Impact of Political Instability on Exports (1991-2010): An Empirical Analysis for Pakistan

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Abstract
This study indicates empirical relevance between political instability and Pakistani exports along with considering important variables inflation and foreign direct investment for the period from (1991-2010). Political instability, inflation and foreign direct investment were taken as exogenous variables. While exports was endogenous variable of the model. Study empirically proves that with the increase in political instability exports have declined.
Keywords: Domestic trade, Political instability, foreign direct investment, Pakistan.

I.   Introduction

The total number of strikes, demonstrations, riots, government longevity, disturbs law and order situation, kidnapping, robbery, frequent change of governments, internal and or external war effects are all collectively considered as political instability. Since independence there was a frequent change in governments in Pakistan. It has experienced almost all types of political controls from democracy- presidential and parliamentary to repeated military coups with economic theses from capitalism to socialism and a mix of these theoretic [Qureshi et al 2010]. But from 1970 to so far there are a lot of increase in kidnapping, robbery, snatching, murders, bomb blast and other similar activities. This disturb political situation has put negative effective on our overall cultural and economic lives.

Main objective of this research study is to show the impact of political instability on Pakistan's export performance. Since effect of foreign direct investment in trade promotion is really very important so this variable has to be considered in analysis, further more inflation is a major issue in underdeveloped countries, so it has also be taken in research study

 Organization of research paper
For this purpose the study is subdivided into following sections:
Section II reviews the past related work of experts.
Section III describes methodology that will be adopted for data analysis and also gives description of variables.
Section IV interprets regression results and analysis of data.
Finally the section V provides conclusions of the study.

II. Literature Review

Let we take the review few past related studies:
Qureshi et al (2010) empirically conducted a study to show the impact of political instability on economic growth in Pakistan by using time series data taken from 1971-2008. They used following model:

EG = δ_0 + δ_1 PI + ut
Where
EG= Economic Growth
PI= Political Instability
In their study political instability was independent variable while economic growth was taken as dependent variable. Economic growth was measured by different aspects like log of total investment, total exports growth rate, inflation rate, manufacturing production growth rate, log of external foreign debt and employment rate.
They empirically proved that the impact of political instability was negative on all aspects of economic growth.
Awokuse and Gempesaw (2005) empirically worked on the effect of political instability on United States' agriculture exports by using panel data of eighty seven countries for the period from 1990-2000.They used three types of political instability i.e. violent, social and elite. They used the following model
Ln x= δ_0 + δ_1 Ln PX + δ_2 $_{Ln\,y}$ + δ_{3DEMOC} + $\delta_{4\,PI}$ + ut
Where
X= real export growth
PX= Real exchange rate
Y= Importing country income
DEMOC= Degree of general openness of political institutions
PI= Political instability in importing country

Statistical results indicate that political instability showed negative effect on U.S agriculture exports.

Alesina and Tabellin (1989) statistically proved that political and economic uncertainty disturbs overall production schedule and ultimately level of exports.

III. Research Methodology

This study deals with the impact of political instability on exports in Pakistan. Time series data has been taken for the study from 1991-2010. Model developed in this section is based on the work of Qureshi et al (2010) adopted with little modification.

$Exp = \delta_0 + \delta_1 PI + \delta_2 FDI_+ \delta_3 INF + ut$

Where
EXP= total exports
PI = Political instability
FDI =Foreign Direct Investment
INF = inflation

$\varepsilon=$ is the error term capturing left over effects, having no variance and zero mean.

Hypothesis
1. Ho: Political instability has no effect on exports.
   H1: Political instability has negative effect on exports
2. Ho: Foreign direct investment has no effect on exports.
   H1: Foreign direct investment has positive effect on exports.
3. Ho: Inflation has no effect on exports.
   H1: Inflation has negative effect on exports

Detail of variables

Variable	Description	Sources of data
Exports	Exports figure in Pak rupee	Economic survey of Pakistan(1968-2013)
Political instability	Dummy Variable	In years when there was bad law and order situation, using value '1', otherwise '0'.
Foreign Direct investment	FDI figure in Pak Rupee	Economic survey of Pakistan(2006)
Inflation	Measure by consumer Price Index	Economic survey of Pakistan(2006)

IV.   REGRESSION RESULTS AND ANALYSIS

This section deals with regression results that are calculated by using SPSS version number 20.first summary output has shown and then table of analysis of variance has shown that reveals the effect of F-test.

SUMMARY OUTPUT

Regression Statistics	
R Square	0.4098
Adjusted R Square	0.3172
Standard Error	1821.080161
Observations	20

ANOVA

	df	MS	F	Significance F
Regression	3	3618654	1.091161	0.381327715
Residual	16	3316333		
Total	19			

	Coefficients	t Stat	P-value
Intercept	6993.667477	3.267144	0.004843
FDI	4.163064494	1.742603	0.168423
Inflation	9.47806072	-2.07469	0.298455
Political instability	126.2499401	-1.6705	0.943293

The results show that there is significant negative effect of political instability on Pakistani exports.i.e. F_{cal} = 1.091161 is greater than the critical value. The coefficients of FDI, Inflation and political instability are very high which shows the significance impact of these factors on exports. The factor FDI, Inflation and political instability has greater influence on exports as these factors have values greater than the p values. This indicates that due to instability Pakistani exports are much affected. The value of R square = 0.4098 shows that the factors under study 41% effect the exports and adjusted R square=0.3172.

V.   Concluding Remarks

The central idea of this paper is to show the impact of political instability on exports performance of Pakistan. Statistically it is proved that disturb law and order situation has always disturbed production performance, created hurdles for transportation setup and ultimately for human resource. Pakistan is facing regularly political instability since 1990and this is one of the major reason for decline in exports. This study is helpful for economists and policy makers and for the students and welcomes new ways for further research.

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