

# **Economic Policy Paper on Political Stability and Economic Development: The Case of Bangladesh**

## **1. Introduction**

Among the non-economic variables considered as sine qua non for development, political stability comes first. One may argue that other non-economic factors like rule of law, law and order situation are subsumed under political stability. On the other hand, major determinants of development like savings and investment, relative price stability, human resources, level of technology, factor productivity can play an effective role when political atmosphere is congenial. For example, it is argued that political stability and convenient law and order ensure the confidence of the people in the economy and its further development, which encourages the people to save. It also promotes confidence of the investors in the economy and convinces them to invest and reinvest.

Of course, price stability, higher education and technical qualifications of the population, increasing factor productivity, technological modernity, export promotion etc. may not be directly related to political stability. But political stability in the long run ultimately ensures a relative price stability, improves educational and qualification status of the people, increases factor productivity, enables technology transfer, promotes exports. Those are the factors essential for economic growth. Moreover, long term political stability provides a congenial atmosphere for evolution of democracy. Democratic political order in turn, can ensure political stability.

The nexus between political stability and economic development becomes crucial because Bangladesh is passing through a juncture of history, e.g., the fast moving world of globalization where we cannot afford the luxury of either political development first, as was the case with Europe, or economic development first, as has been the case with the high growth East Asian countries. Bangladesh is confronted with enormous challenges of simultaneous political and economic development. The average rate of growth of GDP could hardly cross the 5% level, though the official statistics try to make us believe that it were not less than 5.5%. The population of the country is increasing uninterrupted and the growth rate of population is not less than 1.8%. In the mid of 90s the population of the country was not more than 115 million; now we are speaking for a population of not less than 140 million. Some authors estimate that now we have nearly 50 million population. So, we see that our actual growth rate of GDP is less than 3% because our new population is eating out our growth. The share of agriculture sector to GDP of Bangladesh has fallen drastically to about 20% of GDP and the share of industry sector to GDP also stagnates at 12%. On the other hand, agriculture has to bear a huge burden of more than 50% of the civilian labour force. About 45% of the population earn less than two dollars a day while about one-fourth of the population earn less than a dollar a day.

International economic development, on the other hand, shows that the economies of many developing and even that of the least developed countries are growing at the rate of 8-10%. Now China is not an exception with her high growth rate of GDP from 10-12%, even the economies of Vietnam, Pakistan and India are growing at the rate of not less than 8%. In order that Bangladesh makes a significant dent in poverty, the GDP growth rate has to reach 7-8% per annum mark. Such a high growth has to be sustained by rising inflow of FDI and sustained export earnings complemented by remittances. But all these three factors are contingent on political stability which is often marred by political violence, confrontational politics, law and order problems and rising levels of political and administrative corruption.

Of course, one has to admit that in a nascent democracy, there will be certain amount of traumas and instabilities. But in order that these instabilities do not turn disruptive and destructive, they have to be kept in manageable limits.

This is where comes the role of conscious efforts to contain political confrontations and instabilities in order to make out economy moving. The Dhaka Chamber of Commerce and Industry (DCCI) intends to prepare an economic policy paper on “Economic Development and Political Stability” to ventilate the issue again in scope of DCCI-CIPE, ERRA Project supported by the CIPE (Centre for International Private Enterprise) an affiliate of US Chamber of Commerce, Washington DC.

### **1.1 Objectives and Scope of the Study**

The DCCI in the above context desires to make a comprehensive study leading to the preparation of an Economic Policy Paper (EPP) on “Economic Development and Political Stability” so that the business sector as well as the government and such other organizations are benefited contributing greatly to the completion of the implementation of the project/activity. The prepared EPP is expected to be specific in terms of the subject topic for the purpose of influencing the concerned government agencies and other related organizations for appropriate implantation of the suggested recommendations. The following were the Terms of Reference (TOR) including others as under:

- Analyzing briefly the political development of the country to justify that political stability ensures economic and social development;
- Analyzing the political history of similar countries from Asia, Africa and Europe that political stability including others is necessary precondition for socio-economic development;
- Analyzing and reviewing how political stability is ensured in high growth countries in Asia, Africa and Europe;
- Analyzing and suggesting how political stability could be ensured in Bangladesh;
- Analyzing and suggesting how business community and organizations could promote political stability;
- Analyzing the role of opposition in maintaining political stability and then ensuring economic development;
- Suggesting a set of comprehensive recommendations that should include the experience of other countries can support the implementation of the private sector development plans and fulfill the objectives and targets;
- Any other issue(s) that may be related to the preparation of the above Economic Policy Paper.

### **1.2. Methodology of the Study**

The study was conducted following the methodology as under:

- Collecting, sorting and analyzing secondary information relating political history of the country;
- Collecting, analyzing, reviewing and assessing secondary information relating to recent political history and economic development of some selected countries from Asia, Africa and Europe;

- Interviewing and questioning some political leaders in order to undertake their perceptions in that respect;
- Interviewing and questioning of the business and chamber leaders for primary data regarding the role of business community ensuring political stability;
- Preparation of EPP on the basis of the findings and evidence above;
- Incorporation of comments and improvement proposals made in the seminar on EPP.

The paper first provides a theoretical framework linking political stability and economic development. Experiences of high growth countries as well as similar countries in this context are reviewed next with a view to drawing relevant lessons for Bangladesh. A brief historical review of the political process in Bangladesh is undertaken to set the background of linking political stability with economic development of Bangladesh.

## **2. Political Stability and Economic Development: Theoretical Framework**

In the context of the present research, a theoretical framework involves two-fold tasks: defining both political stability or instability and economic development; and linking economic development to political stability/instability. Although in this particular task, the focus is on examining the impact of political instability on economic development, it should be recognized that process and level of economic development also shape the political process including political stability. A realistic piece of analysis should take into cognizance this interdependence between the two variables. Secondly, economic development is a function of so many crucial economic parameters like savings, investment, market and policy framework. But among the non-economic factors also, a host of other factors impact on and influence economic development. Hence, even in a single dimension analysis, one needs to situate political stability/instability among those non-economic factors. Thirdly, political stability and instability are not binary or dichotomous phenomena in two senses. First, there are several competing concepts and second, there are a huge gray area between stability and instability. Hence, while the central task in this section is to link economic development to political stability/instability, it is also important to address these conceptual issues in order to framework the study in a proper perspective.

### **2.1 Concept and Indicators of Political Stability**

Political stability consists in the relative absence of certain types of destabilizing political events, whether these events take the form of changes in the structure of authority, whether they involve changes in government, or whether they are constituted by peaceful, or even violent, challenges either to the incumbent political authorities or to the structure of political itself. Therefore, political stability and instability are two sides of the same coin. It is argued, first, that stability/ instability needs to be regarded as a continuous, interval level phenomenon, and secondly that considerable temporal precision is required if it is to be adequately defined. It is also argued that there are four main types or dimensions of instability: regime change, governmental change, violent challenge (to either government or regime) and peaceful challenge (again, to either government or regime).

Stability and instability can be conceptualized as relative, continuous phenomena while this dichotomous definition can be defended on the grounds that it corresponds to the prevailing static approach to comparative politics which dominated social science thinking during the 1950s and early 1960s-Lipset's notion of stability, for example, is conceptually very close to the Estonian notion of 'system persistence', the only alternative to which is complete system

breakdown-it seems more useful analytically to regard stability and instability not as the two branches of a dichotomy but as the two ends of an indeterminate continuum.

Until the mid 1960s, political stability was generally defined in terms of the persistence or continuity of certain types of political system: on Lipset's definition, systems which experienced uninterrupted democratic government or uninterrupted totalitarian government over a given number of years were characterized as stable; those which fluctuated between the two were characterized as unstable. More recently, theorists such as Field and Castles have developed Lipset's continuity/discontinuity notion by defining a stable polity as one which maintains the same broad institutional structure over time.

This emphasis on continuity has been much less pronounced in the analysis conducted by the empirically oriented frequency school. Rather, the empiricist approach operates upon the assumption that instability (now a continuous rather than a dichotomous concept) varies in direct proportion to the frequency of occurrence of certain types of political event. For the empiricists, instability is defined in a much wider context than simply in terms of fluctuations between democratic and non-democratic systems of government. During any given time period, the more coups, the more government changes, the more demonstrations, riots, outbreaks of guerrilla warfare and deaths from political violence which a country experiences, the more unstable it is considered to be; stability consists in the non-occurrence of these various 'destabilizing' behaviours or 'events'.

Conventional political science, then, has defined instability primarily in terms of either (1) discontinuity of system, or (2) the frequency of 'unstable' events. A third and rather different approach is that of the political journalist. The 'journalistic' approach does not operate upon the basis of a formal definition of instability at all but it nonetheless incorporates two very useful notions which more rigorous political analyses would perhaps do well take into account. The first of these is an emphasis on relatively short term political situation. While the 'discontinuity' and 'frequency' schools examine lengthy time periods of up to several decades.

As we are talking about the relative stability or instability of political systems, here, of course, we can follow Easton, the father of systems analysis in political science, and define a system as a number of (non-monolithic) elements interacting with a defined boundary. Defining 'the political' as that which is concerned with 'the authoritative allocation of values', we could in turn define an unstable political situation as one in which the interactions between or within the elements of a political system are unpredictable or uncertain.

The simplest, but most effectively stated, thesis which links development directly to instability is offered by Huntington. Huntington's basic contention is that while a relatively high level of development tends to be associated with stability (economically, the resources are available to buy off dissent; politically, the high level of institutionalization channels dissent into non-disruptive areas), the process of development (both economic and political) tends to produce systemic strains and tensions which in turn lead to instability.

## 2.2 Theoretical Framework Linking Economic Growth and Political Stability/Instability

Various authors have provided various measures of political instability in order to link it with economic growth. Micael Castanheira and Hadi Salehi Esfahani, for example, in their “The Political Economy of Growth: Lessons Learned and Challenges Ahead,” focus on nature of decision making institutions. For example, it is argued that the higher the expected turnover rate of policy-makers in any given polity—on account of political instability-- the greater will be the policy bias towards the short run and away from long-run concerns, which means more rent extraction opportunities and thus slower growth. It is also argued that when there is a multiplicity of economic activities with different rent-extraction costs, an autocrat or a ruling coalition with narrow interests will have an incentive to invest public resources more in sectors where it is easier to extract rents and capture the returns at the expense of other sectors where rent extraction is more difficult. The authors also bring out the importance of the degree of corruption, the rule of law, political instability (revolutions, civil wars), and the perceived level of commitment of the state.(p.167).

Policy uncertainty is often considered as an indicator of political instability. A World Bank Economic Review article, titled “Credibility of Rules and Economic Growth: Evidence from a Worldwide Survey of the Private Sector” focuses on policy, and notes that policies may influence economic growth via two channels: efficiency and reliability. It is noted that the first branch of the existing literature on policies and growth focuses on the efficiency of policies: for instance, that differing monetary policy variables, trade policy variables, and fiscal policy variables are responsible for the variation in growth performance around the world. On the other hand, the second avenue by which economic growth is impacted is through the reliability of policy, namely, the stability or uncertainty surrounding the implementation of different policies. Needless to say, both efficiency and reliability of policy are directly related to the level of political stability of any given country, such that high political instability would erode these two characteristics of policy whereas a stable polity would promote/strengthen them.

At least in the case of the reliability of policy, there have been many studies that have used objective, quantifiable measures of political instability to proxy for uncertainties associated with policy reliability (Alesina et al 1996; Barro 1991; Londergan and Poole 1990; Cukierman, Edwards, and Tabellini 1992; Aizenman and Marion 1993; Easterly and Rebelo 1993; and Hausmann and Gavin 1996). However, as is very correctly pointed out in “Credibility of Rules and Economic Growth,” objective variables are incomplete proxies for the variety of institutional uncertainties that confront entrepreneurs in their daily business operations” (p.355). Moreover, proxies used in most studies pay scant attention to the micro dimensions that firms and potential investors consider absolutely crucial such as uncertainties or inconsistencies in tax legislation, various problems with labor regulations, uncertain and arbitrary decisions of courts, or length and cumbersome procedures in obtaining required licenses (p.355). The examples of Thailand and Peru are given in the study to illustrate the point that there are two major problems with all objective indicators of political instability a proxies for policy reliability: “First, they concentrate on events that the private sector may not perceive as important. Second, they fail to capture many uncertainties that the private sector may perceive as crucial” (p.355). In Thailand, indicators of political instability that emphasized the occurrence coups characterized the country as having a high level of political uncertainty, but the ground reality showed that entrepreneurs did not, as a result, fear wide-ranging policy swings or reversals. On the other hand, in Peru in the 1980s, in spite of what appeared to be a stable political system, “legislation through executive and emergency

decrees was so extensive that the private sector faced a much more uncertain environment than could be captured by the measures of the number of changes in government” (p.355).

Let us attempt a definition of political instability. Alesina et al see political instability as “the propensity of a change in the executive, either by “constitutional” or “unconstitutional” means” (p.3). The problem with this definition in general—which emphasizes change in the executive—and specifically as it relates to considering the nexus between political instability and economic growth in the context of developing country like Bangladesh is that while there has been instability associated with changes in executives in the 1970s and 1980s, there have been a considerable number of politically destabilizing events in the 1990s onwards that have originated not in change pre se in the executive. To ignore these would be to grossly underestimate the extent and nature of political instability in the country. Another problem with cross-country studies in general, as they pertain to the question of definitions of political instability, is that they tend to adopt definitions that are extremely generalized or ‘elitist’. In the process, highly relevant indicators of political instability for specific countries are typically ignored. By doing so, the measurement of political instability for a specific country may be underestimated in many instances, defeating the entire purpose of measuring its effect on economic performance.

The issue of achieving the proper definition of political instability is further illustrated by examining the work of Yi Feng who has differentiated between irregular and regular government change and the differential impacts these two have upon economic growth. He explains that regular government transfers take place within the framework of a nation’s constitution and that major regular government change implies that the ousted government’s economic performance was not satisfactory and that voters chose a new government because of its potential for improving the economy. In contrast to the uncertainty caused by regime interruption resulting from irregular government change, major regular government change offers policy adjustments without fundamental change in the political order. In the short run, major regular government change may create uncertainty in some economic areas, and its effect on growth may be ambiguous. In the long run, however, major regular government change reflects a pattern of system adjustability and government accountability in favour of economic performance, and is thus likely to produce higher growth.

There are further difficulties in accepting other aspects of Feng’s theoretical formulations, particularly when he suggests that “growth is likely to have a positive impact on the legitimacy of the government, and its effect on substantial government change should be negative” (Feng). The basis of this position is that rapid or high economic growth will increase the popularity of the incumbent government, diminishing the likelihood that the incumbent government is ousted from power. “The government party is either punished or rewarded according to its economic performance, and its probability of being reelected into office increases as the result of a good economic record” (Feng). But this may not always be the case that periods of quite high and quite low economic growth may not be followed by corresponding re-election or ousting, respectively, of incumbent governments. Despite what we see as tremendously problematic issues stemming from the classification of government change into major, minor or routine categories, Alesina et al have suggested precisely that extensions of their research seek to apply such discreet categorization.

Alesina et al suggest that it is important to distinguish cases of “major” government changes from minor or more “routine” turnovers of leadership that exert no significant level of change in terms of the ideological orientation of governments. They seem to suggest that the objective is to ascertain the possible affects on political unrest/instability stemming from

cabinet changes or reshufflings or major government changes. The Alesina et al paper, referring to Turkey in the late 1970's, posit that "frequent coalition reshufflings are indicators of an underlying political unrest" (Alesina et al.:24). The major thrust of their argument is that by disregarding such reshufflings, one risks underestimating the amount of political uncertainty in a country. However, there may be cases such as Italy in the post Second World War period where minor coalition reshufflings do not imply any significant amount of real political uncertainty and instability. There is higher possibility of arbitrariness cropping up in the estimation.

How does an active war or insurgency situation affects the economy? Nearer home, Nepal is one example. "The Costs of War in Nepal" goes on to stress that "impact of conflict on economy through destruction, disruption, diversion and dissaving, including portfolio shifting, is finally reflected at the macro-level in the loss of Gross Domestic Product. The study, however, could not produce any theoretically persuasive arguments as to how these effects - destruction, disruption, diversion, and dissaving - are caused.

### **3. Cross-country Experiences of Political Stability and Economic Development**

The present research was developed after an exhaustive study of the extant literature dealing with the relationship between political instability and economic growth. A rather systematic and extensive attempt has been made to present some of the important contributions to the literature exploring the nexus between political instability (or conflict) and economic growth, and to draw lessons and guidance from this body of literature as it bears on the current research as well as on studies that may be conducted in future..

#### **3.1 Cross-Country Assessments**

We first turn our attention to a seminal treatment of the general topic under consideration, a study conducted under the auspices of the American National Bureau of Economic Research titled "Political Instability and Economic Growth," by Alesina, Ozler, Roubini, and Swagel. The study investigates the relationship between political instability and per capita GDP growth in a sample of 113 countries over a thirty-two year period (1950-1982). The primary argument of the paper is that in countries and time periods with a high propensity of government collapses, growth is significantly lower than otherwise (p.1). In other words, they conclude that political instability has a severely negative impact on economic growth. Alesina et al define political instability as "the propensity of a change in the executive, either by "constitutional" or "unconstitutional" means. Their assessment of this question is thus centered on "whether a high propensity of an executive collapse leads to a reduction of growth" (p.3).

The authors of the paper emphasize that the theoretical argument underlying the relationship between political instability and growth is based on the effects of uncertainty vis-à-vis productive economic decisions, such as investment, production, or labor supply. The logic is quite straightforward: "A high propensity of a change of government is associated with uncertainty about the new policies of a potential new government; risk averse economic agents may hesitate to take economic initiatives or may "exit" the economy, by investing abroad. Conversely, foreign investors prefer a stable political environment, with less policy uncertainty and less uncertainty about property rights" (p. 4). The principal finding of the Alesina et al paper is that political instability reduces growth. The authors assert that the findings are robust since they have been "obtained in a model in which several other economic determinants and "regional" factors affecting growth and political stability are

accounted for” (p. 23). Although these “other” economic determinants and “regional” factors are not specified explicitly within the paper, their importance and significance is unequivocal, and we have sought to inculcate, in the case of research on Nepal, as many economic determinants of growth as possible within our econometric model.

“Democracy, Political Stability and Economic Growth,” by Yi Feng, is another important cross-country study which investigates the interaction, not only between PI and economic growth, but between democracy, political stability and economic growth. The study employs a simultaneous approach which combines the study of economic growth and political stability with that of economic growth and democracy. Secondly, and what is significant about this study is that a distinction is drawn in the study between types of political instability, because different types of government are alleged to have different effects on economic growth and democracy. Furthermore, the study uses three stage least square estimation, and utilizes aggregate data covering 96 countries from 1960 to 1980. The results of this paper indicate that democracy has a positive indirect effect upon growth through its impact on the probabilities of both regime change and constitutional government change from one ruling party to another. In other words, democracy is found to spawn higher levels of political stability compared to other government systems, which furthermore is found to translate into higher economic growth. The Feng analysis differentiates between three types of political instability: ‘irregular’ government change (regime level change); ‘major regular’ (within regime) government change; and ‘minor regular’ (within regime) government change.

Briefly, the assertion is made that regular and irregular government changes should have different impacts on economic growth. Specifically, irregular political changes such as coup d’etats are alleged to instill great amounts of uncertainty into the market-place, slowing down and even reversing economic growth. The logic is that as economic agents have to pay entry or exit costs when they invest, actual or anticipated fundamental changes in the government apparatus force them to decrease their investment in order to minimize these costs. Economic growth is consequently contracted because of the political uncertainty resulting from the potential of fundamental change in the political control of the nation.

### **3.2 Regional Assessment**

A review of regional experiences with regard to the nexus between political stability and economic development will be carried out in the context of the high growth region of East Asia and low growth region of Sub-Sahara.

Although Sen recognized considerable degree of economic development under political stability in East Asian authoritarian regime, he is rather unconvinced about the little general evidence that authoritarian governance and suppression of political and civil rights are really beneficial to encouraging economic development. He questions about the research methodology in such cases. As he opines that one cannot look at statistical connections but, furthermore, examine and scrutinize the causal processes that are involved in economic growth and development. Some helpful policies have contributed to this case. These policies include openness to competition, the use of international markets, a high level of literacy and school education, successful land reforms and public provision of incentives for investment, exporting and industrialization. There is nothing whatsoever to indicate that any of these policies is inconsistent with greater democracy and actually had to be sustained by the elements of authoritarianism that happened to be present in South Korea or Singapore or China. However, Sen underscores the instrumental importance of the political freedom. Under political freedom, the role of the opposition widens the scopes for improving government’s economic performance (Sen 1999). While Sen perceives political freedom as

political stability, TORII analyses policy stability as political stability in the context of Malaysia. The implementation of New Economic Policy (NEP) in order “to lift up the economic and social status of Malays” continued to influence the social and political stability in Malaysia. The United Malays National Organization (UMNO) played a crucial role in this regard. Despite opposition from inside and from the outside, the steadfastness of the UMNO leadership including Mahathir supported the policy to establish the parity in the society amongst the ethnic groups (TORII 1997). Policy implementation in the East Asian case has been a success as political opposition was curtailed. Taiwan is a case in point (Hashemi: 1998: 61). In the literature, it is also evident that a high level of economic development promotes political stability and democracy (Lipset 1994, 1963; Neubauer 1967). By contrast, Chan (1997) argued that democratic openings in two East Asian countries: Taiwan and South Korea have improved public spending on education and social security (Chan 1997: 243). According to Chan, thus, for this spending category at least, the results for Taiwan and South Korea may be due to some broader process unrelated to their respective democratization.

A recent example will be Thailand which went through political turmoils in the first quarter of 2006. A news headline said, “Thai growth predicted despite political crisis” (New Age, April 19, 2006). A Finance Ministry source said that in the first quarter of 2006 which coincided with political turmoils, the economy experienced surging growth. The only uncertainty that looms on the horizon is because of oil price rise. Sustained export earnings was the main predictor of the surging growth at 5.5%.(New Age, April 19, 2006)when there were almost every day some rallies. But the country had to postpone a mega infrastructure project worth \$44 bn including 329 km light rail lines for developing Bangkok city’s notorious traffic system. (New Age,19 April 2006:B2)

“Political Instability, Investment and Economic Growth in Sub-Saharan Africa,” by Gyimah-Brempong and Taylor, explores the relationship between political instability and economic growth in Sub-Saharan African nations. This study employs what is said to be a “comprehensive” measure of political instability within a simultaneous equations model. The findings of this study are as follows: “the statistically inverse relationship between political instability and economic growth identified by earlier studies is confirmed by the estimates presented here. [Moreover], in addition to the direct impact that political instability has upon growth, estimates confirm the hypothesis that political instability indirectly decreases economic growth by decreasing long-run capital accumulation”(p.1). What is perhaps most significant about this study is that principal components estimation is used to develop a measure of political instability that serves as an alternative to the arbitrary weighting scheme found in similar research. The traditional and most common approach with respect to measuring political instability is to create a political instability index by assigning arbitrary weights to all the politically unstable events that have been identified in any given study.

Gyimah-Brempong and Traynor define political instability “as situations, activities or patterns of political behavior that threaten to change or actually change the political system in a nonconstitutional way” (p.54). Politically unstable events are described by the authors as ushering in sudden radical changes in property rights laws and the rules governing business conduct. The key attribute of political instability, according to the definition presented, is that it generates substantial uncertainties about the stability of the incumbent political system and/or government, and this uncertainty negatively impacts the authority and effectiveness of the government (p.54). Moreover, within this framework, political instability need not involve a change in government or take a violent form. Acts of secession or prolonged anti-government demonstrations are cited as events that could result in political instability without causing the incumbent government to fall from power. Alternatively, the authors argue that

there could be changes in government (e.g., through the ballot) without political instability. Because of this, only non-constitutional changes in government are included in their measure of political instability.

### 3.3 Single Country Assessment

We now turn to single country evidence of the linkage between political stability and economic development. “Political Instability, Credible Commitments and Economic Growth: Evidence from Revolutionary Mexico,” by Haber, Razo and Maurer, is concerned with two interrelated questions: “First, what are the political foundations of economic growth? Second, what happens to economic growth when polities become unstable—when the political equilibrium that underlies economic activity is disrupted?” (p. 1). Their research is motivated by what they see as a puzzle in the economics and political science literatures: “the theoretical literature

written by political scientists predicts that political instability should have a strongly negative impact on growth, while the empirical literature written by economists has difficulty detecting the predicted causal relationship” (p.1).

The overarching conclusion reached by Haber et al is that based upon their research, political instability does not necessarily have a negative impact on economic performance. Their arguments are supported by an extensive descriptive analysis (with supportive regression computations) of what they see as a widely accepted premise regarding the political foundations for growth, namely that governments need to make credible commitments to the protection of private property rights. Negating the common postulation that political instability will erode and exacerbate credible commitments required to advance economic growth, the authors propose “an alternate theory of governance structures based on vertical political integration, which allows for the possibility of creating credible commitments even under political instability” (p.50). The gist of their argument is that the credible commitments required for economic growth need not be offered to all members of society; rather, to accelerate growth under conditions of an unstable polity, a governance structure that provides protection to elite economic groups is sufficient to sustain economic growth (p.51). This issue is flagged in order to emphasize that there are certain (special) ways in which economic growth can take place even in politically turbulent polities, and that future research in this area could move forward by taking this as a theoretical starting point. Moving on to another example of a country specific assessment of the relationship between political stability (conflict) and growth, “The Economic Cost of the War in Sri Lanka,” conducted by the Institute of Policy Studies of Colombo, offers a rather in-depth analysis of the civil war in that country, specifically by addressing the enormous and long lasting human, social and economic costs that were created in its aftermath. However, the authors are careful to point out that estimating the full costs of conflict is a very difficult, if not an impossible task. Specifically, “the human and social costs of death, disability, dispossession and the psychological trauma associated with violence and terror are not really quantifiable. On the other hand, at least in principle, the ‘purely economic costs’ are amenable to quantitative measurement” (p. ) In order to calculate the costs of war to an economy, the study makes reference to the work of Colletta (1996) who has suggested that one would ideally calculate the destruction of production factors to determine the country’s potential output without war and then compare this information with the actual output.

Empirical studies of even the purely economic costs of wars are, they point out, extremely speculative, because making the required computations is an extremely tenuous and time consuming exercise (ibid). The results of the Sri Lanka paper are broken down into several

discreet sections, namely, the direct and the indirect costs of the war, while the latter is subdivided into further subcomponents such as lost income due to forgone investment, lost income from reduced tourist arrivals, lost earnings due to forgone foreign investment, lost income due to lost human capital of dead or injured persons, and output forgone due to displacement of people. They estimate that, even while utilizing a conservative 5 per cent interest rate, the accumulated total cost of the war up to 1996 stands at least Rs. 1, 172 billion at 1996 prices, or 168.5 per cent of total 1996 GDP (p.27).

The methodology deployed by this study, as it relates to calculating the direct cost of the Sri Lanka conflict (which is taken to be the military costs incurred by the conflict and the cost of damage to physical and social infrastructure), is to take war-related military expenditures after commencement of the war and to determine the discrepancy against military expenditure incurred prior to the outbreak of the war. On the other hand, the direct cost to the Sri Lankan economy due to LTTE military expenditure is calculated to be the value of local funds spent on the war that could have instead been spent on consumption or investment. As far as actual costs of damages to physical and social infrastructure, the study suggests that the expenditures incurred by the Sri Lankan government in providing reconstruction and rehabilitation services to affected areas could be taken as a proxy for the costs of damages. Importantly, “in computing direct losses due to destruction or damage to ‘capital’ assets (including infrastructure, cultivable or otherwise productive land, and other durable assets), the cost of damage or destruction to capital should be treated, in principle, as the sum of the discounted net present value of the stream of capital services that would have been generated by them” (p.).

Kathmandu-based Institute of Integrated Development Studies (IIDS) conducted a study, possibly the first ever one in South Asia, titled, *The Relationship Between Political Instability and Economic Growth in Nepal (1975-2003)* under the aegis of the South Asian Network of Economic Institutions (SANEI), New Delhi in 2005. The basic intent of this research has been to examine the relationship between political instability and economic growth in Nepal. To capture the occurrence of political events within a signal panel, a composite index of political instability has been constructed by using the method of principal components, which is used to examine the effect of PIS on economic growth in Nepal. This study demonstrates that there exists a significant negative relationship between political instability (PIS) and economic growth in Nepal. The effect of PIS on the Nepalese economy is widespread. It is found in this study that growing political tension and unrest in the economy is (i) lowering the total factor productivity (ii) decreasing growth in investment (iii) producing disincentives for savings (iv) increasing unproductive government expenditures (v) decreasing development expenditure and so decelerating growth in infrastructure capital and (vi) widening the gap of the trade deficit – hence, adversely affecting the economic growth. In addition, PIS is adversely affecting almost all sectoral GDPs of Nepalese economy except a few exceptions such as agriculture. There are a numbers of other factors affecting economic growth in Nepal such as per-capita capital, per-capita human capital, growth in export, inflation, weather conditions, trade openness, government policy, etc. Among the others, to achieve a higher rate of growth, capital stock should grow at a higher rate than the labour force. Investment in human capital and achievement of political stability will definitively contribute to economic growth.

#### **4. Brief Political History of Bangladesh**

Bangladesh achieved independence in 1971 from the ‘internal colonial rule’ of the then West Pakistan, currently Pakistan. The nationalist leadership repeatedly blamed Pakistan rulers for

exploiting and appropriating Bangladesh's resources and promised people a very different kind of policy and politics once Pakistani colonial rule is overthrown. Implicit in the idea of independent Bangladesh was the vision of a society economically prosperous, free of exploitation, democratically governed, tolerant of pluralism and respectful of people's rights. This vision mobilized the nation behind the liberation war in 1971 and is still alive in the minds of average citizens as evidenced by people's movements for democracy and human rights and their initiatives for economic well being.

But the political and civil-military bureaucratic leadership that ruled Bangladesh in the last three decades has failed in large measure to demonstrate their commitment to this vision through their policies and performances. Undeniably there has been some progress in the last three decades. The rate of economic growth in the decades following independence is higher than that of pre-independence period. Poverty has been reduced. Infant mortality has been halved. Fertility has declined significantly. Literacy rate has nearly doubled. Rate of primary school enrollment has gone up. Gender gaps in human development, though still significant, have been narrowed.

But these achievements in economic and social development have to be viewed in the light of the country's potentials and the performance of other comparable states. For example, the rate of GDP growth in Bangladesh has been slower than the growth of other countries in South Asia. Similarly the improvements in human development have been faster in many Southeast Asian countries. Income disparities and access to opportunities and services between the rich and the poor have widened. Additionally, many of the economic and social changes e.g. growth of ready-made garment industries, expansion of micro-credit and international migration were brought about not so much by public policy initiatives but by individual economic and social entrepreneurs.

However, citizens' dissatisfaction with state performance is not simply due to slow pace of progress. People have started losing faith in leaders as successive regimes patronized corruption and abused public officers for personal gains. State power has been used by all regimes to intimidate or suppress political opposition, buy support of individuals and groups and make money for personal use and party building. The arbitrary use of state power has not only created an unjust system of rewards and punishment in the society, it has made even simple acts of governance increasingly difficult. The state's credibility in maintaining law and order has been eroded as it has failed to uphold the rule of law.

Democratic governance has proved to be a particularly difficult project for the leadership. Though after independence the Awami League regime started with a parliamentary democracy it could not nurture the political institutions and culture needed for democratic governance. It did not devote sufficient attention to developing rules, processes, procedures and mechanisms needed for democratic decision-making within key institutions, e.g. the party, cabinet, parliament and the local governments. Instead, the regime started relying on one person i.e. Bangabandhu, to make decisions. Thus began the trend towards personal rule in the country. The military dictatorships of Zia and Ershad exacerbated this trend. The return of democratically elected government since 1991 has not succeeded in arresting the dependence on personal rule. As Khaleda and Hasina's claim to leadership is predicated on their dynastic connections, they have been able to dominate their respective political parties and governments. There has been very little scope for democratic participation and dissent within the party organizations. Nor have the parties or the top leaders made any attempt to groom leaders for succession.

From the beginning parliament has not been able to function as the main forum for holding dialogue, debate and negotiations to resolve policy differences amongst political parties. Nor has it been able to function as the main public accountability institution. Between 1972-75, the parliament was overwhelmingly dominated by the ruling Awami League. Failing to find representation in parliament the political opposition to the regime resorted to the tactics of violence and agitational politics of the street. Instead of engaging the opposition in a debate and dialogue, the regime responded with growing intolerance. The representative character of the parliament was in doubt during the fifteen years of military rule when elections were state-managed by the government. The policies of the military regimes towards political opposition were even more repressive. For the greater part of the 1980s, the political opposition was engaged in agitational politics, shunning participation in sham elections and parliaments. But even after the return of democratic elections in 1991 which has ensured the representation of all the major political parties, the parliament has failed to emerge as the main institution for policy debates and public accountability. The intolerant attitude towards political opposition has also continued. After losing an election, instead of participating as a loyal opposition in the parliament, both the major parties have started boycotting the parliament thus making it ineffective and engaged in agitational street politics to topple the government.

There has also been no serious and consistent effort to institutionalize a system of effective local governments. Each regime has experimented with its model of local government driven by the motive of consolidating its rural support base. The domination of civil bureaucracy, dependence on central government for funds and uncertainties of tenure and functions have inhibited the growth of democratic local self-governments.

Despite rhetorical commitment and prolonged struggle to establish democracy, the political parties have failed to establish a consensus over the ground rules for democratic competition and dissent. They have relied heavily on money and mastans (muscle men) to mobilize support and capture votes. Though over the years, the policy difference between the two major parties, the Awami League and the BNP, have narrowed the only difference being the identity question and relations with India and the two parties have succeeded in taking turns to wield state power after winning free and fair elections, they have up to now failed to demonstrate their willingness to abide by the rules of democratic competition. Each party has tried to paint its political opposition as unpatriotic and thus by implication not a legitimate player in the game of democratic competitive politics.

Political competition has degenerated into a deadly confrontation because the stakes of winning or losing control of state power is too high for the personal and political fortunes of the competing leaders and their parties. As access to state power and its patronage system is key to nurturing powerful constituencies, no party is willing to risk losing such a political and economic resource even for one term.

As political parties and their leaders faltered in practicing democracy, a space has been created for other actors to play a leadership role in championing democratic norms and practices. Since the return of democratic elections in 1991, the print media has been relatively free and the press has sometimes been able to hold the government accountable. The Judiciary has occasionally exerted independence with rulings contrary to government decisions. The press and civil society organizations have become increasingly active in protesting and publicizing human rights violations. They have also consistently raised their voices against the confrontational politics and undemocratic practices of political parties.

The changes in attitude of external actors have also been a positive influence on the development of democratic norms and practices. The military take over in 1975 did not draw any sharp criticism from the West. Instead the volume of foreign aid from Western democracies increased during military rule, which facilitated the military rulers to hold on to power. Since the collapse of the Soviet Union and the end of the Cold War, international donor community has consciously put promotion of democratic governance on its agenda and this has inhibited further military interventions. While external donor support for the project of democracy-building can create problems as democratic practices can only be sustained when they have indigenous popular support and supporting institutions, the shift in the attitude of external actors from favoring “effective” and “efficient” military dictators to tolerating the slow and complex process of democratic decision-making has on the whole been a positive move.

In the last few decades, Bangladesh society has undergone significant changes. Production and gender relations have changed. The NGOs have mobilized millions of poor people especially women into group activities. Migration to urban areas and to international destinations is steadily on the rise. However, these changes are not necessarily creating a secular society. While the rapid socio-economic changes are creating new voices that are seeking participation in a democratic political system, the rise of religious extremism is posing a threat to this possibility. Despite considerable progress in the socio-economic arenas, Bangladesh remains far behind its expected targets for economic development due to the inability of the mainstream parties to maintain political stability. But confrontational politics between the two main parties have largely contributed to the political instability of the country. Some political actions such as opposition’s boycott of the parliament, Hartals and the ruling party’s alleged interference in the electoral process are demonstrating the visible manifestations of political instability in the country. Therefore, it is logical to probe the variations in the relationships between political stability and economic development with particular reference to Bangladesh.

#### **4.1 Future of Political Stability in Bangladesh**

A set of projections are presented here about the future of democracy, and for that matter, future of political stability in the country. Richard Boucher, Assistant Secretary of State expressed cautious optimism about the future of Bangladesh’s democracy. While he said that the caretaker system has been widely appreciated, “the most important thing to us is that we see that the parties cooperate, parties try to reach an agreement of fair sets of rules”, he said. He emphasized that the parties must participate in the process. (Ahmed, Anis, 2006) The BBC Television, on April 1, 2006 organized a debate on future of democracy with participation of a cabinet minister and members of the civil society. Against the backdrop of understandable concerns about confrontational politics deepening and destroying the democratic fabric of Bangladesh, the major concern was worrying about democracy’s future – whether democracy will continue in the backdrop of unceasing animosities on both sides of the political divides in Bangladesh. (Rasul, Enayet, 2006) Concerns were expressed because of the apparent failure of reaching minimum common grounds through dialogue on the modalities of the ensuing elections. Having said that, it may also be pointed out that the kind of confrontational postures we are observing is not unique. Such brinkmanship has been observed in the past but the two opponents have sobered and come to a minimum modicum of cooperation, at least on elections. (Rasul, 2006) The last sit in before the Secretariat or the PM office have not culminated into an all out programme by the opposition to topple the government.

The question is: what has gone wrong? People are losing faith in the leadership and political parties. Why? For one, state power has been used for private and party gains, on the one hand, and suppressing the opposition, on the other. Strategic survival level value has been imputed to elections, so much so that the institution of caretaker government stands discredited. Money and muscle powers are concomitant of elections. Another concomitant is massive corruption.

Failure of the parliament to emerge as the centre of national activities has been our second major failure. In the first phase, AL wanted to build parliamentary democracy on Indian model of single party dominance. Military rule followed that generated a habit of non-participation and non-cooperation, a reminder of the Pakistan-day politics. But when democratic phase started, old habits did not go away.

But not everybody is so optimistic about the future of democracy in Bangladesh. A deeper analysis of the future of parliamentary democracy in the country has been made by Umar (2006:4). Umar argues that all that the major establishment political parties are interested in is electoral politics, who gets majority in the parliament and forms the government. But to make the parliament the centre of national activities and to demonstrate certain amount of democratic attitude to each other in order to make the parliament functional is something that is miserably absent from the political agenda of the major political parties. So, once the election is over, the opposition is more in boycotting and walk outs while the treasury bench is interested more in using the parliament a rubber stamp for which opposition out of the house is more convenient than otherwise. There is, so to say, a negative consensus between them and this has been invariably found to be the case since 1991. This kind of vicious cycle of unproductive parliament is likely to continue for at least for another three-four rounds. And the related political instability impacting on the economy is likely to continue.

Our interest is on which type of stability we are talking about and how and where are they likely to impact on the economy.

Finally, by way of looking into political stability in the near future, the views expressed by development partners in very recent times may be summarized. The former American Ambassador in Bangladesh, Harry K. Thomas, made an open warning that because of intolerance and lack of cooperation between the two main political parties, third force may emerge. (Khan, S.: 2006) After that, US Under Secretary for South Asia, Christina Rocca, Commonwealth Secretary General Donal C. McCinnon, EU Troika Delegation, Head of EC Delegation in Dhaka, Dr. Stefan Frowing, Dutch Development Cooperation Minister, Agnes Von Ardeni, newly appointed US Ambassador, Patricia A Butenis, British High Commissioner in Dhaka, Anwar Chowdhury, outgoing Japanese Ambassador Matsuhiro Horiguchi and finally, Christina Rocca again just before leaving South Asia desk – all expressed concerns about continued confrontational politics, violence and need for free and fair upcoming elections. (Khan, S., 2006:4). Quite aggressive has been the views of the EC Delegation head who indicated an pre-election evaluation of Bangladesh on which would depend future Bangladesh-EU relations. Very pertinent is also the observations on governance and political stability, as contained in Question is : does this kind of close observations, or what we may call breathing on the neck ensures the continuity of democratic process or gives rise to what one call 'Oedepas effect' or self-fulfilling prophesy?

## **5. Major Macro-economic Trends of Bangladesh**

### **5.1 Major Economic Trends**

Over the last 15 years, the size of GDP has doubled while population has increased one-fourth. Per capita GDP has increased 1.5 times. Percentage of below poverty level population has decreased from 48% to 42%. Food production has increased 1.5 times, export earnings 5 times. Making a linear projection, GDP will be \$210 bn from current \$60 bn, per capita income to rise from current \$445 to \$860 in 2020. The economy is 40% connected with the world economy. But two disconcerting aspects of this projection is that there will be 5 crore more poor than it is today and the income distribution will be further skewed than it is today. (Bhattacharya, 2006)

US banking giant Citigroup Report, titled Economic and Market Analysis: Bangladesh, says, Bangladesh economy maintains momentum of growth despite vulnerability to natural disasters, phasing out of MFA, and a difficult political climate. (The Daily Star, 16 February 2006) The slow but steady growth is a result of prudent macro-economic management, liberalization of the investment regime, rising remittances and export oriented growth. However, terming the year 2006 very crucial, the report apprehended that 'hartals or strikes, could be a major issue constraining growth. (The Daily Star, 16 February 2006)

However, a slightly pessimistic picture was portrayed by a Bangladesh Bank source. The source said that the pace of industrialization may be slowed down, export earnings may decrease, economic management discipline is threatened, private loan flow has slowed because of government borrowing. Capital import has decreased. Higher lending rate is decreasing investment. The MCCI leaders told this to PM when they met her. There should be a limit on government borrowing to facilitate import of daily necessities. (Inquilab, 3 May 2006:12, 5)

## **5.2 Major Economic Challenges in the Coming Days**

Two major challenges before any government – current and forthcoming – are (a) chasm or disjuncture between the state and exercise of its authority, on the one hand, and bulk of the common people, on the other; and (b) loss of credibility of most of the political, economic and social institutions of the country because of lack of good governance and lack of accountability. The second in fact reinforces the first. (Rashid, 2006). It seems that state devotes only to the cause of a few rich and influential people at the cost of the vast majority. The third challenge is how to finance additional investment requirement of the country to sustain the growth process. Aid flow is shrinking and whatever is coming is employed in poverty reduction measures. Private FDI flow is lean because of poor governance, law and order and policy uncertainties. The domestic money market is under tremendous strains in order to finance major public expenditures. Unless the government draws a limit to its borrowing from commercial banks, the latter would face severe liquidity crisis affecting trading and industrial production. (The Daily Inquilab, 3 May 2006) The fourth challenge is management efficiency in both public and private sectors. One efficiency index in the public sector is utilization of ADP. Most of the time, development outlays remain unutilized because of lack of capacity and mismanagement.. Although, private sectors can claim relatively better capacity and efficiency, much remains to be desired in terms of good governance and accountability.

For economic mismanagement, industrialization is stagnating. Electricity and fuel crisis is being compounded by lack of financial discipline because of over-borrowing by the government. As a result, private investment flow is affected. Import of capital items has reduced drastically because of dollar crisis, higher interest rates, poor infrastructure and

mismanaged utilities. (The Daily Inquilab, 3 May 2006) As to high interest rate, the Parliamentary standing Committee on Finance considers 12.47% lending rate as one of the highest in South Asia.(New Age, April 19, 2006)

Next challenge will be subsidy for SOEs and other important sectors and sub-sectors. Subsidy does not reach the target group. This applies in the case of agriculture, energy(BPC), transport (Rail and Biman), food, even poverty reduction activities.(Rashid,2006) The justification of subsidizing many of the government agencies and activities need rethinking. On the other hand, infrastructure like electricity, telecommunication remains severely underdeveloped, agriculture is stagnating reducing its capacity to retain the growing labour force.

ADB Quarterly Report, January-March 2006: The ADB in its quarterly report expressed concerned about increased burden of subsidy because of international price rise which is likely to create pressure on macro-economic stability.(Prathom Alo, May 5, 2006) Another crisis is power shortage. The projected growth rate of GDP is 6.5% because of better performance of industry and service sectors and turn around of the agriculture sector. Export oriented industries recorded 13.2% during the seven months of the present FY compared to the past year. Service sector growth has been sustainable. Despite input shortages, Boro crops output is expected to be 14 m tons, Aman crop was 18 m tons. Output of non-foodgrain crops like jute, maize, potato, vegetables and sea food products, has been satisfactory. (Prathom Alo, 5 May 2006)

But long term growth would be contingent on the competitive performance of the export sector, which depends on (a) lack of good governance in economic management; (b) inadequate infrastructure; and (c) excessive costs of business transactions.

Fuel situation: BPC projection for 2005-06: Diesel – 23 lakh tonnes, kerosene – 5.2 lakh tonnes, jet fuel 2.6 lakh tonnes, gasoline –2.95 lakh tones.(The Daily Star, 16 February 2006:1)

## **6. Political instability and its Impact on the Economic Development of Bangladesh**

In this section, we are discussing three specific forms of political instability mentioned above and their impact on the economic development. Major source political instability in the country is confrontational politics between the ruling regime and opposition. It takes the forms of opposition's boycott from the parliament, oppositions street agitation and Hartals programme, and ruling party's intransigence, politicization of administration and alleged rigging of electoral process. (For details, see Table 1)

Thirty six eminent persons of the civil society expressed grave concerns at the 'instability' in the country emanating from 'failure' of the major political parties regarding reform talks on caretaker government and the Election Commission, rise of militancy, price hike of essential items and related issues. They observed that the opposition returned to the streets to realize their demands while the government continued its 'repressive' acts as efforts for reform talks came to a virtual halt. (The Daily Star, May3,2006). "If elections could not be held through making the required changes, the unstable situation in the country would continue", they observed.

## 6.1 Parliament Boycott

Opposition's boycott from the parliament has become an almost regular phenomenon over the last decade of Bangladesh's parliamentary politics. Bangladesh Awami League (AL) like its predecessor Bangladesh Nationalist Party (BNP) in the opposition bench between 1996 and 2001, stayed outside the House for the best part of the last two years on various pleas that essentially boils down to what it alleges in the Treasury Benche's undemocratic attitude towards the opposition. The AL entered the House eight months after the current parliament went its maiden session on October 28, 2001, and still is holding out on its boycott since the last budget session (Rahman/Sarker and Ullah 2004: 140).

Such boycott from the parliament resulted in the deficit of parliament's role as 'legislative oversight'<sup>1</sup>. As the opposition abstains from parliamentary sessions, they pursue a variety of street political tactics to challenge the ruling party. Hartal is the most popular means of street political tactics that the opposition in Bangladesh deploys against the abuse of power by the ruling party. Though a popular strategy, Hartal disrupts normal life and most importantly it has the menacing impact on the economy. At the heart of these causes of the decline of political stability is the presence of 'confrontational politics' between the two main parties. While 'confrontational politics' results in boycott of the parliament and Hartals, it hurts the economic growth and human development. In the absence of 'legislative oversight' the ruling party takes control of the allocation of resources resulting in corruption and rent seeking. Bangladesh saw corruption related financial losses equivalent to 4.7 % of its gross domestic product (GDP) in 2001. The total amount lost in corruption in 2001 alone was \$ 1,940.68 million (Rahman/Sarker and Ullah 2004: 50)

## 6.2 Hartals: Its impact on the economy

The purpose of the section, therefore, is not only to estimate the economic costs of Hartals, but to provide a qualitative analysis of their impact, focusing on a few key sectors, namely the export sector (particularly readymade garments), the transport, retail and small business sectors - and the public sector. Both formal and informal sectors of the economy are included in the study. The analysis also provides a comparison of the impact of Hartals on the rural and urban economy.

To generate an overview of how the economy is affected by Hartals, it is useful to have a look at the following overall trends of Hartals:

- Regional and local Hartals occur more frequently and last longer than nation-wide Hartals.
- Both major political parties-the Awami League (AL) and the Bangladesh Nationalist Party (BNP)-have been equally active in using hartals as a means of political protest. In the ten-year period from 1991- to 2000, 61 national Hartals were called by the BNP, while the Awami League called 67.
- Recently, there seems to be a trend towards more half-day Hartals.

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<sup>1</sup> Legislative oversight was defined "the obvious follow-on activity linked to law making. After participating in law making, the legislature's main role is to see whether laws are effectively implemented and whether, in fact, they address and correct the problems as intended by their drafters" (Source: National Democratic Institute, "Strengthening Legislative capacity in Legislative-Executive Relations", Legislative Research Series, Paper # 6, Washington, DC, 2000, p.19).

### 6.2.1 Economic Cost of Hartals

Rigorous systematic studies on the economic impact of Hartals are not generally available although some attempts have been made to calculate the costs. The World Bank (Periodic Economic Update April 2001:13), estimates that during the 1990s approximately five percent of Gross Domestic Product (GDP) was lost annually due to Hartals. The Bangladesh Garment Manufacturers and Exporters Association (BGMEA) estimated that it loses US\$18 million a day during hartals. These estimates may however be slightly exaggerated, given that various coping strategies are used to make up for losses.

**Table 2 Yearly Cost of Hartals, million Taka**

	<b>GDP<sup>1</sup></b>	<b>GDP/Day</b>	<b>Hartal Days<sup>2</sup></b>	<b>GDP loss of Hartals</b>	<b>GDP loss, %</b>
90/91	1,325,226	4,477	1	4,477	0.3
91/92	1,392,005	4,703	5	23,514	1.6
92/93	1,455,680	4,918	7	34,425	0.2
93/94	1,515,139	5,119	13	66,543	4.4
94/95	1,589,762	5,371	27	145,012	9.1
95/96	1,663,241	5,619	28	157,334	9.5
96/97	1,762,847	5,956	7	41,689	2.4
97/98	1,844,436	6,231	8	49,850	2.7
98/99	1,934,370	6,535	28	182,981	9.5
99/2000	1,934,291	6,535	15	98,022	5.1
Average	1,641,700	5,546	14	80,385	4.5

1. Constant market prices  
2. National  
Note: Half-day hartals are counted as full days  
Source: Own calculations based on BBS data (Statistical Yearbook 2000) and hartals statistics (Figure 1)

Using the method of multiplying number of hartal days by GDP gives a picture of the average yearly cost of hartals (See Table 6.1). Table 6.1 shows the GDP at constant market prices for the 1990s. After eliminating weekends and other official holidays, leaving 296 working days a year, the annual GDP is converted into daily GDP figures. This estimate, multiplied by the number of days affected by hartals in a specific year, allows one to calculate the GDP loss during the year in both absolute and percentage terms. Only nation-wide hartals were taken into consideration for this estimate.

Following this methodology, the average cost of hartals to the economy during the 1990s is found to be 4.5% of the GDP. It should be noted that the estimates in Table 6.1 do not take into account coping mechanisms employed or certain sectors (i.e. agriculture) that may be less affected and make up production losses during the year. It should also be noted that the GDP estimates correspond to a fiscal year, while the hartal statistics correspond to a calendar year. These figures, therefore, are only rough indicators; nevertheless, they do provide an idea of the economic cost of hartals. Given the explanations above, we estimate that the average cost of hartals to the economy is somewhat less than the 4.5% estimate, and perhaps realistically falls somewhere between 3 and 4%.

Although, as demonstrated above it may be difficult to provide exact figures in relation to GDP losses, it cannot be denied that hartals have long-term impacts on levels of foreign direct investment. There are also other, longer-term impacts on the economy in terms of reduced savings, indebtedness, and psychological and other non-economic costs that should be taken into account in assessing the overall impact of hartals.

## 6.2.2 Impact of Hartals on Different Sectors

The relative contribution of different sectors to the GDP indicates how hartals impact on different sectors. The discussion below gives a more detailed analysis of the impact of hartals on selected sectors of the economy.

### (i) Impact on the Transport Sector

The discussion includes formal and informal transport operators in Dhaka. The formal transport sector also included the public sector operators of the Bangladesh Road Transport Corporation (BRTC).

#### **Box1 : Impact on Formal Transport Sector**

- Earnings for drivers, helpers and owners of leased BRTC buses are 50 to 60% less than normal on hartal days, because the number of buses operating is much fewer than normal. For buses directly operated by BRTC, normal salaries are paid on hartal days; thus the government bears the cost.
- Premium (air-conditioned) bus services are shut down on hartal days, to avoid the risk of damage to the vehicles, and the earnings of workers and owners are completely foregone. Services in other towns operate sporadically, and the earnings of owners and employees are approximately one-third of normal on hartal days.
- Office workers of these bus companies are paid their regular salaries during hartals, but during prolonged hartals they do not get their salaries on time.
- Bus drivers and helpers face considerable risk of physical assault, bomb explosions and fires. The office staff faces similar difficulties, both getting to and from work. Owners bear the cost of damage to vehicles.
- The scope for alternative earnings for these workers is small or non-existent, although some helpers may work as day labourers.
- Most employees have to borrow money from friends and relatives or draw upon their savings to meet their daily consumption needs, especially during prolonged hartals.
- Owners of premium buses also have to borrow to pay installment on their bank loans, especially during prolonged or consecutive hartals.

#### **Box 2: Impact on Autorickshaws and Tempo Operators**

- Because most auto rickshaws and tempos do not operate on hartal days, almost all earnings for drivers, owners and helpers are foregone. Some vehicles do operate at same personal risk to drivers and helpers but earnings are considerably lower than normal.
- Most participants do not have any alternative source of income on hartal days.
- Operators face considerable risk of assault, bombs, damage to and burning of vehicles and money snatching.
- Borrowing is common to tide over hartals. During continuous hartals, loans are taken from the association and interest is paid on these loans.
- During consecutive or prolonged hartals, some drivers and helpers work as day labourers or rickshaw pullers, with lower earnings.

- Auto rickshaw and tempo operators thought that compensation should be paid to them for hartals by the government.

**Box 3 : Impact on Rickshaws and Cycle -can Drivers**

- Rickshaws operate during hartals. In recent years, rickshaws have been kept outside the jurisdiction of most hartals, either officially or unofficially. Rickshaw reported a 25 to 50% increase in earnings on hartal days, when modes of transport are restricted. Despite this, they were not in favour of hartals, because the price of daily essentials also rises.
- Hartals are particularly damaging for cycle van drivers, because the vans are primarily used to transport cargo. With shops and markets closed, the demand for transporting cargo is also low. Cycle van drivers reported a 40% reduction in earnings on hartal days.
- Both categories of operators said they faced considerable risk in plying their trade during hartals, because sometimes their vehicles are burnt or fires are punctured.
- During continuous hartals many operators, particularly cycle van drivers, take on alternative employment, such as working as day labourers or as helpers on construction sites. Their earnings for such work, however, are almost 50% less than normal.
- Other coping strategies included taking out loans, usually from their respective associations.

(ii) Impact on the Export Sector

This section discusses the impact of hartals on Bangladesh's export sector, in particular on the readymade garments industry, which accounts for 76% of the country's foreign exchange earnings. Data from BGMEA on the year value of woven and knitwear garment exports allows us to calculate the daily value of exports, which multiplied by the number of full and half-day nation-wide hartals held each year, provides an estimate of the annual loss of export earnings due to hartals. This data for the period 1991-2000 is presented in Figure 4.4.

The data indicate that periodically hartals inflict massive losses to Bangladesh' exports, peaked in 1999 with an estimated loss of almost 334 million US\$ in export value. The factories have different coping strategies and are therefore able to make up for some of the loss, which therefore potentially limits the real loss. However, what the industry cannot make up for is the clear signal of an unreliable market and political instability- two factors that always act as deterrents for investments and export. The long-term cost of periodic hartals can therefore be assumed to be even greater.

(iii) Garments Sector

**Box 4 : Impact on Garment Factories**

- Not all of the factories were closed on hartal days. Some remained open, depending on the assessment of the risk involved. Smaller factories located in residential areas usually remain open during hartal days.
- Workers' wages were generally not cut on hartal days, even if the factories were closed. However, during prolonged or continuous hartals, the factories were more likely to close down, in which case, workers were retrenched and not paid. Even when the factories stayed open, payments to workers were sometimes delayed.
- Production managers in all the factories reported that production losses due to hartals were partly made up by overtime and extra work on other days, including holidays, for which no additional payment was made.
- Major losses to this sector resulted from missed shipments and orders cancelled by discouraged buyers.

- Other major difficulties caused by hartals were the disruption in banking services and the inability to procure raw materials, which are mostly imported.
- Workers were afraid of losing their jobs during continuous hartals. They also reported reduced earnings, and were unable to meet daily consumption needs because of price hikes for essentials.
- Some production managers suggested taken ‘mini’ strikes of only a few hours duration as a means of political protest, in lieu of longer, more disruptive hartals.

(iv) Impact of Hartals on the Retail Sector

The retail sector includes informal outlets such as hawkers, vendors, small shops and corner grocery stores, as well as larger, formal establishments and organized markets.

**Box 5: Impact on Hawkers & Vendors**

- Business on hartals days is 50 to 60% less than on normal days for these small entrepreneurs. Individual offering shoe polishing and repair services reported the poorest sales.
- Doing business on sidewalks and street corners during hartals poses considerable risk of physical assault, fire, bombs and tear gas.
- The demand for products and services sold by hawkers and vendors-clothing, fruit, betel leaf, cigarettes, shoe repair and polishing, watch sales and repair - relies on customers passing through the area on the way to somewhere else. Demand is therefore linked to other activities that are themselves disrupted by hartals.
- Because vendors and hawkers finance the purchase of their stocks from their daily income, their businesses also suffer on subsequent days after a hartal, because their working capital needs have been met.
- The hawkers and vendors tried to recoup their earnings by working longer and harder on other days, but are able to make up only 50% of their losses with increased psychological stress as a result.
- Continuous hartals are particularly damaging to this group, with greatly reduced earnings and consumption and limited sources of alternative employment.
- Hawkers mentioned that women feel more insecure during hartals and leave the home less often affecting the sales of clothing items in particular. Similar losses were blamed on the closure of educational institutions.

In Mohammadpur, a low-to-middle income area with a strong sense of community, small retail stores remained open during hartals. Sales were lower than usual, by varying amounts depending on the type of store. Small grocery and variety stores reported a reduction in sales of about 25% drug stores about 15%, tailoring shops 30%, hardware stores 50%, and bookstores 60%. Coping strategies, such as keeping shops open after hartals hours, and for longer hours on other days and holidays, allowed the stores to make up some of the losses. Tailors used the slack time to work on old orders, as did furniture shops and other small manufacturing establishments. Machinists, for instance, used the slack time to manufacturing machines for their own use, thus building up their stock of capital goods.

Most shops also mentioned problems transporting their goods and complained of higher transport costs due to hartals. Obviously, the impact was greater during continuous hartals, when in addition to a reduction in sales, shopkeepers faced higher purchase prices for their stock, with resulting crises in terms of available working capital and defaults on payments to

creditors and suppliers. All this affected the profitability of businesses, while workers often faced delays in payments of wages and salaries and losses in bonus payment.

In Banani, a well-to-do residential area, a slightly different picture emerged. Shops in the government market faced a 60 to 70% reduction in sales, since the market officially closed. Other shops mentioned that, because they are located in a richer area, most of their customers normally travel by car and are therefore do not shop during hartal hours. Women are also less willing to shop during hartals, accounting for a further reduction in sales. Cement and hardware stores, which were more dependent on transport, were affected to an even greater extent. Small grocery stores, however, were more or less insulated from the effects of hartals. Coping strategies-keeping shops open for longer hours or on holidays, spending slack time collecting orders and finishing other work- were similar to the Mohammadpur area, as were the exaggerated effects of continuous hartals- defaulting on loan payments or workers' salaries, crises in working capital, and capital loss.

In New Market, Stadium and Farmgate , shops were generally closed during hartals. Farmgate remains closed because it is a busy commercial area which faces greater risks of damage from hartal enforcers. New Market and Stadium are government owned markets, kept shut by the decision of market committees. Shops in these areas not only face drastic reduction in sales, but are unable to recoup most of their losses.

### 6.2.3 Impact of Hartals on the Private and Public Sector: A Comparison

Another intention of this chapter was to clarify the differing impacts of hartals on the public and private sectors. .

#### **Box 6: Comparing impact on the Public and Private Sectors**

- Production losses from public sector industries were generally lower than private sector losses, especially in the last few years. These industries were mostly kept open, because they had better security measures and in many cases, provided housing for workers and officers on the factory premises. As a result, production losses were in the range of 10 to 15% mainly due to worker absenteeism and disruptions in the power supply. Factory closures of a few days were more common during prolonged hartals, such as those held to prompt the end of the Ershad regime.
- Sales in public sector industries affected by hartals, because show rooms were closed and buyers could not come to the factory premises. As a result, inventories piled up and there were storage problems.
- Both public and private sector industries complained of delays in repairs when machines broke down, and problem with supplies of raw materials and electricity. Private sector stakeholders also mentioned disruptions caused by the inability to conduct banking transactions.
- Workers in both sectors mentioned income losses and having to pay higher prices for transport and essential commodities. Workers in the public sector who normally resided elsewhere mentioned the added expense of staying on the factory premises during prolonged hartals.
- Various strategies to recoup production and sales losses due to hartals were mentioned, especially in the public sector in order to meet production and sales targets. There included voluntary services, working overtime without pay and working during holidays.
- Officials and workers in both public and private industries were against hartals,

especially those called to promote the interests of a particular individual or party rather than in the national interest. They suggested that political parties cooperate to find alternative to hartals.

### 6.3. Impact of Hartals on the Rural Economy

To understand the differences in the impact of hartals on urban and rural areas, additional fieldwork was undertaken in a rural community. The purpose was to interview a cross-section of people from different occupations such as farmers, fishermen, local traders and transport workers. The area chosen was Shibaloy thana in Manikganj district. A Participatory Rural Appraisal (PRA) exercise and several focus group discussions were conducted (see Appendix 9).

The most important finding from this exercise was the differentiated impact of hartals on rich and poor farmers and fishermen. Wealthy farmers are less affected since they can postpone the harvesting of crops or catch of fish for a day or two, as they are not dependent on daily sales for their livelihood. The shops in the local 'haats' and bazaars however remained open during hartals, even though sales were depressed. There were no picketing by activists of the political parties.

Continuous hartals though, are disruptive to rich and poor farmers alike. However the poorer section of the rural community has to resort to borrowing to sustain their livelihoods and disruptions such as hartals can lead to greater indebtedness. Other problems were disruptions related to health crises, as patients- particularly serious patients- had to be taken to Manikganj town or Dhaka for treatment.

The findings thus suggest that rural communities are not insulated from the economic impact of hartals. This is particularly so, as rural areas become increasingly commercialized and integrated and are dependent on supply of inputs and other commodities from other parts of the country. There are also similarities in terms of the impact and coping strategies used between rural and urban areas.

An important difference between rural and urban areas, however, was in terms of the rule of information in helping to cope with hartals. People generally get information on hartals through radio, sometimes TV, or by word of mouth. Information on the other hand travels slowly in rural areas. People who get prior information on hartals are better able to cope through postponing harvesting or catching fish.

#### **Box 7 : Impact on Farmers**

- Farmers harvest their crops daily and take them to the local markets, especially bigger ones such as Rupsha bazaar, or the ones in Jitka and Ghior, to sell to middlemen traders who transport them to the big kitchen markets in Dhaka, Tangail and other parts of the country.
- During hartals, the middlemen traders are unable to transport their goods to different parts and other traders are unable to come to buy at the local markets. As a result, farmers cannot sell their crops or are forced to sell them at a discounted price. The sale of other necessities and a variety of goods also fall, because of the reduced earnings of farmers.
- The productivity of the vegetable crops are however affected if they are not harvested daily, as it prevents further flowering. Other difficulties arise if the stock of diesel at the local depots is not sufficient, as farmers cannot irrigate their crops.

**Box 8 : Impact on Fishermen**

- Fish is a highly perishable commodity. Again, poorer fishermen are affected to a much greater extent since their livelihood depends on daily sales of the catch.
- During hartals, they are forced to sell only to local consumers, at much reduced prices.
- Wealthier fishermen are able to postpone the catch.

The findings of this chapter suggest that hartals impose considerable costs on the economy of Bangladesh, especially during periods of prolonged hartals associated with regime changes. The average cost of hartals to the economy during the period 1990-2000 was estimated at between 3 to 4% of GDP. These costs include foregone earnings and lost employment and output, as well as long-term impacts due to reduced savings, indebtedness, capital losses and reduced profitability for businesses. Hartals also impose non-economic costs on people, including considerable psychological stress and personal insecurity.

A focus-group discussion with members of the business community in October 2003 stressed that the negative 'image' costs of hartals in deterring foreign investors is perhaps one of the most serious costs, making Bangladesh less and less able to compete with regional competitors. The impending end of the Multi-Fibre Trade Agreement in 2004 is likely to harm the export market further. As one businessman commented "Hartals are a luxury we can no longer afford".

The MCCI in its quarterly report January-March 2006 provided the viewpoints of the industrialists and businessmen of the country. Three-fourths of the respondents opined that the economy is going to suffer because of the existing political conditions, especially the confrontational politics. (Prathom Alo, 04 May 2006).

Quarterly Report of MCCI, January-March 2006: "Power crisis hits industry, service and irrigation sectors". Among the major threats to economy, 9 out of 12 leading industrialists of the country mentioned confrontational politics, extra-ordinary power crisis, load shedding, high interest rates and tight monetary policy of the central bank. Commerce and industrial activities in the country may be hit hard in the near future, the Report mentioned. (Prathom Alo, 4 May 2006)

About economic trend, however, the MCCI report, mentioned about positive economic upturn despite political hostilities and tight monetary policies, power crisis in the third quarter of 2005-06 FY. Despite power crisis, industrial productions registered higher production compared to the preceding quarters resulting in employment of 17000 people. Export earnings and remittances also registered higher growth. Having said that, the Report talks about the impact of power crisis on RMG sector resulting in a 30% reduction of production, computer sector registering 20% production loss, engineering sub-sector 10% and electronics 20%.

In terms of challenges, GoB borrowing from commercial banks reducing private sector financing, was considered as a major problem.

Fuel and Energy Crisis: The country has been going through an extra-ordinary energy and power crisis, which is basically the outcome of policy distortions. First casualty has been agricultural sector. Second casualty appears to be export-oriented garment sector which is facing the prospect of collapse. Power crisis affects production for at least five out of ten hours daily. The garment manufacturers reported that already there has been 30% reduction in production. The factory owners tried to cope up with diesel based generators, although this

causes delay in production and they have to incur huge extra-cost for this. (Daily Inquilab, 3 May 2006). But with diesel shortage, production will be further affected. Another major bottleneck being created by diesel shortage is transportation of inputs, accessories and finished products. Shipments are being made by air raising the costs of exports to astronomical heights.<sup>2</sup> There are reports of closure of garment factory.<sup>3</sup> Although the government is saying there is satisfactory stock of fuel, stories of rampant about government rationing, on the one hand, and hoarding by dealers, on the other. (The Daily Inquilab, 03 May 2006) It is reported that ministers and MPs are associated with hoarding while government functionaries are involved in smuggling out of diesel from the country.

One policy problem that created crisis in north Bengal, in particular, is the policy announcement on fuel price increase. At times, contradictory policy announcements create confusions encouraging hoarding. (Prathom Alo, May 5, 2006). Even non-transparent position on fuel stock in the country create problems.

Prof. Ataur Rahman of Political Science Department, Dhaka University, said the government is either unable or not willing to deal with the pervasive power shortage, shortage of gas, fuel and fertilizer. While he insisted that the primary responsibility of the crisis lies with the government, he argued, "None of the parties want the problems to go away". (New Age, 16 February 2006).

While meeting the State Minister for Power, Iqbal Hasan Mahmud, the business leader vented their outrage about the impact of power shortage which forced the small and medium enterprises to use their captive power forcing up cost of production. Power shortage has resulted in a loss of 1.72% of GDP. Dollar exchange rate hike also has raised the cost of production and living cost of the ordinary people. Because of fertilizer crisis and irrigation shortage, boro crop may fall short of 15.3m tones target. (New Age, 16 February 2006)

## **7. How to Ensure Political Stability in Bangladesh**

How to ensure political stability is a million dollar question for two reasons. First, the East Asian high growth model in which growth is prioritized even on pains of some amount of illiberal political regimes and coercion so that the benefits of growth pacifies the populace is not perhaps applicable in the context of rather politically mobilized populace of the country. Secondly, the confrontational political culture in the country has got entrenched in the country and may continue for quite some time. So certain amount of instability at times reaching crisis proportions will continue. But what is of utmost important and there is thankfully reassurance about that is the continuity of the democratic process, however limping that may be. Given that assurance, application of dialogic and mediatory crisis management techniques by the civil society, international community and the business community is the feasible set of options available to Bangladesh.

## **8. Role of Private Sector and Business Community in Political Stability**

Business community is powerful pressure group and a major stakeholder in political stability of the country. Business people are also citizens of the country and they will have naturally political dispositions. However, they can render a major service to the economy if they stick to the motto, 'business first, politics later'. Not only that business and production activities

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<sup>2</sup> One factory had to incur air freight cost of Tk 4.30 crores last month. See, *The Daily Inquilab*, May3, 2006.

<sup>3</sup> *Ibid*

will be less affected by political vicissitudes, if the motto is followed, the impact of the business sector as a pressure and advocacy group will be tangibly felt and they can speak from a high moral ground, if they maintain non-political solidarity. Business may be able to persuade the contending politicians to stand on a common ground of economic interests of the nation. So their advocacy is expected to be much more effective than any other pressure group. It will be a major service to the nation if the business community could get political parties committed not to resort to hartals and not to destroy public or private property by way of political agitation.

Second role of the business sector is to raise stake of the international community in the political stability of the country through better performance. It is the private sector which is the magnet of attracting FDI. If the economy performs better, the stakes of business and development partners will be raised and they, in turn, would be motivated to put pressure on the political elite of the country for political stability.

### **9. Role of Major Political Parties in Political Stability**

Political parties are the direct actors and stakeholders in the political stability of the country. Both the ruling regime and the opposition has role to play in maintaining stability. There is no doubt that the political parties are hostages of history and political stands they have taken. It would be difficult for them to come out of those stands.

Some other modalities may also be suggested. Thirty six eminent persons, while expressing concerns about the prevailing political conditions, said, “it is a present day imperative that political parties are reformed through mandatory registration. The conditions for registration should include democratic practices within parties, making all sorts of monetary transactions through banks, publication of audited reports on incomes and expenditures of parties, and nomination of persons active in a party for at least three years.” (The Daily Star, 3 May 2006) referring to the current deadlock on reform talks, they suggested that each side should propose their respective proposal in the form of bill and if necessary the Parliamentary Committee should arrange public hearing where the civil society people could make their own arguments. (Jugantar, May 3, 2006)

### **10. Conclusions**

As also evident from cross-country experiences, political instability in Bangladesh has had its toll on growth and development. GDP growth would have been higher than what would have been. More significantly, the GDP growth, sectoral development as well as social development would not taken place, or GDP growth would have been lower.

Violent changes of government and violent challenges to government have certainly affected growth and industrialization. Both domestic investment and FDI flow have been affected. Many FDI commitments have not come through while some limited amount of withdrawals have also taken place. Service sector – transport and communication, banking, construction activities, hotel and tourism sectors have been affected. Thus overall GDP growth have been affected.

A long term casualty has been education sector - directly and indirectly. In fact, turbulent campus politics itself has been a source of instability in the country. More importantly, national politics has mirror imaged in campus politics. Quality of higher education has suffered so much that the nation will feel the adverse consequences for a long time to come.

A second area of human development badly affected by the political turbulence is the workers and employees of public sectors – industrial enterprises, banks and financial institutions, power sector, telephone, gas, water, etc. Politicization of workers and employees. Productivity fell.

A third vital area has been corruption. That corruption has eaten up sizable portion of the GDP is beyond question. Question is whether corruption caused political instability or corruption has been the outcome of political instability.

Having said this, it should be pointed out that the condition of the economy would have been much worse but for the work of a set of autonomous factors worked. We would say, those factors worked inspite of political instability.

- Agricultural growth has been entirely private farmers led development despite several adverse policy changes. Changes in cropping pattern and limited private investment in agriculture enabled the country to tide over the adverse impact of natural elements so that crop failures as were endemic in the 1970s became a thing of the past;
- RMG sectors – there has been a clear and successful attempt getting over the adverse impact political instability like hartals through adjusting working hours and working days, again a private sector led endeavour;
- Labour migration activities were not affected by political instability;
- While flow of FDI has been affected, in the decades of 1970s and 1980s, the flow of foreign aid was not affected. For example, after the changeover of August 1975, flow of aid increased and it continued through the 1980s despite continuation of military and authoritarian regime. Aid shrinkage started only with a global shrinkage as part of the policy of the donors since late 1980s. Of course, presently, aid conditionalities have become stringent and contingent on policy reforms and good governance. But aid flow has been observed to be contingent on political stability or functioning of the parliament.
- Social development sector was not affected.. The NGO sector activities remained largely unaffected.

**Table 1 : Chronology of Major Political Instability Events**

<b>Year</b>	<b>Major Political Developments &amp; Instability Events</b>	<b>Other Political Developments</b>	<b>Economic Situation/Major Policy Initiative/ Change</b>	<b>Major Economic Indicators (Annual %): GDP Growth Rate, Savings, Investment</b>
1	2	3	4	5
1971-72	Switch-over from Presidential to Parliamentary system, constitution framing	Failure to disarm faction-ridden freedom fighters and left guerrillas	War ravaged economy, Nationalization under socialist policy, drought led to food	-

			shortage	
1972-73	Building new political structure: Constitution framed, fresh elections with AL brute majority	Student League split – Mujib-bad vs scientific socialism, formal opposition, JSD emerged	-Economic recovery set-back by rising cost of living and rent-seeking activities in license-permit systems, smuggling - Cost of living 200 with 1969=100, large scale famine averted by international aid	-13.9
1973-74	Fissure in armed forces – repatriated vs freedom fighters, formation of para-militia, Rakshi bahini further demoralized the armed forces, major crackdown on JSD and underground ultra-left -Factionalism rampant in all political parties	Threats and counter-threats of civil wars & class struggle, armed attack on 52 police stations, Constitution amended to include emergency provision, press freedom curbed	-Economic hardship, crop failure, smuggling, corruption by party activists, inefficient management in the nationalized sector - Inflationary trend, middle class as well as bottom 30% hard hit	.3.3
1974-75	Underground threat to the regime and pressure of young Turks in the party against parliamentary system led to 4 <sup>th</sup> Amendment of the Constitution – single party system, presidential system, controlled civil liberties	-Dec 28 – emergency declared; -Under 4 <sup>th</sup> amendment, civil servants/military allowed to join politics, 60 newly created districts to be governed by selected political cadres	Mujib’s second revolution : to weed out corruption, increase production, control population growth and forge national unity	2%
1975-76	August 15, 1975 coup end of AL-led regime, Kh Mustaque led government -3 November – counter-coup by Brig Khaled Musharraf, jail killing of	Pro-Islamic tilt in domestic and foreign policy, anti-AL, Islamic and pro-China elements favoured, -	Private sector and FDI encouraged	-4.1

	<p>four AL leaders  -7 November – sepoy mutiny under the leadership of left-oriented Col Taher brought Gen Zia to power  -15 Nov – promulgation of martial law rules on death sentence for future mutineers</p>	Nationality question, role of religion reopened issues		
1976-77	<p>-Secularism and socialism dropped from the Constitution by Presidential Proclamation  -Clear tilt toward Islam and Islamic world  -Bangladeshi in place of Bengalee nationality  -Justice Sayem eased out and Zia becomes President</p>	<p>-Banned political activities slowly opens, pledge of restoration of democracy  -Referendum on 19-point programme of self-reliant economy of the regime</p>	<p>-Privatization and compensation of nationalized enterprises plan</p>	5.66
1977-78	<p>-Civilianization of military regime through JAGODAL  -Presidential Elections in June 1978, Zia wins against Osmany of GOJ including AL</p>	<p>-Ban on religion-based politics withdrawn, modified 1972 collaborator's Act, rehabilitating Jamat leader Golam Azam</p>		7.7
1978-79	<p>-BNP launched in September 78  -Parliamentary elections in Feb 79 as prelude to withdrawal of military rule- 31 parties contested, major ones – BNP, 2 ALs, ML, JSD,IDL,  -Martial Law lifted after four years, constitutional amendment validating martial law proclamations and activities</p>	<p>-Factionalism in AL, one faction retains BAKSAL but majority in old AL split between Mizan and Malek</p>	<p>-Withdrawal of subsidy on agricultural inputs – fertilizer, irrigation, pesticides  -Pro-urban middle class policy</p>	7.1
1979-80	<p>Zia launches populist and participatory development programmes including canal digging</p>		<p>-Actively pursued foreign aid  -Policy of disinvestment continued</p>	4.8
1980-81	<p>-Semblance of political</p>	<p>-Chief of Army</p>		0.8

	<p>stability</p> <p>-But Zia killed in a military coup</p> <p>-BNP regime continues, President Sattar wins fresh elections</p>	<p>Staff , Gen Ershad demands army's institutional role in politics</p> <p>-Corruption change against BNP regime</p>		
1981-82	<p>-Gen Ershad occupies power dismissing BNP Govt, ML declared</p>	<p>-Politics and Policies of Zia continues</p>	<p>-Liberalization and several sectors opened to private investment, SOEs sold out to private enterprises</p> <p>-Donor prescribed SAP implemented, enlarged foreign aid inflow</p>	3.8
1982-83	<p>-Zia's policy of civilianization followed amidst legitimacy crisis</p>			2.3
1983-84	<p>-Party building efforts with state patronage, Janadal</p>	<p>-Upazila elections held</p>		4.0
1984-85	<p>-Like Zia, referendum held to legitimize military government activities</p>			5.1
1985-86	<p>-Full-fledged party, Jatiya Party launched</p>	<p>-AL and BNP mounted joint movement against Ershad regime for restoration of democracy</p> <p>-Nation witnesses serial hartals</p>	<p>-Mass privatization antagonized employees and workers in public sectors and joined hands with democracy restoration movement</p>	3.2
1986-87	<p>-Presidential and Parliamentary elections held in 1986 to civilianize ML regime, AL participated, Ershad's party swept</p> <p>-7<sup>th</sup> amendment to the Constitution</p>	<p>Major corruption allegations against military regimes including business deals and contracts favouring military officials</p>		4.2

	indemnifying the proclamations and activities of the martial law government	-Lateral entry of retired military officials in civil service resented		
1987-88	-Parliament dissolved late 1987, fresh elections held early 1988, both AL and BNP boycotted the elections, JP swept -NGOs and civil society bodies joined pro-democracy movement	-8 <sup>th</sup> amendment of the constitution declaring Islam as state religion in May		3.7
1988-89 60 hartals despite the fact that it was relatively calm	-Opposition demand for dissolution of the parliament, fresh elections by neutral authority -US House Committee on Asia and Pacific passed a resolution asking the President to pursue electoral reforms in Bangladesh	-Both BNP and AL face severe factionalism, BNP splits, Dr. Kamal Hossain critical of lack of democracy in AL		2.1
1989-90	Decentralization of High Court Division to Divisional HQs declared illegal by Supreme Court			2.6
1990-91	-Student fronts of the two major parties built pressure on respective parties to cooperate in pro-democracy movement -Ershad's bid to declare emergency but senior military leaders withdrew support -Ershad resigns and hands over power to Acting President Justice Shahabuddin Ahmed	-The Interim Government holds elections, BNP wins 140 seats, AL 88; BNP forms government with support of Jamaat's 18 seats		5.9
1991-92	-Parliamentary system of government restored by 12 <sup>th</sup> amendment			3.3
1992-93	-Sedition charge against Jahanara Imam for mock trial of Jamaat leader galvanized opposition and student protests	-Rigging of Mirpur by-election alleged -Babri mosque issue and Taslima Nasreen issue consolidated		5.0

		rightists forces		
1993-94	-Rigging of Magura by-election led to demand for caretaker government for holding free & fair elections --AL enlisted Jamaat's support in its demand for caretaker government	-AL began boycotting Parliament and started street agitations and hartals		4.5
1994-95	-AL MPs resign from the Parliament -Series of hartals and agitations	-Donors and development partners tried to mediate between the two parties -Civil society organizations urged good sense in both the parties		4.0
1995-96	-Mediation efforts failed -Parliament dissolved -BNP organized voterless and almost uncontested elections in February which lent credence to opposition allegation of vote rigging --Civil society groups and some members of the civil service mounted pressure on government to agree to caretaker government -the new parliament met once to pass the 13 <sup>th</sup> amendment bill to institute neutral caretaker government	-Abortive Coup attempt during the tenure of the caretaker government -June 12 elections brought 146 seats for AL, 116 for BNP, 34 for Jatiya Party, 3 for Jamaat –AL forms government with support from JP and JSD		4.9
1996-97	-BNP boycotted parliament specially in protest against the Ganges Treaty with India -Opposition politics of frequent hartals, street agitation, walkouts and boycott begins, joined by IOJ and SKOP	-Constitutional indemnity in favour of the killers of Sheikh Mujib revoked paving the way for their trial	-Private investment in energy sector encouraged	4.6
1997-98	-Fresh spell of agitation with AL's signing peace accord with the CHT insurgents, Shantibahini			5.4

1998-99 <sup>4</sup>	Spells of hartals and boycott of the Parliament marked the year: BNP in alliance with JI, IOJ and Ershad's JP called several rounds on municipal elections – Jan 26, 60 hrs in Feb, 3-day hartals a week later, May on gas electricity, June on budget, 6-7 days hartal in November, even during Ramadan		Donors critical of corruption, human rights violation, lack of transparency and accountability in GoB expenditures (AS, XL(1):186)	5.2%
1999-2000	Opposition boycott of the Parliament continued, although they somewhat modified their hartal strategy -But grim lawlessness throughout the year	-First major bomb blast at Udichee function in Jessore -Series of bomb blasts in cultural/political functions		4.9% (AS, XLI(1), 2001:129
2000-01	-Lawlessness and rampant crimes – daily average crimes reached 300, according to Prothom Alo, --Media talked about failed government (DS,24.11) -Executive locked in acrimony with judiciary about trial of Mujib's killers	-TIB put Bangladesh at 4 <sup>th</sup> position in corruption; WB reports also made similar remarks about corruption -Public Safety Act passed to control crimes and lawlessness		5.5%(AS, XLI(1),2001:129/6%(AS XLII(1),2002:190 growth came from industrial sector rather than agriculture
2001-02	-AL government resigned in July and caretaker government headed by Chief Justice Latifur Rahman took over to conduct elections in October. -BNP led alliance won two-thirds majority , -AL alleged 'crude' vote rigging and declared not to join the parliament	-AL joins Sangsad in June 2002 after 8 months boycott -Violent crisis by student protests in Dhaka University and BUET -Western media and India charged rise of Islamic militancy in Bangladesh		5.2
2002-03	Confrontational politics, frequent boycott and hartal continued, AL demanding resignation of	-'Operation Clean Heart' by army to curb crimes and corruption	Macro-economic management drew support	5.2

<sup>4</sup> Source: Asian Survey, XL(1),January-February 2000:181-188

	government -Image of judiciary marred amidst government's foot dragging on separation of power		from the donors, remittances high	
2003-04	-AL boycott of Parliament since June; Ruling regime brought charges of plot against Opposition -TIB ranked Bangladesh as the most corrupt country	-Government set up Rapid Action Battalion for effective combat of crimes -Bureaucracy in factional and partisan conflicts		6.2
2004-05  2005-06	Volatility in politics exacerbated with major security developments: major arms haul in Chittagong; bomb attack at Sylhet Shajalal shrine in May injuring the British High Commissioner and major grenade attack on AL rally killing three and injuring many in Dhaka 459 serial bomb attacks in 63 districts in August, several rounds in September and October and then start several rounds of suicide bombing killing several people including two judges in Jhalakati. The first part of 2006, however, witnessed busting of the JMB militants by arrest of both Shayekh Abdur Rahman and Bangla Bhai	The year began with killing of SAMS Kibria in Habiganj, Sylhet by grenade attack  Opposition float 23-point demand including reforms of the Election Commission and in certain provisions of the Caretaker Government. Meanwhile parliament remains ineffective		5.3

Source: Bulk of information in Cols.1-3 from Jahan, 2005, Rahim,2002,Jahan, 2002. Information in cols. 4 and 5 from

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## Annex 1: Terms of Reference (ToR)

### **Economic Policy Paper on “Economic Development and Political Stability”**

#### **1. Introduction : Background and Objectives**

In order to make our economy moving with appropriate plans and strategies, it is necessary to make our politicians, planners and implementers fully aware and consistent for an effective economic development, which must be in accordance with the aspirations of our people. The share of agriculture sector to GDP of Bangladesh stagnates virtually since 2000; and remains at 30% of GDP. The share of industry sector to GDP also stagnates at 12%. The average rate of growth of GDP could hardly cross the 5% level, though the official statistics try to make us believe that it were not less than 5.5%. The population of the country is increasing uninterrupted and the growth rate of population is not less than 1.8%. In the mid of 90s the population of the country was not more than 115 million; now we are speaking for a population of not less than 140 million. Some authors estimate that now we have nearly 50 million population. So, we see that our actual growth rate of GDP is less than 3% because our new population is eating out our growth.

International economic development, on the other hand, shows that the economies of many developing and even that of the least developed countries are growing at the rate of 8-10%. Now China is not an exception with her high growth rate of GDP from 10-12%, even the economies of Vietnam, Pakistan and India are growing at the rate of not less than 8%.

The mystery of high growth of the ‘Tiger Countries’ is no more mysterious. Economists know that under some preconditions, every country can achieve such growth rate. Following are some of the important pre-conditions necessary to ensure satisfactory economic growth:

- Political stability;
- Convenient law and order;
- High savings rate of the GDP;
- Increasing investment;
- Relative price stability;
- Higher education and technical qualification of the population;
- Increasing factor productivity;
- Technological modernization;
- Export promotion

It is, nevertheless, evident that the most important of the above factors is the political stability of a country because it ascertains the presence of remaining pre-conditions. Convenient law and order could be only attained if there is political stability and peace. Again the political stability and convenient law and order ensure the confidence of the people in the economy and its further development, which encourages the people to save. It also promotes confidence of the investors in the economy and convinces them to invest and reinvest.

The other factors-price stability, higher education and technical qualifications of the population, increasing factor productivity, technological modernity, export promotion etc. though are not directly related to political stability, but political stability in the long run ultimately ensures a relative price stability, improves educational and qualification status of the people, increases factor productivity, enables technology transfer, promotes exports. Those are the factors essential for economic growth. In this respect, it is crucial to refer to the

recent world political development that long term political stability steps ultimately to democracy; and only democratic political order can ensure political stability.

Hence it is to conclude that in order to make out economy moving, it is necessary to make our politicians, planners and implementers fully aware of the interdependence of economic development and political stability. The Dhaka Chamber of Commerce and Industry (DCCI) intends to prepare an economic policy paper on “Economic Development and Political Stability” to ventilate the issue again in scope of DCCI-CIPE, ERRA Project supported by the CIPE (Centre for International Private Enterprise)an affiliate of US Chamber of Commerce, Washington DC. A seminar on findings of EPP will be organized with participation of business leaders, politicians(MPs),NGO workers, academicians, intellectuals, journalists, media, etc. for dissemination of the findings and suggestions of the paper and improvement of the suggestions. In the end, lobbying efforts will be undertaken from the part of the DCCI-CIPE,ERRA project for the consideration of the improved suggestions of EPP by the government.

## **2. Focus of the Study**

The DCCI in the above context desires to make a comprehensive study leading to the preparation of an Economic Policy Paper (EPP) on “Economic Development and Political Stability” so that the business sector as well as the government and such other organizations are benefited contributing greatly to the completion of the implementation of the project/activity. The prepared EPP should be specific in terms of the subject topic for the purpose of influencing the concerned government agencies and other related organizations for appropriate implantation of the suggested recommendations. In that event DCCI wishes to have the study conducted by a well-experienced Consultant (Subject Matter Specialist) following Terms of Reference (TOR) including others as under:

- Analyzing briefly the political development of the country to justify that political stability ensures economic and social development;
- Analyzing the political history of similar countries from Asia, Africa and Europe that political stability including others is necessary precondition for socio-economic development;
- Analyzing and reviewing how political stability is ensured in high growth countries in Asia, Africa and Europe;
- Analyzing and suggesting how political stability could be ensured in Bangladesh;
- Analyzing and suggesting how business community and organizations could promote political stability;
- Analyzing the role of opposition in maintaining political stability and then ensuring economic development;
- Suggesting a set of comprehensive recommendations that should include the experience of other countries can support the implementation of the private sector development plans and fulfill the objectives and targets;
- Any other issue(s) that may be related to the preparation of the above Economic Policy Paper.

### **3. Methodology of the Study**

The study will be conducted following the methodology as under:

- Collecting, sorting and analyzing secondary information relating political history of the country;
- Collecting, analyzing, reviewing and assessing secondary information relating to recent political history and economic development of some selected countries from Asia, Africa and Europe;
- Interviewing and questioning some political leaders in order to undertake their perceptions in that respect;
- Interviewing and questioning of the business and chamber leaders for primary data regarding the role of business community ensuring political stability;
- Preparation of EPP on the basis of the findings and evidence above;
- Incorporation of comments and improvement proposals made in the seminar on EPP.

#### **Notes:**

- Submission of the draft EPP within 60 days from the date of receipt of this letter;
- Submission of the final EPP within 15 days after the draft is approved by the management of DCCI-CIPE, ERRA Project;
- Presentation of the EPP as the keynote paper in a seminar to be organized by the DCCI-CIPE, ERRA Project for seeking valuable and considered comments from the participants and subsequently to incorporate them in the EPP to make it comprehensive and complete for advocacy with the governmental and other concerned agencies.

### Annex 2: Human Development Profile (1991-2005)

S	Life expectancy at birth (years)	Adult literacy rate (%)	Mean years of schooling	Educational attainment	Real GDP (ppp\$)	Adjusted real GDP	Human Development Index	GNP rank minus HDI rank
1991	51.8 (1990)	32.2 (1985)	2.0 (1980)	22.1	720 (1985-86)	720	0.186	19
1992	51.8 (1990)	35.3 (1990)	2.0 (1990)	.58	820	820	0.185	15
1993	51.8 (1990)	35.3 (1990)	2.0 (1990)	.58 (1990)	524 (1990)	524	0.194	21
1994	52.2 (1992)	36.6 (1992)	2.0 (1992)	0.87 (1992)	1,160 (1991)	1160	.309	13
1995	55.6 (1992)	36.4 (1992)	38 (1992) Combined first, second and third level gross enrollment ratio	.37 Education Index	12,30 (1992)	1230 (1992)	0.364	-5 (Real GDP per capita (PPP \$) rank minus HDI rank)
1996	55.9 (1993)	37.0 (1993)	40 (1993)	.42 Education index	1290 (1993)	1290 (1993)	0.366 (1993) HDI value 1993	-8

### Annex 3: FDI Flow in Bangladesh (\$bn)

Region/Year	92-97	98	00	01	02	03	04	00-04
World	311	691	1388	818	716	633	648	4203
Developed	180	472	1108	571	548	442	380	3049(72%)
Developing	118	194	252	220	156	166	233	1027
LDC	1.9	4.5	3.8	6.4	6.3	10.3	10.7	37.5
Bangladesh	.031	.19	.28	.07	.05	.27	.46	-
India	1.6	2.6	2.3	3.4	3.4	4.3	5.3	-
Pakistan	.57	.5	.3	.4	.8	.5	.9	-

Source: Sayed Alamgir Farrouk Chowdhury, "World Trade, Growth and FDI Flows", Daily Star, 15<sup>th</sup> Anniversary Special, February 16, 2006:26.