

Economic Performance of Pakistan Under Democracy and Military Regimes

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Abstract—Pakistan's economy is a tangled economy with a mixture of democracy and dictatorship. Government is facing a number of problems due to lack of consistency in the political structure. This study investigates economics performance of Pakistan under the Military Regimes and Democracy from 1958 to 2014. Economic Performance is a very colossal term which includes number of variable such as Foreign Direct Investment, Real Gross Domestic Product, Unemployment, Per capita income, Consumer price index, Gross National Product, Corruption Index and Inflation Rate. We examined economic performance under military and democratic regimes using macroeconomic variables such as Foreign Direct Investment, Real Gross Domestic Product, Unemployment, Per capita income and Inflation Rate. We found that Military governments performed better in terms of Gross Domestic Product and controlling Inflation while democratic government performed better in terms of Per Capita Income. Moreover Foreign Direct Investment and Unemployment were almost same under military and democratic governments.

Index Terms—Foreign direct investment, real gross domestic product, unemployment, military coup.

I. INTRODUCTION

It has been 68-years since independence but we are still unsuccessful in developing best political institutions. Countries which were far behind from Pakistan are ahead now. Our history revolves around dictatorship and democracy and the debate on role of democracy and dictatorship on economic growth of Pakistan is not over yet. Which political system contributed in the progress of its country? How Pakistan economy performed under military and democratic regimes?

Literature identifies two political regimes; democracy and dictatorship and their role in economic performance. There are different type of democracies and dictatorships. Pakistan has faced parliamentary democracy and military coup as dictators. Pakistan has faced three successful and three unsuccessful military coups attempts spanning for almost thirty five years. Until 2013 Pakistan has not faced a single transfer of democracy to other democratic government. In 2013, first time, control of government was peacefully transferred from one democratic government to the other.

Democracy means freedom of speech, right to vote and control of government through majority. Democracy means everyone having equal rights. It is all about its citizens (by the people and for the people).

Military coup is defined as the over thrown of current government through power by Military, it's an illegal

replacement of government and taking power into their own hand. The first and foremost objective of democracy is to accomplish the objectives that best serve the interests of the people, whereas Military is liable for guarding and defending the state.

About 471 coup attempts were recorded world widely from 1950 to 2011. Countries like Afghanistan, Argentina, Algeria, Bangladesh, Bulgaria, Central African Republic, Chad, Chile, China, Egypt, France, Ghana, Greece, Haiti, Japan, South Korea, Mexico, Nigeria, Philippine, Romania, Russia, Sudan, Switzerland, Syria and Uganda has faced number of coup attempts. Thailand has faced most coup attempt than any country in the world. Since 1932 Thailand has faced 11 successful coup attempts, India has never faced military dictator. Latest coup attempt was done on 13 May 2015 in Bulgaria [1].

In case of Pakistan, it is always perceived that military performed better as compared to dictatorship. Since independence, government was under the control of military coups for more than three decades in which they also claimed that economic performance and economic stability were far better than the democracy [2]. Democracy as a political system in Pakistan has been an onerous goal since 1947. The last sixty eight years were critical in term of growth and economic management. The year 2007 has been one of the struggling years in sense of restoration of democracy. Economic growth of Pakistan is observed to be hovering around 5% since last six decades. Pakistan grew faster than South Asia by an average of 2% during 1960s and 1980s. However growth rate was below than the regional average in 1990s. Social and Political interference has created problems in smooth trend of growth. Economic growth can only be generated when a country is politically and socially stable [3].

Number of researches has been conducted to investigate the relationship between democracy and economic growth in Pakistan. Despite having three successful and three unsuccessful military coup attempts, economic performance of Pakistan is not examined under two regimes empirically. This study aims to highlight the role of dictatorship in economic performance of Pakistan from 1958-2014 with a comparison between the economic performances of democratic and military governments using descriptive and regression analysis.

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

There is a substantial debate about the impact of democracy and dictatorship on economic growth. This section reviews the existing literature on macroeconomic performances under democracy and military coup. Democracy is being welcomed in most parts of the world.

Democracy and democratic policies are directed towards the society and poor peoples.

Development and Democracy are mirror terms have been also supported the same theory and blaming military coups that they are more directed towards their own interest (allocation of budgets) as compared to non-defense projects and civilians². Military government always claim improvement in macroeconomic indicator and economic stability in Pakistan but remarkable improvement was not seen during the military rule, rather many macroeconomic indicators were significantly better during democracy [2].

Democracy is more preferable as compare to Military in terms of growth, investment, stability and providing a chance to reelect. If previous government failed to accomplish the desired expectations they can be removed by its citizen in next elections. Democracy is all about people's control, while military coups are far behind from the reach of its citizens [4]. Military coups are seen as political instability. Military dictators failed to generate economic growth. Negative consequences over health, education and investments were seen after overthrowing democracy and concluded that coup taking place in autocratic country sometime shows positive results on economic growth but coup entirely failed to generate economic growth after taking over a democratic country [5].

It is strongly believed that economic growth cannot take place in the presence of political instability. Political instability occurs due to lack of congruency between economic modernization and its political institutions. When economic modernization transforms urban and rural community's pressure occurs and when government failed to create a balance between urban and rural community instability occurs³. While a related view argues that political illegitimacy is responsible for political instability. Economic performance is all about expectation when government failed to full fill desired expectations instability occurred and when expectation are fulfilled economic growth occurs [6]. political instability reduces growth, and there are more chances of governments to collapse during instability while these chances are lower during stability.

According to Ibrahim, when economy is shrinking it has more chances to be over taken by military dictators. In case of Latin America when the economic performances were poor, America experienced more coup d'états [1]. The same argument was empirically proved by Fossum [7]. As far as the economic stability is concerned there are certain factors and policies which control the whole economy and similarly those factors and policies are also controlled by governments according to their own preferences and needs. The above cited literature and discussion shows that the economies perform better under democratic political systems than military rules as democracy means to political stability, strong institutions and firm long term economic policies. Pakistan has a rich experience of both democratic and military rules. Therefore, it would be interesting to examine the economic performance of Pakistan under two regimes. In continuation of this literature review the following hypotheses have been formulated:

H1: FDI under democracy \neq FDI under military.

H2: GDP under democracy \neq GDP under military.

H3: Unemployment rate under democracy \neq

Unemployment rate under military.

H4: Per Capita Income under democracy \neq Per Capita Income under military.

H5: Inflation rate under democracy \neq Inflation rate under military.

III. RESEARCH METHODOLOGY

A. Data and Descriptive Statistics

1) Data

In order to measure economic performance of Pakistan under democracy and military coup from 1951 to 2014 the study utilizes five macroeconomic variables such as Foreign Direct Investment (FDI), Real Gross Domestic Product (RGDP), Unemployment (UE), Per capita income (PCI) and Inflation Rate (INF). Data on FDI (% to GDP) over the time period 1970-2014 and RGDP for a sample period of 1951-2014 is collected from World Bank, data for CPI Inflation (1957-2014) is collected from IMF, data on Unemployment (1986-2014) and Per capita Income (1960-2014) is collected from Trading Economics

2) Descriptive statistics

Descriptive statistics shows that on average macroeconomic indicators were better under military governments than democratic regimes. For instance, average Foreign direct investment during democracy was 0.661% (as percentage of GDP) while 0.852% during dictatorship. Average Gross domestic product growth during democracy was 3.77%, whereas 5.62% during military coup. Moreover, average inflation rate during democracy was 9.67%, whereas 5.34% during military coup. However, on average, democratic governments performed better in terms of unemployment rate and per capita income. Average unemployment during democracy was 5.44% as compared to 6.21% during military coup and per capita income was higher during democracy with 564.20 and 433.86 during military coup. However, to test whether these differences are statistically significant, we use regression analysis by introducing dummy variable for democratic regimes.

B. Regression Analysis

This study applied OLS regression analysis to investigate economic performance of Pakistan under democratic and non-democratic regime using five macroeconomic variables, i.e. Foreign Direct Investment, real GDP, inflation, unemployment and Per capita income. The main objective of the study is to test if economic performance of Pakistan differs significantly under democratic and military regimes. We estimated the following model:

$$y = \alpha + \beta d \quad (1)$$

where, y = Macroeconomic variable

α = Constant, showing average value of variable in military regimes.

We estimated this equation by controlling for other macroeconomic variables which may have affected the performance of government under democracy or military regimes. For instance, we test for the statistical difference of GDP growth during two regimes by controlling for foreign direct investment as during military regimes Pakistan observed high capital inflows. However, the overall results hold that on average economic indicators performed better under military regimes.

d = (dummy variable – 1 represent democratic regime while 0 represents military regime)

β = The differential coefficient tells how much the average value of variable differs in democratic regimes than military regimes.

C. Regression Analysis and Results

1) Foreign direct investment as % of GDP

The linear regression model below shows the influence of political regimes on FDI. We estimated Equation 1 as follows;

$$FDI = c + \beta d \quad (1a)$$

where, c = constant

β = The differential coefficient tells how much average FDI during democracy differs from the average FDI during Dictatorship (estimated by the constant term).

d = (dummy variable = 1 represents democratic regime while 0 represents military regime)

Results of estimated equation are presented in Table I. It shows that the average FDI during democracy is lower by 0.19 % (0.8521-0.6618) than the average FDI during military coup. Table 1 shows that the p-value is 0.4428 which is more than the significance level of 10%. Therefore, we can't reject the null hypothesis. Thus we find no statistical evidence that FDI is significantly lower under democratic regimes than the military regimes.

The average FDI during democracy is 0.66% whereas the average FDI during military coup was 0.86%. This may be attributed to other global factors rather than the difference of political regimes. For instance, aid from the United States in 1960s helped Pakistan to increase economic growth, policies such as privatization and liberalization also helped to boost FDI. Inflows from western countries and US following the Soviet Invasion of Afghanistan during 80s increased FDI. In 1990s tax incentive and fiscal benefit were given to attract investors. FDI also increased during President Mushraff Regime but decreased in 2008 during economic crises and political stability. Incentives were also given to investor in 2009 but government failed to attract investors due to law and order situation in the country. Pakistan's economic outlook has slowed down from the beginning of 2008.

FDI could be increased on regular basis if attention is paid towards Protection of foreign investors, law and order situation, economic political and social stability, opportunity of growth, low tariffs and well-designed trade policies.

2) Real GDP

To estimate average Real GDP under two political regimes, we estimated Equation 1 as follows:

$$GDP = c + \beta d$$

where, c = constant

β = The differential coefficient tells how much the real mean GDP during democracy differs from real mean GDP during the Military coups (estimated by the constant term).

d = (dummy variable = 1 represents democratic regime while 0 represents military regime)

The estimated results are shown in Table I which shows that the average Real GDP during democracy is lower than Military regimes by 1.89 % (5.6740 - 3.7748) and results are

highly significant (Table I shows that the p-value 0.00). Hence, we find strong statistical evidence that real GDP growth was significantly higher under the rule by military governments than democratic governments.

High Real GDP growth under military regimes was generated due to large scale manufacturing, industrialization and phenomenal growth in agriculture during the 1960s. Rapid growth with stable prices and foreign remittance helped to increased economic growth during second martial law. President Musharraf was also successful in gaining investor confidence, stabilization of the exchange rate, record increased in foreign remittances, stable exchange rates and huge investment in telecommunication sectors, all these factor led toward increased GDP.

3) Unemployment

The equation 1 is estimated using unemployment rate which shows the influence of political regime on Unemployment. Thus we estimated

$$Unemployment = \beta + \beta d \quad (1c)$$

where, c = constant

β = The differential coefficient tells how much the real mean unemployment during democracy differs from the real mean unemployment during Military coups (estimated by the constant term).

d = (dummy variable = 1 represents democratic regime while 0 represents military regime)

The results are reported in Table I which show that the unemployment rate during democracy was lower than the unemployment under military regimes by 0.76 % (6.2149 – 5.4477) though this difference is statically insignificant (as the p-value 0.1953).

4) Per capita income

The linear regression below shows the influence of political regimes on Per Capita Income. We estimated Equation 1 as follows;

$$Per\ Capita\ Income = \beta + \beta d \quad (1d)$$

where, c = constant

β = The differential coefficient tells how much the real mean Per capita income during democracy differs from the real mean Per capita income during Military coups (estimated by the constant term).

d = (dummy variable = 1 represents democratic regime while 0 represents military regime)

The results are produced in Table I which shows that on average, Per capita income during democracy is higher than the military regimes by \$130.34 (\$433.86 - \$564.20) and the difference is statistically significant (Table I shows that the p-value is 0.00).

Democratic governments succeeded to increase per capita income but inflation also increased during democracy. The average Per capita income during democracy was 4.54%, whereas average inflation during democracy was 9.89%. Its means inflation was almost doubled during democracy while the average per capita income during military coup was 3.125%, whereas average inflation was 5.19% during military coup.

TABLE I: REGRESSION ANALYSIS RESULTS

	FDI		Real GDP		Unemployment		Per Capita income		Inflation	
	Coefficient	Probability	Coefficient	Probability	Coefficient	Probability	Coefficient	Probability	Coefficient	Probability
C	0.852****	0.000	5.6740***	0.0000	6.2149***	0.0000	433.86***	0.0000	5.2323***	0.0000
Dummy	-0.190	0.442	-1.899***	0.0022	-0.7672	0.1953	130.33***	0.0044	4.5472***	0.0001
R ²	0.013		0.141		0.0613		0.1430		0.2371	

Note: (***p<0.01, **p<0.05, *p<0.1).

Dummy variable 1 represents democracy while 0 represent military coup.

5) Inflation rate

The linear regression below shows the influence of political regime on Inflation rate. We estimated equation 1 as follows;

$$\text{Inflation Rate} = c + \beta d \quad (1e)$$

where, c = constant

β_i = The differential coefficient tells how much the real mean Inflation rate during democracy differs from the real mean Inflation rate during Military coups.

d_i = (dummy variable = 1 represents democratic regime while 0 represents military regime).

The results are reported in Table I which shows that average inflation rate during the democracy was 4.45711% (5.2323 - 9.7795) higher as compared to dictatorship and the difference is statistically significant (Table I shows the p-value 0.000). Inflation rate is significantly lower under military regimes than democratic governments. Thus, on average, democratic governments were not very successful in controlling inflation rate.

Inflation during the military was kept under control through good economic management while inflation most of time under democracy remained double digit. Pakistan under the democracy was dependent on multilateral donors for its balance of payment support. Nationalization in 1971 and loans from IMF and World Bank with difficult conditionality led toward increased inflation during democracy.

The estimated results using simple regression shows that FDI was higher during military regime but results were statistically insignificant. Real GDP was higher in military regime while Inflation was lower during military regime as compared to democracy and results were statically significant. Unemployment rate during military regime were higher but result were statistically insignificant. Whereas Per capita income was lower during military regime and results were statistically significant.

IV. CONCLUSION AND DISCUSSION

In this study an attempt has been made to analyze the impact of democracy and military coups on Pakistan's economy. We measured economic performance of Pakistan using macroeconomic variables such as Real GDP, inflation, Foreign Direct Investment, Per capita income and unemployment rate. The economic performance under democracy and military regimes were examined using descriptive and regression analysis. The results show that on average, economic performance of Pakistan was significantly better in military coups than democracy. However,

unemployment rate and FDI was not statistically different under military and democratic regimes. Nevertheless, Pakistan consistently enjoyed economic boom during military regimes.

Purpose of military is to defend and support the interest of its country whereas purpose of democracy is to accomplish the objectives that best serve the interests of the people. Unfortunately democracy has failed to fulfill desired results and true democracy could not be formed. Mal-practices such as horse-trading, nepotism, bribery, illegal obligations and other forms of corruption are associated with democracy. Most political parties lack resources, trained human power and strong educational background which caused enough hurdles in the way of socio-political and economic growth. Our political leaders and political parties also lack the perspective of a long-term *visionary approach* toward governing and *leadership*, they are also responsible for controlling state institutions for their own benefit. *Nationalization and socio political system resulted in political instability and sluggish growth which is a curse of democracy.*

Democratic governments heavily relied on IMF and World Bank and nonpayment of loan and debts affected the economic growth and economic stability. Increase in indirect taxes and inflation were also observed under democracy. Democratic leaders have not paid attention toward energy crises, industrialization and water shortage. Condition of health and education are getting worse day by day. The billions of dollars in Swiss bank and their children studying abroad show the level of devotion of our political leaders with country.

Statistics show that democracy is best form of government and democracy is not responsible for the uncertainty in our country. Political leaders and poor political structure are directly responsible for the deterioration in the country. In order to have economic growth and sustainability our leaders have to work with sincerity, devotion, and professionalism in favor of its country and people. True democracy could only be formed by the collaborative efforts of democratic leaders and military coups by understanding each other roles in their own dimension according to constitution of the country.

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