10 Macroeconomic and Financial Sector Comparison with SAARC and ASEAN Countries

Two distinct regional associations, SAARC and ASEAN, comprise over seventeen different economies of Asia. These economies differ from each other in terms of their age, size and economic performance. However, some comparisons can be drawn between these intra-regional economies on the basis of economic and financial performance for a uniform period of observation, spanning from 1990 to 2003.[1] This chapter discusses the financial sector indicators of the SAARC and ASEAN countries under the framework of macroeconomic performance, with the objective of assessing the level of Pakistan's performance in comparison with these countries.

10.1 SAARC Countries

10.1.1 A Brief Background

The South-Asian Association for Regional Cooperation (SAARC) was established on December 8 1985, when its Charter was formally adopted by the Governments of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The SAARC region comprises of a population of about 1.43 billion, a total area of 4.1 million square kilometers, and a combined gross domestic product of US$ 4,066 billion.[2]

Some of the main objectives of the association as defined in the charter are: a) to accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realize their full potential, and b) to promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields. Regional cooperation serves to promote the bilateral and multilateral relations of the SAARC Member States.

Table 10 1:Establishment and Systems of Governance – SAARC Countries

	Independence		Government		
	Date	**From**	**Name**	**Nature**	**Legal System**
Bangladesh	16-Dec-71	West Pakistan	People's Republic of Bangladesh	Parliamentary democracy	English common law
Bhutan	8-Aug-49	India	Kingdom of Bhutan	Monarchy; special treaty with India	Indian law and English common law
India	15-Aug-47	United Kingdom	Republic of India	Federal republic	English common law
Maldives	26-Jul-65	United Kingdom	Republic of Maldives	Republic	Islamic law/ English common law
Nepal	1768 (a)		Kingdom of Nepal	Parliamentary democracy and constitutional monarchy	Hindu legal concepts and English common law
Pakistan	14-Aug-47	United Kingdom	Islamic Republic of Pakistan	Federal republic	English common law
Sri Lanka	4-Feb-48	United Kingdom	Democratic Socialist Republic of Sri Lanka	Republic	Mixture of English common law, Roman-Dutch, Muslim, Sinhalese, and customary law

(a) Unified by Prithvi Narayan Shah
Data Source: http://www.cia.gov/cia/publications/factbook/index.html

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[1] This period has been selected in line with the availability of relevant data for all countries in the two regions. The period has been further divided into three sub-periods of five years each in order to maintain uniformity of time period for the sake of comparison across countries.

[2] Information is collected from the data source: http://www.cia.gov/cia/publications/factbook/index.html , figures are estimated for the year of 2005 except Bhutan and Maldives for which data was available only for the period of 2003 and 2002 respectively.

At a first glance, SAARC countries appear to be an almost homogeneous set of countries with respect to the age of their liberalization (see **Table 10.1**). All the SAARC countries, with the exception of Nepal[3] and Bhutan,[4] used to be British colonies. These member countries have inherited their almost similar governing structures and legal systems[5] from their English rulers.

However, the size and economic performance of these economies are significantly different from each other (see **Table 10.2**). In terms of the total GDP of the SAARC region, the share of Pakistan's economy is 8.5 percent, the second largest economy after India among the seven member countries.

Table 10.2 : SAARC Macroeconomic Performance Indicators

period averages (percent)

Indicators	1990-94	1995-99	1999-03	AVE	STDV	1990-94	1995-99	1999-03	AVE	STDV	1990-94	1995-99	1999-03	AVE	STDV
	Bangladesh					**Bhutan**					**India**				
Exchange rate*	38.0	44.4	54.6	45.4	8.0	25.6	37.7	46.1	36.0	9.8	25.6	37.7	46.1	36.0	9.8
Inflation rate**	4.6	6.5	3.9	4.9	2.5	11.6	8.4	4.2	8.2	4.0	10.6	8.9	4.1	7.9	3.7
Trade balance to GDP	-4.4	-4.9	-4.1	-4.5	0.9	-11.2	-7.5	-17.8	-10.4	6.8	-1.8	-2.7	-3.0	-2.5	0.8
FDI to GDP	0.0	0.2	0.3	0.2	0.2	--	--	--	--		0.2	0.8	0.7	0.6	0.3
GFC to GDP	17.5	20.7	22.9	20.3	2.5	40.0	41.3	43.0	40.9	4.8	22.2	22.4	22.0	22.3	0.8
GDP growth	4.3	5.0	5.2	4.8	0.7	5.5	6.6	6.2	6.0	1.6	4.7	6.4	5.8	5.6	2.0
Per capita GDP growth	5.2	7.7	6.2	6.4	1.9	13.2	14.7	12.0	13.6	3.2.0	13.3	11.8	8.0	11.0	3.1
	Maldives					**Nepal**					**Pakistan**				
Exchange rate*	10.6	11.8	12.3	11.5	0.9	41.5	60.2	73.7	57.7	15.3	25.9	40.7	56.5	40.4	14.2
Inflation rate**	13.8	4.2	0.1	5.7	7.4	12.1	7.9	4.3	7.8	4.6	10.9	8.9	3.6	7.8	3.9
Trade Balance to GDP	--	--	--	--	--	-14.2	-21.7	-15.6	-17.4	5.1	-5.6	-4.3	-1.5	-3.8	2.1
FDI to GDP	131.1	149.1	145.2	140.8	16.4		0.4		0.4	0.1	0.7	1.2	0.8	0.9	0.3
GFC to GDP						19.6	21.4	19.2	20.1	1.7	18.1	15.9	13.7	16.1	2.1
GDP growth	6.6	8.8	6.1	7.2	2.0	5.7	4.3	3.6	4.4	2.2	4.8	3.2	3.8	3.9	2.0
Per capita GDP growth	8.4	-0.8	-1.4	2.5	5.2	15.1	8.9	6.2	9.6	5.2	13.6	10.6	5.8	10.0	4.6
	Sri-Lanka														
Exchange rate*	44.6	60.1	85.8	63.0	19.8	--	--	--	--	--	--	--	--	--	--
Inflation rate**	10.9	9.4	8.2	9.8	3.2	--	--	--	--	--	--	--	--	--	--
Trade balance to GDP	-7.7	-5.1	-6.8	-6.7	1.8	--	--	--	--	--	--	--	--	--	--
FDI to GDP	1.1	1.3	1.2	1.2	0.6	--	--	--	--	--	--	--	--	--	--
GFC to GDP	24.0	25.2	24.2	24.3	2.1	--	--	--	--	--	--	--	--	--	--
GDP growth	5.4	5.0	4.0	4.8	2.1	--	--	--	--	--	--	--	--	--	--
Per capita GDP growth	14.5	12.8	10.6	12.9	2.3	--	--	--	--	--	--	--	--	--	--

Data source : International Financial Statistics (CD-Rom 2004), and author's own calculations for ratios and growth rate of variables where necessary

AVE and STDV stand for period average (1990-03) and standard deviation respectively

* Exchange Rate is domestic currency per US Dollar, ** Computed from consumer price index with respect to each country

Note : empty cells imply either that the information is missing in the original source or that the figures are not interpretable

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[3] Nepal was unified by Prithvi Narayan Shah who was identified as the ruler of the territory at that time (1768).

4 Although Bhutan was unified under a central authority in the 17th century, evidence strongly suggests that it had existed as an independent entity from very early times. Source: Country Profiles (http://www.infopak.gov.pk/saarc/ctry_profiles.htm)

[5] None of the member countries follow pure English common law as they have modified the law to their own environment.

India constitutes a share of 81.6 percent of the total GDP of the SAARC countries. Pakistan's economy recorded a growth of 6.1 percent in 2004, almost equal to the highest growth rate of 6.2 percent of the Indian economy in the region whereas Sri Lanka recorded a growth of 5.2 percent during the year, which is higher than the rest of the member countries. Hence, the pace of Pakistan's GDP growth is comparable with the biggest economy in SAARC i.e. India.
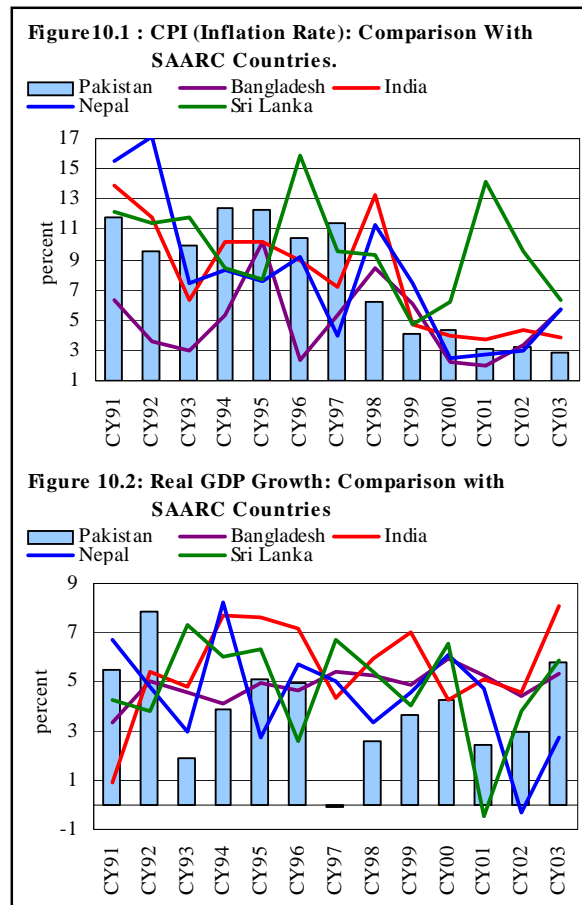
On the other hand, the per capita growth shows a slightly different picture relative to the pace of GDP growth in the region. As mentioned above, although Sri Lanka recorded a lower growth in GDP as compared to India and Pakistan, yet it has the highest level of per capita income in the region.[6] The economy of Sri Lanka has a per capita income of US $ 956 Dollars, evidently higher than US $ 667 and US $ 450 for Pakistan and India respectively, during 2004.

10.1.2 Macroeconomic Performance Indicators

This section assesses the macroeconomic performance of the SAARC economies on the basis of a set of conventional macroeconomic indicators (see **Table 10.2**): (1) the CPI inflation rate, which is used to evaluate the degree of macroeconomic stability, (2) the exchange rate, which is used to determine the strength and competitiveness of the domestic currency relative to the US Dollar, (3) the trade balance to GDP ratio is used as an indicator of the external macroeconomic performance,

(4)similarly, the foreign investment to GDP ratio and the gross fixed capital formation to GDP ratio are used to observe the economic capacity of the countries over time, and (5) economic growth is gauged by GDP growth and growth of per capita income. For the purpose of comparison, the above-mentioned indicators are categorized broadly into *macroeconomic stability* and *economic performance*. Specifically, inflation rate and exchange rate are used as the indicators of macroeconomic stability and GDP growth as the measure of macroeconomic performance across the countries.

Macroeconomic Stability

In broad terms, macroeconomic stability can be measured by calculating the standard deviation of the rate of inflation for the given period of analysis from 1990 to 2003 of the different SAARC countries. Using this data, a volatile but decreasing trend is observed for the rate of inflation in all the economies during the period of analysis (see **Figure 10.1**). On average, inflation varied from a minimum of 4.9 percent for the economy of Bangladesh to a maximum of 9.8 percent for Sri Lanka during the said period. Pakistan's economy recorded an average rate of inflation of 7.8 percent during the period slightly lower

Figure10.1 : CPI (Inflation Rate): Comparison With SAARC Countries.

Figure 10.2: Real GDP Growth: Comparison with SAARC Countries

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[6] Due to a relatively small population.

than 7.9 percent and 9.8 percent for India and Sri Lanka, respectively. However, the degree of volatility[7] of the inflation rate in Pakistan was 3.9 percent, relatively greater than 3.7 and 3.2 percent in the case of India and Sri Lanka respectively.

However, if we divide the period of analysis into two sub-periods, it is observed that the degree of volatility[8] of the inflation rate reduces to 0.64 for the period from 1999-03 as compared to a higher value of 2.84 for 1991-99 respectively in the case of Pakistan's economy. It would be pertinent to mention here that the economy of Pakistan has observed a greater level of stability in the period from 1999-03 relative to the decade of 1990s. Similar to the economy of Pakistan, the rest of the SAARC economies exhibit an identical trend in the inflation rate, except Sri Lanka where the inflation rate is observed to be volatile in the sub-sample of 1999-03 relative to the earlier period of 1991-99. Further, it is also observed that during the former period, the economies of Bangladesh and India experienced relatively less volatility in the rate of inflation relative to other SAARC member economies.

In terms of exchange rate movements, it is evident from the trend of the averages of the sub-samples[9] that the domestic currency of each SAARC country depreciated[10] with respect to the US Dollar under the period of observation. This depreciation resulted in improving the trade balance of all the countries. This implies that the SAARC economies are export-elastic to an extent. Notwithstanding this similarity of currency depreciation measured by the movements of exchange rate across these countries, the degree of volatility of currency depreciation, which describes the strength of the respective currency against the US Dollar, was also assessed. It is observed that Pakistan lies almost in the middle of the selected sample with respect to the degree of volatility of the exchange rate at 14.2 percent, evidently higher than that of India at 9.8 percent, Maldives at 0.9 percent, Bangladesh at 8.0 percent, 9.8 percent for Bhutan, and relatively less than the values observed for Sri Lanka and Nepal on an average basis since 1991-03. These observations of exchange rate stability reflect a similar pattern for the sub-sample of 1999-03 across the SAARC member countries. More specifically, similar to the economy of Pakistan, all the member economies achieved some degree of stability in the behavior of the exchange rate except the economy of Sri Lanka which showed a relatively higher degree of volatility during the sub-sample of 1999-03.

Macroeconomic Performance

In order to observe the effect of macroeconomic stability on economic growth, the indicators of GDP growth and growth in per capita income across the SAARC countries are taken into account for the purpose of analysis. **Figure 10.2** depicts the trend of GDP growth in Pakistan in comparison with India, Bangladesh, Sri Lanka and Nepal in the given time period of 1991-03. On the basis of these results, it is observed that Pakistan's economy registered a positive but fluctuating trend around an average growth of 3.9 percent in real GDP from 1991to 2003 (see **Table 10.2 & Figure 10.2**). It should be noted that the stability in the inflation and exchange rate also helped in achieving the growth of real GDP by 3.8 percent during the sub-sample of 1999-03 relative to the sub-sample of 1995-99 with a 3.2 percent growth in real GDP. In comparison, all the SAARC member economies exhibit a declining trend in real GDP growth but a relatively higher growth in comparison to the economy of Pakistan during the earlier mentioned sub-period (see **Table 10.2**). Therefore, the relatively faster pace of economic growth of Pakistan's economy in the year 2004 and 2005, reflects a catching-up phenomenon with respect to the other economies. Contrary to the GDP growth, the growth of per capita income shows a declining trend (see **Table 10.2**) due to a relatively higher growth in population in Pakistan under the period of observation. Similarly, the economy of

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[7] The degree of volatility signifies the level of stability. Higher volatility reflects instability and vice versa.
[8] Measured on the basis of standard deviation.
[9] The data comprises of the period from 1990 to 2003, but is divided into five year averages consisting of three sub-samples.
[10] Currency depreciation is used to assess international financial stability across the SAARC countries.

Bangladesh has also recorded an increase in real GDP with a declining trend of per capita income. The rest of the economies in the SAARC region reflect a reducing trend in real GDP growth with a decrease in the growth of per capita income during the periods of observation (see **Table 10.2**).

The above discussion briefly summarizes the macroeconomic environment across the SAARC economies which can be characterized as a heterogeneous group of countries given the behavior of the economic development and stability indicators. Therefore it is not appropriate to make a sound conclusion as to which economy tops the list with respect to economic stability and development**.** However, the economy of Pakistan appears to be the fastest growing economy, but with a relatively less degree of stability, among the SAARC economies which is largely due to the dismal economic performance during the 1990s.

10.1.3 Financial Sector Performance Indicators

Having given an overview of the macroeconomic framework of the SAARC countries, this section sheds light on the performance of the financial sector indicators under varying degrees of macroeconomic stability and economic growth in the SAARC region. Financial sector performance indicators[11] used for this purpose include : (1) growth in the foreign exchange reserves available in the economy, traditionally used as an indicator of international liquidity, (2) the ratio of deposit money

Table 10.3: SAARC Financial Sector Development Indicators

Period Averages (percent)

Indicators	1990-94	1995-99	1999-03	AVE	STDV	1990-94	1995-99	1999-03	AVE	STDV	1990-94	1995-99	1999-03	AVE	STDV
			Bangladesh					Bhutan					India		
Forex growth (%) (a)	52.9	-10.8	9.7	17.0	37.5	9.3	20.6	7.5	12.6	16.1	106.7	11.2	30.1	47.3	53.9
DMBA/CBA (b)	2.7	3.6	4.3	3.5	0.8		0.9	1.2	1.0	0.2	2.8	5.8	10.9	6.4	4.0
DD/ TD (c)	0.2	0.2	0.1	0.2	0.0	0.4	0.4	0.4	0.4	0.1	0.2	0.2	0.1	0.2	0.0
Private credit to GDP (%)	15.7	22.3	26.2	21.3	4.8	6.4	8.2		7.3	1.7	24.6	24.2	29.7	26.2	3.2
M2 to GDP (%)	25.6	29.9	36.5	30.6	5.4	25.4	37.0		32.5	8.3	44.8	48.0	58.8	50.4	7.2
			Maldives					Nepal					Pakistan		
Forex growth (%) (a)	5.9	34.7	8.5	17.9	25.2	24.9	4.9	10.4	12.6	14.7	81.3	9.0	68.7	51.3	69.6
DMBA/CBA (b)	1.0	1.1	1.3	1.2	0.2	1.0	1.4	--	1.3	0.3	1.8	2.1	1.9	2.0	0.3
DD/ TD (c)	0.3	0.4	0.4	0.4	0.1	0.2	0.1	--	0.1	0.0	0.5	0.4	0.4	0.5	0.1
Private credit to GDP (%)	--	--	--	--	--	14.4	25.1	--	20.7	6.6	24.3	25.4	27.5	25.7	1.8
M2 to GDP (%)	15.2	27.7	33.5	25.1	8.8	34.3	42.6	--	39.6	6.5	42.5	46.0	49.8	46.2	4.6
			Sri-Lanka												
Forex growth (a)	49.4	-4.5		15.8	32.9	--	--	--	--	--	--	--	--	--	--
DMBA/CBA (b)	1.3	2.7	3.2	2.3	0.9	--	--	--	--	--	--	--	--	--	--
DD / TD (c)	0.2	0.1	0.1	0.2	0.1	--	--	--	--	--	--	--	--	--	--
Private credit to GDP	11.6	29.6	28.9	23.0	9.2	--	--	--	--	--	--	--	--	--	--
M2 to GDP	30.7	37.9	39.3	35.8	4.2	--	--	--	--	--	--	--	--	--	--

Data source : IFS (CD-Rom 2004) and author's own calculations for ratios and growth rate of variables where necessary
AVE and STDV stand for period average (1990-03) and standard deviation respectively.
Note: Empty cells imply that either the information is missing in the original source or that the figures are not interpretable.
(a) Growth in foreign exchange reserves.
(b) Deposit money bank to central bank assets
(c) Demand deposits to total deposits.

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[11] Most of the variables are constructed on the pattern of study by Levine, R., Loayza, N. and Beck, T. "Financial Intermediation and Growth: Causality and Causes.", *Journal of Monetary Economics, 2000, 46: 31-77.*

bank assets to monetary authority assets, which depicts the degree of financial liberalization relative to other economies, (3) demand deposits to total deposits ratio which reflects the direction of the banking business in each economy, (4) private sector credit to GDP ratio which is used as an indicator of financial sector development, and (5) M2 to GDP ratio which indicates the depth of the financial sector relative to each economy (see **Table 10.3**).

International Liquidity

International liquidity of a country can be measured as the growth of foreign exchange reserves as a composition of the monetary authorities' claims on nonresidents in the form of foreign banknotes, treasury bills, short and long term government securities and other claims.[12] Higher growth in reserves is interpreted to yield the conventional advantages[13] for each internally integrated economy.

As shown in **Table 10.3**, the growth[14] in Pakistan's foreign exchange reserves was the highest at 51.3 percent on average, relative to other member economies. However this indicator for Pakistan needs to be interpreted with caution given that this is a relatively recent occurrence given the reverse capital flows and improved macroeconomic performance of the country from the year 2001 onwards. India is next in line, with a 47.3 percent growth in foreign exchange reserves. Other economies of the SAARC group also show a positive growth in reserves during the period of observation. Interestingly, it is important to note that the economy of Pakistan also has the highest level of volatility[15] in the growth of international liquidity relative to all the other members of SAARC. Nepal, however, has the lowest growth of 12.6 percent and clearly lower volatility in the growth of reserves relative to all the other SAARC countries.
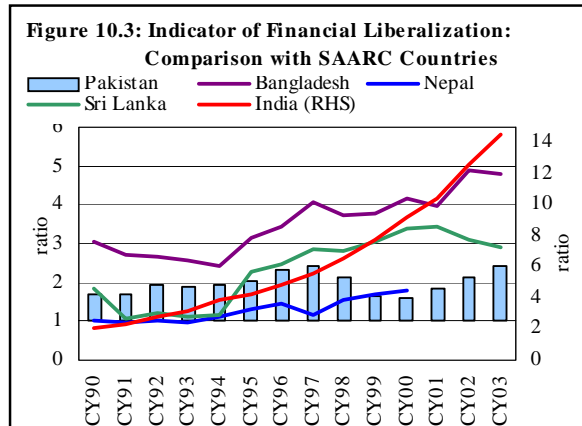

Figure 10.3: Indicator of Financial Liberalization: Comparison with SAARC Countries

Figure 10.4: Private Credit to GDP: Comparison with SAARC Countries
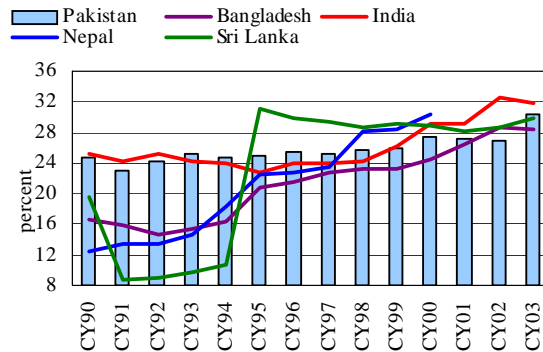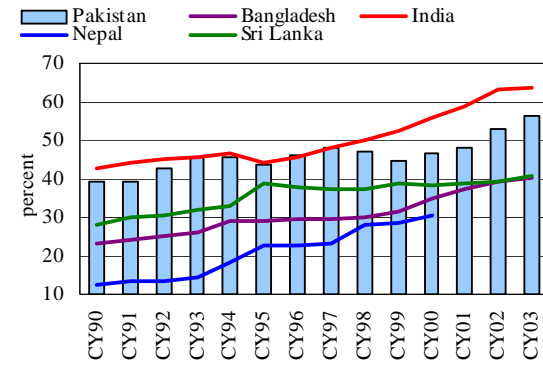

Figure 10. 5: Financial Depth Indicator: Comparison with SAARC Countries

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[12] As defined by IFS.

[13] Increased growth provides a shield against various economic, financial and political risks that an economy can potentially be exposed to.

[14] Compared by the period averages from 1990 to 2003 for each of the economies.

[15] Higher level of volatility reflects greater uncertainty in future decisions regarding the implications of the growth in foreign exchange.

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Financial Sector Liberalization

The activities of deposit money banks relative to the monetary authority can be measured by the ratio of assets of the former to the latter. Traditionally, this ratio is also used to gauge the degree of financial liberalization in an economy. If the ratio is greater than one, it implies that deposit money banks are more involved in economic activities relative to the monetary authority. It is widely agreed that financial sector liberalization can affect an economy's growth potential through its impact on both the level of domestic savings and the allocation of capital. The direction of causation of the first of these effects is unclear ex ante. On the one hand, the increase in interest rates which usually accompany the liberalization of the financial sector, affects the level of private savings through the income and substitution effects which work in opposite directions. In addition, financial sector reforms are usually aimed at easing credit constraints in terms of mandatory credit allocations to priority areas and frequently lead to large capital inflows which tend to foster consumption and adversely affect savings. The impact of financial sector liberalization on the efficient use of savings is generally considered to be less ambiguous. Reducing regulations and price distortions, increasing competition, and increased investment opportunities are some of the factors which are usually seen as important means of enhancing the degree of financial liberalization. In terms of these factors, the extent of financial liberalization is observed to be at varying levels in the SAARC economies (see **Figure 10.3**).

Comparison of this ratio across the SAARC region shows that the Indian economy has the highest degree of financial liberalization relative to all the other countries at 6.4, whereas Pakistan's degree of financial liberalization is on average 2.0. Bangladesh and Sri Lank also have a relatively higher degree of financial liberalization as compared to Pakistan (see **Table 10.3**). This simply implies that the deposit money bank assets are approximately two times the assets of the monetary authority in case of Pakistan, whereas in India, deposit money bank assets are 6.4 times the assets of the monetary authority (see **Figure 10.3**).

The performance of deposit money banks can also be evaluated on the basis of the ratio of demand deposits to the total deposits in each economy. A higher value of demand deposits to total deposits can be perceived to reflect a high level of confidence of the people in the banking industry of the respective economy.

It is observed that demand deposits are 0.5 times of the total deposits in the deposit money banks in Pakistan. This ratio for Pakistan seems to be on the higher side as compared to the rest of SAARC countries. In India, the value of the ratio is 0.2 which is much lower than that of Pakistan. One possible implication of this ratio is that people have a relatively higher level of confidence in the deposit money banks in Pakistan as compared to the evidence of the other SAARC economies.

Financial Sector Depth

Private sector credit to GDP and money supply (M2) to GDP ratios, two different indicators of financial sector development, are used for the purpose of comparison here (see **Figure 10.4** & **Figure 10.5**). The money supply (M2) to GDP ratio is known as a measure of financial depth or the degree of intermediation in the financial system. In case of Pakistan, this ratio is 46.2 percent which shows a slightly less degree of financial depth than that of 50.4 percent of the Indian economy but clearly higher than the rest of the economies in the region. Further, the private sector credit[16] to GDP ratio assesses the extent of the involvement of the deposit money banks in extending credit to the private sector. The private sector credit to GDP ratio in Pakistan is 25.75 percent for the period of assessment, higher than the other countries in the region, except the slightly higher ratio of 26.15

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[16] Private sector credit is the credit extended by the 'deposit money banks' to the private sector only.

percent of India. This implies that deposit money banks in Pakistan are comparable with those of India, and more active in extending credit to the private sector as compared to the rest of the SAARC countries. A higher ratio also reflects a higher extent of financial liberalization in Pakistan.

The above discussion leads to the conclusion that a higher degree of financial liberalization is indicative of a greater level of financial intermediation which in turn increases the profitability of the banking industry. Through this criterion, it is found that both the economies of Pakistan and India are comparable to each other and are better positioned than the rest of the economies of the SAARC region.

10.2 ASEAN Countries

10.2.1 A Brief Background
The Association of the Southeast Asian Nations or ASEAN was established on August 8, 1967 in Bangkok by the five original member countries namely Indonesia, Malaysia, Philippines, Singapore, and Thailand. Brunei Darussalam joined ASEAN in 1984, Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999. The next ministerial meeting to be held in Laos this year is likely to consider Pakistan's case for the regional organization's full dialogue membership.

The ASEAN region comprises of a population of about 500 million, a total area of 4.5 million square kilometers, a combined gross domestic product of US $ 737 billion, and a total trade of US $ 720 billion.

The major aims and purposes of ASEAN are to accelerate the economic growth, social progress and cultural development in the region through joint endeavors in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian nations.[17]

Table 10.4 :Establishment and Systems of Governance - ASEAN

	Independence		Government		
	Date	**From**	**Name**	**Nature**	**Legal System**
ASEAN					
Brunei Darussalam	1-Jan-84	United Kingdom	Negara Brunei Darussalam	Constitutional sultanate	English common law; for Muslims, Islamic Shari'a law
Cambodia	9-Nov-53	France	Kingdom of Cambodia	Multiparty democracy under a constitutional monarchy established in September 1993	Primarily a civil law mixture of French-influenced
Indonesia	17-Aug-45	Japan	Republic of Indonesia	Republic	Roman-Dutch law
Laos	19-Jul-49	France	Lao People's Democratic Republic	Communist state	Traditional customs, French legal norms and procedures
Malaysia	31-Aug-57	United Kingdom	Malaysia	Constitutional monarchy	English common law
Myanmar					
Philippines	12-6-1898	Spain	Republic of the Philippines	Republic	Spanish and Anglo-American law
Singapore	9-Aug-65	Malaysian Federation	Republic of Singapore	Parliamentary republic	English common law
Thailand	1238 (a)		Kingdom of Thailand	Constitutional monarchy	Civil law system
Vietnam	2-Sep-45	France	Socialist Republic of Vietnam	Communist state	Communist legal theory and French civil law system
(a) Traditional founding date, never colonized					
Data Source: http://www.cia.gov/cia/publications/factbook/index.html					

[17] Reference: Association of Southeast Asian Nations: http://www.aseansec.org/64.htm

ASEAN is a group of heterogeneous members with respect to their origin, age, systems of governance and economic performance (see **Table 10.4**). Some of the member countries were British, French and Spanish colonies. These member countries adopted their legal framework from the English common law and French civil law with some modifications according to their own environment. Likewise the economic size and performance varies across countries on the basis of the volume and growth of GDP in relation to each other.

In the ASEAN region, GDP growth varies between a minimum of 3.2 percent for Brunei Darussalam to a maximum of 8.1 percent of Singapore.[18] This wide range of the growth rate can be explained on the basis of the following macroeconomic performance indicators.
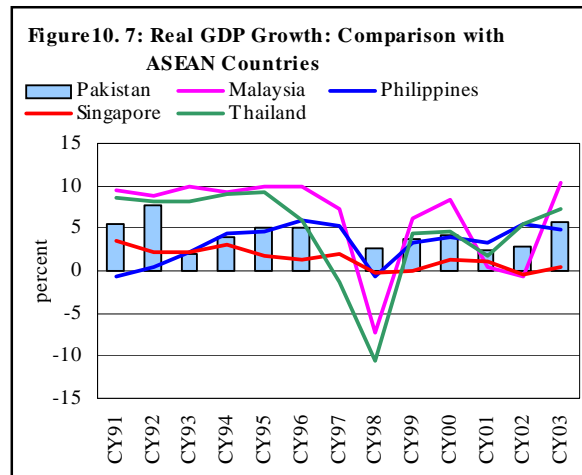
10.2.2 Macroeconomic Performance Indicators
Macroeconomic performance of the ASEAN countries relative to the economy of Pakistan can be assessed using a similar set of indicators as the ones used for the SAARC countries (see **Table 10.5**).

Macroeconomic Stability
Similar to the SAARC countries, it is observed that ASEAN countries also experienced a declining trend in the rate of inflation from 1991 to 2003 (see **Figure 10.6**). The figure also indicates that the rates of inflation recorded for Pakistan and Philippines were almost identical in the year 2003 but relatively higher when compared to Malaysia, Singapore, and Thailand. Interestingly, it is also observed that the degree of variability in the rate of inflation for Pakistan is higher relative to the other ASEAN economies but identical to that of Philippines. At 1.2, the degree of variability is the least in Singapore, as compared to all other ASEAN and SAARC economies.

Figure 10.6: CPI (Inflation Rate): Comparison With ASEAN Countries.
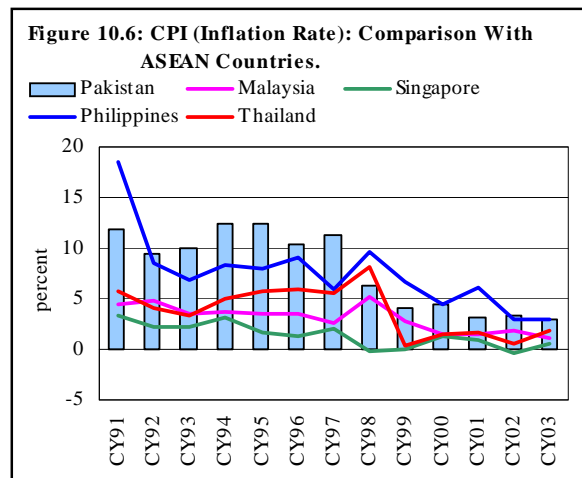
A high degree of volatility in exchange rate can be seen on average through the period of 1990 to 2003 (see **Table 10.5**) among the member nations, against the US Dollar. However, the Singapore economy appears to be more stable with respect to exchange rate volatility, with a standard deviation of only 0.14 for the said period, which is the lowest in the region. It can be concluded on the basis of these two indicators that the Singapore economy is the most stable in the region.

Macroeconomic Performance
As before, macroeconomic performance is measured by the growth in GDP and per

Figure 10.7: Real GDP Growth: Comparison with ASEAN Countries

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[18] For the year 2004.

capita income. Interestingly, the economy of Vietnam has the maximum average growth of 7.5 percent but a relatively higher degree of volatility in the rate of inflation and exchange rate as compared to other ASEAN countries during the period of observation.

Singapore has a sustainable higher growth of 6.4 percent on average during the period of 1990 to 2003, with a low rate of inflation. It should be noted that Pakistan's GDP growth is relatively higher than Singapore for the last three years i.e. 2001-03 (see **Figure 10.7**) of the selected time period. However, this relatively higher growth is matched with a relatively higher rate of inflation. On average, the ASEAN countries have a stable rate of inflation and higher GDP as compared to the SAARC states. In 1998, a high rate of inflation due to the East Asian financial crisis was experienced by all the countries with the resultant low GDP growth by all the member states of ASEAN, as well as Pakistan (see **Figure 10.6 & 10.7**). Growth in per capita income also shows a wide range of variation among the ASEAN economies. Interestingly, it is seen that the per capita growth of 10 percent of the

Table 10.5 : ASEAN Macroeconomic Performance Indicators

period averages (percent)

Indicators	1990-94	1995-99	1999-03	AVE	STDV	1990-94	1995-99	1999-03	AVE	STDV	1990-94	1995-99	1999-03	AVE	STDV
	Cambodia					**Indonesia**					**Lao People's Dem.Rep**				
Exchange rate*	1529.1	3114.7	3890.1	2775.8	1222.0	2014.2	5073.8	8885.2	5143.6	3588.5	0.4	68.1	31.5	29.5	50.3
Inflation rate**	--	106.6	101.4	104.0	5.2	8.8	20.4	10.9	13.2	13.9	9.1	55.9	37.5	28.8	37.3
Trade Balance to GDP	--	-11.4	-14.1	-11.5	2.5	4.6	8.9	15.3	8.8	6.2	-11.2	-15.4	-12.4	-13.1	2.8
FDI to GDP	--	6.7	4.0	4.5	2.5	1.2	0.9	-1.8	0.4	1.8	--	--	--	--	--
GFC to GDP	9.9	13.8	19.0	13.7	4.3	27.5	26.4	21.0	25.6	3.4	--	--	--	--	--
GDP growth	6.9	6.6	7.2	6.6	2.0	6.9	1.7	3.2	4.0	5.8	6.3	6.4	6.1	6.2	1.5
Per capita GDP growth	88.9	10.4	5.2	34.8	52.9	14.2	22.5	12.4	17.1	10.6	13.1	58.9	40.4	31.6	38.1
	Malaysia					**Myanmar**					**Philippines**				
Exchange rate*	2.6	3.1	3.8	3.1	0.6	6.1	6.0	6.4	6.2	0.3	26.2	32.3	48.0	35.2	11.2
Inflation rate**	4.1	3.5	1.7	3.1	1.3	27.5	28.2	26.6	28.1	14.8	10.6	7.9	4.6	7.5	3.9
Trade balance to GDP	3.7	12.0	22.9	10.9	10.5	-0.7	-0.6	--	-0.6	0.4	-9.7	-6.6	1.9	-5.6	7.0
FDI to GDP	7.1	4.6	3.3	5.1	2.2	0.4	0.2	--	0.3	0.2	1.5	2.2	1.6	1.8	0.8
GFC to GDP	37.0	35.6	23.6	32.8	8.4	12.8	13.2	--	13.0	1.6	22.3	22.1	18.5	21.1	2.5
GDP growth	9.4	5.2	4.9	6.3	5.5	5.6	7.2	--	6.5	3.2	1.6	3.7	4.3	3.3	2.3
Per capita GDP growth	10.2	6.4	4.6	7.1	5.2	30.8	33.9	--	32.5	7.3	9.5	9.7	8.0	9.0	2.5
	Singapore					**Thailand**					**Vietnam**				
Exchange rate*	1.7	1.5	1.7	1.6	0.1	25.4	32.2	41.4	32.6	8.1	9865.7	12193.1	14725.0	12141.1	2482.4
Inflation rate**	2.8	1.0	0.5	1.4	1.2	4.6	5.1	1.2	3.8	2.4	--	--	--	--	--
Trade balance to GDP	-2.2	9.8	16.7	6.9	9.1	-4.8	3.4	8.7	1.8	7.6	--	--	--	--	--
FDI to GDP	10.2	12.7	12.5	11.4	3.5	1.8	3.3	2.6	2.4	1.6	--	--	4.3	5.9	2.3
GFC to GDP	33.9	36.4	29.8	33.6	3.7	40.2	31.8	22.6	32.3	9.0	17.9	26.2	29.1	24.3	6.0
GDP growth	9.2	6.1	3.9	6.4	4.5	8.5	1.5	4.7	4.7	5.5	7.9	7.5	6.5	7.5	1.5
Per capita GDP growth	9.6	2.1	1.1	4.6	6.5	12.1	4.1	4.1	6.9	5.7	42.4	15.9	9.4	22.1	19.6

Data source : International Financial statistics (CD-Rom 2004) and author's own calculations for ratios and growth rate of variables where necessary.

AVE and STDV stand for period average (1990-03) and standard deviation respectively.

* Exchange Rate is domestic currency per US Dollar, ** computed from consumer price index with respect to each country.

Note : An empty cell implies that either the information is missing in the original source or that the figures are not interpretable.

Pakistan economy is clearly higher than that of the fast growing economies of Malaysia and Singapore with 7.1 and 4.6 percent growth rates respectively on average from 1990 to 2003.

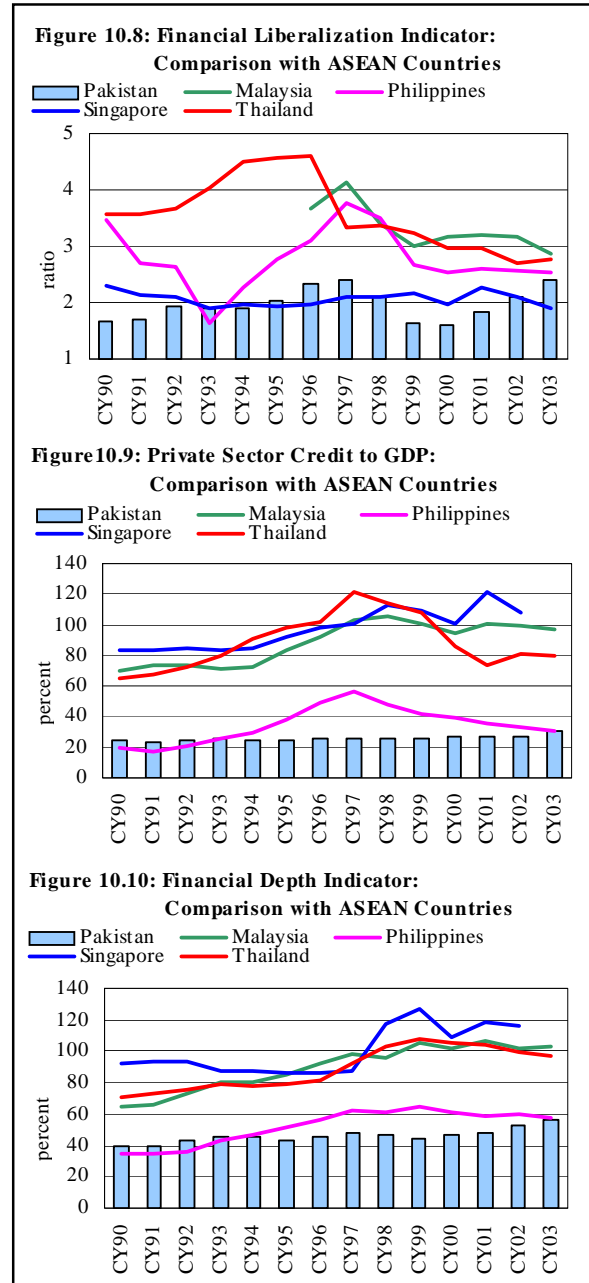**10.2.3 Financial Sector Performance Indicators**
Again, a similar set of indicators with identical definitions as used for the SAARC countries is used to compare the performance of the financial sector across ASEAN member nations. In addition, some of the financial indicators of Pakistan's economy are graphically illustrated with some select ASEAN countries.

International Liquidity
In a similar fashion to the SAARC countries, ASEAN member countries have also experienced a strong positive growth in foreign exchange reserves, which can be used as an indicator of international liquidity. According to the summary statistics, the ASEAN countries depict more stability in the growth of international liquidity relative to the SAARC member nations (see **Table 10.6**). In particular, the economy of Singapore shows a stable and consistent growth in reserves. In comparison Pakistan also shows a very strong growth of 51 percent on average during the period of assessment, but with a much higher level of volatility relative to the stable growth of 10.4 percent in the Singapore economy.

Financial Sector Liberalization
The degree of financial sector liberalization as indicated by the ratio of deposit money bank assets to the assets of the central bank in the ASEAN countries is observed to be higher on average relative to that of the SAARC member nations. Specifically, the degree of financial liberalization in Pakistan is higher than Singapore only in the year 2003, but it was lower on average from 1990 to 2002 (see **Figure 10.8**). Similarly, **Figure 10.8** also shows that the degree of financial liberalization is lower than the rest of the ASEAN member countries. However, deposit money banks in Pakistan seem to be more active in the banking business relative to almost all the ASEAN countries, as indicated by the ratio of demand deposits to total deposits (see **Table 10.6**). In Pakistan the demand deposits to total deposits ratio is 0.5 on average, which is higher than most of the individual countries of ASEAN.

Figure 10.8: Financial Liberalization Indicator: Comparison with ASEAN Countries

Figure10.9: Private Sector Credit to GDP: Comparison with ASEAN Countries

Figure 10.10: Financial Depth Indicator: Comparison with ASEAN Countries

Financial Sector Depth

The private sector credit to GDP ratio in Pakistan is observed to be 25.75 percent which is higher than that of Cambodia, Indonesia, Myanmar and Vietnam, but less than the rest of the ASEAN countries (see **Figure 10.9**). Similarly, the degree of monetization of the economy, measured by the ratio of M2 to GDP varies largely from a minimum of 10.8 percent in Cambodia to a maximum of 99.9 percent in Singapore. Therefore it is observed that the 46.1 percent value of the M2 to GDP ratio of Pakistan's economy ranks somewhere in the middle among the ASEAN member countries and much lower than those of the Singapore and Malaysian economy in particular (see **Figure 10.10**).

Table10.6: ASEAN Financial Sector Development Indicators

Period Averages (percent)

Indicators	1990-94	1995-99	1999-03	AVE	STDV	1990-94	1995-99	1999-03	AVE	STDV	1990-94	1995-99	1999-03	AVE	STDV
	Cambodia					**Indonesia**					**Lao People's Dem.Rep**				
Forex growth (%) (a)	--	22.3	21.4		342.0	12.8	20.2	9.4	13.4	13.5	393.7	17.1	14.4	136.6	411.0
DMBA / CBA (b)	1.3	1.0	0.8	1.0	0.2		2.7	1.6	2.7	1.2	2.2	1.5	1.4	1.8	0.6
DD / TD (c)	0.6	0.7	0.4	0.6	0.2	0.2	0.1	0.1	0.1	0.0	0.2	0.1	0.1	0.2	0.1
Private credit to GDP (%)	2.9	5.7	--	5.2	1.6	47.6	47.5	--	42.0	15.1	4.6	9.3	7.5	7.0	2.8
M2 to GDP (%)	5.7	10.6	--	10.9	4.0	42.3	56.7	--	50.7	7.7	10.3	17.0	17.6	14.7	4.5
	Malaysia					**Myanmar**					**Philippines**				
Forex growth (%) (a)	31.3	8.5	12.6	15.0	24.9	9.7	-10.0	16.5	10.0	33.5	84.2	25.6	9.2	34.4	73.6
DMBA / CBA (b)	--	3.6	3.1	3.3	0.4		0.7	0.8	0.7	0.2	2.5	3.2	2.6	2.8	0.5
DD / TD (c)	0.2	0.2	0.2	0.2	0.0	0.2	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.0
Private credit to GDP (%)	72.0	100.4	98.5	88.3	13.7	6.3	9.5	--	7.7	1.8	22.6	48.9	36.1	34.6	11.7
M2 to GDP (%)	72.7	97.7	103.7	89.4	14.7	28.9	28.3	--	28.7	2.0	39.0	61.0	60.2	52.0	10.9
	Singapore					**Thailand**					**Vietnam**				
Forex growth (%) (a)	20.4	3.0	5.3	10.4	10.2	21.6	0.9	8.0	10.3	15.8	--	28.1	27.9	23.3	23.9
DMBA / CBA (b)	2.1	2.1	2.1	2.1	0.1	3.9	3.6	2.9	3.6	0.7	--	1.5	3.1	2.0	1.1
DD / TD (c)	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	--	0.5	0.4	0.5	0.1
Private credit to GDP (%)	84.2	105.2	--	97.3	12.9	75.1	111.4	85.6	88.5	17.8	--	14.2	39.0	21.7	17.4
M2 to GDP (%)	90.6	104.3	--	99.9	15.1	75.0	95.9	102.7	88.8	13.6	--	26.0	49.7	34.4	15.9

Data source : International Financial Statistics (CD-Rom 2004) and involves author's own calculations for ratios and growth of variables where necessary.

AVE and STDV stand for period average (1990-03) and standard deviation respectively.

Note; : An empty cells implies, either that the information is missing in the original source or the figures are not interpretable.

(a) Growth in Foreign Exchange Reserves.

(b) Deposit money bank to central bank assets.

(c) Demand deposits to total deposits.

10.3 Conclusion

The economy of Pakistan has emerged as the fastest growing economy with an 8.4 percent growth in GDP, second to only China (within Asia) during FY05. This high economic growth is the outcome of supportive macroeconomic policies and effective financial sector reforms.

The indicators of financial liberalization and financial depth discussed in the chapter for the period of 1990-2003 show that the economy of Pakistan tops the list of SAARC economies. Although both the degree of financial liberalization and financial depth are relatively higher in the case of India, but the

degree of volatility is less in the case of Pakistan. Similarly, it is also observed that the degree of financial depth (M2/GDP) in Pakistan is lower on average relative to the ASEAN countries but the level of financial liberalization is compatible with the economy of Singapore. So the increased and stable pace of liberalization of the financial system in Pakistan has the potential to further enhance the financial depth and support sustainable economic growth in future.