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ENGLISH ESSAY FINAL

Outline

1) Introduction

Thesis Statement: Political instability causes decline in economic growth due to short-term policies and reduced investment leading to economic instability. It can be addressed by strengthening institutions and taking corrective actions.

2. Political Instability and Economic Instability: Two Way Relation

a) Strong Institutions and long-term policies result in economic growth.

b) Policy formulation and implementation for the stability of economic growth.

3. Impact of Political Instability on Economic Instability

a) Decline in business confidence.

b) Decline in foreign direct investment

c) Devaluation of currency.

d) Stock exchange plunges and decline in foreign reserves.

e) Unstable fiscal and monetary policies.

~~f) Inflation increases~~

4) Consequences of Economic Instability on Overall Growth and Development.

a) Increase in unemployment and poverty

DATE: __/__/____

b) Decline in GDP growth and development
c) social unrest due to socio-economic disparieties

5) Political Instability often Results in Economic Stability
Case Study of India and South korea.

6 Addressing Political and Economic Instability
a) Strengthening institutions and rule of law.
b) Implementation of strong and long-term economic policies

7) Conclusion:

Essay

Economic crisis and political unrest often go hand in hand. This reciprocal relationship between political instability and economic growth can lead to social, ethnic or even national collapse. Instability in political system is common in all countries throughout the world. Political instability often typically defined as likelihood that a government may fall either as a result of disput or intense competition between different parties. Political stability and economic growth work in tandem with each other. In delicate scheme of things, their relationship is such that in absence of the former, DATE : ___/___/_____

the latter dies away, and their relationship has always remained the core of policy making in almost every country. Although there are some instance that indicate that political instability does not cause economic instability rather increase the economic growth, these cases are very few and complex to achieve. The myraid of cases indicate that political instability hinder economic growth by impacting business and investor confidence, stock exchange leading to low investment and foreign reserves. These impact the Gross Domestic Product (GDP) growth and increase inflation causes a range of social and economic crisis. Political instability causes decline in economic growth due to short-term policies and reduced investment leading to economic instability. It can be addressed by strengthening institutions and taking corrective measures.

The impact of political crisis on economic events and fall in economic progress. Consequently, various social scientist have termed the relationship between political instability and economy as a **two way relation.** Political stability and strong institutions provides a conducive environment for economic stability. A stable political climate ensures policy continuity, which is crucial for

DATE: ___/___/______

long-term economic growth. When political institutions are strong and functioning effectively, investors have confidence in stability of the country, leading to increased foreign direct investment (FDI) and domestic investment. However in volatile political climates, investors are deterred and economic growth is impeded.

Futhermore, political stability influences policy formulation and implementation. Inconsistent policies and frequent changes in government ~~policies~~ disrupt economic stability. When political instability prevails, policy makers often struggle to make effective decisions and implement coherent economic strategies. The lack of stability and predictability hampers long-term planning and impedes economic progress.

Political instability has several consequences that directly contribute to economic instability. Political instability declines the business confidence due to prevailing uncertainity. Business rely on stability to make informed decisions, and when confidence wanes, investment and growth suffer. It can be seen in **Pakistan**, which is going through political instability ever since its inception. According to **The Overseas Investment Chamber of Commerce and Industry** in its report "**Business Confidence survey**", Pakistan business confidence decreased to -4% as compared to 17% before The events of

DATE : __/__/____

2022 political unrest - Uncertainty in political sphere leads to delayed investments, reduced productivity and lower business confidence.

Another grave impact of political instability is reduction of foreign direct investment. Foreign direct investment is the primary driver of economic growth, and decrease or absence of foreign direct investment impedes economic growth and development. A study published in Humanities and Social Science Communication on "Impact of Political Instability on Foreign Direct Inflows" in Asia-Pacific countries indicates that a 1% increase in political instability causes 0.5% decrease in foreign direct investment inflows. Another example is of Pakistan whose Foreign direct investment has been slashed by 44% during fiscal year of 2023. The State Bank of Pakistan reported that in fiscal year 2023 The foreign direct investment stands at USD 683 million against USD 1.2 billion in previous year. The decrease in Investment is the result of persistent political havoc since 2022 leading to Lack of investors confidence and decline in investment inflows.

The decline in investment and dollar absence from stock market resulted in decline in foreign reserves which caused the ~~dectir~~ devaluation of currency. The devalued

DATE : ___/___/______

currency slow down economic growth and results in balance of payment crisis. Due to huge exchange rate the payment of loans ~~is~~ becomes ~~difficult~~ ~~resulting in~~ due to less dollar reserves and result in balance of payment crisis. The bankruptcy of **Srilanka** highlights how ~~its~~ devaluation of it's economy resulted in economic instability due to protests and strike (political instability). Similarly, the case study of **Pakistan**, also indicates that due to political instability persistent from April, 2022 resulted in decline in foreign reserves to about only USD 13 million according to **State Bank of Pakistan** as of **February, 2024**. The exchange rate of rupee as per of **February, 2024** is 279 rupees against USD 1. This indicates, that devaluation of currency is a result of political instability and is the leading cause of economic instability of a country.

Political instability first blow is often on stock exchange market. Stock exchange plunges in the market. The stock market is the backbone of economy that provides to the direction of the growth towards economic stability and development. The **United Kingdom** decession to leave **European Union (Brexit)** created significant political uncertainity including debates over trade agreements and the possibility of disorderly.

DATE : ___/___/______

The Uk stock market, particularly companies with exposure to Europe and international trade experienced heightened volatility. Uncertanity surrounding the outcomes led to fluctuations in stock prices, with some sectors such as Financial services and manufacturing. Political instability impacts stock market by creating uncertainity effecting investor sentiment and influencing economic fundamentals and result in economic instability.

Unstable fiscal and monetary policies are another consequence of political instability leading to far reaching impacts on economic growth. In times of instability, governments resort to short-sighted policies aimed at gaining short-term popularity rather than promoting sustainable economic development. Populist measures such as excessive public spending and Subsidies strain the economy, leading to inflation, budget deficits and unsustainable debt burdens. Often times, governments resort to loans to gain short-term popularity and solve the issue of economy. Loans can stable the economy for a short period and result in burdening the economy in longer run.

Economic instability due to political choas and uncertainity results in socioeconomic problems in the country. Due to decreased

DATE: __/__/____

investments and foreign reserves, the businesses and industries shut down resulting in increase in unemployment and poverty. Due to 2022 political choas in **Pakistan**, around 250 industries shut down and resulted in unemployment leading to increased poverty. The unemployement rate recorded by **Internation Monetary Fund**, was 8.5 percent in 2023. The ~~cone~~ consequences of political instability on economic growth causes increase in unemployment leading to poverty.

Another consequence of economic instability is decline in Gross Domestic Product (GDP) of a country and slows down development. A study on Political instability labelled as **"The economic cost of general strikes in Nepal"** revealed that strikes in Nepal led to a decline in Gross Domestic Product growth rate from 0.6% to 2.2%. Similarly, as mentioned in **Paradigm Shift**, in Spain the strike cost is an average of 0.1% of GDP rate. While in Austria, the cost is 0.46% of GDP. These examples indicates how political instability impedes GDP growth of a country and hinders development.

Lastly, political instability exacerbates socio-economic disparities and income inequality. In such environments, resources are often mismanaged, and wealth distribution becomes skewed

DATE: __/__/__

Social divisions and conflicts are more likely to arise, further destablizing the economy. Unequal acess to resources and opportunities hinders economic progress and impedes social cohesion.

Often Times economic growth is not impacted by political instability. Although these instances are rare and very complex and can only happen if the countries have strong long-term economic policies that are not hindered by political choas and unrest. One such example is **India**. According to **World Bank Blogs**, India's industrial growth and economic growth jumped to **double** in the last 20years where it saw change of four PM while in the first 30 years when it has political stability the economic growth was only **3-3.5%**.
Another such example is **South Korea**, which experienced political instability in the mid 20^{th} century including periods of authoritarian rule and political rule. Despite these challenges, South korea implemented economic reforms and gained remarkable economic growth and stability. Although these instances are very few and complex and cannot easily be achieved. The myraid of cases indicate that political instability has far reaching impacts on economic growth and development

DATE: ___/___/______

In summation, ~~it is~~ political instability causes decline in economic growth due to short-term policies and reduced investment leading to economic instability. It can be addressed by strengthening institutions and ensuring rule of law. Long-term ~~policies~~ policy implementation can also lead to economic growth. There are few cases that negates this theory but they are very less and require complex policy implementation to attain. Economic and Political instability has far-reaching impacts on development of country by increasing poverty, declining its GDP growth and causing social unrest. To mitigate the impacts of political instability and economic instability, corrective measures ~~shd~~ should be taken by policy makers.

DATE: ___/___/______

Rough Work

Mind Mapping

Unemployment
poverty
GDP growth and development
Social unrest ← consequences
~~Causes~~ of economic instability

Devaluation of PKR
Industries shut down
Stock exchange plunges
Decline in dollar reserve
Venezuela
Zimbabwawe

Reduction in investment (FDI)

Political instability leads to economic instability

→ Arab Spring
→ PK
→ Inflation

impact on investor confidence
Disruption of trade and commerce
Way forward -
can be opposite (India, ~~Vena~~ Vitenam)
Unstable Fiscal and monetary policies

India (1st 30 years stable political structure but no economic growth (3-3.5%) (last 20 yrs India saw four PM → industrial growth jumps to double (World Bank Blogs)

Bangladesh

Pk Business Confidence decreased to -4% vs 17% in previous wave 21 by Overseas Investment Chamber of commerce Industry published its Business Confidence survey

Jordan