The Role of the Law in the Growth of an Economy, with a Special Focus on Developing Economies

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Law and Business are not mutually exclusive sub-sets. Neither of them can be practiced in isolation. However, the interplay of law and economic growth has always been an intriguing subject for legal researchers and those associated with the legal sector. With an increase in the number of opportunities available for growth, especially in developing economies, businesses look to explore the latest dynamics and trends that have a positive impact on them. They also need to examine these and other issues within the limits of what the law permits.

We* will examine this issue from two perspectives. The first one is the interaction and interdependence between the legal and industry sectors. The second is the role of the judiciary in shaping the growing economy.

INTERACTION AND INTERDEPENDENCE BETWEEN THE LAW AND INDUSTRY SECTORS

Integration of the legal fraternity with other industry sectors facilitates knowledge exchange for the mutual benefit of both. Knowledge-sharing amongst various sectors, including the legal sector, benefits all of them, as they are able to embrace the best practices followed by each other. This is especially true for developing and dynamic economies, which are on one side witnessing rapid commercial development, but on the other must manage uncertainties concerning the dynamic regulatory environments they face. In such economies, the legal sector is usually in a state of metamorphosis and is constantly reinvigorating itself. Knowledge of legal implications enables the top executives to design commercial aspects within the four walls of legal permissibility. Similarly, a strong understanding of the business side lends quality and finesse to the advice given by lawyers.

A constant interaction between business and legal fraternities facilitates discussion of the issues and challenges they face in order to find probable solutions. With the inexorable shift of the economic fulcrum toward developing countries, a constant interaction with legal professionals will allow industry sectors to brainstorm over how to accelerate growth and how to steer businesses into clear waters, away from any potential storms.
The technical knowledge of lawyers, and their ability to practically apply legal knowledge to draw an outline of what is legally permissible, makes a robust contribution to the range of the skills that are needed to augment development of commercial activities. In emerging markets, technological advancements are coupled with possible regulatory developments, which usually creates a lot of uncertainty in the commercial business environment.

It is vital to understand that lawyers contribute every single day not only to making businesses sustainable, but to helping them flourish. By completing business and contractual obligations and commercial transactions, resolving disputes, facilitating the flow of funds and investments, encouraging innovation through the protection of intellectual property rights, and advising entrepreneurs on viable business solutions, lawyers are able to positively impact the growth of the economy. In a developing economy with competitive businesses, lawyers also help their clients to address and even avoid pockets of market concentration through competition-law enforcement.

**THE ROLE OF THE JUDICIARY IN SHAPING THE GROWING ECONOMY**

Another key factor that needs to be outlined here is the role of judiciary. While political machinery is at the forefront in driving an economy, the uncertainties surrounding new and upcoming laws in growing economies are often settled through the judiciary. The judiciary also plays a key role in determining how emerging laws are implemented, and how to pave the way for archaic laws to be replaced over a period of time. Political machinery determines the structure of the legal system of an economy, and the judiciary sets out how the laws that are enacted are implemented and applied. However, in everyday business, lawyers also play a significant role in this area as well. An economy with an evolved legal system and ‘state of the art’ laws will still be struggling to find its feet if the quality of the lawyers and others who hold primary responsibility for implementation of the laws (general counsels, senior advocates, judges, etc.) are not up to the mark.

The legal sector has wide-ranging economic impacts, as it has close connections with the institutional architecture of trade and commerce. Economic performance and the functioning of a commercial institutional architecture are closely interdependent. A stable institutional set-up, backed by the legal sector, is the key facilitator of economic development through the promotion of more sophisticated economic activity.

(*This article was written by Edge International Principal Bithika Anand and Edge International Affiliate Consultant Nipun Bhatia*)