

Is growth political? From the perspective of geopolitical risk

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Abstract

This study explores the impact of heightened geopolitical risk (GPR) on the economic growth of 18 emerging countries partly attributed to the level of democracy. We examine if the countries more democratic could withstand the shock of GPR, thereby maintaining a steady state economic growth. We analyze these premises with the backdrop of the extant literature, which indicates that political instability, terror, and other internal and external conflict significantly negatively impact economic growth that further multiplies depending on the level of democracy. By employing system GMM for the period 1991 to 2020, we establish that GPR is detrimental to an emerging democratic country; this impact is more detrimental for those countries that experience a low to moderate level of democracy. Our results suggest that in the light of heightened geopolitical tension, a country should thrive to attain full democracy to achieve higher economic growth.

Keywords: Democracy, Economic Growth, Emerging Economies, Geopolitical Risks JEL classification, O47, P16, C23, F43.