

# Political Instability Leads to Economic Instability

## Outline

### 1. Introduction

### 2. How political instability leads to economic instability?

- (a) Political instability hinders foreign direct investment and thus hurts economy.
- (b) Industrial growth becomes stagnant with political instability and thus affects economy.
- (c) Job loss with uncertainty in markets becomes widespread with political instability and bolsters economic stagnation.

(d) Political instability hurts GDP growth by inflicting repercussions on major sectors and thus weak economic progress happens.

(e) Decisions of national importance becomes secondary with political instability and puts barriers in front of economy.

(f) Political instability ensures unchecked government and affects economy.

(g) Uncertainty arises among lenders with political instability and attracts economic hurdles.

3. What are the cogent causes of political instability, due to which economic instability occurs?  
(A case study of Pakistan)

(a) Institutional interventions are derailing democratic process and bringing political instability.

(b) Political wrangling are providing space for political instability.

(c) Outdated election process is becoming reasons behind political instability.

(d) Weak judicial structures is exacerbating political instability.

(e) Lack of democratic awareness among populace is encouraging political instability.

4. How political stability can ensure to bring economic stability?  
(A case study of Pakistan)

(a) Altruistic constitutional amendments are necessary to avoid political instability.

(b) Charter of democracy is paramount for political stability.

(c) Robust election reforms are imperative for political stability.

(d) Profound judicial reforms are inevitable to avoid political instability.

(e) Successive campaigns for democratic

education of masses are compulsory for  
political stability.

## 5. Conclusion

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In historical epochs, political stability has given widespread benefits to different nations around the globe, by maintaining economic stability. It has unequivocally ensured the economic benefits for world after world wars. Thus, economic stability and political stability are interdependent upon each other. However, in case of political instability, economic instability occurs and, thus ultimately people suffer with economic hardships. Thus, political instability causes economic instability by creation of hindrances against foreign direct investment, stagnant industrial growth as well as job loss with uncertainties in markets. Moreover, political instability ensues economic instability by hurting GDP growth, decision of national importance and with unchecked governance. There are many developing nations around

the globe, which are facing economic instability with political instability. Pakistan is not an exception in this case. The cause of political instability in Pakistan include institutional interventions, polemical wranglings as well as outdated election process. Notwithstanding, there exist some pragmatic measures for Pakistan to ensure political stability. Which range from altruistic constitutional amendments, Charter of democracy and robust election reforms. On contrary, if Pakistan continues its trajectory along the same lines, the economic collapse will become fate of Pakistan.

The subsequent paragraphs will delve into the reasons, which will explain the impacts of political instability on economy by ensuring economic instability.

First and foremost, political instability hinders foreign direct investment and thus hurts economy. Foreign direct investment (FDI) are crucial for country to enhance the foreign participation and ensures job opportunities for locals. In doing so, a country becomes sufficient in economic development and can also increase foreign exchange reserves for international trade. The highest record investment came in Pakistan stands at \$ 5.4 Billion. in 2008. The last-year FDI, as per State Bank of Pakistan stands at \$1.5B. Which occurs due to political instability. Thus, political instability hurts economic progress by placing

hurdles in front of foreign direct investment.

In the same manner, industrial growth becomes stagnant with political instability and thus affects economy. In a country like Pakistan, industries are playing their due part by contributing 18 percent to GDP as per economic survey of Pakistan 2022-23. But, with the advent of recent political instability in Pakistan, the overall industrial units, which shut their operations stand at 200. This has caused unprecedented damages to Pakistan's economy by reducing its share to GDP. Hence, political instability stands as a barrier in front of industrial growth and contributes in slow economic progress.

In the same fashion, job loss with uncertainties in markets becomes widespread with political instability and bolsters economic stagnation. There is a direct



relations between market and jobs. In the presence of uncertainties, market usually starts shutting down the business. It happens in Pakistan with the most recent political instability. There are about 200,000 people as per the dawn news, who lost their jobs after political instability. Thus, political instability brings uncertainties in markets and thus affects economy with job loss at massive level.

In the continuous manner, political instability hurts GDP growth by inflicting repercussions on major sector and thus weak economic progress happens. The GDP growth of Pakistan was at 3.4 percent in 2019 as per the economic survey of Pakistan. Which was dropped to 0.29 percent in the fiscal year of 2023, as per economic survey of Pakistan 2022-23. It has happened with the

Political instability in Pakistan.

Thus, Political instability causes stagnant GDP growth and thus affect economic progress.

Along the same lines, decision of national importance becomes secondary with political instability and puts barriers in front of economy. The basic function of any government in the world is the well-being of their populace. Which occurs through economic stability. In Pakistan, as per the reports of Pakistan Bureau of Statistics, inflation stands at 29.9 percent. It has reached at this level due to instability in the country. Because, the well-being of people become the secondary goal in front of political instability. Hence, political instability encourages inflation by making economy as the secondary issue for decision makers.

Along the similar fashion, political instability causes

unchecked governance and effects economy. It is a widespread fact that the governance of any country has a direct link with economic measures. Because it ensures the policies and brings transparency in the daily business of that country. In Pakistan, the political instability has ensured hurdles for public by bring governance issues. Which has caused widespread increase in inflation, poverty and corruption. Thus, governance without check and balance in the presence of political instability bring economic turmoil.

Along the similar manner, uncertainty arises among lenders with political instability and entrusts economic hurdles. These developing countries, which have economic constraints, have given economic aid for upliftment of that countries. Among these international institutions, International Monetary Fund

and World Bank are the prominent institutions. Those countries, which are facing political instability are also facing hurdles for getting loans from these institutions. As is the case of Pakistan. In which IMF did a Stand-by Arrangement with Pakistan in 2023, due to political instability in the country. Thus, political instability affects economy by creating uncertainties among international lending institutions.

The preceding paragraphs have highlighted the impacts of political instability on economy. Thus, in the forthcoming paragraphs we will delve into the cogent causes behind political instability in Pakistan that lead economic instability.

First and foremost, institutional interventions are derailing democratic process and bringing political instability. Since the inception of country, it has observed or passed

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Through direct military regimes. Which have become the reasons of derailing democracy in Pakistan, and brought political instability.

Their continuous interventions, particularly of the security establishments, whether direct or indirect are affecting democratic values and bringing political instability.

In the similar manner, political wranglings are providing space for political instability.

Pakistan has seen deleterious repercussions due to Article 58(2)(b) and the subsequent use of accountability tool against each other have many times caused political instability. It has given many times space to non-democratic forces and hence derailed the democracy many-times.

In the continuous manner, outdated election process is becoming reason behind political instability. Pakistan has witnessed many times the

alleged claims of rigging, whether pre-poll or post-poll. which has brought many instable events in Pakistan, like the separation of East and West Pakistan.

Similarly, the controversies about 1977 elections and then subsequent chaos. In 2016, it also has ensured the strikes throughout the country. Thus, it has become outdated for transparent elections.

In the consonant manner, weak judicial structure is exacerbating political instability. The country has long history, in which judiciary remains under-influence because of multiple factors, including security of judges. Which has also become reason for the introduction of doctrine of necessity by the judiciary as well as subsequent validation of martial law. Thus, weak judiciary is enhancing political instability.

Along the same lines, lack of democratic awareness among populace is encouraging political instability. In Pakistan, around 60 per-cent population is living in rural areas.

There are not sufficient educational facilities available in many of the rural areas. It has contributed towards illiteracy of masses and led the undemocratic behavior of populace at large.

Thus coming paragraphs will look inside the pragmatic solutions available for Pakistan to ensure political stability and thus ensure economic stability.

First and foremost, altruistic constitutional amendments are necessary to avoid political instability. As many of the causes, that are happening in Pakistan, happen with the institutional interventions, particularly

The interventions from security establishment. Which can be handled by creating constitutional barriers against them. Which also includes not consensus among parties ~~to~~ not to give extension to any ~~the~~ authority holders. So that transparency in institutions could ensure and dust of power can diminish with it.

Along the same lines, Charter of democracy is paramount for political stability. The internal wranglings of politicians have become many times the cause behind political instability, by creating spaces for non-democratic forces. It has caused widespread repercussions upon the democratic culture of Pakistan. Thus, there is a need of Charter of democracy, in which all parties should pledge that they will write in case of threats to democracy in Pakistan.



Along the similar fashion, robust election reforms are imperative for political stability. Being a developing country, Pakistan should bear the burden to learn from foreign developed countries experts, by making them parts of election reforms. The outdated ballot-paper system has brought many times allegations of rigging against the winning candidates and led political instability. Thus, there is a need to learn from neighbouring country to digitize election process.

In the similar manner, profound judicial reforms are inevitable to avoid political instability. In Pakistan, judiciary remains under influence in the matter of appointment of judges and particularly in the matter of security of judges and their families. A structural reforms for the appointment of all

Courts of judges are essential.

In which both the politics and security establishment will not have any kind of interference.

Similarly, both political parties and security establishment should aid judiciary in critical matters without any exchange of benefits in the form of appointments.

In the continuous manner, successive campaigns for democratic education of masses are compulsory for political stability. As most of the people in Pakistan, especially female are not aware about their democratic rights. At massive level, people are not aware how to exercise democratic rights and how to take decision while voting. It many times lead the political instability by becoming culprits of anti-democratic elements and thus hurt the overall process.

In a nutshell, there is a

Deep link of political stability with economic stability. Without which there are mammoth evidences available, which support economic instability. Such elements are the absence of foreign direct investment, stagnant industrial growth as well as job-loss at massive scale. The effects of political instability also vary from GDP growth, hurdles for national decisions and issues with the performance of governance sector. All such are happening in Pakistan with institutional interventions, polemical wranglings, outdated election system as well as lack of democratic awareness. Which can be fixed with constitutional amendments, charter of democracy, election reforms and education of masses. However, in the application of all such solution, the economic collapse of Pakistan will become inevitable.