



## The Influence of Pakistan's Political Unrest on the Country's Rate of Economic Growth



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**Abstract:** This study explores how political instability, influences economic performance. Pakistan's recent two decades have seen the overthrow of democratic governments, the installation of dictatorships, and conflicts between politicians, bureaucrats, the military, and the judiciary. The researcher used primary and secondary data. Political instability statistics came from questionnaires and political instability indexes, whereas economic growth metrics including inflation, public debt, and GDP came from IMF, World Bank, Asian Development, Ministry of Finance, Government of Pakistan, and State Bank of Pakistan databases. We collected data for 20 years (from 2000-2020). Descriptive and inferential statistics tested hypotheses. Thus, assumptions were tested using Pearson Product Moment Correlation, Linear, and Multiple Regression. This study found that political instability affected the economic growth of Pakistan. Political instability decreases economic growth statistically and economically.

**Key Words:** Political Instability, Economic Growth, Economic Growth of Pakistan

**JEL Classification:**

### Introduction

Political instability can be defined as a situation where a government or a country is unable to maintain social order and political control, leading to a state of uncertainty and insecurity for its citizens (Mashavave & Nkomo, 2020). This instability is often characterized by civil unrest, protests, violence, and economic decline (Kalkuhl et al., 2021). According to a recent study by Isaksson and Kotsadam (2021), political instability can have significant negative impacts on economic growth and development in sub-Saharan

Africa. The study found that countries with high levels of political instability had lower levels of investment and economic activity, leading to reduced income and higher levels of poverty. Similarly, the COVID-19 pandemic has exacerbated political instability in many countries, particularly those with weak governance structures and limited resources. In a recent report, the United Nations (2021) highlighted the links between political instability and the pandemic, noting that political crises can undermine public health responses and exacerbate social and

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Economic inequalities.

Sociopolitical instability has a number of negative consequences. In addition to disrupting markets, it also makes the political and legal climate unpredictable. Numerous other researchers have confirmed that political unrest has a negative impact on economic expansion. These studies also provide light on the connection between political upheaval, regime changes, and governmental transitions. Political instability and governmental crises have a considerable impact on economic growth, and there is a link between the two (Campos & Nugent, 2002; Pei & Adesnik, 2010; Ahmadani & Noonari, 2020).

### Literature Review

Many of the nations, where political stability (PS) has not been seen as the norm, are politically unstable and have faced similar problems. There, democracy was consistently repressed and was seen as an unstable system. People in a nation where political regimes are not a concern for the majority focus on working, saving, spending, and investing instead. All spheres of life, including business, politics, culture, and traits, are characterized by inventions, innovations, and projects that have a bright future due to greater prospects that would otherwise be a distant dream. Governments that are politically stable therefore tend to be unpredictable. However, it is required. PS can manifest as a state of harmony amongst all the stakeholders, stability, and satisfaction that prevents a tug-of-war for governance. As competition may be used in politics, education, business, innovation, and even the arts and crafts, it is not just for businesses.

### Causes of Political Instability

There are several factors that contribute to the political climate of a nation or region. There are a number of things that can make a country or region's political climate unstable. People's rights and freedoms can easily lead to instability if they are not respected or are taken away. We've also pointed out some of the most important sources in this post (corruption, democracy failure,

socioeconomic issues, etc.). Corruption is when the leaders of a country mishandle its money. Over time, corruption has become one of the main causes of political instability in many places around the world. The level of corruption in a country makes it more likely that the country will be unstable. Ibrahim and Cheri's research shows that corruption in politics hurts democracy and good government by not following rules or even trying to break them. Corruption in the court threatens the rule of law, corruption in public administration leads to unequal service delivery, and corruption in legislative bodies reduces accountability and distorts policymaking representation (Tabassam, et al., 2016).

Political instability can also be caused by economic factors, such as high unemployment and inflation rates, low per capita GDP levels, and a lack of private investment, as discussed by Nyawo and Van Wyk (2018). Any nation might easily experience political instability as a result of widespread unemployment and poverty. When most people in a nation are poor and jobless, they express their rage at the government, which fuels instability in the nation. As a result, there was instability in many nations. For this reason, in this paper, we committed ourselves to explore the theoretical relationship between political instability and the economy.

### The Political Instability of Pakistan

Economic expansion and political stability are related. Political stability is necessary for economic growth to occur. Politically stable governments experience greater economic growth than unstable governments (Gerring et al., 2005). Geographically, Pakistan is located at various altitudes, which maintains a variety of climates, regions, and languages. Since 1947, Pakistan's administration has been unstable due to ethnic divisions. The first Governor General of Pakistan was Qaid Azam. While he was still alive, on September 11, 1948, he toiled day and night to maintain Pakistan's stability. Pakistan's first prime minister was Liqat Ali Khan. He passed the Objectives Resolution in 1949, just before

someone in a patriotic procession in Rawalpindi shot him to death. After nine years without a constitution, Pakistan finally got one in 1956 after numerous amendments made by political parties and military dictators in the country for their own gain. Pakistan has had twenty-three governments in the past sixty years, with fourteen elected or appointed prime ministers, five interim governments, and 33 years of military rule led by four different heads of state. Leaving out the military, In transitional governments, a democratically elected government has usually been in power for less than two years. When the five years Bhutto was in power are taken out of the picture, the average life expectancy is 1.6 years. On the other hand, economic policy has only changed twice in total. Pakistan's growth strategy in the past was based on the free market.

Since 1970, Pakistan has suffered fluctuations in its rate of economic growth as a result of the political unrest left over from the war of 1971. Pakistan suffered significant losses of both people and financial resources during this conflict. Due to consistent and long-term economic strategies, Pakistan saw a sustainable growth rate in the second part of the 1970s that lasted until the Afghan War in 1988. Only political unrest, inconsistent, and unreasonable economic and political policies are to blame for the decline in Pakistan's economic growth rate that began in the late 1980s. Once more, a rising and encouraging trend in GDP and growth was seen after 2000. Everything was brought about by the war in Afghanistan because it caused the flow of foreign aid to virtually double. In addition, "The allies of the allies" also helped out by "putting some peanuts in the hands of 8 the hands." However, the historian believes that Pakistan missed a good opportunity to win billions of dollars since Pakistan was forced to help the USA in that conflict with superpower Russia. Unfortunately, Pakistan was unable to seek its fair part of the war plunder when just a small amount of aid was available. The constant interference in political processes also caused Pakistan's EG rate to stagnate following the Afghan War. That quickly became the norm, which resulted in irrational

political decisions and erratic economic decisions. Thus, Pakistan was once more plunged into the maze of foreign loans. Additionally, the nation lost the confidence of foreign investors, resulting in a rise in the payment balance and further hampered economic growth. And as a result, Pakistan's economy is collapsing like a ship in the middle of the ocean carrying a wounded sailor bound for an unknowable destination. Pakistan has been edging its way back toward an upward and positive GDP growth trend since the year 2000 (Husain, [2009](#)). Sociopolitical instability has a number of negative consequences. In addition to disrupting markets, it also makes the political and legal climate unpredictable. Numerous other researchers have confirmed that political unrest has a negative impact on economic expansion. These studies also provide light on the connection between political upheaval, regime changes, and governmental transitions. Political instability and governmental crises have a considerable impact on economic growth, and there is a link between the two (Campos & Nugent, [2002](#); Pei & Adesnik, [2010](#); Ahmadani & Noonari, 2020).

### Influences of Low Productivity on Economic Growth in Pakistan

The low productivity of economic growth in Pakistan is a complex issue that is influenced by various factors. According to recent research, some of the key factors that contribute to this problem include inadequate investment in research and development, lack of technological advancement, low levels of human capital, and inefficient resource allocation. Aftab et al. ([2020](#)) argue that Pakistan's low productivity growth can be attributed to inadequate investment in research and development. They suggest that the government should focus on investing in education and research and development to enhance the country's productivity and competitiveness. Similarly, Haq and Abbas ([2021](#)) suggest that Pakistan's low productivity growth is due to the country's low levels of human capital. They recommend that the government should invest in education and training to improve the quality of the

country's Human capital and enhance productivity.

In addition, Mushtaq et al. (2020) note that the lack of technological advancement is a significant factor contributing to Pakistan's low productivity growth. They recommend that the government should encourage innovation and technological development by providing incentives for research and development, promoting entrepreneurship, and creating a favourable business environment. Furthermore, inefficient resource allocation is also identified as a key factor contributing to Pakistan's low productivity growth (Aslam et al., 2020; Iqbal & Sarwar, 2020). Aslam et al. (2020) suggest that the government should prioritize investment in productive sectors and reduce wasteful spending to ensure efficient resource allocation. Iqbal and Sarwar (2020) recommend that the government should focus on improving the business environment by reducing bureaucratic hurdles and corruption to promote investment and economic growth.

### Research Gap

Very few studies conducted in Pakistan have focused on investigating the impact of political instability on low economic growth. Instead, research has predominantly focused on economic factors such as low productivity, investment, and *Economic Growth*. However, when examining Pakistan's economic history, it is evident that political unrest has significantly hindered the country's economic development (Qureshi et al., 2010). Over the past several decades, Pakistan has been governed by military and political regimes, which have been prone to sociopolitical unrest. This study aims to identify the variables that contribute to Pakistan's economic growth during times of political instability and changes in government administration.

### Hypotheses of the Study

- H01:** Different indicators of Political Instability have no significant impact on Low Productivity.
- H02:** Regression output regarding the Impact of the Political Stability Index (PSI) on Economic Growth (EG).

**H03:** There is an association between Political Stability Index and Economic Growth (As per World Bank Data).

### Research Methodology

Investigating the influence of political instability on economic growth was the main aim of the current research. Thus, using a quantitative research approach and a questionnaire-based survey using quotes from the literature, the researcher collected data on political unrest. Journalists, attorneys, political science scholars, and political candidates participated in the current study (MPAs, MNAs, Nazims).

Thus, the study's sample was chosen via purposive sampling. Researchers may extract a lot of information from the data they have gathered by using purposeful sampling. Lawyers, journalists, PhD academics, and political candidates made up the 400-person sample that was chosen for the study. After evaluating the literature, the researcher created a questionnaire using a five-point Likert scale. Multiple proxies are used to quantify political instability (PI). The questionnaire has a clear and easy structure. The questionnaire was divided into two parts. The questionnaire's first section is based on demographic data such as district, gender, and status. The second section of the survey is based on sections related to the research hypothesis. Following data collection, the researcher entered the information from the questionnaire replies into the statistical analysis programme SPSS (21.0). The data were examined using the subsequent statistical methods.

### Data Analysis & Results

#### Inferential Statistics

#### Influence of Political Instability on Low Productivity

The relationship between Political Instability (PI) and Economic Growth is seen in Table 4.7. (EG). The data from the table shows that the two variables, political instability (PI) and economic growth (EG), have a negative correlation ( $r = -.4835^{**}$ ). Additionally, the

outcome suggests a connection between political instability (PI) and inflation rate (p=.000\*). Thus, the claim that political unrest has little to do with EG is disproved.

**Table 1**

*H02: Different indicators of Political Instability have no significant impact on Low Productivity.*

		Political Instability	EG
Political Instability	Pearson Correlation	1	-.483**
	Sig. (2-tailed)		.000
	N	400	400

\*\**. Correlation is significant at the 0.01 level (2-tailed).p>.05*

### Impact of the Political Stability Index (PSI) on Economic Growth (EG)

The regression output effect of political instability on economic growth is shown in Table 4.8 (a) (EG). The table above is the first section of the model summary for H02. The

table demonstrates that the independent variable (political instability) accounts for 23% of the variation in the dependent variable, with R=.483 and R<sup>2</sup> =.233. (Economic Growth). There is no auto, correlation between the variables, according to the Durban Watson value (1.85).

**Table 2**

*Regression Output Regarding the Impact of the Political Stability Index (PSI) on Economic Growth (EG).*

Variable	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durban Watson
Political Instability	.483a	.233	.227	1.59356	1.85

*Dependent variable: EG*

### Association between Political Stability Index and Economic Growth

According to statistics from the World Bank, Table 4.23 shows a link between the Political Stability Index (PSI) and Economic Growth (EG). The data from the table shows that the

Political Stability Index (PSI) and Economic Growth have a negative correlation (r=-.889). Additionally, the study shows a negative link (P=.000\*) between the Political Stability Index (PSI) and Economic Growth. Therefore, the claim that PSI and EG have no connection is disproved.

**Table 3**

*Association between Political Stability Index and Economic Growth (As per World Bank Data).*

		Political stability	Economic Gwoth
Political Instability	Pearson Correlation	1	-.889
	Sig. (2-tailed)		.000
	N (Observations)	08	08

\*\**. Correlation is significant at the 0.01 level (2-tailed).*

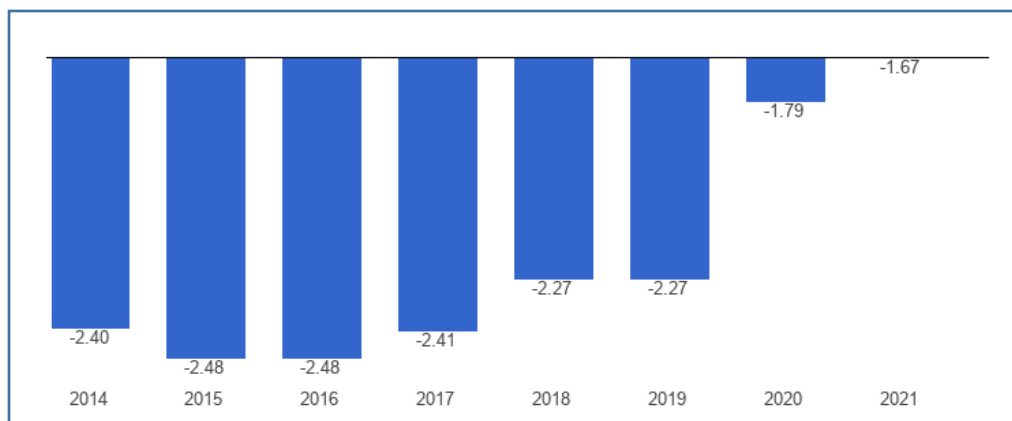
The Pakistan PSI is displayed in the graph above. Pakistan's average score for that time

period was 2.09 points, with the lowest score of 2.81 points coming in 2011 and the highest

score of 1.1 points coming in 2000. The most recent figure is 1.67 points from 2021. In contrast, the 2021 global average, calculated from data from 194 nations, is -0.07 points.

**Figure 1**

*Political Stability Index (Source: The World Bank).*



The graph up top shows Pakistan's real GDP growth rate or economic growth rate. The average value for Pakistan during that period was 5.05 per cent with a minimum of -1.33 per cent in 2020 and a maximum of 11.35 per cent

in 1970. The most recent estimate is 6.03 per cent for 2021. For comparison, the world average in 2021 based on 175 countries is 5.13 per cent.

**Figure 2**

*Economic Growth Rate (Source: The World Bank).*

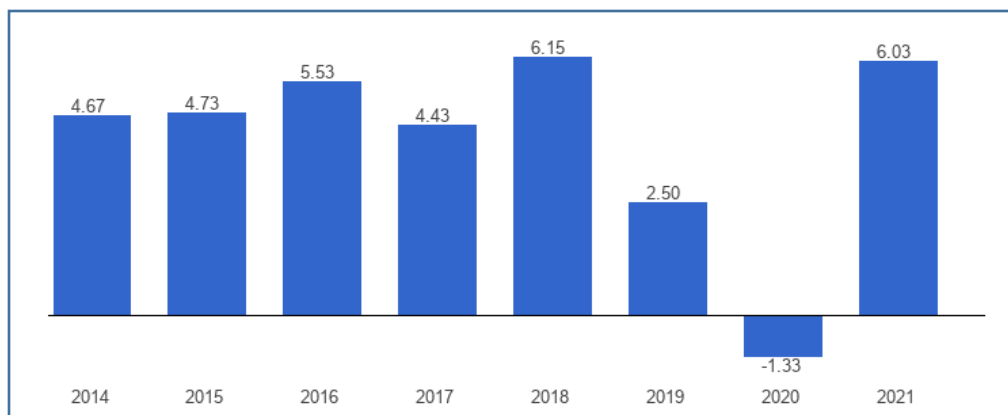


Table 4.24 (a) shows how various indicators' regression output effects. a political environment that is stable and growing The first section of the model summary connected to H018 is the table above. The table's R2 value

of.790 indicates that the independent variable (PSI) in the dependent variable accounts for 79% of the variation (EG). It is clear that there is no autocorrelation between the variables based on the Durban Watson value (2.89).



Table 4

Regression output regarding the Impact of the Political Stability Index (PSI) on Economic Growth (EG) (As per World Bank Data).

Variable	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durban Watson
PSI	.889a	.790	.748	1.27239	2.89

Dependent Variable: EG

## Discussion

The data analysis shows that the independent variable (political instability), which accounts for 23% of the variation in the dependent variable, has values of  $R=.483$  and  $R^2=.233$ . (Economic Growth). The data analysis demonstrates that Political Instability (PI) and GDP have a negative correlation ( $r=-.775^{**}$ ). The outcome also shows a correlation between political instability (PI) and gross domestic product ( $P=.000^*$ ). Therefore, the claim that PI has a bad connection with GDP is accepted here.

The study's findings indicate that the independent variable (political instability), which accounts for 60% of the variation in the dependent variable, has values of  $R=.776$  and  $R^2=.602$ , respectively (GDP). Additionally, the significance level of  $p=.000.05$  shows that the null hypothesis may be rejected. In other words, political unrest has a major effect on GDP. The fact that the regression model is accurate is sufficiently demonstrated by the fact that both the regression mean square value (86.840) and residual mean square value (1.452) considerably contribute to the F, statistic. The coefficient is shown by the. If the independent variable (PI) grows by one unit, then the dependent variable decreases by .558 (SD) units, according to the value of positive (.558). (GDP). Therefore, the claim that political instability has no discernible effect on the EG is disapproved.

The study's findings also indicate that the independent variable (indicators of Political Instability) accounts for 38% of the variation in the dependent variable, with  $R^2=.382$  (GDP). Additionally, the F value of 25.69 indicates that the study's sample data give adequate proof that the model fits. The table shows that  $p=.000 .05$ , demonstrating that the null hypothesis may be rejected. The F, statistic

strongly depends on both the regression mean square value (1.590) and the residual mean square value (40.975), which is adequate proof that the regression model is correct. A given change in TRA ( $=.237$ ,  $p.05$ ), Govtype ( $=.065$ ,  $p.05$ ), and Election ( $=.686$ ,  $p.05$ ) is correlated with a specific change in GDP. There is hence a strong impact of three parameters of PI is visible here.

## Conclusion

Political unrest slows economic growth, and this slowdown and loss in economic activity make it riskier for both domestic and foreign investors to place their money in such an atmosphere. This decrease in investment lowers productivity, savings, and consumption levels due to a decline in the average person's earning potential and purchasing power (Tabassam et al., 2016). Political instability is a complex and multifaceted phenomenon that can have significant negative impacts on social, economic, and political development. It is crucial for governments and international organizations to address the root causes of political instability and work towards building more stable and resilient societies. Political instability in Pakistan has significant negative effects on economic growth, which has been hampered by a lack of investment, high levels of unemployment and poverty, inflation and currency devaluation, loss of trade opportunities, and disruptions to government policies. The low productivity of economic growth in Pakistan is influenced by various factors, including inadequate investment in research and development, lack of technological advancement, low levels of human capital, and inefficient resource allocation. Addressing these factors through targeted policies and investment can help improve Pakistan's productivity and competitiveness in the global economy.

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