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*Rule of Law, Legal Development and Economic Growth:  
Perspectives for Pakistan*

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Abstract

Rule of Law and strong legal systems are considered a pre-condition for sustained development. Their relative weakness in the under-developed world is considered as the main obstacle to growth. Strengthening Rule of Law and legal systems has, therefore, become a standard advice from the developing community. Pakistan, too, has witnessed a surge in demand for Rule of Law in recent years. Capitalizing on this domestically garnered mandate, this paper reviews the legal obstacles to economic growth in Pakistan. It finds significant impediments for growth and market development due to legal shortcomings in the case of Pakistan.

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“...the reformer has enemies in all these who profit by the old order and only lukewarm defenders in all those who would profit by the new”.

Machiavelli, *The Prince*, Ch. VI

Recent times have witnessed an increased demand for Rule of Law in Pakistan. The movement for restoration of judiciary, which basically emerged and was sustained by the urban centers of Pakistan and later evolved into a broader consensus for strengthening Rule of Law, has been considered ‘elitist’ by its critics. Their arguments connote Rule of Law as a luxury that is demanded by the urban elites only, while the poor in both urban and rural areas are concerned more about their livelihoods. This debate rages on in Pakistan at a time when the development community is unanimous in its prescription about Rule of Law as a solution to the ills of under-development<sup>1</sup>. This paper argues that Rule of Law and a strong legal system are necessary conditions for economically progressing and socially ‘just’ societies – both essential for improving the living conditions of masses in Pakistan.

Since, economic growth and improvement in the welfare of its citizen is a prime concern for the Government of Pakistan, and realizing that “economic development does not take place in a vacuum”, the Government vows to develop an “orderly framework for carrying out its economic reforms”. It has undertaken an extensive reform of the laws relating to the banking and financial sector, commerce and industry, energy, information technology, social as well as administrative and judicial system<sup>2</sup>. The area, however, begs scholarly attention. The paper tries to fill this gap.

## **Rule of Law**

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<sup>1</sup> Major international development and donor agencies place ‘Legal Reforms’ ‘Law and Development’ and ‘Rule of Law’ on their to-do list for developing countries. The World Bank has ‘Law and Development’ as a topic of development. Also see ADB (2004), APEC (2007). Carothers (1998) writes, “one cannot get through a foreign policy debate these days without someone proposing the rule of law as a solution to the world’s troubles”.

<sup>2</sup> See Hassan (2000) for details.

*“Rule of law as a concept seeks to ensure that government power is limited and that individual rights are protected. The essence of the rule of law is the sovereignty or supremacy of law over people and governments. The rule insists that every person, regardless of position or status in society, will be subject to the law and will be dealt with equally. The rule of law is more than your regulation by law but a guarantee of freedoms, human rights and equal treatment before the law” [Watson (2003): 4].*

*“All the organs of state – the executive, legislature and judiciary – have a shared responsibility for upholding the rule of law...the rule of law will only have real meaning in practical terms in a society in which all organs of the state are mindful of their obligations to respect it.” [Goldsmith (2006): 11]*

While consensus exists on the importance of Rule of Law for economic development, it is less clear what is actually meant by the term. Analysts distinguish between the formal and the substantive definition of Rule of Law. While formal (also known as narrow or thin) definition is less binding on the content of the law, basically requiring that there be a publically declared law, prospective in nature fulfilling conditions of generality, certainty and equality, the substantive (broad or thick) definition requires recognition of individuals rights and liberties [Tamanaha (2007)]. Most research find it suffice to focus on the thin definition that there be law which is binding on all.

The success of the west is attributed to the emergence of constitutional governments and

*[W]henver there is discretion there is room for arbitrariness... discretionary authority on the part of the government means insecurity for legal freedom on the part of its subject. (Dicey, (1914).*

Rule of Law. For England, the Glorious Revolution (1688), which is considered as the landmark event that established the supremacy of parliament over monarchy, paved the way for industrial revolution through secured property rights (and contract enforcement), essentially by putting a check on the discretionary powers and predatory behavior of the monarchs [Dam 2006]. Below we discuss this link between Rule of Law

and growth.

## 1. Rule of Law, Legal Development and Economic Growth

*“Modern economy needs effective laws to promote cooperation among people”*  
[Cooter (1996): 5]

*“When the rule of law is undermined, both the economy and the whole system grows sick.”* [Ruli (1999): 46]

Adam Smith in *Wealth of Nations* writes “Commerce and manufactures can seldom flourish long in any state which does not enjoy a regular administration of justice, in which the people do not feel themselves secure in the possession of their property, in which the faith of contract is not supported by law...” [Adam Smith, *Wealth of Nations* (V, iii)].

*There is a necessary and inevitable linkage between human rights, the rule of law and economic prosperity. In all countries where men and women of talent are free to exercise their skills in the knowledge that wrongs against them or their property will be prevented and punished by free courts, business needs may be promoted, protected and rewarded by a democratic or elected governments then prosperity will flourish. Where there is lawlessness and corruption the converse is the case. [Watson 2003]*

Though economic growth may not be the goal of law<sup>3</sup>, but there is no denying the fact that growth is conditioned by the legal structure. While conventional neo-classical growth models assumed an “institution free” economy, it has become very clear now that growth occurs in the context of given institutional environment<sup>4</sup>. Specifically, recent research in this area highlights the importance of well-specified and

enforced property-rights and contracts for economic growth, without which people will not be “lured” into economically productive activities [North (1990)]<sup>5</sup>. But specification and enforcement of property rights and contracts requires an efficient and impartial legal

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<sup>3</sup> This point is hotly debated in the legal fraternity, where the opinion is divided over considering economic growth as a concern for legal system and posits that the basic purpose of any law is to provide justice and protect the fundamental rights of individuals [see Cross (2002)].

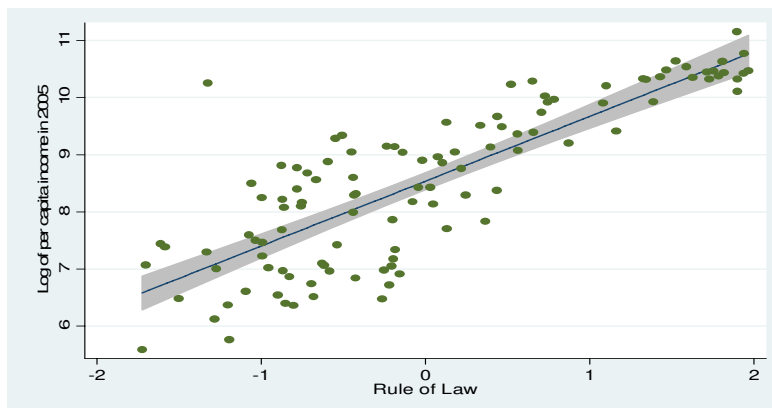
<sup>4</sup> See Hasan (2007) for a review of evidence in this regard.

<sup>5</sup> “economic growth will occur if property rights make it worthwhile to undertake socially productive activity” [North and Thomas (1973: 8)]

system. Quick and fair dispensation of justice is necessary for investors to feel secure in possession of their properties and investments.

There is overwhelming evidence from around the world that legal rules affect economic growth<sup>6</sup>. Research has particularly sought to understand the impact of property rights (and contract enforceability), of government regulation, and judicial independence on market development and economic performance. Differences in legal systems cause different political and economic outcomes [Glaeser and Shleifer (2002)]. Evidence suggests countries with legal systems derived from Roman civil law have more interventionist governments than those that have roots in the more flexible “judge-made” common law system. Consequently they offer less secure property rights, worse regulation; and inefficiencies in terms of bureaucratic delays and little tax compliance [La Porta, *et al* (1999)]. Further, civil law countries are subject to judicial delays, corruption, and unfair judicial decisions [Djankov, La Porta, Lopez-de-Silanes and Shleifer (2003)]. Number of studies have also found a positive relationship between freedom and growth [Ali and Crain (2002), Alan and Chase (2005), Berggren (2003), Cole (2003), Farr, Lord, and Wolfenbarger (1998), Grubel (1998), Gwartney and Lawson (2006), Norton (1998), Prokopijevic (2002), Stocker (2005), Tures (2003), Vega-Gordill and Ivarez-Arce (2003)].

Graph 1



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<sup>6</sup> In a series of papers, Djankov, Glaeser, La Porta, Lopez-de-Silanes and Shleifer (2003), Djankov, La Porta, Lopez-de-Silanes and Shleifer (2002, 2003) and La Porta, *et al.* (1997, 1998, and 1999) have stressed the importance of legal system for growth.

The graph (Graph 1) depicts that countries where Rule of Law prevails have higher income<sup>7</sup>. Much evidence supports the proposition that ‘Secure property rights’ and ‘Rule of Law’ induce economic growth [Acemogle, Johnson, and Robinson (2001, 2002, 2003, 2005a, 2005b), Rodrik, *et al.* (2004), Rigobon and Rodrik (2004) Easterly and Levine (2003) and Kaufmann and Kraay (2002).

**Development of markets is essentially a legal challenge.** Markets do not exist in a vacuum. They are supported by a complex web of institutional infrastructure [Grief (2005)]. Any exchange in the market requires a complex legal structure ensuring that the property rights of buyers and sellers are recognised and enforced.

Exchange within the market domain requires property rights and contracts. Though formal legal institutions are not essential for an exchange to take place – economic activity/exchange occurred in primitive societies in the absence of such institutions, but as one moves away from a simple exchange problem where goods are exchanged simultaneously to a situation involving impersonal exchange problems arise. Impersonal exchange, characterised by the separation of quid and quo, is fraught with numerous contractual problems. The separation of the quid and the quo creates possibilities of opportunism when one party, instead of honoring the deal, finds it to his advantage *ex post* to reopen the bargaining [Dam (2006)]. Some mechanisms of contract enforcement are required. Clear and predictable rules, transparency in procedures and third-party enforcement of the complex impersonal contractual relations are necessary for expansion of markets. Good law and good institutions augment markets [Summers (1999)].

Any society is besieged with disputes over ownership of assets, performance of contract, debt obligations. Since conflicts and disputes are part and parcel of any exchange economy<sup>8</sup>, “only where disputes are settled according to well understood and regulated principles of law and settled free of corrupt or totalitarian influence will investment flow

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<sup>7</sup> The data on income refers to PPP adjusted per capita GDP for 2005 taken from World Bank’s World Development Indicators. ‘Rule of Law’ is taken from World Bank Governance Indicators., and is for the year 2005.

<sup>8</sup> See Greif (1989, 1993, and 2003) and Greif, Milgrom and Weingast (1994) for problems related to impersonal exchange and role of institutions in solving them.

and individual and corporate prosperity follows." [Watson (2003): 4]. Rule of Law provides guarantee that these disputes would be settled efficiently and fairly. Essentially, establishment of larger markets and prospects of long-term contracts are difficult if legal rules are not clearly defined and consistently applied [Buscaglia (2000)].

Capital markets play a pivotal role in the economic development of societies as they serve as a conduit between investors and those who save<sup>9</sup>. World over, equity marketing has become a major source of external finance for the corporate sector. It allows corporations to acquire capital much larger than what debt contract could possibly offer, at the same time, spreads risk over larger number of shareholders. The law has to provide instruments for risk sharing, especially for small shareholders *vis-à-vis* large shareholders. Research supports the hypothesis that countries which provide better legal protection to investors develop efficient capital markets [La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. Vishny (1998)]. Further, the extent of legal cover for the investors is another area of concern. Protection of property against expropriation is one important yardstick against which foreign investors assess the risk of investment.

Rule of Law encourages entrepreneurship and business development [Stolper *et al* (2006)]. Corporate sector development hinges upon the security and ease of transition from informal set-up to formalization provided by the law. Can an enterprise be free in a country governed by no "rule of law"? Research shows that countries governed by 'rule of law' (limited government and democracy) pose few barriers of entry into the formal system, whereas countries with heavy regulation have higher corruption and larger unofficial economies [Djankov, S., R. La Porta, F. Lopez-de-Silanes, and A. Shleifer (2002)]. The move from extralegal status to a registered business poses extraordinary hurdles for the entrepreneur in developing countries, and majority of small enterprises work in the informal sector<sup>10</sup>.

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<sup>9</sup> It is useful to distinguish between alternative sources of external finance; debt and equity. Debt contract is typically a "hard" contract (non-payment of interest or principal amount can lead to legal recourse possibly ending in bankruptcy). In contrast, equity contract is a "soft" contract. Equity financing has an additional benefit of spreading risk over a number of shareholders.

<sup>10</sup> For example, 82% of all entrepreneurs in Egypt (1.4million) work in the informal sector (Galal 2004).



**Rule of Law and Judicial Systems** An independent, impartial and efficient judiciary is imperative for rule of law and a peaceful, ordered society. In its ideal form the (legal) “machinery consists of competent, ethical, and well-paid judges who administer rules that are well designed for the promotion of commercial activity. The judges are insulated from interference by the legislative and executive branches of the government. They are advised by competent, ethical and well-paid lawyers. The judges are numerous enough to decide cases without interminable delay, and they operate against a background of rules and practices...that enables them to resolve factual issues relating to legal disputes with reasonable accuracy and at reasonable cost to the disputants [Posner (1998)]. The judicial system must ensure that judges are independent of the executive control and influence of the powerful elites, and are not susceptible to coercion (threats and violence) by the litigants. Feld and Voigt (2003) have found a positive association between *de facto* judicial independence and economic growth.

## **5. The Pakistani Context**

With this discussion in mind, we turn to the case in point – the inter-linkages between legal development, or lack of it, and growth in Pakistan? But, first, let us see how Pakistan fares on account of Rule of Law.

**The Rule of Law Tradition:** The last many years have seen an enormous interest in the ‘institutional environment’ for investment and growth. Resultantly, the data on the institutional environment of countries is regularly presented by many international and private organizations (The World Bank, The PRS Group, and Transparency International etc). Historically, Pakistan has not figured well in ‘the Rule of Law’ indicator of the World Bank’s Governance Indicators Datasets (Fig. 1). This indicator ‘measures the extent to which agents have confidence in and abide by the rules of society’ (Kaufmann, Kraay and Zoido-Lobaton, 1999). Even within South Asia, it does not fare well vis-à-vis its competitors (Fig. 2), except for Afghanistan which has been experiencing a war since 2001.

Fig. 1

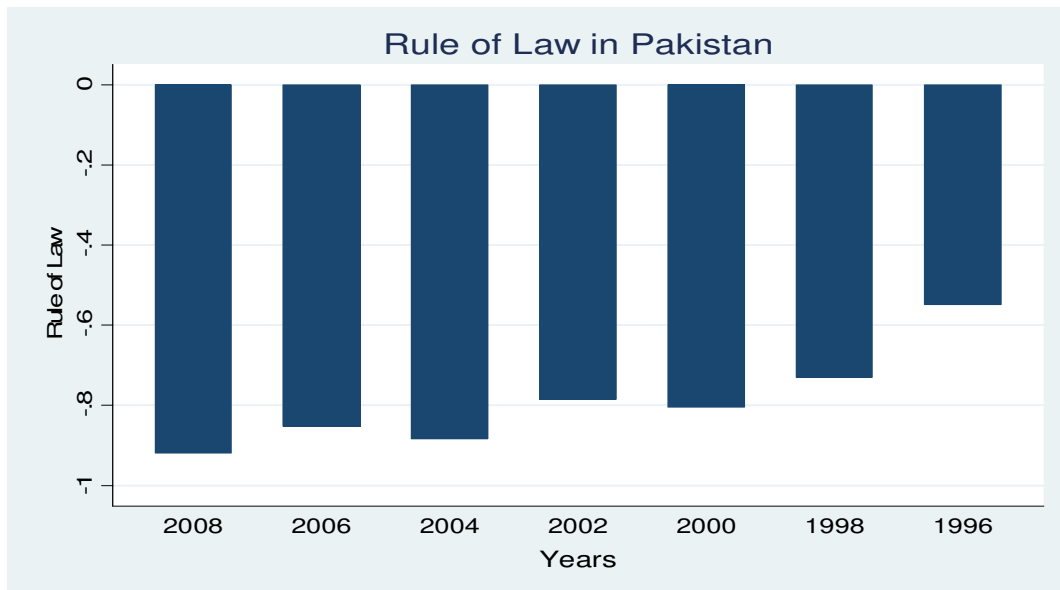
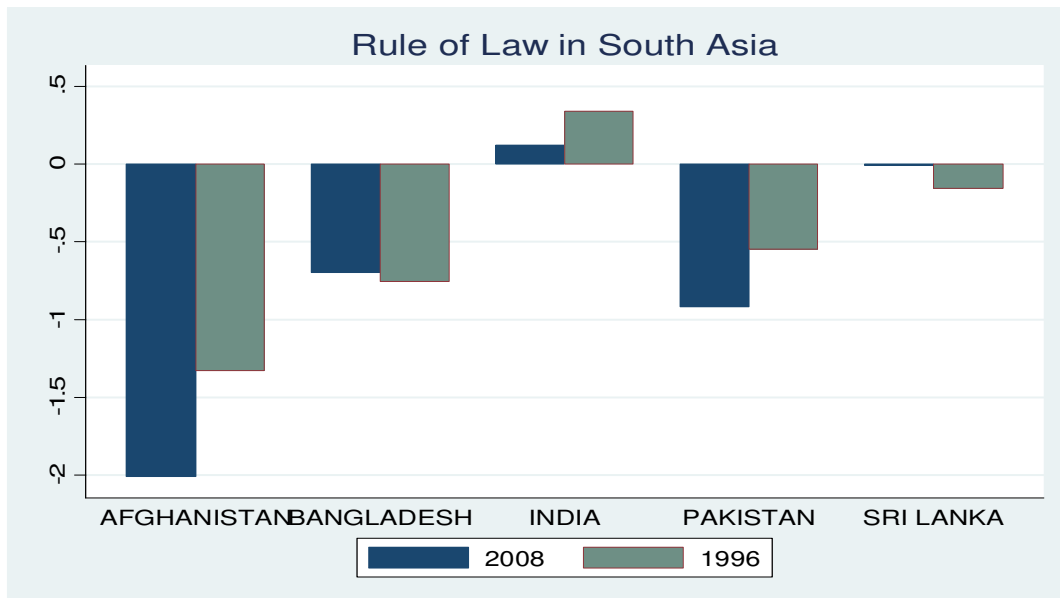


Fig. 2



What explains this dismal performance? The essence of Rule of Law is supremacy of law over people [Watson (2003)]. The concept serves as a check on the discretionary power of those in position of authority, and as guarantee of freedom for the citizens [Dicey (1914)]. For an ordinary Pakistani citizen, Rule of Law remains an elusive dream [Hassan (2007)]. The important question to ask is whether the constitution of Pakistan provides

for and our legal system protects the fundamental rights of its citizens against abuses by powerful elites? Is the executive too powerful or there are enough checks and balances within the system? These political economy issues mar any discussion on legal systems in Pakistan. There is not just disenchantment with the prevailing economic system and with narrow concept of growth but also concerns about society being besieged by dominating elite [Easterly (2001), Gardezi and Rashid (1983)]. Do these power structures abuse legal system and undermine implementation of fundamental rights granted under the constitution? Easterly (2001) links Pakistan's poor performance in institutional development to both elite domination and ethnic diversity. Kaufmann and Kraay (2002) found similar reasons for Latin America's lop-sided development<sup>11</sup>. Hassan (2007) holds repeated military interventions, and the dominant position of the military in the Pakistan's power base as a serious threat to Rule of Law in Pakistan.

The Constitution of Pakistan envisions a governance system based on principles of social justice and protection of fundamental rights with separation of powers between the Executive, Legislature and the Judiciary [Hassan (2007)]. However, frequent suspension of the constitution, and transgressing into the domain of others by separate branches of the government has rendered the establishment of Rule of Law a difficult, if not impossible, undertaking in Pakistan. Not placing the entire burden of this state of affairs on the frequent military interventions alone, a recent report on the Rule of Law assessment for Pakistan concludes that in the entire post-independence period, both civilian and military government have tried to 'rule by law' rather than the 'rule of law' [Blue, Hoffman and Berg (2008)]. We now turn to how imperfections in the legal system hamper growth prospects for the Pakistan's economy.

### **Legal System and Economic Growth in Pakistan**

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<sup>11</sup> They argue that the elite influence and state capture accounts for Latin America's poor institutional development despite economic growth.

Economies grow as markets expand, and development of markets hinges on a well developed legal system, which ensures that property rights are recognized and contracts are enforced. However, cost of enforcing contract and securing property rights are still high in most developing countries, hampering investments and savings as well as markets

*The total value of the real estate held but not legally owned by the poor of the Third World and former communist nations is at least \$9.3 trillion (De Soto, The Mystery of Capital)*

[Buscaglia (2000)]. Likewise, markets are not well developed in Pakistan. With regards to credit market, the major issue in asset based lending is collateral requirement. A large chunk of the capital is in the form of land which can be reliable collateral. Problems arise since land records are complex, inaccurate, and unclear, and allow significant room for manipulation [Kardar (2007), Khan (2006), Qazi (2006)]; hence pose a constraint on asset based lending.<sup>12</sup> ‘Cumbersome regulations and inaccurate, complex and opaque records result in most land remaining either unregistered or held with informal titles, contributing to fraudulent transactions and costly civil litigation [Government of Pakistan (2005): 5]. Unclear property rights also pose problems for title insurance. It amounts to dead capital to the tune of 45% of property values (guesstimate). How these inefficiencies in land market combined with weaknesses in the judicial system hampers growth is evident from the following. “In commercial and land disputes, the uncertainty created by the legal posture is highly damaging to investment prospects and ordinary commercial dealings. It is reported that contracts are dishonored until enforced in court. Land disputes must go to court for resolution because of the absence of any land recording and registration system – this makes it necessary for every party to prove their right to land *ab initio* every time any question arises. Estimates of the huge impact of land cases ranged from 60 – 80 percent of court caseloads. These cases clog the courts because they are not easy to resolve speedily. While the courts proceed more expeditiously in resolving criminal and family cases, the presence of the land cases, which cannot be resolved elsewhere, occupy the great portion of the civil docket. Leading lawyers to seek alternative means such as arbitration to resolve commercial and large civil matters’ [Blue, Hoffman and Berg (2008); 16].

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<sup>12</sup> See Khan (2006) for a discussion about complexity of land titling in Pakistan.

Equity markets in Pakistan are shallow and prone to market manipulations. Listed companies still constitute a small proportion of all registered companies in Pakistan<sup>13</sup>. What holds them back? What impedes risk sharing? What legal protection is there for minority shareholders against private benefits of control by dominant shareholder? How does the system bar against self-dealing and/or entrenchment? Cheema (2003) writes that the current ownership and control structure of family-based companies is not conducive for capital market development. Most of the big businesses are family owned with controlling shareholders and tight control over board of directors<sup>14</sup>. Further, concentration of control is greater than concentration of ownership. This concentration of control gives the controller ample opportunity to seek private benefits by tunneling external investors' money into associated companies and diverting profits to personal expenditures [expensive housing, cars, offices, travel etc.], resulting in the loss of dividends to the external investors. The excessive private benefit seeking may explain why the incidence of pyramid structure is higher in Pakistan [Pakistan (textile 66.7%, non-textile 78.3%), Korea 42.6%, Thailand 12.7%]. The pyramid structures cross share-holdings and interlocking directorships are used to make cash transfers [through loans, selling assets at above or below the market rates] among other associated companies. Cheema, Bari and Siddiqui (2003) report a number of cases where SECP audit reports found such cash transfers being made. The family controllers seldom trade share in the market [0.9% annual as compared to 9.3% for the MNCs]. This structure of family-based corporations makes them wary of any reform, due to dilution of control over companies and disclosure requirements, and the result is illiquid and inefficient markets in Pakistan. Protection of minority shareholders is an important principle of the corporate governance code. General provisions for minority share holders include: Right to attend and call Annual General Meetings and Special General Meetings; voting rights (one share-one vote, proxy voting); right to claim dividend; judicial recourse in case of grievance; and rights related to divesture and transfer of shares. Weak corporate accountability of controllers, however, is not because of inadequate legal rules but due to the weak enforceability of these rules [ibid]. The World Bank in its assessment of the corporate governance in

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<sup>13</sup> Of the 51080 registered companies only about 800 are listed on the stock exchange.

<sup>14</sup> Percentage of family members on the board of directors is as high as 53% for the non-textile sector, and 32% for the textile sector.

Pakistan also concludes that the extensive use of pyramiding by family businesses, interlocking directorships combined with high thresholds to initiate corporate actions undermines effective protection of minority shareholders [World Bank (2005)].

Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital. It reduces transaction cost, cost of capital and vulnerability to financial crises, and thus leads to capital market development. Pakistan promulgated the Code of Corporate Governance in 2002 to promote efficiency and deepening of capital markets, and enhancing performance of companies. Evidence suggests that firm performance improves with adherence to this code (Nishat and Shaheen (undated), Javid and Iqbal 2007). Typical features of corporate governance having a positive impact on firm performance are independent outside directors on and frequent meeting of audit committees; size of board of directors and the compulsory attendance; stock ownership for directors; and regular performance review of the board (Nishat and Shaheen (undated)). Javid and Iqbal (2007) also find board composition, ownership and shareholding as important predictors of firm performance.

Equity markets have also faced market manipulations. Using data on trading history for KSE from December 1998 to August 2001, Khwaja and Mian (2005) found significant evidence of market manipulation by collusive stock brokers. Typically they found that when brokers acted on their own behalf (rather than working for outside investors) the annual returns were 50 to 90 percentage points higher. Further, these manipulative activities constitute a significant part of total market activities, amounting to 44% of total broker's earnings. Market manipulations serve as deterrence for external investors, inhibiting deepening of financial markets in Pakistan.

Formalization is another challenge. Corporatization of businesses - with benefits of limited liability, greater access to external capital, enhanced efficiency and productivity - has helped spur economic growth around the world. Yet, Pakistan has a high incidence of

enterprises working in the informal sector<sup>15</sup>. What bars these enterprises from moving into the formal set-up? The Securities and Exchange Commission of Pakistan (SECP) has introduced many initiatives to reduce the entry barriers for firm. The SECP in association with the e-Government Directorate introduced an online company registration system, whereby an entrepreneur can register his company electronically. The online registration is also half as costly [World Bank (2010b)]. Many other reforms (improvement of Company Registration Office, introduction of Single Member Companies) have also been introduced to make corporatization attractive for firms. Despite these improvements, why do firms not enter into the formal set-up? Siddique (undated) in a review of legal and regulatory framework for corporatization of Small and Medium Enterprises (SMEs) concludes that in spite of these developments on the ‘process’ side, ‘substantive’ barriers remain. He argues that the requirements of personal guarantees from the directors of the companies seeking loans, and even more stringent requirements for SMEs (Prudential Regulation for SMEs); Financial Institutions (Recovery of Finance) Ordinance 2001; and National Accountability Bureau Ordinance 1999 have diluted the effectiveness and attractiveness of ‘limited liability’ clause for firms in Pakistan. Moreover, the tax regime does not offer any benefit of corporatization as companies face higher rate and multiple tiers of taxation [ibid]. In Pakistan complying with tax regulations require 560 hours per year. Enforcing a commercial contract requires 976 days. This is in contrast with the OECD average of 194 hours and 462 day respectively [The World Bank (2010a)]. High cost of doing business and cumbersome government regulations forces enterprises to remain in the informal sector.

The judicial system in Pakistan faces problems of efficiency, transparency, accountability, independence and lack of human, financial and technical resources. Massive backlog, long delays and expensive litigation has diminished public trust in the justice system [Chaudhry (2007)]. Meddling of the executive in the affairs of the judiciary, lack of clarity and transparency in the appointment of judges, judges’ tenure,

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<sup>15</sup> Though statistics regarding size and structure of informal enterprises are rare in Pakistan, size of the informal sector is reported to be considerable in Pakistan. ILO (2002) reports approximately 428,000 household and small manufacturing units work in the informal set-up, of these about 15000 enterprises employing more than 10 people. Almost 68% of total workforce in the non-agriculture sector is employed in the informal sector.

insufficient resources and case delays are important hurdles in the way of an efficient and impartial judicial system [Blue, Hoffman and Berg (2008)]. There are a number of laws (inheritance laws, rent laws, tenancy laws, preemption, oral gifts) that produce litigation. Courts are choked because of these litigations [ibid]. Long delays in the judicial process are yet another problem. Loopholes in the system promote litigation and cause delays. There are no meaningful cost sanctions (culture of not appearing before courts). As a result huge assets are stuck in the legal systems, with serious implications for market transactions [Hasan (2006)]. Procedural reforms like daily reporting of cases and automation can have a positive impact on court efficiency and have been an integral part of the Access to Justice Program of the Asian Development Bank [Armytage (2003)]. The quality of legal education has also degraded overtime due to the mushroom growth of law colleges, which often disregard the rules that have been set by the Pakistan Bar Council [Government of Pakistan (2006)]. These declining standards of legal profession are a major factor in the weak judicial system in Pakistan. There is a perception that recourse to the legal system appears as an unfavorable and unattractive option for the underprivileged. The National Judicial Policy 2009 aims to tackle issues of backlog and delays, as well as the menace of corruption. It is still early to judge the impact of the policy in resolving perennial issues confronting the justice system in Pakistan [Government of Pakistan (2009)].

## **6. Taking Stock, Looking Ahead**

There is overwhelming evidence from around the world that economic growth is conditioned by the legal setting. Markets thrive in an environment where property and contractual rights are protected and enforced, and disputes are resolved efficiently by the judicial system. An independent, impartial and efficient judiciary, which protect the fundamental rights of the citizens, and to limit the discretionary powers of the state, is imperative for Rule of Law and a peaceful, ordered society.

In Pakistan, legal system poses substantial impediments for the growth process as well for the development of markets. Our land, equity, and credit markets face several



inefficiencies on account of weak laws and legal infrastructure. Removing these obstacles can unleash the growth potential of the economy. Reforming our judicial system is even more important for guaranteeing fundamental rights of the ordinary Pakistani citizen. 'Law and Economics' is still an underdeveloped and little researched discipline in Pakistan. Scattered research exists that looks at various dimensions of legal development and growth, but there is a need to bring it under the umbrella of a larger research initiative on 'Law and Economics'. This paper has sought to pioneer this effort. It was not the purpose of this paper to do an exhaustive research, but to set a research agenda for understanding the linkages between legal system and economic growth in Pakistan. Policy input from carefully investigated issues in future would be a welcome respite.

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