

Determinants of Political Instability and Economic Growth in Pakistan: A Review Study

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Abstract

Background and Aim: Political instability has the potential to severely disrupt the economic growth of a country, inducing long-term economic dilemmas. Considering the current political scenario of Pakistan, the present study is intended to review the determinants of political instability and economic growth in the state.

Methodology: This study used a qualitative method. The data was collected through a number of channels (websites, databases, and search engines) and relevant articles were then reviewed to offer synthesise doubt comes.

Findings: It has been noted in previous studies that political instability leads the country towards an economic downturn and create sun rest in the social and economic environment, thus disrupting the social peace of the country. Corruption, inadequate/improper economic policy, security issues, foreign aid and investment, institutional weakness, infrastructure development, civil-military relations and political reforms are the main issues that create uncertainty and instability in the country and adversely influence the economic growth of the country.

Conclusion: *The outcomes indicate that the distinct factors allied with political instability are the Prime agents of the disrupted economic growth of Pakistan. Hence, the government ought to ensure measures to bring political stability to the state with the aim of fostering better economic out comes in the future.*

Keywords: Economic Growth, Pakistan's Economy, Political Instability, Political Stability.

Introduction

In the economic development of a country political stability plays an important role. An unstable political system can yield substantial detrimental impacts on the economic growth of a country (Tohmé et al., 2022). Lipset (1960), described the political instability concept by asserting that “a country is considered stable if it has been a liberal and consistent democracy or dictatorship for 25 years”. However, the political instability tradition has changed due to the recent politico-economic and defined political instability approach (Taha, 2012). The capability of the economic systems relies on a strong and stable political state of the government (Ali, 2019). If the objectives of a government policy change for a brief time period it is considered inefficient. There are two ways to investigate the connection between

economic progress with political instability. Firstly, the political instability creates an environment of vacillation and instability which results in a decrease in private- sector investment and reduces and affects growth. Secondly, political uncertainty converts the investment nature and changes the demand factors and spending which has a direct effect on economic growth instead of investment (Asteriou & Price, 2001). It is indicated in previous studies (Aisen & Veiga, 2013; Dalyop, 2019; Vu, 2022) that a volatile and unstable political condition affects a country's economic growth and results in unfavorable decision- making and uncertain policies. As per the change in government policies put at risk the investors and agents of risk-averse as they would want to invest in an environment which is safe rather than risky (Banga, 2003).

In modern research on political economics, it has been indicated that coalition governments are more exposed to government survival and are affected by it (Warwick, 1979). These assumptions are considered a fragile approach of the government. In the journalistic use of the term ‘political instability’, another definition for it was exhibited. While the journalists used ‘political instability’ to show the government’s inability to survive. Uncertainty is the substantial characteristic of that definition. Some

researchers defined political instability as situations, patterns or activities that change the political aspects of a government in a way that is unconstitutional. Through such political events, business conduct rules and property rights laws often get affected.

Economic growth is a function of capital accumulation, growth and savings, according to the Solow growth model. The new growth theory highlights training

and skills in the form of human capital and technology. In addition, the development of a country and economic growth is affected by political stability and conditions. As per Barro (2013), economic growth is linked with obstinate government policies and how the government implements them. To enhance the economic growth of a country, the government produces policies for improving the skills and proficiencies of its people, by developing a favorable environment, friendly policies and bringing forth new technologies into the country.

Since 1970, Pakistan faced an imbalance in the rate of growth. After the war of 1971, Pakistan experienced political instability and a downturn in economic growth. Pakistan lost an enormous financial share in this war along with human resources. From the left half of 1971 till 1988 Pakistan enjoyed stable economic growth, but due to the Afghan war, Pakistan once again faced economic problems and lost its economic and political stability. After 1988 an economic

downturn was faced in Pakistan as a result of irrational and inconsistent economic and political policies. As accord to Husain (2009), later in 2000, Pakistan's GDP had positive and upward growth again.

The main motive of the study is how political instability affects economic growth and also brutally affects the country's political and socio-economic environment. Political instability lessens economic growth, and that reduction and slowdown in economic activities intimidate foreign and local investors as they would rather put their investments in a safe environment than in a risky environment. This fall reduces, savings, consumption levels, and productivity due to a reduction in purchasing power and the earning capacity of the individuals. Due to political instability, inflation and unemployment rise, and the rise in inflation and unemployment form uncertainty and social unrest among people which may lead towards violence and strikes against not just employers but also

policies of the government. The coherence class of society begins to criticize the plans of the government. The investors will have a negative influence as a result of these strikes and social unrest. Investors hesitate to put their investments at risk and stake. Political instability disrupts macroeconomic variables, disturbs market activities, and growth of output gets affected by physical human capital and slowdown economic activities. For economic policymakers, political instability is extremely destructive and it bounds prosperity and growth scope. Political instability is considered by determinants and factors over a period in the country like strikes, terrorist attacks, elections, and regime changes. According to Qureshi et al. (2010), if we examine Pakistan's economic history, it becomes clear that political instability has significantly hindered growth. Pakistan underwent the government's various phases. For instance, it has been governed by the military for 33 years and for the past 30 years

has been governed by the political regime (Sabharwal, 2023). Thus, considering the dynamic nature of the country's political and economic landscape, the current study is intended to conduct a review to capture the prime determinants of political instability and economic growth in Pakistan.

Methodology

This study used a qualitative method for research purposes. This design was used since qualitative research enables a better way of inquiring about the topic comprehensively by learning from various distinct sources and then molding it as per one's own understanding of the issue, which assists in producing an all-encompassing piece of knowledge on the topic under study (Anwer, 2023). The data was collected through different platforms (Science Direct, Google Scholar etc.). This study highlights the relationship between political instability and economic growth and the influence of political

instability on economic growth in the context of Pakistan. Related keywords were used for the study.

Results and Discussion

Determinants of Political Instability and Economic Growth in Pakistan

After conducting a thorough literature search on the topic, a number of factors were found to be the main determinants affecting the political instability and economic growth in Pakistan which are later discussed in this section.

Corruption

Corruption in any country leads towards political instability and impedes economic growth (Farooq et al., 2013). It takes away public trust in government institutions, creates social unrest, and fluctuates productive economic activities. In their work, Shabbir et al. (2016) reported that corruption is one of the prominent aspects discouraging economic growth. Zeeshan et al. (2022) also enlightened that over the past

decade, corruption has reportedly been among the deteriorating factors derived from political instability which impedes the economic growth of Pakistan. Moreover, Farooq et al. (2013) also revealed that corruption is a barrier to economic growth hence; financial development is vital to mitigate the adverse influence of these factors while promoting stability in this context. Therefore, it has been observed that political instability can be improved by keeping measures for anti- corruption laws in order to bring political stability and improve economic growth in the country.

Economic Policy

Sound economic policies containing investment-friendly regulations, monetary stability, and fiscal responsibilities can endorse economic growth and political stability. Pakistan has been confronted with problems relating to inconsistent economic policies, order conditions, poor law, political unrest and terrorist attacks which effects directly on economic growth

(Naz et al., 2021). According to Tabassam et al. (2016), “adverse economic policies harm economic growth”. The main goal of macroeconomic policymakers is low inflation and high economic growth because for economic growth inflation is harmful (Rani & Batool, 2016). Creating comprehensive economic policies in Pakistan is crucial for developing a convenient environment for business, promoting an economic environment that’s sustainable and guaranteeing political stability.

Security Issues

Security challenges like insurgency and terrorism disturb not just political stability but also delay business operations, discourage foreign investment and impede economic growth. Thus, for economic growth, a stable and safe environment is significant. According to Naz et al. (2021) in Pakistan, terrorism creates macroeconomic and political instability. In order to improve security conditions and terrorism war in the country, policymakers

and regulatory authorities should take measures (Talat & Zeshan, 2013). In Pakistan terrorism was generated mainly throughout the 1980s war of Soviet-Afghan. As a result of this war, in Jihad's name, terrorists came into South Asia (Zakaria et al., 2019). Discouraging security issues in Pakistan requires complex tactics, such as regional cooperation surrounding counterterrorism measures that are workable, and enhanced law enforcement in order to support economic growth and keep political stability.

Foreign Aid and Investment

Foreign aid and FDI can affect economic growth and political stability both. Such inflows can support development stabilize the economy and also originate political influence. Pakistan needs to alleviate its foreign investment policy broadly in order to decrease the gap in FDI inflows between other developed countries and Pakistan (Arain et al., 2021). As a result, foreign debts are more functional than foreign aid on

economic growth (Arshad et al., 2014). Hence, in order to captivate foreign investment, increasing domestic investment is a must (Zakaria et al., 2019).

Institutional Weakness

Weak political institutions lead to political instability and impede economic development. Lack of effective institutions leads to inefficiency, corruption and mismanagement discouraging economic growth. Different countries need different institution sets to promote economic growth in the long term (S. Nawaz et al., 2014). As per Farooq et al. (2013), institutional weakness promotes corruption which impacts a country's economic growth. Institutional weakness and political problems have contributed to taking the governance focus (Haq et al., 2006). Through good governance and comprehensive reforms strengthening Pakistan's institutions is essential to ensure political stability and maintain sustainable economic growth.

Infrastructure Development

Investing in infrastructure development like energy and transportation, can enhance economic growth and political instability. Sufficient infrastructure provides support for economic development and also improves political support. Development in infrastructure provides opportunities to regions that were unconnected previously and carries investment and trade in them (Mohmand et al., 2017). In Pakistan, the infrastructure has been funded traditionally by public sector funding, and most of that has been elevated through foreign aid (Javid, 2019). According to McCartney (2022), investing in infrastructure might develop spillover that creates extensive benefits for the economy. In Pakistan, emphasizing infrastructure development is significant for improving living standards, encouraging political stability and assisting economic growth through public services and improved connectivity.

Civil-Military Relations

Military interference in politics can impact the economic growth and political stability of the country (Hanneman & Steinback, 1990). Consecutive interference of the military in politics can generate volatility in the country and destroy economic planning. The civil and military regimes shuffle prevented the institution from working to their full potential (A. R. Nawaz et al., 2021).

The engagement of the military in politics has faded the trust of the public in the institution, which makes it harder for them to do their responsibility for national security (Umrani et al., 2023). According to Zeeshan et al. (2022), the military government and civil rules together have never benefitted or supported the institutions in developing and operating independently. In Pakistan, avoiding the interference of the military is significant for developing sustained economic growth, political stability ensuring, and guaranteeing democratic governance.

Political Reforms

Reducing corruption, enhancing law rules, and improving political institutions, can impact positively on economic growth and political instability. Investors hesitate in putting their investment in the long-term project, because of political uncertainty and inconsistent policies that might affect their profit (Bano et al., 2019). Pakistan has undergone several policy changes in order to increase growth and productivity (Sadiq et al., 2021). Due to the discrepancy and gap in government policies economic uncertainty happens, which gets worse as a result of flippant feedback from policymakers about changes in policy objectives and the economic environment (Wen et al., 2022).

For maintaining political stability and promoting economic growth in Pakistan, developing governance in the country, representation and accountability, and political reforms are essential.

Conclusion

This study has discussed the factors that affect economic growth and political instability in Pakistan and the key factors that can help bring back political stability, to promote economic growth in the country. This study has shown the difficulties that Pakistan faced because of political instability throughout the years. The main reasons for political instability in Pakistan are corruption, economic policy, security issues, foreign aid and investment, institutional weakness, infrastructure development, civil-military relations, political reforms etc. Corruption is the main reason for a country's downturn in economic activities it leads the country towards political instability and slows down the economic growth. In Pakistan, corruption is the main reason for economic instability. The main motive of this study was to review the factors that create political instability in the country and how to avoid them in order to increase economic growth. Political instability forms inflation and a high incidence of cases of

unemployment in the country. Political instability disrupts social peace and as a result, unrest in the economic environment is generated. Therefore, economic growth can be improved by bringing forward political stability and reducing inflation in the country.

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