

Business Finance II – 40592 - Spring 2016

Book Review Template

Participants' Names & ERP:

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Book Title	Oil Wealth, Colonial Legacies & the Challenges of Economic Liberalization
Author(s)	Nimah Mazaheri
Publisher & Publishing Year	Sage Publications, Inc. on behalf of the University of Utah (December, 2014)

Author (s):

Nimah Mazaheri is working as assistant professor at Tufts University. Mazaheri received his PHD from University of Washington in Political Science in 2011. Mazaheri expertise in comparative political Economy and Middle East and South Asia regions. His research is centered in the field of comparative political economy with a focus on developing countries, oil and mining sectors and government business relations. His research papers have been published in variety of journals. He is also the author of the book Oil Booms and Business Bust: Why Resource Wealth Hurts Entrepreneurs in the Developing World was published by Oxford University Press.

Synopsis of the book:

In this article the author discussed and examined the relations between oil wealth and adoption of economic liberalization. Author infers from his research that the oil rich countries and countries those were experienced colonialism are less inclined toward economic liberalization. We have various examples those satisfied authors inference. Libya government intervention in economy in late 1980s, Iraq and Saudi Arabian government expanding influence over the economic policies, Russian government actively intervenes in the economy, Hugo Chavez of Venezuela was one of the examples.

The Article examines the oil wealth and economic policy liberalization linkage in two important areas.

- 1) Financial Sector*
- 2) Investment climate*

There are two hypotheses were tested. One is related to the economic liberalization in countries those have high level of oil income. Second is related to financial and investment liberalization amongst postcolonial developing countries those are long term oil producers. Both groups have negative outcomes related to economic liberalization. Higher the oil income less likely the country has economic liberalization. Postcolonial countries those are in developing phase also lagging in economic liberalization.

Author further discussed the reason behind the government intervention in economy in the countries those are oil rich. Most of the oil rich developing countries are highly dependent on single commodity which is oil or gas. Due to lack in economic diversities they are heavily dependent on international oil prices. Annual GDP of these countries is highly dependent on oil any variation in oil prices

significantly effects the income of these countries. Governments are less certain about the revenue they will generate, as the revenue is almost entirely dependent on oil prices. Globalization also increased the risk, declining economy of one country made its effect around the globe. The oil producing also had a negative experience with the foreign oil companies which lead governments to take more interventionist role in the economic policies.

Key Learning:

- *Statistical analysis confirms the hypothesis built by the author that the oil producing countries are less likely to adopt economic liberalization.*
- *Statistical analysis shows negative relation between economic liberalization and postcolinal developing countries.*

Our perception about oil rich countries were different, we see various multinationals working in these countries and our belief was that these countries liberalized the economic policies to pull the investment in the country.

- *Oil rich countries though enjoy the wealth in oil boom period but due to the less diverse economy of oil producing developing countries, these countries are also carrying an unobserved burden.*

A basic perception about oil rich country is that these countries have very stable economy and being the supplier of the most demanding and important commodity of the globe these countries always emerge as a winner in economic race.

- *A perception was established in 1990s about countries' economic prosperity that the more free economic policies of the country will leads to economic prosperity. This perception has been changed in 2000s when world witnessed some of the greatest recessions of the history. Government interventions for some extent is necessary to give a more stable and strong foundation of country economy.*

Economic liberalization is considered as catalyst in economic growth but sometimes it goes against the expectations and has very negative impact on the country economy as some companies become much powerful and economic stability of the country becomes much dependent on the health of such companies.

- *World leading countries are very interested in the political system and conditions of oil producing countries. These countries fuel the economy of the world therefore world powers want to keep greater influence on oil producing countries, which most of the times against the interest of that country.*

Application:

Pakistan does not fall in the category of the countries which was discussed in this article. However, Pakistan's economy heavily depends on agriculture and related goods. Pakistan earns more than 50% revenue from textile. Prices of textile products have been fall due to high flux of Chinese, Indian and Bangladeshi brands which made significant impact on our exports and revenue. We should diversify our economy to make it more stable and less prone to textile related products prices.

Grading Plan:

Areas	Marks
Author	1
Synopsis	2
Key learning	5
Application	2