

How Political instability hurts economic growth?

Outline

1- Introduction

Thesis statement:

Political stability and economic growth are in tandem with each other. However Political instability creates a climate of uncertainty that discourages investments, triggers capital flight disrupts trade and effect all sector's development.

2- Relationship between economic growth and Political instability.

3- How Political instability hurts economic growth?

3.1- Political instability discourages investments due to

a) Policy shifts by new governments creating uncertainty for long-term Planning
→ Textile industry tax break reversal in 2018

b) Violence and unrest - posing risk of property damage and disruptions.

→ Ongoing insurgency in Balochistan continues to deter investments.

3.2- Political instability triggers capital flight (withdrawal of investments)

3.3- Depreciation in currency

3.4- Assets seizure by the government during regime changes.

→ Nationalization of banks in 1970s

3.5- Shortage of capital needed for business expansion and infrastructure modernization.

3.6- Lower job creation and productivity growth.

→ Pakistan's gross fixed capital formation remains below 20% of GDP (World Bank)

3.7- Rise in inflation

→ Hyperinflation in 2023 (37.97% all time high record)

3.8- Strained relations with neighboring countries, particularly India leading to trade restrictions and tariffs.

3.9- Increased risk of international sanctions hindering trade.

→ The recent implementation of the illegal foreigners Repatriation Plate in late 2023 has caused friction with neighboring Afghanistan, potentially impacting cross-border trade.

→ Stagnant GDP to trade ratio

3-10- Limited export-led growth

3-11- Limited access to imported goods and technologies essential for domestic

~~3-11~~ Production and diversification.

3-12- Difficulty in securing long term financing for agricultural development

3-13- Discourages new business creation and hindrance in growth and expansion of Small and Medium enterprises.

4- Conclusion

kindly provide detailed feedback. It will be helpful in improvement