



RESEARCH PAPER**Political Uncertainty and its Economic Toll: An In-depth Analysis of Pakistan**

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ABSTRACT

The objective of this study is to analyze the impact of political uncertainty on Pakistan's economy. Pakistan is grappling with the worst kind of economic crunch due to the cycle of political vengeance. The paper discusses the historical developments that how the country has been plowed by the constant cycle of changing regimes during the muddling nineties and Flat fifties. The constant power struggle and frightened political environment have deterred both domestic and foreign investors. In this research paper, qualitative research method has been used which includes data from research articles, journals, opinions and books. The piece highlights the severe consequences, including energy outages, reduced purchasing power, and mounting inflation due to inconsistent policies and governance anomalies. The path forward lies in establishing a consistent economic policy framework by appointing non-partisan economists and state leaders must address structural reforms as these two solutions are the only pathway towards economic stability.

KEYWORDS

Charter of Economy, Non-Partisan Economist, Political Consensus, Political Uncertainty, Political Vendetta

Introduction

Political instability means the change in the government either through constitutional means or unlawfully. Economic stability can only be reflected by a consistent rise in the Gross Domestic Product (GDP) and Gross National Product (GNP) of the country. These two systems are the two sides of the same coin. The relationship between the two is such that economic stability dies in the absence of political instability. Similarly, developing countries' economic crunch can also increase the probability of falling prey to a political crisis, so both concepts are integrated and directly proportional to each other. Our article will broadly explain the dynamics that how Pakistan's political instability pushes Pakistan's economy towards the point of no return. In this article, we tried to analyze how the tempestuous nature of Pakistani politics contributed to the economic stagflation of Pakistan. In our first ten years of government, politics has taken precedence over economics because of the multifaceted challenges. Pakistan witnessed economic stability during the Golden Sixties but progress was reverted by the protagonists of socialism. The political vendetta and short span of political leaders, not just hurt economics but also affected the international standing of Pakistan in the international community. Moreover, the article will address the question about the economic development during the time of dictators. The political turmoil that disrupts economic cycles is not just

concerned with a politically stable environment but also related to political sit-ins and protests which also proved disastrous for every country in terms of economics. The only way to avert an economic crisis in Pakistan is political stability. As nuclear power of South Asia was again engulfed in political turmoil after April 2022 when Imran Khan was ousted from power, at that time the violent protests and strikes intensified difficulties for the incumbent government to secure a deal from the IMF, so the charter of the economy and political consensus was the only way back from the economic failures.

Literature Review

Political uncertainty has a huge impact on business because it affects the confidence of domestic and foreign investors. Aisen and Veiga (2013) argue that political conflict reduces economic growth. Uncertainty caused by frequent government changes, uncontrollable policies, and political violence hinders investment and disrupts the economy, the authors noted. To understand Alfaro et al. (2008) state that conflict increases investment risk, which leads to a decrease in investment. This view is supported by a study conducted in Pakistan showing that the unstable climate leads to low foreign direct investments. This view is supported by a study of Pakistan, which shows that an environment of political instability hinders foreign direct investment (FDI) and affects economic development. Instability is key to understanding his current business. Frequent changes in government, military, and political struggles in Pakistan in the 1950s and 1990s disrupted business planning and execution. Hussain (2009) provides an in-depth analysis of this period, showing how changes in government led to inconsistent policies and poor fiscal management. Energy crisis, inflation and declining purchasing power are direct consequences of poor management and inconsistent policies. Studies by Haider and Ammar (2016) and Khan and Ahmad (2019) show that political conflicts can lead to energy shortages, which can lead to reduced productivity in trade and economic stagnation. Inflation and declining purchasing power further increase the pressure on the economy, creating a vicious cycle of poverty and underdevelopment. Failure to implement sound and efficient business policies has led to increasing debt. Hyder's (2017) study shows how political conflicts lead to fiscal deficits and debt, plunging the country into a debt trap from which it is difficult to escape. The building has been selected as an important project that provides a solution. Montinola (1999) discusses how to prevent political interference in economic policy, which will lead to stability and growth in economic management. Structural reforms, as also suggested by Acemoglu and Robinson (2012), are important for long-term stability and economic development

Material and Methods

Research has used secondary sources of material, including articles, journals, and government reports. Research also includes quantitative analysis of the economic indicators in which we try to compare the inflation rate and GDP growth of one government with another Government.

Theoretical Framework

Rational choice theory states that individual make choices in a calculated manner that are used to maximize its personal interests. People in rational choice theory expects outcomes which provide people with the greatest expectations and results. There are some key takeaways of rational choice theory which include individuals make calculated decisions , second ,rational choice theory if often associated with the invisible hands , rational actors and self interest . Adam smith was the first one who used the concept of rational choice theory in economics first time. So, if the cause of rational theory is applied

on the politics of Pakistan then one can easily analyze the economic consequences which are faced by Pakistan. Actors in Pakistan's politics are making rational decision by maximizing their benefits and minimizing their losses. Those decisions are maximizing their parochial interest but those decisions are not favorable for the states economic growth. So major political parties and their heads are the main political actors in Pakistan and their decisions are affecting the economic policies of Pakistan. As due to political instability, political actors are contributing towards uncertainty which eventually deter investors lead state towards dreaded specter of stagflation.

Results and Discussions

Historical Analysis

Forging ahead Economic obstacles during formative Years

Political stability remains a dream in the first ten years of Pakistan. After the demise of Muhammad Ali Jinnah, the Muslim league suffers a lot due to incompetent leadership. Liaquat Ali Khan and Ghulam Muhammad were unable to control political order during the initial years of Pakistan. First, the physical separation of East Pakistan put Pakistan in a grave situation; second, the refugee crisis added a burden to the fragile economy of Pakistan. The unequal distribution of resources and war with India put Pakistan in a precarious situation. Muslim League lost elections in Bangladesh in 1954. Due to these multifaceted problems, economic progress was neglected by the political leaders of the country as they were involved in changing political loyalties. The constitutional crisis was another malaise that continued to haunt state affairs in the first ten years (Ali, 2019) .

The Economic Renaissance a Decade of Prosperity

Ayyub Khan, a military dictator imposed martial law in October 1958. Ayyub era was the golden era of Pakistan's economy. He appointed Foreign Qualified economic advisors and also formed a planning Commission on economic management. When Ayyub came into power, the economic growth rate of Pakistan was dismal but when he left the government the growth rate was six percent. The few developments led to an increase in the growth rate and stability of the economy first was Pakistan's participation in Americas Cold War. America provided military and economic aid to Ayyub Khan due to his decision to join the SEATO and CENTO. Zulfikar Ali Bhutto wrote in his book *The Myth of Independence* That an American plane can use every military base in Pakistan and can land everywhere in Pakistan. This was the main reason for economic aid as the contribution of Ayyub to America in the Cold War was impressive. Second, Pakistan dubbed this decade a period of prosperity because Pakistan's water dispute with India had also been resolved under the umbrella of the World Bank. The Indus Water Treaty brought a green revolution in Pakistan. So economic growth was flourishing due to an increase in agriculture production and industrial production. Pakistan's export rate increased and Pakistan was the model of economic growth for the outside world but internally the inequalities have been exacerbated which promoted resentment among the masses. Besides this economic growth, the political vendetta in Pakistan continued as Ayyub passed EBDO (Elective bodies disqualification order) to repress opponents and political parties were banned. So state was on the path of economic prosperity but the beneficiaries were just 20 families. Ayyub handed power to Yahya Khan and his policies accompanied by the economic inequalities of Ayyub Khan triggered civil war in Pakistan. The leader of the Awami party Mujib-Ur-Rahman exploited the situation, India intervened and Pakistan lost its important wing mainly due to failed policies (Husain, 2009).

Socialist Seventies- Economic Collapse

When Bhutto ascended to power, he promised equal distribution of resources. He pledged to introduce policies that would bring sanguine into the life of the common man. Bhutto introduced the concept of Islamic socialism which offended America and the close allies parted ways from each other. Ayub Khan nationalized the banks, education system, and industries. In short, he reverted the economic growth of Pakistan. The growth rate of Pakistan which was six percent declined to 3.7 percent. Inflation which was nose-dive during Ayyub's era also rose to 16%. The idea of Bhutto to control Pakistan's economic system failed. On the other hand international environment exacerbated the economic woes of Pakistan due to the Yom Kippur War. The war in the Middle East spurred an oil crisis across the globe. Lastly, the floods in Pakistan added fuel to the fire. It seems populist politics is good for achieving political narratives and the confidence of the masses but bad for the economy.

Revivalist Eighties - Participation in the Afghan war

Zia, a military dictator took advantage of political turmoil in Pakistan and overthrew the Bhutto regime with the coup of 1977. Zia banned political parties and ensured their legitimacy through two means. First, by using a religion card, he was a right-wing fundamentalist leader and exploited the roots of religious fundamentalism in Pakistan. He passed a controversial Hudood Ordinance and introduced the concept of religion in politics. He brought economic stability because of the economic aid his government received for its participation in the Afghan war. Zia regime and religious protagonists promoted the fear of Soviet invasion and created Mujahedeen. Zia used the religious ideology Jihad for its political gains which eventually resulted in the rise of militancy in Pakistan's tribal areas. The GDP growth rate was 6.6 % annually during the time of Zia. Agriculture production increased up to 4% and production in the manufacturing industry also rose to 9 percent. With these stable economic indicators, the cycle of political vengeance continued as politicians were assassinated and detained.

Muddling nineties - Circus of Changing Government

In this phase, poverty increased from 18 to 33% as the economy entered a cycle of paralysis. Pakistan's foreign exchange reserves were depleted, World Bank assistance was suspended, and foreign currency accounts were frozen due to Pakistan's nuclear proliferation program. During this phase, a variety of nine governments led Pakistan. Due to changes in government and policies, the confidence of investors was shaken. The external debt which was 20 billion\$ increased to 43 billion\$ in 1998. The twice dismissal of the Nawaz and Bhutto governments brought futile economic results.

Reforming hundreds - brought Economic Euphoria

When Musharraf imposed Martial law and overthrew the civilian government of Nawaz Sharif, Pakistan was about to default as foreign exchange reserves could only cover the imports for two weeks, The Musharraf regime had introduced structural reforms including privatization and removal of subsidies. Furthermore, foreign direct investment also increased. The growth rate of Pakistan reached to 7 percent due to these reforms. Poverty reduced and unemployment also reduced from 8.4 to 6.5 percent. Almost all foreign direct investment capital is added to the economy.

A new dawn - Pakistan's Democratic Revival

Pakistan Peoples Party (PPP) came into power and bitterly failed in economic management. The public debt doubled in the four years of Pakistan Peoples Party. In South Asia GDP growth rate of Pakistan was minimal and was standing at 2.9 compared to the growth rate of Bangladesh which was 6.8 percent and India which was 7.8 percent. After the Pakistan Peoples Party, the government successfully transferred to Pakistan Muslim League-N (PMLN) after the elections of 2013. The GDP growth was 3 percent when PMLN came to power. The party faced multiple challenges in the form of an energy crisis and endemic economics. The inflation skyrocketed but when PMLN left the government the growth rate was 5.8 percent. The growth cycle of PMLN was disrupted by PTI political campaign and the Panama cases. The disqualification of Nawaz Sharif again revived political instability in the country (Ali, 2019).

During the 2018 elections when PTI won the elections, they ascended to power without any homework. Firstly, the incumbent government delayed talks with the International Monetary Fund (IMF) and tried to secure economic aid from the friendly countries. PTI government had changed four finance ministers and secured a deal of 6 billion with the IMF under harsh conditions. According to the report of South Asian Economic Outlook 2020 Pakistan's growth rate was 1.9 percent compared to Bangladesh with a growth rate of 8.1 percent and India with 4.2 percent. The COVID-19 economic shocks and geopolitical environment due to Russo Russo-Ukrainian war only added a burden to the economy of Pakistan.

The economy imploded due to simmering political turmoil after the ouster of Imran Khan. The currency started depreciating, the current account deficit was widening and newspapers were flooded with the debates of default. People have started comparing Pakistan with Sri Lanka. Sri Lanka defaulted in 2022 primarily due to the mismanagement of the Rajapaksa family and fraught geopolitical conditions. The war in Europe triggered an energy crisis across the globe, inflation skyrocketed and food insecurity intensified when the Black Sea port was blocked. So these unprecedented events played the role of migraine for the economy of Pakistan and Sri Lanka. The Pakistan democratic government saved the country from default by taking stringent measures and securing a deal with the IMF but political protest launched by PTI continued to erode the confidence of investors (Horowitz, 2023).

On the 8 February 2024, country went into an election but whoever came into power few challenges will continue to haunt the new government, the first is economics and the second important challenge is security threats. Although Pakistan's currency gained some kind of stability against the dollar prices of food staples are still hurting the household's budget of 240 million people. State Bank of Pakistan confirmed that inflation may decrease in upcoming months which were 36 percent highest in 2023 but if the politicians start controversy on the fairness of the election then the state of Pakistan is again engulfed into another unending political crisis (Tribune, 2024) (Nayyer, 2022).

Economic ramifications of piercing demonstrations

Uncertainty in any government is abhorred toward economic stability. When Benazir Bhutto was assassinated in 2007, her death drove the nation into a dilemma of uncertainty. In 2014 PTI sit-ins which lasted for almost 126 days caused a loss of 610 billion to the economy of the state as the business was shut down and transportation was affected. Foreign direct investment is also affected. Although, protests are the indicators of a healthy democracy shutdown in business destroys the confidence of investors. Alseina et al in 1996

used data on 113 countries from 1950 to 1982 to show that the GDP growth rate was significantly lower in countries at the time of high propensity of collapse. Even the cabinet changes in the government also affect the economy of the state. According to the Pakistan Institute of Development Economics (PIDE) concluded in 2019 that strikes in Pakistan cost 2 percent of GDP per year. (Ibrahim, 2022)

Economic Development during Authoritarian Regimes

Pakistan's economy flourished during the time of dictators due to the efficient implementation and adaptation of policies. They are not accountable to civilians and do not face any kind of restraint and restrictions from the cabinet. As Fareed Zakariya has written in his book *The Post-American World* the Chinese are not concerned with the votes so this is one of the reasons that their economic growth is impressive. Similarly, dictators in Pakistan are also free to make their policies. Second, dictators are more subservient to American policies. The assistance from the West played an important role in promoting economic euphoria during the time of dictators. Zia received 5 billion \$ during the Cold War. Although the repercussions of 5 billion \$ were severe as state is still dealing with those maximalist elements and terrorist groups that came to Pakistan during the time of Zia. Similarly, Musharraf received 10 billion in aid during the war on terror. So, economic development during authoritarian regimes is only temporary and based on a dependent economic model.

Economic Hurdles awaits for Pakistan's incumbent Government

A series of disasters threw the country into financial meltdown, characterized by shrinking purchasing power, decreasing foreign exchange reserves, and mounting public unrest. It is tempting to proclaim that every election has significance for the history of the nation. During the polls, two political groups were in conflict with one another. The PMIN supreme leader Nawaz sharif is on one side while on the other side the PTI leader , Imran khan which is rotting away in prison. Local analysts and international media outlets contested the impartiality of the election results, but polls are not the subject of this discussion. Although there have been speculations that stable elections will lead to political equilibrium, financial prosperity but the elections in Pakistan are engulfing the state into another unabated political turmoil over election results. Political stability is essential because an unshakable administration can only keep a faltering economy stable for Pakistan's 240 million people.

Around forty percent of the population are living below the poverty line, inflation is climbing at a rate of 30%, and almost 70 percent of people, according to recent Gallup polls, believes the economy will become worse. Additionally, a Gallup survey disclosed that Pakistanis economic gloominess has increased over the past 18 years. In 2023 there were just \$4 billion in foreign exchange reserves barely enough to pay monthly imports and a currency that had lost more than half of its value against the US dollar, the nation faced the imminent danger of default. In accordance with the United Nations World Economic Forum Prospects research, Pakistan's GDP would develop subtly, by 2.5 percent in 2025 and by two percent in 2024. In contrast to Sri Lanka, where circumstances improved, the research showed that food insecurity increased in both Pakistan and Bangladesh in 2023. Afghanistan, on the other hand, maintained the worst impacted country in South Asia, with about 46% of its population experiencing food insecurity. Moreover, in 2022 the ratio of government debt to GDP was 89% In Pakistan.

The IMF's \$3 billion USD contract is about to terminate in March, when the new government assumes power. The analysts anxious that in order to maintain stability, the

current governments initial objective is to initiate talks with the lender. The central bank in Pakistan recently disclosed that the country owes 24 billion USD in external debt, which is due in June 2024, adding to the country's impending debt payment issue. By 2025, the total amount of debt commitments would reach \$75 billion USD, of which Pakistan will be required to pay the majority to China and Saudi Arabia. The incumbent government will have to make anti-populist choices such as prohibiting the resumption of energy subsidies, refraining from manipulating exchange rates, and putting more of an emphasis on cutting spending. The Imran Khan governments move to cut petrol prices in the midst of an international upsurge in prices and its subsequent negotiation of a \$6 billion deal with the IMF intensified the economic issues facing the incoming PDM government. The state will only get closer to an imminent crisis and default as a result of the populist decisions. The current government needs to reassess its goals, according to economists. Many people are now living in poverty as a result of the protracted unemployment and inflation. A unpleasant increase in living expenses and an unanticipated depreciation of the rupee are the inevitable outcomes of a balance of payments crisis. However, the State Bank of Pakistan report around the start of the new year gives a reprieve in these words: Inflation will be nosedive in upcoming months but as the country is, engulfed in simmering political crisis due to election results it seems respite will remain a dream.

When the People's Democratic Movement (PDM) government was in the GDP growth rate was nearly inactive at 0.29 percent; nevertheless, it was six percent during the regime of PTI. Reviving GDP growth is therefore yet another difficult assignment for the incoming administration. Najy Benhassine, the director of the World Bank Pakistan, made a stirring address regarding the country's economy. Najy claims that Pakistan's economic model has collapsed. This approach offers nothing to the average person because it is exclusively beneficial to those who are wealthy. Moreover, Pakistan's economy is negatively impacted by its dependence economic model. The country is reliant on the Guardian angles, which include the US, China, Saudi Arabia, and the UAE. Because these nations have traditionally maintained Pakistan from going into default and have bolstered its reserves by dumping money into Pakistan, I will refer to them as Guardian Angels. This strategy cannot be sustained since these nations are unwilling to provide assistance. The incoming government ought to reconsider its economic strategy. The government must establish the 100-day plan, cut spending, and increase the revenue base. Considering that the tax to GDP ratio is the lowest in Asia at 10.4%, more than two hundred state-owned businesses, such as Pakistan Railway, PTV, and PIA, ought to be privatized. These organizations are a strain on Pakistan's economy, but they are equally helpful to politicians and bureaucrats since they provide them personal benefits. Since the political consensus and the economic charter are mandatory, political stakeholders ought to establish the rules of the games (Kundi, 2024) (Hussain, 2024).

Charter of Economy

The Charter of the Economy is mandatory as it is the only way to ensure consistency in economic policies regardless of which party forms the government. The idea of the charter of the economy was given by Shahbaz Sharif when he was in opposition the concept originated from the charter of democracy which was signed between PPP and PMLN. Last year, it was the 17th anniversary of the Charter of Democracy but the harsh fact is the Charter is in shambles as the politics of vendetta is revived in Pakistan. The Charter of the economy should be designed to promote political consensus among political stakeholders. As there is not a single party in Pakistan that would be able to win a majority of seats. Every party came to power with the coalition set up and no one would be able to cross two or three years in government. So these are the problems that can only be averted by signing the Charter of Economy and Democracy. The state of Pakistan can also follow

the economic model of the Philippines. As the country was the prolonged lender of IMF they appointed nonpartisan economists and successfully averted economic Failures. So Pakistan should also appoint nonpartisan economists as these are the only ways to get rid of the vicious cycle of debt.

When it comes to precedence from the charter of economy Switzerland is often cited as the best example as they have a long tradition of consensus-based Decision making which helped decision-makers to thrive. The Switzerland Charter of the Economy also known as the magic formula promotes consensus among political stakeholders. From the above model, one can conclude, that different countries adopted different models to foster economic progress in the country (Ali F. , 2023).

Conclusion

From the above discussion, one can conclude that two concepts of politics and economy move hand in hand and disruption in politics can plunge the state into economic turmoil, on the other hand, if the state is engulfed in any kind of economic crunch then it faces a political crisis. So, Pakistan is a state which continues to face political turmoil in the last 76 years. Even the elections of 2024 are not offering any kind of respite for the vicious cycle. Pakistan's economic miseries are not just the result of internal policy failures but also the result of external geopolitical factors. As article briefly highlighted the impacts of the oil crisis of 1973 and 2022. Although Pakistan averted the default by implementing structural reforms but still the continuity of policy is a dream. Furthermore, the progress during the era of dictators was only temporary as during that time west was shoring up Pakistan reserves. The economy accelerated during the time of dictators due to dollars poured by America and the Western world into the country. Besides the development Human development indicators remained low. Pakistan should understand that the dependence economic model is not sustainable as Guardian Angels of Pakistan are not willing to save Pakistan from its economic crisis. West is not providing loans as we are irrelevant strategically in the region while China is also skeptical. The Arab world has also abandoned the policy of emotions and Islamic ideology. So the only way for Pakistan to assert itself is by putting the house in order. The politically abhorrent policies should be ended and political consensus should be adopted.

Recommendations

If the state of Pakistan wanted to avert the economic crisis it must follow the democratic principles in politics and implement long-term reforms. The political stake holders must foster culture of dialogue and consensus building because without engaging in constructive dialogue consensus on economic matters is not possible. Moreover, strengthen rule of law and ensure transparency in governance as these policies will surely boost the confidence of investors. There is dire need to revive charter of democracy in Pakistan. The charter was signed between important political stakeholders of Pakistan including PMLN and PPP. By signing charter both not just followed democratic norms but also ensured peaceful transfer of power, so charter of democracy must be revived. Moreover, charter of economy is also essential as it will bring consistency in the economic policies of the state. Lastly, state of Pakistan must followed the Philippines economic model by appointing non partisan economists in the country.

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