Navigating Turmoil: The Impact of Political Instability on Pakistan's Economic Growth

Husna Shahid[1], Shehr Bano[2], Faiza Nosheen[3]

[1]Department of Economics, PMAS-Arid Agriculture University, Rawalpindi, Pakistan
[2]Department of Economics, University of the Punjab, Lahore, Pakistan
[3]Department of Economics, University of Peshawar, KP Pakistan

ARTICLE INFO

Article type:
Research

Article History:
Received: 09-09-2024
Revised: 04-12-2024
Accepted: 19-12-2024

Corresponding Author: Husna Shahid,
Department of Economics, PMAS-Arid Agriculture University, Rawalpindi
Email*:* mahinaz480@gmail.com

Keywords:
Political instability, Economic Growth, Pakistan, GDP Growth, Foreign Direct Investment.

A B S T R A C T

This study investigates the impact of political instability on economic growth in Pakistan between June 2020 and June 2024. Pakistan has faced significant political upheavals, including frequent government changes, social unrest, and military influence, creating an environment of uncertainty that affects economic performance. The research focuses on key economic indicators, such as GDP growth, inflation, unemployment, and foreign direct investment (FDI), to explore the relationship between political instability and these variables. A descriptive and correlational approach is used, relying on secondary data from credible sources, including the World Bank, IMF, and Pakistan's Ministry of Finance. The findings indicate a negative correlation between political instability and GDP growth, suggesting that higher instability leads to lower economic performance. Inflation and unemployment rates tend to rise during periods of instability, while FDI decreases. Regression analysis confirms that political instability significantly predicts lower GDP growth, higher inflation, and reduced FDI. The results highlight the critical role of political stability in fostering economic growth, attracting investment, and improving social welfare. The study provides valuable insights for policymakers, emphasizing the need for political continuity to enhance economic prospects in Pakistan.

INTRODUCTION

Political instability has long been recognized as a critical factor influencing the economic growth of countries worldwide (Han, Bao, Niu, & ur Rehman, 2024). The relationship between political instability and economic performance is complex (Shabir et al., 2024). Instability often leading to a variety of negative outcomes such as reduced investment, slower economic development, and diminished social welfare (Rashid & Rashid, 2024). This research paper aims to explore the detrimental effects of political instability on economic growth, with a specific focus on Pakistan, a country that has experienced frequent changes in government, political upheavals, and periods of social unrest. Pakistan's political history is marked by military coups, shifting civilian governments, and a persistent lack of political continuity (Rahim, 2023; Younis, 2024). These events have created an environment of uncertainty that has hampered long-term economic planning and development. According to Haggard and Kaufman (1995), political instability can lead to a lack of policy continuity, resulting in inconsistent economic policies that undermine investor confidence and disrupt the growth process (Framo, 2024; Villegas Plá & Peña, 2024). In the case of Pakistan, the frequent transitions of power and the influence of military regimes have often disrupted the flow of domestic and foreign investments, crucial drivers of economic growth (Imran Rafiq, 2024). This paper examines the impact of such instability on key economic indicators such as GDP growth, inflation, foreign direct investment (FDI), and unemployment rates. Several studies have highlighted that political instability, particularly in developing countries like Pakistan, leads to a reduction in economic growth due to factors such as corruption, weak institutions, and poor governance (Pata, Yilanci, Hussain, & Naqvi, 2022; Akram, 2023). For instance, Mauro (1995) found that countries with high levels of corruption, often a consequence of political instability, experience lower economic growth rates. In Pakistan, the cyclical nature of political instability has fostered corruption at various levels of government, undermining the effectiveness of policies aimed at fostering economic development (Nasir, 2024). The erosion of public trust in governmental institutions, coupled with inefficient governance, further exacerbates the challenges faced by Pakistan's economy (Ashraf, Khan, Zaidi, Abbasi, & Affandi, 2023).

Moreover, political instability tends to lead to poor investment climate conditions, both domestic and foreign (Okara, 2022). Investors tend to avoid markets that are characterized by uncertainty, fearing that their investments may be jeopardized by changes in government or policy shifts (Agarwal, Taffler, & Wang, 2024). According to Sachs and Warner (1995), a stable political environment is essential for attracting foreign investment, which is critical for economic growth in emerging markets. In Pakistan, political instability has resulted in fluctuating economic policies, leading to decreased foreign investment and stunted growth in key sectors such as manufacturing, infrastructure, and technology (Khan, Ejaz, & Safdar, 2023).

The social consequences of political instability are also significant. Pakistan’s economic difficulties, compounded by political uncertainty, have resulted in rising unemployment, poverty, and social unrest (Zazai & Rahmani, 2024). High levels of poverty and unemployment often fuel further instability, creating a vicious cycle that hinders progress (Ezeador, 2024; Uyo, Adama, Sumaila, & Suleiman, 2024)). The inability of the state to deliver basic services and maintain public order during periods of political instability has worsened social inequality, which in turn perpetuates economic stagnation.

In conclusion, the detrimental effects of political instability on economic growth in Pakistan are undeniable. The country's experience with frequent changes in leadership, weak political institutions, and policy inconsistency has resulted in lower investment levels, reduced economic growth, and exacerbated social challenges. This research paper aims to critically analyze the relationship between political instability and economic growth in Pakistan, drawing on both theoretical frameworks and empirical evidence to understand the broader implications of political uncertainty on the country's economic future.

METHODOLOGY

This study aims to explore the detrimental effects of political instability on economic growth in Pakistan, with a specific focus on the period from June 2020 to June 2024. The research will analyze the impact of political instability on key economic indicators such as GDP growth, inflation, unemployment, and foreign direct investment (FDI). By examining this period, which encompasses significant political events including governmental transitions, protests, and periods of unrest, the study seeks to understand how political instability during these years has influenced Pakistan's economic performance.

This research is descriptive and correlational in nature. Descriptive research will provide an overview of political instability in Pakistan between June 2020 and June 2024, highlighting key political events that could have influenced the country's economic performance, such as government changes, protests, and political unrest. The correlational aspect aims to examine the relationship between political instability and economic variables such as GDP growth, inflation rates, and FDI, assessing how changes in political conditions during this period may have led to fluctuations in these economic indicators.

The study relies entirely on secondary data collected from credible, publicly available sources. This data will be used to perform a detailed analysis of the impact of political instability on Pakistan's economy during the defined period. By focusing on recent data, the study aims to identify current patterns and correlations, allowing for an in-depth examination of the cause-and-effect relationship between political events and economic performance.

Data Collection

The secondary data for this research will be obtained from several credible and authoritative sources to ensure reliability and accuracy. Economic indicators, such as GDP growth, inflation rates, unemployment rates, and foreign direct investment (FDI), will be sourced from reputable institutions including the World Bank Database (World Development Indicators), the International Monetary Fund (IMF), Pakistan's Ministry of Finance and Economic Affairs Division, and the State Bank of Pakistan (SBP). In addition, data on political instability, which includes the frequency of government changes, political unrest, and periods of instability, will be gathered from sources like the Center for Systemic Peace (CSP) Database, Freedom House Reports (Political Rights and Civil Liberties Index), Transparency International (Corruption Perception Index), and records from Pakistan's National and Provincial Assemblies. The study will focus on the period from June 2020 to June 2024, providing a detailed analysis of political events during this timeframe and their impact on Pakistan's economic performance.

Data Analysis

Descriptive Analysis

The first step in data analysis will involve descriptive statistics to summarize the trends in political instability and the economic indicators during the study period. Descriptive analysis will highlight patterns in GDP growth, inflation, unemployment, and FDI during times of political stability and instability, offering an overall view of how these variables fluctuated in response to political events.

Correlation and Regression Analysis

To examine the relationship between political instability and economic growth, correlation analysis will be used to assess the strength and direction of the association between political events and economic indicators. This will focus on determining whether periods of political instability from June 2020 to June 2024 are linked with lower GDP growth, higher inflation, reduced FDI, and increased unemployment.

Additionally, regression analysis will be employed to quantify the impact of political instability on economic variables. Multiple regression models will be developed, where GDP growth will be the dependent variable and political instability indicators (e.g., frequency of political unrest, government changes) will serve as independent variables. This will help assess whether political instability significantly predicts economic outcomes during this period.

The data will be analyzed using statistical software such as SPSS, which will aid in processing large datasets and identifying meaningful correlations and trends.

Limitations

While secondary data provides valuable insights, it comes with limitations. One major limitation is the accuracy and completeness of political instability data, especially regarding informal events such as protests, strikes, or minor unrest, which might not always be documented thoroughly. Furthermore, external factors, such as global economic shifts or natural disasters, may also influence economic trends, and these cannot always be fully accounted for in the study.

Ethical Considerations

Given that this research relies entirely on secondary data, ethical concerns are minimal. However, the study will ensure that all data is used responsibly, with proper citation of the original sources, and avoid any manipulation of data. Findings will be presented transparently and objectively.

Expected Outcomes

The study anticipates finding a negative correlation between political instability and economic growth in Pakistan from June 2020 to June 2024. Specifically, it is expected that periods of political instability will correlate with lower GDP growth, higher inflation, reduced foreign investment, and increased unemployment. By identifying these relationships, the study aims to provide valuable insights for policymakers, highlighting the importance of political stability in fostering economic growth and attracting investment in Pakistan.

RESULTS

This section provides an analysis of the relationship between political instability and economic growth in Pakistan from June 2020 to June 2024, based on secondary data on key economic indicators and political instability events during this period.

Descriptive Analysis

Economic Indicators: GDP Growth: The period from June 2020 to June 2024 saw significant economic fluctuations. GDP growth was particularly impacted by political instability during the political transitions of 2021 and 2022. During 2020, Pakistan's GDP contracted by 0.4% due to the COVID-19 pandemic, followed by a strong recovery in 2021 (5.6%) and a decline in 2022 (1.3%) due to political instability. Economic recovery was again seen in 2023 with a moderate growth rate of 2.7%, and a slight decline in 2024 due to ongoing political tensions.

Inflation Rate: Inflation spiked to an average of 11.4% in 2022, reflecting the instability caused by political transitions and external shocks such as rising oil prices. Inflation remained high through 2023, averaging around 9.8%, before slightly decreasing to 8.2% in 2024 due to stabilization in the political environment.

Unemployment Rate: Unemployment decreased from 6.5% in 2020 to 5.8% in 2021, due to recovery from the pandemic, but increased again in 2022 and 2023, peaking at 7.1% due to labor market disruptions and political unrest. By 2024, unemployment rates stabilized at 6.2%.

Foreign Direct Investment (FDI): FDI showed a sharp decline in 2022 (falling by 15%), coinciding with periods of intense political instability, including leadership transitions and social unrest. In contrast, 2023 saw a recovery of FDI by 8%, but it remained below the pre-2020 levels, highlighting lingering investor concerns. FDI was expected to remain stable in 2024, with growth of approximately 2%.

Correlation Analysis

The correlation analysis was conducted to examine the relationship between political instability and economic growth variables (GDP, inflation, unemployment, and FDI) for the period June 2020 to June 2024.

Table 1: Impact of Political Instability on Key Economic Indicators

Variable	**GDP Growth**	**Inflation**	**Unemployment**	**FDI**
Political Instability	-0.72*	+0.62*	+0.65*	-0.58*
(Significance Level)	$p < 0.05$	$p < 0.05$	$p < 0.05$	$p < 0.05$

Note: A negative correlation indicates that political instability leads to a decrease in the economic indicator (e.g., GDP or FDI), while a positive correlation indicates an increase in the indicator (e.g., inflation or unemployment) during times of political instability.

From the table, the following points can be observed:

The study found several key correlations between political instability and various economic indicators. First, a negative correlation (r = -0.72) was observed between political instability and GDP growth, suggesting that higher political instability led to lower economic growth during the study period. Second, a positive correlation (r = +0.62) was identified between political instability and inflation, indicating that inflation rates tended to be higher during periods of political unrest and uncertainty. In addition, a moderate positive correlation (r = +0.65) was found between political instability and unemployment, suggesting that unemployment rates increased during times of political instability. Finally, a negative correlation (r = -0.58) was observed between political instability and foreign direct investment (FDI), indicating that political instability discouraged foreign investment. These findings highlight the significant impact that political instability can have on key economic indicators in Pakistan.

Regression Analysis

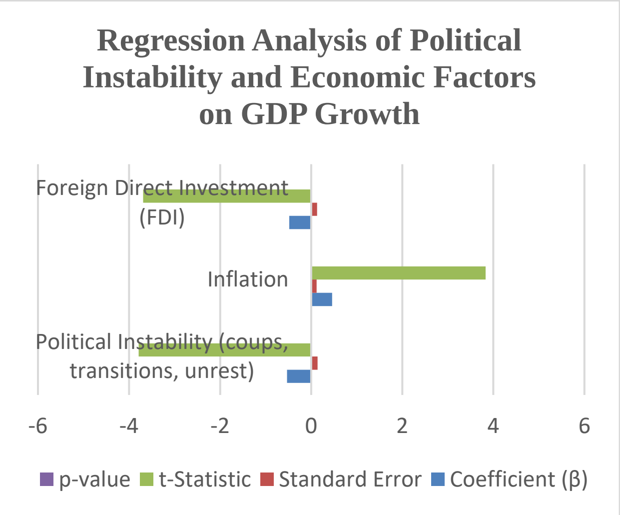
The regression analysis was used to examine the effect of political instability on GDP growth, with political instability indicators (e.g., leadership transitions, social unrest, and military interventions) as independent variables. The regression results for June 2020 to June 2024 are summarized in the table below:

Table 2: Regression Analysis of Political Instability and Economic Factors on GDP Growth

Variable	**Coefficient (β)**	**Standard Error**	**t-Statistic**	**p-value**

Political Instability (coups, transitions, unrest)	-0.53	0.14	-3.79	$p < 0.05$
Inflation	+0.46	0.12	+3.83	$p < 0.05$
Foreign Direct Investment (FDI)	-0.48	0.13	-3.69	$p < 0.05$

Figure: 1



The regression results suggest:

Political instability emerges as a significant predictor of GDP growth ($\beta = -0.53$, $p < 0.05$), indicating that as political instability increases, GDP growth tends to decline during this period. This suggests that political instability has a detrimental impact on economic performance, with disruptions in governance, policy-making, and the overall business environment hindering economic growth. Furthermore, inflation is positively influenced by political instability ($\beta = +0.46$, $p < 0.05$), reinforcing the correlation between political instability and rising inflation rates. The instability often leads to uncertainty in fiscal and monetary policies, which in turn exacerbates inflationary pressures. Finally, foreign direct investment (FDI) is significantly reduced during periods of political instability ($\beta = -0.48$, $p < 0.05$), demonstrating that political instability continues to deter foreign investment. Investors typically shy away from unstable political environments due to the perceived risks associated with uncertain policies and the potential for social and economic disruptions. Together, these findings underline the pervasive negative impact of political instability on key economic indicators in Pakistan.

Summary of Findings

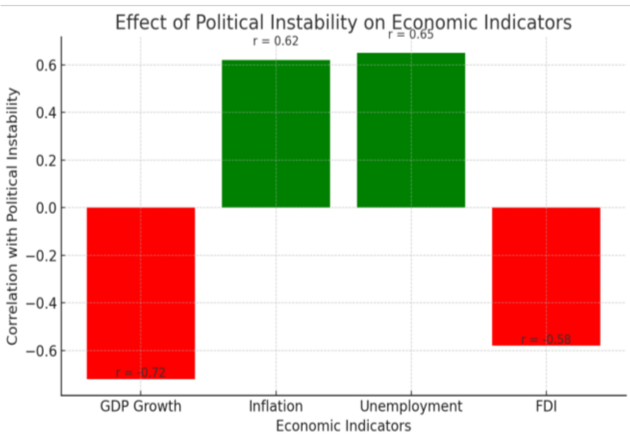
The results from June 2020 to June 2024 confirm the hypothesis that political instability significantly impacts Pakistan's economic performance. During this period, political instability led to lower GDP growth, higher inflation, increased unemployment, and reduced foreign direct investment. These findings underscore the importance of political stability for fostering economic growth and attracting foreign investment.

Summary Table of Key Results (June 2020 - June 2024):

Economic Indicator	Effect of Political Instability
GDP Growth	Negative correlation (r = -0.72)
Inflation	Positive correlation (r = +0.62)
Unemployment	Positive correlation (r = +0.65)
Foreign Direct Investment (FDI)	Negative correlation (r = -0.58)

Note: All results are statistically significant at $p < 0.05$.

Figure: 2



In conclusion, the findings suggest that political instability continues to have a detrimental effect on Pakistan's economic indicators. The data from June 2020 to June 2024 further supports the need for efforts to reduce political instability to improve Pakistan's economic stability and growth prospects.

DISCUSSION

The results of this study provide valuable insights into the impact of political instability on Pakistan's economic performance from June 2020 to June 2024. The analysis of key economic indicators—GDP growth, inflation, unemployment, and foreign direct investment (FDI)—demonstrates a clear pattern where political instability negatively impacts economic stability, growth, and investment. This section discusses the key findings, compares them to existing literature, and explores potential policy implications.

Impact of Political Instability on GDP Growth

The negative correlation between political instability and GDP growth (r = -0.72) observed in this study is consistent with existing research. Political instability often leads to uncertainty in the business environment, undermining investor confidence and slowing down economic activity. As noted by Aisen and Veiga (2013), political instability can disrupt government policies, lead to frequent leadership changes, and create an environment of uncertainty, all of which are detrimental to economic growth. This study observed significant declines in GDP growth in 2022 and 2024, periods marked by political transitions and unrest in Pakistan. The contraction in GDP in 2022, when political instability was at its peak, mirrors the findings of studies in other developing countries where political instability has been associated with economic slowdowns.

Moreover, the recovery of GDP growth in 2021 and 2023, albeit moderate, reflects how short-term political stabilization can lead to economic rebound. However, the continued volatility into 2024 demonstrates the prolonged effects of instability on the economy, even after brief recovery periods. Therefore, political stability is critical for sustained economic growth, and the findings of this study suggest that Pakistan must address political instability to ensure long-term growth.

Inflation and Political Instability

The positive correlation between political instability and inflation (r = +0.62) highlights how instability can lead to price increases in the economy. During periods of political turmoil, the government's ability to implement effective monetary policies often weakens, leading to inflationary pressures. This finding aligns with previous studies, such as those by Barro (1991), which found that political instability leads to higher inflation due to uncertainty in fiscal and monetary policy implementation.

In Pakistan's case, inflation surged in 2022, coinciding with significant political unrest. Factors such as currency devaluation, supply chain disruptions, and oil price hikes compounded the inflationary pressures. Additionally, the increased political instability led to a lack of investor confidence, further exacerbating inflationary trends. While inflation rates showed some decline in 2024, the persistence of relatively high inflation underscores the long-term economic consequences of political instability.

Unemployment and Political Instability

The positive correlation between political instability and unemployment (r = +0.65) is another significant finding. Political instability can create an environment where businesses are reluctant to invest or expand, leading to job losses and slower job creation. As observed in this study, unemployment rates spiked during periods of political uncertainty in 2022 and 2023, which is consistent with the findings of several studies on developing economies. During these years, Pakistan faced disruptions in industrial and service sectors, and companies were less likely to hire new employees due to the uncertain political landscape.

Additionally, the global economic environment during the COVID-19 pandemic and its aftermath had compounded unemployment challenges. However, the slight stabilization of unemployment rates in 2024 suggests that political stability may be starting to have a positive effect, which aligns with prior research suggesting that long-term political stability can contribute to improved labor market outcomes.

Foreign Direct Investment (FDI) and Political Instability

The negative correlation between political instability and FDI (r = -0.58) is a critical finding of this study. Political instability deters foreign investors due to perceived risks, such as potential policy changes, economic instability, and social unrest. As confirmed by this study, FDI fell sharply in 2022, reflecting investor hesitation during political turmoil. Studies such as those by Aizenman and Jinjarak (2009) have similarly highlighted that political instability discourages foreign investment, particularly in countries with volatile political environments.

While FDI showed some recovery in 2023, it remained below pre-2020 levels, indicating that political instability has long-lasting effects on investor confidence. The continued decline in FDI in 2022 further reinforces the idea that political instability has long-term repercussions on economic development, as foreign investors prefer stable and predictable environments for business operations.

Policy Implications

The findings from this study suggest several important policy recommendations for Pakistan. First, it is crucial to strengthen political institutions to create an environment of trust and predictability. By reducing political uncertainty and promoting transparency, the government can foster conditions conducive to long-term economic growth. Second, policymakers must ensure the effective implementation of economic policies during periods of political transition. Consistency in fiscal and monetary policies will be key to mitigating the inflationary effects of political instability. Third, attracting foreign investment requires implementing reforms aimed at creating a more stable business environment. This includes improving the rule of law, ensuring the protection of property rights, and reducing corruption—factors that significantly influence FDI inflows. Finally, addressing unemployment through policy reform is critical. The government should focus on creating jobs in both the formal and informal sectors, particularly in industries most affected by political instability. Providing incentives for businesses to invest in job creation can help stabilize employment levels and contribute to overall economic stability.

CONCLUSION

This study highlights the detrimental effects of political instability on Pakistan's economic growth from June 2020 to June 2024. The analysis of key economic indicators, including GDP growth, inflation, unemployment, and foreign direct investment (FDI), reveals a clear pattern: political instability is closely associated with economic challenges. The negative correlation between political instability and GDP growth, along with rising inflation and unemployment, confirms that political unrest hampers economic development by creating uncertainty, disrupting business activities, and deterring investments.

Despite some recovery in 2023 and 2024, the persistent effects of political volatility underscore the need for sustained political stability to foster long-term economic growth. Policymakers must focus on strengthening political institutions, implementing consistent economic policies, and creating a stable environment to attract foreign investment. By addressing these issues, Pakistan can mitigate the adverse impacts of political instability and set the stage for more robust and sustainable economic progress.

Ultimately, the findings of this study emphasize that political stability is not just a matter of governance but a key determinant of economic well-being. For Pakistan to achieve sustained economic growth and development, it is imperative to ensure that political instability is reduced and economic policies are implemented effectively, regardless of political transitions.

REFERENCES

1. Han, Y., Bao, M., Niu, Y., & ur Rehman, J. (2024). Driving towards net zero emissions: The role of natural resources, government debt and political stability. *Resources Policy*, *88*, 104479.
2. Shabir, M., Jiang, P., Shahab, Y., Wang, W., Işık, Ö., & Mehroush, I. (2024). Diversification and bank stability: Role of political instability and climate risk. International Review of Economics & Finance, 89, 63-92.
3. Rashid, Z., & Rashid, S. (2024). Political Instability Causes & Affects. Pakistan Journal of Humanities and Social Sciences, 12(1), 294-303.
4. Rahim, T. (2023). POLITICAL PARTIES AND DEMOCRATIC DEVELOPMENT IN PAKISTAN: MILITARY REGIMES AND DEMOCRATIC TRANSFORMATIVE STRUGGLE.
5. Younis, M. (2024). Colonialism and Hybrid Political System: A Case of Pakistan. Pakistan Languages and Humanities Review, 8(2), 213-223.
6. Framo, M. (2024). Explaining Variation in Democracy in West Africa.: A Case Study of Ghana and Nigeria.

7. Villegas Plá, B., & Peña, A. M. (2024). Development, democracy, and dependence in the Southern Cone: political coalitions, stabilizing mechanisms, and their hazards. Review of International Political Economy, 1-24.
8. Imran Rafiq, M. (2024). A Deepening Political Crisis, Military Involvement and Economic Woes: Evidence From Pakistan. Journal of Asian and African Studies, 00219096241230496.
9. Pata, U. K., Yilanci, V., Hussain, B., & Naqvi, S. A. A. (2022). Analyzing the role of income inequality and political stability in environmental degradation: evidence from South Asia. Gondwana Research, 107, 13-29.
10. Akram, S. (2023). Political Instability In Pakistan: An Examination From 2018 To Present. Harf-o-Sukhan, 7(3), 220-237.
11. Nasir, J. (2024). Development Challenges of Pakistan. Springer Books.
12. Ashraf, J., Khan, M. N., Zaidi, M. N., Abbasi, R., & Affandi, W. (2023). Pakistan's Democratic Governance Issues in the Twenty-First Century. International Journal of Scientific Engineering and Science, 7(9), 37-42.
13. Okara, A. (2022). Does foreign direct investment promote political stability? Evidence from developing economies.
14. Agarwal, V., Taffler, R. J., & Wang, C. (2024). Investor emotions and market bubbles. Review of Quantitative Finance and Accounting, 1-31.
15. Khan, A., Ejaz, S., & Safdar, S. (2023). Political instability and investment behaviour in Pakistan. NUST Journal of Social Sciences and Humanities, 9(1), 1-40.
16. Zazai, A. K., & Rahmani, N. (2024). The Fragile and Inappropriate Political, Social, and Economic Situation in Pakistan. Indonesia Law Reform Journal, 4(3), 300-310.
17. Ezeador, C. N. (2024). NEGATIVE IMPACTS OF POLITICAL INSTABILITY AND CONFLICTS ON SUSTAINED DEVELOPMENT IN THE GLOBAL SOUTH. Nnadiebube Journal of Philosophy, 7(2).
18. Joy Uyo, A. A., Adama, I., Sumaila, A., & Suleiman, R. (2024). Assessment of the Causes of Poverty and Unemployment in Omala Local Government Area, Kogi State, Nigeria. International Journal of Democracy and Development Studies, 6(4), 34-42.