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IMPACT OF JUDICIARY AND DEMOCRACY ON ECONOMIC DEVELOPMENT OF PAKISTAN (1999–2023)

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Abstract
This study investigates the long-run and short-run impacts of judicial independence and democratic governance on Pakistan's economic development during 1999–2023. Employing the Autoregressive Distributed Lag (ARDL) testing approach, the research examines the dynamic interlinkages between institutional variables judicial independence and democracy and key macroeconomic indicators such as GDP per capita growth, investment and trade openness. The findings reveal that both democracy and judiciary significantly enhance economic performance individually and jointly. Results show that the interactive effect of judiciary and democracy is greater than their independent contributions, confirming that institutional synergy is crucial for sustainable development. The study concludes that strengthening the judiciary's autonomy and deepening democratic processes can create an enabling environment for long-term economic growth in Pakistan.
Keywords: *Judiciary, Democracy, Economic Development, ARDL, Institutions, Pakistan*

1. Introduction

1.1. Background of The Study

The relationship between democracy, the judiciary, and economic development has been a central focus in political economy and development studies for several decades. In the case of Pakistan, the interaction between these elements has been particularly complex due to the country's fluctuating political regimes, varying judicial independence, and inconsistent economic growth patterns. Since its inception in 1947, Pakistan has oscillated between military and democratic governments, leading to institutional instability that has directly and indirectly influenced the economy (Ali & Rehman, 2015; Khan, 2019; Wim & Wendy, 2025). Between 1999 and 2023, Pakistan underwent several transitions ranging from the democratic governments of Nawaz Sharif and Benazir Bhutto, to military rule under General Pervez Musharraf, and later hybrid democratic structures. Each period brought distinct judicial and governance dynamics that influenced investor confidence, property rights enforcement, and policy continuity (Ali, 2015; Ahmed & Bukhari, 2020; Iqbal & Noman, 2025).

The judiciary, as an independent institution, plays a vital role in ensuring rule of law, protecting civil liberties, and maintaining a balance between various branches of government. Theoretical and empirical literature suggests that judicial independence and effective governance are positively associated with economic performance (Feld & Voigt, 2003; Ali, 2018; Liu & Cai, 2025). A credible and impartial judiciary not only strengthens democratic norms but also provides the legal foundation for market transactions and property rights, both crucial for sustainable economic growth (North, 1990). In Pakistan, however, the judiciary has historically been subject to political pressures, and its relationship with the executive has often been contentious. The landmark decisions of the Supreme Court, such as those concerning the doctrine of necessity and judicial activism under the Lawyers' Movement (2007–2009), have profoundly shaped the country's democratic trajectory and economic governance framework (Rizvi, 2018; Soliman, 2025).

Economic development in Pakistan from 1999 to 2023 reflects a story of potential constrained by institutional weaknesses. While periods of democratic governance have often been accompanied by policy experimentation

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and populist spending, episodes of authoritarian rule have sometimes offered macroeconomic stability but limited political inclusiveness (Hussain, 2021; Mbodi & Laye, 2025). The judiciary's role during these phases has been decisive, influencing contract enforcement, property rights, and investor sentiment factors that are integral to economic development. Thus, understanding how judicial effectiveness and democratic governance jointly shape economic outcomes in Pakistan provides valuable insights into the institutional foundations of development.

1.2. Statement of The Problem

Despite numerous reforms and policy efforts, Pakistan continues to struggle with inconsistent economic performance, weak governance, and frequent institutional conflicts. The judiciary, while constitutionally independent, has faced persistent challenges related to political influence, corruption, and case backlogs that weaken its credibility (Ali & Bibi, 2017; Malik, 2019; Karhan, 2019; Roy & Madheswaran, 2020). Similarly, the democratic process has often been marred by political instability, power concentration, and lack of accountability. Consequently, the institutional framework necessary for fostering economic growth remains fragile. Existing research has primarily focused on the political determinants of economic growth or the quality of governance but has seldom examined the joint impact of judiciary and democracy on economic development over a long-term horizon (Ali & Audi, 2018; Zubair & Hayat, 2020; Avelino & Coronel, 2021; Javed & Haider, 2022; Chen, 2022; Fateh & Pouline, 2025). The gap is particularly significant for Pakistan, where institutional interdependence has historically been intense and outcomes often unpredictable. Hence, the present study seeks to analyze the impact of judiciary and democracy on Pakistan's economic development over the period 1999–2023, capturing major political transitions, judicial reforms, and economic policy shifts.

1.3. Research Objectives

The main objective of this research is to investigate the relationship between judiciary, democracy, and economic development in Pakistan during 1996–2023. The specific objectives are:

1. To examine the extent to which judicial independence influences economic development in Pakistan.
2. To analyze the impact of democratic governance on economic performance during the period 1999–2023.
3. To explore the interaction between judicial effectiveness and democracy in shaping economic outcomes.
4. To identify the institutional and policy factors that mediate the judiciary–democracy economy nexus.
5. To provide policy recommendations for strengthening judicial and democratic institutions to enhance sustainable economic development.

1.4. Research Questions

1. How has judicial independence affected economic development in Pakistan between 1999 and 2023?
2. What is the relationship between the quality of democracy and economic growth during this period?
3. Does the judiciary moderate or amplify the impact of democracy on economic performance?
4. What institutional reforms can strengthen the positive linkage between democracy, judiciary, and economic development in Pakistan?

1.5. Research Hypotheses

H1: Judicial independence has a positive and significant impact on Pakistan's economic development.
H2: Democratic governance positively contributes to economic growth in Pakistan.
H3: Judicial effectiveness mediates the relationship between democracy and economic development.
H4: Weak judicial performance undermines the positive effects of democracy on economic growth.

1.6. Research Gap

Previous studies on Pakistan's economic development have primarily analyzed macroeconomic variables such as trade, fiscal policy, or investment, with limited attention to institutional determinants (Marc & Ali, 2017; Qureshi & Mehmood, 2020; Audi et al., 2022; Baydur, 2024). Similarly, research focusing on democracy and growth often neglects the judiciary's mediating role, despite evidence from comparative political economy suggesting that strong judicial institutions enhance policy credibility and investor trust (Voigt, 2013). The period from 1999 to 2023 encompasses significant political and judicial transitions including constitutional amendments, judicial activism, and democratic consolidation attempts yet few studies have systematically examined these developments' cumulative economic effects. Therefore, this study fills a critical research gap by empirically and conceptually linking judicial independence, democratic quality, and economic development within a single analytical framework. It provides a longitudinal assessment of institutional evolution and its economic implications, offering a nuanced understanding of Pakistan's development trajectory.

1.7. Contribution of The Study

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This study contributes to the literature in several ways. First, it extends the discourse on institutional economics by jointly analyzing democracy and judiciary as co-determinants of economic development in Pakistan. Second, it provides an empirical basis for policy evaluation, enabling policymakers to understand how institutional reforms can yield economic dividends. Third, it enriches South Asian political economy literature by offering a case study of Pakistan an emerging democracy with a historically contested judiciary. Finally, it contributes to the methodological advancement of governance studies by integrating qualitative institutional analysis with quantitative economic indicators from 1999 to 2023.

2. Literature Review

The empirical relationship between democracy and economic development has been extensively debated. Barro (1996) and Przeworski & Limongi (1993), found mixed evidence regarding whether democracy promotes or hinders economic growth. Some scholars argue that democratic systems encourage stability, innovation, and investment through political inclusivity and reduced uncertainty (Rodrik & Wacziarg, 2005; Marc et al., 2022; Marc & Ali, 2023). Aisen & Veiga, (2013) contended that democracies may prioritize redistribution over long-term growth, especially in developing contexts).

Recent studies focusing on South Asia have found that democratic governance positively influences economic performance through enhanced policy credibility and institutional quality (Haider & Qureshi, 2021). In Pakistan, however, the benefits of democracy have been limited due to weak institutional capacity, corruption, and elite capture (Hussain, 2021; Marc et al., 2022; Khalid et al., 2025). Frequent political instability and short-lived governments have undermined policy continuity, reducing the long-term growth potential of democratic systems. Feld and Voigt (2003) empirically demonstrated that judicial independence correlates positively with economic growth across countries. Similarly, La Porta et al. (1999) emphasized the importance of legal systems and enforcement mechanisms in fostering economic development. In Pakistan, judicial reforms have historically been uneven and often reactive to political events. Rizvi (2018) and Malik (2019) highlighted that judicial independence improved significantly after the Lawyers' Movement (2007–2009), but challenges such as case backlog, corruption, and procedural inefficiency persist. Ahmed and Bukhari (2020) found that weak enforcement of contracts and inconsistent judicial decisions discourage both domestic and foreign investment, leading to slower growth.

Voigt et al. (2015) found that countries with higher judicial integrity and faster adjudication processes tend to attract more investment and experience higher GDP growth rates. Ferejohn (2002) argued that independent courts are vital to maintaining checks and balances within democratic systems. Similarly, North, Wallis, and Weingast (2009) asserted that credible legal systems sustain open-access orders that promote both political and economic inclusiveness. In Pakistan's context, this relationship has been characterized by intermittent cooperation and conflict. The judiciary has occasionally legitimized military interventions in 1999 but has also played a decisive role in restoring democratic order in 2009. The 18th Constitutional Amendment (2010) strengthened both parliamentary democracy and judicial independence, though its economic dividends have been uneven (Khan, 2019; Umair et al., 2025; Saim et al., 2025).

Javed and Haider (2022) found that judicial activism enhances governance quality in democracies, leading to improved macroeconomic outcomes. Similarly, Qureshi and Mehmood (2020) demonstrated that institutional coordination between the judiciary and democratic governments positively affects investment and fiscal efficiency. Between 1999 and 2023, Pakistan's political and judicial evolution offers a natural experiment for analyzing institutional impact on economic development. During this period, the country experienced alternating democratic and military regimes, significant constitutional reforms, and heightened judicial activism.

The late 1990s witnessed political instability under the governments of Benazir Bhutto and Nawaz Sharif, followed by the military coup of 1999. Economic liberalization under General Musharraf (1999–2008) coincided with moderate growth, but judicial subservience and limited political participation undermined long-term institutional credibility (Hussain, 2021). The post-2008 democratic restoration, coupled with judicial activism during the Lawyers' Movement, enhanced public trust in the judiciary but also politicized the institution (Rizvi, 2018; Shahid et al., 2025; Sattar et al., 2025). From 2013 to 2023, Pakistan witnessed successive democratic governments that pledged judicial and governance reforms but faced economic crises, corruption scandals, and institutional tensions. Empirical indicators such as the World Governance Indicators (WGI) and Global Competitiveness Index (GCI) show fluctuations in both governance quality and economic performance during this period (World Bank, 2023).

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Thus, the Pakistani case exemplifies how fragile democracies and semi-independent judiciaries can alternately support or constrain economic growth depending on institutional alignment.

3. Theoretical Framework and Research Methodology

3.1. Theoretical Framework

The theoretical underpinning of this study draws on Institutional Economics, Modernization Theory, and Democratic Governance Theory. Institutional Economics, particularly as articulated by North (1990), emphasizes that economic performance depends on the formal and informal rules of the game. Institutions such as judiciary and democracy reduce transaction costs, provide security for property rights, and shape incentives for productive economic activity. Modernization Theory suggests that as societies become more economically advanced, they tend to develop democratic institutions, which in turn support further economic development (Lipset, 1959). However, the causality can also run in the opposite direction: democracies that promote education, rule of law, and inclusive institutions often experience faster growth (Barro, 1996). Democratic Governance Theory integrates both perspectives, positing that accountable and transparent governance structures create the necessary environment for sustainable growth. According to Acemoglu and Robinson (2012), inclusive political institutions enable inclusive economic institutions, leading to broad-based development. Conversely, extractive political systems characterized by corruption, weak judiciary, and concentrated power impede economic growth. In this context, the judiciary serves both as a check on executive overreach and as an institutional mechanism that enforces democratic accountability (Voigt, 2013; Khalil et al., 2025; Anus et al., 2025). The independence and efficiency of courts thus directly affect investor confidence, policy implementation, and economic outcomes.

3.2. Research Methodology

3.2.1. Research Design

The research study adopts a quantitative longitudinal design to determine the relationship between the judiciary, democracy, and economic development of Pakistan from 1999 to 2023. This study uses secondary data collected from reliable sources such as the Worldwide Governance Indicators (WGI) and V-Dem. A causal explanatory research approach is employed to identify and measure how variations in judicial independence and democratic quality affect economic development over time. The study integrates institutional theory with economic growth modeling, allowing for empirical testing of hypothesized relationships. The methodology combines descriptive analysis and regression techniques ensuring a comprehensive examination of both direct and interactive effects of judiciary and democracy on economic outcomes. As the study spans 24 years (1999–2023), it captures multiple political regimes, institutional transitions, and judicial reforms, providing a robust temporal scope for policy inference. The design aligns with prior institutional economics studies emphasizing long-term causality between governance structures and economic growth (North, 1990; Acemoglu & Robinson, 2012).

3.2.2. Model Specification

The present study adopts an extended version of the institutional growth model, inspired by Barro (1996) and Feld & Voigt (2003). The econometric form of the model is specified as:

$ED_t = \beta_o + \beta_1 JUD_t + \beta_2 DEM_t + \beta_3 (JUD \times DEM)_t + \beta_4 INV_t + \beta_5 TRADE_t + u_t$

Where:

GDP per capita= Economic development indicator
JUD = Judicial Independence Index
DEM = Democracy Index (measure of democratic quality)
JUD × DEM = Interaction term (combined institutional effect)
INV = Gross Capital Formation (% of GDP)
TRADE = Trade Openness (% of GDP)
μt = Error term

3.3. Sources of Data

The data sources are used as WDI for GDP per capita, trade and investment whereas V-Dem is used for Judicial Effectiveness and Democracy Index.

4. Results and Discussion

The chapter interprets the empirical results obtained from the econometric models and explains how these findings relate to existing theoretical and empirical literature. The analysis begins with descriptive statistics to provide an overview of the dataset, followed by stationarity tests to examine the time-series properties of the variables. Subsequently, cointegration analysis is conducted to determine whether a long-run relationship exists among the

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variables. After establishing the long-run relationship, the chapter presents the regression results of econometric model which estimates the individual effects of institutional variables on economic development. Finally, diagnostic tests are reported to evaluate the reliability and robustness of the estimated models.

Table 1: Descriptive Statistics

	GDPpc	JUD	DEM	INV	Trade
Mean	8.264	0.599	0.229	2.774	-0.219
Median	8.263	0.554	0.236	2.761	-0.362
Maximum	8.705	0.850	0.289	2.944	1.110
Minimum	7.783	0.490	0.094	2.641	-1.172
Std. Dev.	0.270	0.122	0.049	0.080	0.613
Skewness	-0.265	0.783	-0.931	0.468	0.742
Kurtosis	2.134	2.086	3.657	2.255	2.906
Jarque-Bera	1.075	3.422	4.059	1.492	2.302
p-value	0.584	0.180	0.131	0.474	0.316

Table 1 reports the descriptive statistics of all variables used in the study, including GDP per capita, judicial independence, democracy, governance indicators (control of corruption, government effectiveness, and rule of law), investment, and trade. The mean value of GDP per capita is 8.264, indicating moderate economic performance during the sample period. Judicial independence and democracy show relatively stable distributions. The Jarque–Bera statistics confirm that the variables are normally distributed, as the p-values exceed the 5% significance level. These results indicate that the dataset is not significantly non-normal and is suitable for econometric analysis (Gujarati & Porter, 2021).

Table 2: Results of Unit Root Tests

Indicator	ADF test		PP test	
	I[0]	I[1]	I[0]	I[1]
GDPpc	-1.318	-3.400**	-0.822	-3.329**
JUD	-2.225	-5.244***	-2.335	-5.280***
DEM	-1.693	-4.197***	-1.556	-4.158***
INV	-2.364	-3.927***	-2.486	-3.927***
TRADE	-1.983	-5.026***	-2.292	-5.047***
Source: Author's Estimation. "*** and ** indicate significant levels at 1% and 5% respectively."				

Table 2 presents the results of the Augmented Dickey–Fuller (ADF) and Phillips–Perron (PP) unit root tests. The results indicate that most variables are non-stationary at level but become stationary after first differencing, implying that the variables are integrated of order one, I(1). However, the governance variable control of corruption appears stationary at level. This mixture of I(0) and I(1) variables justifies the use of the Autoregressive Distributed Lag (ARDL) approach, which is appropriate when variables are integrated at different orders. However, none are integrated at order two (Pesaran et al., 2001). ARDL is widely applied in institutional and governance research because it allows the estimation of both short-run and long-run relationships simultaneously (Nkoro & Uko, 2016).

Table 3: Johansen Cointegration Tests

Unrestricted Cointegration Rank Test (Trace)				
Hypothesis	Eigenvalue	Trace value	0.05 critical value	p-value
None*	0.970080	203.7261	95.75366	0.0000
At most 1*	0.885273	123.0140	69.81889	0.0000
At most 2*	0.763801	73.21436	47.85613	0.0000
At most 3*	0.623911	40.02349	29.79707	0.0024
At most 4*	0.530343	17.53113	15.49471	0.0243
At most 5*	0.006450	0.148821	3.841466	0.6997
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				

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Hypothesis	Eigenvalue	Trace value	0.05 critical value	p-value
None *	0.970080	80.71209	40.07757	0.0000
At most 1 *	0.885273	49.79964	33.87687	0.0003
At most 2 *	0.763801	33.19088	27.58434	0.0085
At most 3 *	0.623911	22.49235	21.13162	0.0320
At most 4 *	0.530343	17.38231	14.26460	0.0156
At most 5	0.006450	0.148821	3.841466	0.6997

Author's own Estimation

Table 3 shows that there is strong relationship in the variables. The existence of five cointegration vectors suggests that variables share a stable long run equilibrium relationship. This behaviour is consistent with economic theory where macroeconomic variables often move together due to structural linkages.

Table 4: Results of ARDL Regression

Long-run results			
Variable	Coefficient	Std. error	p-value
JUD	1.6016**	0.3991	0.0051
DEM	-3.8608	1.0672	0.0085
INV	0.3490	0.1006	0.0104
Trade	-0.0188	0.0127	0.1806
JUD * DEM	5.7700	1.5096	0.0065
Short-run results			
JUD	1.6016	0.2437	0.0003
DEM	3.8608	0.6275	0.0005
INV	0.1478	0.0414	0.0091
Trade	0.2522	0.0682	0.0077
JUD * DEM	1.9913	0.8921	0.0608
ECM-1	-0.1952	0.0227	0.0001

Author's own Estimation

Table 4 shows that the coefficient of Judicial Independence as $\beta_1 = 1.60$ with probability value 0.0051 which makes it significant to consider. It implies that a 1-unit increase in judicial independence index increases GDP per capita by approximately 1.60 percentage points. This implies that stronger, impartial courts enhance investor confidence, reduce transaction costs, and stimulate productive activity. But in the case of democracy, the coefficient β_2 is negative but statistically significant which implies that democracy with weak institution put negative effect in the long run but it can be enhancing economic development in short run where the coefficient is positive and significant. The interaction term of judiciary and democracy shows positive coefficient not only in short run but long run also. It can foster the economic development if both institution reinforce each other. It confirms the hypothesis that an independent judiciary amplifies democracy's economic benefits. The control variable investment also have positive coefficient and significant statistically in short and long run both but the trade shows positive coefficient in short run but it shows negative trend in long term when terms of trade are not favorable and deficit in balance of payment exists for a long time. The error correction coefficient (ECM(-1)) was found to be -0.19 (significant at 1%), suggesting that around 19% of disequilibrium adjusts back to long-run equilibrium annually. This indicates a moderate speed of institutional-economic adjustment, consistent with Pakistan's gradual reform trajectory.

Table 5: Diagnostic Tests

Tests	F-stats	p-value
Breusch-Godfrey Serial Correlation LM Test	0.872	0.2408
Heteroskedasticity test (Bresusch-pagan test)	0.545	0.8467
Ramsey RESET test (Model Specification test)	1.257	0.154

Author's own Estimation

Table 5 presents the diagnostic test of the models. Diagnostic tests are conducted to evaluate the reliability and robustness of the estimated models. The results indicate the absence of serial correlation and heteroskedasticity in

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the residuals. Additionally, the model specification tests confirm that the regression models are correctly specified. These findings suggest that the estimated models are statistically reliable and suitable for empirical interpretation.

5. Conclusion and Policy Recommendations

The present study concludes that the judiciary and democracy are both the key determinants of economic development. The study found that increased judicial independence correlates with higher GDP growth rates. This finding reinforces the theoretical framework of North (1990) and Acemoglu and Robinson (2012), which highlights secure property rights and contract enforcement as foundations for market efficiency. During the post-2007 period particularly after the Lawyers' Movement and restoration of the judiciary Pakistan's judicial system gained visibility and partial autonomy. Although challenges of backlog and political interference persist, the strengthening of judicial oversight contributed to a more predictable investment environment (Rizvi, 2018; Hussain, 2021). Democracy's positive contribution to growth underscores its role in promoting accountability, reducing policy uncertainty, and enhancing citizens' participation. Periods of democratic governance (2008–2017) coincided with relative macroeconomic stability and improved governance indicators. This aligns with findings by Barro (1996) and Haider and Qureshi (2021), who argue that democratic institutions foster inclusive policymaking and human capital development, which in turn drive growth.

This interdependence supports the theoretical propositions of Ferejohn (2002) and North et al. (2009), who argue that institutional complementarities are essential for political and economic stability. The evidence from Pakistan suggests that periods of judicial activism and democratic transition reinforce each other in fostering investor confidence and institutional trust. It also clarifies that judicial independence and democracy are not merely political ideals but economic imperatives. The evidence from Pakistan (1999–2023) demonstrates that economic growth is most sustainable when governance institutions are transparent, accountable, and mutually reinforcing. A strong judiciary ensures fair adjudication and contractual reliability, while democracy ensures that public policy reflects collective welfare rather than elite interests. Together, they create a framework of stability, predictability, and trust essential ingredients for private investment, innovation, and long-term development.

For Pakistan to achieve sustained economic growth, it must institutionalize democracy beyond electoral cycles and empower the judiciary beyond symbolism. Only through integrated institutional reform can Pakistan escape the cycle of political instability and underdevelopment and move toward a resilient, inclusive, and prosperous future.

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