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## **Economic fallouts and their relation to political instability: a study in the context of Pakistan**

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### **Abstract**

Political instability has been a common feature of many developing countries. These countries are in constant state of struggle for establishing conducive political structure. It poses grave challenge as they had inherited a long history of colonisation. One of the gravest challenges is to install new political and administrative set up suiting their political, social and economic conditions. It becomes difficult to get rid of policies which have been in existence for such a long period of time. At the economic front, there is bound to be a tussle between enacting a viable policy vis a vis a popular one. As popular policies are a must for any government to come back to power, they tend to postpone viable policies whose costs are very high in a long run. Pakistan is a most recent example of such a democratic set up. It is a classic example of political instability where governments have taken recourse to popular policies and is presently facing the worst ever economic crisis. The country is struggling hard to overcome this massive economic crisis with the help of donor agencies like IMF. How far Pakistan will be successful in overcoming this crisis is a matter of deep analysis. At the same time, it is quite evident that political instability has led Pakistan to such crisis. How does political instability mar with the politics of popular policies impact the economic fallout is a matter of academic enquiry. There are academic papers which have quantified how economic crisis have been accentuated by political instability but there is lack of study to analysed how and how political crisis leads to economic crisis. This paper is an attempt in that direction. It seeks to understand through the events of Pakistan how leaders fall into the trap of popular policies and how far political instability accentuates the economic deplorable situation of a country.

**Keywords:** Economic crisis, Instability, Governance, Colonial legacies, Institutions



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## Introduction

Political instability refers to situations where the government fails to complete its full term or there is a frequent transfer of powers from one political party to another or a situation where the institutions responsible for governance are in a constant state of decay. All these result into a total breakdown of democratic values and ideals. Political instability is a grave problem for developing countries. One of the main reasons for this is that these countries inherited a colonial-era political structure, which had to be reformed from time to time to meet the demands of the people. Overall, political instability has a major effect on the economy of a nation as policymakers do not adhere to rational economic principles but to popular schemes. Moreover, it affects both the macro and microeconomics. Scholars have tried to analyse the relationship between political instability and economic crisis in quantified terms. They try to answer the question whether there is a linear relationship between political instability and economic crisis? Therefore, they make an attempt to measure instability.

There are many ways to measure political instability. Some of the most popular methods are based on analysing the frequency of government or cabinet members' changes in a year. Based on this, scholars have attempted to assess the impact of political instability on the economic crisis (see Alesina et al. 1996; Jong a Pin, 2009). Many of the findings state that political instability has dire consequences for a country's economic situation. It also specified that political instability reduces people's propensity to invest and raises risk environments (see Aisen and Veiga, 2006). Overall, scholars identified political instability leading to economic disaster. From the economist's side, the impact of political instability on the economic crisis is based on co-relational, quantified data. However, a deeper analysis on how and why political instability leads to economic disaster is largely unexplored, and this article aims to bridge this gap by analysing the economic crisis in Pakistan and the way political instability has accentuated it. The paper is divided into three sections. The first section talks about the crisis of politics in Pakistan. The second section explains how the political crisis has led to an economic crisis, and the final section is the concluding one where the takeaways are mentioned.



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## **Political Crisis in Pakistan**

The political crisis of Pakistan can be attributed to various factors and its genesis is very profound. As the country was formed on the basis of religious identity, it had to keep finding ways to rationale its separation from India. This has remained at the centre of all political activities of Pakistan. Furthermore, the issue of Kashmir kept dominating the political agenda. Hence, anti-India stance was deliberately kept alive among the politicians and it had a major economic consequence. The trade between India and Pakistan kept fluctuating depending upon the political relations between these two countries. Moreover, the country's heterogeneity also emerged as a very grave challenge. Different sects whose political aspirations kept popping up and challenging the central political authority. One of the fallouts was in the formation of Bangladesh in 1971. It further raised the political aspirations of other sects but at the same time made the governance more centralised in order to avoid any further partition. The country which owes its existence to Islamic identity got entangled into sectarian politics. Historically, Md. Ali Jinnah, the father of nation for Pakistan had to justify its existence on the basis of religion but he also had also to cater to different sects - Baluchis, Pathans, Sindhis, Bengalis, Punjabis and many more. In order to cater to this, he gave emphasis to a secular and liberal polity for the Pakistan. This is dichotomic that a nation builds on religious identity but had to resort to secular principles to promote peace among its different sects. The biggest fall out was that institutions were largely compromised in this dichotomic set up.

## **The role of military**

It is very interesting to note that though India and Pakistan inherited the same military, but the way they are unfolding is dramatically different to each other. Indian dispensation exhibited maturity and brought the military under the command of civilian set up. All the major decisions were left up to the civilian authorities to decide. It was one of the reasons why there was never a military coup in India. In contrast, Pakistan army grew in power and stature with each passing day and overthrew civilian authorities at their will. This has been one of the major reasons for political instability. It is very surprising to know that ever since its inception in the year 1947, no prime minister has been able to complete its tenure of five years. There have been frequent change of prime ministers. The army had a very crucial role in shaping the polity as no prime minister could survive without the support of military leaders. The biggest fallout was that the aspirations of military leaders were at



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loggerhead with political and economic rationality. It led to decaying of political culture as it is a cardinal principal that for the success of any democracy, military has to be politically neutral.

### **Elite and their influence**

Pakistan politics has remained dominated by elites. There was no opportunity for grassroots leadership which remains the most important aspect for the survival of any democratic set up. As elites always preferred their interests over the poor. As a consequence, the social indicators were deeply compromised. Another fall out was that the middle class could not emerge which is essential for any democratic set up. It was all because of the interests of the elite that though Pakistan came into existence in 1947, its constitution was enforced as late as in 1956.

This could not stay long as there was a military coup as early as in the year 1958. Therefore, it gave rise to authoritarianism and there was rapid urbanisation and influx of middle class. In the decade of 1980s, it was the first time when lower classes started exerting their political influence. It was well supported by the Zia rule.

It is argued that people who do not support democracy create narrative that democracy is not suitable. This narrative is successful in countries where the vast population is illiterate. This is quite evident in the case of Pakistan. Military leaders have created narratives against the democratically elected governments and have occupied power on plea of better governance. It is one of the reasons why no democratically elected leader has ever completed its full term in Pakistan. In contrast, military leaders have managed to remain in power for longer terms. For any military leader to seek legitimacy, there must be narrative in public based on security paradigm. The military leaders have very well utilised anti-India narrative to legitimise their prolonged rule.

Scholars have made an argument stating that in the case of Pakistan, there must be analysis based on the democratic driven policies and their economic viability (Tornell and Velasco, 1992, Hashmi & Hassan 2013). They argue that democracy has not failed in Pakistan but the political instability is an outcome of illiberal policies. It implies that there is absence of rule of law and not the failure of democracy. Instability is an account of the absence of features like existence of institutions, functioning constitution and rule of law. They are of the opinion that military rule has deliberately weakened the institutions and never allowed the rule of law to operationally functional. Furthermore, they have also created situations where political parties are pitted against each other

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resulting into anarchy. We see that before any military coup, there have been a long period of political polarisation and serious clashes. It creates opportunities and legitimacy for military leaders to pitch in. However, once in 2006, a need for Charter of Democracy was signed between the two most prominent political parties that they would allow each other to complete their full term in office. Another important factor for this illiberalism is on account of civil-military power imbalance. It is important to note that though India and Pakistan inherited the same military, Indian army continued to be under civilian control while Pakistan army-controlled civilians through various military coups.

Therefore, the politics of Pakistan was largely centred on the aspects of legitimacy and identity. These were the grave challenges that were born as soon as Pakistan came into existence and the greatest fallout from this crisis was in the shape of political instability.

### **Political Instability and its Economic Consequences**

Scholars have found the relationship between political instability and economics to be inverse (Goldsmith 1987). They have cited various reasons for it. Political instability creates the environment of volatility (Tabassam et.al 2016). Furthermore, it also discourages investments and alters the demand pattern of a country (Asteriou & Price, 2001). It is also ascertained that when investors are not certain how long a government will survive and whether the new government will continue with the investors friendly approach, they prefer pulling out their money and invest in more stable countries (Alesina & Perotti, 1996; Barro, 1991). The capital flight leads in the reduction of domestic investments and ultimately it reduces the rate of economic growth. As investment reduces, it leads to reduction in employment and rise in inflation. It leads to decrease in domestic production and ultimately there is steep rise in imports. This rise in the imports have a disaster effect on the foreign reserves. Another pertinent factor responsible for economic disaster is the promotion of policies which suits the politicians. Popular policies which is completely devoid of economic rationality gets prominence. It costs the exchequer dearly and also has an adverse impact on the balance of payments. Unfortunately, politics of Pakistan has been in the trap since its inception. These economic unviable policies have left the Pakistani government with no other alternatives but to resort to financial bailouts from foreign institutions like the IMF. The most economic crisis is witnessed by the country in 2023. The recent government and the previous



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government headed by Imren Khan is accused of violating economic probity. The pandemic of COVID 19 added to the already ailing economy. People were expecting massive support from the government whereas the global prices of oil and other essential commodities were on a constant rise. Adhering to politics of popular governance, the government ignored all the economic rationality and reduced the prices of oil. In addition, the worst ever floods of 2022 further accentuated the crisis. As Pakistan imports more than it exports, the depletion of forex is a constant affair. It also has a faulty import-export structure as it largely imports essential items. For example, food items constitute around sixteen percent of its total imports. All these factors are a result of faulty planning and a weak political set up. Therefore, it is quite evident that political instability is largely responsible for the deplorable state of economy in Pakistan.

### **Conclusions and takeaways**

The article analysed the impact of political instability on the economy of a nation. It was analysed with the case of Pakistan. Pakistan was chosen as it is facing the worst ever economic crisis ever. Moreover, Pakistan is a classic example of political instability as no prime minister has ever completed the full tenure. The paper argued that political instability arises when military tries to overcome civilian governments in power. It was seen how often the military has overthrown the civilian governments in Pakistan and has been a major cause of political instability. In addition, the influence of elite in the political space has never shrunk and elites have been the most prominent political players. It has also contributed to the prevailing instability as the interests of the elites are never aligned with those of the common people. The paper further argued that with the culture of political volatility, the investors do not feel confident with their investments. As the investors pull out their investments, there is rise in inflation and unemployment that affects the economy dearly. Furthermore, it also leads into the depletion of foreign reserves. Therefore, political stability is the pre requisite for any nation to be economically independent.



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