



## Brand South Africa

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### Research - Internal Analysis 2021 Index of Economic Freedom

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#### 1. Introduction

The 2021 Economic Freedom Index is the 27<sup>th</sup> edition, which benchmarks 178 countries and includes updated economic freedom scores, macroeconomic data, cross country comparisons highlighting why economic freedom matters as well as customised comparison charts. Additionally, this includes interactive heat maps aimed at strategically evaluating the competitiveness of countries in the report.

Due to the impact of the COVID-19 pandemic around the globe, the 2021 data covers the second half of 2019 through the first half of 2020. To the extent possible, the information considered for each factor was current as of June 30, 2020. Therefore, it is important to note and understand that some factors in the report are based on historical information. For example, the monetary policy factor is a 3-year weighted average rate of inflation from January 1, 2017, to December 31, 2019.

The Economic Freedom Index uses the following aspects to measure economic freedom: rule of law, government size, regulatory efficacy and open markets. South Africa ranks 99/184 countries in the global ranking of the 2021 report, increasing with 6 points from 105/180 countries in 2020. The overall economic freedom score for the country is 59.7 in 2021, an improvement from the 58.8 score in 2020. Regionally in the African continent, the country ranks 9/25 countries.

#### 2. Global Findings

Global findings in the report indicate that the 2021 average economic freedom score is 61.6, which is similar to the 2020 score - remaining the highest recorded in the 27-year history of the index. Of the total 178 economies benchmarked in the report, five countries are considered ‘free’ and an additional 92 are at least moderately free.

On the other hand, 81 economies received scores below 60 and are rated “mostly unfree” or “repressed”. Strategically analysing the data in the report, it is clear that the maintenance of historically high global economic freedom in the 2021 Index reflects increases in economic freedom in 89 of 178 economies benchmarked.

Eighty countries declined in economic freedom and the scores for nine countries were unchanged. It is also important to highlight that as the world strives to recover from the COVID-19 pandemic, economic freedom will be more important than ever post the pandemic.

### **3. Key findings on South Africa**

South Africa’s economic freedom score in the 2021 report is 59.7, making the country’s economy the 99<sup>th</sup> freest in the world. Reflecting on the 2020 results, South Africa’s overall score increased by 0.9 points in 2021- primarily because of an improvement in judicial effectiveness. Additionally, the country is ranked 9<sup>th</sup> among 47 countries in the Sub-Saharan region, having a score that is above the regional average but below the world average.

Data in the report clearly indicates that South Africa remained in the ranks of the mostly unfree countries in 2021, the third in a row after nearly a quarter of a century in a moderately free category. Therefore, to regain momentum towards attaining significant economic freedom, the South African government would have to prioritize improvements in the judicial system and confront persistent labor market rigidities that trap more than one-third of workers in the informal economy.

The four aspects listed below have an impact on every country's global rankings in the report. In this case, South Africa's measures within the aspects are unpacked as follows:

### **Rule of Law**

South Africa's legal system is hailed for effectively protecting property rights and having contracts that are generally secured. With the Constitution of the country being recognised as one of the most progressive and liberal documents in the world. The country's judicial processes are competent and reliable, compared to those of developed economies. However, the courts have been highlighted as being understaffed and underfunded. It is also important to note that the high levels of corruption in the country hampers the functioning of government at large. This includes public procurements lacking transparency and competitive bidding. According the report, South Africa has a robust anticorruption framework, but lacks adequate enforcement. Yet, some corrupt officials act with impunity.

### **Government Size**

The top individual income tax rate is 45 percent, and the top corporate tax rate is 28 percent. Other taxes include value-added and capital gains taxes. The overall tax burden equals 28.4 percent of total domestic income. Government spending has amounted to 33.7 percent of total output (GDP) over the past three years, and budget deficits have averaged 4.9 percent of GDP. Public debt is equivalent to 62.2 percent of GDP.

### **Regulatory Efficiency**

One of the well-known challenges the country is facing is lack of sufficient electricity. Therefore, data in the 2021 report indicates that the higher cost of obtaining electricity is a setback for small businesses to grow in the country, impacting the growth of the economy as well.

South Africa recently introduced a national minimum wage and labor force participation was up in 2019. In 2020, despite the years of poor performance, the government pledged to continue subsidizing the state-owned Eskom electricity utility of a total amount of nearly 5 percent of GDP over the next 10 years. However, challenges in the utility still remain the same as South Africa spends more days in the dark other than having power.

**Open Markets**

South Africa has six preferential trade agreements in force. The trade-weighted average tariff rate is 6.2 percent, and 176 non-tariff measures are in effect. Recent cases involving attempts to ban foreign ownership of land and enable expropriation are discouraging foreign investment. Over 70 percent of adult South Africans have formal banking accounts. In 2020, temporary measures to relieve bank capital requirements were taken to support banking-sector liquidity.

As noted in the first paragraph of this section. South Africa ranks 99/178. The table below presents both South Africa’s global and regional ranking:

South Africa’s global and regional ranking in the 2021 Index of Economic Freedom		
Country	Ranking	Score
South Africa (Global Ranking)	99/178	59.7
South Africa (Regional Ranking)	9/47	59.7

South Africa’s global ranking falls under the top 100 countries. The top 5 countries are: Singapore (1<sup>st</sup>), followed by New Zealand (2<sup>nd</sup>), Australia (3<sup>rd</sup>), Switzerland (4<sup>th</sup>) and Ireland (5<sup>th</sup>).

Additionally, South Africa ranks 9/47 countries in the African continent, being part of the top 10. Mauritius leads the continent ranking 1<sup>st</sup>, followed by Rwanda (2<sup>nd</sup>), Botswana (3<sup>rd</sup>), Seychelles (4<sup>th</sup>) and Cabo Vrede (5<sup>th</sup>).

## **The case of South Africa's judicial system**

For a number of years, South Africa's judicial independence has been doubted by many, including South African's and global investors. Part of the doubt was sparked by the "state capture" before the South African government created and approved the Zondo Commission of Inquiry into State Capture. With the commission having faced a number of challenges in attempt to get testimonies- it is important to note that to some extent, the proceedings and revealed testimonies re-positioned the image of the country's judicial independence with holding individuals accountable for crimes committed in relation to state capture.

To support the findings made in the report by highlighting South Africa's improvement in judicial effectiveness. It is important to note that recently, South Africa's Constitutional Court positioned the judicial system by detaining former President Jacob Zuma for being in contempt of court. The news made headlines in South Africa, with South African citizens and global counterparts hailing the country's judicial system for showing independence from any political or external institutional influences.

Additionally, the South African President Cyril Ramaphosa has vowed to put an end to corruption and strengthen the judicial system of the country by highlighting that "many steps are being taken to rid our country of corruption. And those who are corrupt, who have pursued corrupt ways will continue to fight and fight to the end because their life revolves around corruption. But we will end it and they will go where they belong." This shows the transformational leadership in South Africa towards profiling the country in improving the judicial system and getting rid of corrupt individuals.

### **References:**

The Heritage Foundation. 2021. Index of Economic Freedom. pp. 1 13.

[https://www.heritage.org/index/pdf/2021/book/2021\\_IndexofEconomicFreedom\\_Highlights.pdf](https://www.heritage.org/index/pdf/2021/book/2021_IndexofEconomicFreedom_Highlights.pdf)