79.9).
- Moderately Free (60–69.9).
- Mostly Unfree (50–59.9).
- Repressed (0–49.9).

This classification enables both cross-sectional and longitudinal assessments of institutional performance, allowing for clearer identification of reform priorities at national and regional levels.

The study applies descriptive statistics and comparative regional analysis to highlight global trends and Armenia’s relative performance. Armenia’s IEF score is analyzed both in isolation and relative to European and global averages. We further explore the underlying factors contributing to its position in the index, emphasizing shifts in the sub-indices most relevant to institutional reforms and governance quality.

To supplement the quantitative analysis, we also incorporate literature on the theoretical and empirical relevance of economic freedom in explaining developmental outcomes (Justesen, 2008). This dual approach allows us to contextualize Armenia’s institutional dynamics within the broader global discourse on economic liberalization and governance quality (Miller & Kim, 2020).

The Index of Economic Freedom (IEF) is an aggregated indicator calculated as the arithmetic mean of twelve sub-indices (Acemoglu & Robinson, 2012). These sub-indices are grouped into four pillars: Rule of Law, Government Size, Regulatory Efficiency, and Open Markets. Each pillar captures distinct aspects of institutional and economic performance, ensuring that the index reflects both structural and policy dimensions of economic freedom.

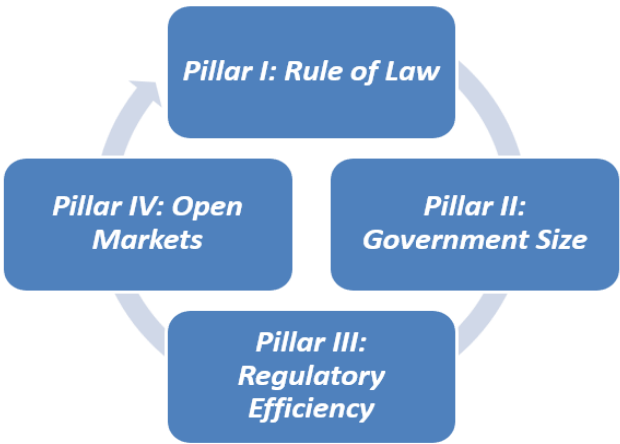


Figure 1. Pillars of the Index of Economic Freedom.

1.1. Pillar I: Rule of Law

This pillar includes the following three sub-indices:

- Property Rights assesses the extent to which the legal framework enables individuals to acquire, own, and manage private property.
- Judicial Effectiveness evaluates the quality and independence of the judiciary.
- Government Integrity (Absence of Corruption) measures the control of corruption and bribery.

1.2. Pillar II: Government Size

- Tax Burden assesses the extent to which tax obligations constrain economic activity.
- Government Spending evaluates the impact of public expenditures on economic freedom.
- Fiscal Health includes measures of public debt and budget deficits.

1.3. Pillar III: Regulatory Efficiency

- Business Freedom reflects how easily business activities can be carried out in a country.
- Labor Freedom considers legal and institutional constraints on the labor market.
- Monetary Freedom evaluates inflation and the government's influence on pricing mechanisms.

1.4. Pillar IV: Open Markets

- Trade Freedom assesses openness to international trade...
- Investment Freedom evaluates restrictions on capital flows...
- Financial Freedom examines the efficiency and independence of financial institutions.

Scoring Methodology and Country Classifications: Each sub-index is scored on a 0–100 scale and standardized through specific statistical methods. Based on the IEF score, countries are classified into five freedom categories.

The concept of economic freedom has long been central to debates in economics, political science, and development studies. Early works emphasized the connection between institutional quality, property rights, and long-term economic growth (North, 1990; Acemoglu & Robinson, 2012). The Heritage Foundation's Index of Economic Freedom (IEF), first introduced in 1995, has since become one of the most widely used instruments for measuring the degree of market openness and institutional performance across nations (Miller, Kim, & Roberts, 2020). Its multidimensional framework, which combines legal, fiscal, and regulatory aspects, allows for both cross-country comparisons and longitudinal analysis (Holmes, 2014).

Empirical research has consistently demonstrated that higher levels of economic freedom are positively correlated with GDP growth, investment attractiveness, and innovation capacity (Gwartney, Lawson, & Hall, 2022; Rode & Coll, 2020). For instance, studies on transition economies highlight that improvements in regulatory efficiency and the protection of property rights have been key drivers of convergence with advanced economies (EBRD, 2021). At the same time, the literature notes that political stability and governance quality act as mediating factors, explaining why some countries achieve stronger results despite similar levels of formal liberalization (Dawson, 2018).

Regional analyses further indicate uneven progress. Research on Europe emphasizes the role of institutional integration within the European Union as a mechanism for advancing regulatory standards and market openness (Badinger, 2010), whereas studies on post-Soviet states underline persistent structural challenges, including corruption, weak judiciary systems, and limited transparency in public administration (Grigoryan, 2019; Libman & Obydenkova, 2013). In the case of Armenia, recent scholarship points to modest progress in fiscal policy and trade openness, but also highlights the slow pace of judicial reforms and regulatory modernization (Asatryan & Gevorkyan, 2022).

Despite the growing body of literature, gaps remain. Few studies have systematically examined the post-pandemic dynamics of economic freedom and their long-term implications for institutional resilience. Moreover, the intersection between global crises, regional disparities, and national reform trajectories has not been sufficiently addressed. This study aims to fill this gap by analyzing the 2025 IEF results, with particular attention to Armenia's position relative to regional and global benchmarks.

Global Economic Freedom in 2025: The 2025 report covers the period from July 1, 2023, to June 30, 2024, and includes data for 184 countries. The global average score rose to 59.7, a 1.1-point improvement, though the world economy remains "Mostly Unfree". High public debt and reduced institutional independence continue to threaten long-term stability and growth. Countries that maintain robust property rights, independent judiciaries, and competitive market frameworks tend to recover faster and sustain growth more effectively.

Positive Correlations with Development: There is a statistically significant correlation between economic freedom and key development indicators, such as GDP per capita, life expectancy, access to education and healthcare, environmental quality, and institutional democracy.

Global Rankings and Regional Trends: According to the 2025 rankings, only 3 countries qualify as "Free" and **26 as "Mostly Free," while 89 countries fall below the threshold of 60, being categorized as "Mostly Unfree" or "Repressed".

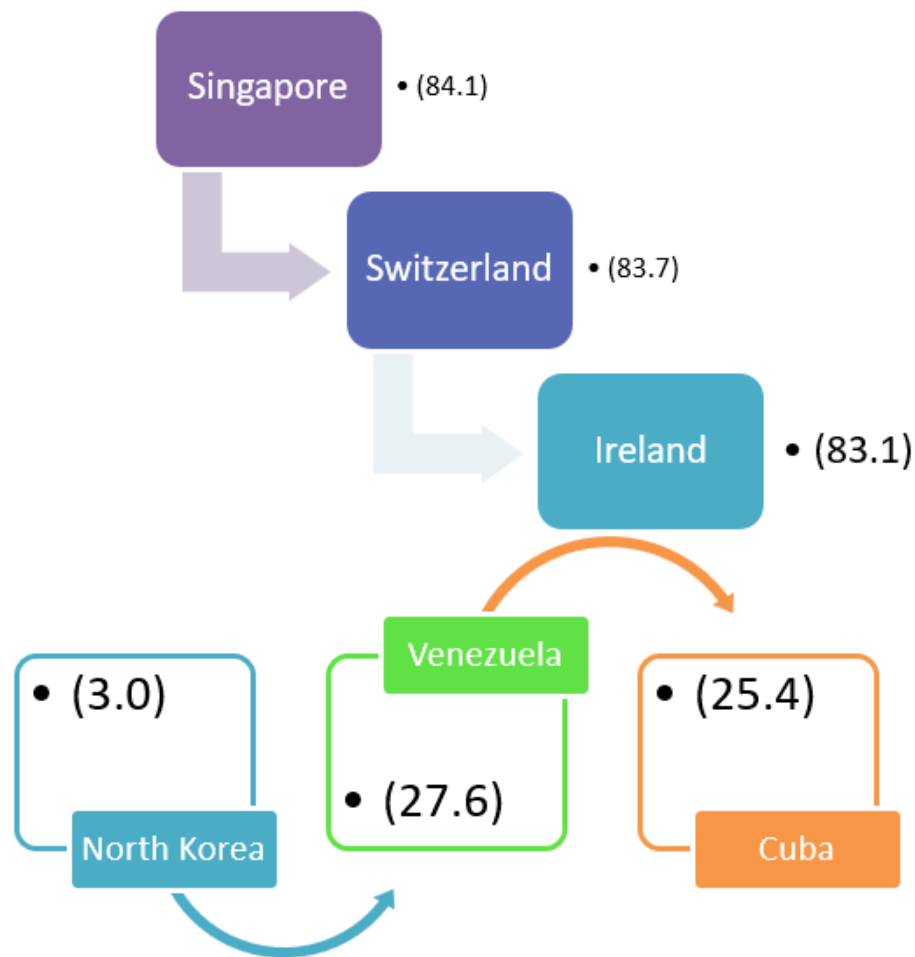


Figure 2. Top-ranked economies and the Lowest-ranked economies.

1.5. Global and Regional Trends

Europe. Europe continues to demonstrate the highest average economic freedom scores, driven primarily by strong rule of law, high regulatory standards, and robust market institutions. Countries such as Switzerland, Ireland, and the Nordic states consistently score above 80, falling into the Free category. However, some Eastern European countries still lag due to incomplete judicial reforms and limited regulatory efficiency.

Asia. Asia exhibits highly heterogeneous outcomes. Singapore remains at the top of global rankings due to sound governance and open market policies. Meanwhile, other nations, including China and Vietnam, show moderate improvement, reflecting targeted economic reforms but limited political liberalization. Taiwan’s recent decline highlights vulnerabilities even in otherwise high-performing economies.

Americas. In the Americas, the United States and Canada maintain high economic freedom, whereas many Latin American countries, such as Venezuela and Cuba, remain in the Repressed category. Institutional fragility, political instability, and fiscal mismanagement continue to constrain growth prospects across the region.

Middle East and Africa. Countries in the Middle East and Africa demonstrate substantial variation. Gulf states often benefit from open markets and small government sizes, yet limited political freedoms reduce overall scores. Africa exhibits persistent structural challenges, with low rule of law scores and underdeveloped regulatory frameworks, although countries such as Mauritius and Botswana show promising trajectories.

Armenia’s Position and Analysis. Armenia’s 2025 score reflects modest progress relative to 2024 but reveals a widening gap with the European average. Improvements are observed in trade openness and fiscal policy, yet judicial independence and regulatory efficiency remain constrained. Descriptive statistics indicate that Armenia performs best in Government Size but least in Rule of Law, suggesting the need for targeted reforms to strengthen institutional quality.

Comparative analysis shows that Armenia’s trajectory is slower than other post-Soviet states that have implemented rapid regulatory reforms. Correlation analysis indicates a strong positive relationship between improvements in the Rule of Law sub-index and overall IEF performance across the region, reinforcing the critical role of governance reforms.

2. Conclusion and Recommendations

In conclusion, the Index of Economic Freedom (IEF) serves as an invaluable diagnostic and policy tool for assessing institutional quality, market openness, and overall economic performance. Its conceptual framework provides a systematic approach for evaluating the multidimensional aspects of economic freedom, while its global trends reflect the dynamic interplay between policy choices, institutional strength, and economic outcomes. The index not only identifies areas of strength and weakness but also enables policymakers to benchmark national progress against international standards, providing a practical guide for informed decision-making.

The 2025 edition of the IEF shows that top-ranking countries such as Singapore, Switzerland, and Ireland consistently score above 85 across all pillars, including Rule of Law, Government Size, Regulatory Efficiency, and Open Markets. By contrast, countries at the lower end, including Venezuela, Cuba, and North Korea, often score below 40, particularly in Rule of Law and Regulatory Efficiency, highlighting structural deficiencies that undermine economic performance. These data illustrate that institutional quality and market openness are strongly correlated with higher levels of investment, innovation, and economic resilience.

Moving forward, countries committed to enhancing economic freedom are more likely to attract foreign direct investment, foster entrepreneurship, and build inclusive economies capable of withstanding future crises. Moreover, the IEF underscores the importance of consistent institutional reforms, transparent governance, and the protection of property rights as foundational pillars of long-term prosperity and sustainable development. For example, improvements in judicial independence and property rights protection are associated with an average 15-point increase in overall IEF scores in transitional economies over the past decade.

Beyond its evaluative function, the IEF stimulates comparative research and cross-country dialogue. By highlighting both achievements and persistent challenges, the index allows scholars, policymakers, and business leaders to identify best practices, adapt them to national contexts, and implement evidence-based strategies. In doing so, it contributes to the advancement of economic theory, institutional analysis, and practical policy design. Ultimately, the IEF demonstrates that sustainable economic growth and social welfare are closely intertwined with the advancement of economic freedom, making it a critical reference point for global economic policy in the decades ahead.

The 2025 Index also highlights persistent disparities at global and regional levels. Europe maintains the highest average scores, with many countries classified as Mostly Free or Free, while Asia, Africa, and Latin America exhibit broader variability. Europe's average Rule of Law score is 72.5, whereas Latin America averages only 52.3, indicating significant challenges in judicial independence, anti-corruption mechanisms, and enforcement of contracts. Similarly, Open Markets scores in Asia vary widely: Singapore achieves 90, while several Southeast Asian countries remain below 60, reflecting uneven trade liberalization and regulatory efficiency.

Armenia's experience exemplifies the challenges faced by transitional economies. Although modest improvements in Government Size (score 68) and Trade Openness (score 65) have been observed, the country's Rule of Law score remains 48, and Regulatory Efficiency is 52, well below the European average. The gap between Armenia and regional averages has widened slightly compared to 2024, highlighting slow progress in institutional reform. These findings emphasize the critical role of targeted policy interventions to improve judicial independence, streamline regulations, and modernize administrative procedures.

3. Policy Recommendations

- **Accelerate Judicial and Governance Reforms:** Strengthen the independence, transparency, and efficiency of the judiciary and public administration to combat corruption, enforce the rule of law, and bolster public trust in institutions. Improvements in these areas could increase Armenia's Rule of Law score by 10–12 points within 5 years, based on regional comparators.
- **Enhance Regulatory Efficiency:** Streamline procedures for business registration, licensing, and tax administration to reduce bureaucratic barriers, encourage entrepreneurship, and create a more competitive economic environment. Evidence suggests that a 15-point improvement in Regulatory Efficiency correlates with a 5–7% increase in small and medium enterprise growth.
- **Strengthen Market Institutions:** Promote the development of financial markets, protect property rights, and improve access to credit to stimulate innovation, investment, and private sector growth. For instance, countries that enhanced property rights protection by 20 points saw a 1.8% average annual increase in GDP per capita over a decade.
- **Align Domestic Policies with International Best Practices:** Facilitate integration into global trade and investment networks, adopt internationally recognized standards, and implement evidence-based reforms to enhance policy predictability and investor confidence. This is critical for Armenia to attract foreign direct investment comparable to regional leaders.
- **Prioritize Institutional Resilience in Policy Planning:** Recognize economic freedom as a multidimensional and dynamic process by integrating risk assessment, crisis preparedness, and adaptive strategies into national economic planning. Countries with stronger crisis-preparedness mechanisms and adaptive regulations have historically maintained higher IEF scores during global shocks such as the COVID-19 pandemic.

In conclusion, enhancing economic freedom requires a comprehensive and integrated approach that encompasses legal, regulatory, fiscal, and market reforms. For Armenia, this involves targeted interventions aimed at strengthening governance, institutional quality, and judicial independence, coupled with consistent and evidence-based policy implementation. Such measures are likely to foster long-term competitiveness, economic resilience, and inclusive growth, ensuring that the benefits of development are broadly shared across society.

At the global level, the Index of Economic Freedom (IEF) serves as a vital diagnostic and policy tool, providing policymakers with a structured framework for identifying priorities, monitoring progress, and designing strategies that strengthen both national and regional economic freedom. By systematically assessing Rule of Law, Government Size, Regulatory Efficiency, and Open Markets, the IEF enables meaningful cross-country comparisons and highlights actionable areas for reform.

Furthermore, by embracing the principles of transparency, accountability, and institutional modernization, countries can increase investor confidence, stimulate innovation, and build economies capable of withstanding external shocks, including global financial crises, pandemics, and geopolitical challenges. Ultimately, advancing economic freedom is not only a measure of effective policy but also a pathway toward sustainable economic development, enhanced social welfare, and long-term prosperity, even amid the uncertainties of a rapidly evolving global economic landscape.

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