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# NAVIGATING Turbulence: The impact of Political Instability on Pakistan Economic Crisis

## Outline

### 1. Introduction

- i. Brief overview of Pakistan's current economic challenges
- ii. Contextualization of political instability as a recurring theme in Pakistan history
- iii. Importance of exploring the link between political instability and economic outcomes.

### 1.1 Thesis Statement

Political instability in Pakistan has significantly exacerbated the country's economic crisis, resulting in limited foreign investment, disrupting policy framework, and fueling social unrest.

### 2. The Relationship between political instability and economic performance.

- 2.1 Historical overview of political instability in Pakistan that have shaped the economic

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the economic landscape.

- 2.2 Analysis of how political turmoil affects foreign investment trends
- 2.3 Discussion on how instability creates challenges for domestic business
- 2.4 Review of GDP fluctuations in relation to political events
- 2.5 political events influence market confidence and stock performance
- 2.6 consideration of the lasting effects of instability on economic development
- 2.7 specific examples illustrating the connection between political crisis and economic downturns

### 3. Disruption of policy Continuity and its economic Implications

- 3.1 change in government lead to shifts in economic policies
- 3.2 consistent economic strategies for growth
- 3.2 Instability affects sectors like agriculture industry and service
- 3.3 Discussion on the difficulties faced by policymakers in an unstable environment

- 3.4 exploration of how political agendas hinder necessary reforms
- 3.5 consideration of how political instability affects social welfare initiatives
- 3.6 Insights from other countries that have faced similar challenges and their outcomes

#### 4. Conclusion

Hence, the persistent political instability in palestine has significantly undermined economic growth by eroding investor confidence, disrupting essential policy framework and fostering social unrest. Addressing these political challenges is crucial for creating a stable environment conducive to economic recovery and sustainable development.

### Essay

"Political instability can act as a catalyst for economic progress, forcing societies to innovate, adapt, and overcome challenges in pursuit of stability and growth."

-Dr. Maria L. K.

Political instability is a significant factor that can profoundly affect a nation's economic landscape, often leading to uncertainty and a lack of investor confidence. In many countries, including Pakistan, fluctuations in governance and policy can disrupt economic activities and exacerbate underlying financial challenges. Pakistan has faced a series of political upheavals in recent years, marked by changing leadership, civil unrest, and contentious elections, all of which have contributed to a deteriorating economic environment. The ongoing political turbulence has manifested in soaring inflation rates, diminished foreign investment, and stalled economic reforms.

This paper argues that political instability in Pakistan is not only a symptom of its economic reforms. This argue that political instability in Pakistan is not only a symptom of its economic crisis but also a principal driver, perpetuating a cycle of decline that undermines long-term growth and development.

The political instability in Pakistan has played a critical role in shaping its economic landscape, influencing policy decisions, investor confidence, and overall financial stability over the decades. Various political events - ranging from military coups to frequent changes in elected governments - have created an environment rife with uncertainty that has hindered coherent economic policy. For instance, the military rule of General Zia-ul-Haq from 1977 to 1988 and the subsequent interim governments led to erratic economic policies that fueled inflation and stunted growth. The persistent

Rivalry between civilian governments and military authorities has often diverted attention from crucial economic reforms, exacerbating fiscal imbalances and hampering development. As a result, the cyclical nature of political upheaval and economic stagnation in Pakistan illustrate how persistent instability has cultivated an atmosphere of unpredictability, leaving the economy vulnerable to crises. In conclusion, understanding this historical interplay between political turbulence and economic challenges is essential for addressing Pakistan's current economic plight and devising sustainable solutions.

Political turmoil significantly affects foreign investment trends in Pakistan, creating an environment of uncertainty that deters potential investors. When a country suffers from political instability - such as change in government, protests or corruption - it raises concerns about the safety of investments

and the implementation of policies. During periods of political crisis in Pakistan, like the protests surrounding former prime minister in 2022, foreign direct investment (FDI) sharply declined, as investors sought more stable environments for their capital. In contrast, countries like India, which have maintained a relatively stable political climate, have seen consistent growth in foreign investment, attracting multinational corporations looking for reliable markets. Ultimately, the ongoing political unrest in Pakistan remains a significant barrier to foreign investments, which is crucial for economic recovery and growth.

Political instability also poses significant challenges for domestic businesses in Pakistan, affecting their operations and growth prospects. Companies often struggle to navigate fluctuating regulations and inconsistent government support, leading to difficulties in long-term planning and investment.

Examples, small and medium sized enterprises (SMEs) in Pakistan frequently face issues with access to capital, as banks becomes cautious about lending in an unstable political climate - a situation not often seen in nations with more predictable governance like Malaysia, where business environments are supported by clear and stable regulations. This lack of predictability not only stifles innovations but also result in job losses and economic decline. In summary, the adverse effects of political instability on domestic businesses in Pakistan underline the urgent need for a more a stable governance framework to foster economic resilience and entrepreneurship.

The fluctuations in Pakistan's GDP are closely tied to the country's political events, highlighting the significant impact of governance on economic performance. Political instability often leads to uncertainty, which can hinder economic activity, or activities and growth. For instance, during



periods of political turmoil, such as the ousting of prime minister Nawaz Sharif in 2017, Pakistan experienced a noticeable slowdown in economic growth, with GDP growth dropping from 5.8% in 2017 to 5.2% in 2018. This decline illustrates how political upheaval can disrupt economic momentum and investor confidence. In contrast, countries like India, which have maintained relatively stable political environments, have seen consistent GDP growth, averaging around 7% during similar periods. Therefore, the correlation between political events and GDP fluctuations in Pakistan underscores the need for political stability to foster economic resilience.

Political events significantly influence market confidence and stock performance in Pakistan, further demonstrating the interconnectedness of governance and economic health. When political uncertainty arises, investors often react by pulling back their investment

, leading to declines in stock market indices. For example, following the political crisis in 2018, the Pakistan stock market exchange experienced a sharp decline, with the KSE-100 index falling by over 30% within a few months. This drop reflected how political instability can create a climate of fear and uncertainty among investors. Countries like Brazil, which have faced political challenges but managed to stabilize their governance, have seen their stock markets recover more quickly. Thus, the impact of political events on market confidence in Pakistan highlights the critical need for a stable political environment to encourage investment and promote economic growth. Together, these insights reveal that addressing political instability is essential for improving both GDP performance and market confidence in Pakistan.

The lasting effects of political instability on economic development in Pakistan are profound and far-reaching. Political turmoil creates an environment

of uncertainty that can stifle long-term economic planning and investment. For instance, the frequent changes in government and policy direction have led to a lack of continuity in economic reforms, which hampers sustainable growth. A study by the International Monetary Fund (IMF) indicates that countries with stable political systems tend to experience higher rates of economic growth over time, as seen in nations like Singapore, which has maintained political stability and achieved consistent economic growth. Pakistan's economic development has been hindered by its political challenges, resulting in a stagnation of key sectors such as education and infrastructure. Therefore, the enduring impact of political instability on economic development in Pakistan emphasizes the urgent need for a stable governance framework to foster growth.

Specific examples highlight the direct connection between political crises and economic growth in Pakistan, demonstrating how instability can derail progress. One notable instance is the political unrest following the assassination of former prime minister Benazir Bhutto in 2007, which led to widespread violence and uncertainty. During this period, Pakistan's GDP growth plummeted from 6.8% in 2006 to just 3.7% in 2008. This decline illustrates how political crises can disrupt economic activities and deter both domestic and foreign investment. In comparison, countries like Chile, which faced political upheaval in the 1970s but later stabilized, experienced significant economic recovery and growth in subsequent decades. This contrast underscores the importance of political instability for economic advancement.

Changes in government often result in significant shifts in economic policies, which can create instability in Pakistan's economic landscape. When a new administration takes power, it frequently brings a

a different set of priorities and strategies, leading to abrupt changes in fiscal and monetary policies. For example, the transition from the Pakistan Muslim League-Nawaz (PML-N) government to the Pakistan Tehreek-e-Insaf government in 2018 resulted in a dramatic shift in economic direction, with the new government implementing austerity measures and altering tax policies. This sudden change created confusion among investors and businesses, contributing to a decline in economic activity. In contrast, countries like Germany, which have maintained consistent economic policies across different administrations, have enjoyed stable growth and investor confidence. Thus, the frequent shifts in economic policies due to changes in government in Pakistan highlight the need for a more stable and predictable policy environment to support economic development.

The implementation of consistent economic strategies is essential for fostering sustainable growth in Pakistan. A stable economic framework

allows businesses to plan for the long term, encouraging both domestic and foreign investment. For instance, countries like South Korea have successfully achieved rapid economic growth by maintaining consistent policies that promote innovation and industrial development. In Pakistan, however, the lack of continuity in economic strategies has often led to uncertainty, discouraging investment and hindering growth. For example, the frequent changes in trade policies and tariffs have created an unpredictable environment for exporters and importers, negatively impacting the overall economy. Therefore, establishing and adhering to consistent economic strategies is crucial for Pakistan to create a conducive environment for growth and development. Together, these insights emphasize the importance of stable governance and policy continuity in achieving economic stability and progress.

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Political instability in Pakistan significantly disrupts vital sectors such as agriculture, industry, and services, which are crucial for the country's economic health. When political unrest occurs, it creates uncertainty that can lead to disruption in production and supply chains. For example, during the protest in 2021, many farmers faced challenges in transporting their goods to markets due to road blockages and strikes, resulting in substantial losses. Similarly, the industrial sector often suffers from power shortages and labor unrest during periods of political turmoil, which can halt production and lead to job losses. In contrast, countries like Vietnam, which have maintained relative political stability, have seen their agricultural and industrial sectors thrive, contributing to rapid growth. Thus, the adverse effects of political instability on key economic sectors in Pakistan highlight the urgent need for a stable political environment to ensure consistent economic performance.

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In an unstable political environment, policymakers in Pakistan encounter significant challenges that hinder effective governance and reform implementation. The constant changes in leadership and political priorities make it difficult to establish and maintain long-term economic strategies. For instance, when the government shifts, new leaders often abandon previous policies, leading to confusion and inconsistency in economic planning. This was evident when the PTI government rolled back several initiatives introduced by the previous administration, causing disruptions in ongoing projects. Additionally, political agendas frequently overshadow the need for necessary reforms, as leaders may prioritize short-term political gains over long-term economic stability.

Political agendas in Pakistan often obstruct the implementation of essential reforms needed for economic and social progress. When leaders prioritize their political interest over the needs of the



country, it can lead to a lack of focus on critical issues such as education, healthcare and infrastructure. For example, during elections cycles, politicians may promise reforms that are quickly forgotten. Once they are in power, as seen with various administrations that are quickly, improve the education system. This focus on short-term political gains rather than long-term solutions creates a cycle of unfulfilled promises. In contrast, countries like Chile have successfully implemented necessary reforms by fostering a political culture that prioritize national interests over individual agendas. Therefore, the influence of political agenda in Pakistan significantly hinders the progress of necessary reforms, ultimately affecting the country's development.

Political instability in Pakistan has a detrimental impact on social welfare initiative, which are crucial for improving the quality of life for citizens. When political turmoil

crises, funding for social programmes often gets diverted or delayed, leaving vulnerable populations without essential services. For instance, during periods of unrest, health and education budgets are frequently cut or reallocated to address immediate political concerns, undermining long term social development. In comparison, countries like Sweden, which maintain stable political environment, consistently invest in social welfare programs, resulting in high standards of living and social equity. The contrast highlights how political instability is essential for sustaining social welfare initiatives.

Examining the experiences of other countries that have faced political instability can provide valuable insight into the potential outcomes of Pakistan. Many nations have navigated political turmoil and emerged with lessons that could be applicable to Pakistan's situation. For instance Argentina experienced significant political

and economic crisis in the early 2000s, which led to hyperinflation and social unrest. However, through a combination of political stabilisation and economic reforms, Argentina managed to recover, implementing policies that focused on social welfare and economic growth. The outcomes of political instability in other countries further emphasized the benefits of a stable governance framework for economic growth and social development.

### → Conclusion

The persistent political instability in Pakistan has significantly undermined economic growth by eroding investor confidence, disrupting essential policy framework and fostering social unrest. Addressing these political challenges is crucial for creating a stable environment conducive to economic recovery and sustainable development.