

Agitational Politics Impact On Stock Exchange Market: Case Study Of Pakistan

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ABSTRACT

From the inception of independence, Pakistan faced instability in its politics that directly affects the working of other institutions. The reason for that instability is not the proper use of the democratic institution to present the demands and adopted the way of agitation. A frail political culture and incompetence of political parties causes a political instability in state. Political insecurity has turned into a difficult issue particularly for the developing nations. Political instable state leads to stagnation economy and also effects the foreign relations. Political stability is a fundamental necessity for economic progress and social togetherness. Without a safe, powerful, and intentional political framework, the country's advancement and development are unthinkable. The government turns into a back-and-forth among various personal stakes without a stable political system. The purpose of this article is to examine the influence of political instability on the stock market in Pakistan from 2002 to 2018. The research is carried out by regressing various indicators for internal agitations and protest movements on the stock market throughout this time period. Political unrest may have far-reaching consequences on economic growth.

Keywords: Agitation politics, Pakistan stock market, economic performance, political system

Introduction

The Karachi Stock Exchange (KSE) is the first and one of the most established stock exchanges in Pakistan. Karachi stock Exchange was recognized after two months Pakistan turned into an independent state in 18 September 1947. In Pakistan, the Lahore Stock Exchange (LSE) was established in 1974 and the Islamabad Stock Exchange (ISE) in 1997 (Iqbal J. , 2008)¹. Stock exchanges are imperative share of the development in the country's economy. Stock market's performance is influenced by the economic, non-monetary and political measures. While stability and consistence in the performance of stock exchange and economic markets is an indicator of better financial wellbeing of the country and also directly interlink with political stability.

Pakistan was one of the quickest developing economies in the world and it was bound to ascend the financial stepping stool in 1960. Pakistan's GDP per capita was \$116 while China's and South Korea's GDP per capita were just \$98 and \$109, individually in 1965. Lamentably, the perception of Pakistan as a financial country had not fulfilled. The nations which were lingering behind us during the 1960s have surpassed us a quite a while in the past. Today Pakistan's GDP per capita is around \$1,600, though, GDP per capita of China and South Korea are around \$8,123 and \$27,538, separately (Iqbal, Can Pakistan's economy afford political instability?, 2017)².

The Karachi Stock Exchange is something other than the physical stock trade and its administration. It is the 200 financier firms, a huge number of representatives and countless customers all creation venture choices at the same time that outcomes in an aggregate perspective on what they think the future holds. Any market is dependent upon the reveries and mania that hold its members. In different nations, such hallucinations and fantasies will in general be about monetary and economic issues. In our own, the religion and politics can be very significant also (Pakistan stocks drop 4.6 per cent as fears grow over protests, 2014)³.

Stock exchange points plunges down in 2014

In 2014, Pakistan's stock exchanges saw an enormous fall of 4.6 percent started by fears of a political agitation called by the opposition leader to supporters to join a march to oust the government of Pakistan Muslim league. This percentage of Karachi Stock exchange embarked the 1375 with positive performances that saw it touch highest points after independence in 2014.

¹ Iqbal, J. (2008). Stock Market in Pakistan: An Overview. *Journal of Emerging Market Finance*, 11(1), 1-37.

² Iqbal, A. (2017, July 27). *Can Pakistan's economy afford political instability?* Retrieved March 11, 2019, from <https://tribune.com.pk>: <https://tribune.com.pk/story/1467291/can-pakistans-economy-afford-political-instability/>

³ *Pakistan stocks drop 4.6 per cent as fears grow over protests.* (2014, August 11). Retrieved July 6, 2019, from <https://www.dawn.com/>: <https://www.dawn.com/news/1124647>

Pakistan's monetary standpoint has commonly improved since the government of Sharif business-friendly came to control.

According to the Muhammad Sohail, director of Pakistan stock exchange, at the outset investors believed that there may be some political compromise before the agitational movement takes off. The drop came as the capital of Islamabad prepares for agitation drove by Imran Khan and priest Tahir-ul-Qadri who have promised to topple the legislature of Prime Minister Nawaz Sharif. The two intend to agitation on August 14 joined by a huge number of supporters, asserting that last year's general political elections were fixed (KSE-100 plunges 1,375 points as fears grow over protests, 2014)⁴. The trade lost some \$3.05 billion as far as market capitalization that was the biggest ever fall in its stock an incentive in one day. This is the biggest ever fall in the stock an incentive in one day as frenzy holds financial specialists (Ahmad, 2014)⁵.

Both stock exchange and financial markets has significant role in the industrial growth of the country by the proper channelization of funds to industry. Though investment from domestic and foreign investors depends on the stable and unwavering performance of the stock exchange and has directly effect on the affordability of the country's political and economic spheres (Nazir, Younas, Kaleem, & Anwar, Impact of political events on stock market returns: empirical evidence from Pakistan, 2014). Albeit uncertain political events do not have any direct connection with financial exchanges however they are viewed as one of the principal factors that may influence the stock exchange markets (Irshad, 2017)⁶.

Stock market as Variable

The stock market is the variable that is used to analyze the setbacks of agitational politics on economy and has a significant role in economic markets. It plays an important role in the country's economic growth as well as industrial growth. It provides the optimal channelization of funds between the users and suppliers of funds. The reason for this investigation is to quantify the effect of agitational political events on the stock exchange of KSE-100 record, regardless of

⁴ KSE-100 plunges 1,375 points as fears grow over protests. (2014 , August 11). Retrieved March 5, 2020, from <https://tribune.com.pk>: <https://tribune.com.pk/story/747124/kse-falls-by-1300-points-as-political-crisis-continues/>

⁵ Ahmad, I. (2014, August 11). *Pakistan stocks drop as protest leader calls for unity government*. Retrieved March 10, 2020, from <https://sg.news.yahoo.com>: <https://sg.news.yahoo.com/pakistan-stocks-drop-4-6-fears-grow-over-111202118--finance.html>

⁶ Irshad, H. (2017). Relationship Among Political Instability, Stock Market Returns and Stock Market Volatility. *Studies in Business and Economics*, 12(2), 70-99.

whether it is sure, negative or nonpartisan utilizing the major agitational political events in the year of 2002 to 2018.

Karachi Stock Exchange-100 Yearly table

Years	Points
2002	2,701
2003	4,472
2004	6218
2005	9,557
2006	10,041
2007	14,076
2008	5,865
2009	9,387
2010	12,023
2011	11,348
2012	16,905
2013	25,261
2014	32,131
2015	32,816
2016	47,807
2017	40,472
2018	37,067

Source: (KSE – 100 Index Points Historical Data in Excel)

We can clearly see that stock exchange points rise during the democratic regime. Stock Market points expand during the friendly and democratic government. After the military takeover in 1999 by Gen. (R) Pervaiz Musharraf, stock market came on the track to increase stock exchange points in 2002. In the year of 2006 stock market points were 10,040.50 but after a year point were 14,075.83. We see that, in the year of 2007 to 2009, stock market faced severe up and downs. With the passage of time in authoritarian government stock market jumped in positive way and reached 14,076 points in the end of the 2007. Suddenly the event of black coat movement affects the country's stock market along with high inflation rate. In 2008, stock market remained bearish and points stuck on 5,865 also faced loss of money because of instable political situation.

However, that predicament was driven by a weakening in economic essentials. As a matter of fact, those essentials crumbled due to poor political choices made by the Musharraf government. In the case of lawyer movement, the contrasts between Chief Justice (CJ) of Pakistan Iftikhar Muhammad Chaudhry and President Gen. (R) Pervaiz Musharraf stimulate as

an outcome of the missing people and steel mill case. The Musharraf took an action and suspended CJ Iftikhar Chuadary on March 9, 2007 when he constrained him to leave but he denied. This suspension of Chief Justice triggered a movement all over the Pakistan and agitational activities started for the integrity of Chief Justice. The outcomes of this movement reveal exceptionally demonstrably effect on Karachi Stock Exchange (KSE) in the huge negative strange returns were watched for shorter timeframe in response of the suspension of Chief Justice Iftikhar Muhammad Chuadary. Between April 18, 2008 and Jan 26, 2009, the market smashed by 69.3percent. This crisis was driven by decay in monetary basics. The reason behind the deterioration in stock market was a result of poor political choices made by the Musharraf organization (The market is panicking. You shouldn't, 2014)⁷. This movement had a significant negative impact on KSE only for two days, after that the market absorbed the noise of information.

From that point forward, the President Asif Ali Zardari rejected to fulfill his promise and therefore, lawyer started agitation all over the country in which political parties and civil society also participated between March 12 and March 16, 2009 for the restoration of Judges. Lawyer's agitation started all over the Pakistan which created unstable political situation that also affects the economic spheres. The Prime Minister restored the judges by an official request when the long march was near Gujranwala. The reclamation of judges was viewed as a positive event for the lawyers and public of Pakistan. The aftereffect of long march had a critical positive effect on KSE restores; after the restoration of judges KSE show noteworthy positive unusual returns. (Nazir, Younas, Kaleem, & Anwar, 2014)⁸.

Amid January 15, 2013, when the Tahir ul Qadri-propelled auction occurred, and May 11, 2013, when Prime Minister Nawaz Sharif got down to office, the financial exchange went up almost 24pc (The market is panicking. You shouldn't, 2014)⁹. The market seemed to accept that before the 2013 political election Tahirul Qadri was a major risk to the security of Pakistan's political framework. Political agitations and issues straightforwardly influence the stock

⁷ *The market is panicking. You shouldn't.* (2014, August 11). Retrieved January 17, 2020, from <https://www.thebanker.com.pk:https://www.thebanker.com.pk/the-market-is-panicking-you-shouldnt.html>

⁸ Nazir, M. S., Younas, H., Kaleem, A., & Anwar, Z. (2014). Impact of political events on stock market returns: empirical evidence from Pakistan. *Journal of Economic and Administrative Sciences*, 30(1), 60-78.

⁹ *The market is panicking. You shouldn't.* (2014, August 11). Retrieved January 17, 2020, from <https://www.thebanker.com.pk:https://www.thebanker.com.pk/the-market-is-panicking-you-shouldnt.html>

exchange market. As Tahir ul Qadri pre-rally crusades arrived at fever contribute mid-January 2013, the KSE-100 record dropped 500 points in one day (Tirmizi, 2014)¹⁰.

Pakistan positioned third among the top ten best performing markets in year 2014 in the world. The KSE-100 Index increased 6,870 points from 25,261 to 32,131 levels in 2014. It was producing an attractive return of 27% for the shareholders. During the Jul-Apr, 2014-15, initial ten month of current monetary year, the Karachi Stock Exchange-100 Index improved by 4,077 and shut down at 33,730 focuses on 30th April against 29,653 on June 30, 2014 demonstrating an addition of 13.75 percent during initial ten months of current financial year in spite of agitational politics during first half of the present year. The momentous performance of the stock exchange during current financial year can be credited to various positive elements including a stable macroeconomic condition, stable exchange rate, increasing speed in the privatization procedure, descending inflationary pattern, money related strategies and fortified economic development.

KSE index-100 reached Rs.7, 022.70 billion to Rs.7, 305.81 billion in June 30, 2014 to April 30, 2015 and market capitalization has expanded by 4.03 percent. During the initial 75% of the current monetary year 2014-15, the joined settled up capital of fifteen major companies was Rs.190.24 billion, which comprised 16.15 percent of the absolute recorded capital at KSE.

On the other side, agitational activities started by Imran khan chairman of Pakistan Tehreek e Insaaf in August 2014 was clearly influenced on Pakistan stock exchange. After the announcement of Azadi march and inqilab march KSE-index points fluctuated. On 15 August 2014, KSE points stopped 28,917.75 but after the weekend holiday points totally varied. On August 18, points had some effects of agitational activities KSE-100 points was down by 65 points nevertheless very next day KSE index had fall 222.03 points and the Karachi stock exchange halted on 28,630 points (Monthly Reports, 2020)¹¹. The Karachi stock exchange (KSE) lost 2,000 points in just a couple of days because of political vulnerability made by agitational politics of the PTI at the time.

However, with the market capitalization of Rs 7.2 trillion, the capital market was performing very well at 29000 KSE index but because of PTI agitational activities, the Capital market crashed down to KSE index 27000. Preceding the demonstrations, market capitalization was at Rs7.2 trillion and following a couple of days of the dharna it went down to Rs6.7 trillion.

¹⁰ Tirmizi, F. (2014, August 10). *The market is panicking. You shouldn't*. Retrieved January 11,2020, from <https://www.dawn.com:https://www.dawn.com/news/1124085/the-market-is-panicking-you-shouldnt>

¹¹ *Monthly Reports*. (2020). Retrieved January 14, 2020, from <https://dps.psx.com.pk:https://dps.psx.com.pk/monthly-reports>

Thus, Foreign Direct Investment declined from \$114 million to \$92 million from July 2014 to August 2014. This is the large scale level expense of political unsteadiness. At macro level, numerous businesses and organizations were affected due to the agitational politics of the PTI (Iqbal A. , Can Pakistan's economy afford political instability?, 2017)¹². Pakistani stock exchange saw an enormous fall of 4.6 percent, started by fears of a political emergency as resistance figures approached supporters to join a march to oust the government (Pakistan stocks drop 4.6 per cent as fears grow over protests, 2014)¹³.

2007-2009 KSE Monthly points

Months	Year 2007	Year 2008	Year 2009
January	10,066	14,017	5,377
February	11,349	14,934	5,727
March	11,208	15,125	6,860
April	11,277	15,123	7,202
May	12,433	12,131	7,277
June	12,934	12,289	7,162
July	13,930	10,548	7,721
August	13,689	9,208	8,676
September	12,233	9,180	9,350
October	13,738	9,183	9,159
November	13,930	9,187	9,206
December	13,924	5,865	9,387

(KSE – 100 Index Points Historical Data in Excel)

In 2006, the stock market gradually started to increase in points that mean KSE came to track. Though this development was disrupted due to the black coat movement when Gen. Pervez Musharraf unconstitutionally precluded Chief Justice Iftikhar Chaudhry in March 2007. This countrywide lawyer's movement raises the agitational activities nationwide with the back of some political parties. This internal unrest in politics directly affects the economic sector gradually. The stock exchange points slow down after sometime when there was no proper

¹² Iqbal, A. (2017, July 27). *Can Pakistan's economy afford political instability?* Retrieved March 11, 2019, from <https://tribune.com.pk:https://tribune.com.pk/story/1467291/can-pakistans-economy-afford-political-instability/>

¹³ *Pakistan stocks drop 4.6 per cent as fears grow over protests.* (2014, August 11). Retrieved July 6, 2019, from <https://www.dawn.com/:https://www.dawn.com/news/1124647>

platform for justice. In April 2008 stock market points were 15,123 but, after a month, in May points were 12,131 so it lost almost 3000 points as shown in the above table.

As we can see that, with time when there is no possible solution for this lawyer's agitation, it negatively affects economic development. Though in January 2009 stock exchange was on the lowest points with 5,377 and this bearish in the stock market was seen at the end of March 2009.

2014-16 KSE Monthly points

Month	Year 2014	Year 2015	Year 2016	Year 2017
January	26,784	34,444	31,299	48,758
February	25,783	33,632	31,370	48,534
March	27,160	30,234	33,139	48,156
April	28,913	33,730	34,719	49,301
May	29,738	33,057	36,062	50,592
June	29,653	34,399	37,784	46,565
July	30,314	35,742	39,529	46,010
August	28,568	34,727	39,810	41,207
September	29,726	32,287	40,542	42,409
October	30,377	34,262	39,894	39,617
November	31,198	32,255	42,622	40,010
December	32,131	32,816	47,807	40,472

(KSE – 100 Index Points Historical Data in Excel)

Here, both table shows that during the instability in politics directly affect the Pakistan stock exchange.

When PTI chairman Imran Khan announced the agitational activities in August 2014, the stock market was down 666 points on account of fears of what might occur because of political demonstration planned in Islamabad (Tirmizi, 2014)¹⁴. Acting president Mirza Mohammad Ali of Islamabad Chamber of Commerce and Industry (ICCI) said that the Azadi

¹⁴ Tirmizi, F. (2014, August 10). *The market is panicking. You shouldn't*. Retrieved January 11, 2020, from <https://www.dawn.com>: <https://www.dawn.com/news/1124085/the-market-is-panicking-you-shouldnt>

March of PTI would end up being dangerous not just for the trade agents and entrepreneur of the government capital yet additionally for the economy of the Pakistan.

Table 1.1

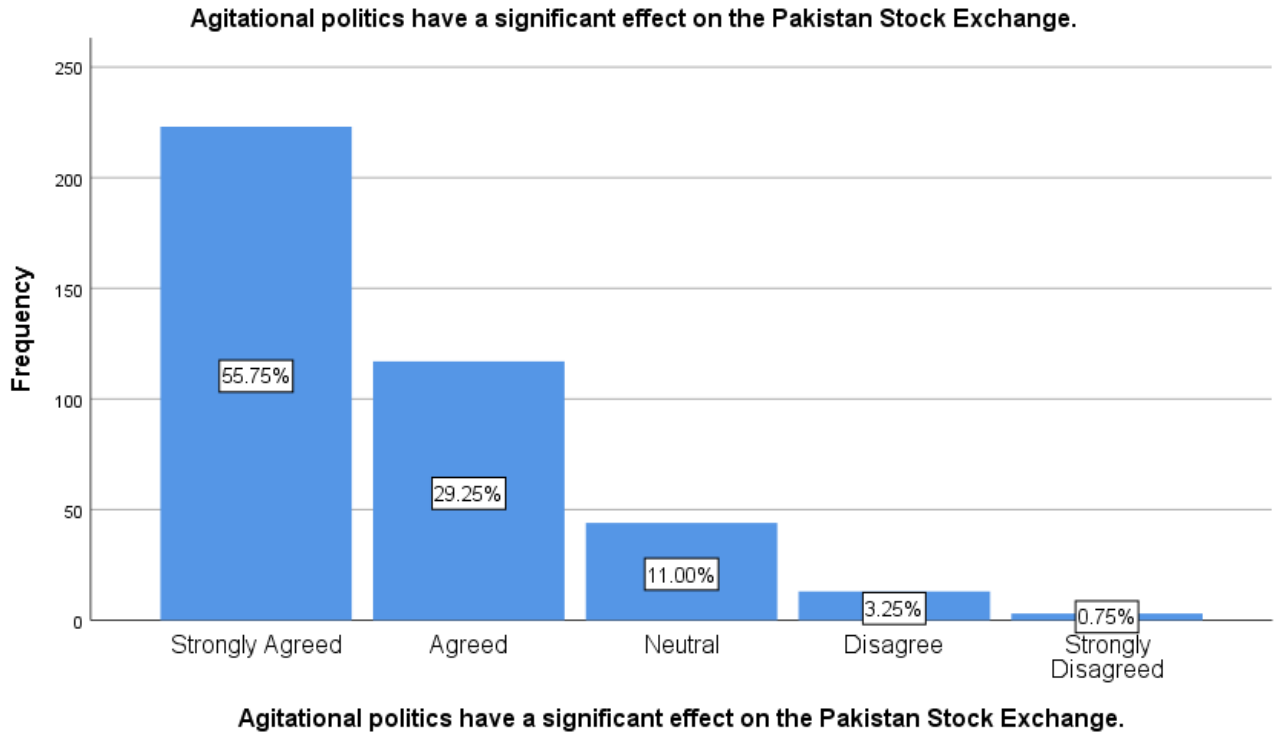
Agitational politics have a significant effect on the Pakistan Stock Exchange.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agreed	223	55.8	55.8	55.8
	Agreed	117	29.3	29.3	85.0
	Neutral	44	11.0	11.0	96.0
	Disagree	13	3.3	3.3	99.3
	Strongly Disagreed	3	.8	.8	100.0
	Total	400	100.0	100.0	

Pakistan has been confronting extremism, energy crisis and terrorism which is directly affected the economic development and stock markets. Survey is directed to gather data on the relation of stock exchange and agitational politics. Another statement was: Agitational politics have an inverse relation with stock market. Stock market of any country is the major part of economic development. Table 3 shows that 65% people strongly agreed on the significant effect of agitations on Pakistan stock exchange and 24.33% respondents are agreed. Whereas 7.6% people are neutral on this statement, 2.33% disagreed and 0.67% strongly disagreed.

Though the country cannot bear the cost of such agitational politics that would cause instability and precariousness that will antagonistically influence the economy so resolve the issues through table talk instead of street politics. The result of the statement is further down:

Figure 1.1



Conclusion

A thriving stock market is an indicator of a country's affluent economic conditions. Political risk, in general, and the stock market in particular, are important impediments to Pakistan's success. Strikes, assassinations, riots, protests, government transition, and regime type were all used to assess political instability. Control over strikes, assassinations, riots, and demonstrations by the government will stabilise the political situation. Pakistan is on the front lines of the fight against terrorism, which has harmed its political image. Many big events have occurred in Pakistan over the last decade, causing political instability. Political unrest inhibits investors, which has a negative impact on overall market performance. The major responsibility of government is to maintain the law-and-order situation and enhance the political consciousness among public and all institutions. This study concentrated on the relationship between stock markets and political unrest. The findings revealed a negative association between these two variables. Governments should endeavor to reduce the occurrences that cause political instability. A stable political situation will generate a stronger investment environment. Political stability decreases uncertainty and encourages investors to diversify their assets. Politically stable administrations will take steps to make it easier for investors.