



THE 2010 LEGATUM PROSPERITY INDEX™

AN INQUIRY INTO GLOBAL WEALTH AND WELLBEING



The 2010 Legatum Prosperity Index™ Rankings



● Strong ranking countries (Top 30) ● Average ranking countries (Middle 50) ● Low ranking countries (Bottom 30)

Overall Rank	Country	Economy	Entrepreneurship & Opportunity	Governance	Education	Health	Safety & Security	Personal Freedom	Social Capital
1	Norway	1	6	12	4	4	2	2	1
2	Denmark	4	1	2	5	17	6	6	2
3	Finland	9	4	7	3	10	3	12	7
4	Australia	8	13	8	2	15	13	4	4
5	New Zealand	17	14	4	1	19	7	3	3
6	Sweden	7	2	6	10	9	8	5	11
7	Canada	5	10	5	12	11	16	1	8
8	Switzerland	2	11	1	29	3	12	19	6
9	Netherlands	3	12	10	13	13	18	13	5
10	United States	14	3	3	9	1	25	9	12
11	Ireland	22	7	14	15	14	4	7	10
12	Iceland	38	9	17	6	2	1	8	14
13	United Kingdom	18	5	9	22	20	23	15	9
14	Austria	12	16	13	17	8	15	23	15
15	Germany	13	15	15	25	6	20	14	16
16	Belgium	16	21	16	18	12	19	10	19
17	Singapore	6	8	11	30	24	5	36	54
18	Japan	11	19	20	24	5	11	42	31
19	France	19	20	19	14	7	27	17	42
20	Hong Kong	10	17	18	53	34	14	16	24
21	Slovenia	34	26	27	16	16	9	22	38
22	Taiwan	25	22	37	7	26	10	28	52
23	Spain	33	27	22	11	25	38	18	35
24	Czech Republic	26	29	30	27	21	28	30	32
25	Italy	29	30	32	19	18	30	27	30
26	Portugal	40	28	24	20	27	17	24	63
27	South Korea	15	18	31	8	30	33	64	59
28	Uruguay	46	52	29	37	40	22	11	34
29	Poland	37	38	35	26	32	21	32	25
30	United Arab Emirates	30	24	38	34	35	24	54	36
31	Kuwait	20	31	36	55	36	29	34	28
32	Chile	39	33	21	52	46	37	26	64
33	Costa Rica	36	44	26	58	41	48	20	45
34	Hungary	48	42	33	31	28	26	50	55
35	Estonia	59	23	23	36	39	36	68	43
36	Israel	27	25	28	28	23	90	89	17
37	Slovakia	47	36	39	32	29	32	63	40
38	Croatia	53	37	48	44	33	34	38	41
39	Greece	41	35	46	21	22	31	86	100
40	Panama	50	41	52	50	63	41	39	37
41	Argentina	42	46	86	39	31	42	37	47
42	Lithuania	76	39	45	35	38	35	70	49
43	Malaysia	21	34	34	45	44	52	90	90
44	Trinidad and Tobago	58	40	54	67	61	49	29	72
45	Brazil	32	49	60	75	55	76	25	56
46	Bulgaria	75	55	57	48	45	40	40	80
47	Latvia	81	32	47	33	42	45	67	92
48	Tunisia	49	45	50	41	50	44	91	69
49	Saudi Arabia	28	48	49	65	49	71	103	18
50	Kazakhstan	51	72	87	46	56	47	53	33
51	Romania	67	50	65	43	53	43	49	94
52	Thailand	23	54	53	47	64	75	106	20
53	Mexico	31	59	66	69	54	79	72	39
54	Belarus	74	67	104	23	37	60	76	23
55	Jamaica	79	47	67	76	68	53	45	51
56	Belize	61	51	77	80	58	57	47	50
57	Botswana	73	64	25	85	96	59	21	60
58	China	24	60	64	59	66	92	102	27
59	Sri Lanka	84	76	43	56	72	101	52	29
60	Mongolia	88	58	81	49	85	39	87	26
61	Vietnam	62	77	62	81	74	46	66	68
62	Morocco	35	68	63	92	70	69	100	13
63	Russia	64	56	101	38	47	82	88	53
64	Philippines	52	69	55	60	81	85	56	82
65	Colombia	55	57	59	68	62	107	57	62
66	South Africa	77	43	40	78	88	97	51	71
67	Paraguay	54	74	91	86	75	55	59	61
68	Dominican Republic	80	62	75	77	80	80	33	66
69	Ukraine	96	73	98	40	48	58	71	73
70	Indonesia	43	82	70	70	84	56	96	44
71	Namibia	68	78	44	87	93	67	35	70
72	Macedonia	98	61	71	71	43	50	81	86
73	Peru	57	66	69	62	82	72	62	98
74	Jordan	93	70	42	42	51	65	105	83
75	Venezuela	56	65	96	54	78	95	80	46
76	Uzbekistan	108	85	94	64	59	61	61	22
77	Ecuador	60	75	97	73	73	88	60	96
78	El Salvador	89	81	61	84	65	70	58	104
79	Algeria	45	79	90	72	67	93	101	74
80	Turkey	69	53	51	82	57	83	95	108
81	Guatemala	65	71	88	88	77	84	83	48
82	Bolivia	63	87	93	61	86	91	55	78
83	Syria	71	92	79	74	52	86	99	75
84	Lebanon	70	83	92	51	79	89	82	99
85	Honduras	97	80	83	79	76	62	79	81
86	Moldova	104	63	89	66	71	74	97	76
87	Nicaragua	102	94	85	83	83	68	41	87
88	India	44	93	41	89	95	78	74	105
89	Egypt	72	84	78	63	69	77	109	95
90	Ghana	109	89	56	95	89	51	31	101
91	Nepal	100	96	94	92	87	87	44	84
92	Iran	78	86	105	57	60	99	108	106
93	Mali	85	108	76	109	103	54	48	57
94	Senegal	101	99	73	104	97	63	43	67
95	Cambodia	92	100	72	90	98	66	98	97
96	Bangladesh	66	95	95	91	90	94	46	109
97	Tanzania	95	104	74	99	101	98	78	58
98	Rwanda	94	97	58	96	105	64	84	107
99	Uganda	91	98	80	100	102	106	75	65
100	Sudan	83	91	109	107	92	108	92	21
101	Zambia	103	102	68	94	106	81	73	91
102	Cameroon	87	107	107	97	100	100	65	102
103	Mozambique	82	101	82	105	109	73	85	93
104	Kenya	107	90	100	98	99	109	77	77
105	Yemen	99	106	103	102	94	96	107	79
106	Nigeria	90	103	108	106	104	104	94	89
107	Ethiopia	106	109	99	108	108	103	93	85
108	Central African Republic	105	105	106	110	110	102	69	103
109	Pakistan	86	88	102	103	91	105	110	110
110	Zimbabwe	110	110	110	101	107	110	104	88

Welcome to the 2010 Legatum Prosperity Index™

We are pleased to introduce the 2010 Legatum Prosperity Index™, the world's only global assessment of wealth and wellbeing. The Index provides a framework for assessing global prosperity that we hope will be of use to policymakers, scholars, businesses, and the globally curious for years to come. Now in its fourth year, this edition builds upon previous versions with expanded data and analysis. In our continuous effort to improve the Index using advances in research and data availability, this year's Index features some significant changes from the 2009 Index. The rest of this report provides information on the details and implications of these changes.

The Prosperity Index is unique. It starts with a holistic definition of prosperity that includes both material wealth and quality of life, and then employs a rigorous set of estimation methods to determine which factors matter most to a nation's overall prosperity. Most people would intuitively agree that "prosperity" is not just about money but also about quality of life.

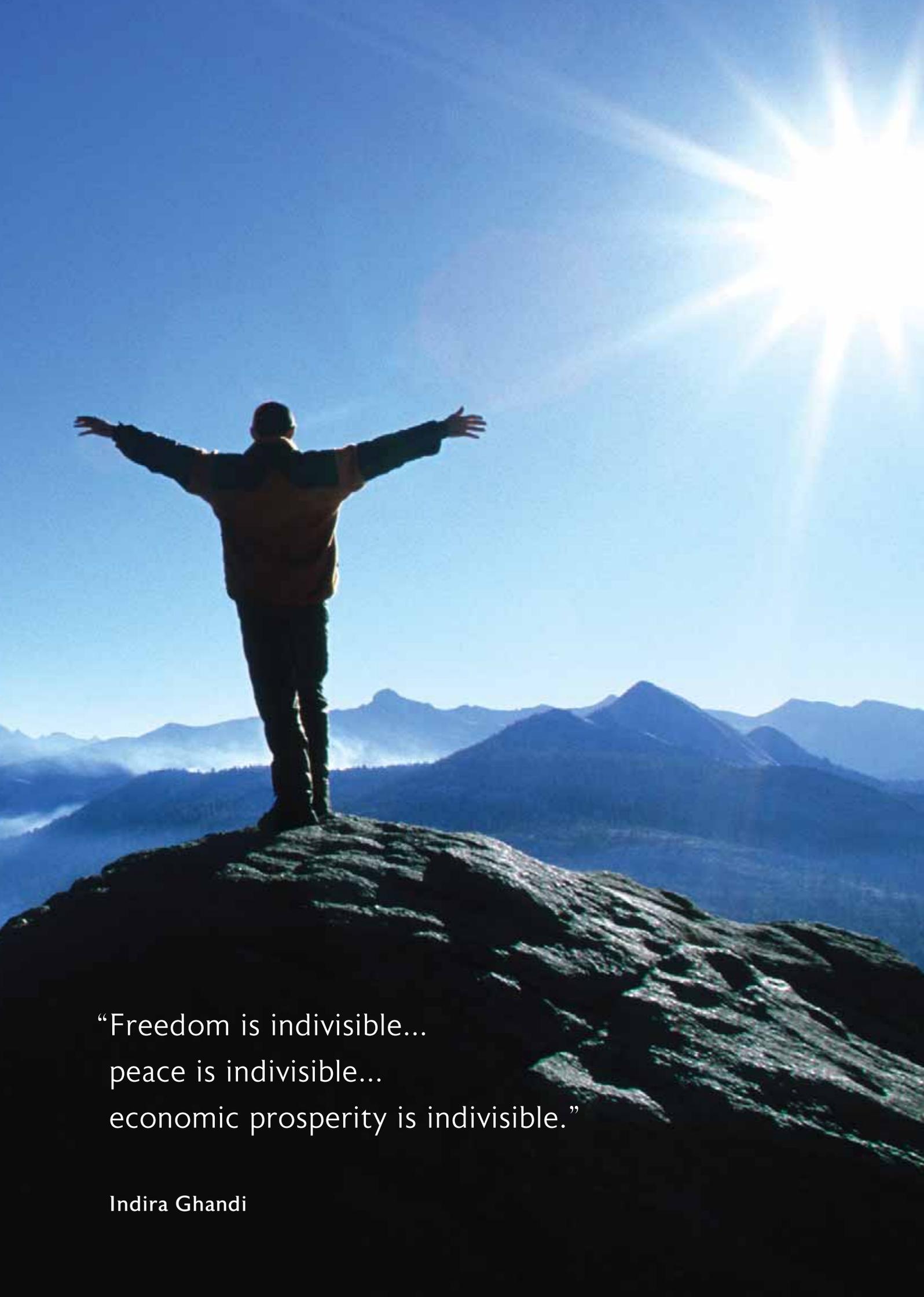
The Prosperity Index is the first global index that provides an empirical basis for this belief, in addition to measurements of how well each country promotes prosperity. The Prosperity Index seeks to understand how economic fundamentals, health, freedom, governance, safety, education, entrepreneurial opportunity, and social capital influence a country's economic growth and the happiness of its citizens. It finds that successful countries enjoy a "virtuous cycle" of economic liberty and growth, political freedom and good governance, and enterprising and happy citizens, which mutually reinforce each other on the path to prosperity.

Rather than replicating other measurements that rank countries by their actual levels of wealth, life satisfaction, or development, the Prosperity Index produces rankings based on the foundations of prosperity. These are the factors that help drive economic growth or produce happy citizens in a given country.

This summary report provides the country rankings, a number of key findings, and background on how the Index was created. More information on the Prosperity Index, including data sources, profiles of each country, and interactive tools for further exploration, can be found at www.prosperity.com.

The Prosperity Index is the signature annual report of the Legatum Institute and is central to our ongoing inquiry into the nature of prosperity and the pathways of successful countries. The Legatum Institute is a London-based global think tank that promotes political, economic, and individual liberty around the globe, with a special focus on developing and transitioning countries.

We hope that you find the 2010 Prosperity Index engaging and thought-provoking. For the Legatum Institute, the quest to understand the foundations of prosperity and the principles of successful countries is an enduring investigation that we will seek to improve with every edition. We welcome any comments or feedback that may help improve our understanding. Please visit us at www.li.com for more information about our research, products, events, and initiatives.



“Freedom is indivisible...
peace is indivisible...
economic prosperity is indivisible.”

Indira Gandhi

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“... Gross National Product counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage... It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl... Yet the Gross National Product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials... It measures everything, in short, except that which makes life worthwhile.”



Senator Robert F. Kennedy

The Scope of the 2010 Legatum Prosperity Index™

The Prosperity Index™ assesses 110 countries¹, accounting for over 90 percent of the world's population, and is based on 89 different variables, each of which has a demonstrated effect on economic growth or on personal wellbeing. The Index consists of eight sub-indexes, each of which represents a fundamental aspect of prosperity:

1. Economy
2. Entrepreneurship & Opportunity (E&O)
3. Governance
4. Education
5. Health
6. Safety & Security
7. Personal Freedom
8. Social Capital

Each of the sub-indexes provides us with two important analyses: first, an economic assessment, and second, an assessment of a country's subjective wellbeing, or happiness.

For instance, the Education sub-index looks at how educational factors contribute to economic growth and a nation's overall level of happiness. The Entrepreneurship & Opportunity sub-index looks at how enterprising societies contribute to both the economy and citizens' satisfaction with their lives. And so on.

By examining how the underlying data in different sub-indexes interact, we can begin to uncover intriguing insights and applications.

Our hope is that the Prosperity Index findings will be of use to policymakers, journalists, business leaders, scholars, and interested citizens around the world.

While there appear to be some common foundations shared by prosperous countries – such as economic liberty, accountable government, human rights, healthy citizens, and strong communities – it remains a fact of history that each nation needs to find its own path to success.

Moreover, while governments by themselves cannot create or mandate prosperity, they can help create an environment that is conducive to entrepreneurship, earned success, and human flourishing. Ultimately, it is citizens and their leaders who must choose to take ownership of the foundations that will drive their nation's long-term prosperity and their personal fulfilment.

The Prosperity Index consists of eight sub-indexes based upon years of research into the sources of economic growth and quality of life. Each sub-index assesses the effect of a range of variables on per capita GDP and the subjective wellbeing of citizens. In this way, the Prosperity Index allows us to discover the non-economic effects of economic reality, and the effects of economic indicators on life satisfaction. Throughout this report, we will use the term "income" and "wealth" interchangeably, and will use the term "wellbeing" to signify "life satisfaction" or "happiness."

¹ The term "country" is used loosely to refer to the 110 societies that are in the Prosperity Index. There are 108 states and two territories – Hong Kong and Taiwan – in the Index.

Feature One

Why Another Index?



How is the Prosperity Index different from the other Indexes out there? Do we really need another one? These are good questions. To start, the Prosperity Index is the world's only global assessment of wealth and wellbeing. This means it is the only global index that measures both the factors that produce economic growth and those that produce happy citizens (or, more technically, "the subjective wellbeing" of a country's citizens).

Second, the Prosperity Index is unique because of the broad and diverse range of factors it includes. It identifies as many factors as possible that make a significant contribution to GDP growth or subjective wellbeing (SWB), which together comprise "prosperity." Many other indexes focus just on one or two issue areas, such as economic policy, health, or happiness.

The Prosperity Index looks at everything; from the ease of starting a business to monetary stability to infant mortality

to satisfaction with living standards to marriage and divorce rates – even attendance at religious services. A third unique aspect of the Prosperity Index is its use of both objective and subjective data. It measures both the actual performance of countries as well as citizens' perceptions of their lives. Both of these dimensions are necessary to provide a holistic picture of prosperity, as it is generated and experienced.

The Prosperity Index utilises other helpful indexes such as the Wall Street Journal/Heritage Foundation's Index of Economic Freedom, the World Economic Forum's Global Competitiveness Index, the Global Peace Index, the World Bank Governance Indicators, the Human Development Index, and Freedom House's Freedom in the World Report. Our hope is that, alongside the insights provided by these and other indexes, the Prosperity Index will help provide new insights into the factors that produce successful countries and fulfilling lives.

Key Findings

The Prosperity Index is about more than country rankings. It is an exploration into the sources of prosperity and how they relate to each other. This section contains some of the many interesting findings revealed by the Index's unique analysis.

It is our hope that readers will join us in exploring the Index as a way to confirm or challenge the consensus on emerging trends, test conventional wisdom, and find new policy applications for national growth and wellbeing.

The findings fall into three main categories:

I. Prosperity is found in entrepreneurial democracies that have strong social fabrics.

1. Entrepreneurship and opportunity correlate more closely to a nation's overall prosperity than any other factor.
2. It pays to be a democracy.
3. Changes in the “social fabric” of a country can lead to big changes in national prosperity.
4. Prosperity is about balance.

II. Prosperity is a blend of wealth and happiness, but not as one might think.

5. Material wealth cannot be explained only by economic factors, and happiness cannot be explained only by subjective emotions.
6. Choice and opportunity matter more to happiness than making a lot of money quickly.

III. Global prosperity is changing in unexpected ways.

7. Two Europes are emerging.
8. Improved governance is emerging as a key driver of prosperity in Sub-Saharan Africa.
9. It's hard to be prosperous as a large country.
10. Economic growth is not enough for the BRICs.

Here are some of the most interesting findings from this year's Index:

1. Prosperity is found in entrepreneurial democracies that have strong social fabrics.

1. Entrepreneurship and opportunity correlate more closely to a nation's overall prosperity than any other factor.

The overall Prosperity Index rankings correlate more closely to the Entrepreneurship & Opportunity (E&O) sub-index, than to any other sub-index. If we create an average ranking of only the income-related portions of all eight sub-indices, the E&O sub-index still correlates with the overall rankings.

This implies that while other foundations such as health, education, social capital, or even the economy, are critical, levels of entrepreneurship and access to new opportunities actually provide the best proxy to understanding how prosperous a society can be. The E&O sub-index is an important gauge of the way in which a society commercialises innovation, encourages new businesses, and fosters a sense among its citizens that hard work is rewarding.

How well a country does in these areas goes a long way to explaining how well it will do promoting prosperity more generally.

INSIGHT: In the wake of the global financial crisis, some governments might have been tempted to impose protectionist tariffs or complex regulations which could discourage business activity. Given the importance of entrepreneurship for overall prosperity, it is imperative that economic policies in the current recession do not erode the incentives to be entrepreneurial and innovative, which constitute the cornerstone of long-term prosperity.

Correlation Between Entrepreneurship & Opportunity and Overall Prosperity



Notice how the points on the graph are arranged in almost a straight diagonal line. The fact that none fall in the extreme upper left or lower right corners shows how similar the E&O and overall Prosperity rankings are to one another.

Feature Two

Financial Crisis and the Index



Since mid-2008, the world has been hit by a major financial crisis, which quickly translated itself into a global recession. According to the IMF, the world economy shrank by 0.6 percent in 2009 and while the global output is expected to grow by around 4.5 percent in 2010, the recovery is still fragile in many regions of the world, particularly in parts of Western Europe and in the United States.

How has the crisis affected the 2010 Prosperity Index? On the one hand, we can see a clear decline in measures of confidence in financial institutions in many countries of the world, weakening the countries' scores on the Economy sub-index. As of yet, those parts of the Index which make use of measures of the real economy do not seem to be affected, partly because much of the data predates the crisis. It is thus conceivable that the financial crisis will affect the scores, and maybe also the countries' rankings, in 2011.

On the other hand, we should stress that the purpose of the index is not to track directly the fluctuations in income, but rather the structural, institutional, and cultural underpinnings of global prosperity. In principle, a temporary recession – insofar as it does not alter the foundations of long-term prosperity – should not have a large impact on the countries' prosperity rankings.

However, the crisis could have a lasting effect on global prosperity if governments followed policies that tend to erode these foundations. The Entrepreneurship and Opportunity sub-index is related very tightly to material prosperity. For example, if governments respond to the crisis by imposing complex regulations, prohibitive tax rates, or protectionist tariffs, then entrepreneurship and business activities can be discouraged and the crisis can have a more permanent impact on global wealth and wellbeing.

2. It pays to be a democracy.

Twenty three out of the top 25 societies in the Prosperity Index are electoral democracies, and the other two (Singapore and Hong Kong) are semi-democratic societies rated at least “Partly Free” by the authoritative Freedom

House survey. Democratic nations turn in the strongest performances across the board in every sub-index, both in economic growth and life satisfaction.

INSIGHT: While recent years have witnessed the rise of “authoritarian capitalism,” exemplified by nations such as China and Russia, the single best national model for sustaining wealth creation and happy citizens remains democratic capitalism. Economic principles such as market transparency, property and shareholder rights, asset valuation, and the free flow of capital depend on political systems that are grounded in rule of law, with accountable leaders and citizens who are free to speak, think, assemble, and worship. Moreover, democracies produce happier, safer, and healthier citizens. As Harvard economist Dani Rodrik observed, “democracies not only out-perform dictatorships when it comes to long-term economic growth, but also outdo them in several other important respects”, such as education and human capital.

Top 25 Countries are Mostly Democracies



3. Changes in the “social fabric” of a country can lead to big changes in national prosperity.

Indonesia and Algeria have improved the most in their Prosperity Index rankings since 2009. Indonesia has improved by 15 places to 70 and Algeria has improved by 12 places to 79. In both cases, this was a result of significant improvements in social capital. Conversely, Nicaragua experienced the largest decrease in rankings by 14 places, mainly due to significant declines in social capital and governance. The main factors behind the changes in social capital were survey responses – this shows that large changes in public attitudes in Indonesia, Algeria, and Nicaragua, led to significant changes in overall prosperity.

INSIGHT: Shifts in mores, tolerance, satisfaction with freedom of choice and other social attitudes and practices clearly have direct implications on national prosperity. While survey results (on which many of our social capital and governance findings are based) are more volatile than other forms of data, they are nonetheless important to overall prosperity. Rapid swings in social attitudes may thus be a lead indicator of significant changes to come.

4. Prosperity is about balance.

The Prosperity Index rankings combine measures of economic growth and measures of life satisfaction. If we break down the methodology and look at the top 10 countries by economic performance, and then the top 10 countries by life satisfaction, we see a lot of overlap.

INSIGHT: The world's most prosperous countries are very well-balanced countries. By promoting economic prosperity, they promote happiness, and vice versa, in a mutually-reinforcing virtuous cycle. Given the benefits of a smaller size (none of the countries that make the top 10 in both categories are among the world's largest 25 countries), the best-performing countries additionally benefit from democratic political systems, honest and efficient governance, and enterprising citizens.

Top Countries in Both Income and Wellbeing Measures



Feature Three

What Makes Countries Both Happier and Wealthier?

In the Legatum Prosperity Index's eight sub-indexes, we have included variables that have a significant relationship with per capita GDP or life satisfaction as tracked by the Gallup World Poll. More than thirty variables in the Index have a relationship with both.

Poorer economic performances and lower levels of life satisfaction are related to higher inflation rates. Business start-up costs and ICT infrastructure also have strong relationships with both income and wellbeing, suggesting that an environment onerous to entrepreneurship is bad for the economy as well as people's perceptions about opportunities in their lives. In fact, the extent of regulation in the business sector and a government's effectiveness are both related to wealth and wellbeing. In education, net primary school enrolment, gross secondary and tertiary enrolment, girls to boys' enrolment ratio, and levels of

secondary and tertiary education per worker are all related to economic prosperity and life satisfaction. Strong human capital formation in a country has more than an economic impact: it also produces citizens who are more satisfied with their lives.

The Prosperity Index also shows us that traditionally non-economic factors have more than non-economic effects. Tolerance for immigrants and ethnic minorities has a modest effect on both material prosperity and wellbeing. Also, when a country provides strong national security, citizens are not only happier, but they are also able to enjoy higher levels of income. And important measures of social capital such as donations, volunteering, helping strangers, and the reliability of others are not only linked to happy people – but they are also characteristic of strong economies.

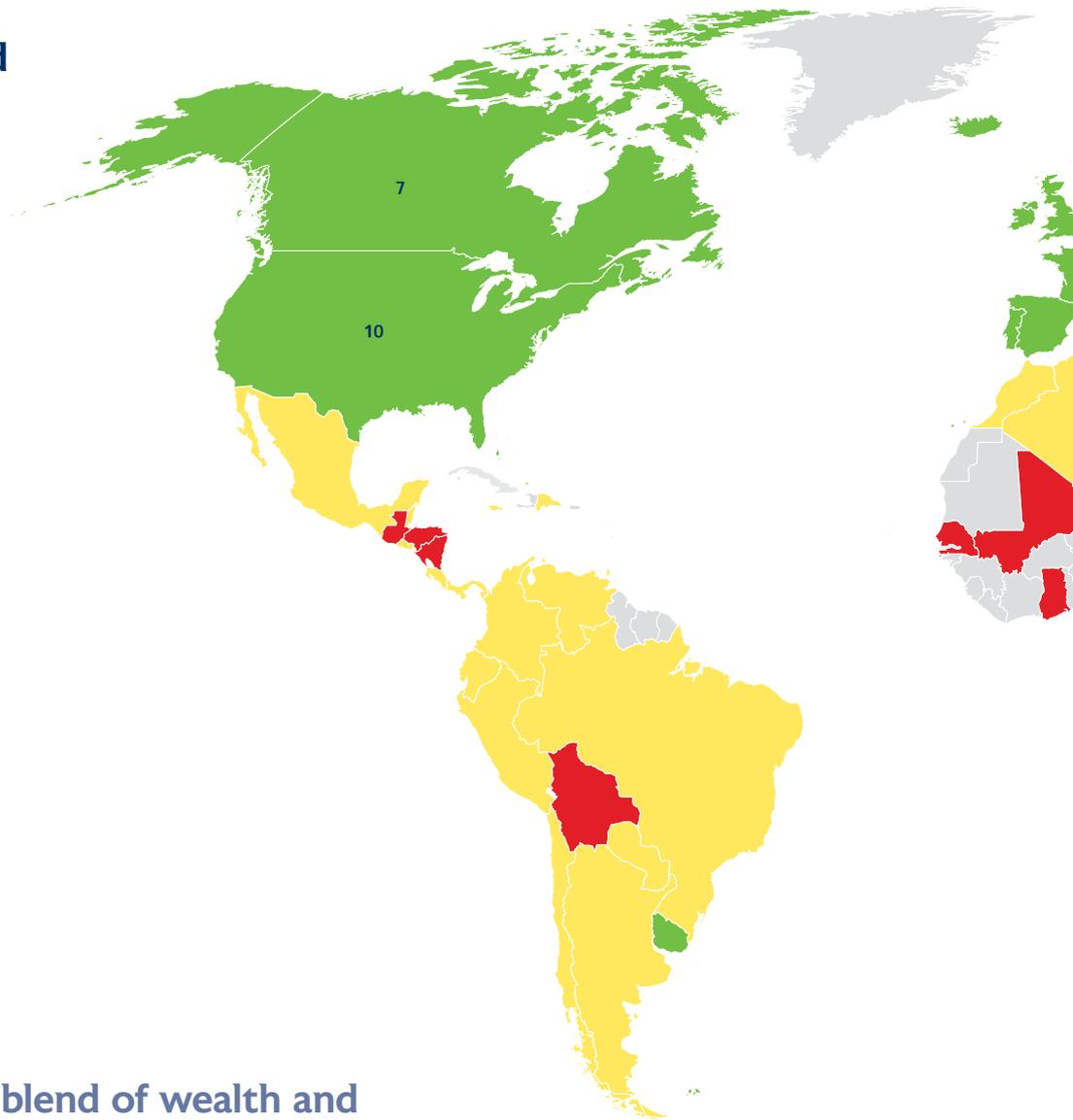
Prosperity Around the World

Top 10 countries

1. Norway
2. Denmark
3. Finland
4. Australia
5. New Zealand
6. Sweden
7. Canada
8. Switzerland
9. Netherlands
10. United States

Bottom 10 countries

101. Zambia
102. Cameroon
103. Mozambique
104. Kenya
105. Yemen
106. Nigeria
107. Ethiopia
108. Central African Republic
109. Pakistan
110. Zimbabwe

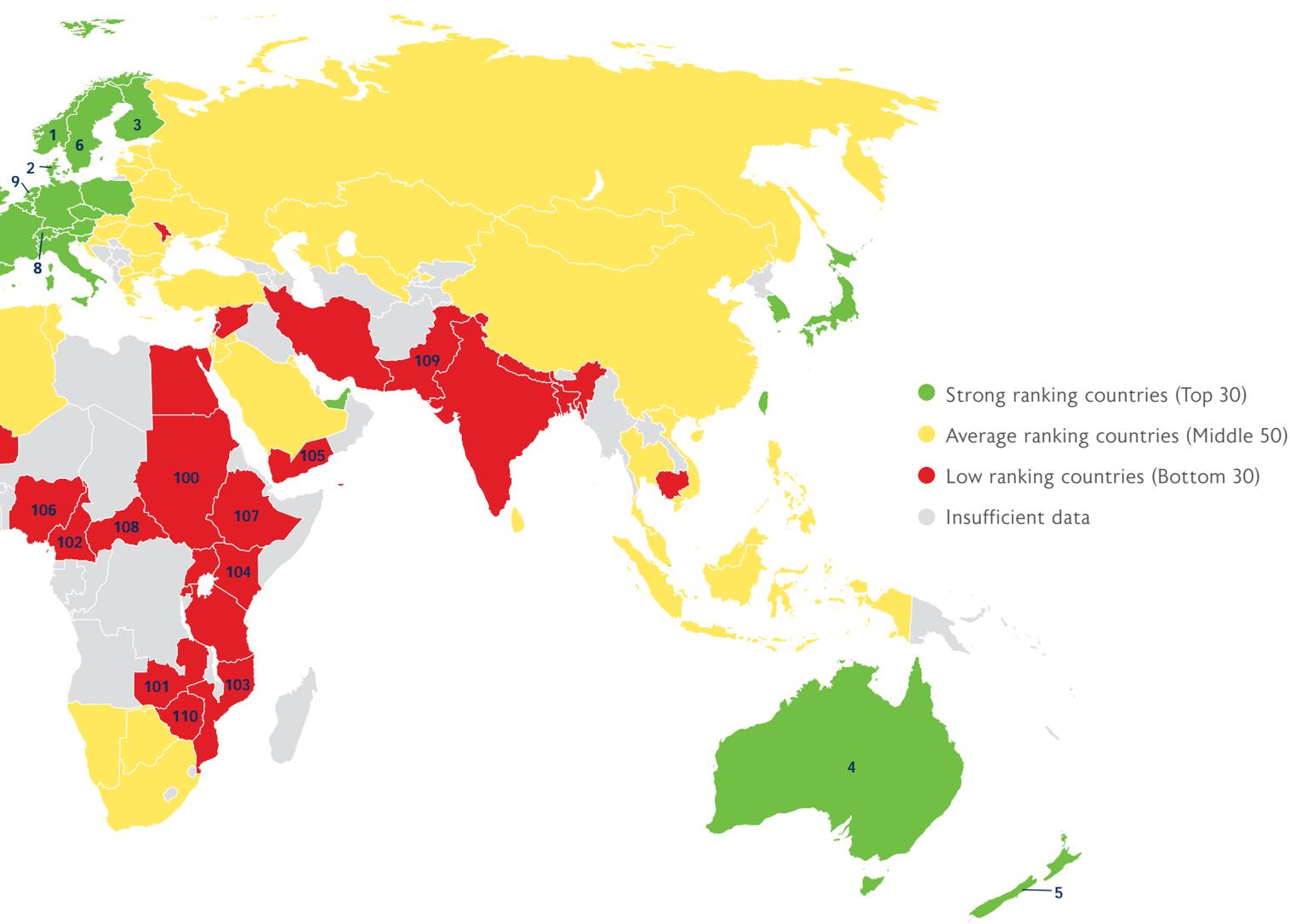


II. Prosperity is a blend of wealth and happiness, but not as one might think.

5. Material wealth cannot be explained only by economic factors, and happiness cannot be explained only by subjective emotions.

For instance, a “soft issue”, such as people’s perceptions of each other’s trustworthiness, has a strong positive correlation with economic performance. High levels of trust in a society are necessary for trust-based capital markets to function. Likewise, an increased level of tolerance toward immigrants is associated with higher levels of GDP per capita. When it comes to the conditions of happiness, economic factors, such as employment status, domestic savings rates, and even internet connectivity, have a strong influence on how satisfied people are with their lives.

INSIGHT: Policymakers hoping to understand the nature of prosperity and how it is created will be better-equipped by grasping a fundamental reality: social attitudes and networks have direct economic consequences. Saying that one cares about the economy while not caring about factors such as distrust, isolation, and fear is not only unenlightened – it is ultimately self-defeating.



6. Choice and opportunity matter more to happiness than making a lot of money quickly.

Being free to choose the course of your life and experiencing the satisfaction that comes from pursuing new opportunities matter more than quickly making a lot of money. When it comes to happiness, the belief that hard work helps one get ahead is an important factor. Fast economic growth, on the other hand, does not necessarily lead to more happiness – statistically, higher rates of GDP growth are correlated with lower levels of wellbeing. Thus, while fast growing economies may improve societies, GDP growth pursued through narrow, top-down policies that do not take citizen wellbeing into account, may lead to a decrease in a nation’s prosperity.

INSIGHT: When people believe opportunity is real and that it pays to pursue a dream, they are often happier than when they actually have the things associated with opportunity. The process of creating wealth through hard work, creative endeavour, and taking risks is more important to happiness than the wealth the process actually creates.

III. Global prosperity is changing in unexpected ways.

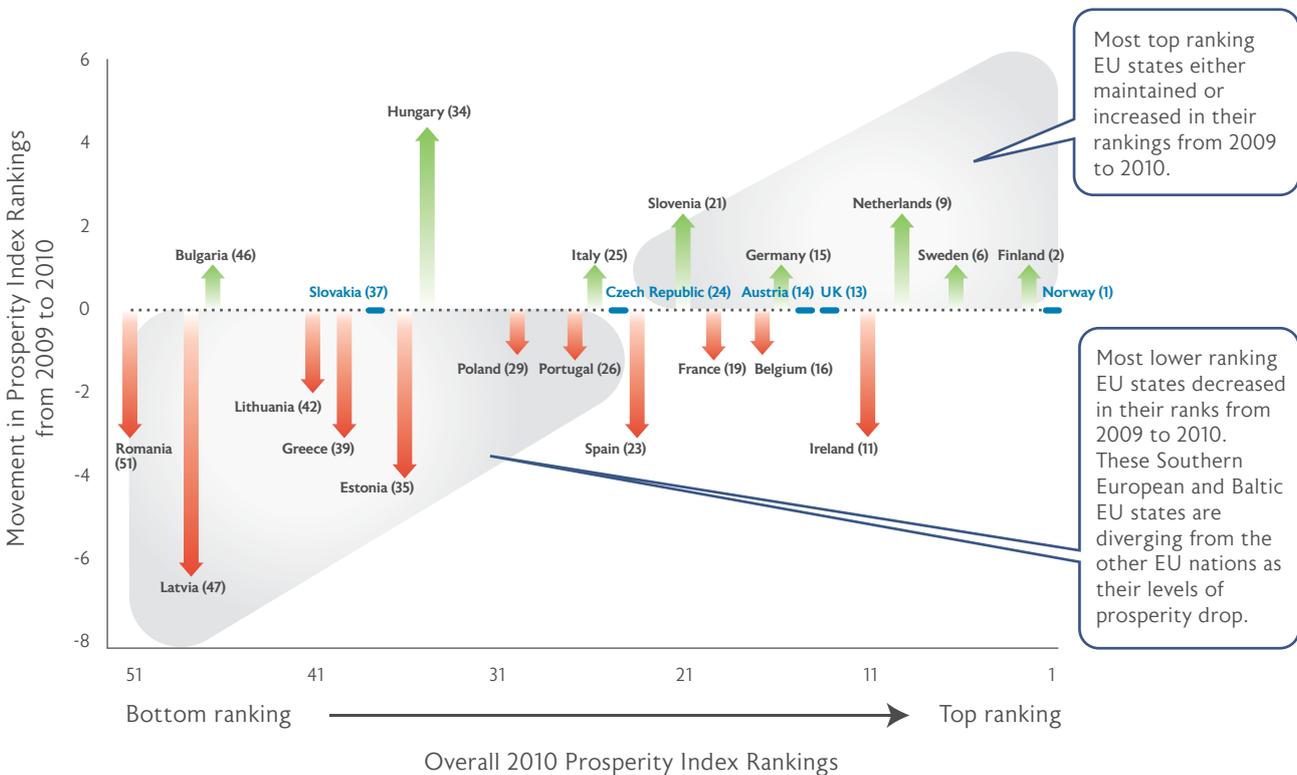
7. Two Europes are emerging.

In the overall rankings, the Baltic countries are rapidly falling behind the rest of the EU. Additionally, none of the four original so-called PIGS (Portugal, Italy, Greece, and Spain) score higher in prosperity than the remaining Western European nations. In fact, they rank lower than some Eastern European nations: Slovenia scores higher than all of the original PIGS, the Czech Republic is ranked higher than Italy and Portugal; and Slovakia and Croatia have overtaken Greece. Three of the four original PIGS also rank lower than they did last year. Portugal moved

from 25th to 26th, Greece moved from 36th to 39th, and Spain moved from 20th to 23rd. Some analysts have recently replaced Italy with Ireland, when referring to the 'troubled PIGS.' Interestingly, Ireland has dropped two places in terms of its overall Prosperity Index ranking – from 9th in 2009 to 11th in 2010. Ireland's performance in the Economy, Entrepreneurship & Opportunity, Governance, and Education sub-indexes have decreased since 2009; with the largest drop in ranking occurring in the Economy sub-index.

INSIGHT: The Index shows that the gap between successful and unsuccessful European countries is widening. Troubled European nations, such as those in its southern regions, have well-known economic problems, but their citizens are also not as happy with their lives – which is somewhat surprising given conventional wisdom about the quality of life in these common travel destinations.

European Countries on Different Trajectories

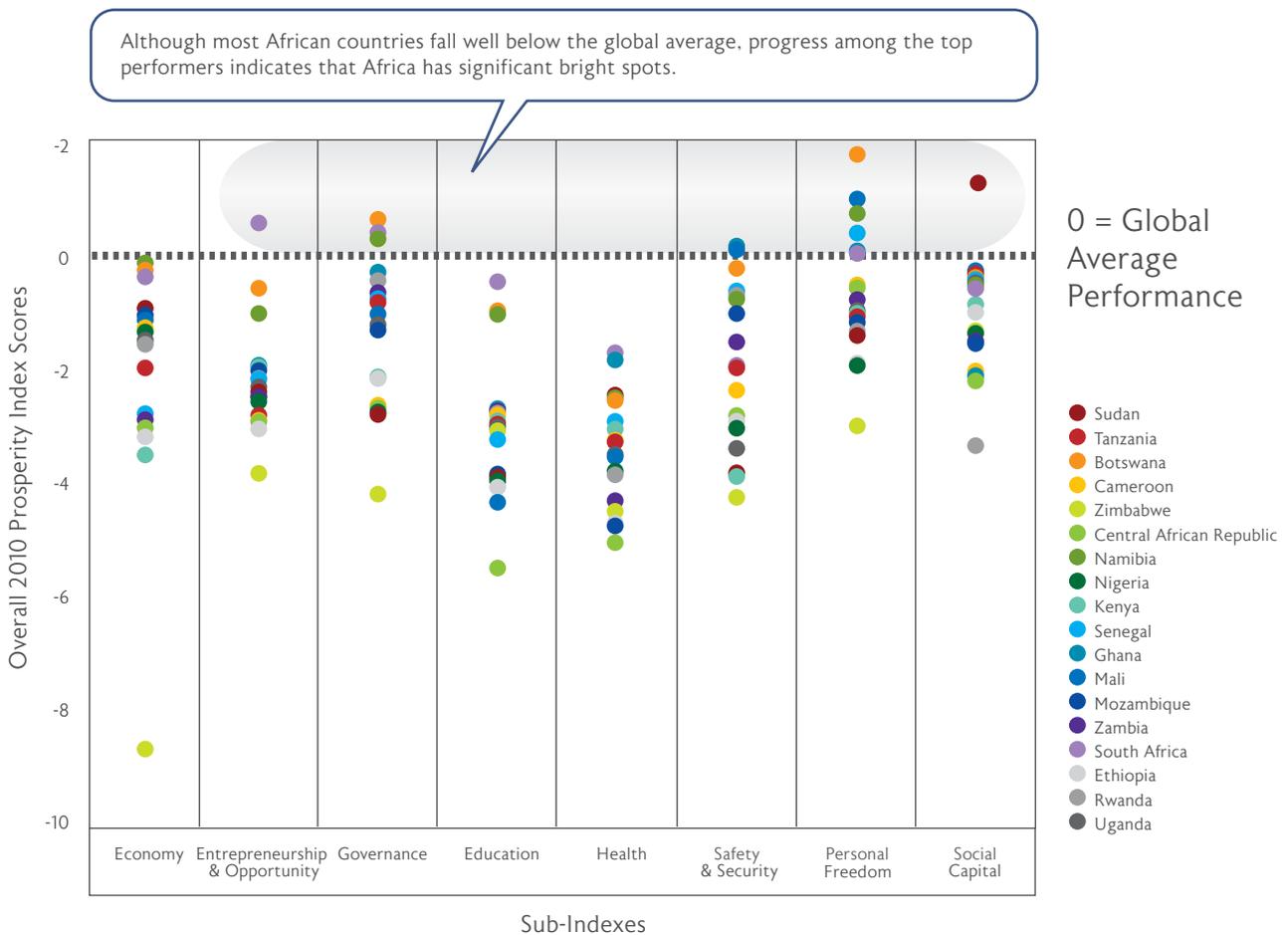


8. Improved governance is emerging as a key driver of prosperity in Sub-Saharan Africa.

While Sub-Saharan Africa still dominates the lower tier of the rankings, one can find some encouraging differences among African countries. In terms of overall prosperity, Botswana, South Africa and Namibia are leading in the region, driven by some surprising successes in the sub-indexes. Botswana, for instance, scores 25th on the Governance sub-index, ahead of Slovenia, Portugal or Italy. It also ranks 21st on the Personal Freedom sub-index. Namibia is 44th on the same Governance sub-index, better than Greece or Latvia, and 35th on the Personal Freedom sub-index. On the Personal Freedom sub-index, a number of other African countries, such as Senegal, Mali, or Cameroon score better than some Eastern European countries.

INSIGHT: African growth is one of the most under-reported news stories of this decade. The index shows that the most successful African countries owe their success to radical improvements in the quality of their governance, particularly in establishing confidence in the military and in the judicial system.

Africa: Good Governance Increases Prosperity

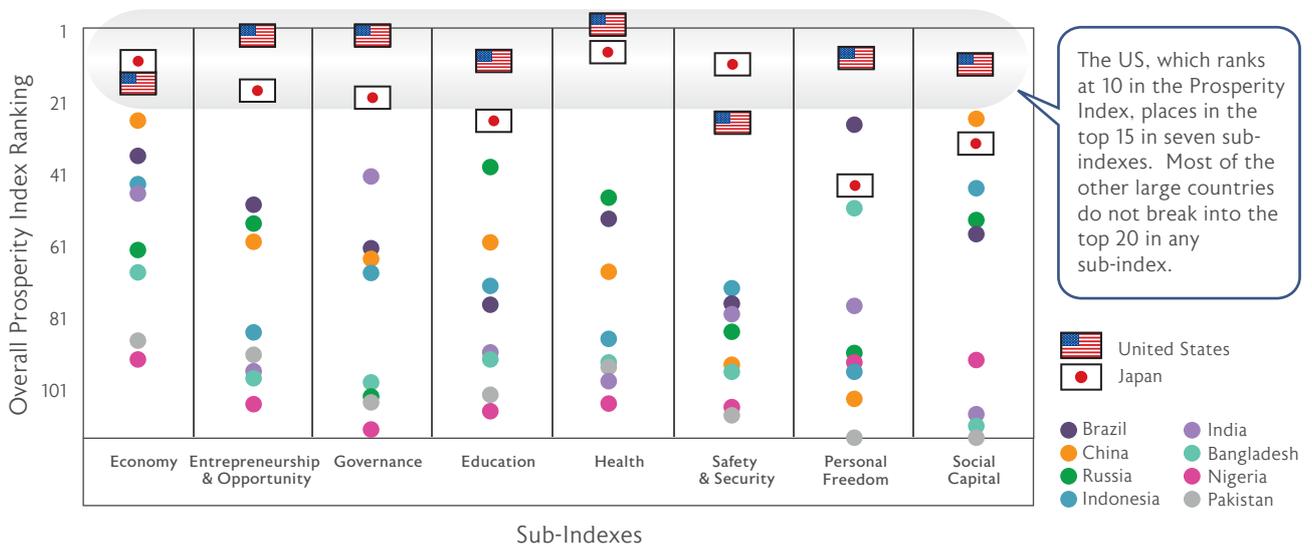


9. It's hard to be prosperous as a large country.

Large populations bring unique challenges as well as opportunities. The 10 countries in the world with more than 125 million people apiece deal with challenges to sustainable prosperity that are less significant in smaller countries. Only one nation in this group, the United States, also ranks among the top 10 countries in the Prosperity Index.

INSIGHT: The USA and Japan, which dominate the upper tier of the world's largest countries, stand out primarily because each has at least over a half century of experience with the institutions of democratic capitalism. In general more of world's most populous countries are either governed undemocratically or are struggling to maintain democratic societies under the rule of law. Perhaps unsurprisingly, a majority of them are marked by imbalanced, unstable, or even corrupt, governments.

USA: Top Ranking Large Country



10. Economic growth is not enough for the BRICs.

The BRICs (Brazil, Russia, India and China), which have more than 40% of the world's population, have been regarded as leaders among emerging economies. However, when we look at prosperity holistically, the BRICs' current situation is precarious. China has improved the most by climbing up the ranks in the Economy, Entrepreneurship & Opportunity, Governance, and Social Capital sub-indexes. However, its improvements have been offset by decreased rankings in Education, Personal Freedom, Health, and Safety & Security. Although China has recently overtaken Japan as the world's second largest economy, it still trails 40 places behind Japan at 58 in terms of its overall prosperity. While the economy may be improving, according to the Gallup World Poll, the proportion of Chinese who feel free to determine the course of their lives decreased from 85% in 2008 to 77% in 2009. In spite of the headlines about the rise of the BRICs, Brazil and Russia have changed relatively little over

the past year, with Russia still suffering from its notorious (and worsening) troubles with Personal Freedom. India's ranking has decreased the most by 10 places since 2009, primarily due to its drop in the Personal Freedom sub-index. Following the 2008 Mumbai attacks, the perceived tolerance of Indians towards immigrants has fallen substantially, contributing to a drop in the levels of Personal Freedom.

INSIGHT: Global conventional wisdom has come to accept the hard-charging nature of the BRICs' economies, but looking at economic growth alone can gloss over their deep deficiencies in other areas essential to long-term, sustainable prosperity. In order to go from emerging economies to prosperous nations, the BRICs will have to foster improvements in areas beyond economic factors.

Feature Four

What is Going On Up North?



The very top of the 2010 Prosperity Index is dominated by the four major Nordic countries: Norway, Denmark, Sweden, and Finland. The fact that they have both strong economies and high levels of taxation and redistribution has led some to argue that large welfare states are important to prosperity. However tempting such a conclusion might be, it would be ill-informed.

Recent research has shown that Nordic countries were among the most aggressive “neoliberal” reformers of the 1980s and 1990s. Swedish economic growth accelerated as it reduced its government spending throughout the 1990s. Additionally, Denmark would rank as the world’s freest economy in the Heritage Foundation’s Index of Economic Freedom, if one were to average Denmark’s scores in that Index’s eight categories related to economic performance. Despite large governments and fairly high tax rates, the Nordic countries now rank among the economically freer regions of Europe.

One might say that the Nordic countries are more economically free than for which they, and others, give themselves credit. Why is this? Further research shows that a high level of public spiritedness allows welfare states to foster economic and social wellbeing. As an example, Danish labour markets combine a very low level of job protection and rigidity with generous unemployment benefits. This is a system that would – without a high degree of trust and public spiritedness – have generated moral hazard issues and unemployment. The four Nordics rank in the top six in the Entrepreneurship and Opportunity sub-index because an overwhelming majority of citizens in each country have confidence that they can climb life’s ladder regardless of socio-economic status.

One important consideration for economic growth, then, is that the size of the public sector and levels of taxation tend to matter less than the incentives that individuals face when deciding whether or not to engage in productive activities.

How We Built the Index: Methodology

The Legatum Prosperity Index™ is an assessment of wealth and wellbeing in 110 countries around the world that includes more than 90 percent of the world's population.

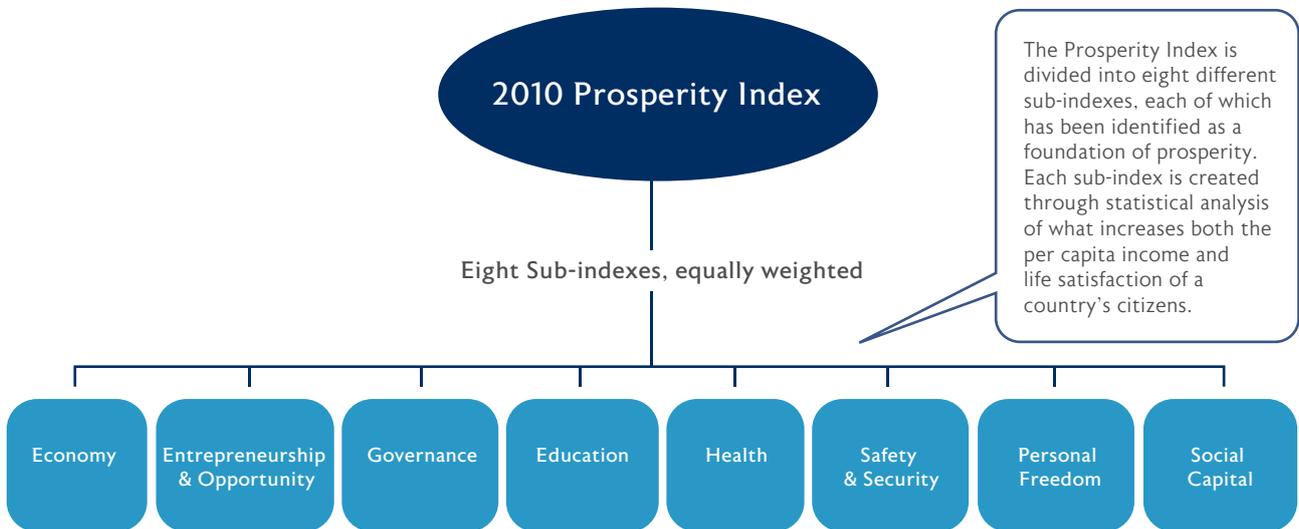
The Prosperity Index identifies 89 variables that are linked to higher levels of income and wellbeing, and categorises them into eight sub-indexes, each of which is considered to be a fundamental pillar of prosperity. While each country's path to prosperity is varied, decades of established theoretical and empirical research on economic growth and wellbeing have identified some common themes. Using this research, the Prosperity Index uses econometric analyses to identify eight sub-indexes that are critical for prosperity. Each sub-index is based on analyses of the factors that lead to higher levels of both income and wellbeing. The 2009 Index featured nine sub-indexes, two of which (essentially) measured income and wellbeing dimensions of governance. Due to limitations in data availability, the other seven sub-indexes only measured how each sub-index related to either income or wellbeing.

For the 2010 Index, due to increased data availability, we were able to include additional variables that enabled each sub-index to include both income and wellbeing dimensions.

Of course, it is important to keep in mind that the relationships between these variables and foundations are complex. They are both the causes and consequences of high levels of income and wellbeing, and in many cases also relate to each other. For instance, a country that performs well in educating its workers probably also has an innovative economy.

This section provides an overview of the sub-indexes. It explains how we determined the importance of each variable and calculated a country's overall prosperity score. For additional information on the construction of the Index, please refer to the full report, which can be found at www.prosperity.com.

What are the foundations of prosperity?



At a very basic level, each sub-index is designed to answer some simple questions

Economy – Which factors in a nation’s economy lead to higher levels of per capita income? Which economic conditions promote confidence and lead to higher levels of wellbeing?

Entrepreneurship & Opportunity – What are the characteristics of a society that encourage citizens to be entrepreneurial, risk-taking, and seek opportunities that lead to higher levels of income and wellbeing?

Governance – What are the government institutions and types of government functions that lead to growth in per capita income and higher levels of wellbeing?

Education – Which aspects of an educational system contribute to growth in per capita income through their contribution to human capital, and which elements in a learning environment lead to higher levels of wellbeing?

Health – What are the health-related factors in a society that are necessary for higher levels of per capita income and wellbeing?

Safety & Security – How does the personal safety of citizens and the national security of a nation create conditions for growth in per capita income and higher levels of wellbeing?

Personal Freedom – In what way does the guaranteed right to speak, assemble, think, and worship also promote higher levels of income and wellbeing?

Social Capital – What kinds of social networks, relationships, and institutions lead to higher levels of wellbeing and economic productivity?

How did we find the most important factors for prosperity?

Each sub-index is built upon characteristics that our inquiry has found essential to promoting prosperity. These characteristics are measured by 89 variables that are a combination of objective data and subjective responses to surveys. It is important to note that these fundamental characteristics have not been arbitrarily selected, but are drawn from established theoretical and empirical research on the significant drivers of economic growth and wellbeing.

We have determined the importance of each of these variables to higher levels of income or wellbeing by using well-established, yet fairly complex, regressions (a way of statistically determining which variables matter most). In order to determine the factors leading to greater economic prosperity, we used General Methods of Moments (GMM) regressions. For those familiar with econometric terminology, we used GDP per capita as the dependent variable in these GMM panel regressions. In order to determine what leads to higher levels of wellbeing, we used a method called ordered logistic regression on cross-sectional data. In this analysis, we used survey data from the 'Life Today' question in the Gallup World Poll as the dependent variable.

This survey item measures individual life satisfaction or subjective wellbeing.

Each sub-index includes both types of regressions, since each foundation of prosperity has both income and wellbeing dimensions. For instance, a country's economy or quality of governance not only impacts income levels, but also citizens' sense of wellbeing.

The regressions estimate a "weight" for each variable – or a "coefficient" for the more technically inclined. This weight represents the variable's relative importance as a factor of prosperity. In other words, statistically speaking, some things matter more to prosperity than others. We represent these weights in the bar graphs in each of the sub-index descriptions that follow.

Further discussions on these estimation methods, changes from the 2009 Index, and the rationale for using our specific measures of income and wellbeing, are presented in the full Prosperity Index Report, which is available at www.prosperity.com.



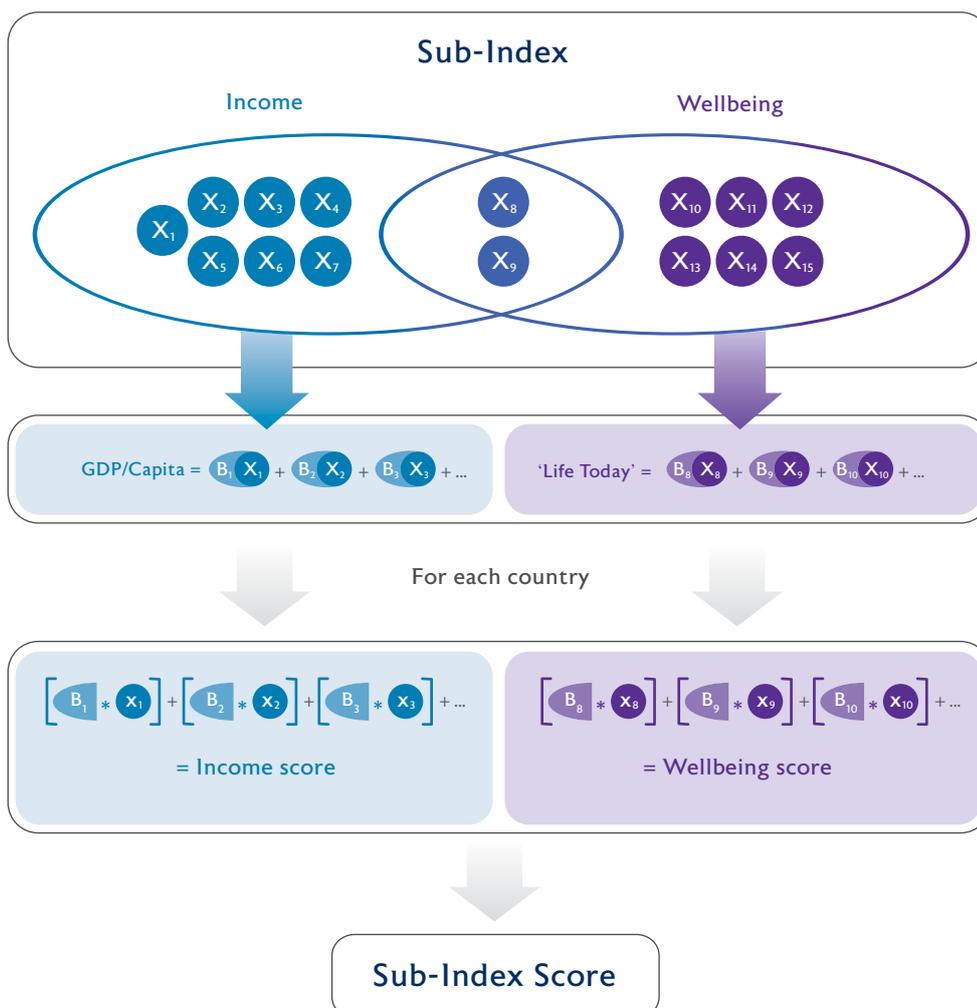
How do we measure a country's overall prosperity?

A country is given a score in each sub-index, based on a combination of its performance in the different variables and the varying levels of importance these variables. The diagram below illustrates how we go from identifying a factor of prosperity to determining a country's performance in a sub-index.

These sub-index scores are then averaged to produce a country's overall prosperity score. The countries are ranked based on these scores to produce the overall Prosperity Index rankings.

While different foundations are likely to matter more for countries in different regions or income levels, the Prosperity Index gives equal weighting to the sub-indexes to allow us to compare countries across sub-indexes. However, we offer you the opportunity to give your own weightings to each of the sub-indexes, and see how the rankings change, on our website at www.prosperity.com. Additionally, for more details on how the scores are calculated for each sub-index, please go to the full report, which is available on our website.

How the Sub-Index Scores are Calculated



1. Identify variables that go into each sub-index. Some variables will be relevant to income and others to wellbeing. In a few instances, certain variables will matter to both.

2. Retain variables that are statistically relevant to income or wellbeing. Those that are statistically relevant will have a significant coefficient, represented by the "B" symbol.

3. For each country, multiply the raw values and coefficients from variables that are statistically relevant. Add up these weighted variable values to produce a country's wellbeing and income scores in each sub-index.

4. Average the income and wellbeing scores to get the overall sub-index score.

Why did we change our estimation methods in 2010?

The 2010 Prosperity Index presents a refined and improved version of its predecessors in 2009 and 2008, taking account of the latest findings in this growing area of research, and exploring new venues of analysis that have become possible as data availability expands. As a result of these changes, some of the differences between countries' rankings in this year's and last year's publication will be the consequence of improvements in the methodology of the index.

A major methodological change in the 2010 Index has been to create a stronger balance between income and wellbeing by measuring the effect of each sub-index on both income per capita and life satisfaction. As a result, each sub-index now includes two regressions. The Governance and Democratic Institutions sub-indexes from 2009 have now been merged into one sub-index. The other changes we made in this year's Index concern applying more rigorous standards for data coverage, more refined methods for determining the significance of each variable, and our inclusion of both income and wellbeing analyses in each sub-index. For a complete description of the changes we have made to the Index methodology, please refer to the full Prosperity Index Report at www.prosperity.com.

In light of the extent of the changes, it is perhaps surprising that with the exception of a few countries, the rankings change very little. The graph to the right shows the correlation between the original 2009 and the new 2010 Index rankings. These two sets of rankings have a correlation of 94%. The high correlation between the two rankings is a result of the fact that the 2010 Prosperity Index measures the same fundamental aspects of prosperity.

That being said, some countries in the Middle East and Latin America, and specific ones like India and China, have undergone large shifts in rankings from 2009 to 2010. This is mainly due to significant changes in the Social Capital and Entrepreneurship & Opportunity (E&O) sub-indexes. In the 2010 sub-index, we decided to only include variables for which there was data available for more than 80% of Index countries. This meant that we had to exclude variables on rates of group membership, which were important measures of strengths of social networks. As a result, countries like India that performed well on membership variables suffered a large decrease in their social capital ranking, while several countries in the Middle East increased in their rankings.

While the 2010 Social Capital sub-index has a more limited scope, it still measures countries on elements that are central to social capital.

Meanwhile, we are continuing to search for variables that will capture the important aspects of social capital that are currently missing from the sub-index. Conversely, the E&O sub-index, which used to be the Entrepreneurship & Innovation sub-index, has expanded in scope. This sub-index now includes measures of social mobility and access to opportunity. This is because in 2010, we have been able to include new data that measures these two aspects of prosperity.

Because of this year's changes, comparing the 2010 Index to the original 2009 version does not produce an 'apples to apples' comparison. Therefore, we have recalculated the 2009 rankings according to the 2010 methodology to produce accurate comparisons. The chart on page 43 provides an 'apples to apples' comparison between 2009 and 2010. It shows the shifts that result from absolute changes in country performance.

Comparison Between the Original 2009 Prosperity Index Rankings and the 2010 Prosperity Index Ranking



Feature Five

Where is My Country?



We are often asked the familiar question: “why isn’t my country listed in the Prosperity Index?” Although the Prosperity Index ranks and evaluates 110 countries comprising more than 90% of the world’s population, we cannot include all countries. Why? The answer is straightforward: there is not sufficient data available on that country. Our hope and long-term goal remains to build an index that includes every single country in the world.

Because our research has found that prosperity encompasses a tremendous array of factors, the Prosperity Index includes a lot of data: 89 variables drawn from 12 different data sources. Yet, as we rely upon survey data from the Gallup World Poll, which covers 155 countries, we cannot include countries that Gallup doesn’t cover. For example, a closed, totalitarian nation such as North Korea does not permit Gallup to survey its citizens. Moreover, some governments, such as Burma’s or Cuba’s, place restrictions on the types of questions that Gallup may ask since they prohibit their citizens from expressing opinions about government. Other countries may be covered by the Gallup World Poll but are not in other data sets essential

to the Index, such as those providing economic, governance, education, and health data. Sometimes this reflects a government’s unwillingness or inability to collect or make available the needed data. Countries as diverse as Somalia, Samoa, Serbia, and Suriname are included in the Gallup World Poll, but are not covered by enough other data sources to meet the threshold for ranking in the Prosperity Index. This year, we have been able to find sufficient data on six additional countries, Iceland, Lithuania, Syria, Rwanda, Ethiopia, and Uganda, thereby expanding country coverage from 104 in 2009 to 110 in 2010.

One sign of an open, effective government is a willingness to allow its citizens to express their opinions freely, and to make information on its economic, social, and political conditions available in a transparent and objective manner. We urge those governments of nations not included in the Prosperity Index to take whatever steps are needed to make the missing information available – doing so is in the best interest of their own citizens.

Sub-Index Descriptions

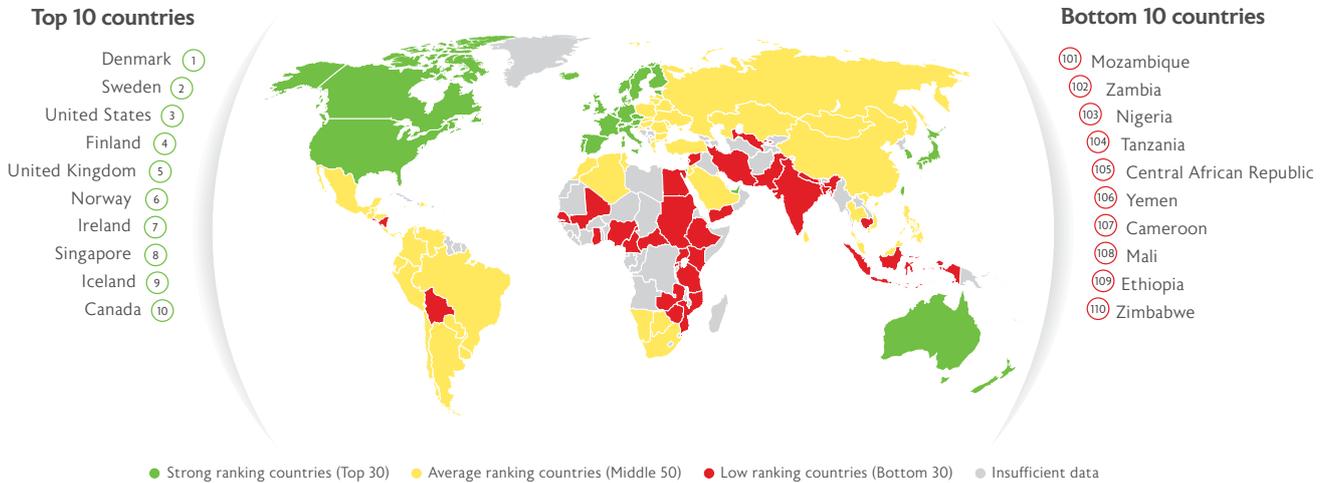
The 2010 Prosperity Index consists of eight sub-indexes:

- **Economy**
- **Entrepreneurship & Opportunity**
- **Governance**
- **Education**
- **Health**
- **Safety & Security**
- **Personal Freedom**
- **Social Capital**

In the following pages, for each sub-index, we have provided rankings of the top and bottom 10 countries, descriptions of the sub-index, and a table listing the variables that we used.

Entrepreneurship & Opportunity Sub-Index

Ranking Distribution for Entrepreneurship & Opportunity

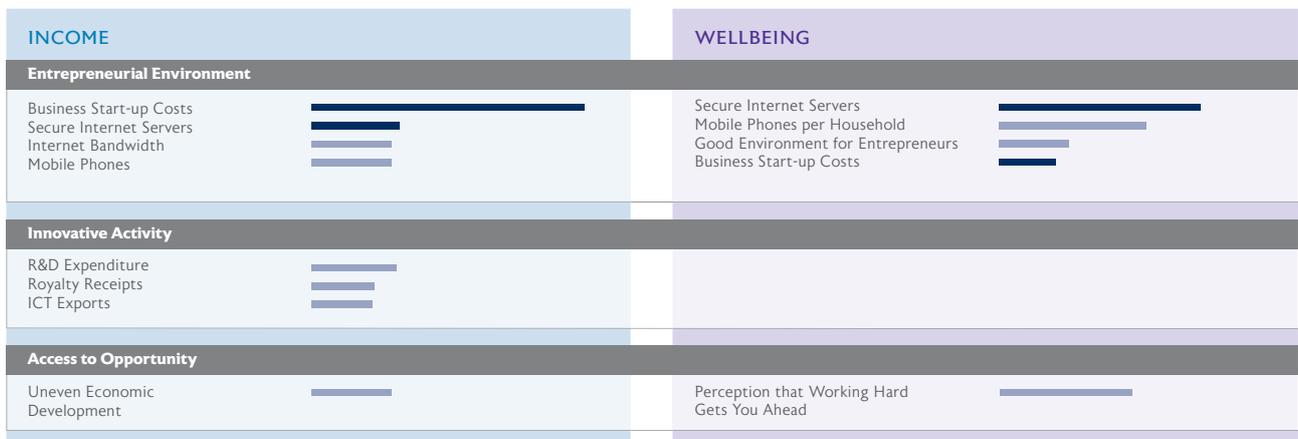


A strong entrepreneurial climate in which citizens can pursue new ideas and opportunities for improving their lives leads to higher levels of income and wellbeing. Specifically, the Entrepreneurship & Opportunity (E&O) sub-index measures countries' performance in three areas: entrepreneurial environment, innovative activity, and access to opportunity. As illustrated in the chart below, the variables in the sub-index are categorised into these areas.

Such factors as low costs to starting a business and public perception of a good entrepreneurial environment are important to improving citizens' economic prospects and their overall wellbeing. The sub-index also assesses a country's ability to commercialise innovation, as well as the Information and Communication Technology (ICT)

infrastructure that exists to enable productive commercial endeavours. Lastly, it captures elements of access to opportunity by tracking the unevenness of economic development across socioeconomic groups and whether or not citizens believe hard work pays off in the future.

The E&O sub-index builds upon scholarship that shows how entrepreneurship drives innovation and leads to economic growth. It also uses research demonstrating the positive impact of an individual realising his or her entrepreneurial potential. When a country increases the likelihood that entrepreneurial activity will pay off, and when individuals experience the satisfaction that comes from earning their success, a society's prosperity increases overall.



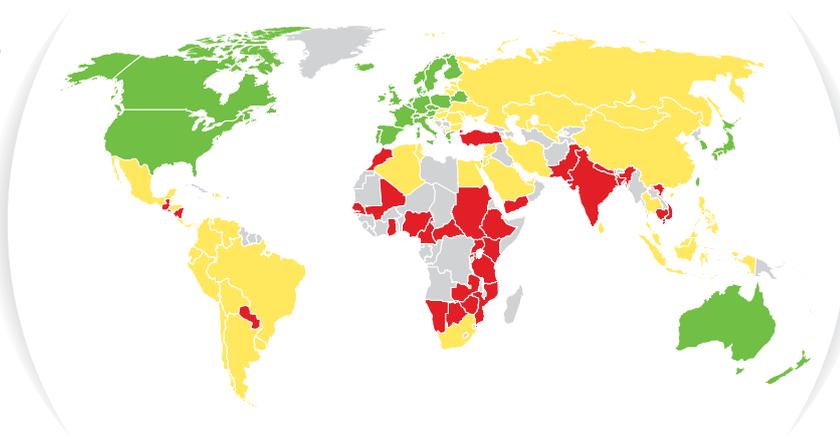
■ Indicates a variable that is included in both income and wellbeing regressions. ■ Indicates a variable that is included in only one regression. Variables have been divided into different categories within each sub-index. Variables are ordered from largest to smallest within each category. Income and wellbeing bar sizes are not comparable due to differences in scale

Education Sub-Index

Ranking Distribution for Education

Top 10 countries

- New Zealand (1)
- Australia (2)
- Finland (3)
- Norway (4)
- Denmark (5)
- Iceland (6)
- Taiwan (7)
- South Korea (8)
- United States (9)
- Sweden (10)



Bottom 10 countries

- (101) Zimbabwe
- (102) Yemen
- (103) Pakistan
- (104) Senegal
- (105) Mozambique
- (106) Nigeria
- (107) Sudan
- (108) Ethiopia
- (109) Mali
- (110) Central African Republic

● Strong ranking countries (Top 30) ● Average ranking countries (Middle 50) ● Low ranking countries (Bottom 30) ● Insufficient data

Education is a building block for prosperous societies. The Education sub-index measures countries' performance in three areas: access to education, quality of education, and human capital. As illustrated in the chart below, the variables in the sub-index are categorised into these areas.

The Education sub-index demonstrates how access to education, as measured by levels of educational enrolment rates that are equal for both girls and boys, allows citizens to develop their potential and contribute productively to their society. In addition, it shows that human capital stock, which is measured by the average levels of education in the workforce, is essential for promoting private sector research and development as well as producing useful knowledge for a society. Because of the importance of

citizen's own perceptions of the educational opportunity available to them, the sub-index uses both objective and subjective variables to assess the quality of education in a given country. Global data on education is limited and, therefore, the Education sub-index uses pupil to teacher ratio, as well as measures of citizens' perception of education, to assess quality.

This sub-index is built on research on economic growth that has found human capital to be an engine for growth, making a case for the non-diminishing effect of education on rising GDP levels. While the relationship between higher levels of education and wellbeing is less clear-cut, research shows that basic education enhances people's chances in increasing their satisfaction with life.

INCOME		WELLBEING	
Access to Education			
Gross Secondary Enrolment	████████████████████	Gross Secondary Enrolment	████████
Net Primary Enrolment	████████████████████	Gross Tertiary Enrolment	████████
Girls to Boys Enrolment Ratio	████████████████████	Net Primary Enrolment	████████
Gross Tertiary Enrolment	████████████████████	Girls to Boys Enrolment Ratio	████████
Quality of Education			
Pupil to Teacher Ratio	████████████████████	Satisfaction with Educational Quality	████████████████████
		Perception that Children are Learning in Society	████████████████████
Human Capital			
Secondary Education per Worker	████████████████████	Tertiary Education per Worker	████████
Tertiary Education per Worker	████████████████████	Secondary Education per Worker	████████

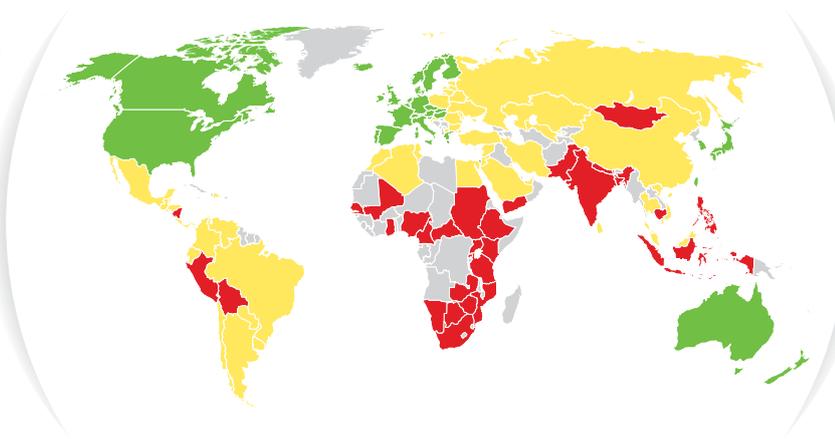
■ Indicates a variable that is included in both income and wellbeing regressions. ■ Indicates a variable that is included in only one regression. Variables have been divided into different categories within each sub-index. Variables are ordered from largest to smallest within each category. Income and wellbeing bar sizes are not comparable due to differences in scale

Health Sub-Index

Ranking Distribution for Health

Top 10 countries

- United States (1)
- Iceland (2)
- Switzerland (3)
- Norway (4)
- Japan (5)
- Germany (6)
- France (7)
- Austria (8)
- Sweden (9)
- Finland (10)



Bottom 10 countries

- (101) Tanzania
- (102) Uganda
- (103) Mali
- (104) Nigeria
- (105) Rwanda
- (106) Zambia
- (107) Zimbabwe
- (108) Ethiopia
- (109) Mozambique
- (110) Central African Republic

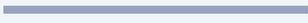
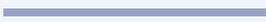
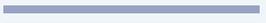
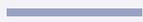
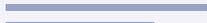
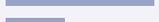
● Strong ranking countries (Top 30) ● Average ranking countries (Middle 50) ● Low ranking countries (Bottom 30) ● Insufficient data

A strong healthcare infrastructure in which citizens are able to enjoy good physical and mental health leads to higher levels of income and wellbeing. The Health sub-index measures countries' performance in three areas: basic health outcomes, health infrastructure and preventative care, and physical and mental health satisfaction. As illustrated in the chart below, the variables in the sub-index are categorised into these areas.

The Health sub-index assesses countries by outcomes that are made possible by a strong health infrastructure, such as rates of immunisation against diseases and public health expenditure. Countries are also assessed on outcomes

such as life expectancy, rates of infant mortality and undernourishment. The sub-index also includes measures of satisfaction with personal health and the health effects of environmental factors such as water and air quality, and even environmental beauty.

Self-reported wellbeing and self-reported health are commonly found by researchers to be strongly and significantly correlated to a overall society's health, as this fosters strong human capital that leads to productive aggregate economic output. Mentally and physically healthy citizens are the bedrock of a productive workforce, which in turn leads to higher levels of income per capita.

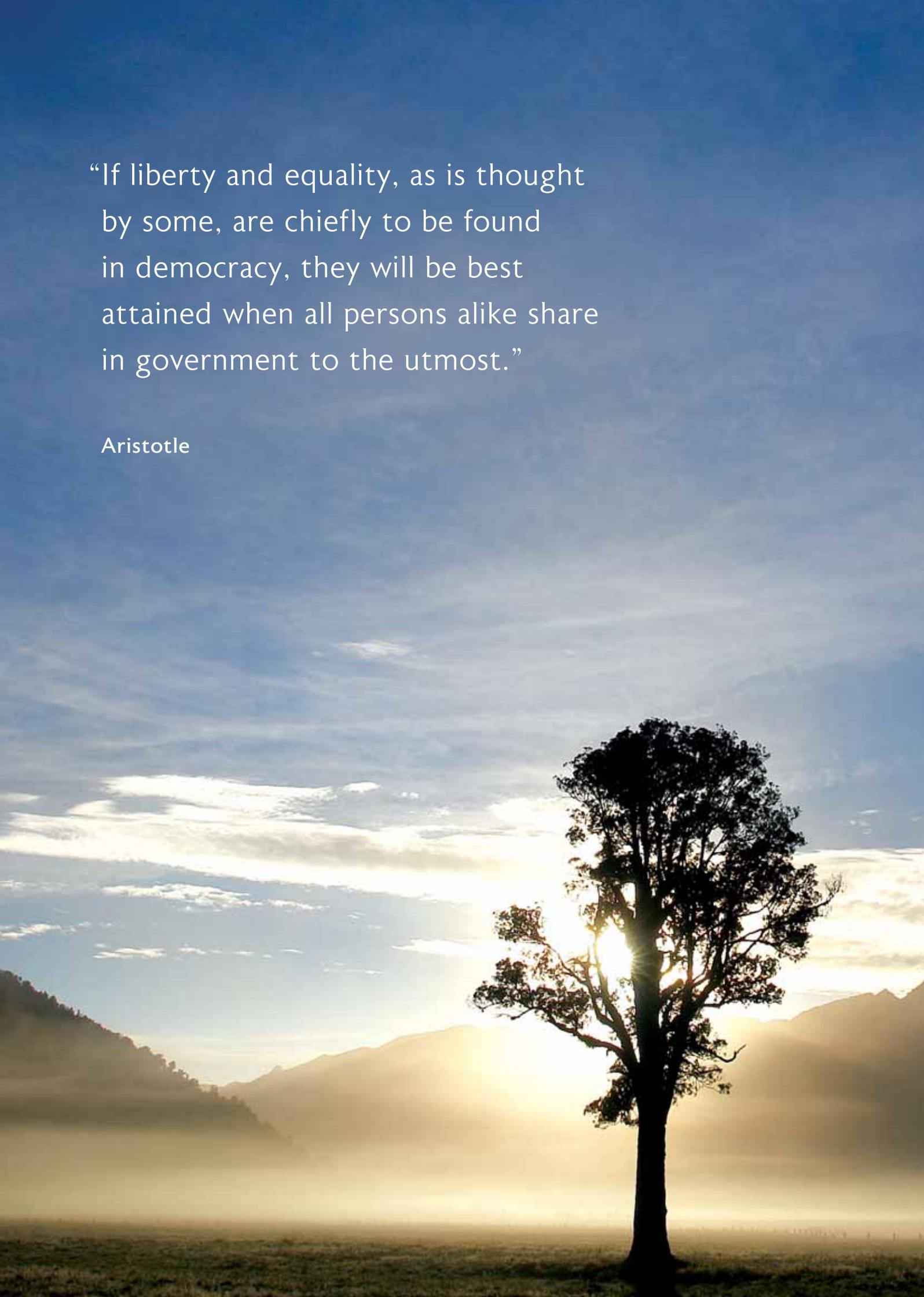
INCOME	WELLBEING
Basic Health Outcomes	
Infant Mortality  Life Expectancy  Undernourishment 	Infant Mortality  Health-Adjusted Life Expectancy  Undernourishment 
Health Infrastructure and Preventative Care	
Immunisation Against Infectious Diseases  Incidence of Tuberculosis  Immunisation Against Measles  Health Expenditure per Person 	Hospital Beds  Health Expenditure per Person  Water Quality  Sanitation  Death from Respiratory Diseases 
Physical and Mental Health Satisfaction	
	Satisfaction with Health  Level of Worrying  Satisfaction with Environmental Beauty  Well-Rested  Health Problems 

■ Indicates a variable that is included in both income and wellbeing regressions. ■ Indicates a variable that is included in only one regression.

Variables have been divided into different categories within each sub-index. Variables are ordered from largest to smallest within each category. Income and wellbeing bar sizes are not comparable due to differences in scale

“If liberty and equality, as is thought by some, are chiefly to be found in democracy, they will be best attained when all persons alike share in government to the utmost.”

Aristotle



Regional Analyses

The 2010 Prosperity Index consists of five regions:

- **The Americas**
- **Asia-Pacific**
- **Europe**
- **Middle East and North Africa**
- **Sub-Saharan Africa**

For each region, we have provided a list of rankings of the countries in the region, and an analysis of general trends in prosperity for that area.

Regional Analysis: The Americas

In terms of prosperity, the Americas are highly diverse with prosperity rankings ranging from Canada at seventh place to Nicaragua at 87th. The region comprises two of the world's wealthiest economies – the United States and Canada, followed by a series of unevenly developed middle and low-income countries.

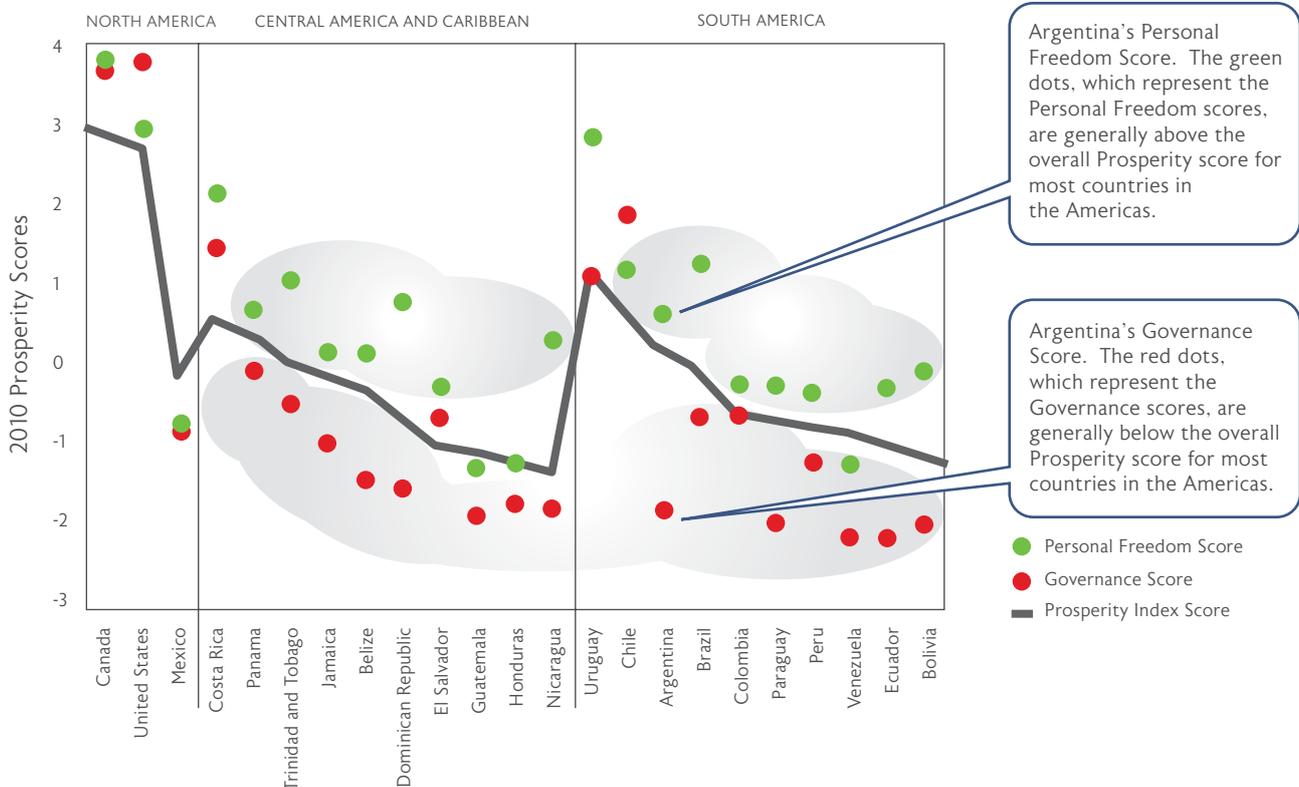
The two leading countries of North America have very strong and stable scores on all sub-indices. North America is followed – with a substantial gap – by a number of mid-ranked countries, such as Uruguay, Chile, Costa Rica, and Argentina. Most of these have gone up in the ranking relative to 2009 and are followed by a cluster of lower-tier countries which offer a more mixed picture. Most markedly, the least prosperous Latin American countries – Honduras and Nicaragua – went down in the rankings significantly relative to 2009, mainly due to worsening levels of governance and social capital.

Latin American countries face a diverse spectrum of challenges and each country has a unique path towards prosperity. However, in general, most countries suffer from weak governance that brings down their levels of prosperity. Conversely, most Latin Americans enjoy relatively high levels of personal freedom and the region's growing economies are strengthening the levels of prosperity (see the difference between the green and red dots in the graph below). Personal freedom in Uruguay is almost as high as levels reported in the United States.

The Americas

PI Rank	Country
7	Canada
10	United States
28	Uruguay
32	Chile
33	Costa Rica
40	Panama
41	Argentina
44	Trinidad and Tobago
45	Brazil
53	Mexico
55	Jamaica
56	Belize
65	Colombia
67	Paraguay
68	Dominican Republic
73	Peru
75	Venezuela
77	Ecuador
78	El Salvador
81	Guatemala
82	Bolivia
85	Honduras
87	Nicaragua

Trends in Prosperity Across The Americas



Regional Analysis: Asia-Pacific Region

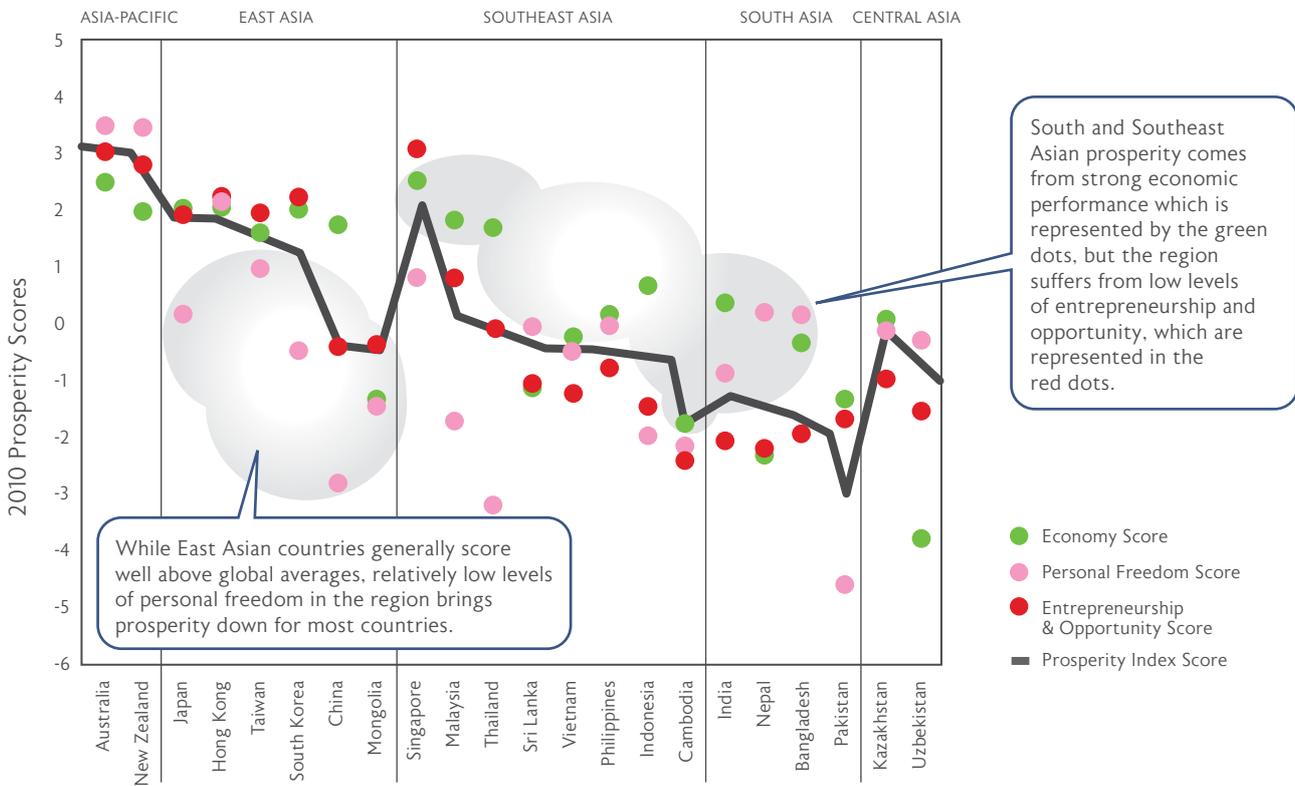
The Asia-Pacific region covers a great variety of countries, spread throughout the 2010 Prosperity Index rankings. The top of the list is dominated by Australia and New Zealand, followed by Singapore, Japan, and other “Asian tigers,” such as Hong Kong, Taiwan, and Korea. In the bottom tier, Nepal, Bangladesh, Cambodia, and Pakistan share their ranks with some of the Sub-Saharan African countries. While there have been both increases and decreases in prosperity in the region, the best-performing countries of Asia and the Pacific have preserved, or even improved, their relative position in the global ranking.

As one would expect, there are different challenges that the sub-regions face in developing prosperous societies. Prosperity in East, South, and Southeast Asia is raised by relatively strong performing economies, but there are no other general trends that are characteristic of most of the region. In East Asian countries, citizens’ personal freedom is often hampered by societal pressures, but higher levels of entrepreneurship and opportunity raise the sub-region’s prosperity. In contrast, South, Southeast, and Central Asian countries have relatively low levels of entrepreneurship and opportunity, which are bringing down the sub-region’s overall prosperity (see the difference between the green, red, and pink dots on the graph below). While there is no one-fix solution to raising prosperity in this region, it is clear that fostering a better entrepreneurial culture will benefit many of the lower ranking countries.

Asia-Pacific Region

PI Rank	Country
4	Australia
5	New Zealand
17	Singapore
18	Japan
20	Hong Kong
22	Taiwan
27	South Korea
43	Malaysia
50	Kazakhstan
52	Thailand
58	China
59	Sri Lanka
60	Mongolia
61	Vietnam
64	Philippines
70	Indonesia
76	Uzbekistan
88	India
91	Nepal
95	Cambodia
96	Bangladesh
109	Pakistan

Trends in Prosperity Across the Asia-Pacific Region



Regional Analysis: Europe

The top three places in the 2010 Prosperity Index ranking are occupied by Nordic countries: Norway, Denmark, and Finland, followed by a number of other countries of Northern and Western Europe. The Central and Eastern European countries and Southern European nations are then scattered in the lower tiers of the ranking.

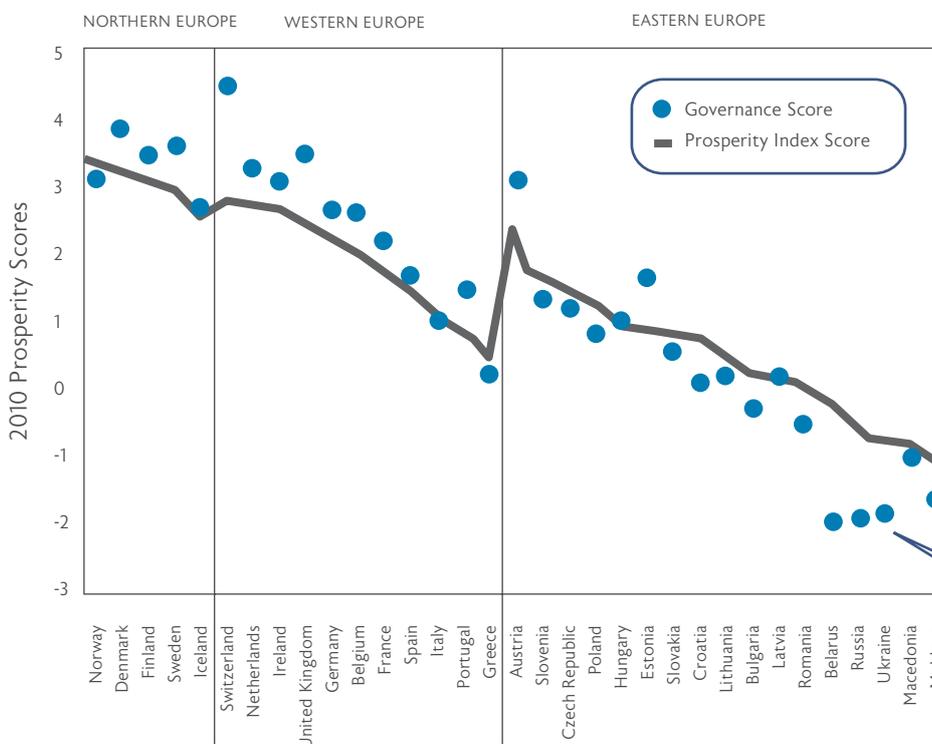
While the Nordic states and the countries of North-Western Europe occupy top places in the rankings, the other European nations are more varied in terms of what make them prosperous. However, there is a clear divergence between Western and Eastern Europe, with the former generally performing better than the latter. The main difference is that Western Europe benefits from good governance, while Eastern Europe continues to struggle with poor governance that hinders prosperity in the sub-region (see the difference in the placement of the blue dots in the graph below).

Eastern European countries have a lot of similarities in terms of what makes them prosperous and the challenges they face. Generally, these countries have weaker governance and social capital, but there are signs of hope: countries with a lower overall score perform relatively well on health, education, and safety, suggesting that these three areas might represent the most important assets for the transitional nations of Eastern Europe.

Europe

PI Rank	Country
1	Norway
2	Denmark
3	Finland
6	Sweden
8	Switzerland
9	Netherlands
11	Ireland
12	Iceland
13	United Kingdom
14	Austria
15	Germany
16	Belgium
19	France
21	Slovenia
23	Spain
24	Czech Republic
25	Italy
26	Portugal
29	Poland
34	Hungary
35	Estonia
37	Slovakia
38	Croatia
39	Greece
42	Lithuania
46	Bulgaria
47	Latvia
51	Romania
54	Belarus
63	Russia
69	Ukraine
72	Macedonia
86	Moldova

Trends in Prosperity Across Europe



The blue dots which represent Governance scores are generally above the overall Prosperity score for Northern and Western European countries and below the Prosperity score for Eastern European countries. This means good overall governance is what commonly raises levels of prosperity in North/Western Europe, while challenges with governance brings Eastern European prosperity down.

Regional Analysis: Middle East and North Africa

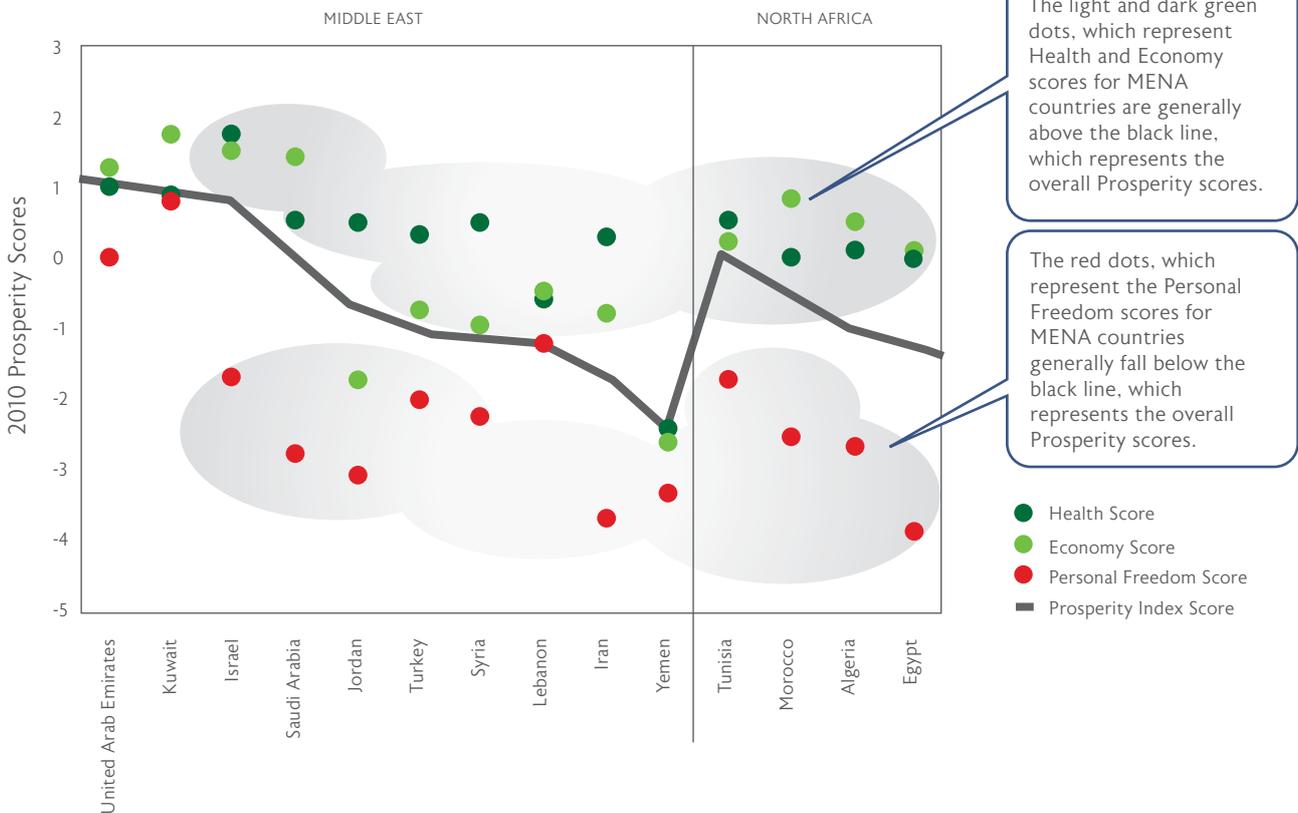
In general, the Middle East and North Africa (MENA) are characterised by relatively strong performances in the Health and Economy sub-indexes, raising the levels of prosperity in the region. However, most of the countries in the region display one disturbing trait: pervasive limits on personal freedom are driving down prosperity in the region (see the difference between the light and dark green scores on the graph below). Iran, for example, has solidly mid-range scores on Health and Education sub-indexes, but that is offset by an extremely low ranking of 108 on the Personal Freedom sub-index, where it is followed only by Egypt and Pakistan. The United Arab Emirates (UAE) and Kuwait have the highest levels of personal freedom in the region, but this is likely due to the fact that non-Arab expatriates, who make up half of the UAE population and one-fifth of the Kuwaiti population, were not allowed to be surveyed in these countries.

Overall, the Index strongly suggests that many of the Middle Eastern countries would benefit from adopting more open and tolerant institutions that allow for citizens to freely choose the course of their lives.

Middle East and North Africa

PI Rank	Country
30	United Arab Emirates
31	Kuwait
36	Israel
48	Tunisia
49	Saudi Arabia
62	Morocco
74	Jordan
79	Algeria
80	Turkey
83	Syria
84	Lebanon
89	Egypt
92	Iran
105	Yemen

Trends in Prosperity Across the Middle East and North Africa



Regional Analysis: Sub-Saharan Africa

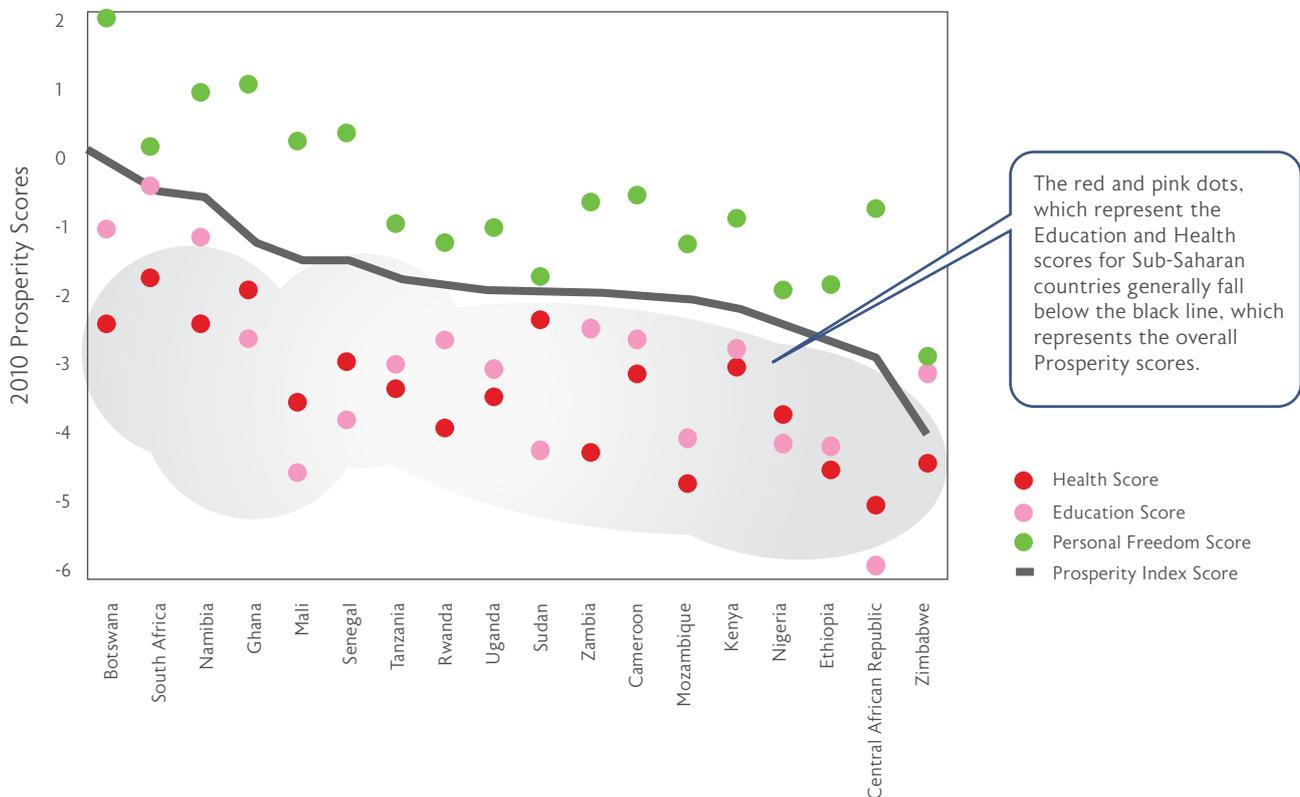
Most Sub-Saharan African countries are among the worst-performing in the world, with most of them ranking in the bottom 15. The exceptions to this are Botswana, South Africa, and Namibia, which are in the neighbourhood of middle-income countries like Mexico, Russia, or Indonesia. These three countries, unlike the rest of Sub-Saharan Africa, are continuing their ascent in the overall ranking, suggesting that by example, they may pave a path towards prosperity for other African nations.

In terms of regional trends, poor health and education brings overall prosperity down in the region. All Sub-Saharan African countries perform worse than the world average in these sub-indexes (see how the red and pink dots fall below the lines representing overall prosperity, as well as the global average performance). But the picture isn't entirely pessimistic. Citizens in Sub-Saharan Africa tend to enjoy relatively high levels of personal freedom, and in some countries, levels are above the global average. (See how the green dots are above the black line, which represents the overall Prosperity Index scores.) Finally, this region shows that social capital and good governance can act as substitutes. This is the case in particular for countries that are on the verge of being failed states and display relatively higher levels of social capital to make up for the inability of their citizens to use formal institutions.

Sub-Saharan Africa

PI Rank	Country
57	Botswana
66	South Africa
71	Namibia
90	Ghana
93	Mali
94	Senegal
97	Tanzania
98	Rwanda
99	Uganda
100	Sudan
101	Zambia
102	Cameroon
103	Mozambique
104	Kenya
106	Nigeria
107	Ethiopia
108	Central African Republic
110	Zimbabwe

Trends in Prosperity Across the Sub-Saharan Africa



2009 versus 2010: An ‘Apples to Apples’ Comparison

So how have countries fared since last year?

The chart to the right shows 2009 and 2010 rankings, as well as the number of places that countries have moved up or down.

The methods for determining the rankings in 2010 have changed since the 2009 edition. The chart on the right uses the 2010 methodology to reproduce rankings for 2009, so that we can compare ‘apples to apples’. For a full description of why and how we altered our methods this year, please see page 24.

Country	Overall Country Rank			Movement
	2010	2009	Movement	
Norway	1	1	0	■
Denmark	2	2	0	■
Finland	3	4	1	■
Australia	4	5	1	■
New Zealand	5	3	-2	■
Sweden	6	7	1	■
Canada	7	6	-1	■
Switzerland	8	8	0	■
Netherlands	9	11	2	■
United States	10	10	0	■
Ireland	11	9	-2	■
Iceland	12	12	0	■
United Kingdom	13	13	0	■
Austria	14	14	0	■
Germany	15	16	1	■
Belgium	16	15	-1	■
Singapore	17	17	0	■
Japan	18	19	1	■
France	19	18	-1	■
Hong Kong	20	21	1	■
Slovenia	21	23	2	■
Taiwan	22	22	0	■
Spain	23	20	-3	■
Czech Republic	24	24	0	■
Italy	25	26	1	■
Portugal	26	25	-1	■
South Korea	27	29	2	■
Uruguay	28	32	4	■
Poland	29	28	-1	■
United Arab Emirates	30	27	-3	■
Kuwait	31	34	3	■
Chile	32	35	3	■
Costa Rica	33	30	-3	■
Hungary	34	38	4	■
Estonia	35	31	-4	■
Israel	36	33	-3	■
Slovakia	37	37	0	■
Croatia	38	39	1	■
Greece	39	36	-3	■
Panama	40	42	2	■
Argentina	41	44	3	■
Lithuania	42	40	-2	■
Malaysia	43	43	0	■
Trinidad and Tobago	44	46	2	■
Brazil	45	45	0	■
Bulgaria	46	47	1	■
Latvia	47	41	-6	■
Tunisia	48	56	8	■
Saudi Arabia	49	57	8	■
Kazakhstan	50	51	1	■
Romania	51	48	-3	■
Thailand	52	54	2	■
Mexico	53	49	-4	■
Belarus	54	55	1	■
Jamaica	55	52	-3	■

Country	Overall Country Rank			Movement
	2010	2009	Movement	
Belize	56	53	-3	■
Botswana	57	59	2	■
China	58	58	0	■
Sri Lanka	59	68	9	■
Mongolia	60	60	0	■
Vietnam	61	50	-11	■
Morocco	62	66	4	■
Russia	63	62	-1	■
Philippines	64	61	-3	■
Colombia	65	64	-1	■
South Africa	66	67	1	■
Paraguay	67	69	2	■
Dominican Republic	68	71	3	■
Ukraine	69	63	-6	■
Indonesia	70	85	15	■
Namibia	71	74	3	■
Macedonia	72	70	-2	■
Peru	73	72	-1	■
Jordan	74	75	1	■
Venezuela	75	76	1	■
Uzbekistan	76	65	-11	■
Ecuador	77	77	0	■
El Salvador	78	81	3	■
Algeria	79	91	12	■
Turkey	80	80	0	■
Guatemala	81	82	1	■
Bolivia	82	84	2	■
Syria	83	86	3	■
Lebanon	84	90	6	■
Honduras	85	79	-6	■
Moldova	86	83	-3	■
Nicaragua	87	73	-14	■
India	88	78	-10	■
Egypt	89	87	-2	■
Ghana	90	89	-1	■
Nepal	91	88	-3	■
Iran	92	93	1	■
Mali	93	94	1	■
Senegal	94	92	-2	■
Cambodia	95	101	6	■
Bangladesh	96	95	-1	■
Tanzania	97	96	-1	■
Rwanda	98	105	7	■
Uganda	99	102	3	■
Sudan	100	106	6	■
Zambia	101	98	-3	■
Cameroon	102	99	-3	■
Mozambique	103	104	1	■
Kenya	104	97	-7	■
Yemen	105	100	-5	■
Nigeria	106	103	-3	■
Ethiopia	107	108	1	■
Central African Republic	108	109	1	■
Pakistan	109	107	-2	■
Zimbabwe	110	110	0	■

Legatum Prosperity Index™

Academic Advisory Panel

Legatum Institute (www.li.com) wishes to thank the members of the Academic Advisory Panel for their helpful advice, critiques, and suggestions. Legatum Institute assumes full responsibility for the content of the Prosperity Index. Participation in the Academic Advisory Panel does not imply endorsement of every aspect of the Prosperity Index.

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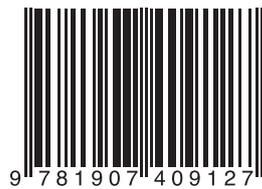
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