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POLITICAL INSTABILITY AND ECONOMIC GROWTH IN BANGLADESH

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Abstract

In political stability ranking is Bangladesh 172nd position with an index of -1.15. This indicates that Bangladesh is mostly affected with political instability. The purpose of this paper is to show the paper to show the how the political instability empirically affects the economic growth of Bangladesh. For this research questionnaires with a sample of 24 people is conducted and results are analyzed with MS Excel, and data from some previous research. Political instability has various forms such as civil war, social unrest, hartals etc. These types of activities occur when there is the difference of suggesting different solution, at the time of transition of governance. The instability affects our all economic variable, such as, exports, imports, price level, tourism sector, human rights etc. This paper provided strong evidences of substantial productivity loss by firms when multiple hartals occur in a week. Though it has been found that firms re-optimize in response to political strikes, they become able to substitute among factors inputs, mostly by decreasing costs on wages and capital consumption. Small industries are mostly affected by these political instabilities. These findings suggest that the relationship between economic growth and political stability are more complex than is widely presumed.

Key words: Politics, Economic development, Political instability, Bangladesh Economy, Hartals, Business.

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Introduction

Bangladesh is a developing country. Here, Bangladesh has much scope for improving the economic condition. But major causes the political instability; political crime; law and order situations; human rights and good governance. These political instability, good governance and crime hamper economic growth in many ways (Hagan, 1997). Conflict between the political parties, inefficiency of local administration in conducting a legal and transparent election, good governance and corruption in the government levels etc. are main causes for this political instability (**Islam S.N. 2016**). And these causes also have some supporting factors like lack of smooth process of handover of power, lack of spending in research and education, large income inequality etc. These problems have greater effects on the political and social factors. Due to political instability, venture has faced a decline in financial growth, damage to infrastructure; people are being in political conflicts etc (Duchesneau and Gartner 1990). These hampering our economic growth than other countries. Political instability is a curse to the society (**Jong-A-Pin, R. 2006**). To be developed in economy, all countries should maintain a stable political situation. In Bangladesh, we faced the political instability now and then. Every time when there is a change in the Government, it rises to the top. Often, the party in position tries to retain the government, and the opposing party wants to gain the power of the country. For this reason, political situation is not stable at that time. Human welfare is good, but when this turns into greed the whole system will fall. Both parties give Hartals, conference or other activities. But these activities are crushing our life and economy (**Chawdhury, 2016**). Economic growth and political stability are strongly related. The uncertainty associated with a steadfast political environment may decrease investment and the speed of economic development (**Aisen and Veiga, 2011**). Moreover, weak economic performance may lead to government fall down and political instability. People will react when they don't have any jobs to do. Many people in our country are at lower level. They hardly care about who is in the government authority, because they need works to do, they need food for their family (**Chawdhury, 2016**). Nowadays political instability and strikes have been causes of concerns for many countries around the world, irrespective of the state of development or their political regime (**Ahasan and Iqbal, 2015**). Previous experiences tell us that political conflicts can have a disastrous impact on an economy. On the other hand, domestic conflict under certain conditions can turn a country into fragile state status (**Campos and Nugent 2002**). Fragile and conflict-ridden countries usually lose the ability to develop constructive relationships within their societies and often suffer from a weak ability to undertake governance functions. In Bangladesh, a political conflict can turn our economy into disastrous. We

lose around Tk. 2000 crore for a day because of Hartal (Rahman, 2014). This is a huge loss for a developing country like Bangladesh. After achievements in MDGs, now Bangladesh, as part of her commitment to implement the SDGs, decided to take part in the Voluntary National Review at the UN High Level Political Forum. Thus, our SDG works towards the becoming the developed country in the world, but these can hamper our economy and our goal for becoming a developed country by 2041. Both the government and opposing party are responsible for the loss that we face because of political instability. Accordingly, to reduce the losses and to provide a stable political situation both parties have come forward. By way of, this paper is an Exploratory Research. Its primary objective is to provide insights into the relationship between political instability and economic growth, and understanding that for economic growth, political instability is one of the main causes of hampering the growth. In this paper, we are going to describe about political instability and what are the main causes and probable solution for that.

Review of literature

The basic theory of this topic is to identifying the relationship between the political movements and how it affects the economic condition of Bangladesh. Political instability a major obstacle to economic growth showed some of the main terms of political violence and how these affect in Bangladesh economy. The information about the political instability in Bangladesh and in how many forms it is designed (Chawdhury, 2016). In this paper consists of many important elements like exports, imports, political barriers and uncertainty, and losses faced because of political barriers and other violence (Devereus and Wen, 1996). Here provided strong evidences of substantial productivity loss by firms when multiple Hartals occur in a week. Here also emphasized on the political weakness rather than the political violence (**Edwards and Tabellini, 1991**). Here is also related to politics and economy. Political instability and income distribution is likely to shorten policymakers' horizons leading to sub-optimal short term macroeconomic policies for affecting Economic Growth (Venieris and Gupta, 1986). The major indicators that evaluating the economic growth would be the capital flight depends on political instability (Fatehi and Gupta 1992), Thus, here mostly worked on the plotting the relationship between the political instability and GDP growth (**Aisen and Veiga, 2011**). The basic theory underlying the relationship between political systems and economic growth is discussed (**Martin and others 1996**) for improvement of economic growth. The analysis around three forms of political organization: anarchy, dictatorship and democracy. In anarchy, roving bandits rule the land and have no interest in the public good. People use

to maximize their own income, and citizens have no incentive to produce. Hence, total income in anarchy is very low. The people argued for democracies to provide a higher level of public goods and engage in less rent extraction than in autocracy. The reason for this is that, even under simple majority rule, citizens' encompassing interest will naturally limit rent seeking when it reduces total income by more than the rent extracted from the minority. **Whereas** the rent extracting program goes entirely to the majority—a 51 percent majority will stop rent seeking when it decreases total income by 2 units for every unit of rent (**Martin and others 1996**). Under imperfect targeting, in which some fraction of the minority receives the benefit, rent seeking behavior will be even lower. This is equally beneficial to the entire population, which includes all minorities. And since public goods are needed to produce output, the "super-encompassing" nature of democracies leads to higher economic growth. The key to the **McGuire and Olson** model is the credibility of the monopoly of theft on the part of the government (Martin and others 1996). If the autocrat is in an uncertain position, or if the citizens believe the government's position is uncertain, the incentive to invest in public goods and increase income is reduced. Hence political instability which undermines the government's long-run credibility should have detrimental effects on economic performance. A theoretical background on the relationship between instability and economic growth (Olson 1991) discusses the "super encompassing" nature of democracies, citing examples such as the incentives of democratic leaders to lead a stable economy in order to run for reflection. Political instability is the cause for slower economic growth, and not vice versa, although the "demand for democracy" may rise with increased income (Olson, 1991). As a result, investors would exit the economy, and potential investors would seek a more stable environment. Thus, instability reduces the supply of both capital and labor. In turn, discourages investment due to the increased risk of capital loss. Also, political turmoil causes capital flight and brain drain and hampers the establishment of property rights, which are necessary in order to realize productivity gains. Therefore, in this paper has been studied political instability and economic growth for Bangladesh perspective.

Objectives of the study

The main purpose or the objective of this research is to show how the political instability can affect the economic growth of Bangladesh. The instability of government, a weak political culture and inefficiency of political parties causes a politically instable state. Political instability has become a serious problem especially for the developing and underdeveloped countries. This problem is associated with a series of problems in various fields. Also, this paper has some other specific

objective. These are: Understanding the politics of Bangladesh; Understanding the political instability and indicators of political instability; Identifying the impacts because of political violence and providing alternative to political violence.

Methodology

This research provides evidences on the determinants and the channels through which political regimes affect the dynamic of economic growth. To do so a number of approaches are used to investigate the relationship between political regimes and any possible channels and economic growth in Asian countries. There have been two types of process to collect the data to make this research. These are: Primary Data: In primary, we have used a set of questionnaires to people who has knowledge about the political instability of Bangladesh. Secondary Data: Rather than the primary data, we also used different type's research, news, books, journals, articles etc.

Questionnaires Development and Data Collection

Questionnaires were developed on the basis of political instability and economic growth. These questions were designed get the global idea of relationship between these two things. And for data collection we used the online process. We used Google form to develop the questionnaires and the forwarded the link of the questionnaires to the expected respondents. The whole primary data collection was on online.

Data Analysis Technique & Statistical Tools

In this research, political instability is described as a problem. We tried to provide an exploratory writing, and provided evidences about the political instability of some countries of Asia, and show some statistical reports which provide the actual meaning and effects of political instability. But for the conducting the economic growth we had to use some economic indicators and calculate them. To calculate GDP, We used the following formula:

GDP = Consumption + Investment + Government Spending + Net Exports or more succinctly as $GDP = C + I + G + NX$; Another economic Indicator which has been implemented in the paper, that is Consumer Price Index (CPI).

$$CPI_t = \frac{\text{Cost of market basket (t)}}{\text{Cost of market basket (base year)}} * 100$$

And for economic growth calculation, the following formula is applicable:

$$\text{Economic Growth} = \frac{GDP_2 - GDP_1}{GDP_1}$$

These are the basic statistical or economic formula that to make this paper. These are the most popular indicators for calculating the economic growth and to know that how political instability changes the economic growth. In this paper, Bangladesh considered as a sample for evaluating and for comparing its economic condition and their growth. Also, the economic growth has been considered between the time of political stability and instability. It's difficult to consider all countries at the same time.

Findings and results of the study

In this paper, a set of questionnaires was developed to know how the people this about the political instability of Bangladesh and how the political instability is hampering the economic growth of Bangladesh. This questionnaire was developed internet based and forwarded it to its focus respondents. 24 respondents responded to the questionnaires. From that number of respondents maximum people were students but there were also businessmen and private service holders. Their maximum age 32 and minimum was 19. Most of them has responded that the political instability occurs because corruptions. Around **66.7%** have voted for that option.

Table: 1 Descriptive statistics of the sample respondents

Variables	Mean/Percentage
Describing the political instability <ul style="list-style-type: none"> • Large income inequality • Corruption • Conflict between the two parties • Lack of well-planned elections • Others: 	4.2% 66.7% - 16.7% 12.5%
Potential sources and major indicator of political instability <ul style="list-style-type: none"> • Social unrest • Attitudes of nationals • Policies of Host Governments 	45.8% 37.5% 37.5%
In your point of view, do you think that politics and economy are interconnected? <ul style="list-style-type: none"> • Yes • No 	91.7% -

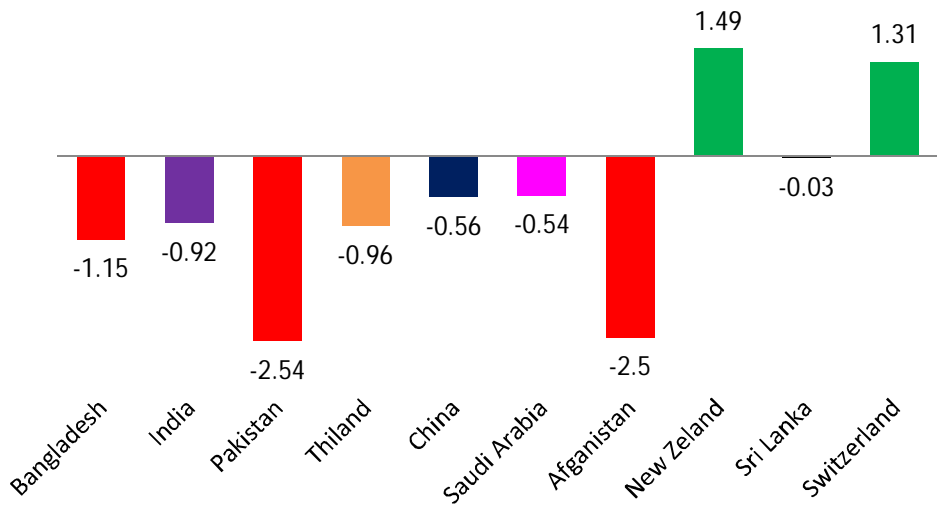
<ul style="list-style-type: none"> • Maybe 	8.3%
What economic changes have you observed during the time of political unrest? <ul style="list-style-type: none"> • Price Hike • Stock price change • Increase in Transportation Cost 	79.2% 29.2% 16.7%
How much a political event can change an economic situation? Scale of 1 to 5	1. 12.5% 2. 12.5% 3. 16.7% 4. 33.3% 5. 25.0%
Corruption is main cause of political instability <ul style="list-style-type: none"> • Strongly disagree • Disagree • Neutral • Agree • Strongly agree 	12.5% 8.3% 20.8% 54.2% 4.2%
Is the involvement of political members in business creates more economic growth problem? <ul style="list-style-type: none"> • Strongly disagree • Disagree • Neutral • Agree • Strongly agree 	- 8.3% 29.2% 41.7% 20.8%
What are the measures that can be undertaken to reduce political instability? <ul style="list-style-type: none"> • Reduction of exposure • Observation of political risk • Political neutrality • Others: 	13.6% 45.5% 54.5% 4.5%

And they described the indicator of political instability is social unrest, attitudes of nation's government party, and policy makers. Political instability has also observed various changes in the market like price hike, stock price changes, increase in transportation cost etc. These affect our whole economy and hamper our economic growth by creating a political risk. And to overcome the political risk various remedies like reduction of exposure, observation of political risk, political neutrality etc. have to be taken.

Political Instability and Economic growth

Politics are the actions or activities concerned with achieving and using power in a country or society. Politics is the process of making decisions that apply to members of a group. More narrowly, it refers to achieving and exercising positions of governance — organized control over a human community, particularly a state. Furthermore, politics is the study or practice of the distribution of power and resources within a given community (this is usually a hierarchically organized population) as well as the interrelationship(s) between communities (Politics, 2017). While, Political instability is the chances of having demonstrations, forms of violence, passion workers going on strike or the possibility of a coup. It is also measured in terms of whether the government may collapse or not. One of the major questions arises that how we can evaluate any country's political stability. There is an indicator for evaluating that. According to the World Bank, there is an indicator for that, where it uses index for that. Index 2.5 means a strong political stability and index -2.5 means a weak political stability. Each and every country in the world is ranked under this index by The World Bank. Some of country's indexes have shown in the following graphs. (Source: Ranking of the World Bank, 2015). Here, if we observe that, most of the Asian country's political situation is negative means weak. Not only this, Pakistan's and Afghanistan's political stability is very weak, which is more than -2.5.

Figure: 1: Political Stability Index (Source: World Bank)



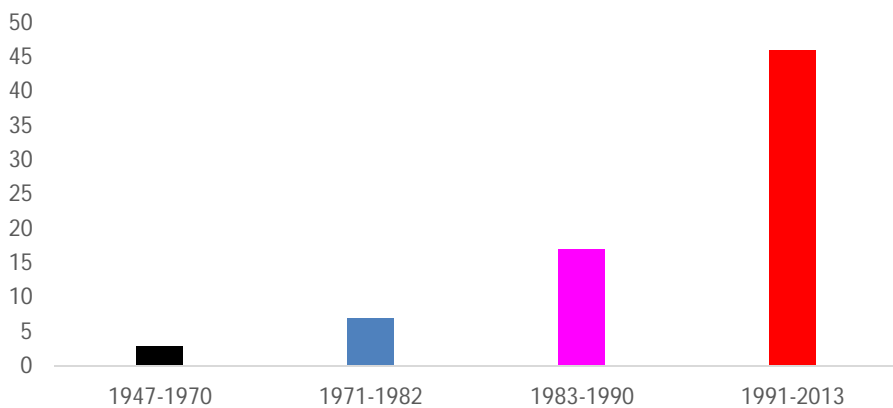
Economic Growth:

Economic growth is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. It can be measured in nominal or real term, the latter of which is adjusted for inflation. In simplest terms, economic growth means an increase in aggregate productivity. Usually, aggregate gains in productivity correlate with increase average marginal productivity. This means, the average labourer in a given economy becomes more productive. It is also possible to achieve economic growth without an increased average marginal productivity through extra immigration or higher birth rates. Traditionally, aggregate economic growth is measured in terms of Gross National Product (GNP), or Gross Domestic Product (GDP), although sometimes alternative metrics are used (**Chawdhury, 2016**).

Political Instability in Bangladesh:

In this paper focuses Bangladesh for the discussion. There are many types of political violence like assassination, kidnapping, terrorism, civil unrest etc. But Bangladesh is mostly affected with Hartal. Other things are not common in Bangladesh. Here focuses statistics of political violence's of Bangladesh and this violence has led us towards dark future on economic perspective. Though political instability in Bangladesh is low, but back in few years, Bangladesh faced a lot of losses due to this political instability. In Bangladesh, political instability is considered as political violence, conflict between parties, and strike against any social affairs. One of the major political violence that we face regularly is Hartal.

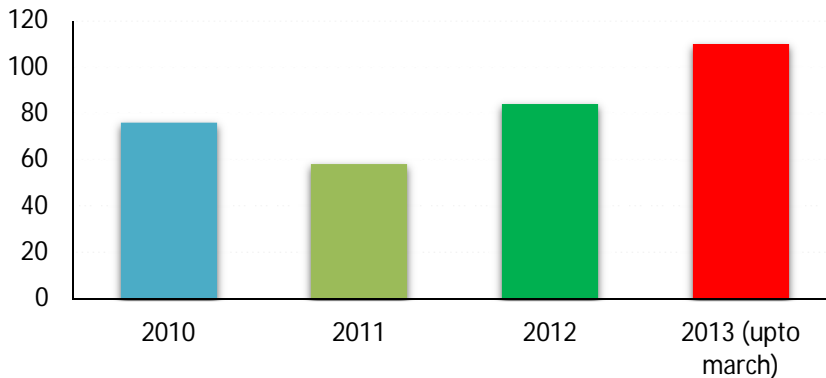
Figure: 2: Number of Hartals per year (Source, CPD, 2013)



Hartal is the most popular form to protest against violence or any other political movements. But, these Hartals are making our life, economy

and future to hell. During Hartals, transportations are less in road and less people goes to their work. Students are one of the major sufferer of this, specially, students, who have to attend an exam. Not only is this, due to political violence like Hartals many people being killed. According to the CPD, Number of people is being killed in Hartals. Here, the main remark is that, because of a political violence, people are losing their lives.

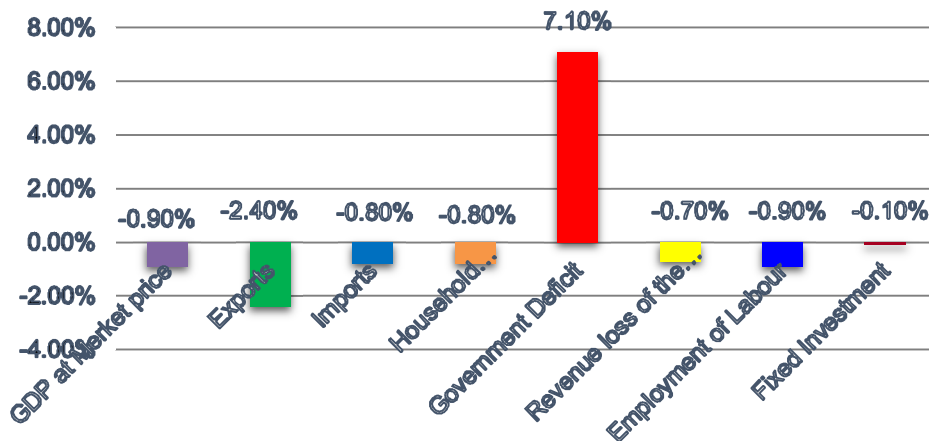
Figure: 3: Number of people being killed in Hartals (CPD, 2013)



Political Instability Affecting Economic Growth:

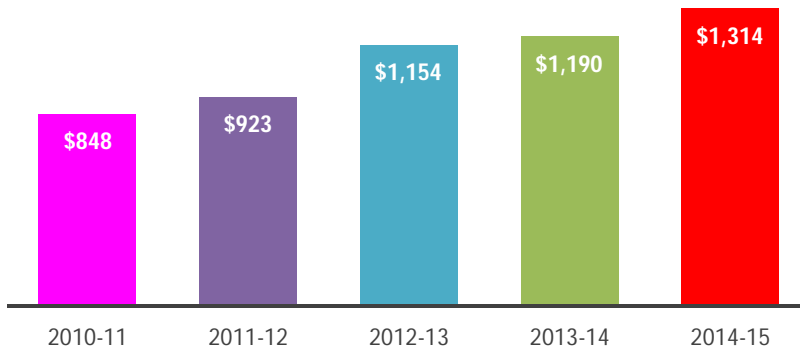
Now, let's discuss about how political instability affect the economic growth of the country. In Bangladesh, from 2010 to 2013, faced the most political violence in the history. The country faced most numbers of Hartals in every year, most number of economic losses in the history. (Pin, 2006)

Figure: 4: Percentage Change in Different Economic Sectors due to Political Violence in 2013 (CPD ANALYSIS, 2013)



In this graph, we can see that, due to political instability in 2013, Bangladesh has faced a large economic loss. Our GDP, revenue, exports, imports etc. all the economic variables have gone in negative from its base year. Not only this, Economists, Businessmen and other stakeholders' estimates that caused by a day of strike stand between Tk. 1500 crore to Tk. 2000 crore. With the prime export sector ready-made garments (RMG) bearing the brunt with daily losses worth Tk. 600 crore. Losses in the non-exporting business and labor sector such as shopping malls, grocery markets etc. is around Tk. 500 crore (**Rahman, The Daily Observer, 2014**). International researchers estimate that at least Tk. 1500 crore worth of damage is done one day's Hartal. But the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) estimated the damage of one day's Hartal is Tk. 2000 crore. The worst single sufferer was the RMG sector (Rahman, Hartal inflicts Tk 2,000cr losses on economy a day, 2014). Now, discuss about the per capita income of Bangladesh in recent years.

Figure: 5: Per Capita Income of Bangladesh in recent years
(Source: BBS)



Here, every year, Bangladesh's per capita income is increasing. But, if we observe closely, we can see that in 2013-2014 financial year they observed less increase in the per capita income. There was only \$36 increase in the per capita income. But this can be because of inflation or exchange rate changes. As the price of taka is decreasing in accordance with the dollar. And in Bangladesh, 2013 faced most violence in that year. So, we can say that the per capita income of the country is also decreased due to the political instability in Bangladesh.

Now, if we focus on the foreign remittance earnings over last few fiscal years, we can see that there is a decline in foreign remittance earnings at the time 2013-2014 fiscal year for \$14.40 Billion (2012-2013) to

\$14.20 Billion which couldn't be able to return to earnings of 2012-13 at 2014-15 fiscal year.

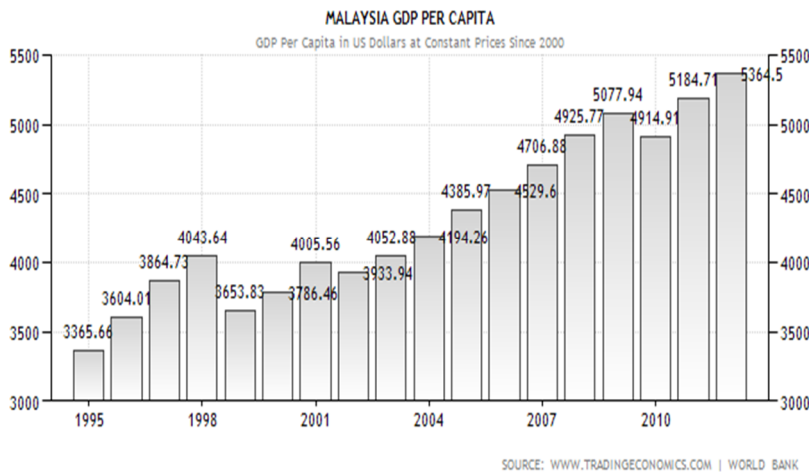
Table: 2: Foreign Remittance Earnings per Fiscal Year **(Source: Bangladesh bank, 2013)**

Fiscal Year	Foreign Remittance Earnings
2007-2008	\$ 8.9 Billion
2008-2009	\$ 9.68 Billion
2009-2010	\$ 10.87 Billion
2010-2011	\$ 11.65 Billion
2011-2012	\$ 12.85 Billion
2012-2013	\$ 14.4 Billion
2013-2014	\$ 14.2 Billion
2014-2015	\$ 14.23 Billion

Economic Growth of Other Political Stable Country:

If we consider Malaysia in terms of per capita income, we can see that their per capita income was \$5364.5 in 2012 but in Bangladesh in 2017 is \$1602. Malaysia's per capita income in 1995 was \$3365.66 which we still couldn't be able to achieve in 2017. This can conclude that political instability can keep our economy a way behind than any other political stable countries.

Figure: 6: GDP per capita of Malaysia (Source: Tradingeconomics.com, World Bank)



Due to political instability in Bangladesh and scope of investment in outside, Square Pharmaceuticals will invest \$8 million in Kenya, DBL Group will invest \$8 million to build an RMG factory in Ethiopia, MJL will invest \$547,000 in a joint venture in Myanmar **(Mowla, 2017)**. Bangladesh Bank published that ACI Pharmaceuticals was permitted to pay \$3 million for medicine patents. Incepta Pharmaceuticals was

permitted to invest £10,000 in the UK. Spectrum Engineering will invest \$7,500 in Singapore. Service Engineering was also permitted to invest \$7,500. BSRM was permitted to invest \$4.6 million to build a factory in Kenya (**Mowla, 2017**).

Recommendation:

Following measures and recommendation might be useful precautions:

- i) **Identifying the Risk:** The companies should have to identify the risks that may arise on any types of political instability. To ensure profitability, management authority should focus on expected risks which can speculate the economy of the country.
- ii) **Avoiding Political Risk with Control Procedures:** In conducting business in Bangladesh, industries should avoid the political risks, such they can avoid the area where the situation is worst, or they can use airplane for transportations.
- iii) **Understanding political risk Movement:** Managers should have the potential to forecasting the future political movements, so that, they can take precautions and prepare for the future losses. Taking precautions against Losses: Taking precautions against losses could be main objective while conducting business country like Bangladesh.
- iv) **Alternative to Hartal:** According to the majority of the population, "Hartal" is a package of destruction and ineffective tool in the present time (UNDP). Many countries are focusing on other alternative to "Hartal", which keep any mass violence and destruction away to people and government. Such as
- v) **Hunger strike** is a non-violent program. Anna Hazare, a renowned person, through hunger strike realized many demands. Silent procession can be observed across the country without obstructing running vehicles on the roads.
- vi) **Grand rally** can be arranger in all divisional towns in which does not affect the mass people in way. The government's mistakes can be criticized in a democratic way. Rather than focusing on violence in the roads, the opposing party can go to the parliament where they can point out the government's mistakes.
- vii) If the ruling party does not give any scope to discuss in the parliament, then they can walk out repeatedly but should not boycott parliament. Rather than violent, opposing party can provide proper information with authentic evidence to the general people if the government makes any mistakes.

Conclusion:

Political instability of any country is not expected by any country, but it's difficult to remove these types of political violence from a country easily. This study observed that autocracy, affect's political stability and hence economic growth. Political stability has a vigorous and noteworthy effect but a trivial direct effect on growth. The results recommend that political constancy affects economic development circuitously by its stimulus on particular overruling variables. It has been investigated the effects of postulating wrapped values of the casual instability measures instead and determined that this does not affect main outcomes of Bangladesh. Though, it is not impossible but eradicating political instability from Bangladesh is an extremely difficult task. Therefore, both the government and opposing parties can come up with more precautions and take strategies on how to deal the political instability for betterment of Bangladesh.

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