

# Political economics

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The ongoing political protests and marches organized by opposition political parties and interest groups against the government have started a new wave of demonstrations and rallies, with the government public demonstrations too launching a movement to regain public support.

Over the last few years, political protests and marches have become a regular feature of Pakistan's political landscape. The right to protest is considered a sign of a healthy democracy so people can raise their voices to demand their rights. However, at the same time these protests are also associated with the closure of economic activities, violence and the loss of private and public goods.

It is critical to study the economic consequences of these protests, marches, and sit-downs. What are the economic costs of such protests? A strand of literature establishes a negative impact of political instability on growth (Matta et al, 2021). Shonchoy and Tsubota (2016) show that the manufacturing sector's cost rises by about 1.17 percent due to the disruption caused by strikes in Bangladesh. Shrestha and Chaudhary (2014) documented that the average direct cost of general strikes was 1.4 percent of Nepal's GDP. These strikes reduced GDP growth rates from 0.6 percentage points to 2.2 percentage points. Rahman (2014) shows that a ten-day strike led to, on average, a 3 percent loss to GDP per year in Bangladesh.

Matta et al (2021) show that actual GDP per capita is, on average, 4.3 percent lower than its counterfactual due to political instability and mass civil protests in the event year. The study further shows that Pakistan faces a significant loss of 2.7 percent in GDP per capita due to massive political instability with mass civil protest during the event year. Moreover, this study further indicates that actual GDP per capita did not fully recover its initial output loss.

Ahsan and Iqbal (2015) reveal that a political strike over seven days reduces a firm's exports by 4.5 percent in Bangladesh. Furthermore, protests and strikes substantially affect smaller exporters and exporters, producing lower-priced generic products.

Piotr et al (2020) show that a general strike is detrimental to the value of equities and led to a 6.11 percent decline in dollar-denominated stock market indices of the affected countries. A statistically significant increase in risk also accompanies this event. These statistics imply that general strikes have severe ramifications for stock market investors. These losses are equivalent to around 0.4 percent of GDP per day of a strike.

In light of global evidence, especially from neighbouring countries like Nepal, Bangladesh, and India, we can assume that political strikes and protests would cost up to 3 percent of GDP per year. This direct economic loss is three times greater than the total expenditure on social protection (only 1 percent of GDP allocated for social protection). The economic loss highlights the consequences for the poor. Pakistan can easily alleviate poverty and hunger if the same amount (loss in protests) is invested in the poor.

Pakistan is a country with great prospects in terms of development. But today, it is one of the slowest growing countries, even in the South Asia region. The World Economic Outlook (2022) by the IMF shows that the projected GDP growth for Pakistan is 4 percent compared to India (9 percent), Bangladesh (6.5 percent), Maldives (13.2 percent), and Nepal (4.4 percent) in 2022.

Pakistan is in the fifth percentile for political stability compared to the South Asian percentile rank of 30th, where 0 is the least desirable and 100 the most desirable rank, according to data

from the World Governance Indicator by the World Bank 2022. While Bhutan ranked at the 85th percentile, India ranked at the 17th percentile, Sri Lanka ranked at the 45th percentile, and Bangladesh ranked at the 16th percentile on the political stability index.

If we can somehow restore political stability, economic potentials -- ranging from human capital to natural resources -- can quickly change the country's economic outlook. In contrast, continuous strikes, protests, and sit-downs further worsen the economy.

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 similar events have wasted politicians' and other experts' valuable time, including that of the media. Political parties, therefore, should ponder the costs of protests and strikes before initiating these activities.

We can spend the same amount of time discussing real socioeconomic challenges to improve the country's economic prosperity. Political parties must invest time and energy to find alternatives to political strikes to lead the country towards prosperity and growth. The government and relevant authorities should also revisit their approach to dealing with political parties' protests and strikes. The revised political process requires developing a culture to deal with a problem quickly and honestly.

Economic development depends not only on economic factors but also on non-economic aspects like institutions, political systems, and values. The political system plays a fundamental role in setting the pace and direction of economic development.

A responsible political system is committed to creating a favourable environment. It facilitates investments to stimulate economic activities and, hence, economic growth. In such a situation, citizens have less incentives to participate in political activities since they engage in economic activities evident in the developed world. People involved in economic activities dislike such political movements and consider them unnecessary evils. The people want political parties to work on creating alternative and peaceful action-oriented programmes.

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