



Political Instability and Its Impacts on Economic Development of Pakistan

(2018-2022)

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Abstract

Economic progress is frequently severely hampered by political instability, particularly in developing countries like Pakistan. This study looks at how political instability affected Pakistan's economic performance between 2018 and 2022, a time marked by internal turbulence, government changes, inconsistent policies, and the global COVID-19 epidemic. During this period, Pakistan's economy was hit by a number of shocks, including a significant devaluation of the Pakistani rupee, growing inflation, and a decline in foreign direct investment (FDI). In order to evaluate the impact of political instability on economic development, the study uses a qualitative methodology and secondary sources, including official documents, scholarly journals, and foreign reports. To comprehend how governance crises, affect macroeconomic variables like foreign commerce, currency stability, and public sector performance, a theoretical framework with roots in political economy is used. In order to promote sustained economic growth in Pakistan, this study emphasizes the necessity of stable government and policy continuity. The report also contends that Pakistan's economic growth trajectory would continue to be unstable unless political instability is addressed and long-term policy planning is ensured. In order to improve governance, foster political stability, and lessen the economic risks associated with political unpredictability, the article ends with policy proposals.

Introduction

One of the biggest problems facing developing countries is political instability, which impedes long-term growth, interferes with economic planning, and erodes investor confidence. Political instability frequently results in social unrest, policy reversals, frequent leadership changes, and government overthrows, all of which are detrimental to economic advancement (Ake, 1975). These issues are not new to Pakistan. The nation has seen numerous periods of civil unrest, constitutional crises, and changes between military and civilian governments since attaining independence in 1947. These elements have made it extremely difficult for Pakistan to establish a solid economic base, especially between 2018 and 2022.

This essay explores the impact of political unrest on Pakistan's economic growth during this period. Pakistan faced numerous economic difficulties under Imran Khan's leadership and the Pakistan Tehreek-e-Insaf (PTI) party, which were made worse by outside shocks like the COVID-19 epidemic. Concerns regarding the nation's economic future were raised by the period's drop in important economic indices like GDP growth, foreign trade, and FDI inflows. By examining important elements such leadership crises, governance shortcomings, and macroeconomic policy inconsistencies, this research aims to investigate the connection between political instability and economic performance.

Literature Review

Both political science and economic literature have extensively explored the connection between political instability and economic development. Political instability is the possibility that a government would fall, either as a result of broad civil unrest or through unconstitutional means such coups (Alesina et al., 1996). Political instability in emerging nations like Pakistan sometimes takes the form of violent political protests, frequent changes in leadership, and shifting government policies, all of which have a negative impact on economic progress (Zaidi, 2006). The research identifies a number of aspects of political instability, such as corruption, the breakdown of democratic institutions, and poor governance, that are especially detrimental to economic growth.

Political Instability and Economic Growth

Economic growth and political instability are closely related. Both international and domestic investments, which are essential to the growth of emerging economies, are deterred by political instability. Political instability makes it difficult to create an atmosphere that is conducive to economic growth in nations like Pakistan, where administration is frequently typified by short-term, populist-driven policies (Tabassam, Hashmi & Rehman, 2016). According to the literature, ineffective resource allocation, inadequate governance systems, and bad policy formulation are all influenced by political instability (Aisen & Veiga, 2013). Economic activity thus slows down, increasing poverty, unemployment, and inflation. (Drazen, 2000).

According to studies of Pakistan's economy under both military and civilian control, stable governments—even authoritarian ones—tend to promote faster rates of economic growth because of their consistent economic policies (Zaidi, 2006). These stable times are frequently brief, though, as political upheaval or changes in leadership swiftly undermine economic planning. For instance, economic changes carried out during military regimes have frequently been undone by democratic governments that have come after, resulting in a vicious cycle of instability that impedes sustained economic growth. (Bilal et al., 2018).

Pakistan's Political Instability (2018-2022)

Between 2018 and 2022, Pakistan's political climate was especially turbulent. With the PTI party promising to combat corruption and economic mismanagement, Imran Khan's election victory in 2018 signaled the beginning of a new era in the nation's political history. Nonetheless, Khan's government encountered several difficulties, such as opposition party opposition, PTI internal strife, and popular dissatisfaction with the state of the economy (Ali et al., 2022). Significant economic disruptions resulted from the government's incapacity to enact consistent policies, particularly in the areas of foreign investment and commerce.

Furthermore, Pakistan's economic issues were made much worse by the COVID-19 pandemic. While local inflation skyrocketed due to rising food and fuel prices, exports fell precipitously as a result of global lockdowns and supply chain disruptions (Shahid et al., 2023). In addition to pre-existing political issues, the PTI government's uneven pandemic management strategy further undermined investor confidence and caused capital flight from the nation (Arshed et al., 2020).

Political Economy Theory and Economic Development

Understanding the intricate connection between political instability and economic development is made easier with the help of the political economy framework. This theory holds that economic policies and political institutions are interdependent. By fostering an atmosphere that encourages investment, innovation, and competition, strong political institutions support economic growth (North, 1990). On the other hand, political unrest causes corruption, ineffective economic policies, and a decline in societal trust, all of which impede progress (Acemoglu & Robinson, 2012).

In Pakistan's instance, attempts to attain steady economic growth have often been thwarted by incoherent administration and weak political institutions. An unstable climate for economic planning and implementation has been brought about by corruption, nepotism, and frequent changes in leadership (Tabassam et al., 2016). Because of this, Pakistan's economic strategies have frequently been reactive rather than proactive, emphasizing immediate profits over long-term growth.

Research Methodology and Theoretical Framework

Using a qualitative methodology, this study examines how political unrest affected Pakistan's economic growth from 2018 to 2022. To inform the analysis, secondary data was gathered from reliable sources, including government reports, scholarly journals, and international publications. Important economic metrics including GDP growth, foreign direct investment inflows, inflation rates, and currency depreciation were compared to political events like policy reversals and leadership changes. To find recurrent themes in the data, especially the connection between political instability and economic consequences, content analysis was used.

Political economy theory, which holds that political institutions and governance structures have a significant impact on economic results, serves as the theoretical foundation for our investigation (Acemoglu & Robinson, 2012). Because it stresses the value of strong political institutions in promoting economic growth and the ways in which political instability can impede economic planning, this paradigm is suitable for examining Pakistan's economic difficulties.

Discussion

Political Instability and Economic Performance

Between 2018 and 2022, Pakistan's economy suffered greatly as a result of political unrest. In general, political instability hinders economic activity and governance, deters investment, and makes economic mismanagement worse. Pakistan had a number of events under the PTI administration that had a significant impact on economic performance. These events included leadership crises and inconsistent policymaking, which had a negative impact on economic growth.

The reduction in international trade was one of the most direct effects of political unrest. Businesses find it challenging to develop long-term plans when there is political unpredictability, and in Pakistan's case, exports suffered greatly, especially in important industries like agriculture and textiles. Foreign purchasers were apprehensive about the nation's capacity to fulfill manufacturing schedules, particularly around the worldwide COVID-19 lockdowns. Furthermore, legislative changes and government inadequacies in managing industrial logistics caused supply chain disruptions for local businesses (Shahid et al., 2023). In addition to affecting exports, the government's incapacity to maintain stability also decreased foreign direct investment (FDI).

FDI into Pakistan declined dramatically as international businesses perceived the political climate as being more unstable. During the epidemic, when investor confidence was already low worldwide, this investment outflow was particularly noteworthy. As a result of economic mismanagement and political unpredictability, Pakistan saw a dramatic drop in foreign direct investment inflows in 2019 and 2020, according to World Bank data (World Bank, 2021). Investors want environments that are stable and have known policies; frequent changes in the finance ministry and unpredictable policy reversals made investor fears even worse. Concerns regarding Pakistan's economic trajectory were also highlighted by the ambiguity surrounding its interactions with foreign institutions like the IMF (Ali et al., 2022).

Additionally, the PTI government's approach to economic policy frequently came across as reactive rather than proactive, motivated more by short-term political pressures than by long-term economic planning. For instance, internal party conflicts, numerous cabinet changes, and pressure from opposition parties hampered the PTI government's ability to carry out its early pledges of economic reform and anti-corruption measures (Naeem et al., 2020). This discrepancy is typical of politically

unstable settings where political disputes frequently jeopardize the continuity of policies.

Impact on Currency and Inflation

The rapid decline in the value of the Pakistani rupee was another important economic effect of political unrest. Political unpredictability, poor management of foreign exchange reserves, and a growing trade imbalance were the main causes of the rupee's more than 25% decline in value between 2018 and 2020. In addition to raising import prices, currency depreciation caused inflation to reach levels not seen in decades (Ali et al., 2022).

Ordinary individuals' purchasing power was directly impacted by the inflationary pressure brought on by the rupee's devaluation. An already suffering populace was further burdened by the sharp increase in the cost of necessities including food, fuel, and medication. Food costs, in instance, increased by 17% in 2020, while inflation reached about 10% (Pakistan Economic Survey, 2020). The population with lower incomes was disproportionately impacted by the increase in inflation, which led to a surge in poverty and social unrest. In this way, political instability exacerbated economic instability, which in turn fueled political unrest, resulting in a vicious cycle of economic decline and insecurity.

COVID-19 Pandemic and its Amplification of Economic Issues

Pakistan's political and economic instability was exacerbated by the start of the COVID-19 epidemic in early 2020. The pandemic was an external shock that made the economy's preexisting weaknesses worse. The GDP shrank as a result of the substantial disruptions to industrial and agricultural activity caused by lockdowns and social distancing measures. Travel restrictions and lower consumer spending resulted in severe losses for Pakistan's service industry, especially for retail, tourism, and transportation (Naeem et al., 2020).

Employment was also significantly impacted by the outbreak. With millions of daily wage earners losing their jobs, the informal sector—which employs a significant percentage of Pakistan's workforce—was especially badly impacted. The International Labour Organization (ILO) reports that between 2020 and 2021, Pakistan's unemployment rate rose by 1.5 million individuals as a result of economic disruptions brought on by the pandemic (ILO, 2021). Millions of households experienced income

loss, which made poverty and inequality worse and increased social tensions and political instability.

Despite implementing social safety nets like the Ehsaas emergency cash transfer program, the PTI administration was unable to stop the pandemic's economic effects (Shahid et al., 2023). The government's failure to raise enough money, in part because of a crumbling tax base and pervasive tax fraud, limited its ability to provide economic aid. As a result, the state was less able to handle the issue in an efficient manner. As a result, the economy became more and more stressed, with rising rates of unemployment, inflation, and poverty that exacerbated the political unrest.

Corruption, Governance, and Economic Mismanagement

The pervasive problem of corruption in Pakistan is another aspect of political instability. The nation's political and economic institutions have long been beset by corruption, which thwarts attempts to establish sustainable development and stable governance. One of the primary campaign pledges made under the PTI administration was to combat corruption. However, accusations of corruption surfaced even inside the administration's own ranks, and the government was criticized for not carrying out its anti-corruption program (Bilal et al., 2018).

Corruption undermines the rule of law, erodes public confidence in institutions, and deters both international and local investment. Public funds are frequently taken from social programs and vital infrastructure and placed in the hands of dishonest authorities, which results in the misallocation of resources. Political instability is a result of this poor management, which also makes economic disparities worse and erodes societal cohesiveness (Transparency International, 2021). Thus, the PTI government's failure to enhance governance and lessen corruption contributed significantly to Pakistan's ongoing political and economic instability cycle.

Leadership Crisis and Policy Reversals

The PTI government's leadership problem, especially the periodic reorganization of important cabinet posts, was one of its distinguishing features. Several finance ministers were replaced in a short period of time as a result of the inconsistent policymaking caused by this instability at the top levels of government. Regarding Pakistan's economic strategy, these modifications caused misunderstanding and uncertainty both at home and abroad (Ali et al., 2022). The government's interactions

with foreign financial organizations, especially the IMF, were characterized by inconsistency and indecision, and policy reversals were frequent.

For example, the government first opposed asking the IMF for financial support, but in 2019 it changed its mind and agreed to a \$6 billion rescue program (IMF, 2020). Investor confidence was further damaged by the sense of economic uncertainty this dithering and the government's incapacity to carry out structural changes engendered. Pakistan's capacity to negotiate advantageous terms with its foreign creditors was further hampered by leadership instability and policy reversals, which left the nation with mounting debt and little room for fiscal reform.

Conclusion

The complex effects of political unrest on Pakistan's economic growth from 2018 to 2022 have been examined in this study. According to the report, Pakistan's economic progress has been seriously hampered by political instability, which is typified by leadership crises, inconsistent policies, corruption, and outside shocks like the COVID-19 epidemic. Frequent policy reversals and leadership changes made the investment climate unpredictable, which resulted in a sharp drop in international trade and foreign direct investment. Rising inflation and the quick depreciation of the Pakistani rupee exacerbated the nation's economic problems by disproportionately harming the lower-income population and raising the poverty rate.

Despite being a worldwide emergency, the COVID-19 epidemic revealed Pakistan's governmental and economic systems' weaknesses. Widespread unemployment, social dissatisfaction, and heightened political unrest were the results of the government's incapacity to handle the economic impact from the pandemic and pre-existing governance problems. When combined, these elements demonstrate how important political stability is for promoting economic growth.

Pakistan must put political stability, policy continuity, and good governance first if it hopes to experience long-term economic progress. To create an atmosphere that is favorable to investment and long-term growth, it is imperative to address corruption, bolster democratic institutions, and guarantee consistent economic policies. Without these changes, Pakistan's progress toward becoming a stable and successful country will be hampered by the ongoing cyclical problems of political and economic instability.

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