

**Special Pakistan Edition**

# **Economic Freedom of the World**

**2005  
ANNUAL  
REPORT**

Published by  
**Alternate Solutions Institute**

**JAMES GWARTNEY • ROBERT LAWSON**

In Collaboration with  
**Friedrich Naumann Stiftung**

With an introduction by  
**Dr. KHALIL AHMAD**

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Welfare of the People  
by the People

Ideas on Liberty. Training in Freedom.

Friedrich Naumann  
*Stiftung*

Economic Freedom of the World  
2005 Annual Report

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*Economic Freedom of the World: 2005 Annual Report*

[Pakistan Edition]

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Introduction by: Khalil Ahmad

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## Acknowledgements

Last year we published a Special Pakistan Edition of the ‘Economic Freedom of the World: 2004 Annual Report’ and in the form of Special Pakistan Edition of the ‘Economic Freedom of the World: 2005 Annual Report,’ we are continuing with this effort to promote the cause of economic freedom in Pakistan.

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This year two new papers are part of this Special Pakistan Edition. The first one ‘Enhancing Economic Freedom in Pakistan’ by Mohsin Khaled views economic freedom from the point of view of an entrepreneur. The second paper, ‘Economic Freedom between the Provinces’ by Zubair Ahmed Malik represents a businessman’s view about economic freedom. We are grateful to both contributors.

Khalil Ahmad

## Executive Summary

This Introduction explains

- ◆ that economic development does not require a potent role of government. Rather, conversely, the bigger the government, the more resources of the country it will consume.
- ◆ that such a government intervenes in every sphere of its citizens' lives be it public or private; and, just like a nanny treats them as ignorant kids; and, ultimately, never lets them grow up and act like responsible human beings. Thus, the citizens seeking security end up losing their freedom.
- ◆ that the proper role of a government is to protect the life, property, and liberties of its citizens and provide justice to all. And, in economic sphere the role of a government is to facilitate the production of wealth.
- ◆ that in the wake of Nationalization, the government stretched itself to the extent that it almost choked the private sector.
- ◆ that despite the de-nationalization and privatization of government entities, the size of government is not reducing; while it must result in lesser governmental control, regulation and taxation.
- ◆ that the purpose of printing a Special Pakistan Edition of the Economic Freedom of the World: 2005 Annual Report, like the previous 2004 Report, originally published by the Fraser Institute, Canada, is to introduce and promote the concept economic freedom in Pakistan. This Report 'explores the evolution of economic freedom over the last quarter century and the impact of economic freedom on people's lives.'
- ◆ that according to the Fraser Report, "the key ingredients of economic freedom are personal choice, voluntary exchange, freedom to compete, and protection of person and property.
- ◆ that economic freedom also requires governments to refrain from actions that interfere with personal choice, voluntary exchange, and the freedom to enter and compete in labor and product markets.
- ◆ that economic freedom is reduced when taxes, government expenditures, and regulations are substituted for personal choice, voluntary exchange, and market coordination. Restrictions that limit entry into occupations and business activities also retard economic freedom.
- ◆ that since 1977 when the process of de-nationalization and privatization started the score for Pakistan is steadily improving with little faltering here and there.

- ◆ that provided we opt for less and less regulatory mechanism and lower taxes this scoring may get better and our ranking also on the scale of economic freedom.
- ◆ that our performance on the scale of economic freedom in the Area of Legal Structure and Security of Property Rights: Judicial Independence, Impartial Courts, Protection of Intellectual Property, and Integrity of Legal System, requires immediate attention.
- ◆ that without improving in all of the component domains of this area, the little gains made in other domains and areas such as Size of Government: Expenditures, Taxes and Enterprises; Access to Sound Money: Growth of Money Supply, Inflation Variability, Recent Annual Inflation, Freedom to Own Foreign Currency; Freedom to Exchange with Foreigners: Taxes on International Trade, Regulatory Trade Barriers, Size of Trade Sector, Difference between Official and Black Market Exchange Rates, could never be sustained and strengthened.
- ◆ that, as was predicted in the last year's Introduction, despite de-nationalization, privatization, de-regulation and liberalization, we are moving down on the scale of economic freedom: last year our score was 5.7, and ranking 90; this year it is 5.6 and 98 respectively.
- ◆ that we are being bracketed with poor African countries such as Mali, Papua New Guinea; and that we are far behind than many underdeveloped and developing countries such as Madagascar, Nigeria (an infamously corrupt economy), and Senegal.
- ◆ that among the South Asian countries, even Bangladesh has a better ranking (96) than Pakistan, and that India (66) is far ahead of us.

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## Introduction\*

Let the wealth be created first, it won't stink in the lockers.

### I

We started with a legacy too burdensome for our genius. When British Crown took over the Indian sub-continent from the East India Company and established its rule, only the emperor or the local lords were enjoying the 'legislative' authority with other powerful groups and traditions determining it partially. The British introduced and established an efficient government based on law all over the land. No wonder, the memory of it is still alive in the minds of the people of the sub-continent! But the social analysts, historians, intellectuals, politicians, economists and common men confound it with a big, powerful government. This is a great misreading. What is alive in the minds of people is not a big, powerful government but the rule of law, which, in the proper sense of the term, never existed before the arrival and after the departure of British in the sub-continent. It is important to note that what is still attributed to the British is the protection of life and property, and above all, the equality of all the citizens before law. Moreover, the effective dispensation of justice is still much sung. But, as a matter of fact, Pakistani intellectuals and common people alike crave for a big and powerful government.

Against this background, it is not surprising that even at the outset statist thinking was dominant on the political and intellectual horizon in Pakistan. People looked toward the government to come up to their expectations sown during the movement for a separate homeland. Besides, the memory of an efficient law-abiding British government was fresh. Contrastingly, the early years of Pakistan defied these expectations. There was chaos, instability and lawlessness. A sort of anarchy prevailed.

The first phase of comparative stability came in the wake of Martial Law of Field Marshall General Ayub Khan. The government of General Ayub was an ambitious one seeking to fulfill heretofore-unfulfilled promises. To justify its existence, it set out to make Pakistan an industrialized nation; and economists say at the cost of depriving the agricultural sector. There are stories that it doled out money and favors to the industrialists, and there are allegations that it gave birth to 22 wealthy families in Pakistan; and that, its policies created a wide gulf between the rich and the poor. On the other hand, it is admitted that Pakistan made economic strides in this period. This period of industrialization of Pakistan, alternatively known as the 'Decade of Development' left an unforgettable mark on the memory of the people that reminds them of the progress a government could make (by giving space to the private sector to flourish!). But, this is a wrong perception. Actually, it was the private entrepreneurs who made this industrialization possible, not the government. Government only encouraged them by its business-friendly policies. Moreover, had the private sector been given full freedom, it would have made

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\* This Introduction, especially its part II which deals with the present state of Economic Freedom in Pakistan, has been revised and updated in light of the latest scores and ranking assigned to Pakistan by the Economic Freedom of the World 2005 Annual Report.

many miracles it is making today under controlled conditions.

Apart from what is fact and what is fiction, it is obvious that the task this government set for itself led it to making many mistakes. It started allocating resources of the country in accordance with its own political and economic philosophy; this invited criticism and opposition from those who gained nothing or too less or were against its economic philosophy. This created wide resentment in many sections of the society. The other groups advocating a collectivist solution to the problems of the day took advantage of this situation. They dubbed this government as a government of the capitalists; and, made it a point that these exploiters have amassed the wealth belonged to the masses.

The campaign of the collectivists again was an appeal to the authority of the government that it should 'take back' all of the resources in its hands to use them for the welfare of the masses. This movement was also inspired by the worldwide socialist campaign transformed in its last phase to the nationalization of whatever was in the private hands. Most of the Third World countries were in its grip.

This second phase of the economic history of Pakistan is characterized by the process of nationalization of private industry, financial and educational institutions under the government of Zulfikar Ali Bhutto. This was a period of 'Peoples Government.' Within years, many of the big businesses were nationalized without any recompense, and handed over to the bureaucratic managements. No surprise, this experiment resulted in utter failure in a short span of time. The nationalized industries and financial institutions were plundered, politically mismanaged and over-employed, and thus finally collapsed. It was just like slaughtering the proverbial parable goose that laid the golden eggs. This nationalization at best proved to be a nationalization of social and moral values also.

This period left indelible scars on the economic future of Pakistan. It demonstrated how pervasive and intrusive a government could be. Not only had the domestic and foreign investors shied away, the concept and institution of private property also suffered badly. Since then, its sanctity is at stake. Even more, this period inculcated a new social ethic that struck at the root of universal moral and social values characteristic of a human society. Some of its prominent features are: that all wealth is evil; that wealth cannot be earned/created in a fair manner; that who has got wealth, got it via unfair means; that who has got wealth, he must have stolen it from others; and that wealth is never a private/personal thing but a collective possession. This new system of values destroyed any profit-motive as well as business-ethics. At the most, it nourished and strengthened the institution of rent-seeking, 'an industry in boom' in Pakistan. [1]

At the third turning point in the economic history of Pakistan, the pendulum started oscillating in the opposite direction. Tragically, when the wheel of nationalization going full circle had played havoc with the political, economic, social and moral fabric of society, the process of de-nationalization and privatization ensued. It made its way into the corridors of the General Zia's government. Again, it was the Government that initiated this process. Now, the slogan, 'nationalization for the people' changed to 'privatization for the people.' [2] The same leaders of opinion who supported the nationalization had to favor and continue it even when in the government. Of course, even today the public opinion generally, not totally, is against de-nationalization and privatization; but people are not prepared to come out and fight it; actually, they have tasted the manna of nationalization and collectivization. Now they do not keep it dear anymore!

This third phase is still in progress with an addition of de-regulation of regulated and monopolized businesses by the state.

In view of the above, it seems that the economic history of Pakistan is in fact a history of the expansion and de-expansion of the institution of government. In the first phase, the institution of government expanded much but did not occupy the breathing space for the private businesses. In the second, the government stretched itself to the extent that it almost choked the private sector. The third phase yet to conclude is a witness to the shrinking of the institution of government. However, this de-expansion is confined to the physical sphere, or say,

to de-nationalization and privatization of the government entities. The over-burdened government is striving to lighten itself of owning and running businesses; or it is like a ship harbored to relieve itself of its load. But, being the captain of the ship, it is acquiring more and more powers.

The irony is that though the statist are vehemently opposing the denationalization and privatization and are advocating a re-loading of the ship, but, surprisingly, there is none demanding reduction in the number and rate of taxes because of reduction in the “unnecessary responsibilities” of the government. It means government is acting more and more like a spendthrift. Also, there is much criticism the way privatization is being carried out, but there is no demanding that privatization must result in lesser governmental control and regulation. This is where government is expanding unwarily. The emergence of various regulatory bodies is one of the strong evidence.

If as the government is an entity of various individuals performing certain tasks within a specified framework of duties and responsibilities codified in the form of laws and constitution, and as a society is like a space occupied by individuals, the citizens, living there; then, it means when a government expands, it (or individuals behaving as government) actually comes to occupy the space belonging to other individuals. The more it expands, the more it occupies the space of others. This expansion may be physical as owning businesses and assets or in the form of powers to regulate and tax the activities of others. Logically, the expansion of one amounts to the shrinking of others. For instance, if one (say the individuals acting as government) issues a regulation that no one is permitted to do act A, it means he is curtailing the freedom of others to act as they wished. It is same in every sphere, social, political, economic, intellectual, aesthetic, sexual, moral, spiritual, religious, and others. Hence, the more a government expands, the more it curtails the social, political, economic, intellectual, aesthetic, sexual, moral, spiritual, religious freedom (the space where they are free to live and pursue their ends as they wished) of the people. Likewise, as the economic realm is the most important one that determines the shape of one’s concrete life, the more powers a government acquires to regulate and tax the economic activities and behavior of its citizens, the more it encroaches upon their economic freedom and thereby happens to define their other freedoms also.

This helps us explain and understand that during the intervening period of nationalization mainly because of the loss of economic freedom, people of Pakistan lost what they had achieved in the first; and, now going through the third period actually we are trying to regain what we lost and also what else we want to achieve, economic development and prosperity for the people. We know that the government at present is on the way to de-nationalizing and privatizing its enterprises and businesses; we know it is encouraging the private sector and public-private partnerships. But, on the other hand, we do know that there is yet much for the government to do. Once Diogenes the Cynic (Greek philosopher, died c. 320. B.C) was enjoying the warm sun. Alexander the Great while passing by came to see him and asked if he needed anything. He said: Keep away let the sunlight reach me. This is what is required of a good government: Let people enjoy the warm as well as bear the hot sun; this will make them responsible human beings. Here it may be added that as with freedom comes responsibility; in the same manner, economic freedom makes people economically responsible.

## II

Printing the ‘2nd Pakistan Edition’ of the Economic Freedom of the World: Annual Report originally published by the Fraser Institute, Canada, is a sequel to this mission of promoting economic freedom in Pakistan. Throughout the world, many such reports and indexes covering more than 100 countries or regions publish each year. For instance, Index of Economic Freedom, an annual country-by-country release by The Heritage Foundation, USA, and The Wall Street Journal, USA; and, other regional releases comprising ratings of provinces/states of China, India, North America and South America.

The Economic Freedom of the World: Annual Report of the Fraser Institute, Canada, started publishing in 1995. It is considered ‘the best available and the most comprehensive index of economic freedom in the world and the only one that uses reproducible measures appropriate for peer-reviewed research. It provides a reliable measure of cross-country differences in economic freedom using to help ensure objectivity.’ It makes use of third-party data such as International Country Risk Guide (‘it is directed toward investors seeking information about financial and political risks that might affect their investments in different countries’) and Global Competitiveness Report (‘its focus is the use of technology, quality of infrastructure, skill of the labor force, and other factors influencing the attractiveness of a country for business activity.’).

The present report analyzes the data available for 127 countries, and ‘explores the evolution of economic freedom over the last quarter century and the impact of economic freedom on people’s lives.’

The various indices or reports define economic freedom basically as the relative non-existence of government control on economic activity of the people. One such index defines economic freedom as “the absence of government coercion or constraint on the production, distribution, and consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself. In other words, people are free to work, produce, consume, and invest in the ways they feel are most productive.” [3]

According to the Fraser Report, “the key ingredients of economic freedom are personal choice, voluntary exchange, freedom to compete, and protection of person and property. (‘Along with formulating and implementing policies consistent with these ingredients’) . . . economic freedom also requires governments to refrain from many activities. They must refrain from actions that interfere with personal choice, voluntary exchange, and the freedom to enter and compete in labor and product markets. Economic freedom is reduced when taxes, government expenditures, and regulations are substituted for personal choice, voluntary exchange, and market coordination. Restrictions that limit entry into occupations and business activities also retard economic freedom.” [4]

To measure the degree of economic freedom for a country, the Fraser Report takes into account the following five major areas: [5]

### **Size of government: Expenditures, Taxes, and Enterprises**

This ‘indicates the extent to which a country relies on individual choice and markets rather than the political process to allocate resources and goods and services. When government spending increases relative to spending by individuals, households, and businesses, government decision-making is substituted for personal choice and economic freedom is reduced. Similarly, when government taxes some people in order to provide transfers to others, it reduces the freedom of individuals to keep what they earn.

The ‘enterprises’ component measures the extent to which countries use private rather than government enterprises to produce goods and services. Government firms play by rules that are different from those that private enterprises are subject to. They are not dependent on consumers for their revenue or on investors for risk capital. They often operate in protected markets. Thus, economic freedom is reduced as government enterprises produce a larger share of total output.

‘Taken together, the four components measure the degree of a country’s reliance on personal choice and markets rather than government budgets and political decision-making. Therefore, countries with low levels of government spending as a share of the total, a smaller government enterprise sector, and lower marginal tax rates earn the highest ratings in this area.’ [6]

### **Legal Structure and Security of Property Rights**

‘Protection of persons and their rightfully acquired property is a central element of both economic freedom and

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a civil society. Indeed, it is the most important function of government. The key ingredients of a legal system consistent with economic freedom are rule of law, security of property rights, an independent judiciary, and an impartial court system.

‘Security of property rights, protected by the rule of law, is essential to economic freedom. Freedom to exchange, for example, is meaningless if individuals do not have secure rights to property, including the fruits of their labor. Failure of a country’s legal system to provide for the security of property rights, enforcement of contracts, and the mutually agreeable settlement of disputes will undermine the operation of a market-exchange system. If individuals and businesses lack confidence that contracts will be enforced and the fruits of their productive efforts protected, their incentive to engage in productive activity will be eroded. Furthermore, poor performance in this area is sure to deter investment. Therefore, it is highly unlikely that countries with low ratings in this area will be able to achieve and sustain high rates of growth.’ [7]

### **Access to Sound Money**

‘Money oils the wheels of exchange. An absence of sound money undermines gains from trade. As Milton Friedman informed us long ago, inflation is a monetary phenomenon, caused by too much money chasing too few goods. High rates of monetary growth invariably lead to inflation. Similarly, when the rate of inflation increases, it also tends to become more volatile. High and volatile rates of inflation distort relative prices, alter the fundamental terms of long-term contracts, and make it virtually impossible for individuals and businesses to plan sensibly for the future. Sound money is essential to protect property rights and, thus, economic freedom. Inflation erodes the value of property held in monetary instruments. When governments use money creation to finance their expenditures, in effect, they are expropriating the property and violating the economic freedom of their citizens.’ [8]

### **Freedom to Trade Internationally**

‘The freedom of exchange across national boundaries is a key ingredient of economic freedom. The vast majority of our current goods and services are now either produced abroad or contain resources supplied from abroad. Of course, exchange is a positive-sum activity: both trading partners gain and the pursuit of the gain provides the motivation for the exchange. Thus, freedom to trade internationally also contributes substantially to our modern living standards.

‘Responding to protectionist critics and special interest politics, virtually all countries adopt trade restrictions of various types. Tariffs and quotas are obvious examples of roadblocks that limit international trade. Because they reduce the convertibility of currencies, controls on the exchange rate also retard international trade. The volume of trade is also reduced by administrative factors that delay the passage of goods through customs. Sometimes these delays are the result of inefficiency while in other instances they reflect the actions of corrupt officials seeking to extract bribes.’ [9]

### **Regulation of Credit, Labor, and Business**

‘When regulations restrict entry into markets and interfere with the freedom to engage in voluntary exchange, they reduce economic freedom. The final area of the index focuses on this topic. Regulatory restraints limit the freedom of exchange in credit, labor, and product markets are included in the index. It takes into account the extent to which the banking industry is dominated by private firms and whether foreign banks are permitted to compete in the market; and, the extent to which credit is supplied to the private sector and whether controls on

interest rates interfere with the market in credit. A country that uses a private banking system to allocate credit to private parties and refrains from controlling interest rates receives higher rating.

‘Many types of labor-market regulations infringe on the economic freedom of employees and employers. Among the more prominent are minimum wages, dismissal regulations, centralized wage setting, extensions of union contracts to nonparticipating parties, unemployment benefits that undermine the incentive to accept employment, and conscription. In order to earn high marks in the component rating regulation of the labor market, a country must allow market forces to determine wages and establish the conditions of dismissal, avoid excessive unemployment benefits that undermine work incentives, and refrain from the use of conscription.

‘Like the regulation of the credit markets and labor markets, the regulation of business activities inhibits economic freedom. It measures the extent to which regulatory restraints and bureaucratic procedures limit competition and the operation of markets. In order to score high in this portion of the index, a country must allow markets to determine prices and refrain from regulatory activities that retard entry into business and increase the cost of producing products. It also must refrain from playing favorites—from using their power to extract financial payments and reward some businesses at the expense of others.’ [10]

The first annual Fraser Report published in 1995 covered twenty years, 1975-1995, while the present one updates its data and ranking of the countries on the scale of economic freedom until 2003. Thus, with the help of this Report, we are able to see and analyze the state of economic freedom in Pakistan. In addition, we can diagnose the ills afflicting us and suggest where our government requires liberalizing its control.

Let us have a look at the sequence of overall scoring at the scale of economic freedom given to Pakistan since 1975 to 2003.

Year	1975	1980	1985	1990	1995	2000	2001	2002	2003
Score	3.8	4.6	5.1	5.0	5.6	5.4	5.5	5.7	5.6
Ranking	69	78	66	75	75	101	101	90	98

As on this scale, with maximum award at 10, the greater the overall score, the better the performance (and the ranking also), Pakistan seems improving its status gradually except in years 1990 and 2000 when it fared poorly. When juxtaposed against the three economic turning points in the history of Pakistan, this scoring may help us understand how fluctuations in the magnitude of economic freedom affected economic growth in Pakistan. The first phase does not come under the purview of the Fraser Report, we leave it to be analyzed somewhere else. The year 1976 saw last of nationalizations when 2,815 cotton, ginning and rice-husking units and flour mills were taken over by the government creating ‘widespread public resentment.’ [11] In 1977, this government was deposed and the wind started blowing in favor of denationalization and privatization that is continuing to this day. Since then the score for Pakistan is steadily improving with little faltering here and there. It means provided we happen to opt for less and less regulatory mechanism and lower taxes this scoring may get better and hence our ranking also may improve in future as regards economic freedom. But the score for the year 2003 demonstrates that we are on the way to regulating and taxing uncaringly; and if this trend continues, we will be sliding downward. The economic policies pursued, formulated and implemented during 2003-05 do not augur well for the state of economic freedom in Pakistan.

Besides, by taking into consideration the scoring Pakistan achieved in five major areas individually, we may delve deeply into the causes of why we performed poorly in various areas; and, why our upward movement in other areas on the scale of economic freedom is not prompt enough. This may help locate the weaker spots and, consequently, provide an opportunity to focus and improve in such areas.

Area	1. Size of Government: Expenditures, Taxes and Enterprises	2. Legal Structure and Security of Property Rights	3. Access to Sound Money	4. Freedom to Exchange with Foreigners	5. Regulation of Credit, Labor and Business
1975	4.7	1.6	5.1	4.4	3.4
1980	5.0	2.5	6.1	4.1	5.4
1985	4.7	3.5	6.7	4.9	5.7
1990	4.6	2.7	7.7	4.5	5.4
1995	5.3	4.9	7.6	5.1	5.1
2000	6.7	4.6	6.5	4.1	5.2
2001	7.3	3.4	6.8	4.6	5.6
2002	7.2	2.7	6.9	5.7	6.0
2003	7.3	2.3	6.8	5.8	5.8
<b>Average Yearly Score</b>	<b>5.86</b>	<b>3.13</b>	<b>6.68</b>	<b>4.8</b>	<b>5.28</b>

As regards 'Size of government, Expenditures, Taxes and Enterprises,' the overall scoring in this area is increasing gradually. That means government as a whole is on the way to minimizing itself. In the case of 'Legal Structure and Security of Property Rights,' the score may be termed most adverse, rather, declining. The 2005 Index of Economic Freedom cites the report of The Economist Intelligence Unit that "Pakistan's Judiciary was completely separated from the executive in mid-2001, [but] the legal system still functions poorly, hampered by ineffective implementation of laws, poor security for judges and witnesses, delays in sentencing and a huge backlog of cases.... Investors often cite the laws relating to water and power, labour, food, agriculture and social security as particularly obstructive to private and foreign investment." Also, that the "judiciary suffers from corruption." [12]

Because, the security and protection of person and property is an integral part of economic freedom, this situation actually nullifies the achievements made in other areas. In the third area, 'Access to Sound Money,' the performance is modest. In the area of 'Freedom to Exchange with Foreigners,' it is improving slowly; and, in the 'Regulation of Credit, Labor and Business,' the score is on the rise. The same index states: "The government of Pakistan has made some effort to improve its business environment in recent years. The Economist Intelligence Unit reports that, "according to the new Investment Policy...official approval is not required for new manufacturing investments...." The government is considering reforming the labor laws. According to the U.S. Department of Commerce, however, "Policy inconsistency, weak implementation and corruption have dampened investor interest and economic growth in Pakistan." [13]

However, scoring for the individual components of all of the areas better reveals where due attention must needs be given.

**Area 1:**

<b>1. Size of Government: Expenditures, Taxes and Enterprises</b>	<b>1975</b>	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
A. Government Consumption	8.5	8.6	8.0	6.6	7.7	7.9	8.2	7.9	8.5
B. Transfers and Subsidies	9.3	9.5	9.9	8.9	9.7	9.8	9.9	9.9	9.7
C. Government Enterprises and Investment	0.0	0.0	0.0	0.0	0.0	2.0	4.0	4.0	4.0
D. Top Marginal Tax Rate	1.0	2.0	1.0	3.0	4.0	7.0	7.0	7.0	7.0
(i) Top Marginal Income Tax Rate	1.0	2.0	1.0	3.0	4.0	7.0	7.0	7.0	7.0
(ii) Top Marginal Income and Payroll Tax Rate				3.0	4.0	7.0	7.0	7.0	7.0

**Area 2:**

<b>2. Legal Structure and Security of Property Rights</b>	<b>1975</b>	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
A. Judicial Independence								3.0	2.3
B. Impartial Courts					4.2	4.3	4.3	2.8	2.2
C. Protection of Intellectual Property								2.5	2.0
D. Military Interference					4.6	5.3	0.0	0.0	0.0
E. Integrity of Legal System					7.0	5.0	5.0	5.0	5.0

**Area 3:**

<b>3. Access to Sound Money</b>	<b>1975</b>	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
A. Growth of Money Supply	8.5	6.7	8.7	8.1	9.0	8.5	9.3	8.8	8.3
B. Inflation Variability	6.6	9.3	9.1	9.0	9.2	8.4	8.4	9.3	9.4
C. Recent Annual Inflation	5.2	8.2	9.1	8.7	7.2	9.1	9.4	9.3	9.4
D. Freedom to Own Foreign Currency	0.0	0.0	0.0	5.0	5.0	0.0	0.0	0.0	0.0

**Area 4:**

<b>4. Freedom to Exchange with Foreigners</b>	<b>1975</b>	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
A. Taxes on International Trade	0.0	0.0	0.1	0.0	1.3	2.8	4.9	5.5	5.3
(i) Taxes as Percentage of Exports and Imports	0.0	0.0	0.2	0.0	2.6	6.3	6.6	7.5	7.1
(ii) Mean Tariff Rate		0.0	0.0	0.0	0.0	0.7	5.9	6.6	6.6
(iii) Variability of Tariff Rates				0.0	1.2	1.5	2.3	2.3	2.3
B. Regulatory Trade Barriers								6.9	6.3
(i) Hidden Import Barriers								6.0	4.7
(ii) Costs of Importing								7.9	8.0
C. Size of Trade Sector	5.2	5.7	4.8	5.3	4.5	3.9	4.4	4.0	4.7
D. Difference between Official and Black Market Exchange Rates	6.6	4.6	9.2	7.2	9.4	5.0	5.0	8.3	8.3
E. Restrictions on Capital Markets	2.0	2.0	2.0	2.0	2.0	0.8	0.8	4.6	4.5
(i) Access to Foreign Capital								8.4	8.2
(ii) Restrictions on Capital Transactions with Foreigners	2.0	2.0	2.0	2.0	2.0	0.8	0.8	0.8	0.8

**Area 5:**

<b>5. Regulation of Credit, Labor and Business</b>	<b>1975</b>	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>A. Regulation of Credit Markets</b>	2.3	4.3	5.3	4.4	4.1	4.4	5.6	7.1	7.1
(i) Private Ownership of Banks	0.0	0.0	0.0	0.0	0.0	0.0	2.0	5.0	5.0
(ii) Competition from Foreign Banks									
(iii) Extension of Credit to Private Sector	7.0	6.9	7.9	7.2	6.4	7.1	7.4	6.2	6.4
(iv) Avoidance of Negative Real Interest Rates	0.0	6.0	8.0	6.0	6.0	6.0	7.4	10.0	10.0
(v) Controls on Interest Rates									
<b>B. Regulation of Labor Markets</b>								7.1	6.6
(i) Impact of Minimum Wage									
(ii) Flexibility in Hiring and Firing								4.2	4.7
(iii) Collective Bargaining								7.2	5.0
(iv) Incentives from Unemployment Benefits									
(v) Military Conscription	0.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
<b>C. Regulation of Business</b>								3.9	3.8
(i) Price Controls					4.0	4.0	4.0	4.0	4.0
(ii) Administrative Obstacles for New Businesses								2.2	2.0
(iii) Time Spent with Government Bureaucracy								4.3	6.0
(iv) Ease of Starting a New Business								4.0	4.0
(v) Irregular Payments to Government Officials								4.9	2.8

A careful perusal of the above-tables showing performance of Pakistan in each component of the major areas leads us to developing a list of the measures to be taken urgently to improve the state of economic freedom in Pakistan to achieve the economic growth necessary for the well-being and prosperity of people. These measures in order of preference are outlined as follows:

## **1. Area 2 (Average Yearly Score: 3.13)**

As regards Judicial Independence ('the judiciary is independent and not subject to interference by the government or parties in disputes'), our score is too bad. We are losing fast the little judicial independence we had. The score has fallen from 3.0 to 2.3.

In the case of Impartial Courts ('a trusted legal framework exists for private businesses to challenge the legality of government actions or regulation'), our nose-diving continues unhindered.

Despite the efforts initiated by the government in the last few years, the score for Protection of Intellectual Property, too, is on the decline.

As to the Military Interference ('military interference in rule of law and the political process'), for the last two years, our score is zero. It means we are enjoying absolute military interference.

However, in the domain of Integrity of Legal System, it is a bit better, but shows no signs of improving. This may be explained as an illusion of quantification since practically the integrity of our legal system is in complete disarray. Also, if read in conjunction with other components of this area, this score is unintelligible: means that when there is little judicial independence, almost non-existing impartial courts, and absolute military interference in the rule of law and political process, how the integrity of legal system can remain intact!

## **2. Area 4 (Average Yearly Score: 4.8)**

For the first component of this area, Taxes on International Trade, the score was static for the last two years. This year we have a gain as the taxes on international trade are being reduced under the pressure of globalization and WTO.

The score for Taxes as Percentage of Exports and Imports ('revenue from taxes on international trade as a percentage of exports plus imports') is getting better and better.

In the Mean Tariff Rate, as compared to the last years, it has started improving.

The progress in the Variability of Tariff Rates ('standard deviation of tariff rate') is at a stop.

As regards Regulatory Trade Barriers ('hidden import barriers – no barriers other than published tariffs and quotas'), we are doing a bit better and improving.

For Hidden Import Barriers, the score has a steep fall: gone down from 6.0 to 4.7.

As to the Costs of Importing, it is far better.

But, in the Size of Trade Sector ('compared to expected size'), our performance has started improving.

For the Difference between Official and Black Market Exchange Rates, our improving seems to have come at a stand still.

The score for Restrictions on Capital Markets ('international capital market controls') after an improvement we have started losing.

For Access to Foreign Capital ('access of citizens to foreign capital markets and foreign access to domestic capital markets'), the appreciable gain seems not to be persisting.

Finally, for Restrictions on Capital Transactions with Foreigners the little score shows no signs of improving.

### **3. Area 5 (Average Yearly Score: 5.28)**

Under the first main component of this area Regulation of Credit Markets ('ownership of banks – percentage of deposits held in privately owned banks'; 'competition – domestic banks face competition from foreign banks'; 'extension of credit – percentage of credit extended to private sector'; 'avoidance of interest rate controls and regulations that lead to negative real interest rates'; 'interest rate controls – interest rates on bank deposits and/or loans are freely determined by the market'), almost all of the sub-components are improving except in the Extension of Credit to Private Sector; but, the current news of increase in the volume of credit to private sector may earn good score in the coming years. [14] For the year 2003, it is 6.4 compared with the last year's 6.2.

In the component of Regulation of Labor Markets ('impact of minimum wage – the minimum wage, set by law, has little impact on wages because it is too low or not obeyed'; 'hiring and firing practices – hiring and firing practices of companies are determined by private contract'; 'share of labor force whose wages are set by centralized collective bargaining'; 'unemployment benefits – the unemployment benefits system preserves the incentive to work'; 'use of conscripts to obtain military personnel'), on the whole it is better but for the lack of scoring in some of the sub-components it is difficult to assess it fairly. Note that it has declined from 7.1 to 6.6.

Regarding the Regulation of Business ('price controls – extent to which businesses are free to set their own prices'; administrative conditions and new businesses - administrative procedures are an important obstacle to starting a new business'; 'time with government bureaucracy – senior management spends a substantial amount of time dealing with government bureaucracy'; 'starting a new business – starting a new business is generally easy'; 'irregular payments – irregular, additional payments connected with import and export permits, business licenses, exchange controls, tax assessments, police protection, or loan applications are very rare'), overall score may be termed as worse and has started declining.

### **4. Area 1 (Average Yearly Score: 5.86)**

In this area, the scoring for most of the components ('general government consumption spending as a percentage of total consumption'; 'transfers and subsidies as a percentage of GDP'; 'top marginal income tax rate {and income threshold at which it applies}'; 'top marginal income and payroll tax rates {and income thresholds at which they apply}') is better except in Government Enterprises and Investment ('as a percentage of total investments') where it is worse. But it is hoped that with the ongoing policy of denationalization and privatization it will be improving in future.

### **5. Area 3 (Average Yearly Score: 6.68)**

Under this area, all of the components ('average annual growth of the money supply in the last five years minus average annual growth of real GDP in the last ten years'; 'standard inflation variability during the last five years'; recent inflation rate') are making substantial progress. Inversely, the last component ('freedom to own foreign currency bank accounts domestically and abroad') rates at zero.

On the whole, our performance in Area 2 requires immediate attention. Without improving in all of the component domains of this area, the gains made in other domains and areas could never be sustained and strengthened. Besides, by improving in the domains of other areas where our performance is not good enough and bolstering where we are making progress, we could be able to create a business-friendly and competitive

atmosphere in Pakistan.

In the end, we hope that this Pakistan edition of the Economic Freedom of the World: 2005 Annual Report will help people from various walks of life and in the government realize the importance of free economic activity and thus will do its bit as well to promote the cause of economic freedom and development in Pakistan.

Khalil Ahmad  
January 9, 2006  
Lahore

## Notes

1. Dr. Abdus Samad, Rentseeking - an industry in boom! Visit < <http://www.erols.com/ziqbal/pakistan.htm> >
2. See various ads from the Privatization Commission, Government of Pakistan, in the national newspapers such as The News during the year 2004.
3. Marc A. Miles, Edwin J. Feulner and Mary Anastasia O'Grady, 2004 Index of Economic Freedom (Washington & New York: The Heritage Foundation, and The Wall Street Journal, 2004):50
- 4, 5, 6, 7, 8, 9, and 10. See Erik Gartzke, James D. Gwartney & Robert A. Lawson, Economic Freedom of the World: 2005 Annual Report (Canada: The Fraser Institute, 2005), Chapter 1: Economic Freedom of the World 2003
11. Shahid-ur-Rehman, Who Owns Pakistan? (Islamabad: Mr. Books (pvt) Ltd. (distributor)): pp. 16-17
12. Visit < <http://www.heritage.org/research/features/index/countries.cfm> >
13. Visit < <http://www.heritage.org/research/features/index/countries.cfm> >
14. According to the State Bank of Pakistan, net credit to the private sector has risen by Rs.163.2 billion during July-Nov 2004, substantially higher than the Rs.124.8 billion recorded in the corresponding period of the previous year. See The News International December 30, 2004.

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## **Enhancing Economic Freedom in Pakistan**

**By Mohsin Khaled (Director, Center for Business and Enterprise)**

### **Economic Freedom**

At its core Economic Freedom is about equal opportunity and access; equal opportunity for all members of society to engage in any form of economic and commercial activity, to trade, equal access and recourse to public funds and services. In essence, it is about equal access to opportunities which manifests itself in the right of each citizen to earn a livelihood commensurate to his/her efforts and industry.

To deny citizens a fair degree of economic freedom leads to disenfranchisement and social exclusion. Citizens feel they have a stake in the system when they feel sufficient opportunities exist for them to benefit from the economic system and therefore have a 'share in the pie'.

The state, as the guardian and provider of equity and justice, with all the instruments at its disposal, must ensure that each individual or entity is able to employ itself to its fullest potential. To this end the regulatory framework, the institutions of economic governance and the enforcement mechanisms have to be in place. The Pakistani state, unfortunately, fails on many of these counts.

### **Unfaithful Privatization**

Privatization has been a cornerstone of the reform process initiated nearly a decade ago and, despite several setbacks, has been aggressively pursued by successive regimes. While this is undoubtedly a positive contributor towards a freer economic spectrum, there are simultaneous blatant attempts to increase the role of the state in economic activities. 'State-backed' enterprises are hardly any different than 'state-run' enterprises, especially if ultimate ownership is still in the hands of the state. The cosmetic changes of organizing such enterprises as corporatized entities, listing them on the stock exchange and establishing them through a corporate process rather than a government decree does little to change the underlying fact: that state resources are used to perform economic tasks that could otherwise be undertaken by private individuals. From banking to fertilizers, and logistics to real-estate, these 'foundations' are actively competing with, and 'crowding out', private investors who find it difficult to compete with institutions which not-only have recourse to public funds but are using state influence for business privileges. These companies, for instance, enjoy access to prime real estate, easy bank credit and routinely beat out civilian companies in bidding for contracts. According to the Ministry of Finance, in fiscal year 2003-04, 9.4% of the governments' revenues came from its ownership of property and state-owned enterprises.

The rapid expansion of these conglomerates as they continue picking up lucrative assets undergoing privatization is even more detrimental. This trend poses a serious challenge to the overriding objective of promoting private ownership of economic assets and thus defeats a central premise of privatization and economic freedom itself: minimum control of the state on economic resources. Moreover, these resources are being diverted from the essential task of provision of much-needed basic services and infrastructure support to the citizens.

It is imperative that the Government makes a conscious policy decision not to further increase the size of

publicly-owned corporate entities and permanently cap public sector investment in PSE's instead shifting this investment to infrastructure and service delivery.

## **Contracts Un-enforced**

It is consistently obvious from the Economic Freedom rankings that the nations that endeavor to be 'the' economic hub of their region and attract FDI regularly rank higher on the Economic Freedom index; for instance, Hong Kong, Singapore and now Dubai. They do so by providing sound legal systems that ensure contracts are enforced, investments and titles are secured and deviations are penalized.

Nations have made this their "unique selling point". Hong Kong's Chief Executive has been criss-crossing the globe urging businessmen to "do business with China, but register your contracts in Hong Kong" to take advantage of the sound legal and financial system of the island. In contrast, Pakistan's legal system functions poorly, hampered by ineffective implementation of laws, delays in sentencing and enforcement, and a huge backlog of cases.

Corruption and a weak legal system remain a substantial disincentive to investment. Property rights are extremely difficult to enforce particularly in the rural agricultural setting where multiple titles are common. It is of critical importance that land revenue records be automated in order to instill credibility and confidence in the system which is essential for increased investment, particularly in the agricultural sector which has the capacity to effect any real dent in rural poverty.

Weak enforcement of contracts seriously hampers investment and discriminates the economic rights of the powerful against the weak. The recently promulgated Commercial Courts designed specifically to arbitrate on commercial disputes could go a long way in bridging the absence of any effective judicial framework to enforce contracts.

## **Is Greater Trade Enough?**

The size of Pakistan's trade sector is dismally low, a fact reflected by its low ranking in the Economic Freedom index. With less than 0.1% share of world trade, it is difficult to take any real advantage of the fast changing post Hong-Kong trade patterns. The government has only in the last five years made any concerted attempt to join regional groupings and enter into FTA's with its major trading partners. The Early Harvest Agreements entered into with China and Malaysia are a pre-cursor to an FTA, as is the Bi-lateral Investment and Trade Agreement with the US.

But execution on these arrangements is still far below expectations and any enhancement in trade volumes is expected to benefit the larger partners. It is imperative that Pakistan enter mutually beneficial trading arrangements as early as possible. But this would require action not only on the diplomatic front but on the domestic front as well.

Although weighted average tariffs have come down from a high of 60% in 1998 to 13% in 2004, (World Bank report), certain industries still enjoy a high degree of protection. The uncompetitive automobile and light engineering sector top the list through trade barriers that not only severely limit the choice of Pakistani consumers but price local products higher than imported ones. Such selective protection would have to come to an end as it not only leads to inefficient resource allocation, but would no longer be sanctioned by the WTO beyond 2007 and could lead to a future trade dispute.

More importantly, an enforceable intellectual property regime needs to be set in place to give trading partners and investors the confidence that their intellectual rights would be protected. Although a signatory to the WIPO Charter, weak enforcement of IPR's has repeatedly been cited by foreign investors as an impediment to investing in Pakistan. To win their trust on this count and protect innovation within the country, the Trade-

marks and Patent registry needs to be further strengthened and the function of infringement inspection and enforcement of copyright laws needs to be handled by a specifically tasked authority.

There is also significant evidence of price collusion and cartels operating in such industries. The automobile and cement sector have often been the subject of public outcry and federal investigations on their pricing structures. But unfortunately due to the governments' extremely weak and toothless investigation and enforcement institutions, it has failed to put a stop to uncompetitive behavior in the markets. To ensure that the market is the ultimate arbitrator of prices and that customers are provided fair choice, the state's monopoly control and fair practice mechanism would have to be strengthened, through updated legislation and revamped institutions that are given the tools and authority to effectively check uncompetitive practices and price cartels.

This, however, is not the only example of price-fixing. Unfortunately, the government itself is guilty of such practices. Federal and provincial authorities occasionally set the price of commodities perceived to be in short supply, (such as rice, cotton, sugarcane and wheat), and in addition, engages in central buying and imports to keep prices in check. Evidence shows that such market-distorting practices eventually hurt the farmers by reducing the market-based incentives and create shortages, fuelling the need for more imports through the State-owned Trading Corporation of Pakistan. Such market interventions would have to come to an end and the government would have to immediately let the private sector fulfill market needs and settle prices. This would lessen the load on the exchequer and, as evidence suggests in the case of rice, eventually lead to exports in traditionally imported commodities.

## **Equal Access To Public Resources**

Although there have been significant changes in the structure and regulation of the country's capital markets in the last few years, equity investors still remain a very exclusive club. The lack of depth and non-pervasive nature of our capital markets still signify that vast sections of our economy still remain outside the system. The securities regulators must ensure that all sections of the society have equal opportunity to access capital markets and equity participation in the economy is broad based and inclusive.

Similarly, access to sound money is limited to less than 5% of the population. Though on the rise, Small and Medium Enterprise access to credit is still limited and 70% of all private sector credit flows to the 'Textile Big-Boys.' This concentration of capital in a small number of people has resulted in an unequal distribution of wealth and economic assets, and a concentration of productive assets in the textile hubs of Karachi and Punjab, leaving a large part of the country resource starved and marred in poverty. Not only is the urban-rural divide growing as a result, but frustration is seeping in, in the segments of society that feel their economic opportunity and voice has been stifled.

Voice and accountability are an intrinsic component of economic freedom. Particularly in economies like ours that are still struggling to ensure that a significant portion of their population enjoys a fair degree of economic freedom, the opportunity to organize and raise a voice represents a sense of participation in decision-making and the economic process for those who have little else. It is imperative then, that if we profess to pursue the ideals of economic freedom, we must ensure that the individual's voice is heard and respected. That each player, however insignificant, must feel that it is a stake-holder in the economic system and has opportunities that he has a rightful claim on. Opportunities that he must fully explore.

## **Economic Freedom between the Provinces**

**By Zubair Ahmed Malik (Vice President The Federation of Pakistan Chambers of Commerce & Industry)**

Seeking economic development without economic freedom is just like driving a car without proper roads. The Economic Freedom is a very sensitive subject and covers a wide range of issues meriting special consideration by all the stakeholders in the economic development of the country.

Let me enlighten you first with the fact that there is no such Federal Law which forbids provinces to take any initiative in the best interest of a province provided it is within the frame work of the law of the land. Despite that economic disparity between the provinces is alarming. Unlike India where Inter-Provincial regulations restrict free movement of goods, provinces in Pakistan enjoy complete freedom in terms of investment, industrialization, policy making and offering incentives for promotion of commercial activities within a province.

Before coming to the topic, it is necessary to briefly touch upon the socio-economic scenario prevailing in the provinces of Pakistan.

In terms of landscape, Balochistan is the largest province of Pakistan rich with the natural resources playing a pivotal role in moving the wheels of industries all over the country. Regrettably, the province which is also the smallest province in terms of population has been the least developed province of the country thus creating a sense of inferiority in the common man, who is deprived of the basic facilities of life which are enjoyed by the inhabitants of the other provinces.

Sindh is the second largest province in terms of population with a large industrial base and seaport in Karachi which has been the hub of commercial activities in Pakistan. Sindh is a major contributor to the National exchequer and economic development of the Country.

NWFP and the Northern Areas of Pakistan have the world's second highest mountainous range coupled with beautiful landscape which hold fascination for the tourists and offers tremendous opportunities of ventures in Tourism and exploring of natural resources but lacks in basic infrastructure and hence its potential is yet to be fully exploited.

Punjab, the biggest province of Pakistan in terms of population is the largest agriculture producer of the country meeting country's 65% domestic consumption. However as a result of re-location of industries from Sindh, Punjab has now become the largest industrial province in Pakistan. Presently the province has more than 48000 industrial units. All this happened only due to Economic Freedom between the provinces, as there were no provincial regulations restricting relocation of industries from one to another province.

It is now a fact that we are living in a globalized world where there is no room for inter-provincial restrictions and regulations.

As far as the provinces of Pakistan are concerned, they enjoy complete freedom to formulate and implement their own economic policies. None of the provinces can interfere in the economic affairs of the other. Every province has right to fix the price on land meant for commercial and industrialization purpose.

Provinces are also allowed to announce their own industrial policies, set up Industrial estates and take any initiative for their commercial viability. One would particularly mention here the establishment of Sunderland Industrial Estate by the Government of Punjab and Industrial Zones and Estates announced by the Government of Sindh. By comparing these two, we can easily find that there is a considerable variation in the prices of land, availability of resources and incentives to the industrialists in these states which also speaks of the freedom in

decision-making.

As a representative of the Federation of Pakistan Chambers of Commerce & Industry, the apex body representing Country's trade and Industry, one would urge upon the provincial governments to facilitate industrialists and businessmen in such a way that they could not feel any discrimination in comparison with their counterparts in other provinces.

We have observed many discriminative practices in the provinces in terms of incentives, regulations and utilities as well. There is a general complaint of industrialists in Karachi that they have to pay more in obtaining utility services like water, gas electricity as compared with the industrialists of the other regions of the country. On the other hand industrialists and businessmen of the other provinces are of the opinion that the cost of their production is higher because of the fact that they have to pay additional transportation charges for imported goods as compared with industrialist in Karachi. Whereas, in Balochistan there is hardly any infrastructure for industry to be established.

However let me make it clear here that such discrimination is not due to economic freedom but because of the involvement of certain quarters that create less than positive thinking within provinces. The issue of water distribution and building of dams are glaring examples in this regard; the people with vested interests try to exploit the situation. The water needs of the country are genuine but instead of creating a deadlock the issue must be resolved politically through consensus. As the political and economic freedom go hand in hand, there is need to resolve such issues in the larger interest of the country.

Regrettably, lack of political freedom in Provinces has resulted in an adverse impact on economic freedom both within and between the provinces. We can witness that in spite of good macroeconomic indicators poverty has increased, law and order has worsened, delivery of services has not improved, utilities and prices of commodities of every day use have gone-up considerably, foreign investment remains low and unemployment is on the rise, justice is delayed and the credibility of judges is being questioned, corruption at the lower levels has also mounted. Much more disturbing is the fact that people are beginning to lose confidence in the provincial governments. There are so many loose ends, unresolved issues and dilemmas to be addressed.

The economic freedom within a province and between the provinces in Pakistan though may be regarded as encouraging, but as a matter of fact it does not reflect on the lives of people of the provinces. There is huge economic disparity within and between the provinces which has resulted in frustration in the society.

In the prevailing situation the Government of Pakistan ought to play a due role in bringing the provinces closer to each other by adopting suggested measures like:

- 1 Creating equal economic opportunities of prosperity and well being for all through promotion of human development driven by enterprise, excellence, collaboration, innovation and ethics.
- 2 Bringing harmonization in terms of utility charges, regulations inspections and procedures. Presently the interference of Government agencies in economic activities varies from 17-37 procedures ranging from obtaining piece of industrial land to the starting of business.
- 3 The existing economic structure needs to be reviewed in line with the harmonized standards so that cost of production is harmonized.
- 4 The industrial and economic zones under provincial government should offer similar incentives to the industrialists to reduce discrimination.
- 5 Economic policies regarding freedom of provinces should be reviewed in line with the best business practices. It will help attracting domestic as well as Foreign Direct Investment.

6 Provision of Basic Infrastructure and induction of more Federal funds / resources in less developed provinces.

One would like to urge upon the Provincial Governments to take suitable measures to translate the economic freedom between the provinces in the economic development of the country and this freedom should aim at building a happy and harmonious society, free from all prejudices that could provide security and foster understanding, care, trust, accountability and social justice, based upon the principles of our religion and could create national spirit which is the major thrust in the present era.

As it is, to be successful or profitable, a business venture needs certain freedoms out of which economic freedom is the most crucial. In simple words, economic freedom means, on the one hand, freedom to engage in any economic activity; and on the other, freedom from any excessive state intervention. Excessive government control results in less economic freedom and an unpleasant environment for the growth of overall economy and individual prosperity as well.

The state of economic freedom in Pakistan is not encouraging. Too much regulation and too much taxation and their red-taped implementation are sitting at the entry point of any business activity and hinder their growth. Not only does it interface with the personal choice of the people; intervenes in the voluntary exchange; and thus restricts the freedom to compete on the part of producers and trader but it also increases the cost of starting a business and thus creates such an environment un-conducive to the development of private economic activity in Pakistan catering freely to the needs of people.

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