



Brand South Africa

Research - Internal Analysis 2022 Index of Economic Freedom

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1. Methodology

The Index of Economic Freedom (IEF) is an annual report, published by the Washington based Heritage foundation, and is now in its 28th year since first being released. Key in the assumptions of the foundation is the notion that freer, more open markets lead to increased prosperity and higher standards of living.

The report thus measures a country's performance on four main axis, regulatory efficiency, rule of law, government size, and market openness. These are further subdivided into 12 categories, which include labour and business freedoms, tax burdens and fiscal health, property freedoms and judicial effectiveness. Each category is scored out of a hundred, with the average then representing the country. Countries scoring over 80 are ranked free, between 70 and 79 mostly free, over 60 moderately free, with those scored between 50 and 59 ranked mostly unfree and scoring under 50 is scored as repressed.

The 2022 report saw 177 countries ranked, with Scandinavian countries, including Norway and Iceland performing optimally. Singapore maintained its position as first, with around 88 countries scoring above 60, meaning that half the world were ranked partly free according to the methodology. 32 were scored as being repressed, with only 37 countries seeing improvements in their scores. The world's freedom score stood at 60.0, 1.6 points lower than the 2019 figure, with 98 countries seeing their scores drop in the 2022 report.

Significantly the 2022 report is based on figures calculated between July 2020 and June 2021, meaning that some of the drop can be partially attributed to the remnants of the Covid-19 crisis and governments' responses to it, hence New Zealand's score reduction as a result of its very strict lock-down patterns.

It is significant that the Heritage foundation is very ideologically leaning; while the report's scoring is relatively objective, the factors measured are clearly neoliberal in ideal. This generally sees countries such as China scoring lower, mainly as a result of their different methods of governance, even though at times, freedom in these countries have increased. It is noteworthy that the report does not steer away from this, regularly stating that the belief is that countries with open market policies perform better, a chicken and/or the egg argument. The report thus advocates fiscal responsibility and a reduction in spending as a means out of the Covid-19 crisis, despite the clear benefits provided by the various stimulus packages, which were instituted by most of the world during 2020 and 2021.

2. South Africa Assessed

South Africa saw a decrease in its score by 3.5 points in the 2022 report, receiving 56.2, down from 59.7 the year prior. It was ranked 112, and scored as mostly unfree. The report pointed out fiscal health, judicial backlogs and government inefficiencies as the greatest factors weighing the country down, with South Africa scoring highly in relation to economic and trade freedoms. Government spending was scored at 68.1, however fiscal health fell to 8.1.

Monitory freedom was cored the highest at 78.0, with Trade Freedom (international Trade) following at 72.2 and labour freedoms scored at 71.1 . This indicates that the country if relatively free in real terms, that people are free to pursue what they want, and that the country globally is seen as having soft power and being willing to negotiate- South Africa maintains around 7 preferential trade Agreements.

Rule of Law

Indicator	Score
Property Rights	43.2
Judicial Effectiveness	61.3
Government Integrity	48.4

Government Size

Indicator	Score
Tax Burden	63.4
Government Spending	68.1
Fiscal Health	8.1

Regulatory Efficiency

Indicator	Score
Business Freedom	65.7
Labour Freedom	71.1
Monitory Freedom	78.0

Market Openness

Indicator	Score
Trade Freedom	72.2
Investment Freedom	45.0
Financial Freedom	50.0

3. South Africa Compared

Globally South Africa scored moderately, being ranked above India 131 (53.9), Brazil 133 (53.3), and China 158 (48.0). Regionally the country was ranked above Nigeria, which was ranked 124 with a score of 54.4. However South Africa ranked 19th sub-regionally, falling behind Mauritius (ranked 30th), Botswana (61st), Cape Verde (49th), and Rwanda amongst others. This is seemingly a trend, with South Africa falling behind in the 2022 edition of the Soft Power Index and even in relation to issues such as mining and economic conditions based analysis. South Africa however remains above the sub-regional GDP Per Capita, which the report puts at \$4200, however its 35% unemployment rate is almost five times higher than the 7.5% unemployment seen by the region as a whole, yet its inflation rate of 6.5% is half the 14.5% regionally.

4. Conclusion

South Africa has seen a significant drop in ‘economic freedoms’ according to the 2022 Index of Economic Freedom report. The country is being weighed down by its supposed poor fiscal health, and the lack of property protections. This is likely to be made worse by the increased load-shedding, which has occurred since. Worryingly is the fact that the country has comparatively weakened regionally, ranking behind countries such as Namibia, Botswana, Cape Verde and Ghana.

References

The Heritage Foundation. 2022. Index of Economic Freedom. https://www.heritage.org/index/pdf/2022/book/2022_IndexofEconomicFreedom_Highlights.pdf