

## Political instability and economy of Pakistan.

### ① Introduction

#### ① Thesis Statement:

Political instability and weak economy are major national security threats faced by Pakistan. Political instability is caused by both political and economic factors. These factors have negatively impacted the economy like, low FDI and higher inflation etc. However, certain timely measures could help to mitigate the impacts.

### ② Causes of political instability.

① Political polarization

② Interference of non-political forces.

③ weak economic output.

④ weak democratic institutions.



② Economic outlook of Pakistan.

- Ⓐ Increasing debt
- Ⓑ Trade deficit
- Ⓒ Current account deficit
- Ⓓ Depleting foreign Reserves
- Ⓔ Higher inflation.

③ Impact of political instability on economy.

- (i) Decrease in FDI
- (ii) Increase in inflation
- (iii) Decrease in investors confidence
- (iv) Flight of Industries from country
- (v) Loss in economic activities

④ Remedies for impacts of political instability

- a) Political parties should <sup>resolve</sup> their differences.
- b) Need for national economic plan.
- c) non democratic institution should stop interfering in politics.

⑤ Conclusion.



Since the inception of the Pakistan it is facing many problems among these problems are political instability and weak economy. These two problems are considered as threat to the national security of the country. These problems have negatively impacted the lives of ordinary people. The causes of political instability are; political polarization in the country, interference of non political forces in politics, weak economic performance of the country and weak democratic institution. Similarly, the economy of Pakistan is in a dismal state. Currently Pakistan is facing issue of mounting debt, high trade deficit, increasing current account deficit, depleting foreign reserves and higher



inflation. There is direct relationship between political instability and economy. The current political instability has badly impacted the economy like decrease in foreign direct investment, increase in inflation, decrease in investor confidence, flight of industries and loss in economic activity. Thus, political instability and weak economic situation are major national security ~~threat~~ threats.

Political instability is caused by both political and economic factors etc. These factors have negatively impacted the economy of Pakistan like low foreign direct investment and higher inflation etc. However, certain timely measures could help to mitigate its impacts.



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Political instability ~~and~~ has huge huge impact on the economy. Political instability and ~~to~~ economy are interrelated. Political instability <sup>is measured</sup> by Cabinet Changes. It is regarded by economists as a serious malaise harmful to economic performance. Political instability is likely to shorten policymakers horizons leading to suboptimal short-term macro-economic policies. Thus there is clear relationship between political instability and economy.

One of the most important cause of political instability in Pakistan is the growing political polarization. Due to political polarization political leaders do not resolve their differences which leads to political instability. For example in Pakistan due



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to political polarization different political leaders turn to unconstitutional measures which exacerbates political instability. Thus, increasing political polarization is causing political instability.

Beside political polarization, another cause of political instability is interference of non political forces in politics. Pakistan has history of involvement of non-political forces in country politics. For example, during 1990s non political forces ousted elected Prime ministers from their offices.

The non democratic forces have weakened the democratic institutions of the country. These forces interfere in politics ~~under~~ in order to achieve their interests. Current statements from



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The military establishment shows that they are actively interfering and influencing the political system. Thus, involvement of these non-political forces have weakened the democratic ~~condition~~ <sup>environment</sup> of the country.

Apart from interference of non-democratic forces, the poor economic conditions ~~it~~ play important role in the political instability. Economic growth are essential for healthy politics. For example, higher inflation and high cost of living compel Pakistan democratic movement to start protests and bring bill of no ~~confidence~~ which resulted in the removal of PM Imran Khan from the office. Similarly, the weak economic conditions were main reason for change of government in Sri Lanka.



Therefore, economic stability plays an important role in the political stability of a country. Along with the poor economic growth, weak democratic institutions cause political instability. Political institutions play an important role in politics. Democratic institutions like parliament plays important role in political process. Due to weak political institution the political leaders are often ousted from offices <sup>by</sup> ~~from~~ other institutions. The institutional shortcomings paves way for the military to step in. ~~and~~ In short, political weak democratic institutions have troubling political implications. Currently, the economic condition of the country is dismal. Pakistan is currently



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facing issue of increasing foreign and internal debt. The mounting debt is not only affecting Pakistan politically but also has economic implications. According to the former prime minister Imran Khan, "high debt and low revenue collection are ~~security~~ threats to the national security of the country." Also the burden of debt is increasing since 2018. According to the Economic Survey of Pakistan, total public debt was Rs. 44,366 bn at end of march 2022. (Economic survey of Pakistan 2021-22). Also, debt to ~~gdp~~ GDP <sup>ratio</sup> during fiscal year 2022 was 72.4 pc. Thus, ~~the~~ high debt is one of the most important issue faced by Pakistan.

Apart from high debt, increasing trade deficit is another



major issue faced by Pakistan. Exports play an important role in the economy as not only create jobs but also increase foreign reserves. Pakistan has history of high imports and lower exports.

According to Economic survey of Pakistan, the exports during fiscal year 2022 were 26.8 bn dollars. On otherhand imports stood at \$ 5.9 bn. (Economic Survey 2021-22). Pakistan witnessed high trade deficit of \$32.9 bn in FY 2022. Such high trade deficit negatively impact the industries, job markets and foreign reserves.

Along with high trade deficit, another major issued faced by the country is high current account deficit. Since inception of Pakistan, the country is facing issue of current account deficit. Current



account shows the country economic conditions. Many factors play important role in balancing current account like remittances and exports. Current account posted a deficit of 13.8 bn dollars against a deficit of \$ 543m last year. (Economic Survey 2021-22). Therefore, current account deficit is major economic issue faced by Pakistan.

Beside current account deficit, depleting foreign reserves is another issue faced by the country. Foreign reserves help a country to pay its loans and pay for purchases of imports. Currently, Pakistan has lower foreign reserves. According to State bank of Pakistan, SBP has only 5.576 bn \$ of reserves. Through these reserves Pakistan is only able



of pay imports of three weeks. Due to such low foreign reserves there is great chance of country default on foreign loans.

Along with low foreign reserves, higher inflation is causing wreack havoc in the economy.

Higher inflation in Pakistan is due both internal and external factors. Like high crude oil prices and low foreign currency reserves. Inflation cause both political and economic instability.

During fiscal year 2022,

Consumer Price Index was

8.3 percent which was much

higher than FY 2021 (Economic Survey of Pakistan, 2021-22).

Current inflation is more than

30 percent. Higher inflation is

main cause of higher living costs and low wages.



One of major political impact of political instability on Pakistan is decreasing in Foreign direct Investment (FDI). ~~FDI direct investment~~ <sup>FDI</sup> plays an important role in development of a country. Due to political instability, Pakistan witnessed decrease in FDI in FY 2022.

According to Economic Survey of Pakistan, in fiscal year 2022 FDI decrease by 1.6 percent (Economic survey of Pakistan, 2021-2022). ~~Decrease in FDI negatively impact the already poor investment environment in the country.~~

Along with decreasing FDI, another major impact of political instability is higher inflation. Due to political instability politicians are diverting much of their ene-



gies from inflation control etc. Due to current instability, Pakistan witnessed one of the highest inflation in its history. Higher inflation results in social unrest which threaten the socio-political set-up of the country. Thus, political instability causes higher inflation which result in higher cost of living.

Apart from higher inflation, ~~the~~ Political uncertainty leads to decrease in investors confidence. Investors play an important role in economic growth of a country. According to IMF report, socio-political instability generates an uncertain political-economic environment, raising risks and reducing investment. Similar results were seen in Pakistan. During current instability in the country, the Pakistan Stock



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exchange perform will poorly. which is investor loss of confidence in Pakistan economy.

Along with decrease in investors confidence, flight of industries ~~on~~ <sup>from</sup> countries are major impact of political instability.

Industries plays an important role in the development of a country.

During 1990s many industries relocated from Pakistan to neighboring countries like India and Bangladesh. (Book: Issues in

Pakistan economy). Political stability play crucial role in the flourishing of the local industries. Thus, due to political instability ~~re~~ relocation of industries takes place.

Similarly, loss in economic activities are another major impact of political instability. Countries having political



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instability suffers from economic losses. According to IMF report, countries which had political instability ~~between 1960 to 2009~~ the real GDP per capita growth rate decreased by more than 2 percent. Also report published by PIDE, only in 2019 strikes in Pakistan cost around 2 pc of GDP. Political instability results in allocation of resources to other means. Like, 400 m rupees of the tax payers money has already been approved to deal with the PTI long march. (Business Recorder). Thus, political instability results in significant loss of economic activities.

Certain timely measures could help to mitigate its impacts. One of the most important among them is that



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political leaders should solve their differences through mutual negotiations. According to the book "Pakistan a hard country", political leaders don't solve their differences and case of defeat in elections prefer the military to take over. Through mutual negotiations the politician can resolve set of problems including political instability.

Along with resolving their differences, the politician needs to formulate national economic plan. As Pakistan economic problems are deep and single party can not solve these issues. Therefore, the politicians need to unite for national interest and set a national economic plan. The plan should include how to decrease the mortality



debt, increasing trade deficit and controlling inflation etc.

Apart from formulating national economic plan, non-interference of ~~the~~ non-democratic institutions will help to mitigate the impacts of political instability. Interference of non-democratic forces weaken both the economy and political system of Pakistan. Therefore, the non-democratic institutions need to perform their constitutional duties and should adopt policy of non-interference in political system.

In nutshell, political instability is major issue faced by the country. Political instability in Pakistan is caused by many factors ranging from political polarization, interference of non-democratic forces and weak economic performance.



Similarly, Economy of Pakistan is facing set of problems like high debt, trade deficit and higher inflation etc. The political instability and economy are inter dependent. The political instability hugely impact the economy and cause decrease in FDI, loss in economic activities and increase in inflation etc. Thus, political instability and weak economy are national security threats. Political instability is caused by a set of factors, which negatively impacts the economy of the country. However, certain timely measures could reduce the impacts.