# Pakistan’s Political Instability and Economic Growth Research Study

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## Introduction

Stability in the political environment of a country is the main key to economic development. Sustainable markets and growth in the economy are not possible if the country does not have a favorable environment for investment or if it is facing political instability. Since Pakistan was founded, it has continuously faced political instability (Chughtai, 2015). The political scenario of Pakistan has always remained unpredictable, due to which big investors always showed reluctance to start any big industry in Pakistan. Political instability is the reason that foreign investors are not willing to invest in Pakistan. Once, Karachi was known as the business hub of Pakistan, generating more than 70% of the total revenue (Irshad, 2015). However, due to political instability, bad law and order situation in the economic hub and excessive. tariffs and trade barriers on imports and exports, the majority of the investors had shifted their businesses either to Bangladesh or the United Arab Emirates.

Pakistan’s name is listed among those countries that has an abundance of natural resources, but due to political restlessness in the country, it has not attained the level of growth that it has to achieve. Political instability, no doubt, is an obstacle to development in every field of life. However, whenever it takes a country under its grasp, development in the economic sector suffers the most.

If we look at the history of Pakistan, we will find out that since its independence, the country has failed to get a stable democratic government, and it is oppressed under the political wrangling, feudalism and the wars between political parties of the country. This phenomenon eliminated all the possible chances of bringing a stable political environment to Pakistan.

Political stability and economic growth are interconnected with each other. Instability in the political environment is a serious threat to investors, and it might reduce investment in the country, which leads to a decrease in economic development (McCann, 2002). If the economic condition of a country is weak, it might lead to political unrest and collapse of the government. To develop the economy of a country, it has to be politically stable. Subjugation can help a country to achieve political stability. If the political environment of a country is stable, local as well as. foreign investors will be willing to invest in the country, and thus, the foreign direct investment will bring prosperity to the country by creating more and more jobs.

According to a report published by the World Bank, Pakistan has spent a minimum amount on the educational sector among other South Asian countries and is one of the lowest performers (Roshandel, 2010). Although enrollment in schools is increasing in Pakistan, it is still lagging behind

other countries in South Asia. The infant mortality rate in Pakistan is facing a similar situation. Gender disparity holds in health, education and all other sectors. The ratio of tax to GDP is also one of the lowest in the world, and it is almost half of what Pakistan could achieve.

Bringing reforms to the country is the responsibility of one political party; neither party can do this alone. It requires that all the political parties should stand under one commitment and bring stability to the country. Remember that a country can only achieve economic development if the political scenario of the country is stable. An honest government making policies to propel growth in the country will help to bring economic development to the country.

# Discussion

Political stability plays a key role in bringing prosperity to a country and making it economically developed. Instability in the political system of a country could seriously harm the economic environment of a country. Lipstel (1960) described the concept of political instability in very simple words. He said that the political environment of a country is said to be stable if it has a consistent dictatorship or democracy for over 25 years (Rehman, 2016).

A country's strong economic system depends on how efficiently the government is working. The more efficient the government is, the stronger the political scenario of the country will be. A government is said to be inefficient if it is facing problems over and over again in the implementation of its policy system. The relationship between the change in economic conditions and political instability can be scrutinized in two different ways.

First, the unstable political environment will create volatility and uncertainty in society, which will ultimately reduce foreign direct investment in the country, causing a decrease in the factors of production, thus, eliminating many jobs from society and causing a decrease in growth (Rehman, 2016). Secondly, uncertainty in the political scenario of a country changes the investment nature and thus affects the spending patterns of not only an individual but of the whole society, thus creating a direct effect on the growth of the economy rather than creating an impact on the investment (Rehman, 2016).

Modern politico-economic research shows that coalition governments of two or more political parties are a serious threat to the political environment as well as to the economic situation of a country (Talbot, 2012). These types of governments are more prone and a serious threat to the survival of the government. Traynor (1999) says that political instability is a serious threat to the change of political behavior. It can change the behavior of politics of a country and that behavioral change leads to change in the political system of a country in an unconstitutional way (Talbot, 2012).

Since 1970, Pakistan has been facing a lot of variations in the economic situation of the country. These variations came as a result of the Indo-Pak War in 1971. As a result of this war, Pakistan lost an adequate share of human resources as well as financial resources. In the second half of the 1970s,

Pakistan faced legitimate growth till 1988 due to. sustainable development, consistent economic policies, and the Afghan war. After 1988, Pakistan's economy saw a huge downfall for a long period due to the instability in the political scenario, as governments were changing every 2-3 years (Rehman, 2016). Every political party was trying hard to ensure that the other party wouldn't complete its tenure, and as a result of this, within around ten years, four different governments came, and none of them completed their tenure. This consistent change in the governments led to poor economic and political policies, which became a cause of downfall in the economy. After Musharraf's martial law, from 2000 onwards, Pakistan's economy saw a positive growth rate and an increase in the. GDP.

The most important part of this study is how instability in the political scenario of a country discourages economic growth, stands in its way toward. globalization, and affects the political and socio-economic environment of a country. Instability in the political scenario of a country reduces economic growth, which leads to the reduction in local and foreign direct investment as investors feel threatened under this situation and don't want to risk their money by investing in such a country, which won't give them profit. As a country sees a reduction in investment, it ultimately faces low productivity, low consumption level, and less savings as the purchasing power and earning capacity of the people have decreased.

Political instability in a country causes a rise in unemployment and. inflation, which leads to unrest in society and creates uncertainty. Due to this, violence and strikes become a part of routine life in which people not only protest against their employers for giving them lower salaries but also protest against the governments for making such policies that are not giving them any relief. Due to all this, people start criticising the government and its plans and policies. This unrest in society and chaotic situation gives a negative message to the investors and prevents them from investing in the country. Ultimately, investors start hesitating to risk their money because the ultimate goal of investment is to gain maximum profit, and if your investment is not providing you with enough profit, then obviously, no one will invest in that.

# China-Pakistan Economic Corridor And Its Impact On Pakistan

CPEC is the collection of different infrastructure projects that are now under construction in Pakistan. The cited estimate states that the reported value of the project increased from approximately $56 billion to $62 billion as its scope and political and economic conditions changed (Rehman, 2016). Because reported CPEC values vary by date and by the projects included, this figure should be understood as a dated estimate rather than a current total. Under CPEC, Pakistan will not only focus on the infrastructure to improve its transportation system, but it will also focus on other big projects like the construction of different dams and different power plants which will ultimately help Pakistan to overcome its power shortage.

Officials of the Pakistani government say that the CPEC will be a game changer for the economy of Pakistan, and it will create around 2.3 million jobs by 2030 (Shaikh, 2015). With the creation of around 2.3 million jobs, all the institutions in our country will be filled with employees who are currently jobless and facing unemployment. Under this great project, China will help Pakistan to develop the second deepest part of the world “Gawadar Port” located in Balochistan province. The development of this project will help not only China but Pakistan as well with the liberalization of the trading system, and it will also help us to gain easy access to the. global markets and will help a lot to take easy access to the. European markets.

With the development of this port, Pakistan will become an. emerging market for all the developed economies as all the countries will have easy access to Pakistan through this port. Secondly, Pakistan can earn a lot of profit through this project, as we will be giving China a. trade way, as a result of which around 200,000 trucks will pass through our border to China, thus creating a lot of business opportunities throughout the country and thus increasing the revenue (Shaikh, 2015). Due to CPEC, almost 10 million Chinese will come to Pakistan, which will definitely affect our. customs and traditions, but it will help to give a boost to our economy.

Four major components of CPEC are energy sector development, Gwadar port, industrial development and communication infrastructure. Pakistan lacks infrastructure, communication and energy sectors that are very necessary for the uplift of any economy. This project will help us focus on our energy projects through which we can overcome our power shortage. This will ultimately help us restart our industry, which is not in working condition due to a lack of power supplies. The export industry will see a boom if we become able to overcome our energy problem and end the energy crisis.

The development of this port will give us an. absolute advantage over our neighbor countries as none of them have a deep port like the one we have, and other than China, Russia and Turkey are also willing to become a part of this project as this will also help give a boost to their industries.

For the successful implementation of this project, stability in the political system of Pakistan is required, which will ultimately help Pakistan to stabilize its economy and to increase its. GDP.

# Iran- Pakistan Gas Pipeline And Its Impact On Pakistan

The Iran-Pakistan gas pipeline project is also known as the IP gas or peace pipeline. It is a project of a 2,775 km long pipeline through which Iran will deliver natural gas to Pakistan (Roshandel, 2010). Discussions for this project first started in 1995 between the Iranian and Pakistani governments. An agreement was signed between the two governments for the construction of the pipeline between Karachi and South Pars Gas Field. In 1999, an agreement was signed between Iran and India and this pipeline project was extended from Pakistan to India (Roshandel, 2010).

Right now this pipeline project is on hold due to the sanctions being imposed on Iran from the United States. Upon the completion of the project, this pipeline will provide 3.2 billion cubic feet of gas on a daily basis to Pakistan, which will greatly help to overcome the energy crisis that is being faced by the government (Roshandel, 2010). Under this project, a power generation plant will also be constructed, generating around 4,000 MW of electricity and thus creating many job opportunities in the backward areas of the province of Sindh and Balochistan.

The implementation of this project will be done by a segment approach according to which each of the countries that are a part of this project will construct the pipeline in their respective areas by themselves and will be responsible for its security.

Pakistan's political history has always seen ups and downs. Throughout history, 38 years have been ruled by military dictators, whereas the remaining years have seen different political regimes (Spitzley, 1996). Throughout the political regimes, most of the time, it has seen unrest in the political situation as different political parties were trying to make their government and throw the other one out. Continuous instability and downfall in the political situation have generated the interest of many researchers in how all this is affecting the GDP growth rate and economic progress of the country.

The researchers found that, most of the time, different political issues are responsible for poor fiscal policies. Most politicians always support those policies that favor their interests. Wrong policies lead to a decrease in the investment level, which leads to a reduction in jobs in society and ultimately causes. inflation.

A study investigated the political and economic factors to find out the reasons that economic growth is volatile in Pakistan and why people are taking their investments outside of the country. The results said that non-economic factors like political instability, corruption, frequent regime changes, conflicts among different departments of the government, and energy crises are some of the reasons that are causing lower investment and poor economic performance.

# Methodology

In our study, economic growth is taken as a dependent variable. GDP is being used as an economic growth proxy in Pakistan. Terrorism is unrest and general violence in a country. Some researchers say that the assassination of political leaders or any terrorist attack in the country changes the political and social environment of the country, thus creating economic and political unrest in the country. Therefore, terrorism will be used as a proxy for the measurement of political unrest and how it affects the. GDP. Strikes from sectarian activists or political parties for partial or complete resistance to the policies of the government will be used to measure instability in the political scenario and how it is affecting the. GDP. An election is another factor of political and economic instability. People do not know who is going to win the elections, what will be the outcome, and then what policies the upcoming government will make to give subsidies to the investors. Therefore, it is also used as a

proxy to measure unrest in the political situation and its effect on the. GDP. We give them “1” when they occur and “0” otherwise.

# Results And Discussion

Statistical results will be discussed in this section. The aftermath of this study, plus the reasons for noted outcomes, follows. The following table shows the descriptive statistics.

Table 1. Descriptive Statistics

| Variables | Mean | SD |
|---|---|---|
| GDP | 7.879 | 0.780 |
| Election | 0.067 | 0.252 |
| Regime | 0.079 | 0.270 |
| Terror | 0.595 | 0.493 |
| Strikes | 0.134 | 0.343 |

This shows that the average GDP/ quarter is 7.879 with SD 0.7797. The minimum value of GDP is 6.4326, while the maximum is 9.0719. GDP is negatively skewed with 0.2925.

The results of the explanatory variables and correlation matrix are shown in Table 2. Since correlation tells us about the relationship between the variables, it also tells us about the direction and the strength of the relationship. A table shows that the variables do not have a strong relationship with one another and are independent of each other.

Table 2. Checking multi-correlation among different explanatory variables

| S.No. | Variables | 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|
| 1 | Election | 1 | | | |
| 2 | Regime | -0.0786 | 1 | | |

| | | | | | |
|---|---|---|---|---|---|
| 3 | Terror | -0.1436 | -0.0143 | 1 | |
| 4 | Strikes | 0.02506 | 0.00687 | 0.32536 | 1 |

# Conclusion

This study has probed the effect of the instability in the political situation in Pakistan on economic growth over the period of 1988-2010. To study political instability, elections, strikes, regimes and terrorism have been used as proxies. GDP has been used widely in the previous literature to measure the growth of the economy in the country. The reason behind the negative impact of terrorism on the dependent variable. GDP is that terrorism has always negatively affected the market. Due to terrorism, our markets remained shut for weeks. Industrialists who used to invest in the country, which was a big reason for the creation of jobs, have started pulling out their money and investing in neighboring countries from where they can earn more profit and where the law and order situation is better than Pakistan. Terrorism gave rise to a volatile economic environment, which gave a bad image to the local as well as to the foreign investors who have now stopped all investments in Pakistan. This situation gave rise to inflation and has increased poverty and unemployment in the country. The uncertainty in the elections and frequent regime changes in Pakistan also affected the economic growth rate in Pakistan.

This study provides implications to the investors, policymakers, financial institutions and regulatory authorities to set their plans and policies and chalk out the goals while keeping in view the political instability of the country.

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