



# Impact of Extremism on Governance and Economic Growth in Pakistan

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## ABSTRACT

Seeking Sustainable economic development is a key factor in raising the standard of living of a common man, and it also helps the state to exercise good governance effectively. The sustainable economy of any state directly affects its governance. Pakistan has seen a lot of economic turf and crust in the last 70 years. Economists and those responsible for governance have shown their concern about uncertain and frequent fluctuations in Pakistan's economy, but Pakistan's high time should have a sustainable economy for economic and social development. Current research argues that some social and economic reforms if implemented immediately, will lead to good governance in the country. The analysis and the result conclude that if the identified causes of economic instability are addressed, the challenges to good governance will also be mitigated. Current research is qualitative in the collection of data available on official websites of government institutions, international monetary agencies, interviews with selected relevant staff, and views of common people who are suffering as a result of Pakistan's weak governance system.

**Keywords:** Economic development, Sustainable economic development, Good governance, Social development, Economic reforms.

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## 1. INTRODUCTION

### 1.1. Preamble

Political stability in a country is the result of economic stability, just as economic instability and the dream of political stability would remain a dream. Feeble economic status alone promotes inefficient administration, corruption, and incompetent office holders (Clipper, 2005). Those who do not meet basic needs may opt for street crimes, corruption, theft, militancy, and terrorism. Good governance has a strong positive impact on the state's success. Pakistan presents a picture of a troubled world state in this era of globalized trade and economic activity; good governance has become an important element in achieving prosperity through social and economic stability (Rehman, Jingdong, & Du, 2015). No state can live in isolation and must keep pace with the rest of the world for a better economy and good governance. Terrorism has proved to be an adverse factor in Pakistan's economic development and sustainability (Akhter, 2016) and has caused enormous damage to the economy. Some local investors have shifted their money abroad (Ambreen & Qayyum, 2018) to talk about

coming foreign investments. As a result, Pakistan has lost its reputation in the world community, and many counties are reluctant to engage in trade with Pakistan. Through this research, efforts are being made to highlight the challenges and deficiencies of the essentials of good governance in Pakistan, which are proving to be a force to reduce economic activity, thus suggesting few remedial measures to overcome these problems.

## 2. LITERATURE REVIEW

Exports have an impact on the economy of any country. Pakistan can strengthen its economy by increasing exports and to this end, it can follow some successful models such as China and Singapore (Ambreen & Qayyum, 2018). The analysis of Pakistan's economy Ahmed in his news column "Pakistan's economy can grow at the slowest pace in South Asia" (Ahmed, 2010) and Ali in "Lack of transparency and freedom of information in Pakistan: analysis of the functioning of the government and realistic policy options for reform" (Ali, 2011) describe the economic situation of the last five years. Pakistan needs good governance (Akhter & Iraqi, 2018). Indeed, economic growth rates provide the general direction and magnitude of growth for the overall economy (Rehman, Jingdong & Du, 2015). Pakistan needs to focus on its labor to compete globally; skilled and hard-working labor can help to make a difference in the world (Malik, Ghani & Musleh Uddin, 2017). Another way to improve the economy is by increasing trade with neighbors. While analyzing the comparison of Indian and Pakistani trade composition, Abid Qamar in his research provides insight into the potential of trade and identifies potential items as well (Qamar, 2005). Rehman, Jingdong, and Du suggest that expenditure on the security of major national assets and facilities is heavily burdened by the economy, but the foreign investment cannot be attracted without a secure environment (Rehman, Jingdong, & Du, 2015). According to the Pakistan Economic Survey, the country suffered a loss of USD 55 billion over the ten years from 2001 to 2011 (ten years) as a result of the terrorist war alone (Finance, 2011-12) compared to USD 35 billion in 2007-08 according to the 2009 Pak-US Business Council report (Goraya, 2009).

## 3. RESEARCH DESIGN

The present research is qualitative research based on observational analysis and focuses group discussion, using random and objective sampling. The views of think tanks, economists, experts, and public administration practitioners and the common citizen have been taken into account. The study is designed to gather data from official sources, websites, and available literature. Open-ended interviews are also conducted with those who are office holders and policymakers' advisers. The aim of collecting and analyzing data is to get a close and accurate picture of the deteriorating economic situation and governance in Pakistan, to suggest some corrective measures.

### 3.1. Data Collection and Analysis

Data is collected using all available print and electronic authenticated resources, view of the target audience, and published official reports (available on the official website). Authentication and accuracy data analysis is carried out through content analysis. The impact of a declining economy and poor governance on Pakistan's common citizen is analyzed through this research. A thorough study and analysis of the literature on the subject reveals that, apart from many other factors, the ongoing wave of terrorism has hindered the economy and negatively affected governance in Pakistan.

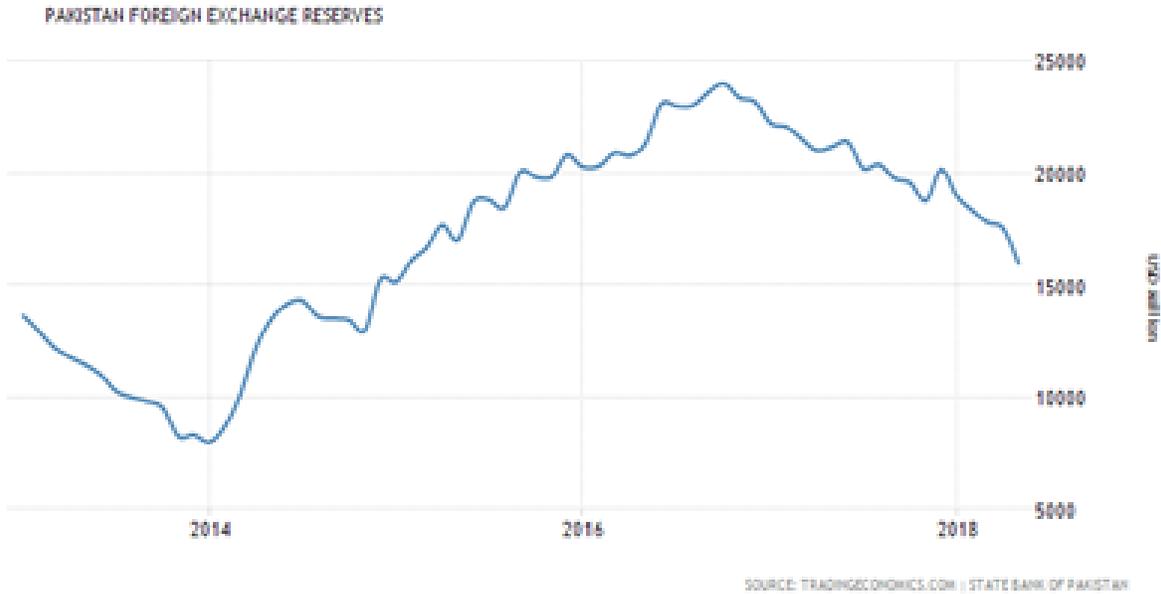
## 4. STRUGGLE FOR ECONOMIC SUSTAINABILITY IN THE PRESENCE OF EXTREMISM

Apart from emerging new technologies, gadgets, sophisticated equipment; terrorism is one of the most complex problems facing the world in modern times (Alwazna, 2016). It is primarily a security threat of varying dimensions, making it a multi-faceted challenge. The factors that drive terrorism, particularly in Pakistan, are

based on political, cultural, social, and economic considerations. At the same time, this phenomenon leads to political, social, cultural, and economic consequences, with levels varying from country to country, but in almost all forms and cases (Ghannouchi, 2013). Over and above other aspects, Pakistan's terrorism has had a serious negative impact on economic development and has become one of the major economic problems. Pakistan is paying a heavy price for the war on terror in terms of loss of valuable civilian and military lives, expenditure on military operations against militants, and adverse law and order situations (Giulianotti, 2012). A very conservative estimate of the "Economic Survey of Pakistan" shows that the economy suffered a loss of USD 55 billion in 2001-2011 (ten years) as a result of the war on terror (Finance, 2011-12). The country's overall sense of uncertainty and fear has prevailed, especially with the onset of anti-terror operations in KPK and FATA both physically and across the country in terms of intelligence gathering (Nizami, 2018). It has negative signs such as capital flight and slowed down economic activity, making foreign investors nervous, and even local investors are shifting their business to other secure countries such as Singapore, Malaysia, and Bangladesh. Pakistan's participation in the international campaign has resulted in an excessive increase in the country's credit risk. According to the Pak-US Business Council report (2009), Pakistan's economy is the main victim of Afghanistan's instability, and Pakistan's economy suffered a massive loss of USD 35 billion, directly or indirectly, in 2007-08 alone (Goraya, 2009). A large quantity of food items/products is smuggled from Pakistan to Afghanistan due to widespread unrest and political uncertainty in Afghanistan (Pyszczynski, Rothschild, & Abdollahi, 2008). However, trade between India and Pakistan can benefit Pakistan by accessing a large export market and can also save significantly by substituting expensive imports from other countries (Qamar, 2005). Figures 1, 2 and 3 show the fluctuation in state of foreign exchange reserve due to terrorist activities in the country in different years.



**Figure 1.** Pakistan Foreign Exchange Reserves from January 2017 to April 2018.



**Figure 2.** Pakistan Foreign Exchange Reserves from 2014 to 2018.



**Figure 3.** Pakistan Foreign Exchange Reserves from 2010 to 2018.

### 5. LACK OF GOOD GOVERNANCE: AN ECONOMIC COST OF EXTREMISM

It is not wrong to say that terrorism has caused enormous damage to the economy that is struggling to recover from a deep crisis (Lerner, 2003). Due to terrorist activities and some other factors, such as political instability, illiteracy; governance in the country has been severely affected (Basak, 2014). Pakistan has lost its reputation in the world community, as many states are now reluctant to issue visas to Pakistani national students, professionals, and businessmen.

Following are a few more compromises that Pakistan has made as a result of economic instability:

**Currency Depreciation:** Currency depreciation has increased the cost of imports and has further increased the prices of different consumer goods. The forex rate was 61 (PKR / USD) in 2001-02, 84.50 (PKR / USD) in 2008-09, 105 (PKR / USD) in 2014-15, and almost 120 (PKR / USD) in 2018, which is also a negative multiplier effect on the economy of the country. According to the World Bank's 2010 Global Economic Outlook, Pakistan's growth rate has been the weakest in the region (Ahmed, 2010).

**Price Hike and Inflation:** The government is unable to provide relief to common men, and the poor state of the economy can be seen from the fact that the inflation rate has jumped many times. The main cause of rising inflation is spending on security measures, increasing the overall cost of production, and eventually increasing the prices of almost all commodities.

**Cut on Development Expenditure:** Government, in the current fragile security environment, is bound to spend more on security equipment and law enforcement agencies and to reduce development expenditure (Akhter & Iraq, 2018). Educational institutions, along with other areas, have been targeted due to bad governance. Apart from poverty alleviation projects and infrastructure development, the government is paying more for countering terrorism and fighting militants.

**Tourism Damaged:** Increased security concerns and lack of good governance have made foreign investors less willing to travel to Pakistan to make business deals that hurt the economy (Flint, 2003). Along with this tourism, the country has been severely affected, as it is estimated that only less than 1% of people want to visit Pakistan for vacation purposes due to security threats and government policy (Akhter, 2016). This reduced any chance of foreign income that could be earned through the tourism sector.

## 6. WAY FORWARD TO IMPROVING GOVERNANCE THROUGH A SUSTAINABLE ECONOMY

The lack of good governance is irreparable damage to Pakistan's life, property, cultural and moral values. The challenge today is to bring the nation back to the path of triumph and to bring good governance to the country. The influence of good governance on the formation of a social state is not a hidden secret; this requires an evolutionary step towards channeling internal dynamics and reforming the national character.

There are few recommendations to improve governance through a sustainable economy in Pakistan as follows:

### 6.1. Honest and Competent Leadership

Pakistan looks forward to honest, trustworthy, and competent leadership. The selection and management of leadership must be carried out at the grassroots level (Akhter, 2016). The theoretical aspects of dynamic leadership from all over the world must be taught to school-based students (Crossman, 2006). Subdivision, district, and divisional political institutions are nurseries for future national leaders, and these nurseries must be used for the selection and treatment of future leaders.

### 6.2. Judicial Reform

Common men are still struggling to find justice. Ministry of Law and all Superior Courts, i.e. The Supreme Court of Pakistan and all high courts are suggested that corrective action be taken by subordinate courts to curb the culture of delaying tactics and to ensure speedy justice for minor and major cases. Judges are instructed, motivated, and helped to dispose of cases with speed and justice (Winston, 2007). Locating minor cases through the "Panchayat Committee" and the "Jirga" the system helps reduce the burden on subordinate and higher courts. Strong action against unnecessary FIR lodging and false application will also reduce the costs of investigation and the efforts of the police and the judiciary. If at the end of the proceedings, someone found that the opponent had been involved just for his pity gains, etc., all court costs would be transferred to the guilty party, the costs could include a judging fee, a court fee, a lawyer's fee, and an investigation fee, etc.

### **6.3. Effective Mechanism of Governance**

The core obligation of the state is to provide basic services such as health, education, water and sanitation (Rais, 2010), shelter, and a secure living environment to its citizens in a well-organized manner (Rehman, Jingdong, & Du, 2015). The State is also to promote inclusive arcades through which all citizens have equal opportunities to participate in economic activities (Rodrik, Subramanian & Trebbiu, 2004). Restructuring should be designed to reduce transaction costs and provide unrestrained access by reducing the subjective exercise of discretionary powers, reducing taxes on its citizens, minimizing corruption, and ensuring the safety and security of life and property (Sandler, 2011).

### **6.4. Accountability**

There has been either too much or too little accountability in Pakistan for those involved in public affairs (Rehman J. 2007). On the one hand, there is a surplus of laws and institutions, and, on the other hand, these institutions do not provide the common man with the required service (Clipper, 2005). Responsibility institutions either engaged in blackmailing businessmen and tax invaders or seeking opportunities to please their political leadership. Extending the tax-net and regular and periodic monitoring of the assets of civil servants, politicians, etc. and their offices will have a positive impact as far as accountability is concerned.

### **6.5. Adequate Fund for Education**

The prosperity of the country is impossible without quality education (Akhter & Iraqi 2018). Pakistan needs reforms in the basic education structure that are consistent across the country, consistent with the current global scenario of a strong government check and balance (Idhamsyah EkaPutra, 2018). The government should also devise some means of eliminating illiteracy based on war, as Pakistan is currently at a very low level of education (Hussain, 2004). It is suggested that existing educational infrastructure, particularly in rural areas, should be geared towards the allocation of adequate funding. It is also suggested that adequate funding for all levels of education, i.e. primary, elementary, and higher education should be allocated with sincere supervision, taking into account the merits at the top. International donors are willing to invest in finance and expertise that they need to attract to invest in this field (Kiran & Khan, 2015). Researchers are given the right space in society to contribute without fear or political pressure. Creating a favorable environment and financial support for researchers will help stop the brain drain.

### **6.6. Contribution to Socio-Economic Expansion**

A healthy economy is an important factor in good governance. The Human Development Report reveals that the governance agenda is essentially a political exercise and cannot be imposed as a technocratic application, taking into account the existing power relations in which the policy is rooted and nurtured (Khan & Qurat-ul-Ain, 2016). The balancing of the diverse interests of the various stakeholders involves several politically difficult choices that the technocrats cannot define and implement (Development, 2010). To articulate a long-term vision at the national level, consistent reforms require broad consultation at the national level, community consensus building, and communication with the government and the citizen. Policymakers and the general public should be able to look beyond the immediate outlook and be prepared to face future changes (Saima, Hamid, & Mavara, 2012). Criticism should be accepted with an open heart to develop better economic policy concerns, in addition to the scope of the implementation phase of the policy, its phases, timings, implementation approaches, and reform measures should be discussed and discussed in-depth (Ali 2011). If the desired results are achieved as they have been conceptualized, remedial action should be taken to obtain feedback.

### 6.7. Compliance with the Rules and Regulations by the Instruments of Government

Misuse of resources, non-compliance with rules and regulations and the relegation of norms and customs are few anomalies in practice in Pakistan (Shahzad, 2017). Strong checks and balances on government machinery are suggested and government officials are asked to abide by framework work, social standards, and official rules and regulations (Singh, 2004). Standard Operating Procedure (SOP) for Government Institutions Machinery and Officials are a must. It is recommended that the same be updated and modified with the changing global and technological scenario and put into practice (Wicks, 2006).

### 6.8. Human Rights and the Development of Human Capital

The international community has registered, either directly or indirectly, a link between human rights, good governance, and a sustainable economy in several declarations and other global and regional conferences. In a globalized world, Pakistan needs to build labor-oriented competencies with simple and complex outcomes to advance technology and skilled labor (Malik, Ghani, & Musleh Uddin, 2017). World leaders in the United Nations Millennium Declaration have agreed to strengthen democracy, the rule of law, human rights, the fundamental right to development, and a sustainable economy (Millennium Declaration, 2000). The Declaration on the Right to Development adopted by the United Nations General Assembly Resolution 41/128 affirmed that everyone on the face of the earth is allowed to participate, contribute and enjoy political, social, cultural, and economic development. The United Nations Strategy Documents on the Millennium Development Goals (MDGs) are the eight international development goals developed after the United Nations Millennium Summit, entitled 'The United Nations and the MDGs: a central plan', the MDGs must be within the wider Millennium Declaration principles and criteria, including those on "Human Rights, Democracy" (Nathalie, Dirgha, & Snedk, 2018).

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