

## **IMPACTS OF POLITICAL INSTABILITY ON THE ECONOMY OF PAKISTAN, SRI LANKA AND BANGLADESH**

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### **Abstract**

*This Paper explores the relationship between political instability and Per capita GDP growth in a sample of three countries Bangladesh, Pakistan and Sri Lanka for last 10 years. We define political instability as the prosperity of a government collapse and we estimate a model in which political instability and economic growth are jointly determined. the main result of this paper is that in countries and time periods with high prosperity of government collapse, growth is signifies lower than otherwise. This effect remains strong when we restrict own definition of government change to cases of substantial changes of the government.*

**Keywords:** Political instability, economic growth, election, FDI, GDP, inflation, per Capita income, World Bank.

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## INTRODUCTION

*Economic growth and on political stability are deeply interconnected on the one hand the uncertainty associated with an unstable political government may reduce investment and speed of economic development .On the other hand poor economic performance may lead to government collapse and political unrest. The paper studies the prospects of government changes and economic growth in Bangladesh, Pakistan and Sri Lanka during last five (10) years.*

*Barro (1991) finds that measure of political unrest, such as number of associations and the occurrence of violent revolutions and military coups significantly affect the average growth level in countries.*

*Kormandi and mccure (1985) and barro (1989) find that a Measure of the extent of political right is rights are positively calculated with growth.*

*This study will reveals the impact of political instability on Economic growth and everyday life of South Asian countries like Pakistan India and Sri Lanka the study will tell as the impacts of political instability on commerce,GDP, per Capita income and other economic indices.*

*The Political instability produces the different development issues. The research will rotate on the complex issues the Governments of these countries faced. This research will help us to identify particular concerns and gray areas where they have wasted resources. This research will give policy adjustments to counter political instability and its impacts. This research work will also identify the causes and factors which accelerated the tourism in south Asian countries. To understand global political instability. To understand the economic impact of Political instability. To analyses the impact of political instability on trade amongst SAARC countries. To give some proposals for counter political instability in South Asian countries .To analyze the factors which are behind the consistent political stability in South Asia. Why Bangladesh, Pakistan,Sri Lanka and India face the political instability ?*

*What are the impacts of political instability on economy of these countries? What are the factors behind the consistent political instability? Why Allocation of huge funds allocated for peace and security of region did not become fruitful to counter political instability?*

## VARIABLES OF POLITICAL INSTABILITY

### 1. Electoral process

*The electoral process of south Asian countries have some malpractices which brought political instability.*

### 2. Involvement of civil and military bureaucracy

*The involvement of civil and military bureaucracy abo brought political*

instability.

### **3. Involvement of foreign powers**

*The involvement of foreign powers in politics of SAARC countries for their self interests brought political instability.*

### **4. Economic growth:**

*The poor economic condition and unsustainable economic growth has brought political instability.*

## **LITERATURE REVIEW**

*According to siermann (1996) the absence of political instability has a negative impact on economic development. When the political situation is stable then economic development will increase.*

*Elmendorf and Manki (1999) said that public debt directly and indirectly affects a country's economy.*

*Awan (2012) and Younas et Al (2008) analyzed different factors that cause political instability and lower economic growth during the period of 1999-2005 . He said there is a negative relationship between economic growth and political instability. It means if political instability increase then economic growth decreases.*

*Mahmood Azidand Siddiqui (2010) explored the relation of economic growth and democracy in Pakistan. Democracy is very important for Pakistan for it's economic growth. If there is a continuous change in govt it would affect the economic growth for good GDP and economic growth the stable govt is vital. Nasir et Al (2008)*

*He said that in Pakistan the autocratic Regime performed better as compared to a democratic Regime. The average GDP growth rate was always high during the autocratic Regime. Veiga (2005)*

*He not only explores the relation between instability and inflation but also told the effect of instability on inflation. The countries which have high inflation rate have a negative relationship between inflation and political instability.*

*Swagel (2005) said that political instability brought negative economic growth. When a govt changed them the new govt canceled all the projects and stopped funding, due to this reason the development process stopped.*

## **STATEMENT OF PROBLEM**

*The impacts of political instability on economy and daily life is a famous topic. Many writer work on it. The main problem is that what are the causes of political instability? What is the obstacle in the way of eradicate political instability from South Asia? Why political instability is continuously continue in the region? What are the interests of non-state actors to promote political instability? The South Asian countries are not willing to unite for the eradication of political instability from region. These countries have ideological differences which are obstacles in the way to*

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*educate the evil of political instability.*

### **RESEARCH OBJECTIVES**

1. *To understand the Global political instability.*
2. *To understand the economic impacts of political instability.*
3. *To understand the impacts of political instability on trade against South Asian Countries.*
4. *To give some proposals for counter political instability in South Asian countries.*
5. *To analyze the factors which are behind the consistent political instability in South Asia.*

### **RESEARCH METHODOLOGY**

*This research is based on secondary data. The data is collected from SAARC Annual reports, DG CIS database, RBI hand books, World Bank, IMF publications, Global political instability index.*

### **RESEARCH QUESTIONS**

*The Questions of research are:*

*What is relationship between political instability and economy?*

*What are the causes of political instability?*

*Why political instability continued for longer time in south Asian countries?*

*What are the effects of political instability on the economies of SAARC?*

### **IMPACTS OF POLITICAL INSTABILITY ON PAKISTAN ECONOMY**

*In 2013, an election was held in Pakistan in the month of May. Pakistan Muslim league (N) won the election and Nawaz Sharif was elected the prime minister of Pakistan third time in the history of Pakistan. At that time the GDP of Pakistan was 4.40% and political instability index was 2.6. The Imran Khan blamed that these elections were rigged and he started a movement against PML (N) Govt, he gave a sit in Islamabad in 2014 for 126 days. In 2016 Panama papers came upfront which contain detached financial information of offshore entities.*

*In 2014, the PML (N) government claimed economic losses of PKR 500-800 million while advisor to PM claim that losses had reached PKR 610 billion (Mamoo et al). The foreign direct investment in Pakistan is also affected by the political instability. The political unrest in civilian government discouraged investors. It was seen into 2014-2015 FDI decreases due to Panama leaks when the PM Nawaz Sharif was charged to involve in corruption.*

*Qureshi et-al (2010) said that the political instability badly affected the investors' interest in the country.*

*In 2018 general election was held in Pakistan. In 2018 the GDP of Pakistan was 5.9% and political instability index was - 2.26 and corruption index all - 0.7.*

After the elections all the political parties started protest against Imran's government. The government signed an agreement with IMF under strict conditions. Due to the highest tax rate and economic growth declined to 1%.

Years	Growth rate	Annual change rate
2015.	4.73%	0.06%
2016.	5.53%	0.80%
2017.	4.43%	-1.09%
2018.	6.15%	1.72%
2019.	2.50%	-3.65%
2020	-1.27%	-3.77%

Source: Gti

The above table shows that the GDP of Pakistan declined in 2019 and 2020 due to political instability and bad governance of Imran's government.

#### **PAKISTAN EXTERNAL DEBT:**

Year	Current US dollars	Annual % change
2018	99,223,959,505	8.25%
2017	91,662,069,235	22.13%
2016	75,052,145,050	9.38%

#### **IMPACTS OF POLITICAL INSTABILITY ON SRI LANKA ECONOMY**

The economy of Sri Lanka was badly affected by political instability and bad governance of Gota bhaya and Mahinda Raja pakasa and lower Tourism revenue led to the country defaulting on its sovereign debt in April 2022. The economy contracted 7.8% in 2022 on March 20, 2023 the IMF has loaned 3 billion less dollars to the country as a part of 48 month debt relief program.

#### **IMPACTS OF POLITICAL INSTABILITY ON PAKISTAN'S FDI**

Year	FDI	% to GDP
2015	1.67B	0.62%
2016	2.58B	0.82%
2017	2.50B	0.74%
2018	1.7B	0.49%
2019	2.2B	0.70%
2020	2.0B	0.68%

The above table revealed that the FDI of Pakistan fluctuated since 2018 to 2020 due to political instability.

#### **IMPACTS OF POLITICAL INSTABILITY ON FDI OF SRI LANKA**

Foreign direct investment net inflows in Sri Lanka were last measured in 2015. According to World Bank data as shown in table the contribution of FDI to GDP rapidly decreased after 2018.

Year	FDI	% to GDP
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2015	0.68B	0.80%
2016	0.90B	1.02%
2017	1.37B	1.45%
2018	1.61B	1.71%
2019	0.74B	0.84%
2020	0.43B	0.51%

The above table revealed that FDI of Sri Lanka decreased in 2019 to 2020 due to political instability.

### **WORLD BANK REPORT ABOUT SRI LANKA ECONOMY**

Sri Lanka Economy showed signs of weakness before the covid-19 pandemic. Growth and poverty reduction had shown down in the last five years . A restrictive trade regime, weak investment climate episodes of loose monetary policy and an administrated exchange rate had contributed to external imbalances. Sri Lanka lost a access to international financial markets in 2020, after credit rating downgrades. Sri Lanka faces an unsustainable debt and severe balance of payment crisis, which have negative impact on growth and poverty. According to the south Asia Economic Focus and the Sri Lanka development update, the Sri Lanka's real GDP is expected to fall by 9.2 percent in 2022 and further 4.2 percent in 2023.

### **PER CAPITA INCOME OF PAKISTAN**

Year	GDP per Capita	Average growth rate
2015	12882 USD	9.29%
2016	1469 USD	14.53%
2017	1568 USD	6.73%
2018	1621 USD	3.39%
2019	1437 USD	-11.33%

The above table showed that per Capita GDP of Pakistan increases since 2017 and it was at lowest ratio in 2019 the reason was political instability. Source: IMF

### **PER CAPITA INCOME OF SRI LANKA**

Year	GDP per Capita	Average growth rate
2015	3990 USD	2.70%
2016	4108 USD	2.94%
2017	4388 USD	6.83%
2018	4361 USD	-0.63%
2019	4083 USD	-6.37%

The above table revealed that Per Capita income of Sri Lanka fastly deceases in 2018 and 2019 due to political instability. Source: IMF

### **INFLATION RATE OF PAKISTAN DURING 2015 TO 2019**

Year	Inflation rate %	Annual change rate
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2015	2.52%	-4.66%
2016	3.77%	1.24%
2017	4.09%	0.32%
2018	5.08%	0.99%
2019	10.58%	5.50%

*The above table showed that inflation rate had increased from 2015 to 2019 which had very bad effect on the lives of citizens. Source: world bank*

#### **INFLATION RATE OF SRI LANKA DURING 2015 TO 2019**

Year	Inflation rate %	Annual change rate
2015	3.96%	0.19%
2016	7.70%	3.75%
2017	2.14%	- 5.57%
2018	3.53%	1.39%
2019	6.15%	2.63%

*The above table showed that inflation rate of Sri Lanka increase in 2018 and 2019 due to political instability.*

#### **REPORT OF BLOOM BERG AND MOODI ABOUT POLITICAL INSTABILITY AND ECONOMIC CRISIS IN PAKISTAN AND SRI LANKA**

*Bloom BERG and moodu reports revealed that economy of Pakistan and Sri Lanka decline in period instability. The per Capita income of masses decreases. The currency of these two countries decreases and devalued which had bad impacts on living of people.*

#### **FINDINGS AND RECOMMENDATIONS**

- 1. There should be such amendments in the constitution of Bangladesh, Pakistan and Sri Lanka which will bring political instability in these countries.*
- 2. There should be free, fair, transparent elections in Bangladesh, Pakistan and Sri Lanka which us a back bone of political stability.*
- 3. The Election Commission of Bangladesh, Pakistan and Sri Lanka should be strengthened on the basis of resources, Manpower and skills.*
- 4. There should be equally opportunities for all parties to take participation in electoral process. They should have equal level find.*
- 5. There should be separation of power among Executive, legislative and judiciary in Bangladesh, Pakistan and Sri Lanka.*
- 6. Political parties should make such amendments in constitution which would minimize the role of establishment in political affairs.*

#### **CONCLUSION**

*To sum up we can say that the political instability is a main cause of economic instability of south Asian countries. The economic condition of south Asian countries*

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became worse due to persistent fall and rise of the different regimes. These conditions brought huge trade deficit, increase circular debt, poverty and unemployment in these countries. The economy of Pakistan Bangladesh and Sri Lanka had bad impacts due to political instability since 2014 to till date.



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