



FINANCIAL DEVELOPMENT, INSTITUTIONAL QUALITY & POVERTY ALLEVIATION: EVIDENCE FROM DEVELOPING WORLD AND CASE STUDY OF PAKISTAN

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Abstract:

A country's development and stable standing in the world are directly proportional to its financial condition, the quality of its institutions, and poverty mitigation. A financially strong state with top-notch institutions and eradicated poverty has a good economic position which ultimately leads to the overall development of the state. This research paper comparatively highlights how the developed nation Republic of Korea (South Korea) and the developing nations (Bangladesh and Pakistan) are similar and different in terms of their developmental and economic sectors and how these sectors contribute towards eliminating poverty or increasing the gap between the rich and the poor of the state. The research has been conducted through the thorough analysis of the secondary data and resources available online on these three countries with a special focus on the sectors of education, health, industries, entrepreneurship, policymaking, unequal distribution, and climate change. As a result, the research paper concludes that South Korea has become a developed economy quite rapidly. Moreover, this research sheds light on the roadmap that can be adopted by comparative analysis of the three states for making Pakistan a country with a good global standing moving forward.

Key words: Financial Development, Institutional Quality, Poverty Alleviation, Economic growth, Policy making, Developing countries

Introduction:

The Islamic Republic of Pakistan emerged on the world map on 14th August 1947 as a result of the splitting of the Indian subcontinent. The internal crisis between East Pakistan and West Pakistan led to the creation of Bangladesh in 1971. The Republic of Korea came into existence on 15th August 1948. These years of emergence indicate that Pakistan was born before others, but Pakistan is not doing better as compared to them. Financial development refers to the development of institutions, sectors, and markets related to finance. The impact of financial development on the stability and growth of a state's economy is undeniable. In developing countries and emerging markets, the financial development is the major contributor towards the stability of the state's economy and growth. Economic development has an unbreakable connection to financial development, which has been viewed as



an essential channel between finance and growth through the support of innovation and entrepreneurial activity.

The Institutional Quality emphasize the quality and efficiency of the institutions and the governing bodies within the country which is a significant contributor towards the country's development. A nation or region's institutional strength, efficacy, and transparency are referred to as its institutional quality. It includes the legal system, regulatory frameworks, governance structures, and general institutional environment that influence social, cultural, and environmental results.

The definition of poverty is the inability to achieve even the most basic standards of living. It is a multifaceted phenomenon that manifests itself in a variety of ways, including low income, limited access to resources, limited opportunities for political or economic participation, high susceptibility to risks etc. Therefore, combating poverty necessitates a comprehensive strategy that encourages this kind of economic growth. This growth gives the opportunities, equips them to take part in it, and gives them access to necessities like food, clean water, hygienic living conditions, education, and health. Each program aimed at reducing poverty must have the following fundamental components: protecting vulnerable groups in society, strengthening the grassroots level by reducing/ solving their issues, enhancing governance, and maintaining macroeconomic stability. The term poverty alleviation describes the initiatives, plans, and laws designed to lessen or end poverty. It is a development objective that is acknowledged globally and has been given priority by institutions like the World Bank.

These three major factors play a transformational role in countries. The countries which are able to closely monitor and ensure the proper working and functioning of the institutions of their country are able to promote their countries financially, institutionally, and socially. The developing countries should majorly focus on enhancing the quality of their institutions, adopting techniques for alleviating poverty and, making the best use of the available resources for financial development of the country. The developing countries are always at a critical juncture as negligence on their end takes them to the path of under-developed nations and conscious efforts promote them to the status of developed countries. Therefore, the developing countries must work hard and strive for their better future.

Policy Adherence

The countries on the globe have a different story of their own. Each country's struggles, pace of progress, and development varies from the rest. The comparative analysis of Pakistan with Bangladesh and the Republic of Korea puts forward a clear picture of the real story behind the fast progress of these countries. Ideally, it is quite impossible to fulfil all the conditions of good governance in a state however, sincere and consistent efforts of the governing bodies take the state to a better position.

Overall, Bangladesh has advanced significantly during the 1990s. Bangladesh's development throughout the 1990s was commendable, averaging about five and a half percent annually. The expansion of textiles has been the most notable development in the industrial sector during the last few decades. In 2003–2004, the combined share of woven clothing, knitwear, and specialty textiles in exports was around 77.5 percent. The growth process has shown signs of steadiness, which bodes well for the fight against poverty. Bangladesh's GDP growth was very stable, which



made it easier to make advances in other spheres of society. The infant mortality rate decreased from 92% in 1990–91 to 61% in 2000, while the under-five mortality rate fell from 151 in 1990–91 to 110 in 2000 (Roy, 2006). Bangladesh's rapid progress in 1990s after came into being in 1971 shows that relying on country's natural resources and following the policies sincerely and consistently helps the country to grow.

Government-led cultural policies of the Republic of Korea have shifted from emphasizing economic strategy to national branding and soft power since the 1990s. These changes have benefited the domestic cultural sector ecosystem and helped to promote South Korea overseas. The development of South Korea's soft power can be attributed to three factors: the country's successful history of democratization and economic growth; the creation of innovative content that made South Korea globally competitive as a result of its constrained domestic market and compressed growth experience; and the advancement of digital technology, particularly the way it has altered the media landscape (Kim, 2022). The adoption of soft power policies and investing in digital technology at the right time favored South Korea to become a great power in the world.

On the contrary, the 1990s performance of Pakistan can be explained by the swift changes in the country's political structure. In Pakistan, there is a propensity to blame the current leadership for the economic successes or failures. A new regime takes over and the government's tenure is shortened by this tense atmosphere and sense of unhappiness. The newly elected government makes an effort to break from the former administration's policies and initiatives, discarding everything that it had been pursuing. Additionally, the new policies and programs that are created from scratch take time to implement and don't provide any noticeable advantages for the populace or the economy (Hussain). Pakistan has always suffered from changes in government and unstable developmental policies. The new government after coming in power ignores the already working developmental plans of the previous government and starts its own projects. This not only disrupts the overall functioning of the institutions but also negatively impacts the country's development.

Importance of Education

A strong education system creates sustainable development and positions a country to thrive in an ever-evolving global landscape. Education is the foundation of national progress, acting as a catalyst for economic development, social advancement, and innovation. In addition, by empowering individuals from diverse backgrounds to contribute to societal growth, education promotes social equity and cohesion. Educated citizens are more likely to engage in civic activities, support democratic institutions, and drive technological and scientific advancements, thus enhancing the nation's overall quality of life and global competitiveness.

The progressive educational policies of Bangladesh since its independence reflect the prioritization of educational needs. The provision of free academic education to the students for preparing them for the job market is a great step. The Bangladesh's educational policies focus on the personal grooming and instilling patriotism in the students as well. The introduction of vocational training and ICT education is a tremendous step as it fully equips the students in the schools before their interaction with the outside world (Mamun, 2023). Staying aware of the



global educational demands and providing the students with the updated curriculum is a noticeable step in Bangladesh's education system.

The emphasis on education is not coincidental; it has historical, social, and political dimensions. Societal pressure has its roots in Neo-Confucianism, which was transmitted from China to Korea in the first century AD and has played significant societal and political roles since the establishment of the Joseon Dynasty (1392–1897). Prior to its liberation from Japanese occupation, South Korea was an extremely poor country with few resources, so education and the creation of human capital played crucial roles in political plans for the country's economic development. Neo-Confucianism holds that education serves the common good and should therefore be available to all, regardless of social background. This trend became more pronounced with the focus on "high-tech" products, for which South Korea is now well-known. The Chaebols, which are globally renowned companies like Samsung or LG that dominate their industries and offer the best career prospects—in some sectors, the only employers—and pay significantly more to their employees because of their high status. As a result of intense learning and intellectual training, South Korea's population is among the most intelligent and well-educated, at least as measured by IQ tests (Krahe, 2024). The education holds the utmost importance for South Koreans. This has also resulted in the population being overeducated with 98% literacy rate.

Pakistan has pledged to advance literacy and education in the nation by enacting national education policy and participating in international education agreements. Regarding this, national education policies are the visions that offer tactics for raising the literacy rate, developing institutional capacity, and improving facilities in educational institutions. Pakistan is committed to promoting literacy globally through the MDGs and EFA programs. According to an analysis of Pakistan's educational system, not much has changed in the country's classrooms since the 18th Amendment's ratification of education as a basic human right in 2010. Access, quality, infrastructure, and opportunity inequality are still widespread issues. Less enrolments have also been caused by poverty, the state of law and order, natural disasters, financial restrictions, lack of access, low quality, equity, and governance (Education System of Pakistan: Issues, Problems and Solutions, 2015). Being a developing nation struggling with economy, Pakistan hardly manages the educational costs. Moreover, the quality education is quite expensive which makes it access difficult to all the sectors of the society.

Poverty Alleviation

The founder of the Grameen Bank and a Bangladeshi economist, Muhammad Yunus, invited students to help farmers in the fields, but he came to the conclusion that agricultural instruction by itself would not help the vast majority of landless poor people who lack assets. He thought that instead of traditional moneylenders charging usurious interest, these people could have access to funding that would enable them to launch small businesses. Yunus started a "micro" loan program in 1976, a credit system intended to help citizens of Bangladesh who were struggling with poverty (Muhammad Yunus, 2024). Over 10 million of the world's poorest individuals have received \$37 billion in collateral-free loans from Bangladesh's Grameen Bank over the course of more than 40 years (Campbell, 2024).



The Republic of Korea experienced a sharp decline in poverty along with its quick economic expansion. The Korean government launched initiatives to lessen the impact of mass layoffs in the wake of the 1997–1998 financial crisis in order to protect those who lost their jobs as a result. South Korea implemented education reforms as a result of its emphasis on growing exports and competing in the global economy. The country needed a better educated labor force to boost exports. More social mobility was made possible by these educational changes since literacy enabled members of lower social strata to climb the social ladder. A 2004 case study found that the expanding GDP made a significant difference in the incomes of rural workers whose agricultural products saw sharp price increases. This was before South Korea's fiscal expansion. The Republic of Korea's approach to reduce poverty is called "Productive Welfare," and it aims to raise everyone's standard of living while promoting social progress and equitable income distribution. In addition to extending health insurance coverage and establishing a minimum wage, the government also guaranteed pension benefits to all workers. In 2018 and 2019, the government raised the minimum wage by 16% and 11%, respectively. More than 2 million new employments were generated by this income boost and the pension guarantee, which also gave the working class in South Korea a sense of general stability. Moreover, the South Korean government concentrated on generating new jobs and offering Emergency Relief Allowances—an instant financial boost to families—in reaction to the COVID-19 outbreak and subsequent job losses. The Korea-UNDP MDG Trust Fund, established in 2009 by the UN Development Program (UNDP) Administrator and the Republic of Korea, is another more recent effort to aid in the reduction of poverty in South Korea. Its primary objective is to accelerate progress towards the country's Millennium Development Goals (MDGs) (Zhu, 2024).

Pakistan has an extensive history of poverty alleviation programs and actions. Nonetheless, the continued high rates of poverty are a reflection of these policies shortcomings, which stem mostly from their limited scope and static approach. Programs aimed at reducing poverty make up only 2% of GDP, yet they are frequently duplicated and destroyed because of poor execution, insufficient monitoring, and inadequate assessment. Despite the vast number of individuals affected by persistent economic disparities, government officials have generally avoided tackling the problem of inequality. Only 10% of children born into extreme poverty are expected to be able to leave the lowest income quartile at some point in their lives, while 40% of those born into it will only marginally progress from extremely poor to poor. Additionally, studies reveal that although the comparatively high economic growth between 2001 and 2004 did not benefit the poor, the low growth period between 2005 and 2010 produced higher poverty indices. This suggests that different policies have different effects on the impoverished; transitional and intergenerational chronic poor people require a more focused strategy (Hina Shaikh, 2020).

Climate Concerns

Climate change poses a significant threat to Bangladesh, among other nations. The story of Bangladesh's development has revolved on the management of climate threats. Decades of deliberate investments in disaster preparedness and climate resilience have supported its remarkable economic growth. Bangladesh has proven global best practices on disaster risk management and is a voice for climate vulnerable countries. Bangladesh was one of the first countries in 2009 to create a Climate Change Strategy and Action Plan, which is now used as a



model by other countries that are vulnerable to climate change. By utilizing community-led action, the government has implemented a number of proactive policies and investments that increase resilience against climate-related disasters. As a result, systems of coastal embankments have been created to safeguard more than 6,000 km of coastline that are at risk, and over 76,000 volunteers have volunteered for an early warning system for storms (Key Highlights: Country Climate and Development Report for Bangladesh, 2022).

As a regional economic powerhouse and member of the Organization for Economic Cooperation and Development (OECD), South Korea is a role model for energy and economics in the Indo-Pacific region, particularly for Southeast Asian nations with high emission rates, South Korea has been actively involved in financing fossil fuel projects. In addition to promoting economic prospects and energy independence, South Korea can establish itself as a leader in the battle against climate change by embracing bold climate policies and sustainable energy solutions. The clean energy strategy of the Democratic Party presents a chance to strengthen the leadership of the Republic of Korea in this regard. Seizing this political opportunity, the United States, being South Korea's closest ally, should work with and support the latter's efforts through legislative and executive exchanges. In addition to supporting the US's strategic interests in the Indo-Pacific region, this kind of cooperation is in line with the worldwide necessity to tackle climate change (Yu & Roh, 2024).

Families depend on the schools to teach their children about climate change, even though they would prefer that they teach them otherwise. Pakistan is experiencing severe effects from climate change, including altered weather patterns and devastating floods. Regretfully, these effects are expected to worsen; projections indicate that by 2050, air pollution, environmental degradation, and climate-related disasters might reduce Pakistan's GDP by 18–20%. This concerning figure emphasizes how urgent it is to solve climate change and lessen its consequences for people and their means of subsistence. Even while poor nations like Pakistan might not be the main causes of climate change, it is nonetheless imperative to recognize and address its effects, particularly in light of the urgent local problems like smog and air pollution. Nearly majority of the households surveyed indicated that they are in favor of climate education in schools. Less than half, though, discuss it at home. This demonstrates how schools could help spread awareness of climate change and educate families about it. Even though individuals often take cost-cutting steps to address climate change, like turning off lights (76%) or walking less, they are less likely to support more significant efforts, such as taking public transportation (36%) or eating less meat. Understanding people's perceptions is necessary to reduce the gap between worry and action. For example, education and awareness campaigns might highlight real benefits like cost savings or improved health. Three important takeaways for decision-makers emerge. First, people's concerns about climate change are mostly driven by economic factors. Second, there is skepticism, particularly among those with lower levels of education who rely on conventional sources of information. Finally, inconvenience or changes in lifestyle may prevent even the most concerned parties from taking action. In order to promote proactive engagement in climate change, policymakers ought to concentrate on lowering obstacles and providing financial incentives (Barón & Asad, 2023).



Conclusion

The developmental plans of Pakistan since its creation have been flawlessly presented. However, their implementation has always been different from the expectations because of instability within the country, lack of resources and national integration. On the other hand, the real reason behind the rapid progress of Bangladesh and The Republic of Korea is the timely implementation of the well-suited policies in accordance with the world standards.

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