



Economic growth

Innovation & productivity

monetary

Increase competition

level playing field

Supremacy of law

Equality

legal spirit predominate

Rule of law

How

Brainstorm  
↓  
Rule of Law & impact economic growth

How

How

personal security

reduce crimes

increase tourism

foster foreign investment

Increase in GDP

secure property rights

encourage foreign investment

Entrepreneurial behaviour

Access to credit

Business grow  
↓  
GDP

How

Integrity of contracts

Trade

cross border trade  
↑  
Exports

Investment

large term investment

Balance of Payment crisis

Economic strengthening

Institutional check & Balance

Good Governance

accountable & transparent

inhibit corrupt

Decrease corruption  
↓  
Increase financial stability

Separation of power

Independent Judiciary

Behaviour

# How Does Rule of Law impact Economic Growth

## Outline

### 1. Introduction:-

1.1- Hook

1.2- General Statement/Background

1.3- Thesis Statement:

The rule of law means supremacy of law, equality before law and predominance of legal spirit which foster economic growth by encouraging tourism, contractual integrity, institutional check and balance, entrepreneurial behaviour and increasing competition.

2. Defining the term: Rule of Law

3. Rule of Law foster economic growth:

3.1- Provision of personal security encourages tourism

a) Tourism direct source of GDP  
(World Bank 2022 report)

b) Increase tax revenue

c) Promote employment opportunities in the tourist spot

(World Bank travel council report  
2011)

3.2 - Secure property rights stimulate  
entrepreneurial behaviour

a) Encourage foreign investment

(Study of Journal of comparative  
economics)

b) Easier access to credit

c) Growth in small business

d) Intellectual property rights protection

(World Bank, "Doing Business 2012")

3.3 - Contractual integrity facilitates trade  
and investment

a) Increase in crossborder trade

b) Promote long term investment

(World Bank, "Doing Business 2012")

[(IMF) - Christine Lagarde]

3.4 - Institutional debt and balance  
improves governance

a) Accountable and transparent governance

(OSCE - Organization for security &  
cooperation)

b) Inhibit corruptive behaviour

(case study of Singapore)

c) Separation of power ... (Montesquieu theory)

d) Independent judiciary

3.5 - Level playing field foster economic competition

a) Meritocracy prevails in society

b) Innovation & increase productivity

(The rule of law by Aziz Ahmad choudhry 2023)

4- Method's to establish rule of law in Pakistan:

5- Conclusion:

## The Essay

The rule of law is the most important economic development. It provides the stability and predictability that investors need to make long-term commitments.

(Hermando De Soto)

This quote highlights the significance of rule of law in fostering the economic growth. Development in economy is possible through various means but rule of law is the major factor that is responsible for economic growth. As apparent from the economic growth of north Korea and south Korea, according to Statistica in 2022 GDP (gross domestic product) of South Korea was 2080 trillion while that of North Korea was 36.2 trillion. Both countries share the same historical and cultural background, the reason of huge gap between their GDPs is the rule of law. After 1950's Korean war both countries developed separately and in South

Korea embraced the rule of law, established independent judiciary, free press and democracy while in North Korea centralized and authoritarian government prevails that suppresses the human rights and legal supremacy. Thus it seems like rule of law is a triggering factor for the economic growth. The rule of law means supremacy of law, equality before law and predominance of legal spirit which foster economic growth by encouraging tourism, entrepreneurial behaviour, contractual integrity, institutional checks and balance and increasing competition.

The rule of law is a political ideal which states that all citizens and institutions within a state or country are accountable to the same law, including elites, lawmakers, executive and judiciary. It simply means that "no one is superior to law". This political ideal ensures the creation of law and its enforcement

all over the state. According to philosophers Dicey's concept, rule of law is combination of three things 1) Supremacy of law - no one is above law 2) equality before law  $\rightarrow$  everyone is accountable to the same law in a state 3) Predominance of legal spirit - constitution is powerful than lawmakers and executive.

The rule of law in the first instance is the provision of personal security, which ensures the protection of basic fundamental rights of a human including life, freedom of speech, personal liberty and right to equality. This provision of personal security in any country or state encourages tourism in that country or state. Tourism has a direct impact on economic development because it makes a big portion of GDP. According to World Bank, tourism "accounts for \$16 billion in 2022 GDP of Pakistan. Tourism generate tax revenue and

employment opportunities at the tourist spot. Taxes that are collected through tourist hotels become a major source of Government income. By promoting employment opportunities, it also benefits local public.

As the case study of New Zealand which generate a huge amount of GDP per capita through tourist industry. According to Tourism New Zealand, the country welcomed 4 million international visitors in 2019, with tourism being a significant contributor to its economy. And increase in tourism is only possible by providing security from criminal activities, terrorism, and extremist activities.

According to Travel and Tourism competitive index 2019, Pakistan ranked 134 out of 140 countries in security. Due to lack of personal security and weak supremacy of law, Pakistan tourism sector affects very badly. To increase



economic growth, tourism industrial stabilization requires that is only possible by provision of personal security in the country.

Secondly, the security of property right also brings economic stability by stimulating entrepreneurial behaviour. Equality before law discourage illegal land grabbing and possession and encourage foreign investment.

Foreign investment requires secure environment which further leads to increase in ~~gdp~~ state's economy. According to study published in Journal of Comparative Economics examines the relationship between property right protection and foreign investment (FDI), finding that countries with stronger property rights regimes attract higher level of foreign direct investment inflows.

Provision of property rights also make access to credit easier because it fosters trust among partners and banks who offers loan to entrepreneurs.

This also built courage among general public to approach banks and institutes which offers loans with less interest rate thus small business grow and indirectly economy grows. The international property rights index (IPRI) measures the strength of property rights and their impact on economic growth, providing empirical evidence of the relationship between property rights security and economic growth. Intellectual property rights protection including copyrights, patents and trademarks<sup>all</sup> also achievable only through rule of law. These intellectual property rights protection encourages innovation & productivity in market. A study of the world Bank "Doing Business 2022" highlighted the importance of intellectual property rights protection in fostering innovation and entrepreneurial behaviour. Therefore, the protection of property rights is very essential to

bring  
~~trade~~ economic stability.