

POLITICAL INSTABILITY IN PAKISTAN AND ITS IMPACTS ON ECONOMY

Outline

1) Introduction

Thesis Statement: Political instability is not merely a political problem but a critical economic constraint, as it directly disrupts fiscal management, discourage investment, and weakens institutional capacity, thereby impeding Pakistan's prospects for sustainable economic development

2) Political instability and its historical context

3) Causes of political instability in Pakistan

3.1) Political polarization and party conflict

- Dharna politics in Pakistan

3.2) Dynastic politics and corruption

3.3) Weak democratic institutions

- Politicized bureaucracy

3.4) Institutional overlapping

- Civil-military tension

3.5) External and geopolitical pressure

- IMF and World Bank conditions
- Regional tension with India and Afghanistan

3.6) Socio-economic grievances

- Regional and ethnic disparities

3.7) Security Threats and terrorism

- BLA and TTP

4) Impacts of political instability on economy

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- Political protest in Pakistan leading to trade delays

4.2) Inefficient budget spending

- Public sector Development Programme Misallocation

4.3) Disrupt fiscal management and poor resource allocation

- Provincial-federal fiscal coordination failures

4.4) Impact on foreign direct investment (FDI)

- Current FDI : 2 Bn USD (MOF)

4.5) Informal economy

- Currently 40% of GDP belong to informal economy (SMEDA)

4.6) Impact on Human capital development

- About 40% of population is below poverty line

4.7) Overspending budget on security and defense

- Approx 14.5% budget allocated to defence

5) ~~Global~~ Global examples : way forward

- Learn lesson from developed countries such as Singapore and India

6) Conclusion

Political instability has remained a defining feature of Pakistan's political landscape since independence, profoundly shaping the country's economic trajectory. Frequent changes in government, civil-military tensions, judicial interventions, political polarization, and recurring protests have created an environment of uncertainty that undermines effective governance and long-term economic planning. In such a setting, policy continuity is difficult to sustain, investor confidence remains fragile, and economic reforms are often delayed or reversed. As a result, Pakistan has struggled with persistent challenges such as low economic growth, fiscal deficits, inflation, weak foreign investment, and declining public trust in state ~~sta~~ institutions. As per the Gallup survey, only 24% of population trust government institutions in Pakistan. Political instability is not merely a political problem but a critical economic constraint, hindering the economic development by affecting foreign investment, fiscal management, and trade accounts, thereby impeding Pakistan's prospects for sustainable economic development.

Political instability refers to a condition in which a political system experiences frequent changes in government, weak institutional continuity, constitutional breakdowns, and persistent conflict among state actors, resulting in uncertainty in governance and policymaking. In historical context, Pakistan has faced political instability since its inception in 1947 due to unresolved constitutional issues, leadership crisis, civil-military imbalance, and weak political institutions, leading to repeated military interventions in 1958, 1969, 1977, and 1999. Periods of elected rule were often short-lived and marked by dismissals of governments, judicial activism, and political polarization, preventing the development of stable democratic norms. This historical pattern of interrupted democratic processes and contested authority entrenched instability, which continues to influence Pakistan's political behaviour and governance outcomes.

Political polarization and intense party conflicts have been major contributors to political instability in Pakistan by undermining consensus-based governance and disrupting institutional functioning. Deep ideological and personal rivalries between major political parties often transform political competition into

zero-sum confrontation, where opponents are viewed as illegitimate rather than alternate stakeholders. This has frequently resulted in protests, parliamentary boycotts, and governance paralysis. A clear example is the 2022 no-confidence motion after which resulted dharna politics, mass protests, arrests, and administrative disruptions.

Another cause leading to political instability in Pakistan is dynastic politics and corruption by weakening merit-based leadership, eroding public trust, and intensifying confrontation. The concentration of political power within a few families limits internal party democracy and fuels perceptions of exclusion and elite capture, while recurring corruption allegations against political leaders undermine the legitimacy of elected governments. A notable case is the repeated disqualification and prosecution of prime ministers on corruption related charges, such as the Panama Papers case 2017, which led to the removal of an elected prime minister and triggered prolonged political unrest:

After dynastic politics and corruption, weak democratic institutions have been a central cause of political instability in Pakistan

by failing to ensure continuity, accountability, and constitutional balance among state organs. Fragile political parties, a weak parliament, inconsistent electoral processes, and limited civilian control over policymaking reduce the capacity of democratic institutions to manage political through legal and constitutional means. As a result, disputes are often resolved through extra-parliamentary interventions such as street agitation, judicial involvement, non-civilian influence rather than institutional dialogue. For example, repeated dissolutions of elected governments in the 1990s under Article 58(2)(b) reflected institutional fragility and entrenched instability. Also, the involvement of politics in bureaucracy and institutions had made them fragile and weak.

Another cause leading to political instability in Pakistan^{are} external and ~~politic~~ geopolitical pressures. They constrain domestic policy autonomy and intensify the internal party conflict, particularly during the period of economic crises. Dependence on external financing from institutions such as the IMF and World Bank often requires the implementation of politically unpopular

measures, including subsidy removal, tax increases, and currency devaluation. These conditions frequently provoke public backlash, opposition mobilization, and inter-party conflicts, weakening government legitimacy. For example, repeated IMF stabilization programs, especially during 2019-24 triggered sharp inflation and austerity measures that become the focal points of political agitation and blame games among the parties.

Moreover, institutional overlapping where multiple government agencies have overlapping mandates and unclear responsibilities, is a significant cause of political instability in Pakistan. When institutions duplicate functions or lack coordination, conflicts arise over authority and decision-making, leading to policy reversal and delays, governance inefficiency, and public dissatisfaction. The tension between civil and military institutions since 1947 and causing the instability in the country is living example of institutional overlapping causing political instability.

Socio-economic grievances, particularly those arising from regional and ethnic

disparities, have been a persistent cause of political instability in Pakistan by fueling resentment and demands for greater autonomy or resources. Unequal development, limited access to education and healthcare, and perceived neglect of certain provinces or ethnic groups often translate into political agitation and unrest. A prominent example in this case is Balochistan, where decades of underdevelopment and disputes over natural resource allocation have led to repeated insurgencies and clashes with the federal government. These socio-economic and regional inequalities weaken national cohesion, provoke recurrent political crises, and challenge the stability of governments, making socio-economic grievances a major driver of political instability in Pakistan.

Lastly, security threats and terrorism have been a major cause of political instability in Pakistan by undermining state authority, eroding public confidence, and diverting government attention from governance and development. Persistent terrorist attacks and insurgencies, particularly in border regions and urban centers, create an environment of fear and crisis, often empowering

non-civilian actors and justifying extraordinary measures. For example, the surge in terrorist activity 2007 and 2015 not only weakened civilian government but also increased military involvement in policymaking leading to the weakening of democratic institutions. It results political tension and leading to political instability in Pakistan.

Political instability not only causes political and social tension, but it also hinders the economic development. The first impact of political instability on economy is trade delays and industrial disruptions. As due to political tension and unrest, the political parties call for strikes and protests, which results road closure and logistics problems. Such as during the 2022 no-confidence in Islamabad, the political protestants blocks the road and shutdown the capital and major cities, which affected the trade and industry of the country.

The second factor which is due to political instability is inefficient budget spending. Due to weak institutions and their functioning, the budget allocation among

provinces and its different sectors is uneven which leads to inefficient budget allocation. In this scenario, political bargaining replaces rational budget planning. In case of Pakistan, unstable coalition government use Public sector development program (PSDP) for political appeasement. Funds are diverted to low-priority, constituency-based projects rather than productivity-enhancing investment; which results in the form of unfinished projects, poor infrastructure quality, low growth, and rising public debt. It is common in rural Punjab, Sindh, Balochistan, and KPK.

Another impact of political instability on economy is disrupt fiscal management and poor resource allocation. The rising political tension among the provinces and federal is leading to macroeconomic imbalance and IMF conditionalities tightening. Post 18th amendment, there are coordination issues among the provinces and federal. Provinces are increasing current spending ~~are~~ while federal deficit widens, which affect the overall economy of the country. According to the latest reports

of Ministry of Finance, the current fiscal deficit is 5.8% of GDP impacting the economy of the country.

The fourth factor that is affected due to political instability is the foreign direct investment. An economist, Shahid mehmood argues in his article that Pakistan's investment climate is deeply undermined by systematic uncertainty and risk, which deter both foreign and domestic investors. Despite the country's large market and potential resources, chronic structural weakness make it a highly precarious environment for capital commitment. The current foreign direct investment (FDI) of Pakistan is 2 Billion USD (EDF). The main reasons behind this are weak judicial and administrative system, broader instability, and policy uncertainty, arbitrary government actions, and failure to translate potential into reality.

The fifth economical problem that is caused due to institutions and political issues is informal economy. Due to lack of trust on public institutions and lack of opportunities

people are mostly earning through informal economy. According to Small and Medium Enterprise development authority (SMEDA), about 40% of GDP belong to informal economy. • About 40% of GDP is not documented in reports which impacts the economy and investment of the country.

Human capital development is also impacted through political and social problems. • Due to corruption and power politics in the country, the lower class is facing crises. As there is increase in inflation, poverty and unemployment. According to Pakistan Bureau of statistics, about 40% of population is below poverty line which not only impacts the economy of the country but Pakistan also faces conditions of IMF and world bank.

After human capital development, Pakistan also faces economic issues due to terrorism and security threats. As increase in security threats from India and Afghanistan and Terrorism. Pakistan has allocated 14.5% of

total budget for defence. by undermining the other ^{social} issues of the country. Also, the spending of huge budget for political protocols and visits affect the economical condition of Pakistan.

Pakistan is facing many economical challenges due to political instability but it can be overcome by bring some structural reforms in revenue and public institutions. Pakistan can learn less from the economic model of India to reduce informal economy and increase revenue. but it can be only possible when there is eradication of social evils like corruption, nepotism, and political conflicts. Pakistan can take reforms like Singapore to ensure meritocracy and strengthen institutions to avoid political instability.

In conclusion, political instability in Pakistan is driven by factors such as weak democratic institutions, civil-military tensions, dynastic politics, corruption, and party polarization. Moreover, socio-economic grievances, security threats and external pressures

has had profound and persistent effects on the country's economy. Frequent changes in government, policy inconsistency, and governance paralysis undermine investor confidence, disrupt trade, and industrial activity, and increase fiscal deficits through inefficient budget spending and populist measures. Thus, Sustained political instability creates a vicious cycle where economic underperformance fuels further unrest, highlighting the urgent need for institutions strengthening, inclusive governance, and policy continuity to achieve political stability and sustainable economic growth in Pakistan.