
Bulletin of Business and Economics
ISSN - 2409 - 9368
http://rfh.org.pk/jur/magazine-category/bbe

POLITICAL INSTABILITY, TRADE OPENNESS AND ECONOMIC GROWTH IN PAKISTAN: AN EMPIRICAL ANALYSIS

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ABSTRACT
The study is done to analyze the relationship between political instability and economic growth of Pakistan. Estimation has done by using time series data over the period of 1883-2016. The study analyze that unstable political economic conditions enforce negatively the economic growth, inflation and trade. In Pakistan political instability is on its peak from many decades. For the study of these fluctuations ARDL approach is used to check the relationship between selected variables. The concluded results based on empirical analysis that instable and poor political system with less efficient working skills of the administration will decrease the terms of trade of the economy, inflation will rise and unemployment will also be increased.

Keywords: political instability, trade, economic growth
JEL Codes: D72, F43

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I. INTRODUCTION

Since political instability was issue analyzed by many researchers. In 1996, Alberto and Parotti analyzed a sample of 70 countries for the period 1960 to 1985 on a prediction that due to unequal distribution of income among population will increase socio-political instability. The results were robust due to sensitive analysis of income distribution in economy. In Africa many surveys have done on the checking of corruption and on instability of political era which caused investment restrictions in economy and pay a negative impact on FDI. Africa has natural resources on a very large scale. If those resources are used in welfare of economy with efficient government policies that may put forward a step to stabilize the economic conditions. As large markets and natural resources are the stream to promote FDI in economy. However, low inflation rate, decrease in corruption, openness to trade and FDI, efficient legal processes may promote stable political economy. It may further lead to decrease the educational gaps as well and increase the opportunities for the employment. A benchmark specification showed that a decrease in the corruption from the level of Nigeria to that of South Africa has the same positive effect on FDI as increasing the share of fuels and minerals in total exports by about 35%. In agricultural and manufacturing sector by taking efficient measures economy can also be stabilized. This paper analyzes the impact of GDP growth, trade, labor force, domestic credits by financial sectors on political instability of Pakistan. The trade openness includes exports and imports of the economy. But unfortunately, in case of Pakistan the ratio of imports far greater than exports which is one of the reasons of instable economy. Labor force includes participation of labor after the age of 15 years which represents employment in economy, is also increasing over time. These phenomena of political instability have been seen in many economies but in Pakistan due to high level of corruption, GDP growth rate is declining rapidly which is causing increased unemployment rate, inflation, decreased terms of trade. Pakistan is 6^{th} populated country of the world in which 40% of the population is living below the poverty line. Inflation rate is also remained between 10-22%. Unemployment rate is 5% in the economy. Every year due to these politically instable conditions of the economy of Pakistan thousands of people move from Pakistan for high level of income to improve their living standards.

II. LITERATURE REVIEWS

Asiedu (2000) including debt cancellation, advanced market access, encouraged more advanced official development assistance and increased movement of foreign direct investment as well as transference of technology in Africa. The data based on three largest beneficiaries of FDI, from Angola, Nigeria and South Africa to 2000 to 2002. These countries have engrossed about 65% of the FDI flows in that area. The results show that how the point that natural resources allocation is good infrastructure, low inflation, an operating effective legal system and a good investment framework to publicize FDI. Maurer et al., (1876) argued that governments do not have to carry out property rights as a public good. Instead, this paper may apply select property rights (as a private good) and the resulting rents with the group's asset holders who are combined by the government. The study focused on Mexico, from 1876 to 1929 and clarified how the property rights system was formed during the (1876-1911) and then the discovery of how the property rights system pulled through or was reestablished to the long period of political instability, followed by 1911-1929. The result was based on study of analytic economic history of Mexico included both the stability and instability and a generalizable structure about the political and economic institutions of interaction. Annett (2001) explored the neoclassical growth model with the relationship between the degree of division or fractionalization of the population of a country by using neoclassical growth model for both government consumption and political restlessness. The main conclusion was that the increase the fractionalization, the swapping of the degree of clash in society, which led to political instability. The study depends on panel estimation. The model in this paper developed independently in political economic literature. Asiedu (2005) investigated the data of many investor surveys that suggest that FDI of Africa was negatively impacted by the political instability, corruption and investment boundaries. Panel data was used. There were 22 countries over the period of 1984-2000 selected. Data was used to check the impact of host country's institutional qualities, market size, government policies and political instability on FDI. The results suggested that large markets and natural resources can help in promotional activity of FDI in economy. Busse and Hefeker (2005) explored the relationship between political risks, FDI inflows and institutions. In study, different econometric techniques were used for the sample of 83 under developed countries for the period of 1984-2003. The indicators used has strong impact for the multinational corporation activities. The results suggested that for the inflows of FDI in economy political conditions need to be stable, internal conflicts must be resolved and basic democratic rights must be given.

Linan (2007) discussed the extreme failure of politics which was presidential impeachment. Impeachment is basically the extreme failure of governance. Here, discussion is about the impeachment of 1990's in Latin America. This scenario was about in between 1992 to 2004 and this process was faced by 6 presidents. This was a new pattern of presidential instability in that region during that period. This was a new theoretical challenge for comparative study of presidentialism in political instability. Buthe and Milner (2008) studied the flow of FDI in under developed countries, varies over time in those regions. The political factors were not in consideration which were actually affecting FDI. The major focus of the study was the relationship between trade and investment. The data from 122 developing countries from 1970-2004 was used for statistical analysis. The result findings suggest that government should take measures for inward FDI increased with a loss in policy autonomy. Easter and Rebelo (1993) described the irregularities of level of development and growth as the variables of fiscal policy. The data used for study was based on historical data, constructed public investment series and recent cross-sectional data. Basic findings of the study were the association between development and fiscal structure of the developing countries. Whereas the results also influenced empirically by the sales of economy and effects of taxes in fiscal policy. Jonga-A-Pin (2006) analyzed the political instability and its impact on economic growth. The paper analyzed the panel estimate of 98 countries in the period of 1984-2003. The paper also analyzed that political instability had different impacts on economic growth. The findings that political instability had 4 dimensions and each dimension had different effect on long run economic growth. The results strongly indicate that considering political phenomenon as one-dimensional phenomenon may lead misleading results.

Zurawick and Habib (2009) examined the impacts of political instability or corruption on FDI. 1st, in host country the corruption level was analyzed. And the secondly the level of corruption in between host and home country was under in consideration for analyzing the difference. The paper suggest that foreign investment is also affected by the corruption because it may the reason of inefficiencies in economy. The main result of the study was that corruption is the main problem in investment in any country by the foreigners. Asien and Veiga (2011) analyzed the impact of political instability on economic growth. The data of 169 countries under the period of 1960-2004 by using the system-GMM estimators for linear dynamic models. The findings suggest that increased political instability will lead to result in low the growth rate of GDP per capita. The study also finds that political instability worse effect the growth by lower productivity and physical and human capital assets. Alberto et al., (1996) investigated the relationship in between per capita GDP growth and political instability. The estimated model data of 113 countries for the period 1950-1982 was selected. The main result of this paper is that in that time period with a high propensity of government collapse and growth rate was significantly lower than before. Golstone et al., (2010) examined the onsets of political instability in worldwide countries. The era of 1995-2003 was chosen for this research. The study also distinguished the countries which faced political instability from those countries which were politically stable for 2 years lead-time or more. The model is studied by using few variables and a simple specification. The results were accurate in forecasting the onsets of political instability by civil wars and democratic changes in any economy. Gates et al., (2006) analyzed the effects of political instability on political institutional structures. The study based on three institutional dimensions of democracy which were extension of political participation, election of the executive, constraints on executive decision-making authority. The results of hypothesis of the study suggest that political stability can maintain self-enforcing equilibria in economy. Whereby democratic control can also be established by the maintenance of a polity’s institutional structure.

Borensztein et al., (1998) tested the effect on economic growth of FDI. For statistical analysis data of 69 under developed countries over the last two decades in a cross-country regression framework. The results based on the fact that FDI is an important factor for the movement of technology and the increased growth in domestic investment. The nutshell of this paper that FDI depends upon level of human capital available in the economy which effects economic growth. Bräutigam and Knack (2004) stated that World Bank argued on governance crisis of Africa's development. There mention reasons of African crisis were weak law rules of governance, absence of accountability, controlled information availability and high level of corruption. Although somehow foreign aid reduced its poor aspects. There were many reasons of poor state of Sub-Saharan Africa such as colonialism, civil wars and political instability. But aid affects institutions in weak states in that region. Le Billon (2001) discussed in 1990's many armed groups occupied revenues of natural resources for reduction in Cold War sponsorship. Natural resources mentioned in paper were oil, gems and timber. These resources not only the reason of increasing conflicts but also financed. This paper examines between these armed conflicts and natural resources. It also emphasized that violence in resource dependence must be avoided by passing criminal character in international markets which is a form of globalization. Roubini and Sachs (1989) analyzed large amount of deficits OECD countries in last years which cause a sharp rise in public debts. These deficits caused by mostly economic and leading political forces. The estimation of the study is done under equilibrium approach to fiscal policy. Under this policy taxes decrease over time to reduce the load of taxes on public. The paper suggests that by adopting this fiscal policy many countries lowered their fiscal deficits which usually created by the instability in politics. Campos and Karanasos (2008) analyzed the relationship between volatility and economic growth. The main question of the study was that is political instability effecting economic growth directly or not? The estimation is done on time series data of Argentina from 1896 to 2000 by using power-ARCH framework. The results suggest that formal political instability effect economic growth negatively. Another finding of the paper was that is political instability effecting economic growth in long run strongly as compared to short run.

III. THE ECONOMIC MODEL AND METHODOLOGY

The main objective of the paper is to analyze the relationship between economic growth, trade openness, inflation, labor force, domestic consumption by financial sectors on political instability of Pakistan for the period of 1983-2016 using ARDL approach. Following the previous methodologies, Ali (2011), Ali (2015), Ali (2018), Ali and Bibi (2017), Ali and Ahmad (2014), Ali and Audi (2016), Ali and Audi (2018), Ali and Rehman (2015), Ali and Naeem (2017), Ali and Zulfiqar (2018), Ali et al., (2016), Arshad and Ali (2016), Ashraf and Ali (2018) Haider and Ali (2015), Sajid and Ali (2018), Ali and Senturk (2019), Kassem et al, (2019) and Ali and Bibi (2020). Using the following regression function:

Y = f (GDP, Inf, Lf, TO, DC)

Where:

Y is political instability of Pakistan

GDP is GDP growth of (annual %)

Inf= Inflation (consumer prices annual %)

Lf is labor force participation rate (% of the total population)

DC is domestic credit provided by financial sectors (% of GDP)

IV. RESULTS AND DISCUSSION

The study has done by using different econometric techniques. Here, used different test to show our result in stationary or significant, fact of time series data that it contains unit root problem and regression results of this data are spurious. For the solution of unit root problem, this study uses Augmented Dickey-Fuller (ADF) unit root test, the calculated results of ADF test are presented in this paper.

Table 1

Unit root test

	At Level		At 1st Difference	
Variables	T-Statistics	P-Value	T-Statistics	P-Value
Political instability	-1.794704	0.3908	-5.376617	0.0001
GDP Growth	-3.678708	0.0088	-3.347978	0.0201
Inf Cons. Price	-2.579620	0.1064	-7.487855	0.0000
Labor Force	-1.302319	0.6158	-9.759063	0.0000
Trade Openness	-1.866649	0.3437	-6.739051	0.0000
D.C Financial sector (%GDP)	-1.941112	0.3105	-5.359961	0.0001

To check the stationarity of the variables Augmented Dickey Fuller (ADF) test has been used. The results reported that political instability is stationary at level (1). While on the other hand GDP growth is stationary at level and other variables e.g. Inflation, labour force, trade openness and domestic credit to financial sector are stationary at level (1). Which is a suitable condition for testing cointegration by applying Augmented Dickey Fuller (ADF) test.

Table2

F-statistics= 4.360553		
Level of significance	Lower bound value	Upper bound value
10%	2.26	3.35
5%	2.62	3.13

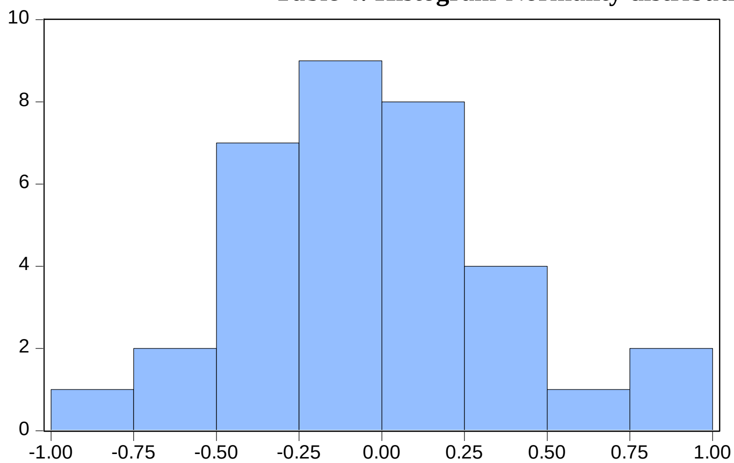
The table 2 represents Bound test's result. The results show that F-statistics is greater than upper bound value at 10% so, there is cointegration among the values of the variables.

Table 3: Long Run Result of Co-integration

Dependent variable=Political instability			
Variable	Coefficient	t-statistics	p-value
Political instability	4.890719	0.081619	0.0936
GDP growth	3.928511	0.755047	0.4676
Inflation	-1.157827	-1.30786	0.2202
Labor force	0.482334	0.554522	0.5914
Trade openness	138.3122	1.281256	0.2209
D.C Financial sector (%GDP)	-1.497630	-1.02885	0.3278

Table 3 represents long run relationship between the variables. The estimated results show that GDP growth, inflation, labor force, trade openness, domestic credit provided by financial sector to the GDP are insignificant and pay positive impact on dependent variable (political instability).

Table 4: Histogram-Normality distribution



Series: Residuals	
Sample 4 37	
Observations 34	
Mean	1.04e-15
Median	-0.019302
Maximum	0.930609
Minimum	-0.816157
Std. Dev.	0.406240
Skewness	0.390332
Kurtosis	2.872209
Jarque-Bera	0.886505
Probability	0.641945

Table 4 Histogram-Normality Test is used to check the normality of the residuals. The residuals are from a simple regression model that includes only one dependent variable and 34 observations. As value of J-B statistics is greater than 10% we can't reject null hypothesis that the residuals are normally distributed and the p-value is 0.641 which is greater than chosen level of significance (0.05). We again reject null hypothesis of normality distribution of residuals.

Table 5: Ramsey RESET Test

	Value	df	Probability
t-statistic	1.891644	9	0.0911
F-statistic	3.578317	(1, 9)	0.0911
F-test summary:			
	Sum of Sq.	df	Mean Squares
Test SSR	1.549297	1	1.549297
Restricted SSR	5.446011	10	0.544601
Unrestricted SSR	3.896713	9	0.432968

Ramsey RESET Test is use to check the misspecification in the model. According to the value of F-statistics which is 0.0911, we don't reject Ho. So, the model is not mis specified as the p-value is greater than 0.05.

Table 6 descriptive statistics is given for overview the properties of the selected data or model. According to the estimated results inflation is positively skewed while other variables are negatively skewed. Results also show that variables have positive kurtosis. In the analysis skewness is significant and kurtosis is insignificant. J-B value also shows finite covariance and zero mean of all the variables. So, conclusion is that selected data is normally distributed.

Table 6: Descriptive statistics

	Political	GDP	Inflation	Labor Force	Trade	Financial sector
Mean	6.921	4.611	7.835	49.701	0.301	48.762
Median	6.708	4.7311	7.598	50.0800	0.304	49.955
Maximum	10.833	7.705	20.286	50.030	0.365	57.786
Minimum	2.1666	1.0143	2.5395	32.2000	0.2406	37.2155
Std. Dev.	2.0866	1.8221	3.9325	3.0790	0.0351	5.07598
Skewness	-0.0164	-0.050	0.8196	-5.1234	-0.193	-0.6512
Kurtosis	2.3513	2.3852	3.8868	29.8300	1.9519	2.8755
Jarque-Bera	0.6502	0.5980	5.3553	1271.65	1.92550	2.6390
Probability	0.7224	0.74152	0.06860	0.00000	0.3818	0.26726
Sum	256.083	170.631	289.912	1838.94	11.1516	1804.194
Sum Sq. Dev.	156.745	119.525	556.737	341.305	0.0443	927.563
Observations	37	37	37	37	37	37

The stability of the model provides information related to the estimated model. The results from CUSUM and CUSUM Square is demonstrated in fig.1 and fig. 2 as shown below:

Fig.1: Plot of cumulative sum

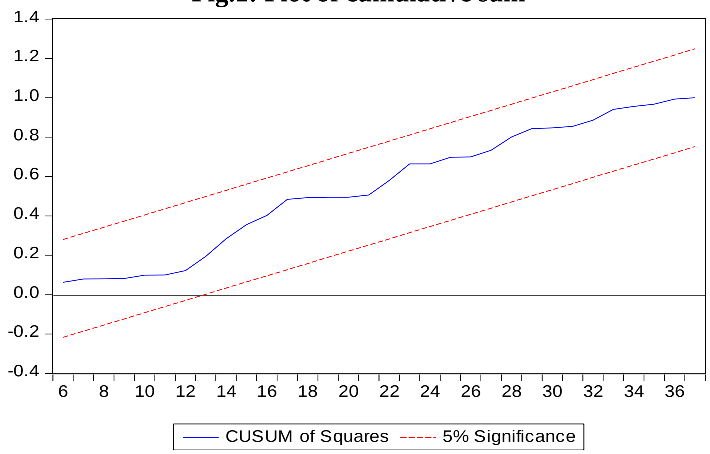
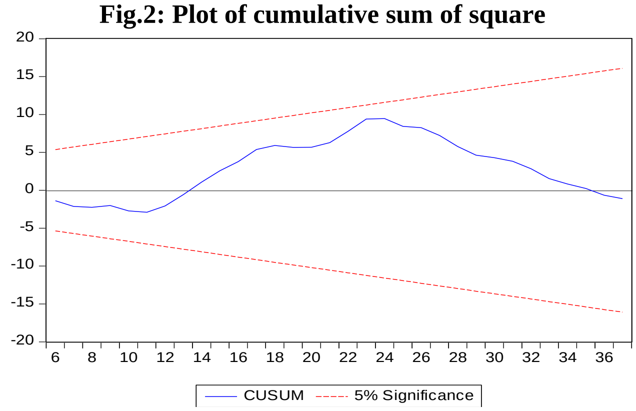


Fig.2: Plot of cumulative sum of square



V. CONCLUSIONS

The results from ARDL, the bound test shows there is cointegraton between the variables of the model. The long run relationship among the variables shows that political instability is positively affected by the independent variables. Histogram-Normality test concludes that residuals are normally distributed. The residuals in the model includes 1 dependent variable and 37 no. of observations. The Ramsey RESET test results shows that model is not mis specified. The estimation of descriptive statistics shows that variables are negatively skewed and normally distributed. The

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results show negative relationship between political instability on inflation. This study concludes that government should take especial measures to stabilize the political conditions in Pakistan. For this purpose government should mobilize the legal measures in efficient way and also adopt policies for the welfare of the economy of Pakistan.

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