



Geopolitical Risk Index | Case Studies | 2024



THE DARK SIDE OF GOVERNMENT INTERFERENCE

Construction of a government interference sub-index

As stated by Luttwak (1990), the end of the Cold War marks the conclusion of military confrontation but in a realistic perspective, States aim at securing national power and operate inside their borders to strengthen the domestic power through tax revenues, regulation, subsidies and supporting innovation. The levels of government intervention vary considerably amongst different countries and areas of the World, and mainly depend on the political regime and ideology. The purpose of our work is to understand and formalize a country's government interference level exploitable in the future by business and non-business stakeholders.



GOVERNMENT INTERFERENCE INDEX

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INDEX COMPONENTS

We capture six different dimensions of globalization:

1. Perceived Corruption
2. Government Spending
3. Freedom to Trade
4. Property rights
5. Regulation
6. Taxation



FINAL INDEX METHODOLOGY



To build up the final globalization sub-index we computed a simple average of the six subindexes that are part of the final index.

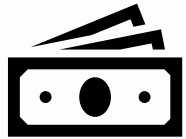


ACHIEVEMENT

We were able to expand our final government interference sub-index both geographically and temporally. Indeed, the final index spans **from 2000 to 2022** and includes **165 Countries**. Overall, compared to last year's index which included only 2020 and 2021 data for 37 countries, **the explanatory power of the index increased significantly**.



SUB-SUB INDEX COMPONENTS



Perceived Corruption



Corruption is overwhelmingly perpetrated by businesses to “facilitate” processes with public administrators and officials, making it a rent extracted by government officials from the private sector. Thus, it can, in our opinion, be considered an “interference” of governments in private business practices, as public officials that ask for bribes to get things done cause a distortion in the free market competitive environment.

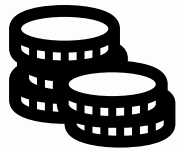
SOURCE AND METHODOLOGY



- As a source, we moved away from the World Bank Enterprise Survey, and we decide to use data collected by “Transparency International”. The CPI ranks countries around the globe by their perceived levels of public sector corruption, scoring on a scale of 0 (highly corrupt) to 100 (very clean).
- To obtain the final index, we did a series of analyses using also Python to collect data in a unique and uniform database.



SUB-SUB INDEX COMPONENTS



Government Spending



This index takes into account government spending as a percentage of GDP. It allows us to capture the magnitude of a government's effort in influencing market dynamics

SOURCE AND METHODOLOGY



- The source for this index is the International Monetary Fund.
- The computation method of the Index has been modified in order to be coherent with the other indexes, and it is now calculated using percentiles.



SUB-SUB INDEX COMPONENTS



Freedom to Trade



This subindex is comprised of two inputs: the trade-weighted average tariff rate and a qualitative evaluation of nontariff barriers (“NTBs”). Overall, it constitutes a more comprehensive description of the government interference in the countries’ trades compared to the use of the MFN tariffs alone, as done in the previous year. This subindex now includes 186 countries spanning from 2000 to 2023.

SOURCE AND METHODOLOGY



- We found a new data source from the Heritage Foundation, which is the Index of Economic Freedom, and in particular, the Trade Freedom Subindex.
- The weighted average tariff uses weights for each tariff based on the share of imports for each good.
- The NTBs, the types included in the subindex are quantity regulatory and customs restrictions, direct government intervention and the number of nontariff measures in force as calculated by the WTO.



SUB-SUB INDEX COMPONENTS



Property Rights



It can represent instances in which excessive government intervention may result in restriction of property rights, leading investors to be discouraged and not incentivized to invest in the country.

SOURCE AND METHODOLOGY



- We found a new data source from the Heritage think tank.
- The score is calculated as the average of three other sub-indexes: Risk of expropriation, Respect for intellectual property rights, and quality of contract enforcement, property rights, and law enforcement. Each sub-index is then converted on a 0-100 scale.



SUB-SUB INDEX COMPONENTS



Regulations



The regulation environment is important to assess government interference, because the regulatory environment can directly influence the degree of control and intervention exerted by the government in various aspects of public and private life.

SOURCE AND METHODOLOGY



- **The Regulation index come from the Fraser Institute dataset.**
- **IT is composed of the following sub-indexes: credit market regulations, labour market regulations, and business regulations. Each sub-index is composed of different indices, which gives us the possibility to obtain an index covering a broader definition of the regulation environment of a country than in the index used in the previous years.**



SUB-SUB INDEX COMPONENTS



Taxation



The level of taxation imposed by the government can reflect its intervention in the economy. Higher tax rates, especially on income, corporate profits, and consumption, often indicate greater government involvement.

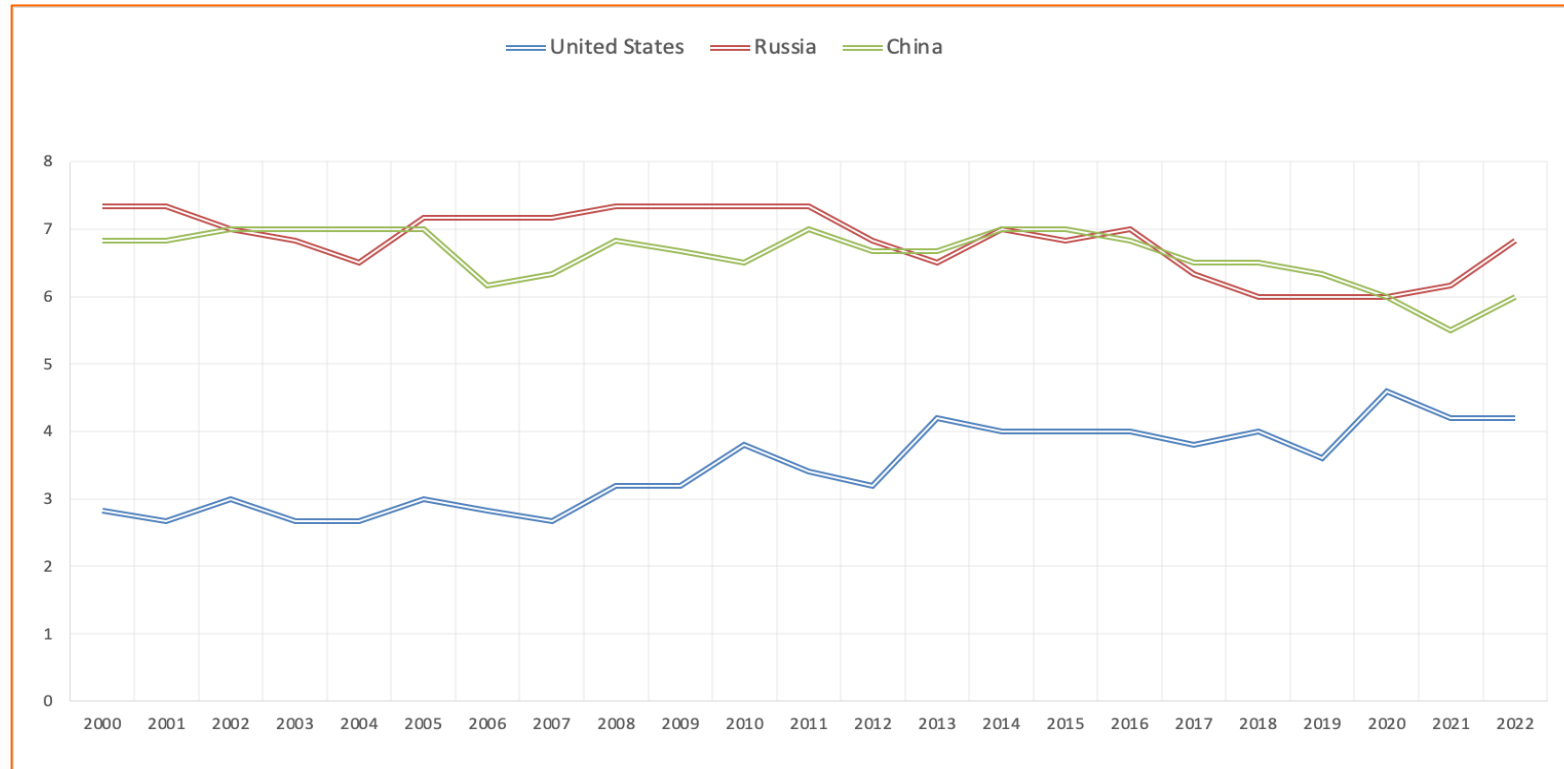
SOURCE AND METHODOLOGY



- **Data from the Economic Freedom of the World Index released by the Fraser Institute. The Sub-Index from the Fraser Institute is based on Top marginal income tax rate and Top marginal income and payroll tax rates. In this index, countries with higher marginal income and payroll (wage) tax rates that take effect at lower income thresholds received lower ratings.**
- **Since data is up to 2021, we decided to estimate a score for 2022 by assigning weights of 50%, 30% and 20% to the three previous years (2021, 2020, and 2019) respectively, as we expect changes in taxation and regulation to be slow and these rules to remain unchanged for long periods of time.**



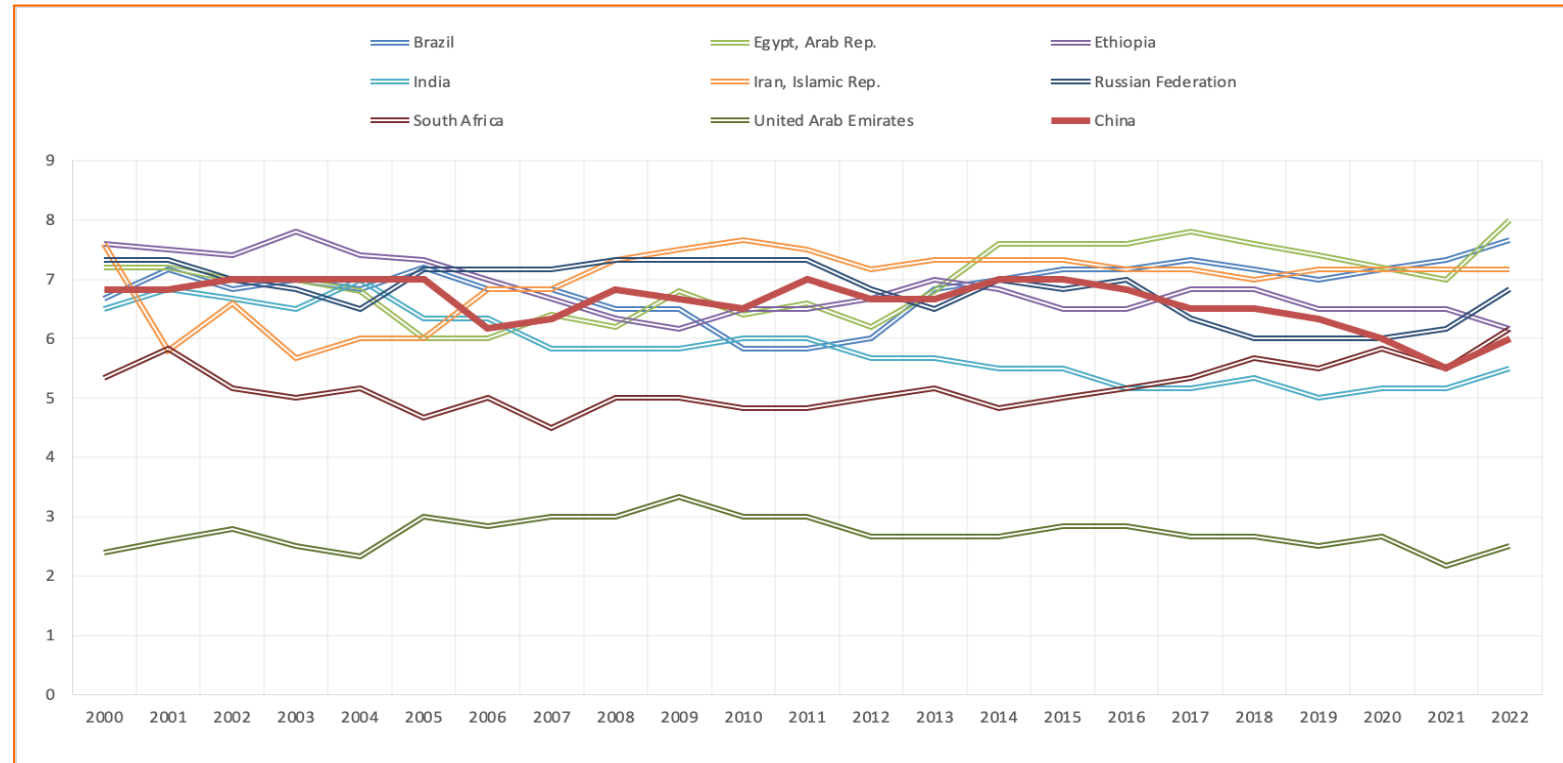
CHINA, RUSSIA, AND UNITED STATES



The charts represents the degree of interference of the government in the economy. Russia and China, as expected, have a higher degree of government interference. In the US, instead, we see an increasing trend, probably due to stronger fiscal stimulus as a consequence of the Great Financial Crisis and the pandemic.



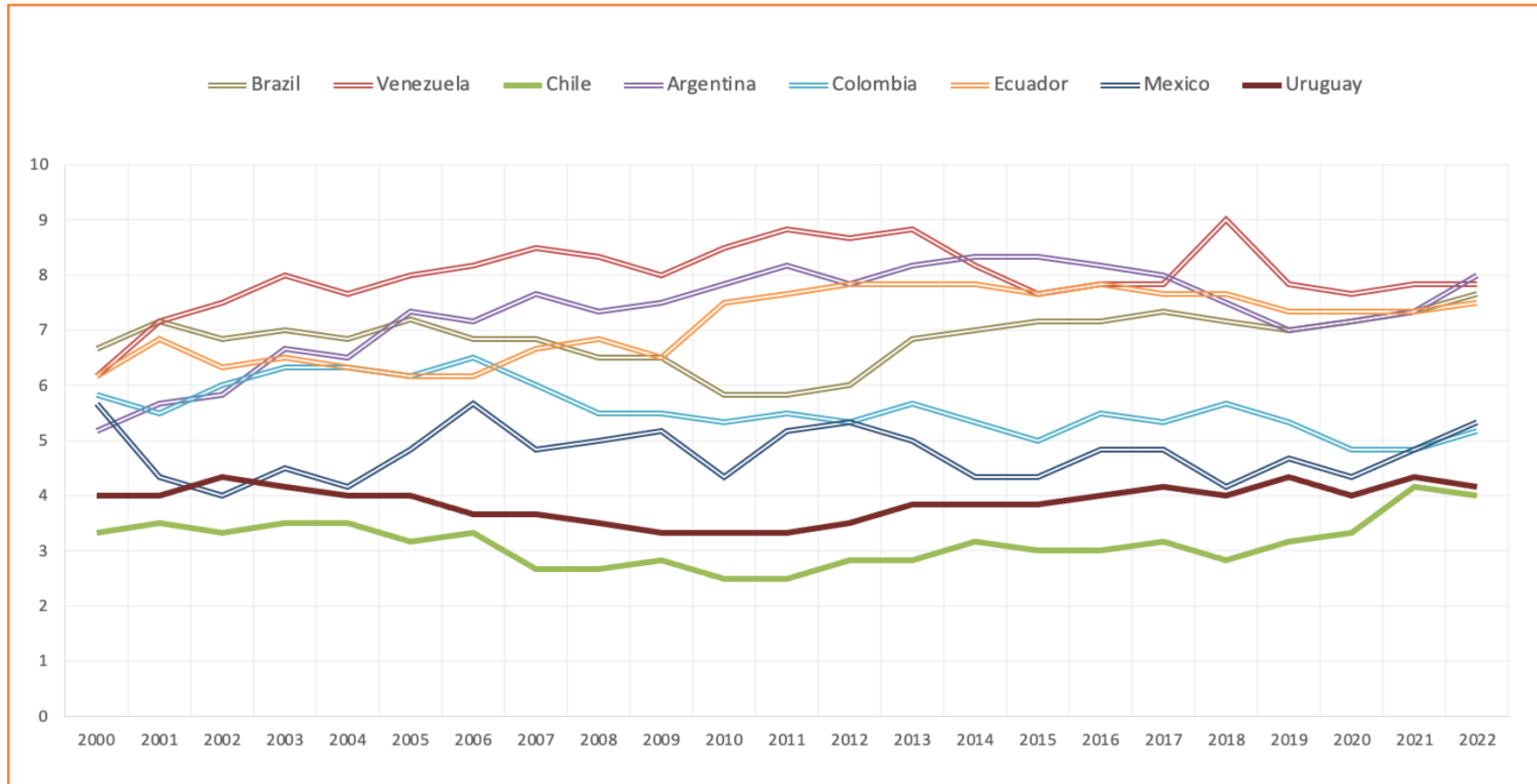
BRICS



BRICS countries, except for the United Arab Emirates, show a high degree of government interference. This is probably due to the increasing spending and subsidies programs backed by governments. The United Arab Emirates stand out with respect to the rest of the countries, among which the only one showing a decreasing trend is India.



LATIN AMERICA



From the Government Interference index, it is possible to notice the long-term effects of liberalization policies in Latin America, mainly in Chile and Uruguay.



REFERENCES FOR GOVERNMENT INTERFERENCE SUB-INDEX

Corruption Perception sub-index

[2000 - CPI - Transparency.org](https://www.transparency.org/en/cpi)

Property Right sub-index

<https://www.heritage.org/index/pages/all-country-scores>

Regulation sub-index

<https://www.fraserinstitute.org/economic-freedom/dataset?geozone=world&page=dataset&min-year=2&max-year=0&filter=0>



REFERENCES FOR GOVERNMENT INTERFERENCE SUB-INDEX

Government Spendings sub-index

<https://www.imf.org/external/datamapper/exp@FPP/USA/FRA/JPN/GBR/SWE/ESP/ITA/ZAF/IND>

<https://www.nottingham.ac.uk/credit/documents/papers/00-14.pdf>

Trade Freedom sub-index

<https://www.heritage.org/index/pages/all-country-scores>

Taxation sub-index

<https://www.fraserinstitute.org/economic-freedom/dataset?geozone=world&page=dataset&min-year=2&max-year=0&filter=0>