

ENGLISH ESSAY FINAL

20/100

thesis: The intricate relationship between political and economic stability is undeniable, as disruptions in the political landscape invariably translate into economic uncertainties, hindering investment, fostering corruption, and impeding growth, thus establishing a direct correlation between political instability and economic instability

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.

How this

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 ✓

→

increase this main part

4) Consequences of Economic Instability on Overall Growth and Development

- a) Increase in unemployment and poverty

Not asked

- b) Decline in GDP growth and development
- c) Social unrest due to socio-economic disparities

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) Conclusions

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 dispute 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,

the latter dies away, and their relationship has always remained the core of policy making in almost every country. Although there are some instances 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 myriad of cases indicate that political instability hinders 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 scientists 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

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.

Furthermore, political stability influences policy formulation and implementation. Inconsistent policies and frequent changes in government ~~patterns~~ 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 uncertainty. 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

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 devaluation of currency. The devalued

FDI

currency slow down economic growth and results in balance of payment crisis. Due to huge exchange rate the payment of loans becomes difficult resulting in due to less dollar reserves and result in balance of payment crisis. The bankruptcy of Sri Lanka highlights how its devaluation of its 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 decision to leave ~~the~~ European Union (Brexit) created significant political uncertainty including debates over trade agreements and the possibility of disorderly.

→ try Simple explanation

The UK stock market, particularly companies with exposure to Europe and international trade experienced heightened volatility. Uncertainty 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 uncertainty, affecting 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 chaos and uncertainty results in socioeconomic problems in the country. Due to decreased

investments and foreign reserves, the businesses and industries shut down resulting in increase in unemployment and poverty. Due to 2022 political chaos in **Pakistan**, around 250 industries shut down and resulted in unemployment leading to increased poverty. The unemployment rate recorded by **International Monetary Fund**, was 8.5 percent in 2023. The ~~con~~ 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.

Social divisions and conflicts are more likely to arise, further destabilizing the economy. Unequal access 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 chaos 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 20 years 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 20th 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 myriad of cases indicate that political instability has far reaching impacts on economic growth and development.

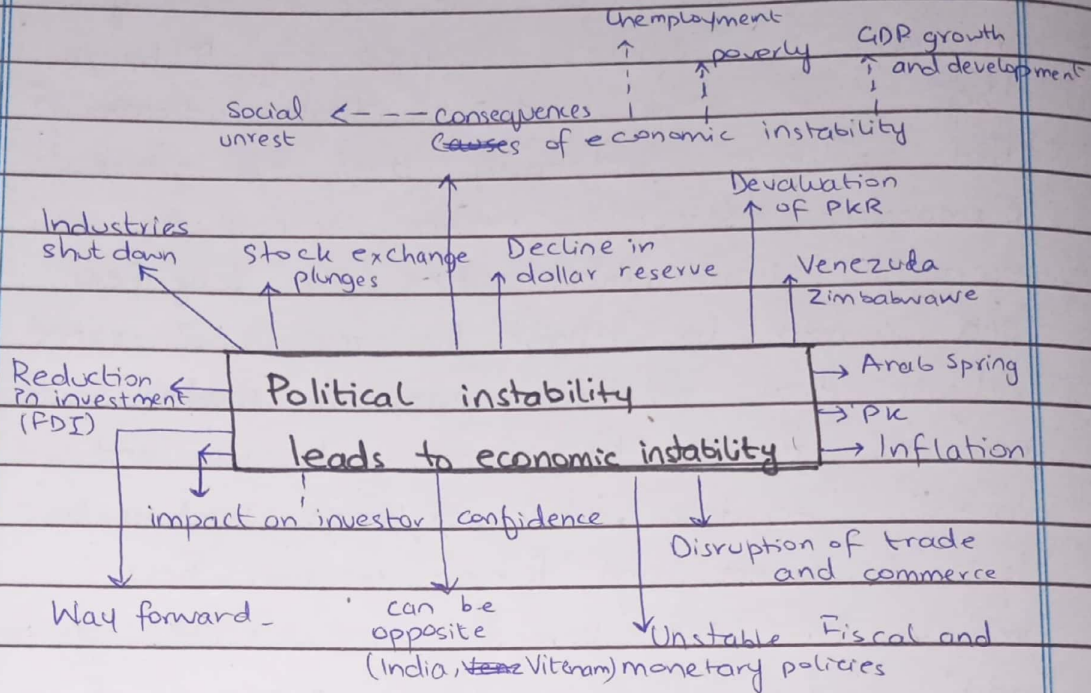
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In summation, it is political instability causes decline in economic growth due to short-term policies and reduced investment leading to economic instability. It can be addressed by strengthening institutions and ensuring rule of law. Long-term policies 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 should be taken by policy makers.

→ Extra
→ less focus on
main part

Rough Work

Mind Mapping



India (1st 30 years stable political structure but no economic growth (3-3.5%)) (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