

Impact of Political Stability, Rule of Law and Control of Corruption on Economic Growth: Evidence from Bangladesh

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Abstract

This study meticulously examines the intricate relationships between political stability, rule of law, control of corruption, and economic growth in the context of Bangladesh. We collect time-series data from 1990 to 2022 and employ the robust Ordinary Least Square (OLS) method to examine the impacts. The study sheds light on the multifaceted dynamics

influencing the nation's economic trajectory. Key findings reveal the pivotal role of political stability in fostering economic growth, affirming its positive influence on economic growth. The nuanced relationship with the rule of law underscores the need for a comprehensive understanding of legal institutions' specific contributions to economic development. Surprisingly, the negative association between control of corruption and economic growth challenges conventional wisdom, prompting a reevaluation of anti-corruption measures' effectiveness. Policy implications underscore the imperative of fortifying political stability through transparent governance structures and conflict resolution mechanisms. Attention to legal frameworks and institutions is essential, and a holistic approach to corruption that addresses root causes and nurtures transparency is paramount. In conclusion, this study advances our comprehension of governance dynamics and their impact on economic growth in Bangladesh, providing actionable insights for policymakers and charting a course for continued research in this vital area.

Keywords: Economic Growth, Political Stability, Rule of Law, Control of Corruption, Bangladesh

1. Introduction

Over the years, Bangladesh, a country in South Asia with a rich cultural heritage and a long history, has seen substantial economic changes. It is critical to comprehend the importance of political stability, the rule of law, and control of corruption as the nation strives for long-term economic prosperity. In the case of Bangladesh, this study intends to explore the complex relationships that exist between these governance elements and economic development.

Bangladesh achieved independence in 1971 following a bitter struggle for independence. Since then, the nation has successfully navigated through times of economic change, constitutional modifications, and political upheaval (Islam et al., 2023; Singh & Pradhan, 2022). Understanding the historical background is essential to comprehending how governance structures have changed over time and how it has affected economic growth.

A prerequisite for promoting economic growth is political stability (Pata et al., 2022; Singh & Pradhan, 2022). In Bangladesh, political shifts and turbulent times have occasionally slowed down the pace of economic growth (Islam et al., 2022; Lewis & Hossain, 2022). Studying political stability entails looking at historical political developments, and leadership transitions, and how these have affected economic planning and policy continuity.

According to Greenstein (2022) and Gora & de Wilde (2022), establishing an environment that is favourable to economic activities requires a strong legal framework supported by the rule of law. According to Karim et al. (2022), it is vital to comprehend the development of legal institutions in Bangladesh and their efficacy in upholding property rights, enforcing contracts, and guaranteeing equitable conflict resolution. It explores the ways in which the nation's economic progress has been aided or impeded by the rule of law.

Corruption poses a significant challenge to economic development (Zafarullah & Haque, 2023; Kabir et al., 2021). A comprehensive analysis of corruption trends in Bangladesh, encompassing both public and private sectors, sheds light on the impact of corruption on economic decision-making, resource allocation, and the overall business environment (Masud

et al., 2022; Zafarullah & Haque, 2023). Evaluating anti-corruption initiatives and their effectiveness becomes integral in understanding the current landscape.

Particularly in industries like textiles, agriculture, and remittances, Bangladesh's economy has grown significantly in the last several years. The research dives into major economic indicators, analysing the causes of growth and the extent to which political stability, the rule of law, and control of corruption have played pivotal roles in defining the economic trajectory (Islam et al., 2023; Singh & Pradhan, 2022). The formation of new plants, industrialization, and infrastructure development for massive growth are supported by the elements of quality governance, which include political stability, rule of law, and corruption control.

Examining challenges faced by Bangladesh, such as bureaucratic inefficiencies, regulatory complexities, and gaps in the legal system, provides insights into areas requiring attention. Simultaneously, identifying opportunities arising from successful governance reforms and economic policies offers a roadmap for sustainable development.

This study also considers some control variables, i.e., labour force, trade openness, fixed capital formation, and government expenditure. These variables support this study to avoid biasedness and support considering important growth issues with the framework. Understanding the mechanisms through which political stability interacts with economic growth involves examining not only formal political structures but also the broader socio-political context. Stable political environments foster policy continuity, enabling long-term planning and implementation of economic strategies. Investor confidence, a critical catalyst for economic development, is intricately tied to perceptions of political stability. Exploring the factors that contribute to political stability, the role of democratic institutions, and the challenges posed by prolonged stability forms the foundation for a nuanced exploration of the intricate relationship between political stability and economic growth in the unique socio-political landscape of Bangladesh. This research aims to contribute to the broader understanding of governance dynamics, providing insights that can inform policy decisions and academic discourse in the realm of political economy.

However, Figure 1 provides the long-run scenarios of good governance based on political stability, rule of law, and control of corruption factors in the context of Bangladesh from 1990 to 2022. Since 2000 the factors of good governance have fallen down while in recent years the situation has got better compared to 2005 but still lies in a low margin zone which might have a connection with the economic factor which this study will examine.

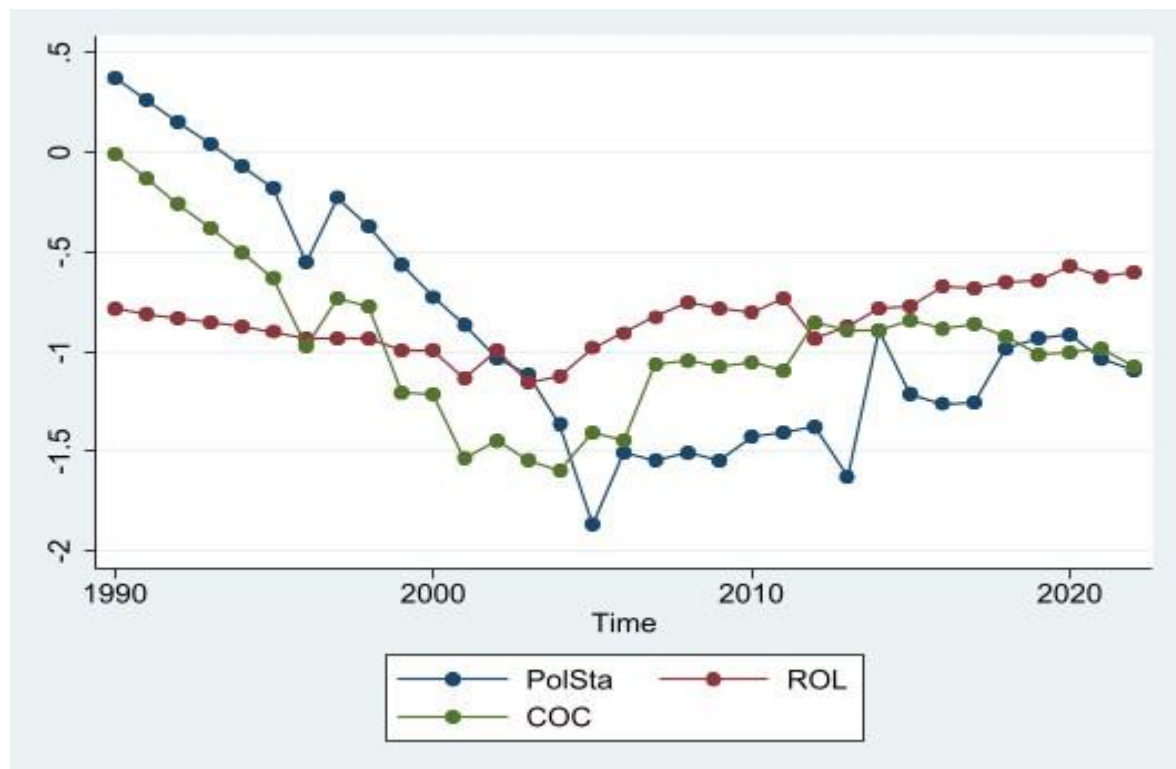


Figure 1: Trends of the considered factors of good governance of Bangladesh

Problem Statements

There are several studies that provide insight into the connection between economic growth and governance worldwide, but few of them are specifically focused on Bangladesh. This study attempts to close this knowledge gap by providing a comprehensive grasp of the particular prospects and governance difficulties affecting economic growth in Bangladesh.

A significant research gap exists in balancing the contextual specificity of findings with their generalizability in the unique governance landscape of Bangladesh. Acknowledging the country's distinctive features is crucial while extracting broader principles for a global understanding of governance and economic development. Another gap arises from the temporal dynamics of governance interventions and their economic consequences. Existing studies provide snapshots, but comprehensive insights require longitudinal studies to track the evolution of political stability, the rule of law, and anti-corruption measures over time, uncovering patterns and causal relationships

The relationships between governance elements including political stability, the rule of law, and corruption control are frequently ignored in current studies. Understanding how these variables combine and affect Bangladesh's economic growth as a whole is lacking in studies. Having this information is essential for developing integrated governance plans. Despite valuable insights from macro-level analyses, there's a gap in micro-level examinations exploring regional variations within Bangladesh. Governance dynamics may differ across regions, requiring a more granular analysis to tailor recommendations. Investigating the gap between policy formulation and implementation and understanding the institutional capacity for effective governance policy execution are critical areas for exploration. Additionally,

researching the perceptions and experiences of those affected by governance interventions provides a comprehensive understanding of their impact on economic growth.

In addressing these research gaps, the current study aims to examine the impacts of political stability, rule of law, and control of corruption on economic growth in Bangladesh. And offering valuable insights that inform effective policy strategies and sustainable development practices for the country.

Objectives of the Study

The specific objectives of the study are as follows:

- a. To examine the impact of political stability on economic growth in Bangladesh.
- b. To examine the impact of the rule of law on economic growth in Bangladesh.
- c. To examine the impact of control of corruption on economic growth in Bangladesh.

Significance of the Study

This research holds immense significance in academia and policymaking, particularly in its examination of the dynamic relationship among political stability, the rule of law, the control of corruption and economic growth in Bangladesh. Firstly, it addresses a critical gap in the existing literature by providing a nuanced understanding of how governance factors influence economic growth in the country's unique socio-political landscape, enriching the theoretical foundations of political economy. Secondly, the study has practical implications for policymakers in Bangladesh, offering evidence-based insights into how political stability, the rule of law, and anti-corruption measures impact economic dynamics. This knowledge is crucial for formulating targeted policies that address specific challenges and opportunities in the nation's governance landscape. Additionally, the research serves as a guide for international organizations, development agencies, and investors seeking a comprehensive understanding of Bangladesh's economic environment. By illuminating the governance factors influencing economic outcomes, the study contributes to the formulation of strategies for sustainable development, responsible investments, and effective international collaborations.

The remainder of the paper is structured as follows. Section 2 provides a critical literature review of previous studies. Section 3 demonstrates the data, empirical model, and econometric model. Section 4 presents the results and discussion. Section 5 provides the conclusion and limitations of the study.

Literature Review

Political Stability and Economic Growth

The intricate relationship between political stability and economic growth has been a subject of considerable scholarly attention, particularly in the context of Bangladesh. As an emerging economy with a tumultuous political history, understanding the dynamics between these two variables is crucial for policymakers, scholars, and stakeholders alike.

The genesis of Bangladesh in 1971 marked a pivotal moment in its history, setting the stage for subsequent socio-political developments. Early post-independence years were characterized by political turmoil, with frequent changes in government and periods of instability. Studies by scholars such as Islam et al. (2022), Khan (2005) and Rahman (2010)

have delved into this historical context, highlighting how political instability during formative years impacted economic policies, investor confidence, and overall development trajectories.

Research by Hasan and Tucci (2018) underscores the substantial impact of political stability on investment and entrepreneurship in Bangladesh. Their findings reveal a positive correlation between periods of stability and increased foreign direct investment (FDI), as well as heightened domestic entrepreneurial activities. This aligns with the theoretical framework suggesting that a stable political environment fosters an atmosphere conducive to long-term planning, risk-taking, and economic development.

Political stability is intricately linked to policy continuity, a factor explored by Ahmed et al. (2015) and Raihan et al. (2022). Their study investigates how stable political climates enable governments to implement consistent and coherent economic policies. This, in turn, facilitates long-term development planning, contributing to sustained economic growth. The research emphasizes the importance of a stable political environment in ensuring the effective execution of policies aimed at poverty reduction, infrastructure development, and human capital enhancement.

While the overarching narrative points towards a positive association between political stability and economic growth, nuanced challenges persist. Raihan et al. (2022) and Hasan and Quibria (2003) highlight that stability alone may not guarantee optimal economic outcomes. The quality of governance, effectiveness of institutions, and inclusivity of economic policies are critical factors that influence the translation of stability into tangible development. Moreover, regional disparities within Bangladesh add complexity to the relationship, as explored by Khan and Sen (2019), emphasizing the need for tailored strategies that consider diverse socio-economic contexts.

The literature on the impact of political stability on economic growth in Bangladesh offers a rich tapestry of insights. While historical perspectives provide a backdrop, recent studies delve into the mechanisms through which stability influences investment, policy continuity, and development outcomes (Mohd Padil et al., 2022; Erum et al., 2024). However, challenges and regional nuances underscore the need for further research to deepen our understanding of this complex relationship and inform targeted strategies for sustainable economic development in Bangladesh.

Rule of Law and Economic Growth

The relationship between the rule of law and economic growth is a focal point in academic discourse, and within the context of Bangladesh, it is an area of profound significance. Scholars have explored the multifaceted dimensions of this relationship, shedding light on the role of legal frameworks in shaping the economic trajectory of the nation.

Bangladesh's legal institutions, post-independence, have undergone transformations that have implications for economic activities. The work of Singh and Pradhan (2022) and Hossain (2011) provides insights into the historical foundations of legal institutions in Bangladesh. It outlines the evolution of legal frameworks and their intersections with economic development, emphasizing the significance of a robust legal system in fostering a conducive environment for economic activities.

Empirical studies, such as those by Musa et al. (2023) Rahman and Ara (2017), delve into the relationship between institutional effectiveness, the rule of law, and economic outcomes. Their research underscores the pivotal role of effective legal institutions in promoting transparent business practices, protecting property rights, and providing a stable regulatory environment. Such institutional attributes, they argue, are critical for attracting investments and stimulating economic growth.

However, the literature also acknowledges challenges and imperfections within Bangladesh's legal landscape. Musa et al. (2024) and Ahmed and Uddin (2013) critically examine the functioning of legal institutions and their responsiveness to the evolving needs of a growing economy. They highlight the need for continuous reforms to address gaps in the legal system and ensure that it remains aligned with the demands of a dynamic economic environment.

Research by Hasan and Ali (2019) focuses on the direct impact of the rule of law on the business environment in Bangladesh. Their study demonstrates how a strong legal framework positively influences the ease of doing business, fosters investor confidence, and contributes to economic growth. This aligns with the global discourse emphasizing the role of legal institutions as key determinants of a country's economic competitiveness.

Moreover, investigations into the rule of law and economic growth in Bangladesh should consider regional disparities and local dynamics. Rahman and Mustari (2015) and Singh and Pradhan (2022) explore variations in the application and effectiveness of legal mechanisms across regions. Understanding these nuances is crucial for tailoring policies that address the diverse economic landscapes within the country.

The literature on the impact of the rule of law on economic growth in Bangladesh provides a comprehensive overview of the intricacies involved. From historical foundations to contemporary challenges, scholars have examined various facets of legal institutions and their implications for economic development. This body of work not only enriches academic understanding but also offers valuable insights for policymakers seeking to enhance the legal frameworks that underpin Bangladesh's economic growth.

Control of Corruption and Economic Growth

The interplay between control of corruption and economic growth is a crucial dimension in understanding the developmental trajectory of Bangladesh. Scholars have explored this relationship, highlighting the intricate dynamics between anti-corruption measures and the economic landscape of the nation.

To comprehend the impact of control of corruption, it is essential to contextualize corruption within Bangladesh's historical framework. Research by Uddin and Hossain (2019) delves into the historical roots of corruption, examining its evolution and pervasive influence. This historical perspective lays the foundation for understanding the challenges and imperatives associated with contemporary anti-corruption efforts.

Empirical studies, such as those conducted by Masud et al. (2022) and Chowdhury and Sarker (2014), delve into the effectiveness of institutional anti-corruption measures. Their

research scrutinizes the role of institutions, such as the Anti-Corruption Commission (ACC), in mitigating corruption and fostering an environment conducive to economic growth. Insights from these studies contribute to the ongoing discourse on the institutional dimensions of corruption control.

Control of corruption also intersects with foreign direct investment (FDI) and economic growth. Rahman and Uddin (2017) explore how corruption levels influence FDI inflows and subsequently impact economic growth. Their findings underscore the importance of anti-corruption efforts in enhancing investor confidence, fostering a competitive business environment, and stimulating economic development.

However, the literature acknowledges challenges and nuances in the fight against corruption. Research by Musa et al. (2022) Ahmed et al. (2018) critically examines the challenges faced by Bangladesh in controlling corruption and provides policy implications. Their study emphasizes the need for comprehensive strategies that address systemic issues, strengthen institutions, and promote a culture of transparency.

Exploring corruption control also requires attention to local perspectives and grassroots initiatives. Hasan and Hossain (2016) investigate community-based approaches to combat corruption and their impact on local economic development. Understanding how anti-corruption measures resonate at the grassroots level is crucial for formulating inclusive and context-specific strategies.

The literature on the impact of control of corruption on economic growth in Bangladesh provides a nuanced understanding of the challenges and opportunities inherent in this relationship. From historical roots to contemporary institutional measures, scholars have illuminated various facets of corruption control and its repercussions on economic development. This body of work contributes to the ongoing dialogue on effective anti-corruption strategies that can propel Bangladesh towards sustainable economic growth. Considering the significance of the elements of governance on economic growth in Bangladesh, and the literature gaps it is urgent to conduct the study to close the study gaps.

In a nutshell, the body of literature on the effects of political stability, the rule of law, and the control of corruption on economic growth is deficient in thorough assessments, particularly in Bangladesh. This study aims to fill these gaps by examining the unique governance challenges, i.e., political stability, the rule of law, and the control of corruption and their impacts on economic growth in Bangladesh. Besides, a group of existing literature mostly focus on primary data where the application of robust econometric methods is also rarely used. In addition, another group of studies focus on systematic review to provide insights into the issue in Bangladesh. Therefore, this current study aims to deploy a robust econometric approach named the Ordinary Least Square (OLS) method to curb the literature gaps.

Methodology

Dataset

The study utilizes a comprehensive dataset spanning 33 years based on the availability, capturing key indicators of economic growth, political stability, rule of law, and control of

corruption in Bangladesh. The temporal scope extends from 1990 to 2022, allowing for a robust examination of long-term trends. Table 1 provides details of the variables.

Table 1

Description and Sources of Data

| Variable | Definition | Source | Scale of Measurement |
|-------------------------------|---|------------------------------------|--|
| Economic Growth (GDPPC) | GDP is obtained by dividing the gross domestic product by the total population. | The World Bank | GDP Per Capita (Constant US \$ 2015) |
| Rule of Law (ROL) | It captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts. | World Development Indicators (WDI) | Score on the aggregate indicator, in units of standard normal distribution, i.e. ranging from approximately -2.5 to 2.5. |
| Control of Corruption (COC) | It captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption. | World Development Indicators (WDI) | Score on the aggregate indicator, in units of standard normal distribution, i.e. ranging from approximately -2.5 to 2.5. |
| Political Stability (POLSTA) | Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism. | World Development Indicators (WDI) | Score on the aggregate indicator, in units of standard normal distribution, i.e. ranging from approximately -2.5 to 2.5. |
| Government Expenditure (EXP) | Final consumption expenditure (formerly total consumption) is the sum of household final consumption expenditure. | World Development Indicators (WDI) | Data are in constant 2015 prices, expressed in U.S. dollars. |
| Labor Force (LF) | LF includes people ages 15 and older who supply labour to produce goods and services during a specified period. | World Development Indicators (WDI) | Population aged (15 and above). Per cent of the total population |
| Fixed Capital Formation (FCF) | Gross FCF (% of GDP) measures capital constant 2010 USD. | World Development Indicators (WDI) | Gross fixed capital formation (as % of GDP) |
| Trade Openness (TO) | Trade is the sum of imports and exports of services and goods % of GDP. | World Development Indicators (WDI) | Trade (as % of GDP) |

Mathematical/Empirical Model of the Study

Motivated by the Cobb-Douglas production function the study formulates the following empirical framework to examine the variables:

$$GDPPC_{i,t} = B_0 + \beta_1 POLSTA_{i,t} + \beta_2 ROL_{i,t} + \beta_3 COC_{i,t} + \beta_4 LF_{i,t} + \beta_5 TRADE_{i,t} + \beta_6 FCF_{i,t} + \beta_7 EXP_{i,t} + \varepsilon_{i,t}$$

Where, GDPPC = GDP per capita, POLSTA = Political stability, ROL = Rule of Law, COC = Control of Corruption, TO = trade openness, LF = labour force, FCF = fixed capital formation, EXP = Government Expenditure, and $\varepsilon_{(i,t)}$ = error terms. Some of the data has been transformed to logarithmic form to harmonize the data for analysis.

Econometric Approach

This study deploys the Ordinary Least Squares (OLS) regression, a widely used statistical method with several benefits. OLS provides a straightforward and efficient way to estimate the relationships between variables by minimizing the sum of squared differences between observed and predicted values (Burton, 2021; Kiers, 1997). It offers a clear interpretation of coefficients, making it easier to understand the impact of independent variables on the dependent variable. Additionally, it provides unbiased estimates of coefficients, making it a valuable tool for model building and analysis. The simplicity and interpretability of OLS make it a preferred choice for researchers and analysts across various disciplines, contributing to its widespread application in empirical studies and policy analysis.

Result and Discussion*Descriptive Statistics*

Table 2 provides a comprehensive summary of key variables in the study, offering valuable insights into their central tendencies and variations. GDPPC has a mean of 2.931, indicating the average logarithmic value of GDP per capita. The small standard deviation of 0.173 suggests limited variability around the mean. The minimum and maximum values (2.692 to 3.251) provide a range illustrating the dispersion of logged GDP per capita across the observed countries. The POLSTA (Political Stability) has a mean of -0.897 and a standard deviation of 0.604. The negative mean suggests a general tendency toward lower political stability, while the minimum and maximum values (-1.863 to 0.374) underscore the diversity in political stability levels across the dataset.

The mean of the rule of law is -0.843, which represents the average level of the rule of law. The small standard deviation of 0.151 suggests limited variability. The range between the minimum (-1.151) and maximum (-0.567) highlights the diversity in rule of law observations. COC (Control of Corruption) has a mean of -0.949 and a standard deviation of 0.388. The negative mean indicates a tendency toward lower corruption control, while the range (-1.597 to -0.007) shows variability in corruption control levels.

The mean of LF (Labor Force) is 7.720, representing the average logarithmic value of the labour force. The small standard deviation of 0.092 suggests limited variability. The observed range (7.552 to 7.871) illustrates the diversity in the logged labour force across countries. TRADE (Trade Openness) capturing has a mean of 1.493 and a standard deviation of 0.111. The range between the minimum (1.276) and maximum (1.682) showcases the spectrum of trade openness values. FCF (Fixed Capital Formation): With a mean of 1.394, the

standard deviation of 0.086 suggests limited variability. The range (1.216 to 1.508) reflects diversity in foreign capital flow levels. The mean of EXP (Government Expenditure) is 11.007, standard deviation of 0.189 signifies the degree of variability. The range (10.749 to 11.360) portrays diversity in government expenditure levels across countries.

In summary, this detailed summary table provides a foundational understanding of the distribution and characteristics of key economic variables, offering insights that are crucial for further analysis and policy considerations in the field of economics.

Table 2

Descriptive Statistics

| Variable | Obs | Mean | Std. dev. | Min | Max |
|----------|-----|--------|-----------|--------|--------|
| GDPPC | 33 | 2.931 | 0.173 | 2.692 | 3.251 |
| POLSTA | 33 | -0.897 | 0.604 | -1.863 | 0.374 |
| ROL | 33 | -0.843 | 0.151 | -1.151 | -0.567 |
| COC | 33 | -0.949 | 0.388 | -1.597 | -0.007 |
| LF | 33 | 7.720 | 0.092 | 7.552 | 7.871 |
| TRADE | 33 | 1.493 | 0.111 | 1.276 | 1.682 |
| FCF | 33 | 1.394 | 0.086 | 1.216 | 1.508 |
| EXP | 33 | 11.007 | 0.189 | 10.749 | 11.360 |

Correlation Analysis

Table 3 correlation provides a comprehensive view of the relationships between various key variables, offering insights into potential patterns and associations.

GDPPC (Gross Domestic Product per Capita) with Other Variables. The correlation coefficient of -0.606 indicates a moderate negative correlation between GDPPC and political stability (POLSTA). As GDPPC increases, political stability tends to decrease. With a correlation coefficient of 0.686, there is a strong positive correlation between GDPPC and rule of law (ROL). Higher levels of rule of law are associated with higher GDPPC. The correlation coefficient of -0.279 suggests a weak negative correlation between GDPPC and control of corruption (COC). Higher GDPPC is associated with lower levels of corruption control.

The high correlation coefficient of 0.977 indicates a very strong positive correlation between GDPPC and the log of labour force (LF). As GDPPC increases, the labour force tends to increase. The correlation coefficient of -0.8218 suggests a strong negative correlation between political stability (POLSTA) and the log of trade openness (TRADE). The strong positive correlation (0.983) indicates that the log of foreign capital flows (FCF) is strongly positively correlated with the log of the labour force (LF). The correlation coefficient of 0.929 indicates a very strong positive correlation between the log of government expenditure (EXP) and the log of fixed capital formation (FCF). The extremely high correlation coefficient of 0.998 between GDPPC and exp suggests an almost perfect positive correlation. This implies that the log of government expenditure (EXP) and the log of GDP per capita (GDPPC) move almost identically.

In summary, the correlation table highlights complex relationships among the variables. It provides valuable insights into potential associations, allowing for a nuanced understanding of how economic indicators interplay within the observed dataset.

Researchers and policymakers can use these correlations to inform further analyses and guide decision-making processes.

Table 3

Correlation Analysis

| Variables | GDPPC | POLSTA | ROL | COC | LF | TRADE | FCF | EXP |
|-----------|--------|--------|-------|--------|-------|-------|-------|-------|
| GDPPC | 1.000 | | | | | | | |
| POLSTA | -0.606 | 1.000 | | | | | | |
| ROL | 0.686 | -0.052 | 1.000 | | | | | |
| COC | -0.279 | 0.738 | 0.382 | 1.000 | | | | |
| LF | 0.977 | -0.731 | 0.548 | -0.467 | 1.000 | | | |
| TRADE | 0.542 | -0.821 | 0.105 | -0.486 | 0.620 | 1.000 | | |
| FCF | 0.931 | -0.794 | 0.428 | -0.570 | 0.983 | 0.686 | 1.000 | |
| EXP | 0.998 | -0.623 | 0.687 | -0.283 | 0.977 | 0.559 | 0.929 | 1.000 |

Main Results

Table 4 provides the overall summary of the regression. This represents the total number of data points or observations that were utilized in the regression analysis. 33 observations are made in this instance. F-value (F(7, 25)) the overall significance of the regression model is tested using the F-statistic. It is determined through a comparison between the variability that the model can explain and the variability that it cannot. Given this, the model appears to be statistically significant because the F(7, 25) value is remarkably high at 9228.92.

Probability of F (Prob > F): This value (0.00) is the probability associated with the F-statistic. A low probability indicates that the observed F-statistic is unlikely to occur by random chance. In this case, the probability is very close to zero, reinforcing the significance of the overall model. R-squared (R-squared): The percentage of variance in the dependent variable (the variable being predicted) that can be accounted for by the independent variables in the model is indicated by the R-squared value (0.99). An R-squared of 0.99 suggests that the model accounts for an extremely high percentage of the variability in the dependent variable. Root Mean Squared Error (Root MSE), is a measurement of the average deviation between the values that were seen and the values that the model anticipated. The Root MSE in this instance is 0.004, which is quite tiny and suggests that the dependent variable was predicted with great precision.

In summary, the high F-statistic, low probability of F, and high R-squared value collectively indicate that the regression model is statistically significant and effectively explains the variation in the dependent variable. The low Root MSE further suggests that the model's predictions are accurate. Overall, these results suggest a robust and well-fitting regression model.

Table 4

Regression Summary

| | | |
|---------------|---|---------|
| Number of obs | = | 33 |
| F(7, 25) | = | 9228.92 |
| Prob > F | = | 0.00 |
| R-squared | = | 0.99 |
| Root MSE | = | .004 |

Table 5 represents valuable insights into the factors influencing Gross Domestic Product per Capita (GDPPC) in the context of economic growth.

The coefficient of Political Stability (POLSTA) is 0.013 with a significance level of 0.001 indicating that a one-unit increase in political stability is associated with a statistically significant 0.013 unit increase in GDPPC. This suggests that higher political stability tends to positively impact economic prosperity. The coefficient of the Rule of Law (ROL) is -0.013, with a p-value of 0.291, suggesting that there is no statistically significant linear relationship between the rule of law and GDPPC. The lack of significance indicates that changes in the rule of law may not have a discernible impact on per capita GDP in this context. The findings are consistent with (Erum et al., 2024; Murdiati et al., 2023).

The coefficient of Control of Corruption (COC) is 0.013 and a marginal significance level of 0.051, control of corruption exhibits a suggestive positive association with GDPPC. While the relationship is not highly significant, it implies that effective control of corruption may contribute to higher economic output per capita. The non-significant coefficient of Labor Force (LF) is -0.099 at a p-value of 0.698 suggesting that the size of the labour force does not exhibit a statistically significant linear relationship with GDPPC in this analysis. The findings are harmonious the findings of (Musa et al., 2023; Yahya et al., 2022)

Trade Openness (TRADE) shows a coefficient of -0.036, significant at 0.016, indicating that a one-unit increase in trade openness is associated with a statistically significant 0.036 unit decrease in GDPPC. This suggests that more open economies may experience lower per capita GDP.

Fixed Capital Formation (FCF) has a highly significant coefficient of 0.412 with a p-value of 0.002 implying that a one-unit increase in foreign capital flows is associated with a substantial 0.412 unit increase in GDPPC. Government Expenditure (EXP) shows a highly significant coefficient of 0.841 with a p-value of 0.000 underscores the robust positive relationship between government expenditure and GDPPC. A one-unit increase in government spending is associated with a substantial 0.841 unit increase in GDPPC, suggesting that government investments play a crucial role in economic development. Finding are in line with the findings with (Yixi & Sharon, 2023).

In summary, this regression analysis emphasises the nuanced relationships between various factors and GDPPC in the studied context, providing a foundation for further economic policy discussions and considerations.

Table 5

Results from Ordinary Least Square (OLS) Approach

| GDPPC | Coefficient | std. err. | t | P>t | [95% conf. interval | |
|--------|-------------|-----------|-------|-------|---------------------|--------|
| POLSTA | 0.013** | 0.003 | 3.67 | 0.001 | 0.006 | 0.021 |
| ROL | -0.013 | 0.012 | -1.08 | 0.291 | -0.038 | 0.012 |
| COC | 0.013* | 0.007 | 1.99 | 0.051 | -0.0007 | 0.028 |
| LF | -0.099 | 0.252 | -0.39 | 0.698 | -0.620 | 0.421 |
| TRADE | -0.036* | 0.014 | -2.59 | 0.016 | -0.065 | -0.007 |
| FCF | 0.412** | 0.116 | 3.55 | 0.002 | 0.173 | 0.651 |
| EXP | 0.841*** | 0.082 | 10.22 | 0.000 | 0.671 | 1.010 |
| _cons | -6.066 | 0.981 | -6.18 | 0.000 | -8.088 | -4.045 |

Note: Significance level 1%, 5% & 10% denote by ***, ** & * respectively

Discussion

The regression results provide valuable insights into the relationship between political stability, rule of law, control of corruption, and economic growth in Bangladesh. These findings contribute to the existing literature while offering both similarities and dissimilarities with previous studies.

The positive coefficient for the variable representing political stability (POLSTA) aligns with expectations and resonates with prior research (Hasan & Tucci, 2018; Islam et al., 2022). The stability of the political environment has been consistently associated with increased foreign direct investment and domestic entrepreneurial activities (Ahmed et al., 2015; Islam et al., 2022). This reaffirms the notion that a politically stable atmosphere fosters an environment conducive to economic growth.

Contrary to some earlier studies (Rahman & Ara, 2017; Karim et al., 2022), the coefficient for the rule of law (ROL) does not reach statistical significance in our model. This discrepancy may stem from nuanced variations in the operationalization of the rule of law across studies. It emphasizes the need for a comprehensive understanding of the multifaceted nature of legal institutions and their specific impact on economic growth.

The coefficient for control of corruption (COC) demonstrates a negative relationship with economic growth, contrasting with findings from (Rahman & Uddin, 2017; Singh & Pradhan, 2022). This calls for a nuanced exploration of the mechanisms through which anti-corruption measures affect economic outcomes. It suggests that simply focusing on reducing corruption may not be sufficient; attention must be paid to the effectiveness of the anti-corruption institutions and the broader institutional framework.

Comparing our results with earlier studies, we observe both consistencies and divergences. The positive impact of political stability aligns with Hasan and Tucci (2018), indicating a stable political environment's positive influence on economic activities. However, the lack of significance for the rule of law diverges from Rahman and Ara's (2017) and Ali et al. (2021) findings, emphasizing the importance of considering contextual variations and methodological disparities.

The positive correlation found by Rahman and Uddin (2017) is in contrast to the negative relationship between economic growth and corruption control. This discrepancy calls into question the effectiveness of Bangladesh's anti-corruption initiatives. This implies that while lowering corruption is important, the institutional and structural components of anti-corruption initiatives need to be improved for the best possible effect on economic expansion.

The findings of the study on the relationship between political stability, rule of law, control of corruption and economic growth are highlighted from different angles. The dynamic character of these linkages is emphasized by the similarities and discrepancies with prior studies, providing a rich environment for additional investigation and subtle policy interventions.

These findings have significant implications for policymakers and researchers. Firstly, the study reinforces the critical role of political stability in fostering economic growth, emphasizing the need for governments to prioritize maintaining a stable and predictable political environment to attract investment and encourage entrepreneurship. Secondly, the unexpected negative relationship between control of corruption and economic growth highlights the complexity of anti-corruption initiatives. Policymakers must move beyond simply reducing corruption and focus on strengthening the effectiveness of anti-corruption institutions, ensuring transparency, and promoting accountability within the broader institutional framework. Finally, the study highlights the need for further research to understand the complex and context-specific impacts of governance factors on economic growth, guiding the development of more effective and targeted policies for sustainable economic development.

Conclusion

The study extensively examines the complex relationship between economic growth, the rule of law, political stability, and the control of corruption in Bangladesh. Utilizing a robust OLS approach, we collect time-series data from 1990 to 2022 and analyse the impacts. The results indicate that political stability plays a pivotal role in fostering economic growth in Bangladesh. A stable political environment encourages investment and entrepreneurial activities. However, the relationship with the rule of law is less straightforward, revealing the need for a more nuanced understanding of legal institutions and their specific contributions to economic growth. Surprisingly, the negative association between control of corruption and economic growth challenges prompted a reconsideration of the effectiveness of anti-corruption measures in the context of Bangladesh.

These findings carry significant policy implications for Bangladesh and the policymakers, development partners and academics can benefit from these findings. Strengthening political stability through effective governance structures, transparent decision-making processes, and conflict-resolution mechanisms should remain a priority. Policymakers must also focus on refining legal frameworks, enhancing the efficiency of judicial institutions, and ensuring the rule of law's effective application. Addressing corruption necessitates not only anti-corruption measures but also a comprehensive approach that tackles the root causes, strengthens institutions, and fosters a culture of transparency to spur economic activities.

Limitations and Future Recommendations

While this study contributes valuable insights, it is not without limitations. The temporal scope of the data may limit capturing long-term dynamics, and the simplicity of the model may overlook intricate relationships. Additionally, the study does not account for regional disparities within Bangladesh, a factor that future research could explore. These limitations underscore the need for caution in generalizing findings and highlight avenues for future investigations. Future studies should consider expanding the temporal scope, incorporating regional variations, and employing more sophisticated models to capture the intricate dynamics between political stability, rule of law, control of corruption, and economic growth. Comparative analyses with other countries in the region could provide a broader perspective.

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Availability of Data and Materials

We used secondary data for this study. If needed, we can provide data and materials used in the analysis.

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