

Political Instability, State Capacity, and Development Risks: A Theoretical Perspective from Bangladesh

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Abstract: The paper constructs a conceptual framework of the causal relationships between political instability, state capacity and development risk in Bangladesh. Unlike previous researches which often focused on the individual effects of the political instability and development risk, few analyzed their interactive and interplay dynamics in the political economy framework. This article presents a model which hypothesizes distinct pathways of relationships between political instability (independent variable), state capacity (intervening mechanism) and development risk (dependent variable). The methodology of this paper is based on a qualitative method where I systematically examine literatures of state capacity, political instability and development risk in Bangladesh and connect them. This analysis shows that the political instability erodes institution and policy continuity, increases development risk. State capacity is identified as a threshold variable to buffer political shocks or transmit to structural development risk; otherwise, they would be exacerbated. Furthermore, a growth-governance paradox is suggested that although Bangladesh enjoyed remarkable growth, weakening institution could undermine future sustainability. In addition, development risk will in return bring about more political instability by undermining legitimacy of institution and reducing people's trust. Finally, this paper claims that there is no real "development" without both "growth" and "governance". The model presented in this paper can be a generalizable paradigm to analyze similar phenomena in other developing countries.

Keywords: Economic; Political; Governance; Bureaucratic; Bangladesh.

1. INTRODUCTION

The development implications of political instability are substantial and impact all of governance and state capacity. This is particularly true in developing countries where institutions are underdeveloped and political instability cannot be restricted to short-term shocks that impact only economic policy, the bureaucracy, policy persistence and citizen trust in the state. Political instability implies development risks caused by economic limitations and weak state capacity. The development challenge requires effective capacity to formulate, implement, and finance policy and provide services. A constantly unstable political environment undermines state capacity due to declining quality of the non-partisan bureaucracy, lack of inter-institutional coherence, clientelistic arrangements and changing policy. This reduces quality of governance and increases the failure of projects, re-defining development risk as political/institutional, rather than economic. Bangladesh, for example, presents an example where despite economic development and considerable political competition/governance problems, its dual face of growth and continued questions about institutional efficiency and

political stability raise the issue of how political instability and state capacity interact. This paper seeks to argue theoretically about this interaction using models derived from the field of political economy, studies on governance, and theories of the state and show how the problem of political instability affects policy persistence, institutional efficiency, resource allocation, and thereby development risks, filling a gap in both political science and economics on the political prerequisites for state capacity to respond to development risks.

2. OBJECTIVES OF THE STUDY

1. To develop a theoretical framework linking political instability, state capacity, and development risks in Bangladesh.
2. To examine how political instability undermines institutional effectiveness, policy continuity, and governance performance.
3. To analyze the mediating role of state capacity between political conditions and development outcomes.

4. To explain how governance quality and institutional strength shape development risks beyond purely economic factors.

3. LITERATURE REVIEW

1. **Ferdous and Erfan (2024)** find political stability to be a pre-condition for development performance in Bangladesh. This is demonstrated by the negative effects of instability on the inflow of FDI, the ability of local development activities to get off the ground, and the rural economy. This suggests that even at the micro level, development efforts are sensitive to macro level political dynamics; a clear causal link.

2. **Behera (2025)** constructs a structural framework for recurrent political instability in the developing world focusing on democratic backsliding, erosion of institutions and the role of socio-political antagonisms. The paper hypothesizes instability as a result of imperfect democratic consolidation and competition among internal and external politico-ideological influences; providing a macro-political framework relevant for understanding chronic fragility in governance.

3. **Rahman (2023)** posits that institutional weaknesses, polarization and the lack of accountability are key elements defining political instability in many developing countries. It is shown that inadequate ability of political institutions to manage dissent and political competition is the main cause of long-term instability, thus relating democratic institutions to governance outcomes.

4. **Rahman and Rashid (2018)** investigate the impact of strikes, unrest and political conflict on productivity, investment and economic growth. Beyond empirical estimations, this study is an attempt to provide a conceptual basis to the relationship between political instability and developmental risks at various levels.

5. **Islam, Chu and Smart (2019)** seek to explain how the political economy can shape the state

capacity to deliver public services. This involves analyzing how institutional incentives, power relationships and governance objectives effect the delivery of development outcomes and how these reflect state capacity of allocating public resources.

6. **Rahman, Sarwar and Chowdhury (2025)** relate the role of political incentives in perpetuating corruption and the failure of the state. This study contributes to developing a conceptual understanding of how politicization of public administration undermines state capacity.

7. **Sarkar and Roy (2023)** offer a literature review that synthesises theoretical frameworks that relate political crisis with financial and economic indicators. While not a country-specific review, this has transferable theoretical arguments on how political instability can shape investment opportunities and economic outlook.

8. The literature utilizing **World Bank** Worldwide Governance Indicators gives us quantitative measures on aspects of politics, like political stability, rule of law and government effectiveness. This body of literature tries to answer the theoretical question on how quality of governance and state capacity mediate political process to development outcomes.

9. **South Asian Comparative Research (2023)**- provides case study on all the South Asian countries that reveal similar relationships between political stability and economic indicators (e.g. Inflation stability, investment flow, and fiscal control). Such theoretical models can provide useful hypothesis on Bangladesh case.

10. **Claude Ake (1975)** defines political stability as necessary condition for governing development, while Gerardo L. Munck (2014) defines democratic quality as determining state capacity. These initial theoretical discussions situate Bangladesh's case into international debate on political order and development risk.

Table 1: Analytical Synthesis of Reviewed Literature

Author(s) & Year	Focus Area	Key Argument	Limitation in Existing Study	How This Study Extends the Argument
Ferdous & Erfan (2024)	Political stability and development in Bangladesh	Political stability is essential for FDI, local development, and rural progress	Focuses on stability–development link, does not theorize institutional mediation	Integrates stability with state capacity as mediating mechanism for development risks
Behera (2025)	Democratic backsliding and political crisis	Instability arises from incomplete democratic consolidation and ideological conflict	Macro-political explanation without linking to institutional performance or development outcomes	Connects political crisis to institutional weakening and development risks
Rahman (2023)	Institutional weakness and political polarization	Political system limitations create persistent instability	Governance-focused; lacks integration with development consequences	Links institutional weakness with state capacity and development vulnerability
Rahman & Rashid (2018)	Political unrest and economic growth	Strikes and conflict reduce productivity and growth	Empirical focus on growth; lacks broader institutional explanation	Expands analysis to include governance and regulatory capacity channels
Islam, Chu & Smart (2019)	Political economy of public spending	Political incentives shape public resource allocation	Sector-specific (disaster spending); not generalized to broader development risks	Uses insights to theorize how politics affects overall state capacity
Rahman, Sarwar & Chowdhury (2025)	Politics and corruption in public sector	Politicization increases corruption and state dysfunction	Focuses on corruption; does not link to macro development framework	Incorporates corruption into institutional risk within development model
Sarkar & Roy (2023)	Political crisis and financial markets	Political uncertainty affects investment climate and capital markets	Financial-market specific; lacks institutional mediation	Generalizes to broader development risk typology
Worldwide Governance Indicators literature	Governance quality and development	Political stability, rule of law, and effectiveness shape development outcomes	Indicator-based measurement; lacks theoretical integration	Provides measurable constructs for state capacity mediation
South Asian comparative studies (2023)	Political stability and macroeconomic conditions	Stability correlates with inflation control, investment, fiscal discipline	Regional patterns; not Bangladesh-specific theoretical model	Applies comparative insights to Bangladesh's political economy context
Claude Ake (1975); Gerardo Munck (2014)	Political order, democracy, and state capacity	Political order and democratic quality determine governance effectiveness	Foundational theory; not applied to Bangladesh context	Grounds the study in classical political economy theory and applies to Bangladesh

(Source: Author's synthesis based on reviewed literature)

4. RESEARCH GAP

The review finds that most literature examines political instability, quality of governance, corruption, and/or economic performance as individual, separate issues. There is literature that addresses the development impacts of instability and that that examine states, or democratic weaknesses, but very little that integrates the three variables conceptually.

More concretely, none that I am aware of theoretically link how political instability gives rise to development risks through states in the Bangladesh setting. The relevant literature is either empirical, focused on specific sectors or oriented towards the question of governance but not a holistic political economy. Consequently, a theoretical synthesis on political instability, states and development risk fills this gap clearly.

5. RESEARCH METHODOLOGY

The research adopts a qualitative theory-building design to understand political instability, state capacity and the risks of development in Bangladesh. It is theoretically oriented, with a focus on causal explanations of relationships between these concepts rather than on empirical testing. In terms of research method, it is primarily based on a documentary analysis of existing relevant literature from politics, economics and governance: academic articles, policy briefs, book, political economy and governance indicators.

- The documentary analysis is combined with a conceptual synthesis. Arguments and perspectives drawn from various strands of political theories integrated into an analytical model.
- An interpretive reading of literature is adopted to trace key mechanisms and connections between political instability, institutional capability, and the process of development.
- The model uses political instability as the independent, state capacity as the intervening, and risks of development as the dependent variable.
- Insights from the comparative experiences of other developing countries are also drawn to help contextualize Bangladesh within a global

political economy perspective and to improve the explanatory force of the proposed theoretical model.

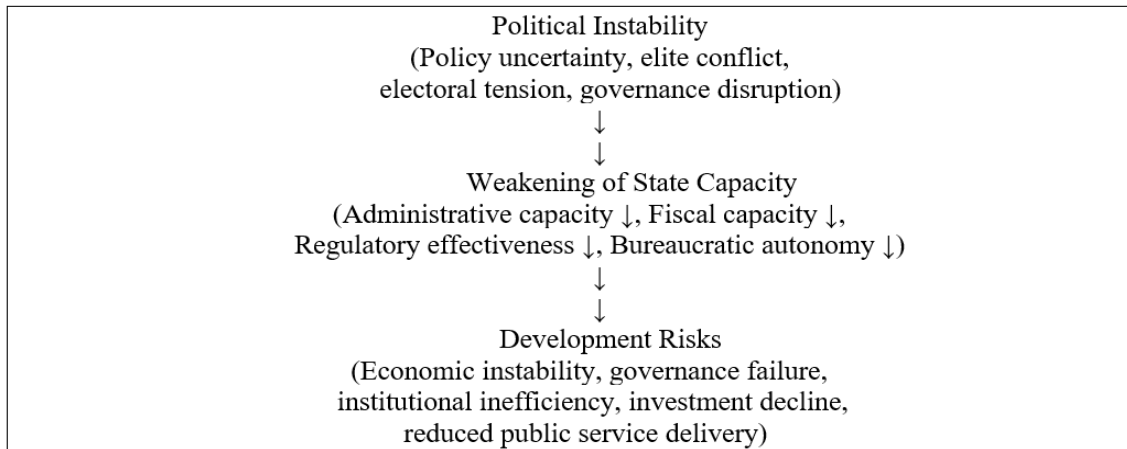
6. DISCUSSION

6.1 DEFINITION OF CONCEPTUAL VARIABLES

The key conceptual variables included in this analysis need to be explicitly defined: political instability, state capacity and development risks. Political instability, in the context of this research, is defined as repeated and recurrent disruptions within the political process and the decision-making bodies and policy structures in a state, encompassing issues ranging from electoral instability and elite conflicts to policy discontinuity and eroded legitimacy of governing institutions. The construct extends beyond violent political change to include uncertainty associated with governance.

The concept of state capacity encompasses the ability of a state to formulate consistent policies and plans, mobilise resources effectively, administer rules fairly and reliably, and deliver public goods and services. Key dimensions of state capacity are considered to be administrative capacity (bureaucratic effectiveness), fiscal capacity (the ability to mobilise financial resources), and coercive/regulatory capacity (the enforcement of rules and regulations and adherence to institutional rules by relevant actors).

Development risks are conceptually defined as the potential threats that hinder sustained progress in economic and social terms. The problem is multidimensional, consisting of elements of economic instability, governmental failures, inefficiency of institutions, loss of confidence and so on. The variables identified above provide the structural foundation of the analysis.



(Source: Author’s own construction based on theoretical synthesis of political economy literature)

Figure 1: Core Conceptual Relationship between Political Instability, State Capacity, and Development Risks

Figure 1 illustrates the core conceptual relationship between political instability, state capacity, and development risks. The model posits that political instability undermines the effectiveness of state institutions by weakening administrative, fiscal, and regulatory capacities. This weakened state capacity subsequently increases multiple dimensions of development risks, including economic instability, governance failure, and reduced effectiveness of public service delivery.

**6.2 MEDIATION BY INSTITUTIONS:
STATE CAPACITY AS THE CENTRAL
MEDIATOR VARIABLE**

The institutional variable mediating the relationship between political instability and development outcomes is state capacity. State capacity serves as the central variable absorbing

impact shocks arising from political instability, guaranteeing continuity in public functions in the state institutional framework. When state capacity is weak, even moderate political disturbances might lead to important changes in administrative function. For most of developing country cases, including Bangladesh, the state institutions are often not free from the control and influence from political forces leading to diminished neutrality and reduced autonomy of the public bureaucracy and other state institutions. Moreover, state fiscal capacity limit the states ability to undertake massive public development programs. Weak regulatory enforcement by weak states causes increase of informal arrangement of rule compliance or patronage systems. So state capacity would directly determine whether political instability lead to a tractable governance problem or structural risk to development.

Table 2: Dimensions of State Capacity and Their Development Implications

Dimension of State Capacity	Description	Impact of Political Instability	Development Implication
Administrative Capacity	Bureaucratic efficiency, coordination among institutions, and implementation ability of government agencies	Political interference, frequent leadership changes, and bureaucratic politicization reduce efficiency and coordination	Delayed project implementation, weak public service delivery, and policy implementation gaps
Fiscal Capacity	Ability of the state to mobilize revenue, allocate resources efficiently, and maintain fiscal discipline	Instability weakens tax governance, increases discretionary spending, and reduces budgetary consistency	Budget inefficiency, rising public debt pressure, and reduced development investment capacity

Regulatory Capacity	Effectiveness of laws, enforcement mechanisms, and institutional rule compliance	Political pressure on regulatory bodies leads to selective enforcement and institutional bias	Weak rule of law, reduced investor confidence, and increased informal economy
Coercive Capacity	Ability of the state to maintain order, enforce security, and manage conflict	Political unrest and elite competition weaken enforcement neutrality and operational consistency	Increased instability, weakened law enforcement credibility, and higher governance risk
Bureaucratic Autonomy	Degree of independence of civil service from political influence	High politicization reduces neutrality and promotes patronage networks	Decline in merit-based governance and increased corruption risk
Institutional Coordination Capacity	Ability of different ministries and agencies to work in a coherent policy framework	Political fragmentation disrupts coordination and creates parallel decision-making structures	Policy inconsistency and fragmented development planning

(Source: Author's synthesis based on political economy and state capacity literature)

6.3 Political Economy Context of Bangladesh

Bangladesh exhibits features of a growth economy that has weak institutional bases. Despite considerable successes in GDP growth, infrastructure development and poverty reduction, Bangladesh remains in a system where the political system is heavily contested; elite rivalries are intense; and there are binding constraints on governance. The nature of access to public resources and opportunities tends to be defined by patronage relations. Continuity in policy is challenged by changes in political power and political agendas. Bureaucratic decisions may also be shaped by political priorities, hampering efficiency and accountability. The simultaneous dynamic of economic development coupled with institutional frailties is therefore, a peculiar reality in the case of Bangladesh.

6.4 The Growth-Governance Paradox in Bangladesh

The most theoretically significant finding of this study is the prevalence of a growth-governance paradox, that in spite of the continuous increase in the economic growth of Bangladesh and also a considerable improvement in the social indices, the quality of governance and robustness of institutions may not necessarily rise commensurately. What this implies is that the positive changes in the economy may not necessarily translate into institutions which can uphold that positive

development trend in the long run. Rapid economic growth in a poor governance framework may reinforce the existing structural inefficiencies, such as skewed access to resources and over-centralization of the state. Hence, development is dynamic but not always underpinned by robust institutions.

6.5 Comparable Perspectives: Bangladesh's Position within South Asia

Comparing with the other South Asian countries, namely India, Pakistan, and Sri Lanka on their political economy attributes particularly political contestation and governing challenges reveals several similarities of Bangladesh. The differences in the development outcome such as better social development and economic performance against the constraint institutions distinguish Bangladesh with the rest of the countries. It seems that a specific combination of development influences such as export oriented development, the presence of very active non-state actors and a set of target oriented social policy causes Bangladesh's relatively good social and economic development outcome. Yet given the weakness of institution, the comparative aspect still supports the fact that state capacity still remains as one critical bottleneck in developing its economies.

7. CONCEPTUALIZATION OF THE THEORETICAL MODEL

The proposed study uses a conceptual theoretical model to outline the causal relationship between political instability, state capacity, and risks in development in Bangladesh. Here political instability as exogenous variable affects institutions. State capacity as the intervening mechanism determines whether institutional weakness caused by political instability will result in what kind of outcome. And outcome variable would be development risks in a number of dimensions. The theory posits a path way: political instability triggers the uncertainty of governing, which then weakens state institution and leads to the lack of state capacity, and ultimately multiple dimensions of development risks.

7.1 Causal Pathway Analysis: Political Instability and Development Outcomes

The analysis indicates that political instability affects development outcomes via two pathways: directly through policy disruptions, and indirectly through institutional deterioration. Direct impacts come from policy instability due to the quick change of political administrations. Such change brings uncertainty to long-term planning, and decreases policy credibility.

Indirect impacts of instability are from the weakened institutions. Political instability erodes bureaucratic independence, dilutes administrative coordination, and politicize state agencies. Such distorted institutions degrade effective governance, and subsequently hamper development performance. Therefore the relationship is not straightforward but multi-layered interaction of political processes and institutions.

7.2 Institutional Breakdown Analysis: Impacts of Long-term Instability

Institutional breakdown is viewed as an impact of lasting political instability. One aspect is bureaucratic inefficiency where procedures are delayed, fragmented and not based on procedures. Another is regulatory capture where state agencies are weakened and the influence of powerful groups is dominant in public sector operations. This erodes fairness and regulatory capacity, and the

mechanisms for holding institutions accountable are ineffective.

Under such circumstances, state institutions will slowly lose their independence and operational efficiency. As institutions lose their public support and effective operation, a quality decline in public service delivery and a growth of corruption occur. These breakdowns lead to development inefficiencies and risks.

7.3 Classification of Development Risks:

In this study, development risks are divided into three categories, namely; economic risks, political risks and institutional risks. The economic risks consists of decreased investment, inflationary tendencies, inefficient public spending and macroeconomic vulnerability. Political risks denote the uncertainties originating from unstable electoral outcomes, intra- elite competition and abrupt policy change. Institutional risks imply corruption, lack of capacity and transparency, weakened governing structures and ineffective public service provision. The classification categories are interdependent and often cause the increase of each other. For example, political risks lead to institutional weaknesses, which can then fuel further economic decline.

7.4 State Capacity as a Threshold Variable

In this paper state capacity is viewed as a threshold variable which defines the degree of translation from political instability into development risks. High levels of state capacity allow for the absorption of political shocks and maintain continuity of government and services delivery. However, when state capacity is below a threshold level, political instability is much more impactful and has more direct negative effects on development performance. At this level even a small political shock will bring a significant amount of administrative problems and policy failures. This threshold effect seems to indicate the non-linear characteristic of the politics development link, where strength of institution dictates vulnerability level.

7.5 Policy Feedback Loop Analysis

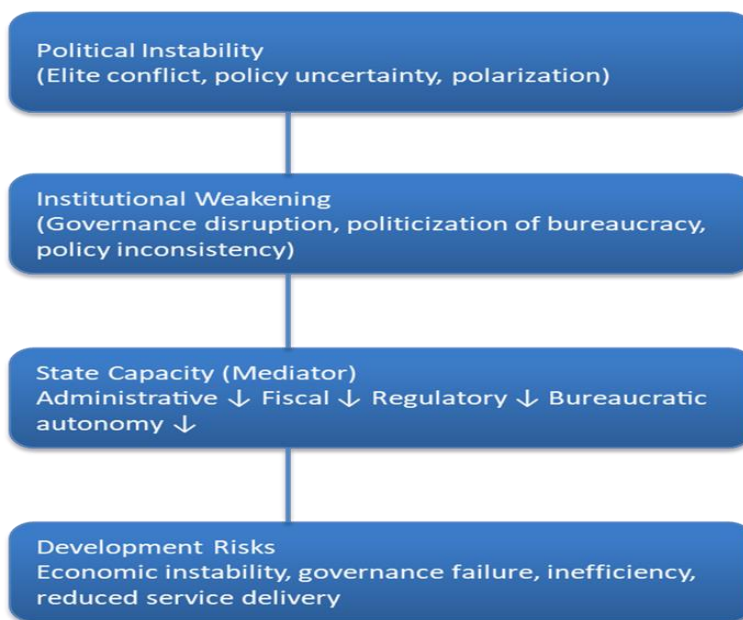
The analysis also shows a cyclic policy feedback loop between political instability, weak state capacity and growing development risks. Political instability makes institutions weak, thus reducing state capacity. This in turn makes state capacity level unable to effectively govern and deliver public services; and subsequently exacerbates existing political discontent and political instability. This generates another round of political instability in return, making it a self-enforcing cycle. In the long run this policy feedback loop solidifies existing systemic governance deficiency, hindering the possibility of policy intervention for sustainable development outcomes. Hence, in order to break the cycle, both political stability and institutional capacity needs to be improved simultaneously as any effort only focused on one area might not create a lasting effect.

8. PROPOSED CONCEPTUAL FRAMEWORK

A conceptual framework has been developed in this paper to explicate the nexus between political instability, state capacity and development risks in Bangladesh. Political instability is positioned as the principal independent variable. The interaction of the independent variable to state institutions and institutional functionality is determined by their effectiveness.

The state capacity has been defined as a mediator, an intervening variable through which political instability impacts development. It involves the capacity of the state to formulate and implement policy in an effective manner, its institutional integrity and the strength of its administrative apparatus. The dependent variable of this study is development risks. Development risks are conceived as the outcome, both immediate and longer-term of this interaction.

This model has assumed a direct and sequential relationship. The first, i.e., political instability lead to reduced state capacity lead to heightened development risks. However, it also assumes that it is not simply a linear relationship, and that other factors are at play in feedback and institutional ceilings are likely to affect the path between the components.



(Source: Author's own construction based on synthesis of literature)

Figure 2: Final Integrated Theoretical Framework of Political Instability, State Capacity, and Development Risks (Bangladesh Context).

Feedback Loop:

Rising Development Risks → Public dissatisfaction →

Political instability intensifies

Threshold Effect:

Strong State Capacity → Shock absorption

Weak State Capacity → Risk amplification

Figure 2 illustrates the final integrated theoretical framework explaining how political instability leads to development risks through the mediating role of state capacity in Bangladesh. The model shows that political instability generates institutional weakening, which reduces administrative, fiscal, regulatory, and bureaucratic capacities of the state. This weakened state capacity increases multiple dimensions of development risks. The framework further highlights a feedback loop where rising development risks intensify political instability and a threshold effect where strong state capacity can absorb shocks while weak capacity amplifies risks.

8.1 THEORETICAL PROPOSITIONS

From the conceptual framework and literature review, the following theoretical propositions are constructed:

P1: Political instability has a negative relationship with state capacity, through reduced institutional independence and bureaucratic effectiveness.

P2: State capacity moderates the relationship between political instability and development risks; strong state capacity may act as a buffer, whereas weak state capacity can act as a mediator that enhances the negative impact.

P3: Greater levels of political instability amplify development risks through increased policy uncertainty, inefficiency in administrative systems, and disruptions to existing institutions.

P4: The extent of the relationship between political instability and development outcomes depends on the level of quality governance and strength of institutions.

These propositions help to frame a coherent theoretical argument on the politics of development in Bangladesh.

8.2 CONCEPTUAL LINKAGES AND INTERACTION EFFECTS

The interplay between political instability, state capacity, and development risks involve a series of mutually influential linkages. Political instability has an impact on institutions by introducing uncertainty into policy environments and by disrupting bureaucratic interactions and institutionalization of administrative procedures.

State capacity then moderates how efficiently these external shocks can be absorbed. State capacity is effective at alleviating negative impacts of shocks and instabilities through strong institutions, while it may act as an amplifier of instabilities when institutions are weak.

Development risks appear as a sum-up of the interlinkages between these factors. The development risks are not independent; but linked. Economic, political and institutional risks are interlinked, that means these risks mutually reinforce each other. This structure emphasizes systemic nature of governance challenges.

8.3 EXPLANATION OF THE INTEGRATED THEORETICAL FRAMEWORK

The integrative framework of this research explains three key interdependent variables. Political instability sets off a cycle which adversely affects institutions and state capacity. This cycle acts as a mediating force, turning "the negative impact of development risk". State capacity affects the stability of the risks, and will determine how it affects instability, depending on its degree of strength and autonomy. Because of the decline in state capacity due to political instability, development risks cause unfavorable outcomes such as ineffective governance, failures in the economy, and low policy performance. Finally, development risk reinforces political instability by triggering public discontent, reducing legitimacy, and initiating a new instability cycle.

9. RECOMMENDATIONS

1. **Enhancing institutional capacity:** The government ought to take proactive measures to build an apolitical, merit-based and independent bureaucracy, thereby minimising the influence of politics on policy implementation.
2. **Enhancing policy continuity:** Development planning long-term perspectives ought to be shielded from political changes through the establishment of institutional guarantees. A bipartisan policy should be agreed.
3. **Building a strong political consensus:** Major political actors ought to enhance dialogue and reduce political polarization so as to increase the stability of the policy environment and mitigate governance insecurity.
4. **Enhancing transparency and accountability:** The government ought to establish robust anti-corruption mechanisms, digital governance and independent institutions to enhance confidence and reduce costs of governance.
5. **Decentralizing governance:** Decentralizing governmental powers to local government institutions ought to be strengthened as this would help to relieve the centre of much pressure and enhance the capability of the state as a whole.
6. **Focusing on evidence-based policy making:** The government should endeavour to move away from short-term political calculations towards a more research and data based and expertise oriented development planning process.
7. **Institutionalizing planning:** Certain sectors critical for national development (infrastructure, health and education) should be insulated from political instability and ensured sustainability.

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10. CONCLUSION

This paper was a theoretical inquiry into the links between political instability, state capacity and risks to development in the case of Bangladesh. This has argued that political instability can best be viewed not simply as a transient political episode, but rather as a structural aspect of society which affects institutional capabilities and long-term development trajectories. The study argues that in its impact on development risks, the connection between political instability and the state's ability to formulate, execute and sustain policies is mediated through state capacity. Specifically, state capacity acts as a crucial moderating factor that determines whether or not political instability will culminate in severe development risks, or to some extent be absorbed by strong and resilient institutions. Low state capacity ensures that political instability results in inefficiency, lack of policy continuity and erosion of public trust in government institutions, while strong institutions can at best mitigate some of these negative consequences but not erase them completely. Finally, the study argues that the risks to development in Bangladesh are both economic, but in significant part political and institutional in nature and therefore sustained development would depend on a stable political order that is backed by efficient, accountable state institutions.

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