

The Relationship between Doing Business and Economic Freedom around the World in the Period 2014-2016

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Abstract

Doing business constitutes a major concern around the world, both for policy makers and entrepreneurs. Economic freedom allows individuals to be independent and choose those types and means of doing business that suit them the best.

The aims of the paper are to show the relationship between the concepts of doing business and economic freedom, and to present the rankings of the top 10 countries in the world according to these two topics for the period 2014-2016. In this respect, the methodology used is based on the research of various secondary sources such as articles and reports.

The findings highlight that there is a positive relationship between the ease of doing business and the level of economic freedom.

Key words: doing business, economic freedom, country

J.E.L. Classification: F00, L26

1. Introduction

Nowadays business world which is supposed to be aiming at sustainability, must take into account global, national and individual economic performance. The ease of doing business plays an important part in achieving better results and expanding the entrepreneurial activities.

Doing business is easier as the level of economic freedom increases, as the latter allows individuals to pursue their endeavors in such a way that maximizes their autonomy (Nikolaev et al, 2016). The concept of economic freedom is multidimensional as it covers several domains (e.g., economy, law, politics). In this respect, the main elements of economic freedom are personal choice, voluntary exchange, freedom to compete, and protection of persons and property (Gwartney et al, 2003). In essence, economic freedom emerges when people are allowed to choose for themselves the types and means of doing business they consider to be appropriate (Gwartney et al, 2015).

The aims of the paper are to show the relationship between the concepts of doing business and economic freedom, and to present the rankings of the top 10 countries in the world according to these two topics for the period 2014-2016. In this respect, the methodology used is based on the research of various secondary sources such as articles and reports.

2. Economic freedom, a pillar of doing business around the world in the period 2014-2016

This chapter focuses on the evolution of the world's first ten countries related to doing business. In this regard, their rankings were analyzed taking into account the World Bank reports. The Doing Business Report represents a yearly study published by the World Bank Group since 2003 that is aimed to highlight the ease of doing business worldwide. The ranking is based on the distance to frontier (DTF) score and it "measures the gap between a particular economy's performance and the

best practice, and serves as basis for the ease of doing business rankings" (The World Bank, 2017, p.1)

In 2014, the ranking was dominated by Singapore, which obtained an overall score of 88.27 (Table no. 1). These countries are located in the following continents:

- Europe: four countries (Denmark, Norway, United Kingdom, Finland)
- Asia: three countries (Singapore, Hong Kong SAR, China, Republic of Korea)
- Oceania and Australia: two countries (New Zealand, Australia)
- North America: one country (United States)

Table no. 1. The ranking of Doing Business for the first ten countries in the World in 2014

World ranking	Country	2014 DTF (distance to frontier) score
1	Singapore	88.27
2	New Zealand	86.91
3	Hong Kong SAR, China	84.97
4	Denmark	84.20
5	Korea, Rep.	83.40
6	Norway	82.40
7	United States	81.98
8	United Kingdom	80.96
9	Finland	80.83
10	Australia	80.66

Source: (The International Bank for Reconstruction and Development/The World Bank, 2014)

In 2015, the ranking was dominated by the same country as in the previous year (Singapore), which obtained an overall score of 87.34 (Table no. 2). These countries are located in the following continents:

- Europe: five countries (Denmark, United Kingdom, Sweden, Norway, Finland)
- Asia: three countries (Singapore, Republic of Korea, Hong Kong SAR, China)
- Oceania and Australia: one country (New Zealand)
- North America: one country (United States)

Table no. 2. The ranking of Doing Business for the first ten countries in the World in 2015

World ranking	Country	2015 DTF (distance to frontier) score
1	Singapore	87.34
2	New Zealand	86.79
3	Denmark	84.40
4	Korea, Rep.	83.88
5	Hong Kong SAR, China	83.67
6	United Kingdom	82.46
7	United States	82.15
8	Sweden	81.72
9	Norway	81.61
10	Finland	81.05

Source: (The International Bank for Reconstruction and Development/The World Bank, 2015)

In 2016, the ranking was dominated by the same country as in the previous year (Singapore), which obtained an overall score of 87.34 (Table no. 3). These countries are located in the following continents:

- Europe: five countries (Denmark, Norway, United Kingdom, Sweden, FYR Macedonia)
- Asia: three countries (Singapore, Hong Kong SAR, China, Republic of Korea,)
- Oceania and Australia: one country (New Zealand)
- North America: one country (United States)

Table no. 3. The ranking of Doing Business for the first ten countries in the World in 2016

World ranking	Country	2016 DTF (distance to frontier) score
1	New Zealand	87.01
2	Singapore	85.05
3	Denmark	84.87
4	Hong Kong SAR, China	84.21
5	Korea, Rep.	84.07
6	Norway	82.82
7	United Kingdom	82.74
8	United States	82.45
9	Sweden	82.13
10	Macedonia, FYR	81.74

Source: (The International Bank for Reconstruction and Development/The World Bank, 2016)

In the period 2014-2016, the ranking of doing business for the first ten countries in the world was dominated by European countries, Denmark, Norway and United Kingdom maintaining their presence in the top 10 throughout the years. The second place is held by Asia whose three countries (Singapore, Hong Kong SAR, China, Republic of Korea) are present throughout the analyzed period. In 2016, New Zealand managed to surpass the dominance of Singapore.

The ease of doing business is highly connected with the concept of economic freedom. Economic freedom means "the degree to which a market economy is in place, where the central components are voluntary exchange, free competition, and protection of persons and property (Caetano and Caleiro , 2009, p. 65). Economic freedom is measured starting from four broad categories (Miller and Kim, 2017, p1):

- Rule of law (property rights, judicial effectiveness, and government integrity)
- Government size (tax burden, government spending, and fiscal health)
- Regulatory efficiency (business freedom, labor freedom, and monetary freedom)
- Market openness (trade freedom, investment freedom, and financial freedom)

In 2014, the ranking was dominated by Hong Kong SAR, which obtained an overall score of 90.1 (Table no. 4). These countries are located in the following continents:

- Europe: three countries (Switzerland, Ireland, Denmark)
- Asia: two countries (Hong Kong SAR, Singapore)
- Oceania and Australia: two countries (Australia, New Zealand)
- North America: one country (Canada)
- South America: one country (Chile)
- Africa: one country (Mauritius)

Table no. 4 The ranking of the first ten countries in the World by economic freedom in 2014

World ranking	Country	2014 Score
1	Hong Kong SAR	90.1
2	Singapore	89.4
3	Australia	82.0
4	Switzerland	81.6
5	New Zealand	81.2
6	Canada	80.2
7	Chile	78.7
8	Mauritius	76.5
9	Ireland	76.2
10	Denmark	76.1

Source: (Miller, T., Kim, A. B. and Holmes, K. R., 2014)

In 2015, the ranking was dominated by the same country as in the previous year (Hong Kong SAR), which obtained an overall score of 89.6 (Table no. 5). These countries are located in the following continents:

- Europe: three countries (Switzerland, Estonia, Ireland)
- Asia: two countries (Hong Kong SAR, Singapore)
- Oceania and Australia: two countries (New Zealand, Australia)
- North America: one country (Canada)
- South America: one country (Chile)
- Africa: one country (Mauritius)

Table no. 5. The ranking of the first ten countries in the World by economic freedom in 2015

World ranking	Country	2015 Score
1	Hong Kong SAR	89.6
2	Singapore	89.4
3	New Zealand	82.1
4	Australia	81.4
5	Switzerland	80.5
6	Canada	79.1
7	Chile	78.5
8	Estonia	76.8
9	Ireland	76.6
10	Mauritius	76.4

Source: (Miller, T. and Kim, A. B., 2015)

In 2016, the ranking was still dominated by Hong Kong SAR, which obtained an overall score of 88.6 (Table no. 6). These countries are located in the following continents:

- Europe: four countries (Switzerland, Ireland, Estonia, United Kingdom)
- Asia: two countries (Hong Kong SAR, Singapore)
- Oceania and Australia: two countries (New Zealand, Australia)
- North America: one country (Canada)
- South America: one country (Chile)

Table no. 6. The ranking of the first ten countries in the World by economic freedom in 2016

World ranking	Country	2016 Score
1	Hong Kong SAR	88.6
2	Singapore	87.8
3	New Zealand	81.6
4	Switzerland	81.0
5	Australia	80.3
6	Canada	78.0
7	Chile	77.7
8	Ireland	77.3
9	Estonia	77.2
10	United Kingdom	76.4

Source: (Miller, T. and Kim, A. B., 2016)

In the period 2014-2016, the ranking of the first ten countries in the world by economic freedom was dominated by European countries, Switzerland and Ireland maintaining their presence throughout the analyzed period. Hong Kong SAR held its dominant position, followed closely by Singapore.

By linking economic freedom with doing business, the analysis shows that:

- Three countries are present throughout all the years of the analyzed period in both rankings, being placed in top positions: Singapore, New Zealand and Hong Kong SAR.
- Denmark, United Kingdom and Australia have also appeared in both rankings without a constant presence.
- There are 12 unique countries in each ranking (out of a total of 30, throughout the period analyzed, the rest – 18 – representing the recurrence of some of the countries in more than one year). Out of these 12 countries, 5 countries are present in both rankings:

Australia, Denmark, Hong Kong SAR, Singapore and United Kingdom, which represents 41,66%. This means that there is a connection between the two concepts: doing business and economic freedom.

3. Conclusions

Numerous researches have been carried out regarding the concepts of doing business and economic freedom in the business literature and are of great concern for international and national organizations. Economic freedom represents a key factor that supports business activities around the world and is crucial for their prosperity.

The paper has shown that the two concepts are linked. In spite of the European domination by number of countries present in both rankings, Asian countries are the ones placed on top positions. Also, the paper confirms that there is a positive relationship between the level of economic freedom and the ease of doing business (Angulo-Guerrero et al, 2017).

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