Transition from Autocracy to Democracy: How it Affected Bangladesh's Economy?

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Abstract:

This paper investigates the influence of the type of regime in power (autocracy or democracy) on Bangladesh's economy, using regression analyses in the form of ordinary least squares, using data from 25 years. Statistical investigation showed that democracies were more successful than dictatorships in promoting economic growth and improving education and health indices. The convergence hypothesis implies that socioeconomic indicators were positively affected during the tenure of elected regimes. In addition, comparisons of the Indian and Chinese models of governance, in the context of their economic performance, are included to ascertain the successes and constraints of governments in these two South Asian financial giants.

1. Introduction

A lot has been achieved in unearthing the effects of democracy on economic growth. Despite the - large volume of theoretical and empirical-based research, there is no consensus on the relationship between democracy and development. The findings of the papers and publications are somewhat interesting in considering the ambiguity that each country where the study is done is unique and different from others. For instance, articles on the effect of democracy in South Korea or Taiwan differ significantly from findings in India. This is the core reason; there is a need to conduct thought-provoking research on the relationship of economics with governance (autocratic vs. democratic) in Bangladesh. The timeline for conducting this research is also essential. Bangladesh is at a critical stage, as it has experienced 22 years of democracy and roughly two decades under undemocratic regimes.[1] Therefore, it is of optimum interest that empirical and theoretical research needs to be done that would relate the economy of Bangladesh to the means of governance. The basic need for differentiating democratic regimes from autocratic ones is to show how the economy reacted to policies taken and implemented under a particular type of regime.

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[1] The government of Bangabandhu Sheikh Mujibur Rahman from 1972 to 1975 (January) and governments of Begum Khaleda Zia and Sheikh Hasina from 1991 till date (with exception of caretaker governments of 1996,2001 and 2007) were democratically elected following the norms of a parliamentary system known as the Westminster System. The other two regimes in power for a significant period of time were the governments of Ziaur Rahman (November 1975 to 1981) and Hussain Muhammad Ershad (1982 to 1990). But these were not considered to be democratic regimes because both came to power without any election.

In the context of Bangladesh, how her economy grew under different types of a political system in play, mainly democratic and military regimes; two of the most notable papers, "*Does democracy impact economic growth…*" (Bhattacharya, 2013) and "*Putting democratic process back on track*" (Sobhan, 2014) both agree that for the sake of any economic research, a democratic regime is one that which is formed following a participatory election   Considering this as the yardstick for regime classification and following the framework in the constitution of Bangladesh, all parliamentary form of governments formed since the 1991 general elections are attributed as democratic regimes in this paper.[2]

Democracy is the most established and sought way of governance around the world. But, not always, does the economy of a particular country perform better under it? For instance, China outperformed all economies over the last decade, and, to theoretical disbelief, it is not a democracy. On the contrary, countries in Africa, such as Nigeria, Ivory Coast, and Sudan, failed to achieve the expected level of economic growth, despite their wealth of natural resources, due to authoritarian, autocratic regimes. A country might have excellent democratic values guaranteed in its constitution, but those values carry no importance if there is a lack of political will. Similarly, a country might have no written form but the effectiveness of its political and social establishments.

This research will address the relationship between governance and the growth of the economy and look at the successes and failures of democracies (or autocracies) from an economic point of view beyond the borders of Bangladesh. India and China are the best examples, with strict comparisons between them regarding governance and not in terms of economies.

a) An empirical model of investigation differentiating the economy from the point of view of the type of regime using regression analyses using time-series data from 1981 to 2011. This section elaborates on the results from an empirical model used to investigate the relationship between gross national income (GNI) with independent variables - trade, investment, education level, life expectancy rate, and regime type. These findings are interpreted in this section solely on the results from the regression model.

b) Indirect changes in the social and human development indexes due to changes in government structure (autocracy vs. democracy) from 1981 to 2011. This also includes the successes achieved by democratic or autocratic regimes in handling the economy. The timescale of the observations section consists of 10 years of an authoritarian regime and 21 years of democratic governments.

In the twenty-first century, the world is a "Global Village," and the economy of Bangladesh is actively integrated with other countries. Therefore, in addition to the findings and observations, a summary is documented on the economies of India and China: the world's largest democracy and the world's second-largest economy, respectively.

The rest of the paper is organized with the literature review of relevant documents in the second section, differentiating the various schools of thought regarding the nexus between democracy and growth. The following section explains an empirical econometric model built to relate democracy and economic development in Bangladesh. The fourth section deals with the findings from the empirical research and other indirect observations. The conclusion section ends the paper with an overall summation of the unique relationship between governance and growth in Bangladesh and other regional countries.

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[2] The constitution of Bangladesh when enacted in 1972 till the last (sixteenth) amendment, categorically states that a government can only be formed through an election.

2. Literature Review

In the context of economic growth and democracy, there have been consistent disagreements among researchers over the impact of democracy on economic growth. A certain degree of ambiguity lies in the theoretical arguments of various papers conducted in different spheres of the globe.

The correlation of economics with democracy was given its due theoretical recognition through the "modernization theory," which argues that as countries develop economically, social structures become too complex for authoritarian regimes to manage – technological change endows owners of capital with some autonomy and private information, complex labor processes require active cooperation rather than coercion, and civil society emerges (Lipset, 1959). In this process, dictatorship collapses, and democracy appears as the alternative. This school of thought explains how countries like South Korea and Singapore gained significant economic momentum under autocratic (or semi-autocratic) regimes. The development of social entities led to a democratic alternative. Complementing this thought, Huntington (1968) adds that sustainable democracy requires political action along with economic development but agrees that as a dictatorship experiences economic growth, democratization becomes more likely. Such complementations and, at times, contractions led to the evolution of many such "modernization theories" in the following decades.

Perhaps the most accredited of which was Sirowy and Inkeles (1990), where the critical rationale was the three main views: the "conflict," the "compatibility," and the "skeptical," which define the elasticity between democracy and economic growth.

According to the "conflict view," there is a tradeoff, or choice, between democracy and rapid economic growth. The primary argument is that democracy makes it harder for a government to take tough but necessary steps to create an open and accessible economy. Most successful models advocating these approaches countries such as South Korea, Taiwan, and Chile, which all were under autocratic regimes in the early stage of their economic development (Edwards, 1991). Economic reforms, enforcement of fiscal and monetary disciplines, and ensuring social and economic equity were accomplished faster under governments that could be categorized as autocratic. One such example is Malaysia- the nation had the same Prime Minister for more than two decades during its first 30 years. Another perception enlightening this thesis is that democratic governments encourage rent-seeking interest groups whose objective is to maximize profit and, at times, lead to economic inefficiency and worsen wealth or income distribution in a country (Alesina and Perotti, 1995).

The arguments in favor of the "compatibility view" emphasize that democracy facilitates the growth of an economy. The perception is that political freedom will always lead to economic freedom (Friedman, 1962). Election at all levels, political pluralism, and freedom of the press will protect financial freedom and ensure a significant amount of economic growth in the long run. Abuse of the rule of law by the government is detrimental to the development of an economy. Therefore, political and civil liberties ensure such abuse does not occur (North, 1990). Similarly, it is believed that the policies in democratic regimes are relatively more redistributive and pro-poor than those in autocracies (Keech, 1995 and Comeau, 2003).

The third perception is the "skeptical" hypothesis, which opines that there is no systematic relationship between democracy and economic growth. The primary basis of this perception is that democracy and economic growth do not have any quantifiable relationship. Strong advocates of the skeptical hypothesis accept that while it might generally be true that there is more economic freedom under democracy than under authoritarianism, they argue that, eventually, there is no guarantee that there will be an optimal outcome of democracy on growth (Esposto and Zaleski, 1999). In addition to these three schools of

thought, authors like Irwin and Tervio (2000), Dollar and Kraay (2003), and Girma, Greenaway, and Kneller (2004) opined that trade heavily impacts the income level of a country; in more finite terms, trade is inversely proportional to poverty or income inequality.[3] Since international trade affects the level of income and trade openness impacts the equality of income, it is of utmost importance to include these two variables in any study on growth under a particular regime.

Out of a total of 22 empirical studies surveyed by Przeworski and Limongi (1993) and Sirowy and Inkeles (1990), eight came up with a positive effect of democracy on economic growth, six found results in favor of the autocratic regime, and eight found no difference between regimes or presented mixed results. Barro (1996), in a study on a panel of data from 89 countries between 1965 and 1990, concluded that there is statistically significant support for an inverse U-shaped nonlinearity where democracy is initially beneficial to growth but becomes detrimental as it expands.

There have been few studies on the economic effect in Bangladesh after it transitioned to democracy in 1991, of which the two most notable ones are Bhattacharya, Dasgupta, and Neethi (2013) and Khan and Hossain (2010). The importance of the health sector and social indicators are always interlinked to the growth and stability of a country, especially one that is underdeveloped. For example, the recently published book "India and its contradictions…." Drèze and Sen (2013) opined that the economic limitations of India originated from its constraint on social improvements and acknowledged the advances Bangladesh made in education and health developments.

3. Research Methodology and Selection of Cases

Many studies related to governance and growth followed the regression models recommended by either Hunnington (1968) or Lijphart (1999). Both emphasized the need to include variables from specific categories when building an econometric model of governance and growth. The following are the primary categories from which variables are chosen:

1. *Country's level of economic growth,*
2. *component(s) that make a country's gross domestic product,*
3. *human capital index,*
4. *standard of living or social structure index.*

The dependent variable that is used in this paper's regression model is the growth rate of GNI per capita. GNI per capita is the dollar value of a country's final output of goods and services in a year, divided by its population. This reflects the average income of a country's citizens. It was taking this as the dependent variable will replicate the state of Bangladesh's economy and how it transformed for both autocratic and democratic regimes' tenures. The per capita income of GNI is used instead of GDP to demonstrate the effect of remittance sent by expatriates from Bangladesh. Several other studies in Bangladesh found a significant contribution of remittance to the standard of living in the current period. Bangladesh is the eighth most remittance-earning country as of 2011.

The control variables used in the regression model are trade as a share of GDP (degree of openness), investment as a share of GDP, enrollment rate, life expectancy rate, and a dummy variable for the type of regime in power. Trade is the sum of exports and imports of goods and services, measured as a share of

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[3] Trade openness is defined by the economic integration to the rest of the world, in terms of trade, relative to gross domestic product.

GDP. This will show how to open a country's economy from the perspective of the type of regime in power.

Investment (also known as gross capital formation) as a share of GDP consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories. This includes the total investment by both private and public sectors. When regressed against per capita GNI, it will show how the type of regime in power affects the rate of investment or capital formation.

Education is one of the main factors in creating a nation's human capital formation. Therefore, the school enrollment ratio[4]is included as a variable in the regression model. This is the total enrollment in secondary education regardless of age, expressed as a percentage of the population of official secondary education age. The secondary level is more appropriate than the primary level because, in a third-world country like Bangladesh, a higher percentage of students drop out after a few years, especially in rural areas.

The life expectancy rate is another variable used in the regression analyses to demonstrate the standard of the health sector in Bangladesh as a factor of economic growth. This is calculated as the number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life.

In addition to these variables, a dummy variable is included to differentiate the type of regime in power during the period used in this research. The dummy variable is quantified as one under a democratic rule and 0 when under an autocratic or dictatorship regime, respectively. The period for the data collected is from 1981 to 2011.

Since the current econometric analysis is based on time-series data, the basic model of ordinary least squares regression is used in the form of:

$Y_1 = \alpha + \beta_0 + \beta_1 Z_I + e_i$

where Y_1 = outcome score of the ith unit

$\qquad \alpha$ = constant; equals the value of Y when X = 0

β_0 = coefficient for the intercept

β_1 = coefficient for the slope

$\qquad Z_I$= 1, if the ith unit is in the treatment group or 0, if in the control group

e_i = residual for the ith unit

Accordingly, the following parameters will be used in the regression model:

GNI per capita = α + β_1 political regime + β_2 openness of economy + β_3 total investment + β_4 education + β_5 life expectancy rate + ε

where α = intercept, ε = standard error

A hypothesis testing following applied regression analysis, in the form of the null hypothesis-democracy does not affect income per capita, will be applied. This will numerically state if the variable GNI per capita is related to the form of government that is democratic or autocratic.

The null hypothesis and alternative hypothesis are, respectively:

$$H_0: \mu(x) = 0$$
$$H_1: \mu(x) \neq 0$$

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[4] School enrollment ratio equals to the gross ratio of enrollment per year.

In the case of this research, the null hypothesis will be that there is no relationship between democracy (or autocracy) and GNI per capita. If the null hypothesis is rejected, the significance level of the alternative view can be calculated with the help of the "Confidence Interval Approach." Similarly, all control variables, including the regime dummy, are regressed against the dependent per capita GNI. Finally, a significance test is done to substantiate the effect of variables on the dependent variable.

4. Findings and Observations

4.1 Findings of Empirical Research

Using the Augmented Dickey-Fuller (ADF), the stationary level of all variables was tested. Results from the ADF test show that all variables reject the null hypothesis of a unit root in favor of the fixed alternative. To test the unit roots, the results of Augmented Dickey-Fuller, Phillips-Perron, and in are compared in Appendix A. The ADF test indicates that the log levels of the Life Expectancy rate are stationary at the initial level. ADF test for all other variables contain unit roots, but their first differences are all stationary.

Phillips-Perron supports the findings of ADF that the life expectancy rate is stationary in levels, and all other variables are static in first differences, both when intercepts are included in the test equation and when none (trend and intercept) are included. However, the authors mentioned in Kwiatkowski et al. (1992) contradict these results, and only the independent variable, income per capita, is stationary. Both the Augmented Dickey-Fuller and the Phillips-Perron tests showed variables as stationary. Therefore, the results are taken into consideration without prejudice.[5]

The Granger Causation Test is also conducted to understand the interrelationship between variables. Appendix B shows interesting results from Granger tests between variables at various lag lengths. Most exogenous variables show a positive Granger causation effect when interlinked against the dummy variable (regime type). Also, the results show similarity with the regression results in Table 3. Investment, the openness of the economy, education level, and life expectancy rate all significantly positively affect the per capita income.

The structural change in the data collected for the variables from the perspective of the particular period (democracy, in this case) can be seen using the Chow Test. The breakpoint date used is the year 1991 shows that the null hypothesis- no structural change took place can be rejected at a 5% level of significance. The result of the Chow Breakpoint Test demonstrated in Appendix C concludes the need for a dummy variable to differentiate the two types of regimes in power concerning the dependent variable and the explanatory variables.

Following the model shown in "Research Methodology," a regression analysis is computed using the OLS method. Using the double log method, the independent and dummy variables are regressed against the per capita income. The stationary test results implied the first variable difference except for the life expectancy rate. Therefore, raw data for life expectancy rate is used, and the first difference values for all other variables. The following table shows the results of the regression analyses:

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[5] Only life expectancy is stationary in level, and all other variables are stationary in first differences.

Table 1: Regression against Dependent Variable GNI per Capita (Growth)

Explanatory Variable	Coefficient*	Significance
Investment (% of GDP, in log form)	0.3206 (0.328923)	Significant **
Trade (% of GDP, in log form)	0.541542 (0.119393)	Significant **
Education (secondary school enrollment rate, in log form)	0.08026 (0.109400)	Significant ***
Life Expectancy (years)	6.881563 (0.592315)	Significant **
Regime Dummy	1.1764 (0.8832)	Significant ***

Note:
1. *Standard errors are presented in parentheses.*
2. *** and *** denote statistical significance levels of 1% and 5% respectively.*

The results from Table 1 indicate that all variables had significant positive effect on the growth of per capita income of Bangladesh during the period of 1981 to 2011 as per the results obtained from regression analyses. All the coefficients of the variables used in the regression analyses are statistically significant either at 1% or 5% level. Therefore, the null hypothesis in the case of each variable is rejected within 99% or 95% confidence level. Accordingly, the alternative hypothesis in each of the case stands true- there is significant effect of the independent variable on the growth of GNI per capita. Level of investment (as a share of GDP) and degree of openness (as a share of GDP) were highly significant on the per capita income. The regime dummy also significantly (positive) influenced the income level.[6]

This means that the economy is more conducive to growth under a democratic regime as compared to an autocratic one. Therefore, the concept of maximizing utility describes the notion as to how a democratic regime achieves more growth than a nondemocratic one, using the same level of inputs.

4.2 Observations

In addition to the results of the empirical model, a number of observations are discussed below during the period of 1981 to 2011, from the perspective of the type of regime in power.

The difference in the growth of GDP per capita is significant when compared between the two regimes. Figure 1 illustrates that a steeper growth takes place when the country is under a democratic regime.

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[6] Regression results and statistical computations using Eviews software are shown in Appendix B.

Figure 1: Growth of GDP per Capita (Bangladesh)
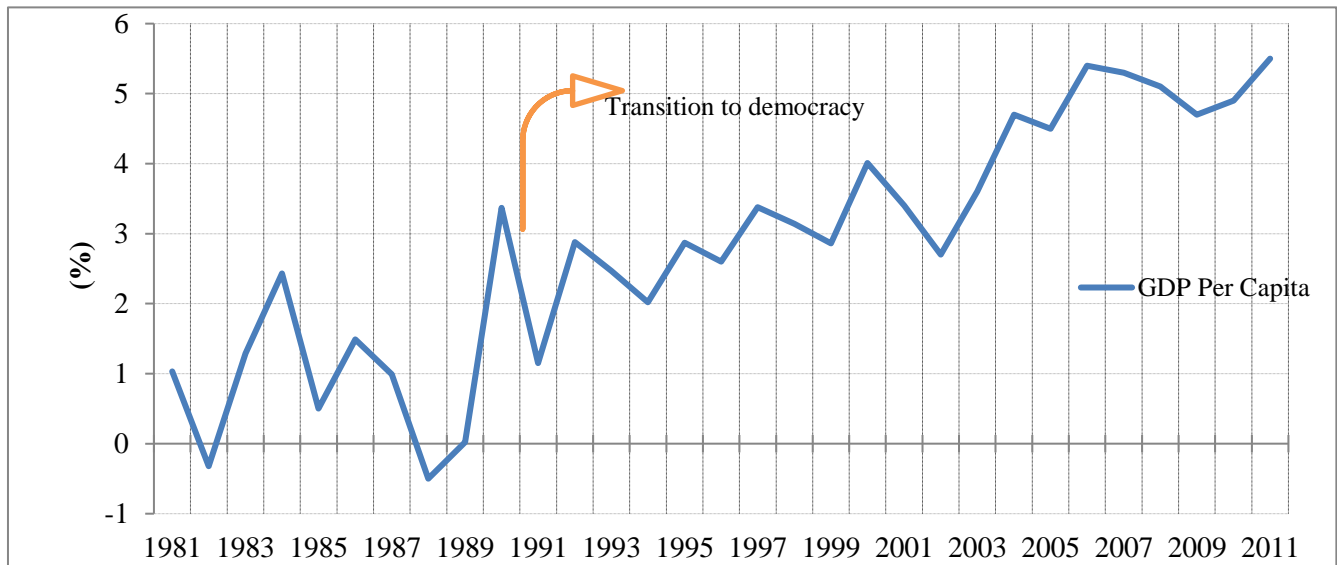
Source: Bangladesh Bureau of Statistics (BBS) and WDI, World Bank.

The empirical model of investigation related the type of government and the state of economics through a statistical regression analysis. In addition to the findings in the empirical model, there are some characteristics that could not be included in the mathematical model of investigation.

Both, democratic and autocratic regimes contributed to the economic development in Bangladesh. During, the timescale used in this paper, all regimes successfully implemented a number of policies that complemented the growth of economy, directly or indirectly. These observations are discussed below in terms of the type of regime in power.
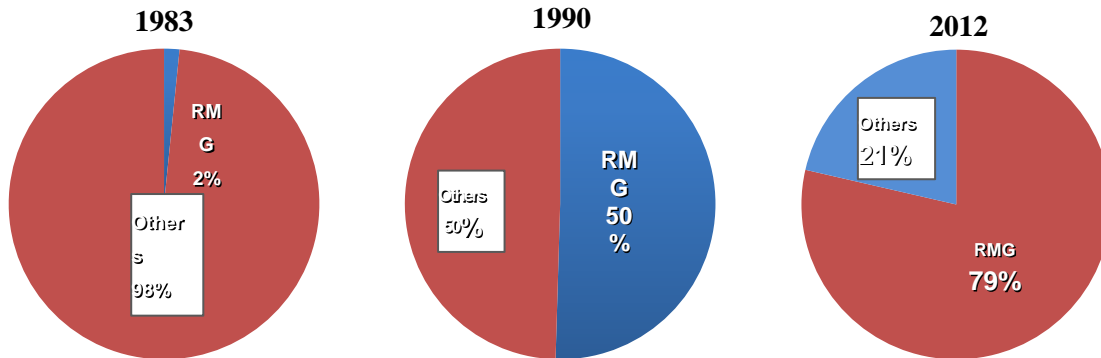
4.2.1 Autocratic Regime

Autocratic or dictatorial governments in this day and age of time are always prone to serious criticism from the international community on matters relating to the affairs of a state. This is a legitimate concern for all nations that champion themselves in practicing democracy. However, autocratic (or unelected) regimes, in their defense, argue that underdeveloped countries first need to generate economic resources, and only then, shall they deserve an elected government. This defense has some logic when the pattern of autocratic regimes around the world is integrated. Some factors lead to examples of pure authoritarianism regimes being successful in handling the economy of a country; Bangladesh, during the 80's was under the rule of such an autocratic regime. Compared with the post-democracy regimes from 1991-2011, that government had some accomplishments that the economy of country benefitted from. The arguments in favor of autocracy felicitating the economy during 1981 to 1990 are discussed below:

Readymade garments export

In 2012, the total export of Bangladesh stands at $ 27.0 billion, of which the Ready-Made Garments (RMG) consists of $21.5 billion. This industry started operation in early 1980's and in 1983 the total export of RMG was $ 31.5 million. Figure 2 shows how the structure of Bangladesh's export changed from 1983 to 1990. In present context, RMG sector surpasses any other sector in terms of employment and earnings through export. The role of private sector, in the evolution of this industry, is extremely important but equally important were the policies taken by the then autocratic regime (1983 to 1990).

According, to the data collected from Export Promotions Bureau, in 1983 the total export of RMG from Bangladesh was $3.1 million and in 1990, this figure increased to $609 million.

Figure 2: Share of RMG in Total Export

Source: Export Promotion Bureau (EPB), Bangladesh

• **Overseas employment of workers and remittances**

A major characteristic of the economy changed during the autocratic regimes of 1980s. Bangladesh started exporting manpower to a number of countries in the Middle East. Within a short time, the number of workers and the market for workers from Bangladesh expanded significantly. The country's economy, in the current context, depends heavily on the remittance sent by workers. In 2012, the inflow of remittance was $ 12.8 billion. Figure 3 illustrates the rapid growth of overseas employment during 1981 to 2011.

Figure 3: Overseas Employment
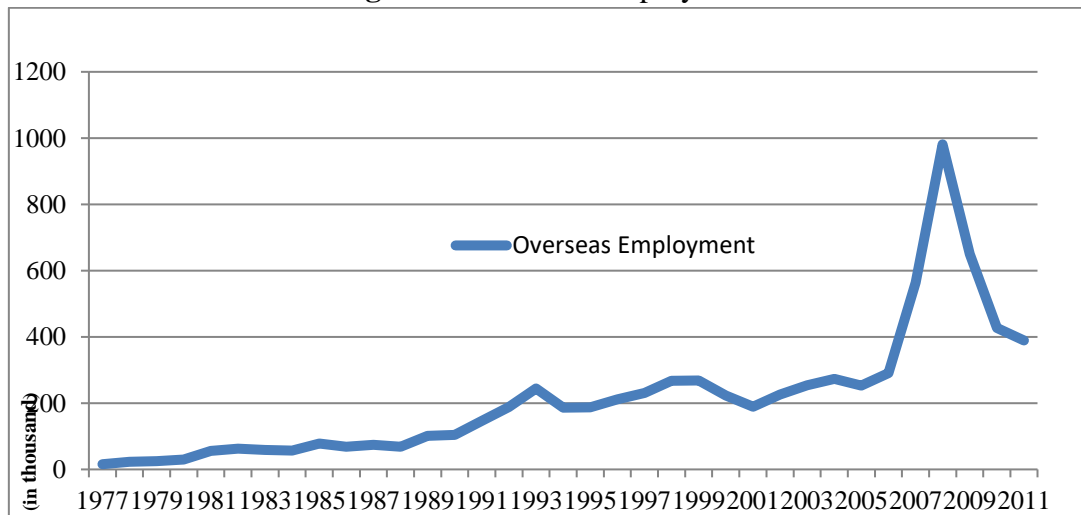
Source: Bangladesh Bank Annual Report 2011 & 2012

Expansion of microcredit operations and creation of Grameen Bank

The Nobel winning organization, Grameen Bank, was created in 1983 through a law known as the Grameen Bank Ordinance. Not only the economic situation changed through the inclusion of microcredit for poor people, but also it changed the social structure of rural Bangladesh. Women in rural areas got themselves self-employed in a business through credit through Grameen Bank. Women started being a

part of rural monetary system, a concept, unthinkable before the creation of micro-financial institutions. This also made them aware of social responsibilities such as right to education, importance of health and hygiene. Therefore, this change in the socioeconomic structure of Bangladesh through the operations of Grameen Bank was aided by the autocratic regime in 1980's.

Stricter enforcement of rule of law

At times, democracies take time to create an atmosphere where rule of law is established or in other words, people perceive it to have been ensured. Stricter measures were carried out during the authoritarian regimes during 1981-1990. During most of that time, Bangladesh was under a "state of emergency". This resulted in a very intolerant mindset of law enforcing agencies when it comes to compromising rule of law. It may have been wrong in the view of human rights violation but it definitely led to a stable law and order situation that directly created congenial atmosphere to continue the economic aspirations of investors and entrepreneurs.

Political stability is the key to growth

Autocratic regimes have the luxury of exercising force in order to maintain peace and tranquility inside their territory. This advantage was also felt by autocratic regimes in Bangladesh; especially during 1981 to 1990. Apart from the beginning and latter part of the decade, stability was maintained in the political arena. There were far less strikes than the democratic era and, political violence and destruction of private property, was less in numbers. The traditional view of modern-day political scientists is democracy fosters stability in a country, but in Bangladesh's context this theory is unrealistic after practicing democracy for more than 30 years. The toll economy took upon itself in the pre democracy period is less than the democratic period.

4.2.2 Democratic Regime

Democracy was a founding principle in Bangladesh's constitution and it is one of the four basic pillars highlighted in the preamble. However, at times, the failure of political wisdom contributed to the rise of autocratic regimes. The country, as a whole, had to pay a heavy price for this. Since, its inception in 1991, the parliamentary form of governance achieved various socioeconomic goals. During, the timescale followed in this research, major health indicators also changed dynamically. The arguments in favor of democracy complementing the economy, during 1991 to 2011, are discussed below:

Decline in infant mortality rate

One of the primary indicators reflecting the health sector of the country is Infant Mortality Rate. In 1981, the rate was 130.1 and it came down to 64.2 in 2010, per thousand. This is significant for a country as underdeveloped Bangladesh. In the context of the subcontinent, this decline in the infant mortality rate is somewhat miraculous. Policy changes by democratic regimes contributed heavily to this improvement in the mortality rate of infants.

Improvement in the life expectancy rate

The life expectancy rate is clear indicator of the social structure of a nation. A country's economic condition is directly involved with the average lifespan of its citizens. A country with high per capita income generally resembles high investment in health sector. This leads to better medical facilities

provided by both the private and public sector, and eventually leading to an increase in the life expectancy rate. For example, life expectancy rate in Japan is 82.7 years whereas; it is only 47.3 in Afghanistan.

The life expectancy rate of Bangladesh was increasing every year but after 1991, this rate started to rise rapidly. The role of a democratic government directly improved the health sector allocation in the budget. Donor countries and international organizations like United Nations Development Programme (UNDP) and World Health Organization (WHO) increased their share of support to Bangladesh once a democratic regime took office. Due to the improvements in health sector and medical services in Bangladesh, the life expectancy rate increased about 11% during 1991-2011.

Ratio of girls in schools and colleges improved rapidly

This probably is one of the most inspiring achievements of democratic regimes in 90's. The ratio of girls to boys in secondary school enrollment rate increased from 50% in 1990 to 110% in 2000. Similarly, the ratio of female to male in tertiary level enrollment rose from 19% in 1990 to 60% in 2010. Thus, this led to more women entering the market for skilled labor or professionals.

4.3 Nexus of Governance and Economics in India and China

In the context of regional examples, Bangladesh has two unique neighbors who define the nexus between growth and governance in two distinct ways-China and India. There are many factors in the social and political dimension that shape up the economies of both countries. China is the world's second biggest economy in terms of total output and India is the eleventh; India's estimated GDP in 2010 was $1.6 trillion, while China was far ahead with GDP of $5.2 trillion.[7] Both, the countries made enormous economic growth in the last decade. China's average growth rate during 1991 to 2012 was around 10 percent while during the same period India's economy grew at 6 percent. Figure 4 illustrates the comparison between the rate at which economies of India and China grew.

Figure 4: GDP growth in India and China
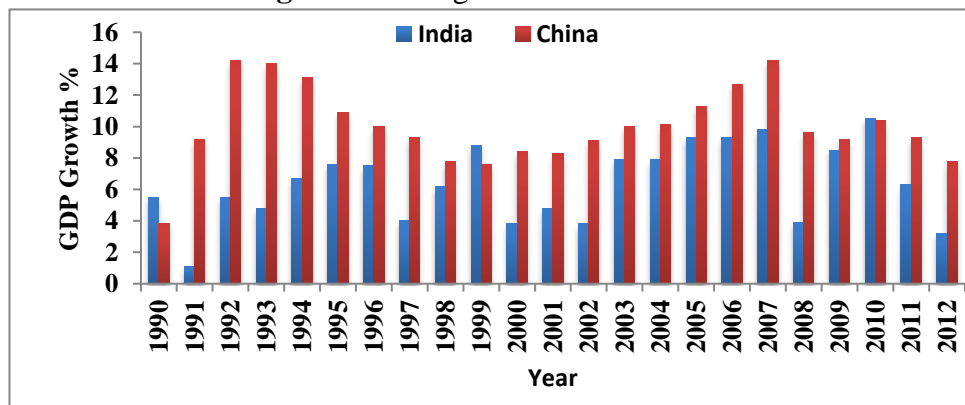
Source: WDI, World Bank

Till 1980, China's political and economic alignment was both in the same direction: a communist government and a controlled (planned) economy. However, in early 1980's China started off with its economic liberalization policies and got immense exposure in the global market and started receiving Foreign Direct Investments (FDI). India, on the other hand, was also looking for ways to open up its

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[7] GDP in terms of current value ($).

"inward looking" economy. Despite many attempts, political differences halted the liberalization process in India. It was in the year 1991, India started with structural reforms in the banking sector, privatization of state-owned industries, taxing policy reforms. This also allowed more foreign firms to set up production plants in India. Global automobile companies like Mercedes Benz, BMW were allowed to build production units in India and soon there was a positive effect in its economy. The process of liberalization is still going on in India; being a democracy, political differences are sorted out before the initiation of any reform. For instance, it took 10 years for the major political parties to agree on the recent reforms in FDI that will pave way for foreign investment in retail sector.

According to Nobel laureate Economist Amartya Sen (2013), the social index lapses of India are all related to either failure of proper enforcement of rule of law or waste in the form of corruption. This is true when one difference in the economies of China with India. China, with its autocratic regime, maintains some form of uniformity in distribution of wealth and resources, and therefore, the gap between the rich and poor. On contrary, India is suffering from the huge wealth disparity between the rich and poor. Figure 5 explain how the poverty ratio in population in both countries were in similar range in 1990, and in 30 years, China's ratio of population under poverty line came down to half of that in India.[8]

Figure 5: Poverty in India and China
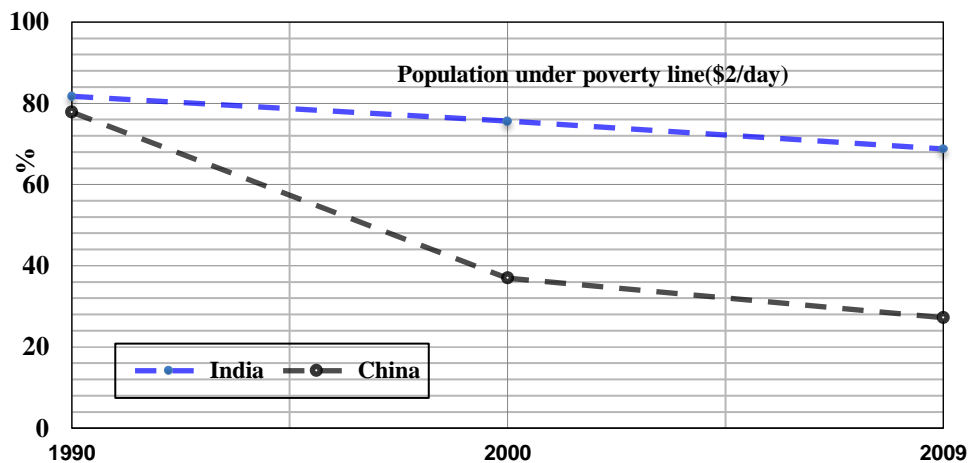
Source: World Bank

The major characteristics of the political and economic system in India and China are relevant to Bangladesh considering the socioeconomic, demographical and cultural resemblance prevailing in these three countries. Therefore, the characteristics of the Indian and Chinese models of governance and growth are discussed separately.

4.3.1 Characteristics of the Indian model:

Fast liberalization policies and economic growth: Under Prime Minister Narashima Rao and the then Finance Minister Manmohan Singh (currently, Prime Minister) India, in 1991, started liberalizing its economy with reforms aimed at increasing international trade and inflow of FDI. Privatization of public monopolies, removing trade barriers, and reducing tariffs and interest rates, were some of the major

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[8] Poverty line at $2 per day.

reforms taken by the Indian government. The economy positively changed after these reforms. During 1980 to 1990, the GDP of India increased 75% whereas, the GDP doubled from 2000 to 2010.

Growth of service sector and IT industry: India, achieved great success in the service sector primarily in banking, telecommunication and Information Technology. Banking and telecommunication sector helped the inflow of FDI and employment generation of labor force. The IT sector, on the other hand, improved India's current account in the form of total export. The service sector accounted for almost 57% of the total GDP in 2012.The growth in IT sector resulted in increased export of service technology such as software and outsourcing of human resources. The IT sector consists of eight percent of India's total GDP. In 2009, seven Indian companies were listed among the top 15 technology outsourcing companies in the world, according to Forbes.

Corruption: When compared to China, India lacks efficient control mechanism to fight corruption at grassroots level. Corruption is a chronic and acute problem in the socioeconomic development of an emerging economy. Corruption in big infrastructure and natural resources extraction projects are high in India compared to other developing countries. Recent financial scams related to coal extraction, telecom spectrum allotment and defense procurement have created a negative impression of the world community in the form of perceived corruption scenario. However, the emergence of a responsible civil society and a vocal media, is contributing positively in stigmatizing the menace of corruption in India.

Poverty and social development constraints: The creation of wealth in the form personal income or return from investment significantly changed over the last decade. Two of the world's ten richest persons are from India. However, the distribution of wealth remains a challenge for the social stature of India. The share of income held by the highest 10% in the population is 28.8% while; the lowest 10% holds only three percent of the total income.[9]

4.3.2 Characteristics of the Chinese model:

Liberalization of economy: Mao Zedongin 1960's started to take policies to open China's economy to the outside world. But it was under the governments of Li Xiannian and Deng Xiapoing, that China eventually started reforms, paving all obstacles to international trade. These reforms introduced aspects of a capitalist economic system. The new policies on management of resources focused on increased productivity and the growth of private sector. In early 1980's the Chinese government allowed FDI in development projects under the "infrastructures development schemes." This created a congenial atmosphere for foreign investors to invest in China. Until then, under the rule of Communist Party, China did not allow private enterprises to own and manage capital as a factor of production. But post 1980, private enterprises were allowed to invest and earn profit according to the norms of a capitalist market.

Control of population growth: In 1979, the government of China introduced the one-child policy (officially known as family planning policy). This policy aimed to alleviate social, economic and environmental problems prevailing in China. Although, Human Rights Watch and other rights organizations criticized this policy as inhuman, the government was able to strictly impose it for more

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[9] US-China Economic and Security Review Commission (2010).

than three decades. The political class of China, being authoritarian in form, successfully enforced control over the country's population growth. From 1971 to 1980, the average growth of population per year was close to two percent. After the introduction of the one-child policy, the average growth of population from 1981 to 1990 was 1.4 %. Subsequently, the rate of population came down significantly; during 2001 to 2010, the average population growth was half percent per year. After continuation of the population control policy for more than three decades, the Chinese government recently relaxed the policy, and currently it allows two children per family under certain conditions.

Control of currency exchange rate: China is always prone to criticism from the United States and other western countries for financial ethics violation in the form of unfair currency control.[10] People's Bank of China (central bank) officially moved towards a *floating exchange-rate system* in 2005 to manage its currency *Yuan*. However, the exchequer does not allow traditional fluctuations that ought to take place in floating exchange system. The government, through its central bank, controls the fluctuation rate by a maximum percentage point, and hence, the currency remains highly undervalued. According, to outside observers like World Bank and IMF, this creates an advantage to the Chinese currency, in terms of the value of its export, thus, allowing it to be worth more against other currencies. However, due to pressure from the international community and major trading partners, China started making progress in achieving a floating exchange rate system, free from any hindrance.

Focus on industry and manufacturing sector: China, under the economic reforms in 1980's prioritized the industry and manufacturing sector in terms of its total output. The policies enacted by the government focused on ways to maximize the industrialization and growth of its economy. In 2010, the manufacturing and industry sectors contributed to 32% and 47% respectively, of the total GDP. The IHS Global Insight in 2010 stated that China contributed to 19.8% of world's total manufacturing output and it is the largest manufacturer in the world.

5. Conclusion

This paper has analyzed the interrelationship in two types of political systems, their consolidation, and their dominance on the economic growth in Bangladesh. The findings in this paper suggest that, from an empirical perspective, the institutions that deliver service to people (education or healthcare) become more efficient during democratic regimes. The developments in the level of education and the improvements in healthcare indexes are more responsive to policies of democratic regimes than the autocratic ones. This may be due to the importance of trust and availability of information, between a government and its citizens.

In terms of regional examples, the growth in China and India, clearly illustrate differences in per capita income and level of poverty. One underlying difference in China and India is the concept of democracy. This means that a country needs time to bear the fruit of democracy in its economy. As discussed in the observations section, the growth and development of infrastructure in China directly aided its economy. The growth of the manufacturing sector in China also lays out the comparative advantage it has compared to other countries. Bangladesh, in future, must study the successes of the Chinese model, and move towards an industrial transformation, that will generate employment and promote exports. The height of

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[10] USA filed two cases against China in WTO regarding currency valuation in 2011.

development in India also possesses certain characteristics that Bangladesh can adopt to; undeterred democracy, role of civil society and media, reforms in the financial sector, and growth in FDI.

The two major lifelines of the economy of Bangladesh are the export volume of RMG and influx of remittance from expatriates working abroad. As discussed in the observations section, the composition of RMG in the total exports is more than 75 percent. Bangladesh, the second largest exporter of garments, needs to expand its efficiency and optimize its available resources. Effective policies must be taken from the side of the government to aid this industry get more competitive in the global market. All economic policies take time to gather momentum; therefore, to continue the soaring market of RMG, the government must relax its fiscal policies for this industry. In recent times, there have been major setbacks in the RMG sector; accidents and fire in factories, and continuous outcry of workers demanding more pay and benefits. Effective policies must be enacted to ensure the demand Bangladeshi goods in the international market of RMG.

According, to the findings in this paper, democracy clearly compliments economic growth more than autocracy. An observation of countries ranked according to its level of income (per capita) clearly shows that the underlying common factor among most of the top-performing countries is democracy. In the list of countries according to the per capita income (GDP), only two out of the top ten, do not follow democracy.[11] Similarly, among the top ten countries according to GDP (nominal, PPP), only two follow a system other than democracy.[12] Therefore, it is clear that the economy is more conducive for growth when under an elected government compared to an unelected one.

However, in practical terms, democracy is a much wider concept, and it can never be limited to the process of election only. There is a common misunderstanding in third-world countries that the right to vote is the only meaning of democracy. The political establishments in such countries try to keep peoples' attention on this particular aspect of democracy. Bangladesh, being a relatively new democratic country also suffers from this deception or myth. Every five years, the people of this country exercise their voting rights and that is the only essence of "democracy" to its citizens.

Democracy, in developed countries, means much more than mere elections. Rule of law, effective constitutional institutions, accountability and transparency are the broader spectrum of rights and responsibilities that citizens of a true democracy must have. Social justice is a prerequisite to economic freedom and in the case of Bangladesh, once democracy blossoms and rule of law, effective state institutions, and increased accountability and transparency, will complement the growth of its economy to a higher level.

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[11] Qatar and Brunei are in the top ten countries and do not follow a democracy. *Source: World Bank (2012).*

[12] China and Russia are in the top ten countries and do not follow a democracy. *Source: World Bank (2012).*

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Appendix A

Variables	ADF Test (Without intercept)	ADF Test (With intercept)	PP Test (Without intercept)	PP Test (With intercept)	Decision
GNIP	I(1)	I(1)***	I(1)	I(1)	I(1)
INV	I(1)*	I(1)**	I(1)*	I(1)**	I(1)
TRD	I(1)*	1(1)*	I(1)*	I(1)*	I(1)
EDU	I(1)**	I(1)**	I(1)**	I(1)***	I(1)
LIFEXP	I(0)*	I(0)**	I(1)	I(0)***	I(0)

Table 2: Unit Roots Tests

Note:

1. All tests that are stationary in level show 0 in parentheses and those that show 1 in parentheses are first level differences.
2. *, **, and ***, means significant at 1%, 5% and 10% respectively.
3. Lag length for ADF tests have been decided on the basis of Schwarz's Information Critera(SIC).
4. Maximum Bandwidth for PP test has been decided on the basis of Newey-West (1994).
5. ADF and PP tests are based on the null hypothesis of unit roots.
6. All tests performed using Econometric software Eviews 8.0.

Appendix B

Table 3: Granger Causality Tests

Lag Length	1	2	4	8
INV-GNIP	7.23*	2.709*	1.617*	7.097*
GNIP-INV	2.661*	8.243*	1.755*	1.176*
TRD-GNIP	1.541*	0.224*	0.148*	1.171*
GNIP-TRD	7.11**	3.782**	4.608**	1.747**
EDU-GNIP	0.389*	0.396*	1.076**	0.749*
GNIP-EDU	0.021	0.2272	1.926**	1.164
LIFEXP-GNIP	0.177	4.331	2.489**	4.338**
GNIP-LIFEXP	15.395	5.729	2.939	0.841
DUM-GNIP	0.411**	0.093**	0.152**	0.958*
GNIP-DUM	0.434*	0.303*	1.595**	1.997**
TRD-INV	2.108**	2.947**	1.069**	3.163**
INV-TRD	3.132**	1.439**	1.178**	0.776*
EDU-INV	19.259	16.57	2.764**	3.591
INV-EDU	0.1554	6.148	4.582	2.804
LIFEXP-INV	11.935	13.140	3.103	1.748
INV-LIFEXP	19.982	9.088	10.999	2.919**
DUM-INV	15.51	6.392	2.754**	3.397
INV-DUM	0.032*	0.633*	1.641*	14.961

EDU-TRD	4.411**	4.266	3.261**	4.089**
TRD-EDU	0.108**	0.749**	0.856*	3.609**
LIFEXP-TRD	7.611	4.401	4.782	2.185
TRD-LIFEXP	17.895	0.052	1.087	0.865
DUM-TRD	7.091	3.669	2.443**	0.909
TRD-DUM	0.004**	0.204*	0.771*	0.891*
LIFEXP-EDU	0.192**	2.245	5.926	22.201
EDU-LIFEXP	0.237**	2.967	10.956	0.204**
DUM_EDU	15.108	6.811	2.873	1.703
EDU-DUM	0.051*	0.195	0.346**	0.348
DUM-LIFEXP	9.381	0.266	0.529**	1.253
LIFEXP-DUM	1.201*	1.712*	1.856*	2.905**

Note:

1. Pairwise Granger Causality Tests in first column of the table means null hypothesis of one variable does not Granger Cause another variable.
2. Columns 2,3,4,5 indicate F-Statistic results of Granger Causality Tests and ** indicate statistically significant at 1% and 5% respectively.

Appendix C

Table 4: Chow Breakpoint Test

F-statistic	2.298807	Prob. F (4,22)	0.0321
Log likelihood ratio	10.82590	Prob. Chi-Square (4)	0.0286
Wald Statistic	9.195228	Prob. Chi-Square (4)	0.0324

Note:

1. Chow Breakpoint Test: 1991
2. Null Hypothesis: No breaks at specified breakpoints
3. Varying regressors: INV TRD EDU LIFEXP
4. Equation Sample: 1981 2011

Table 5: Regression Analysis (Ordinary Least Square)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	21.28943	2.227462	9.557704	0.0000
INV	0.3206	0.328923	0.974969	0.3389
TRD	0.541542	0.119393	4.535785	0.0001
EDU	0.08026	0.109400	3.546840	0.0016

LIFEXP	6.881563	0.592315	11.61808	0.0002
DUM	1.1764	0.8832	0.923520	0.3646

Included observations: 31
Dependent Variable: GNIP
Method: Least Squares
Date: 02/15/14   Time: 17:46
Sample: 1981 2011

Note:

1. Not formatted or edited. Printed as shown in software.

2. Software Name: EViews for Mac, Version: 8(Student Version).

3. Variable REGDUM is a dummy variable; value for democracy is 1 and value for dictatorship is 0.