



Economic Growth and Stock Market Performance Under Different Regimes in Pakistan: A Comparison of Dictatorial and Democratic Regimes

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ABSTRACT

Pakistan is a developing country with a history of cyclical regimes, from democratic governments to dictatorial reigns. Literature provides inconclusive evidence as to whether democratic governments or dictatorial regimes yield better economic outcomes. This study provides a chronological description of different ruling regimes of Pakistan since 1960 and relates to economic outcomes like economic growth and stock market performance of relative regimes. It is noted that dictatorial regimes in Pakistan had better economic outcomes. It is also noted that dictators enjoyed longer and more powerful tenure in Pakistan, while democratic governments remained very unstable. We argue that better economic and stock market outcomes under dictatorial regime could be a result of consistent and stable policy making. Thus, there is a need to strengthen political processes in the country and devise policies for long time horizons to improve economic outlook of Pakistan.

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1. Introduction

Islamic Republic of Pakistan has witnessed various political ups and downs since its emergence in 1947. For long, the country has suffered from political instability and military interventions: its constitution formation process was delayed and dismissed several times until 1973; four military dictators ruled the country for between 1958 to 2008; many of its politically elected governments were toppled prior to their completion of tenure and no political government was able to complete its five year's tenure until government of Pakistan People's Party (PPP) in 2008-2013. During democratic times (1988 to 1999), Pakistan had been on roller coaster of unstable political governments, which were dissolved or ended in chaos. Even during last two democratic regimes, which luckily completed their five-year tenure, sitting Prime Ministers were sacked by judicial activism in the country. Such political adversaries hamper business activities of the country at macro level, causing a sluggish economic outlook, increased in economic risks, and weak performance of stock market (Azeem, Awan, Jadoon, & Sair, 2015; Guru & Yadav, 2019). In this regard, this study provides a chronological review of dictatorial vs. democratic regimes to relate to their respective economic growth and stock market performance in Pakistan.

2. Literature Review

Considering Efficient Market Hypothesis, stock prices in the market reflect all available information and arrival of new information results in a price adjustment. Considering political events, seminal evidence on the stock market activity and news was provided by (Cutler, Poterba, & Summers, 1988). They selected extreme market movements and related these movements to significant economic and political news. They found that political news in USA like election results, assassination of president, and geopolitical developments like wars, and conflicts had

considerable influence on stock market activity between 1941-1987. A subsequent study also confirmed that stock markets responds to the significant political and economic news (Cornell, 2013). Although, both of these studies considered wide variety of political and economic events, their findings suggested that stock markets respond to significant political and economic news.

2.1. Political Instability and Economic Growth

Political instability has been considered a serious obstacle in the way of economic growth of a country. It is argued that political instability shortens decision horizon of the policymakers, who chose to pursue short term economic policies. Such policies also are changed time to time causing inconsistency in pursuance of economic objectives and lower investor confidence, leading to a suboptimal economic growth (Aisen & Veiga, 2013). A consistent stream of literature has argued that political instability leads to bad economic outcomes by reducing productivity, and hindering human and physical capital accumulation (Aisen & Veiga, 2013; Alesina & Perotti, 1996; Darby, Li, & Muscatelli, 2004; Jong-A-Pin, 2009). Few studies like Campos and Nugent (2002) contested a generalization of the negative impact of political instability on economic growth to argue that the impact was only short term and for only underdeveloped African countries. Likewise, Ali (2001) also highlighted that policy uncertainty was more relevant for economic growth, compared to the political uncertainty.

There is much variation and debate on the measurement of the political instability as well. It has been measured through uncertain electoral outcomes (Darby et al., 2004) or through policy uncertainty (Ali, 2001); whereas Przeworski and Limongi (1993) used democratic governments vs dictatorships in this connection and highlighted inconclusive evidence in this connection. Gandhi (2008) argued that dictators use policy concessions and rents to political parties and legislators to rule and bring positive economic outcomes, and these notions are also endorsed by other studies (Escribà-Folch, 2007) whereas Knutsen (2013) favoured democracy for better economic outcomes. Durham (1999) also noted a negative impact of dictatorship for developed economies. Heo and Tan (2001) found a two way casualty between democracy and economic growth. Mobarak (2005) favoured democracy for a more stable economic growth.

2.2. Political Stability and Stock Markets

Political scenarios also affect stock markets. Voth (2002) noted that political risks during the great depression caused stock market volatility. Likewise, other studies also document a negative impact of political instability on stock market (Irshad, 2017). Pantzalis, Stangeland, and Turtle (2000) also noted that elections affect stock markets, where Nippani and Medlin (2002) noted a negative impact of election uncertainty in USA on stock market performance in USA, but also neighbouring countries (Nippani & Arize, 2005), and also in Taiwan (Hung, 2013). Białkowski, Gottschalk, and Wisniewski (2008) noted the same negative implications of election uncertainty on stock markets of OECD countries. J. Khan (2016) found the same in Pakistan, Beaulieu, Cosset, and Essaddam (2006) for Quebec firms, and Zaganidis and Kostoglou (2018) for European countries during Brexit referendum.

Apart from the electoral processes, researchers have studied stock market performance during different regimes. Lin and Wang (2005) noted no impact of ruler transition on Japanese stock market, while Sattler (2013) highlighted a negative impact for right wing electoral win, whereas Cahan, Malone, Powell, and Choti (2005) noted positive stock returns during rule of right nationalist party in New Zealand, and lastly Santa-Clara and Valkanov (2003) noted positive returns during rule of democratic party in the USA. Considering the dictatorial regimes, Khanthavit (2019) found positive stock returns during military coups in Thailand. Likewise, Dube, Kaplan, and Naidu (2011) established that USA backed coup were deemed positive in the markets. Further, Korotayev, Issaev, and Shishkina (2016) also propagated a positive influence of coup in Egyptian stock market. On the other hand, Bautista (2003) noted that coups resulted in high stock market volatility in Philippines. Likewise, Kim and Mei (2001) also noted negative impact of coups in China and Russia on stock market of Hong Kong. Considering democracy, various studies have demonstrated that it had positive implications for the stock markets (Lehkonen & Heimonen, 2015), and a few document no impact (Wang & Lin, 2009; Yang, 2011). Asongu (2011) argued in the favour of a positive role of democratic values and political institutes in South Africa. Bechtel (2009) highlighted that democracy reduced systematic risk in stock market of Germany.

Considering Pakistan, A. Khan and Ahmed (2009) and Ahmad, Khan, Usman, Ahmad, and Khalil (2017) found that negative political events had a negative impact on stock market. Malik, Hussain, and Ahmed (2009), Gull, Saeed, and Abid (2013), and Arzoo (2011) found evidence for both positive and negative events in this regard. Clark, Masood, and Tunaru (2008) highlighted a higher probability for Pakistani stock exchange to be affected from political events. Hussain, Shah, and Ahmad (2017) found that events relating to general strikes, riots, terrorism and assassination had influence on the stock market.

3. Data Collection

In order to conduct this study, we used economic growth data from World Bank website between 1961 to 2018, while data of KSE 100 index could only be obtained from 1990 to 2018. This study uses descriptive analysis of the performance of economy and stock market during different regimes. Following is detail of regimes in Pakistan since 1958. General Ayub Khan was first military dictator in Pakistan who ruled from 1958 to 1969, he transferred power to another military general, Yahya Khan who remained in power between 1969 – 1973. In 1973, Pakistan People’s Party (PPP) formed a democratic government under the leadership of Zulfiqar Ali Bhutto, which again was toppled by military rule General Zia-ul-Haq in 1977. PPP in 1988 formed a democratic government under leadership of Benazir Bhutto which was dismissed in 1990 and another democratic government was formed by Pakistan Muslim League Nawaz (PMLN) under leadership of Nawaz Sharif. This government again was disrupted in 1993 and PPP again came to power till 1996.

Table 1: Ruling regimes in Pakistan 1958 - 2018

Years	Ruling Party/ Dictator	Regime
1958 – 1969	General Ayub Khan	Dictatorial
1969 – 1973	General Yahya Khan	Dictatorial
1973 – 1977	PPP [PM: Zulfiqar Ali Bhutto]	Democratic
1977 – 1988	General Zia-ul-Haq	Dictatorial
1988 – 1990	PPP [PM: Benazir Bhutto]	Democratic
1990 – 1993	PMLN [PM: Nawaz Sharif]	Democratic
1993 – 1996	PPP [PM: Benazir Bhutto]	Democratic
1997 – 1999	PMLN [PM: Nawaz Sharif]	Democratic
1999 – 2008	General Pervez Musharraf	Dictatorial
2008 – 2013	PPP [President: Asif Ali Zardari / PMs: Yousaf Raza Gilani & Raja Pervez Ashraf]	Democratic
2013 – 2018	PMLN [PMs: Nawaz Sharif & Shahid Khaqan Abbasi]	Democratic
2018 – 2022	PTI [PM: Imran Khan]	Democratic

PMLN again came to power in 1997 and their government was toppled by military dictator General Pervez Musharraf in 1999, who ruled till 2008. In 2008, PPP formed government under the leadership of Asif Ali Zardari, who became president and nominated Yousaf Raza Gilani as Prime minister. This government completed its constitutional tenure of five years and power was transferred to PMLN in 2013. PMLN ruled Pakistan till 2018, afterwards Pakistan Tehreek-e-Insaf (PTI) came in power. This research will provide a regime wise description of economic growth and then overall economic growth and stock market performance of the democratic and dictatorial regimes would be compared.

4. Analysis

Analysis of the study has two parts. First part provides analysis of economic growth under different ruling regimes and second part related to the stock market performance in this regard.

4.1. Analysis of economic growth of Pakistan under different regimes (1961 – 2018)

This part of analysis provides analysis of economic growth under different regimes in Pakistan between 1961 – 2018. First regime of this period was dictatorial, ruled by General Ayub Khan, which was marked by an impressive average economic growth of 6.79%. General Ayub

Khan resigned in 1969 and handed over power to General Yahya Khan, who was also a dictator. General Yahya regime is marked by intense political strife between prominent politicians of East and West Pakistan, which resulted in separation of East Pakistan to become Bangladesh in 1971. Economic growth during this tenure declined to 4.92%. Subsequently, democratic government of Zulfikar Ali Bhutto (ZAB) came into power in 1974. During his tenure economic growth could not kick off and slightly declined to an annual average of 4.21%. ZAB's rule was toppled by General Zia-ul-Haq in 1977 and he ruled until his demise in 1988. Under his dictatorial regime, economic growth kicked off to an annual average of 6.86%.

After death of Zia, Benazir Bhutto (BB) formed a democratic government for a brief period till 1990 and during her tenure economic growth declined to 4.71%. BB's government was sacked in 1990 and Nawaz Sharif (NS) formed another democratic government, which was also dissolved in 1993. During first tenure of NS, economic growth sustained to a level of annual average of 4.84%. BB again formed a democratic government after NS in 1993 and ruled till the end of 1996 and under her tenure economic growth again slide down to 4.52%. This government also could not complete its constitutional tenure and was sacked and NS came to power again at the start of 1997. His rule ended in October 1999 and another dictatorial regime started under the flag of General Pervez Musharraf. This second tenure of NS has the lowest annual growth that averaged at 2.41% only. General Musharraf ruled almost 9 years and during his regime economic growth again recovered to 4.67% and after PPP took over in 2008 and a dawn of new democratic era started when first democratic government in the country completed its five-year constitutional tenure. The economic growth however, decline to an annual average of 3.02% only. NS again formed his third democratic government in 2013 and economic growth witnessed steady recovery under his tenure, which ended in 2018.

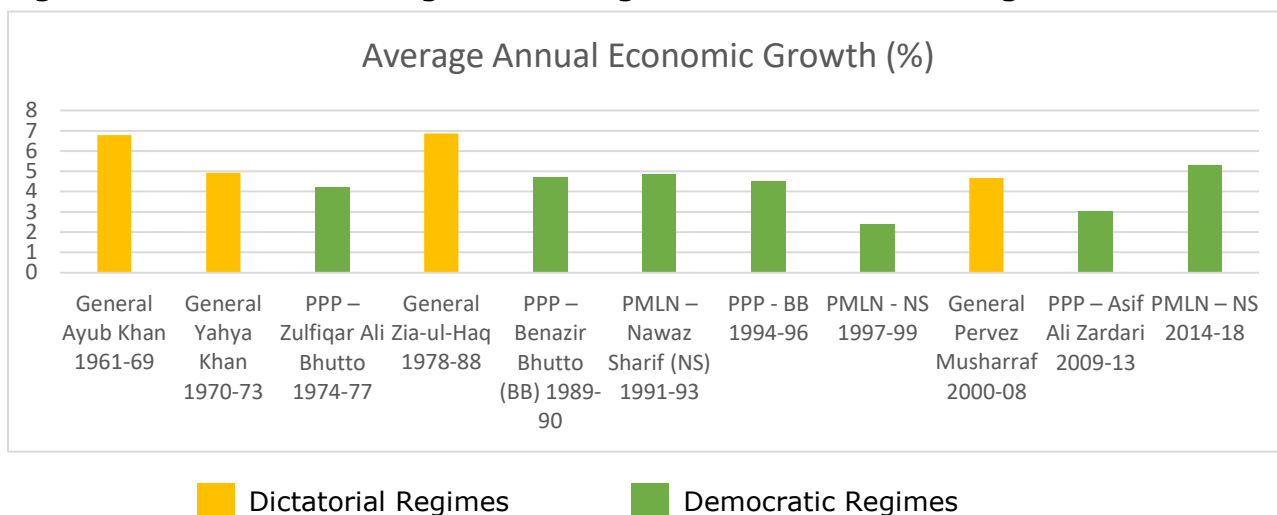
Overall, regimes of General Ayub Khan and General Zia-ul-Haq were the most prosperous economic times for the country and last tenure of NS could be ranked on the third place. The decade of 1990's saw most political instability in the country with rolling governments and short governing tenures and economic growth at the end of that decade was the lowest. Recent stability of democratic regimes in the country could also be attributed to the economic recovery of the country until 2018. One may argue that dictators like General Ayub and General Zia enjoyed longer regimes and thus were able to pursue consistent economic policies to reap economic benefits, while democratic governments in the history remained less fortune for their tenure and consistency in policies and recent democratic stability may prove beneficial for the economic growth of the country. Figure 1 provides bar chart for the economic growths of different regimes in the country.

Table 2: Historical chronology of political regimes and economic growth in Pakistan

Time Tenure	Ruling Party/ Ruler	Regime	Average Annual Economic Growth (%)
1961 - 1969	General Ayub Khan	Dictatorial	6.79
1970 - 1973	General Yahya Khan	Dictatorial	4.92
1974 - 1977	PPP – Zulfikar Ali Bhutto	Democratic	4.21
1978 - 1988	General Zia-ul-Haq	Dictatorial	6.86
1989 - 1990	PPP – Benazir Bhutto (BB)	Democratic	4.71
1991 - 1993	PMLN – Nawaz Sharif (NS)	Democratic	4.84
1994 - 1996	PPP - BB	Democratic	4.52
1997 - 1999	PMLN - NS	Democratic	2.41
2000 - 2008	General Pervez Musharraf	Dictatorial	4.67
2009 - 2013	PPP – Asif Ali Zardari	Democratic	3.02
2014 - 2018	PMLN – NS	Democratic	5.29

Table 3 provides the complete tenure for dictatorial regimes and democratic regimes and their relative average annual economic growths. Pakistan was ruled by dictators most of its time during 1961-2018. Four dictators had 33 years of power in the country since 1961 and during their tenure country's annual average economic growth was 6.01%, while during seven democratic regimes that sum to total 25 years, economy grew only at an average of 4.12% a year. Considering political regimes, Pakistan People Party (PPP) enjoyed four terms of total 14 years and average annual economic growth during their tenures was only 3.92%. On the other hand, Pakistan Muslim League Nawaz (PLMN) had three terms and managed to score 4.38% average annual growth during their tenures.

Figure 1: Bar chart of average economic growth under different regimes



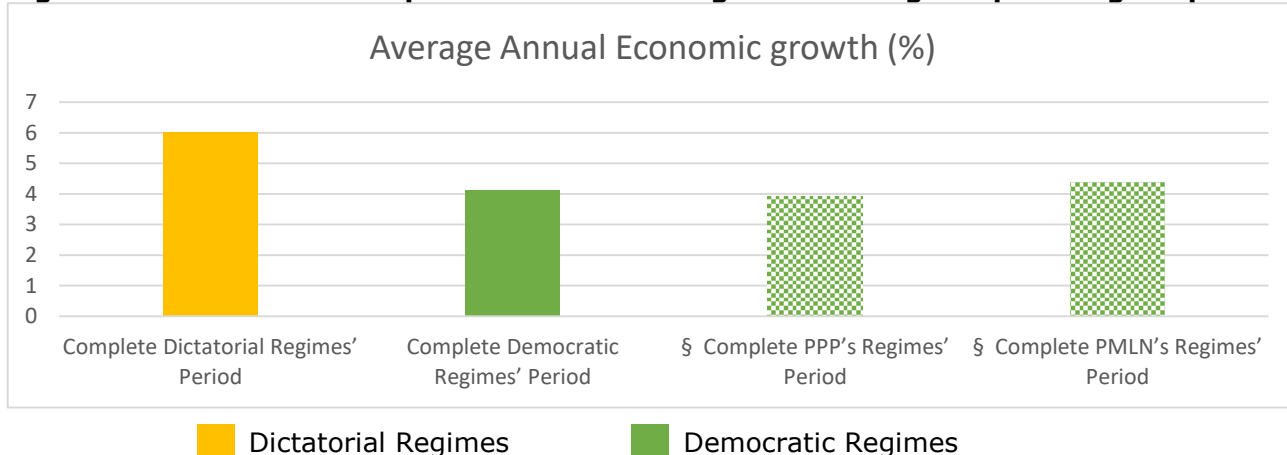
Although, it seems that dictatorial regimes had higher growth and democratic regimes had lower growth, one should not forget that apart from General Yahya almost all dictators enjoyed almost one decade of ruling and political parties could not even complete their constitutional tenure of five-year until PPP’s government of 2008-13 and PMLN government of 2013-18 actually did good in context of economic growth. Thus, one may argue that longer and consistent governments either democratic or dictatorial could do well in terms of economic growth.

Table 3: Comparison of complete regimes and relative economic growths (1961-2018)

Regimes	Total (Years)	Tenure	Average Annual Economic growth (%)
Complete Dictatorial Regimes’ Period	33		6.01
Complete Democratic Regimes’ Period	25		4.12
▪ Complete PPP’s Regimes’ Period	14		3.92
▪ Complete PMLN’s Regimes’ Period	11		4.38

Figure 2 provides bar chart for comparison of economic growth under complete tenures of different regimes.

Figure 2: Bar chart for comparison of economic growth during complete regime periods



4.2. Analysis of stock market performance of Pakistan under different regimes (1991 – 2018)

Second part of the analysis related to description of different ruling regimes and stock market performance. Table 4 provides stock market performance and risk measurements for different ruling regimes between 1991 – 2018. Firstly, during first tenure of NS between December 1991 and March 1993 stock market had a negative average monthly return of .06% with a higher volatility of 123.12%, indicating that this tenure had lower average returns and higher risks. Subsequently, during BB tenure between September 1993 – October 1996, stock market had an average monthly returns of .54% and a lower variance of 72.88%, implying that

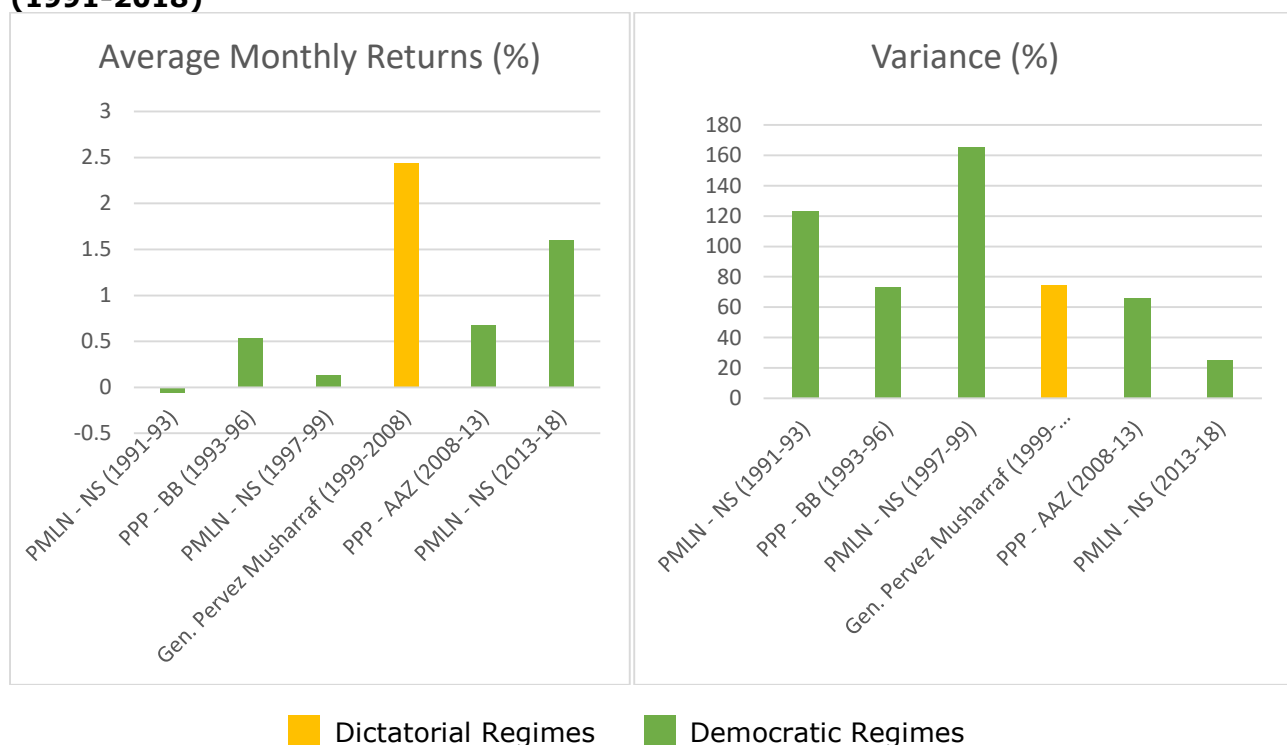
during BB ruling regime of 1993-1996, stock market in Pakistan did well. Subsequently, in second tenure of NS (1997-1999), average monthly stock returns again declined to .13% and variance increased to 165.57% again implying lower returns and higher risks. After that General Pervez Musharraf took over for his dictatorial rule in October 1999. During his tenure of 109 months' stock market thrived to have a monthly average returns of 2.44% and a lower variance of 74.71 only. Dictatorial rule had quite positive impact on the local stock market. Subsequently, during PPP rule of 2008-2013 average monthly stock returns declined to .68%, although the variance also declined to 66.12%, stock market did not pick pace during that time. Lastly, during PMLN tenure of 2013-2018, stock return improved to an average of 1.6% per month and variance further decline to 25.05% only. It could be argued that after 1991, Musharraf's era was best for stock market performance and last era of PMLN also witnessed an improved performance of local stock market.

Table 4: Stock market performance during different ruling regimes (1991-2018)

Time Tenure	Ruling Party/ Ruler	Total Tenure (Months)	Average Returns (%)	Monthly Variance (%)
Dec 1991 - Mar 1993	PMLN - NS	16	-0.06	123.12
Sept 1993 - Oct 1996	PPP - BB	38	0.54	72.88
Feb 1997 - Sept 1999	PMLN - NS	32	0.13	165.57
Oct 1999 - Oct 2008	Gen. Pervez Musharraf	109	2.44	74.71
Mar 2008 - Feb 2013	PPP - AAZ	60	0.68	66.12
May 2013 - Apr 2018	PMLN - NS	60	1.60	25.02

Figure 3 provides bar chart representation for the average monthly returns and variance of stock market under different ruling regimes during 1991-2018).

Figure 3: Bar charts for stock market performance during different ruling regimes (1991-2018)



Subsequently, we averaged out complete stock market activity during different regimes i.e. democratic tenure, dictatorial tenure, PPP tenure, and PMLN tenure. Table 5 provides description of the results. During 109 of total dictatorial regime stock market earned an average of 2.44% each month with an average variance of 74.71%, while average monthly stock returns during 206 months of democratic periods were quite lower i.e. .78% only and their variance was about the same of dictatorial regime i.e. 73.76% Considering two democratic regimes ruled by PPP and PMLN, during 98 months of PPP rule stock market in Pakistan earned an average of .63%

per month, while during PMLN tenure of 108 months, stock market earned about .92% per month.

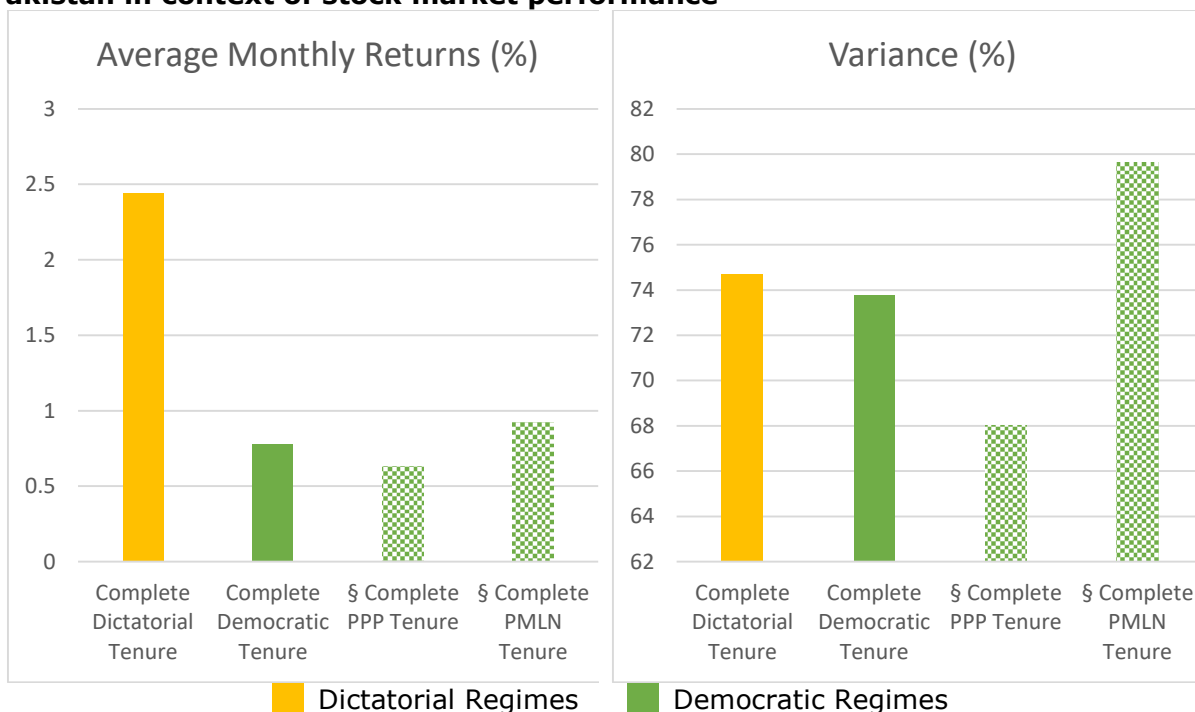
Again considering the stock market performance, it seems that dictatorship was better for the stock market performance in the country with higher returns. But again, democratic governments did not have a stable ruling regime during 1990's and there are still issues after 2008. Thus, a stable political environment and policy stability could improve stock returns in the country.

Table 5: Comparison of complete regimes and relative stock market performance (1991-2018)

Regimes	Total Tenure (Months)	Average Monthly Returns (%)	Variance (%)
Complete Dictatorial Tenure	109	2.44	74.71
Complete Democratic Tenure	206	0.78	73.76
▪ Complete PPP Tenure	98	0.63	68.02
▪ Complete PMLN Tenure	108	0.92	79.62

Figure 5 provides the bar chart representation for the comparison of the complete ruling regimes in Pakistan in context of stock market performance.

Figure 5: Bar chart representation for the comparison of the complete ruling regimes in Pakistan in context of stock market performance



According to efficient capital market theory, stock market responds immediately to all significant events, where response is positive for good and prosperous events and negative for bad events. We chalked down all significant political events since 1991, where a new government was formed, old government was suspended, or dictator took over the government. Firstly, in April of 1993 President Ghulam Ishaq Khan suspended government of Nawaz Sharif, this event resulted in political uncertainty and stock market declined 4.36% during the month. Subsequently, Benazir Bhutto formed a democratic government in September 1993 and stock markets earned 1.82% that month. Same BB government was prematurely dissolved by President Farooq Laghari. Stock market perceived this event positive and earned 5.03% returns in the month of November 1996.

Subsequently, Nawaz Sharif formed a democratic government in February 1997 and stock market earned 16.17% that month. NS government was toppled by General Pervez Musharraf in October 1999 and stock market earned a negative return of .83% in the month. Return of democracy after PPP government was formed in March 2008 was perceived as positive in the stock market and markets earned 1.19% during the month, however stepping down of Pervez Musharraf in October 1999 was perceived as negative in the stock market and markets decreased by 7.23%. Completion of PPP tenure also brought negative monthly returns of .33% to market

and formation of Nawaz Sharif Government spiked stock market by 11.35% in month of May 2013. Stock market witnessed another monthly negative stock return during May 2018, when PMLN completed its tenure and it earned 1.91% in July 2018, when PTI formed government.

Table 6: Political Events and Stock Market Reaction

Event Month	Event Description	Stock Return
Apr 1993	NS government suspended by President Gulam Ishaq Khan	-4.36
Sep 1993	BB government started	1.82
Nov 1996	BB government dissolved by President Farooq Ahmed Leghari	5.03
Feb 1997	NS government started	16.17
Oct 1999	General Pervez Musharraf Topples NS government	-0.83
Mar 2008	PPP - AAZ government started	1.19
Aug 2008	Pervez Musharraf Stepped down as president	-7.23
Mar 2013	PPP Completes 5 year tenure	-0.33
May 2013	PMLN - NS government started	11.35
May 2018	PMLN completed 5 year tenure	-5.81
Jul 2018	PTI - IK government started	1.91

5. Conclusion

Literature has suggested that political instability and events have predominant impact on the economic outcomes of a country. Certain researchers have also made a point that different ruling regimes and political ideologies also affect economic growth of a country. Another stream of studies has found that political scenarios also cause stock market activity In different countries. We provided a descriptive evidence in this regard considering Pakistan.

Since its inception, Pakistan has witnessed political uncertainties. It has seen democratic governments collapsing in short span of time and military dictators taking the power. We have argued that most of military dictators have enjoyed a long reign of power and consistent policies, which resulted in better economic outcomes for Pakistan during dictatorial regimes. Further, stock market of the country also did well during last dictatorial rule (1999-2008). On the other hand, last democratic reign of PMLN also picked up a good mark on economic growth and stock market performance. Thus, we conclude that democracy with chosen governments and consistent policies could do better in terms of economic outcomes. There is need to develop a meaningful long run plan to set and achieve economic objectives of the country.

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