Economic Development and political liberalization

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Introduction

In the past decades, different nations around the world have witnessed instances of economic developments and political liberalizations with most of such studies pegged on economic development. There have emerged questions on whether a country being a democracy results in any form of economic growth or none, with most studies presenting a mix of results (Zhang, 2020). These developments have been attached to growth in trade and liberalization, with more concerns placed on trade openness as being important measures of economic growth. However, the assumption of a positive relation between liberalization and trade has underwent a number of criticisms among different authors. Recently, in examining the joint impacts of economic liberalizations and economic liberalizations, there were conclusions that a number of reforms were quite helpful, especially when countries open up their economies to international trade as causing significant economic growth. Countries that become democracies first before opening up their economies have realized a significant sluggishness in their economic growth measures (Adegboye et.al, 2020). This indicates that countries should undertake liberalizations of their economies before considering political liberalizations.

Economic development measures within countries of the world require sustainment over the years. Most of the developing countries have often underwent challenges from substantial volatility in growth that has a negative effect in economic growth. In this case, policy makers have been advised to consider output volatilities when determining the reform sequences from different global countries (Hummel, 2020). Furthermore, trade openness has also been discussed as aiding economic growth across countries. Nonetheless, it is associated with significant levels of volatility at the macroeconomic levels. Moreover, democratization has also presented ambiguous effects on growth with some positive impacts especially in regards to economic stability from enhanced cohesion and creation of an enabling business environment for economic growth. Available literature in terms of growth volatility suggests the existence of trade-offs in the liberalization sequences over the years.

In the presence of growth volatility challenges, there has been concerns on the need to expound more on the effects of political and economic liberalizations. The situation translates to the need to examine whether the existing joint effects whether the reforms in place are quite helpful in the realization of economic stability across the different countries around the world (Nguyen, 2020). This study was aimed at looking into measures of volatility across past studies as exposed from the existing studies. The shortcomings of economic volatility at the macroeconomic levels realized with political liberalizations is quite a significant concern over the specified countries adopting these policies.

Economic volatilities have been measured using standard deviations of different economic measures such as gross domestic product (GDP), inflation levels, interest rates and unemployment measures over the past years as witnessed from both liberalized and non-liberalized countries over the past years (Farzanegan & Badreldin, 2020). Annual volatilities on these economic measures are quite helpful in terms of respective changes in economic performance, throughout the respective economies. Moreover, the last 30 years witnessed a significant decline in volatility, with increased failure in controlling the time effects appropriately, hence leading to some negative associations between democracy and volatility. The period inhibits possible changes in terms of a decline in democracy owing to a rise in the instances of liberalization over specified periods. In observing the relationship between volatility and democracy, difference-in-difference measures were employed using the dependent variable as measures of volatility captured for a period of five years.

Literature Review

Economic theory

In economics, economic theory suggests that financial developments have a direct impact on economic growth metrics in the past years. The theory is also linked to political liberalizations since harmonious business environment provided by political stability is essential for business and economic growth (Li & Yao, 2020). These arguments are dated back to Schumpeter in 1912 in which services offered by financial intermediaries were quire helpful in both innovations and relevant developments over the past years. There are five main functions of the financial system across countries that influence economic growth. First, the financial systems enhance mobilization of savings for customers, ensuring that they have appropriate access to their finances across existing commercial banks (Haddad, 2020). The banks across different countries enhance development of the economy through offering savings that customers can use to access credit when in need. Secondly, financial sectors also aid in reducing risks across the economy. This is achieved through the inclusion of insurance corporations, key in terms of offering compensations in the event of any risk. Furthermore, this is also realized through most of customer savings kept within the existing financial systems to assure customers of the funds when needed.

Moreover, the financial systems also help in allocation of resources within countries over time. In this case, governments work towards ensuring that their citizens have access to financial information and credit facilities for business reasons. Most of these roles are undertaken by the financial systems through relevant authorities mandated with ensuring proper compliance with the financial regulatory systems within the economy (Li & Yao, 2020). Furthermore, the financial systems also aid in terms of monitoring management and instilling corporate control to ensure that managers of financial organizations follow the stipulated policies to aid in economic development over the years. These constitute system of checks and balances geared at improving the financial condition of the citizens, spurring economic growth. In creating an enabling environment, the financial systems significantly rely on the political good-will of governances in place across various global countries. The realization of the economic needs of individuals and businesses impact directly on economic performance of countries, as they feel supported, improving the annual GDP records realized.

Furthermore, the financial systems across the global economies aid in the facilitation of exchanging goods and services across clients around the world. In this case, governments aid in creating the good-will through political stable landscapes, to ease exchange of goods and services (Khayitboy & Ilhom, 2020). In this case, the aspect of liberalization plays a critical role especially in ensuring that the individuals realize their specific economic targets, hence improving the economic prospects over the years as witnessed across both developed and developing economies around the world. Most of these provisions are quite helpful in terms of promoting checks and balances, in terms of economic milestones in comparison to the previous years. Appropriate financial systems aids in the realization of underlying functions and roles as stipulated from economic perspectives over the years.

Nonetheless, as the financial systems offer most of these solutions, there exists variations on the nature in which they are being offered. In the past 1970s, there were emphasis on the problems of financial repression across the developing nations with arguments that economics in which the governments had a direct influence on credit policy of commercial banks were prone to setting high ceilings on the interest rates (Deniz Genç & Sabah Eryılmaz, 2020). These changes from the economic perspectives were notably influencers of the decline in savings and investments, as well as ineffectiveness of the financial resource distributions over time. In terms of economic improvements, there were calls geared at improving the business landscape across different countries through less involvement of the political processes on the economic processes of both developing and developed countries over time.

Across the financial repressions, there were instances of sub-optimal performance on macro-economic choices that prove unfavorable and consistent with varied development prospects over time. Furthermore, financial liberalization also presents the ability to increase the extent of aggregate savings and enhance fostering of efficient distribution and uptake of financial resources as explained by the existing conditions, creating sustainable environment for economic growth and development (Simoni & Vlandas, 2020). Most of these realizations have been notably been applied across both the developed and developing nations, with more focus on stability in both financial and political liberalizations over the past years. Economic growth from this perspective is greatly reliant on the ability of the political liberalization to support both local and international economies. There have always been concerns on the need to better economic performance using appropriate local and international laws in the business sector. Most these realizations have led to continous growth in the economic projections of different countries over the past years.

International financial and other development agencies especially across African countries undertook financial liberalization as a critical component of macroeconomic reforms based on their ability to influence the direction of the economy. Most these liberalization reforms were undertaken in the 1980s and 1990s. Ultimately, these reforms were able to ease instances of financial repression with its continued impact on rise in growth and investments as African financial systems present shallow and relative underdevelopment over the years (Li & Yao, 2020). Nonetheless, liberalization has appeared to create greater levels of instability and crises especially across existing banking sectors as witnessed from most of the African economies. This backdrop presents variations in terms of economic and political and financial liberalization across both developing and developed countries over the years. Most these changes especially in the developing countries despite of existing political democracies have led to significant negative changes across the specific economies over the past years. This challenge implicates more concerns on the suitability of existing economic and political liberalizations on the developing world as well as the developed economies over the last two decades.

Political stability and economic development

Political stability is a state of peace and tranquility within a country, with minimal or no political intolerance between the governments and their citizens. In most cases, this is presented in the form of democratic governments, employed to cater for the welfare of the citizens across different states around the world (Ding et.al, 2020). This opens up the need for the understanding of whether democracies are associated with development or liberalization of the specific financial and political systems across the countries. In most cases, businesses perform better in countries with minimal civil strife, since investors are more attracted to such regions to actualize their investment objectives and plans over the years. The evidence of continued political and economic liberalizations have proved related across both the developed and developing economies over the specified nationalities around the world (Valeri, 2020). Nonetheless, it is clear that countries with no political liberalizations through opening their economies for international businesses have presented instances of low economic growth as compared to those opening their economies through economic liberalization policies such as financial liberalization among others.

The examination of the effect of the economic liberalization on the development of the financial sectors significantly relies on the political stability measures across a country. It has been noted that positive economic liberalization policies are associated with significant growth in their economies as witnessed from other economies over the years (Simoni & Vlandas, 2020). For instance, the growing developed economies have been associated with significant growth in terms of their political liberalization tendencies in terms of the right policy frameworks in place. The effect of these policies has been associated with significant improvement in the business landscape as opening the economy to external investors (political liberalization) creates opportunities such as jobs and continued production, improving the gross domestic product (GDP) measures over time as witnessed from some global nations.

Examination of economic liberalization is quite helpful in the development of global financial sectors. More concerns on the economic measures have been directly attributed to changes in the political landscape across the world. Questions on the effects of liberalization on opportunities for the financial sector have arose, with an indication of increased need to grow their performance beyond the local economies (Amodio et.al, 2020). For instance, the International Monetary Fund (IMF) and the World Bank present more possibilities for developed countries such as the US, Germany, France, Italy, Japan, Australia, United Kingdom (UK) and the developing countries such as India, Kenya, Namibia and Ethiopia among the global nations. The realization of this objective on financial liberalization on global countries has been associated with increased political liberalization between global countries and international organizations to meet their financial objectives as desired. The impact of these measures have notably showed significant improvement of the economic metrics of such countries with respect to the political landscape in play over the past years.

Political liberalization implies that democratic countries that fail to enhance any components of liberalizations are prone to suffer in terms of slow economic developments. For instance, some countries in Africa such as Zimbabwe have lagged behind in development for several years due to the absence of political liberalization concerns over the years. The country failed to engage in any multi-lateral talks with global agencies to help in opening up their economies for foreign investors (Haruna & Bakar, 2020). This challenge has led to continued problems in terms of lack of political liberalization to better its financial and economic situations. Nonetheless, the country under the rule of a single dictator president since independence has showed significant low levels of growth as compared to its peers within the same continent. This paints a picture of lack of both economic and political liberalization in some countries, making it quite difficult to open the economy further for investors.

Some countries such as Somalia, Iraq, Syria and some parts of Pakistan have registered instances of political intolerance over the past years. Political instability has become a major concern in most of these countries, tagged on existing warrying leadership conflicts between different communities from a number of reasons. Moreover, terror attacks have also been felt across most of these democracies over the past years. For instance, the presence of Al Qaeda terror group was a major concern in the 9/11 bombing of the World Trade Center in the US by these terror groups (Busemeyer, M., & Kemmerling, 2020). Such instances led to increased conflicts between the US, Iraq and Pakistan over the Al Qaeda terror groups by the late Osama Bin Laden. These cases of political strife led to increased sufferings among the citizens who could not engage in business or any form of economic activity owing to increased levels of terror and conflicts over the period. The absence of political liberalization across such warrying communities was associated with slow economic growth over the years.

Moreover, the presence of Al Shabaab Militia groups in Africa’ s Somalia and Boko Haram in Nigeria have also led to political instability in these countries. In the areas flocked by the two terror groups, there has been negative economic liberalization and growth over the fears of attacks in the course of undertaking business dealings with different partners around the world. The absence of stable governments such as those in Somalia and Syria over the last periods for instance led to increased fears of international business cooperation over fear of attacks from different groups across the specified periods (Murakami, 2021). Most of these claims have altered any coveted business interaction, contracts and agreements across such countries over the fears of attacks when doing business. In these context, the International community through peace keeping forces have been of help in restoring order, and pacifying warring communities across the different regions.

Countries having weak legal and other institutional frameworks such as rule of law and increased levels of corruption backed by weak enforcement of contracts have slowed down financial liberalization over the years. In these countries, the political good-will is often not in place to curb against any impending danger of negative political situations over the past years as witnessed from other studies across the period (Estrada, 2020). Most of these issues have proved more relevant especially with the current global pandemic (Covid-19), hurting different economies since wake of 2020. They are prone to have a direct impact on the drivers of the continent based on the levels of growth expected owing from fragile nature of such economies with increased vulnerabilities such as shocks among many others. This has been realized despite most African countries having implemented a number of economic reforms in the last decades in which the financial crisis have proved possibility of occurrence.

A close outlook on the role of both economic and political liberalization cross the financial sectors have proved adequate and feasible for helping to shape proper strategies deemed fit for development of financial sectors across different countries in Africa. Moreover, some Asian and European countries have also proved privy of such concerns, with the need for shaping existing political and economic liberalization measures as witnessed in some developed economies over the past periods (Bjarnegård, 2020). In this context, there are concerns on the possibility of ensuring the success of political liberalization tendencies in the improvement of different issues directly affected the emergent and developing economies alongside the developed world. Furthermore, the realization of proper measures geared to better management and ensuring accountability especially within the course of financial liberalization deems fit in stabilizing any economic mishaps, having a negative impact on economic well-being over the years. Furthermore, such issues have led to widespread lobbying for economic realignments especially for the interest of investors to realize proper investment horizons appropriate for their well-being.

Democracy and economic liberalization

Democracy is defined by a rule of the people, for the people and by the people across different nations. This form of governance involves the citizens in electing their representatives into top leadership positions to take care of their ideals and needs within the community. In democracies, there is a possibility of tranquility and peace on leadership, making it appropriate to undertake businesses (Ikhsan et.al, 2020). These moves are associated with economic growth, as most citizens are free to undertake businesses within their respective home countries. The adoption of this form of governments has been praised by most leaders and citizens as they often have their own leaders of choice to represent their interests. Democracy is a form of political liberalization, hence a serious ingredient in the development of a nation. Inclusion of economic liberalization fosters democratic governments even further by opening the economies for global business opportunities. In this case, there is the possibility of new investors coming into the county for the realization of their various investments.

From empirical evidence, political liberalization, economic liberalization and political stability systems have significant effects on economic and financial development across developing countries. In this context, it is clear that political stability creates a conducive environment for business and other activities. This is evident in terms of the existence of more businesses within political stable regions as compared to countries with challenges of political instability (Hossain, 2020). For instances, in the context of such instabilities, the economies tend to underperform since most of the businesses and other sectors of the economy remain closed. These closures result in increased levels of unemployment among workers recently employed in the respective ventures. In this case, there is often significant losses realized from the businesses, hence presenting a negative economic performance. These conditions for poor economic performance can also be associated with inappropriate economic liberalization policies, worsening the economic prospects over the specified periods. These concerns are quite worrying, hence the need for relevant forms of leadership such as democratic governance to ensure citizens and leaders collaborate in formation of governments.

Conclusion

Economic developments and political liberalizations has presented cohesion in the realization of both national and global economic and political realizations. In these instances, it is clear that the emergence of new democracies have been associated with the betterment of the global politics for the sake of different citizens around the world. Changes in the forms of governance have led to variation in political liberations around the world. Despite the attempts to promote better forms of leadership, the absence of liberations have led to a decline in the economic development over time. In this case, it was noted that not opening countries for international business thwarted economic developments over the past years. Furthermore, economic liberalizations is associated with economic diversification, creating more avenues for business growth across the respective nations around the world over the years.

Political instability has been associated with negative economic performance across the global economies. For instance, wars and other civil strife have led to non-conducive environments around the world. These challenges have been experienced in countries such as Somalia, Iraq, Pakistan and Syria among others. During periods of civil unrests, economic liberalization faces greater challenges in terms of failure to promote better economic environments for business, either from the governments or the private sector. Moreover, concerns on the negative economic performance may result in affected countries ending up borrowing more to service their operations from international lenders at the IMF and World Bank. Most these concerns have always raised the debt levels of such countries in a bid to protect and enhance their national operations over time.

Countries with evidence of economic liberalizations and political stability offer better business environments for business to thrive over specified periods. Such cases have been witnessed across developing countries such the US, China, Japan and Germany among others, promoting significant levels of economic developments. These developed countries have benefited significantly from economic liberalizations by opening their economies for international investors. Furthermore, business have also demonstrated the ability to grow faster, with the realization of conducive business environments, improving the economic performance measures of the relevant countries. It is clear that economic development has a positive association with political liberalizations in the context of favorable policies to steer existing businesses to the next levels in terms of profitability. In this case, countries have been advised to adopt both economic and political liberalization to better their economic prospects into the future.

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