

Financial Liberalization in Pakistan, Desired and Actual Outcomes: An Assessment under Philosophy of Liberalism

¹Dr. Abdus Sattar ABBASI, ²Dr. Asad Afzal HUMAYON, ³Haji Suleman ALI,

⁴Ali Iftikhar CHOUDHARY

¹Head of Dept. & Assistant Professor, Dept. of Management Sciences, COMSATS Institute of IT, Lahore, Punjab, Pakistan

²Head of Dept. & Assistant Professor, Dept. of Management Sciences, COMSATS Institute of IT, Vehari, Punjab, Pakistan.

^{3,4}Lecturer, Dept. of Management Sciences, COMSATS Institute of IT, Vehari, Punjab, Pakistan

Abstract

This paper presents an overview of liberalism and economic or financial liberalization in Pakistan. An effort is made to link the concept of liberalization with liberalism and its outcomes in Pakistan. The first part of this paper introduces the concepts of liberalism and liberalization in detail. Thereafter, this paper discusses post liberalization economic and social conditions of Pakistan based on the findings of various empirical studies. The final part of the paper concludes the discussion and suggests the Pakistani democratic liberals (if they are) what they should liberalize?

Keywords

Financial liberalization, Liberalism philosophy, Liberalization's outcomes, Pakistan

GEL Classification: F65, P26

Part-I

Introduction

Liberalism is one of the famous political philosophies based on the ideas of liberty and equality. Liberals generally favor the concepts like free and open trade, freedom of religion and press, free and fair elections, protection of civil rights and private property. This doctrine was mainly founded by Jhone Locke who was 17th-century's philosopher and argue that each individual's life, control over own actions, and property are not dependent upon laws or beliefs of a particular culture or government. In twentieth century the ideas of liberalism spread more with different forms like liberal democracies and social liberalism in Europe and North America.

In some countries liberalism has some traditions. Currently the concept of liberalism is growing in East Asia, but there are few countries in which liberals use the label liberal. Classical liberalism belongs to liberalism and focused on protecting the independence of the individual by confining the influence of the government. This political ideology comes out in response to the industrial revolution and urbanization in west in the 19th century. Based on the Thomas Hobbes's theory of government Liberals argue that individuals create the government to secure themselves from one another. The ideas of classical liberals were based on the selected ideas of 18th century's philosopher such as Adam Smith, John Locke, Say, Thomas, and David Ricardo.

A. Basic Principles of Liberalism

1. Human rights

According to liberals each human being has a natural right to enjoy

basic human rights as a part of the society. These human rights secure the individual, its freedom and dignity. In order to stabilize the society and establish peaceful environment it is necessary to respect the human rights. Right to human dignity, freedom of religion, belief & expression and so forth are fundamental human rights near liberals.

2. Equality

The right to equality is of much importance among the other human rights. It is a debate able issue like other human rights that what equality does mean. According to all liberals equality mean there is no favoritism or discrimination. Every school of thought will define the equality in its own perspective, for example, in court of law equality will be defines as no discrimination on the basis of race (black or white) or gender (male or female) or religion (Christian or Muslim). Does equality also means that all and sundry must have the same salary or live in the same kind of house? The answer of liberals will be no, because they demand same opportunities for every person to flourish their lives and education for all. In sum Liberals, believe in equality before the law and equality of opportunity.

3. Rule of Law

Constitutions and laws have no value without the rule of law. The core idea of rule of law is that law is supreme. There is nothing which can rule except law. Law is made after the combined decision or consensus of legislative body which is elected by peoples democratically in a liberal democratic society. In a liberal democratic society, there is no room for a single individual or group that possesses power to made law for the society. When rule of law imposes order, then only those persons will be punished who break the law. Law must be applied equally.

4. Individual Freedom

Every individual is important. Liberals argue that people must decide for themselves and not be told what to do all the time. Every person should have a right to spend his life as he want, provided that in doing so he or she will not try to limit the life or freedom of any other person.

5. Private Property

Liberals relate the individual freedom and right to the economics. Historically, individual freedom and rights are mainly based upon the concept of property rights. Property rights might be conceptually of two types; one every individual can own property and second every person can buy property of others and have right to sell his property. Every person owns his or herself. No one is a slave of other.

6. Economic Freedom

Most important elements of economic freedom are voluntary exchange and individual or organizations autonomy to come into and compete in markets while the government protecting them and their property. Economic freedom ensure the independent choice of consumers and what they consider the best for themselves while every individual and company is free to instigate a business or involve in international trade and compete fairly in the market. Independent peoples will lead to make free markets which benefits to everyone.

The basic purpose of economic freedom is to increase peoples wealth and over all well being. A number of empirical evidences are present which have found that in developed countries economic freedom is much more as compare to the developing or poor nations. Governments have a control over determining the economic freedom in a country, if governments are interested in increasing the economic freedom they will reduce or eliminate the trade restrictions, taxes and duties. On the other hand, if the governments are interested in decreasing the economic freedom they can impose new taxes or duties or boost the existed rates.

7. Liberalization

Liberalization is a process that decreases state power over the life of individuals subject to the control of a state. Liberalization may be classified as economic or financial and political liberalization. Financial liberalization limits the interference of the state in the market. Political liberalization empowers individuals with their liberty and rights, including the right to challenge the wrong policies of the authorities and voice against them. Political and economic liberalization are interlinked. One could understand the idea of liberalization in the context of liberalism, the leading fresh political philosophy.

As discussed by [2] the concept of liberalism was first emerged in 17th century against the view that monarchs have God given absolute authority. This absolute authority of monarchs was defended by Thomas Hobbes who argues that the sovereign is separate from peoples of the society or a country and peoples should give up their natural rights to a sovereign. Hobbes's argument was rejected by John Locke. Although agreeing that the authority of the government is undeniably based on the consent of the peoples, Locke says that people would favor and made a commonwealth only if they will care for their natural rights to liberty, life, and property.

Luke further held that instead of surrendering their natural rights to a sovereign, the spirit of the social contract theory through which the commonwealth is established made the individuals sovereign. Rulers were just magistrates they could be disqualified by the sovereign individuals if they failed to protect the individual's natural rights.

Latter the Jean Jacques Rousseau disagree with the Locke's stress on people's rights, he also focus on Hobbes's concept of giving up the natural rights to a sovereign but also rejected Hobbes's view of a ruler separate from individuals. He imagines the entire people, performing together, and a drastically elected polity in which individual rights have no position. Locke's liberalism was thus bracketed by two absolutisms.

Part-II

Outcomes of Liberalization in Pakistan

Proponents of economic liberalization argue that it is an effective input for future economic growth and in general it is viewed as

a positive motive for superior quality of life and speeding up of economic growth. While opponents of liberalization view it as a major cause of poverty and income inequality. The responsibility of government is of critical importance in a poor country like Pakistan as compared in wealthy and resource rich countries. In developing countries the most important function of a government is poverty alleviation. Here the opinions of modern liberals and conservatives deviate from each other. According to conservatives free markets and industrialization are necessary, that a 'rising tide' pick up all boats. While agreeing with this argument, liberals persist that during the boom period of the economy, an effective system of social safety must be present for protecting the workforce and individuals who have no benefit of this economic development. Pakistan since its independence in 1947 faced an irregular economic development. In few early years of its independence the country experienced very difficult problems like violence, lack of economic resources, food, shelter and electricity etc. The first decade's economic performance of the Pakistan was very poor. A quick encouraging turn for the betterment was observed in 1960s when the growth rate was reached at 6 percent. From 1960s the country has been enjoying reasonable growth in the economy with some periodical slumps. Until 1990s the average growth rate was remain 5-6 percent. There are various reasons for these cyclical economic downturns but political instability and massive defense expenditures are more prominent one.

After 1960s Pakistan faced absolute political instability continuously for four decades due to four military takeovers. Political instability and control line issues with India made every economic planning fruitless. Dhaka Fall in December 1971 also contributes in the failure of economic progress of Pakistan. The process of nationalization in 1972-74 put a ceiling on private sector to contribute in economic development of the country. It was normal custom of our policy makers until 1980s to subsidize agricultural and industrial activities. Due to unfavorable outcomes of these subsidies the policy makers became worried and ultimately they found only one way which was to remove these subsidies. Key economic reforms were introduced during second phase of liberalization in Pakistan in 1990s. [12] concluded that liberalization's impact on poverty based on environment of the country and liberalization could not be seen as an isolated policy for this purpose. According to [1] economic reforms were comprised of and focused on various developmental challenges such as reduction in tariff for more than 90 percent to 45 percent on various products and removal of some bans and quantitative limits. Simplification of documentation and other trade related procedures. Privatization of many import export related institutes and implementation of market based monetary and fiscal policies. It maintained outward looking trade policy and developing a package of incentives for exporters and importers, establishing industrial and free trade zones, etc.

Unlike reforms introduced in early 1980s Policy makers took these reforms more seriously. However, the results of these policies are also not satisfactory due to lack of political consensus in implementation of these policies. The overall outcome of this liberalization process was just a poor progress which is insufficient for providing strong base for excelling the nation economically and socially in the world. A sizeable reduction in foreign exchange reserves arise during this period which leads economy to the state of bankruptcy a number of times.

After mid 1990s another serious issue raised in the economy in the form of a huge amount of non-performing loans of private sector. A large percentage of loan defaults (7 percent of the GDP) were

faced by banking and financial sector in 1997 (Asian Development Outlook, 1998; p. 135). Three major problems were also faced by the country in the form of reduction in foreign remittances, demand for exports and substantial allocation of funds for debt servicing. In 1999 foreign debt was stood at US\$ 29.0 billion, which was 44.5 percent of GDP. In 2007 foreign debt raised to US\$ 31.0 billion and now in the second quarter of 2013 it is US\$ 59.56 billion.

The event of 9/11 provides a give way to Pakistan to come out from economic problems. When Pakistan decided to become a strategic partner of US in war against terror, this decision leads to removal of economic sanctions imposed by western countries and US in 1998. In addition, these countries restored the loans and financial aid for Pakistan. Substantial debt relief and debt rescheduling was offered by US by softening the foreign policy towards Pakistan. Meanwhile US forced overseas Pakistani and investor community settled in America to place their funds in Pakistan. Due to these initiatives taken by western countries foreign exchange reserves of Pakistan reach at a peak level of above US\$14 billion which results in appreciation Pak Rupee and improvement in credit rating of Pakistan. As a result in 2003, for the first time in the last three decades, country's growth rate reaches at 5.1 percent with inflation rate about 3.3 percent.

[6] found that after the process of liberalization country perform well economically which could be recognized by improvement in GDP growth rates, increase in foreign direct investment. On the other hand this sharp increase in openness results in worse balance of payment conditions and a remarkable high level of poverty and unemployment.

Part-III

Conclusion and Suggestions

It is supposed that liberalization is essential but not provide adequate condition for economic growth. There are various other things which can affect the economic growth like political and institutional environment to behavior of macroeconomic factors. In short, liberalization is a disputed concept. However, in general it is viewed as beneficial for economic growth. But it has many unfavorable effects like increase in poverty, income inequality and reduction in public expenditures on health, education and other basic human necessities as founded by various empirical studies in Pakistan. It seems that the extent of benefits obtained from liberalization in any country depend upon intention of policy makers, macroeconomic policies, market infrastructure, excellence of institutions and political stability. Finally it is asserted that if Pakistan needs to get favorable desired outcomes of liberalization and avoid undesired outcomes, policy makers (politicians and bureaucrats) should revise their intentions and personal interests and make them in line with national interest. They should never ignore the natural rights of the individuals while planning for economic growth.

Following critical steps could be taken by the government to improve the economic freedom:

Establishment of such legal frameworks which have the ability of contract enforcement and protect the individual's property against violence, coercion and fraud.

Citizens should have access to money.

Government should abstain from practices which impede personal choice, independence of individuals and business to compete and voluntary exchange.

If the Pakistani democrats claim that they are liberals and worry about the poor, here are few things they must liberalize:

Government should improve the purchasing power of the parents to select schools for their children to improve their education. Government should provide access to advanced health treatment facilities to poorer peoples and wealthy equally.

Government should distribute the country's agricultural land among poorer and rich.

Government should ease licensing requirements because varieties of services are not supplied in the market due to strict licensing requirements; these restrictions increase their prices. They also close the entry of poorer peoples to join trade.

References

- [1] Akhter, M. R., "Effect of Trade Liberalization on Agriculture in Pakistan: Commodity Aspects", Working Paper 44, CGPRT Centre Bogor, Indonesia, 1999.
- [2] Doley, M., Recchia, S., "Liberalism in International. International Encyclopedia of Political Science Los Angeles : Sage", 2011. pp. 1434–1439, 2011.
- [3] Dumenil, G., Levy, D., "Costs and Benefits of Neoliberalism", A Class Analysis. Review of International Political Economy, Vol. 8, pp. 578–607, 2001.
- [4] Govt. of Pakistan, Economic Survey, Various Issues, Islamabad.
- [5] Greenway, D., W. Morgan, P. Wright, "Trade Liberalization And Growth In Developing Countries", Journal of Development Economics, Vol. 67, pp. 229-244, 2002.
- [6] Mahmood, M. A., Sheikh, A. D., Akmal, N., "Impact of Trade Liberalization on Agriculture in Pakistan", J. Agric. Res., 48(10), pp. 121–131, 2010.
- [7] Mauzy, D. K., "The Human Rights and "Asian Values" Debate in Southeast Asia: Trying to Clarify the Key Issues", The Pacific Review, 10(2), pp. 210–236, 1997.
- [8] Rodan, G., "Competing Ideologies of Political Representation in Southeast Asia", Third World Quarterly, 33(2), pp. 311–332, 2012.
- [9] Rodan, G., "Civil Society and Other Political Possibilities In Southeast Asia", Journal of Contemporary Asia, 27(2), pp. 156–178, 1997.
- [10] Siddiqui, R., Kemal, A.R., "Remittances, Trade Liberalisation", 2006.
- [11] Poverty In Pakistan: The Role of Excluded Variables in Poverty Change Analysis. PIDE Working Papers, 2006.
- [12] Winters, L. A, Mcchulloch, N., Mckay, A., "Trade Liberalization And Poverty: The Evidence So Far", Journal of Development Economics, pp. 72-115, 2004.



HAJI SULEMAN ALI received his B.B.A degree in Banking & Finance from Government College University, Faisalabad, Pakistan, in 2010, the M.S. degree in Finance from Mohammad Ali Jinnah University, Islamabad, Pakistan, in 2012, and currently the Ph.D. degree in Finance is in progress from COMSATS Institute of Information Technology, Lahore, Pakistan. Currently, he is a Lecturer, with Department of Management Sciences, COMSATS Institute of Information Technology, Vehari, Punjab, Pakistan. His research interests include financing & investment behavior of firms, prediction of stock returns, capital market & money market developments.

Table 1: Indicators of Development In Pakistan

| <i>Indicators</i> | 1961-70 | 1971-80 | 1981-90 | 1991-95 | 1996-2000 | 2000 | 2001 | 2002 |
|--|---------|---------|---------|---------|-----------|--------|--------|-------|
| NATIONAL ACCOUNTS: | | | | | | | | |
| GDP Growth (%) | 3.35 | 4.81 | 6.19 | 4.85 | 3.07 | 4.26 | 2.72 | 4.41 |
| Per Capita GDP (US\$) | 138.86 | 180.18 | 327.06 | 404.85 | 438.82 | 426.64 | 380.54 | 439 |
| Private Consumption/GDP | 77.71 | 79.00 | 76.92 | 70.81 | 73.99 | 74.43 | 75.15 | 74.96 |
| Government Consumption/GDP | 12.51 | 13.79 | 17.06 | 18.16 | 15.51 | 15.01 | 13.65 | 15.25 |
| FINANCIAL INDICATOR (%): | | | | | | | | |
| Gross Domestic Savings/GDP | - | 13.81 | 13.83 | 14.81 | 13.29 | 14.4 | 14.6 | 13.6 |
| Fixed Capital Formation/GDP | 15.37 | 15.38 | 16.96 | 18.07 | 15.41 | 14.37 | 14.29 | 12.33 |
| Inflation (per year) | 3.51 | 12.42 | 6.98 | 11.20 | 7.30 | 4.37 | 3.15 | 3.29 |
| M2/GDP | 36.14 | 41.76 | 41.25 | 43.39 | 46.63 | 46.92 | 48.30 | 51.74 |
| Fiscal Balance/GDP | -5.17 | -7.41 | -6.74 | -7.67 | -6.91 | -5.47 | -4.71 | -4.62 |
| Trade Balance/GDP | - | -8.06 | -9.31 | -5.15 | -3.73 | -2.4 | -2.3 | -0.5 |
| Current Account Balance/GDP | - | -5.35 | -2.91 | -4.49 | -3.17 | -0.14 | 3.41 | 4.5 |
| Total Trade/GDP | 21.20 | 28.00 | 33.59 | 36.73 | 35.16 | 34.30 | 37.37 | 35.75 |
| Debt/Exports | 403.90 | 606.09 | 509.28 | - | - | 550.66 | - | - |
| Debt/GDP | 33.91 | 61.96 | 64.15 | - | - | 90.00 | - | - |
| Foreign Reserves/Imports | 21.27 | 17.98 | 11.52 | 14.24 | 10.56 | 14.23 | 34.05 | 71.86 |
| SOCIAL INDICATORS: | | | | | | | | |
| Literacy rate (%) | - | 26.2 | 35.7 | 37.9 | 43.7 | 47.1 | 49.0 | 50.5 |
| Unemployment Rate (%) | - | - | 2.00 | 5.42 | 6.22 | 7.80 | 7.8 | 7.8 |
| Expenditure on Education (% of GNP) | - | - | 0.8 | 2.2 | 2.21 | 1.7 | 1.6 | 2.0 |
| Expenditure on Health (% of GNP) | - | 0.6 | 0.8 | 0.7 | 0.6 | 0.7 | 0.7 | 0.7 |
| Expenditure on Defense (% of Budget) | | | | | | 25.3 | 25.3 | 26.9 |
| Population Growth (%) | 3.00 | 3.14 | 3.13 | 2.99 | 2.34 | 2.24 | 2.22 | 2.16 |
| Population in Poverty (%) (1998) | | | | | | 13.4 | | |
| Human Development Index (Rank in 1998) | | | | | | 138 | | |

Source: IMF International Financial Statistics, World Development Report (Various Issues) and Asian Development Outlook (various issues); Ariff and Khalid (2000).