

Economic cost of political conflict

Publication Year : [2019](#)

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Economic development does not depend only on economic factors but also largely on non-economic aspects like institutions, political system and values. The political system plays a fundamental role to set the pace and direction of economic development.

A responsible political system is committed to creating a favourable environment, and facilitates investments to stimulate economic activities – hence, economic growth. In such a situation, citizens have less incentive to participate in political activities, since they engage in economic activities that are evident in the developed world.

However, in the developing world, citizens face numerous socioeconomic problems. Thus, they participate in political activities to solve their problems via political means. As a consequence, many political parties and interest groups come into existence in developing countries. These parties and activists normally present their demands through strikes, lockdown and blockades etc. These activities, in turn, generate economic and political uncertainty and therefore, can paralyze the entire production process.

Political protests remain very common in countries of the Subcontinent, including Pakistan. Pakistan has a long history of protests, strikes and sit-ins, with enormous media coverage of these activities. The right to protest / strike is considered a sign of a healthy democracy. Theoretically speaking, it allows people to raise their voices to decision-makers to obtain fundamental rights. But practically, these protests are associated with closure of economic activities and have often caused violence and loss to private and public goods.

Season II of protests and marches, in particular the ‘Azadi March’, began on October 27, 2019 from Karachi to Islamabad with new actors and old spectators. There are political and economic dimensions of the ‘Azadi March’. From a political point of view, the key question is: what are the underlying objectives of the march? Geopolitical scientists can better answer this question. From the economic point of view, it is important to observe the economic consequences of these protests, marches and sit-downs. ***What are the economic costs, monetary and non-monetary, of the ‘Azadi March’? What is the impact of this march on the local economy?***

Literature has hinted at a significant impact of protests on the local economy. A study shows that the cost of production of manufacturing sector rises by about 1.17 percent due to the disruption caused by strikes in [Bangladesh](#). Another study reveals that the average direct cost of general strikes was 1.4 percent of gross domestic product (GDP) in [Nepal](#) and resulted in reduction of GDP growth rates from 0.6 percentage point to 2.2 percentage points.

In France, strikes caused a drop of around 0.17 percent of GDP and more than two-third loss in GDP was born by the private sector. Similarly, strike in Spain costs 0.1 percent of GDP, while in

Austria, it costs around 0.46 percent of GDP. Another study shows that the protests caused an average decline in stock prices between 0.4 percent and one percent.

What would be the economic cost of strikes / marches and sit-ins to Pakistan's local economy.

The monetary cost covers direct business losses, trade losses and increase spending on security services. Protests have a significant negative impact on the entire economy, such as increase in the price of necessary consumer goods translated into inflation, widening the fiscal deficit due to over-spending on security and trade deficit owing to low exports. Sectors such as transport are subject to significant revenue loss due to major service interruptions and considerable loss to vehicles.

Protests hit the manufacturing sector, albeit indirectly, owing to rise in production cost because of increase in input costs or decrease in total production. Therefore, protests eventually have long-term negative consequences throughout the business sector of the economy. ***About two-thirds of the workforce is engaged in the informal sector in Pakistan. These people get unemployed due to strikes and protests that contribute to huge production loss.***

Considering global evidence, especially from neighbouring countries like Nepal, Bangladesh and India, we can assume that these strikes would cost up to 2 percent of GDP per year. This direct economic loss is three times greater than the total expenditure on social protection in the country (only 0.6 percent of GDP is earmarked for social protection). This highlights the consequences for the poor. If the same amount (loss in protests) is invested in the poor, Pakistan can easily alleviate poverty and hunger.

There are numerous non-monetary costs. These strikes hamper the general movement of citizens and are often associated with serious conflicts and violence that often cause injury. Due to these protests: companies lose valuable hours of work; factories lose working days; the poor lose income for days; patients fail to see doctors; shipments are delayed; meetings are cancelled, and overall the economy loses the desired goals. The biggest impact of such protests is violence, that causes loss of life and injuries. Although political parties often call protests on behalf of the people the protests directly and indirectly affect ordinary citizens, particularly those in the low or lower-middle income group of the economy.

Pakistan is a country with great prospects to develop. But today it is one of the lowest growing countries even in the South Asian region. If, somehow, we can restore political stability, the economic potentials ranging from human capital to natural resources can change the outlook of the country in a short period of time. Continuations of strikes, protests and sit-ins would further worsen the economy.

Political parties, therefore, should ponder on the costs of protests and strikes before initiating these activities. Pakistan faces chronic problems such as low economic growth with a high triple deficit, poverty, hunger, low quality human capital, terrorism and a weak governance structure. Unwanted strikes and other similar events have wasted the valuable time of politicians and other experts, including the media. The same amount of time could be spent discussing the real socioeconomic challenges to improve the country. They must invest energy to find some alternatives to strikes to lead the country towards prosperity and growth.

The government and relevant authorities should also correct their attitude of not hearing genuine voices until expensive strikes are organized. This requires the development of a culture to deal with a problem in a timely and honest manner. ***We should strike to end political conflict. We should move from trying to gain political power through protests to you engaging in a dialogue for strengthening of economic conditions of a nation.***

Note: the earlier version of this blog published in The NEWS dated on November 02, 2019 titled as “The cost of the march”. <https://www.thenews.com.pk/print/549443-the-cost-of-the-march>